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EUROCHAM MYANMAR

Myanmar Garment Sector FACTSHEET

Prepared by EuroCham Myanmar's Garment Advocacy Group

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24 January 2022. This factsheet has been prepared by the EuroCham Myanmar's Garment Advocacy Group (GAG) to update stakeholders on the state of the sector due to COVID and the military's declaration of a state of emergency on 1st of February 2021.

The Factsheet covers the structure of the sector (including garments, footwear, and luggage), and its contribution to Myanmar's economy, including tax revenue. It also addresses the question of whether there is significant involvement of the Myanmar military in the sector.

It includes information about the situation of workers, drawing on findings from surveys of around 2000 current and former workers undertaken by the EU's SMART programme in June-September 2021.

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Methodology

The Factsheet includes information on facilities in the three industrial zones which have been identified as having some form of connection with military conglomerates, and identifies some of the brands they supply or have supplied. Information has been taken primarily from the Open Apparel Registry (OAR), and other online sources.[1] OAR data is based on published supplier lists from brands who are committed to transparency and responsible sourcing. These brands are predominantly European and North American, with a few from Japan and Australia. Since sourcing relationships in Myanmar are going through a period of significant change due to COVID-19 and the political situation, and supplier lists may be up to a year out of date, the latest information about buyer/supplier relationships has also been verified directly with brands, wherever possible, as well as with all members of the EuroCham Garment Advocacy Group.[2]

Unfortunately, the Factsheet cannot give a complete picture of the sector. There are believed to be over 150 foreign brands sourcing from Myanmar. Some brands/buyers, including some which source from the three industrial zones mentioned, do not publish supplier lists. This is particularly the case for those selling in Asian markets, and those in the shoes and luggage sector. In both of these markets, there is less focus on responsible sourcing and transparency.

Readers should therefore understand that, brands mentioned by name in this Factsheet are included because of their commitment to supplier disclosure. There are many other buyers of garments, shoes and luggage from Myanmar who are not identifiable.

This Factsheet is intended to contribute to transparency and understanding of the sector, building on existing information in the public domain. However, greater transparency about suppliers is needed from all companies sourcing from Myanmar (and in particular, all European companies) to support responsible business practices, facilitate engagement with labour organisations, prevent abuses and support remedy.[3]

Growth of the Sector and Export Markets

The Myanmar garment industry grew significantly between 2012 and 2020, driven by exports focused heavily on the European Union (particularly Germany), USA, and Japan.[4] The sector has provided job opportunities for hundreds of thousands of workers and significantly contributed to the economic development of Myanmar and reduced poverty.

Between 2012 and 2018, the value of garment exports rose by 500%, from around US$0.9 billion to US$4.6 billion by 2018. In 2019, the Myanmar apparel industry exported US$5.7 billion worth of

[1] As of January 2022, openapparel.org lists 408 facilities in Myanmar. This is an indication of facilities from which the brands committed to transparency currently, or have previously, sourced.

[2] Adidas, Amer Sports, Anita/Rosa Faia, Bestseller, C&A, Guston Amava, H&M, KappAhl, LIDL Lindex, Portwest, Primark, Sioen Myanmar and Tchibo.

[3] The Fair Wear Foundation (FWF) also publishes Myanmar facility lists for brands with whom it works (see October 2020 list). A condition for participating in the FWF Myanmar Enhanced Monitoring programme (2018) was that member brands are required to refrain from sourcing from companies with known direct links to the military, including in particular with companies that fall under the economic conglomerates owned by the army, i.e. the Myanmar Economic Corporation (MEC) and the Union of Myanmar Economic Holdings (UMEH).

[4] SMART Research Note 1/2020, April 2020

garments and a further US$1 billion of footwear and handbags, an increase of 26% on the previous year.[5]

Although many factories produce goods for multiple markets, the EU is Myanmar's single largest market, accounting for 54% of apparel products exports in 2019 (HS 61, 62, 64 and 42 product groupings). The EU ranked as the third biggest trade partner of Myanmar (after China and Thailand), accounting for 11.7% of the country's total trade. Myanmar is the EU's 67th largest trading partner (accounting for 0.1% of the EU's total trade).

In 2020 the value of Myanmar garment exports to the EU was around US$2.5 Bn (75% of value of exports to the EU from Myanmar), US$2.63 Bn if footwear and accessories, such as leather goods, handbags and travel goods are included.

