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October 2021

How Chinese Mining Investment

Funds the Myanmar Military

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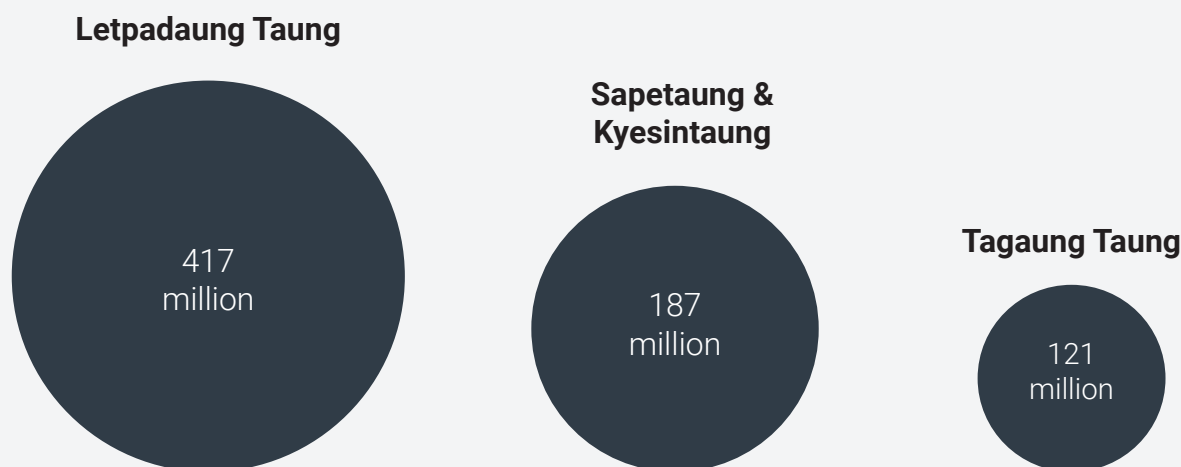
Introduction

Key messages

- Chinese investors dominate Myanmar’s mining sector. The country’s three largest mines are all run by Chinese state-owned enterprises (SOEs) - namely Wanbao Mining Ltd. and China Nonferrous Metal Mining Co. (China’s involvement in this sector is not limited to these three projects).
- With production at these projects reaching full capacity and metal prices rising, mining sector revenues could be a significant source of revenue for Myanmar’s military regime going forward. We estimate that in 2020-2021, the three main mining projects could bring in an estimated USD 725 million to the State Administration Council and MEHL.
- MEHL and its partners, Myanmar Wanbao Mining Copper Ltd (Myanmar Wanbao) and Myanmar Yang Tse Copper Ltd, have already been placed on the US sanctions list. In order to ensure that governments achieve in their intended impact of promoting accountability by targeting sources of revenue for the military¹, the US, EU, UK and other governments should also sanction Mining Enterprise No. 1, which is the Myanmar government’s SOE participating in the Wanbao and Yang Tse projects.
- The conflict inflicted by the Myanmar military regime is fueled by revenue from natural resources. In order to ensure that they are not abetting the violence perpetuated by the Myanmar military regime, which also aggravates negative public perceptions of China, private and state-owned Chinese companies should sever its business relationships with military-owned businesses and with SOEs whose accounts have now been appropriated by the military regime.

¹ Press Release, “Treasury Sanctions Senior Officials and Family Members connected to Burma’s Military”, U.S. Department of Treasury, July 2 2021. Available at: <https://home.treasury.gov/news/press-releases/jy0260>.

Figure 1 – Estimated payments to SAC and MEHL from the three largest Chinese-run mining projects in Myanmar for the 2020-2021 fiscal year



Background

On February 1 2021, the Myanmar military (the Tatmadaw) attempted a coup d'état, arbitrarily detained leaders of the democratically elected government, and formed the State Administration Council (SAC) in a bid to govern the country through military rule. A civil disobedience movement (CDM) and nationwide protests emerged shortly afterwards. In response, the Myanmar military has killed over 1100 persons, arrested over 6600 people,² and caused the internal displacement of at least 208 000 people.³ Myanmar's elected lawmakers in exile formed the National Unity Government (NUG), a civilian administration body composed of National League for Democracy politicians, ethnic political parties and civil society leaders. The NUG has formed alliances with ethnic armed organizations that have been engaged in conflict with the Myanmar military for the past seven decades.

The military's increased violence and unlawful attempt to take power in Myanmar have severely impacted the economy. The Myanmar kyat has

depreciated by 20% since January and almost 80% of Myanmar's bank branches have closed their doors⁴. Experts have warned that the coup could dissuade western investment and cause international companies to pull out of the country⁵. In fact, registration of new companies has fallen from 1373 in January to 163 in March of this year⁶.

4 "Burma/Myanmar's military junta cripples economy", IFI Watch Myanmar, ALTSEAN-Burma and Recourse, June 28 2021. Available at: <https://drive.google.com/file/d/1nWXpjJvx4MWXx-SwutZoZpDqhFjJNc3QZ/view>

5 Andrea shalal, "Myanmar coup to dampen u.s. trade, impact footwear companies, experts warn", Reuters, February 1 2021. Available at: <https://www.reuters.com/article/us-myanmar-politics-usa-trade/myanmar-coup-to-dampen-u-s-trade-impact-footwear-companies-experts-warn-idusKBn2A13cV>

6 Burma/Myanmar's military junta cripples economy.

“Since the coup, the Myanmar military has killed nearly 1100 persons and arrested over 6600 people.”

