

A tall, clear glass filled with golden beer, topped with a thick, white head of foam. The glass is covered in numerous small, glistening droplets of condensation, suggesting it is cold. The background is a solid, vibrant blue.

Beer Industry in Cambodia

May 2007

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1

Introduction

The beer industry in Cambodia began in the 1960s with the construction of a brewery in the port city of Sihanoukville. Unfortunately, there was not much development of the business for the next three decades as Cambodia was affected by war and political turmoil.

However, a new chapter in the history of the beer industry commenced in the early 90s with the emergence of Cambrew Limited (Cambrew) which took over and revived the brewery in Sihanoukville. This was followed by the construction of a greenfield brewery by Cambodia Brewery Ltd. (CBL), a joint-venture between Asia Pacific Breweries Limited, a Singapore company with a major presence in the Asia-Pacific region, and Progress Import Export, a local company.

Underpinned by a fast-developing Cambodian economy, averaging high single-digit growth in the last ten years, the local beer market has expanded rapidly. Fast-growing consumption of beers in recent years has generated a boom in beer imports from many countries, especially Thailand and Singapore. At the same time, issues around “contraband” have arisen, which make statistical records on beer unclear, and result in significant losses in government tax revenue and opportunities for new investment and job creation.

In view of this, the Economic Institute of Cambodia (EIC), in close collaboration with the two local brewers, has conducted a research study to assess in depth the current situation of the beer industry in Cambodia.

This report will first provide a general overview of local production, followed by estimations of beer imports and consumption. An assessment of the implications of “contraband” beer on the national budget will be made at the end of the report.

Box 1: Methodology of the Study

The profile of the beer industry in Cambodia can be characterized by its production (Q), import (M) and consumption (C).

Modeling

The amount of beer imported into Cambodia can be estimated in two ways. The first approach, by using the existing statistics of official beer imports (M_o) from Cambodian customs, can be illustrated by the following equation:

$$M = M_o \quad (1)$$

In the second approach, beer trade statistics from foreign customs are also used. It is reasonable to assume that the amount of beer exported by various countries to Cambodia (X_c) is equal to that imported by Cambodia. Thus, the model below is used to estimate Cambodian beer imports:

$$M = X_c \quad (2)$$

In the case of Cambodia, there is a big gap between M_o and X_c . Some imported beer is thus under-recorded. This under-recorded amount is assumed as “contraband” (M_s). In this case, the equation (2) is chosen as a tool for estimating total beer imports, and can be written as below:

$$M = X_c = M_o + M_s \quad (3)$$

Since Cambodian beer exports to international markets are insignificant, local beer consumption can be estimated as follows:

$$C = Q + M \quad (4)$$

However, consumption of locally produced beer can also be estimated through surveys, as already carried out by local beer brewers.

Data Collection

The local production data are provided by the local beer producers, while the import-export statistics are from various customs departments, such as Customs and Excise Department of Cambodia (CED), Thai Customs Department, and the Singapore trade statistics of International Enterprise Singapore (IE Singapore). At the same time, interviews were also conducted with various beer importers to establish a better picture of the beer sector.

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IE Singapore: <http://ieshop.iesingapore.gov.sg/shop/tradestats>

Asia Pacific Brewery (APB): <http://www.apb.com.sg>

Cambrew Limited: <http://www.cambodianbeer.com>

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Local Production

Founded in 1990, Cambrew started its operations in 1992 with four main brands: Angkor Beer, Klang, Bayon Beer and Black Panther Stout. Its annual production capacity currently reaches about 500,000 hectoliters, up from 250,000 hectoliters in the early 1990's¹.



