

MYANMAR GROUNDNUT & EDIBLE OIL INDUSTRY NOTES

I. GENERAL INFORMATION ABOUT MYANMAR

Myanmar, officially Republic of the Union of Myanmar, is a sovereign state in South East Asia. It is bounded on the west by Bangladesh, India, and the Bay of Bengal; on the north and northeast by China; on the east by Laos and Thailand; and on the south by the Andaman Sea. The traditional capital and by far the largest city is Yangon, but in the late 2005 the government began transferring many government ministries to a new capital at Nay Pyi Taw, in Central Myanmar.

Myanmar suffered extensive damage in World War II, and some sectors of its economy have not yet fully recovered. About 70% of the population works in agriculture and forestry, and rice accounts for about half of the agricultural output. Other important crops are pulses, sesame, peanuts and sugarcane. A largely rural, densely forested country, Myanmar is the world's largest exporter of teak.

The country is rich in minerals. Petroleum is found east of the Ayeyarwady in the Dry Zone. Tin and tungsten are mined in East Myanmar; the Mawchi Mines in Kayah State are also rich in tungsten. In Shan State, northwest of Lashio, are the Bawdin mines, the source of lead, silver, and zinc. Coal, copper, natural gas, and iron deposits have also been found in Myanmar. Gems, notably sapphires and rubies, are found near Mogok. Since the 13th century, Myanmar has exported jade from the Hunkawng valley in the north to China.

The economy is one of the least developed in the world, and is suffering the effects of decades of stagnation, mismanagement, and isolation. Key industries have long been controlled by the military, and corruption is rife.

International sanctions against Myanmar were imposed over a long period of time and formed a complex web of laws, regulations and government-imposed restrictions. To date, economic/ restrictive sanctions imposed by the European Union, United States, Australia, Canada and Japan had been suspended or eased, to support its transition to democracy and its economic development.

Economical Key Facts Myanmar

Currency:	1 Kyat (MMK); MMK1 = 100 pyas
Exchange rates:	1 EURO = MMK1,284; 1 USD = MMK967 (05.08.2013)
GDP (billion USD):	2010: 79.67; 2011: 84.02; 2012: 89.23
GDP - real growth rate:	2010: 5.3%; 2011: 5.5%, 2012: 6.2%
Inflation rate:	3.1% (2012 est)
Total Trade	USD15.6 billion (2012 est)

Major Trading Partners:	Thailand, China, India, Japan, Singapore, Hong Kong
Major Imports:	Fabric, Petroleum Products, Fertilizer, Plastics, Machinery, Transportation Equipment, Construction Materials, Crude Oil, Food Products, Edible Oil
Major Exports:	Natural Gas, Wood Products, Pulses, Fish, Rice, Clothing, Jade, Gemstones
Key Industries:	Agricultural Processing, Oil and Natural Gas, Mining, Timber
Unemployment rate:	3.1% (2012 est)

II. Myanmar Small and Medium Enterprises

A. Definition of SMEs

In Myanmar, enterprises are categorized based on number of employees, capital investment, production volume and electrical usage. Small-scale enterprises are classified as businesses with capital of MMK1 million or less; or have yearly production value of MMK2.5 million (approximately USD2,500); or have power consumption from 3 to 25 horsepower and employ 1 to 50 workers. Medium scale enterprises are classified as businesses with capital of between MMK1 to 5 million; or have a yearly production value of between MMK2.5 to 10 million (approximately USD2,500 to USD10,000); or uses up power from 25 to 50 horsepower and employ 51 to 100 workers.

Figure 1. Classification of SMEs

Category	No. of Employee	Power (HP)	Capital (Million Kyats)	Annual Production (Million Kyats)
Small	10 - 50	3- 25	<1	<2.5
Medium	51 - 100	26 - 50	1 - 5	2.5 - 10

Source: SME Development Center

B. Status of Myanmar SMEs

In Myanmar, SMEs contribute to about 90% of total enterprises and about 70% of the total workforce is employed in SMEs. Although SMEs dominate every sector of the economy, supportive policy measures are still lacking in Myanmar. The status of SMEs

in Myanmar among South East Asian countries is relatively low due to its low productivity, shortage of capital, outdated technology and poor market access. Moreover, there are no laws in Myanmar that pertain to SMEs.

