



environmental
investigation
agency

Forests

The Italian Job

How Myanmar timber is trafficked through Italy to the rest of Europe despite EU laws

September 2021



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Norway's International Climate and Forest Initiative



Foreign, Commonwealth
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ABOUT EIA

We investigate and campaign against environmental crime and abuse.

Our undercover investigations expose transnational wildlife crime, with a focus on elephants and tigers, and forest crimes such as illegal logging and deforestation for cash crops like palm oil. We work to safeguard global marine ecosystems by addressing the threats posed by plastic pollution, bycatch and commercial exploitation of whales, dolphins and porpoises. Finally, we reduce the impact of climate change by campaigning to eliminate powerful refrigerant greenhouse gases, exposing related illicit trade and improving energy efficiency in the cooling sector.

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Above: a tree being logged in Myanmar. Myanmar has lost an area of tree cover the size of Switzerland this century.

Front cover: the port in Livorno, Italy, a major location of import for Myanmar teak

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Above: Sailing Yacht A in Venice. Sailing Yacht A was fitted out with Myanmar teak.

Overview

An undercover investigation by the Environmental Investigation Agency has exposed how an entire industry of Italian companies has continued to profit from the sale of valuable timber from Myanmar, even while many other countries have cracked down on the trade and European authorities agree that importing Myanmar timber is a violation of the EU Timber Regulation (EUTR).

This trade has been allowed to continue since the military coup in Myanmar of February 2021. When asked, no trader confirmed they would stop importing despite the recent introduction of EU sanctions on the Myanmar Timber Enterprise, the state-owned company that claimed to be the only legal source of timber in the country.

The investigation raises serious questions about how Italian and European authorities have allowed the trade to continue, and what action they will take to stop it. Only minimal fines have been imposed on the companies, who have continued to trade despite findings they are breaching the law, and the trade has only continued to increase despite heightened scrutiny on the legal problems with Myanmar timber.

The evidence provided in this report should be used to investigate why the competent authorities in Italy have allowed the continuing trade of Myanmar teak and why Italy as a member state of the European Union has turned its back on the people of Myanmar by failing to

act through the use of available laws to stamp out the trade.

The investigation, which lasted 18 months from early 2020, has identified a total of 27 Italian timber traders importing teak (*tectona grandis*) timber products into the EU from Myanmar despite clear regulations, in the form of the EU Timber Regulation (EUTR), which prohibit such imports.

Italy has a long history of trade with Myanmar. According to the trade data, imports of timber from Myanmar to Italy before the military coup on 1 February 2021 were increasing in recent years and have come to dominate EU trade. In contrast, imports to many other EU member states have declined in response to the due diligence requirements of the EUTR. This appears to be through direct responses by authorities and enforcement actions in, for example, Belgium, Germany and the Netherlands.

EIA's investigation shows some Italian companies are

shipping Myanmar timber on to other parts of the EU. Where this has happened in response to enforcement, it will be circumventing the law.

The investigation also found that some of the 27 companies have continued this trade since the military coup. This is reflected in trade data showing Italian traders imported between €1.3-1.5 million worth of wood products from Myanmar during March, April and May 2021.¹ By continuing the trade, these companies are effectively supporting the military junta and its repression of the Myanmar people as well as the destruction of the country's forests.

The investigation also found that one of the Italian companies, F LLI Budai, was importing Myanmar teak in contravention of the EUTR, while at the same time receiving development funding from the EU.

Some of the traders, in correspondence with EIA investigators,² admitted they were unable to comply with the EUTR as they could not ensure the timber was from legal sources. However, it is evident that Italian authorities are not sufficiently penalising Italian timber traders for their failures to meet the requirements of the EUTR and are continuing to approve shipments of Myanmar timber despite agreement among EU authorities that these shipments cannot comply with the law.

Since the coup, sanctions have been put in place by Canada, the EU, UK, and USA on State-owned enterprises and individuals linked to the military junta. These include the Myanmar (Myanma) Timber Enterprise (MTE) and the Minister for Natural

Resources, Environment and Conservation (MONREC), Khin Muang Yi, in an effort to curb income to the junta from exploiting Myanmar's natural resources.

EIA is gravely concerned that, despite the sanctions against Myanmar's timber sector, Italian traders will continue to import Myanmar teak with impunity.

EIA provided a right-to-reply opportunity to the following: the Italian companies Basso Legnami, Belotti SPA, F LLI Budai, CF Wood, Comilegno, GTH Italia, International Wood, Miura Friends, Sangiorgi Legnami, Timberlux, TWB Solutions and Swedish company Kärnsund Wood Link, which was listed in trade data as supplying timber into Italy. EIA also offered a chance to comment to the two authorities responsible for enforcing the law in Italy, the Carabinieri Forestali (a branch of the Italian Military Police) and the Italian Ministry of Agriculture, Food and Forestry (MiPAAF).

Of these companies, Basso Legnami, GTH Italia and Kärnsund responded individually, while Bellotti SPA, Comilegno Srl, International Wood Srl, Sangiorgi Legnami SPA, Timberlux Srl and TWB Solutions srl responded collectively. These companies rejected the allegations put to them by EIA, stating they either complied with the EUTR, have had shipments approved by the relevant competent authority or "have never shirked responsibility" from the rules. No companies confirmed they will cease importing teak after the Myanmar coup and the sanctions imposed on the Myanmar Timber Enterprise. Fuller versions of the company's responses are provided at the end of this report.

Recommendations

To timber traders in Italy and elsewhere

- Immediately cease sourcing Myanmar timber

To Italian authorities

- Ensure the sanctions on MTE and FPJVC are being complied with by ensuring no Myanmar timber is being traded into Italy, including from third countries (e.g. Singapore)
- Use all available powers to enforce the EUTR, including maximum fines of up to €1 million for violations of the regulation's due diligence provisions
- Change the Italian implementing legislation if necessary to enable better law enforcement
- Share information with the Financial Action Task Force to ensure financial crimes can be fully investigated.

To other competent authorities in the EU and UK

- Investigate whether companies in relevant member states have been complicit in violations of the EUTR (and UK Timber Regulation (UKTR))

To European Commission

- Use this information to investigate failures to enforce any laws and launch a case against any countries, including Italy, that are failing to enforce the EUTR³

To international community

- Use this information and all available tools, including sanctions, to investigate how the timber sector is financially benefiting the military and take action against companies that are facilitating the atrocities of the junta.

The threats to Myanmar's forests

Myanmar's natural forests have been threatened over the years by illegal loggers and companies clearing the trees and converting the land to agriculture. These threats have been manifested in tree cover loss of approximately four million hectares during the period 2000-20.⁴ This is roughly equivalent to the surface area of 5.6 million football pitches (the approximate area of Switzerland).

The impact of forest loss in Myanmar affects many things, including the welfare of an estimated 17 million people who rely on them for their livelihoods.⁵ Forest destruction is also significant for the country's rich biodiversity, including the Bengal tiger (*Panthera tigris tigris*) and Indochinese tiger (*Panthera tigris corbetti*) subspecies. Finally, forest destruction also has massive implications regarding the climate crisis that is being felt globally, as well as at local levels in Myanmar.

Since the military seized power in February 2021, threats to Myanmar's forests have increased. This is illustrated by the issuance of a statement by the military junta that the timber trade, especially teak, must continue and would play an important role in bringing in income.⁶

Many of the Myanmar teak traders are found in Europe and the US, keen to buy this highly valued timber product, especially for its use in the marine sector, in particular as decking for yachts.

Since the coup, many civil servants have refused to work for the junta, making an already opaque sector even less transparent. It is impossible to verify the origin of timber and chain of custody and, therefore, it is impossible to comply with laws such as the EUTR.

Main photo: logpile at National Wood Industry (NWI) sawmill near Yangon

Right, top: logs being processed at National Wood Industry (NWI) sawmill near Yangon. NWI took part in timber auction organised by State-owned MTE in May 2021 after the military coup.

Right, bottom: EIA's investigation has found that teak products, such as this teak decking made by National Wood Industry (NWI), are still being shipped to Italy, even after the coup







Italian traders continuing to import despite the law

In 2013, in an attempt to combat illegal logging and the associated illicit trade, the EU introduced the European Union Timber Regulation (EUTR). The EUTR requires timber operators (those placing timber in the EU market) to conduct due diligence to ensure the timber is from a legal source and to verify its origin of harvest.

If an operator places timber on the EU market without appropriate due diligence, they are in violation of the EUTR. The EUTR is enforced in each member state by a “competent authority” which are responsible for conducting checks and imposing penalties for violations.

EIA has been monitoring the trade of Myanmar timber,

especially high-value teak, into the EU for many years (text box 1). In recent years, Italy has come to increasingly dominate the trade (Figure 1).

In early 2020, EIA launched an investigation into Italian traders importing teak from Myanmar, involving Freedom of Information (FoI) requests to Italian



authorities, desk research and undercover investigation to better understand the modus operandi of the traders and the nature of the trade.

The research and investigation went beyond the 27 companies of interest revealed to be importing teak by the FOI requests. EIA also looked into those identified in our previous research, as well as companies advertising the sale of Myanmar teak in their public communications. In total, 55 companies importing and selling of Myanmar teak were covered by the investigation.

The investigation covers the period of the COVID-19 pandemic, as well as the first months of the military junta, both of which would have impacted traders' ability to access Myanmar teak.

Italy has been the EU's largest importer of timber products from Myanmar since 2013 (Figure 2). Its dominance in the market has grown since the EU competent authorities reached a Common Position (text box 2), first stated in 2017, that it was not possible to

import timber from Myanmar in compliance with the EUTR.

Authorities in Belgium¹⁵ and Germany¹⁶ followed this up with specific industry warnings and enforcement actions were also taken in the UK, the Netherlands, Denmark, Spain and Sweden. For example, in December 2019 Dutch authorities raided six locations regarding import of approximately 500m³ of Myanmar teak, which EIA estimates to be worth roughly \$3 million, into the Netherlands via Slovenia and the Czech Republic.

In 2020, Italy imported nearly €24 million (\$27.4 million) of timber products from Myanmar (Figure 1).²⁰ This constitutes nearly 66 per cent of the total Myanmar timber imports into the EU for that year. Despite the EU's Common Position, traders have still been able to import Myanmar timber through Italy.