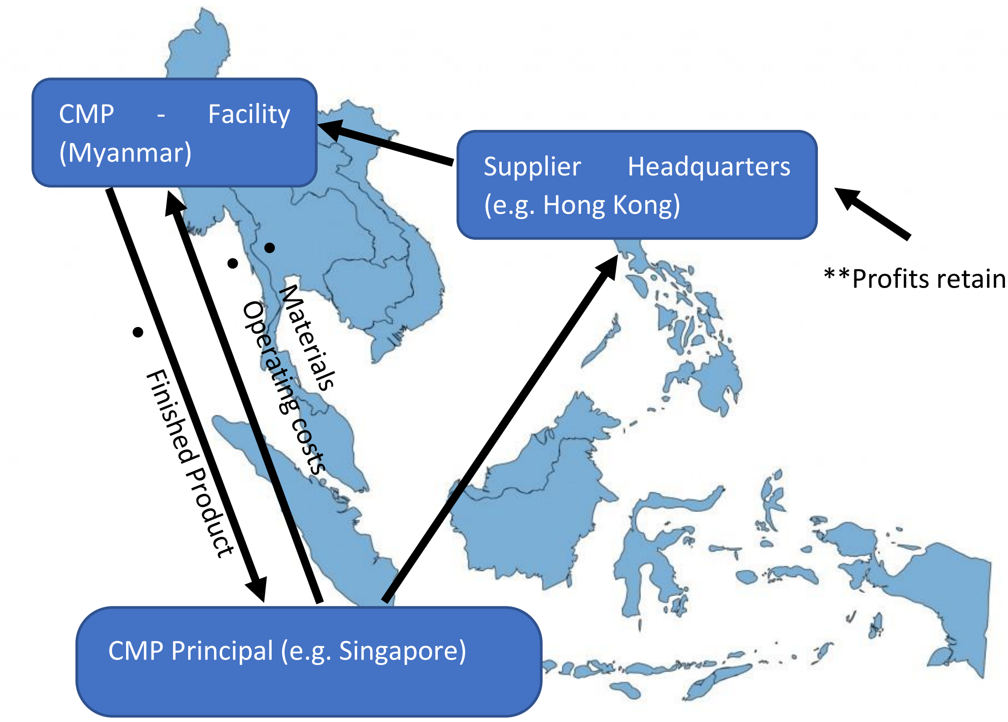
Sectoral growth has been driven by several factors, including:

- access to preferential duties through the EU GSP and the US GSP system (though US trade preferences cover only travel goods and bags) following the re instatement of EU trade preferences, the Everything but Arms (EBA) initiative. This was critical to incentivize many European brands to shift sourcing to Myanmar and develop the industry;
- comparatively low labour costs, and increasing costs in other garment-producing countries, such as Cambodia and China;
- availability of highly skilled labour for advanced goods, like quilted jackets. Myanmar has become a niche producer of performance outdoor sportswear;
- impact of Covid-19 on competitor countries like Vietnam and Bangladesh;
- initiatives in support of higher standards and better industrial relations such as the EU's SMART programme, the ILO's Decent Work Country Programme, and ACT on Living Wages.

The sector remains dominated by Cut-Make-Pack (CMP) production (see Figure 1). However, investors are taking steps to enhance vertical integration and build up more value-added production within Myanmar. The first GOTS certified cotton was grown in-country, the first zipper factory was established, some textile mills integrated with global value chains, several denim washing facilities, garment printing facilities, circular knitting factories, and a dedicated production for footwear uppers and for soles, were among the several companies for whom production was either newly established or which have expanded production.

[5] Ibid.

Figure 1 Cut-Make-Pack (CMP) model



Employment

Before the Covid-19 pandemic, the industry employed approximately 700,000 people and was Myanmar's fastest growing source of social security enrolment and decent work.[6] There have been zero major industrial accidents in Myanmar apparel industry resulting in mass injury or loss of life during the previous decade, a major achievement.[7] The sector supported thousands more jobs in logistics, transportation, accommodation, day-care, and food services.

About 90% of the employees in the garment sector are women, the majority between 18 and 23 years old. 76% of sector workers are migrants from rural Myanmar, including those affected by conflict.[8] An ILO study showed that prior to COVID, 86% of the workers sent back approximately 50% of their salaries to their relatives, redistributing income to families all over the country and making the sector a vital lifeline for many poorer, rural households.[9]

Prior to COVID, average wages in the sector were around 200,000 MMK per month, about double the average income for agricultural workers. However, the pandemic and political situation have led to extensive job losses and a deterioration in working conditions. SMART estimates that 60,000 jobs were lost prior to 1 February due to COVID, and a further 250,000 after. The Myanmar Garment Manufacturers Association (MGMA) estimates that in September 2021, the apparel sector employed approximately 480,000 workers. However, some workers are on reduced hours or furlough. Among

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[6] The concept of Decent Work has been defined by the ILO. and endorsed by the international community as "Opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity."
[7] By comparison, between Nov 2012 and March 2018 there were 73 such industrial accidents in Bangladesh apparel industry, source: Fire and Other Health and Safety Incidents in the Bangladesh Garment Sector, Solidarity Center, September 2018
[8] 76% of a sample of 27,868 apparel sector workers in the Myan Ku dataset were born outside of Yangon
[9] Weaving Gender: Challenges and opportunities for the Myanmar garment industry", p. 23 (ILO, 2018).

workers remaining in jobs, SMART estimates that about 60% work at factories which are highly dependent on European buyers.

