

Explanation of Analyses in Forest Trends' MEITI Forestry Briefing #2

The Extractive Industries Transparency Initiative (EITI) requires countries to disclose financial information regarding their natural resource sectors. The first two forestry reports by the Myanmar EITI (MEITI) covered fiscal years (FY) 2014 and 2015. The most recent cover FY16 & 17.

This memo accompanies Forest Trends' briefing¹ that reviews the latest MEITI forestry reports.² It explains how our analyses were conducted and where in the MEITI reports the underlying data can be found.

1. Production data for 2008-2018 for teak and hardwoods is from Table 12, p. 26, in the FY17 MEITI forestry report. Data for 2006 on are found in Table 16, p. 25, in the FY15 report. (The MEITI report production data in hoppus tons [a unit of volume unique to the Myanmar timber sector]; we have converted to cubic meters (m³) based on 1 hoppus ton = 1.8 m³)

2. Government revenue from forestry for FY14 is from Table 7, p. 14 of the FY14 report.

Government revenue from forestry for FY17 is from the total of tax/non-tax revenue from Table 3, p. 10 plus MTE retained profit from Table 41, p. 68 "net profit" of the FY17 report.

Total government revenue is reported in Table 18, p. 28 in the FY14 report, and Table 15 on p. 31 in the FY17 report.

3. In the earlier MEITI reports, government revenue was stated in Table 7, p. 14 of the FY14 & FY15 reports. These amounts differ from that reported in the FY17 for the two years by ~\$150 million.³ The FY17 report contains no explanation for why the revenue figures were revised for FY14 & FY15.

4. The composition of government revenue "Paid By" is also from Table 3, p. 10, of the FY16 & FY17 reports; MTE represents 97% of the government revenue.

MTE's income statement is Table 41, p. 68 in the FY17 report (the FY16 income is on Table 40, p. 65 in the FY16 report, but the data are repeated for FY16 in the FY17 report).

"Total Profit" (as opposed to "Net Profit") is a combination of corporate income tax (which is legally set at 25% of total profit), state contribution (which is a dividend from the MTE to the UGoM set at 20% of MTE total profit) and the rest is retained in the SOE's Other Account [OA] (this is referred to in Table 41 as "Net Profit").⁴

But both total and "Net" Profit reported in Table 41 differ from the amount of revenue retained by the MTE in the MTE's OA. That is, for FY16 (Table 58, p. 118) & FY17 (Table 60, p. 124) the MEITI reports contain the opening and closing balances for the MTE's OA at the beginning and the end of the fiscal years. While the MTE reported net profit (representing 55% of total profit) of \$63.14 million and \$66.98 million, in FY16 & FY17 respectively, the difference between opening and closing balances for MTE's OA were \$108 million and \$60 million, respectively, which combined (\$168 million) is equivalent of 71% of the total profits (\$236.6 million), and not 55% (as reported in Table 41).

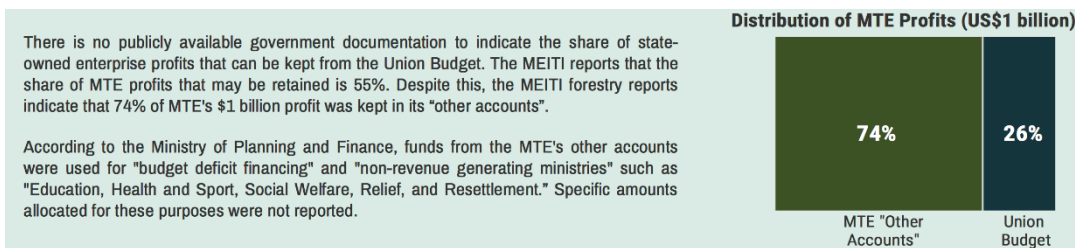
¹ Forest Trends' first MEITI analysis, published in 2019, can be found at: https://www.forest-trends.org/wp-content/uploads/2020/06/MEITI_FR_Analysis_2020.pdf

² The latest MEITI Forestry Reports can be found at: (FY16) <https://myanmareiti.org/en/publication/3rd-meiti-forestry-report> and (FY17) <https://myanmareiti.org/en/publication/4th-meiti-forestry-report>

³ The MEITI reports often cite figures in both Myanmar kyat (MMK) and US dollars (US\$). The MEITI reports (p. 42) include conversion rates of 1,216 and 1,356 MMK per US\$ for FY16 and 17, respectively. We have not adjusted any figures for inflation.

