

2024 RIN Online Workshop 1

Commodity Trade Mispricing: A Case Study of Coffee Bean Export from Lao PDR

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2nd August 2024



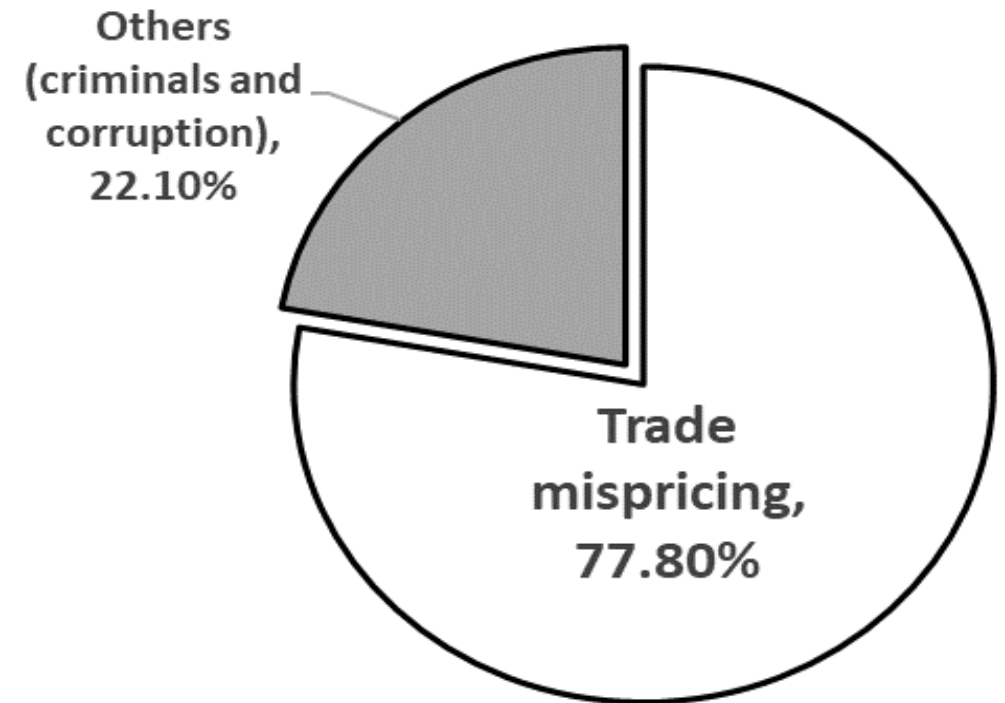
Content

- Introduction
- Data source and methodology
- Key finding
- Conclusion

Background

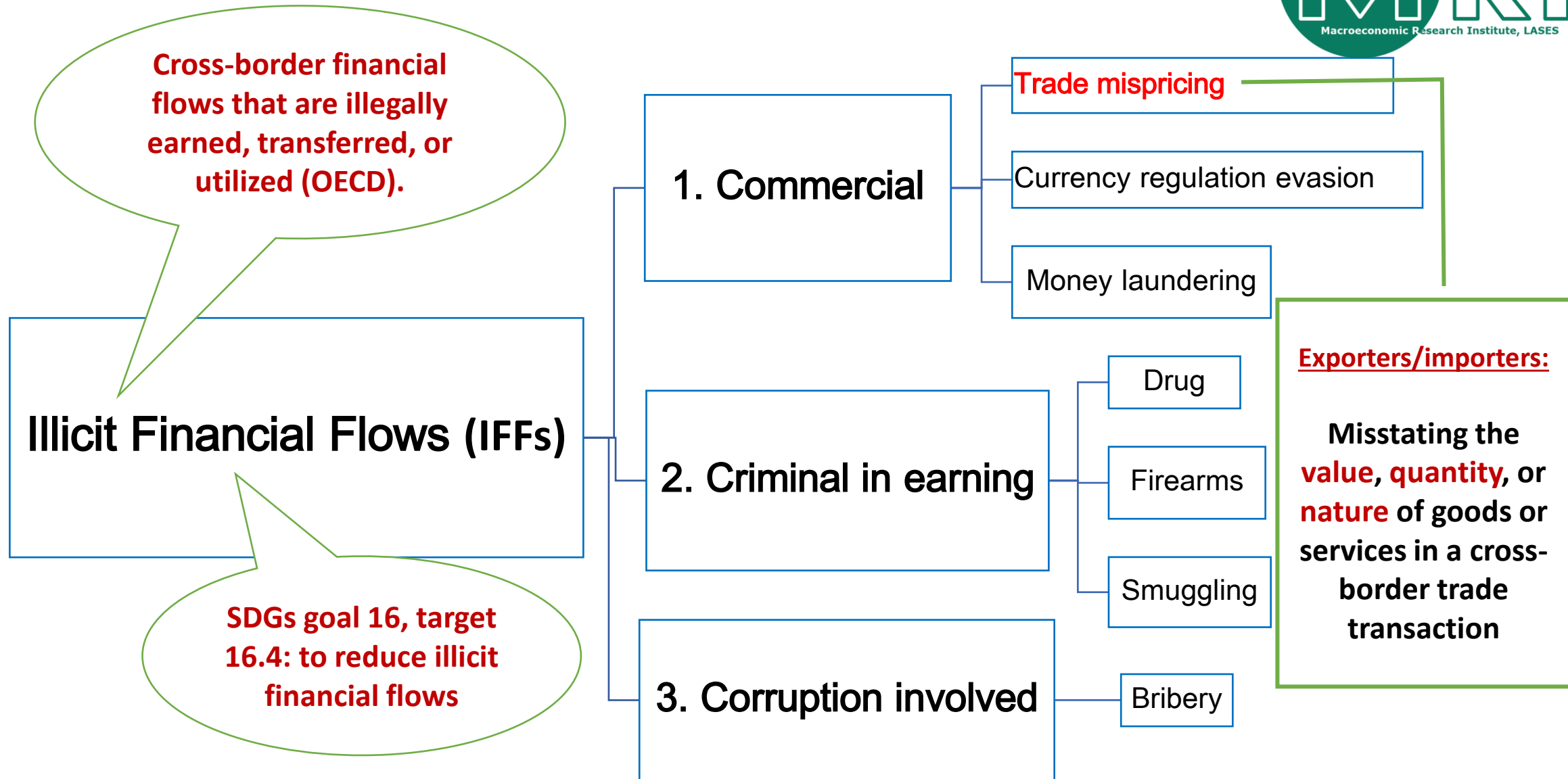
- Loss of corporate tax in developing countries is illicit financial flows (IFFs) largely to its main component of trade mispricing.
- Laos PDR is among developing countries with the largest IFFs or 14% of its GDP.
- **Objective:** to find the evidence of trade mispricing in the case study of Lao export beans during 2012-2017. If so, how much tax losses?

IFFs of **6,587 billion USD** in 184 countries during 2003-2012



Source: Illicit Financial Flows from Developing Countries: 2003-2012, Global Financial Integrity (GFI)

Background



Data Source



- **Daily transaction** during 2012-2017, Lao Custom department, Ministry of Finance.



Coffee Beans at 8 digits
HS: 09011110



- **Daily free market price** (reference price) at New York Market.
 - International coffee organization – Coffee-ICO composite daily.



