Graduate School of Development Studies

‘COMPETING’ IN OPEN MARKETS?
The Role of Government Policies in the Development of the Philippine Hog and Chicken Industries

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List of Acronyms

ACEF	Agricultural Competitiveness Enhancement Fund
AFMA	Agriculture and Fisheries Modernization Act
AFTA	ASEAN Free Trade Area
AO	Administrative Order
ASEAN	Association of the Southeast Asian Nations
BAS	Bureau of Agricultural Statistics
CEPT	Common Effective Preferential Tariff
DA	Department of Agriculture
EXECOM	Executive Committee
EO	Executive Order
FAO	Food and Agriculture Organization
GAA	General Appropriations Act
GATT-UR	General Agreements on Tariffs and Trade-Uruguay Round
GVA	Gross Value Added
HS	Harmonized System
MAV	Minimum Access Volume
MFN	Most Favored Nation
MSMSE	Micro, Small, and Medium Scale Enterprises
MTPDP	Medium-Term Philippine Development Plan
NFHFI	National Federation of Hog Farmers, Incorporated
NSCB	National Statistics Coordination Board
NTC	National Technical Committee
NTS	National Technical Secretariat
PABI	Philippine Association of Broiler Integrators
PAFI	Philippine Association of Feedmillers, Incorporated
PAHRI	Philippine Association of Hog Raisers, Incorporated
PAMPI	Philippine Association of Meat Processors of the Philippines, Incorporated
QR	Quantitative Restrictions
RA	Republic Act
RTC	Regional Technical Committee
RTS	Regional Technical Secretariat
SPS	Sanitary and Phytosanitary
UBRA	United Broiler Raisers Associations
USDA FAS	United States Department of Agriculture Foreign Agricultural Service
UNDP	United Nations Development Programme
WTO	World Trade Organization

Abstract

The study focuses on how the Philippine government's agricultural policies and programs have shaped the competitiveness of the hog and chicken industries in the context of liberalizing trade. The study argues that due to the intense competition domestically and internationally, the local hog and chicken industries adopt different strategies in order to cope with increasing competition and decreasing competitiveness. The nature of politics and political dynamics of policymaking resulted to domination of certain groups of stakeholders in the market (business) environment that influenced the government's decisions and policies. The Agricultural Competitiveness Enhancement Fund (ACEF) program illustrates an example of a government's policy to minimize the negative effects of trade liberalization, particularly, on the small and medium-sized enterprises in the two sectors. The study found that the government's goal of improving the competitiveness of the hog and chicken industries is mainly influenced by large agribusiness. The effect of ACEF was relatively limited as most of the projects were allocated to the biggest medium-sized players.

Relevance to Development Studies

Development objectives of countries, including the Philippines, are geared toward export-focused and market-driven growth strategies in a more liberalized trade environment. However, the different policies and program interventions provided by governments to ensure increased productivity and competitiveness in a certain sector have mixed results. It is imperative to ensure that the greatest number of people benefit from the fruits of economic development. While assistance to small producers and micro-enterprises remains a priority to reduce poverty and increase incomes, agribusiness development in developing countries play a major role in attaining development.

Keywords

Agricultural trade liberalization, competitiveness, value chain, enterprises, political economy, Philippines.

Introduction

For many years, the Philippine hog and chicken industries have been protected from foreign competition through tariff measures and non-tariff barriers. From the mid-1990s onwards, the government of the Philippines initiated policies aimed to facilitate trade liberalization, opening its economy to foreign trade competition in lieu of becoming a member of the World Trade Organization (WTO). The country has joined both global and regional trade agreements that resulted in the removal of non-tariff barriers, quantitative restrictions (QRs) and lowering of tariffs on agricultural products.[1]

The removal of subsidies and protection against imports has made local enterprises in the Philippines more vulnerable to the world market. The minimum access volume (MAV) mechanism also affects local enterprises in that it also imposes a relatively lower tariff to a specific volume of imports placing local industries at a distinct disadvantage from the influx of cheaper produce. A case in point was the massive imports of chicken parts in 1999 which nearly destroyed the domestic chicken industry. Other factors, such as the Asian financial crisis, also led to the closure of some of the country's big hog and poultry operators and integrators (Sharma *et al*., 2005: 54).

As a result of the intense competition, domestic producers and enterprises adopted strategies that lead to the proliferation of commercial farms. There is a concern on whether the small producers and micro-enterprises could continue to survive the intense competition. There have been different policy responses by the government in increasing the agriculture sector competitiveness by reducing the 'cost of doing business' and providing financial assistance, especially for the small players. However, considering their financial resources and social networks, large and medium scale farms and enterprises will have a greater access to the opportunities provided by the government.

