

Annex A1

Agribusiness: General

Cambodia possesses many agricultural assets, and the potential for turning them into successful export ventures is considerable. For some important products, the loss of good quality agricultural commodities through smuggling is the biggest challenge. High domestic costs, poor infrastructure, administrative inefficiencies, as well as a lack of investment in processing capacity, all discourage formal trade. Farmers and wholesalers often take the easiest option; selling to traders from neighboring markets who are able to bear the informal costs of moving commodities out of Cambodia for processing and onward sales. The regulatory reforms that WTO membership requires, and preferential market access, should improve the situation. The global trading environment, however, is improving only gradually under WTO rules. High tariff barriers, complex quota regimes, and foodsafety requirements will need to be understood to take advantage of new opportunities. Agribusiness groups should look closely at the Doha Round to improve conditions further.

Annexes A2-A8 discuss the opportunities for a few representative agribusiness products. The common theme is that the WTO can help, but its influence will be limited initially. Success will mostly depend on a big change in traditional attitudes and business practices.

The following comments about agribusiness in general concern three sets of issues: informal and illegal trading practices, competitiveness and quality, and how the WTO may affect each of them. The annex also describes in more detail how the WTO rules apply to farming globally, and how current negotiations under the “Doha Round” may be of benefit to Cambodia.

THE INFORMAL SECTOR LOSING EXPORT POTENTIAL TO SMUGGLING

The most serious challenge to the agriculture sector in Cambodia is the large loss of high-quality

agricultural commodities through smuggling. The raw materials of some potentially valuable export sectors are being lost for simple reasons: neighboring countries have processing capacity for many commodities, and often a shortage of feedstock; and, police and customs services at the borders are limited and prone to informal procedures and payments.

The costs and administrative burdens of formal exporting are too high. It is not surprising, therefore, that many Cambodian farmers and wholesalers are content to use informal trade routes. Processors of rice, soy beans, sesame seed, or cashew nuts in Vietnam, for instance, are prepared to send boats or trucks into Cambodia to collect orders, pay cash, and meet all the informal costs of transporting consignments back across the border.

Processors in neighboring countries are happy to pay relatively high prices for raw materials. After all, they are securing access to high-quality commodities that, in processed form, command premium prices in their domestic and export markets. Often, Cambodian consumers end up paying those premium prices for products that originated on Cambodian farms and plantations. The loss of agricultural production through smuggling and corrupt practices makes it difficult to reach the levels of output, and therefore the economies of scale, that might make exporting viable.

These problems are a big handicap for a country joining the WTO with a view to becoming a small, but successful, player in world agribusiness trade. It may be that Cambodia will remain only part of the production/marketing chain for products that are finally exported from Thailand, Vietnam, or China. However, even if that is the case, Cambodian agribusiness products should command a fair price. Long-term, Cambodian food items need to be recognized in international markets as quality products, returning a fair price to growers and processors in Cambodia.

Earlier chapters discussed the role the WTO can play in pushing institutional reforms and transparency in trade regulation. The government has new programs intended to eradicate smuggling. Customs reform will take time, but could be encouraged and assisted by international agencies. It may be further helped by new rules on trade facilitation now being negotiated in the Doha Round (see Chapter 4).

Ultimately, Cambodian farmers will need to be convinced that they will be better off pooling and marketing their produce through formal, rather than informal, channels.

INVESTMENT AND INPUT COSTS

With or without smuggling, raw commodities will not be processed in Cambodia while there is so little capacity. Investment is very low. What existing capacity there is has often been financed directly by mill and factory owners. Because of inadequate and/or costly financial services, farmers find it difficult, or impossible, to finance even the relatively minor investments necessary to improve yields or diversify into new crops. Commercial bank loans, where they are available, require interest payments of 12-24% a year, while micro-finance rates and informal loans can reach 44%. Chapter 6 explains the potential impact of the WTO on the investment environment, including in the area of financial services. In the short term, novel means of raising capital will, no doubt, continue to be explored. However, a major barrier to securing finance is the absence of land titles for farmers in Cambodia.

Inward investment in the agribusiness sector would be welcome. Unfortunately, the costs of business in Cambodia, as several “value chain” studies have revealed, discourages investors. For processors, fuel and electricity costs, for instance, are excessive. For farmers, other inputs like seeds, chemical fertilizers, and even limited supplies of pesticides are too expensive as formal imports, so they are smuggled.

The costs of simple farm machinery are also disproportionately out of line with competitors in neighboring countries. Import duties for tractors and diesel engines are quite low. But spare parts for the same items can attract duties twice as high, and be hit by an additional “specific tax” of 25%. The total official tax take at the border can reach 50% if VAT is included. For the most part, specific taxes of this

type should end with WTO accession, but maintaining prohibitively high duties on spare parts will remain a problem if there is no additional tariff reform. For the present, spare parts are smuggled in from Vietnam, where the import duty on the same diesel parts, from China or Japan, may be 5-20%.

Customs valuation issues for farm inputs and machinery imports are also a common problem. Both arbitrary and rigid valuations are sometimes adopted for the same importers, despite differences in consignments. Over time, the adoption of WTO disciplines (see Chapter 5) and trade facilitator reforms will resolve these problems.

VAT also poses problems for investment in processing plants. The Ministry of Economy and Finance is required to reimburse VAT on machinery imports within three months of importation, but does not always do so.

QUALITY AND THE NEEDS OF EXPORT MARKETS

As explained later in this annex, WTO can protect Cambodian exporters from the abusive use of food safety standards in overseas markets. However, that does not mean the quality expectations of buyers in major markets will not be high.

Cambodia could produce first-class agricultural products. Through investment and a sharp reduction in smuggling, Cambodia may have the capacity to consistently meet the demands on which long-term contractual trading relationships are based. Serious producers in Cambodia are already adopting quality-control measures, and technical assistance programs are in place, or planned, to enhance standards.

Consumers in the US, the EU, Japan, and other developed markets, are increasingly insisting on “safe” food that does not contain toxic residue, and has been properly safeguarded against disease and mishandling. They also want products that do not entail cruelty to animals or environmental damage in their production. Many are prepared to pay high prices to eat so-called “organic” products.

In this respect, Cambodia has a potential advantage over other suppliers. Since few can afford to do so, farmers tend not to use chemical fertilizers or pesticides. Properly monitored and certified, their products have the potential to be marketed as organic, and will have the additional selling point of tasting good. This does not mean they are likely to

take a large share of imports in any market, but it does open up the opportunities for securing high-value niches.

This also depends on marketing, packaging, and the physical transport and stocking of perishable products. Cambodia has little capacity for packaging to the standards required in advanced markets. Nor does it have significant refrigerated storage or transport, outside of Phnom Penh and Sihanoukville (which needs upgrading). The necessary investment to create such infrastructure may come, long-term, from the marketing of Cambodia as a producer of high-quality food products.

GLOBAL AGRICULTURAL TRADE: UNFAIR BUT IMPROVING

While opportunities for trading in industrial goods are normally clear and competition relatively fair, that cannot be said of agricultural trade. Market access barriers are often high, subsidies in developed countries distort markets seriously, and food safety standards are increasingly complicating export opportunities for poorer suppliers.

The essential problem is that for nearly fifty years, farm goods were excluded from the normal disciplines of world trade. GATT, the WTO's predecessor, maintained a series of special conditions that permitted the growth of subsidies, and high and unpredictable market protection. The result was to make the world market for many important products completely artificial.

These special rules allowed the European Community to develop its complex systems of market protection, domestic subsidization of farmers, and export subsidies called the "Common Agricultural Policy" (CAP). In the US, they sheltered long-standing farm subsidy programs. Japan, Switzerland, the Scandinavian countries, and most other developed countries, were able to maintain highly protected agricultural sectors.

THREE PILLARS OF AGRICULTURAL TRADE REFORM

With the end of the last round of global trade talks, the Uruguay Round, and the establishment of the WTO in 1995, the deteriorating situation was stabilized and has begun to improve. Reforms were put in place under three pillars.

First, almost all the quota restrictions and similar schemes that existed before 1995 were turned into tariffs. The tariffs are now largely bound (see Chapter 7), as for industrial goods, for each WTO member. So exporters at least know for sure the highest customs duty to which their products will be subject.

Unfortunately, in making the transformation, some of the tariffs turned out excessively high, and in some cases, so high that no imports would have been able to enter the market. In such cases, the countries concerned were required to offer some minimum access at low tariff rates, or access equivalent to import levels prior to 1995. It was these arrangements that led to the "tariff quotas" explained in Chapter 8.

The second pillar of reform concerned domestic support for farmers. This is the biggest area of agricultural subsidies in the developed markets. These programs were divided into three classes. The first concerned subsidies considered not distorting to international trade; principally direct payments, made to farmers to support their income, not dependent on what they produce, or the prices at which they sell (called de-linked or decoupled payments). It also included research, environmental, and regional assistance programs. These subsidies are permitted and are sometimes called Green Box payments.

The second category of domestic support, put in place to cover the EU's Common Agricultural Policy (CAP), is called Blue Box support. The Blue Box is supposed to contain payments made to farmers on condition that they limit their production. These payments only have a small effect on international trade, so they are currently permitted in the WTO.

The value of all other domestic support programs, for each WTO member, were calculated and then subjected to a series of cuts over five years. These "Amber Box" reduction commitments are scheduled in the WTO, and are therefore binding.

The third pillar of reform was a commitment to cut direct export subsidies. These are assumed to cause the most damaging distortions of global commodity markets. Those countries using export subsidies at the end of the Uruguay Round were required to bind and reduce them in stages over five years. Countries now entering the WTO are normally obliged to give up any right to use export subsidies in the future. This was the case for Cambodia.

DISCIPLINES ON FOOD SAFETY STANDARDS

One other major change was an agreement on food safety standards called the Agreement on the Application of Sanitary and Phytosanitary Measures⁸, which complements the TBT Agreement. This agreement provides safeguards on the abuse, as unreasonable barriers to trade, of measures relating to human, animal, and plant health and safety. The agreement must be implemented in Cambodia, and will be of practical importance to exporters in the agribusiness sector. The main provisions are outlined in Box A1.1, below, together with contact details where Cambodian companies can find information on SPS measures in their export markets. (Also see Appendix 3, The Role of Camcontrol.)

DOES THE WTO MATTER FOR CAMBODIAN AGRIBUSINESS EXPORTERS?

Cambodian companies may be tempted to conclude that none of these complicated rules and agreements will make much difference to their export prospects, but this assumption is incorrect.

It is true that two important local markets, Laos and Vietnam, are not members of the WTO. However, they are negotiating their accession, and are subject to the same pressures for reform at their borders and within their national institutions that have been directed at Cambodia.

It is also true that a large amount of agribusiness trade is now conducted with fellow members of ASEAN. However, in time, AFTA will place similar,

Box A1.1: The WTO's SPS Agreement on Food Safety Standards

The agreement encourages the use of internationally recognized food safety standards. However, WTO members may put in place measures leading to higher levels of protection of human, animal, or plant health and safety if there is a clear risk. Guidelines for assessing risks are detailed in the agreement. Measures can be introduced on a provisional basis as a precautionary measure where there is believed to be a short-term public health risk, but no conclusive scientific evidence.

Unlike technical regulations under the Technical Barriers to Trade Agreement, SPS measures can be directed at specific countries rather than being applied on an MFN basis. This is especially the case if particular animal- or plant-borne diseases threaten a WTO member. However, there should not be arbitrary or unjustifiable discrimination among countries where similar conditions prevail.

All WTO members are required to notify the WTO of new SPS measures, as well as publishing them locally. The notifications are sent out by the WTO to all members. In the case of Cambodia, the National Codex Committee is in the process of establishing a library for such notifications.

The network of SPS enquiry points put in place by other WTO members may be of most practical value to Cambodian exporters. Contact details can be found in the list of enquiry points at the following link: http://www.wto.org/english/tratop_e/sps_e/sps_e.htm

Alternatively, the list is available at the National Codex Committee:

Address: Cambodia Import-Export Inspection and Fraud Repression Department
Ministry of Commerce
N. 50, Street. 144, Phnom Penh
Fax: 855 23 42 6166
Email: camcontrol@camnet.com.kh

For additional contact information, see Appendix 3.

⁸ "Sanitary" refers to animal and human health while "phytosanitary" is the term for plant health.

or possibly more severe, pressures on its members than WTO to reform. Most members of ASEAN are also WTO members, and must observe its disciplines even within the free-trade area. The same goes for China, whose accession terms were particularly tough. The attention of developed country members of WTO on reform progress and the implementation of commitments in China will continue to be intense.

The WTO is steadily enforcing change on developed countries, however, whose subsidized farm sectors have been pushing competitive exporters out of key markets for decades. These practices have often displaced efficient farmers from foreign markets and dragged down world prices. Poor farmers in developing countries have suffered the most. Some of the worst examples, for example sugar, dairy products, beef, cotton, and wheat, are not sectors in which Cambodia is active. But there are few agricultural commodities in which government intervention is not distorting markets somewhere.

Further, Cambodian agribusiness exporters are already affected by the impact of preferences and free-trade agreements outside the region. As these arrangements proliferate, and given that Cambodia will probably benefit from very few of them, the manner in which they are overseen by the WTO may be important.

The potential loss of preferences by developing agricultural exporters has itself become a sensitive issue in the current Doha Round of WTO negotiations. Yet Cambodian agribusiness exporters may have much more to gain from another major set of tariff reductions across the world than the protection of preferences in which they do not have a stake.

The Doha Round should see a further significant reduction in domestic agricultural support programs. Most important, there is now a commitment to negotiate the complete elimination of export subsidies, and other unfair support to exports. This will open up many markets to competitive exporters, rather than those supported by government finance.

All this should make the WTO a key element in the trade and investment strategies of the agribusiness sector, even if its short-term impact on exports is relatively small.

The following annexes attempt to illustrate the opportunities available in some representative agribusiness product sectors, and the specific elements of the WTO that will help or hinder Cambodian exporters.

SOURCES AND PRACTICAL INFORMATION

1. “Assessment of the Agro-Industrial Situation in Cambodia”, February 2003, PRASAC II Support Programme
2. “Towards a Private Sector-Led Growth Strategy for Cambodia”, June 2003, The World Bank and Global Development Solutions LLC
3. WTO rules on agricultural trade: http://www.wto.org/english/tratop_e/agric_e/agric_e.htm
4. “Agriculture and the WTO – Creating a Trading System for Development”, 2004, The World Bank & Oxford University Press
5. WTO negotiations on agriculture (the Doha Round): http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm
6. Food safety standards – notifications to the WTO: see Box A1.1
7. WTO tariff schedules and applied customs duties: see Appendix – General Information Sources
8. International agribusiness production and trade forecasts, United States Department of Agriculture (USDA): www.ers.usda.gov/Briefing/Baseline/trade04.htm
9. EU Commission Agriculture Directorate agricultural markets forecasts 2003-2010 : http://europa.eu.int/comm/agriculture/public/caprep/prospects2003/index_en.htm

Annex A2

Agribusiness: Rice

Cambodia's chances of returning to its status as a major rice exporter are limited. Thailand and Vietnam now dominate the global market. Large quantities of Cambodian paddy rice are smuggled to Vietnam for milling and onward export. Only one Cambodian rice mill can operate to export standards, and its products have proved themselves in developed country markets.

With more investment in modern rice mills, Cambodia could offer larger quantities of good-quality specialty rice to an international market that is growing in sophistication. This would increase international recognition that Cambodian products can meet high standards. The WTO has yet to bring openness and fairness to international rice markets, but preferential arrangements like the EU's EBA are opening doors for the world's poorest rice producing nations.

THE WORLD RICE MARKET

United States Department of Agriculture (USDA) estimations show world production of rice at 405 million metric tons (milled equivalent) for 2004-2005. This is 5% above 2003-2004, with China taking the biggest share of the increase. Nevertheless, the 2004-2005 projection is still 1% lower than the record 1999-2000 crop. World consumption is expected to be around 417 million metric tons, with end-year global stocks at 71 million metric tons, down 15% from 2003-2004. China's 12% increase in production is the first since 1997-1998, and is expected to have a significant impact on world trade and prices.

Only about 6% of world rice production is traded; which equates to about 25 million metric tons expected in 2004. Small variations in domestic production in major consuming countries can severely impact global trade and prices. Table A2.1 shows the largest importers of rice in 2002. The statistics include paddy, husked, broken, and milled rice. Most imports are of *indica* rice, with Japan importing *japonica*, notably from the US.

Table A2.1 Major Rice Importers in 2002

Country	Quantity (Thousand metric tons)
EU (15)	2,120
Indonesia	1,970
Nigeria	1,250
Philippines	1,200
Bangladesh	940
Iran	870
Senegal	790
South Africa	760
Saudi Arabia	670
Japan	650
Brazil	560
Cuba	550
Malaysia	500
US	410

Source: FAOSTAT 2004

USDA estimates for 2004 imports show a marked change over 2002, with Bangladesh imports at 500,000 metric tons, Malaysia at 650,000 metric tons, Saudi Arabia at 1.15 million metric tons, Indonesia at 1 million metric tons, and Mexico at 55,000 metric tons. China, a small importer in 2002, is expected to import 700,000 metric tons in 2004, despite its increased yields and acreage.

USDA projections for 2005 suggest further volatility. China is expected to import only 600,000 metric tons, the Philippines' imports will increase from 300,000 metric tons in 2004 to 600,000 metric tons, Cuba will increase to 700,000 metric tons from 550,000 metric tons, and US imports should rise by 10,000 metric tons to a record 480,000 metric tons.

It should be stressed, however, that these are among the largest importers. All developed countries and many developing countries import rice. Thus, if Cambodia is able to process and export more of its high-quality rice varieties, it may find niche markets in many places. For example, in 2002,

according to FAOSTAT, the Database of the UN Food and Agriculture Organization, Switzerland imported 94,000 metric tons, Canada 250,000 metric tons, Australia 62,000 metric tons, and Norway 19,000 metric tons. Consumer tastes are increasingly diversified in all of these countries, with Basmati, Thai Jasmine, and other specialty rice becoming more and more popular. Organic brands are also attracting consumers and large ethnic Asian communities in developed countries are also seeking out their traditional rice varieties. Further, it appears that industrial country consumers are prepared to pay relatively high prices for well-branded rice types.

WHO ARE THE BIG PLAYERS?

Thailand remains the world's largest rice exporter, accounting for 25% of global trade with its *indica* and premium jasmine varieties. Vietnam was the second biggest exporter in the late 1990s, before being overtaken by India. Table A2.2 shows the major exporters in 2002.

four years. At the time of writing, Thailand's 5% broken, parboiled rice was fetching \$234 per metric ton (measured Free on Board, or f.o.b.; the price of an export at the port of departure) and Vietnam's 5% broken at \$226 per metric ton. With US supplies tighter in 2004, prices of US products are significantly above those from Southeast Asia. US southern long grain regular milled white rice (4% broken) was quoted at \$397 per metric ton in July 2004.

Thai Jasmine rice was fetching \$395 per metric ton during the same period. At the top of the market, Indian Basmati rice was selling at \$850 per metric ton.

WTO AND TRADING CONDITIONS IN THE GLOBAL RICE MARKET

The WTO has been less successful in bringing order and openness to the rice market than almost any other market. The sector is heavily protected and subsidized, hence the relatively low level of international trade compared with demand. Further,

Table A2.2 Major Rice Exporters in 2002

Country	Quantity (Million metric tons)	World market share (Percentage)
Thailand	7.34	27.7
India	5.05	18.35
US	3.27	12
Vietnam	3.24	12
China	2.07	7.5
Pakistan	1.68	6.1
World	27.52	100

Source: FAOSTAT 2004

The USDA predicts that Thailand's rice exports will reach a record 9 million metric tons in 2004. That level is expected to decline in 2005 as shipments increase from Myanmar, the US, Australia, Vietnam, the EU, Argentina, and Uruguay.