Above: Logs seized in Kachin State, Myanmar in May 2020. Since the coup, the military has attempted to profit from the sale of illegal timber through auctions managed by MTE. EIA continues to monitor and report on these auctions.¹⁴

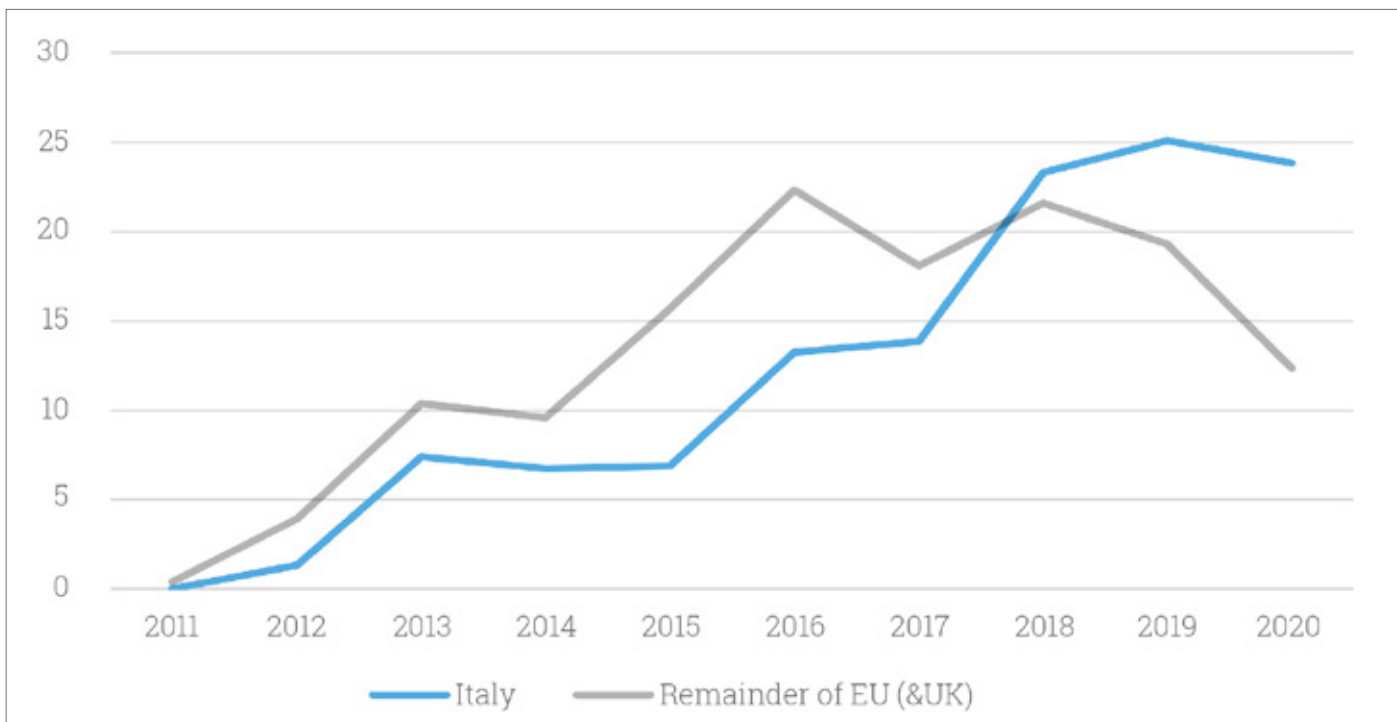


Figure 1: Italy imports of EUTR products from Myanmar (€ million) compared to all EU countries (and UK) during period 2011-20. See annex for more detail.

Text box 1: EIA's work to support forest sector reform in Myanmar

EIA has been working to halt the trade in illicit Myanmar timber for more than 10 years. Its work includes the release of two major reports on illegal logging in Myanmar: *Organised Chaos*⁷ in 2015 and *State of Corruption*⁸ in 2019. It has also released briefings on illegal imports of timber, including from Myanmar, into the EU and the implications for the EUTR and the trade into the US, *Overdue Diligence*⁹ in 2016 and *A Tale of Two Laws*¹⁰ in 2018.

In 2020, EIA also investigated attempts by teak traders in the EU to circumvent the EUTR by importing Myanmar teak through Croatia.¹¹ The investigation also found numerous shipments of teak were apparently being exported from Myanmar without paying relevant taxes.¹²

After EIA presented its *State of Corruption* report to the FLEGT and EUTR Experts' Group¹³ in April 2019, the Group escalated its position on Myanmar teak to instruct operators not to place it on the EU market. In addition, EIA has filed various substantiated concerns with competent authorities in the EU, of which nine were followed by actions against the companies in question. EIA has also provided direct testimonies from Myanmar civil society delegations to decision-makers in EU member states and the UK.

Right: a container ship in the port of Yangon



©Simon Lim



©Terry Feuerborn

Text box 2: Rationale for the EU’s Common Position on Myanmar timber

In December 2020, the EU competent authorities published a full statement summarising the position on timber from Myanmar originally taken in 2017 and reiterated on many subsequent occasions.¹⁷

The reasons for the position taken included the lack of access to laws and regulations governing the timber sector and the lack of traceability considering the high risk of corruption in the supply chain and rates of illegal logging in Myanmar.

For example, it is not possible to reconcile the timber being traded and the trees harvested according to the amount of timber that can be legally harvested each year, also known as the annual allowable cut (AAC). This is notable for various reasons including the years of State-sanctioned over-harvesting far above AAC levels (Figure 2). EIA has viewed paperwork provided with shipments of timber to the EU in recent years which show the harvest year of the timber was often during a period of over-harvesting.

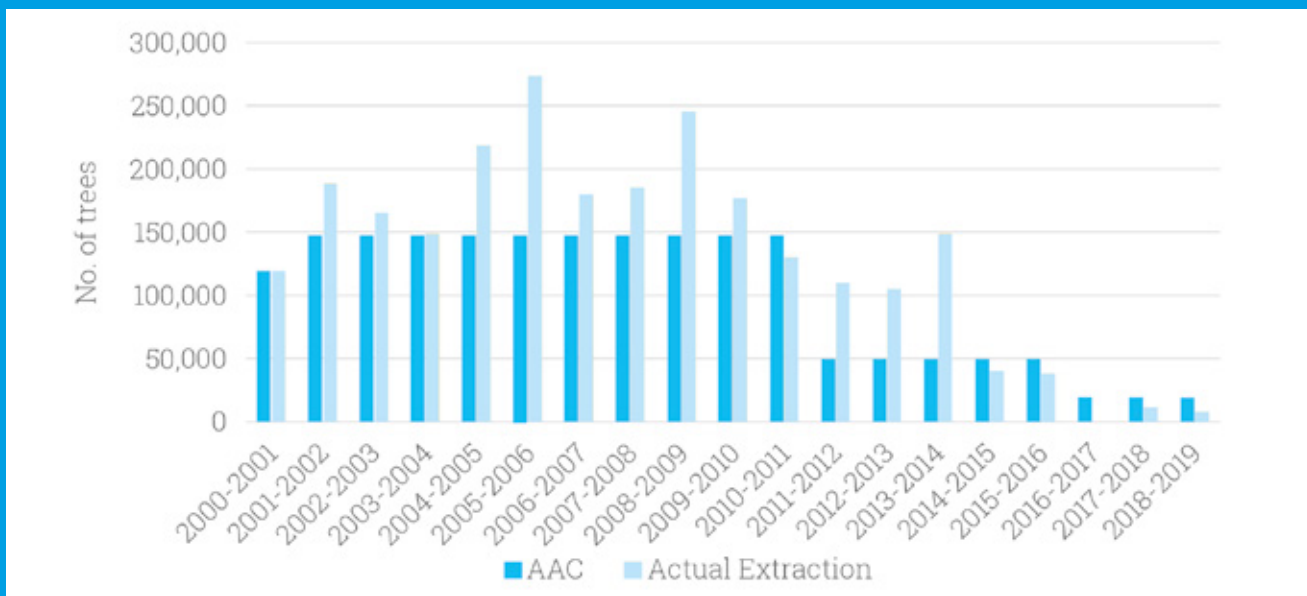
The Ministry of Natural Resources and Environmental Conservation (MONREC) also highlighted in a statement in October 2020 on “the documents for legality of timber in Myanmar” that it was “hard to trace the geographical origin of the timber harvested before 2016-17”.¹⁸ This again highlights the challenges facing companies attempting to carry out due diligence on the Myanmar timber they were attempting to import into the EU.

Other analysis by EIA of documents provided to demonstrate due diligence by operators of timber imported into EU found various common issues, including incomplete dossiers where numerous documents were missing and documents only available in Myanmar language.

The Forest Department in Myanmar, together with the Myanmar Timber Enterprise (MTE) and representatives from the private sector in the country, were working to strengthen the system to verify timber legality, but this halted with the coup on 1 February 2021.

Above: a ferry carrying logs down the Irrawaddy River, Myanmar

Figure 2: Annual allowable cut (AAC) and actual harvested teak trees¹⁹





©Myanmar Forest Certification Committee (MFCC)

The traders

Through a Freedom of Information request to the Ministry of Agricultural, Food and Forestry Policies (MiPAAF), EIA obtained data for Italy's imports of Myanmar teak, specifically HS code 4407299500.²¹

The data included the names of importers of Myanmar teak to Italy and covered 618 shipments during the period 2 January 2018 to 30 October 2020. Most of the shipments entered Italy through ports in Livorno, Trieste and Venice.

The total weight of the shipments was nearly 12,000 tonnes, with the value being over €60 million (roughly \$70 million). The top 12 importing traders are shown in Table 1; Timberlux and Sangiorgi Legnami imported more than half of the teak during that period.