There is growing anecdotal evidence that when European buyers exit from factories for various reasons, factories look to attract new buyers from Asian markets. Myanmar has a very low minimum wage due to a failure to increase the minimum wage since 2018. This, and the Myanmar Kyat (MMK) devaluation, make it competitive for buyers focused more on price than on living wages, labour rights, and working conditions.[10] However, these changes in the buyer profile are likely to be associated with reduced respect for workers' rights, including freedom of association.[11]

According to the survey undertaken by SMART between August-October 2021 of around 1200 current and former workers,[12] sampled from the MyanKu dataset of approximately 85,000 workers, 53% were unemployed. Only 454 (38%) remain employed in garment industry full time. Another 6% were employed part-time in the sector, and 7% in other jobs.

For many women made redundant, there are few alternatives to employment in the garment sector. In July 2021, the ILO published a rapid impact assessment of the labour market. Their estimates indicate that '*there has been a continuous deterioration in labour market conditions since the military takeover. In the first half of 2021, an estimated 14% of working hours were lost, which is equivalent to the working time of at least 2.2 million full-time workers. Compared to the fourth quarter 2020, employment contracted by an estimated 6% in the second quarter 2021, reflecting job losses of 1.2 million. Women have been more impacted by job losses than men. Critical sectors have been hard hit. In the first half of 2021, employment in construction, garments, and tourism and hospitality decreased by an estimated 35%, 31% and 25%, respectively, with even higher relative losses in working hours*'.[13]

The SMART survey in September found similarly that male workers and partners of female workers were finding it difficult to obtain jobs, but the garment sector was still seen as in a better position than others. 55% of unemployed garment workers surveyed were actively seeking a job in the garment sector.[14]

A separate survey by SMART in June 2021 of around 800 pregnant/lactating mothers, all former garment workers who were receiving transfers/food vouchers from the EU Myan Ku Fund (see below), found that 46% are already experiencing moderate to severe food insecurity, and a third had been forced to relocate due to either pandemic or military actions, creating additional stress and financial burdens. Only 1 child in 20 eats a completely adequate diet.

According to SMART's recent survey, workers who remain in work are generally facing economic hardship due to reduced take-home pay, including reduced over-time and attendance bonuses. Many workers have changed factories (the sample, which was drawn from workers previously employed by 30 factories, were found to be working in 115 factories). Although 68% have an employment contract,

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[10] At 4800 kyats ($2.50) per day or 126,000 kyats per month, it is now a third of the minimum wage in Cambodia. The rate was set in 2018 and should have been revised in 2020.

[11] See for example the current dispute at Gasan Apparel, which previously supplied several European brands who have since withdrawn, partly because of concerns about the factory's lack of respect for freedom of association.

[12] Sampled from Myan Ku dataset of approx. 85,000 sector workers. 30 factories selected; two included at which workers had never received support from Myan Ku because factories had not closed. There was randomized selection from over 20,000 workers from these firms, and 1200 were interviewed by phone. Due to job losses, survey population was discovered to now be employed by 115 factories, providing a good industry-wide sample.

[13] Employment in Myanmar since the military takeover: A rapid impact assessment, ILO Brief, July 2021

[14] Discussion with Myanmar's main sex worker organisation Sex Workers In Myanmar (SWIM) confirm that a significant number of Yangon's growing number of new sex workers previously worked in factories.

there is increased use of casual/day labour and piece-rate hiring. Workers are suffering from rising inflation caused by an approximate 50% devaluation of the Myanmar Kyat and are less able to send remittances to family members. They are also paying premiums to withdraw cash. Indebtedness is increasing, and some have sold their phones to buy food.

SMART also found that working hours are more irregular and there is increased recourse to dismissing workers for unnotified absences or other reasons. Workers are concerned about security. They generally consider COVID-19 measures in the workplace are satisfactory, less so in accommodation. On vaccination, 72% of workers, who have been surveyed by SMART, had been vaccinated, or were scheduled for vaccination.