Existing research had focused on the impact of trade liberalization on the Philippine hog and chicken industries. Habito (2002) and Delgado and Narrod (2002) researches focused on an assessment of the impact of the impressive growth of the livestock sector and trade policies and implications for health, environment, and social outcomes in the sector. Delgado and Narrod (2002) in particular studied four fast growing developing countries. Tauli-Corpuz *et al*. (2002) concentrated on a case study of a poultry producing town using survey data and interviews. Meanwhile, Costales *et al*. (2007) used an empirical study on profit efficiency between large and small hog farms, whether small farms can compete with large farm based on a mathematical model. Further, Gonzales (1999) studied the impact of globalization under import and export trade regimes on the global competitiveness of five agricultural products, including hogs and chicken (broiler). A further detailed global competitiveness

[1] Executive Order 313 was issued which specified the tariff equivalent rates for each agricultural QR.

analysis of small, medium, and large commercial farms in selected provinces was conducted by STRIVE Foundation (2001). This was later expanded to include comparison benchmark of the Philippine hog and chicken industries with three neighbour-countries (Gonzales, 2004). However, the role of government policies and programs in the backdrop of increasing liberalization of trade and growing commercialization of the hog and chicken industries has not been substantially discussed.

This research therefore attempts to fill the gap and contribute to an understanding of the processes by which trade liberalization and government's policy and program interventions affected the hog and chicken industries in the Philippines. The study will look into the changing structure of the two industries and the role of trade within this change. The study will then analyze the government's policies within this changing industry structure. As an illustrative example, the study will explore Agricultural Competitiveness Enhancement Fund (ACEF) as a government policy in response to the changing structure affecting agriculture systems to gain some insights into how policies were implemented, received, and perceived. The main question of the study is: *In the context of trade liberalization, how has the Philippine government's policy and program interventions shaped the 'competitiveness' of the domestic hog and chicken industries?*

This paper is organized into five chapters. The debates on trade theory and the concepts of comparative and competitive advantage as used in the Philippine agriculture modernization framework are taken up in Chapter 1. It also reviews literature concerning the political economy of the international value chain in order to come to an analytical framework which can be used to analyze the development of the hog and chicken industries in view of trade liberalization, and the intention of the Philippine government to assist the sector to become more competitive. Chapter 2 provides an overview of the trade-related agreements entered into by the Philippines and how such agreements were transformed into domestic policies and specific programs for the agriculture sector, particularly the hog and chicken industries. It likewise describes the political dynamics of policymaking and the different stakeholders in the agriculture sector and the development of agribusiness in view of the role of trade liberalization, attempting to explain how certain groups of people influence the government's decisions and policies. Chapter 3 introduces the changes in the hog and chicken industries after trade liberalization, showing the increasing trend of commercialization of hog and chicken industries. It also analyzes the factors and government policies which contribute to these phenomena. Chapter 4 illustrates the case of the government's ACEF program as a policy to cushion the negative effects of trade liberalization. This chapter analyzes this program, which was intended to help increase productivity of micro, small, and medium scale enterprises (MSMSEs), provide them time to adjust, and cushion the negative shock that trade liberalization has provided for some of them. The last chapter presents the findings and concludes that government policy and programs aimed at improving the competitiveness of the hog and chicken industries are mainly influenced by large agribusinesses, enterprises and other big players, leaving out the small players.

Chapter 1
Theoretical Background, Methodology and Data Sources

This chapter reviews the theories and issues concerning free trade and international value chain. The chapter also presents the analytical framework and methodology and data sources used in this study.

1.1 Theoretical Perspective

This section deals with trade theories in an effort to understand the consequence of opening trade on the hog and chicken industries. It discusses the different debates on trade theory and the concepts of comparative and competitive advantage as used in the Philippine agriculture modernization framework. A brief review of literature concerning the political economy of the international value chain follows.

Trade Theory, Comparative and Competitive Advantage

A prevailing school of thought on the subject of free trade is the so called conventional or 'old trade theory' of comparative advantage by Heckscher (1919) and Ohlin (1933). The Heckscher-Ohlin (HO) theory argues that the country's relative endowments of factors of production were the key determinants of comparative advantage (Ray 1998: 635). The H-O theory used a two-country, two-factor (such as capital and labor), two-commodity model in that a country would tend to specialize and export goods using primarily its most abundant resources (*ibid*: 631). For example, a labor-abundant developing country would tend to export labor-intensive goods which it has a comparative advantage. Following this theory, even if a country would produce all cheaper goods than other countries, it would benefit by way of specializing in the export of its relatively cheapest goods (or the good in which it has a comparative advantage). The presence of the various factors involved in the production of goods *e.g.,* labor and capital in different countries lays the foundation that free trade actually leads to the equalization of prices[2] (Krugman and Obstfeld, 2003: 86).

[2] Although the H-O model explained that factor endowments are the main drivers of trade, Stolper and Samuelson (1941) argued that trade would lower the price of the 'scarce' factor (i.e. labor in developing countries and capital in developed countries) expressed in terms of any commodity. They explained that "(1) trade lowers the relative price of the commodity that employs the 'scarce' factor relatively intensively; and (2) the fall in this relative price brings about a fall in the price of the 'scarce' factor relative to all commodity prices" (Bhagwati, 1959 cited in Chipman, 1966: 37).

However, the H-O theory uses restrictive assumptions as follows: (i) that factors cannot move between countries; (ii) markets are perfectly competitive; and (iii) that economies of scale are not important. One criticism to this model lies in the above fact that the theory expects constant returns only in perfect market conditions.