Table 1: The dirty dozen – the main importers of Myanmar timber into Italy during period 2/1/2018 to 30/10/2020

Company	Gross weight (kg)	Total value (€)
Timberlux SRL	3,964,002	17,600,316
Sangiorgi Legnami Spa	2,809,060	14,179,526
GTH Italia SRL	1,430,895	8,918,469
TWB Solutions SRL	1,282,185	8,053,264
Basso Legnami SRL	880,150	4,032,467
Comilegno SRL	349,192	2,237,585
Miura SRL	373,791	1,876,449
International Wood SRL	213,460	1,141,928
Bellotti Spa	158,038	757,456
CF SRL²²	82,471	680,931
F.LLI Budai SRL	55,775	275,062
Sforzi Teak SRL	19,062	262,902

Many of these companies were already of interest to EIA due to their continuous involvement in Myanmar teak trade and infringements of the EUTR:

- Timberlux SRL is a company of significant concern regarding corruption and illicit Myanmar teak trade;²³ the company has various affiliates that also trade in teak including Timberlux (Malaysia) and Yeo Long International SRL (Italy);
- Comilegno is of concern regarding possible tax evasion by suppliers in its Myanmar teak trade;²⁴
- Basso Legnami, Bellotti Spa and Timberlux have placed Myanmar teak on Italian market in contravention of EUTR;²⁵
- Gold Teak Holding, linked to GTH Italia, imported Myanmar teak into the Netherlands, again in contravention of the EUTR.²⁶

Furthermore, many of the traders were criticised in 2007 by Italian environmental NGOs and the Italian Confederation of Workers' Trade Unions (CISL) for trading with the previous military junta in Myanmar.²⁷ Those criticised included Bellotti, Comilegno, F.LLI Budai and Sangiorgi Legnami.²⁸

Above: Traders, including from many EU member states, visited Myanmar in January 2020. Many of these traders are continuing to import Myanmar teak into the EU despite clear guidance in their countries and EU's common position that it is not possible to import Myanmar teak in compliance with the EUTR.

Myanmar teak uses and buyers

EIA believes that a substantial amount of the teak recorded in the teak import data shared by MiPAAF would be destined for the luxury yacht industry in Italy (see text box 3). This is reflected in the fact that many of the traders revealed in their discussions with investigators the importance of getting teak from Myanmar's natural forests, stating that only natural teak is good enough, especially for decking on yachts.

Text box 3: Myanmar teak and luxury yachts

Teak from natural forests is, according to one of the main Italian importers of Myanmar teak, Sangiorgi Legnami,²⁹ "mainly used for many kind[s] of shipbuilding: from boats to the above deck structures, deck cabins, etc. This wood is required for the production of valuable and fine furniture, decking for external use, parquet, plywood and decorative sliced veneers."

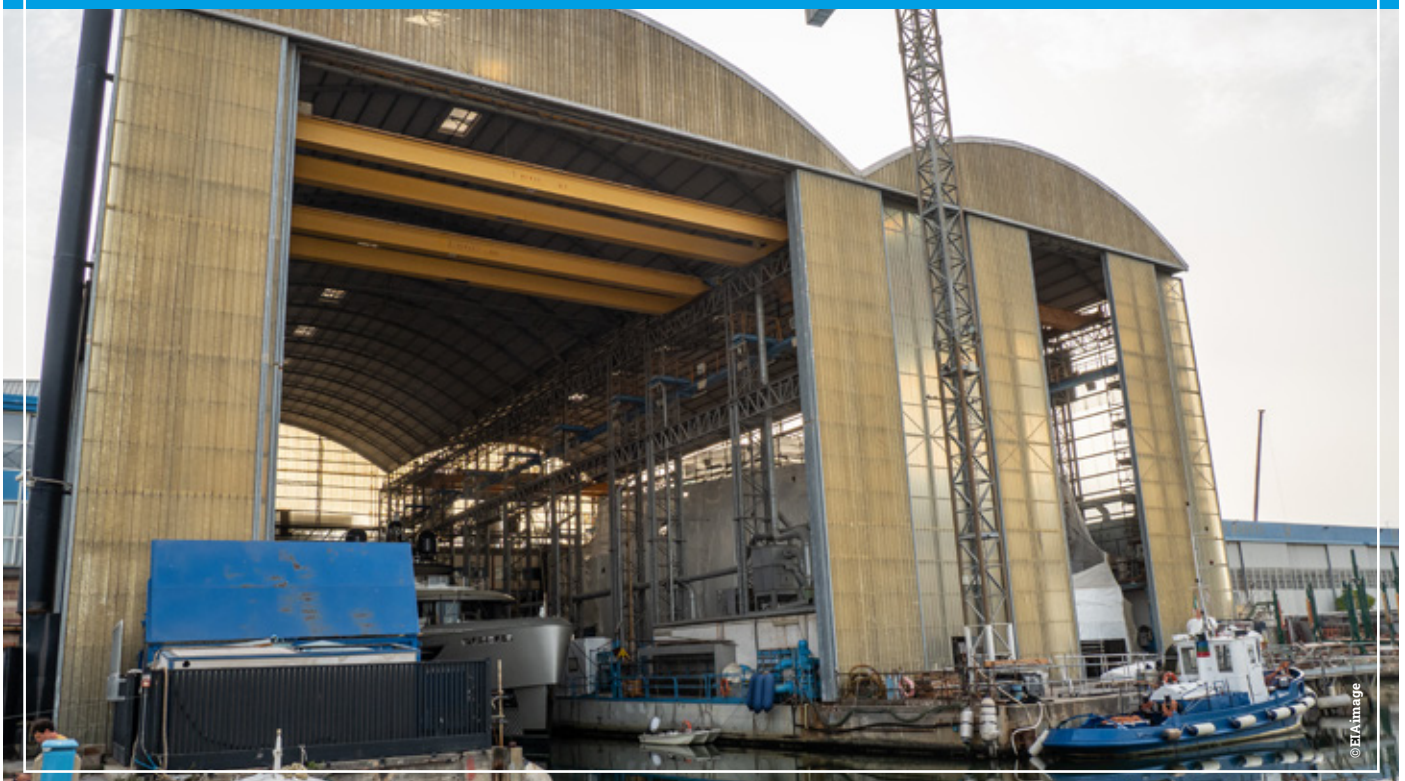
A large amount of the teak from Myanmar's natural forests imported into Italy is destined for the luxury yachts sector, the most expensive of which cost hundreds of millions of dollars.³⁰ The importance of using teak from natural forests compared to plantations was highlighted by a representative of ECD Import, who said "No, no, no, no (laughing), are you kidding? You couldn't even use it [plantation teak] for the cruise ships." The reason cited is the

look of teak from natural forests as well as their durability.

Many of the companies, including the Ferretti Group, emphasise the use of "best quality standard of Burma teak for teak decks".³¹ The Ferretti Group had revenues of nearly €650 million in 2019 and launched its first sustainability report in 2020, pushing its green credentials.³² Comilegno's website gives an example of where its teak products are used – namely, the 30m Morgana superyacht launched in 2020.³³

In recent years, yacht builders are turning away from Myanmar teak, recognising the environmental and social costs of using the species.³⁴

Below: Benetti's yacht building facilities in Viareggio and Livorno. Benetti SPA, which is part of the Azimut Benetti Group, was founded in 1873. It is one of the largest luxury yacht manufacturers in the world. Benetti is listed as one of the customers of Yeo Long International SRL, having provided teak decking for some of its yachts.³⁵ Yeo Long is part of the Timberlux group of companies.





©Dutch Customs

Mixed messages on legality

When asked about demonstrating legality, CF Wood, Comilegno and Sangiorgi Legnami informed EIA undercover investigators that all their teak comes from Myanmar, while at the same time emphasising their compliance with EUTR.

ECD Import, when asked about the chain of custody and due diligence, responded: "It is impossible going without. You can't unload the container."

Many of the companies on their websites emphasise compliance with EUTR. For example, the webpage of GTH Italia states it is "guaranteeing the traceability of the entire supply chain as required by regulation n.995 / 2010 (EUTR) on mandatory due diligence for the marketing of wood products" for their teak imports. The GTH Italia statement is in stark contrast to CF Wood's position.

CF Wood initially informed undercover investigators it fully complies with the EUTR. In a subsequent discussion, it appeared to admit that compliance with the EUTR was not possible, by conceding that it was

Above: Teak seized by Dutch authorities in November 2019. The timber originated from Myanmar and was imported into the Netherlands via the Slovenia and the Czech Republic. Enforcement agencies in EU member states are increasing their cooperation as they try to stop efforts to circumvent the EUTR.

impossible to verify the chain of custody. It told the investigators: "In Bosnia, Poland or wherever, you can find the landowner, the person who cut the logs, which logs were used for what and so on. But from Burma or from Africa, it's impossible."

It further elaborated: "... and, anyway, they don't let me see the forests, the logs ... I can only go to the sawmill. But who's going to guarantee me that that sawmill bought the logs... do I have to guarantee it?"

CF Wood acknowledged the challenges of the validity of the documents it used as part of the due diligence: "The European Union regulations state that these certificates issued by the MTE, a government agency, are false."

When speaking to the investigators, Stemau and CP Parquet claimed the Myanmar teak that they were selling was FSC-certified. Another of the traders, Nord



Compensati SRL, implies it has FSC certification for the teak on its website,³⁶ However, this is clearly not possible as neither the FSC (or PEFC) certifies any timber exports from Myanmar.

Supply to the rest of Europe

EIA was also interested to explore whether the teak was going on to other EU member states. CF Wood and Nord Compensati confirmed it was possible for them to ship to France and Germany, with CF Wood giving the example of having supplied teak to Lürssen shipyard, in Germany.

Analysis of the trade data provided by MiPAAF also shows a minimum of 60 shipments of timber were arriving in Italy and then transiting to other EU member states:

- five of the shipments were heading to specific companies, JUA Frischeis GMBH in Austria and CMG International DOO in Slovenia;
- 28 of TWB's 94 shipments were, according to the data, destined for other countries in the EU: 12 headed to

Belgium, seven to Germany, five to the Netherlands and one each to the Czech Republic, France, Poland and Spain;

- 22 of Timberlux's 107 shipments were also declared as having different destination countries – 16 were headed for Germany, five for Denmark (Denmark issued an industry-wide order preventing imports of Myanmar teak in March 2017) and one for Belgium;

Analysis of company records available from the Italian Chamber of Commerce³⁷ show that various companies importing Myanmar teak have income in the millions of Euros, but only one or two staff members each, for example:

- GTH Italia had an sales in 2020 in excess of €3.7 million, but only one employee and has payroll costs of just €7,491. Associated company Gold Teak Holding previously shipped timber directly to the Netherlands, but has stopped since action taken by the Dutch Competent Authority in 2017. GTH Italia was founded in Italy in 2018.

