

## 6.2 Timber import procedures, theory and practice

### 6.2.1 The procedure in Burma

According to the Planning and Statistics Department of the Myanmar Ministry of Forestry, the following steps must be followed in order to obtain permission to import timber through the land border to China:

1. Companies need to receive permission to purchase timber, and make a sales contract, from the Ministry of Forestry.
2. To obtain a border pass, permission from the Defence Services (Army) and Trade Council must be received.
3. It is necessary to apply for an export permit from the Department of Border Trade.
4. An inspection team must be formed under the authority of the commander of the border area command comprising the Customs Department, the Department of Immigration and Manpower, the Department of Border Trade, the Department of Forestry, and the district SPDC.
5. Necessary work for exporting across the border must be carried out under supervision of the Inspection Team.<sup>8</sup>

### 6.2.2 The procedure in China

The following Chinese government agencies are all involved, in theory, with clearing Burmese timber for importation and its onward transportation in China: Chinese Customs, the Administration of Quality Supervision Inspection and Quarantine (AQSIQ), the Ministry of Commerce, the State Forest Administration (SFA) and the Border Defence Brigade.

All Chinese companies involved in international trade must acquire a permit to trade in foreign goods

from the Chinese Ministry of Commerce. According to Chinese law (see *'A Choice for China'*, pages 23-24), Chinese Customs and the AQSIQ require that all timber imports are accompanied by a valid certificate, issued by the competent authorities in the country of origin, stating the country of origin. A valid quarantine certificate from the country of origin is also required. However, none of the hundreds of people involved in the trade along the China-Burma border (including customs officials), interviewed by Global Witness, claim to have heard about such certificates.<sup>321</sup>

According to people interviewed on the border, international trade can be classified as either 'damao' (country to country trade), frontier trade (trade on a small scale between residents on both sides of the border) or border area trade with, "*characteristics of the region, ethnicity, and tradition*". The cross-border timber (and minerals) trade with Burma is treated as frontier trade and, as such, is not subject to the same documentary requirements as 'damao'.

Upon arrival of the timber at the border, customs should check that the company has the valid paperwork from Ministry of Commerce. Customs should then issue import permits for the appropriate amount of timber, after payment of the required tax. The AQSIQ issues a Quality Supervision Inspection and Quarantine certificate following spot-checks on the goods. The SFA verifies the timber as non-domestic, taxes it, and issues



Official timber import procedure, Car Zan, China; 2009



Official timber import procedure, Nabang, China; 2007



Timber transportation certificate, Dehong Prefecture; December 2006

the required transportation certificate. This allows for an exact, recorded, amount of timber to be transported within the prefecture or province. Transportation beyond the provincial boundary is normally cleared in Kunming. These documents must all be shown upon request to the officials from the Border Defence Brigade, which has several toll gates along the major highway from the border to Kunming.<sup>44</sup>

The 11 May 2006 Interim Measures added further hurdles for the would-be timber importer to pass. Prior to this, timber could, for example, be imported into the Ruili area and transported out of Dehong Prefecture accompanied solely by certificates easily obtainable from the SFA. Now, customs certificates are also required, if they can be obtained at all.<sup>45</sup> It is the issuing of customs, QSIQ, and SFA certificates that has been stopped in many border towns following the March 2006 suspension order and later Interim Measures. Without the appropriate documentation the timber cannot be legally imported into China or transported further inland.

It is essential to define clearly and communicate the procedures and documentary requirements for importing Burmese timber into China to the relevant authorities and timber traders. The Interim Measures, at least, are available on the Yunnan Province government website. However, it is not clear to timber traders and officials on the border how exactly the Interim Measures interact with other

legal requirements and many are completely unaware of the relevant procedures. As a result they are not implemented uniformly by the different Chinese government agencies overseeing the timber trade along the China-Burma border. Despite significant improvements, timber is still allowed to cross the border illegally in many places.

Much of the initial confusion seems to have derived from a distinction between 'border-to-border' trade and 'country-to-country' trade. Many local officials, enforcement agencies, and traders alike have viewed the cross-border timber trade between Burma and China as 'border-to-border' trade. This is normally a category used for small-scale trade conducted by locals and, therefore, apparently not subject to the normal ('country-to-country' trade) customs and import clearance procedures.<sup>46</sup>

The Border Defence Brigade is tasked with ensuring security along the border, controlling border checkpoints,<sup>c1</sup> and investigating crimes related to the timber trade, such as smuggling and corruption. It is not clear in all instances why it does not stop the smuggling. However, in some places it is not considered to be their responsibility. The work of the brigade is complicated by the fact that several (mainly unofficial) border crossings do not have permanent units stationed there. In other places, the brigade's checkpoints are several kilometres from the border. This allows traders to move timber into China and to store it between the border and the checkpoint.

In some instances, timber has ended up as 'dead stock', stuck in the border towns, without any immediate prospect of it being cleared. Many companies, faced with this predicament, have used old certificates and certificates for domestic timber, smuggled the timber and otherwise tried to avoid detection (see '6.3 Snake business', opposite).

Patchy implementation of the moratorium and Interim Measures reflects, in part, the difficulty experienced by provincial and central government authorities in realising policy at a local level, often in remote areas, as expressed in a well-known Chinese saying: "*The sky is high and the emperor is far away.*" The companies, often with the support of local officials reliant on the timber industry for much of their income, try continually to evade the provincial enforcement agencies.

It should be noted that while the violations are widespread, overall timber imports are still significantly lower than before. It should also be stressed that despite reports of corruption and negligent behaviour of some local officials and enforcement agencies, import procedures and enforcement have improved dramatically since May 2006.

<sup>c1</sup> In a few places, such as Tse Tse, the People's Liberation Army is stationed near the border and controls the checkpoints.

### 6.3 Snake business: getting around the ban and new timber importation rules

*“The closure does not matter to us. There is always a way to solve a problem naturally.”* Employee at leading timber processing company in Ruili, Dehong Prefecture, April 2006

Smuggling and other scams to transport timber across the China-Burma border, and further inland, are often elaborate, but most are easy to detect. Such schemes have developed rapidly since the imposition of the moratorium and the publication of the Interim Measures. Prior to this the smuggling of timber was not widespread as it could be imported from Burma unhindered by the authorities.

Transporting timber via roads without official checkpoints, and at night, are the most prevalent methods of smuggling timber across the China-Burma border. According to one Kachin timber trader, if you can show an export licence from the Burmese authorities you can get through on the China side, but the Chinese, *“don’t check strictly if it is correct”*. Many use fake export licences.<sup>47</sup> These practices, which traders revealed to Global Witness researchers without much hesitation, are an open secret in many places. The sections below outline the most common ploys.

#### 6.3.1 Bribery and corruption

*“Don’t worry about proper procedures. We can arrange it all for you. If you bring money, then business is simple.”*<sup>48</sup> Timber businessman, Sudien, Dehong Prefecture, Yunnan Province, May 2006

Many timber traders have suggested to Global Witness that bribery has played a role in getting local officials and enforcement agencies to look the other way, or as one businessman put it, *“Money makes things go smoothly and the timber business makes money.”*<sup>49</sup> These allegations were widespread but rarely concrete in terms of naming individuals or specific government offices. Most commonly, traders alluded to the fact that despite the moratorium and new rules they could still get timber through checkpoints, and obtain the relevant permits, upon payment of a higher ‘fee’. Global Witness could not verify these allegations which were most persistent in Tengchong County, Baoshan Prefecture, and in the Yingjiang area of Dehong Prefecture.

Local people spoken to by Global Witness claimed that corruption and ‘guanxi’<sup>c2</sup> were the main reasons why night-time timber smuggling was possible in Guyong, Baoshan Prefecture.<sup>9, 67, 68</sup> One local person told Global Witness, *“I am confused if the border is open or not. The customs say it is closed*



Logs imported illegally via Datianba (Burma) stored in front of the border gate, Pian Ma, China; January 2007

<sup>c2</sup> This means a network of mutually supportive relationships. For further information please see: “Chinese Business Culture – Guanxi and Important Chinese Business Element”, from: <http://chinese-school.netfirms.com/guanxi.html>

*for importing timber from Burma but trucks loaded with timber show up in town from time to time, and enter the timber storage areas of the companies. The timber businessmen are still busy with no apparent end to the Burmese timber. How much timber you can get in depends on your relationships, on 'guanxi', and your financial power as well.*"<sup>49</sup>

A log truck driver, en route from Tengchong to the freight railway station in Chuxiong, explained that it was possible to obtain import and transportation permits from the SFA, customs and other agencies near the border.<sup>56</sup> The permits cost 1,000 yuan (US\$129) per cubic meter, much higher than prices quoted by traders elsewhere.

Several timber businessmen in Dian Tan, also in Baoshan Prefecture, stressed that they were able to obtain permits to move the timber within the borders of Yunnan Province and beyond. This was despite the fact that customs and other government agencies were not issuing permits at the time, and the Border Defence Brigade had started a crackdown on timber smuggling a few days earlier.<sup>52</sup>

Timber traders in Gudeng, Nujiang Prefecture, told Global Witness that the customs and SFA bureaus had stopped issuing permits and that logs and sawn wood could not be moved out of the area.<sup>50</sup> This was not however a problem for a sawmill manager interviewed by Global Witness who said, "I can solve the problem if you pay double or triple payment for the legal procedures. We have practised that several times. For tsuga wood [Chinese hemlock] for example, the normal price for taking it out is 180 yuan [US\$23] per m<sup>3</sup>. This includes national and local

*tax, customs and AQSIQ fees, 15 % for afforestation fund etc. But we can now buy it for 480 yuan [US\$61] per m<sup>3</sup>."*<sup>51</sup> It should be noted that the increased price, in this instance, is not necessarily due to bribery but could be the result of people trading permits issued prior to the moratorium, which have not yet expired.

### 6.3.2 Bypassing official checkpoints

*"Everybody knows another pass where there is no official checking point, no checking at all - and timber can be transported over with no problems."* Timber trader, Dian Tan, Baoshan Prefecture, January 2007

The most common way to avoid the restrictions imposed at official border checkpoints, is to bypass them altogether by using alternative roads with no checkpoints. In several cases, new roads have been built and old ones improved by the timber traders, following the imposition of the moratorium. Some these roads and connecting bridges have subsequently been destroyed by Chinese border troops. In other places, local enforcement agencies have chosen to turn a blind eye. Rumours of corruption are rife.

Dian Tan, in Baoshan Prefecture, was very busy with timber trucks arriving from Burma, at the time of Global Witness' visit in January 2007. Dian Tan is adjacent to the town of Pangwah, the headquarters of an armed ethnic opposition group, the New Democratic Army (Kachin) (NDA(K)). Global Witness researchers counted ten trucks, arriving within a 20 minute period, and were told that more than 300 timber trucks were currently plying the



Log trucks on the Zuklang Road avoiding Pangwah, Burma; April 2006

route from the forest to Dian Tan town through an unofficial border crossing point.<sup>52</sup> In town, it was a common ‘secret’ that timber was entering in this way with, “no checking at all”.<sup>52</sup>

Information obtained by Global Witness, in Kachin State in 2006-07, shows that several new roads have been built for the timber trade, bypassing the official border crossing point in Pangwah Town. The timber entering China near Dian Tan and Tse Tse nearby is mainly logged in the Triangle area of Kachin State (see ‘10.3.1 Logging in the Triangle’, pages 77-78).<sup>53</sup> Following a crackdown by police and government officials on 7 January 2007, which stopped the transfer of timber from Dian Tan Town to Tengchong further inland, the timber traders were keen to transfer as much timber across the border before this route too was closed.<sup>52</sup> Global Witness researchers tried to visit the town again in May 2007. Unfortunately, however, the road was blocked by a large truck carrying about 40 m<sup>3</sup> of teak, which was stuck in the mud. This road had been badly damaged during the border reopening following the allocation of timber import quotas in July-August 2006.<sup>54</sup>

In May 2006, limited amounts of smuggled timber were available at high prices in Pian Ma, Nujiang Prefecture. A few trucks and small vehicles had managed to get the timber across. Others had been caught and fined and were seen waiting in the rain by the border checkpoint towards Datianba.<sup>55</sup> By January 2007, contractors were busy constructing a new private road from Pian Ma into Burma, running

alongside the valley. Global Witness researchers saw a bulldozer and an excavator making a way for the road, which according to a long-term timber trader was being built to facilitate the transfer of timber into Pian Ma, “without any check by the official Chinese border port”.<sup>161</sup> In April 2007, the road was clearly visible but no timber was seen entering China.<sup>56</sup>

The town of Nabang, Dehong Prefecture, is situated just opposite the headquarters of the Kachin Independence Organisation (KIO) in Laiza. Enforcement of the moratorium and Interim Measures has been more patchy here than in most other places. In January and March 2007, the flow of timber had stalled, but by April timber was again entering town. Some of it was arriving through the new Munglai Dam road (on the Kachin side of the border) bypassing the



Munglai Dam Road, Burma; March 2007



Logs illegally cut in Burma a few kilometres outside the town of Nabang, China; April 2007

official border crossing in central Nabang.<sup>57</sup> This path is apparently partly controlled and financed by the Hongxin Company.<sup>151</sup> A large timber storage site, moving timber trucks, and a Kachin Independence Army (KIA) checkpoint were clearly visible by the Munglai River, which marks the border between the two countries.<sup>58</sup> The other less frequented new road leads through the small town of Datugong on the Burma side of the border.<sup>151</sup> Local logging workers confirmed, in April 2007, that timber could then not be imported through the official checkpoint, but had to be smuggled through the mountains via trails and passes away from the main road.<sup>59</sup>

In early January 2007, timber was being imported into the small timber town of Hong Bom He, near Yingjiang in Dehong Prefecture. However, the border army, the police, the SFA, and customs had joined forces, and, in mid January 2007, a simple bridge, constructed privately by timber businessmen to smuggle in Burmese timber, was detected and destroyed by Chinese soldiers.<sup>60</sup>

In the Ruili area further south, locals showed Global Witness researchers various smuggling routes in the nearby towns of Nong Dao, Guo, and Dengga. Stones had been arranged across the bed of the Nanwan River, so that people, with their horses and mules carrying teak, could cross safely. A waiting truck or minibus would then carry the teak away under cover of darkness according to a local man who, for fear of arrest, had declined to smuggle timber, despite the prospect of payments of 400 yuan (US\$52) per m<sup>3</sup>. During the day, many mules and horses were seen grazing peacefully nearby.<sup>61</sup>



Unofficial crossing point from Burma to China, Nong Dao; January 2007

### 6.3.3 Timber transportation at night

Transportation of timber in violation of existing policies is often undertaken at night. According to locals in Nabang, despite the fact that customs had stopped issuing, “any documents to any companies”, they had still seen ten trucks laden with teak arriving in the evening, in early January 2007.<sup>62</sup> In April 2007, logging workers confirmed that smuggling took place at night in the area.<sup>59</sup> Night-time transportation of timber in the wider Ruili area was also reported.<sup>63</sup>

In mid-December 2006, the road near Pian Ma was busy at night with timber trucks. According to one eyewitness, hundreds of noisy trucks were running throughout the night. Apparently, the timber carried by these trucks originated from near the Chipwe Bridge, in Kachin State, which links the timber-rich Triangle area with transportation routes to the border.<sup>64</sup>

In Cangyun Wa Nationality Autonomous County, in Lincang City Prefecture opposite Burma’s Wa State, enforcement has been stricter than in most other places. Here, the Border Defence Brigade has been actively involved in stopping the illegal timber imports. In 2006, following the moratorium, smugglers managed to transport an estimated total of 10,000 m<sup>3</sup> across the border. However, after the border checkpoint was moved closer to the border itself, removing a 1 km buffer zone between the border and the checkpoint, local people found smuggling more difficult; they had previously managed to take about 300 m<sup>3</sup> of teak and Burmese tulip wood across each night.<sup>65</sup> Local

timber traders complained to Global Witness that, “enforcement here is much more severe than anywhere else in Yunnan”.<sup>65</sup> Further south in Meng’a, opposite the United Wa State Army’s (UWSA) headquarters in Pangsang, teak was being smuggled in at night but was gone in the morning.<sup>66</sup>

In Guyong, a timber businessman told Global Witness that, “depending on your actual power you can move timber in as you like by smuggling in the evening. But I cannot promise you for sure that the timber can be taken out of town, as no legal procedures are issued by customs at the moment.”<sup>67</sup> A local driver confirmed that trucks carrying timber were passing the Chinese border checkpoint guarded by the army at night.<sup>68</sup>



Timber transportation at night, Yingjiang Town, China; May 2006

#### 6.3.4 Smuggling timber onwards from the border

Scams to smuggle timber from the border further inland tend to be slightly more complex than those designed to get the timber across the border. They include laundering the Burmese timber into the domestic timber market, over-declaring the amount of timber, and using fake transportation certificates.

