**WEEKLY NEWSLETTER (MYANMAR)**

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## 1.1 ONSHORE PETROLEUM DEALS HIT ANOTHER DELAY

**Regional approval is holding up the signing of the agreements to govern onshore petroleum searches and production, according to government officials.**

Myanmar announced 16 winners of onshore petroleum blocks in October 2013, but after 10 months the winning companies and Ministry of Energy (MOE) still have not signed the Production Sharing Contracts (PSC) and Improved Petroleum Recovery agreements necessary for work to begin on the blocks.

The ministry had previously aimed to have the process wrapped up in June, a deadline which has come and gone.

“The contracts for the onshore blocks are going to be signed at the end of month,” said U Win Maw, deputy director general of MOE’s Energy Planning Department, last week. “If not, it cannot be later than early August.”

The process has been delayed as the agreements require regional approval after getting the green light from the Myanmar Investment Commission and the cabinet, he said.

There are a total of 10 PSCs and three Improved Petroleum Recovery agreements waiting to be signed in the first stage.

International companies that won rights to two blocks include ONGC Videsh from India, Eni from Italy, Malaysia’s state-owned Petronas Carigali, Canada’s Pacific Hunt Energy, Petroleum Exploration (PVT) from Pakistan and MPRL from the British Virgin Islands. Meanwhile, Brunei’s National Petroleum, CAOG from Luxembourg, JSOC from Russia and and Thailand’s PTTEP each won a single block.

The international firms must have at least one local partner for onshore work. They include Machinery Solution, MPEP, Parami, UNOG, Young Investment Group, IGE, Apex GEO, Sun Apex and Win Precious were all been selected as local partners.

## 2.1 PRICES BUCK TREND AROUND KYAUKPHYU SEZ

**Land prices around the Kyaukphyu SEZ have not risen much to date, bucking a trend that has seen property prices near prominent developments like Thilawa and the planned Hanthawaddy airport increase rapidly.**

Rakhine State Minister for National Planning and Economic Development U Maung San Shwe said that land prices have barely increased, despite some residents claiming prices have quadrupled in recent months.

"I haven't heard anything about land prices getting higher there," he said.

Businesspeople also claimed to have seen little increase in prices, despite an anticipated flurry of development at the site.

Prominent local lawyer U Aung Kyaw Nyunt, who lives in the Kyaukphyu area, said local prices have risen and are more volatile than before the announcement of the project, but still there is nothing like the speculation frenzy that has taken place around other projects.

"Land prices are just a little unstable, though they are at their highest so far," he said.

There are at least three other industrial zone projects planned for Rakhine State, but they are similarly having little knock-on effect, according to some.

Golden Land Development Public Company executive director U Phoe Cho said that land prices around Ponna Gyun industrial zone are also in check. Golden Land will develop on the Ponna Gyun project.

Officials hope to build much of the Kyaukphyu and Ponna Gyun zones in the 2014-15 financial year, with two other industrial zones slated for possible future development. The first phase of Kyaukphyu is set for a completion in March 2015.

## 3.1 CHINA LOBBIES TO LEGALISE RICE TRADE

**Chinese officials are pushing Myanmar businesses to lobby the government to legalise the bilateral rice trade, according to officials from the Myanmar Rice Federation.**

The world's most populous nation is increasing its imports of Myanmar rice each year, but from Beijing's point of view the imports are illegal as there is no sanitary and phyto-sanitary agreement on rice standards between the two countries.

China's commercial attaché at its Yangon embassy visited the Myanmar Rice Federation's (MRF) office on July 14 to ask the organisation to push for an agreement, said MRF joint secretary U Lu Maw Myint Maung.

"The Chinese side wants to make the market official, from being illegal," he said. "But the Myanmar side needs to meet the requirements to make the market official."

Informal border rice exports to China reached 747,000 tonnes in 2013, about 60 percent of the 1.28 million tonnes exported in the year. In 2011, there were only 6000 tonnes in rice export to China, according to a June report by the World Bank.

Myanmar rice traders have said they are aiming to capitalise on growing demand in China, particularly as Beijing's relationship sours with Vietnam over the South China Sea. Vietnam is one of the largest exporters to China.