- Timberlux had sales revenue of over €9.5 million according to their most recently published financial report in 2018, but with no apparent payroll costs. The company profile details that they have one employee as of March 2021.
- TWB Solutions had sales of more than €4.5 million in 2020, but only two employees as of December 2020, with zero listed for the start of that year, and payroll of just €44,377 for the year

This leads EIA to believe that GTH Italia, Timberlux SRL and TWB Solutions are a conduit for importing Myanmar teak and immediately selling it on to buyers in Italy and beyond. EIA had encountered a similar model for the Croatian company Viator Pula, which, in 2019 had sales of more than HRK 32 million (roughly €4.35 million) and salaries of just HRK 209,700 (€29,971). An investigation by EIA in 2020 found Viator Pula was importing large amounts of Myanmar teak and immediately selling it on to various companies in the EU, including Belgium, Germany and the Netherlands, as well as Italy.³⁸

EIA also suspects that many of the other shipments were heading to other EU member states. During January 2018 to July 2019, many of the shipments landed by various companies were declared as traveling onward to other countries in the EU. Following increased enforcement action in many other member states in the first half of 2019, it is noticeable immediately that many fewer shipments entering Italy were declared as being exported into the rest of the bloc, with companies now

declaring timber as having the destination Italy. It is, however, possible that Italy continues as the entry point for Myanmar teak before it heads onto buyers in other member states, as it would be a remarkable coincidence for the business model of the companies to have changed so dramatically just as enforcement action was being taken.

EIA has been unable to confirm the specific recipient companies, other than JUA Frischeis GMBH (Austria) and CMG International DOO (Slovenia) for the timber being traded out of Italy. However, EIA is aware that Timberlux has previously shipped timber to Alfred Neumann in Germany.

By trading Myanmar teak on to companies in other parts of the EU, the Italian companies were assisting in circumvention of EUTR enforcement. Prior to 2019, teak was directly traded into several EU countries, including Belgium, the Netherlands and Germany. Since the increase enforcement actions against teak traders in these countries, including industry warnings and seizures of shipments, they have effectively stopped the direct trade of Myanmar teak.

However, by allowing the import of Myanmar teak into Italy and then onwards to other EU member states, the failure to enforce the EUTR in Italy is enabling the circumvention of the EUTR.

Below: EIA visited TWB Solutions' registered office in Pescia, Italy. The building on the left was a residential building with a warehouse (right) at the back of the property that looked long abandoned.



©EIAImage

Text box 4: F.LLI Budai SRL ignoring official EU stance while also procuring EU development funds

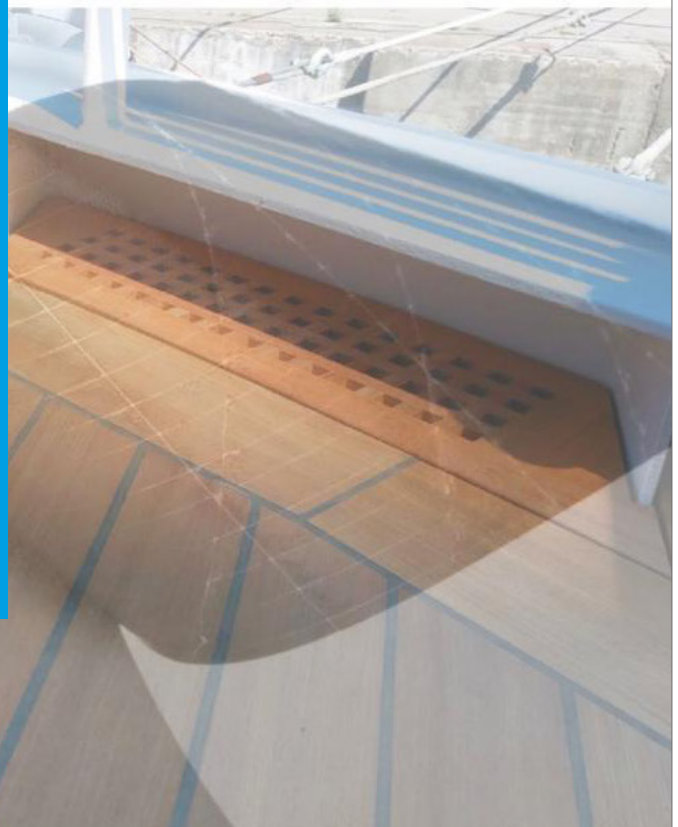
According to the data provided by MiPAAF, F.LLI Budai SRL was the eleventh largest Italian importer of Myanmar teak from January 2018 to October 2020, importing more than €275,000 worth. During this period, the company has been part of two projects funded by the EU's Regional Development Fund, the combined budget of which is more than €1 million.³⁹

According to Budai's information on the two projects, the funds help support work developing the yacht building industry, including researching the durability of yacht decking. On the one hand, Budai is ignoring the common EU position by importing Myanmar teak, most of which is used for the decking for luxury yachts, while at the same time it is benefiting from funding from the EU.

According to the most recent financial report of LLI Budai SRL, the company's income in 2019 was more than €8.3 million.⁴⁰

Photo: an advertisement for the EU-funded Quickshipfit Project with Budai's logo displayed at the top

QSE
QUICKSHIPFIT



Il progetto QUICKSHIPFIT svilupperà un innovativo metodo di allestimento rapido di arredi e decori navali sia per interni che per esterni che prevede l'utilizzo di un biadesivo in grado di avere un minore impatto dal punto di vista delle vibrazioni e del rumore e velocizzare il processo di posa. L'utilizzo di biadesivo, conforme alle restrittive norme del settore navale, permetterà di preparare in fabbrica l'allestimento sfruttando le caratteristiche del biadesivo sviluppato per l'ambito navale. Budget: € 598.736,50; Importo finanziato: € 366.119,57



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OPPORTUNITÀ PER UNA CRESCITA SOSTENIBILE



REGIONE AUTONOMA
FRIULI VENEZIA GIULIA

Possible tax evasion in the teak trade to Italy

EIA has also been investigating Italian traders, specifically HF Italy and Comilegno, that have been importing Myanmar teak through Croatia (see annex 2 for more details on their shipments). The investigation also covered possible tax evasion in Myanmar linked to the trade of the teak.

In early 2020, EIA was given access to documents covering shipments of Myanmar teak imported into Croatia by Viator Pula, a Croatian company. Upon arrival in Rijeka, most of the teak was immediately sent on to other buyers throughout the EU.⁴¹

HF Italy's two shipments were interesting for various reasons, including how the HS code was changed on the documents, from 4418 on the Export Declaration filed at Yangon Port to 4407 on the Single Administrative Document (SAD), akin to an import declaration, filed at Rijeka Port.

This is significant because the change means the consignee would have paid less tax in Myanmar, specifically the Special Goods Tax and Myanmar Customs Tariff. In Myanmar, the taxes linked to exports are lower for more value-added products, such as HS 441810 (wood; windows, French-windows and their frames) compared to 440729 (wood, tropical; sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, thicker than 6mm).

The Comilegno shipment, also landing in Rijeka, was notable for other reasons, specifically the change in the value of the teak. The shipment increased in value from \$67,169 on the Export Declaration filed in Yangon to \$152,208 recorded on the SAD in Rijeka. The volume and weight of the shipment did not change.

A similar increase in value was found in other shipments of timber from Myanmar and we believe these indicate trade mis-invoicing, where the consignee changes the declared value of the product so they pay less tax on profits in Myanmar.

In many of the cases, there is overlapping ownership between the export company in Myanmar and the trader handling the shipment when it transited in

Below: Copy of Export Declaration and Single Administration Document (akin to import declaration) for shipment of teak imported into the EU by Croatian company Viator Pula; the timber was immediately shipped off to HF Italy. The highlighted areas show the changes in HS Code from 4418 (declared in Yangon) to 4407 (declared in Rijeka). Under regulations in Myanmar, taxes are lower for products from HS 4418 compared to HS 4407.

Receipt of export declaration (Left Document):

- Export Declaration No: 200004617368
- Export date: 2019/10/18 13:15
- Exported declaration date: 2019/10/21
- Export company: CROMYRES-000 MYSAN/VIATOR PULA TRADING CO., LTD.
- Address: 30 CECIL STREET, # 19-04 PRUDENTIAL TOWER, SINGAPORE 049715. C/O COMILEGNO
- Final destination: MYR - KUALA LUMPUR
- Port of destination: MYR - KUALA LUMPUR
- Export items table:

Service	Electronic No.	Exemption/Reduction	Total
(01) ELN	YUNGLP19090975	0	0
(02) MUC	03/05/15/2015-10-01	47,169.04	47,169.04
(03)			
(04)			
(05)			
(06)			
(07)			
(08)			
(09)			
(10)			
(11)			
(12)			

Single Administrative Document (Right Document):

- Export Declaration No: 200004617368
- Export date: 2019/10/18 13:15
- Exported declaration date: 2019/10/21
- Export company: CROMYRES-000 MYSAN/VIATOR PULA TRADING CO., LTD.
- Address: 30 CECIL STREET, # 19-04 PRUDENTIAL TOWER, SINGAPORE 049715. C/O COMILEGNO
- Final destination: MYR - KUALA LUMPUR
- Port of destination: MYR - KUALA LUMPUR
- Export items table:

Service	Electronic No.	Exemption/Reduction	Total
(01) ELN	YUNGLP19090975	0	0
(02) MUC	03/05/15/2015-10-01	152,208.00	152,208.00
(03)			
(04)			
(05)			
(06)			
(07)			
(08)			
(09)			
(10)			
(11)			
(12)			

Annotations:

- Green box:** HS Code 4418 (left) vs HS Code 4407 (right).
- Blue box:** Value 47,169.04 (left) vs Value 152,208.00 (right).
- Red box:** Note the change in value of the shipments from export to import. The number of pieces in the shipment clearly remained the same (green box). Declaring a lower value of goods for the shipment in Myanmar allows the company to report lower income and therefore pay less income tax in Myanmar, where the rate of income tax is a minimum of 25% compared to Singapore where the rate is 17% or less.

Comilegno shipment of teak scantling

Singapore. For the Comilegno shipment, the overlapping companies were Myanmar Rice Trading (MRT, Myanmar) and IPL PTE Ltd, based in Singapore. MRT and IPL are part of the IGE conglomerate of companies. EIA believes that MRT would have invoiced IPL at a much lower amount than the actual value of the goods in order that it pays less income tax. The income tax rate in Myanmar is 25 per cent, while the rate in Singapore is 17 per cent or lower.

The overlapping ownership was also relevant to HF Italy's shipments and appears to be an issue for the imports covered by the trade data provided by Italian authorities. The Italian competent authority should explore this possible tax evasion further.

It should be noted that violations of customs and trade rules in any countries (e.g. Myanmar) along the supply chain related to timber are also predicate offences under the EUTR.