2 "Daily Briefing, Detention and Fatality lists in Relation to Military Coup", Assistance Association for Political Prisoners, August 6, 2021, Available at: <https://aappb.org/?lang=en>

3 "Myanmar Emergency: External update", UNHCR, 15 July 2021. Available at: <https://data2.unhcr.org/en/documents/details/87849>.

French power company EDF has suspended its \$1.5 billion hydropower project in Shan State⁷. On May 12, the Moattama Gas Transportation Company Limited (MGTC) announced suspension of cash dividend payments to all of its shareholders, including the Myanma Oil and Gas Enterprise (MOGE)⁸. In early July, Norwegian telecoms company Telenor sold its enterprise in Myanmar to Lebanese investment firm M1 Group for USD \$105 million⁹.

Despite increased investment risks, China and the SAC appear to be normalizing trade and diplomatic ties¹⁰. China has failed to acknowledge the coup and the Chinese embassy referred to General Min Aung Hlaing as the “leader of Myanmar”¹¹. The SAC has released plans to proceed with major economic projects with China, including the USD \$2.5 billion Mee Lin Gyang LNG generating plant, and the Kyauk Phyu port and special economic zones which would provide China with access to the Indian Ocean¹². In the mining sector, China-based Yintai Gold Co. has made a non-binding, conditional proposal for all issued shares of Australia’s Myanmar Metals Limited, an investor in the Bawdwin mine in Myanmar’s Shan State¹³. Myanmar Metals currently has a 51% interest in Bawdwin, one of the world’s largest deposits of zinc, lead and silver. Once production restarts, the project could generate an estimated AUD \$2.9 billion (approximately USD \$2.2 billion) in

revenue over 13 years¹⁴. It appears that China has accepted that the military regime will remain in power and thus appears to be willing to resume bilateral trade¹⁵.

This brief provides information about ongoing significant Chinese investment projects in the mining industry and revenue flowing to the Tatmadaw. Chinese SOEs have entered into business agreements directly with the Myanmar military in the past and are continuing operations, likely resulting in an estimated USD \$725 million of revenue from the mining sector entering into the Tatmadaw’s coffers in the 2020-2021 fiscal year. As the people of Myanmar have called for cuts to the military’s financial flows in an effort to weaken the military, China’s continued business dealings with the Tatmadaw are undermining the civil disobedience and pro-democracy movement, which risks further inflaming anti-Chinese sentiment amongst the Myanmar population.



7 EdF, Letter to Justice for Myanmar, March 19 2021. Available at: <https://jfm-files.s3.us-east-2.amazonaws.com/public/reply+Myanmar+19+03+2021.pdf>

8 “Myanmar: shareholders of Moattama gas transportation company Limited vote to suspend all cash distributions”, TotalEnergies, May 26 2021. Available at: <https://totalenergies.com/media/news/press-releases/myanmar-shareholders-moattama-gas-transportation-company-limited-vote>.

9 Victoria Klesty, “Telenor quits Myanmar with \$105 mln sale to Lebanon’s M1 group”, Reuters, July 8 2021. Available at: <https://www.reuters.com/business/media-telecom/telenor-sells-myanmar-operations-m1-group-105-mln-2021-07-08/>

10 Edward White and John reed, “china bolsters ties with Myanmar junta despite international condemnation”, Financial Times, June 22 2021. Available at: <https://www.ft.com/content/ca43da4c-4287-4de6-ad8a-57a2a32fe7f3>

11 Embassy news, “the Leader of Myanmar senior general Min Aung Hlaing Met with chinese Ambassador to Myanmar”, Embassy of the People’s Republic of China in the Republic of the Union of Myanmar, June 6 2021. Available at: <http://mm.china-embassy.org/eng/sgxw/t1881649.htm>

12 Jason tower and Priscilla A. clapp, “Myanmar: china, the coup and the Future”, United States Institute of Peace, June 8 2021. Available at: <https://www.usip.org/publications/2021/06/myanmar-china-coup-and-future>

13 ASX Announcement, “June 2021 Quarterly Activities Report”, Myanmar Metals Ltd, July 21 2021. Available at: https://assets.ctfassets.net/hnlfsgjzg6je/HXR4rooc9vIA5ogpEdCPA/8729bb6459ce760ee5c0b4243aa74615/210721_Quarterly.pdf.

14 “Extracting the truth about the Bawdwin Mine”, Publish What You Pay Australia and Myanmar Alliance for Transparency and Accountability, February 2021. Available at: <https://www.pwyp.org.au/publications/extracting-the-truth-behind-the-bawdwin-mine>.

15 “china bolsters ties with Myanmar junta despite international condemnation”.

Overview of Myanmar's Mining Sector

Myanmar is one of the most resource-rich countries in South East Asia, with at least 60 different mineral types. While the country remains largely unexplored, it hosts globally significant deposits of lead, zinc, silver, copper, tin, tungsten, jade and rubies. The majority of Myanmar's mining sector is made up of small-scale and artisanal mining (both formal and informal) with some medium-scale and a lesser proportion of large-scale mining. There are a range of significant environmental and social impacts as well as governance challenges associated with the mining sector in Myanmar.

The extractive sector contributed 4.8% to GDP in 2017-2018¹⁶. Minerals (not including gemstones which are governed by a separate set of laws and institutions to the rest of the mining sector) represented 6.4% of total extractive industry revenues and 0.3% of total government revenues in 2017-2018.

Prior to the coup, the Myanmar government had been slowly undertaking a series of reforms related to the sector, many of which were ongoing when the military seized power. This included an Amendment of the 1994 Myanmar Mines Law which was introduced in December 2015, and a new set of Mining rules to accompany the amended law in 2018. Key amendments and reforms include the addition of artisanal mining permits to the legal framework for the first time in Myanmar, and the devolution of responsibility to the states and regions for issuing small scale and artisanal permits.