Although SMEs can be found in every sector of the country, their legal status and statistics are only available in the manufacturing sector accounting for more than 40,000 firms and 92% of total domestic firm in Myanmar.

Among SMEs in Myanmar, food-processing industries account for more than 60% of total firms, which largely operate based on “learning by doing” in production as well as marketing. Food-processing companies include rice mills, oil mills, powdering machines, sugar mills, bean and pulses processors, ice factories and confectionaries, which make up about 90% of food-processing industries. As Myanmar adopted market-oriented system in 1988 and encouraged privatization, the private manufacturing firm increased three fold from 1988 to 2012.

III. SME- RELATED LAWS

Private Industries Enterprises Law

The Private Industries Enterprises Law was enacted in 1990 in accordance with the following principles:

- To enhance the higher proportion of the manufacturing value added in the gross national product and value of services, and to increase the production of the respective economic enterprises which are related to the industrial enterprise;
- To acquire modern technical know-how for raising the efficiency of industrial enterprises and to establish the sale of finished goods produced by the industrial enterprise not only in the local market, but also in the foreign market;
- To cause utilization by relying mainly on local natural resources;
- To narrow down the gap between rural and urban development through improvement of industrial enterprises
- To open up more employment opportunities;
- To avoid or reduce environmental pollution through technical know-how
- To use energy in the most economical manner.

Promotion of Cottage Industrial Law

The Promotion of Cottage Industrial Law was enacted in 1991 with the following basic principles:

- To produce industrial finished goods by the utilization of local natural resources as the main raw material;

- To produce industrial finished goods by the utilization of by-products, waste products and raw materials which have been purchase from State-owned mills, factories, production enterprises, trading enterprises, Government Departments and economic organizations;
- To prevent the obsolescence of the Myanmar traditional handicrafts anf to develop the same;
- To enhance the means of livelihood and to increase family income;
- To enable consumers to purchase standard quality goods which are safe for consumption;
- To promote cottage industries by the utilization of modern technical know-how which could raise efficiency;
- To produce and sell goods of a standard quality not only in the local market, but also in the foreign market;
- To assist in the formation of co-operative societies.

Myanmar Citizen's Investment Law

Myanmar Citizen's Investment Law was enacted in 1994. The objectives of this law are as follows:

- To cause investments of Myanmar citizens to be beneficial to the State;
- To promote development of production and services;
- To cause production of goods by utilizing the natural resources of the country;
- To establish enterprises for import substitution;
- To promote and expand export;
- To open up more employment opportunities;
- To promote development of private and co-operative sectors;
- To contribute towards regional development;
- To enable extensive participation in the money market.

New SME Law

Currently under its fifth draft, the Small and Medium Enterprise Law has the potential to transform Myanmar's business by encouraging competitiveness and investment. If it is effective, the legislation of this law could ensure that Myanmar SMEs can meet the challenges posed by the opening of the domestic market and spur vibrant entrepreneurial activity that will generate growth, employment and innovation. The drafting committee also received advice from foreign advisors and business associations on a law that fills a gap in the existing legal framework and will affect the entire business landscape in Myanmar.

IV. GOVERNMENT REGULATORY BODIES

Central Department of SME Development

The Central Department of SME Development was formed on 04 April 2012. The Central Committee and Working Committee for Development of Small and Medium Enterprises is chaired by the President with two vice presidents and 20 ministers as its members. The duties and responsibilities of the Committee are as follows:

- To formulate and promulgate laws, regulations and procedures for SMEs development;
- To encourage the development of SMEs which take the major portion in such economic forces as State-owned and local organizations, joint ventures, and private businesses;
- To ensure that government and private banks effectively provide financial capital required for SMEs development;
- To establish a network with respective local and foreign organization to meet technical requirements;
- To encourage development of the markets of SMEs from rural to urban areas
- To make SMEs as supporting industries for local and foreign investments to help healthy development of market chain;
- To plan for nurturing human resources required for SMEs development;
- To set up committees and subcommittees and assign duties as necessary.

