

## Comments on the House Resolution No. 796<sup>1</sup>

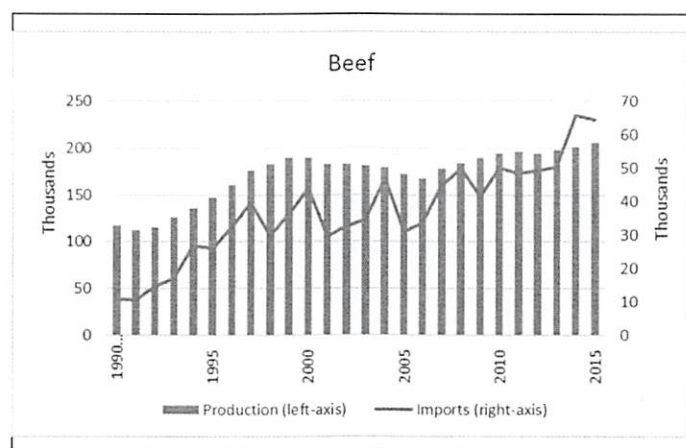
### On trade policy

Since becoming a member of the General Agreement on Tariffs and Trade in December 1979 and of the World Trade Organization (WTO) in January 1995, the Philippines has allowed the entry of imported goods by removing most its trade barriers. With the exception of rice and other sensitive products (e.g. livestock and poultry), all other imported agricultural goods have been subject to low tariff rates.

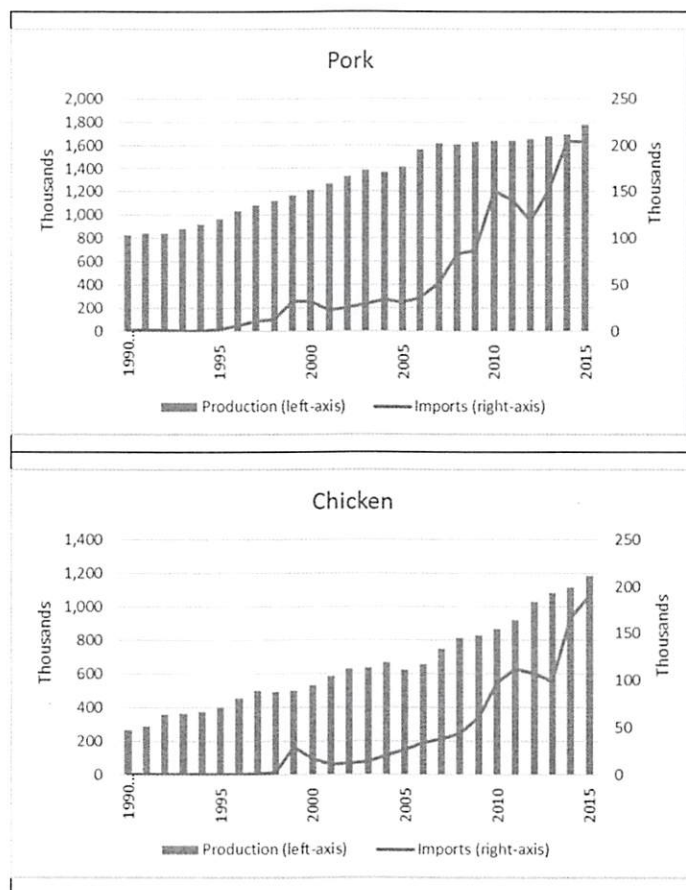
### Economic trends after accession to WTO

*In the decade following the WTO agreement, production of both livestock and poultry have continued to grow.* They have been growing on average by about two to five percent annually. The production volume of beef was at 147,463 mt in 1995 and it increased to 205,708 mt in 2015 (Figure 1).

**Figure 1. Production and imports of livestock and poultry, in tons, 1990-2015**



<sup>1</sup> Prepared by Dr. Roehlano M. Briones, Senior Research Fellow, Philippine Institute for Development Studies



