

Swiss Programme for Research on Global Issues for Development (r4d.ch)

Curbing Illicit Financial Flows (IFFs) from Resource-rich Developing Countries

Price Filter Methods for Abnormal Pricing Analysis: Findings and Challenges in Lao P.D.R.

UNCTAD, Geneva

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For more information, visit <https://curbing-iffs.org>



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Our Ghana-Laos-Switzerland based **academic consortium** aims to:

- Improve **collective scientific knowledge** of commodity trade-related IFFs
- Identify **policy responses** to curb IFFs & increase domestic resources

Research objectives:

- **How much** commodity trade-related IFFs are there?
- **Why** do IFFs occur?
- **Who** are the major stakeholders ?
- **What** are the most promising policy responses

LAO P.D.R. : Resource-dependent Economy



- Fast-growing LDC with annual economic growth more than 7%,
- Highly resource dependent: Mining , Agriculture and Hydroelectricity

PRICE FILTER METHODS: Legal Perspective

Intuition: Transaction-level Prices vs. Arm's Length Price Range

Motivation: Transaction Valuation (WTO); Transfer Pricing Methods (OECD/UN)

1. Quoted, Free Market Commodity Exchange Prices:

- Allowed under the **Comparable Uncontrolled Price (CUP)** method
 - **With transaction-specific comparability adjustments**
- Also, **Sixth Method** used by developing countries for commodities

2. Interquartile Price Range: Narrow arm's length range around central tendency of price distributions (OECD TP Guidelines)

- Not discussed here, interpreted as risk indicators of trading partners/firms

Copper Cathode Exports (2012-17)

1. **Benchmark Price:** Mining companies use daily LME prices
 2. **Product heterogeneity:** Grade A quality containing 99.9% of copper
 3. **Transportation/Logistical Costs:** Up to 5% above copper price to transport from mine-site to Thai seaports
 4. **Normal market/contract price variation:** Up to 5% to account for different contract types, reference periods, etc.
- **Arm's length range:** Set at +10% above and –5% below LME price
- < 0.4% of total exports (USD 2.96 billion between 2012-17) are abnormally valued

Copper Concentrate Exports (2012-17)

*Trade Price = (% copper*LME reference price) + (value of gold & silver) - (treatment and refining costs) - (penalties) + transportation/delivery terms*

- 1. Benchmark Price/Product heterogeneity:** 23-25% copper content
 - 2. Gold & Silver content / TC & RC:** Less than 1% by value
 - 3. Transportation/Logistical Costs:** Up to 5% of total value
- **Arm's length range:** Set at +5% above LME price, adjusted for purity
- USD 259 mill. abnormally overvalued out of USD 1.8 billion of total exports (14.1%)
 - USD 125 mill. Abnormally undervalued (6.8% of total between 2012-17)
 - **But:** Customs data shows fixed export prices of exports, mainly to China

Coffee Beans Exports (2012-17)

1. **Benchmark Price:** Lao producers use ICO - NY market prices
 2. **Product heterogeneity:** Use annual production mix of Arabica vs. Robusta
 3. **Transportation/Logistical Costs:** Up to 20% above value
 4. **Normal market/contract price variation:** Up to 10% variation observed due to contractual conditions and bargaining power of multiple actors
- **Arm's length range:** Set at +40% above and –20% below benchmark
 - USD 260 mill. abnormally over-valued out of USD 338 mill. of total exports (77%)

Thank you for your kind attention.

References available on: <https://curbing-iffs.org/publications/>

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