Finally, many of the trees which made up these three shipments were harvested in the financial years 2012-13 and 2013-214 (see copies of some of the documents). Timber harvested during these financial years is of particular concern due to the overharvesting by MTE (see text box 2).

Below: Copies of some of the documents for Comilegno's shipment of teak that was imported into Croatia by Viator Pula in December 2019. The highlighted areas show the massive change in the value of the timber between leaving Yangon and its arrival in Rijeka. This change, coupled with the overlapping ownership of the Myanmar and Singapore traders that are part of the supply chain, are indicators of tax evasion through trade mis-invoicing.⁴²

Bottom: All trees comprising the shipments of teak that HF Italy and Comilegno purchased from Viator Pula in Croatia were harvested prior to (Myanmar's financial year) 2016-17. Authorities in Myanmar admit there was massive overharvesting until 2013-14, as well as many changes that demonstrate timber's origin prior to 2016-17.

Note the difference in HS code on "Allowed shipment notification" (Export Declaration) - HS 4418, and the import (SAD) document - HS 44072995. This is likely due to the lower taxes paid on exporting more processed (4418) products.

HF Italy I shipment of teak scantling

EUROPSKA ZAJEDNICA

VIATOR PULA d.o.o.

S.R.L.C.R., VIA DIVISIONE BILIA 636, 33042, UDINE

State sanctioned illicit timber is part of the supply chain

There is no way to reconcile the timber in the shipment with Annual Allowable Cut (AAC). This is notable considering years of teak harvesting far above AAC levels (2001/2002- 2013/2014).

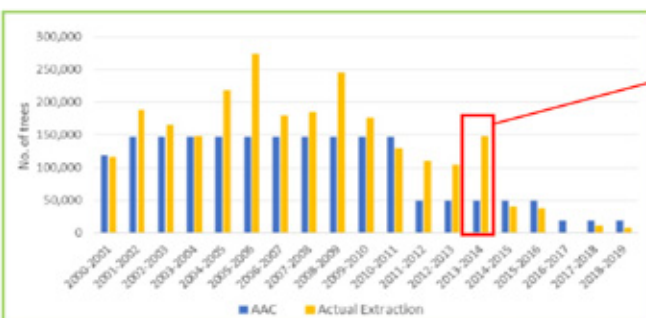


Figure 3: Annual Allowable Cut (AAC) and Extracted Number of Teak

THE REPUBLIC OF THE UNION OF MYANMAR
MINISTRY OF NATURAL RESOURCES AND ENVIRONMENTAL CONSERVATION
MYANMA TIMBER ENTERPRISE
EXTRACTION DEPARTMENT
CERTIFIED LETTER

This is to certify that the following information on logs sold with Delivery Order/Invoice No. 1329/2013-2016 (3) . Lot No. DG (77)-132 . Specification No. DG 1118/2013-2016 and Quantity of 41 logs and 39.184 cms extracted and transported in accordance with rules and regulations prescribed by Extraction Department and relevant organizations:

- (1) Extraction Agency/Range - Kavin Extraction Agency, Daung Myar Zang.
- (2) Administrative - Katha District, Wanbo Township.
- (3) Reserved/Unclass Forest & Compartment No. - Nan Ekan Reserved Forest, Compartment No (29, 30, 31, 32, 33, 34) 37, 42 Pyla Lwin Protected Public Forest
- (4) Extraction year - 2013-2014
- (5) Species - Teak
- (6) Entry permission - Katha District Forest Department, 24-7-2013 Dtd, by Forest Department Entry Permit No - B/2013-2014.
- (7) Revenue Mark
- (8) Agency Classification Hammer Mark
- (9) Production Depot - Dagon (South) Depot



©Carabinieri Forestali

The problem of enforcement by the Italian authorities

The inability of Italian authorities to enforce the EUTR is evident from the fact that substantial quantities of Myanmar timber are still being traded into Italy. At the same time, the imports to most of the other EU countries are falling.

EIA believes this is due to a lack of resources and political will, as well as unscrupulous traders knowing there is poor enforcement and using this to target Italy as a way to ship timber to the rest of Europe.

The Carabinieri (the division of the Italian military police responsible for enforcing the EUTR) has taken some action to enforce the EUTR. In late 2018, it seized a shipment of timber and initiated a prosecution. However, EIA understands the prosecuting judge rejected the case and it did not proceed.

Both the competent authority and operators in Italy have referred to small fines being applied to shipments of Myanmar teak which do not meet the due diligence

requirements of the EUTR. For example, CF Wood informed investigators: "We've had several visits from CITES [part of the Carabinieri], everything was fine except for a few formalities, but nothing else" and "sometimes they fine us bureaucratically, when actually you are in perfect order."

EIA confirmed with the Italian Ministry of Agriculture, Food and Forestry (MiPAAF) that CF Wood has been fined on two occasions for imports of Myanmar timber, once paying a fine of €5,675 and another time paying a fine of €3,000. The declared value of teak imported by CF Wood in data viewed by EIA was between €40,000-80,000 per shipment and in total it imported €680,931 worth of teak in the two-year period for which EIA had data, meaning



the fines represented roughly one per cent of the value of the teak imported by CF Wood in that timeframe.

Carabinieri also confirmed it has approved shipments of Myanmar timber imported into Italy, stating that during 2020 Carabinieri and Customs checked shipments of teak from Myanmar, sanctioning some traders and finding others compliant according to EU and Italian law.

In informal conversations with both Italian and EU officials, EIA has been told there are problems matching the EUTR with the legal system in Italy which prevent proper enforcement of the regulation. EIA has not been told the exact details of this problem, but, if true, it would be unique to Italy's legal system, as other systems based on civil law (such as Germany and the Netherlands) and other countries in the region of Europe (such as Slovenia) have had more success enforcing the regulation.

The Italian implementing-legislation for the EUTR provides for criminal penalties for the "prohibition" requirement of the EUTR, which bans operators from placing illegal timber on the market, but only provides for weaker administrative penalties for violations of the due diligence requirements of the EUTR.⁴³

This division appears to prevent anything other than fines being imposed on shipments of Myanmar teak

– which is not insignificant, as in other countries orders to stop importing have been the most successful at stopping the trade.⁴⁴ However, the administrative penalties available to the authorities go as high as €5,000 (approximately \$6,000) per 100kg of timber, up to €1 million (approximately \$1.2 million). Based on the quantities traded by the companies in the data available to EIA, these €1 million fines would have been possible and would have dwarfed the value of the timber.

When asked why these larger fines are not being imposed on companies importing Myanmar teak, Italian authorities told EIA there were a number of conditions for imposing such a fine, including that a company must repeatedly break the law in a short space of time. However, it does seem that these companies are importing Myanmar teak frequently, making these fines a possibility. The EUTR requires penalties to be "effective, proportionate and dissuasive". Italian authorities must impose larger penalties to meet this standard. If the penalties available for the due diligence offences are not adequate, then the implementing legislation should be changed.

Above: In November 2019, after an alert from EIA, the Italian Carabinieri seized a shipment of timber in Trieste Port. The photo shows it being unloaded after the seizure.

The military coup and Myanmar's timber trade

Since the military coup on 1 February, the military's connections to the Myanmar timber industry have become more apparent. Some of these links with the military are found in the supply chain of Italian importers of Myanmar teak.

Based on concerns regarding the previous military regime, when timber became a major source of much-needed hard currency, EIA began further research into direct and indirect connections to the timber trade. The most obvious and most widely publicised is through the State-owned MTE, which is involved in all "legal" timber sales in the country. It is the regulator for all exports and is now controlled by the junta.

MTE's income in the 2017-18 financial year from timber sales for exports was more than \$186 million.⁴⁵ Additionally, the State makes almost \$100 million from royalties and tax linked to the timber trade.⁴⁶ Their importance to the Myanmar timber trade, and as a source of income for the junta, is once again recognised by the EU, UK, and the USA in trade sanctions. There are also other significant military connections in the timber trade.

The State has a significant direct stake in the Forest Products Joint Venture Corporation (FPJVC) – MTE holds 45 per cent of the shares in the FPJVC, while the Forest Department owns 10 per cent. The remaining shares are held by private shareholders, including former

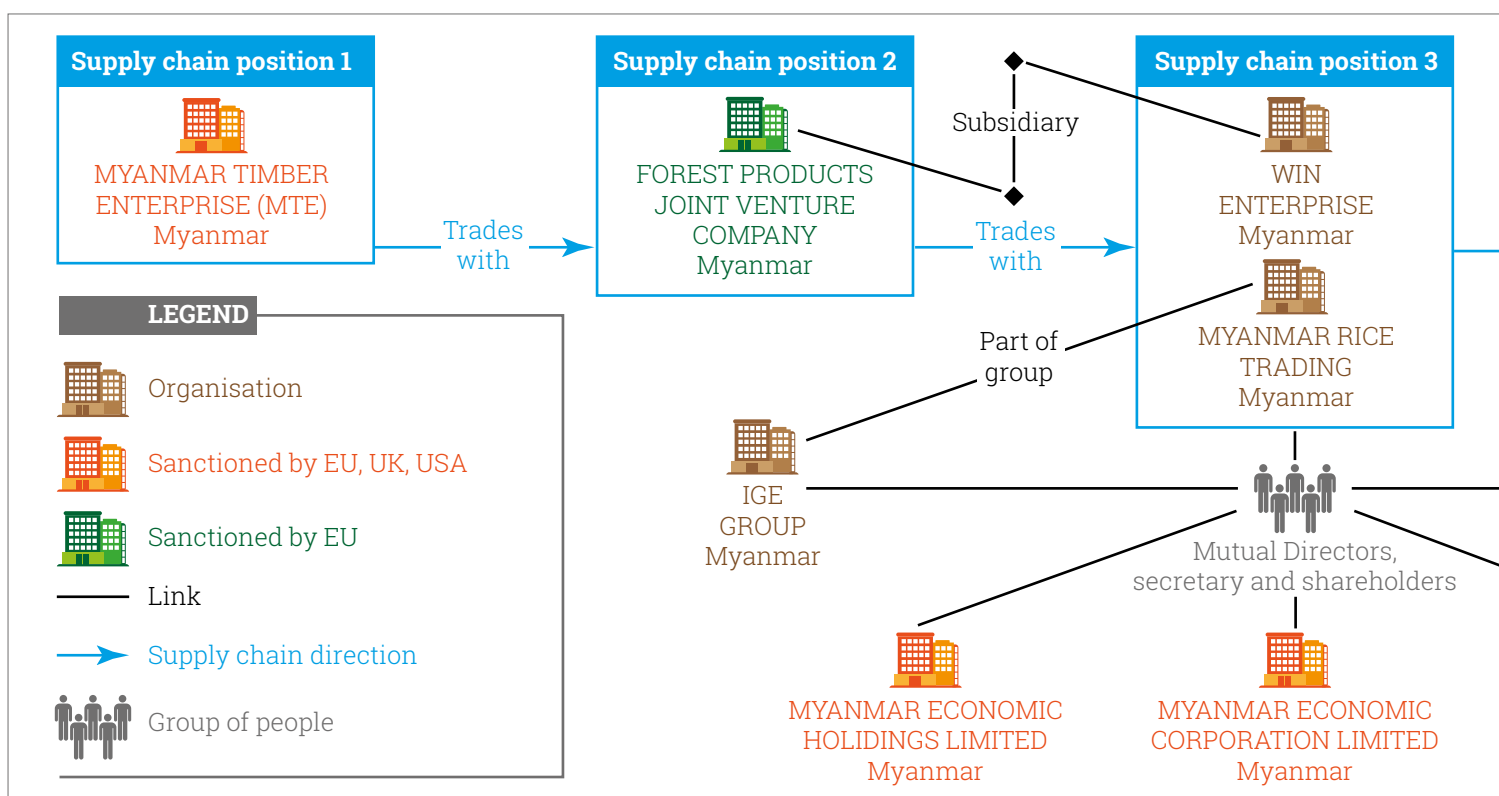
and current military officials. In the 2017-18 financial year, FPJVC bought \$5.2 million of teak logs from MTE auctions and was the third largest buyer of teak logs from the MTE in that period.⁴⁷