The practice of declaring timber from Burma as domestic timber is most widely used in the areas of Sudien and Car Zan near Yingjiang in Dehong Prefecture. This is probably due to the fact that this is one of the few areas along the border where a quota for domestic logging has been allocated. As one timber businessman explained, *“Timber from here can be moved to Yingjiang with ‘clean procedures’. The timber storage sites simply mix domestic and foreign timber. The timber checking station does not really care about this and cannot distinguish between what is foreign and what is domestic anyway.”*<sup>330</sup>

Several trucks were seen heading from Sudien to Yingjiang in the afternoon of Global Witness’ visit in January 2007. Another local trader claimed that it was between two and three times cheaper to obtain transportation permits, from the SFA office, for domestic timber than it was for foreign timber.<sup>158</sup> A third timber trader told Global Witness that, *“You do not have to care about any procedures. If you bring money, business is simple. When you get the timber to Yingjiang you simply change the SFA certificate for timber transportation, and it can be transported anywhere in China. That’s all.”*<sup>69</sup>

During Global Witness’ visit to Sudien in April 2007, all interviewees claimed that the

timber in town, much of it round logs larger than 50-70 cm in diameter, was all from domestic sources.<sup>70</sup> Global Witness was not able to verify this claim.

In nearby Car Zan, several timber traders confirmed that foreign timber was mixed with domestic timber and that it was easy to obtain transportation certificates. Certificates for sawn timber were also obtainable.<sup>71</sup> Interestingly, at least one company in Laying, near Ruili, was allowed to use both domestic and Burmese timber that had been confiscated by the SFA. At the same time, the big flooring and furniture factory F.N.D Woods Company Ltd., in nearby Wanding, survived by using smuggled timber for which, apparently, they had no problems obtaining ‘legal’ transport certificates.<sup>72</sup>

In Hong Bom He, one of the two main timber traders, Mr Cun, was reported to have a good relationship with the local authorities including those based in the Tongbiguang Nature Reserve office. This has enabled him to get a domestic cutting quota, which has been used to cover illicit timber from Burma.<sup>168</sup> His sawmill still had supplies of timber nine months after the moratorium was announced.<sup>73</sup>

The misuse of paperwork is also widespread. For example, timber traders have explained to Global Witness how they use transportation certificates issued for a single shipment twice, thereby enabling them to transport twice the permitted amount of timber to Kunming.<sup>74</sup> Any reopening of the border will provide additional opportunities for fraud. As a timber trader from Pian Ma explained, *“Hopefully we can take timber out of town when we get the document. When the border is open, the document that comes with the new timber has an inflated value. We can then use that to transport the old timber.”*<sup>75</sup>



Sudien, China; April 2007



Truck carrying squared-off logs from Burma, Nabang, China; April 2007



Destined for the railway station at Chuxiong, China; April 2007



Truck carrying Burmese logs, Yingjiang Town, China; April 2007



Sawn timber en route to Guangdong China; April 2007

A few companies claimed that they were allowed to transport Burmese timber. They told Global Witness that this was legal because they had unused transportation certificates issued, by the SFA, either prior to the ban or during the allocation of quotas in mid-2006. This was the case in Gudeng in May 2006.<sup>76</sup>

The Yunnan Forestry Police has uncovered at least one major incidence where timber transport certificates had been forged. In November 2006, it confiscated 5,000 books of forged timber transportation certificates and more than 1,000 fake public seals: 12 people were arrested.<sup>77</sup> In January 2007, the SFA in Yunnan Province stopped using existing timber transport certificates and began issuing a new version in order to combat the misuse of documents. Traders with unused certificates had to re-apply.<sup>78</sup>

### 6.3.5 Transshipment

Over the last decade large amounts of timber have also entered China overland from Shan and Wa States (see *'A Conflict of Interests'*, pages 110-114, and *'A Choice for China'*, pages 70-71). The moratorium on timber imports and Interim Measures also covers the Chinese border in this area. The moratorium was strictly enforced in Cangyun Wa. However, timber has continued to arrive in Meng'a.<sup>79, 80</sup> In January 2007, the customs authorities based in Meng'a insisted that timber could only be imported from Burma if it was going to be transhipped to destinations outside China. This is the only place along the China-Burma border that Global Witness has heard of such an arrangement. Three import-export companies in Pangsang obtained permission to conduct such a trade.

The procedures for the transshipment are as follows: The size, amount, number, source, type of vehicle, and destination of the timber, which awaits shipment in Pangsang, must be reported to customs in Kunming. If approved, Kunming customs inform the customs officials based in Meng'a. The timber is then allowed to be transported into Meng'a, onwards to Menglian, Kunming and finally to its overseas destination such as, for example, Taiwan.<sup>81</sup> Several businessmen in the area said that they thought this arrangement was unfair to Chinese traders.<sup>66</sup>

In order to circumvent the rules, some traders have transhipped timber into Laos, subsequently re-importing it into China.<sup>82</sup> It is not clear how widespread this practice is. In the nearby border town of Mangxin, transshipment was not permitted but timber products in the form of flooring and panels could, in January 2007, be brought into China as part of the normal trade.<sup>83</sup>

## BOX 2: SPECULATION SURROUNDING THE IMPOSITION OF THE MORATORIUM AND INTERIM MEASURES

In the remote border areas of China and Burma speculations is rife among traders, logging workers, and officials as to why the moratorium and Interim Measures were imposed in the first place. Each quote provides an interesting insight into the timber trade and local perceptions of the balance in power between the various entities that can influence its operation. Local people consistently brought up international pressure, intervention by the United Nations, and that the Burmese government had requested the central Chinese government to close the border. Some of this speculation is well informed, some fanciful:

- *“However, the real problem was that some western media reported Chinese people cutting trees in northern parts of Burma and published pictures in magazines. This made the Burmese government put pressure on the Chinese government to deal with the timber trade as normal trade such as the country to country trade, not warlord or local military controlled trade. The Chinese government had lost face [because of the situation prior to the moratorium]. The cross-border timber trade is no longer allowed.”<sup>156</sup>*
- *“The Chinese government seriously cracked down on Chinese people logging in Burma. It blocked the border passes to stop any Burmese timber business; no single piece of wood from Burma is legal right now. This is because the Chinese government is trying to build a petroleum pipeline from India, through Burma, to Yunnan Province in China. It needs to use Burmese land for this purpose. Therefore, the Chinese government does not want to trouble the Burmese military government with the border timber trade situation, and risk losing the big petroleum thing with India.”<sup>84</sup>*
- *“The Burmese Premier visited China and complained about the timber situation, in north Myanmar, to the Chinese government. Then the Yunnan People’s Government released an*

*announcement to stop the illegal timber trade, around Burmese borders, immediately. Soon after the announcement, all customs, AQSIQ, and SFA closed their offices, and the timber trade stopped.<sup>85</sup>*

*One possible reason is that a while ago, while the head of Kachin State, General Ting Ying, visited Mandalay, his vice general mutinied. He used two battalions loyal to him to fight another three battalions loyal to Ting Ying. In the end, the vice general lost the game, and Ting Ying got back his position. The Burmese government’s military caught the chance to get into and occupy some territories that used to belong to the KIO, where most Chinese companies had contracts and timber workers working. The Burmese military government did not accept the situation where the KIO let Chinese companies log in most of the KIO’s territory. Therefore, we heard news about timber workers killed, trucks blocked, logging stopped[...].”*

- *“Last year illegal timber trading in Nabang was exposed by the United Nations. The UK government, as the former colonial power in Burma, was displeased to see the Chinese taking Burma’s teak, which is a Burmese national treasure, and as important for the Burmese as pandas are for the Chinese. The British therefore raised the issue at the United Nations. In response the Chinese had to close the border and take action against illegal logging.”<sup>86</sup>*
- *“Business is not good here as there is no timber trade. The timber is not coming in because the Chinese government has banned illegal logging. I don’t think business will get much better in the near future... because of the Olympics. The illegal logging damages the country’s image.”<sup>87</sup>*
- *“The central government closed the border because the Burmese government complained to the United Nations about the Chinese coming over the border and logging their forests illegally.”<sup>88</sup>*
- *“The illegal logging was reported to the United Nations, therefore the ban on illegal logging. Maybe the Burmese reported it. They felt that too much logging had damaged the environment.”<sup>89</sup>*



Log trucks and cranes in storage, Nabang, China; January 2007

## 7 DECLINE IN THE ILLEGAL TIMBER TRADE ON THE CHINA-BURMA BORDER

Global Witness carried out an extensive study of the timber trade along the China-Burma border in 2006-07 to ascertain the impact of Burmese and Chinese measures to combat the illicit timber trade. A follow-up investigation along the border took place in early 2009. These investigations centred on Nujiang, Baoshan, and Dehong prefectures in Yunnan Province, all of which border Kachin State. Global Witness also analysed Chinese customs data.

### 7.1 Decline in the illegal timber trade – an analysis of trade data

Since the launch of Global Witness' report *'A Choice for China'*, in October 2005, and the subsequent action taken by both the Burmese and Chinese authorities, against the illegal cross-border timber trade, exports from Burma to China directly overland have fallen dramatically. As can be seen in Chart 3 opposite illegal exports of timber from Burma to China, across the Burma-China land border, peaked at 1.52 million m<sup>3</sup> RWE in the 2004-05 financial year. By 2008-09 illegal exports of timber from Burma to China had dropped by more than one million cubic meters to 440,000 m<sup>3</sup> RWE. The trend in illegal timber exports has been generally downwards, despite an increase in 2007-08, and reflects the success of measures implemented by the Burmese and Chinese authorities to combat the illicit trade. The global economic crisis may also have played a part.

It can be seen from Chart 4 opposite that the importation of both logs and sawn timber, from Burma into China, reached a peak of 1.72 million m<sup>3</sup> RWE in 2005. The Chinese imported 1.57 million m<sup>3</sup> of this timber, representing 91 per cent of the total, across the land border into the Kunming customs district. In 2008, the border trade accounted for only 66% by volume of the total timber trade between the two countries, 440,000 m<sup>3</sup> out of a total 670,000 m<sup>3</sup>. Most of the drop in percentage terms is accounted for by an increase in log imports via Rangoon by sea into Nanjing, the capital of China's Jiangsu Province, on the Yangtze River Delta.

According to the Chinese data, log imports across the Burma-China land border have fallen by more than 70% from 1 million m<sup>3</sup> in 2005 to 270,000 m<sup>3</sup> in 2008. Sawn wood imports into Kunming have also fallen, from a high in 2005 of 570,000 m<sup>3</sup> to only 170,000 m<sup>3</sup> in 2008. The global financial crisis may be a factor but

the most significant cause of the decrease in the illegal Burma-China timber trade is the crackdown by the Chinese authorities. Figures from the Myanmar Ministry of Forestry show that no timber crossed the Burma-China border during the financial year 2007-08 and only 38,000 m<sup>3</sup> in 2008-09.<sup>43</sup> More than 90% of the border trade in logs and sawn wood is therefore illegal according to information supplied to Global Witness by the Burmese authorities.

During the first six months of 2009 log volumes imported into Kunming customs district were similar to the quantities imported 12 months earlier. At the time of writing, imports of logs through other customs districts have been almost zero each month so far this year. Sawn wood volumes imported into Kunming customs district tend slightly to exceed the quantities imported in 2008. Sawn wood imports through other customs districts remain minimal.<sup>91</sup>

Global Witness' field research supports the statistical information: the importation of timber across the China-Burma border has declined significantly since late 2005. Since then, only limited amounts of timber have been imported from Burma into China. However, the degree of the decline varies from border town to border town. Notable exceptions to this overall trend are discussed later in the report.<sup>63</sup>

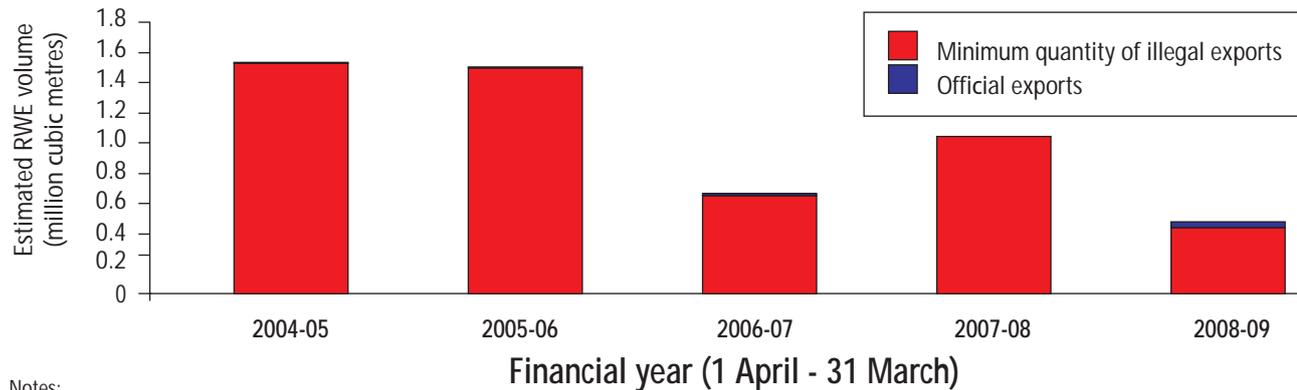
Based on the map showing territorial control in Kachin State (*see map on page 66*), from north to south, the lower quarter of Nujiang Lisu Autonomous Prefecture is opposite NDA(K)-held parts of the border as is Baoshan Prefecture, and the KIO controls the land along most of the border with Dehong Dai Jingpo Autonomous Prefecture. The SPDC controls border regions in the far north, opposite Nujiang Prefecture, and short sections of the border opposite Dehong Prefecture. The SPDC also runs the border at Muse in Shan State, the likely origin of most of the timber crossing here. However, there are also crossing points into Ruili under the control of the KIO. Muse is the only legitimate border checkpoint for timber exports on the China-Burma border according to the Myanmar Ministry of Forestry.<sup>92</sup>

It can be seen from Chart 5 opposite that most of the logs, imported into China from Burma over the land border, have been imported into Dehong Prefecture, apparently across areas under the control of the KIO. Since 2005, there has been a dramatic decrease in the volume of logs being exported, approximately 720,000 m<sup>3</sup>. A drop in imports into Dehong Prefecture accounts for 65% (470,000 m<sup>3</sup>) of the total. 2007 saw a significant increase in the trade further north in Nujiang Prefecture, perhaps a deliberate ploy to avoid detection.

