



GREATER MEKONG SUBREGION ECONOMIC COOPERATION PROGRAM

TECHNICAL MEETING ON GMS CROSS-BORDER AGRICULTURE TRADE AND CONTRACT FARMING

Bangkok, Thailand, 6 March 2009

Summary of Proceedings

Introduction

1. The GMS Core Agriculture Support Program (CASP) endorsed by the GMS Agriculture Ministers' Meeting in 2007 outlines the key objectives, program components, and indicative projects for subregional cooperation to be pursued by the Working Group on Agriculture (WGA) between 2006-2010. One of the 5 components of the CASP is "Facilitating Cross-border Trade and Investment in Agriculture." Under this component, a priority project on Cross-border Investment and Contract Farming is included.

2. A Technical Meeting was organized in Bangkok, Thailand on 6 March 2009 to (i) provide an overview of a planned study on GMS Agriculture Trade Facilitation and Strategy; (ii) discuss current issues on GMS cross-border agricultural trade and contract farming; and (iii) generate technical inputs for the study. The Technical Meeting was attended by senior officials and WGA members from the six GMS countries (Cambodia, People's Republic of China, Lao PDR, Myanmar, Thailand, and Viet Nam), and representatives of development partners, including the Asian Development Bank (ADB), Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD). A list of participants is in Appendix 1 and a copy of the program and agenda is in Appendix 2.

Highlights of the Meeting

Welcome Remarks

3. In his welcome remarks, Mr. He Changchui, Assistant Director-General and FAO Regional Representative for Asia and the Pacific, stated that farmers in the subregion face threats, challenges, and opportunities that are unparalleled in recent history due to multiple crises (soaring food and energy prices before mid-2008, and recent global financial meltdown and economic recession). Multilateral and bilateral trade arrangements and improved infrastructure in the subregion present opportunities for farmers to take advantage of easier access to freer markets for their produce. Threats come in the form of competition with modern and large commercial producers and suppliers from overseas, deteriorating competitiveness due to lack of economies of scale of the traditional farm, poor access to information and technology and extension, lack of credit, and lack of access to SPS and other forms certification. The challenge is to expose and teach farmers about the benefits of voluntary collaboration in formal or informal groups, to achieve economies of scale in access to inputs, credit, including certification, and logistics to the market. He reiterated FAO's commitment to work in partnership with ADB, IFAD, and other donors in the collective effort





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to give small farmers a fair chance to participate in the economic integration of the GMS.

4. In her welcome remarks, Ms. Sununtar Setboonsarng, Senior Agricultural Economist, Agriculture, Environment and Natural Resources Division, Southeast Asia Department, ADB, explained that the GMS Trade Facilitation and Strategy Study in the GMS is financed by the ongoing RETA 6324 that supports CASP implementation. The Study will come up with a GMS Agriculture Trade Facilitation Plan which will be implemented under the new successor RETA 6521. WGA's cross-border agricultural trade initiative will be linked closely with the GMS trade facilitation, environment, and transport working groups to ensure that they are attuned with the over-all economic corridor development approach. She continued with a brief presentation on her Vision for Agriculture and Natural Resource Sector in the GMS to be known as a region which produces safe food using sustainable practices and protecting the environment. She discussed a business-as-usual scenario where agriculture development is aimed primarily at increasing productivity while ignoring the complex interaction between agricultural practices, the natural resource system, and local communities. A business-unusual scenario, on the other hand, foresees a trade regime that enables agriculture to provide stewardship of natural resources upon which food production depends. She enjoined the meeting participants to work together to realize that vision.