It is worth noting that in 1964-1965, Cambodia, then described as the "rice bowl of Southeast Asia", exported in excess of 500,000 metric tons of rice.

PRICE TRENDS IN THE INTERNATIONAL RICE MARKET

Despite declining stocks and lower supplies, world prices have tended to stagnate over the past three to

market access conditions can change rapidly and frequently. The following paragraphs describe the trading environment in relation to the WTO rules outlined in Annex A1 and in the initial chapters in this guide.

The especially difficult conditions in the rice markets owe a lot to the political sensitivity of the product. Governments do not want to be considered putting rice-growing traditions, which often retain an almost religious significance, at risk. Nor have they been prepared to see their national food security in terms other than the capacity to grow enough domestically to feed the population.

Thus, bound tariffs on rice in key markets are usually very high, often over 100%. Special treatment on market access applies particularly to Japan, Korea, the Philippines, and Taiwan which have all avoided the “tarrification” of the rice sector by providing access through tariff quotas amounting to 8% of their consumption (at the WTO base period).

Applied tariffs vary considerably with respect to the bound rates, moving up and down depending on domestic and international market events.

Apart from the four countries mentioned above, tariff quotas operate, under WTO commitments, for the following markets: Colombia, Costa Rica, Indonesia, Morocco, Thailand, and Venezuela. China also opened a large tariff quota when it joined the WTO in 2002. The Chinese quota allows in up to 4 million metric tons a year at a 1% duty rate. Other quotas are less friendly, with even the “in quota” tariff hitting 80% for Colombia, 90% for Indonesia, and 177% for Morocco. In these circumstances, the only way of securing competitive access to markets is through preferential tariffs.

Other tariff quotas operate within preferential arrangements, notably the EU and US GSP schemes.

For the rice sector, not only are market access conditions difficult and changeable, the import regimes are often managed by state trading enterprises. These can be non-transparent, arbitrary, and, sometimes, corrupt. The Doha Round negotiations are intended to lead to negotiated improvements in the management of tariff quotas and the operation of state trading enterprises.

FEW EXPORT SUBSIDIES, BUT CLAIMS OF DUMPING THROUGH FOOD AID

Perhaps surprisingly, the rice sector is largely unaffected by the use of export subsidies. India uses them, but few suppliers have ever come close to the ceilings imposed at the end of the Uruguay Round. On the other hand, the US uses subsidized export credit schemes to help its rice exporters, and is sometimes accused of dumping commodities as food aid.

Large amounts of domestic support are channeled to rice growers in developed countries. To support farm incomes during a period of low world rice prices, the EU, Japan, Korea, and Mexico have all used decoupled production-limiting payments, which

are sheltered from reduction commitments in the WTO. The US has a range of domestic support programs, which it considers to be covered by the “Green Box”. Some of these programs have been challenged through the WTO’s dispute settlement procedure.

Food safety, and therefore the SPS rules, is seldom a major issue in the rice trade. However, the WTO rules on IP protection may well turn out to be highly relevant for some rice producing countries for two reasons. First, there is concern over the danger of biopiracy in which the genetic structures of specialty rice, like basmati, Thai jasmine, and, perhaps, *Neang Mali* and other strains grown in Cambodia, may be replicated and marketed as the original varieties elsewhere. Second, there is the uncontrolled use of names on products that are not produced in the countries of origin, for example, basmati rice, which is originally from India and Pakistan. Efforts have been underway, led by the EU, to secure protection for geographical indications, similar to the protection provided under WTO rules for wines like Burgundy and Champagne, which come from specific regions in France. The proposal is strongly opposed by many agricultural exporters as being an unjustified form of market protection.

TRADING CONDITIONS IN THE REGION

The market access conditions for rice in ASEAN are almost as complicated as those under the WTO. Rice is covered under AFTA terms for sensitive products. This applies to Indonesia, Malaysia, the Philippines, Vietnam, and Cambodia itself.

Indonesia has bound an MFN rate for rice at Rp. 430/kilo. Malaysia, as a large importer, offers access at a zero CEPT rate (although importers need permission from the Malaysian authorities to secure this rate). Singapore is tariff free. Thailand has a bound rate at B3.00/kilo and a CEPT applied rate at 5%. Vietnam maintains MFN bound rates at 40% or 50% (for parboiled rice) with its 2004 CEPT rate applied at 15%, reducing to 5% for 2005.

Rice is not included in the duty-free list under the “early harvest” arrangement with China.

Apart from tariff protection, a number of countries in the region use subsidies and government purchases to maintain domestic prices for rice farmers, including Thailand, India, and Vietnam.

CAMBODIA IN THE INTERNATIONAL RICE MARKET

In the near term, Cambodia is unlikely to regain the position it enjoyed in the 1960s and before. For a start, too many of the tariff quotas that dominate access conditions now are allocated on the basis of previous performance, in the recent, not distant, past. Thus, even if it developed the necessary processing capacity, as a bulk supplier of processed rice, prospects for Cambodia would be limited.

Some preference schemes will offer opportunities, however. Notably, under the EU's EBA arrangement, rice is one of three commodities subject to a delay in complete duty-free, quota-free treatment. In the period until September 2009, expanding zero-duty tariff quotas will be used to steadily improve access.

The EU has reported that from 2006-2007, tariff reductions for the LDCs under EBA will start boosting rice imports. By 2009-2010, 80% of EU rice consumption (1.7 million metric tons of 2.1 million metric tons) will be met by LDC imports (together with Basmati rice from India and Pakistan). Thus, countries like Cambodia are expected to displace not only traditional EU suppliers like Thailand, but most domestic producers also.

Thai exporters to the EU have enjoyed a substantial duty-free quota covering white, brown, and broken rice. Outside the quota, Thailand pays full third-country duty rates. These rates changed on 1 September 2004 as a consequence of the reform of the EU rice market organization under the CAP. From that date duties were set at €65/metric ton for brown rice, and €175/metric ton for white rice. However, under WTO rules, these changes were subject to negotiations between the EU and its principal suppliers, namely, India, Pakistan, the US, and Thailand. The EU reached an agreement with India and Pakistan, in July 2004, which allowed duty-free treatment for Basmati rice. At the time of writing, agreements had not been reached with Thailand or the US. Clearly, any reduction in duties, or expansion of duty-free quotas, for Thailand might affect the potential for Cambodian exports to the EU.

It may be expected that the US and other industrial countries will broaden their own preferential arrangements for the world's poorest countries, but markets like Japan, and, to an extent, the US, will remain difficult in the rice sector.

At the same time, given the evolution of consumer tastes, the marketing of specialty rice brands will likely favor the development of Cambodian products if the quality of its rice varieties is more generally recognized. These high-value markets are less dependent on preferences, and less affected by the instability of world market prices. The marketing of Cambodian brands as organic may also increase opportunities.

IS CAMBODIA CAPABLE OF BENEFITTING FROM THE OPPORTUNITIES?

Much has been written about the Cambodian rice sector: the need to modernize, invest in milling capacity, create adequate infrastructure for transport and storage, organize farmers and the collection of paddy rice, eradicate illegal fees, develop marketing and branding, etc. Yet Cambodia is a large producer of rice: 4.1 million metric tons in 2002.

Trading relationships with neighboring countries are evidently crucial. The Cambodian Development Resource Institute (CDRI) estimates that almost 500,000 metric tons of paddy rice was smuggled across the Thai and Vietnamese borders in 2002. In 2004, traders on the Cambodian side of the border received \$135 per metric ton of paddy rice from Vietnamese buyers, who have been seeking increasingly large quantities. These buyers collect the product, transport it down the Mekong, and pay all the informal costs necessary to get the product into Vietnam.

CDRI says that the lost tax revenue in 2002 from rice smuggling was \$7.5 million. The economic impact is much greater, due to the loss of value-added from milling, and the cost of subsequently re-importing rice to meet local consumer demand.

This is not to say that if the current informal flows of paddy rice out of the country were to be eradicated, that formal trade in paddy, or partly processed rice, should necessarily be discouraged. If Vietnam and Thailand have captive markets globally, then there may be plenty of value for Cambodian farmers in leaving some processing of Cambodian rice to those countries. However, there must be considerable scope for increased processing for the domestic market.

Direct exports of fully processed Cambodian rice can build up only slowly. The single rice mill

capable of producing for export has demonstrated the potential for Cambodian rice strains, especially those sought by Asians living abroad. Exports to China, Hong Kong, Australia, Germany, Italy, and France may be followed by contracts with the US.

The company reckons that 4-5 new mills are needed to meet market demand. It also needs a better-organized collection of paddy. Already, growers associations representing 6000 families, farming 60,000 ha, are supplying the single mill; this should rise to 8000 families on 80,000 ha. By using the company's specially developed seeds, which produce fragrant rice, the growers associations are said to be doubling their incomes. Paddy rice is being purchased at \$210/metric ton with processed rice fetching \$480-530/metric ton.

Helping farmers avoid the use of pesticides and chemical fertilizers allows the company to register its products as organic. The seeds themselves are deposited at the International Rice Research Institute, and should be subject to IP protection (the EU is now using DNA testing to confirm imported rice varieties). A registered trademark for *Neang Mali* rice should boost marketing potential, and efforts are underway to secure SPS registration for the EU market.

PROTECTING THE DOMESTIC RICE SECTOR

Given the level of smuggling, in both directions, protection of the domestic rice sector is challenging. However, Cambodia has left plenty of room, in principle, for restricting market access by binding tariffs on virtually all rice products in the WTO at 40%. Rice seeds are bound at 5%. In the AFTA schedule affecting imports from most neighboring rice producers, seeds are bound at zero, with other

rice products bound at 7%. The AFTA rate of 7% is currently being applied as the MFN duty for all suppliers. VAT at 10% is also payable at the border.

SOURCES AND PRACTICAL INFORMATION

Various sources of information are available on the state of rice markets, international prices, quota conditions, IP issues, and regional and multilateral trade negotiations affecting the rice sector. Among them are:

1. Oryza: market information:
<http://www.oryza.com/index.shtml>
2. International Rice Research Institute:
<http://www.irri.org/>
3. Riceonline:
<http://www.riceonline.com/home.shtml>
4. USDA Economic Research Service:
<http://www.ers.usda.gov/Topics/view.asp?T=101218>
5. EU Commission Agricultural Market Prospects 2002-2009:
<http://europa.eu.int/comm/agriculture/publi/caprep/prospects2002/fullrep.pdf>
6. "Towards a Private Sector-Led Growth Strategy for Cambodia – Volume 1: Value Chain Analysis", June 2003, The World Bank and Global Development Solutions LLC.
7. Tariff classification (for duty rates): 1006

Annex A3

Agribusiness: Cashew Nuts

The biggest development in the world cashew market over the past few years has been the emergence of Vietnam as the dominant producer and exporter. The processing capacity in Vietnam is so large that processors are prepared to pay high prices for raw cashew nuts. One result is that a large part of the Cambodian cashew crop is being purchased with cash and taken informally, or smuggled, across the border with Vietnam. Prices paid by Vietnamese traders are too high for the one processing company in Cambodia that is capable of producing for the world market. Coupled with excessive domestic costs, and the need for informal payments to move the product to and through ports, it is difficult for Cambodian cashew production to be competitive. Yet the world market for shelled cashew nuts is large, and trading conditions are open. Additional potential lies in marketing organic cashew nuts.

THE WORLD MARKET FOR CASHEW NUTS

In 2003, Vietnam was reported to have topped India from its long-standing position as the world's biggest cashew nut exporter. So big has been Vietnamese investment in cashew processing and production that fears are emerging of a world over-supply. While over the long-term, producer prices have fallen, the trend towards excess processing capacity has driven prices of raw cashew nuts back up, at least temporarily.

Table A3.1 illustrates changes in the production of unprocessed cashew nuts among the major players, comparing 2003 and 1995. While Vietnam is only in fifth place with respect to area under cashew crop, its yields are high (2,470 kg/ha). Yields in India, by contrast, are around 630 kg/ha. (The recently established Australian cashew industry is aiming at more than 4,000 kg/ha to be competitive.) Vietnam's area under cashew expanded by 35,000 ha to 80,000 ha in 2003 alone.

Table A3.1 Production of Cashew Nuts

Producer	Quantity 2003 (metric tons)	Quantity 1995 (metric tons)
Vietnam	637,200	202,000
India	460,000	321,500
Brazil	178,400	185,000
Nigeria	186,000	95,000
Tanzania	123,000	63,500
Cote d'Ivoire	90,000	39,000
Guinea-Bissau	80,000	29,000
Mozambique	58,000	33,500

Source: FAOSTAT 2004

With the exception of Nigeria, which produces largely for domestic consumption, most of Africa's cashew nut production is shipped to India for processing. Although Tanzania is believed to be able to process about 30% of its crop, processing investment in other African countries has largely been unsuccessful, with failure rates of factories constructed in the 1980s as high as nine out of ten. India imported 403,000 metric tons of unshelled cashew nuts in 2002.

By the same token, Vietnam is taking in heavy imports to meet the needs of its own increased processing capacity. The level of these imports is difficult to estimate since they include significant informal consignments from Cambodia. The Vietnam Cashew Association suggests the figure was 220,000 metric tons in 2003, with prices to suppliers increasing by 20% over 2002. So great is the demand by Vietnamese processors that supplies of raw cashews are now being sought from African producers.

Exports of shelled cashews are shown in Table A3.2, again compared with 1995. The very low levels of African exports of processed cashews are evident.

Table A3.2 Major Exporters of Shelled Cashew Nuts

Exporter	2003 (est.: April-Dec) (metric tons)	2002 (metric tons)	1995 (metric tons)
Vietnam	80,000	62,000	20,000
India	72,000	122,000	70,000
Brazil		30,000	32,000
Mozambique		631	2,000
Tanzania		399	0
Cote d'Ivoire		211	0
Guinea-Bissau		0	155

Sources: FAOSTAT 2004 and industry news reports

The major consumers of processed cashew nuts are industrial countries, where the product is often eaten as a snack with cold beverages. Domestic markets in the producing countries tend to be small, given the price premiums commanded by exports. The domestic market in Vietnam, for instance, accounts for only 5% of total production. The US is by far the largest importer of Indian cashew nuts. However, there is some doubt that the market can expand indefinitely due to the sensitivity of domestic almond producers, who are seeking to regain part of the nut snack market. Table A3.3 lists the main importers in 2002.

Table A3.3 Major Importers of Cashew Nuts in 2002

Importer	2002 (metric tons)
US	95,400
Netherlands	20,600
UK	10,400
Australia	8,700
Canada	8,100
Germany	7,400
Japan	6,700
France	5,000
World	209,400

Source: FAOSTAT 2004

All industrial countries import cashew nuts, and Vietnam is now gaining footholds in a number of non-traditional markets in Eastern Europe, the Middle East, Japan, and ASEAN. China is also an importer.

At the end of 2003, export prices in India (measured as cost, insurance, and freight, or c.i.f., at destination, which is the UK in this example) were between Euros 3,155 and 4,557 per metric ton, depending on grade. That represented a marginal increase over previous months, but reflected a longer-term decline in world prices.

TRADING CONDITIONS IN THE WORLD CASHEW MARKET

As a tropical product with little direct competition in temperate zone agriculture, cashew nuts are not subject to protection in the large industrial markets. The US, EU, Japan, Canada, and Australia all provide duty-free access for shelled cashew nuts. Thus, Cambodia will not receive any market access advantages over current suppliers in these markets.

Cambodia will, however, benefit from preferential access to the Chinese market through the ASEAN-China "early-harvest" arrangement. This provides duty-free access for Cambodia, against 20% payable by Vietnamese exporters. However, it is reported that Vietnamese exports can remain competitive through access to informal supplies of raw cashews, and through smuggling across the Vietnamese-Chinese border. Cambodia's own duty on imported cashews (shelled or unshelled) is fixed at 7%.

Where market access barriers exist, they are mainly related to food safety measures and standards. There is particular concern about aflatoxin in cashew nuts, a problem avoided by properly controlled collection and drying. As with many other products, cashew nuts labeled as grown through organic farming are well received, but must be properly certified.

CAMBODIA IN THE WORLD CASHEW MARKET

An estimated 8,000 ha are under cashew nut cultivation in Cambodia. Harvests are estimated at 40,000 metric tons of nuts, an average 500kg/ha yield. Smallholders farm much of the area, along with a limited number of large plantations.

One example of a large producer that might engage in direct formal exports is a syndicate of 10 owner-farmers in Kampong Cham. With 2,000 ha planted for cashews, yields are too low to make investment in processing viable. The view of the owners is that they would have to get yields of between 1-2 metric tons/ha, with a potential production of 30,000 metric tons/year, to be competitive in processed nuts.

Indeed, only one export-oriented processor is known in Cambodia. The Kampong Cham factory has a capacity of 6,000 metric tons per year, generating 1,000 metric tons of processed nuts. At present, the factory is struggling to meet export contracts because of shortages of raw nuts. This includes sales to the US, from which 70-80 metric tons were ordered for 2004. The company has an organic farming certification for US orders.

Cambodian production of raw cashew nuts is feeding about 80 processing factories in Vietnam, and probably others in Thailand. In 2004, Vietnamese traders were offering around \$750/tonne (up from \$450/tonne in 2002), and prices were expected to rise. Most of this trade is informal; Vietnamese traders place orders, send trucks to the plantations, pay cash, and meet all the informal costs of passing across the border, back into Vietnam. The arrangement suits many

Cambodian growers who avoid domestic costs and taxes, and secure high prices for their product.

For Cambodia's only processor, the arrangement is killing their business. The company cannot pay Vietnamese prices for the raw product if it wants to be competitive internationally. At the same time, it needs to pay high fuel and electricity costs, interest charges on the original investment, turnover and other taxes, and all the formal and informal charges necessary to get the product to and through Sihanoukville port; as much as \$1350 per container.

SUMMARY

Most of the challenges for Cambodia as a successful exporter of shelled cashew nuts lie at home, not in export markets. If these challenges are not met, Cambodia will remain a large exporter of unshelled cashew nuts, formally, or informally, facing the same situation as African cashew producers.

SOURCES AND PRACTICAL INFORMATION

1. "Cashew Nuts, Essential Oils and Spices: Feasibility Study in Cambodia on Processing for Export Development", March 2003, A.G. Mathew, International Trade Centre.
2. Industry information, prices, etc.: <http://www.cashewindia.com/html/process.htm>
3. Tariff classification (for import duty rates): 0801

Annex A4

Agribusiness: Livestock

Various studies, and experience, suggest that there may be considerable opportunities for Cambodia to export livestock, notably, cattle, buffalo, pigs, and poultry. Currently, the cattle trade is primarily through smuggling. Properly fattened, Cambodian cattle could be sold into growing regional markets, and perhaps also meet growing demand in the Middle East. Limited exports have already been sold to Malaysia. In recent years, animal diseases have made global trade in livestock precarious; meeting health standards is vital. This can be achieved by developing veterinary services and improving access to veterinary medicines. Exploiting the livestock sector would also require improved access to competitively produced animal feed. Trade conditions for livestock are otherwise relatively open.

THE WORLD MARKET FOR LIVESTOCK

The world market for live cattle, normally described as live bovine animals, is complicated and regionally segregated. Clearly, trade in live cattle and beef inter-

act, as it does with trade in animal feed. All trade in cattle is increasingly affected by outbreaks of animal diseases, notably Bovine Spongiform Encephalopathy (BSE, commonly called “mad cow disease”) and foot and mouth disease, in the past decade. Health standards are becoming increasingly demanding, with import bans frequent, and sometimes arbitrary. Several dispute cases have been pursued through the WTO, including that on hormone-fed beef between the US and EU.