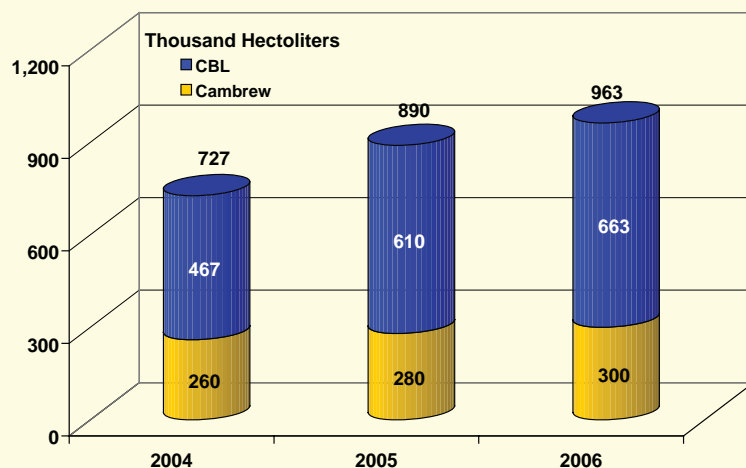
In 1994, another important investment in the Cambodian beer industry was approved by the Cambodia Investment Board. Together with its Cambodian partner, Progress Import Export, Asia Pacific Breweries Limited (APB) set up Cambodia Brewery Ltd. (CBL), and started its commercial operations in 1996. At present, the company is producing four main brands: Tiger Beer, Anchor, Gold Crown and ABC Stout². In 2006, CBL produced about 663,000 hectoliters, an increase of around 9 percent from 2005.

CBL has to import significant amounts of beer from its parent company in Singapore in order to respond to the increase of local demand during peak seasons.



Totally, local beer production in 2006 reached almost one million hectoliters or around 12 million cartons of beer, an increase of about 8 percent compared with 2005.

Figure 1: Local Production of Beers



Source: CBL, Cambrew, 2007.

¹ www.cambodianbeer.com

² www.apb.com.sg

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Estimation of Beer Imports

Cambodian beer imports are mostly from Thailand and Singapore. According to the interviews with local beer producers and importers, presently there are more than 50 beer brands circulating in the market.



In order to measure the amount of beer imports, trade statistics from various customs departments are taken as a reference. Thus, analyses are derived from two different sources, Cambodian customs and foreign customs, as shown below.

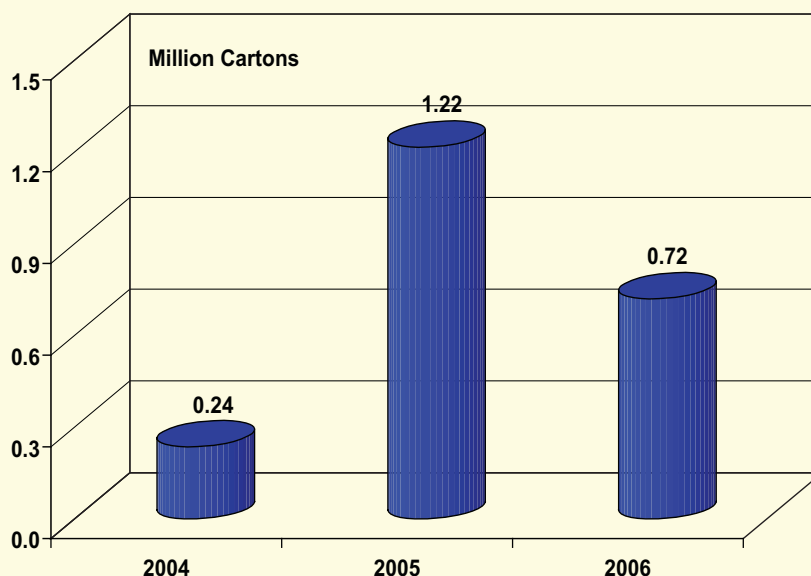
Cambodian Customs: $M = M_o$



The amount of beer imported into Cambodia can be obtained from the official statistics recorded by Cambodian customs. According to these statistics, beer imports surged from around 0.2 million cartons in 2004 to 1.2 million in 2005, but decreased to 0.7 million in 2006. The huge increase of beer imports in 2005 was mainly due to CBL responding to a sharp growth in local demand.