⁴ Although the UGoM does not publicly report the legislation that set the amount of profit that must be paid in state contribution, and thus the amount that may be retained by SOEs, the MEITI states that it is 55% of total profit.

For FY14 & FY15, a similar pattern was reported, that is, the MTE reported that 74% of total profits were retained in their OA):



[Note: Table 41 in the MEITI FY17 forestry report also restates the MTE's total profit for FY 14 & FY15; these values differ from those reported in the previous MEITI forestry reports. No explanation is given for the revised figures.]

5. Table 60, p.124 of the FY17 report indicates a closing balance of \$1.3 billion in the MTE OA on March, 2018. The MEITI forestry reports state (on p. 99 and p.103, of the FY 16 & 17 reports, respectively) that:

"We understand that all expenditure paid out of the SEE OA account are submitted to the prior approval of the Union Government to Pyidaungsu Hluttaw (Union Parliament)...We also understand that SEEs OA are used under the supervision of MoPF [Ministry of Planning & Finance]...

"According to MoPF, SEEs OA are part of the Union Fund and therefore part of the Union Budget. As a result, SEEs OA are consolidated with the budget accounts and are used for make up the budget deficit which means that OA surplus are in fact spent for SEEs as well as the expenditure of non-revenue making ministries such as Education, Health and Sport, Social Welfare, Relief and Resettlement.

"List of withdrawers

"According to MTE, the list of withdrawers is presented by agency as follows:

Agency	Withdrawer
Department/State/ Region/ Factory	Drawing Officer
Departments	General Manager (or) Deputy General Manager
DGM Office (State/ Region)	Deputy General Manager (State/ Region)
Extraction Agencies	Assistant General Manager (or) Manager
Milling & Marketing Agencies	Assistant General Manager (or) Manager
Factories	Manager (or) Assistant Manager

However, the MEITI reports do not indicate the amount nor recipient of any individual deposits and withdrawals.

As reported in our briefing, in November 2018, the Deputy Minister of MoPF admitted that the SOE OAs are "accounts in name and there is no actual money deposited in them" (Chau and Mya Htwe 2018).

6. Table 3, p. 10, of the FY17 MEITI report indicates that the MTE paid \$37.99 million in income taxes, whereas Table 41, p. 68, reports \$30.44 million in income tax payments by the MTE.

Of the \$37.99 million in income tax, Table 57, p. 118, indicates that \$28.11 million were payments for arrears from FY15 (or 74% of the income tax payments reportedly made in FY17).

IT paid by MTE to the IRD amounted to **MMK 51.51 billion** (eq. USD 38 million) during the FY 2017/18. Table 55 disaggregates the CT by quarter.

Table 57: Breakdown of Income tax by quarter

No.	Designation	IT (MMK billion)	IT (USD million)	%
1	First quarter - April to June - FY 2017/18	2.00	1.48	3.88%
2	Second quarter - July to September - FY 2017/18	2.00	1.48	3.88%
3	Third quarter - October to December - FY 2017/18	4.97	3.66	9.64%
4	Fourth quarter - January to March - FY 2017/18	4.43	3.27	8.61%
5	Payment related to FY 2015/16.	38.11	28.11	73.99%
	Total	51.51	37.99	100.00%

Source: MTE & IRD.

Table 7, p 14, of the FY15 MEITI report indicates MTE income tax payments of 112,520 million MMK, or ~\$92 million.

And what else is missing...

- Table 18, p.33 of the FY17 report contains export data for China (\$27 million across the two fiscal years). The Chinese government import data is based on Forest Trends analysis (see Fig 24, p.51 of the FY 17 MEITI report).

Similar results were found in the first two MEITI forestry reports:

Government data in the MEITI reports include only a fraction of the forestry sector. For example, Myanmar reported \$29 million in timber exports to China over the two fiscal years of 2014 and 2015. In contrast, China reported more than \$550 million in imports from Myanmar. The majority (>80%) were logs imported across the border into Kunming, despite a ban on trading across land borders, as well as a ban on log exports.

