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Comments on the issue of pork import tariffs, arising from the Senate Committee discussions on Senate Resolution No. 611, entitled: *RESOLUTION DIRECTING THE APPROPRIATE SENATE COMMITTEE TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE ALARMING INCREASES IN THE PRICES OF BASIC COMMODITIES SUCH AS PORK, FISH AND VEGETABLES, WITH THE END IN VIEW OF IMPLEMENTING URGENT MEASURES THAT WILL CONTROL AND MANAGE THE COST OF THESE BASIC COMMODITIES THAT POSE A THREAT TO THE RIGHT TO FOOD OF FILIPINOS AND AFFECT THE FRAGILE CONDITION OF MANY FILIPINO HOUSEHOLDS (introduced by Sen. De Lima)**; and Senate Resolution No. 618, entitled:** RESOLUTION DIRECTING THE APPROPRIATE SENATE COMMITTEE TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE RISING FOOD PRICES, WITH THE END IN VIEW OF DETERMINING THE NECESSARY INTERVENTIONS TO STABILIZE THE PRICES AND ENSURE THAT EVERY FILIPINO CONSUMER HAS ACCESS TO ADEQUATE AND AFFORDABLE FOOD (introduced by Sen. Pangilinan)*

Prepared by Roehlano M. Briones[1]
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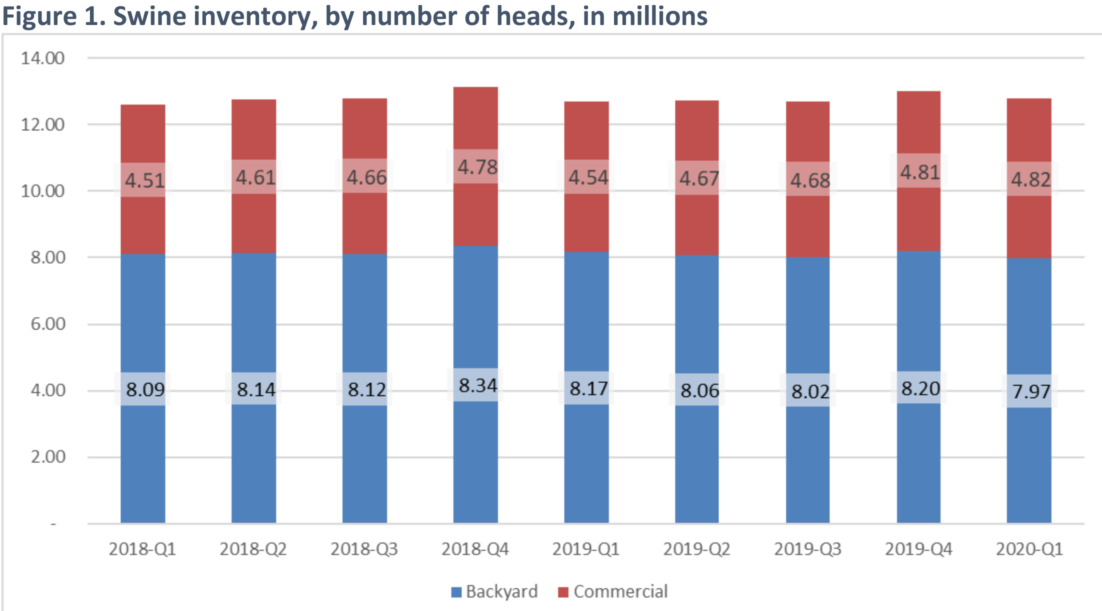
Hard choices ahead for the pork industry

Surging pork prices are a result of supply and demand

According to a recent Comment by Briones (2021), the recent surge in pork prices can be explained by simple supply and demand. Supply has fallen dramatically: from 2.32 million tons (liveweight) in 2018, swine production fell to 2.14 million tons in 2020, equivalent to a 7.6% contraction. Based on inventory, the decline has been more severe: from 12.8 million heads as of beginning-2020, swine inventory fell to 9.72 million heads as of beginning-2021, equivalent to a 24% decline. The fall has been much more severe for the commercial sector at 42%; this sector represents about 36% of total pork inventories. Backyard raisers suffered a 13% contraction over the same period. (Figure 1). The main reason for the decline has been the onslaught of African Swine Fever (ASF). The Philippines is not unique in this regard, as ASF has destroyed considerable quantities of swine stocks throughout Africa, Asia, and Europe.[2]

Figure 1. Swine inventory, by number of heads, in millions



Source: Philippine Statistics Authority Openstat.