Overview of GMS Trade Facilitation and Strategy Study in the GMS: Objectives and Scope of Work

5. Mr. Florian Albuero, Consultant, ADB, presented an outline of what the study will cover: (i) GMS Economic and Trade Profile: review of aggregate and sub-aggregate data, economic structures of the GMS countries, status/progress of economic cooperation and intra-GMS transactions relative to ASEAN and the rest of Asia, and importance of trade measures to agricultural development ; (ii) GMS Environment for Agricultural Development and Trade, including country and subregional levels policy instruments; (iii) Agriculture and Agricultural Trade: trends, constraints, and prospects, country policies, institutional arrangements for agri-business links - including contract farming, and innovations in production practices that address environment, biodiversity, health safeguards, and climate change concerns; (iv) Cross-border Trade in Agriculture: intra-GMS and cross-border trade and application of trade facilitation measures in the context of the GMS Cross Border Trade Facilitation Agreement and SPS and other technical requirements; and (v) Policy and Program Directions on agricultural production and trade enhancement and promotion, capacity building, strengthening of value chains, and further studies. The study will be supplemented with case studies that will illustrate realities on the ground and inform policy and program directions.

6. Mr. Albuero requested the assistance and support of the WGA focal points by way of providing substantive comments and advice, information and data on agricultural production arrangements and practices, leads on and introduction to successful agricultural initiatives and cross-border trade - including information on barriers and issues concerning movement of products across borders. He also requested their help in facilitating the nomination of participants in study-related workshops/seminars, arranging study-related logistics for study visits, and providing other technical inputs to enhance the study and its usefulness to the countries.





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Open Forum

7. Ms. Sununtar commented that much of agricultural trade in the GMS is in the informal sector and that contract farming presents a modality for bringing it to the formal sector. She suggested that the study could provide good insights on different modalities of contract farming arrangements in the subregion.

8. Mr. Paichayon Uathaveekul, Chairman of Swift Co. Ltd, Thailand, a contract farming firm working with small-scale farmers in Thailand for over 20 years, pointed out that a lot needs to be done in terms of strengthening logistics to facilitate the flow of goods and render cross-border trade economically viable. He agreed that cross-border trade in the GMS involves mostly the informal sector and emphasized fair and ethical trading as a key issue to successful contract farming where farmers can receive fair and advantageous terms. He shared his experience of facing long delays setting up a contract-farming operation in Lao PDR and highlighted the need to harmonize rules and cross-border procedures to facilitate cross-border trade.

Issues on Agriculture Trade and Contract Farming

9. Mr. Ralph Houtman, Marketing and Rural Finance Officer, Agriculture Department Group, FAO, presented the theoretical concept including pros and cons of contract farming, the drivers of change affecting small farmers, and options for small farmers. He described the process, actors, and presented challenges in coordinating supply chains. Illustrations of cross-border trade in specific points between GMS countries highlighted the logistics and customs procedures issues and the fact that much work remains to be done to achieve the ideal of an integrated GMS. Mr. Houtman presented different sets of conclusions and recommendations: at the level of individual farmers to join a high-value supply chain, of governments by way of providing the enabling environment to close the gap between theory and actual practice in cross-border trade, and of donors in terms of investment priorities.

Key Issues and Policies in Contract Farming: Country Perspectives

10. GMS country delegations presented their respective country perspectives on issues and policies concerning contract farming as follows:

11. Cambodia mentioned the problem of corruption surrounding licensing at the borders. He suggested that the study should identify the types of cross-border trade activities and describe various forms of contract farming (i.e. only to collect the produce, to do partial processing, and to export the finished product). The study should discuss incentives to large-scale investments, present the legal framework and technical requirements to address issues concerning quality and certification, and prioritize the issues and proposed actions. He noted the consultant's request for the WGA focal points' assistance in facilitating work for the study but emphasized the bigger role and responsibility that rest on the consultant to produce the desired results.