Figure 2: Cambodian Official Import of Beers



Source: Customs and Excise Department (CED).

The Cambodian customs data also shows that there were 15 countries exporting beers to Cambodia in 2004, with about 43 percent of the import shares represented by Singapore and Thailand. However, in 2005 Singapore alone took 80 percent of total import shares, while Thailand and The Netherlands respectively secured 5 and 6 percent.

Furthermore, based on the official data, on average, locally produced beer represented about 94 percent of market share from 2004 to 2006, while imports made up only 6 percent. From this it can be concluded that the demand for beer imports is very low compared with that for locally produced beer.

Nonetheless, beer exports from various countries, mainly Thailand and Singapore, presented in the second analysis, seemingly play an important role in assessing the reliability of any conclusions drawn from above.

Foreign Customs: $M = X_c$

The concept of this analysis is fundamentally based on foreign trade statistics of beer ($M = X_c$), meaning that the total amount of beer exports to Cambodia (X_c) must be equal to the actual figure for imports. However, it is complex and costly to calculate such an amount, as various beers are exported from many different countries.

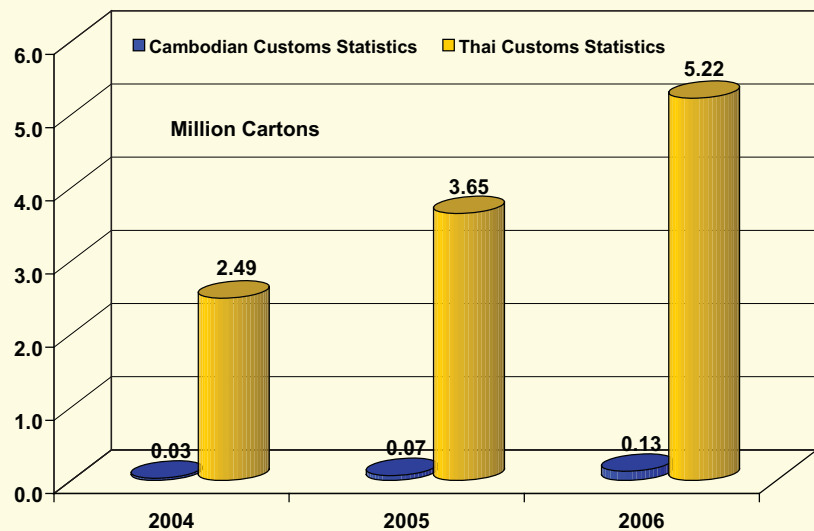
Based on EIC interviews with the main beer importers, most Cambodian beer imports are from Thailand and Singapore. To simplify the calculation, therefore, only beers exported by those two countries are taken into account. The amount of beer exports from other countries is assumed to be the figure which is recorded by Cambodian customs.

Beer Exports from Thailand to Cambodia

By using the export statistics from Thai Customs Department, beer exports from Thailand to Cambodia respectively amounted to about 2.5 and 3.6 million cartons in 2004 and 2005³, and rose appreciably to around 5.2 million cartons in 2006. It should be noted that the Cambodian market represented on average around 50 percent of total Thai beer exports to the international market during the last five years.

The equation (3) shown in Box 1 (Page 4) shows that “contraband” accounted for about 2.5 and 3.6 million cartons in 2004 and 2005, and continued to increase to approximately 5.1 million cartons in 2006.

Figure 3: Beer Exports from Thailand to Cambodia



Source: EIC, Compiled from Official Data of Cambodian and Thai Customs.

