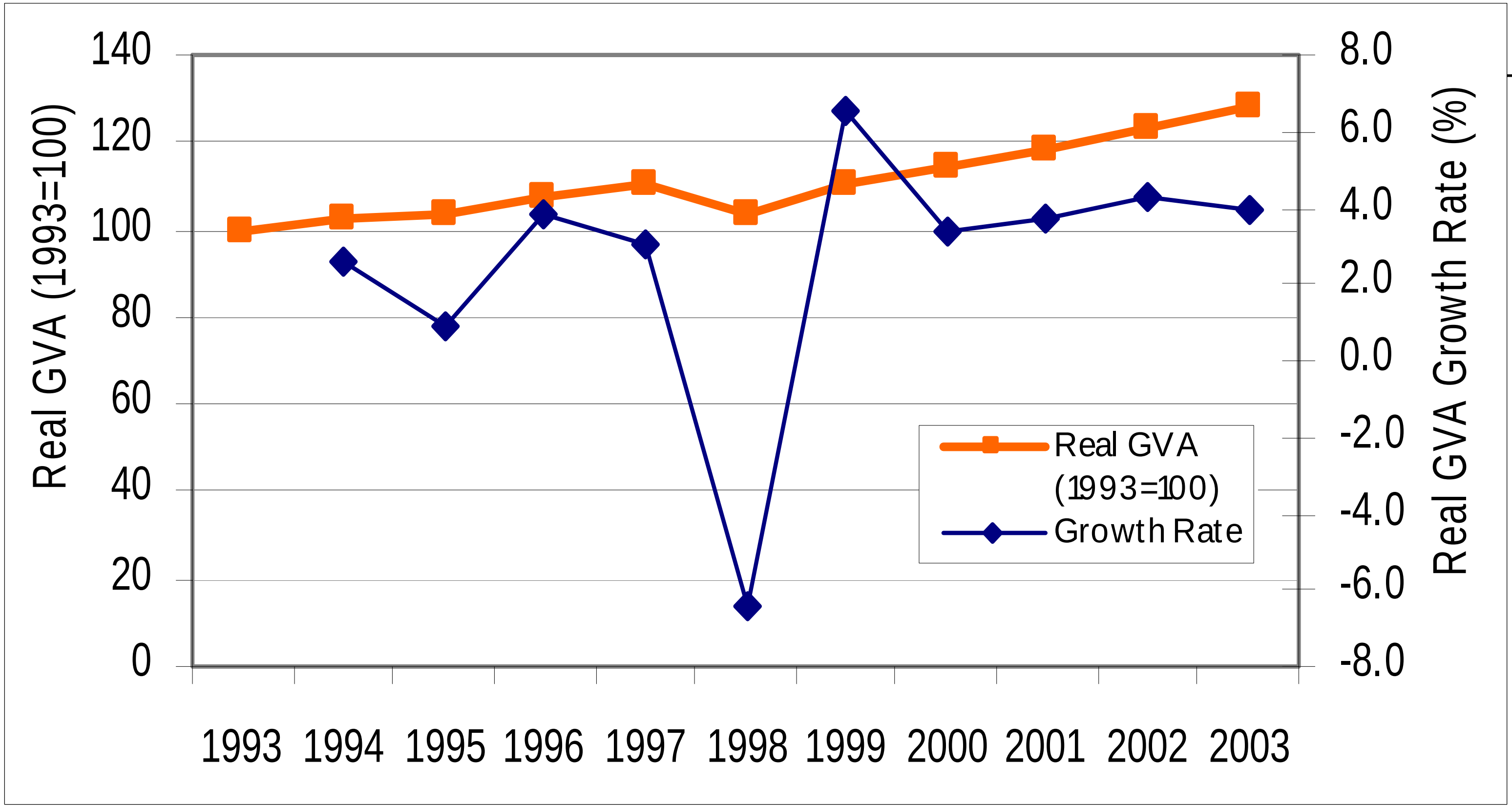
TOWARDS AN EQUITABLE TARIFF POLICY ON AGRICULTURE INPUTS UNDER AFMA

UA&P

Growth Rate of Real Gross Value Added (GVA) in Agriculture, Fishery and Forestry, 1993-2004



Source: National Statistical Coordination Board (NSCB

Agriculture Gross Value Added in Agriculture, Fishery and Forestry, 1993-2004
(Ave. Annual Real Growth Rate, %)