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12. Lao PDR representative presented the status and challenges on foreign direct investment and contract farming in the country. ACMECS cooperation and investment policies provide the framework for FDI in land-based agricultural production through concessions and contract farming (main crops are vegetables, cassava, maize, sugar cane, *Jatropha curcas*, rubber, palm oil, fruit trees, and industrial trees). These benefit largely the investors with no clear gains for the host country. He outlined the administrative procedures and requirements in applying for an investment license. In the case of Lao PDR, contract farming was a step to formalize informal border trade and there are government policies for contract farming systems in different zones. In the next National Development Plan of Lao PDR, strong emphasis will be put on contract farming. Among issues that the study should review are : the need for a strategy and regulatory framework to guide contract farming development, a clear land delineation and production plan, approach to provide technical extension, formal cross-border value chain, and trade arrangements including SPS issues.

13. Myanmar representative mentioned the ACMECS framework for contract farming and an MOU with Thailand that is still under process. Contract farming in Myanmar covers both cash crops and biofuel crops. Land is still abundant in Myanmar. Over 6 million hectares of largely uncultivated land is owned by the state. Investment law has to be modified for contract farming. On cross-border trade, Myanmar is trying its best to settle the problem of double loading of produce at border points as well as corruption. In the profit-sharing scheme among farmers/producers, middle-men, and exporters, the middle-men get much more than the producers. Besides profit-sharing arrangements, another problem area identified is the unexpected closure of border points that put farmers/producers at great disadvantage as what had happened in October 1998 when a ban on imported maize was suddenly imposed by Thailand.

Open Forum

14. Following are some points suggested by participants to be covered by the study:

- As contract farming oversight is done largely by border officials, focus should be given to the practical realities and solutions at the local/district level and use these to feed into policy; from the local level, elevate the problem and recommended solutions to the government level. It is too complicated to work at the top in arriving at practical operational framework as shown by the experience in ACMECS where a framework has been signed at the level of government leaders but still remains to be operationalized.
- For contract farming to be used as a development tool, more information is needed on how foreign firms could arrange for 'exit strategy' after empowering local farmers. The extent to which enforcement of rules of country A impact on contract farming operations in country B and how attendant problems are resolved should also be studied.
- The study could look into specific cases that address the issue of setting remunerative prices for contractors and the process that led to such arrangements.
- It should review previous studies done and analyze the different evolving scenarios in contract farming based on different types of contractors in different countries.





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- Another area that needs to be examined is the potential synergies between WGA and the Working Group on Environment, specifically on the latter's biodiversity conservation initiative in fragile ecosystems in the economic corridors. Contract farming could be used as an instrument for social mobilization, for providing incentives and livelihood opportunities to farmers. It can also be used to introduce coping mechanisms for climate change to farmers.
- Keys to successful contract farming are: (i) promoting sustainable technologies; (ii) strengthen farmers' organization; (iii) promote corporate social responsibility among firms.

15. PRC representative described the different types of contract farming in China (between farmers and research agencies/companies, between farmers and dragon-head companies/agro-food enterprises, between farmers and specialized wholesale market, between farmers and specialized professional associations/cooperatives, and between farmers and sellers/brokers) and associated types of contracts. Major issues identified relate to: high level of contract disputes due to unclear provisions; company being in a stronger position vis-à-vis the small farmers; risks (natural, technical, policy, credit, moral); and product branding and high value addition. The Chinese Government has put in place policies that provide capital and credit support, preferential tax arrangements for agribusinesses, support for farmers' professional/cooperative associations, designation of a specific office within the agriculture department to play an enabling role, and setting up of a government fund for guaranteed procurement (rice and wheat).

16. Thailand representative gave an overview of Thailand's cooperation with neighboring countries in the context of GMS, ACMECS, and IMT-GT. The following issues were identified to be covered by the study: cross-border trade system (tariff exemption and waiver of certificate of origin to support trade facilitation, minimum tariff rate under ASEAN Integrated System of Preferences), infrastructure (road connection system, logistics services, and silo and irrigation systems), land (availability, identification, and tenure system), potential target crops and plant varieties, success factors in contract farming, and the roles of government agencies. Strategies for contract farming development should include emphasis on marketing, standardization of goods to respond to market demands, stabilization of agricultural price mechanism, provision of training to farmers, development of logistics system and regulations for trans-border transport, private sector investment and technical assistance support, and decentralization of decision-making to local officials.