Methodology



1. Partner-Country Trade Gaps, using Mirror Statistics.

- Compare **Trade Statistics** in developing **VS** developed countries (trading partner).
- But limitations:
 - Incorrect to assume that trade statistics in advanced economies is accuracy
 - Unobserved trade costs (FOB and CFI)


*Exporters reported exports
to Japan at Lao Custom*
(**200 million USD**)



*Importers reported imports from
Laos at Japanese Custom*
(**500 million USD**)

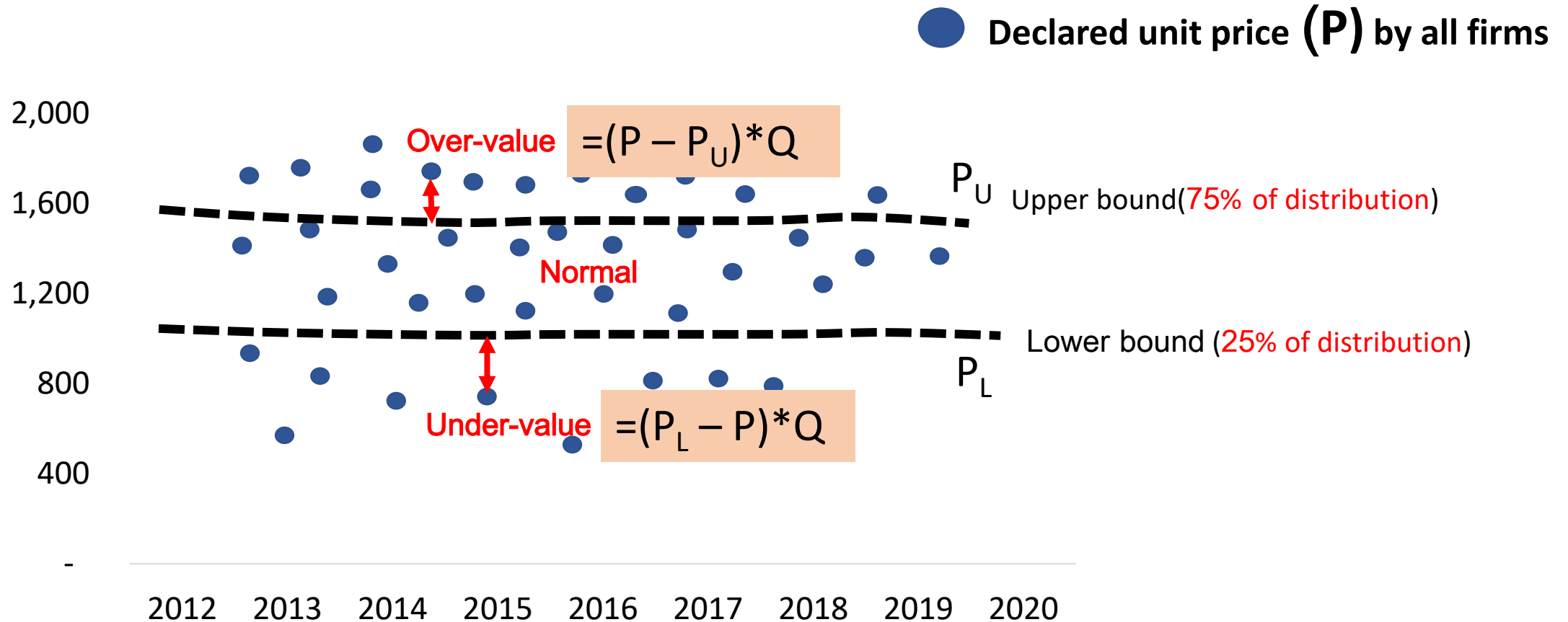
2. Price Filter Analysis

1) Inter-quartile range filter: assume a range (25th and 75th) of the observed distribution of **unit prices** for a particular commodity.

 **2) Arm's length price filter:** compares actual transaction-level **unit prices** with free-market price, plus-minus a reasonable filter to account for usual price volatility.

