



AGRICULTURE SECTOR BRIEF

PHILIPPINES



Country Overview



The Philippines is an archipelago consisting of more than 7,000 islands and islets in the Pacific Ocean, naturally linked by nautical passages to Malaysia, Indonesia, and Taiwan. The country's population is about to reach 110 million, with the National Capital Region (Metro Manila), reputed to be the most densely populated city in the world with around 15 million inhabitants. The Philippines, due to its special history, differs from most of the ASEAN countries culturally. It is the second-most-populous Asian country with English as an official language, and one of only two dominantly Roman Catholic countries in Asia. These Anglo-European characteristics can be traced in everyday life and business practices as well. (www.britannica.com)

The Philippines is one of the most dynamic economies in the ASEAN region. Its recent success is fuelled by a large and young population, a competitive workforce, a growing and consuming middle class, and the dynamic tourism industry and service sector. In the last decade, the average annual GDP growth reached 6.4% per annum and the country leaped into the upper-middle-income range in 2019. In recent years, the Philippine economy has made progress in delivering inclusive growth, evidenced by a decline in poverty rates and its Gini coefficient. Unemployment has reached historically low rates and underemployment rates, while still high, continue to improve significantly. Although a large share of Filipino workers transitioned out of agriculture, most of them end up in low-end service jobs. Measures to generate good jobs and better wages, therefore, are essential to achieve prosperity. (World Bank)

Economic growth for 2020 had bright expectations, as strong government spending and improving manufacturing figures fuelled GDP. However, even before the COVID-19 pandemic, the Philippines had to face two large natural disasters – the eruption of Taal volcano in Batangas Province and Typhoon Kammuri, locally known as Tisoy. The virus outbreak is hitting the economy from several angles, with tourism down to close to zero, China as the main market of Filipino trade slowing down, and even remittances from overseas workers, which are a significant line in the country's budget, will be lower than usual. However, as lockdowns are relaxed here and abroad, the economy is expected to recover quickly.



THE MOST IMPORTANT ECONOMIC INDICATORS OF THE PHILIPPINES AND THEIR RECENT TRENDS:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Consumption (annual variation, %)	 Unemployment (%)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2015	102	2,881	6.1	6.3	6.3	0.7	-12.2	58.8	71.1
2016	103	2,953	6.9	7.1	5.5	2.2	-26.7	57.4	84.1
2017	105	2,989	6.7	5.9	5.7	2.9	-27.4	68.7	96.1
2018	107	3,104	6.2	5.6	5.3	5.1	-43.5	69.3	113

Sector Overview



In 2018, the GDP of The Philippines grew by 6.2%, with agriculture contributing 8.1% to achieve this. Most importantly, the Gross Value Added (GVA) in agriculture grew by 0.8%, showing significant development of the sector. This achievement was mainly linked to the livestock and poultry industry, where the latter had a nearly 6% increase in output, while crops registered a small reduction. Not all crops are experiencing negative growth. For example, coconut production continued its growth by nearly 5%, as global demand is increasing, while rice and corn production suffered.

The best available statistical data can be found on the website of the Philippine Statistics Authority (PSA).

Government structure and agricultural policy

As a presidential state, the government structure of the Philippines resembles the US. The Department of Agriculture (DA) is the executive agency responsible for agriculture and fisheries. It is led by a Secretary who is appointed by the President. The current DA Secretary, who is also a member of the Cabinet, is Mr. William D. Dar, Ph.D. The Department is composed of eight bureaus: Agricultural Training Institute, Bureau of Agriculture and Fisheries Standards, Bureau of Agricultural and Fisheries Engineering, and other offices bureaus dedicated to the subsectors of agriculture.

The latest strategical document about the sectors' development was released by the National Academy of Science and Technology (NAST PHL), together with the state's responsible bodies, and was named Philippine Agriculture 2020, and is a medium-term plan. It has three main pillars:

- Organising and managing agriculture as a business
- Changing the social structure through asset reform
- Governance reforms.