[1] Dr. Roehlano M. Briones, Senior Research Fellow, Philippine Institute for Development Studies (PIDS)
[2] http://www.gf-tads.org/events/events-detail/en/c/1152886/. Accessed 23 February 2021.

Owing to differences in severity of ASF outbreak, Visayas and Mindanao may be able to address in part the supply deficiencies of Luzon.

As can be seen in Table 1, ASF has affected regions of the country differently, leading to divergence in changes in swine inventory. Whereas Luzon regions have suffered an average of 46% decline, Mindanao has suffered only 3%, whereas Visayas has actually experienced a 2% increase. Note however that Luzon accounted for a little over half of the swine inventory of the country as of 2020.

This is confirmed in Figure 2, which shows that farmgate prices were fairly flat in Davao starting January 2020 (when it was at parity with price in Luzon), until September. This implies that there is a scope for Luzon and Visayas can actually supply some of the deficit being experienced by Luzon. Note that from September onwards farmgate price in Mindanao began to rise, likely owing to market pressure from Luzon, despite high inter-island shipping cost between these regions.

Table 1: Inventory of swine, number of heads, by region

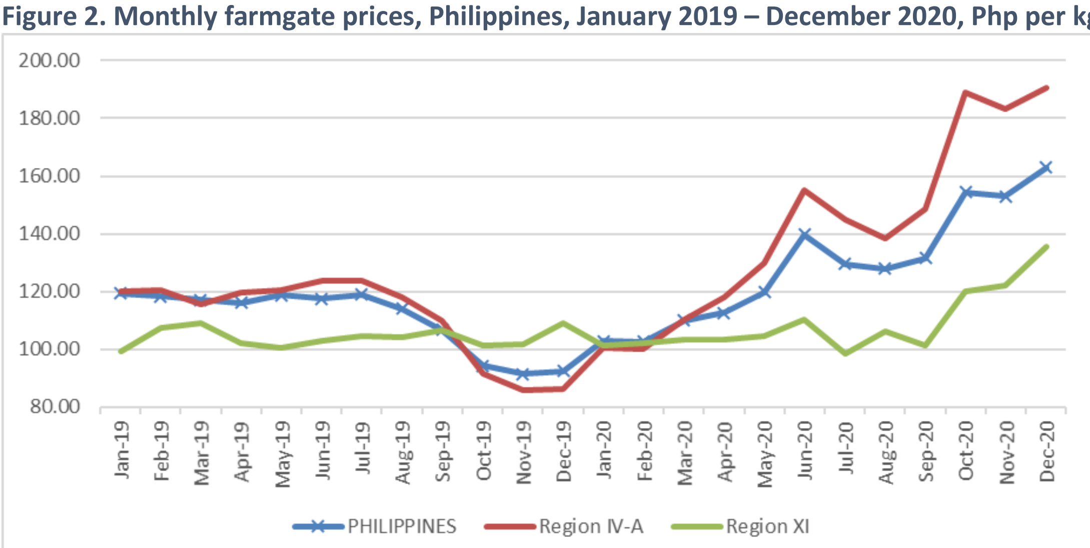
	01/01/2020	01/01/2021	% Change
CAR	270,933	229,663	-15
Region I	663,086	366,229	-45
Region II	421,076	262,875	-38
Region III	2,164,853	608,846	-72
Region IV-A	1,575,711	1,064,114	-32
Region IV-B	523,516	505,765	-3
Region V	891,457	463,092	-48
Region VIII	1,219,234	1,211,118	-1
Region V	1,107,889	1,176,741	6
Region IX	266,320	254,706	-4
Region X	608,532	632,448	4
Region XI	1,059,320	1,019,310	-4
Region XII	941,256	865,277	-8
Region XIII	800,434	780,515	-2
Region IV	231,685	226,078	-2
BARMM	50,419	48,618	-4

Source: Philippine Statistics Authority Openstat.