Methodology

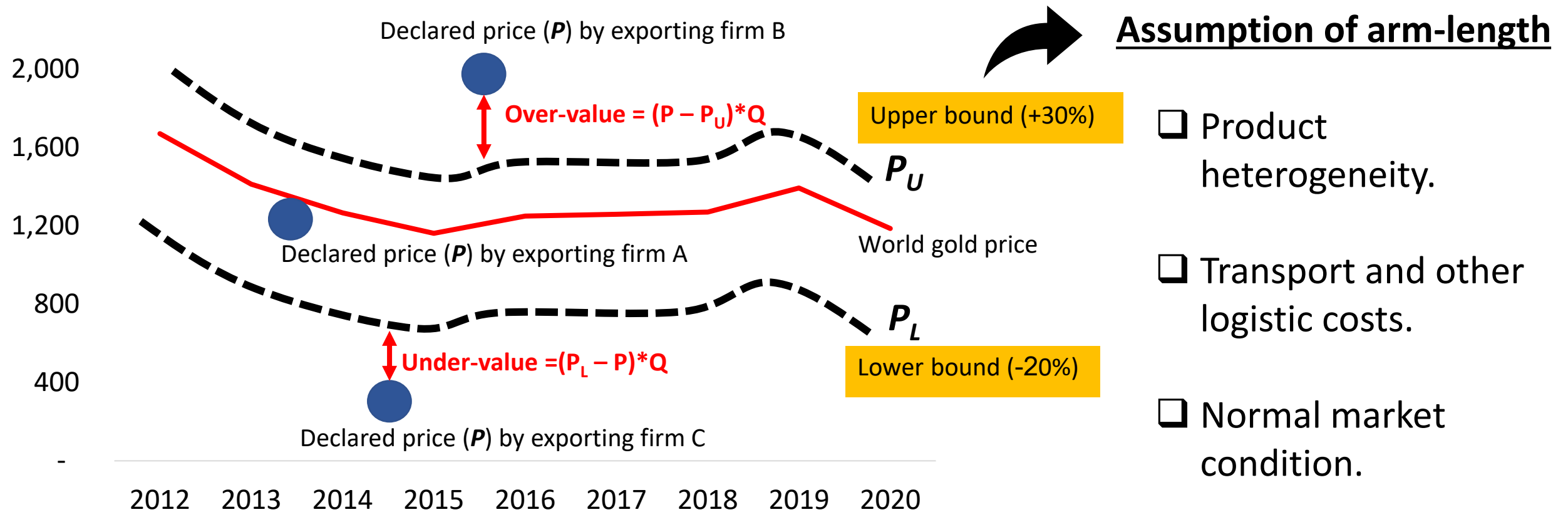
2) Inter-quartile range filter: Export of Copper