“There are a range of significant environmental and social impacts as well as governance challenges associated with the mining sector in Myanmar.”

Role of State-Owned Enterprises

The Ministry of Natural Resources and Environmental Conservation (MONREC) is responsible for the administration and governance of Myanmar's minerals through its two mining-related (SOEs), Mining Enterprise number 1 (ME-1) and Mining Enterprise number 2 (ME-2), together with the Department of Mines (DOM) and the Department for Geological Survey and Exploration (DGSE). The SOEs (ME1 and ME2 for minerals) play a predominant role in minerals sector governance – both as joint venture partners and also as regulators and policymakers. Their role includes: participating in the permitting process and determining the terms of PSCs, commercial interests as joint venture partners and collection of revenues.

Prior to the coup, civil society urged for the clarification of the role of SOEs as de facto policy makers and regulators, as well as joint venture partners, in order to avoid potential conflicts of interests. All mineral contracts require private companies to work through Production Sharing Contracts with an SOE, the terms of which are imposed by the SOE. Normally, the agreed production split is 70/30, with the SOE receiving 30% of production while the company bears 100% of the operational costs. Previously, SOEs were permitted to retain 55% of their profits in opaque “Other Accounts” that were excluded from the national budget. In June 2019, a directive was issued by the Cabinet to abolish the Other Accounts. This would mean that all revenues collected by SOEs now go to the Ministry of Planning and Finance but the status of this is unclear and those who may have knowledge about it have been arbitrarily detained by the military regime.

Division of responsibilities between ME-1 and ME-2 based on mineral types

Mining Enterprise 1 (ME-1)	Lead, Zinc, Silver, Copper, Iron, Nickel, Chromite, Antimony, Arsenic, Aluminium, Cobalt, Limestone, Stone, Clay, Coal
Mining Enterprise 2 (ME-2)	Gold, Platinum, Tin Concentrate, Tungsten Concentrate, Tin-Tungsten Mixed Concentrate, Tin-Tungsten Scheelite Mixed Concentrate, Rare Earths, Titanium

16 Bdo LLP, MEITI 5th reconciliation report 2017-2018, MEITI, March 2020. Available at: <https://myanmareiti.org/en/publication/5th-meiti-report>

Revenues from Chinese State-Owned Mining Companies

China's involvement in Myanmar's mineral sector is pervasive, involving a wide range of individual investors, Chinese state-owned enterprises, as well as governmental and quasi-governmental research agencies and geological institutions. China's involvement in this sector has deepened considerably since 1991, when it embarked on a process that led to the establishment of a strategic comprehensive partnership with the then Myanmar military government at that time. During the period of 1991 – 2010, many large Chinese enterprises, including those with ties to the Chinese military, entered into joint ventures with the military government. Adjacent to this process, Chinese government agencies became deeply involved in mapping Myanmar's mineral deposits, signing multiple agreements with their counterparts in Myanmar. These include the Chinese Academy of Sciences, the Chengdu Geological Institute among others. These projects helped to enhance interest in Chinese companies in this sector, while the outputs of these studies have also been used by Chinese business promotion agencies and brokers specializing in the mining industry to advance further investment in Myanmar's mineral sector. For example, a Chengdu based brokerage firm published a mining intelligence report in 2016 identifying 223 mining projects available for investment.

From 2010 up until the coup, a wide range of Chinese business promotion agencies sought to build close relations with the Myanmar Mining Department to collect information on mining projects and to extract concessions that might be sold to Chinese corporate investors. However, to present, there is no comprehensive mapping of China's involvement in this sector. Given that many informal business networks have invested through proxy companies, or gained mining concessions through ethnic armed organizations or militia under the military, such an exercise would be extremely difficult.

Instead of attempting to provide a comprehensive estimate of the entire amount of revenue generated from the mining sector, the following section provides information about the three largest mining projects, which are run by Chinese state-owned companies. Estimated revenues from each project are calculated based on Myanmar EITI reports, leaked documents and information released in parliamentary sessions. Our aim is to show the scale of potential revenue payments from these projects to the Myanmar military. The calculations below are rough estimates based on the limited data available and a set of assumptions about production volumes and metals prices (described below). How much revenue the military government actually collects will be shaped by a range of additional factors, including the prevalence of tax evasion in the sector. Our intention is to give a high-level sense of the mining sector's revenue potential rather than to provide precise estimates.

I. Sapae Taung and Kyisintaung Copper Mine (S&K Copper Mine)

In 1994, Myanmar state-owned enterprise ME-1 entered into a joint venture with Canadian-based Ivanhoe Mines (now Turquoise Hill Resources) to develop the three out of the four large copper deposits in Monywa, Sagaing region: Sapae Taung, Sapae Taung (South) and Kyisintaung Taung. Each of the two parties held a 50% interest in the S&K Copper Mine, and the parties launched operations in the late 1990s. In the mid 2000s, Ivanhoe Mines divested its interests in the project (with allegations from Amnesty International that it may have breached economic sanctions in the process)¹⁷.

In 2011, the S&K Copper Mine was taken over by a military-owned conglomerate, Myanmar Economic Holdings Limited (MEHL), and by Yang Tse Mining Limited, a subsidiary of Chinese company Wanbao Mining Ltd, which

¹⁷ Open for Business? corporate crime and Abuses at Myanmar copper Mine", Amnesty International, 2015. Available at: <https://www.amnesty.org/download/documents/AsA1600032015EngLIsH.PdF>

in turn is owned by a state-owned military supplier Norinco. The process was shrouded in secrecy and allegations of corruption.