There is reduced engagement between workers and unions, as unions have reduced activities, leaders are in hiding and some have been fired (17% reported activities were as before, 38% said they were reduced, and 45% said they had totally stopped). However, grievance mechanisms are perceived to be relatively intact, with 84% saying they could communicate grievances to employer without fear of retaliation, and 87% saying that they did not perceive violations of decent work by their employer. That said, only 71% felt confident enough in their employment status to request annual leave entitlements like before.

These findings, together with feedback from labour organisations and unions, who also report ongoing union-busting, show a mixed picture in the sector with some supplier factories operating to better standards than others. They highlight the importance of close monitoring by brands of working conditions in supplier factories, including security, pay, and respect for freedom of association and the need for rapid intervention in response to grievances. Some brands already operate hotlines or worker engagement apps, and others are considering introducing this.

Supplier Factories

MGMA records around 600 member factories as of October 2021.[15] There are also an estimated further 150 factories who are not MGMA members, producing footwear, handbags and travel goods, with several thousand workers in each factory.

The sector is dominated by Myanmar and foreign privately-owned companies. Approximately two-thirds of Myanmar's garment factories are foreign-owned, most of them Chinese (including mainland China, Hong Kong and Taiwan), Japanese and Korean, as well as some Thai and European investors. Foreign investment in the sector had grown in recent years. In the first eight months of 2020, another 63 garment factory investments were approved, almost all foreign. Foreign-owned factories also have, on average, more than twice as many employees as local companies, and are responsible for 80% of the sector's total employment.[16] Those supplying EU buyers appear to pay higher salaries and protect worker rights better.[17]

Most supplier factories are in industrial zones (IZs) in the Yangon region, and in Thilawa Special Economic Zone (SEZ). IZs were first established during the 1990s to encourage private sector investment in labour-intensive manufacturing; move industry out of residential areas; and foster industrial clusters. Most land leases for IZs in Yangon were originally entered into by individual Myanmar citizens with Department of Urban and Housing Development (DUHD). It is understood that the previous government planned to transfer these to Yangon City Development Committee (YCDC).

[15] https://www.myanmargarments.org/members-directory/
[16] https://www.eurocham-myanmar.org/uploads/af71b-garment-guide-2020.pdf
[17] Initial finding, SMART survey September 2021, to be further explored

Outside the municipalities of Yangon, Mandalay, and Naypitaw, the General Administration Department (GAD) is the only entity that can grant land leases as a 'Lease of town lands with power of Renewal in Perpetuity'.

There are around thirty IZs in the Yangon area, many of which house garment factories. There are also garment factories in IZs in Bago, Hpa-an, Kyaukse, Mandalay, Maubin, Meiktila, Myawaddy, Pakokku and Pathein.[18] Investments in areas outside Yangon Region generally attract 5- or 7-year tax holidays, rather than 3 years.

A 2020 Industrial Zone Law was intended to improve IZ planning and execution, and address speculation, where land was leased by Myanmar citizens, but then not used. It was also intended to reform and clarify the role of IZ Management Committees who are responsible for ongoing management and maintenance. Currently an individual entity (i.e., a private firm or joint venture) or a committee, including zone tenants, may manage IZs. However, the 2020 Industrial Zone Law lacks clarity and has yet to be implemented.

Fiscal Contribution

Myanmar has adopted a low-tax approach designed to attract mobile, labour-intensive industries producing for export so the garment sector is not a major contributor to state revenue. In particular:

- Export-oriented companies with a Myanmar Investment Commission (MIC) Permit are eligible under S.77c of the Myanmar Investment Law for reimbursement of customs duty or other internal taxes (e.g., Commercial Tax) or both on imported raw materials and partially manufactured goods which are used to manufacture products for export. These reimbursements would apply to the more advanced Free on Board (FOB) model of garment production not yet widely practiced in Myanmar, where the factory would buy its own material and sell finished products overseas.
- The predominant cut-make-pack structure of the sector (se) means that the Principal (usually a Chinese, Japanese, Korean manufacturing company) sends their factories in Myanmar the raw materials and is at all times the owner. The supplier factories in Myanmar provide the CMP service.[19]
    - CMP imports (raw materials or semi-finished goods used for production of export goods) and exports are exempt from Myanmar customs duties[20]
    - CMP services are exempted from Commercial Tax (5%)[21]
- There are no export taxes or licence fees imposed on garment exports

Most supplier companies pay little **corporate income tax** (25%) on profits because:

- Under the Investment Law, the Myanmar Investment Commission has granted investment tax holidays of up to seven years (now reduced to three years for investments in most parts of in Yangon Region)
- Facilities in Myanmar show little profit margin (see Figure 1), as manufacturing companies tend to book profits with the "Principal" level (usually, outside of Myanmar).
- Disruptions in the sector since the pandemic have impacted profitability.