The plan has a strong focus on technology improvement, as innovation can raise yields, reduce losses, and conserve natural resources. To help innovation, 15 agro-industrial clusters were created and supported throughout the country. The modernisation of agriculture will also need massive public investments, firstly in the physical infrastructure and financial background of the sector. Information on the plan can be found on the NAST website.

The Organisation for Economic Co-operation and Development (OECD), as an economic cooperation institution, has also made a list of recommendations to the Philippines about its agriculture. The main topics were:

- Improve agricultural policy performance by improving food security, re-focus land policies and land distribution.
- Improve agricultural education and make farm management knowledge available to rural communities.
- Adaptation to climate change should be started.
- Improve agricultural institutions, strengthen transparency and accountability of public programs, plus improve the statistical system.

Most important products and segments - crops

The 10 most important crops grown in the Philippines are rice, known as palay in local terms, corn, coconut, sugarcane, banana, mango, pineapple, coffee, cassava, and rubber. Vegetables and other fruits also play a significant role in the agriculture of the country.

Rice

Unmilled rice is called paddy, but in the Philippines, it is usually referred to as palay, which is the term used in official trade statistics. In the Philippines, rice is the most important food crop and a staple food in most of the country. Even though the country ranks in 9th place in world production, with 2.5-3% of global production, it is also one of the largest importers. Domestically, Luzon, the Western Visayas, Southern, and Central Mindanao are the main rice production regions.

The last full-year data available at the moment of writing is 2018, when palay production slightly declined in the Philippines, by 2.2%. In volume, it is 19.07 million metric tons. Also, the harvest area contracted by 16,000 hectares, as well as yield per hectare, from 3.93 metric tons to 3.87.

Corn

Corn is the second most important crop in the country in terms of the total area planted and overall value next only to palay. Yellow corn is the most important type, primarily used as feed especially for poultry and swine.

Production, yields, and harvest area are slowly on the rise, around 7.77 metric tons, 2.95 tons per hectare out of 612,000 hectares.

Coconut

In the Philippines, coconut is regarded as the tree of life. Its fruit, and other products derived from coconuts is one of the most important export products of Philippine agriculture. In 2019, coconut contributed 3.6% to the country's gross value added in agriculture, only bettered by banana.

In the last quarter of 2019, coconut production increased by 0.9% and reached 4.09 million metric tons. Davao Region is the top producer, followed by Northern Mindanao and the Zamboanga Peninsula. Trade expectation for coconut - especially its oil, was high before the COVID-19 pandemic, and in the medium term, this crop can be a rising star of Philippines agriculture.

Banana

The Philippines are in the top five exporters of bananas in the world, and ca. 3 million tons of the fruit is exported every year. The total production in 2018 was some 9.36 million tons, and nearly 90 cultivars are grown on the widespread local farms.

Regarding the latest statistics, in the last quarter of 2019, banana production was ca. 2.39 million metric tons, 1.4% lower than in the same period of 2018. The highest production is in the Davao Region and Northern Mindanao. Among the varieties, Cavendish recorded the highest output, followed by Saba, and Lakatan.

Vegetables

The Asia-Pacific market is the largest for vegetables in the world, and Philippine farmers are on the way to compete with other ASEAN competitors. The DA initiated a Regional High-Value Crops Development Programme, providing seed production training, technology transfer, and post-harvest logistic support for smaller farmers and businesses to be able to change from low-income crops to vegetables.

The major vegetables and root crops cultivated in the Philippines are Bermuda onions, cabbage, cassava, eggplant, mung bean, peanut, sweet potato, and tomato.

Other fruits

Besides banana, if coconut is considered an industrial crop, in the same group as sugarcane and rubber, pineapple and mango are the most important fruit crops in the Philippines. Both of them are exported.

There are unlocked potentials in fruit farming in the Philippines, but there are several obstacles in front of dynamic growth:

- Limited technology and skills in production practices, flower induction, etc.
- Lack of working capital
- High costs of inputs and logistics, and time needed for transport and logistics can be a tough challenge to many business models
- Cecid fly infestation in mango production.