<sup>43</sup> See the Kachin News Group videos, "China imports illegal timber from Northern Burma", and, "Illegal Timber from Kachin State in China", on YouTube: [http://www.youtube.com/watch?v=cS5c73jrpDg&feature=channel\\_page](http://www.youtube.com/watch?v=cS5c73jrpDg&feature=channel_page) and [http://www.youtube.com/watch?v=gJ-u8aiwRl0&feature=channel\\_page](http://www.youtube.com/watch?v=gJ-u8aiwRl0&feature=channel_page)

**CHART 3: A COMPARISON BETWEEN BURMA'S DIRECT TIMBER EXPORTS OVERLAND TO CHINA AS DECLARED BY BURMA,<sup>c4, 90</sup> AND THE CORRESPONDING IMPORTS AS DECLARED BY CHINA.**

SOURCES: MYANMAR MINISTRY OF FORESTRY DATA AND BASED ON CHINESE CUSTOMS DATA

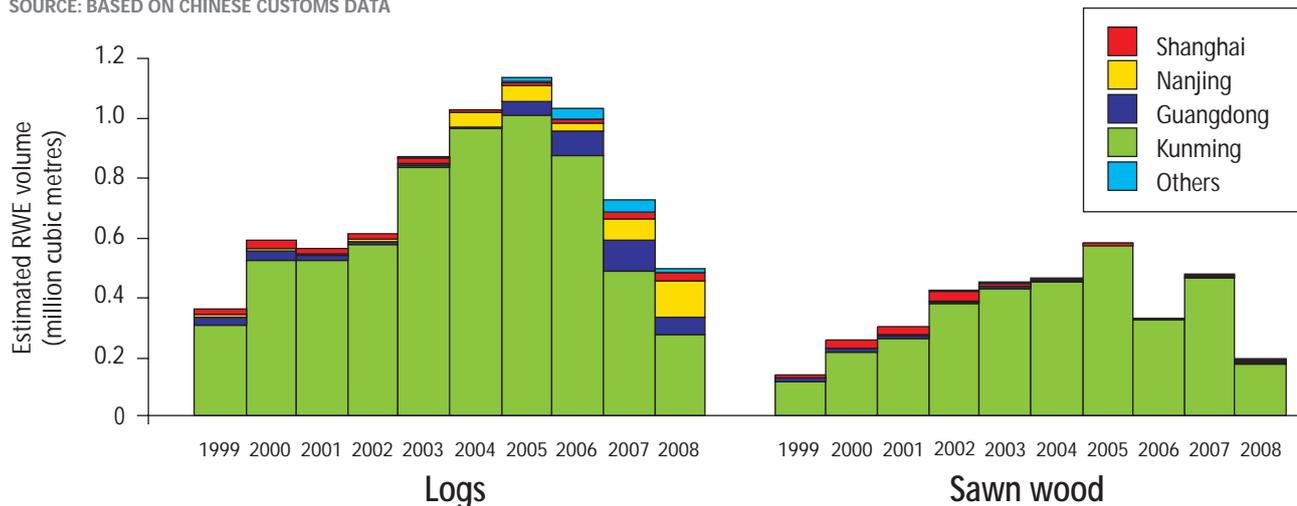


Notes:

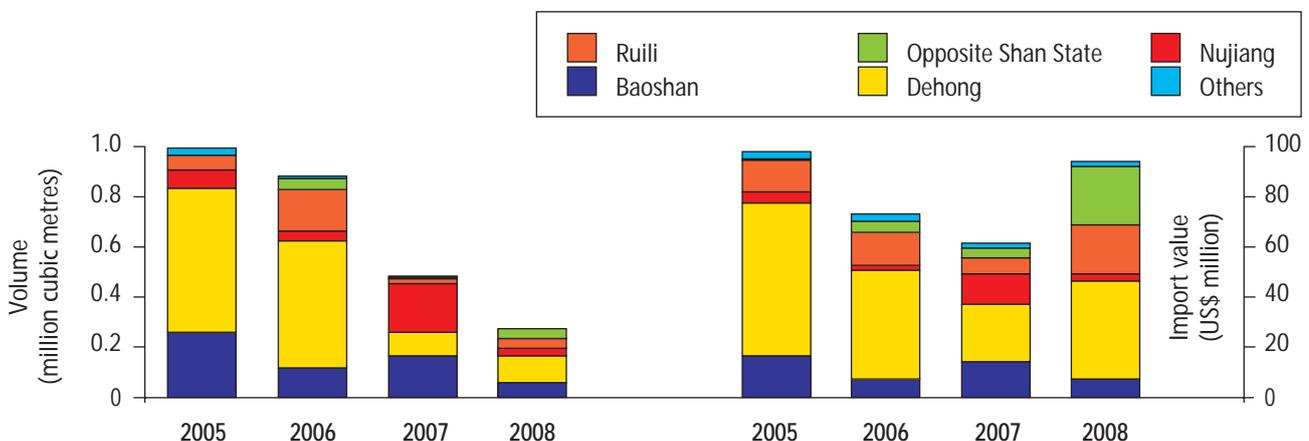
1. The height of each column shows the total RWE volume of Chinese imports of Burmese timber (based on Chinese customs data).
2. The minimum quantity of illegal exports of timber from Burma to China, across the Burma-China land border, is equivalent to the total RWE volume of Chinese imports of Burmese timber (based on Chinese customs data) minus the total RWE volume of Burmese timber exports to China (according to the Myanmar Ministry of Forestry).
3. It is assumed that for the direct overland trade Burma has no records of trade in timber other than of the type specified by the Myanmar Ministry of Forestry. Chinese customs data indicate that other categories of timber are imported across the Burma-China land border.

**CHART 4: CHINA'S IMPORTS OF LOGS AND SAWN WOOD FROM BURMA (BY CUSTOMS DISTRICT).**

SOURCE: BASED ON CHINESE CUSTOMS DATA



**CHART 5: CHINA'S IMPORTS OF LOGS FROM BURMA BY LOCATION OF IMPORTER IN YUNNAN PROVINCE CHINA.<sup>c5</sup> SOURCE: BASED ON CHINESE CUSTOMS DATA**



<sup>c4</sup> It has been assumed that the Myanmar Ministry of Forestry has converted volumes for processed timber into RWE volumes. This may not be the case, however processed timber represents only a small fraction of overall exports and this is unlikely to affect the analysis significantly.

<sup>c5</sup> Location of importer indicates the declared address of the business to which the consignment is being delivered and is usually situated geographically within the customs district through which a consignment is imported

Despite a significant decrease in the volume of logs crossing the border (more than two thirds), the value of the logs being imported into China was almost the same in 2008 as it was in 2005, just under US\$100 million, according to Chinese customs data. This may reflect greater transportation costs, and a need for bigger bribes as a result of the crackdown, resulting in higher prices or a switch to higher value species.<sup>66</sup> Interestingly, the value of logs being imported into prefectures opposite Shan State has increased significantly since 2005. This could be

because trade under the control of the Burmese authorities has increased.

As can be seen from Chart 6 the vast majority of logs crossing the Burma-China border in 2005 were ‘other hardwood’ and most of the subsequent drop is accounted for by a massive fall in hardwood exports. The only category of logs to increase since the crackdown is rosewood, a luxury species. However, this is unlikely to account of the increased value of the cross-border trade because of the small volumes involved.



Chinese truck carrying various timber tree species cut in Burma



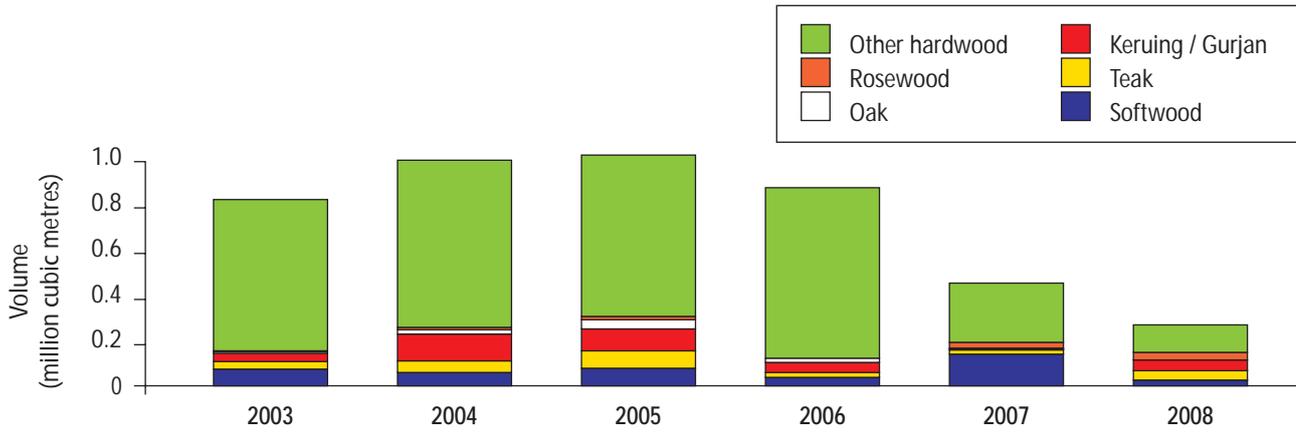
Fir sawn wood, Gudeng, China; January 2007

Prior to the crackdown most of the sawn wood entering Yunnan province from Burma was being imported by businesses whose declared address was Kunming (‘others’ on Chart 7). This practice ended in 2006, but it is not known if these companies ceased importing sawn timber into Kunming or simply relocated closer to the border. In 2005, only 20,000 m<sup>3</sup> of sawn timber was imported into Dehong prefecture rising dramatically in 2007 to 290,000 m<sup>3</sup>. This could reflect the KIO’s desire to add value, in the face of greater restrictions, or to avoid detection. Imports of sawn wood into prefectures opposite Kachin State plummeted in 2008. By way of contrast, sawn wood imports from Shan State doubled in volume and more than trebled in value. This may be because of an increase in trade in timber from MTE sources.

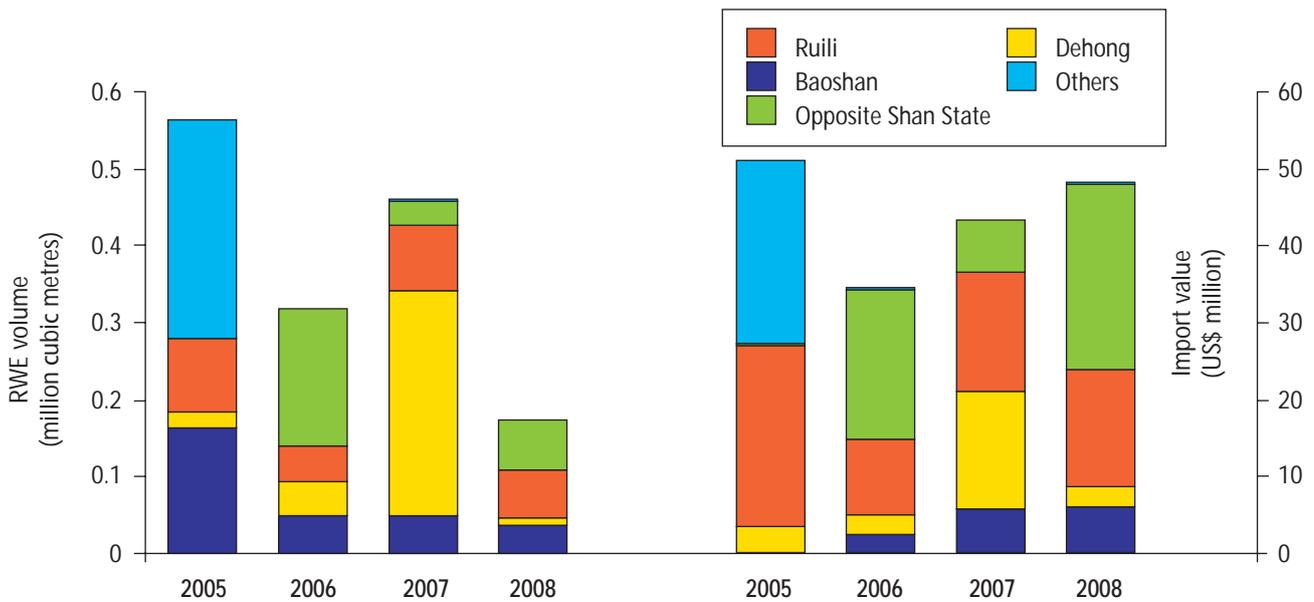
As can be seen in Chart 8, all categories of sawn wood have decreased since the crackdown, most notably ‘other hardwood’. The amount of teak exported across the border has almost halved and imports of softwood are now close to zero.

<sup>66</sup> This would appear unlikely as the volume of all species exported to China has fallen since 2005, apart from rosewood (see Chart 6).