Value of Exports Reported by Myanmar vs. Value of Imports Reported by China

Country	Value (US \$ millions)
Myanmar	29
China	550

- Reporting on seizures volumes is in Annex 8, p. 163 and p.174 of the FY16 and FY17 reports, respectively. Income reported by the FD for “selling of seized forest products and income from timber sale to the Government Agencies” is reported in Table 59a (p.122 of the FY 17 MEITI report). Reporting is less disaggregated for FY16, but is found in Table 53, p. 111.

- There was a greater volume in MTE sales of teak logs than in the reported supply

Reported sales of logs (from Annex 6, sub-total “Teak Log”; note that there are two sub-totals, one for Export and one for Local sales)

FY16	58,403 hoppus tons
FY17	51,916 hoppus tons

Determining the ‘supply’ requires calculation, that is:

	Reported production	Stockpiles	=	Total raw material
FY16	1,247 hoppus tons	42,482 ht		43,729 hoppus tons
FY15	15,416 hoppus tons	329 ht		15,745 hoppus tons

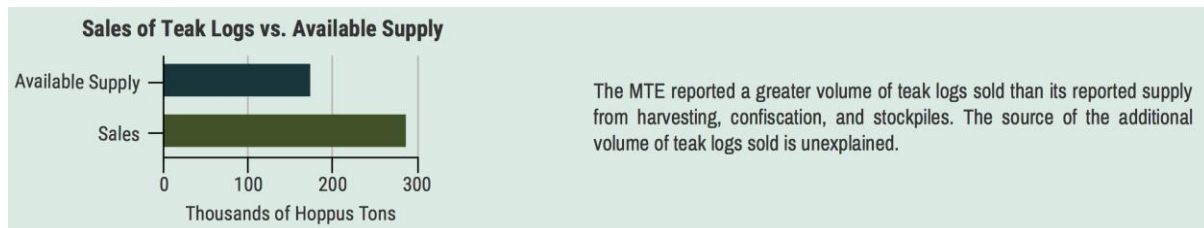
[Production: Table 21; Stockpiles: Table 24.]

Total 'supply' of teak logs = 59,474 hoppus ton, whereas the total sales of teak logs = 110,319 hoppus tons.

This analysis is likely highly conservative. The sales volume reported underestimates the raw material needs because it does not include any of the processed teak products that the MTE reportedly sold.

Note also that the MTE likely sold much more than that reported here. While the MTE reported income of \$500 million over the two fiscal years (Annex 11), Table 3 indicates commercial tax payments of about \$32 million. This represents sales of more than \$635 million (at 5% tax rate).

Similar results were found in the first two MEITI forestry reports:



- Over the four FYs, 38,024 cubic tons of teak conversions were reportedly sold for an average of \$1,248/cubic ton (or \$882/m³). These values were obtained by dividing the total sales of conversions by the volumes sold [as reported, for example, in Annex 6, p. 164, of the FY17 MEITI report].

If the MTE mills were 35% efficient (recovery rate, as reported by Castren 1999), then the MTE received only ~\$437/cubic ton for the logs they milled (or \$309/m³).

If they had sold the raw logs instead for the same price they received for the 296,302 hoppus tons of teak logs sold (average \$1,193/hoppus tons; or \$662/m³), then the MTE would have received \$54.2 million more for the 108,640 cubic tons of teak logs reportedly used in their mills over the four FYs.

Note: the savings would have been even greater because the \$101.72 million received from the logs sales would have all been profit, whereas some of the \$47.47 million received for the teak conversions must cover the costs of the milling.

The conversion rate for cubic tons to m³ is from footnote 2, p. 89 of the FY14 & FY15 MEITI reports: "One cubic ton is equal to 1.415 cubic meter for teak and other hardwoods"

WORKS CITED

- Castren, Tuukka. 1999. "Timber Trade and Wood Flow Study Myanmar." Regional Environmental Technical Assistance 5771 Poverty Reduction & Environmental Management in Remote Greater Mekong Subregion (GMS) Watersheds Project (Phase I). mekonginfo.org/assets/midocs/0002331-environment-timber-trade-and-wood-flow-study-myanmar.pdf
- Chau, Thompson and Mya Htwe, Chan. 2018. "Parliament, public in the dark over state bank's lending." Myanmar Times. <https://www.mmmtimes.com/news/parliament-public-dark-over-state-banks-lending.html>