Most important products and segments – livestock and fisheries

Livestock

According to the latest infographics of the PSA, in the last quarter of 2019, livestock production dropped by 8.5%, and poultry by 5.4%, while crops and agriculture as a whole, could maintain a small portion of its momentum growing by 1%. Livestock and poultry now represent about one-third of Philippine agriculture. The longer trends show that livestock production is relatively stable in the country. In the last decade the total number of cattle has been ca. 2.5 million head, typically farmed in the backyard or commercial farms. But as the country's overall economic performance improved, local food consumption grew, and this stagnation means a large increase in import meat products.

Fish and seafood

With the country's 7,100 islands, the Philippines has the world's longest, discontinuous coastline, so naturally, marine fishing has always been a common way of feeding the population. Nowadays, around a million people live from fishing, including ca. 800,000 small-scale fishermen. Besides marine fishing, freshwater fisheries, traditionally attached to rice cultivation are also a significant source of food for the people in the Philippines.

The latest data show that fisheries production is stable at around 4.4 million metric tons per year. There are three main segments of the industry. Aquaculture, contributing more than 50% of the total fisheries' production, municipal fisheries - unloading in municipal fish landing centres and catch from inland waters, and finally, commercial fisheries.

The main species of fish and seafood are milkfish, sardines, skipjack, common round scad, freshwater tilapia, tiger prawns, and seaweed.

● Subsector	● Volume of Production (metric tons)			● Percent Change	
	2017	2018	2019	2018/2017	2019/2018
Fisheries	1,036,443.67	1,005,325.09	1,014,490.07	(3.0)	0.9
Commercial Fisheries	223,799.10	216,316.29	218,977.17	(3.3)	1.2
Municipal Fisheries	273,348.80	254,999.58	269,464.51	(6.7)	5.7
• Marine	233,921.14	215,208.72	232,434.71	(8.0)	8.0
• Inland	39,427.66	39,790.86	37,029.80	(0.9)	(6.9)
Aquaculture	539,295.77	534,009.22	526,048.39	(1.0)	(1.5)

Regulations



The World Economic Forum (WEF) ranked the Philippines in 64th place in 2019 in the global competitiveness ranking, eight places lower than in the previous year. The research behind the ranking shows that the Philippines has much to do regarding trade regulations to improve its companies' chances on the global market.

Nevertheless, the Philippines is making full use of the benefits and functions derived from its multilateral, bilateral, and regional engagements in crafting and implementing impactful trade policies and strategies.

Registration for importers

To register as an importer, businesses first need an Import Clearance Certificate from the Bureau of Internal Revenue. Importers then register with the Bureau of Customs (BOC) and set up an account with the Client Profile Registration System (CPRS). The Import Clearance Certificate is valid for three years while the Customs Client Profile Accreditation must be updated annually. The CPRS accreditation costs PHP 1000 (ca. US\$ 20) and typically takes 15 working days to process.

Registration for exporters

First-time exporters need to register with the above-mentioned CPRS, which can be done through the Board of Investments, Philippine Economic Zone Authority (PEZA), Export Marketing Bureau (EMB), or the Philippines Exporters Confederation, Inc. (PHILEXPORT). For certain goods, export clearances are needed including for example coffee exporters require this from the EMB. Exporters using Special Economic Zones (SEZ) will have to check for any additional procedures.

Tariffs

The Philippines has 11 tariff schedules. The Most Favoured Nation (MFN) refers to Philippine tariff rates that apply to imports from all sources. Other schedules are regulated by the different trade agreements, under ASEAN and bilaterally between the Philippines and a few nations.

The Philippines Customs applies a value-added tax (VAT) for imported goods at 12%, with exceptions for goods worth less than US\$ 200.

The easiest way to find the applicable regulation and tariff rate for certain goods is the Tariff Commission's The Philippine Tariff Finder.

The Tariff Commission is a government agency, supervised by the National Economic and Development Authority. The Commission performs both governmental and quasi-judicial functions, which includes adjudication of cases on the application of trade remedies against imports, studying the impact of tariff policies, administering the Philippine tariff schedules and nomenclatures, issuing advance rulings on the tariff classification of imported goods, etc.