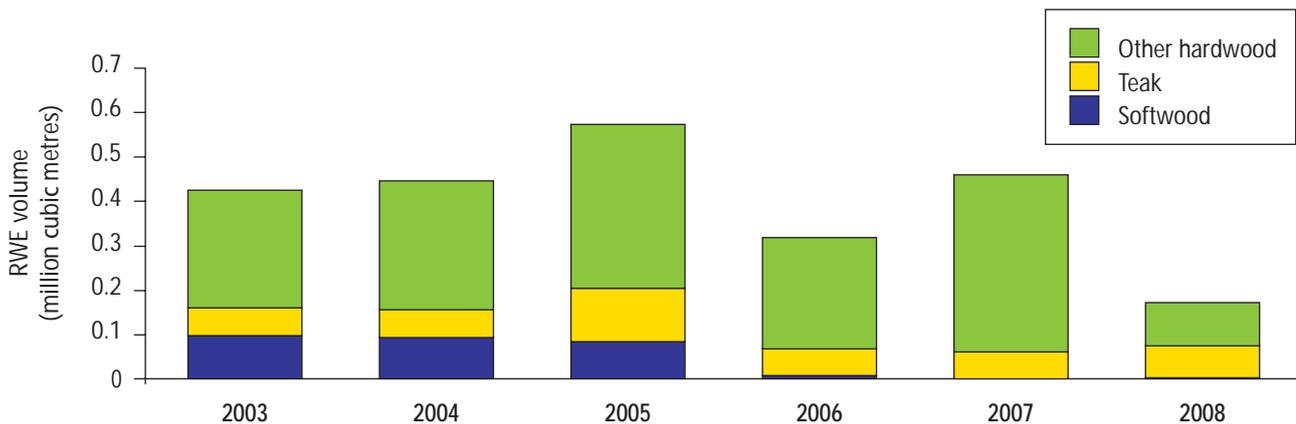
**CHART 6: CHINA'S IMPORTS OF LOGS FROM BURMA VIA KUNMING CUSTOMS DISTRICT BY SPECIES.** SOURCE: CHINESE CUSTOMS DATA



**CHART 7: CHINA'S IMPORTS OF SAWN WOOD FROM BURMA BY LOCATION OF IMPORTER IN YUNNAN PROVINCE CHINA.** SOURCE: BASED ON CHINESE CUSTOMS DATA



**CHART 8: CHINA'S IMPORTS OF SAWN WOOD FROM BURMA VIA KUNMING CUSTOMS DISTRICT BY SPECIES.** SOURCE: BASED ON CHINESE CUSTOMS DATA



## 7.2 Decline in the illegal timber trade – field research in Yunnan Province, China

The fall in timber imports has had an immediate impact on sawmills and wood-processing plants all along the border. In April 2007 for example, only three of the ten biggest factories in Ruili were still running, and they were operating at reduced capacity. The main wood-processing towns of Yingjiang, Pian Ma and Tengchong have also been hit hard.<sup>93</sup>

Slogans such as, ‘Long live the border trade’, and ‘Timber trade is the glorious way to prosperity’, still adorn the white walls of the development parks in Chinese towns all along the border with Burma. However, the notice boards in public squares tell a different story: ‘Workshop for rent. Suitable as timber processing factory’, and ‘High speed electric saws for sale.’ In 2003, Pian Ma had a floating population of 37,000; mostly migrants involved in the timber trade. However, in 2007 most of the factories in Pian Ma had closed down, almost all the timber traders had left, and even the red light district was deserted.<sup>94</sup> By March 2009, the timber trade had picked up a little and some of the bars and karaoke clubs had reopened.<sup>95</sup>

Significant amounts of timber have been stored on the Chinese side of the border. In addition, large amounts of timber were also piling up on the Burmese side and more remotely in the forests of northern Burma (see ‘10 The decline in illegal logging in Kachin State’, pages 69-96). In almost all timber towns visited in 2006-07, traders reported that they were waiting for

the border to reopen and that they would resume their activities if that were to happen.<sup>325</sup>

As a result of the difficulty in obtaining both import and transport permits only limited amounts of Burmese timber have been transported from the border to Kunming or further inland. In sharp contrast to 2004, in 2007 Global Witness researchers only saw two trucks openly carrying logs on the main highway between Kunming and the border, one of which was going towards the border. The other was heading to the Chuxiong freight train station, 160 km from Kunming on the road to Dali, from where timber is transported to other parts of China.<sup>96</sup> However, it is not known how many of the numerous, large, closed trucks, also plying the highway, were carrying sawn timber, out of view of the public and the enforcement agencies. Global Witness inspected two such trucks which were both found to be carrying around 40 m<sup>3</sup> of sawn timber. One of them was going from Yingjiang Prefecture to Guangdong, on the eastern seaboard.<sup>97</sup>

In May 2007, large piles of timber were seen at railway freight stations in Chuxiong, and in Fengyi on the outskirts of Dali, both of which are key transport hubs for Burmese timber. In Chuxiong, which is preferred by timber traders from the Tengchong area,<sup>98</sup> logs with a diameter of more than 70 centimetres were being loaded onto railway wagons. More logs were seen at the Fengyi railway compound, some of which were in the process of being loaded onto trains. This contrasted greatly with the situation in May 2006, when the storage area was

almost empty, containing only small amounts of timber mainly from Gudeng in Nujiang Prefecture. A local timber trader explained at the time, “Today’s situation cannot be compared to the past timber booming years. In the past, every storage area was full of timber like mountains high, trucks were busy around the clock and the timber business was hot. Now, there is only about 1,000 m<sup>3</sup> in storage here and only little timber business going on.”<sup>99</sup>



Fengyi railway freight station; April 2007

### 7.2.1 Nujiang Lisu Autonomous<sup>c7</sup> Prefecture

*“[...] the situation of timber trade in Pian Ma is very complex and hard to deal with. In some situations we, representatives of the government, can only open one eye and close another.”*<sup>100</sup> Customs official, Yunnan Province, January 2007

The picture was mixed in the northern prefecture of Nujiang. The small timber town of Gudeng, which only began importing timber from Burma through the Ega Pass in early 2006, was the only town in this area with fresh imports of timber in May 2006. In late December 2006, local authorities stopped issuing permits for the timber to be transferred from the border further inland.<sup>101</sup> In the remote towns of Fugong and Gongshan customs had stopped timber imports by May 2006. However, during subsequent Global Witness visits it was clear that relatively large amounts of timber had been imported between May and October 2006 and stored in town.<sup>102</sup> Global Witness found increased amounts of timber stored in all three towns in early 2007. Despite this, timber traders told Global Witness that they did not expect the border to reopen for another three years.<sup>103</sup>



Gongshan; October 2006

Global Witness did not revisit these towns on the 2009 trip to the Burma-China border but, according to a timber trader from Sichuan Province, timber had yet to be imported into Gudeng during the 2008-09 logging season.<sup>104</sup>



Gudeng; October 2006

<sup>c7</sup> Autonomous prefectures either have a population comprising over 50% ethnic minorities or, historically, have a significant ethnic minority contingent.

Pian Ma, further south, is about 360 kilometres north, and ten hours by bus, from Tengchong. In order to reach the town, which is 1,950 metres above sea level, one has first to drive through an “*elfin rhododendron forest*” on the Pian Ma Pass at more than 3,000 metres. Much of the southern Gaoligongshan Mountain range is protected on the Chinese side of the border.<sup>105</sup> Indeed, signs can be seen throughout the region entreating people to protect the environment: ‘By protecting the Gaoligong Mountains we are protecting ourselves’, ‘People and nature developing in harmony’, ‘Protect eco-environment, beauty homeland’ and so on.<sup>106</sup> The contrast across the border in Burma and in the sawmills of Pian Ma could not be starker. Once the largest timber hub in Yunnan Province, (see ‘*A Choice*

*for China*’, page 40 for further information) Pian Ma has experienced a drastic decline in timber imports from Burma in recent years. As a result, between 70 and 90% of the town’s two hundred or so sawmills had gone out of business by May 2006 and there was almost no timber in town. These mills have not reopened, apart from one instance in July 2006 (see ‘7.2.6 Re-opening the China-Burma border for the timber trade’, pages 43-44).<sup>107, 108</sup> By March 2009, the Jinxin Company, previously the largest timber company in town, had closed its huge timber storage area and relocated its offices to Tengchong. The Hongda sawmill, the biggest of its kind in Nujiang Prefecture, appears to have closed entirely.<sup>109</sup>

For long periods, only limited amounts of timber have entered Pian Ma. The transfer of timber from the town to Kunming, and other places further inland, has been restricted even more. However, local traders did report an upsurge of timber imports during July-August 2006.<sup>110, 111</sup> Global Witness researchers were faced with a mountain of timber, with an estimated volume of 150,000 m<sup>3</sup>, upon arrival in January 2007. Most of this was stored at the old U.S. airstrip just north of the main town. By April 2007, significant amounts of timber were still at the airstrip apparently stranded here because its owners could not obtain the necessary paperwork to clear customs and to transport it further inland. In March 2009, there were about 20,000 m<sup>3</sup> of timber in Pian Ma, again most of it near the airstrip. The timber traders, loggers, miners, prostitutes, and heroin traffickers from Xinjiang Province had, to a limited extent, begun to return. But Pian Ma Town has very little to show for its boom years. Many of the old mills were now torn and tattered and much of the accommodation had been demolished, but the town was busier than at the height of the crackdown in 2006-07. There are about ten prominent timber traders left in Pian Ma, most, if not all, of the large companies have left. Two of these small outfits, Hongrui and Yuantong, like the others are involved in logging and associated road building in forests controlled by the ‘mountain army’ in Burma. Some of the work is sub-contracted to smaller companies. Many



“Protecting Forest Resources”, Pian Ma, China

c8 Species available in March 2009 included: Bainanmu (*Phoebe spp.*), Huangxinnan (*Phoebe puwenensis*), Lengshan (fir) (*Abies nukiangensis*), Shanan (*Zelkova schneideriana*), Tieshan (*Tsuga dumosa*), Tusha (*Taiwania cryptomerioides*), Xiangbo (*Sabina pingii* var. *wilsonii*), and Yulinchun.

are losing money on the timber that they sell in Pian Ma. The loss is, at least in part, made up for by sales of higher quality timber.<sup>c8, 112, 104</sup> According to one source, the timber can be harvested to order by loggers working on the western slopes of the Gaoligongshan Mountains in Burma. Here, they are rarely, if ever, troubled by the *Tatmadaw*<sup>c9</sup> (the military in Burma).<sup>104</sup> The cost of documentation, from the SFA, customs, the department of commerce, and other relevant agencies, varies depending on the type of timber, the quality of the timber and the degree of processing. For example, documentation for *Tsuga spp.* costs 200 yuan (US\$29) per cubic metre for logs and 240 yuan (US\$35) for sawn timber. *Tsuga spp.* sells for 1,200 yuan (US\$175) per cubic metre for unprocessed timber and 1,600 yuan (US\$234) per cubic metre for sawn timber. Documentation for *Sabina sp.* costs about double that of *Tsuga spp.* but top quality timber can be sold for as much as 6,000 yuan (US\$88) per cubic metre.

By May 2006, in nearby Kangfang in Burma, the prominent De Long Forest Resources Co., Ltd. had also shut down its timber-processing facilities.<sup>113</sup> In April 2009 Global Witness researchers saw 20 blue log trucks, within three hours, en route to Pian Ma. Log trucks seemed to be able to cross the border unrestricted, however most travel at night.<sup>104, 112</sup>



Pian Ma; January 2007



Pian Ma; March 2009



Pian Ma Town has very little to show for its boom years; March 2009

<sup>c9</sup> The army is called the *Tatmadaw Kyee*, the air force *Tatmadaw Lei*, and the navy *Tatmadaw Yay*.

### 7.2.2 Baoshan Prefecture

The large town of Tengchong has at least four ‘feeder towns’ near the China-Burma border that supply it with timber.<sup>114</sup> By May 2006, timber import into these towns had been much reduced although some timber was still crossing the border and being transported to Tengchong.<sup>115</sup> The feeder towns of Guyong and nearby Houqiao had experienced a decrease in imports from an estimated 30-40,000 m<sup>3</sup>, between January and May 2005, to maximum of 10,000 m<sup>3</sup> during the same period in 2006.<sup>116</sup> In January and May 2007, the trade was limited in Guyong, Houqiao and the feeder town of Tse Tse. By way of contrast, timber traders in Dian

Tan, a small town in the same area, were busily importing timber through an unofficial border crossing in early 2007 (see ‘6.3 Snake business’, pages 18-23).<sup>117</sup> Dian Tan is situated opposite Pangwah Town, the headquarters of the NDA(K) in Burma.

In May 2006, Global Witness researchers saw at least 70-80,000 m<sup>3</sup> of stored timber in four of the border towns feeding Tengchong with timber.<sup>118</sup> By early 2007, volumes of timber had slightly increased in Guyong and Houqiao, and decreased marginally in Tse Tse, compared to May 2006. In Tse Tse at least 15-20,000 m<sup>3</sup> of timber was stored along the road between the town and the Burma border.<sup>119</sup> The amount of timber seen in Dian Tan had doubled by 2007 to approximately 40,000 m<sup>3</sup>. Some timber had been transferred further inland from all of these towns, in particular Dian Tan and Tse Tse.<sup>120</sup>

According to the Yunnan Department of Commerce, in a report dated 26 June 2006, 500 out of 1,000 timber processing factories in Tengchong County have had to close as a consequence of the suspension of timber imports. Some 5,000 out of the 10,000 people employed at these factories have lost their jobs, and service related industries have faced difficulties. Again according to the report, 5,000 trucks previously used for mineral and timber transport have been left unused.<sup>121</sup> Global Witness has not been able to independently verify these figures.



Tse Tse; January 2007



Log storage area, Guyong; January 2007

Global Witness returned to Baoshan Prefecture in March 2009. In Dian Tan timber traders told Global Witness researchers the prices of the most readily accessible timber tree species (*see opposite*). Others such as Aishan (*Morus australis*), Baimu (*Brassaiopsis spp.*),<sup>d1</sup> Kelongmu (in *Dipterocarpus turbinatus*), Matihe (*Exbucklandia populnea*), Mumian (*Bombax ceiba*), Tiejianshao (*Shorea spp.*), Wujiaofeng (*Acer pictum*), and Zhasang (*Morus spp.*), were available only in small quantities and generally much harder to source.<sup>122</sup>

The same timber traders told Global Witness that prices had generally decreased only slightly over the past year, despite the global economic downturn, on average by 10%. The main reasons given for this were that they had to travel deep into Burma, 170 kilometres from the border, to cut the timber and they had to establish a good relationship with each new *Tatmadaw* commander every three months. According to the traders the going rate for good relations with the Burmese military is about one million yuan (US\$146,000). Completing all the relevant procedures in China costs about 400 yuan (US\$58) per cubic metre of timber.<sup>122</sup> At the time of Global Witness' visit, the timber storage ground in Dian Tan contained about 10,000 m<sup>3</sup> of timber, about

#### TIMBER PRICES IN DIAN TAN MARCH 2009

Chinese name	Scientific name	Price yuan/m <sup>3</sup>	Price US\$/m <sup>3</sup>
Guazao	<i>Hovenia dulcis</i>	2,600	380
Heixinnan	<i>Magnolia baillonii</i>	3,000	439
Heitaomu		2,300	336
Hongchun	<i>Toona ciliata</i>	1,900	278
Huangyunxiang	<i>Cantleya corniculata</i>	2,400	351
Huangxinan	<i>Phoebe puwenensis</i>	2,000	292
Hupinan	<i>Daphniphyllum paxianum</i>	2,000	292
Jiayoumu	<i>Dipterocarpus spp.</i>	2,300	336
Jinsinan	<i>Phoebe sheareri</i>	1,000	146
Kasinan	<i>Viburnum cylindricum</i>	1,800	263
Lengshan	<i>Abies nukiangensis</i>	2,000	292
Limu	<i>Quercus spp.</i>	800	117
Nianzao	<i>Chukrasia tabularia</i>	1,400	205
Shanan	<i>Zelkova schneideriana</i>	2,100	307
Tieshan	<i>Tsuga dumosa</i>	2,000	292
Xiangzhang	<i>Cinnamomum glanduliferum</i>	1,800	263
Xiananhua	<i>Betula spp.</i>	2,500	365
Yulinchun	<i>Toona sp.</i>	2,300	336

one quarter of its maximum capacity. However, wood was arriving and departing on a regular basis each day. Guangzhou, the capital of Guangdong Province, Hainan, Beijing, Shanghai, Sichuan Province, Japan and Korea were all mentioned as destinations for their stock.<sup>122</sup> On one road there were about 50 sawmills but most, perhaps 90%, had closed down. There were many log trucks in town, which appeared busier than at the height of the crackdown possibly because of an increase in the mineral trade with Burma, road building, and other development projects.