Committee for Industrial Development

The Myanmar Industrial Development Committee was renamed and structured as the Committee for Industrial Development (CID) on 20 April 2011 with a focus on industrial promotion. The CID was formed with the aim to develop and supervise industries. It was chaired by the union Minister for Industry and Deputy Minister as secretary, including 14 members.

Under the supervision of the CID, 18 industrial zones have been established in nine states and regions. Furthermore, the committee has been assisting private entrepreneurs to acquire capital, raw materials, machinery and equipment, modern technology, and providing infrastructural facilities such as water, electricity, communication systems and buildings. For extensive participation of the private sector, some state-owned mills have been sold, some leased and some were formed as joint ventures with local private entrepreneurs.

The specific measures for industrial development undertaken by the committee are:

- Implementation of the new industrial zones in order to establish new factories and cooperation with technically developed foreign countries.
- Management on the operating of industrial training centers as activities of the Human Resource Development management program.

- Close supervision of industrial zones to produce qualified products with low cost and to reduce pollutants from manufacturing processes in order to create a clean and green tech factory.
- International cooperation measures such as ASEAN and CMLV.
- SMEs development as the government sector's focal point.

V. SME POLICY FRAMEWORK

SME Development Plan

Giving emphasis to the development of SMEs, the Ministry of Industry has set up the SMEs Development Service Center, formed with the Development of Industrial Development and Technology Development, the Department of International Relations and Market Extension , and the Department of Investment Promotion. Through these departments, the SMEs Development Service Centre would engage with the tasks of data collecting and recording SMEs history, intermediary service on technology, financial management and marketing advisory, distribution of external market information, arrangement of business matching with related entrepreneurs and serving as a credit guarantee corporation.

For the successful implementation of SME development, Myanmar adopts principle strategies and support strategies. Principle strategies include HRD or capacity building, technology development, and innovation and financial assistance. Supportive strategies contain infrastructure development, business support and a favorable taxation regime.