Non-Tariff Measures

As the global trend is to have tariffs reduced, other regulatory measures on trade are thriving. These measures collectively known as non-tariff measures, can be imposed on both imports and exports. Agricultural goods are the most affected by NTMs usually, and the Philippines is no exception. The non-tariff measures are classified by regulation and a good overview can be found on the World Bank website.

Certain non-tariff measures of the Philippines can be found on the Philippine National Trade Repository.

Typical non-tariff measures are pre-shipment inspections and other prior formalities, price control, technical trade barriers. The Department of Agriculture and the Department of Environment and Natural Resources implement the most measures, and 100% of animal product and nearly all plant products are subject to at least a few NTMs.



Market Entry



The Philippines is an open economy, where many importers are present, which does not mean that SMEs will have an easy landing. Market entry can be costly and need strong strategic thinking from the exporter. However, in the Philippines, trade promotion institutions are well-developed, and there are many other platforms, where business co-operation partners can be found.

Trade promotion organisations

The trade promotion agency of the Philippines is the Center for International Trade Expositions and Missions (CITEM), which is under the Department of Trade and Industry.

CITEM organises strategic trade promotion activities, including joint or national participation on trade fairs, conducting business missions, regular market data targeting exporters, sourcing, and coordinating technical and merchandise consultancies. Their core message is that the Philippines is an exporting nation, a reliable source of products and services.

Meanwhile, the gateway to local exporters is PHILEXPORT, the umbrella organisation of Philippine exporters. PHILEXPORT, mandated under the Export Development Act to develop and implement export-support and development programmes, has over 4,000 members nationwide, mostly micro, small, and medium enterprises (MSMEs) including those in the agriculture sector. More information, can be found on www.philexport.ph.

Chambers of commerce

The Philippine Chamber of Commerce and Industry (PCCI) was founded in 1886 by a group of Spanish businessmen, and the three largest Spanish companies in Manila. The PCCI aims to help ease doing business in the Philippines through its advocacy and other programmes and services. The Chamber has a prominent role in business development, with a very strong network and activities internationally. The PCCI is an umbrella for business councils and represents Philippine business interests on the ASEAN level as well. Information on the Chamber can be found on www.philippinechamber.com.

Trade fairs and promotion methods

There are several relevant trade fairs organised for the agricultural sector in the Philippines every year. CITEM organises IFEX Philippines, the country's biggest international trade exhibition on the Philippines', which focuses on Asia's ethnic and specialty food, tropical fruits, vegetables, seafood, beverages, bakery and confectionery products, meat and poultry, Halal-certified products, as well as natural, organic, and healthy food products. It has provided a business-to-business platform for local and international food companies to discover new markets, launch new products, and transact with the world's biggest buyers.

There are also other domestic bazaars and international shows, such as the Feeds Expo Philippines and Aquaculture Philippines at the Manila World Trade Centre. More information on www.livestockphilippines.com.

Agrilink Philippines Expo is held every October, now on its 26th year. Agrilink is also co-organised with Foodlink and Aqualink, and participation is advised for the whole agribusiness value chain, from farm inputs to the retail market.

As the global pandemic hit the ASEAN region, most of the large fairs and product shows are already cancelled or delayed, so other ways of promotion are being used such as e-commerce, direct mailing, online product show videos, or promotional product listings at online marketplaces.

Sales channels in agrifood

A growing population, a slightly rising middle class with more income, and improvements in logistics have helped grow the Philippine retail sector. In 2019, according to latest estimations, the retail industry sold a record US\$ 50 billion in the Philippines.

The sector landscape is changing, but traditional food retail shops – known locally as sari-sari or most popularly mom & pop stores, dominate the market with their 58% share. Modern, large retailers have put a lot of effort to enter the market in the last decade, but the retail market is far from saturated. In the provinces, outside Metro Manila, large foreign players face many challenges. As an exporter, the traditional, and still the most common way of entering the Philippine market is via an exclusive importer/distributor, instead of struggling with establishing a local office and company. These importers have their channels to retail stores and know import regulations, procedures, and practices. Many, additionally offer warehousing and other services.