Trade in the North American Free Trade Agreement (NAFTA) area, for instance, is large, but self-contained. In 2002, the US imported over 2.5 million head of cattle, almost all from Canada and Mexico. Similarly, trade in the EU of live animals is very high, about 3.3 million head in 2002, but it is largely comprised of trade among member states. External imports into the EU, in 2002, amounted to just over 500,000 head.

The more interesting markets concern ASEAN, the rest of Asia, and the Middle East. Table A4.1 and A4.2 lists the largest of these markets in 2002.

Cattle Imports in 2002

Table A4.1 ASEAN and Rest of Asia	
Importer	2002 (head)
Brunei Darussalam	23,300
Indonesia	171,100
Malaysia	97,000
Philippines	117,100
Thailand	183,000
China	11,500
Hong Kong	48,000
Japan	14,500
Macao	5,300
Nepal	12,000

Source: FAOSTAT 2004

Table A4.2 Middle East	
Importer	2002 (head)
Bahrain	8,146
Israel	52,730
Jordan	40,200
Kuwait	7,400
Lebanon	222,680
Saudi Arabia	39,000
United Arab Emirates	4,600
Egypt	153,000

Source: FAOSTAT 2004

Live cattle, which, in Cambodia, are used largely as draft animals, are imported for a variety of purposes, including slaughter, dairy production, and breeding. Among suppliers, Australia dominates the Asian and Middle Eastern markets for live cattle, with some 948,000 head exported in 2002. While there has been public criticism of the health conditions of animals shipped to the Middle East, the Australian industry expects to see the markets there grow.

Among Cambodia’s neighboring countries, trade in cattle is already significant. Official figures certainly underestimate the true picture, but FAOSTAT reports Myanmar exporting 113,000 head in 2002; China 58,000; Laos 35,300; and Cambodia 10,600.

TRADING CONDITIONS IN INTERNATIONAL LIVESTOCK MARKETS

While trade in beef is dominated by tariff quotas and special access conditions, especially those negotiated bilaterally in the main Asian markets by the US and Australia, trade in livestock is more open. All major importing countries, however, often have complicated and demanding SPS measures in place.

ASEAN markets are largely duty-free. That is the case for Malaysia and Indonesia, while the Philippines imposes a 3% duty. Thailand’s normal 5% rate is reduced to zero for live cattle and swine imports under the bilateral preference scheme. The official duty on the Vietnamese border is 5%. Cambodia enjoys duty-free access to the Chinese market through the “early harvest” arrangement. Cambodia’s own border conditions for the entry of

live cattle entail an MFN tariff of 15% with an AFTA CEPT rate, for 2004, of 10%.

Middle Eastern markets are also largely open, although several countries have bound high tariffs in the WTO, as shown in Table A4.3.

In addition to concerns over BSE and foot-and-mouth disease, trade in live cattle has also been affected by disputes over the use of growth hormones. Over a decade ago, the US, Canada, Australia, and others challenged an EU ban on animals (and beef) produced in the US using such hormones. A WTO panel found that the ban was not based on any scientific evidence or credible risk assessment, and called on the EU to remove the restrictions. This was not done, and the US imposed retaliatory trade measures against other EU goods. The EU has since claimed that new directives bring the ban into conformity with WTO obligations, but the US disagrees. This is not a problem that will affect Cambodian cattle exports.

CAMBODIA AS A CATTLE EXPORTER

MAFF statistics show a total of nearly 2.9 million head of cattle present in eight provinces in 2002, and 625,000 head of buffalo in four provinces. Local demand is largely met from used draft animals and surplus young animals. There is a large, exportable surplus of cattle.

For the most part, Cambodian animals are taken across the Vietnamese and Thai borders in small numbers, and on an informal basis. In part this is because formal imports of Cambodian cattle have been affected in recent years by foot-and-mouth fears

Table A4.3 WTO Bound and Applied Tariffs for Middle Eastern Markets

Country	WTO binding	Applied rates
Bahrain	35%	5%
Israel	128%	Zero for 120,000 head quota
Jordan	43% for pure-bred breeding cattle	
	5% plus 10JD/head	5% plus 10JD/head
Kuwait	100% plus 15% stamp duty	5%
Lebanon	Negotiating accession	Zero
Saudi Arabia	Negotiating accession	Zero
United Arab Emirates	15%	5%
Egypt	10%	Uncertain

Sources: WTO tariff schedules and customs departments

in the two markets. One estimate suggests that informal exports of cattle and buffalo reach a range of 80-150,000 a year. Apart from lost revenue to the Cambodian government, cattle producers also lose the value-added through fattening, which takes place across the border.

To develop as a significant exporter, the Cambodian cattle sector needs organization. It also needs to meet local demand for animal feed, at competitive prices, to fatten livestock. Potential sources of high-quality natural feed, which is currently imported, all exist in Cambodia. These include fisheries products, the by-products of sugarcane and cassava, and, potentially, of soybean, peanuts, and corn.

A further requirement would be the continued improvement of veterinary services, and the enhanced availability of veterinary medicines and vaccines. Without these, endemic diseases like foot-and-mouth will not be controlled.

As with other products for export, competitiveness in overseas livestock markets can be severely hit by the informal domestic payments required to transport cattle and move them through the ports. As an example, one reported consignment of cattle, collected from various locations, was subject to 19

stops by the police and military, and the total fees collected amounted to \$250.

A large Cambodian agribusiness company, has, however, succeeded in establishing the necessary conditions for cattle sales to Malaysia. These are reported to have reached 1,000 head/month and possibly more. Otherwise, the large ASEAN markets remain unexploited by Cambodia, while neighboring countries take advantage of the opportunities.

SOURCES AND PRACTICAL INFORMATION

1. EU issues: http://europa.eu.int/comm/food/animal/liveanimals/bovine/imports_en.htm
2. USDA – Economic Research Service, “Agricultural Outlook” December 1997: www.ers.usda.gov
3. General cattle industry news: www.cattletoday.com
4. Tariff classification (for customs duty information): 0102 (live bovine animals)

Annex A5

Agribusiness: Mangoes

Cambodian farmers grow a variety of high-quality fruits, many of which are in big demand in developed country markets. Buyers in developed countries are willing to pay premium prices for fruit certified as organic. Demand for mangoes, for example, has grown rapidly over the past 10 years, with world trade doubling. Several developing countries are trying to enter foreign markets with highly seasonal fruit of varying quality. Trading conditions for fruit are largely open, although food safety standards are strict. In Cambodia, mango production should be better organized, not only for export, but also to meet domestic demand, including from tourism.

The commentary on the potential for Cambodia as a mango exporter is applicable to a number of fruit crops.

THE WORLD MARKET FOR MANGOES

A very large number of tropical and sub-tropical countries grow mangoes. At least 25 countries produce in excess of 100,000 metric tons of mangoes a year; Table A5.1 lists the most prolific. Total world production in 2003 was 25,500,000 metric tons. Cambodia's current production is estimated at 35,000 metric tons.

Table A5.1 Large Producers of Mangoes (2003)

Producer	2003 (metric tons)
India	10,500,000
China	3,400,000
Thailand	1,750,000
Mexico	1,503,000
Pakistan	1,036,000
Brazil	845,000
Philippines	890,000
Indonesia	730,000
Nigeria	730,000
Egypt	326,000
Vietnam	306,000

Source: FAOSTAT 2004

Little more than 2.5% of global production is traded internationally, however, which amounted to only 670,000 metric tons in 2002. Table A5.2 shows the major exporters in 2002. Additionally, Egypt exports mango juice, and Thailand trades some 7,400 metric tons of mango pulp.

Table A5.2 Major Exporters of Mangoes (2002)

Exporter	2002 (metric tons)
Brazil	104,000
Mexico	195,000
Pakistan	48,000
India	41,500
Philippines	36,000
Peru	35,000
Ecuador	30,000
South Africa	17,000
Cote d'Ivoire	10,500
Thailand	8,700

Source: FAOSTAT 2004

World trade in mangoes has doubled in the past ten years as airfreight rates have fallen, and packaging and storage techniques improved. What was once an item traded largely among neighboring countries is now an internationally available commodity with a large consumer following in developed countries, as well as in poorer markets. All industrial countries import mangoes, while many Middle Eastern nations are also large consumers. Table A5.3 lists the main importing nations.

Table A5.3. Major Importers of Mangoes (2002)

Importer	2002 (metric tons)
US	263,000
EU	197,000
United Arab Emirates	45,000
China	37,000
Saudi Arabia	34,500
Malaysia	31,000
Singapore	13,700
Japan	9,000
Switzerland	4,000

Source: FAOSTAT 2004

Among existing mango exporters there appears to be much interest in developing current and new markets. Consumers are prepared to pay high prices for what, in many countries, is regarded still as a luxury food item. For instance, the Philippines has successfully moved into European markets, with its “Philippines Super Mango”, and is getting high prices in major supermarkets and gourmet stores in Belgium, Italy, France, and Luxembourg. The Philippines has also sought assistance from the US to procure irradiation equipment for pest eradication, in preparation for a drive to increase access to the US market.

Brazil is extending its efforts to improve penetration in North American markets. Supermarkets in the UK have recently stocked organic mangoes from Burkina Faso as fair trade products. India has intensified its marketing in China. Vietnam is establishing wholesale fruit markets close to its Chinese frontier, in order to boost exports of products like mangoes. In the US, partly to encourage Florida producers, a national mango promotion program has just been launched, paid for by mango importers.

Mangoes sold in the main developed country markets, however, are of varying quality. That is partly a reflection of the seasonal pattern of production, with southern hemisphere mangoes appearing in the shops at different points to those from the northern hemisphere, and partly because of the significant differences in varieties. Mangoes with an acceptable texture as well as a good taste are not easily available. Further, the marketing potential for organically grown mangoes does not always coincide with attractive taste. Thus, despite being a small producer at present, and with no export record, Cambodia may well have marketing advantages if it can bring fruit to the market.

INTERNATIONAL TRADING CONDITIONS FOR MANGOES

As a tropical fruit with few directly competing temperate zone products, industrial country markets have long been open to mango imports, primarily through commitments made in the Uruguay Round. The US, EU, Japan, and Canada all offer zero duty access either on an MFN or GSP (US and Japan) basis.

ASEAN markets are also largely open. Within ASEAN, the CEPT rate is zero, with the exception

of Malaysia (15%), the Philippines (5%), and Vietnam (5%). Mangoes do not appear on the ASEAN-China “early harvest” list, so the applicable duty is 12% for Cambodia.

Health measures are imposed in most significant importing countries. Concern is most marked in the context of pests, especially the fruit fly, which may be imported in mangoes. SPS measures cover residues and the presence of pests in consignments; they are supplemented by labeling requirements. (See Annex A1.)

CAMBODIA AS A MANGO/FRUIT PRODUCER AND EXPORTER

Statistics on fruit production in Cambodia are unreliable, especially given the fragmentation of the sector, and the extent of purely household planting. MAFF estimates for 2001-2002 suggest a total acreage of around 165,000 ha, which generates a theoretical level of fruit production at nearly 620,000 metric tons. Other calculations point to production for local consumption at less than half that figure.

Mangoes are grown on an estimated 27,000 ha in six provinces. Officially, there are no exports, and only a small quantity of imports. However, much of the fruit is traded informally with Vietnam; Vietnamese traders buy mango crops on the trees, before transporting and selling in border markets in Vietnam. MAFF’s recent policy paper on fruit and vegetable marketing notes a paradox in that Vietnamese mangoes are taking a prominent position in market stalls in Phnom Penh.

As the same paper points out, mangoes are grown in Cambodia with little use of pesticides and chemical fertilizers. That fact provides a potentially valuable selling advantage in overseas markets, if it can be maintained through the use of alternative pest controls and natural fertilizers. Entering organic fruit niche markets in the industrial countries would be an exciting, but challenging, possibility for the future, as would the potential for high-value domestic sales to the tourist industry.

To take advantage of such opportunities, the sector has to undergo a lot of change and development. Producers need to be organized to produce for external markets, as well as for domestic consumers. Many farmers will probably need to diversify crops and varieties, in order to adapt to seasonal production

patterns and meet market requirements. There is a need to make the investment climate in the fruit sector attractive to foreign firms with access to, and experience in, industrial markets. Storage, processing, and transport of fruit needs a lot of attention, although the facilities at Phnom Penh airport are reported to be excellent, and would lend themselves to the marketing of high-value fresh fruit internationally. Local fruit and vegetable storage facilities need to be developed, which would be helped by reducing import duties on refrigeration units and controlling electricity costs.

Highly perishable fruit products must be brought to market with minimal delay; least of all, delays imposed through road checks and enforced illegal fees.

Meeting international standards for trading fruit is the immediate challenge. SPS measures will only tighten in the future, which means the capacity for quality control, including of farming inputs, and efficient and recognized phytosanitary inspections need to be further developed. By the same token, adequate SPS inspection at the borders would help ensure that imported products do not open Cambodia to fruit pests and disease that would damage overseas market prospects.

The competition from imported fruit is clearly a concern, though one that cannot be met by arbitrary restrictions (WTO and AFTA rules would not allow it, and smuggling would circumvent it). Part of the problem is clearly the costs, official and unofficial, inherent in getting domestic fruit to market. It is also

an issue of perceived quality differences between imported and Cambodian-grown products. To the extent that the consumer perception is unfair, there is nothing in the WTO to prevent government or industry campaigns to promote local products. A campaign called “*Eat Healthy - Eat Local*” as has been proposed by MAFF.

For Cambodian fruit to succeed in foreign markets, Cambodia will need to be recognized by international consumers as a supplier of high-quality, natural products.

SOURCES AND PRACTICAL INFORMATION

1. “Vegetable and Fruit Production and Marketing Draft Policy: Policy Background and Proposed Implementation Strategies”, April 2003, Ministry of Agriculture, Forests and Fisheries and the Agricultural Quality Improvement Project.
2. USDA background:
<http://www.ams.usda.gov/fv/rpmango.htm>
3. International industry news and country supplier profiles for fruit and vegetables:
www.tapin.uk
4. Chilean website (part subscription) with a wide range of fruit industry trade news and data: www.fruitonline.com

Annex A6

Agribusiness: Vegetable Oils

Cambodia imports many types of vegetable oils, but is an experienced exporter of palm oil. Various oilseed crops are leaving the country, however, through informal channels, to feed heavy processing capacity in neighboring countries. The world market for vegetable oils is complex because of competing temperate zone/tropical products. Access conditions are likely to improve, and production subsidies diminish, as a result of the WTO's Doha Round negotiations. However, the market continues to grow as new uses emerge, related to demand for both healthy food products and industrial derivatives to compete with petrochemicals. China is a large and growing market for vegetable oils; several ASEAN members offer relatively open market access. Opportunities exist for Cambodia to export more palm oil, and to replace some of its vegetable oil imports, if local production costs can be contained.

THE WORLD MARKET FOR VEGETABLE OILS

The world market for vegetable oils is complex, and subject to significant access restrictions and subsidies in industrial nations, and some developing countries. In large part, this is because a number of tropical vegetable oils are in direct competition with temperate zone products, notably soy bean, rapeseed (canola), and sunflower oils. Competition in the soy bean and soy bean oil markets is particularly distorted. This has been exacerbated in recent years by the refusal of the EU and some other WTO members to accept imports of soy bean products based on genetically modified seeds.

Vegetable oils, notably rapeseed oil, are gaining popularity for cooking, salads, and other kinds of human consumption as concerns grow over the health effects of animal fats. Vegetable oils and fats, and by-products, are also processed as livestock feed, particularly as worries have emerged over the safety of animal product components in feed.

Industry is providing a growing market for vegetable oils. Palm oil, for instance, can be processed

to compete with petrochemicals in paints, inks, plastics, lubricants, soaps, and cosmetics. The same product can be refined as biodiesel fuel; Malaysia has pioneered electricity generation using palm oil. These and other uses are likely to boost the non-food applications of vegetable oils and fats from 15% to 20% of total production by 2010, according to one industry expert. Clearly, long-term increases in oil prices can only reinforce the tendency.

Nevertheless, export prospects for Cambodia, with respect to processed vegetable oils, are not necessarily extensive. There is vast global production capacity for both oilseeds and processed oils. Total world production of vegetable oils increased from 85 million metric tons in 1998 to 96 million metric tons in 2002, according to the FAO. Two products accounted for the bulk of the jump: palm oil moved from 18 million metric tons to 24 million metric tons, and soy bean oil from 23 million metric tons to 26 million metric tons.

World trade in vegetable oils totals, on average, around 33 million metric tons a year, of which 15 million metric tons is accounted for by palm oil and 8 million metric tons by soy bean oil. Malaysia and Indonesia virtually share the world market for palm oil between themselves. Malaysia has 60-70% of the world export market, while Indonesia takes 12-24%. The soy bean oil market, in contrast, is largely in Latin American hands; Argentina is the leading exporter with a 27 - 37% share, and Brazil with 13 - 18%. However, subsidies allow the US to take 9 - 18% of the market, and several EU countries follow closely.

Much of the trade in vegetable oils takes place within the Asian region. In 2001, Asia imported 16 million metric tons, out of the 36 million metric tons traded globally. China, in particular, has become a very large importer. In 2002, China imported 2.3 million metric tons of palm oil, second, worldwide, only to India, which purchased 3 million metric tons. China's imports of soy bean oil in 2002 were, at 908,000 metric tons, also the second largest after India (1,200,000 metric tons).

Of course, trade in the raw commodities is much larger, in quantitative terms, than processed or semi-processed oils. Again, however, it is China that has become the dominant importer, purchasing 13.8 million metric tons of soy beans in 2002. Collectively, the countries of the EU imported around 20 million metric tons, and the EU is also a large importer of soy bean meal. The other big importers of soy beans are Japan, Korea, Mexico, Thailand, and Malaysia. As for palm kernels for palm oil production, the only significant importers are Malaysia (27,400 metric tons in 2002) and the UK (64,000 metric tons). However, as discussed below, regional trade is boosted significantly for these and other raw products through smuggling.

TRADING CONDITIONS FOR VEGETABLE OILS

Market access and subsidy regimes differ widely among WTO members and other importers. Generally, tariffs on oilseeds are lower than those for vegetable oils. According to the US Department of Agriculture, applied tariffs on soy bean oil, for instance, average around 20% for the world's main importers, while rates on soy beans are generally below 10%. Some countries also use differential export taxes; Argentina is one example.

Direct production subsidies and other forms of government support in the oilseed business are common. Special conditions regarding financial support and the acreage farmed have applied to the oilseed sector in the EU ever since the Uruguay Round, although these are now being eliminated. The US still maintains programs to support farmers in the sector.

The current Doha Round of WTO negotiations should lead eventually to more competitive conditions in the oilseeds sector, in the areas of export support, domestic support, and market access.

China, as a result of its WTO accession agreement, has substantial tariff quotas covering imports of soy bean oil, palm oil, and other vegetable oils. For palm oil and soy bean oil, these increase from an initial quota of around 2.1 million metric tons to over 3 million metric tons in 2005. Duties for imports within the quotas are at 9%, against a bound rate of 63.3% outside the quotas. The proportions of the quotas allocated to Chinese state trading enterprises falls during the implemen-

tation period that lasts until 2006. In 2006, the quotas will be eliminated and replaced by a single 9% duty for all imports of soy bean and palm oils.

Indonesia maintains CEPT duty-free entry for both soy bean and palm oil, Malaysia duty-free or 5%, Thailand 5%, and the Philippines duty-free or 3%.

CAMBODIA AND TRADE IN VEGETABLE OILS

Cambodia has little modern processing capacity for manufacturing edible vegetable oils, and is, thus, a heavy importer. Table A6.1 shows the import levels for different vegetable oil products in 2003. These are official imports; supplies also enter the country informally. Furthermore, considerable quantities of soy beans and sesame seeds are sent out of Cambodia through informal channels into Vietnam for processing. This may be the case for other oil seeds.