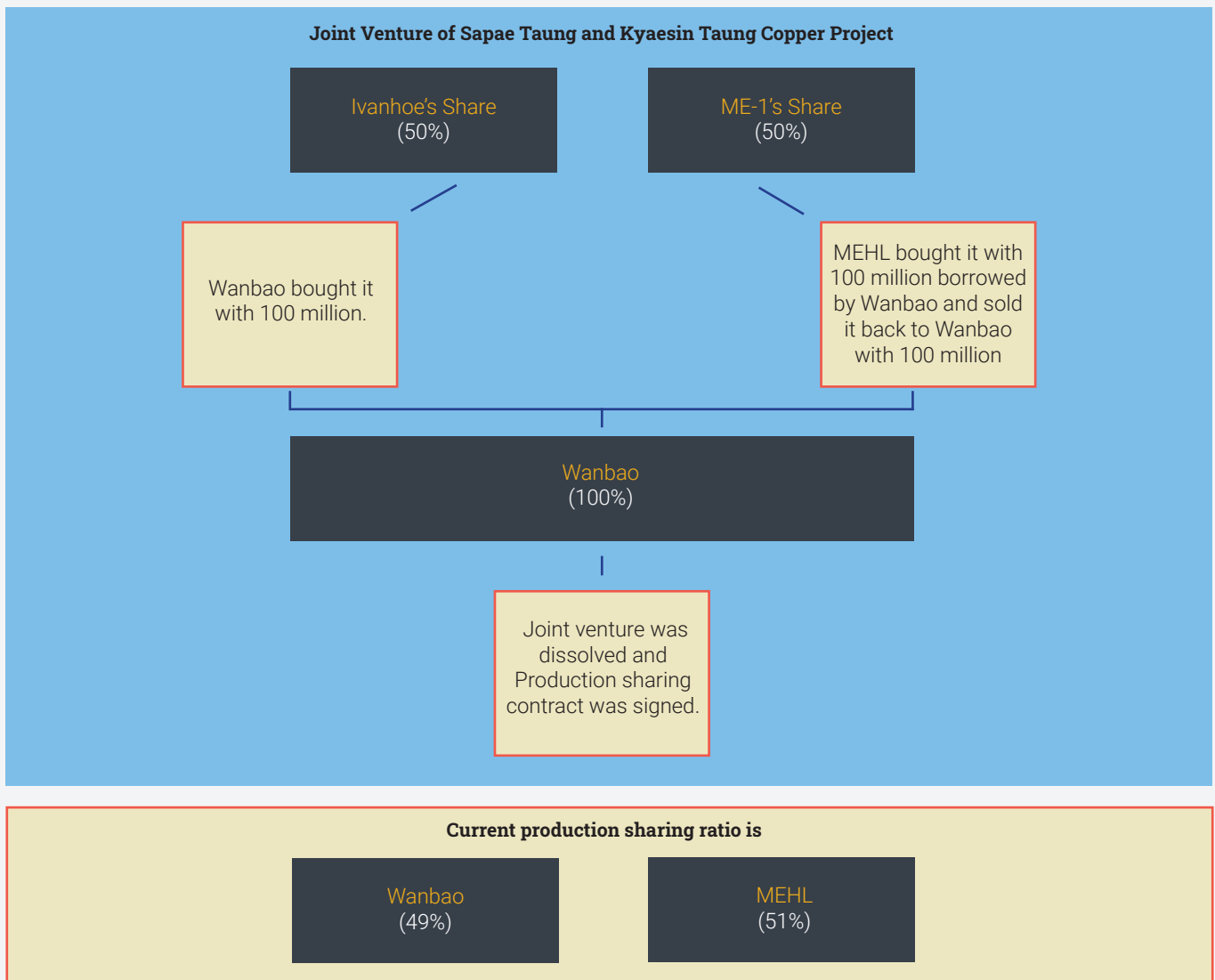
MEHL paid ME-1 USD 100 million to obtain its 50% interest in the project, while Yang Tse/Wanbao Mining acquired the other 50% of the project by paying Ivanhoe Mines USD 100 million. In the process, Yang Tse/Wanbao Mining Ltd. loaned USD 100 million to MEHL to finance its takeover. MEHL subsequently sold its share to Yang Tse/Wanbao, giving the Chinese SOE full ownership despite MEHL formally remaining the permit holder.

This joint venture was later dissolved when MEHL and Yang Tse/Wanbao Mining entered a Produc-

tion sharing contract (PSC). Under the terms of the PSC, MEHL receives 51% of production, while Yang Tse/Wanbao Mining receives 49%. Yang Tse/Wanbao Mining also carries 100% of the project's USD 396 million investment costs.

In a nutshell, MEHL acted as a broker for Yang Tse/Wanbao Mining Ltd. to facilitate the Chinese SOE's acquisition of the project. It also appears that MEHL is taking over what would normally be the government's share and role; ordinarily, ME-1 would represent the government in a PSC, however it is strangely not represented in the S&K Mine.

Figure 2 - Ownership Transfer of Sapae Taung and Kyaesin Taung Copper Project



“MEHL will buy 50% share of ME-1 with USD \$100 million borrowed from Wanbao Mining. Before PSC was signed, MEHL will sell 50 % share to Wanbao Mining, which will own 100 % of the project. MEHL will become permit holder and receive production share without investing a penny while Wanbao Mining will become the operator and invest 100 % in the project.”