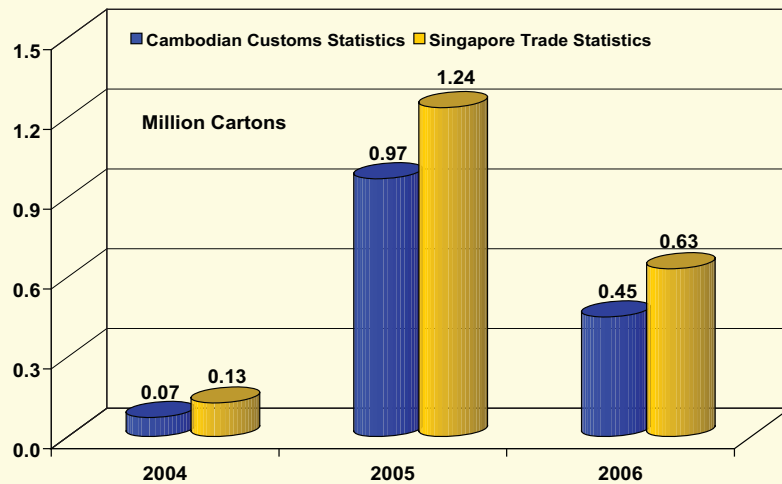
³ Due to an outlier of data in September 2005, the annual Thai beer exports for this year were modified to only 3.6 million cartons.

Beer Exports from Singapore to Cambodia

Using the same approach, Singapore trade statistics show that in 2004 the country exported about 0.1 million cartons of beer to Cambodia. This figure leapt to around 1.2 million in 2005, but decreased to about 0.6 million cartons in 2006. It should be noted that most beer exports from Singapore in 2005 and 2006 were imported by CBL.

Figure 4 apparently shows that statistics on beer exports from Singapore to Cambodia recorded by the Cambodian customs and the Singaporean trade authority are relatively close.

Figure 4: Beer Exports from Singapore to Cambodia



Source: EIC, Compiled from Official Data of Cambodian Customs and IE Singapore.

Based on the same equation (3) shown in Box 1, “contraband” from Singapore was negligible in 2004 and 2006. Nevertheless, it was relatively important in 2005, amounting to 0.27 million cartons.

Table 1: Estimated Cambodian Imports of Beers (Million Cartons)

	2004	2005	2006
Cambodian Customs Statistics (M_o)	0.24	1.22	0.72
Imports from Thailand	0.03	0.07	0.13
Imports from Singapore	0.07	0.97	0.45
Imports from other countries	0.14	0.18	0.14
Foreign Customs Statistics (X_e)	2.76	5.07	5.99
Imports from Thailand	2.49	3.65	5.22
Imports from Singapore	0.13	1.24	0.63
Imports from other countries	0.14	0.18	0.14
“Contraband” (Gap between X_e & M_o)	2.52	3.85	5.27

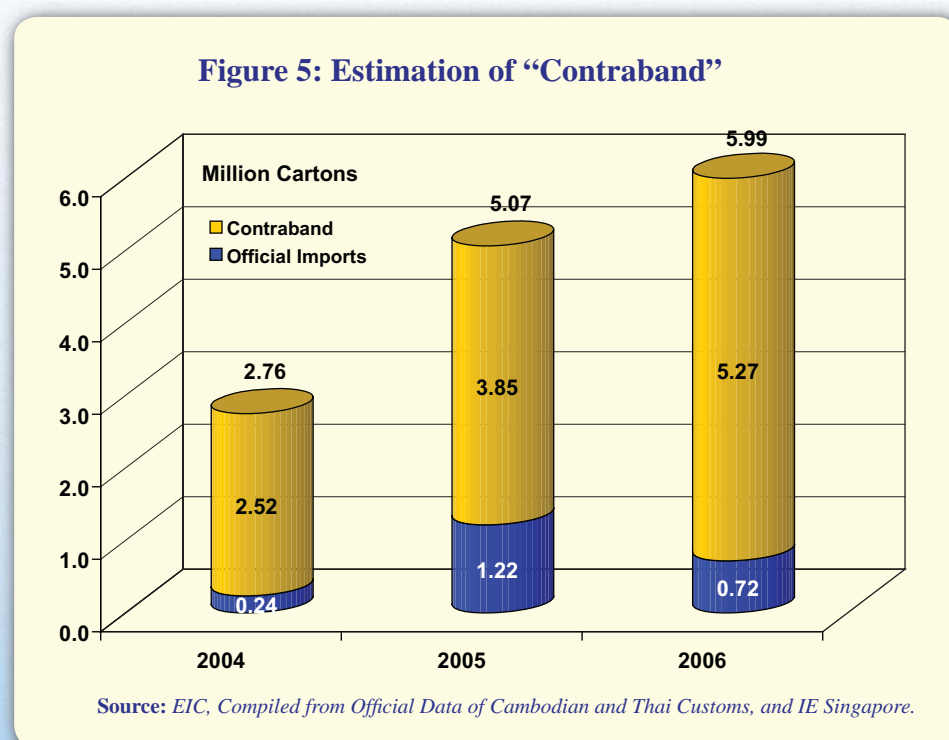
Source: EIC, Compiled from Official Data of IE Singapore, Cambodian and Thai Customs.