Owing to the pork production cycle (4-6 months for finishing), prices will initially spike owing to a production deficit, then undergo a correction.

The spike in farmgate price was observed from February to June 2020,and again from September 2020 onward (Figure 2). Although it seems excessive, it is consistent with changing conditions of supply given the severity of the impact of ASF.

Figure 2. Monthly farmgate prices, Philippines, January 2019 – December 2020, Php per kg



Source: Philippine Statistics Authority Openstat.

At current prices, domestic pork can compete with imported pork only due to high tariff and market segmentation.

Local pork is mostly sold freshly-slaughtered in wet markets (the remainder is also sold in supermarkets, or to for food service). Most consumers prefer fresh pork. Meanwhile, imported pork is typically frozen and sold in supermarkets; DA regulation prohibits sale in wet markets in absence of refrigeration facilities.

Given high farmgate price, retail prices are currently at high levels. Cost breakdown for domestic pork is shown in Table 1. Meat price is 43% over farmgate price in live weight – a normal adjustment given the meat content over liveweight (about 70%), combined with marketing cost at that stage. Lastly, retail price is about 20% over imputed meat price.

Table 2: Prices and cost of local pork, Metro Manila, in Php per kg, December 2020

	Value of domestic pork, Php/kg	Gross margin (%)
Retail price	320	18
Meat price	271	43
Farmgate price, liveweight (Southern Tagalog price)	190	90
Production cost	100	100

Sources: Philippine Statistics Authority Openstat, Production cost: https://www.thepigsite.com/news/2020/05/genesus-global-market-report-se-asia-may-2020 for domestic pig;

Meanwhile, cost breakdown for imported pork is shown in Table 3. Note that ordinary pork consumers do not usually flock to supermarkets to buy frozen pork. By end-2020 however, wet market consumers were forced to pay the equivalent of the supermarket price (which is normally higher than fresh meat price) owing to the supply problem. Given high tariff and market segmentation, supermarkets are able to realize high retail margins for imported pork (see the table below).

Table 3: Price and cost of imported pork, in Php per kg, December 2020

	Value of imported pork, Php/kg	Gross margin (%)
Retail price	320	161
Landed cost with tariff	123	40
Landed cost	88	46
Production cost	60	100

Source: Imported pork production cost based on AHDB data on USA: https://projectblue.blob.core.windows.net/media/Default/Pork/Documents/CostofPigProduction2018_200302_WEB.pdf

In 2020, pork imports reached 256,000 tons, vs 95,000 tons in 2019. However, the import figure is still small compared to domestic demand of 1.7 million tons. Imports will have to increase by a much greater quantity to make a dent on domestic price.

Pork imports without tariffs will likely reduce domestic prices.

If the tariff were to drop say to 5% it is not clear whether the market segmentation can be sustained. The difference in price between imported and domestic meat may become so large that consumers will start to switch back and forth between fresh and frozen meat depending on which is more affordable. The reason why DA wishes to drop the tariff is precisely to achieve this effect, therefore countering the surging pork prices.

Recovery of the pork industry will be accelerated by higher domestic prices, as well as management/eradication of ASF.

Although the current price of Php 190 per kg in CALABARZON seems excessive, it is the price needed now to give incentive to CALABARZON producers to keep supplying pork and growing hogs given the high risk of producing under the threat of ASF. Likewise, the high farmgate prices elsewhere in the Philippines. The potential herd mortality rate of ASF is 100%. The decline in inventory is mostly the decision of growers to cut down their inventory and avoid excessive losses from potential infection.

Domestic pork growers are planning to rebuild their stocks, but their plans may be put on hold if they anticipate that: a) ASF will continue to be a threat; b) domestic prices may decline if imports were to expand.

Conclusion: The hard policy choice is between *accepting temporarily high domestic prices and enabling the industry to rebuild rapidly,* or *allowing prices to decline to favor the consumer, but slowing down the recovery of the pork industry*.