[18] See openapparel.org and Myanmar information Management Unit (MIMU) map of Industrial Zones
[19] In the more advanced FOB model not yet widely practiced in Myanmar, the factory would buy its own material and sell finished products overseas. Such exports would be exempted from Commercial Tax
[20] https://taxsummaries.pwc.com/myanmar/corporate/tax-credits-and-incentives. Exemptions are provided by the Ministry of Commerce on the basis of an endorsement from Myanmar Garment Manufacturers Association
[21] https://taxsummaries.pwc.com/myanmar/corporate/other-taxes

Workers and resident managers of facilities in Myanmar are liable to pay **personal income tax (PIT).** However, most workers in the sector earn less than the minimum income threshold for paying PIT (4.8million MMK per year i.e., 400,000 MMK per month). For supervisors and management level, tax rates vary from 0-25% depending on salary and after deductions.[22] Some managers may not be tax-resident in Myanmar (i.e., may not spending >185 days in country).

The contribution of the sector to state revenues is therefore not significant. The most important contribution it makes to the economy is employment.

Foreign Exchange Earnings

The export value of the sector (US$6.7 billion in 2019) is sometimes confused with government foreign exchange earnings. As explained in the section on Fiscal Contribution, government revenue from the sector is not significant, compared to, for example natural resources.

The sector does, however, contribute to foreign exchange inflows into Myanmar, and therefore may have some impact on the US$/MMK exchange rate. Foreign companies in the sector bring in enough foreign exchange to exchange to MMK to cover local operating expenses, mainly salaries of Myanmar workers. Expatriate management, however, may be paid in their own country and only exchange a portion of their salary to MMK. Payments and contracts are generally likely to be handled offshore in the region, and this is also where the buyer makes the payment, and any profits are booked. Forex inflows associated with the sector are estimated to amount to less than a quarter of the export value.

Capital equipment that is imported will be sourced from and paid for overseas. It is listed as imported foreign capital in documents submitted to Myanmar Investment Commission.

Garment Factory Ownership and Connections to Myanmar's Military

Two military-owned conglomerates were featured in the UN's Independent Fact-Finding Mission report,[23] Myanmar Economic Holdings Ltd (MEHL), a public company whose shareholders are active and former members of the military, and Myanmar Economic Corporation (MEC), an enterprise owned by the Tatmadaw (army).

Factory Ownership

Apart from an early involvement in joint ventures (JV) with Daewoo in the early 1990s as part of the establishment of Pyinmabin IZ (see below), ownership of export-oriented apparel factories has never been an attractive area for activity by the Tatmadaw (army).

Amnesty International's September 2020 report[24] identified two garment factories as joint ventures between MEHL and Korean companies:

- Myanmar Inno International is a JV (Inno Co Ltd 55%: MEHL 45%) garment manufacturer specializing in outerwear. It does not appear on Open Apparel Registry which suggests that it does not supply major European brands.[25]

[22] https://www.ird.gov.mm/en/page/individual/485 For example, a salary of 1,000,000 MMK per month (without spouse or child deductions) would be liable for around 50,000 MMK income tax i.e. an effective rate of 5%.
[23] The Economic Interests of the Military, Independent Fact-Finding Mission to the UN, 2019
[24] https://www.amnesty.org/en/documents/asa16/2969/2020/en/
[25] It has not been possible to contact Myanmar Inno International who also provided little information to Amnesty International in 2020. There is no English language information about their garment factory, but the Korean language page for company's Pyinmabin facility shows brands for which it may (have) manufactured.

- Myanmar Wise-Pacific Apparel, which responded to United Nations' Independent Fact-Finding Mission (FFM) and Amnesty reports by terminating the JV with MEHL in 2020 which is now a 100% Korean owned company, Wise-Pacific Apparel Yangon Company Ltd.[26] Even prior to the imposition of EU, UK and US sanctions on MEHL after 1 February, the UN FFM report had prompted the limited number of Western brands that sourced from Wise-Pacific to exit.

However, the restructuring of the Wise-Pacific joint venture, with the exit of MEHL, mean there is only one consumer-focused garment company in Myanmar with a (minority) MEHL shareholding.[27]

The military's interest in the whole sector is therefore less than 0.1% of the approximately 750 apparel, shoes and luggage factories.

Other limited connections between the garment sector and MEC and MEHL relate to their involvement in three **industrial zones** where garment factories are located, and their presence in the **port** sector.