Finally, by combining Thai, Singaporean, and Cambodian trade statistics, beer imports to Cambodia in 2004, 2005 and 2006 were estimated respectively at about 2.8, 5.1 and 6 million cartons. From these figures it can be deduced that in 2005 there was a marked increase in beer imports from 2004 of around 82 percent, but in 2006 the growth rate was only 18 percent. It also means that market shares of beer imports rise – in 2006 to 33 percent.

Estimation of “Contraband” Beer

The findings (Table 1, page 9) indicate that overall a big gap exists between Cambodian and foreign customs statistics on beer imports. Table 1 also seems to show that “contraband” from Singapore is much less than that from Thailand.

Figure 5 illustrates the gap considered as the amount of “contraband”. In 2004 and 2005, the amounts were respectively 2.5 and 3.9 million cartons, rising to 5.3 million in 2006.

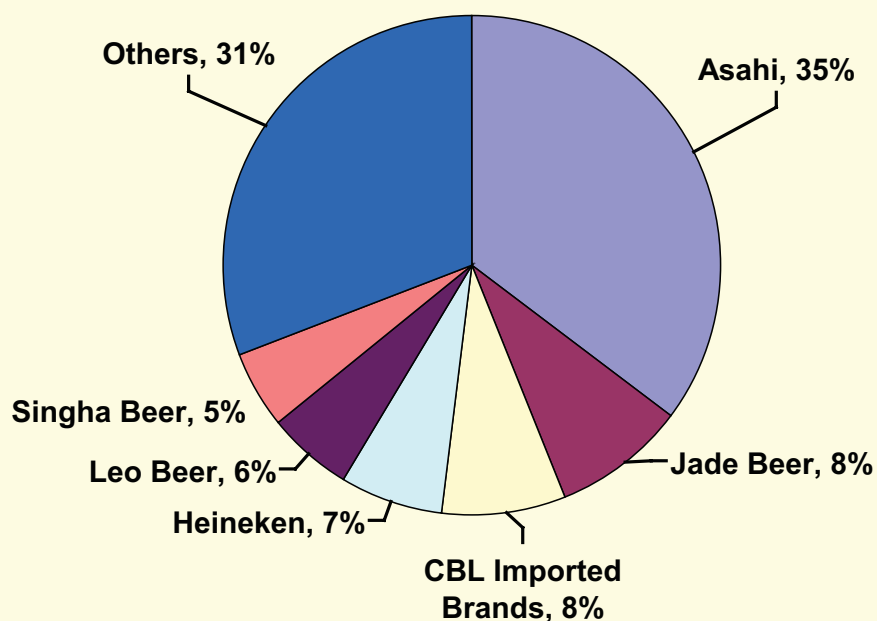


Market Shares by Main Imported Brands

According to the survey conducted by local brewers, imported beers represented around 27 percent⁴ of total market shares in 2006, of which Asahi took about 35 percent followed by Jade Beer, 8 percent, and Heineken, 7 percent. CBL imported brands, Crown and Tiger, also held 8 percent of total imports.