Although exports to China are legal from Myanmar's point of view, Beijing requires a sanitary and phyto-sanitary agreement guaranteeing health standards. Cambodia signed a similar agreement with China in 2010, which allows the country to export officially, but requires its milled exports to follow Chinese plant quarantine rules, including being certified free from particular pests through a third-party inspection.

U Lu Maw Myint Maung said that Myanmar will need to ensure its rice exports do not have disease or pests as part of an agreement with China.

Experts have highlighted the need to formalise a sanitary and phyto-sanitary agreement with the People's Republic to grow the industry.

World Bank agricultural economist Sergiy Zorya told The Myanmar Times in an exclusive interview last month that Myanmar needs to meet Chinese standards to sign an agreement. He added that Vietnam is a "very price competitive seller" to the world's most populous nation, and China will likely think pragmatically about where it imports from, particularly if prices for the staple crop rise.

Still, some private sector officials expressed frustration there is no deal.

The Myanmar government has said for two years they are trying to get an agreement with China, but "there is no tangible result," said U Soe Tun, another joint secretary at MRF.

"One ministry always says that another ministry has responsibility for the issue. The Chinese side has now approached Myanmar's private sector to urge the government to take responsibility," he said, adding the Ministry of Irrigation and Agriculture is responsible.

While officials from that ministry were not available for comment, Commerce Ministry economic advisor U Maung Aung said that ministry has been negotiating with Chinese officials on the issue directly since last year.

Legalising rice exports requires not just negotiating with Beijing officials, but also provincial officials as they often have different rules, he said.

"The [Myanmar] minister of commerce himself has negotiated to make the rice market with China official," he said.

MRF chair U Chit Khaing told The Myanmar Times that the MRF is urging the Ministry of Agriculture and Irrigation to negotiate with Chinese officials to legalise the market.

Chinese embassy officials had not returned a request for comment as of press time.

## 4.1 CUSTOMS SEIZE US$400,000 WORTH IN ILLEGAL GOODS

**Customs department officials have reported confiscating US$400,000 worth in illegally imported goods, including mobile phones, alcohol and other consumer goods.**

The volume represents what customs have managed to seize in illegal shipments over the month of June from various sea ports, land borders and airports.

“While investigating a box labelled Medicine 5 sent from a foreign country we found an extra 1,728 packs of Sunlife Multivitamins. Also in a car driving from Myawady to Yangon, nearly US$5,000 worth of beer cases was seized,” said a customs official.

In May, over US$800,000 worth items like mobile handsets, jade jewelries and consumer goods were seized by customs from entering the country.

Though the number of mobile phone users is growing, very few imported handsets pay duty tax and most of them are imported illegally, according to sources from the Ministry of Commerce.

## 4.2 MYANMAR'S GARMENT INDUSTRY IS POISED TO SURGE

**Myanmar’s garment industry is expected to receive US$4 billion in foreign investment this year, following three consecutive year’s of record-breaking growth as the industry poises itself to become a major playing the global garment supply chain, officials and industry executives say.**

Aung Naing Oo, secretary of the newly revamped Myanmar Investment Commission, forecast that $4 billion of investment would flow into the labour-intensive industry this fiscal year, adding that it and the telecom sector were seeing the swiftest rise in foreign investment.

Khine Khine New, a joint secretary general of the country’s largest business association – the Union of Myanmar Federation of Chambers of Commerce and Industry – agreed, saying foreign investors had identified the telecoms and the garment industry as having immense potential for growth.

Khine Khine New, who is also secretary general of the Garment Manufacturers Association of Myanmar, said the garment production was the fastest growing sector in the manufacturing industry last year.

Total investment in the sector shot up from US$300 million fiscal 2011-12 to $1.9 billion in fiscal 2012-13 and $4.1 billion in the last fiscal year, she said. She also said that most factories were cutting, making and packing (CMP) suppliers.

Should the industry receive $4 billion in investment this year it will double in size. Khine said Khine New said foreign investment was widening, from predominantly South Korean investors to investment from mainland China and Japanese firms.