Table A6.1 Imports of Selected Vegetable Oils into Cambodia (2003)

Product	Quantity (metric tons)	Customs value (million Riels)
Processed soy		
bean oil	1,500	2,830
Processed olive oil	27	50
Palm oil	16,650	31,162
Sunflower oil	187	622
Linseed oil	9	19
Corn oil	75	221
Sesame oil	4	5
Nut oils	32	55
Mixed oils/fats	579	1,233
Total	19,063	36,197

Source: Customs Department

Local production of vegetable oils for human consumption in the Cambodian market is limited. Consumers understandably look for the best quality products at the lowest prices. Generally, these are being supplied from Vietnam, Malaysia, Indonesia, Singapore, and Thailand. For instance, out of six peanut oil producers in the Phnom Penh area, only one survives, manufacturing low-grade oil for industrial use. To compete with imported first grade cooking oil, one Cambodian manufacturer estimates would have to surmount a 30% price differential

generated by local cost handicaps due to high capital costs, electricity, fuel, etc.

Imports of vegetable oils into Cambodia face a 7% tariff and 10% VAT rate. Cambodia has bound its tariff on most vegetable oils at 30% in the WTO.

In 2003, Cambodia exported to Malaysia 1,600 metric tons of processed palm oil and 400 metric tons of crude oil, with a combined customs value of Riels 1,500 million. Two other small shipments were recorded to Vietnam and China.

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2. USDA sector analysis:
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3. USDA Foreign Agricultural Service brief:
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4. BBS Oils-Vegetables Ltd – major vegetable oils trader in the UK:
<http://www.oils-vegetable.com/>
5. EU Commission Agriculture Directorate agricultural markets forecasts 2003-2010 :
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Tariff classification (for import duty rates): 1511

Annex A7

Agribusiness: Palm Wine

Palm wine is one of many products that can be generated from the sugar palm tree. A company, based near Phnom Penh, is manufacturing crystallized fruit, vinegars, hats, and baskets, as well as a range of wines and cocktails from various products of the sugar palm. Its alcoholic beverages include two grades of plain palm wine (8% and 10% volume alcohol), a pineapple palm cocktail and a ginger palm cocktail. These products could seek niches in the sweet aperitif market. Asian markets are often protected in favor of local alcoholic drinks, or for religious reasons. There is little protection, however, in developed countries, but strict food safety standards must be met. Informal administrative charges and infrastructure shortcomings in Cambodia damage competitiveness. WTO conditions will make little difference except, perhaps, in the context of food safety standards under the Sanitary and Phytosanitary (SPS) Measures Agreement.

The company was helped to start up by various Non-Governmental Organizations (NGOs), the Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD) in Montpellier (France). The owner are graduates of the Cambodian Institute of Technology, and Cambodian expatriates. Their products have found a limited market in France. Markets in Malaysia, Singapore, Indonesia, Taiwan, and Thailand, as well as the US, are being explored.

No data is available on the extent of international trade in palm wine and similar products. Most such beverages are produced for local markets, and few penetrate international markets, except to meet the demands of expatriate communities.

TRADING CONDITIONS FOR PALM WINE

Market access conditions in ASEAN vary widely for drinks based on the fermentation of juices, other than grapes, and tree saps (the basis for palm wine). Indonesia has a CEPT rate of 170%, and Malaysia a

high rate based on alcohol content. Thailand has a bound rate of 60% with an applied CEPT rate of 5%, while Vietnam has a bound rate of 100% with a 2004 CEPT rate of 15%. The Philippines and Singapore are both open markets with duty-free access.

China's market for products of this kind is heavily protected against competition with traditional local drinks. Its WTO bound tariff of 60.5% will reduce only to 40% by 2010.

Access to industrial markets is either duty-free (to Australia, the EU, and the US), or subject to relatively low duties based on alcohol content. As a fermented drink, palm wine and similar products are subject to strict SPS controls in all developed markets, thus, the WTO agreement on SPS Measures may be of importance to this industry (see Annex A1).

CAMBODIA'S EXPERIENCE IN EXPORTING PALM WINE

The one Cambodian company producing wine/cocktail drinks markets them in attractively labeled 500 ml. bottles, which, for the moment, are imported from Thailand. These bottles attract a 7% duty and 10% VAT, which are not being refunded, despite the fact that the end products are exported. The company has also encountered problems in obtaining certificates of origin from MoC, which has resulted in fees of up to \$300 per shipment being charged, instead of \$25. Further, despite certification from the respected Institut Pasteur in Paris, repeated Camcontrol inspections and requests for additional analyses are adding to costs. In a competitive market for wines and cocktail drinks, these burdens reduce the opportunities for large-scale commercial exploitation in industrial country markets. Switching the bottle source to a Cambodian producer ought to improve competitiveness. The bureaucratic cost handicaps should be reduced as WTO regulatory disciplines begin to take effect.

If a product is competitive, the key to success in industrial markets and the more advanced developing countries in the region is likely to be good marketing and the promotion of high-quality Cambodian brands.

Palm-based cocktails could reasonably compete in the market segments occupied by the sweeter aperitifs. Palm wine is close in taste to some sweeter white grape-based desert wines. Certainly these are

very lively and innovative markets in which consumers are prepared for novelty, if products are well marketed. Compared with such competing products, palm wine has a rather low alcohol content. This may prove an advantage in societies where alcohol consumption, in the context, particularly, of road safety, is being strongly discouraged and penalized.

PRACTICAL INFORMATION

1. Tariff classification (for import duty rates): 2206

Annex A8

Agribusiness: Rubber

After garments and footwear, rubber has historically been Cambodia's most important export product. The quality of Cambodian rubber is generally high, yet it is seldom sold directly to overseas customers and is discounted by as much as 15-20% on world prices. The Cambodian rubber industry is still largely state-owned. Worldwide, the industry is still heavily affected by government intervention, and by attempts in Asia to limit competition through cartels. Cambodia has confirmed, in the WTO accession negotiations, that it will privatize most public rubber industry assets by 2006. WTO rules and market access conditions will be of little value, however, until Cambodian rubber producers are recognized for producing to international quality.

THE WORLD MARKET FOR RUBBER

In the 30 years from 1970 until 2000, world natural rubber production more than doubled, from almost 3 million metric tons to 6.9 million metric tons. Asian countries accounted for nearly all the growth; in fact, production in just two countries, Thailand and Indonesia, rose to approach complete dominance in the sector. Table A8.1 illustrates the change.

According to the International Rubber Study Group, world production and consumption of natural rubber has continued to grow substantially since 2000, even as the synthetic rubber sector has surged. Thus, world production in 2002 reached 7.35 million metric tons, of which 5.66 million metric tons was produced in ASEAN countries. In the same year, synthetic rubber production and consumption worldwide were both around 10.9 million metric tons, with production in Asia/Oceania almost equaling that in the EU and North America combined. The Group estimates that natural rubber production reached 7.89 million metric tons in 2003, and will grow another 6.4% (down from 11.4% the previous year) in 2004 to 8.26 million metric tons. Synthetic rubber production is growing currently at around 5-6% a year.

Rapid economic growth in China and the advanced ASEAN nations is creating huge new demand for natural and synthetic rubber, which shows no signs of diminishing. Indeed, China moved from being a modest rubber exporter in the mid-1990s to a heavy importer. Table A8.2, on the next page, lists the principal import markets in 2002.

Table A8.1 Principle Natural Rubber Producers 1970-2000

Producer	1970 (1000 metric tons)	2000 (1000 metric tons)
Thailand	287.2	2235.7
Indonesia	802.1	1488.3
Malaysia	1269.4	768.9
India	89.9	620.1
China	46.2	500
Vietnam	33	290.8
Cambodia	12.8	40

Source: UNCTAD

Table A8.2 Principle Importers of Natural Rubber

Importer	2002 (metric tons)
EU (25)	1,150,000
US	1,007,500
China	957,000
Japan	770,500
Korea	299,000
Malaysia	195,000
Canada	156,000
Brazil	131,500

Source: FAOSTAT 2004

Global suppliers of natural rubber products are few, and all are Asian countries, as shown in Table A8.3.

Table A8.3 Major Suppliers of Natural Rubber

Exporter	2000 (metric tons)
Thailand	2,054,000
Indonesia	1,487,000
Malaysia	809,000
Vietnam	448,500
Philippines	44,500
Cambodia	44,300
India	37,000
Sri Lanka	34,500

Source: FAOSTAT 2004

International prices for natural rubber are erratic. If the long-term trend, over a decade, has been firmly downward, prices have recovered in recent years and move dramatically either way over short periods. In part, these fluctuations are related to weather, local demand by indigenous processors in the main producing countries, exchange rate movements in Asia, and economic growth in the consuming countries, which affects demand for rubber tires for road vehicles. Oil prices are a major determinant of the price of synthetic rubber, and, therefore, impact demand for natural rubber.

Some 60-70% of natural rubber production feeds the vehicle tire industry. Demand for cars, in particular, has a major impact on the natural rubber sector. In recent years, the major international tire companies have focused their new investment on

Asia. Among the biggest players, Michelin now has two tire production plants in China, one in Japan, and four in Thailand; Bridgestone Corporation has three plants in Thailand, two in China, two in Indonesia, and several others in the Asia Pacific region; and, Goodyear has one production plant in Thailand, the Philippines, Malaysia, Indonesia (where it also owns two rubber plantations), Japan, and China. Among the smaller companies, Sumitomo and Hankook are both investing heavily in production plants in China.

In 2003, Cambodia imported rubber tires and inner tubes with a combined customs value of \$4 million.

TRADING CONDITIONS IN THE INTERNATIONAL RUBBER MARKETS

The international natural rubber industry is still heavily affected by government intervention and the trading activities of state-owned enterprises. Following the collapse in 1999 of the International Natural Rubber Agreement, operated under UN auspices, Thailand, Indonesia, and Malaysia established the International Tripartite Rubber Organization (ITRO). The organization, later joined by Vietnam, was intended to emulate the Organization of Petroleum Exporting Countries (OPEC) cartel by restraining production and depressing exports from the world's largest producers, thereby inciting a price recovery. The scheme quickly ran into problems over its organization and financing. Nevertheless, Thailand, for example, has maintained an active price intervention system, and the government is reportedly seeking to divert new crop plantings away from rubber towards the palm oil sector.

While government intervention in the main producers is still marked, most natural rubber consuming markets are formally open. Industrial countries offer duty-free access for basic natural rubber products. Malaysia, the largest ASEAN importer by far, has duty-free access while the Philippines, Thailand, and Vietnam have zero or 3% duty rates. Some bound tariff levels can be much higher than the currently applied rates, for instance, 50% (bound) and 20% (applied) for Thailand. China has a 40% WTO bound rate for the products exported by Cambodia. However, it now applies a duty of only 5% and a 10% VAT rate.

CAMBODIA'S RUBBER PRODUCTION AND TRADE

Currently there are seven state owned rubber plantation companies in Cambodia, with total tapping area of 27, 000 ha, and an unexploited plantation area of 11,500 ha. The industry employs about 20,000 people. In 2003, a total of 33,000 metric tons of basic processed rubber products were generated, with a value of \$31 million. Actual exports in 2003 were over 37,000 metric tons. The basic processed rubber produced in Cambodia is regarded as of first quality, even compared with that of Malaysia.

The rubber sector is unusual in that Cambodia possesses significant modern processing capacity to produce some basic rubber materials, though not finished products. There is no domestic industrial demand for the manufacture of tires or other rubber products, so all production is for export. Traditionally, the markets have been Vietnam, Malaysia, Singapore, Korea, and China.

However, in 2003 Cambodia exported rubber overwhelmingly to Vietnam. Vietnamese traders normally re-export the Cambodian rubber products to the end-users, especially China. The Vietnamese market is convenient, as transportation and transaction costs are low, and the Vietnamese traders pay cash.

Aside from the state owned companies, there are currently two private companies growing and processing rubber, although on only 2000 ha each. In 2003, a private Japanese company conducted a research study on a potential investment in rubber plantations, but has not proceeded further to date. NGO projects to support family-owned rubber plantations have been based on the expectation of sector growth potential.

Since Cambodia currently exports only the basic processed rubber products to neighboring markets, the state-owned companies have not considered it necessary to meet international quality standards. Thus, the high quality of Cambodia's rubber output is not recognized by importing countries, and cannot be sold directly with Cambodia-origin labels. Without such recognition, Cambodia's products are discounted by as much as 20%; an annual income loss of as much as \$20 million. Recent prices for the relevant

products on the international markets have averaged around \$1,100 per metric ton, with Cambodian exports generating just \$900 per metric ton. However, efforts are underway meet and certify international standards.

WTO entry will not have a major impact on Cambodian rubber producers until they gain recognition for the international quality of their products.

During its WTO accession negotiations, Cambodia assured the working party that the seven state-owned rubber companies would leave public ownership by 2006; being closed, sold to the private sector, or turned into joint ventures with majority private ownership.

SOURCES AND PRACTICAL INFORMATION

1. International Rubber Study Group:
<http://www.rubberstudy.com/aboutus.aspx>
2. Daily rubber prices:
[http://www.rubberstation.com/ZM\(English\)1-2.htm](http://www.rubberstation.com/ZM(English)1-2.htm)
3. Information Centre for Natural Rubber:
<http://www.rubber-stichting.ind.tno.nl/index.html>
4. Recent Developments in Natural Rubber Prices: http://www.fao.org/documents/show_cdr.asp?url_file=/DOCREP/006/Y4344E/y4344e0d.htm
5. UNCTAD brief on rubber sector:
http://www.unctad.org/en/docs/ditcom20041ch17_en.pdf
6. Specialist importer of basic rubber products:
<http://www.weber-schaer.com/en.html>
7. Tariff classification (for import duty rates):
4001

Annex B

Fish

The opportunities for Cambodia to exploit its fish resources in export markets are clear, and potentially very large. Demand for high quality fish and fish products is expanding globally, while supply is limited. Markets are largely open; however, standards for consumer food safety, labeling, sustainable production, and the widespread use of subsidies, set a series of barriers that need to be overcome in order for Cambodia to have a strong chance of entering global markets. Cambodia is losing the value of much of its marine catch due to the direct offloading of fish and shrimp onto foreign vessels. However, costs of processing, transport and shipment in Cambodia are often too high for legitimate trade to be profitable. WTO Doha Round negotiations to control fishing subsidies, if successful, should open new opportunities.

THE WORLD MARKET FOR FISH & FISH PRODUCTS

According to the FAO, the export value of fish and fish products traded worldwide multiplied almost four times in the period 1980-2001, from some \$15 billion to \$57.7 billion. The total global fish catch in 2001 was 130 million metric tons, of which 70 million metric tons was through marine fishing. More than one-third of total production goes into international trade, and growth in exports is tending towards developing country suppliers. The share of poorer countries in global fish and fish products exports is over 50%, by value, with net revenues (exports minus imports) recently reaching \$17.7 billion.

For the moment, most of Cambodia's fish trade prospects are regional. However, East and Southeast Asian countries are among the world's largest importers. Table B.1 shows metric tons of fish catches imported directly into some major local markets (the figures omit informal landings).

Table B.1 Imports of Fish Catch, 2001

Importer	Quantity (metric tons)
Malaysia	220,105
China	180,500
Korea	105,319
Singapore	57,396
Thailand	28,901

Source: FAOSTAT 2004

Table B.2 shows imports of all processed fish products, including chilled and frozen fish and shellfish. Hong Kong is not included, but the value of its imports of fish products are estimated by the International Trade Centre to be \$1.77 billion for 2001 (China's import value was \$1.320 billion by the same measure, and Korea \$1.584 billion).

Table B.2 Imports of Fish and Fisheries Products, 2001

Importer	Quantity (metric tons)
China	3,000,000
Korea	1,057,000
Thailand	976,000
Malaysia	351,600
Philippines	250,000
Singapore	173,000
Indonesia	152,000
Vietnam	19,000

Source: FAOSTAT 2004

Imports of processed fish products into developed countries, in 2001, were around 18.5 million metric tons in total. Demand in European and North American markets has traditionally been met by national fishing fleets; however, consumer interest in exotic fish products, especially shellfish, has grown rapidly. At the same time, pressure from reduced fish stocks, as a result of over-fishing, in local waters has pushed consumer prices up and stimulated imports from further away, notably Pacific and South Atlantic salmon and tuna products.

TRADING CONDITIONS FOR FISH AND FISH PRODUCTS

In principle, most important markets for fish are relatively open for Cambodian products. While it is true that there are some specific high tariffs in developed markets, and some incidence of tariff escalation, least-developed nations like Cambodia generally benefit from low or zero tariff preferences. Thus, the EU, US, and Canadian markets for fish, fish preparations, and fish pastes/sauces are essentially duty-free. Japanese markets are subject to duties between 0 and 5%.

ASEAN markets are also generally open, with current CEPT rates at zero for Singapore and Malaysia, with the exception of some fish preparations. The Philippines offers duty free access, except for fish fillets, some dried or salted products, and fishmeal, which attract a 5% duty. Thailand's CEPT rate is 5% on most products, as is the case for Indonesia. Under the "early harvest" arrangement with China, Cambodia benefits from duty free access for all key fish products, including live fish, frozen fish/fish fillets, frozen shrimp, fresh or frozen shellfish, and fish preparations. Korea's special market preferences for least-developed countries provide Cambodia with duty-free access for shellfish.

The major hurdle for developing country exporters of fish products towards industrial markets is meeting technical, health, and ecological regulations. SPS regulations are stringent and complex in the EU, US, and many other markets. Fishing techniques have also been the subject of lobbying activity by environmental and animal rights groups in the developed world. Their activities have led to attempts to restrict imports of some fish and shellfish products on the basis of the manner in which these products are caught. Legal challenges have been pursued through GATT and the WTO, notably, concerning tuna (where certain fish nets can trap and drown dolphin) and shrimp fishing (where sea turtles can be harmed). Thailand, Malaysia, and the Philippines were among the complainants against US regulations that blocked their shrimp exports. They succeeded in securing favorable WTO rulings and a subsequent resolution of the problem.

Subsidies are a major distortion of world trade in marine fish. One estimate by the World Wildlife

Fund, in 2001, put the global level of subsidies to the fishing industry at between \$10 and \$15 billion a year. This would represent some 15-20% of the revenues received by fishing fleets at the dockside, and, according to US trade negotiators, provide a major inducement to expand fishing capacities. There is disagreement over the proportion of this financial aid going into beneficial programs, rather than expanding fishing capacity. A study of APEC Pacific Rim members in 2000 found that the total value of support programs in the fish sector amounted to around \$12.6 billion. Some two-thirds of the total were reckoned to be spent on programs to increase fishing activity, and, therefore, potentially to undermine stock abundance.

Fisheries subsidies are being tackled within the WTO's Doha Round negotiations. As part of a review of the WTO subsidies agreement, they have been singled out for attention because of the view that subsidies stimulate over-fishing, and, therefore, the unsustainable reduction in fish stocks. While Cambodia is not likely to be affected directly, since it is unlikely to make significant use of public funds to expand fishing fleets, any decision to enhance disciplines on fisheries subsidies could, in the long term, impact the Asia-Pacific region. However, precisely what the effect would be on the availability and price of landed fish is difficult to forecast.

A number of WTO countries have proposed new approaches to discipline fisheries subsidies, including Australia, New Zealand, Chile, the US, and the Philippines. One such approach would be to set out clearly the kinds of subsidies to be regarded as harmful, and therefore prohibited, and those that are beneficial. Beneficial support might include fish management and environmental protection. Japan and Korea are among the countries taking a more skeptical view of the extent of harmful fisheries subsidies, and of the need for new disciplines.