Sawmills along the river. A few still are alive, Dian Tan; March 2009

d1 *Spp.* is the plural of *sp.* meaning species. Many trade names such as Keruing encompass more than one species of the same genus. *Ssp.* means subspecies.

From Dian Tan Global Witness researchers travelled north to the small town of Tse Tse. Despite repeated requests to pass the border checkpoint the police refused. In the past, large quantities of logs have been stored along the main road about 2 kilometres from the checkpoint. However, Global Witness was told that all the timber had been moved to avoid a recent forest fire in the area.<sup>123</sup> Tse Tse is almost



Heixinmullian logs from Burma, Guyong; March 2009



Houqiao (Guyong) log storage area; March 2009



Tse Tse, Burmese logs and Chinese (Beijing) Jeep; March 2009

entirely reliant on the timber trade, which perhaps explains the rather lax enforcement of the new regulations here. A taxi driver, for example, can double his 2,000 yuan (US\$292) monthly income during the logging season.<sup>124</sup> According to local people, the border defence police take money from the log truck drivers and timber businessmen. The procedures in China are easy to comply with, whereas in Burma, in reality, there is no process at all other than to have a good working relationship with the 'mountain army' and the *Tatmadaw*. Since the start of the logging season about 20,000 m<sup>3</sup> of timber had been imported into Tse Tse. This was then stored in one of six stock grounds or 10-12 sawmills. The logs generally comprised high quality species but the loggers had to travel up to 200 kilometres into Burma to find them, particularly those of large diameter.<sup>d2</sup>

The largest amount of timber found in the Tengchong area, approximately 30,000 m<sup>3</sup>, was found in Guyong Town situated north-west of Tengchong near the border port of Houqiao. Eleven log rest areas were seen along the main road leading from town to the border. Guyong also had 45 sawmills, three of which were closed down. Despite the ready supply of timber from Burma, timber traders complained that there weren't many buyers. Transportation costs had increased, because of the need to build roads through the mountains up to 200 kilometres into Burma, as had the fees on the China side. However, the cost of securing a mountain to log and transport 'taxes' in Burma had fallen. As a result, the price of timber had dropped only slightly.

Most of the companies operating in Burma were small, with an operating capital of around ten million yuan (US\$1.5 million). In contrast to previous years, the companies were run predominantly by local people with very good contacts in Burma. Clearly, sharing the same language, culture, customs, and, often, family helps the businesses run smoothly.<sup>125</sup>

d2 Amongst other species Global Witness researchers saw: Baimu (*Brassaiopsis* spp.), Handonggua (*Alnus nepalensis*), Heitaomu, Heixinnan (*Magnolia baillonii*), Hongmu (*Bixa orellana*), Hupinan (*Daphniphyllum paxianum*), Limu (*Quercus* spp.), Matihe (*Exbucklandia populnea*), Qingsong (*Pinus griffithii*), Qiumu (*Catalpa fargesii*), Shuidonggua (*Alnus ferdinandi-coburgii*), Shanxianguo (*Lindera metcalfiana* var. *dictyophylla*), Tieshan (*Tsuga dumosa*), and Xianbo (Wilson juniper) (*Juniperus pingii* var. *wilsonii*).

### 7.2.3 Dehong Dai Jingpo Autonomous Prefecture

*“Before, big bosses and small bosses, all came over here for timber business. I didn’t know exactly how many trucks coming and going, countless. Now, so few trucks.”*

Elderly woman at a grocery store in Sudien, near Yingjiang, Dehong Prefecture, April 2007

By May 2006, and during subsequent visits by Global Witness in January and April 2007, it was apparent that large-scale imports of timber had been brought to a halt in this area. In April 2007, all the companies had either closed or drastically reduced their processing operations. Little timber was left in storage, and Global Witness researchers did not observe a single truck transporting timber during a four-day period.<sup>126</sup> Smuggling had increased though.

In the large Ruili area, about 700 kilometres and eleven hours by bus from Kunming, the four leading timber-importing and wood-manufacturing companies all reported that they had been forced to stop moving timber across the border since the end of March 2006. This is presumably because they had been dealing in timber cut without the appropriate authorisation in Burma and, as a result of the ban/Interim Measures, could no longer import the timber without the appropriate documentation. That said, they had managed to import large amounts of timber prior to the border closure, and immediately afterwards. One company explained that before the closure they, “[...]had spent three days and nights moving timber from Myanmar to China, with 180 trucks, and reported it all to customs in order to obtain legal certificates.”<sup>127</sup> Large storage sites visible in May 2006, containing more than 20-30,000 m<sup>3</sup> of logs, were almost empty in both January and April 2007.<sup>128</sup>

In February 2009, despite being on the lookout in Ruili, Global Witness researchers saw only one fully



Rongmao, Ruili City: April 2006

laden log truck and no timber stockpiles. There were a couple of small sawmills on the edge of town, but only one was processing timber.<sup>129</sup> What was left of the timber trade appeared to be dominated by the Ruili City, Rongmao, Business, Trading Co. Ltd. According to sources close to the company, it had survived essentially because of its large size, ready access to significant sums of money, and good contacts both in Burma, with the SPDC and the KIO, and in China.<sup>40</sup> The China-Burma border was no longer closed to the timber trade, a fact later confirmed by the SFA in Beijing,<sup>130</sup> and timber was still available. Global Witness was told that the company had no problem importing timber from Burma and appropriate documentation was easy to acquire. Whether or not the documentation was actually valid is a different matter entirely and difficult to ascertain. However, given the problems experienced by loggers working for Rongmao in early 2009, it is probable that the company was not operating entirely in accordance with the law, if at all (see ‘10.3.2 Logging and timber transportation in KIO-controlled areas near the border’, pages 81-83).<sup>131</sup>



Log storage area, Ruili City: April 2006

North of Ruili, in the Yingjiang area of Dehong Prefecture, the suspension of timber imports was not implemented until June 2006 and enforcement has been patchy.<sup>132</sup> At its peak, Yingjiang Town had an estimated maximum of 300 sawmills and timber-processing factories, many of them located in the area near Budui Lu (Military Road).<sup>133, 134</sup> However, almost all of them had closed down by June 2006. They were still closed during subsequent Global Witness investigations in 2007.<sup>135</sup> Global Witness found more timber stored in Yingjiang, and the border towns near Yingjiang, in 2007 than in 2006.<sup>136</sup> By early 2009 only a few small companies were open for business, relying on timber logged illegally in more remote and inaccessible forests in Burma. Forty of the 55 sawmills seen along a two-kilometre stretch of the Budui Lu were closed. Those that were open were processing timber from Car Zan

and Sudien. Two timber stockpiles were also located. One, measuring at least 160 metres by 160 metres, contained teak logs belonging to the Hongxin Company. Rumours that the company still had about 20,000 m<sup>3</sup> of teak in storage, but no buyers, would appear to have some veracity. Log trucks were also seen in Yingjiang Town, after dark.<sup>137</sup>

In April 2007, in Nabang, Global Witness saw 10 trucks carrying squared-off logs arriving at the large storage compound of the powerful Hongxin company, within a 20 minute period. Hongxin once controlled most of the timber trade in Nabang. The compound was already partially filled with fresh logs. Another 3,000 m<sup>3</sup> of logs were stored near the river, by one of the two unofficial border crossings, which use the so-called Munglai Dam Road and bypass the official border checkpoint in Laiza Town. On the road from

Nabang near Yingjiang, by a large electricity relay station, a further 15,000 m<sup>3</sup> of timber was stored at the Hongan Timber Company storage area. Another seven trucks were waiting to unload square logs during Global Witness' short visit.

In May 2006, in nearby Car Zan, numerous log trucks entered China from Burma; customs was closed throughout the holiday period. Many of these trucks had been checked and let through by a member of the Border Defence Brigade.<sup>138</sup> This was in stark contrast to the situation in February 2009. Not one log truck was seen on the newly upgraded road from Car Zan to Yingjiang. Global Witness researchers were told that most of the



Yingjiang Town; May 2006



Hongxin's log storage area, Yingjiang Town; March 2009

timber transportation in this area took place at night. Only one timber truck was seen at the border checkpoint, being inspected by the border police, about 10 kilometres from the real border. The border police were charging each truck, which can carry between 20-40 m<sup>3</sup> of timber, 50 yuan (US\$7) to enter China and 120 yuan (US\$18) 'service fees'. Global Witness researchers found only three timber stockpiles containing less than 20,000 m<sup>3</sup> in total. They were all located near the customs office about half a kilometre from the border checkpoint. Apparently, the customs director had been moonlighting as a timber broker. The number of sawmills also dropped dramatically from between twenty and thirty in 2004 to less than five in 2009 each employing no more than ten people. However, it would appear that those traders that remain were experiencing little or no trouble importing timber from Burma and had many species for sale.<sup>d3, 131</sup>

Further north in Sudien, Global Witness found two timber stockpiles and 5 working sawmills during the 2009 trip to the border. Ten fully laden log trucks were seen at one of the stockpiles. None of the traders spoken to by Global Witness were at all concerned by the new procedures for importing Burmese timber into China, mainly because they were not being enforced. That said, Global Witness was told that each log was marked with capital letters, such as SDK-1, and that this was proof the timber had been authorised by the Burmese authorities. It is not known what these letters stand for, nor indeed which authority, the SPDC or an armed ethnic opposition group, had put them there. On previous occasions Global Witness researchers saw only abbreviations of Chinese company names hand-written on the logs. The traders were more interested in the quality of the timber, volumes, and tree species than in any new regulations. More than 20 timber tree species could be found in Sudien.<sup>d4</sup> Prices varied from between about 300 yuan (US\$44) per cubic meter for

*Alnus sp.* to 3,000 yuan (US\$439) per cubic metre for *Manglietia spp.*<sup>d5, d6</sup> Global Witness researchers were also offered extracts from the CITES-listed Himalayan Yew (*Taxus wallichiana*) on a couple of occasions (see 'A Choice for China', page 25). All the timber was from Burma. For each species, on average, the various authorities were paid 300 yuan (US\$44) in total for processing a cubic metre of timber through the system. This compares to 270 yuan (US\$39) in Car Zan.<sup>137</sup>



SDK-1. Proof of legal origin? Sudien; March 2009



Burmese timber in Car Zan; May 2006



Burmese timber in Car Zan; March 2009

d3 These included: Bianselong (*Pterocarpus tinctorius* var. *chrysothri*), Guaizao (*Hovenia dulcis*), Heixinnan (*Magnolia baillonii*), and Jiayoumu pseudo teak (*Dipterocarpus spp.*), as in Sudien (below) together with Kelongmu (in) (*Dipterocarpus turbinatus*), Kulianzhi (*Azadirachta indica*), Maisuo (*Hopea spp.*), Tiechun (*Chukrasia tabularia*), Mianbai (*Michelia champaca*), Wujiaoxin (*Juglans regia*), and Zhashang (*Morus sp.*)

d4 These included: Baicuipei, Baimulian (*Manglietia spp.*), Daoguazhishu, Hongcuipei, Hongmu (*Bixa orellana*), Hupinan (*Daphniphyllum paxianum*), Jiakelong, Jinsinan (*Phoebe shearerii*), Kasinan (*Viburnum cylindricum*), Laoshudajianshu, Limu (*Quercus spp.*), Matihe (*Exbucklandia populnea*), Mulianhuashu, Nanmu (*Phoebe nanmu*), Shuidonggua (*Alnus ferdinandi-coburgii*), Wolumu, Xinanhua (*Betula alnoides*), and Yaoqianshu.

d5 *Manglietia* is a genus in the family Magnoliaceae. Four out of the 37 or so known species are found in Burma ([http://www.magnoliasociety.org/classifications\\_ndx.html](http://www.magnoliasociety.org/classifications_ndx.html)).

d6 Five are on the IUCN Red List of Threatened Species. All five threatened species are found in Yunnan Province in China, and two of these are used in construction. For more information see: <http://www.iucnredlist.org/>

### BOX 3: HONGXIN

*“The boss of Hongxin started his business as a driver and now he has a big company.”* Wooden hammer handle maker from Tengchong, May 2006

The Hongxin company, owned by Mr Ying Xinquan, once had a near monopoly on timber imports into Nabang, in Dehong Prefecture. The company continued importing timber from Burma for long periods of time despite the order to suspend the trade in March 2006. This probably had something to do with the close relations between local authorities on both sides of the border, controlled by the KIO on the Burma side and ethnic Kachin on the Chinese side of the border. As much as 80% of Yingjiang County’s income is thought to have derived from the timber trade.<sup>151</sup> Indeed, Yingjiang’s revenue may have fallen by up to two thirds following the imposition of the moratorium and new rules governing the timber trade.<sup>139</sup>

The gate of Hongxin’s storage site in Nabang, which held an estimated 30,000 m<sup>3</sup> of timber in May 2006,<sup>140</sup> had a sign fixed to it which stated, ‘This storage area is appointed by customs.’<sup>141</sup> Hongxin was once the largest company in Nabang, followed by the Manying Company, which also had a large timber storage site on the outskirts of town.<sup>151</sup> At its height, Hongxin had about 4,000 employees, 200 extraction vehicles in Burma’s forests, 60 cranes operating at storage sites on the China side, 1,000 timber trucks and, “countless mountain forests in Burma”. On 3 May 2006, the company is rumoured to have paid out 20 million yuan (US\$2.6 million) to its loggers.<sup>151</sup> A few days later Global Witness researchers saw more than 15 timber trucks, mostly belonging to Hongxin, during the 100 kilometre drive from Nabang to Yingjiang

Town. In addition, 20 trucks were seen waiting at customs to clear their loads of timber. They were all processed within two hours. The scene during March-April 2006 had been even busier. Trucks were seen one after another all along the road, “often causing delays up to two-three hours”.<sup>142</sup>

In May 2006, a Chinese timber market researcher, mistaken for a reporter, had to be saved by local police after up to ten employees attacked him. People associated with Hongxin Company had previously attacked four reporters from Beijing, smashed their equipment, seriously wounding one of them. During the court case that followed, the company was reportedly sentenced to pay 4.5 million yuan (US\$585,000) in damages for the broken equipment and 500,000 yuan (US\$65,000) in medical fees. However, no individual was identified or held personally liable.<sup>143</sup> Global Witness has not been able to verify this information.