The issue here is not only that any timber passing through the hands of FPJVC provides income for the junta; EIA is also concerned by conflicts of interest and corruption, as the MTE is selling timber to an entity it owns and documentation seen by EIA suggested vote-rigging for the appointments of FPJVC directors.

FPJVC is another key player in the timber supply chain to the EU, including Italy. EIA's investigation found FPJVC has been part of the timber supply chain to Comilegno, purchasing timber from MTE and then supplying it on to private exporting companies.

The investigations identified many of FPJVC's individual and institutional shareholders, as well as its subsidiaries. Many shareholders are also owners or senior management of private companies involved in the teak trade, including Diamond Mercury Co Ltd, TKK Co Ltd, Win & Win Co Ltd and Zambu Yadana Co Ltd.

Figure 3: Overview of the Comilegno supply chain and connections with sanctioned companies and the military



The drive to bring in funds for its activities has led the military to continue to auction timber. There is concern that the timber being auctioned is illegal timber which has been seized and could now enter the international market. For example, in 2020 the military seized a total of nearly 10,000 tonnes of illegal timber, including nearly 2,000 tonnes of teak,⁴⁸ worth roughly \$7 million. EIA has been unable to verify what the military does with the timber it has seized and, due to the lack of oversight since the coup, cannot determine what happens to any illegal timber seized by the State. For example, this includes an auction in May 2021, where 11 companies bought timber from MTE.^{49,50}

1. Green Links Pte Ltd (Singapore)
2. Katpana Timber Ltd (unknown)
3. Maung Maung Thein Co Ltd (Myanmar)
4. MTK Timber Pte Ltd (Singapore)
5. Nagani Group Co Ltd (Myanmar)
6. National Wood Industry Co Ltd (Myanmar)
7. Thein Than Htun Manufacturing Co Ltd. (Myanmar)
8. United Industrial Co (unknown)
9. United Wood Industries Co. Ltd (Myanmar)
10. Win Enterprise Co Ltd (Myanmar)
11. Yadi Shin Thant Co Ltd (Myanmar)

Three of the companies which participated in the May auction – Thein Than Htun Manufacturing Company,

United Wood Industries and Win Enterprise – are named in customs data as exporters of teak to Italy from Myanmar during the period January 2018 to October 2020. In recent years, National Wood Industry and Win Enterprise also supplied teak which was exported to Croatia, with the former being part of the supply chain for HF Italy.

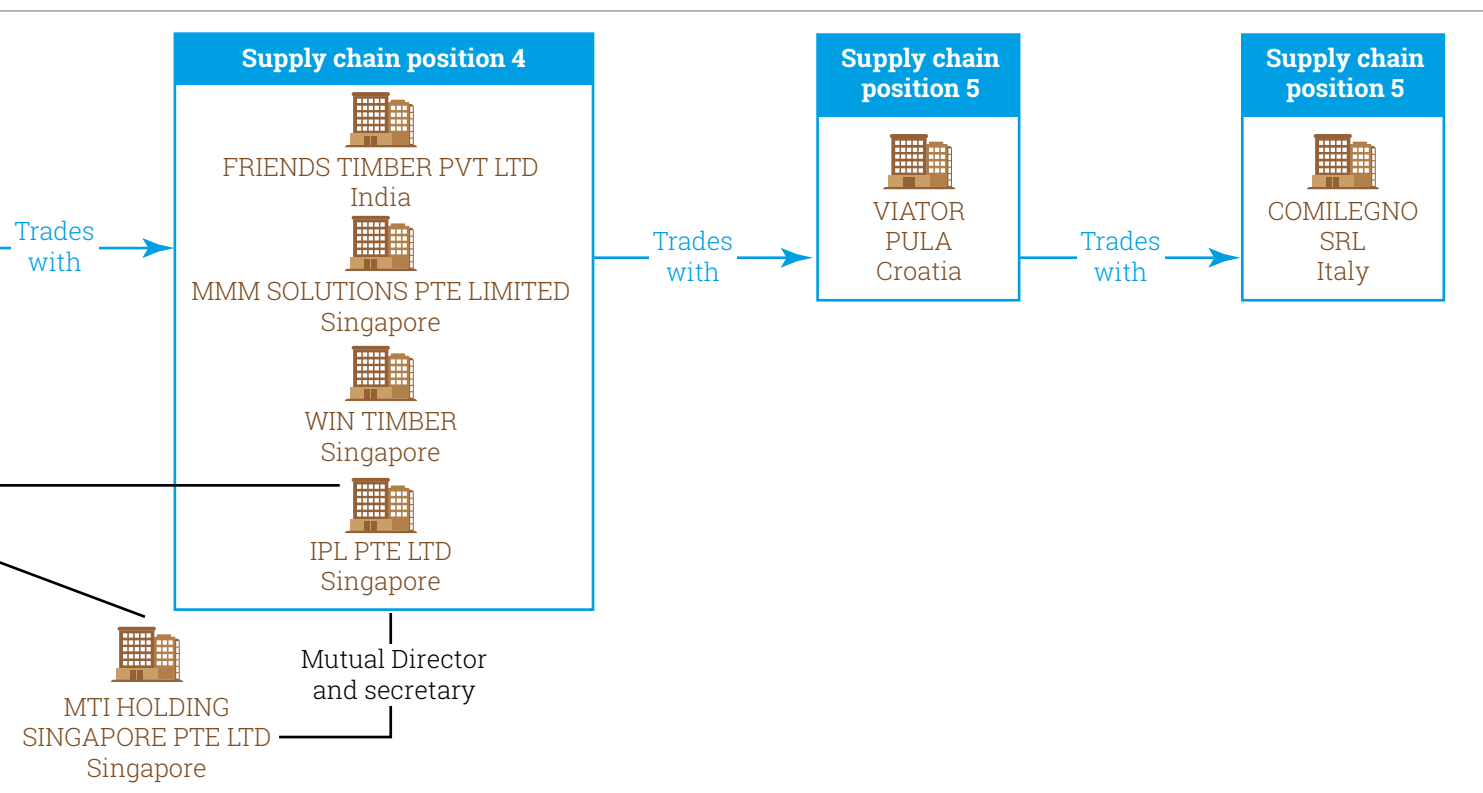
Win Enterprise, which also participated in the auction, is a subsidiary of FPJVC.⁵¹ It is also a key actor in the teak trade to the EU. The Italian buyers from Win Enterprise during that period include Comilegno (see Figure 3) and TWB Solutions (Figure 4).

In addition to the concerns noted above, EIA found connections between the suppliers to Comilegno and the military (Figure 3). The concerns not only include FPJVC being part of the supply chain, but also a company called Myanmar Rice Trading (MRT) and its parent company, IGE Group, which also owns IPL PTE Ltd, based in Singapore.

EIA has obtained financial statements for an Indian company named Friends Timber PVT Ltd for the financial year 2019-20. These record “trade receivables” for the company from “TCS Comilegno SRL”, “TCS Miura Srl Unipersonale” and “TCS GTH Italia”. They also record that by far the largest portion of “trade payables” for Friends Timber were “IPL PTE Ltd” and “TCS IPL PTE Ltd”.

EIA has also seen detailed documentation for timber supplied to Comilegno through the Croatian company Viator Pula, which names MRT, IPL and Friends Timber in the supply chain.

EIA believes this documentation indicates that Comilegno, Miura and GTH have procured timber from IPL and MRT through Friends Timber in India.





