

Myanmar Newsletter, April 2014

Delegation of German Industry and Commerce in Myanmar

German Federal President Gauck has officially opened the Delegation of German Industry and Commerce on 11 February. The ceremony has taken place during the First German Myanmar Business Forum, attended by more than 150 representatives of German business and some 250 Myanmar counterparts.



Federal President Joachim Gauck launches the Delegation office together with UMFCCI President U Win Aung, Delegate of German Business Monika Staerk, Honorary President of DIHK Ludwig Georg Braun and State Secretary Brigitte Zypries (Ministry of Economic Affairs and Energy) (from left to right, copyright UMFCCI)

Now let's get to work! The Delegation Office already handles a number of inquiries from German companies and prepares delegation visits. From this month on we would like to inform all businesses and institutions interested in the Asian newcomer market about recent developments. Your suggestions on topics to be covered are most welcome. Please contact us at any time for more detailed information on any issue of interest for you!

Best regards

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US Sanctions

While EU sanctions have been lifted since April 2013, the US still maintains restrictive measures. The list of Specially Designated Nationals held by the US Treasury Department's Office of Foreign Assets Control (OFAC) is of special relevance for German companies with regards to reputational and compliance issues. In a recent interview with Irrawaddy Magazine, Eric Rose, lead director of the American law firm Herzfeld Ruben Meyer and Rose, announced there might be some changes on the list, saying „there have been indications that, for the first time, OFAC will consider favorably the receipt of applications for de-listing from a number of Myanmar SDNs, and several have already applied.“ We will keep you posted. President Obama is said to visit Myanmar again later this year.

EU Myanmar Investment Protection Agreement

During a visit in March 2014, EU Commissioner for Trade Karel de Gucht launched negotiations on a EU Myanmar Investment Protection Agreement. Objectives from the EU side are: Protection against discrimination, Protection against expropriation without compensation, Protection against unfair and inequitable treatment and Protection for the possibility to transfer capital. While the EU statement highlights that “the investment agreement will not interfere with the right of the state to regulate to pursue public policy objectives and to work for the development of the country and its people, as a balance between the right to regulate and to pursue legitimate public policy objectives and the need to protect investors will be ensured“, in Myanmar media concerns have been voiced that government authorities might not be able to deal with the workload of dispute resolution potentially arising from policy changes in the still developing framework of economic regulations. 78 Myanmar Civil Society organizations have voiced their concerns regarding the investor state dispute settlement system, local media report.

Economic Development

ADB's recent Asian Development Outlook GDP growth estimates for 2013/2014 is 7.5% with 7.8% to be expected for the two following years. The Government's growth expectation for 2014/2015 is as high as 9.1%. At the same time, ADB sees inflation at the rise with 5.8% in 2013/14 and 6.6% in 2014/2015. According to the ADB, the Myanmar Kyat has depreciated by 11% since April 2013.

2014/2015 Budget

The Myanmar Parliament has approved the budget for FY 2014/2015, with total spending of 19.3 trillion MMK and a deficit of 2.7 trillion MMK (4.16 % of GDP). 12% of spending goes to military (19.2% in 2011/2012), while expenditure for education and health amounts to 6 and 3% only.

Trade and Investment Statistics

German Myanmar Bilateral Trade in 2013 reached a volume of 182.4 mio EUR with German exports increasing by 20.6% to 126.6 mio EUR and German imports increasing by 24.9% to 55.8 mio EUR. EU trade in 2013 recorded even stronger growth with an overall volume of 569 Mio EUR (+41%) and exports rising to 346 mio EUR (+45% yoy), EU imports to 223 mio EUR (+35% yoy). While official statistics of Myanmar trade in the financial year 2013/2014 have not yet been published, an overall volume of 25 bn USD is expected. Exports of seafood will see a decline due to limited funding for local investment. Exports of timber are expected to have risen considerably before the export ban for logs effective from 1 April 2014. That same date a ban on foreign fishing will come into effect to prevent further overfishing. Sales of fishing permits to foreign boats are said to have earned the government some 12 mio USD in 2012/2013.

SEZs

While the development of the planned SEZs in Dawei and Kyaukphyu stalls partly due to open questions of funding, the Thilawa SEZ near Yangon, developed by a Myanmar-Japanese JV, is making steady progress. The first phase (400 ha of altogether 2.400) is expected to be into operation by end of 2015. According to the Thilawa SEZ Public Company proposals for 70% of the available plots have already been submitted.