VI. SME FINANCE FACILITIES

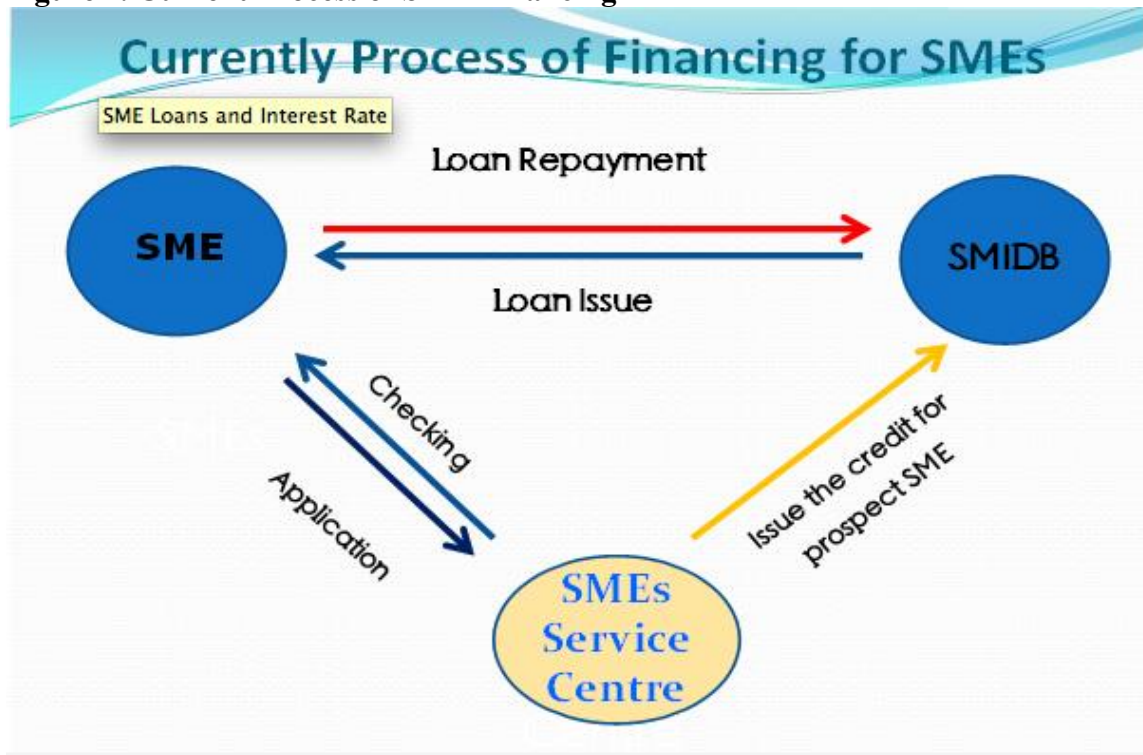
SMEs Service Centre

Under the Central Department of SME Development, the SMEs Service Centre is tasked to issue credit guarantee for SMEs loans. Loan applications are submitted to SMEs Service Centre, which will assess the SME's business situation and issue the credit guarantee for SMIDB approval. Figure 2 shows the process of SME financing.

Small & Medium Industrial Development Bank

Incorporated as a public limited company under the Ministry of Industry, the Small and Medium Industrial Development Bank (SMIDB) started its operations in 1996 with the main objective of providing financial support to small and medium industries. Current loan interest rates at 13% per annum.

Figure 2. Current Process of SME Financing



Source: Central Department of Small and Medium Enterprises Development

VII. GROUNDNUT & EDIBLE OIL INDUSTRY – MYANMAR

Groundnut originated in South America. Raw groundnuts are basically used as seed, transformed into “prepared” groundnuts, used in food industries to produce peanut butter/ paste and groundnut intensive goods such as snacks and sweets, or crushed for oil and groundnut meal.

There are over 3,500 oil mills in Myanmar, most of which are small enterprises (see Table 1). Of these mills, less than half are operational. Less than 200 mills can produce 12 tons per eight-hour working day. Moreover, most of the oil mills lack sophistication and efficiency due to inferior equipment, which are mostly made in China or locally assembled in Myanmar.

Table 1. Classification of Edible Oil Mills in Myanmar

Number of Mills	Size of Mills	Power Usage (HP)	Production Capacity per Day
2500 (approx)	Small	< 25 HP	0.5 Tons/ 8 hours
800 (approx)	Medium	25-50 HP	2.25 Tons/ 8 Hours
200 (approx)	Large	> 50 HP	12 Tons/ 8 Hours
22	Solvent Plants	19 Public and 3 Private-Owned	

Source: Myanmar Edible Oil Distributor Association

Myanmar is ranked as the world's sixth largest producer of groundnut, accounting for two percent of global production. A major decline in the share of groundnut production crushed for oil and meal over the past two decades reflects the increasing availability of cheaper, low-fat vegetable oils, such as soybean and palm oil. These oils have steadily substituted groundnut oil and meal.

VIII. GROUNDNUT & EDIBLE OIL INDUSTRY LAWS AND POLICIES

Until the early 1990s, the production of crops was heavily influenced by state controls and regulations. These controls dictated which crops could be grown, and in main cases, included compulsory procurement of output for sale at prices below market levels. This system started to change in the 1990s and some crop groups, was effectively liberalized. As of August 2011, export of groundnut, red sesame, brown sesame, groundnut oil and sesame oil has been allowed.

Overall, there are essentially two major government policy objectives for the edible oil industry:

1. Achieve self-sufficiency in edible oil.

This policy is a remnant of the socialist period in Myanmar and has been in existence in the country since the 1980s. Because of the central role edible oil plays in the Myanmar diet, the government attaches importance to supplying the population's requirements directly from the home production, as opposed to generating foreign exchange from home production through other means, and also securing required edible oil through imports.

2. Maintain edible oil price controls to avoid fluctuations.

This policy is of strategic importance, as social stability is believed to depend on prices of rice and edible oil. Edible oil is the second most important after rice in the household budget expenditure.