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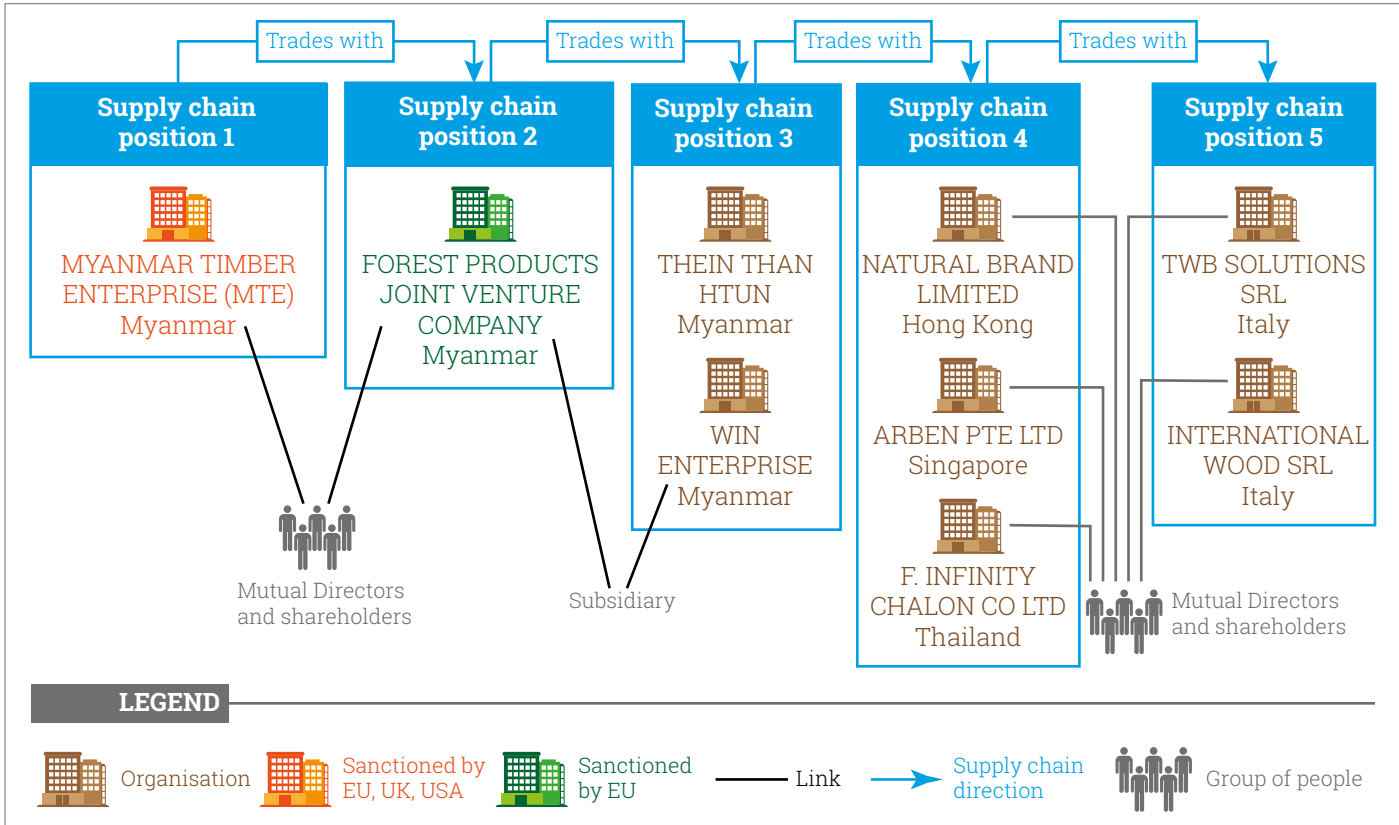
MRT and IPL are part of the IGE Group of companies under the management of wealthy Burmese national Ne Aung (also known as Nay Aung). Ne Aung has previously been a person of concern for the Office of the United Nations High Commissioner for Human Rights (OHCHR)⁵² regarding his many connections to the military. These connections included his company, IGE Group, giving a donation of more than \$35,000 to the Myanmar military in September 2017. This donation was at the time of the

military's "Clearance operation" (which has been labelled ethnic cleansing and genocide^{53,54}) against the Rohingya, which started in August of that year and is believed to be directly related to supporting this operation.

Further connections of Ne Aung and his companies to the military include him being a director of MEC, a military-owned company. Another director of MRT, Thant Zin, is also a director of Myanmar Economic

Figure 4: Overview of the TWB Solutions and International Wood supply chain and linkages with some of their suppliers through management and shareholders.

Above: yachts docked at an Italian Marina. EU demand for Myanmar timber is driven by the marine sector.





Since the coup, many Myanmar organisations and individuals have been calling on foreign companies to cease trading with the military junta. This call has been supported by experts from the UN Human Rights Office of the High Commissioner: “While some businesses have reiterated their public support for the rule of law and human rights and cut ties with the junta in the aftermath of the 1 February coup, many continue to engage in business with the military as if nothing has happened”.⁵⁸

Italian traders are some of those ignoring the calls.⁵⁹

Trade data shows Italian companies have still been importing timber from Myanmar since the coup – importing more than €1.57 million in March, €1.42 million in April and €1.32 million in May 2021.⁶⁰ Teak, HS code 44072995, comprised the vast majority of the imports – €1.39 million, €1.07 million and €1.13 million, respectively.

The other notable importers of timber (HS code 44) since the coup are Sweden which imported more than €437,000 in March and €476,000 in April, Greece which imported €524,000 in March and more than €850,000 in May and France, which has imported a total of €523,000 between March to May 2021.

GTH Italia SRL was the third largest importer of teak from Myanmar during the period January 2018 to October 2020 and has continued to import teak into Italy since the coup. EIA believes GTH Italia has imported at least three shipments of teak since the coup.⁶¹

GTH Italia is linked to Gold Teak Holding PTE Ltd (Singapore) and Gold Teak Holding Myanmar Company; it appears Gold Teak Holdings also has an office in Malaysia. GTH Italia is also linked to another of the key Italian teak traders, Miura SRL (also known as Miura Friends), through overlapping ownership.⁶² Miura is an “associate company” of Friends Timber (India).⁶³

Gold Teak Holding (Singapore) has previously been on EIA’s radar. In August 2016, our investigators approached the firm in Singapore to inquire about its timber supply chain, suspecting it was trading into the EU in violation of the EUTR. EIA subsequently filed a substantiated concern against the company in the Netherlands for supplying a shipment of six tonnes of illicit Myanmar teak to a company in Rotterdam.

While some of the Italian traders appeared to be facing challenges to buy Myanmar teak as a result of the pandemic and the coup, others seem to have a significant stockpile or continue to be able to import teak. For example, GTH Italia stated: “We don’t have any problems with supply”. Before the coup, CF Wood stated its supply was disrupted by the pandemic: “Luckily, we have a lot of it. We’re not in shortage of material.”

Above, left: In April 2020, Gold Teak Holding Group was boasting about its ability to export Myanmar teak despite the coup. This export not only undermines enforcement of the EUTR, but also the efforts by the people of Myanmar, including by the Civil Disobedience Movement, to try to stop the military junta’s efforts to access funds to continue their oppression. This photo was shared and since deleted by Gold Teak Holding on its LinkedIn page.

Image: from Gold Teak Holding Group’s LinkedIn page.

Corporation (MEC). Further, Ne Aung is a board member of Myanmar Economic Holding Ltd (MEHL), another military-owned company. Both MEC and MEHL are currently sanctioned by Canada, the EU, UK and USA.

Finally, Ne Aung has family connections to the military, including his brother Moe Aung, who is a Rear Admiral and the Chief-of-Staff of the Myanmar Navy. Moe Aung is also a director of MEC.

The military also benefits from other areas of the timber trade, including transportation, specifically ownership of the Ahlone Port through the MEC. As mentioned above, MEC has been sanctioned by Canada, the EU, UK and US.

Another port used for the export of timber is the Asia World Port Terminal (AWPT), which is part of the Asia World Company. Its Managing Director (also listed as Chief Executive in some documents), Htun Myint Naing (also known as Steven Law and Lo Ping Zhong), has been accused by the U.S. Government of laundering money for the military,⁶⁵ and has been linked to illegal narcotics trade⁶⁶ and accused of laundering drug profits through his firms, including AWPT.

The IGE Group and the Asia World Company were in 2019 labelled by the UN Independent Fact Finding Mission on Myanmar as being “among the largest crony companies” in their connections with the military.⁵⁷



Responses from the companies

EIA provided a right-to-reply opportunity to the following: Basso Legnami, Belotti SPA, Budai, CF Wood, Comilegno, GTH Italia, International Wood, Miura Friends, Sangiorgi Legnami, Timberlux, TWB Solutions and Kärnsund Wood Link.

Of these, Basso Legnami, GTH Italia and Kärnsund responded individually, while Bellotti SPA, Comilegno Srl, International Wood Srl, Sangiorgi Legnami SPA, Timberlux Srl and TWB Solutions Srl responded collectively.

Kärnsund denied sourcing timber through Italy and stated: "We have permission from Skogsstyrelsen (the Swedish competent authority) with validity until 15th of April this year, to fully legally import Myanmar teak directly to Sweden". It confirmed supplying timber to CF Wood in Italy.



Basso Legnami stated it “has always conducted its business in full compliance with all the applicable national and European provisions, exercising due diligence in marketing wood and derived products, as prescribed by EU Regulation no. 995/2010”.⁶⁴

GTH Italia's lawyer stated that its timber had been cleared legally through Italian customs with all taxes and duties paid, and with the supervision of the Italian Competent Authority, and was therefore procured in accordance with the EUTR.

The collective response of the other six companies was that they have “never shirked responsibility” in collaborating with authorities in accordance with procedural rules to safeguard the legality of timber imports.⁶⁵ They stated that any allegations they were responsible for illegal imports of Myanmar timber were

“absolutely false, unfounded, spurious, exploitative and devoid of any foundation”.

In relation to procurement from military-connected companies, GTH Italia's lawyer stated it had “never purchased goods from IPL Pte Ltd and still is not sure to whom you are referring to.”

None of the companies stated whether they were continuing to import Myanmar teak after the coup or after the sanctions were imposed on the Myanmar Timber Enterprise.

Above: many of the companies importing teak into Italy supply timber for use on luxury yachts throughout Europe

Sanctions on the timber trade

Canada, the EU, UK and USA have introduced various forms of targeted sanctions against different individuals and entities linked to the military regime in Myanmar. Some individuals in the military were already sanctioned in 2019 for their involvement in the persecution of the Rohingya people.

The broad aim of the financial sanctions is to restrict the junta's ability to access funds by exploiting the country's natural resources, as well as to punish those responsible for the coup and subsequent repression, as the EU put it in its June 2021 announcement: "For undermining democracy and the rule of law and for serious human rights violations in the country".⁶⁶

Canada, the EU, UK and USA have all sanctioned the MTE. The EU has also targeted the FPJVC. Other organisations sanctioned which are often part of the timber supply chain include Myanmar Economic Corporation (MEC, owner of Ahlone shipping port in Yangon).

The sanctions' broad effect prevents payments to these entities, even including payments which may be "indirect" and "for the benefit of" the entities in question". In other words, a transaction does not have to be directly to the company to be sanctioned.

In the case of Myanmar teak, to comply with the EUTR, companies must show the MTE is in their supply chain – requiring them to show that the chain of payments benefits the MTE. These sanctions should, in theory, mean no timber from Myanmar is imported into Canada, the EU, UK or USA because the MTE is the first step in the timber supply chain for all timber sold in Myanmar. Sanctions will also be breached when FPJVC is part of the supply chain and when the MEC-owned Ahlone port is used for exporting the timber.