Large retail stores work with many distributors, though there is a trend that even retailers try to find the manufacturer/producer on the export market and establish a direct sales channel. Usually, for SMEs, this can be an attractive opportunity, but in the end, all the additional paperwork, registration, and logistic issues may remain a challenge.

Exporters may find it especially difficult to enter mom and pop stores or wet markets, as these places sell a very limited amount of imported products. Smaller local distributors may be worth cooperating with, especially regarding fresh fruits and vegetables from other ASEAN countries.

The largest food retailers of the Philippines are:

Supervalu Inc. (SM)(Hypermarkets, Supermarkets & Convenience stores)	outlets 645	www.smmarkets.com
Puregold (Warehouse, Hypermarkets, Supermarkets,& Convenience/Neighborhood stores)	289	www.puregold.com.ph
Robinsons Supermarket (Supermarket, Express and Convenience stores)	ca. 500	www.robinsonssupermarket.com.ph
Phil. Seven Corp (7-Eleven)	2573	www.7-eleven.com.ph

Online agri-food sales

As trend analysis shows, spending on food and drinks will grow by 8.9% yearly on average by 2022 and E-commerce is expected to play a prominent role in this growth. Large players like Lazada are already offering online grocery services, advertising the efficiency and convenience of the new way of shopping. For exporters, supplying these new e-marketplaces is somewhat easier than traditional retail chains, as lower quantities are required and marketing efforts can be cheaper, but administration and logistics require a reliable local partner.

Other Business Opportunities



Investments

Foreign direct investments (FDI) are promoted by the Philippine Board of Investment (BOI), a government agency under the Department of Trade and Investment. The BOI actively supports investors, offering one-stop-shop services, including advisory, implementation, and aftercare. They provide sector information and local and international partner search and business missions. All information regarding governmental incentives, such as tax holidays, and duty exemptions can be found on their website or via BOI's advisors.

Agritech and agri-IT sectors

In the Philippines, around 35% of the population is still dependent on agriculture – usually small-scale farmers or fishermen and their families. Technology innovations can play a key role in transforming these peoples' everyday life, with improvements across the entire value chain.

In the last few years, many IT-solutions and other high-end technologies became available for even the smaller farmers and fishermen, for example, mapping irrigation zones through geospatial mapping using drones or crop-weeding robots. In the post-harvest value chain, integration of mobile communications technology with real-time computer and cloud-based data gives farmers information on the market demand and connects them directly with consumers for better price information.



Recommendations and Trends

For ASEAN SME exporters

The Philippines is one of the largest consumers market in the ASEAN region, with Metro Manila being the largest metropolitan region, making it an attractive target destination. Still, there are many challenges for producers and traders of agri-food products, including:

- Negative impacts of climate change
- Harsh competition
- Trade regulations, especially non-tariff barriers are proving to be a burden for the exporters
- Weak access to financing
- Insufficient/lack of resources to conduct market intelligence, Research & Development, and innovations particularly among micro and small enterprises
- Insufficient laboratories in the country and expensive testing procedures outside the Philippines and for certain standards.

Business development directions for local companies

The majority of farmers in the Southeast Asia region either have small landholdings, smaller than two hectares, or are small fishermen. They are most susceptible to climate and weather change, information asymmetry, due to the non-availability of technical knowledge centres, and may suffer from lack of market linkages, due to land fragmentation and less developed waterways. The most important ways of development for these sectors are:

- Innovation and technological adaptation is of vital importance, otherwise smaller producers will be out of competition;
- The COVID-19 pandemic will increase the importance of local competences, and vegetable and fruit farmers may be the winners of the development of the government's new strategy for independence of fresh food products;
- Climate change in the short- and long-term will force adaptation upon farmers, requiring new varieties of crops, new skills to be developed in everyday practices;
- Development in local logistics will not stop after the pandemic - more and more local farmers should be able to send their products through new logistic channels;
- Foreign investors should be welcomed, as long as they bring new technologies and market access in.