In early 2007, Hongxin stopped importing timber to Nabang. However, by April the storage area was filling up once more. Truck drivers working for the company, carrying loads of 15-20 m<sup>3</sup> to Yingjiang, claimed that the timber all had legal certificates.<sup>144</sup> It is possible that Hongxin was logging in Burma under the pretext of setting up a rubber plantation. According to a local man, Hongxin had 2,500 workers in Burma’s forests in January 2007. He claimed that, “the real purpose of the company is not for rubber tree plantation, but for tree cutting. They cut trees to harvest logs and store them on roads waiting for the border to open. The rubber tree plantation will take a long time to finish. True for logs and false for rubber plantation.”<sup>329</sup>

Global Witness visited the Hongxin Company again in March 2009 following rumours that the company had stopped trading timber completely. Only a few well-

weathered logs could be seen at its storage site in Nabang. In fact the entire town seemed to be in terminal decline. One bus driver told Global Witness researchers that he was driving less than one fifth of the time that he had been only last year. Hotels were all but empty and the floating population had dispersed. A sign at the national border post read, “It is illegal to cross the border for logging and gold washing.” However, the global economic downturn, and perhaps a lack of trees, may also have played a part.<sup>137</sup>



Hongxin; April 2007

### 7.2.4 Kunming

*“It does not matter if the timber is imported legally or illegally, as long as the market accepts it.”* Sales department manager of timber processing factory, Ruili, Dehong Prefecture, April 2006

The decline in the supply of Burmese timber since March 2006 has had a noticeable impact further along the market chain in Kunming. This resulted in a price increase of about 30% by mid-2006. The annual price increase was 30-40% for selected and high value timber, 20% for timber of mid range quality and 15% for lower value and more common timber. In early 2007, the average price of timber in the market had increased by an estimated 20% over the previous year, according to timber traders. The price of some species such as chempaka<sup>d7</sup> and teak had seen more dramatic increases. Chempaka for example had gone up from 2,000 yuan (US\$260) to 4,800 yuan (US\$624) per m<sup>3</sup> in a year, while teak priced at 11,000 -13,000 yuan per m<sup>3</sup> (US\$1,430 - 1,690) in mid-2006 had risen to 18,000 yuan per m<sup>3</sup> (US\$2,340) half a year later.<sup>147</sup> By 2009, teak prices at the border had fallen to around 11,000 yuan (US\$1,618) per ton.<sup>145</sup>

Most of the larger Chinese companies have direct transportation routes from the border to buyers and wholesale markets on the eastern Chinese seaboard. Smaller and medium-sized companies generally operate from the Kunming Xinan Timber and Forestry Trading Market. The Xinan market is the largest timber market in Yunnan Province and deals mainly in timber products from Burma. It has around 190 stallholders and spans an area of approximately 18,000 m<sup>2</sup>. Most of the timber sold here is destined for Guangdong and Shanghai.



Kunming Xinan Timber and Forestry Trading Market; December 2006<sup>d8</sup>



Xinan Market; February 2007

<sup>d7</sup> This is the ASEAN standard name for the timber of the family Magnoliaceae.

<sup>d8</sup> According to the sign, timber tree species from Burma available in December 2006 included hongmu, kelongmu, xiangzhang and youmu.

Global Witness visited the Xinan Timber Market three times during 2006-07 and inspected more than 30 companies with outlets at the market.<sup>146</sup> Among the most sought after species were birch (*Betula spp.*), chempaka (*Manglietia spp.*), keruing (*Dipterocarpus spp.*), ramin,<sup>d9</sup> *Shorea spp.*, teak (*Tectona grandis*), and Chinese hemlock (*Tsuga spp.*). Timber from Burma was still available at the market at the time of Global Witness' visits. The vast majority of the timber was sold as sawn wood, rather



Xinan Market; June 2006

than logs. However, the amount and the number of species had declined, leading some outlets to shut up shop and others to announce that popular species, such as Chinese hemlock, were either in short supply or sold out. Traders complained that business was not as good as before when, “*timber was easy coming, easy going and with big profits*”. They referred to the moratorium placed on the timber imports from Burma in 2006 as the reason for the decline in supply.<sup>147</sup>

By 2007, some traders had, without great success, begun to look towards Laos and Vietnam as alternative suppliers for high-value species.<sup>148</sup> A timber trader from Pian Ma explained, “*My stall here at the [Xinan] market is without timber. Pian Ma has been closed since the end of last year [2006] with a small amount of timber smuggled in. I have chased every border pass down to Laos and Xishuangbanna, with money wasted on trips and no gain. Gudeng near Liuku still has some timber, but the price is higher and the amount is small, so it cannot meet the market demand.*”<sup>149</sup>

In February 2009, a local researcher reported seeing only two heavily loaded log trucks in eleven hours on the road from Ruili to Kunming.



Xinan Market; June 2006

d9 The Royal Botanic Gardens, Kew, describes ramin as “[...] *the common trade name given to a number of light coloured tropical hardwood tree species*” of the *Gonystylus* genus. These species are, “*native to the peat swamp forests of Brunei Darussalam, Fiji, Indonesia (Kalimantan and Sumatra), Malaysia (Peninsular Malaysia, Sabah, Sarawak), Singapore, Solomon Islands and The Philippines*”. Ramin has been listed by Indonesia under CITES Appendix III. Malaysia is the only country to have made a ‘reservation’ and is therefore not bound by the provisions of CITES with respect to the controlled trade in ramin as other parties to the convention, such as China, are. For further information on how CITES works please see: <http://www.cites.org/eng/disc/how.shtml>

### 7.2.5 The economic importance of the timber trade and lobbying to reopen the border

The importance of the timber trade to the income revenue of local prefectures along the China-Burma border should not be overlooked. In addition to providing employment, the timber import industry provides tax revenue to the local prefectures. According to a report from the local bureau of the Ministry of Commerce, Tengchong County received 78.5 million yuan (US\$10.2 million) in taxes from border trade in the first half of 2005, the majority from taxing timber imports.<sup>121</sup> In 2005, more than 50% of the financial revenue for Lushui County, in Dehong Prefecture, was from Pian Ma.<sup>150</sup> As much as 80% of Yingjiang County's income might be from timber imported into Nabang.<sup>151</sup>

However, a failure on the part of the local authorities to diversify has resulted in an over-reliance on natural resource extraction for revenue generation. This over-reliance on imports has left the local economy very sensitive to any changes in timber import volumes and unprepared for long-term sustainable growth, particularly when the forests of northern Burma are exhausted.

To make matters worse, little of this money has been invested in improving the livelihoods of local people (see *'A Choice for China' and reports by Forest Trends*).<sup>152, 153</sup> Most of the people investing and employed in the trade are migrants from other parts of China. In addition, much of the profit is

realised by the investors in processing plants on the eastern seaboard.

Some timber traders have made significant investments in tracts of forests, roads, and bridges to the logging sites, which they need to recoup. For their part, local officials have tried to ensure that the trade continues, in the face of the official moratorium and new rules imposed by the Yunnan provincial government under the direction of the central government.

Since the suspension of the timber trade, in March 2006, and the publication of the Interim Measures, many businessmen and local officials have pleaded with the provincial authorities, the central Chinese government, and the Burmese government to resume the trade. They cited financial difficulties and the need to, "recover old timber stuck by the border".<sup>154, 155, 156</sup>



Department of Commerce (Lushui County) notice announcing the temporary suspension of it issuing documentation necessary for timber exportation (dated 30 December 2006)



Road building, Guyong; January 2007

Requests to collect and/or import ‘old logs’ have been used throughout the region, and no doubt beyond, as a pretext for renewed cutting; i.e. the logs in question do not in fact exist at the time the request is made. (For more information on ‘old logs’ see, ‘A Conflict of Interests,’ pages 69-70.) Undoubtedly, there were some genuine ‘old logs’ in this instance, there usually are, however fresh logs were also cut. In addition, many companies imported timber in excess of the allowed quotas fuelling another cycle of logging in northern Burma and leading to subsequent crackdowns by Chinese enforcement agencies.<sup>108, 157</sup>

According to one trader spoken to by Global Witness, “Governments at prefecture and county level, such as Dehong and its counties, went to Beijing many times to tell the central government that it must take the border situation into consideration. With the economy in decline and the potential for social instability they argued that the border should be opened for timber trade. In doing this, they gathered information from companies and applied for a quota, of 100,000 m<sup>3</sup> of timber from Burma, to the Yunnan provincial government.”<sup>158</sup> Other traders working in the area have verified this account.<sup>159</sup>

In late 2006, several hundred traders held meetings in Ruili to discuss the border closure and the impact on the timber trade. Similarly, Zhangfeng traders formed a 15-person delegation that visited Rangoon to lobby the Burmese government and encourage them to legitimise the trade with the Kachin armed ethnic opposition groups.<sup>156</sup> Traders

and officials from Lushui County (which covers Pian Ma), Nujiang Prefecture, also visited Rangoon in 2006. They complained that their contracts with the armed ethnic opposition groups had been invalidated. According to one source, “They tried to explain that a lot of money had been lost and that they wanted the Burmese government to consider their contracts as legal and as a normal business trade. So far nobody has heard any news from them.”<sup>160</sup>

#### 7.2.6 Re-opening the China-Burma border for the timber trade

In July-August 2006, the border was reopened. The Yunnan provincial authorities allocated large import quotas of timber to companies based in Nujiang Prefecture (predominantly to Pian Ma), Baoshan Prefecture and in Dehong Prefecture (to areas near Yingjiang but notably not to Ruili). In late July 2006, Global Witness wrote to the central and provincial offices of the four government agencies overseeing the trade to express concern that this practice would undermine the positive steps made towards halting the illicit trade. We did not receive a response.

Quotas were allocated to the prefectures following surveys undertaken by the local departments of the Ministry of Commerce, which again were responsible for the distribution of quotas to individual companies in the towns concerned. Quotas were reportedly based on the company’s financial situation and business reputation.<sup>161, 162, 163</sup>

### BOX 4: INCREASES IN THE PRICE OF TIMBER

“The further the forests, the better the species and the higher the quality. The high quality timber is mainly found in Dehong Prefecture, then Baoshan and finally Nujiang Prefecture.” Wooden hammer handle maker from Tengchong, May 2006

Prices for timber have increased throughout the border area because of the decrease in supply. In most places prices increased by between 30 and 50% in 2006 compared to 2005. For certain species the price doubled. This led some companies to abandon extraction of all but high value species.<sup>325</sup>

#### LIST OF LOG PRICES IN DEHONG PREFECTURE

Chinese name	Scientific name	Common name	May 2005 price yuan/m <sup>3</sup>	May 2006 price yuan/m <sup>3</sup>
Doufuzha	<i>Brassaiopsis spp.</i>		1,300-1,500	1,700-1,800
Heixinmulian	<i>Magnolia baillonii</i>	Chempaka	2,000-2,300	4,000-4,500
Huangxinnan	<i>Phoebe puwenensis</i>	Tembesu / Ironwood	1,300-1,500	2,000-2,200
Huangyunxiang	<i>Cantleya corniculata</i>		1,800-2,000	2,500-2,800
Jidanhuan	<i>Pentace burmaica</i>		1,400	1,700-1,800
Kelongmu	<i>Dipterocarpus turbinatus</i>	Keruing	1,400-1,600	2,000
Suanzhimu	<i>Dalbergia oliveri</i>	Palisander/Tamalan	6,000	8,000-12,000
Xinanhua	<i>Betula alnoides</i>	Birch	1,300-1,500	2,000-3,000
Youmu	<i>Tectona grandis</i>	Teak	6,000	8,000-10,000
Zitan	<i>Pterocarpus macrocarpus</i>	Burma Padauk	60,000-70,000	75,000-120,000

“[...] in consideration of the heavy losses experienced by most timber companies in the border areas, the Yunnan government released a certain amount of quotas in July 2006 to each prefecture ... to make timber that had already been cut down and moved to the border areas before March 2006 legal in China. However, this announcement made some companies think that they would have a second chance to get more timber from Burma by cutting and transferring them into China. Therefore cutting did not really stop in the Burmese forest, though the scale is not bigger than before. Upon realising that the situation was made even worse, the Yunnan government recently announced that no piece of timber could be moved out of border towns. Some companies with strong financial power and good relationships with Burmese business partners, and the Chinese border checkpoints, have found other ways to avoid the checkpoints and have continued to cut and transport Burmese timber into the Chinese side of the border. They hope that new quotas will be allocated again. Therefore the current situation is repeating itself, and the Yunnan government has ordered the movement of any timber without exception to seriously stop.” Interview with government official, Baoshan Prefecture, Yunnan Province, 2007

The total quota allocated to companies in Pian Ma, which could be imported from 16 July 2006, was 30,000 m<sup>3</sup>. However, it was exceeded by, “a large amount”, according to one government official in the area,<sup>162</sup> and by 20,000 m<sup>3</sup> according to an informed local timber trader. This prompted an investigation by customs officials from neighbouring Baoshan Prefecture. According to officials spoken to by Global Witness, “The provincial government got so angry about it that they gave repeated orders to stop the timber trade.”<sup>162</sup> As a result, no timber was allowed into Pian Ma after 28 December 2006.<sup>161, 164, 165, 166</sup>

In July 2006, several Chinese towns received quotas for the importation of timber from Burma. Guyong was given a quota for 10,000 m<sup>3</sup> of timber, Tse Tse, 30,000 m<sup>3</sup>, and Dian Tan several thousand cubic meters. It is not known if these quotas were also exceeded but according to a local official the ‘reopening’ led to continued logging in Burma. This led the provincial government to stop the movement of any timber in the border areas by late December 2006.<sup>163</sup>

