



**January 21, 2016**

**First Report to the U.S. Department of State  
Under OFAC License Number BU-2013-305114-2**

The International Wood Products Association (IWPA) submits the attached report as required by Section 2(b) of OFAC License Number BU-2013-305114-2 (the “License”) issued on July 31, 2015. This report constitutes the first of the required reports under this License and covers the period August 1, 2015 to Nov. 30, 2015.

As reflected in this report, the License presents an important opportunity for the U.S. private sector to play a role in helping to develop legal and sustainable timber trade with Burma. Along with other efforts being undertaken by governments and civil society, IWPA anticipates that commercial engagement and advocacy of reforms by IWPA and its members under the framework of the License will help Burma advance these goals with respect to the timber sector and also help advance Burma’s transition to a more equitable, stable and prosperous nation.

Questions about this report can be directed to Cindy Squires, Executive Director, International Wood Products Association, at 703-820-6696 ([cindy@iwpawood.org](mailto:cindy@iwpawood.org)) or to Samuel Witten, Arnold & Porter LLP, outside counsel to IWPA, at 202-942-6115 ([samuel.witten@aporter.com](mailto:samuel.witten@aporter.com)).

## ***Background***

The Treasury Department issued specific License No. BU-2013-305114-1 (the “First License”) to IWPA on July 1, 2014. The license authorizes the International Wood Products Association and its Voting and Associate Members to engage in all activities necessary and incidental to the purchase and importation into the United States of wood and wood products from or involving Myanmar Timber Enterprise (“MTE”), an entity whose property and interests in property are blocked pursuant to Executive Order 13464 of April 30, 2008 (“E.O. 13464”), and/or its affiliates and subsidiaries, as well as other Burmese entities that source wood and wood products from MTE. The First License expired on July 31, 2015. On the same day, July 31, 2015, IWPA received a two-year renewal of its license. License No. BU-2013-305114-2 (the “Second License”), which expires July 31, 2017, will allow IWPA to continue the efforts described in this report.

The Second License requires IWPA to submit reports periodically to the State Department on actions taken under the license. This report is the first report under that license and covers the period August 1 through November 30, 2015.

Section 2(b) of the Second License requires IWPA to report to the U.S. Department of State with respect to any transactions with MTE, and/or its affiliates and subsidiaries, and/or other Burmese entities that source wood and wood products from MTE; any progress in the reform agenda outlined in the Application; and any changes in IWPA membership. The Second License was issued in part taking into account IWPA’s letter of July 10, 2015, to the Department of State, in which IWPA committed that “[a]t the end of each four month period during the effective period of a renewed license, IWPA will summarize for the Department of State Bureau of Economic and Business Affairs actions it and its members have taken pursuant to the commitments stated above in support of those U.S. government objectives, including information about the establishment of business relationships and the efforts made by IWPA and its members to help MTE and other Burmese entities create a transparent and sustainable lumber supply chain.”

## ***IWPA Activities on the Reform Agenda***

During the initial four-month period of activity under the Second License, IWPA and its members continued efforts contemplated by the License to convey to Burmese industry, MTE, and the Burmese Government the importance of ensuring that logs are harvested in Burma in a sustainable manner and in full compliance with Burmese law, and are providing advice on how to achieve those objectives.

### MTE Correspondence

As reported in IWPA’s second quarterly report under the First License, on January 27, 2015, IWPA, the European Timber Trade Federation, and the Australian Timber Importers Federation wrote a [letter](#) to MTE to follow up on our September and October 2014 meetings in Burma with MTE and leaders of the

Burmese timber trade. This letter, which was developed in close consultation with the European Union and the U.S. Department of State and reflects input from both, set forth our expectations on responsible foresting and related matters. It urged MTE to commit to a roadmap with particular milestones and timelines for reform and definitive action and noted that the roadmap would go a long way to demonstrating progress and MTE willingness to engage in enact reforms.<sup>1</sup> MTE's March 19, 2015, [letter](#) in reply was positive and conveyed its interest in dialogue on these issues. The response was also consistent with the Burmese Government's inclusion of the goal of "Reduce the level of illegal logging practices, which are threatening the sustainability and image of the sector" as a part of its [National Export Strategy Roadmap](#) released on March 25, 2015 (discussed further below).

