

**Sector
Highlight**

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**Rubber Investment Opportunities
in Cambodia**

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The rubber industry in Cambodia dates to the twilight years of French Indochina. The development of Cambodia's rubber industry followed the growth of the rubber industry in Southern Vietnam. Most Cambodia plantations were established between 1925 and 1935 in response to increased rubber demand from the rapidly growing auto and aviation industries.

The Cambodian rubber industry reached its peak in the late 1950's and early 1960s prior to the onset of political instability and eventually war. At the industry's peak, rubber was Cambodia's largest export, and the Chup Plantation in Kampong Cham province was one of the largest in the world. Many of the major technological achievements which helped increase rubber yields were pioneered in Cambodia and experts continue to regard Cambodia as having the world's most suitable climate and soil for rubber but the sector has been starved of investment since the late 1960s.

Today rubber is Cambodia's second largest agricultural sector and has substantial growth potential. There are vast swaths of available land - only around 80,000 hectares are now under cultivation, whilst there are 716,000 hectares of red soil - the most suitable soil for rubber, plus many more hectares of grey and black soils which are also suitable.

The Cambodian rubber industry has been experiencing an investment renaissance in recent years. Large Cambodian rubber estates owned by French Companies into the 1970s but nationalized under subsequent communist/socialist regimes, have been or are in the process of being privatized and revitalised, while new concessions have been and continue to be granted.

Yields are expected to increase in the coming decade with increased investments and improved management. Analysts estimate Cambodia's rubber is currently under-priced by approximately 10 to 20% due to a lack of certification capacity, but here too, the situation is improving. Cambodia has recently become a member of the International Rubber Association, which has granted it accreditation to export high quality rubber to a larger range of destination countries. (For the moment, virtually all of Cambodia's rubber is exported to Vietnam and re-exported to Chinese tire manufacturers.)

The global financial crisis and the weakening of commodity prices have dampened enthusiasm for new investment. Furthermore, some overstretched investors are seeking to exit existing investments. Such a situation creates opportunities for those who believe in the long term fundamentals of rubber - a belief that global economic growth, particularly in China, will resume at some point and that natural rubber will regain its advantage over synthetic rubber due to a return to higher oil prices (synthetic rubber is petroleum based).

There are three avenues available in Cambodia to potential investors in rubber cultivation: 1) large existing plantations which due to underinvestment require substantial re-planting; 2) Greenfield or relatively new estates on recently obtained land concessions and 3) smaller estates with both producing trees and areas requiring replanting. Option #3 is most attractive to Leopard given the long gestation period of rubber trees (7-10 yrs before full production), the large size of existing plantations, and the limited economies of scale in rubber cultivation.

Investing in a processing operation (there is limited processing capacity in Cambodia) alongside an international strategic partner would also be interesting.