Figure 6: Market Shares by Main Imported Brands in 2006



Source: Market surveys by local beer brewers, 2007.



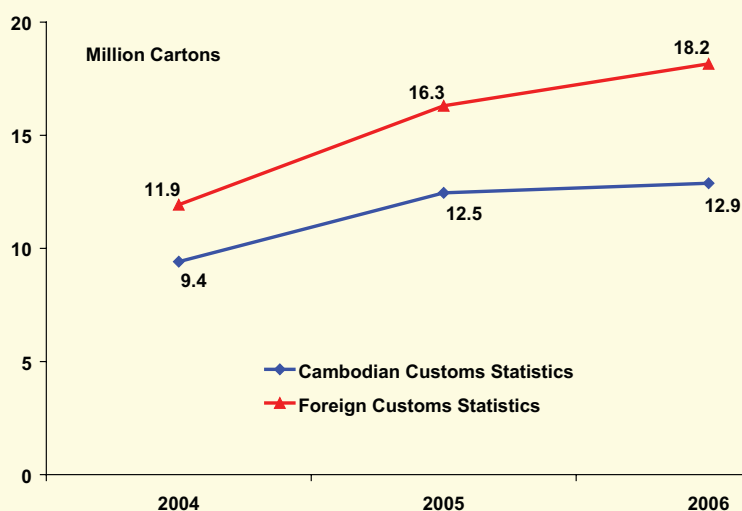
⁴ This figure is a bit lower than the one estimated in the second analysis, which is 33 percent of total market shares in 2006.

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Estimation of Local Consumption of Beer

By using import statistics from Cambodian customs, the annual beer consumption in Cambodia was about nine million cartons in 2004, and went up to 12.5 and 13 million cartons in 2005 and 2006 respectively. Using these numbers, on average during the last two years, consumption of beer per capita in Cambodia is about seven liters per year with an annual growth rate of 18 percent.

Figure 7: Estimated Local Consumption of Beer



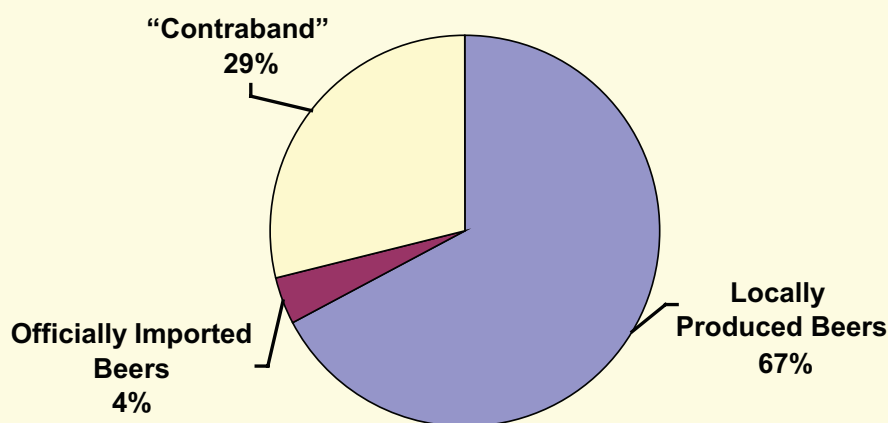
Source: EIC, Compiled from Official Data of Cambodian and Thai Customs, and IE Singapore.



The amount of beer consumption can be interpreted differently when using a combination of beer trade statistics from foreign customs, shown in the second analysis. In 2004 local consumption of beer was almost 12 million cartons, and it increased to about 16 and 18 million cartons⁵ in the following years as shown in Figure 7. This interpretation, with the same calculation method, has made the consumption per capita go up to nine liters per annum with an annual growth rate of about 24 percent.

In 2006, locally produced beers retained around 67 percent of total shares in the market, while the officially imported beers and “contraband” took respectively 4 and 29 percent.

