

Cambodia's Agricultural Exports and Standards: *Trade Facilitation or Trade Barriers?*

Cambodian agricultural exports are hampered by a lack of and underdeveloped standards and certifications. Efforts must be made in the field of standardization if Cambodia is to turn standards barriers into a trade facilitation mechanism and succeed in exporting its agricultural products.

The release of the double digit GDP growth of 13 percent in 2005 caught everyone off-guard. As has been the case for the last several years, the continued strong performance of the garment and tourism industries have been the backbone for Cambodia's high economic growth. But what pushed last year's growth to exceed expectations?

What made 2005 different was neither the garment nor the tourism industries but the unexpected strong performance of the agriculture sector. As a matter of fact, agricultural growth contributes to 25 percent of GDP growth in the 1993-2005 period.

The agriculture sector still plays an important role in the economy, contributing to about one third of GDP and two thirds of employment. However, its share of total exports only amounts to 3 percent. Moreover, Cambodia's share of world agricultural exports is a meager 0.01 percent, compared to Thailand's 2 percent share and Vietnam's 0.5 percent share.

Thus, the status of Cambodian agricultural exports, needs to be examined. This report aims at providing a contribution to the debate and formulation of policies to promote agricultural exports by considering the current issues facing the sector, with a focus on standards barriers to trade. What is preventing Cambodia from exporting its agricultural products? Is it because of poor market access, a poor supply capacity or other yet unknown factors?

Market Access

With Cambodia's accession to the Association of South East Asian Nations (ASEAN) in 1999 and World Trade Organization (WTO) in 2004,

Cambodia is now well integrated into the world trading system. WTO membership allows exports to other members of the world body under the most-favored-nation (MFN) tariff rates.

ASEAN membership entitles Cambodia to export its products to other member states under preferential treatment. Firstly, on a mutual basis, Cambodia can access markets of other member countries under the Common Effective Preferential Tariff (CEPT) rates which are generally lower than the MFN tariff rates. Secondly, as a new member, Cambodia can access markets of old ASEAN members under the ASEAN Integration System of Preferential (AISP) scheme. According to the Ministry of Commerce, 632 tariff lines are given to Cambodia by old ASEAN member states under the AISP scheme as of 2005.

In addition, as a least developed country (LDC), Cambodia is entitled to receive several Generalized System of Preferences (GSP) schemes. According to the United Nations Conference on Trade and Development (UNCTAD), there are

currently 12 GSP schemes available for Cambodian exporters.

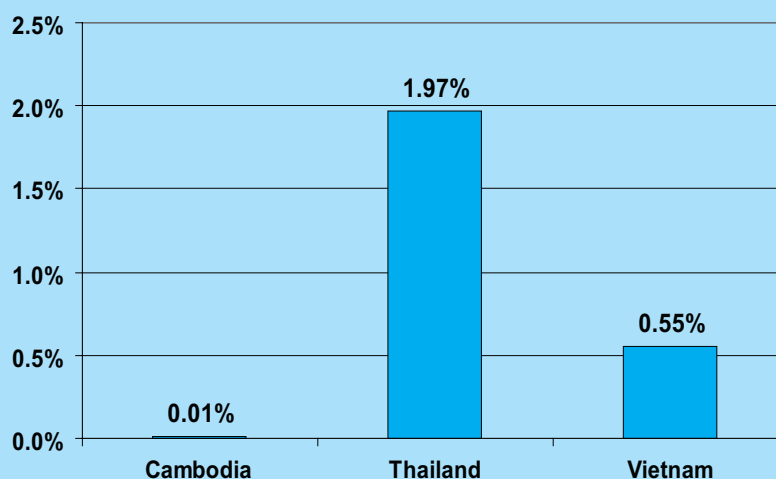
Thus, being an LDC and member of regional and global trading bodies, the world market has opened itself up to Cambodia, offering low tariff barriers.

Production Competitiveness

Due mainly to poor irrigation, lack of investment and technology, crop yields in Cambodia are volatile and lower than other countries. The yield gap tends to be larger for new crops. For example, the cashew nut yield is estimated to be lower than 1 ton per hectare compared to 3 tons per hectare in Vietnam, the world's second largest exporter of shelled cashew nuts.