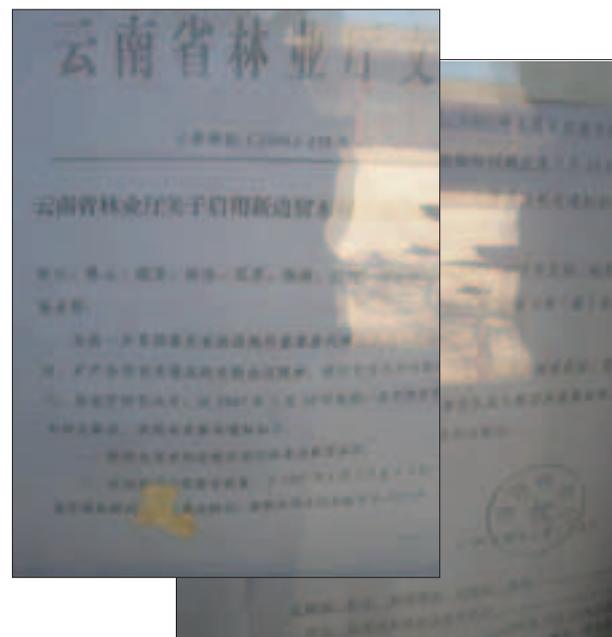
In the Yingjiang area of Dehong Prefecture, local authorities applied for a quota of 100,000 m<sup>3</sup> from the provincial government. Nabang was reportedly going to be allocated 50,000 m<sup>3</sup>, Car Zan 50,000 m<sup>3</sup> and the small town of Hong Bom He 10,000 m<sup>3</sup>. Global Witness has not been able to verify these figures or to ascertain how much timber was subsequently imported. However, it is clear that the roads from these towns, including the nearby Sudien to Yingjiang road, were very busy with heavily loaded log trucks between July and August 2006. According to a local newspaper, “[...] the customs opened the port for timber transportation and timber

bosses, who sought to gain sudden huge profits, ignored the weight capacity of the road forcefully overloading their timber trucks [...]”<sup>167</sup> This coincided with the rainy season and as a result the main road was badly damaged at an estimated cost of 2.52 million yuan (US\$327,600).<sup>167</sup> Parts of the road were still in disrepair in April 2007.<sup>168, 169, 170, 171, 172</sup>

Timber traders have reported several other incidents where customs officials and other local agencies have reopened the border for a short period of time, despite official policy, and have processed documents for limited amounts of timber. These businessmen have described the same situation in a variety of ways:

- “The border is often ‘closed’ and ‘open’ because of the mixed situation.”<sup>173</sup>
- “The border opened and closed and reopened again.”<sup>161</sup>
- “It [the border] was opened temporarily for half a month.”<sup>174</sup>
- “The customs in Dian Tan and all the border ports in Tengchong are officially closed; but there’s a big policy and a small one. Occasionally, the customs reopen for a short period dealing with timber procedures for 30 companies at a time.”<sup>175</sup>

During Global Witness visits to Yingjiang and nearby towns in April 2007, timber imported into Nabang and Car Zan, and transported from there further inland, had reportedly just received transportation certificates. Large-scale smuggling was also apparent.<sup>176, 177, 178, 179</sup> This situation has fuelled hopes among traders and logging operators that business will soon return to normal.



Forest Department of Yunnan Province notification of a new border trade timber transportation licensing system based annual quotas (issued on 25 December 2006 and coming into effect on 10 January 2007)

## 8 THE TRADE IN BURMESE TIMBER ON CHINA'S EASTERN SEABOARD

*"In the smuggling business you need trust to do business."*  
Jiashan Longsen Lumbering Co., Ltd. representative, October 2006

The majority of the high value timber imported from Burma to China ends up in the timber markets and wood processing factories on China's eastern seaboard. Companies in and around the greater Shanghai area and in Guangdong Province use this timber to manufacture floorboards and furniture for the domestic Chinese market and for export markets in the U.S. and Europe.

Following the imposition of the moratorium on cross-border timber imports from Burma, and, subsequently, the Interim Measures, by the Yunnan authorities, Global Witness surveyed market information available online in order to assess the impact of the new restrictions. This research, a telephone survey, and information gathered on a trip to the eastern seaboard, in September and October 2006, showed that a large amount of timber from northern Burma was available on the Chinese market. However, the supply was small and unreliable and prices had increased accordingly. As a result, manufacturers were increasingly looking to other countries for their timber. That said, some still had large stocks of Burmese timber, predominantly teak, and several companies (and/or their direct suppliers) were engaged in smuggling timber across the Burma-China border. Indeed, a few of the companies interviewed by Global Witness were ready to falsify documents in order to sell their stocks of Burmese teak. In general, none of these companies, including China's two leading manufactures of wooden flooring, appeared to have adequate mechanisms in place to ensure that the wood they were buying from Burma was obtained from legal, let alone sustainable, sources. Western buyers were apparently not concerned about the legality and sustainability of timber used in their products.<sup>180, 181, 182</sup>

### 8.1 Chinese market response to the crackdown on illegal cross-border trade in Burmese timber – online and telephone surveys

A Global Witness survey of two leading wholesale timber markets in Shanghai, and Guangzhou in Guangdong Province, available online, shows that the crackdown by the Yunnan authorities, on the illegal cross-border timber trade in 2006, had an immediate impact on both the availability and price of Burmese timber. The overall supply of timber to these markets dropped by between 20 and 50% within weeks of the crackdown and prices increased by 300-1,000 yuan (US\$37-125) per m<sup>3</sup>. Traders and market analysts all cited the recent border measures as the main reason for the market changes.<sup>180</sup>

The online survey was followed in July 2006 by telephone calls to four of China's largest wholesale timber markets located in Shanghai and in



Shanghai Anxin Flooring Co., Ltd., promotional poster at company office, Shanghai, China; September 2006

Guangdong Province. Global Witness researchers contacted four markets, which provide outlets for hundreds of wholesale timber trading companies: the Furen Forest Products Wholesale Market in Shanghai, the Houjie Xingye Timber and Plywood Market and Dongguan Jilong Timber Market in Guangzhou, and the Yuzhu International Timber Market in Guangdong. Global Witness interviewed both market managers and sales managers representing 25 companies.

Timber from northern Burma was still available at all the markets but the supply had dwindled and most of the stock was imported in 2005. The main timber species originating from Burma available at the time were *Acacia spp.*, birch (*Betula spp.*), teak (*Tectona grandis*), and shuidonggua (*Alnus ferdinandi-coburgii*). Traders had a mix of lumber, semi-lumber, sawn timber, logs and veneer from Burma. Twenty-five of the 29 people interviewed said that the volume of Burmese timber had declined during the first months of 2006. This decrease was estimated to be 30-60% in comparison to the previous year. According to those interviewed, the trade had been complicated by the cross-border restrictions on timber imports. Twenty-two of the interviewees directly related the decline to the 'customs ban' at the China-Burma border.<sup>183</sup> As a result, some traders explained that they would have to give up dealing in Burmese timber if the situation continued.<sup>181</sup>



"Wéi?" Furen Forest Products Wholesale Market, Shanghai; September 2006

### 8.1.1 Shanghai wholesale timber markets

Shanghai is located on the east coast of China at the mouth of the Yangtze River. The city, the largest in China in terms of population (over 20 million), has provincial level status. It is also the largest business and financial centre on the Chinese mainland and the location of numerous timber-processing facilities.

In April 2006, the amount of timber arriving on the Shanghai wholesale markets had fallen 20% compared to the previous year. According to trade information, the main reason, "[...] was that Burma had enhanced the control of exports of its own resources and most Burmese border ports had been closed [...]"<sup>184</sup> The shortage of new timber supplies meant that the market was largely reliant on existing stocks of Burmese timber, which led to significant price increases. The price of teak increased by between 500 and 800 yuan (US\$62-100) per m<sup>3</sup>, Baimu (*Brassaiopsis spp.*) by between 500 and 600 (US\$62-75) per m<sup>3</sup>, and Heixinmulian (*Magnolia baillonii*) by 1,000 yuan (US\$125) per m<sup>3</sup> in comparison to the same period in 2005.

By May 2006, supplies of Burmese timber had fallen still further; a 50% decrease compared to May 2005. According to trade analysts, the shortfall was due to the border closure. "At present, the Burmese government is not only enhancing the resource management of timber exports,

*but our government also supports the conservation effort of timber resources by the Burmese government.*"<sup>185</sup>

Prices for Baimu (*Brassaiopsis spp.*), Jinshiyou (*Manglietia spp.*), and Xinanhua (*Betula alnoides*) fell slightly in May, from a high in April. Teak prices, however, remained high with additional price increases by up to 300-500 yuan (US\$37-62) per m<sup>3</sup><sup>186</sup> as traders increasingly turned to North Africa and other regions to maintain their timber supply.<sup>185</sup>

### 8.1.2 Guandong Yuzhu International Timber Market

*“China represents global wood industry. Guandong represents Chinese wood industry. Yuzhu represents Guandong wood industry.”*<sup>187</sup> Guandong Yuzhu International Timber Market, 2009

Guangzhou is located on the coast south of Shanghai, on the Pearl River, 120 kilometres north-west of Hong Kong. This city is the capital of Guandong Province and the location of the Guandong Yuzhu International Timber Market, one of China's largest timber wholesale markets. According to its English language website, Yuzhu has won several awards including: ‘Star Market among National Wood Markets’ and ‘Civilise and Honest Market in Guandong Province.’<sup>187</sup>

Yuzhu, like Shanghai, reported a significant decline in supply of Burmese timber immediately after the imposition of new restrictions, resulting in higher prices. Log arrivals at the market were about 30% lower, in the first four months of 2006, compared to 2005. *“Log markets dealing mainly with timbers from Southeast Asia and Yunnan-Burmese timbers has been impacted by timber export restrictions of Southeast Asian states, [...] and that the Burma border has been blocked since the end of March with timber border trade prohibited resulting in shortage of timber supply and increase in prices [...]. It is expected that when Burma re-opens the border, timber kept as stock in the border areas will greatly pour into China but ‘old hands’ has pointed out that a decline in the total amount of Burmese timber imports this year will be a foregone conclusion.”*<sup>188</sup>

In May 2006, the Yuzhu Timber Market reported continued shortfalls in supply and high prices of *“Yunnan and Burmese timbers”*. This was particularly the case for Baimu (*Brassaiopsis spp.*) and

teak. The market report also noted the lowest ever amount of timber supplied by rail from south-west China (i.e. Yunnan Province) in the preceding weeks: less than 300 m<sup>3</sup> of Xinanhua (*Betula alnoides*), Jinsiyou (*Manglietia spp.*) and Kasila.<sup>189, 190</sup>

Timber supplies from Yunnan Province were still at a low level in June. According to one trade report, *“Burmese teak has arrived in low amounts, no matter if logs or panels, only a truck load of teak logs to the market and no piece of teak panel in it. The stock of teak timber has decreased greatly in comparison with the same period last year. Based on this we can deeply feel the great power of the Burmese border closure policy which has not only impacted the goods structure of the log market but also changed people’s loving preference for Burmese teak in a silent way.”*<sup>191</sup> Due to the lack of supply from Burma, via Yunnan Province, a leading trade analyst recommended that manufacturers and traders prioritise timber from Russia instead.<sup>192</sup>

Apparently, market representatives had negotiated with the Burmese government via the Chinese authorities. *“In future, the market will make a policy to ask the sellers to import Burmese timber according the agreement signed between China and Burma Governments. This means to import from the proper way.”* According to the same senior manager, *“the policy is good but not easy to apply”*.<sup>13</sup> The manager of the Songjij Timber Co., Ltd., the largest importer of Burmese timber in the Yuzhu Market, said that normally the company had a stable supply via Yunnan Province, *“but the situation is becoming unclear due to the political process between China and Burma”*. The company was expecting renew its steady supply of timber once the border reopened.<sup>193</sup> A number of other traders were looking to alternative supply countries in Africa or Asia.



Zhejiang Chanx Wood Co., Ltd., drop-sided lorry; September 2006

## 8.2 Chinese market response to the crackdown on illegal cross-border trade in Burmese timber – Global Witness field research

“Burma is a poor country. When you are that poor, you have to find a way to get rich. Selling your own resources is one of the few ways and you can always bribe some officials so that you can smuggle the wood out of the country. In the market, some of the hard wood that claim to be made in China, like Yunnan or north-east, actually comes from Burma.”<sup>194</sup> Zhejiang Chanx Wood Co., Ltd. representative, September 2006

During September and October 2006, Global Witness looked at the availability of timber originating from Burma at Chinese flooring companies located on its east coast. Researchers visited three wholesale outlets and thirteen high street retail stores in Shanghai. Fourteen flooring manufacturers located predominantly in or near Shanghai, in the Province of Zhejiang south of Shanghai and Jiangsu Province to the north, and in Guangdong Province were also visited. The three wholesale outlets, situated in the Furen Forest Products Wholesale Market in Shanghai, all reported similar information i.e. that supply was limited and unstable, prices were increasing and that the traders increasingly sourced timber from Africa where they do not face similar problems.<sup>195</sup>

Almost all of the companies visited by Global Witness were established in the early to mid 1990s and most were undergoing rapid expansion during the research period. Some had doubled their output over a one to three year period. Most of the companies were owned privately by Chinese individuals. Taiwanese nationals owned two of the businesses, and another a joint venture with an American company. Companies visited included some of China's leading flooring manufacturers, for example Shanghai New Sihe Wood Co., Ltd., the largest manufacturer of engineered flooring, and Shanghai Anxin Flooring Co., Ltd., the largest manufacturer of solid wood flooring in China. The companies generally had between 100 and 700 staff and a monthly output capacity ranging from 30,000 m<sup>2</sup> to 500,000 m<sup>2</sup> of wood flooring. Between 40 and 100% of production was for export.

Global Witness' research uncovered widespread use of teak from Burma in the manufacture of flooring along with other high value species such as black walnut,<sup>e1</sup> pyinkado (*Xylia dolabriformis*) and *Mangletia spp.* All but one of the fourteen companies visited by Global Witness said that it was still possible for them to obtain timber from Burma across the land border despite the import restrictions. According to these companies the supply was less



Zhejiang Fangyuan Wood Co., Ltd., *Xylia sp.* flooring; September 2006

regular and prices had increased by about 30% since the border closure in March 2006. However, the companies could still supply wood products made of wood species from Burma by using stock-piled timber, by obtaining continued supplies across the border through good contacts or smuggling it in illegally (which often amounted to the same thing) and/or by buying timber through official channels via Rangoon. Several companies admitted to an involvement in smuggling timber across the Burma-China border. While a few companies bought the raw material at the wholesale markets in Shanghai and Guangdong Province, and four reported that they sourced all or at least some of their Burmese timber through official channels in Rangoon, most had connections along the Burma-China border. All companies were aware that the reason for the unsteady supply was the border restrictions imposed by the Chinese and Burmese authorities.

The companies dealt predominantly in solid and engineered wood flooring (thin layers of wood glued and pressed together). Only the top layer of engineered flooring, marketed as teak, will actually be made of teak. Both solid and engineered flooring was available in various sizes. The flooring was being sold both domestically and on the international market, predominantly to the U.S. but also to

e1 This should not be confused with the black walnut native to north America (*Juglans nigra*), which is also used by Chinese flooring companies. These companies variously list it as *Acacia spp.* or *Dracontomelon spp.* (also the PNG walnut). It is not clear which, if either, Latin name is correct.