Source: Author

Methodology

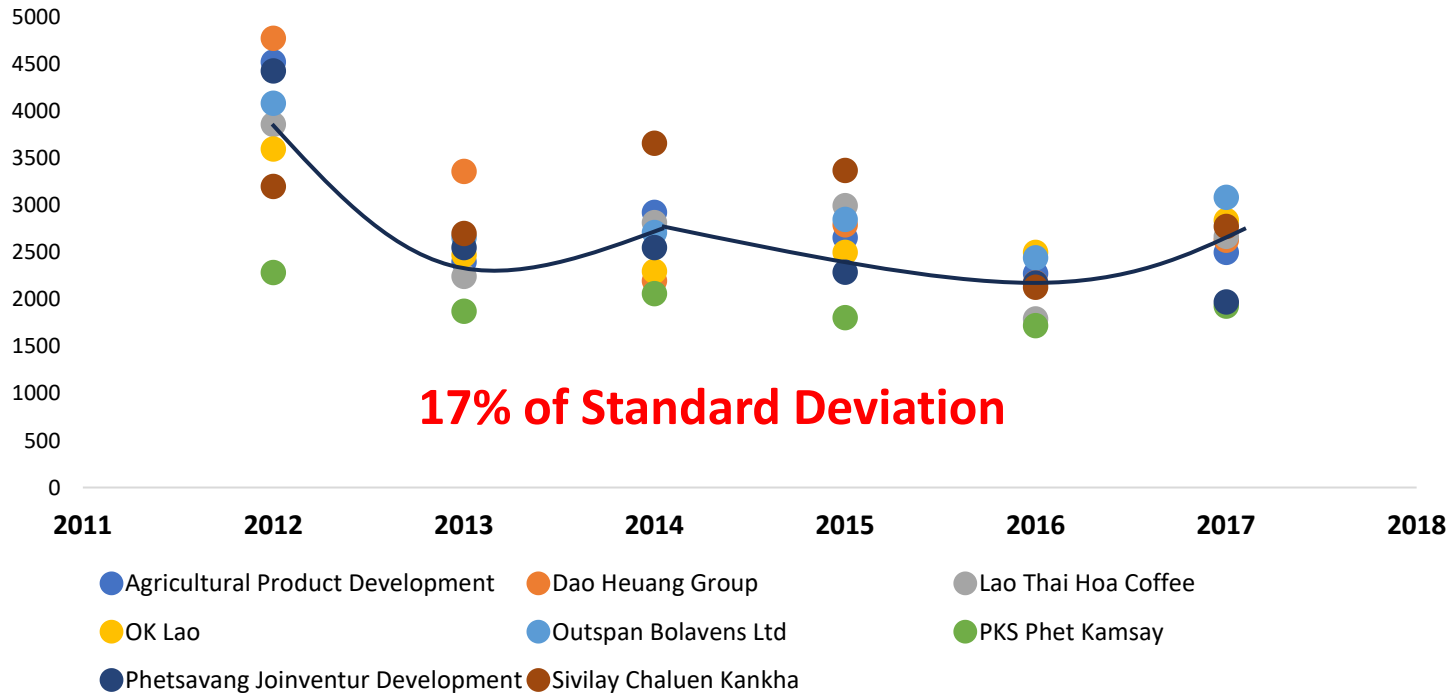
Defining the **Arm's Length Free-market price**, example: **exporting country** (Gold)