Extract from MEHL’s letter to Myanmar Investment Commission in 2011

The S&K mine’s fiscal regime is highly unusual for several reasons:

- In Myanmar, PSCs are typically signed between an operator and one of the government’s mining SOEs. The S&K mine, however, is signed only with military-owned MEHL.
- The terms of the PSC allow the operator to deduct a fixed amount per ton of production (USD \$3,700 per ton of copper) for cost recovery purposes. The use of a fixed cost recovery provision of this sort is highly unusual by international standards.
- In the 2017-2018 fiscal year, the government received a total of USD \$47.7 million of taxes from the S&K mine. This comprised USD \$25.7 million paid by Yang Tse Mining and USD \$22 million paid by MEHL. It is unclear why MEHL is paying less tax than Yang Tse Mining given that it receives a larger production share.

Fiscal regime of S&K Copper Mine		
Dead Rent	3,000,000 Kyat	per square foot
Royalty	4 %	of total sales
Cost recovery	USD \$3,700	per ton of production
Corporate Income Tax	25 %	of profit
Commercial Tax	8 %	

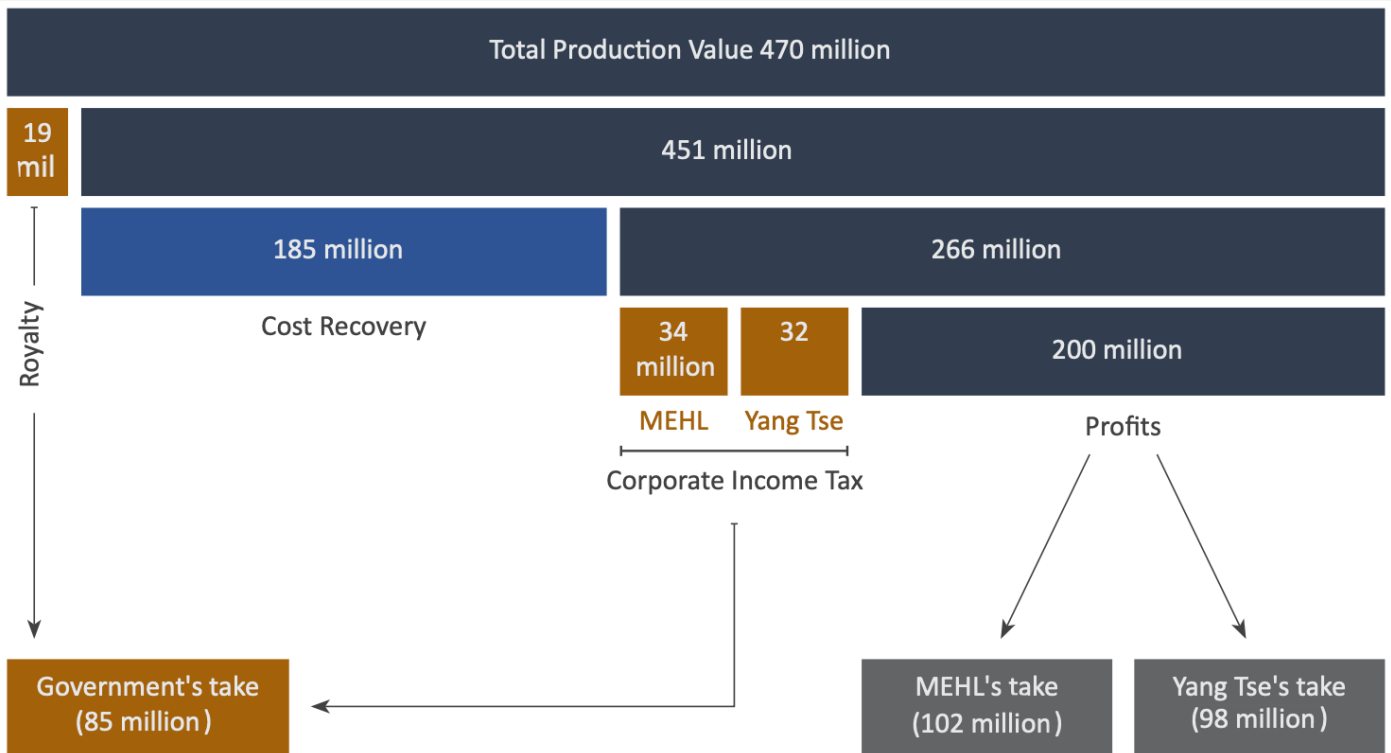
The price of copper has increased significantly, up to USD \$10,000 per ton in May 2021 (average copper price per ton in 2017 and 2018 was around USD \$6,500)¹⁸. Therefore, revenue payments from the S&K copper mine in 2020 - 2021 fiscal year are likely to increase.

There are a number of assumptions for the following revenue projection for the 2020-2021 fiscal year.

- Royalties are collected in cash instead of in kind.
- The price of copper per ton is set as USD \$9,400 (average price for the 2020-2021 fiscal year)
- Cost recovery rate is USD \$3,700 per ton of production.¹⁹
- Annual production is 50,000 tons.²⁰

“According to the projection of royalties, corporate income tax and MEHL’s take, the SAC will receive at least USD \$187 million from the S&K copper mine.”

Figure - 3



Note: commercial tax and other taxes are omitted in the estimation as they are relatively small.

According to the projection of royalties, corporate income tax and MEHL’s take, the SAC will receive at least USD \$187 million from the S&K copper mine. MEHL will receive USD \$102 million from the project. A hike in copper price is the main source for increased revenues.