Figure 8: Market Shares by Main Stakeholders in 2006



Source: EIC, Compiled from Various Official Sources.

⁵ The local consumption of beers estimated by using foreign customs statistics seems to indicate that local beer brewers' import surveys are under-estimated on average by 8 percent from 2004 to 2006.

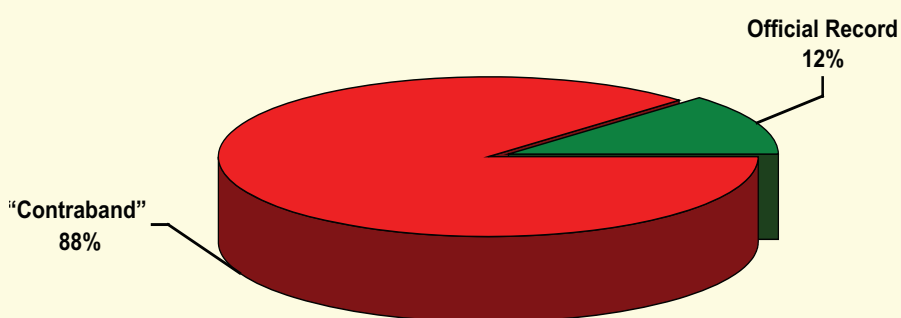
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Implications of “Contraband” Beer on Government Revenue

Taxes on imported goods are one of the main sources of government revenue and are also identified as protection barriers for local production. The import tariff rates are normally different for each category of a commodity. However, the import tax for beers approximately represents about 84 percent of the import reference price fixed at US\$5 per carton. Therefore, the total taxes paid by importers reach US\$4.2 per carton, detailed in Box 2.

According to official sources, Cambodian beer imports in 2006 amounted to 0.7 million cartons and netted about US\$3 million in state revenue, while the estimated 5.3 million cartons of “contraband” beer generated a loss of about US\$22 million. In other words, the Government could collect only about 12 percent of the total amount of taxes on imported beer in 2006.

Figure 9: Tax Revenue on Imported Beers in 2006



Source: EIC, Calculated from Various Official Sources.

Box 2: Taxation on Imported Beers

According to the 2004 Customs Tariff of Cambodia, imported beers are subject to the taxes below:

Customs Duty (CD)	35% on import reference price
Specific Tax (ST)	30% on CIF + CD
Value Added Tax (VAT)	10% on CIF + CD + ST

For the present, ST is temporarily maintained at 20% (legislative instruction of CED, dated January 08, 2004). All taxes are calculated on the basis of import reference prices, ad valorem. Importers also have to pay another 3% on invoice value for Public Lighting Tax (PLT). Totally, the amount of taxes paid on imported beers varies around 84% of the import reference price, depending on how much profit margin the importers set.

In accordance with a December 06, 2005 legislative proposal by Customs and Excise Department, there are four categories of import reference price of beers:

Asahi	carton	US\$ 5.6	330ml x 24
Budweiser	carton	US\$ 5.2	356ml x 24
Heineken	carton	US\$ 5.6	330ml x 24
Other beers, cans and bottles	carton	US\$ 5.0	330ml x 24

Note: To simplify the calculation, the volume of beer per carton is fixed at 7.92 liters (330ml x 24) with the import reference price of US\$5.0 per carton. Therefore, total taxes paid by carton of imported beers is US\$4.2.

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Concluding Remarks

Fast-growing beer consumption in Cambodia has resulted in sharp increases in both local production and imports. With weak governance and law enforcement, “contraband” beer has also been booming. In 2006, tax evasion through “contraband” beer was estimated to be around US\$22 million, representing about 3 percent of the government budget revenue.

In addition, “contraband” beer has eroded and weakened the competitiveness of local beer producers as it gives rise to unfair competition in the market, and in turn could negatively affect investment and employment in the sector.

To manage this problem, it is crucial that the Government takes energetic measures to combat “contraband” beer, especially along the Thai border.

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