

Cambodian Rice Mills Need Investment

By PAUL VRIEZE AND CHHORN CHANSY THE CAMBODIA DAILY, 8 SEPTEMBER 2009

Cambodia's rice milling industry currently processes less than half of the millions of tons of rice harvested in Cambodia each year, and only a limited share of that milled rice finds itself destined for export.

This underdeveloped sector is set to grow, however, in coming years as the export potential of domestically milled rice is slowly being recognized by investors and the government, according to rice millers and industry experts.

Between 50 and 60 percent of Cambodia's rice surplus is exported as unprocessed paddy and just 30 to 40 percent of all domestically milled rice is exported abroad, said Phou Phuy, president of the Cambodian Rice Millers Association, the country's largest millers' organization.

"We are seeking to increase our capacity to serve the international market," Mr Phuy said last week. His Battambang-based organization, he said, has invested about \$8 million in a new rice mill that will produce several hundred thousand tons of high quality rice for the European Union market. Additionally, the association will request \$18 million in government loans to purchase stocks of rice during the upcoming harvest-up \$5 million from this year.

"We are not the only association trying to increase milling capacity," Mr Phuy said. "There are other small rice milling factories trying to replace their milling machines with new technology. More factories want to improve their rice quality in order to export."

"The potential for growth is vast, great," said Chan Sophal, president of the Cambodian Economic Association. He added, however: "Capacity now is very limited, due to a lack of capital. There is a need for hundreds of millions of dollars."

Mr Sophal said Cambodia has only five recently constructed rice mills and more than 300 small and old mills. He said that the use of old machinery leads to rice of poor quality. This situation, he said, was causing most of the roughly 3 million tons of surplus paddy rice-out of total annual harvest of 7 million tons-to get exported directly to Thailand and Vietnam where mills are abundant.

"Cambodia needs at least 20 modern rice mills to be a player" on the international rice market, Mr Sophal said, adding that investment in the milling industry is slowly increasing and several new rice mills have started in recent years.

The government should continue its recently initiated support for the milling sector, particularly by extending credit support, he said, and it should also create the right investment conditions to attract foreign investors, such as improving infrastructure and decreasing bureaucratic red tape.

Agriculture Minister Chan Sarun said his ministry was focusing on rice milling industries now that Cambodian rice had obtained duty-free status for export to the EU under the union's "Everything But Arms" initiative, last week.

"Right now we don't worry about exporting, but we worry about production quality I mean the lack of quality in milled rice. When we put rice in the mills it breaks because our machinery has not improved," Mr Sarun said.

In recent months the agriculture ministry announced it would try to provide more loans to rice millers to improve their facilities and build up stockpiles, but in July the Rural Development Bank said the \$18 million in loans to be allocated to rice millers next year was insufficient

Private equity funds Leopard Capital and DEVENCO have expressed their interest in investing in rice mill operations to process rice for export markets.

"It is one of the sectors we are looking into," said Douglas Clayton, a managing partner at Leopard Capital. "It's very interesting because it is a core business [in Cambodia], there is a huge rice production and it makes little sense to export it unprocessed."

Leopard Capital will try to set up "a modern, large rice-milling operation," he said, for which it would need funding from an investors' group. He explained the largest share of investment costs for a new rice mill would consist of working capital to buy large stockpiles, which would cost tens of millions of dollars, while sophisticated milling technology would require further millions.

One such modern rice mill is run by Angkor Kasekam Roongroeng Company. The facility was constructed in 2000 in Kandal's Ang Snuol district.

The company, wholly Cambodian, produces only premium fragrant rice for the EU, US and Australian markets, said company Vice President Chieu Hieng. He added that in order to guarantee product quality the company controlled the production process all the way back before the rice is planted. "We do contract farming and provide seeds and other input resources to 40,000 families from whom we buy back the rice," he said.

According to Mr Hieng there is "a lot of room to grow" in the rice milling sector, and Angkor Kasekam Roongroeng was planning to quadruple its milling capacity over the next two years.

"We are still very confident our company has to push harder to grow," he said, adding it was in talks with a Malaysian investor to finance part of its expansion plans.

He added that quality guarantees were necessary to establish a customer base abroad. If other rice millers want to export to the EU and US they would be best served by contract farming and they should avoid mixing together different varieties of rice, something he said was a common practice.