19 Cost recovery rate for s&K copper Mine is mentioned in the MEHL’s letter to Myanmar Investment commission in 2011.

20 Estimated production figure is based on MEHL’s letter to MEITI office.

II. Letpadaung Taung Copper Mine

The Letpadaung Taung Copper Mine is the largest of the four deposits in Monywa, accounting for 75% of all of the deposits. The mine is approximately four miles from the S&K Mine and was originally intended to be developed by Ivanhoe. However, Canadian economic sanctions on the Myanmar government prevented further investment by Ivanhoe.²¹ In 2010, Myanmar Wanbao Mining copper Limited (Myanmar Wanbao), another subsidiary of Wanbao Mining Ltd., was given the permit to develop the mine. the mine reached full capacity in 2020.

The mine's development has been marred by controversy. In November 2012, local community members and monks staged a series of protests against the mine due to allegations of forced relocation, land confiscations and damage to cultural heritage sites (at the time, the project had planned to remove a Buddhist monastery). Security forces used white phosphorus munitions, which were allegedly provided by Wanbao Mining Ltd., to stop the peaceful protests and many were seriously injured.²²

Following the violent confrontations, President U Thein Sein appointed Daw Aung San Suu Kyi to lead the Letpadaung Taung Investigation commission in december 2012. In early 2013, the commission produced a report along with recommendations regarding compensation for confiscated land, mitigating environmental impacts, stopping use of violence against protestors, and an analysis on the fiscal regime of the project.

The previous fiscal regime of the Letpadaung Taung Copper Mine was similar to the S&K project – Myanmar Wanbao Mining held 49% and MEHL held 51% shares, while the former was responsible for 100% of the project's USD \$997 million investment costs.²³ ME-1 did not receive any production share. the commission acknowledged that profits received by MEHL were very high whilst the government's take was small as it only received royalties and corporate income tax. Following the commission's recommendations, in 2013 the production split was amended to ME-1 (51%), Myanmar Wanbao Mining (30%) and MEHL (19%). In the 2017-2018 fiscal year, the government received merely USD \$2.2 million in revenue from the mine.²⁴

21 "Fact File: the Monywa copper Project", Ivanhoe Capital Corporation, december 2012. Available at: https://www.ivanhoe-capital.com/site/assets/files/4039/monywa_fact_file_december_2012.pdf

22 "Open for Business? corporate crime and Abuses at Myanmar copper Mine".

23 http://www.myanmarangtse.com.mm/images/pdfs/2013%2003%2012%20_%20Letpadaung%20Investigation%20commission%20-%20Final%20report%20.pdf

24 Myanmar Extractive Industries transparency Initiative 2017-2018, Annex 12.

Fiscal regime of Letpataung Taung Copper Mine

Dead rent	500 USD	Per square foot
Royalty	4 %	Of total sales
Cost recovery	3,600 USD	Per tons
Production Share	51 %	
Corporate Income Tax	25 %	(exempted for three years from the year of commercial operation)
Commercial Tax	8 %	

Annual production of the mine has reached its full capacity in 2020, producing over 100,000 tons per year.²⁵ the cost recovery rate of the Letpadaung taung copper mine is USD \$3600 per ton of production – USD \$100 per ton lower than the S&K copper mine.²⁶

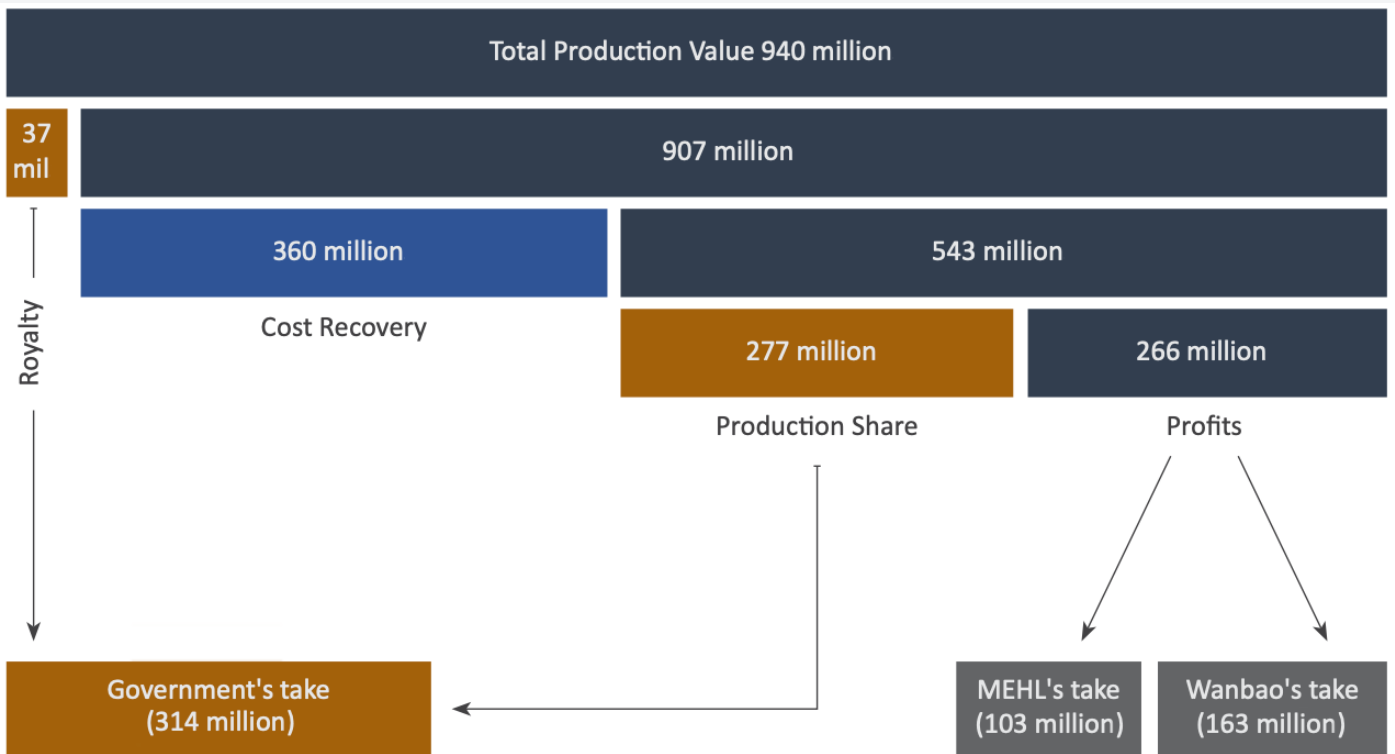
There are a number of assumptions for the following revenue projection for 2020-2021 fiscal year