Through the implementation of these policies, Myanmar has adopted restrictive measures on imports and exports of oilseeds and oilseed products, but relatively open policies to the imports of large quantities of cheap palm oil, in an attempt to maintain edible prices at a low level on the domestic retail market.

IX. GROUNDNUT & EDIBLE OIL – MYANMAR INDUSTRY STATUS

A. Infrastructure

Roads and Transportation

Myanmar is a large country with a land area covering over 676,000 square kilometers. Presently, Myanmar's transport sector is considerably under-developed for a country of its size and population. In 2011, Myanmar's number of vehicles per 1000 people was about 38. In comparison, Thailand's ratio was 432 and Laos' was 171. Furthermore, of 150,816 km total road length, only 33,014 km is paved.

Under the Framework for Economic and Social Reforms, the Myanmar government has indicated that immediate priority will be given to infrastructure projects to improve land connectivity and transportation links with regional economies to boost economic integration and fulfill the country's commitments under the Master Plan on ASEAN Connectivity. To meet the goals of equitable development between the various regions in the country, the government will also prioritize development of rural-city connectivity and the maintenance and upgrading of existing road infrastructure.

Ports

Myanmar currently has 9 ports along the western and southeastern coast of the country, namely: Yangon, Sittwe, Kyaukphyu, Thandwe, Patheingyi, Mawlamyine, Dawei, Myeik, and Kawthung. In addition, Myanmar International Terminals Thilawa (MITT) is a private multi-purpose container terminal owned and operated by Hutchinson Port Holdings. However, with the exception of the country's principal port in Yangon, the rest are reportedly small coastal ports with limited port handling capabilities. According to official statistics from the Myanmar Port Authority, Myanmar's ports handle 24 million tons of import and export freight in 2011, with the port of Yangon handling 90% of the cargo throughput.

Myanmar's geographic location makes it an attractive location to develop port facilities. The country's 2,800 km coastline runs along the eastern side of the Bay of Bengal and has the potential to become an alternative international trade route to Asia. The development of its ports can see Myanmar becoming a regional trade and transport hub. Deep-water ports are currently being developed at the southern city of Dawei (in association with Thailand) and Kyaukphyu in the north (in association with China). Other recent activities in the ports sector include interests in developing ports in Thilawa and Sittwe. The government has also identified sites in Kalegaik and Bokpyin for the development of ports.

Railways

The railway sector in Myanmar is currently a monopoly operated by the state-owned Myanmar Railways. The rail network has expanded considerably over the last 20 years, expanding by almost 78% between 1988 and 2010. However, the rail network is in poor condition and investment in basic infrastructure, such as track renewal, replacement of sleepers, and upgrading of signaling and communications systems, has been inadequate.

Currently, there are existing plans under the Singapore-Kunming Rail Link (SKRL) project to build a high-speed railway to connect Kunming, in Southwest China, with mainland Southeast Asia. The project is a priority agenda under the ASEAN transport cooperation and three routes, going through Vietnam, Laos and Myanmar, have been planned for the rail link. When completed, the SKRL project will become part of the 14,080 km Trans-Asian Railway network across Europe and Asia.

Airports

Myanmar currently has a total of 69 airports, of which only 32 are operational. There are three international airports – in Yangon, Mandalay and Nay Pyi Taw, with 19 international airlines operating and 4 domestic airlines operating regular flight services between Myanmar and 17 regional destinations.

The Myanmar Department of Civil Aviation (DCA) wishes to double the capacity of Yangon International Airport from 2.7 million passengers a year to 5.5 million. The government also has plans to transform some of the existing domestic airports into international airports to serve the growing number of foreign investors and tourists. The DCA has already announced plans to re-develop airports in Yangon and Mandalay. The government has also announced plans to add two new international airports, Hanthawaddy International Airport in central Bago region and Dawei International Airport in the Dawei special economic zone.

Energy & Power

Myanmar has abundant natural resources, including renewable alternatives such as hydro, biomass, wind and solar. Hydropower is the main source of fuel in the country and electricity from hydropower plants contribute nearly 70% of the total electricity generated in the country, followed by 22% produced from natural gas and 8% from coal.