CAMBODIA IN THE INTERNATIONAL FISH MARKETS

Cambodia's potential as an exporter of fish and fish products is considerable. The country's natural fish resources, marine and inland, are large, even if over-fishing is already a problem. Estimates vary widely, but as many as 4 million people may depend on

fishing as a primary or secondary source of income. Government⁹ data suggests a total fish catch of 195,500 metric tons in 2001 (135,000 metric tons inland, 42,000 metric tons marine, and 17,500 from aquaculture). An EU-funded study estimated the freshwater catch at up to 300,000 metric tons alone, taking account of small-scale rice-field fishing.

A large part of the Cambodian inland fish catch, both family-scale and commercial, goes into the production of fish paste, called *prahok*, for local consumption. One study estimated the value of fish paste production, in 2000, through family-scale enterprises to be \$8.75-12.5 million of a total output worth \$10.9-15.5 million. The total covers preserved, processed, and exported inland products. At the commercial level, fish paste in its final and semi-processed states accounted for \$3.5-3.95 million of \$12.8-13.9 million in inland fish products and live fish exports. Other important commercially processed inland fish products were salt-dried fish (\$5 million), smoked fish (\$1.4 million), and fermented fish (\$500,000-\$1,160,000). Production of live sand goby reached 150 metric tons, worth \$780,000 to \$930,000.

The commercial processing of marine fish is valued at \$9.52-9.89 million and consists mainly of chilled and frozen shrimp, chilled crabmeat, and live surf clams.

Cambodia imports small quantities of frozen fish and fish preparations. Most imported processed fish products face 15% or 35% duties with a VAT rate of 10%. Fish preparations are rated at 7% plus 10% VAT.

Exports in 2003 had a customs value of a little under \$3 million, according to Customs Department returns. This appears to be a significant reduction over levels reached in the 1990s. It is also only half of the figure computed by the International Trade Centre, for 2002, from the import statistics of Cambodia's main markets. In any event, exports are seriously under-estimated because of the prevalence of smuggling and off-loading between Cambodian and Thai marine fishing vessels. Formally, the major

export items were frozen fish and shrimp, and live sand goby (popular and expensive items in restaurants in Hong Kong and Singapore). The most important markets were Hong Kong, China, Singapore, the US, and Australia.

The experience of one Hong Kong based company that established operations in Sihanoukville, in 1990, for freezing and shipping shrimp and marine fish, illustrates the difficulties faced by processors in expanding exports. Currently shipments are restricted to one or two per month of about 40 metric tons each. Potential demand is much higher, but there is a major supply constraint from local fishermen who are selling their catches directly on to Thai boats. At the same time, the Japanese market has been depressed recently by low demand, while costs in Cambodia are too high to take advantage of opportunities in Thailand and Vietnam. In 2000, the total value of exported frozen shrimp was \$3 million, against approximately \$700,000 in official exports in 2003.

The EU market, for the moment, is barred because of a failure to meet SPS standards. Programs are being devised to correct the situation (Vietnam resolved a similar problem in two years). However, there will need to be certified domestic testing facilities (or access to such facilities in an accredited country), improved veterinary inspection capacity, and certified processing factories and cold storage facilities. Issues like the use of classified toxic insecticides in fish preservation and processing will also need to be dealt with.

Competitiveness in the fish export sector is especially affected by the country's infrastructure handicaps, and the informal costs of moving the highly perishable products to port. One graphic piece of analysis by CDRI, in 2003, noted 27 fee payments for a 3.1 metric ton fish shipment from Chhnok Tru to Long Koeur market in Thailand. In total, the shipment cost \$235.9 in fees paid to the fisheries authorities, the economic police, the military police, customs, and other institutions. The journey by truck

⁹ Department of Planning, Statistics, and International Cooperation, Ministry of Agriculture, Forestry and Fishery

took 21 hours. The fees paid reduced the profit margin on the shipment to just \$111 on an initial purchase price at Chhnock Tru of \$3731.8. The authors of the study noted that the fees paid (including the customs duty) were actually negotiated; had the official fee structure been imposed, the shipment would have seen a net loss of \$366.

Although the role of KAMFIMEX, which issues fish collection licenses, as well as administering a 10% export tax and collecting other fees, is being reduced, the costs associated with exporting fish, whether formal or informal, are prohibitively high. The export tax was questioned during the WTO accession negotiations. However, export taxes are not in themselves contrary to WTO rules, so long as they are imposed without discrimination, and no commitment was made by Cambodia to reduce or remove those that applied to fish.

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<http://www.aff.or.id/>
4. APEC Working Group on Fisheries:
http://www.apecsec.org.sg/apec/pec_groups/working_groups/fisheries.html
5. Fish subsidies negotiations in the WTO:
<http://www.fao.org/docrep/005/y4852e/y4852e08.htm>
6. Tariff classifications (for import duty rates):
0301, 0302, 0303, 0304, 0305, 1604

Annex C1

Handicrafts: Silk Products

The world market for silk and silk products is low in volume, and extremely high in value. The production of silk yarn occupies less than 0.2% of the global textiles fiber market. Raw silk prices are twenty times those of raw cotton and silk products, from yarn and fabric to high fashion, are premium products. Cambodian raw silk is of high quality, but production is minimal. Weavers rely on informal imports, which complicate the certification of origin of Cambodian made silk products. If standards and origin can be demonstrated, there are many market opportunities in wealthy Asian countries, which offer duty-free entry. Capacity is currently too limited to allow for economies of scale, and a critical mass of high-quality exportable goods. In these circumstances, WTO rules can have little impact.

THE WORLD MARKET FOR SILK PRODUCTS

In terms of production of raw silk, China is predominant with an output of 82,000 metric tons

in 2000, followed at some distance by India (18,000 metric tons) and a number of minor producers, including Japan, Brazil, and Korea.

The major importers of silk and selected silk products are shown in Table C1.1. While the United States has virtually no processing capacity and imports fabric, notably for domestic furnishings, both France and Italy remain large-scale consumers of raw silk. These, and some other European Union countries, produce very high value silk fabrics for fashion garments and accessories, although their imports of finished silk fabrics and silk products are growing fast. Germany is the largest EU market for silk textiles, clothing, and interior decoration fabrics. Japan has seen its domestic silk production decline by nine-tenths over the past half century, and now relies significantly on imported yarns and fabrics. About 50% of silk consumption is accounted for by the production of kimonos. Korea also has moved from dependence on a domestic silk sector to become a major importer.

Table C1.1 Major Importers of Silk and Selected Silk Products (US\$ millions)

Importer ¹⁰	Silk ¹¹	Fabric ¹²	Blouses ¹³	Handkerchiefs ¹⁴	Shawls/scarves	Ties
US	258	252	353	6	51	175
Italy ¹⁵	215	93	22	-	29	23
Japan	171	65	28	3	31	133
Hong Kong	170	134	68	0.5	13	22
Korea	132	86	2	-	4	11
France ¹³	109	71	24	2.5	44	49
Germany ¹³	94	58	20	2	19	41
Singapore	32	28	3.5	-	2.5	4

Source: UN Comtrade

¹⁰ 2003, except Korea (2002)

¹¹ Raw silk, silk waste, silk yarn, woven silk fabric

¹² Woven silk fabric (including *noil* silk and >85% silk blends)

¹³ Women's and girls blouses and shirts

¹⁴ Handkerchiefs of silk or silk waste

¹⁵ Includes EU intra-trade

China is the world's biggest exporter of silk, silk fabrics, and many silk products. In value terms, however, it is closely followed by Italy, whose silk-based fashion products are to be found in up-market stores and boutiques throughout the world. It is evident, however, that valuable mid- and bottom-end markets exist in most industrial countries for traditional oriental silk products. Thailand has been successful in these market niches, establishing a reputation for Thai silk that is commanding a premium to that of India. Table C1.2 indicates recent export performance by the major suppliers.

CAMBODIA AS A TRADER IN SILK AND SILK PRODUCTS

Officially, Cambodia imports small quantities of silk fabrics and silk clothing items. Its WTO bound rates, which are those applied; are 7% for raw silk, yarns, and fabrics; and 35% for silk clothing and accessories. All official imports also are subject to the 10% VAT rate.

Large quantities of raw silk and, especially, silk yarn enter Cambodia informally, while low-priced clothing items are also found in the markets. According to the Silk Forum, 98% of silk yarn

Table C1.2 Major Exporters of Silk and Selected Silk Products (US\$ millions)

Exporter ¹⁶	Silk ¹¹	Fabrics ¹²	Blouses ¹³	Handkerchiefs ¹⁴	Shawls/scarves	Ties
China	824	405	226	3	48	138
Italy ¹⁵	304	272	38	2.9	82	336
India	271	262	25	-	27	-
Thailand	19	12	1.8	-	2.7	0.7

Source: UN Comtrade

TRADING CONDITIONS IN THE INTERNATIONAL SILK MARKETS

The WTO is unlikely to have a big impact on market access for the products likely to be exported by Cambodia. Most markets are already open. In the EU, as long as it can satisfy origin requirements and technical standards (see below), then access is subject to the EBA zero duty, no quota conditions. In the US market, Cambodian exports of silk fabric and silk products will normally fall into the categories of handloom products and traditional items. This means they attract zero duty treatment while not being subject to remaining quota restraints.

Both the Singapore and Hong Kong markets are duty free. Silk fabrics entering Korea will normally be subject to 13% MFN customs duties, while scarves, ties, and handkerchiefs are rated at 8%. Korea also imposes a 10% VAT rate on imports.

required for weaving is imported. Around 400 metric tons, worth some \$2.5 million, are largely supplied from Vietnam. Around 12,000 people are estimated to gain a living from the silk sector, 10,000 of whom are organized into weaving groups. They produce fabric with a retail value of around \$10 million. Of this, approximately \$4 million is exported, either directly, or through tourism.

The value secured from exports and the marketing potential of Cambodian silk goods would be enhanced if raw silk production could be reestablished. Local sourcing would also remove any potential problems relating to US or EU origin rules. Efforts are moving in that direction through NGO-sponsored programs; approximately four metric tons of local silk was produced in 2003, with output expected to double in 2004. Further, since Cambodian silkworm fibers are highly regarded for their quality, a yellow silk that is marked above Chinese white silk,

¹⁶ 2003, except India (2002)

the potential to establish a quality Cambodian silk brand, with its own trademark, is considerable.

The current arrangements for importing yarn have added to the challenges for exports of accessing quality control and certificates of origin. At the same time, companies in the Silk Forum and other producers of silk products are faced with further handicaps that increase costs and make products less competitive against those from Thailand. In addition to certificates of origin, exporters have faced problems with letters of credit, VAT reimbursement on small and consolidated shipments, and other domestic business costs, like the cost of credit to buy yarn.

One additional cost for some exported products is the need to move to safe and accepted silk dyes. Some traditional Thai-manufactured dyes are toxic for handlers, and potentially for consumers,

and products manufactured using them are excluded by technical regulations from the EU market in particular. Since the evidence of toxicity is very clear, it is not a problem that can be avoided through the TBT agreement (See Box 13).

SOURCES AND PRACTICAL INFORMATION

1. “Silk Review 2001: A survey of international trends in production and trade” - 6th Ed, 2002, International Trade Centre.
2. International Silk Association - 34, rue de la Charité 69002 Lyon France:
isa-silk.ais-soie@wanadoo.fr
3. Tariff classification (for customs duty rates):
5002 – 5007 (raw silk, yarns, and fabrics)

Annex C2

Handicrafts: Bamboo/Rattan furniture

Cambodia's furniture production sector is not currently organized for export. Family businesses in Phnom Penh and other major towns are producing relatively high quality furniture in hardwood, bamboo, and bamboo/rattan mixes. While both raw materials and skilled craftsmen exist, domestically produced furniture is sold in local markets. The world market for well-made rattan and bamboo furniture, however, is vast and growing; US imports alone were worth over \$400 million in 2003. All of the major producers are Asian countries, primarily China, but with Vietnam establishing itself quickly. China's penetration of the US furniture market has already provoked protectionist action by Washington. This may provide an opportunity for other producers. For the moment, however, Cambodia possesses neither the appropriate organization of producers, nor the physical infrastructure, to engage in large-scale trade. That may require the involvement of foreign partners.

The following notes apply largely to potential trade in furniture made from bamboo/rattan mixes, the market for which is particularly strong in major developed countries. It is also recognized that bamboo is the basis for a very wide variety of products (1,500 uses are said to be documented), including papermaking, construction materials, flooring, handicrafts, and food, as well as furniture. Cambodia has the potential to enter several of these markets.

THE WORLD MARKET FOR BAMBOO/RATTAN FURNITURE

As product designs and quality standards have improved, furniture of bamboo and rattan construction has become a major growth market in

industrial countries. Inexpensive, compared with hardwood items, and comfortable, garden and domestic furniture of these materials has eaten into the markets for metal and plastic equivalents. Stylishly designed tables, chairs, cupboards, and bars are in high demand in hotels and restaurants around the world, as well as in Asia.

Bamboo is produced in Latin America, Africa, and, principally, throughout Asia. Most of the output is for local use. The International Network for Bamboo and Rattan (INBAR) estimates that domestic trade and subsistence use of bamboo worldwide is worth \$4.5 billion a year, with bamboo exports adding a further \$2.7 billion.

Import demand for bamboo products is very high, yet the number of large exporters is comparatively small and overwhelmingly Asian. Table C2.1, on the next page, shows the main importing countries for bamboo/rattan furniture. Because specific customs classifications codes for bamboo and rattan products are only now being introduced, the figures quoted may be exaggerated slightly through the inclusion of furniture items of other similar materials.

Table C2.1 Major Importers of Bamboo/Rattan Furniture

Importer¹⁷	Trade value (\$US millions)	Quantity (metric tons)
US	401	n.a.
France	82	28,370
Japan	49	16,988
UK	48	16,300
Germany	44	14,590
Hong Kong	38	21,969
Italy	28	9,711
Spain	25	7,422

Source: UN Comtrade

¹⁷ 2003 data, except Spain and UK (2002)

With the exceptions of Hong Kong and Japan, which appear to have peaked, all these markets have grown strongly over the past five years, the US by 15%, France 28%, Italy 40%, and Spain 40%. Table C2.2, below, indicates the five major exporters of bamboo and rattan furniture worldwide.

Table C2.2 Five Major Bamboo/Rattan Furniture Exporters

Exporter ¹⁸	Trade value (US\$ millions)	Quantity (Metric tons)
China	242	222,333
Indonesia	94	64,400
Philippines	78	25,576
Malaysia	12	n.a.
Vietnam ¹⁹	60	n.a.

Sources: UN Comtrade and Vietnam Ministry of Planning and Investment

In the past five years, Chinese exports of bamboo and rattan furniture have more than doubled, while those of Indonesia have risen nearly fivefold. Malaysia's trade value, however, has dropped by around a quarter, and the Philippines saw a fall of one-fifth during 2000-2002. Vietnam is building its market share rapidly.

Exploitation of bamboo resources may be affected by increased concern among environmental organizations over the potential loss of biodiversity among the 1200 woody bamboo species. As many as half of these species may be at risk through deforestation, according to a report by INBAR and the United Nations Environment Programme (UNEP) in 2004. At the same time, INBAR has noted that while a sixty-foot tree, cut for market, takes 60 years to replace, a sixty-foot bamboo plant can be replaced in 59 days.

TRADING CONDITIONS FOR BAMBOO/RATTAN FURNITURE

Developed markets for bamboo and rattan furniture are essentially open. The EU, US, and Japan all offer duty free access for products from Cambodia.

Australia imposes a 5% duty. Imports from China face a 5.6% tariff rate in the EU. Under its bilateral agreement, Cambodia receives duty-free access to Thailand on chairs made of bamboo and similar materials.

So rapid has been the build up of China's furniture exports to the US that domestic companies have sought protection. In the period 2000-2003, imports of wooden furniture from China into the US expanded threefold, from some \$360 million to \$1.16 billion. As a result of a petition from US manufacturers and trade unions, the Department of Commerce imposed, in January 2004, preliminary antidumping duties between 10% and almost 200% (partially revised in July) on products from a large number of Chinese companies. These duties covered wooden furniture, rather than bamboo/rattan furniture. However, if bamboo and rattan products are seen to be escaping duties and displacing US-built wood products, it is impossible to rule out further measures against Chinese imports.

CAMBODIA AS A POTENTIAL EXPORTER OF BAMBOO/RATTAN FURNITURE

The potential exists to export a number of bamboo-based items, and some of these are already being investigated. Furniture of the kind discussed above is a relatively high-value product for which the financial benefits of international trade could be considerable. It is observed that the quality of bamboo/rattan furniture produced in outlets in Phnom Penh is on a par with, and sometimes exceeds, products of Vietnamese and Chinese origin available in European stores.

Organizing and investing in export capacity will be a major undertaking, which might only be possible with a foreign partner. At the same time, the raw materials are not in short supply in Cambodia. Equally important, since bamboo is defined as a grass, rather than a tree, its manufactured products should not be affected by export taxes on wood, or the export quota/licensing arrangements that apply to wood products. Some institutional efforts have been made to train skilled craftsmen without noticeable

¹⁸ China and Malaysia 2003, Indonesia and Philippines 2002

¹⁹ All bamboo and rattan products of which furniture would be the highest value item

success. Yet the skills clearly exist at the family level in Phnom Penh, and possibly in other areas, to manufacture quality furniture. An export sector might be best based on extending that existing expertise.

SOURCES AND PRACTICAL INFORMATION

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www.basketsofcambodia.com
2. INBAR database on bamboo and rattan trade:
<http://www.inbar.int/trade/main.asp>
3. International Tropical Timber Organization
<http://www.itto.or.jp/live/PageDisplayHandler?pageId=1>
“Design and Manufacture of Bamboo and Rattan Furniture”, 1996, UNIDO.

Annex D

Garments

As Cambodia's major export sector, the garment sector depends greatly on future developments in the WTO. The special conditions applied to the global textiles and garment sector for forty years terminated in January 2005. Without guaranteed quota access to the US market, it is feared that Cambodia, like most other low-cost producers, would be eliminated by China. In reality, the situation is more complicated. There are signs of a strong reaction to the dominance of China in the United States garment market. China's special WTO accession terms allow for its textiles and clothing exports to be controlled by importing countries. Other WTO instruments exist that may also be used to create obstacles to continued growth in market penetration by Chinese producers. Given those possibilities, importers and retailers in developed markets will need to diversify their suppliers. Cambodia has some advantages: it has a positive record on labor rights, and may be able to secure preferential access in major markets. But, Cambodia needs to meet origin conditions for duty-free access to the EU. This means developing an indigenous textiles sector, or evolving a coordinated ASEAN approach to garment production. Encouragingly, Chinese garment manufacturers are stepping up their investment in Cambodia.

The success of the Cambodian garment sector as the country's top exporter is well known. From exports of less than \$5 million in 1994, the largely foreign-owned clothing industry in Cambodia had built up its overseas shipments to a value of over \$1.6 billion in 2003. The dominant US market accounts for 71% of Cambodian garment exports, although, in a few product categories, EU markets are individually or collectively very significant. Overall, the EU takes 27% of Cambodia's garment exports.

The garment sector is also Cambodia's biggest importer, since fabric, yarn, and garment pieces are sourced from China and other regional suppliers. Table D.1 illustrates the near continuous growth in imports and exports over the past four years.

Table D.1 Cambodia's Imports and Exports of Textiles and Textiles Products

Year	Imports	Exports
2000	480	940
2001	570	1130
2002	710	980
2003	796	1640

(Customs value in US Dollars, Millions)

Source: Customs Department

In volume terms, Cambodia is now the 14th largest garment supplier to the US. It has secured this position through an unusual bilateral textiles agreement, under which US import quotas in some of the most profitable market segments were offered, in return for sustained observance of international labor standards in Cambodia. The quotas could be increased annually by up to 15%, based on reviews by the International Labor Organization (ILO), of labor conditions in a cross-section of Cambodia's 186 garment factories. The quotas were auctioned. Since they offered the garment companies a guaranteed share of the US market, producers were partially sheltered from competition and able to command high prices from importers. This favorable situation attracted investment from Hong Kong, Taiwan, China, Singapore, South Korea, and the US, as well as from Cambodia itself.