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Development cost for the first phase is estimated at 180 mio USD. In March, a new SEZ Law has come into effect. It regulates land rights and tax incentives for production within an exempted zone (for export only) and in a promotional zone (for domestic market). Both options are possible within an SEZ, production in a promotional zone is required to predominantly use local content.

Oil and Gas

In March 2014 30 years licenses for 20 offshore and onshore oil exploration blocks have been awarded to international bidders: BG, Chevron Unocal, Woodside Energy, Oil India, ROC Oil, Bertanga, Transcontinental Group, Reliance Industries, Oil India, Ophir Energy, Shell, Statoil, Eni, and Total. Foreign bidders have to work with local JV partners. Tender submissions by Daewoo, Exxon Mobile, PTT, Petro Vietnam and Stetson Oil and Gas have not been successful. According to Industry reports trade statistics suggest the natural gas pipeline from Kyaukphyu to Yunnan operated by China National Petroleum Corporation runs at only 20% of capacity due to the establishment of a petrochemical complex in Yunnan being postponed. The Economist reports that while proven reserves in Myanmar amount to only 50m barrels for oil and 283 billion cubic metres for natural gas, information by the Myanmar MOGE claiming reserves of 226m barrels of oil and 457 billion cubic metres of gas may be realistic. Production sharing agreements with the government could be tough with an 80 to 85% Myanmar share.

Energy

Electricity continues to be a scarce resource with increasing power cuts to be expected until the end of the dry season in May. The government has announced spending 26 mio USD in foreign loans on hydro projects within the 2014/2015 budget. Projects to be funded include the Upper Yeywa Hydropower project, the Thahtay project and the Upper Kengtung project. State owned enterprises will spend 243 mio USD. Rehabilitation of the Beluchaung No 2 project will be financed through Japanese ODA. Hydro power still dominates the energy mix with 76% while gas covers 23,7 %. Private investments in the power sector mostly are pending with an IPP law and PPAs not yet finalized. A first PPA with a foreign investor has been signed in February with MAXpower (Thaketa) Co Ltd, sister of Singaporean Navigat.

Infrastructure

The tender for the new Hanthawaddy International airport to be built north of Yangon is open again after the Korean consortium lead by Incheon International Airport could not agree on financial terms with the Myanmar government. The other bidders, Singapore and Japan's Yongnam, Japan's Taisei Corporation and France's Vinci, have been asked to submit updated plans for financing. The move may indicate challenges for huge BOT projects with foreign private sector involvement due to lacking government guarantees on loans. The Myanmar government now considers ODA co-funding. The airport is planned to handle 12 mio passengers with an investment volume of 1.4 to 1.5 bn USD. Completion may be delayed beyond 2018. Plans for upgrades of the railway network include priority projects Yangon-Mandalay (with a tender for operation of the Yangon Mandalay express published beginning of April), Mandalay-Myitkyina, Bago-Mottama-Mawlamyine-Yay, Yangon-Pyay as well as the Yangon circular railway lines, according to the Ministry of Rail Transportation. International investors will be invited to bid. Plans are under discussion as well for a Tram urban transportation system in Mandalay and an airport link. At the Yangon circular line, an e-ticketing systems is planned to be implemented by mid 2014.

The Greater Yangon Development plan developed by Yangon City Development Council with the support of JICA will amount to overall investment of 4.5 bn USD. First tenders for waste collection and water supply have been published.

IT

Myanmar Post and Telecommunications has signed in an international construction agreement for a new subsea internet cable SEA-ME-WE-5 stretching from France to Singapore. That second connection with a data transfer capacity of 100 gigabit/s might considerably improve internet connectivity from early 2016 on. The currently only existing link SEA-ME-WE 3 has a capacity of just 10 gigabit/s.

Finance

5 to 10 operational licences for foreign banks might be granted as early as 2014, a deputy governor of the Myanmar Central Bank has stated in February. Previous plans only allowed for an opening up of the financial sector through JVs with local private banks. The move would put high pressure on local banks. Among the 35 rep offices of foreign banks are just two western banks – ANZ and Standard Chartered. The last bank to register a rep office has been Export Import Bank of Korea in January.