However, even though yields are comparatively low, Cambodian producers are by no means uncompetitive in terms of production. Cambodian producer prices tend to be comparable with those of major exporters. Cambodian paddy prices are higher than Thailand and India, two top rice exporters, but lower than other large

Figure 1: Share of World Agricultural Exports of Selected Countries



Source: Compiled from FAOSTAT

exporters such as China and Pakistan. The producer price of maize in Cambodia is higher than that of Brazil but lower than the US which exports half of world maize exports. Therefore, Cambodian producer prices do have a competitive edge compared to other world suppliers.

Constraints to Cambodian Agricultural Exports

Though Cambodia is integrated into the world economy and competitive in production the export of agricultural products is minimal. Exports, particularly to developed countries such as Japan and the European Union, are small due to some specific reasons.

Firstly, volatile yields make it practically impossible for Cambodian exporters to provide a constant supply, a significant disadvantage in today's world economy. In addition, the country's marketing structure is underdeveloped. Contract farming, which can ensure a more regular supply, is limited due to the lack of legal regulations and farmer organizations.

The trumpeted economic land concessions were expected to alleviate the problem of supply consistency through plantation agriculture. However, it has neither solved the problem of supply consistency nor significantly contributed to agricultural development. Out of the total concession projects covering roughly 1 million hectare reported by the Ministry of Agriculture Forestry and Fishery (MAFF), only several are producing significant economic value. They are neither achieving a higher productivity nor an expected better market linkage.

Secondly, inefficient transportation and export procedures put a burden on Cambodian producers and exporters. World Bank studies have highlighted the higher transportation costs in Cambodia's Sihanouk Ville Port compared to neighboring countries such as Thailand and Myanmar. The World Bank also demonstrates that Cambodia has one of the most time-

consuming export procedures in the region, though the port has become more efficient in recent years due to the Government's trade facilitation reform.

Last but not least, high non-tariff barriers such as standards barriers imposed by developed countries and an inability to deal with them have hindered Cambodian agricultural exports. As a result, Cambodian agricultural products can only be exported to neighboring markets in Vietnam and Thailand with low value added where they, sometimes, are then re-exported. Products affected by standards barriers range from rice exports to fish exports.

Non-tariff Barriers: Standards and Certifications

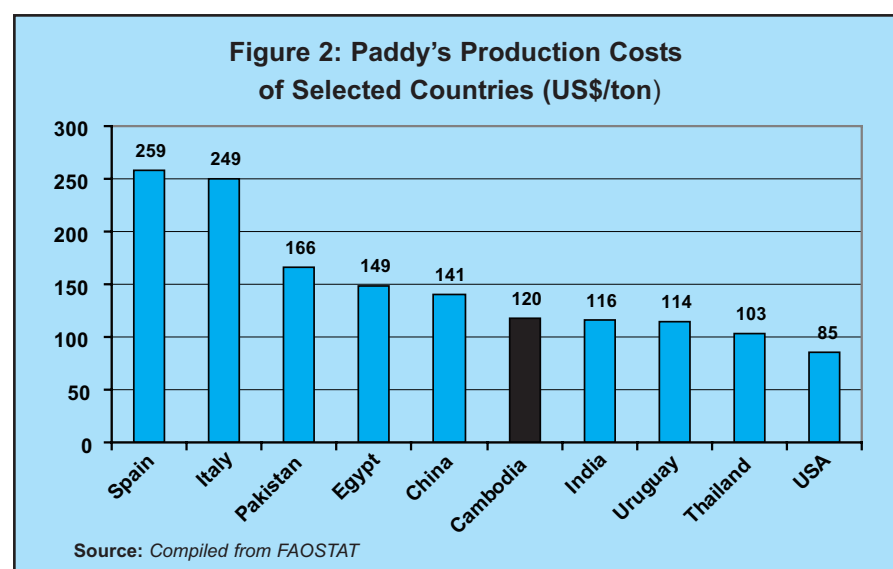
With the decline of tariff barriers due to trade liberalization, non-tariff barriers are in the limelight. In many countries, average tariff rates have declined significantly except for a few sensitive products such as sugar etc. For example, average applied tariff rates in the United States, EU, and Japan are 3.7 percent, 4.2 percent, and 3.1 percent, respectively. Average tariff rates of agricultural products in the EU and Japan are 5.9 percent, and 7.3 percent, respectively. Attention, thus, has been shifted to non-tariff barriers.

According to the WTO Secretariat, non-tariff barriers can take many forms ranging from government

participation in trade, customs and administrative procedures, to Technical Barriers to Trade (TBT), and Sanitary and Phytosanitary Measures (SPS). Particular attention has been put on TBT and SPS with the establishment of the Agreement on TBT and Agreement on SPS under the WTO framework.