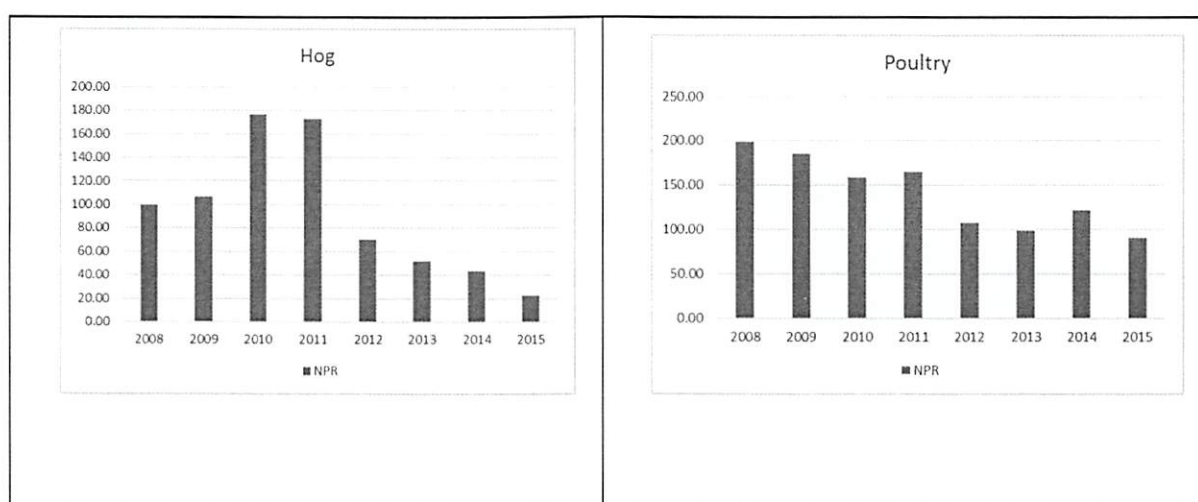
Source: [countrystat.psa.gov.ph](http://countrystat.psa.gov.ph)

Poultry, on the other hand, grew from 399,551 mt to 1,185,914 mt. Pork production experienced the largest rise in production from 969,862 mt in 1995 to 1,775,712 mt in 2015. It is unclear in what sense livestock and poultry sectors have “collapsed” in view of these positive trends.

*In recent years, importations of both livestock and poultry have been increasing.* Beef, pork, and chicken imports have grown annually by seven percent, 33 percent, and 96 percent, respectively, when averaged from 1995 to 2015 (Figure 1). Over the same period, average import volume for beef, pork, and chicken are 41,957 mt, 69,841 mt, and 51,623 mt. Rising imports have led to increasing import dependency, i.e. ratio of imports in relation to domestic consumption. For beef, the ratio went from 17 percent before 1995 to 20 percent in 2015. In the case of pork and chicken, it increased from a negligible share to about 10 percent and 14 percent in 2015, respectively.

The percentage difference between world and domestic prices for livestock and poultry are large, though narrowing in recent years. The world market has been producing cheaper hog and poultry products than the domestic market, as can be observed from the level of nominal protection rates (NPRs) in Figure 2.

**Figure 2. Nominal protection rates of hog and poultry, in percent (2008-2015)**



Source: Author's calculations

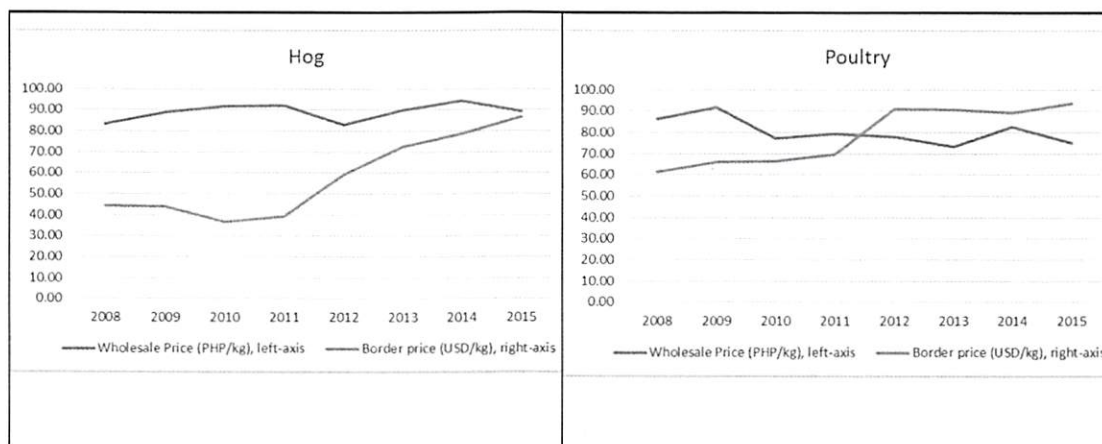
NPR expresses the difference between domestic and world price at the border in percent. In the figure below, the level of NPRs for both hog and poultry remain greater than one.

A declining trend is apparent in recent years. In the case of hog, that decline is due to the increasing world price (in real terms), which seems to be rapidly increasing since 2011, while domestic price (in real terms) remains fairly stable (see Figure 3). In the case of poultry, the domestic price is slightly falling at an average rate of 1.6 percent, as world price surges. Nonetheless the initial gap was so large, domestic price still lies above the world price, owing to remaining trade barriers, such as high tariffs.