Of Cambodia's current export sectors, the WTO will probably have more impact on the garment sector than any other. However, this is due to two particular conditions: the exceptional treatment of textiles and clothing in the WTO, and the special position of China as a WTO member.

TEXTILES AND CLOTHING IN THE WTO

As is the case for agricultural goods, textiles and clothing has long been an exception to normal trade rules. In the early-1960s, GATT established a legal

system of quotas as an exception to the normal rule that forbids quantitative restrictions on industrial goods. The system was initially put in place to protect the cotton textiles producers of Europe and the US, which had been dominant since the nineteenth century, but were facing intense competition from developing countries. The arrangement eventually developed into the Multi-Fibre Arrangement (MFA), which permitted the imposition of quotas on all yarn, fabric, garments, and other products, whether of natural or synthetic raw materials.

Despite forty years of protection, the textiles and clothing industries of the industrialized world nevertheless declined. The MFA proved expensive for consumers and a drag on the economic development of poor countries that had a competitive advantage, but little or no quota access. It was also a system liable to corruption. At the conclusion of the Uruguay Round, in 1993, it was finally agreed that the MFA should be terminated. Initially, the MFA quotas affecting WTO members were transferred to a new regime called the Agreement on Textiles and Clothing (ATC). Under the ATC, quotas were to be phased out in four steps over 10 years. Hence, the industry faced a deadline at the end of 2004 when the advantages of quota-based access ended.

In principle, the Agreement on Textiles and Clothing (ATC) was a big victory for developing countries. For the first time, they would have unrestrained access to developed (and advanced developing) country markets, and fair competition among suppliers. However, there were three complicating factors.

First, although only three markets are still affected by ATC quotas, the US, EU, and Canada, the schedules for phasing them out were heavily back-loaded, meaning that the most sensitive products were left until the final step this year. Rather than facing a gradual adjustment process, the industry is now faced with a sudden and severe upheaval.

Second, nobody truly appreciated how dominant a supplier China would become in the late 1990s. The prospect of Chinese suppliers taking the biggest share of the opportunities of quota-free trade, and perhaps even squeezing out competitive producers in India, Pakistan, and Bangladesh, was not seen.

Finally, the ATC did not allow for the distorting effects of bilateral trade deals and regional preferences.

In particular, over the past five years, the US has established two regional trade deals, the Africa Growth and Opportunity Act (AGOA) and the Caribbean Basin Initiative, that contain complex access arrangements for garments, including the use of US-made fabrics and yarn.

WILL THE REMOVAL OF ATC QUOTAS MEAN AN END TO ALL TEXTILES AND CLOTHING TRADE PROTECTION?

As explained in Chapter 9, the WTO leaves various options for governments to protect their manufacturers from import competition. In the case of garments, it is more than likely that use will be made of antidumping duties and safeguard measures (see boxes 15 and 17). However, abusive use of these WTO provisions would be challenged under the dispute settlement procedures. Thus, there is a limit to the traditional means of counteracting import competition.

China represents the most competitive challenge for importing countries with politically sensitive domestic textiles and garment sectors, as well as for less-competitive suppliers. Therefore, the most likely reaction in the first period of quota-free trade will be recourse to the special arrangements in China's WTO accession agreement. The special textile safeguard, which will apply only to China until the end of 2008, provides relatively lax criteria for governments to determine whether a protective measure should be put in place.

To date, very little recourse has been made to the special textiles safeguard. It is clear that the US and the EU are politically unwilling to take risks with their fast expanding economic relationships with China. However, in September 2004, a group of US textiles trade associations said they would petition the US government to take action against the threat posed by China to domestic manufacturers (and to preferential suppliers). The timing of this request, at a key point in the Presidential election campaign, was clearly significant. Whether or not the new administration responds to this request, it is inevitable that further petitions will be launched after January 1, 2005, particularly if domestic factory closures and job losses accelerate.

Some garment exporting developing countries, together with textiles manufacturers in the US and Europe, have raised the question of delaying the

termination of quotas under the ATC. No government has formally sought such a decision from the WTO, yet. Even if such a request were made, it would seem virtually impossible to secure a consensus among members to adopt a delay. Unusual for a WTO agreement, Article 9 of the ATC explicitly states: "There shall be no extension of this agreement".

CAN THE CAMBODIAN GARMENT INDUSTRY COMPETE IN THE POST-QUOTA WORLD?

The Cambodian garment industry has succeeded in export segments outside those guaranteed through US quotas. Indeed, these non-quota exports have been increasing more quickly and have reached a higher volume than quota trade. However, prices for products sold within quotas are nearly five times higher than non-quota prices, which have been declining for several years. Clearly, whatever the price impact of a quota-free market may ultimately be, Cambodia's competitiveness will be tested.

For the immediate term, Cambodia will benefit from its reputation as a country where high labor standards are maintained. According to an IFC/World Bank study released in December 2004, which surveyed nearly half of Cambodia's garment buyers, 60% of buyers said they planned to increase their garment purchases from Cambodia. And none planned to buy less. Findings also showed that Cambodia's overseas buyers rate labor standards as one of their top priorities in sourcing garments, and consider Cambodia to have an advantage in this regard over Bangladesh, Thailand, Vietnam and China. However buyers also indicated that along with maintaining good labor standards, Cambodia must bring down the high cost of doing business that result from unofficial fees. According to the study, bribe payments alone amount to a reported average of 5% of Cambodian firms' sales. Because garment production costs in China are an estimated 15-20% lower than in Cambodia, this 5% and other costs of doing business can render Cambodia uncompetitive.

Considering value added per worker, Cambodian labor cost competitiveness lags behind major producers like Bangladesh, India, Pakistan, and China. However, even if labor productivity can be improved, the industry also faces high administrative costs and corruption. A value chain

analysis of Cambodia's garment sector revealed that the administrative costs associated with shipping a 40-foot container of denim jeans could be over \$1000. Nearly 85% of the total was accounted for by fees and informal payments related to the import clearance of raw materials and their transport, post-production transport, and export clearance. Disruption of shipments through repeated inspections by Camcontrol and other government agencies was cited as a major handicap for the industry's competitiveness. These additional costs and interferences hinder Cambodia's ability to fully utilize its US quotas; on average, exports only fill 63% of available quota.

The government is fully aware of these constraints to the growth of businesses, and is working to address them. It has committed itself to a number of reforms which are to be completed by December 2005. To achieve these, a cross-agency reform team has been established, and the government has promised transparent performance measurement in which the private sector will play a role. The government has also agreed to replace the current frequent and discretionary inspections with a risk management approach in which inspections will be selective, based on the risk profile of the shipment. To improve documentary and compliance procedures, the roles of various agencies will be rationalized, and procedures will be integrated in a "Single Window". The Ministry of Industry, Mines and Energy, the Ministry of Commerce and Customs and CamControl have already agreed to jointly inspect factories so that the certificates required for exporting (Processing, Origin, Export License) can be issued without further inspection. The Private Sector Forum will act as a vehicle for monitoring, as well as for lodging private sector complaints about implementation.

MARKET ACCESS CONDITIONS AFTER JANUARY 1, 2005

US tariff rates on products in the garment categories most relevant to Cambodian exports vary widely and are complex. They range from less than five per cent, to almost 30%, and very few have a favorable GSP rate.

The EU's MFN tariffs on similar products are generally 12%. In principle, Cambodia would benefit from duty free and quota free access under the EU's

EBA initiative. However, most Cambodian clothing items fail to meet the EU's rules of origin criteria, principally that at least 40% of the cumulative value added must come from within ASEAN. One estimate suggests that imports account for an average of 63% of Cambodian clothing production costs; yarn and fabrics are generally imported from China, Hong Kong, and Taiwan, rather than ASEAN countries.

The future of garment trading is largely dependent on China's continued influence over the sector. However, fears over China's future trading weight are often exaggerated. It is doubtful that China will be able to continue growing its exports to the major markets at the rate of the past few years, with or without quotas. There are limits to the degree to which manufacturers and trade unions in these markets will allow themselves to be overwhelmed, even if China may be the dominant economic force.

If China does continue building its export trade relentlessly, it will likely provoke a response, probably through the special textiles safeguard. This may come from the US, probably followed by the EU, and maybe Canada, or it may come from large developing countries. Alternatively, China may anticipate this kind of a reaction and look for other options for growth. There is evidence that China has been deliberately building up market shares over the past few years, in anticipation of further advances being blocked in the future.

This is a possible explanation for the recent inflow of Chinese investment (60% of the total) into the Cambodian garment sector. Chinese producers need to diversify and maintain some options in case of potential trade protection in its biggest markets. The same is true of retailers and importers in the major markets; everyone has to plan for a backlash against China, even if it does not come. Vietnam is likely to have to continue to work within quotas for the time being, since it is not yet a WTO member. Cambodia, on the other hand, is a WTO member, an LDC, and has built up a reputation for the observance of labor rights. These factors help to mitigate fears of Chinese dominance for Cambodia, even if the cost structure is too high, and the administrative framework corrupt.

OTHER ELEMENTS THAT MAY IMPROVE THE SITUATION

Given the cost disadvantage in the Cambodian garment sector, some preferential benefits would be valuable. Cambodia's record on labor standards could lead the US to consider special arrangements to bring Cambodia's status closer to that of the African countries that benefit from AGOA, the US preference scheme for Africa. In the EU, access to EBA terms would be a big advantage, but would require the EU to change its rules of origin criteria, or Cambodia to increase the cumulative value-added from ASEAN.

Two approaches have been suggested to increase the domestic input into garments produced in Cambodia. One is to develop a cotton industry, which could feed indigenous yarn and fabric production. In the 1960s, Cambodia had 20,000 ha growing cotton. Currently, there are only a few large cotton farms, and even fewer integrated cotton and production farms. For the moment, Cambodia is handicapped by high import costs for seed and fertilizers. Textile production is similarly burdened by the cost of importing chemical bleach. In each case, Chinese cotton farmers and textile producers have significant advantages over their Cambodian competitors. Some in the industry believe a textiles industry could be developed within a special economic zone, if water treatment and electricity could be provided at competitive prices.

A second approach is the development of a regional textiles/garment industry within the ASEAN group. This might mimic the African, Caribbean, Andean, and Central American groupings that now enjoy preferential access to the US textiles and clothing market; although a full scale US/ASEAN free trade agreement seems unlikely. However, an informal regional initiative that integrated textiles and clothing production might eventually serve to meet the requirements of the EBA origin rules.

While the EU and US markets are currently predominant, it would be wrong to ignore the potential of other significant consumers, for example, Japan.

One further potential marketing tool would be the adoption of a social responsibility label, by which to secure consumer awareness of the advances made in Cambodia on labor conditions, in contrast to some of its competitors.

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3. “Towards a Private Sector-Led Growth Strategy for Cambodia. Volume 1: Value Chain Analysis”, June 2003, The World Bank & Global Development Solutions LLC.
4. US garment trade information – International Trade Administration: <http://www.ita.doc.gov/>
5. EU garment trade information – EU Commission website: <http://trade-info.cec.eu.int/textiles/index.cfm>
6. Hong Kong Trade Development Council website contains comprehensive lists of textile and garment trade associations throughout the world: http://my.tdctrade.com/webdir/directory_detail.asp?catid=1&subcatid=1&type=3

Tariff classifications (for customs duties and other trade conditions): 6101 – 6217

Annex E1

Financial Services

Lack of access to competitive financial services is a major structural handicap for trade-oriented development and investment in Cambodia. Concessions made on banking and insurance services in the WTO negotiations are not expected to have significant impact in the short-term. In the longer-term, if reforms are put in place, and are accompanied by changes in business practices and public attitudes towards credit, they may help attract investment by foreign financial services firms, and in extending the services of existing banks and insurance companies. When risks associated with conducting business in Cambodia are radically reduced more such companies may invest.

CAMBODIA'S COMMITMENTS IN THE WTO

Chapter 6 offers an explanation of how GATS operates, and the manner in which individual WTO members make services concessions (see Box 10). For the principal commercial banking services listed below, Cambodia's WTO commitments offer largely open conditions for foreign suppliers:

- Acceptance of deposits and other repayable funds from the public;
- Lending of all types, including consumer credit, mortgage credit, and factoring and financing of commercial transactions; and,
- All payment and money transmission services, including credit, charge and debit cards, travelers' cheques, and bank drafts.

For most of these activities there will be no restrictions on access to the market or the application of "national treatment" to foreign firms. Foreign banks will have the right to establishment under the regulations set out in the Law on Banking and Financial Institutions of November 1999.

Nothing in GATS detracts from the right of Cambodia, through the National Bank, to supervise and regulate foreign banks and other financial

services companies under the same terms as apply to domestic institutions. The National Bank, therefore, will continue to license new entrants. These will be subject to the requirements of the Banking Law, including minimum capital requirements, prudential safeguards, and accounting practices.

The freedom of foreign financial firms to move their personnel into Cambodia will be covered by the same horizontal terms that Cambodia committed to for all services. This means that executives, managers and specialists who are either responsible for setting up a new commercial establishment, or who will work, for at least one year, as intra-corporate transferees to branches, subsidiaries, or affiliates in Cambodia will, under specified conditions, be able to secure temporary residency and work permits.

Two other banking-related services, financial leasing and the supply of guarantees and commitments, are covered by the services schedule. These, however, are more restrictive, with the right of establishment unbound until relevant laws and regulations are put in place.

In the insurance sector, Cambodia committed to open most life and non-life insurance services to foreign providers. However, only licensed insurance companies in Cambodia may deliver insurance coverage. Market access for cross-border coverage for marine, aviation, and transport will be open from 1 January 2009 or, if it is earlier, by the time the relevant laws and regulations have been put in place and a local firm has been authorized. Apart from normal licensing and oversight requirements, there are no restrictions on the right of foreign insurers to establish in the Cambodian market.

The reinsurance business is largely unrestricted except that companies must reinsure at least 20% of their risk in Cambodia Re (the Cambodian state-owned reinsurance company) until 31 December 2008. Insurance cover of \$500,000 or less must be reinsured locally until 31 December 2008. Thereafter, there will be no limitations.

All insurance companies must be licensed, and are subject to a regulatory and supervisory framework established through the Insurance Law of 2000 and its implementing sub-decree of 2001. The WTO commitments reflect this framework, thus applying the same conditions to foreign insurance services suppliers as to domestic insurers. Under the Insurance Law, all insurers are subject to the supervision and control of the Ministry of Economy and Finance. The Law sets out minimum registered capital requirements and solvency margins for all insurance companies operating in Cambodia.

CAMBODIA AS A CONSUMER OF FINANCIAL SERVICES

Since Cambodia is unlikely, in the near future, to become a supplier of financial services abroad, the WTO commitments are relevant to the extent that Cambodian people and companies actually consume financial services. This is far from the case, at present. The World Bank has reported that 94% of Cambodian companies reported in a survey that they do not have a loan, and have never applied for one. Financing comes from internal funds; friends and family supply as much as 25% of both working and investment capital. Banks only account for between 2 – 3% of capital needs. The demand for bank loans from large companies is above average; approximately 25% of manufacturing firms have a bank loan.

Demand for capital has been estimated to exceed supply by \$100m. Interest rates for micro-credit can be in the range of 30-48% per annum, while rates on commercial bank loans vary between 12-24%. Even where credit is available, often only 10% of capital needs will be covered by the loan.

Cambodia remains essentially a cash economy. Confidence in the banking system, notably among private individuals, is low. Debt is avoided. As the World Bank has commented, in the absence of debt as a growth tool, the rate of economic growth is limited by the availability of cash.

Fourteen commercial banks operate in Cambodia: five are foreign-owned, and one of those is only a representative office. Services are limited to taking deposits (less than \$400 million at the end of 2000), some credit card business, international money transfers, and limited trade financing. Specialized banks exist in the agricultural and Small and Medium-Sized Enterprise (SME) sectors. Around

90 NGOs provide micro-finance.

The insurance sector suffers in much the same way. The market is tiny, returns are small and the incentive to offer innovative insurance instruments is non-existent. The growth of motor vehicle ownership may change the situation, as would a broader assertion of property rights. For the moment, apart from state-owned CAMINCO and Cambodia Re, two foreign-owned companies provide limited insurance services.

WILL CAMBODIA ATTRACT FOREIGN FINANCIAL SERVICES INVESTMENT?

In the right circumstances, an injection of foreign financial services investment in the Cambodian economy could be beneficial. It would increase competition, encourage the transfer of financial technology and expertise, broaden the range of products available in the corporate and personal banking sectors, and potentially push down the cost of banking and insurance. This is clearly the medium/long term objective of making WTO commitments to open the financial services market.

The risks to the banking sector, and therefore the level of interest rates, are high primarily because of the inadequacy of collateral. Land and capital are not registered, so offer poor security. Banks have little reason to go to court, either to enforce repayments of loans or to seek access to collateral assets, since there is limited confidence in the judiciary. Individuals, and sometimes the assets on which their loans are secured, can move to other provinces outside the initial jurisdiction, in which case it is virtually impossible to get the local police to act.

Banks also complain that there is not an adequate legal framework for making loans to SMEs, so they focus on large firms for their loan business. Nor can they rely on corporate accounting, with many firms preparing one set of accounts for the tax authorities and another for internal use. Further, the bank sector believes it is being penalized by corporate taxes as official revenues are diminished by smuggling and informal exports and imports.

In short, foreign financial services firms are being deterred the current banking and insurance environment. In the absence of greater reform and different corporate practices, the small banking and insurance sectors that exist in Cambodia will remain providing constrained in the financial range and depth

of products that sustainable economic growth requires.

SOURCES AND PRACTICAL INFORMATION

WTO agreements and activities related to financial services:

http://www.wto.org/english/tratop_e/serv_e/finance_e/finance_e.htm

Annex E2

Construction and Related Services

In order to develop its infrastructure for export-oriented development, Cambodia needs a construction sector capable of providing modern, efficient, and competitive services. Given present domestic constraints, some of that capacity will continue to be foreign-owned. At the same time, to be competitive, construction firms need competent associated services, like transport, engineering, and architectural firms. Cambodia's WTO services commitments allow relatively open access for foreign firms. However, construction firms need to be able to secure materials and equipment on the most advantageous terms. In the case of cement, for instance, imports are expensive and delays in delivery due to administrative complications are common. Construction is, therefore, one important area of the economy where trade conditions governing both goods and services are likely to be instrumental in determining output.

The following paragraphs look at the implications of the WTO services commitments made by Cambodia in construction and related sectors and at the conditions for importing one major raw material: cement.

CAMBODIA'S WTO COMMITMENTS ON CONSTRUCTION AND RELATED SERVICES

Since foreign construction companies are already active in Cambodia, and are likely to remain so, most of the WTO commitments provide open access and unlimited national treatment. Few limitations exist on market access and national treatment for foreign architectural services firms. However, if foreign architectural firms wish to provide cross-border services, they will need to establish a commercial presence in Cambodia. Further, where a commercial presence is established, construction documents will need to be organized by a Cambodian architectural firm. Thus, the architectural services capacity of Cambodia should be preserved and strengthened.

For construction, engineering, and architectural services, the access for foreign personnel is limited by the horizontal commitments made by Cambodia. These cover executives, managers, and specialists who are either responsible for setting up a new commercial establishment, or who will work, for at least one year, in branches, subsidiaries, or affiliates of their firms in Cambodia. These personnel will, under specified conditions, be able to secure temporary residency and work permits.

The WTO commitments open up the market for foreign contractors taking on major projects in Cambodia, and potentially establishing themselves through branches, affiliates, or joint ventures.