### Fall 2015 Roundtable

On May 7, 2015, IWPA, working with its Global Timber Forum colleagues, requested a meeting with MTE and the Forestry Department to follow up on the successful meetings in Burma of September and October 2014. We developed the invitation and draft agenda for that meeting in close consultation with the U.S. Embassy in Yangon. After discussions on scheduling, MTE, the Burmese Forestry Department (both organized under the Burmese Ministry of Environmental Conservation and Forestry (MOECAF)) agreed to a Round Table Meeting for the Timber Trade in the fall of 2015. IWPA and IWPA members met with the US and EU Embassies in Yangon on September 17, 2015 prior to traveling to Nay Pyi Daw for the meeting with MOECAF (including MTE and the Forestry Department) on Friday, September 18, 2015.

On September 18, 2015, IWPA, the Australian Timber Importers Federation, European Timber Trade Association and a number of traders from the U.S. and E.U., the Myanmar Forest Products Merchants Federation (formally MTMA), MOECAF (including MTE and the Forestry Department), and civil society representatives attended a detailed Roundtable discussion in Nay Pyi Daw. The Roundtable was chaired by Nyi Nyi Kyaw, Director General of the MOECAF Forestry Department and attended by (among others) Aye Kyaw, the General Manager (Export) MTE. Presentations at the Roundtable were made by: [MOECAF](#) (on the topic of Reform, Forest Management including REDD+<sup>2</sup> and FLEGT VPA, Land-Use Policy by Forest Department); [MTE](#) (on reforms, harvesting, processing and export by MTE; and

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<sup>1</sup> As reported in our Second Quarterly Report under the First License, the January 27 letter was timed to arrive prior to meetings being held in Burma in January by representatives of the EU's Forest Law Enforcement, Governance and Trade initiative (FLEGT), which is providing support to the reform process in Burma. FLEGT was created by the EU and acts, through its comprehensive action plan, to reduce illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber. The FLEGT meetings in Burma mark the beginning of the European Union's discussions with Myanmar on a potential Voluntary Partnership Agreement (VPA) regarding timber reform. A VPA is a legally binding trade agreement between the European Union and a timber-producing country outside the EU that seeks to ensure that timber and timber products exported to the EU come from legal sources. The agreements also help timber-exporting countries stop illegal logging by improving regulation and governance of the forest sector.

<sup>2</sup> REDD+ is Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. "REDD+" goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.

Myanmar Forest Certification Committee (MFCC) (on current activities of the MFCC to update the Myanmar Forest Certification Scheme (MFCS).

The next day, on September 19, 2015, the Myanmar Forest Products Merchants Federation (MFPMF formally MTMA) arranged an industry summit which was attended by over 30 of its members and included presentations by IWPA, and Global Timber Forum Representatives. This provided an opportunity for Burmese timber exporters to get their questions answered on the U.S. Lacey Act and the European FLEGT Program.

In addition, prior to departing Myanmar, IWPA was also able to meet with the environmental non-profit organization EcoDev to discuss future plans for engagement.

#### Myanmar Forest Products Merchants Federation Report on EU-FLEGT VPA Process

During our September 2015 meetings, IWPA was briefed by the Myanmar Forest Products Merchants Federation (MFPMF formally the MTMA) and provided MFPMF comments from U.S. importers regarding MFPMF's project to assess the private sector needs in Myanmar to engage with the EU-FLEGT VPA Process. This project has resulted in a report entitled "Identifying Needs to Improve Private Sector Engagement in the EU-FLEGT VPA Process" that was prepared by the Myanmar Forest Products Merchants Federation (MFPMF formally the MTMA) in cooperation with the Global Timber Forum. The main objective of MFPMF's project is to engage with the private timber sector and identify their specific issues and priorities to enable them to collaborate and communicate more effectively so that they can participate in the EU-FLEGT VPA process and address domestic and international timber trade requirements. MFPMF in its final report made series of recommendations for Burmese industry and MFPMF next steps:

- MFPMF and its private sector network should continue to work on raising awareness and providing education on the EU-Myanmar FLEGT VPA Process.
- Prepare a stakeholder engagement plan.
- Engage in capacity building (orientation/training) of MFPMF and private sector stakeholders for effective participation and involvement in FLEGT VPA process.
- Appoint a coordinator to interact with and consult the identified missing private stakeholders and market players.
- Look for funding for continuing EU-Myanmar FLEGT VPA process together with development partners/donors/GTF.