Industry	1993-1997	1998	1999-2004	1993-2004
Agriculture	3.4	(8.1)	3.5	2.8
Palay	4.7	(24.1)	4.2	4.9
Corn	(2.4)	(11.7)	3.7	1.5
Coconut	1.8	(11.9)	6.5	1.6
Sugarcane	0.1	(20.7)	5.0	2.6
Banana	5.5	4.7	6.3	5.7
Other Crops	3.5	(5.3)	1.7	1.2
Sub-total	2.8	(12.5)	3.4	2.3
Livestock	5.4	3.6	2.6	3.9
Poultry	6.8	(0.4)	5.2	4.9
Agri. Activities & Services	(0.5)	(4.0)	4.2	1.3
Fishery	1.1	0.7	6.9	3.8
Agriculture & Fishery	2.9	(6.4)	4.2	3.0
Forestry	(17.3)	3.3	(2.2)	(4.8)
Agriculture, Fishery & Forestry	2.6	(6.4)	4.1	2.8

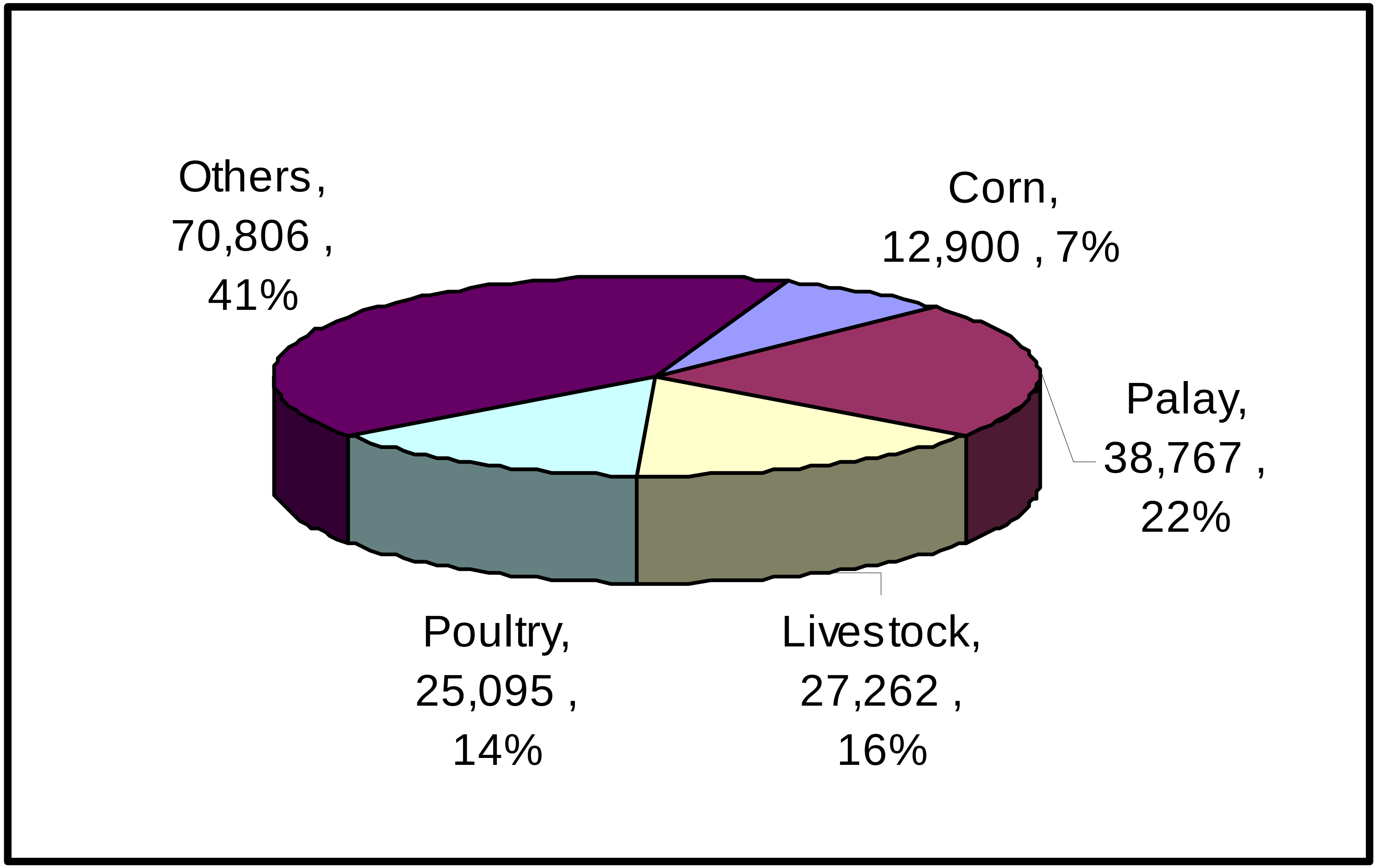
Source: NSCB

Contributions to Agriculture Growth, selected years

Industry	Percent Contribution to Growth	
	1993-1997	1999-2004
Agriculture	104.1	67.5
Palay	27.3	17.5
Corn	(6.2)	4.8
Coconut	2.5	5.0
Sugarcane	(1.6)	3.2
Banana	3.6	3.2
Other Crops	31.7	8.3
Sub-total	57.3	42.0
Livestock	23.5	7.8
Poultry	24.6	13.5
Agri. Act. & Services	(1.2)	4.2
Fishery	7.9	33.7
Agriculture & fishery	112.1	101.2
Forestry	(12.1)	(1.2)
Agriculture, Fishery & Forestry	100.0	100.0