Assumption for coffee bean export

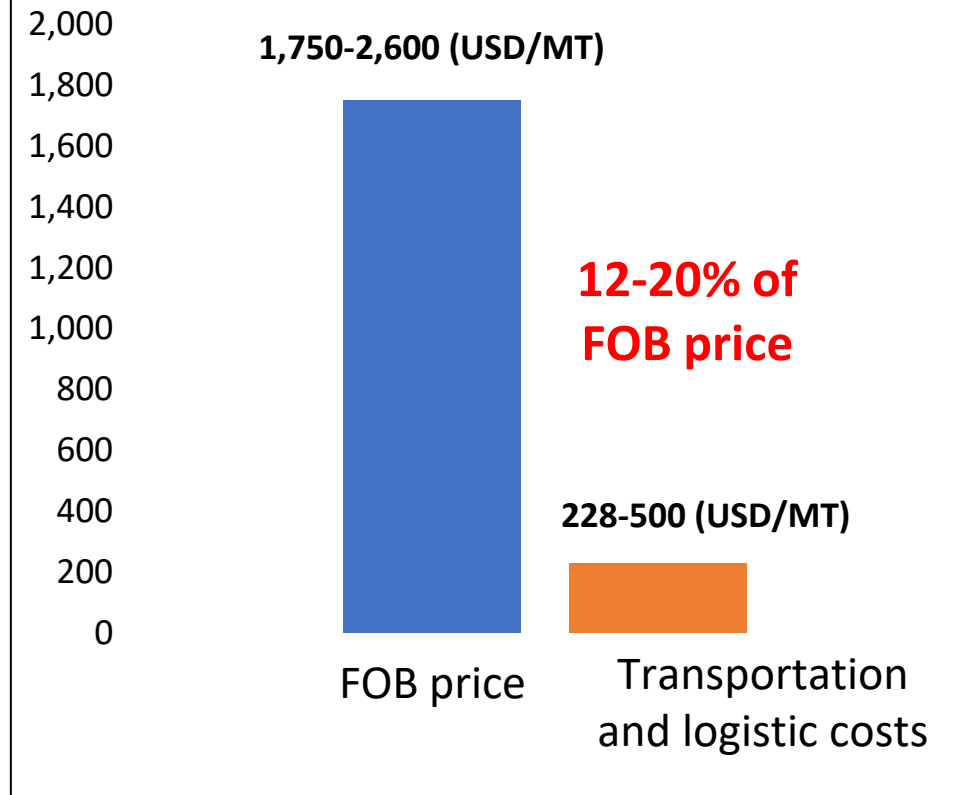
Upper bound +40 and Lower bound -20

Unit price per Ton (mean, USD) by Active Exporters



Source: Author's estimation by using the data from Lao Coffee Association

- Product heterogeneity: (+/-) 10%
 - Market condition: (+/-) 10%
- } (+/-) 20%



Source: Author summarized from Galindo et al. (2007, 84–85, Annex 7 and 8)