Industry analysts have said that garment manufacturing is shifting from China to Southeast Asia, and Bangladesh, due to rising costs in China and labour shortages. Vietnam and Cambodia have been the prime beneficiaries of this shift in Southeast Asia, but rising labour costs and concerns over red tape in Vietnam, as well as more than a year of sometimes fatal labour unrest in Cambodia, have global buyers looking at Myanmar as a fresh production hub.

Myanmar also allows 100 per cent foreign investment in the garment industry, as well as joint ventures with existing manufacturers and potential ones.

Khine Khine New said exports were increasing to the European Union, Japan and the United States, with shipments to the US beginning only last year.

US-based retailer Gap announced in June that it had begun production in Myanmar at two factories on the outskirts of Yangon. It is producing vests and jackets for the company's Old Navy and Banana Republic brands.

The EU's inclusion of Myanmar in its Generalised Scheme of Preferences last year also allows Myanmar garments and footwear unfettered access to the world's largest market. The EU imposes no quotas or tariffs on all goods made in Myanmar except for weapons and ammunition.

This incentive could also draw manufacturers from Thailand to set up factories in Myanmar, industry analysts say.

## 4.3 INSURANCE FIRMS TO OPERATE SPECIAL ECONOMIC ZONES

**Foreign and local insurance companies have been invited to do business in three ongoing special economic zones – Thilawa SEZ, Kyaukpyu SEZ, Dawei SEZ, according to an official from Myanma Insurance.**

The insurance firms will be permitted when they are in line with the rules and regulations which are yet under mapped. The exact date to kick off the very first foreign insurance business that covers SEZs is still up in the air.

At present, the foreign insurance firms are allowed to open representative offices in Myanmar.

Myanma Insurance given the go ahead to local private insurance firms since 2013, covering six sorts of insurance – life, fire, money transfer, cash security, comprehensive car insurance and fidelity insurance, practised only in Myanmar.

## 4.4 CHINESE BUY UP LAND CLOSE TO MINES IN KYAIN SEIKGYI

**Chinese buyers have been offering up to 30 times the going rate for plots of land in Kyain Seikgyi Township, southern Kayin State, according to local residents.**

The remote rural area in lower Myanmar is reportedly close to antimony deposits located between Tadaoo and Chaungwa villages, a lucrative metal used as a hardening alloy for lead, especially storage batteries and cable sheaths.

“I heard they [Chinese] buy the land under the names of local people. I don't know exactly. There are about 50 antimony mines in Kyain Seikgyi region. Many Chinese people do this business,” said one local farmer from the area.

Land in Kyain Seikgyi usually sells for between Ks 500,000 (US$500) and Ks 600,000 ($600) per plot of land but Chinese buyers are now paying up to 30 times the market price.

Some have offered between Ks 15 million ($15,000) to 20 million ($20,000) per plot based purely on its location in the Kyain Seikgyi area. There are rubber plantations on some of the land but most of it is vacant.

The new Chinese owners have opened shops and restaurants on the land.

## 4.5 JAPAN SEEKS OPPORTUNITY IN DAWEI SEZ

**Japanese officials from the ministry of economy, trade and industry met with the committee chairperson of the Dawei Special Economic Zone on July 20 to discuss investing in the project.**

The Dawei Special Economic Zone project was to be carried out by the Italian-Thai Development Plc (ITD) but was halted after the company sought more international backing and financing.

“The Japanese government intends to invest in the Dawei SEZ project. The meeting was about current situation of the project,” said a high ranking official for the ministry of rail transportation.

The ninth bilateral meeting between Myanmar and Thailand was held in Nay Pyi Taw from July 8 to 9 and focused on how to restart the Dawei Special Economic Zone Project.

A draft due diligence assessment by ITD was presented at the meeting, so as to help international investors and developers see what parts of the project needed more financing .

Last December, the Myanmar Ports Authority told a press conference that ITD could not manage the entire project by itself and halted the project implementation pending further negotiations.

## 4.6 MPT TO BEGIN SELLING UNLIMITED SIM CARDS

**The state-owned Myanmar Post and Telecommunications (MPT) said it will start selling unlimited SIM cards rather than a limited number by lucky draw, according to senior managers.**

MPT has signed MoU with KDDI Corporation from Japan to compete with overseas telecommunication companies and provide enhanced mobile services.