WILL THE COMMITMENTS HELP DOMESTIC CONSTRUCTION FIRMS?

The WTO commitments are only one aspect of the overall environment that might attract a more durable interest from foreign construction companies that are currently present on a single-project/contract basis only. There are advantages for indigenous firms in such a foreign presence. Even if major infrastructure projects are allocated to foreign contractors, Cambodian companies act as sub-contractors and can benefit from the technological and professional resources of the large firms. Joint ventures or equity participation may provide Cambodian firms with access to capital on a more favorable basis than the 15% interest rates some have to pay to local banks to finance investment and current expenditure.

Increased foreign direct investment, as well as more aid-financed infrastructure projects, would provide a boost to the industry. Yet, as discussed elsewhere in this Guide, investment is unlikely to increase while corruption and the high-cost business/trading environment are not tackled.

If the situation changes, then foreign construction companies may be interested in the investment incentives available in Cambodia. The provisions

under the Investment Law that require the training of Cambodian staff, including for promotion to senior positions, could be especially valuable in the construction sector, which lacks technical and professional expertise. These training provisions have been protected in the WTO services commitments of Cambodia.

There is similar concern among Cambodia's limited number of architectural firms that foreign construction firms too often use their own in-house architects or overseas architectural firms for their contracts in Cambodia. Again, a longer-term interest in Cambodia by major overseas firms might support the development of the architectural services sector and enhance its current capacity.

PLANT AND MATERIALS IMPORT COSTS ARE A HANDICAP FOR CONSTRUCTION FIRMS

The competitiveness and business potential of Cambodian construction firms, and therefore their ability to bid as primary contractors, is also dependent on the ease with which capital equipment and raw materials can be imported in the absence of domestic producers. Blockages at the ports and frontier crossings are a major complaint. Capital equipment and raw materials, including construction steel, tiles, and cement from Thailand, are subject to delays of one week to 10 days. Customs procedures lack transparency and firms must pay bribes in order to get materials in time to meet construction schedules.

Many materials, for example, roofing and plastic resins, are never declared and enter Cambodia on the basis of a lump sum payment to officials. The hope in the industry is that with the move towards zero customs duties in AFTA, informal payments for key imports will eventually be squeezed out.

Most imports of cement, however, tend to be legal. Current Cambodian demand is about 1.2 million metric tons of cement a year, with Indonesia accounting for about 10% of the market and Thailand 90%. Domestic production in 2002 was estimated at 50,000 metric tons. The Cambodian import duty for both bagged and loose cement is 15%. Coupled with 10% VAT, this is high, especially when compared with rates between 0 and 5% prevalent in ASEAN neighbors (except for Vietnam, which imposes a 20% duty). With the addition of transport costs, the average price of cement in Phnom Penh has been relatively stable at around \$70 per metric ton. This compares with around \$45-60 per metric ton in Malaysia, Thailand, and Vietnam. Prices are likely to rise in the near future as demand in China, which is expected to account for 40% of global cement use in 2004, strains supplies.

SOURCES AND PRACTICAL INFORMATION

WTO agreements and activities related to construction and engineering services:
http://www.wto.org/english/tratop_e/serv_e/construction_e/construction_e.htm

Annex F

The Experience of Another WTO Member: Uganda

As the first LDC to conclude negotiations to accede to the WTO, Cambodia is in an almost unique position. Few other poor nation have had quite the same experience. There are over 30 WTO members defined as LDCs by the United Nations, all of which joined the WTO as founding members, except for Cambodia and Nepal. Members of GATT, they accepted the applicable conditions set out in the Marrakesh Agreement establishing the WTO, and became members of the new institution with very few demands made of them.

Many poor members have used the WTO framework to reform their economies and their trade regimes to a limited degree. One country that has dramatically reformed, and might therefore be regarded as on a similar track to Cambodia, is Uganda. The results from WTO-oriented reforms have been mixed, but encouraging. Some observers, including the WTO itself, believe that success would have been clearer had reforms gone further; nearer, perhaps, to some of those implemented in Cambodia.

TRADE REFORM DRIVEN BY POVERTY REDUCTION OBJECTIVES

The Republic of Uganda is an East African nation with a population of 22 million and an area of 236,000 sq. km. In 1999, Gross National Product (GNP) per capita was \$320. Cambodia has a population of 13.3 million, an area of 181,000 sq. km., and a GNP per capita in 1999 of \$280.

Uganda has pursued economic reform and trade liberalization for nearly two decades. Like Cambodia, the changes came progressively after a period of civil war and domestic turmoil. The government has been committed to streamlining the economy and turning the private sector into the principal engine of

economic growth. A Poverty Eradication Action Plan is designed to turn Uganda into a modern economy by 2017, by integrating export competitiveness and trade reform into the battle for poverty alleviation.

Under the “Big Push Strategy,” the Government is seeking to transform Uganda from one of the world’s poorest economies into a world-class provider of services, as well as a producer of high quality agri-products.

Uganda’s development, however, is hampered by many of the same handicaps that hold back Cambodia. Uganda, which is land-locked, has feeble infrastructure, high utility prices, and other production costs that make it difficult to enhance competitiveness. The agricultural sector, accounting for around 42% of real Gross Domestic Product (GDP) and 80% of employment, has suffered from drought and plant diseases. According to the 2003 Corruption Perceptions Index from Transparency International, it is among the most corrupt nations in the world.

Uganda has sought to provide a positive environment for inward investment. The Uganda Investment Authority was established as a one-stop shop to encourage and facilitate investment. There are few limits on equity investment by foreigners, and tax incentives, including import duty concessions and VAT deferral, are available. Uganda’s privatization program has led, by 2001, to the divestment of 108 out of 148 public enterprises.

As well as being an original member of the WTO, Uganda has sought to develop its trade through regional integration, particularly through the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). However, as a trade policy review¹ by the WTO pointed out in 2001, lack of trained and

²⁰ Under the WTO’s Trade Policy Review Mechanism, each member is the subject of a comprehensive review, by the rest of the membership, of the entirety of its trade and trade-related policies. The major trading nations and the EU are reviewed every two or three years; developing countries less often. The reviews are intended as a guide for governments in the implementation of their WTO obligations. They are not legally binding. The review process also provides the members with an opportunity to explore the problems its exporters face in their own markets.

experienced government personnel, and poor coordination among ministries, has made it difficult to manage trade arrangements effectively to implement reforms and reap benefits.

CUSTOMS DUTIES SIMPLIFIED AND REDUCED

As Cambodia has done more recently, Uganda has drastically reformed its tariff structure. In 1995, a five-band structure was reduced to just three bands (zero, 7%, and 15%). This required the lowering of maximum duty rates from 60% to 15%. Around 16% of all tariffs are duty free, while nearly 40% attract the maximum 15% rate. The simple average in 2000–2001 was 9%. However, there is an import licensing regime, which can add a 2% commission, and a 4% withholding tax, both of which have raised concerns in the WTO. Excise duty is normally 10%, but can rise as high as 130% for cigarettes.

Uganda provides preferential tariff treatment to other members of COMESA at zero, 4%, and 6%.

Unlike Cambodia, however, although Uganda applies relatively low MFN customs duties, its commitments in the WTO are very light. In 2001, only 15.4% of Uganda's tariffs were bound in the WTO (see Chapter 7 for the difference between applied and bound rates of duty). While all agricultural tariffs were bound, less than 3% of non-agricultural tariff rates were. Even where Uganda's tariffs are bound, it is at high levels; 80% on most agricultural products, and 40–70% on non-agricultural lines. Uganda was encouraged, during its 2001 trade policy review, to increase the level of its tariff bindings, and to reduce the difference between bound and applied tariffs, in order to gain predictable trading conditions for traders and investors. In fact, Uganda is not unusual for least-developed countries in the WTO. In contrast, Cambodia has bound 100% of its tariffs and has a comparatively narrow gap between its applied rates and its WTO bound rates.

INITIATIVES TO PROMOTE EXPORTS

A Uganda Export Promotion Board (UEPB) was established in 1996 to promote exports in regional and global markets. It develops strategic initiatives, provides trade information, develops exporting skills, and undertakes basic market research. The 2001 WTO trade policy review of Uganda suggests, however,

that the activities of the UEPB have so far not been as successful as hoped.

The Bank of Uganda provides limited export finance support through the Export Refinance Scheme (ERS). The scheme is meant to support non-traditional and non-perishable products for export. The finance is channeled through local commercial banks, and includes pre- and post-shipment credits in a variety of forms to cover working capital requirements. Medium term loans, usually up to 80% of project costs, are also available to exporters for investment in infrastructure, such as cold storage, warehousing, cleaning, drying, and packaging facilities.

An Export Credit Guarantee Scheme, under the ERS, was established in 2000 to guarantee a portion of credit risk on commercial loans for working capital to exporters of non-traditional products. In 2001, COMESA launched the Africa Trade Insurance Agency to improve the terms of trade finance in participating African countries. Supported by the World Bank, and in cooperation with private insurers, the scheme is intended to provide easy access to political risk insurance for trade transactions.

Uganda has also moved decisively in the area of standards. The Uganda National Bureau of Standards (UNBS) has developed over 250 Ugandan standards in the fields of food and agriculture, building materials, electrical items, and chemicals. It has also participated in regional standards setting and harmonization. Nationally, a Technical Committee consisting of academics, manufacturers, exporters, and consumers drives standards setting. UNBS has established laboratories for testing, some of which have been accredited in South Africa or are seeking international recognition.

UNBS has developed a standards quality mark that it issues under license. The mark indicates that the manufacturer is capable of meeting Ugandan or internationally accepted standards.

However, there has been much criticism of the government's commitment to standards, and of the lack of capacity and funding of the UNBS to build an adequate partnership with the private sector.

New legislation on SPS measures has been introduced in recent years. Among other things, this covers the relatively heavy quarantine regulations for the import of live animals, plants, and seeds.

Over the past few years, Uganda has been revising its anti-dumping and countervailing to bring

them into conformity with the WTO. It has also been developing its IP laws and public procurement practices.

New regulations on customs valuation were introduced in 2000. Based on the WTO rules (see Box 5), these allow for invoice-based transaction values as the primary means of assessing duties. A specific procedure for valuation appeals has been introduced, which leads ultimately to a hearing by the Tax Appeals Tribunal.

REFORMS IN AGRICULTURE AND SERVICES

Agricultural policy reforms have been aimed at diversification away from the staples of coffee, cotton, tea, and tobacco. The marketing of agricultural inputs has been liberalized, export taxes have been eliminated (except for coffee), and trade restrictions reduced. Some protection remains in place for the agricultural sector, notably for certain vegetables, fruit and nuts, and a few animal and fishery products, where a maximum 15% tariff is applied.

In services, the government has progressively divested out of financial services and has partially reformed the telecommunications industry. However, Uganda has commitments under GATS in only the tourism and telecommunications sectors.

The Big Push strategy focuses on eight sub-sectors in which Uganda has a potential competitive advantage, most of which are services, namely education services, medical services, information and communications technology, printing and publishing, financial services, and air cargo logistics. The emphasis of this strategy is on streamlining government machinery to promote the growth of the private sector, and enhancing confidence among investors in these sub-sectors.

FINANCIAL SERVICES ARE OPEN, BUT INTEREST RATES HIGH

There are 17 commercial banks, seven of which have a majority foreign ownership and account for 50% of the assets of the banking system. The one publicly owned commercial bank, which has the biggest national network of branches, will be divested by the Government. Other financial institutions include: seven credit institutions, one building society, one post office savings bank, 17 insurance

companies, three institutions that include micro-finance, a foreign currency exchange, and a stock exchange.

There are no restrictions on foreign ownership in the financial services sector, provided that the minimum standards and requirements are met and are consistent with international best practices. There are no deposit restrictions on foreign resources. Foreign professionals, working in financial institutions, are acceptable provided they satisfy the standards and qualifications set out by the Bank of Uganda, which also apply to Ugandans. Ugandans are permitted to borrow from abroad.

Interest rates are market-based. However, given the risk considerations, as in Cambodia, rates are high; around 20%. Nevertheless, there has been an improvement in the financial performance of the banking sector. The ratio of non-performing loans to total private sector loans has been declining. The capital base of the banking industry increased by more than 50% in fiscal year 1999/2000, and commercial bank deposits expanded by almost 16% in the first nine months of the same fiscal year.

There was a decline in licensed insurers and reinsurers in Uganda in the late 1990s. Locally owned companies were unable to comply with the provisions of the new Insurance Statute, and some operators could not meet the minimum capital requirement that became mandatory in April 1998. As of September 2001, there were 17 insurers, 27 licensed brokers, 212 agents, and 10 loss assessors. There is one state-owned company, the National Insurance Corporation. The number of foreign companies rose to six as of September 2001.

HOW HAS TRADE-ORIENTED REFORM IN UGANDA PAID-OFF?

Although, in WTO terms, Uganda has not gone as far in its autonomous reforms as Cambodia did in its accession negotiation, Uganda is nevertheless regarded, among sub-Saharan countries, as a good performer in terms of economic liberalization. Certainly, the resolve of its political and business leaders to see the country integrated into the global economy, in a manner consistent with its development needs and restraints, is not in question.

Economic growth has been consistently impressive for at least a decade. Annual GDP growth

moved from an average of 3.7% in the decade 1982-92 to almost double that during the following ten years to an average of 6.7%.

Uganda has been successful in attracting foreign investment. FDI increased²¹ from an average of \$24 million per year in the period 1985-95, to be consistently above \$200 million annually from 1998, reaching \$275 million in 2002. (Cambodia had an FDI inflow of \$243 million in 1998, but only \$54 million in 2002.) Over half the investment in Uganda has gone into the manufacturing sector, and only around 7% (1991-98) into agriculture, forestry, and fishing. Other sectors of interest to foreign investors have been tourism, real estate, mining, transport, and communications. Financial services have begun to attract the attention of foreign suppliers. Generally, services have become the dominant portion of the Ugandan economy, accounting for 46% in 2002. The agricultural sector has declined from almost 54% of GDP in 1982 to 31% in 2002, while industry has doubled in importance from 11.4% to 22.7% in the same period.

Imports of goods and services rose from \$1488 million in 1995 to \$1636 million in 2002.

However, the total figures hide important structural changes in the make up of Uganda's exports of goods. Traditional exports have given way, for a variety of reasons, to a range of non-traditional products (see Table F.1 below).

The biggest change has been the decline in earnings from coffee exports. Nearly five million Ugandans are believed to be employed in the coffee sector, where 90% of production is by smallholders. The country is the ninth biggest producer in the world, but with only a 3% share of the global market in 2000, it has little impact on prices. In the late 1990s, Uganda saw its coffee exports hit by collapsing prices, down by an average of almost 50% between 1995 and 2000, and by declining production due to wilt disease, drought, and an ageing coffee tree stock.

Despite active government intervention in the sector, coffee's importance as a Ugandan export has moved from a 55% share (by value, all exports) in 1998, to a 19% share in 2003. Cotton, tea, and

Table F.1 Progressive Change between Traditional and Non-Traditional Exports

	1998	1999	2000	2001	2002	2003
Non-traditional	182,877	137,286	190,302	278,552	284,905	321,141
Traditional	353,870	341,464	211,343	173,213	182,700	201,397
Total	536,747	478,750	401,645	451,765	467,605	522,538

(Export values in US Dollars, thousands)

Source: Uganda Bureau of Statistics

More than half of FDI flows to Uganda originate with investors in the UK, Canada, Kenya, the US, South Africa, and India.

Yet exports have disappointed. Uganda has traditionally imported more than it has exported, for both goods and services. Since 1994, the deficit on trade in goods has steadily grown with total exports remaining stagnant and imports rising significantly. In 2002, exports of goods and services together were worth \$699 million, about the same as in 1995.

tobacco, the remaining three traditional agricultural exports, have all taken a larger share of Ugandan exports during the same period (3%, 8%, and 8% respectively).

Cotton is especially important as an industry, employing up to 1.4 million people at all stages, including the manufacture of textiles and clothing. However, only raw cotton is exported. Production is much less than in the past. Thirty years ago output was more than four times greater than current levels.

²¹ UNCTAD FDI/TNC database

NEW PRODUCTS ARE NOW TAKING OVER

Table F.2 shows the value of exports of three products of which Uganda had little record as a trader prior to the mid-1990s.

The fish export business has been developed on the basis of the country's extensive natural lakes and rivers, and its plentiful fresh-water fish resources. The sustainable fish catch is estimated at 300,000 metric tons per year. The government issues licenses for industrial fish processing, commercial fish farming, and boat building. An environmental impact assessment is required before a license for a fish plant is issued. Foreign investment in the sector is being sought actively.

Uganda also has plentiful livestock, including cattle. In the 1990s a successful trade in cattle skins was developed.

WHERE ARE UGANDA'S MARKETS?

The EU is by far Uganda's largest market, taking 33% of its exports in 2002. Uganda benefits from special trading terms with the EU, notably EBA conditions, as well as the preferential arrangements under the Cotonou Treaty for African, Caribbean, and Pacific countries. In the rest of Europe, Uganda has been notably successful in Switzerland, which takes nearly 15% of its exports, largely coffee. It has not, to date, been successful in the US (1.97%) and Canadian markets.

Table F.2 Export Trends of Non-Traditional Products

	1998		2000		2002		2003	
	Value	%	Value	%	Value	%	Value	%
Fish and fish products	39.9	7.43	30.8	7.67	87.9	18.8	87.4	17
Maize	9.35	1.74	2.44	0.61	10.6	2.27	13.7	3
Vanilla	1.26	0.02	0.78	0.19	6.9	1.48	11.98	2
Cut flowers	7.5	1.4	9.9	2.47	17.8	3.81	22.1	4

(Value in US Dollars, Millions; % shares of total exports)

Source: Uganda Bureau of Statistics

In 1997-1999, the EU banned fish imports from Uganda after a poisoning scare. This SPS-related ban resulted in an estimated loss of US\$30 million of exports. Trade recovered relatively quickly, however.

The EU is also a major market for fresh cut flowers. With special airfreight innovations, the transport of cut flowers between continents has become common. Roses and other flowers are shipped from Uganda to the Netherlands, from where they are moved to at least ten different markets. The sector has expanded rapidly from only one producing farm in the early 1990s.

Uganda's regional ties, however, have been effective. Some 23% of its 2002 exports went to COMESA members and over 9% to South Africa.

