Policy Note 83078

September 2013

TRADE DEVELOPMENT

Turning Cambodia into a leading rice exporter

Significance

The Cambodian Government has set itself an ambitious target of achieving annual milled rice exports of 1 million tons by 2015. In order to achieve this target, Cambodia will have to address several challenges that are currently preventing it from making the most of its rice exports. With only two years remaining, urgent reforms will be necessary if Cambodian rice is to establish a significant regional and world market share. Without such reforms Cambodian rice exports can be expected to suffer, as external factors combine to render Cambodian rice less attractive to foreign buyers. For instance, Cambodian rice cultivation costs have risen recently, while the re-entry of India into the global rice market as a major exporter has meant that world prices have fallen. The European Union (EU) is expected to shortly extend the same import duty preferences to Myanmar as those currently in place for Cambodia. Time is of the essence, therefore, in implementing reforms, if Cambodia is to maximize its potential as a rice exporter and achieve its stated export targets by 2015. This note looks and the issues and challenges and then goes on to offer not suggested recommendations that could be considered by the Government to help it achieve its aims.

Introduction

Cambodia is an efficient rice producer that regularly harvests a large surplus. Rice can therefore be a valuable export commodity for Cambodia. In the past couple of years, Cambodia's rice exports have tripled as a result of import duty privileges from the EU and Russia, and new investment in rice mills and rice-polishing factories. Output in 2012 is estimated to have increased 6 percent year-on-year to 8.8 million tons, with an estimated exportable surplus of over 4.3 million tons. Already at a record level in 2011, exports are estimated to have reached 250,000 tons in 2012. At present this includes 'informal' exports to Thailand and Vietnam, which account for almost half the crop.

The Issues and Challenges

The price of Cambodia's white rice increased to uncompetitive levels during 2012, reflecting India's re-entry into the world rice market as a major exporter, and high container freight costs. This has adversely affected exports to the EU, and has made it difficult to penetrate key markets such as Indonesia and the Philippines. If the Government's targets are to be achieved, Cambodia must address this lack of competitiveness, including comparatively high freight and electricity costs, increased export duties and technical barriers to trade.

With prices coming down internationally, and the likelihood that the EU will soon extend import duty preferences to Myanmar, more competitive prices for Cambodian white rice will be needed. The institutional nature of some of the costs mentioned above, such as freight and electricity costs, will take time to address. In the medium term, therefore, Thailand and Vietnam will continue to enjoy comparative advantages in these areas. Given the size of its import market, Cambodia will continue to be at a disadvantage on availability of containers, and therefore may be well advised to move away from containerized to non-containerized (break bulk) exports. Some direct costs can be reduced relatively quickly. Cambodian exporters face fees (formal and informal) of about US$11/ton, while Thai and Vietnamese exporters face about US$0.12 and US$0.05, respectively, clearly affecting competitiveness. Cambodia can negotiate with its neighbors on transit options that will facilitate cost reduction and competitiveness, such as barging white rice to Ho Chi Minh City, or transporting it to Thai ports for international shipping.

While improving its competitiveness on white rice, Cambodia may also wish to prioritize the export of the more competitively-priced aromatic rice. Shipments of aromatic rice to Malaysia showed strong growth in 2012, and the Chinese market was opened to Cambodia for a trial shipment of 600 tons. Given the size of the different segments of the world rice market, Cambodia needs to concentrate on exports of both white rice and aromatic rice.

Milling costs in Cambodia are higher than those in Thailand and Vietnam due to the higher cost of electricity in Cambodia and the relative inefficiencies of its mills and rice-polishing factories. These inefficiencies stem partly from inadequate milling and storage capacity, and partly from capital limitations. For example, while Cambodian mills typically operate one 8 – 10 hour shift per day, and do not have the working capital to operate year-round, their Thai competitors operate around the clock, on three 8-hour shifts, six days a week throughout most of the year. The situation is rapidly evolving, as Cambodia has recently seen major investments in larger, more efficient rice mills and polishing factories that have led to a four-fold capacity increase over the past four years. There is an expectation that capacity could double again by 2014. Improvements in milling and polishing capacity will not alone affect value-added production, however, but will help exports by allowing Cambodian traders to bid for, and deliver, larger orders.

Conclusion

Although the Government's rice policy has resulted in significant progress in growing and facilitating exports in recent years, many complex and inter-related issues at national and international levels remain to be surmounted if Cambodia is to emerge as a competitive rice exporter. In a world market that is highly competitive, surrounded by the well-established, efficient rice exporters of Thailand and Vietnam and potentially Myanmar, Cambodia must act quickly and decisively to retain hard-won export gains and establish itself in the region as an efficient rice exporter. The following recommendations are designed to improve the competitiveness of Cambodia's rice exports.

Recommendations

- Continue to remove bureaucratic hurdles and cut export procedure costs: To reduce its fees to competitive levels, Cambodia may wish to: (i) unify all export charges into a single payment; (ii) abolish recent fee increases by CamControl and the General Department of Customs and Excise (GDCE); and (iii) streamline the agencies (and ministries) involved in granting export approvals.
- Improve the effectiveness of the one-stop export office: Currently, CamControl and GDCE do not allow their officials to issue documents at the one-stop office. Enabling the one-stop office to issue all required export certificates, including CamControl and GDCE documents, will improve efficiency. A one-stop office set up in the Sihanoukville Port would be advantageous.
- Streamline GMO-free certification: Cambodia's largest export market, the EU, is highly sensitive to imports of GMO-free food, but there are no laboratories to test the goods in Cambodia. The Ministry of Agriculture, Forestry and Fisheries (MAFF) could issue a blanket guarantee confirming that Cambodian rice is GMO-free, thereby eliminating this requirement for testing.
- Initiate bilateral talks with Vietnam and Thailand on alternative export routes: Cambodia should enter into bilateral negotiations with Vietnam, to lock in recent informal changes that allow un-containerized rice to be barged down the Mekong River, to take advantage of potential savings over road transport of up to US$12/ton.
- Reduce port charges.
- Encourage further private sector investment in milling and polishing capacity.
- Sign MOUs with neighboring countries for rice exports.
- Reconstitute the Rice Technical Working Group (RTWG).

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