SPS measures can be divided into sanitary requirements for the export of animal products and phytosanitary requirements for the export of plant products. SPS measures are mandatory requirements adopted by government agencies. Certifications are, therefore, only provided by government agencies. In Cambodia, sanitary testing and certifications are done by the Department of Animal Health and Production while the Plant Protection Office is responsible for that of phytosanitary.

There is a wide range of technical barriers to trade. TBT includes standards imposed by the government of importing countries such as the Maximum Residue Levels of Pesticides. Such standards are called "mandatory standards". It may also include some "voluntary standards" such as the ISO 9001, ISO 14001, and EUREPGAP etc. Such standards are called "voluntary standards" because they are not mandatory. Rather, they are requested by buyers or consumers. However, the line between mandatory and voluntary standards is vague as



governments can turn voluntary standards into mandatory ones at any given time.

In Cambodia, The Department of Industrial Standards of Cambodia (ISC) of the Ministry of Industry, Mines and Energy (MIME) serves as the primary contact point for TBT related enquiries.

Standards and Certification in Cambodia

The development of standards in Cambodia started with the launch of the Department of Industrial Standards of Cambodia (ISC) by the sub-decree number 12 in February 2002. ISC's activities comprise of standards formulation, product certification, systems certification, training and consultancy, information services, and WTO/TBT enquiry point.

As of August 2006, ISC has developed 51 national standards. In contrast, the Thai Industrial Standards Institute (TISI) has issued more than 2,500 standards. In addition, only four of the standards developed are in food and agriculture. Most of them are for electronic goods which is important in terms of protecting domestic consumers from poor quality imports but not quite so in terms of export promotion. Priority should be food and agriculture if agricultural exports are to be promoted. In addition, the ISC is losing speed due to a funding shortage. It has only been able to issue four standards in the last two years.

Concerning certification, there are several private and government agencies providing testing and certification services, including ISC. However, none of them are accredited by internationally recognized bodies. Thus, the locally certified standards cannot conform to international standards. Some of the certifying bodies have expressed their interest in obtaining accreditation when demand for their services expands.

Foreign recognized certifying bodies are also expected to invest in Cambodia with the adoption of the

long-awaited Standards Law and an increase in demand for their services. The Standards Law is currently at the National Assembly waiting for review and adoption.

Conclusion

Although overshadowed by the rapidly growing garment industry, Cambodia's agriculture sector still plays an important role to the country's economy by contributing to around one third of GDP and absorbing more than two thirds of employment. However, agriculture only contributes to 3 percent of total exports.

Exports of Cambodian agricultural products are facing many constraints such as supply inconsistency, high transportation costs and ineffi-

cient export procedures, and standards barriers. Strong efforts from the Government have resulted in better market access for Cambodian products and more efficient export procedures.

However, development of standards is lagging behind in spite of its importance. The establishment of the ISC is a positive start. The ISC should continue with its regional approach for mutual recognition. However, more efforts should be made.

It is important that attention be shifted to the development of standards and certification in this country. Besides, incentive schemes should be offered to foreign investors to operate internationally recognized testing and certification services in Cambodia.

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Box 1: Standards: Trade Facilitation or Trade Barrier?

Technical regulations such as standards and certifications were designed to ensure consumer safety. For example, food safety standards help to ensure that consumers are protected from health risks and deceptive practices. Labelling standards ensure that consumers get the necessary information about what they consume. To producers, standards requirement may increase trust toward their products, thus, their sale volume. Standards can also help producers to adopt practices that suit their long-term interests.

In a world of information asymmetry, standards play an important role in filling in the gap of information between producers and consumers, between sellers and buyers. In that sense, standards can be taken as a type of trade facilitation mechanism.

On the other hand, standards can also be a trade barrier. Standards conformity raises the compliance costs of producers. In addition, certification procedure itself is also very costly. Studies found that

compliance costs is very significant, particularly for firms in developing countries. For example, Maskus et al (2005) found that a 1 percent increase in investment to meet compliance costs in importing countries raises variable production costs by between 0.06 and 0.13 percent. They also found that the fixed costs of compliance are non-trivial; approximately \$425,000 per firm or about 4.7 percent of value added on average. Thus, standards can be a trade barrier for producers and exporters.