***Rising imports are explained by largely by growing domestic demand.*** Growth in demand is brought about by population increase and change in the diet pattern of consumers. Importation also helped in maintaining stable retail prices for consumers amidst higher demand (see **Figure 4**). Before 1995, annual retail price of beef, pork, and chicken were at PHP 275/kg, PHP 191/kg, and PHP 186/kg, respectively. Since then, annual retail prices of beef, pork, and chicken have shrunk by one to two percent on average. In 2016, retail price of beef, pork, and chicken were at PHP 207/kg, PHP 156/kg, and PHP 116/kg, respectively.

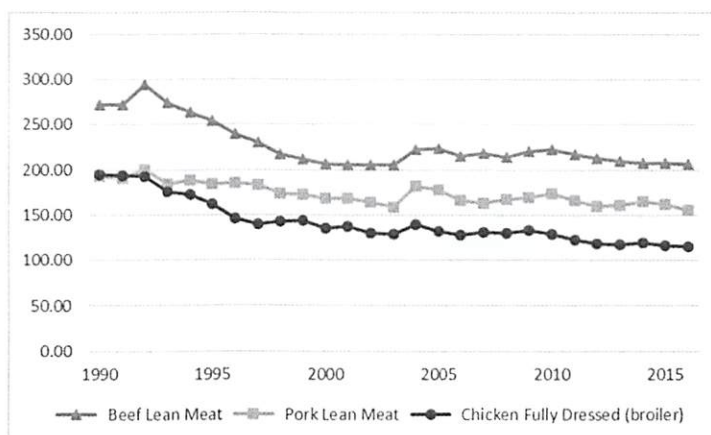


**Figure 3. Real domestic vs. world price, in PHP/kg (2008-2015)**



Source: [countrystat.psa.gov.ph](http://countrystat.psa.gov.ph) and [trademap.org](http://trademap.org)

**Figure 4. Retail price of beef, pork, and chicken, in PHP/kg (1990-2015), in real terms (2010 = 100)**



Source: [countrystat.psa.gov.ph](http://countrystat.psa.gov.ph)

### Assessment and recommendations

*The benefits of engaging in trade are enjoyed mainly by consumers.* When the Philippines entered into a trade liberalization agreement, it was expected that, on the production side, uncompetitive sectors will be adversely affected, while

consumers will benefit. Consumers are able to enjoy fairly stable prices despite growing demand for livestock and poultry products.

***Philippine law acknowledges the important role of the market including international trade.*** The Agriculture and Fisheries Modernization Act (AFMA) mandates the State to adopt market-oriented policies in agricultural production (Section 2). Philippine law therefore the reality of market competition, which inevitably creates winners and losers. In a free market, only those players that are able to produce at lower cost will remain in the market.

***Support for producers should be provided to promote global competitiveness.*** The AFMA also mandates adoption of social and economic adjustment measures that increase productivity and improve market efficiency while ensuring the protection and preservation of the environment and equity for small farmers and fisherfolk. In line with these policies, the Agriculture Modernization Plan (2011-2017) aims at improving global competitiveness of the country's agricultural sector. For livestock and poultry several programs are listed:

- the establishment and upgrading of postharvest facilities, such as abattoirs and slaughterhouses, biogas digesters, milk collection equipment, and chilling and processing centers.
- Double A and Triple A abattoirs, and Halal slaughterhouses were to be established for inter-provincial and international trade.
- Research and development efforts to be intensified on the technical and socio-economic aspects of production up to marketing. Extension and training support were provided to livestock farmers/farmer groups, cooperatives, and local government unit (LGU) technicians. Projects that link producers with the markets was undertaken to considerably reduce losses and reduce risks of disease transmission, which is consistent with the value chain approach.
- Government regulatory services, such as registration, licensing and accreditation, and monitoring, were continued to be implemented. Imported meat and meat products likewise required veterinary quarantine certificates.

Although there had been efforts to promote harmonization of domestic standards with international standards, the government still needs to enhance its trade facilitation function. For instance, product acceptability is a problem being endured by Philippine poultry exporters. The potential for export growth is hindered by the lack of mutual recognition of certification between the Philippines and its export markets. A certification, which is a proof of product safety, issued and accepted in the Philippines may not be honored in some



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importing countries. Philippine exporters would need to adhere to the regulations on product testing of the importing country anew. This is obviously burdensome especially if each of the importing countries would require different certifications.

To maintain the benefits to consumers, the Philippine government must strive to continue its adherence to our WTO treaty obligations. Its trade facilitation function should be enhanced to further intensify trade between the Philippines and the world. Moreover, all plans for rapid agricultural modernization should be pursued. Among the objectives of AFMA is to make domestic producers more competitive, thereby increasing their incomes. Such efforts would include infrastructure support, research, development, and extension, and market development.