

Jonathan EDWARDS

A&J History in Cambodia

- A&J (Cambodia) has been producing Bikes in Cambodia since 2006.
- The Factory is located on 10 Hectares of land in the south of Cambodia and close to the Ho Chi Minh (Vietnam) border, the investment is around \$18m USD and still climbing.
- The total workforce in Cambodia is around 2,000 people.
- We have a total capacity of 650,000 bikes and are at 74% of capacity.
- Our average price is \$240 (mid level product).
- We supply World famous brands such as:
 - SCOTT
 - FELT
 - ROCKY MOUNTAIN
 - NORCO
 - KONA
 - BIANCHI

Reasons for investment in L.D.C. country such as Cambodia.

- Shipments of Bicycles to the EU enjoy a duty saving of 14% or 10.5% over a GSP country. This gives us a good competitive advantage.
- The 14% saving also applies to the sea freight, which in the case of Bicycles can be significant.
- Cambodia is a member of the ASEAN group and as rules of origin allow cumulation of local content within the regional group, we can fully utilize the Global Value chain.
- Cambodia is politically stable and government supportive.
- There is a good communication and support from UNCTAD which can facilitate a good understanding of the Rules of Origin for the Government and the private sector.
- Land is competitively priced, and not over demanding in terms of development, and labor and social costs relatively low.

Reasons for investment in L.D.C. country such as Cambodia.

CHALLENGES

- There was no Bicycle export industry and therefore an inherent lack of a skills or basic work 'ethic' in the local workforce, especially in a labour intensive (non-automated) production.
- Lack of support and resources in the form of training and facilities to train outside of the work place, for the private sector.
- Shortage of sub-contractors, engineering support and technical support, small supporting factories where you can buy small parts toolings, castings, machines.
- Increased logistical costs, Cambodia is not a land locked country but it only has one port, poor roads and infrastructure, meaning it's often more practicle to export from Vietnam, this is also expensive in terms of border crossing and inland transport costs, this applies to **good inwards** and **exported goods** which are always sold on an F.O.B basis.
- The current calculation methods for the C.O. are very onerous as we have to produce detailed breakdows for each model of which we have many hundreds, and these have to be recalculated almost monthly as exchange rates fluctuate. There are high admin costs for C.O. Issuance.
- The above logistical and operating costs can considerably erode the benefit of the duty saving.

Sales Growth in the EU & the importance of the Rules of Origin

- Clarity and stability in the Rules of origin is essential, and a change in the rules can indeed trigger an increase in sales but equally can affect sales negatively.
- 2009 Sales 151,582 Bicycles
- 2010 Sales 249,739 Bicycles
- 2011 Sales 323,042 Bicycles
- 2012 Sales **465,616 Bicycles***
- 2013 Sales 540,000 Bicycles
- 2014 Sales (P) **465,000 Bicycles****
- The growth in 2012 was as a direct result of the changes in the R.o.O, in Jan 2011. This demonstrates what a dramatic effect a rule change can have, it also shows that the impact, no matter how dramatic is not immediate, it can take 12 months or more for a brand to move a model to another producer.
- ** The current decline in sales is also as a direct result of the change in the R.o.O in Jan 2014 - this is a 15% decline in production despite an application for a Derogation of the new rules for Cambodia. (Results are pending). Strange thing about our industry is that when the rules changed for the worse the Exodus of business was much quicker than when it was the other way around!

Areas we would like to see improvement

- More advanced notice of developments of the Rules of origin.
- Constant dialogue between the Governing bodies and private sector in the development of rules and we are very happy to be invited to this forum to take part in these discussions.
- We hope for more training to be made available for both the Government and the private sector, benefit giving countries deserve to know that the ROO is firstly understood, but also followed correctly.
- The application process for C.O. is indeed an onerous task, and while we have benefited from the Governments involvement in this admin and application process, we do welcome the new system of 'Exporter declaration' and hope the Government will also keep a tight grip on this system.
- We also hope that the costs of application and issuance of the C.O. Can be rationalized accordingly.