Standards barrier is perceived to be biased against developing countries for certain reasons. Firstly, those countries generally have fledgling standards institutions and regulations. Their capacity to adapt to standards of developed countries is very poor. In addition, they tend to be standards takers, rather than standards makers. Secondly, firms in poor countries tend to be small, thus, possess no financial and technical capacity to overcome standards barriers set by the developed world.

Source: Author based on various sources

Box 2: Main Regulations, Standards & Certification for Agricultural Exports

1. Technical Regulations and Control for Importing

1.1. Commercial Quality and Labeling Regulations

Before allowing the entry of products, import countries require that products comply with minimum grades and conditions. Regarding labeling, required information is on: country of origin, product name, variety, and quantity. Requirement relating to commercial quality are on variety, color, expiration date, external damage and shape.

Export of agricultural products must comply with the standards of the American Marketing Service of the United States Department of Agriculture (USDA) in the US, regulations in the Food Sanitation Law, the Japan Agricultural Standards (JAS) Law and the Measurement Law in Japan.

1.2. Food Safety Regulation

Maximum Residue Levels of Pesticides

Maximum Residue Levels are defined as the maximum concentration of pesticide residue likely to occur in or on food and feeding stuffs after the use of pesticides according to Good Agricultural Practice (GAP). Producers and exporters must comply with the regulations of their country and the regulations of import countries.

In the United States, the maximum residue levels for pesticides are established by the Environmental Protection Agency (EPA) and controlled by the Food and Drug Administration (FDA) at the point of import for all Agricultural Products. In Japan, the Ministry of Health, Labor and Welfare and the Ministry of Environment are responsible for establishing and testing residue limits.

Biological Contamination and Product Traceability

In response to recent problems about food safety (e.g. mad cow disease) and global terrorism, many governments are increasing control over all stages of food production, processing and distribution to protect consumers

against biological contamination of food. These systems are used to identify products, their origin and their location within the supply chain.

The United States government has adopted the Bioterrorism Act, which requires that all exporters register with the Food and Drug Administration (FDA) and give notice prior to product arrival in the United States. The European Union regulations on traceability entered into force in January 2005, requiring importers identify the origin of products.

1.3. Environmental Safety and Phytosanitary Regulations

Producers must comply with environmental regulations to prevent the entry and spread of plant diseases and pests. Most countries around the world have put in place plant inspections and quarantine systems in order to determine the risk level of the product.

In the United States, inspectors from the Animal and Plant Health Inspection Service, Plant Protection and Quarantine must examine and approve all shipments before they can be cleared for customs. Export to the EU must comply with the national plant health regulations of the importing countries. The Japanese quarantine system requires exporters to comply with the Plant Protection Law, the Plant Health Law and Food Sanitation Law.

2. Voluntary Private Certification Schemes

2.1. Environmental Standards

Organic Agriculture

Organic agriculture is a system based on the rejection of chemical product use. There are many requirements for the organic certification. One of the most important requirements is the conversion period, which is the time that a farm has to use organic production methods before it can be certified (usually 2-3 years).

Standards for organic farming have mainly been developed by private certification bodies but a number of countries also have national organic stan-

dards and regulations.

ISO 14001

ISO 14001 was created by the International Organization for Standardization (ISO) to help the implementation of environmental management systems in both the private and public sectors. The ISO 14001 certification is granted by either governmental or private certification agencies under their own responsibility.

2.2. Social Standards

Fair Trade

Fair Trade is a system that enables producers who comply with labor rights, environmental and social requirements to receive a fair remuneration. Fair Trade certification is issued by Flo-Cert Ltd of the Fairtrade Labelling Organization (FLO).

SA 8000

SA 8000 is a voluntary private workplace certification that has been developed by Social Accountability International (SAI) with the aim to create better working conditions. SA 8000 is certified by one of the certification agencies approved by SAI.

2.3. Food Safety and Quality Standards

EUREPGAP

EUREPGAP is a voluntary private certification system created by the Euro-Retail Produce Working Group (EUREP). EUREPGAP aims to increase consumers' confidence in food safety by developing good agricultural practices (GAP) which must be adopted by producers. Certification is done by private certification agencies approved by the EUREP Secretariat.

ISO 22000

The ISO 22000 standards have been developed to facilitate the setting up of food safety management systems. It incorporates the HACCP principles.

Source: Coulibaly, L. Aicha, Pascal Liu (2006), "Regulations, Standards & Certification for Agricultural Export" and various government sources