- Royalties are collected in cash instead of in kind.
- The price of copper per ton is set as USD \$9,400 (average price for the 2020-2021 fiscal year).
- Cost recovery rate is USD \$3,600 per ton of production.
- Annual production is 100,000 tons.

The total revenue collected by the SAC in fiscal year 2020- 2021 from Letpadaung taung copper Mine could amount to USD \$417 million, which includes royalties, production share and MEHL's profit. When the mine's three year income tax holiday is over, the amount will likely increase unless the price of copper decreases. The suspension of mining operations due to protests staged by the thousands of workers from both s&k and Letpadaung taung copper Mines in early February is likely over and, as of July 2021, the mine has supposedly resumed operations.²⁷

“The total revenue collected by the SAC in fiscal year 2020- 2021 from Letpadaung Taung Copper Mine could amount to USD 417 million.”

Figure - 4



Note: commercial tax and other taxes are omitted in the estimation as they are relatively small. Corporate Income Tax is exempted for three years starting from commercial operation.

25 "Monthly output of copper in Letpadaung copper Mine in Myanmar exceeds 10, 000 tons", Norinco, november 20 2019. Available at: [http:// en.norinco.norincogroup.com.cn/art/2019/11/20/art_6529_182871.html](http://en.norinco.norincogroup.com.cn/art/2019/11/20/art_6529_182871.html)

26 MEHL, "Explanation on the proposal to Myanmar Investment commission", Feb 8th 2011

27 "Myanmar Military-chinese copper Mining stops as Workers Join Anti- coup Protests", The Irrawaddy, February 11 2021. Available at: [https:// www.irrawaddy.com/news/burma/myanmar-military-chinese-copper-mining-stop-workers-join-anti-coup-protests.html](https://www.irrawaddy.com/news/burma/myanmar-military-chinese-copper-mining-stop-workers-join-anti-coup-protests.html)

III. Tagaung Taung Nickel Mine

Tagaung Taung Nickel Mine is one of the largest mining operations in Myanmar but has generated little profit for the government to date.

The mine became operational in 2009 under a production sharing contract between China Nonferrous Metal Mining Company (CNMC) and ME-3 (which has since been incorporated into ME-1). The PSC arrangements are different from the S&K and Letpadaung Taung Copper Mines. The nickel price dictates the production split ratio between CNMC and ME-1. Furthermore, unlike the other two projects, MEHL is not involved in the project.

The nickel mine has a capacity of 700,000 tons of nickel. cnMc is responsible for 100% of the USD \$855 million investment for the project. The mine has an annual output of 85,000 tons of ferronickel.

Revenues from the tagaung taung nickel Mine in 2017- 2018 are negligible, bringing in less than USD \$1 million dollars for 60,000 tons of production, although it is a large-scale mining project. the reasons why the mine has generated little benefit is due to a combination of the mine's exemptions from paying corporate income tax and commercial tax until 2018, the low price of nickel (less than \$15,000 USD per ton in 2017-2018) and high fixed cost recovery rate. Since the nickel price is extremely volatile, applying a fixed cost recovery rate for the project is inadvisable.

During the NLD administration, civil society organizations advocated for amendments to the current fiscal regime.²⁸ However, ME-1's senior officials, who were formerly with the military, pushed back against any changes.