Europe.<sup>e2</sup> According to the Carlyle Group,<sup>e2</sup> investors in Shanghai Anxin Flooring Co., Ltd. (Anxin), “China’s largest manufacturer and distributor of solid wood flooring”, engineered wood floors, “are more environmentally friendly than the high-end solid wood floors usually made of rare hardwood from trees of more than 60 years old”.<sup>196</sup>

All but one of the 14 companies visited by Global Witness were able to offer wooden flooring made out of wood, mostly teak, from Burma. Two of the companies visited mainly produced decking for ships and for gardens.<sup>e3</sup>

In addition to the companies profiled below, the following companies both reported that they could still get timber from Burma via Yunnan Province: Jiashan On-line Lumber Co., Ltd. and Changzhou Nanyang Wood Products Co., Ltd.<sup>197</sup>

The Shanghai Yiming Wooden Industry Co., Ltd., part of the Huaming Group, told Global Witness that it bought its Burmese teak supply at wholesale markets in Shanghai insisting that it was sourced through legal channels. However, the sales manager admitted that he was not sure through which route the timber had been imported and the company had no system of verifying the legal origin of its timber nor did it check or require any certificates from the suppliers to this effect. When questioned further the company sales representative said that he was, “not sure about these things”.<sup>198</sup>

Companies complained about the decline in the quality of teak for sale at the official timber auctions in Rangoon, apparently due to over-harvesting, but stressed that this supply was now more reliable than cross-border trade following the imposition of the restrictions.<sup>199</sup> The following manufacturers reported that they partly or fully sourced their timber from Burma through official and legal channels i.e. via Rangoon: Changzhou Nanyang Wood Products Co., Ltd., Farstar Trading Co., Ltd., Shanghai Anxin Flooring Co., Ltd., Jiashan Longsen Lumbering Co., Ltd., and Fertility Forest Woodwork Factory Co., Ltd.<sup>200</sup>

Few of the companies were willing or able to provide documentation certifying that the timber was from legal or sustainably managed sources. Apparently, it was very rare for international buyers to inquire about or let alone require such documentation. However, two companies were willing to supply fake documents.<sup>198, 204</sup> It is possible that the business practices of these Chinese companies have improved in the intervening years.

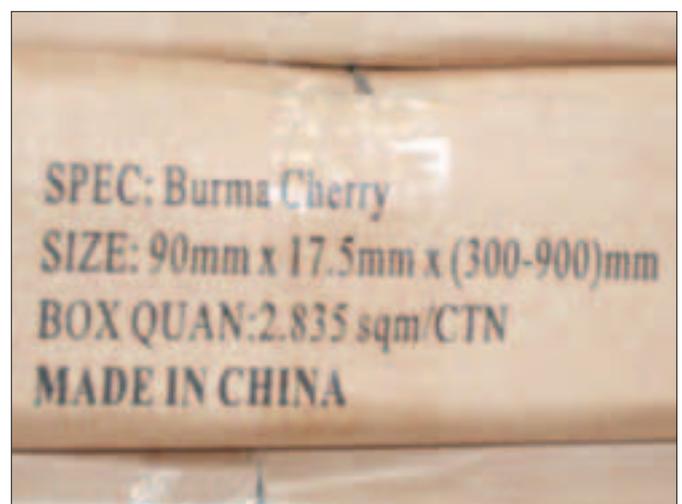
## 8.2.1 Chinese flooring manufacturers dealing in Burmese timber

### 8.2.1.1 Shanghai Detangu Wood Co., Ltd.

“But as everything else in China, there’s always a way.”<sup>201</sup>  
Charles Pan, manager of Flooring Yao Enterprise Co., Ltd.,  
September 2006

The flooring manufacturer Shanghai Detangu Wood, which is located on the outskirts of Shanghai, has over 100 employees and a monthly output of five containers of which 40% is for the domestic market and 60% for the international market. Teak along with black walnut is sourced from Burma and mainly exported to England, Japan and America.

Its main investor Charles Pan, manager of the Taiwanese company Flooring Yao Enterprise Co., Ltd., explained the following to Global Witness during a visit to Shanghai Detangu Wood when six of its senior staff were present: “Yes, there has been problems with the supply [of wood from Burma] because the Burma government imposed a ban on illegal logging and the Chinese government sealed off the border. But as everything else in China, there’s always a way. Other factories may have problems, but we are fine. [...] We purchase teak and black walnut in Kunming – it comes from Burma of course. It can reach Shanghai in five days once the purchase has been made. [...] The border with Burma is sealed off for the moment, and we have to play ‘guerrilla war’ with the authorities and smuggle the timber out of Burma. [...] I have been to the border, of course. Burma and China are only divided by a thin river so you can see each other



Shanghai Detangu Wood Co., Ltd., Burma cherry flooring; September 2006

e2 “The Carlyle Group is one of the world’s largest private equity firms, with more than \$85.5 billion under management.” For further information see: <http://www.carlyle.com/Company/item1676.html>

e3 Companies told Global Witness that the following species, available on the Chinese market, originated in Burma: birch (*Betula spp.*), black walnut, Burma rosewood, caslin (also referred to as kokko (*Albizia lebbek*)), golden teak, kesambi (*Schleichera Oleosa*), mahogany, Mangletia spp., padauk (*Pterocarpus macrocarpus*), pyinkado (*Xylia dolabriformis*), red birch (or cherry), samak, and teak (*Tectona grandis*).

clearly across the river. On the bank at the China side, you often see some little timber processing factories popping up from time to time, sawing logs that have been transported secretly across the river. Then they disappear when the government cracks down. [...] My company will not have a problem with supply – we have good connections. But we will also try and get teak from official channels. But it takes so much longer to get officially obtained logs and often the good quality ones are bought by companies from Thailand and Malaysia who have good connections with the Burma authorities [...] We do need teak. The rich people from America and Israel and other places need teak to decorate their decks. It won't be a problem for me. I've been in the trade for 18 years. I have my little ways.” Shanghai Detangu Wood hoped to be among one of four companies that were soon to be approved by the Burmese authorities to export logs across the Burma-China border.<sup>201</sup>

### 8.2.1.2 Jiangsu Zhangjiagang Yongan Building Materials Co., Ltd.

*“If you strictly follow the rule, then you'll never get anything.”*<sup>202</sup> Jiangsu Zhangjiagang Yongan Building Materials Co., Ltd. representative, October 2006

The Jiangsu Zhangjiagang Yongan Building Materials Co., Ltd. is located in Jiangsu Province near Shanghai. The company is family-owned and was established ten years ago. Its monthly output was 70,000 m<sup>2</sup> but this was due to increase to 120,000 m<sup>2</sup> when its new factory opened in November 2006.

The company's sales representative reported that they had had some difficulties in obtaining teak across the Burma-China border and that the price has increased substantially, *“because the Burmese want to protect their own species”*.<sup>202</sup> However, golden teak, which was described as a kind of walnut, was readily available. The company had apparently imported 600 containers of golden teak in

2005. Teak (*Tectona grandis*) was also available on demand.<sup>202</sup> *“We have no problem with getting the golden teak from Burma as it is not embargoed at all. The price on the ‘golden teak’ is stable where as the real teak has gone up. [...] We can though get real teak if you order it. [...] It should not be a problem getting smaller quantities such as 1-2 containers [...] We get the golden teak directly from Burma where we cooperate with some factories inside Burma. We mainly get it via land as sawn timber from our suppliers in Burma.”*<sup>202</sup>

Despite first claiming that all its supplies were imported legally the company representative later admitted to Global Witness that this might not always be the case. *“Burma is a dodgy country with so little transparency. It is so hard to tell which method is legal and which is not. For us, it is important to get some supply. If you strictly follow the rule, then you'll never get anything. Yes, the border is sealed, but golden teak is not that tightly controlled. And some people are specifically engaged in this sort of business. And we get our supply through them. Stable supply.”*<sup>202</sup>



Jiangsu Zhangjiagang Yongan Building Materials Co., Ltd., factory; October 2006

### 8.2.1.3 Jiashan Longsen Lumbering Co., Ltd.

*"We Chinese are very resourceful. We are the best at finding holes."*<sup>27</sup> Jiashan Longsen Lumbering Co., Ltd. representative, October 2006

During Global Witness' visit to the Jiashan Longsen factory, in Zhejiang Province near Shanghai, a truck with teak from Burma arrived at the company compound and parked under a huge billboard featuring Deng Xiaoping, 5th General Secretary of the Communist Party of China. One of the two sales representatives Global Witness researchers were speaking to at the time commented, *"See, we got this overland. Smuggled in of course. Tell your colleague that we can guarantee the supply. We Chinese are very resourceful. We are the best at finding holes. Otherwise, how can we continue to do the business?"*<sup>27</sup> Such an approach to business would appear to be odds with the 'company culture', as set out in its 2006 brochure, which includes 'honesty' under 'corporation spirit'.

The company, which had 320 workers and an annual output of about 60,000 m<sup>2</sup> of engineered and solid flooring, had been affected by the border restrictions. Supply was now less certain and prices had gone up by 30% during the previous 6 months. However, the company representatives were keen to stress that it could still meet customer demand. If interested, the company could deliver 4,000-5,000 m<sup>2</sup> of teak flooring within 40-45 days.

Earlier in the conversation, the sales representatives claimed that all the Burmese timber the company had sourced after the ban now arrived by sea. However, they later admitted that they had a mix of timber some from across the land border and some official imports via Rangoon. Some timber had to be smuggled overland in order to keep costs down. Timber imported officially via sea from Rangoon was more expensive.

During the factory visit Global Witness investigators observed large amounts of teak flooring and veneer. The company representatives claimed that a relative of the company's owner, who was responsible for ensuring supply, was based in Burma. He has good connections with the local teak dealers: *"In the smuggling business you need trust to do business."*<sup>27</sup>

### 8.2.1.4 Guangzhou Li Heng Timber Manufacturing Co., Ltd. (Bijia Flooring)

*"Our target is environmental protection."* Li Heng company brochure, 2006

The Li Heng Group, located in Guangzhou in Guangdong Province, was rapidly expanding at the time of Global Witness' visit. Its new factory had just increased the company's monthly output from 70-80,000 m<sup>2</sup> to 120,000 m<sup>2</sup> of flooring, of which 30-40% was for export. As was the case with several other companies, it was increasingly changing production to engineered boards due to the increased price of raw materials (for engineered boards a smaller percentage of the wood, only the

top layer, must be of high value wood in comparison to solid boards.)<sup>203</sup> Li Heng managers claimed that despite supply problems the company could still source Burmese timber from its suppliers in Yunnan Province because, *"The border isn't sealed off completely. It is open up from time to time and certain amount of timber always comes out."*<sup>203</sup>



Jiashan Longsen Lumbering Co., Ltd.; October 2006

### 8.2.1.5 Shanghai Anxin Flooring Co., Ltd.

*“Anxin calls on all the people to love our forest and protect our environment, so as to make our planet more beautiful.”*<sup>205</sup> Anxin Flooring, 28 March 2006



Lu Wei Guang Anxin's founder and CEO meets former U.S. President (and former Carlyle adviser) George H. W. Bush

Shanghai Anxin Flooring Co., Ltd. is a global player in the wood flooring industry and the first Chinese member of the National Wood Flooring Association based in north America.<sup>206</sup> In 2004, Shanghai Anxin Flooring Co., Ltd. acquired a large natural forest in Brazil, *“becoming the first Chinese company to own forestry resources abroad”*. In August 2005, Anxin obtained 40,000 m<sup>2</sup> of land on the China-Russia border to build a wood processing plant. Later that year, on 31 October, Anxin became one of the first official members of the China Forest and Trade Network (CFTN).<sup>207</sup> By 2006, Anxin accounted for more than 50% of Brazil's timber exports to China for use in the manufacture of flooring.<sup>196</sup> Anxin received a certificate from the Forest Stewardship Council (FSC) in March 2006, awarded, according to the Carlyle Group, one of its major investors, *“in recognition of its forestry protection efforts for sustainable development”*. Anxin had actually been awarded Chain of Custody (CoC)<sup>e4</sup> Certification (Certificate Code: SGS-COC-2532 - A & W (Shanghai) Woods). The World Wide Fund For Nature (WWF) and the CFTN said at the time: *“The company is serving as a guiding light for other Chinese wood product companies which seek to ‘do the right thing’ for the environment while at the same time*

*expanding their access to the global market.”*<sup>208</sup> Anxin was also pleased, *“FSC certificate helps Anxin into more markets where people loves forest and pays special attention to environment protection.”*<sup>205</sup> Anxin is currently, *“the largest solid wood floor manufacturer in China”*, and one of Carlyle Asia ‘Growth Partners’.<sup>209</sup> Carlyle invested 230 million yuan (US\$27.5 million) in Anxin in May 2006.<sup>e5</sup>

At the time of Global Witness' investigation in September 2006 Anxin had 1,800 employees,<sup>e6</sup> an annual output of around 3.5 million m<sup>2</sup> of flooring comprising 50 species (in 2005), and 1 million m<sup>2</sup> of storage space (which was full). The company representatives stressed repeatedly to Global Witness researchers that Anxin's Burmese teak was sourced from legal sources. However, on a private note one added, *“I don't exactly know how we get the teak – I am not in charge of buying. We don't log or smuggle any teak out of Burma. As for how the suppliers get teak, I don't really care. If we have an order, we need to get it.”*<sup>12</sup>

At the time of writing there is no sign of Burmese teak on the Anxin website. It is not clear where the teak, if any, in TT01A flooring from the Korea Collection comes from and the Mandalay Teak, also in the Korea Collection (LP-07-A), is not made of wood.<sup>210</sup> Despite this, however, according to one company representative, who emailed Global Witness in May 2009, Anxin can still, *“do the Myanmar teak flooring”*. Apparently, *“at present”*, Anxin is exporting, *“this species wood flooring to USA and Korea”*.<sup>211</sup>



Anxin board member Ms Jie Chen meets Wen Jiabao, Premier of the People's Republic of China

e4 *“FSC chain of custody CoC certification provides information about where the wood or other forest-based material used in a product comes from or does not come from. It requires [holders] to identify the origin of raw materials used in FSC-certified products, to keep FSC-certified products separate from other products throughout the production process, and to allow their tracking from one operation to the next - from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution.”* For further information on the FSC please see: <http://www.fsc.org/about-fsc.html>

e5 The Private Equity Council, which includes the Carlyle Group among its members, announced the adoption of ‘Guidelines for Responsible Investment’ on 10 February 2009. For further information please see: <http://www.carlyle.com/Company/item10631.pdf>

e6 1,400 employees were based in Shanghai, 100 at a factory on the China-Russian border and 300 workers at two factories in Brazil.