The report also noted that while the Timber Legality Assurance System is being reformed as part of the FLEGT-VPA discussions, the Private Sector was urged to strictly comply with the current regulation and source from MTE and not to use any raw material from any other unknown sources.

#### Myanmar Forest Certification Scheme Update

The Myanmar Forest Conservation Committee has begun working to update the Myanmar Forest Certification Scheme (MFCS) established in 2007. Two draft standards have now been circulated by

MFCS to internal and external stakeholders for comment. The MFCC is intending to adopt the standards at a national consultation meeting, planned to be held in February 2016. Stakeholders have been asked to provide any comments/suggestions on two drafts before the 7th of February 2016. IWPA is reviewing the draft standards.

### Preliminary Gap Analysis

Developments continued during the reporting period following earlier IWPA efforts to assist Burma through a preliminary gap analysis to help Burmese sawmills improve their supply chains. As background, IWPA engaged the Tropical Forest Foundation/Indonesia in 2015 to examine the official timber trade in Burma and (with Burmese cooperation) to perform a preliminary gap analysis in this area. This analysis, which was completed and provided to IWPA and the Global Timber Forum on February 27, 2015, will be helpful in the voluntary agreement negotiations between Burma and the EU for a Voluntary Partnership Agreement under the Forest Law Enforcement, Governance and Trade (FLEGT).

The report, Tropical Forest Foundation/Indonesia, *Evaluating Traceability Systems in Myanmar's Forest Sector to Prepare for Domestic and International Requirements*, February 27, 2015, included these *Conclusions and Recommendations, which are a listing of actions for a stakeholder task force to direct and monitor--*

1. Expand the scope of investigations into other Timber Supply Agencies to ensure that all aspects of the current log administration system are being fully implemented. Such an effort should be coordinate with MTE and MTMA to identify suitable Timber Supply Agencies, which can identify known sources.
2. Conduct awareness raising and training to a wide group of companies on what domestic and international requirements will be needed to achieve greater transparency.
3. Conduct training in selected companies and Timber Supply Agencies regarding the physical preparations for the implementation of a CoC system. Selected industries should be chosen based on their willingness and physical ability to accommodate the necessary in-house changes to implement chain of custody protocols.
4. MTE should institute a system where logs from Timber Supply Agencies are not mixed and are offered for auction based on a single Agency source.
5. Use the established multi-stakeholder group to develop the definition of 'legal origin' and consider how the chain of custody implementation through this process can be implemented, monitored and verified.
6. Buyers should insist on all official documentation as recommended by MTMA (2013) to support any purchases.

This project was conducted by IWPA in conjunction with the Global Timber Forum, with which IWPA cooperates on Burmese sustainability issues. IWPA has provided this document to its Burma trading members. IWPA understands that Tropical Forest Foundation /Indonesia is working now with individual mills and with The Nature Conservancy/ Responsible Asia Forestry and Trade Program to conduct additional study of the timber trade and logging practices.

As discussed in our final report under the First License, IWPA members operating in Burma are small- to medium-sized enterprises and several have been expending what is for them a significant amount of time and resources toward encouraging responsible trade. As Burma's progress and actions will take quite some time to conclude, it will be important for the trade (export and import) to continue to engage directly and support small incremental successes in the reform effort so that the discussions do not lose momentum. Ultimately, how MOECFAF decides to move toward legality and sustainability is entirely its responsibility. International trade, including from the United States, will support but not dictate that effort.

## ***Market Analysis***

### U.S. Perspective

Participation in direct U.S. trade with Burma was modest in the first four months of the Second License. IWPA members continue to be focused on three actions to improve the market with Burma: quality control, competitive pricing, and supply management. These are the building blocks of a successful partnership. Achieving these goals requires long-term collaboration. Additional reasons cited by members for the modest trade included anticipating the election results and the mixed quality of teak logs currently found in Burmese sawmills that are just now starting to be modernized. Members have also cited that they are also waiting to see what the new government economic policies will be. Burmese teak exporters have indicated to IWPA members that engagement with U.S. under the specific license and engagement with European buyers and EU FLEGT process will be a critical component of the industry platform as Burma wood industry moves forward under the new government.