17. Viet Nam representative described the country's contract farming scenario which covers main export items (rice, seafood, tea, coffee, pepper, rubber, cashew nut, fruits, and meat) and products for processing for domestic consumption (cotton, sugar cane, tobacco leaves, forestry materials for paper, wood, dairy and salt processing industries); and the general forms of contracts used. The government laid down policies encouraging contract farming, including provision of incentives, to meet the target of at least 30% of total agricultural products through contracts by year 2005. Lesson learned from the country's experience underscores the importance of strong partnerships and close links between production and processing, fair benefit sharing between contracting parties, and close coordination with local governments during signing and implementation of contracts. Certain shortcomings and obstacles were identified: limited use of contract farming relative to the





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goal set by the government, non-adherence to contract commitments by farmers (selling to other private traders/enterprises that offer higher prices) and by enterprises (sub-standard quality of materials), low collection rate, delays in disputes resolutions, and inconsistency of local policies with WTO regulations.

Open Forum:

18. Following are additional observations/points emphasized during the open forum:

- Enforcement of contract is closely related to the associated risks.
- GMS countries have different procedures for issuing certificates of origin.
- It is difficult to point at any particular form of contract farming as being the most efficient as much depends on the products, location, and other variables.
- Issue of border closure for certain contract farming products contingent on domestic policy and political considerations was repeatedly raised. Protectionist policy, particularly under the prevailing financial crisis should be discussed extensively in another forum.
- Food safety has emerged as an important consideration in the choice of production base for contract farming.

Action Plan for Improved Sanitary and Phytosanitary Handling in GMS Cross-border Trade

19. Ms. Lingling Ding, Senior Economist (Regional Cooperation), ADB Resident Mission in Thailand, described significant achievements in the GMS i.e, strongly improved infrastructure, and increased trade. She outlined attendant challenges in the context of yet to realize growth potential, including lagging border handling procedures, increased health risks from increased trade and mobility, and SPS management as one of the bottlenecks in GMS trade.. A regional technical assistance project (RETA 6450 on Enhancing Transport and Trade Facilitation in the GMS) includes an activity to develop a SPS action plan for GMS countries. She informed the meeting that the activity is on-going and presented some technical contents of the Action Plan, including the expected outputs, namely: (i) risk-based system of border handling (for plant pests, animal diseases, food safety hazards, and quality of pesticides and veterinary drugs); (ii) strengthened diagnostic and testing capacities; (iii) promotion of private sector capacities (in compliance with GAP, GHP, GMP); and (iv) academic training for managing SPS. Rounds of consultations and meetings with countries and donor agencies started in September 2008 to run until December 2009, culminating in final delivery of the action plan by end of December 2009. Both bilateral and regional dimensions of SPS will be covered.

Open Forum

20. The following points were raised during the open forum:

- Although ADB does not fund activities in Myanmar, participants from Myanmar will be





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invited to regional consultations to contribute and share information as the plan evolves, and to send participants to training courses in neighboring countries.

- FAO could be involved in some technical aspects of work and contribute to the preparation of the plan.
- As the subject matter of SPS cuts across the work of different GMS working groups, close coordination with these groups and consultations with relevant line ministries, including the agriculture ministry, in the countries should be ensured.
- Confidence building among the countries could be done through cross-posting of SPS inspection staff.
- Consistency of the GMS SPS action plan with that of ASEAN needs to be ensured through close coordination with the ASEAN Secretariat.
- As an alternative to the segmented market approach in harmonizing SPS, another option could be to consider minimum threshold for the lower tiered traditional markets.

21. Copies of presentations and other discussion documents for the meeting are in Appendix 3.

Closing Remarks

22. Ms. Sununtar Setboonsarng, ADB, expressed her thanks to all the participants for their active contribution to the discussions and for their continued support to the contract farming study and to the CASP agenda.