Garment

Myanmar garment exports are expected to reach 1.5 bn USD in 2013/2014, a 50% increase to the year before. The sector is attracting increasing interest by European buyers and investors with the EU GSP+ preferences effective again. Still local companies mostly restricted to CMP production face challenges to benefit from the renewed interest due to capacity constraints and a lack of funding for investment. During a visit of the Hong Kong Apparel Society, 12 Hong Kong garment producers have announced plans to set up production within the Thilawa Industrial Zone on an area of 200 ha by end of 2015 creating up to 30.000 jobs. In 2013 overall employment in the sector was 150.000 in 200 companies. The project includes training activities seen the shortage of trained workers. While the new law on a minimum wage is still debated, the Hong Kong investors have announced paying wages between 100 and 120 USD.

Companies

Landrover will open a show room together with partner **Capital Automotive**, which partners with Ford as well while **Mazda** has announced opening a showroom and workshop through partner **Cycle & Carriage Automobile Myanmar**.

DuPont has opened office in Yangon in March, focussing on distribution of agrochemicals (plant protection and seeds).

Mitsubishi Electrics will open office in Yangon in April to support ongoing supplies in infrastructure, power and property development.

Japanese **Asahi** has announced a 51% majority JV with local **Loi Hein** (Blue Mountain), for production of softdrinks, tee and coffee. Subject to approval of the Myanmar Investment Commission, investment will reach 22 mio USD.

Pepsi is back in Myanmar with production in a first bottling plant (JV with LOTTE MGS Beverages) having started operation end of March. The company announced plans to start production of canned Pepsi in the coming months. A **Coca Cola** plant is already up and running with expansion under construction.

Market Research Company **Nielsen** has announced to enter a JV with the local **Myanmar Marketing and Research Development**

Local Conglomerate **Yoma Holdings** has announced investments into coffee and dairy production with a volume of 20 and 46 mio USD respectively.

Singaporean **Concorde Industries Ltd.** has opened a finished wood factory planning to cut 10,000 t of wood annually. The move comes following an export ban on logs from 1 April on with more foreign investment in wood processing / saw mills to be expected.

Travel

The Myanmar government plans to introduce an e-visa system by the end of 2014.

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Exhibitions

BuildTechYangon2014, 22-24 May 2014 www.btyangon.com/2014/

Food and Hotel Myanmar 2014, 18 -20 June 2014 www.foodandhotelmyanmar.com

Oil & Gas Myanmar 2014, 9 - 11 July 2014 www.oilmyanmar.com

Electric Myanmar 2014, 9 – 11 July 2014 www.myanmar-electric.com

AutoExpo 2014, Auto Parts and Accessories, 18 – 21 July 2014, www.emmafair.com

ProPak Myanmar 2014, Plastics and Rubber Myanmar, 4 - 6 Sep 2014 www.propakmyanmar.com

Manufacturing Myanmar 2014, 2 – 4 Oct 2014 www.manufacturingmyanmar.com

Oil & Gas Myanmar 2014, 15 – 17 Oct. 2014 www.ogmyanmar.com

2nd Building and Construction 2014, 30. Oct – 1 Nov 2014 www.buildingmyanmar.com

2nd Electric Power & Renewable Energy Myanmar 2014, 30. Oct – 1 Nov 2014
www.electricmyanmar.com

2nd Mining Myanmar 2014, 30. Oct – 1 Nov 2014 www.miningmyanmar.com

CommuniCast Myanmar 2014, 19 - 21 Nov 2014 www.communicastmyanmar.com

Gtai reports (in German Language)

Myanmar präsentiert neues Sonderzonengesetz - Vorreiterrolle für Thilawa / Zweiter Anlauf in Dawei
<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=967954.html>

Massiver Ausbaubedarf in Myanmars Stromsystem - Traditionelle Kraftwerke bevorzugt / Potential für erneuerbare Energien
<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=973790.html>

Myanmars Gesundheitswesen reformbedürftig - Hoher Bedarf an Medizintechnik / Erste globale Player etabliert
<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=857020.html>

Myanmars Nahrungsmittelsektor weckt Investoreninteresse - Hoher Bedarf an Technologie und Know-how
<http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=953568.html>

Asia Pacific Conference of German Business, 20 – 22. November, Ho Chi Minh City

An event not to miss!

Program information and registration at <http://www.asiapacificconference.com>