IWPA members report that efforts to promote transparency and a sustainable lumber supply chain are ongoing. They report continued meetings with government officials, MTE, Myanmar Forest Products Merchants Federation (MFPMF formally the MTMA) and the Myanmar Forest Certification Committee to further member obligations under the license. Members are also working with service providers to conduct third-party audits and verify legal sourcing.

IWPA members also report continued efforts to source additional timber species. Samples of lesser-known species gurgin and pyinkado are being considered for decking and flooring, though challenges remain. For example, Pyinkado was tested by an IWPA member to determine if it would be suitable for use in decking as promoted and disappointedly it did not pass these tests.

IWPA members are fully committed to continuing to work with Burmese public and private institutions to continue to advance the improvements that are now beginning. However, as small businesses, it was difficult for IWPA members to commit extensive financial resources or make repeated trips to Burma in the past several months due to the license uncertainty. Now that IWPA has a two-year license, the credibility of U.S. businesses with their counterparts in Burma and their ability to expend resources to help develop the Burmese market will almost certainly be enhanced by the ability to make longer term commitments.

### Burmese Perspective

As discussed in IWPA's previous reports under the First License, Burma included a detailed market analysis for forestry products in the Republic of the Union of Myanmar National Export Strategy: Forestry Products Sector Strategy 2015-2019. Myanmar launched its first coordinated export strategy on March 25, 2015, aiming to spur growth in its vast rural economy, cut its dependence on hydrocarbon sales, and boosted shipments to Europe and the United States.

Included in the export strategy was the following road map for the forestry sector--

#### ROAD MAP FOR SECTOR EXPORT DEVELOPMENT

The short-term market development of the forestry products sector will focus on selected products in such target destinations as the EU, the United States of America and the Middle East. In order to increase exports to these markets, Myanmar should adopt forest certification schemes – and more particularly the VPA and FLEGT for the European market – which are internationally recognized and overcome design and quality weaknesses. Another key target of the sector export development strategy, as defined by sector exporters, is to increase exports to the Republic of South Korea, Japan and other non-traditional Asian markets, which present vast opportunities for growth in value. More generally, Myanmar should look at reducing the sector's dependency on China by enforcing the log ban, drastically reducing semi-processed (sawn) wood products and seeking alternative markets.

In the medium term, the strategy will enable exporters to expand their export reach through the supply of new products to selected target markets, as well as the intensification of exports to traditional markets in South-East Asia. To achieve efficiency gains in the forestry products sector, the key structural changes to the value chain will include the following:

Build technical skills to target higher value added and by-products market segments

Develop a new product line of wood residues for alternative energy production

Reduce the level of illegal logging practices, which are threatening the sustainability and image of the sector

Promote stronger institutions to support the sector.

See Myanmar Ministry of Commerce & International Trade Center, *Republic of the Union of Myanmar National Export Strategy: Forestry Products Sector Strategy 2015-2019* at 3.

### ***Next Steps***

As noted above, IWPA's license has been renewed for two years, from August 1, 2015, through July 31, 2017.

IWPA is currently considering the best next steps for engagement in the wake of the recent Burmese elections in order to further support capacity building and reform. IWPA will continue to coordinate closely with the European Timber Trade Federation, and the Australian Timber Importers Federation via the Global Timber Reform on its activities.

IWPA members are engaging in a comprehensive due-diligence process as they become more familiar with the Burmese market. There are ongoing discussions with (i) privately held Burmese sawmills that purchase from MTE, (ii) MTE owned sawmills that are run by MTE affiliates; (iii) independent Burmese or non-Burmese agents and quality control personnel who are not affiliated with MTE; and (iv) governmental and non-governmental entities who can assist in establishing responsible relationships and understand Burmese law. IWPA members report that they are requesting from suppliers information about chain-of-custody processes and conducting reviews of legality assurances. At the same time, lesser-known species are being appraised by IWPA members for possible purchase and import to the U.S. market.

### ***IWPA Changes in Membership***

As required in Section 2(b) of the License, IWPA has been providing updated lists of its members to the U.S. Department of Treasury's Office of Foreign Assets Control Licensing Division.