Industrial Zones

The UN's Independent Fact-Finding Mission report from August 2019 on the economic interests of the military identified three industrial zones in Yangon with connections to MEHL. Two of these (Pyinmabin and Inndagaw) are owned by MEHL and factories pay rent; one (Ngwe Pinlae) was developed by MEHL and tenants, in principle, pay an annual management fee to MEHL.

From an EU sanctions perspective, there is no presumption that payments available to the garment factories would violate EU sanctions. However, operators (companies) should make thorough due diligence checks to ensure their compliance obligations under applicable EU sanctions (as well as US/UK sanctions)[28]. Based on contacts with brands, a number of them had already opted to exit the limited number of supplier relationships linked to the two zones where MEHL is landlord to the factory, both prior to 1 February 2021 and subsequently.

Pyinmabin Industrial Zone (Mingaladon Township)

Pyinmabin IZ is owned by MEHL. Other than Inno (see above, the remaining MEHL JV in the garment sector), there are some garment factories established in Pyinmabin IZ which therefore pay rent to MEHL.

These include EO Yangon (see above) and TriState Trading. Dragon State (Gun Yong Trading) and New Green Land Garment Company are two other garment factories in the zone that do not appear on published supplier lists, suggesting that they produce for Asian markets. One European brand which had sourced from TriState Trading was informed by TriState that they did not pay fees to MEHL, but is investigating further.

Inndagaw Industrial Complex

Inndagaw Industrial Complex, in Bago Region, north of Yangon, is a smaller zone. The zone's land is also owned by MEHL who bought it from the Ministry of Industry (2) in 2007 and obtained a 30-year

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[26] According to the company (November 2021) and DICA extracts, Wise-Pacific Apparel Yangon Company Ltd is now a 100% Korean owned company, now called EO Yangon Co Ltd. This operates the facility in Pyinmabin IZ. There is also EO Bago which operates the facility in Inndagaw IZ. Both are owned by EO Company Ltd incorporated in Korea.

[27] The Tatmadaw owns factories producing military uniforms, but these are not relevant to the export sector.

[28] With regards to EU sanctions, more information can be found in the dedicated Commission guidelines.

grant from GAD/Home Ministry in 2016 for which they pay an annual rent. Garment sector factories, which were identified from Open Apparel Registry as EO Bago, and Amity Lingerie, then lease the land from MEHL and pay them rent, as they do at Pyinmabin.[29]

Brands whose published supplier lists showed that they had sourced from Inndagaw were contacted. All but one confirmed that, since their last supplier list, they ended orders from the zone. The remaining brand is re-evaluating their sourcing.

Ngwe Pinlae Industrial Zone (Hlangthayar Township)

MEHL does not own the land in the Ngwe Pinlae[30] Industrial Zone. MEHL was the Zone Developer for Ngwe Pinlae Industrial Zone in 2008/9. However, as in many other IZs, land was directly leased by individual Myanmar businesspeople from the Department of Urban Housing and Development on long-term renewable leases. Unless they used the plots for their own facilities, most of these individuals have either sold the leasehold to another Myanmar businessperson or leased the plot to foreign-owned factories on long-term leases. [31]

MEHL's role as Zone Developer is now to administer the zone as the Management Committee. This includes – in principle – providing maintenance, waste management and security for which the Myanmar lessee pays them an annual fee. Draft leases suggest that responsibility for payment of Zone management fees usually stays with the original Myanmar lessee (i.e., the Myanmar individual leasing to the foreign investor).

Some due diligence has identified fees as having been paid to the Management Committee while some has not.[32] This inconsistency may reflect the factory not being aware of or involved in payment of Zone Management fees, as they are usually the Myanmar landlord's responsibility. There may also be inconsistencies if the current Myanmar landlord from whom the factory has rented the land is not actually the registered owner according to DUHD. This may occur if the landlord failed to register their purchase of the IZ plot lease with DUHD, possibly to avoid paying the relevant land registration fees and taxes.[33] Tenants may default on paying fees, as happens in some other IZs, particularly if they consider the respective IZ Developer/Management Committee is not providing services. Enforcement powers against default are weak. The new Industrial Zones Law is intended to address some of these problems.

It should also be noted that even if the approximately 20 factories in the IZ paid US$400 per annum to MEHL, this would only amount to US$8,000 per annum for the entire zone. Such a sum would be unlikely to cover costs of providing the services which MEHL are meant to provide. Running the IZ is therefore unlikely to represent a material revenue stream for MEHL and may even be loss-making.