Over the last 10 years, electricity consumption in Myanmar has almost doubled. However, Myanmar's per capita electricity consumption still remains the lowest among the ASEAN-10 countries. It is estimated that only a quarter of Myanmar's population have access to a regular supply of electricity and even Yangon is plagued by frequent outages, limiting economic growth and development. The low national average per capita electricity consumption is due to low electrification rate, low industrial development and lack of investment.

Telecommunications

Myanmar's telecommunications sector is significantly underserved, with exceptionally low penetration rates given the size and potential of the market. Although the mobile subscriber base has grown over the last four years, official statistics report that

there are 5.4 million subscribers as at December 2012, or a penetration rate of just 9% of the population. There are 0.6 million fixed-line subscribers, with an overall penetration rate of around 1% of the population. Internet user penetration is even lower, at less than 1% of the population or 0.5 million subscribers.

The government has identified the key barrier to telecommunications access to be high costs and limited infrastructure. To achieve the target of increasing mobile phone density to 75-80% and Internet penetration by over 50% by 2015-2016, the government has committed to undertaking several reforms such as development of an ICT Master Plan, new Telecommunications Law and Cyber Law and privatization of State-owned Myanmar Post and Telecommunications to form the Myanmar Telecoms Company.

Special Economic Zones/ Industrial Zones

There are a total of 18 private-operated industrial zones across the country, contributing about 20% of the country's GDP. The government has been actively promoting greater public and private sector investments into the industrial zones to generate jobs and technological development. Myanmar expects to overcome infrastructure bottlenecks and promote foreign direct investment through Special Economic Zones (Sezs), which will emphasize Myanmar as a strategic location and low-cost production base for exports to the region.

B. Offshore Attractiveness Factors

Opportunities for investment in Myanmar have been continuing to generate hype over recent months and with Myanmar's long awaited new Foreign Investment Law having officially come into force on 02 November 2012, it is anticipated that more investors will now be considering their options more seriously.

Myanmar, a country that has high potential for rapid growth and development given its rich natural resources, abundant and cheap labor force, and strategic location is gradually embracing wide-ranging reforms.

The government is deepening and broadening management while facilitating trade and foreign direct investment and removing structural impediments to growth by establishing physical and social infrastructure, building legal and institutional frameworks, and developing banking and financial sectors.

C. Tax and Regulatory Incentives

Under the new Foreign Investment Law, foreign investors are given the following incentives:

Land Use – 50 year leases

Foreign ownership of land appears unlikely in the foreseeable future, although the New Investment Law increases security of tenure by extending available lease terms to 50 years, with two possible extension periods of ten years each. The lease term will be limited to the term actually required for the business and lease extension periods are expected to be linked to the size and type of business.

Tax Incentives

The New Foreign Investment Law identifies 11 categories of tax incentives available to foreign investment. These include:

- An exemption on income tax for five years from first year of production. This period can be extended for successful enterprises if doing so would be beneficial to the State
- Accelerated depreciation for capital assets
- Exemptions from import duty on machinery and equipment used in the enterprise and on raw materials imported in the first three years of production
- An unlimited period of tax exemption from income tax for profits from revenue reinvested within one year of its distribution and also on 50% of the profits of exports.

Guarantees

The law contains a guarantee against nationalization, and a guarantee that approved investment activities will not be terminated during the contract period without sufficient cause. It also guaranteed that, after expiry of the investment period, the investor could remit overseas its investment gains in the same foreign currency that it brought in at the outset.

Arbitration

The law permits investment contracts to stipulate a dispute-resolution procedure.