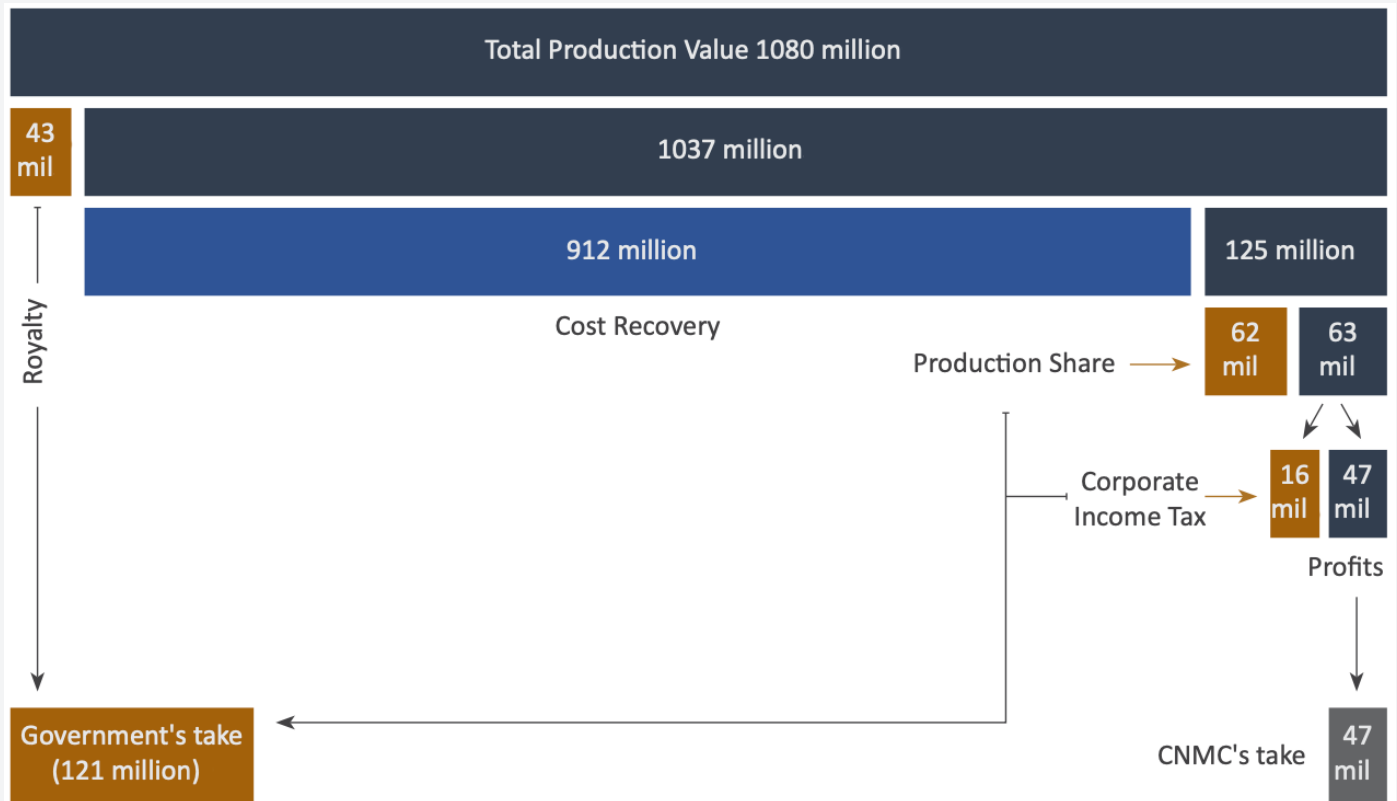
Fiscal regime of Tagaung Taung Nickel Mine

	PSC's Annex 2	PSC's Annex 3
If LME nickel price is	Between 20,000-15,001	Under 15,000
Royalty	4 % on total sales	4 % on total sales
Commercial tax	8% (Exemption from 2013 to 2018)	8% (Exemption from 2013 to 2018)
Cost recovery per ton	15,200 USD	
Corporate Income Tax	25 % (Exemption from 2013 to 2018)	
Profit-share/production share	ME-1 will receive 50 %	ME-1 will receive 1 %

“China Nonferrous Metal Mining Company (CNMC) is responsible for 100% of the USD \$855 million investment for this project.”

28 Kyaw Lin Htoon, “controversy grows over secret nickel mine deal in sagaing region”, Frontier Myanmar, december 27 2019. Available at: <https://www.frontiermyanmar.net/en/controversy-grows-over-secret-nickel-mine-deal-in-sagaing-region/>

Figure - 5



Note: commercial tax and other taxes are omitted in the estimation as they are relatively small.

There are a number of assumptions for the following revenue projection for the 2020-2021 fiscal year.

- Royalties are collected in cash instead of in kind.
- The price of nickel price per ton is set as USD \$18,000.
- Cost recovery rate is USD \$15,200 per ton.
- Annual production is 60,000 tons of production.

According to our projection, the government could receive USD \$121 million for the 2020-2021 fiscal year if the price of nickel remains high.

“The government could receive USD \$121 million from Tagaung Taung Nickel Mine for the 2020-2021 fiscal year if the price of nickel remains high.”

Conclusion

After five months of an unsuccessful coup, the military is not likely to relinquish their attempts to gain power any time soon.

Given the entire economy has been in a freefall since the coup, the military's main sources of revenue will likely increasingly depend on the country's natural resources, namely oil & gas, gemstones and metals mining, the last of which has pervasive Chinese investment.

Myanmar's metals mining sector has historically been overshadowed by the oil & gas and gemstones sectors due to the smaller amount of revenue it generates, which is partly due to weak fiscal regimes set in PSCs. Regardless, we estimate that the three largest mining projects, which are run by Chinese state-owned companies, could provide the SAC with more than half a billion dollars in the 2020-2021 fiscal year as the projects reach full capacity and metal prices rise.

In addition, MEHL alone will receive an estimated USD \$200 million from S&K and Letpadaung Taung copper mines.

As the Myanmar military regime sustains conflict against the Myanmar population fueled by revenue from the natural resource sector in which Chinese investment is prevalent, there is increased risk of even further negative public perceptions of China.

Chinese companies, both private and state-owned, should sever its business partnerships directly with the military regime and with SOEs whose accounts have been appropriated by the military regime, in order to ensure it is not abetting widespread violence in Myanmar.

In addition, in response to the coup, the United States, the United Kingdom and the European Union have designated certain individuals and entities under economic sanctions. To date, the US has sanctioned a number of Myanmar state-owned enterprises including Myanmar Gems Enterprise, Myanmar Timber Enterprise and Myanmar Pearl Enterprise. In early July, Wanbao Mining and its subsidiaries Myanmar Wanbao Mining Copper, Ltd., and Myanmar Yang Tse Copper, Ltd. were added to the list.²⁹ To increase pressure on the SAC's additional sources of funding, Mining Enterprise No.1 should also be sanctioned along with other revenue-generating SOEs.

²⁹ Press Releases, "Treasury Sanctions Senior Officials and Family Members connected to Burma's Military", U.S. Department of the Treasury, July 2 2021. Available at: <https://home.treasury.gov/news/press-releases/jy0260>.

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