Most factories in Ngwe Pinlae IZ are large, new facilities, which at full capacity would employ around 25,000 workers in total. Nine facilities appear in the Open Apparel Registry (OAR), indicating that they supply, or have in the past supplied, to brands committed to supplier transparency. They undoubtedly

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[29] See MEHL letter of March 2017, and Home Ministry letter of 8 April 2016 in the MIC Files documents concerning Amity Lingerie Factory. Amity signed a 50-year lease with MEHL in 2017 for a 12,582sqm (3.1 acre) site at $117,040 p.a.

[30] Meaning Silver Sea, and variously spelt Ngwe Pinlae, Ngwe Pinlae and other alternatives

[31] Foreign investors need to obtain an Endorsement from Myanmar Investment Commission (MIC) for leases of more than a year. See for example documents submitted to MIC related to Guotai Guohua Factory (plot 48), and Golden Tri-Light Bags Factory (plot 4)

[32] A letter from H&M to the UN Fact Finding Mission identified an annual payment by one tenant of 400 USD. Due diligence by Bestseller concerning their (different) suppliers found no evidence that they made any payments.

[33] Research for this Factsheet turned up at least one example of this.

have other, unidentifiable, buyers. There are at least a further nine garment and luggage factories in Ngwe Pinlae IZ which are not included in the OAR. The buyers from these factories are not known, although some luggage manufacturers appear to serve the US market.[34]

Brands, whose published supplier lists showed that they had sourced from Ngwe Pinlae, were contacted. All but four brands confirmed, that they exited the zone by the end of 2021. Remaining brands indicated that they reviewing their presence in the IZ or preparing for exit. Those that are exiting are trying to do this responsibly by switching sourcing and jobs/workers to other production facilities in Yangon, including with the same supplier, where possible. They are also instructing factories not to pay the zone management fee (however as noted above, the landholder, rather than the factory, is generally liable for this).[35]

However, there is a risk that exit by Western brands from Ngwe Pinlae may result in job losses which, in the current situation, will not be able to be absorbed in other factories outside of the zone. Alternatively, if new buyers step in, working conditions may deteriorate even if jobs are saved.

Furthermore, the exit of brands will have no impact on income for the military or MEHL to whom landholders would continue to be responsible to pay the management fee, even in the absence of any operations or lease to a factory investor. There are currently no buyers for the plots in the zone, due to the economic and political situation in Myanmar, and the reputation risk of the link to MEHL.

The best solution for both landholders and factories in the IZ would be for MEHL to exit all involvement in the zone, and for a new Management Committee to be established. This might foreshadow the arrangements intended under the 2020 Industrial Zones Law.

Ports

Of the six main ocean container terminals in Yangon city, four are on land with connection to the military conglomerates MEC and MEHL. MEC-connected ports include Ahlone International Port Terminal 1 and the planned Terminal 2 (from which Adani recently withdrew).[36] MEHL ports are the Bo Aung Kyaw Terminal/TMT Port, Container Transport and Port Clearance Yard (Ywama), and Hteedan Port (Kyeemyindine). Not all of these are suitable for shipping companies committed to international safety standards.

Within Yangon City, Myanmar Industrial Port (MIP) and Asia World Port Terminal are the two container ports not connected to the two military conglomerates.

Further downstream, Thilawa port close to the Special Economic Zone has two container terminals, neither of them connected to MEC or MEHL. These are Myanmar International Terminal Thilawa (MITT), owned by Hutchison Port Holdings and operated by the private Hong Kong-based Myanmar International Terminal Thilawa company, and Thilawa Multipurpose International Terminal (TMIT), a new terminal with mainly Japanese shareholders that became operational in May 2019.[37]

[34] Source: shipping documents e.g. importgenius.com
[35] See for example Bestseller announcement, May 2021
[36] India's Adani Ports scraps Myanmar container terminal plans, Reuters, 27 October 2021
[37] https://www.kamigumi.co.jp/english/news/2019/000193.html

MAERSK, which transports around 70% of all garments cargo, decided in 2020 to consolidate all Myanmar-bound port calls at the Myanmar International Terminal Thilawa (MITT) and Myanmar Industrial Port (MIP) terminals, neither of which is owned by the military.[38]

Initiatives to Improve the Sustainability of the Garment Sector, and Support Workers

Several initiatives have been pursued in the garment sector to improve social, environmental and safety standards in supplier factories, and to build skills of workers, and strengthen industrial relations. These include:

- SMART Myanmar, funded by the European Union and co-funded by private sector partners (brands, retailers and factories). This aims at improving working conditions, promoting labour and environmental standards and reducing labour right abuses in the textile and garment industry.