INFORMATION SOURCES

1. WTO Trade Policy Review of Uganda, 2001. Document WT/TPR/S/93. www.wto.org ("Documents online")
2. Uganda Export Promotion Board and exporters associations contacts: <http://www.ugandaexportsonline.com>

Appendix 1

Information Resources

1. WTO rules, agreements and activities:
www.wto.org
2. WTO documentation. Go to document search facility and follow the directions:
http://docsonline.wto.org/gen_home.asp?language=1&_=1
3. General US trade policy information:
 - a. US Trade Representative:
<http://www.ustr.gov/>
 - b. Department of Commerce:
<http://www.commerce.gov/>
 - c. Department of Agriculture:
<http://www.usda.gov/wps/portal/usdahome>
 - d. US International Trade Administration:
<http://www.ita.doc.gov/>
4. General EU trade policy information:
 - a. DG Trade: http://europa.eu.int/comm/trade/index_en.htm
 - b. DG Agriculture: http://europa.eu.int/comm/agriculture/index_en.htm
 - c. Business information centre (Thailand):
<http://www.deltha.cec.eu.int/bic/>
5. General ASEAN/AFTA trade policy information (ASEAN Secretariat):
<http://www.aseansec.org/home.htm>
6. Trade statistics:
 - a. United Nations Comtrade database:
<http://unstats.un.org/unsd/comtrade/>
 - b. UN Food and Agriculture Organization (trade, production, etc.), FAOSTAT:
<http://apps.fao.org/default.jsp>
7. WTO bound tariff schedules for merchandise goods: http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm
8. WTO services schedules:
http://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm
9. Applied tariffs
 - a. AFTA 2004 CEPT rates, country-by-country:
http://www.aseansec.org/2004_cept_bycountry.htm
 - b. US: http://hotdocs.usitc.gov/tariff_chapters_current/toc.html
 - c. EU: http://europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm
 - d. Australia:
<http://www.customs.gov.au/site/page.cfm>
 - e. Canada: <http://www.cbsa-asfc.gc.ca/general/publications/tariff2004/tablewithamendments-e.html>
 - f. Korea: <http://www.customs.go.kr/eng/>
 - g. Japan: <http://www.apectariff.org/tdb.cgi/ff3235/apeccgi.cgi?JP>
 - h. China: <http://www.apectariff.org/tdb.cgi/ff3235/apeccgi.cgi?CN>
 - i. Other tariff links can be found at: http://www.ita.doc.gov/td/tic/tariff/country_tariff_info.htm
10. Applied tariffs, bound tariffs, and trade flows. The WTO's "Integrated Database" puts together these three elements for all WTO members. The database is not publicly accessible. However, all member governments, and their delegations in Geneva, have access. This provides an alternative if the sources above are not adequate.
11. Non-tariff measures. These are normally available from each WTO member. See also Box 13 on TBT and Box A1.1 on Sanitary and Phytosanitary Measures. Agricultural tariff quota information and specific food safety standards are usually available on agriculture ministry websites.

12. International Trade Centre. Provides practical guidance for developing country SMEs:
<http://www.intracen.org/default.htm>
13. World Customs Organization:
<http://www.wcoomd.org/ie/En/en.html>
14. UNCTAD “TRAINS” and “WITS” trade information databases: <http://r0.unctad.org/trains/>
15. United Nations Conference on Trade and Development (UNCTAD):
<http://www.unctad.org/Templates/Page.asp?intItemID=1421&lang=1>

Appendix 2

Trade Promotion Support in Cambodia

All types of commercial enterprises are required to register at the MoC. Information on company registration is available at the Legal Department of the MoC at the following address:

Ministry of Commerce
Legal Department
20A Norodom Blvd. Phnom Penh
Ho Saran, Director
Tel. (855) 16 913653
Office of Legal affairs Tel (855) 11 813 913
Fax: 855 23 426 396

In addition to the major role played by the Cambodia Chamber of Commerce, the Department of Domestic Trade of MoC contributes directly to trade promotion activities by providing assistance to the development of business associations. Individual business people or firms can establish business associations on their own initiative. If advisory assistance on the establishment or operation of new business associations is needed, assistance can be sought from:

Ministry of Commerce
Domestic Trade department
No. 65-67-69, St. 136, Sangkat Phsar Kandal
Phnom Penh
Tel. 855 16 913 518, Fax: 855 23 360 482

The formation of business associations requires registration with the Ministry of Interior. Currently, 27 business associations have confirmed their existence with the Internal Trade Department, including 11 associations dealing with agricultural promotion, two with transport and tourism, seven with trade promotion activities, two with industries and agro-industry, and the rest dealing with handicraft promotion activities.

Aside from the above institutions, the Export Promotion Department of MoC deals with export trade promotion. Currently all trade fair activities, domestic and overseas, are supported by the department. All information relating to these export activities is available, free of charge, from:

Ministry of Commerce
Export Promotion Department
No. 65-67-69, St. 136, Sangkat Phsar Kandal
Phnom Penh
Tel. 855 12 900 968, Fax: 855 23 217 35

Information on trade and trade promotion activities can also be obtained from Trade Promotion Unit of Cambodian embassies and representative offices abroad. Below is their contact information.

1. Mr. Sam Srei Rath,
Commercial Attaché to HCM, Vietnam
Add: 180, Dien Bien Phu St. 3rd District, HCM
Tel/Fax: (84-8) 8 296 814
2. Mr. Yiv Sokhom,
Counselor to Thailand
Add: 185 Rajdamri Road, Lumpinee, Patumwan,
Bangkok 10330
Tel: (66-2) 254 6630, 253 7967, Fax: (66-2) 253 9859
Email: ysokhom@hotmail.com
3. Mr. Nop Sophorndara,
Attaché to Singapore
Add: 152 Beach Road, #11-05 gateway East,
Singapore 189721
Tel: 65-6-299 3028, Fax: 65-6 299 3622
Email: nop_sophorndara@hotmail.com
4. Mr. Uch Kim Yon,
Counselor to Malaysia
add: 83/JKR 2809, Lingkungan U-Thant 55000
Kuala Lumpur, Malaysia
Tel: 603-4257 1150, 603-4257 3711, Fax: 603-4251 5771
Email: rekl@tm.net.my
5. Mr. Tith Rithipol
First Secretary, Permanent Mission of the
Kingdom of Cambodia to the United Nations
Office, WTO and other International
Organizations at Geneva
3 Chemin Taverney, Case postal 213, 1218
Grand-Saconnex, Geneva, Switzerland
Tel: (41-22) 788 7773, Fax: (41-22) 788 7774
Email: rithipol6@hotmail.com
6. Mr. Chhieng Pich,
Counselor to the United State of America
Email: chhiengpich@hotmail.com
7. Mr. Hem Puth Monna,
Counselor to Japan
Email: monnakrasel@hotmail.com

Appendix 3

The Role of Camcontrol

The following is an official account of the role of Camcontrol.

The Cambodia Import Export Inspection and Fraud Repression Division (Camcontrol) of MoC is responsible for checking and suppressing the circulation of fraudulent goods. It inspects exported and imported goods, and analyzes the quality of food and other consumer products. It also supervises and certifies compliance with national standards of quality and safety, as well as trademarks on food and consumer products, except for medicines, medical equipment and cosmetic products.

Camcontrol's inspection services for consumer products include sample reviews, production and final random inspection of containers, and on-board loading supervision. For petroleum products, its services encompass inspection and control, cargo accounting, tank calibration, product sample testing, and contamination surveys. Its primary marine services include draft (displacement) surveys, supervision of loading and discharging operations, cargo damage surveys, container inspection, and cleanliness surveys of vessel holds. It also provides to the insurance industry, self-insured companies, and government departments, loss-adjusting services, which entails investigation of claims, evaluation of losses, and interpretation of insurance policy coverage.

The agency, which is the national contact point for *Codex Alimentarius*, focuses on the enforcement of quality, and safety of products and services, through the establishment of food standards and specifications and labeling requirements. It controls the production and importation of food products through product sampling and quality assessment. It promotes consumer awareness and voluntary compliance of food manufacturers. In cases of defective products, it can take legal action, such as seizing products, ordering recalls, and even filing criminal prosecutions.

CONTACT ADDRESS

Camcontrol maintains numerous branches at international ports and main border check points, and establishes contacts with numerous countries in the region and the rest of the world. Its main office is located at the following address:

Mr. Mak Pichrith, Director
Camcontrol
50Eo, 144 Street, Phnom Penh, Kingdom
of Cambodia.
Tel: (855) 12-811 881; Fax: (855) 23-426 396

Appendix 4

Ministry of Agriculture, Forestry and Fisheries Contacts

Mr. Kao Thong Huor, Director,
Department of Agricultural Legislation
Ministry of Agriculture, Forestry and Fisheries
No. 200, Preah Norodom Blvd,
Phnom Penh, Cambodia
Tel: (855-12) 811 827, (855-16) 811 827

Mr. Hean Vanhan, Ph.D., Chief of Plant
Protection and Phytosanitary Inspection Office
Mobile Phone: (855-12) 818216
E-mail: vanhan@mobitel.com.kh
Fax: (855-23) 216 655

Appendix 5

Glossary of WTO Terms

The following is adapted from the glossary prepared by the U.S. Department of Agriculture, Foreign Agricultural Service, and available in full at: <http://www.fas.usda.gov/itp/wto/cancun/glossary.pdf>

Accession. The process of a country becoming a member of an international agreement, such as the World Trade Organization (WTO). Negotiations determine the specific obligations a nonmember country must meet before it is entitled to full WTO membership benefits.

Ad valorem tariff. A government tax on imports assessed as a percentage of the value of the goods cleared through customs. For example, 10 percent *ad valorem* means the tariff is 10 percent of the value of the goods.

Aggregate Measure of Support (AMS). Measure of the monetary value of the extent of government support to a sector. The AMS, as defined in the Uruguay Round Agreement on Agriculture, includes both budgetary outlays as well as revenue transfers from consumers to producers as a result of policies that distort market prices. The AMS includes actual or calculated amounts of direct payments to producers (such as deficiency payments), input subsidies (on irrigation water, for example), the estimated value of revenue transferred from consumers to producers as a result of policies that distort market prices (market price supports), and interest subsidies on commodity loan programs.

Agreement on Agriculture. The Agreement on Agriculture is one of the 29 individual legal texts included under an umbrella agreement establishing the WTO. The Agreement covers three major areas related to agriculture: market access, export subsidies, and domestic support.

Articles (of the GATT). Clauses of the General Agreement that lay out the rules and procedures that Contracting Parties will observe in their conduct of international trade and trade policy. Each of the 38 Articles in the GATT deals with a different aspect of trade. The GATT is now part of the legal framework of the World Trade Organization.

Balance of trade. The difference between the value of goods and services that a nation exports and the value of the goods and services it imports. A trade surplus occurs when a country's exports exceed its imports, resulting in a favorable trade balance. Similarly, a trade deficit implies that imports total more than exports for a country, producing an unfavorable trade balance.

Bound tariff rates, tariff binding. Tariff rates resulting from GATT/WTO negotiations or accessions that are incorporated as part of a country's schedule of concessions. Bound rates are enforceable under Article II of GATT. If a WTO member raises a tariff above the bound rate, the affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs on other products they export to the offending country.

Boxes:

Amber box policies. A popular expression to represent the set of provisions in the Agreement on Agriculture that describes the domestic support policies presumed to have the greatest potential effects on production and trade. Examples of these policies in the United States include market price supports, marketing loans and deficiency payments, and storage payments.

Blue box policies. A popular expression to represent the set of provisions in the Agreement on Agriculture that exempts from reduction commitments those payments from production-limiting programs, such as diversion payments on set-aside land.

Green box policies. A popular term that describes domestic support policies that are not subject to reduction commitments under the Uruguay Round Agreement on Agriculture. These policies are assumed to affect trade minimally, and include such activities as research, extension, food security stocks, disaster payments, the environment, and structural adjustment programs.

Cairns Group. An informal association of 17 agricultural exporting countries, formed in 1986 at Cairns, Australia. The Cairns Group was a strong coalition in the Uruguay Round of multilateral trade negotiations, seeking removal of trade barriers and substantial reductions in subsidies affecting agricultural trade. Cairns Group members are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.

Codex Alimentarius Commission. Created in 1962 by the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) to negotiate agreements among member countries on international standards and safety practices for foods. The Codex standards are minimum safety and hygiene levels that countries voluntarily apply to their exports and imports of commodities for human consumption. The standards are published in a listing called the Codex Alimentarius. Approximately 130 countries are members.

Common Agricultural Policy (CAP). A set of regulations by which members of the European Union (EU) seek to merge their individual agricultural programs into a unified effort to promote regional agricultural development, fair and rising standards of living for the farm population, stable agricultural markets, increased agricultural productivity, and methods of dealing with food supply security.

Compensation. A WTO principle that requires a member country that raises a tariff above its bound rate, withdraws a binding, or otherwise violates a trade concession, to lower other tariffs or make other concessions to offset the disadvantage suffered by trading partners. The WTO provides that any country that believes its trade interests have been adversely affected by changes in the import regime of another country may request consultations with the offending country. If such government-to-government consultations do not yield results satisfactory to the concerned parties, the complaining country may seek the establishment of a dispute settlement panel that, under the supervision of the WTO, will review the facts and recommend compensations or other appropriate action.

Concession. A tariff reduction, tariff binding, or other agreement to reduce import restrictions. In negotiations, a country may offer to reduce its own tariff and non-tariff trade barriers to induce other countries to reciprocate.

Consultations. Discussions between two WTO members for the purpose of avoiding or resolving a trade dispute.

Countervailing duty (CVD). An additional levy imposed on imported goods to offset subsidies provided to producers or exporters by the government of the exporting country. A wide range of practices are recognized as constituting subsidies that may be offset. However, under WTO law, countervailing duties can only be imposed if it is determined that the imports are causing or threatening to cause material injury to a U.S. industry. Countervailing duties are permitted under Article VI of the General Agreement on Tariffs and Trade (GATT) as long as they are in accordance with the WTO Agreement on implementation of that article.

Country schedules. The official schedule of subsidy commitments and tariff bindings as agreed to under the WTO for member countries.

Decoupled. Payments to farmers that are not linked to current production decisions. When payments are decoupled, farmers make production decisions based on expected market returns.

De minimis provision. The total AMS includes a specific commodity support only if it equals more than 5 percent of its value of production, and noncommodity-specific support only if it exceeds 5 percent of the value of total agricultural output. The *de minimis* rule excludes support from the AMS if it does not exceed the 5-percent threshold.

Dispute Settlement Body (DSB). The General Council of the WTO, composed of representatives of all member countries, convenes as the Dispute Settlement Body to administer rules and procedures agreed to in various agreements. The DSB has authority to establish panels, adopt panel and appellate body reports, maintain surveillance of implementation of rulings and recommendations, and authorize suspension of concessions or other obligations under the various agreements.

Dumping. Technically, the sale of products on the world market below the cost of production to dispose of surpluses or gain access to a market. Dumping is generally recognized as an unfair trade practice because it can disrupt markets and injure producers of competitive products in an importing country.

Export subsidies. Special incentives, such as cash payments, extended by governments to encourage increased foreign sales; often used when a nation's domestic price for a good is artificially raised above world market prices.

Fast-track negotiating authority. US Presidential authority granted by the Congress to negotiate trade agreements with the understanding that the negotiated agreement will go before Congress for a vote without possibility of amendment and within a specified time period. Also known as Trade Promotion Authority, this negotiating authority was most recently passed by Congress in August 2002.

Food and Agriculture Organization (FAO). An agency of the United Nations concerned with the distribution and production of food and agricultural products around the world. Founded in 1945, FAO is responsible for collecting, analyzing, and disseminating country data on food, agriculture, and rural affairs. The agency also offers technical assistance and operates training projects in many

developing countries. Officially known as the United Nations Food and Agriculture Organization.

GATT (General Agreement on Tariffs and Trade). An agreement originally negotiated in Geneva, Switzerland, in 1947 among 23 countries, including the United States, to increase international trade by reducing tariffs and other trade barriers.

Generalized System of Preferences (GSP). A policy that permits zero or low-duty entry of certain imports from designated developing countries.

Impairment. The partial or total loss of a benefit that was negotiated between WTO contracting parties, due to an action, policy, or lack of action by one of the parties. Impairment of WTO rights and obligations is subject to formal action under WTO dispute settlement procedures. See also bound rates.

Import barriers. Quotas, tariffs, and embargoes used by a country to restrict the quantity or value of a good that may enter that country.

Import quota. The maximum quantity or value of a commodity allowed to enter a country during a specified time period. A quota may apply to amounts of a commodity from specific countries.

International trade barriers. Regulations imposed by governments to restrict imports from, and exports to, other countries. Tariffs, embargoes, import quotas, and unnecessary sanitary restrictions are examples of such barriers.

Market access. The extent to which a country permits imports. A variety of tariff and non-tariff trade barriers can be used to limit the entry of foreign products.

Most Favored Nation (MFN). A core principle of the WTO, referred to in the US as Normal Trade Relations (NTR).

Non-tariff trade barriers. Government measures other than tariffs that restrict trade flows. Examples of non-tariff barriers include quantitative restrictions, import licensing, variable levies, import quotas, and technical barriers to trade.

Notification process. The process by which member countries report to the WTO information on commitments, changes in policies, and other related matters as required by the various agreements.

Organization for Economic Cooperation and Development (OECD). An organization established in December 1960 to study and discuss trade and related matters. Members include the United States, Canada, 15 member states of the European Union, Norway, Iceland, Switzerland, Poland, Hungary, Czech Republic, Australia, New Zealand, Mexico, Japan, Korea, Slovak Republic, and Turkey.

Producer subsidy equivalent (PSE). An economic concept used to estimate the effect of government policy by measuring the amount of the cash subsidy or tax needed to hold farmers' incomes at current levels if all government agricultural programs were removed. PSEs and consumer subsidy equivalents (CSEs) are used to compare different policy tools and their effects on farmer revenue and consumer costs across countries.

Retaliation. An action taken by one country against another for imposing a tariff or other trade barrier. Forms of retaliation include imposing a higher tariff, import restrictions, or withdrawal of previously agreed upon trade concessions. WTO permits retaliation normally only after a dispute settlement panel has ruled against specific trade measures.

Safeguards. Temporary measures implemented in order to protect an industry while it adjusts to increased competition by foreign suppliers. Safeguards can include tariffs or quantitative restrictions.

Sanitary and Phytosanitary (SPS) Measures. Technical barriers designed for the protection of human health or the control of animal and plant pests and diseases. Under the Uruguay Round Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, WTO member countries agreed to base any SPS measures on an assessment of risks posed by the import in question and to use scientific methods in assessing the risk.

Special and differential treatment. The principle allowing developing countries longer implementation periods for new WTO disciplines, softer terms or lesser reduction commitments, in the case of agriculture, than developed countries.

State trading enterprises (STEs). Government-controlled trading agencies that receive and market domestic products in domestic and international markets. STEs also encompass the practice of conducting trade exclusively through a government agency.

Subsidy. A direct or indirect benefit granted by a government for the production or distribution (including export) of a good.

Tariff. A tax imposed on imports by a government. A tariff may be either a fixed percentage of value (*ad valorem* tariff) or, often for agricultural products, a fixed charge per unit of product imported (specific tariff).

Tariff preference. Tariff treatment accorded to a country that is more favorable than that given to countries outside the preferential arrangement.

Tariffication. The process of converting non-tariff trade barriers to bound tariffs. This was done under the Uruguay Round Agreement on Agriculture in order to improve the transparency of existing agricultural trade barriers and facilitate their proposed reduction.

Tariff(-rate) quota (TRQ). Application of a higher tariff rate to imported goods after a certain quantitative limit (quota) has been reached. A lower tariff rate applies to any imports below the quota amount.

Technical Assistance. Developing countries and particularly the least-developed countries need financial, human, and institutional assistance in order to be able to implement several WTO agreements.

Technical Barriers to Trade (TBT). Refers to regulations, standards (including packaging, marking, and labeling requirements), testing and certification procedures, and other non-tariff barriers

that can create obstacles to trade. Under the Uruguay Round Agreement on Technical Barriers to Trade (TBT Agreement), WTO members agreed to disciplines on the use of these measures as they apply to both industrial and agricultural products.

The Three Sisters. The WTO's Sanitary and Phytosanitary Agreement identifies three standard-setting organizations: the Food and Agriculture Organization-World Health Organization Codex Alimentarius for food safety; the International Office for Epizootics (OIE) for animal health; and the International Plant Protection Convention (IPPC) for plant health.

Trade barriers. Regulations used by governments to restrict imports from, and exports to, other countries. Examples include tariffs, nontariff barriers, embargoes, and import quotas.

Trade deficit. See Balance of trade .

Transparency. The degree to which trade policies and practices, and the process by which they are established, are published in timely fashion for use by foreign suppliers, and are predictable.

Unfair trade practices. Actions by a government or firms that result in competitive advantages in international trade. Such actions include export subsidies, dumping, boycotts, or discriminatory shipping arrangements.

WTO Panel. A group composed of neutral representatives that may be established under the dispute settlement provisions of the WTO. The WTO panel reviews the facts of a dispute, renders findings of WTO law and recommends action.