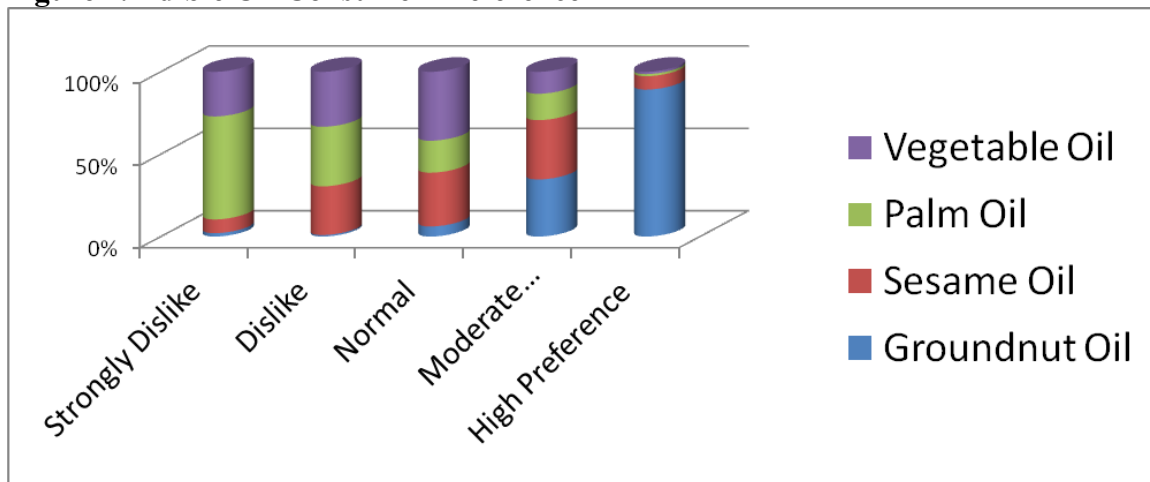
D. Penetration and Access

Consumer Preference for Edible Oil

Domestic oil consumers in different regions of Myanmar have preferences for specific types of oil for each purpose. Among locally produced oil, groundnut and sesame oil are the most preferred. In lower Myanmar, groundnut oil is preferred for all cooking purposes while urban and rural consumers prefer sesame oil for all purposes except frying.

According to the survey conducted in Yangon, Mandalay and Mawlamyine in January 2013, groundnut oil is the most preferred and palm oil the least. The survey covered 900 households in said regions, targeted to housewives between 25-50 years old.

Figure 2. Edible Oil Consumer Preference



Source: Myanmar Edible Oil Distributors Association

Price and Availability

In 2012, Myanmar produced 550,000 metric tons of edible oils including palm oil and consumed about 850,000 metric tons. Groundnut oil, such as peanut oil, costs more than twice as much as imported palm oil – MMK4,500 (USD5.20) per viss (1.63kg), compared to just MKK1,800-2000 (USD2.10-2.30) for the same amount of palm oil. Thus, local consumers are switching from the relatively costly peanut oil to imported palm oil.

Part of the reason for the high price of peanut oil is the rising price of peanuts on the domestic market, driven by strong demand for Myanmar peanuts in China. Another problem is that Myanmar oil mills lack the sophistication and infrastructure to boost output, which could allow them to produce for the international market. This has left Myanmar's groundnut oil producers entirely dependent on shrinking local demand for their product.

X. FUTURE DIRECTION OF MYANMAR'S GROUNDNUT & EDIBLE OIL INDUSTRY

The global oil market is dominated by soybean and palm oils, which together account for more than 50% of the global supply. Soybean competitiveness comes from its dual purpose as cake and oil, whereas palm oil competitiveness comes from its highest edible oil productivity per unit of area, compared to all other oil crops. With the emergence of these two crops on the international market, other oil crops that are cultivated in Myanmar, such as sesame and groundnut, have lost their competitive edge. Global markets for these oil crops have evolved toward higher value products such as edible/ snack groundnut, processed white and black sesame, or high quality oil such as cold pressed sesame oil.

These opportunities have vast development potential, as Myanmar is the world's third producer of sesame and the world's sixth producer of groundnut.

While groundnut growers are enjoying strong sales to China, many lament the fact that they are only able to sell raw materials at low prices, and lack the means to sell value-added products. Furthermore, with the value of Malaysia's palm oil exports reaching record highs, the best hope for the domestic edible oil industry is more foreign investment to improve its access to more advanced technology.

At a press conference in November 2012, Malaysia's Minister of Plantation Industries and Commodities said Malaysian companies were exploring palm plantations and oil processing plants in Myanmar. Efforts are also being made by the government to shift from growing current edible oil crops to growing special high yield quality edible oil crops.