“We are planning to change the sale plan of CDMA 800 MHz and GSM SIM cards. When we have finished making arrangements, we will announce the time to start it,” said General Manager Khin Maung Tun from MPT.

Foreign telecomm operators Ooredoo and Telenor have announced that they will begin selling SIM cards in August and September. MPT is currently the sole mobile operator in the country but still plans to compete with private operators to provide upgraded mobile services.

MPT started to sell low-cost SIM cards in April 2013 however was only able to provide a limited number of cards which it distributed through a lottery system. So far more than 8.8 million SIM cards have been sold out.

## 4.7 OTC STOCK MARKET FOR THILAWA SEZ TO OPEN

**The over-the-counter stock market for Thilawa Special Economic Zone will be launched later this year according to the chairperson of the Thilawa SEZ.**

“The counters will open at public areas for easy access to information and inquiry. The counters are opened to sell shares because there is no stock market yet. We will expand the market depending on the demand. Once the stock market is established, counters may not be needed,” Win Aung, the chairperson said.

The share sales began on March 3 through dealers, responding to a high demand. The share price starts at Ks 10,000. Anyone can buy up to 500 shares worth Ks 5 million. If buyers wish to buy more than 500 shares, they may have to go through ratio allocation system.

Win Aung said that there will be two benefits for trading shares: one is dividend payment and the other is market value which means the shareholders can buy and sell shares at any time.

## 4.8 SCG INVESTS US$ 400 MILLION TO BUILD CEMENT FACTORY

**Thailand's Siam Cement Group is investing $ 400 million to construct the cement factory in Mawlamyine, Mon State.**

The construction of the factory is expected to complete in the middle of 2016.

"The priority we are focusing this moment is to manufacture cement and later cement related products such as ready mixed concrete and precast concrete blocks," saidKanTrakulhoon, SCG president and CEO.

"Myanmar seems developing progressively and infrastructures are needed so cement market will be good. The investments made in industry and housing construction sectors are increasing especially in major cities – Yangon, Mandalay and Nay Pyi Taw," he said.

He added that the cement factory will be using Waste to Energy system – electricity or/and heat from incineration of waste and conservation of greenhouse effect. A total of 1.8 million volume of cement are expected to manufacture annually.

SCG has been in Myanmar for more than 20 years and its affiliate, the first ready mixed concrete company Myanmar CPAC Service was established in 1996.

## 4.9 SMUGGLED CIGARETTES, ALCOHOL BEAT THE BAN

**Fake or untaxed alcohol and tobacco products are flooding the market as the Ministry of Commerce and importers face an impasse over planned import reform, industry sources say.**

The Internal Revenue Department announced early this month that it would crackdown on untaxed, illegally imported and sometimes fake goods that are freely available at wholesale markets such as Yuzana Plaza and Mingalar Market.

Minister for Commerce U Win Myint promised traders that they would be allowed to legally import wine, alcoholic beverages and tobacco products during a series of meetings in late June with companies such as City Mart, Gamone Pwint, Star Mart, Sein Gay Har and others. The minister also told importers that tax and duty rates would be adjusted, although he did not say when this would happen.

Director for Illegal Trade Prevention and Supervision Control Committee U Tin Ye Win said the ministry will give permission to import as soon as importers accept two conditions: that they would take responsibility to pay the duties owed on goods already imported and in warehouses, and whether they would fully comply with the new tax policy when it is introduced.

U Tin Ye Win said the ministry hopes to encourage the biggest importers to form an agreement to import specific brands, with shipments logged and coded, to allow the authorities to easily pinpoint fake products and tax evaders.

“None of the big importers have agreed to this policy,” he said, “even though they say they want import tax reform urgently.”

“Smaller dealers also want import licences because they want to import products, but in small batches, not for the whole market,” he added.

The Myanmar Times was unable to reach the Myanmar Retailers Association for comment.

U Tin Ye Win said the ministry is also wary of fast reform, stating that importers had exploited the easing of import restrictions for items such as seasoning powders and motorcycles two years ago.

He said importers had swiftly flooded the market with smuggled goods and few had paid tax.