Source of basic data: NSCB

Share of Livestock and Poultry to Total Agriculture, 2004



Source of basic data: NSCB

TOP TEN CONTRIBUTORS TO PHILIPPINE AGRICULTURE
Value of Production at Current Prices, 2004 In Million Pesos

Commodity	Value	% Share
Palay	136,995	17.48
Hogs	118,704	15.14
Chicken	89,107	11.37
Coconut	51,702	6.60
Commercial Fishery	48,428	6.18
Corn	46,196	6.02
Municipal Fishery	45,675	5.83
Aquaculture	44,973	5.74
Banana	35,508	4.53
Chicken Eggs	21,117	2.69

Source: BAS

❖The hog sector ranked second in terms of contribution to Philippine Agriculture

Chicken and chicken eggs were also among the top ten contributors

AFMA KEY RESULT AREAS

- **Food Security** - The State assure the availability adequacy, accessibility and affordability of food supplies to all at all times;

- **Poverty Alleviation and Social Equity** - The State shall ensure that the poorer sectors of society have equitable access to resources, income opportunities, basic and support services and infrastructure especially in areas where productivity is low as a means of improving their quality of life compared with other sectors of society.

AFMA KEY RESULT AREAS

- **Rational Use of Resources** - The State shall adopt a rational approach in the allocation of public investment in agriculture and fisheries in order to assure efficiency and effectiveness in the use of scarce resources and thus obtain optimal returns on its investments;

- **Global Competitiveness** - The State shall enhance the competitiveness of the agriculture and fisheries sectors in both domestic and foreign markets;

AFMA KEY RESULT AREAS

- **People Empowerment** - The State shall promote people empowerment by enabling all citizens through direct participation or through their duly elected chosen or designated representatives the opportunity to participate in policy formulation and decision-making by establishing the appropriate mechanisms and by giving them access to information; and

AFMA KEY RESULT AREAS

- **Protection from Unfair Competition** - The State shall protect small farmers and fisher folk from unfair competition such as monopolistic and oligopolistic practices by promoting a policy environment that provides them priority access to credit and strengthened cooperative-based marketing system.

A Comparison of EO 133 and EO 376; Duty-Free Privileges under AFMA

PARTICULARS	EO 133	EO 376	COMMENTS
Title	IRR of RA 8435 " Agriculture and Fisheries Modernization Act of 1997	IRR of RA 9281 "Reinstatement of Duty-Free Privileges for Agricultural Inputs, Equipment and Machinery under Section109 of RA 8435…"	While EO 376 is supposedly a "Reinstatement" it did not do so; instead it excluded relevant groups (feedmillers/traders) from availing of the privilege
Coverage	Agricultural Items categorized in Annex B & C: • Annex B are items exclusively used as agricultural inputs • Annex C are inputs which could be used in agriculture/other purposes	Agricultural inputs all under Annex B, which includes products that are exclusively used for agriculture and those that could be used for other purposes	EO 133 clearly distinguished inputs exclusively for agriculture and those that are not. Importation requirements are simple for inputs EXCLUSIVELY for agriculture. EO 376 makes no such distinction
Who Can Avail	For Annex B, anyone For Annex C, ag. enterprises engaged in the raising, harvesting and marketing of poultry and livestock products	Only ag. enterprises engaged in the raising, harvesting and marketing of poultry and livestock products	Feedmillers and traders who serve the needs of small producers are not eligible

A Comparison of EO 133 and EO 376; Duty-Free Privileges under AFMA

PARTICULARS	EO 133	EO 376	COMMENTS
Requirements for Availment	No Certificate of Eligibility (CE) required for import of items under Annex B. CE required for importation of items under Annex C. DA issues CE to attest that importer is qualified and that the items to be imported will be used exclusively for agriculture	A CE required for all prospective importers	Under EO 133, importation procedure of inputs used exclusively for agriculture was very simle. Under EO 376 CE is required.
Exclusions	For List B, none For List C, those enterprises that are not raising, harvesting and marketing of livestock/poultry products	All enterprises that are not raising, harvesting and marketing of livestock /poultry products	See above