- The first ILO Decent Work Country Programme Myanmar 2018-2021 created through a Tripartite Dialogue process whose objectives were:
    - To generate employment and decent work as well as sustainable entrepreneurship opportunities to all, including for vulnerable populations affected by conflict and disaster;
    - To strengthen the application of Fundamental Principles and Rights at Work through improved labour market governance. The ILO's long-standing work for the elimination of forced labour will remain a core component of the plan;
    - To progressively extend social protection coverage especially for vulnerable workers and populations, and develop a comprehensive national system for occupational safety and health;

- The ILO's Vision Zero Fund (Phase I and Phase II 2020-23) which strives to realize the goal of zero work-related fatalities and severe injuries and diseases, by improving occupational safety and health practices and conditions in the garment and ginger supply chains.
- Improving Labour Relations for Decent Work and Sustainable Development in the Myanmar Garment Industry (ILO – GIP) (2016-2020), funded by Sweden, H&M and M&S which aimed to reduce poverty and contribute to the empowerment of Myanmar women working in the garment industry by improving labour relations, social dialogue and gender equality.
- The Aung Myin Hmu Skills Training Centre for migrant workers in the garment sector funded by LIFT and implemented by CARE Myanmar.
- GIZ programme on Promoting Sustainability in the Textile and Garment Industry in Asia (FABRIC).
- During COVID, to support workers who have lost their jobs, and to supplement the support they receive from Myanmar's Social Security Fund, the European Union's Nexus Response for Myanmar established the Myan Ku Fund in April 2020. The initiative is funded by the EU and implemented by the United Nations Office of Project Services (UNOPS) and sequa's SMART Textile & Garments project staff. 70,000 beneficiaries have directly benefited from the 10 million EUR Myan Ku support programme, with 140,000 support payments already issued to workers in crisis by mid-2021, with payment sizes ranging from 25,000 MMK up to 150,000 MMK, remitted via mobile money. In addition to cash transfers, a team of doctors and

[38] Shipping Giant Maersk to Stop Using Military Ports in Burma, Burma Campaign, 8 October 2020

nutritionists provide tele counselling for pregnant and lactating mothers, and other mothers with young children, on healthy diet and nutrition. In addition, the European brands sourcing from Myanmar contributed US$245,000 to food voucher programme for the garment workers implemented in cooperation with Myan Ku.

These programmes have been funded by development partners and companies. However, to be sustainable they need to be supported by ongoing access to markets which place a value on garments, apparel and luggage produced to international standards.

Additionally, the ACT on Living Wages initiative has brought together employers and trade unions engaged in Myanmar's garment sector and addressed a number of challenges related to Freedom of Association, and impacts of COVID on the sector, reaching agreements on how the industry should act responsibly.

ACT ceased its Myanmar work in November 2021, after IndustriALL and its affiliated union, the Industrial Workers Federation of Myanmar (IWFM) decided to withdraw from the platform, citing that "they are no longer able to operate freely under current circumstances". However, ACT member brands and members of the EuroCham GAG remain committed to protecting workers rights and to working collaboratively as well as individually to follow up and investigate any alleged violations of rights at suppliers.

Conclusion

The EuroCham Garments Advocacy Group believes that is entirely possible to source and ship garments – and other commodities and manufactured products - from Myanmar without interaction with the military-owned conglomerates MEC and MEHL.

Furthermore, the data above shows that garments, footwear and baggage is not a sector from which the military derives significant income. MEHL has a minority ownership interest in only one factory out of 750 in the sector, and this one factory (Myanmar Inno) does not supply any brand which is a member of EuroCham and/or publishes its supplier lists.

To the extent that MEHL derives any material income from the garment sector, this is due to rent from around seven garment factories in the two Industrial Zones that it owns, Pyinmabin and Inndagaw. Most identifiable brands have avoided or exited these factories. The few that still have relationships are reviewing these, taking into account any impact of sanctions on MEHL, as well as the employment impacts of exiting. If relationships are terminated, they will seek to do so responsibly.

The third zone Ngwe Pinlae IZ, which is only managed by MEHL, does not constitute material income for MEHL, since the sum total of management fees which MEHL is able to collect from Myanmar leaseholders in the zone with garment, shoes and luggage factories is likely to total less than US$8,000 per annum. Many brands have exited this zone because of the reputational risk, but their exit has had no impact on MEHL income.

Due to its structure the garment sector is also not a significant source of tax revenue for the military, but it is a very significant source of formal employment, particularly for women (estimated at around 10% of Myanmar's female workforce).

In the current situation, it is more essential than ever that all those who source from Myanmar focus on ensuring decent work including safety, a living wage, and freedom of association for all workers, including women who represent the vast majority of workers. EuroCham members are committed to this, and to working with like-minded actors in the sector who share our commitment.

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