The alcohol and tobacco impasse developed in spectacular fashion in late 2013, with raids conducted on Premium Distribution and Quarto Products – two of the best-known importers and suppliers. Since then, the government has not provided new licenses for liquor shops or suppliers following an outcry in parliament over the profusion of liquor shops in major cities. The Ministry of Home Affairs also increased annual licence fees by nearly 50 percent early this year.

The tightening of the liquor sale and distribution market produced familiar results, said U Tin Ye Win.

“We saw negotiations for the sale of liquor distribution licences,” he said.

U Zaw Moe Win, a spokesperson for the Myanmar Liquor Association, said even though the association does not oppose liquor import reform, it wants local manufacturers, who cannot easily avoid paying tax, to operate on a level plain.

Customs duties for imported alcohol stand at about 40pc, while the Internal Revenue Department also levies a tax. However, officials from the Ministry of Finance and Ministry of Commerce have said they are looking at adjusting taxes in line with other ASEAN countries.

The association has already proposed that imported liquor be sold for no less than US$6 a bottle, while local producers should raise their prices to K5000 a bottle, he said.

"We don't oppose imports as some people think we do but we just want the market to be monitored closely," he said.

U Zaw Moe Win added that some small producers make fake products by buying empty bottles from restaurants, filling them with locally made liquor, and applying stickers, corks or lids from Thailand and China to complete the forgery. "These fakes just bottle the goods at home and sell the bottles to liquor shops that put profit ahead of genuine products," he said.

The most common fakes are scotch whiskys: Johnny Walker Red, Black and Blue Label bottles, as well as High Commissioner. He said genuine High Commissioner should sell at wholesale for about K5000 a bottle, while the fake is K3500, and genuine retails near K7000, he added.

## 4.10 CHANGE IN OWNERS AS U TAY ZA SAID TO EXIT AGD BANK

**Several prominent businesspeople have bought or sold stakes in Asia Green Development (AGD) Bank, as it prepares for listing on the planned Yangon Stock Exchange in 2015.**

Up to 60 percent of the bank could have changed hands, with prominent entrepreneur U Tay Za and his Htoo Group of Companies severing direct ownership ties with the bank, say insiders.

There are about 15 large shareholders in AGD at present, with the previous largest shareholder selling his shares to four or five people in recent months – including well-known businessperson U Kyaw Ne Win, said Asia Green Development executive director U Soe Thein.

U Kyaw Ne Win is the grandson of U Ne Win, the former head of the junta government from 1962 to 1981, and chair of the ruling party until 1988.

U Soe Thein said U Kyaw Ne Win purchased 1.5pc of the firm, while a number of other businesspeople including the owner of Mikko Coffee bought in.

However, U Kyaw Ne Win told The Myanmar Times he had purchased 60pc of AGD last month through his Omni Focus company, adding other friends had invested as well.

"I bought shares and entered the banking business because I would like to support the poverty reduction goals of president U Thein Sein," he said.

"The best way to support his reform is to invest in the banking sector. I have a clear focus on making the banking business better," he added.

U Tay Za has been prominently associated with AGD since its founding in 2010, though U Soe Thein claimed the entrepreneur and his Htoo Group of Companies are no longer on the shareholders list. U Soe Thein added that the changes in ownership were routine, and public attention has been drawn as the people involved are well-known public figures.

the new and former owners are prominent businesspeople in Myanmar.

Htoo Group officials were not immediately available for further comment. U Tay Za and his associated companies – including AGD – are on the US blacklist, though restrictions against doing business with AGD and three other banks were largely lifted by a United States general licence issued on February 22, 2013.

An official at the Central Bank of Myanmar requesting anonymity said he was not in a position to confirm or deny U Tay Za withdrawing from AGD, but added that share sales above a specific percentage and changes to chairs and boards of directors at banks must be reported to the Central Bank. The Central Bank may intervene in specific cases, he added.

AGD is preparing to list on the Yangon Stock Exchange, which is slated to start in October 2015. AGD is one of two public companies, along with Myanmar Agribusiness Public Company, that have declared intentions to list in 2015.

U Soe Thein said the bank is currently searching for a legal firm to help guide it through the process, and is already buying shares to help it through the process.

AGD was granted a licence in 2010 at about the same time as three other banks.