A Comparison of EO 133 and EO 376; Duty-Free Privileges under AFMA

PARTICULARS	EO 133	EO 376	COMMENTS
Implications on Access by Small Farmers	Duty-free importation of inputs under List B open. Traders and feedmillers, who serve the needs of smallholder farmers, are able to import	The feed requirements of small farmers are met by traders and feedmillers. Traders and feedmillers are not entitled to duty-free imports	Small farmers, because of minimal capital, low volume requirements will find it very difficult to avail of the privilege.
Implications on Costs	The feed costs integrators, large and small farms would generally be the same since all groups have access to duty-free imports of inputs	Small farmers, who source their feeds/inputs from traders/millers will pay more since the traders/millers will pass on the 3% tariff on them	Cost of production of small farms would be higher than their commercial counterparts

WITH TARIFF VS. WITHOUT TARIFF SCENARIOS (In PMillion)

	EO376	EO133	
Industry	With 3% Tariff	With Zero Tariff	Incremental (Added) Cost
Hogs	787	0	787
Broiler	55	0	55
Layer	73	0	73
Corn	200	0	200
Total	1,115	0	1,115

Source: Annex 1

ESTIMATED LOSSES TO LIVESTOCK & POULTRY INDUSTRY, 2004 (In PMillion)

Industry	Production Value (P Million)	Share (%) Small/Medium Growers	ESTIMATED LOSSES (P)	
			1% Drop in Production	5% Drop in Production
Hog	118,704	94,963	949	4,748
Broiler	89,707	17,941	179	897
Layer (Egg)	21,117	19,005	190	950
Estimated Total Losses			1,319	6,595

PRICE COMPETITIVENESS OF HOG (CARCASS) IMPORTS

PARTICULARS	COST
Price FOB (US$ per kg), Australia Port, Carcass	2.61
+ Freight and Insurance	0.03
= CIF Manila	2.64
x Foreign Exchange Rate	56.00
= CIF Manila (P/kg)	147.84
+ Tariff rate (30%)	44.35
+ Handling distribution cost	0.60
+ Trading cost/margins	5.00
Derived Wholesale Import Parity Price (P/kg)	197.71
Domestic Wholesale Price (P/kg)	130.00
Import Parity/Domestic Wholesale Price (a)	1.52

PRICE COMPETITIVENESS OF DRESSED CHICKEN (WHOLE) IMPORTS

PARTICULARS	COST
Price FOB (US$ per kg), dressed weight from US	1.20
+ Freight and Insurance	0.20
= CIF Manila	1.40
x Foreign Exchange Rate	56.00
= CIF Manila (P/kg)	78.40
+ Tariff rate (45%)	35.28
+ Handling distribution cost	0.60
+ Trading cost/margins	5.00
Derived Wholesale Import Parity Price (P/kg)	119.28
Domestic Wholesale Price (P/kg)	90.00
Import Parity/Domestic Wholesale Price (a)	1.32

Note: Competitiveness exists if import parity/domestic wholesale price is greater than 1.

PRICE COMPETITIVENESS OF DRESSED CHICKEN (CUT-UPS) IMPORTS

PARTICULARS	COST
Price FOB (US$ per kg), dressed weight from US	0.90
+ Freight and Insurance	0.20
= CIF Manila	1.10
x Foreign Exchange Rate	56.00
= CIF Manila (P/kg)	61.60
+ Tariff rate (45%)	27.72
+ Handling distribution cost	0.60
+ Trading cost/margins	5.00
Derived Wholesale Import Parity Price (P/kg)	94.92
Domestic Wholesale Price (P/kg)	90.00
Import Parity/Domestic Wholesale Price (a)	1.05

Note: Competitiveness exists if import parity/domestic wholesale price is greater than 1.

CONCLUSIONS

- **Food security**. The EO by increasing input costs will, in turn, increase food prices.
- **Poverty Alleviation and Equity**. The EO can not promote poverty alleviation and equity as it reduces farm incomes and favors the big producers.
- **Global competitiveness**. The EO reduces global competitiveness of small and medium producers as it increases the input costs.
- **People empowerment**. The EO does not appear to promote the policy as fewer producers will benefit.
- **Protection from unfair competition**. The EO promotes unfair competition as it favors the big producers and discriminates the many small producers.

CONCLUSIONS

- EO 376 while well-meaning has become a revenue generating policy rather than a developmental policy that emanates from the principles of AFMA.
- Indeed, there are revenue earnings but the other side of the picture are significant cost penalties against small and medium producers.

RECOMMENDATIONS

- Based on the foregoing analysis, it is recommended that EO 376 be revisited and have its inequitable and discriminatory provisions amended as soon as possible.
- The major goal of the Medium Term Philippine Development Plan, 2004-2010 is job creation and development of agribusiness lands. The 3% tariff penalty to micro, small and medium producers – a large potential source of employment – could be a big price to pay if the policy is not cured.

The End