- Transportation cost: (+) 20%

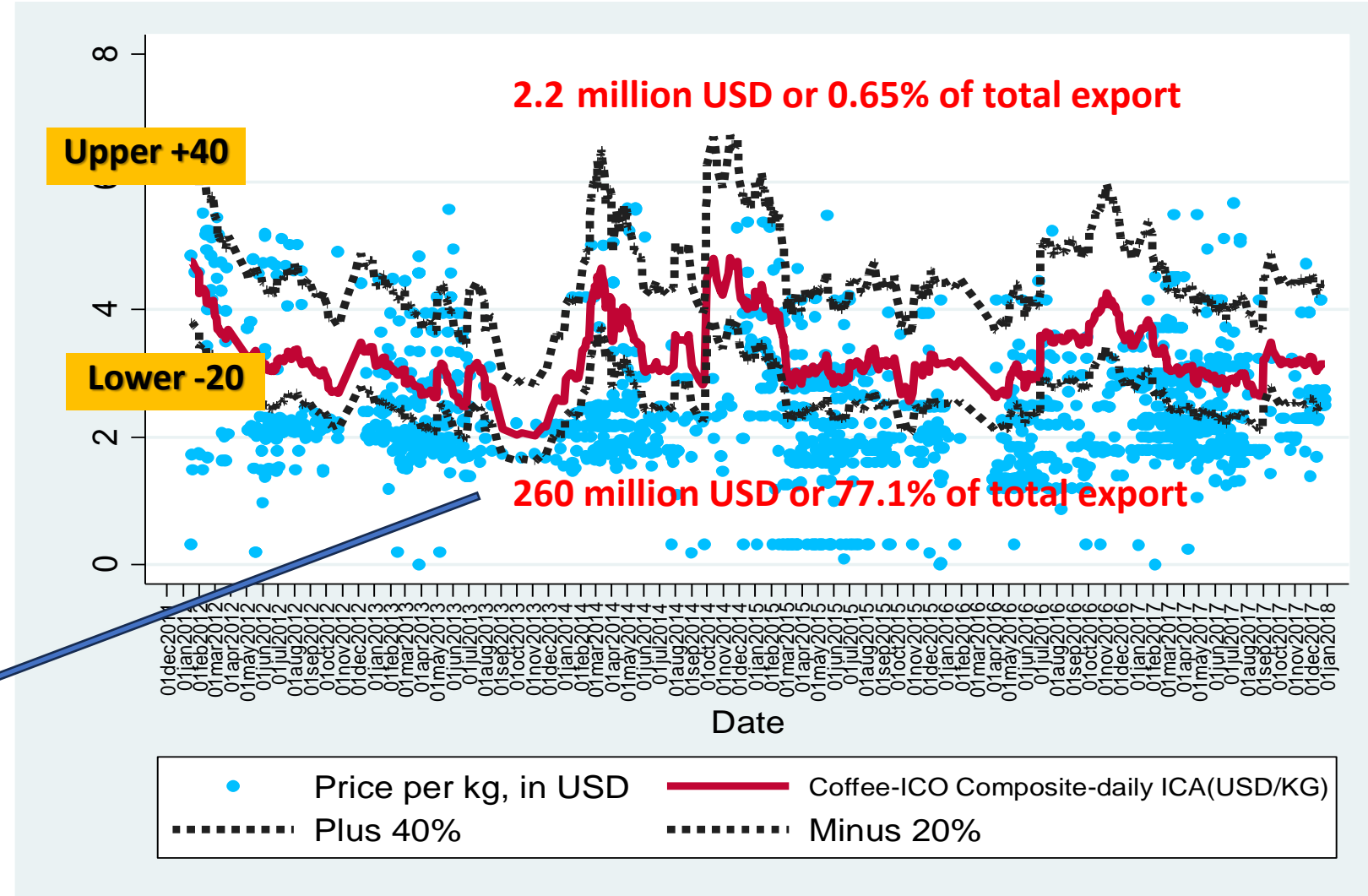
Key findings

Export of Coffee bean (2012-17)



- Many players: 25 exporters
- Product heterogeneity: (+/-) 10%
- Market condition: (+/-) 10%
- Transport cost and logistics: (+) 20%

Corporate tax loss:
3.1 million dollars

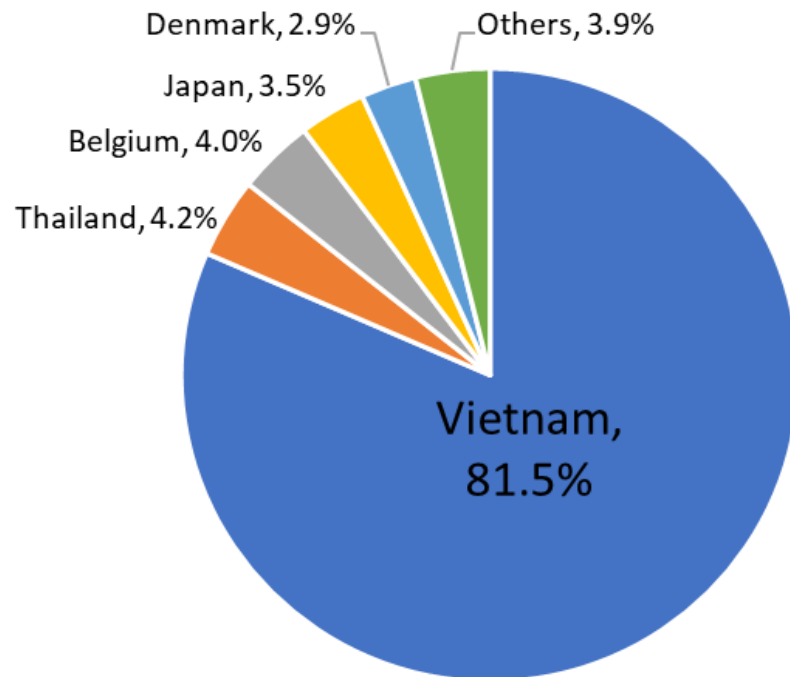


Key findings

Undervalue of Coffee bean (260 million)

Corporate Tax losses:

3.1 Million USD



Common Risks for Trade Mispricing:

1. Transactions between affiliated firms

- Joint venture with foreign firms.
- Multinational firms.

2. Weak capacity of local authorities in the evaluation of exports.

- 54.5% of all taxpayers (124,784 firms) didn't comply Tax Law in 2022.
- ➔ Outstanding debt of US\$24.2 million.

Conclusion

Trade mispricing:

- Transactions between affiliated firms
- Limited capacity of authorities



Recommendations:

Transfer pricing law

- Cambodia (2017), Indonesia (2016), Malaysia (2018), Thailand (2018), and Vietnam (2018) except for Laos and Myanmar.



- Advanced technology and training.
- Information sharing with trading partners.
- Data collection.

Thank you

Vientiane, Lao PDR