Questions remain, however, regarding the implementation and enforcement of the sanctions. These concerns reflect the continued trade in teak to Italy since the coup, the military controlled MTE continuing to hold auctions of teak for the international market and efforts that teak traders will go to access Myanmar's teak.

Agencies enforcing the sanctions need to be aware of the complexity of the teak trade, including the fact



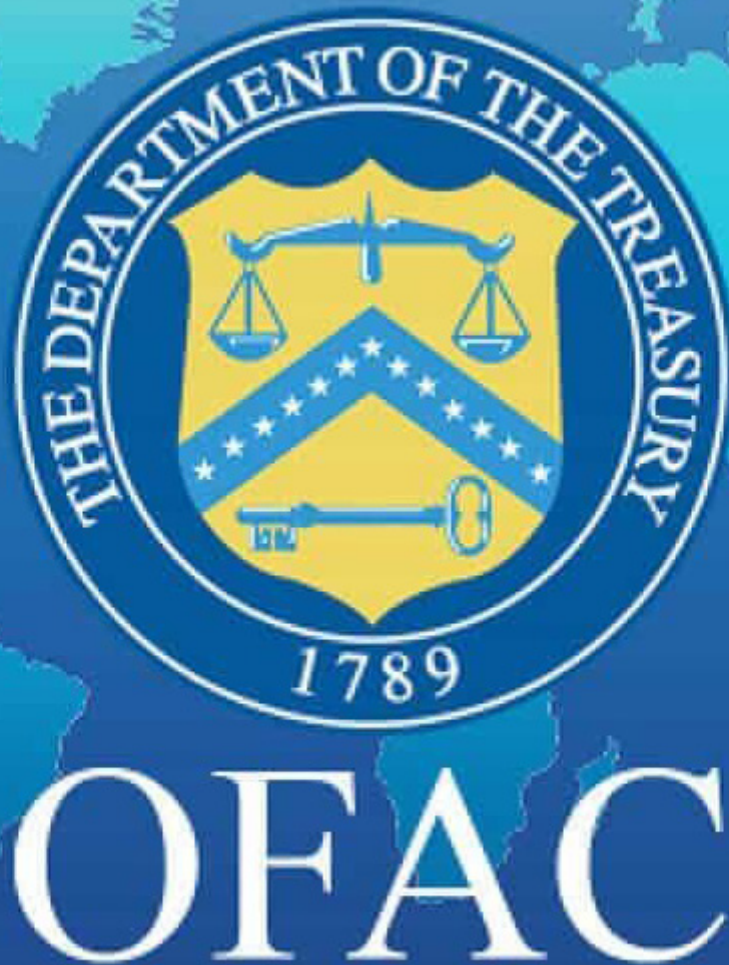
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that companies often import Myanmar timber through third countries, such as China, Malaysia, Singapore and Taiwan. This concern is also a reflection of the links, in the form of management and ownership, between the traders in Myanmar, Singapore, Hong Kong, Thailand and the EU member states, including Italy (see examples in Figures 3 and 4).

An example of how this can occur is illustrated in a previous investigation by EIA of WOB Timber (Germany). EIA found that from 2008-11, WOB was trying to circumvent previous EU sanctions regarding Myanmar timber trade by importing via Taiwan. A more recent example, from April 2019, was a seizure by the Dutch authorities of 200 teak garden tables produced in China. The factory in China was FSC-certified and the tables also had FSC certification demonstrating chain of custody, including legality. The trader stated the teak used was from plantations in Brazil. An investigation by the Dutch authorities found the teak was in fact from natural forests in Myanmar.⁶⁸

The WOB and the teak table cases are examples of the risks companies take in trading in Myanmar teak. However, they also face risks when caught as, reflected in the punishment handed out in May 2021 by a court in Germany which fined WOB Timber €3.3 million; its managing director, Stephan Bührich, was given a 21-month suspended prison sentence, a fine of €200,000 and was warned further cases would result in harsher penalties.⁶⁹

Above: the Myanmar Port Authority in Yangon



©Crimecheck.net

Text box 5: The importance of targeted sanctions

In the months after the coup, two prominent importers of teak in the EU and the USA stated they will continue to import teak regardless.

Teak Decking Systems (USA) released a statement in April 2021 stating: "Some of our suppliers are saying, "Buy more teak now while you still can," and some of the world's environmental groups are saying, "Stop buying teak – you are just funding the military".⁶⁷

TDS decided it should continue to buy Myanmar teak, as did GTH Italia, which released a statement in May: "At present there is no sanction against Myanmar Timber Enterprise (MTE) and no embargo on teak has been applied. It follows that the trade in Teak can continue in compliance with the European regulation 995/2010 EUTR on "due diligence".

The statements by TDS and GTH Italia are a perfect illustration of the importance of targeted sanctions.

What they and any other company continuing to buy Myanmar teak failed to acknowledge and address is, as found by EIA's investigations, that many of the companies which are part of the teak supply chain have direct links to the military, for example:

- State-owned MTE, which is the first step in all timber supply chains. MTE's income provides funds used by the military as they see fit;
- FPJVC, which is a key part of many the supply chains. Individual military staff are shareholders in FPJVC, so they are personally enriched by the trade;
- Win Enterprise is a subsidiary of FPPJVC;
- Myanmar Rice Trading (part of the IGE Group) has many links to the military.

The sanctions against, for example, the MTE are key to stopping traders such as TDS and GTH Italia importing Myanmar teak and, ultimately, providing funds to the military in Myanmar.

Above: OFAC, the Office of Foreign Assets Control, is responsible for imposing US sanctions. It has imposed sanctions on the Myanmar Timber Enterprise

Recommendations

To timber traders in Italy and elsewhere

- Immediately cease sourcing Myanmar timber

To Italian authorities

- Ensure the sanctions on MTE and FPJVC are being complied with by ensuring no Myanmar timber is being traded into Italy, including from third countries (e.g. Singapore)
- Use all available powers to enforce the EUTR, including maximum fines of up to €1 million for violations of the regulation's due diligence provisions
- Change the Italian implementing legislation if necessary to enable better law enforcement
- Share information with the Financial Action Task Force to ensure financial crimes can be fully investigated

To other competent authorities in the EU and UK

- Investigate whether companies in relevant member states have been complicit in violations of the EUTR (and UK Timber Regulation (UKTR))

To European Commission

- Use this information to investigate failures to enforce any laws and launch a case against any countries, including Italy, that are failing to enforce the EUTR⁷⁰

To international community

- Use this information and all available tools, including sanctions, to investigate how the timber sector is financially benefiting the military and take action against companies that are facilitating the atrocities of the junta.

Annex 1: Imports in million € of HS code 44 by all EU member states (including UK) during 2011-20

Estonia and Malta did not import any timber products from Myanmar during this period⁷¹

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Austria	-	0.003	0.056	-	0.254		0.001	-	-	-
Belgium	0.003	0.631	0.549	0.93	1.559	2.12	2.795	4.855	0.995	0.367
Croatia	0.288	0.285	0.14	0.106	0.164	0.542	0.251	1.614	4.168	1.8
Cyprus	-	-	-	-	0.002	-	-	-	-	-
Czech Republic	-	-	-	-	-	-	-	0.519	1.339	-
Denmark	-	0.247	1.058	0.874	2.016	3.442	0.269	-	0.001	0.011
Finland	-	0.073	0.257	0.259	0.423	0.989	0.944	0.442	-	-
France	-	0.088	0.127	0.874	1.906	2.309	2.103	1.636	1.736	1.365
Germany	0.104	1.887	5.607	3.515	5.951	7.058	4.489	5.074	0.092	0.047
Greece	-	-	0.001	0.122	0.205	0.218	0.444	1.345	5.652	3.042
Hungary	-	-	-	-	-	-	-	-	-	0.014
Ireland	-	-	-	-	-	0.001	0.006	-	0.001	0.009
Italy	0.001	1.324	7.377	6.726	6.864	13.244	13.834	23.324	25.09	23.826
Lithuania	-	-	-	-	-	-	0.067	-	-	-
Netherlands	-	0.267	1.419	1.231	0.866	2.913	3.955	1.296	0.152	0.145
Poland	-	-	-	0.349	0.509	0.098	0.475	1.178	0.553	1.192
Portugal	-	-	-	-	0.124	0.001	0.079	0.075	0.22	0.106
Romania	-	-	-	-	-	-	-	-	0.2	-
Slovakia	-	-	-	-	-	-	0.005	0.006	-	-
Slovenia	-	-	0.052	0.047	0.134	0.296	0.601	0.346	-	0.052
Spain	-	0.001	0.063	0.298	0.379	0.572	0.289	1.136	0.584	0.568
Sweden	-	0.171	0.314	0.538	0.449	0.896	0.786	1.787	3.238	3.43
UK	-	0.255	0.74	0.441	0.728	0.859	0.542	0.289	0.365	0.206
Total	0.396	5.232	17.76	16.31	22.533	35.558	4.855	44.922	44.386	36.18



Annex 2: Overview of HF Italy and Comilegno's shipments imported into Croatia by Viator Pula

*Not including shipping costs

	HF ITALY	HF ITALY	COMILEGNO
Departure port Yangon	Myanmar industrial port (MIP)	Asia World Port Terminal (AWPT)	Asia World Port Terminal (AWPT)
Shipment dates (dep. Yangon, arr. Croatia)	D: 22/12/2017 A: 30/01/2018	D: 25/02/2019 A: 27/03/2019	D: 21/10/2019 A: 05/12/2019
US\$ Value Yangon – (Export Declaration – ED)	45,686.98	46,775.76	67,169.86
Shipping costs \$	1,196.61	1,576.26	N/A
\$ Value Rijeka - SAD	77,118.45	66,377.37	152,208.35
Value change % (ED + shipping – SAD)	64.50%	37.30%	226.6%*
HS code Yangon	4418100030	4418	4407296900
HS code Rijeka	44072995	44072995	N/A
Estimated Special Goods Tax (SGT) avoided for export (\$)	4568.7	4677.58	N/A
Estimated Myanmar Customs Tariff (MCT) avoided (\$)	5482.44	5613.09	N/A
Overlapping ownership / management (Myanmar / Singapore)	X (KMI, Win Timber)	X (National Wood Industry (NWI), Win Timber)	X (Myanmar Rice Trading, IPL)



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