Introducing the 'new theory of international trade,' Krugman[3] (1989: 347-365) expounded the argument that trade is happening not only because of the countries' differences in endowment but also because of specialization to realize economies of scale. Krugman (1981, 1983) also argued that due to increasing returns, large firms tend to dominate markets leading to imperfect competition that determines intra-industry trade patterns between industrial countries. With the presence of scale economies, market failures and other imperfections (North, 1995:17), the government's role could be justified in the allocation of investments, control in the functioning of the economic mechanisms, and interventions to address market failures (Dedehouanou and Van Ufford, 2000: 175). This point leads to the argument of strategic trade theorists for subsidizing certain industries to take advantage of oligopolistic international markets (UNDP, 2003). The recent body of literature on trade and growth also emphasizes that, in dynamic terms, comparative advantage can be created based on human capital, learning, technology, and productivity (*ibid*). It can also change over time based on economic policy. Akyuz (2003: 4) also argued that differences in trade cannot be explained by comparative advantage alone. He stressed that policies governing market access and capital mobility are playing a major role in trade.

Moreover, the UNDP (2003) presented some useful responses to the principle of comparative advantage. One of the arguments focuses on the issue of whether this principle stresses that absolute or competitive advantage[4] is a more reliable determinant of trade outcomes. The rest highlights that international industrial competitiveness is determined by gaps in the technology among nations.

In another stream of thought, Porter (2004)[5] argued that countries have competitive advantages based on factors that are critical to the success of specific industries in particular countries. The major determinants of success of a country in international trade are (i) the various combinations of domestic demand, (ii) domestic rivalry, (iii) factors of production, and (iv) supporting industries.

In sum, the main argument for trade liberalization refers to the idea that a country's exposure to international competition makes for greater efficiency. Competition encourages countries to improve production of commodities and weed out inefficient ones. As a market reform measure, import liberalization

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[3] See also Krugman (1979) 'A Model of Innovation, Technology Transfer, and the World Distribution of Income', pp. 253-66.

[4] *Absolute or Competitive Advantage* is the ability of one country compared with another to produce a good at lower cost in real resources (UNDP, 2003).

[5] This book was first published in 1985.

aims to encourage competition through the reduction of trade barriers. With increased competition from imported commodities, local producers of import-competing goods need to increase productivity to bring down production costs and prices.

This study uses the concept of competitive advantage, as stated in AFMA (1997: Section 4): "competitive edge and in terms of product quality and/or price. It mainly refers to the ability to produce a product with the greatest relative efficiency in the use of resources." Following this concept, the study aims to present and analyze the consequence of trade liberalization on the competitiveness of the hog and chicken industries. In addition, this study uses the concept of resource cost ratio (RCR)[6] as a measure of competitive efficiency which indicates resource use efficiency. Further, it also adopts this concept in the analyzing the price and cost competitiveness of the Philippine hog and chicken industries based on results of previous studies.

Political Economy of International Value Chain and Global Commodity Chain

In general, trade liberalization goes together with increased concentration in production, processing and sales. The changing conditions of global competition have resulted in the rise of agribusiness corporations and the re-configuration of the international production (Goodman and Watts, 1997: 4). World trade has now been dominated by large corporations where commodities or goods are processed in several locations through intra-industry trade transactions between and among several firms in a production network and intra-firm hierarchies of value chains (Akyuz, 2003; Goodman and Watts, 1997).

The FAO of the United Nations refers to the 'agro-food chain' as that group of stakeholders who partake in the processes of production-processing-marketing-distribution of a product. The FAO states:

> "The concept takes into account how participants increase and add value to the product, considering in particular the forms and types of relation that arise between the production and consumption phases of the product. The stages and activities present in an agro-food chain are developed in a setting

[6] This is the ratio of domestic resource cost (DRC) over the shadow exchange rate (SER). "DRC measures the social cost of domestic resources used per unit of foreign exchange earned or saved by an activity. SER, on the other hand, represents the opportunity cost of domestic resources used in all activities producing tradable goods, or the social cost of earning foreign exchange. The RCR, therefore, measures an activity's efficiency in earning or saving foreign exchange. An activity or commodity is said to have competitive advantage if the RCR or (DRC/SER) ratio is less than 1 indicates efficiency since the activity is using domestic resources whose cost is lower than the value of the net foreign exchange it earned. On the other hand, if its value is greater than 1, no efficiency gains can be derived from additional expansion of a particular activity." (Austria, 2003: 14; STRIVE, 2001: 3-4)

of institutional and private services that directly affect their functioning and competitiveness."[7]

The use of commodity chain in the study of agro-food industry can be looked at different sources. Hopkins and Wallerstein's perspective (1986, 1994) took its roots in the world systems theory of Wallerstein (1974) explaining that commodity chain is "a network of labor and production processes of which the end result is a finished commodity" (Hopkins and Wallerstein, 1986: 159; *ibid*, 1994:17).

Following the work of Hopkins and Wallerstein, Gereffi *et al*. (1994: 2) observed that the global commodity chain consists of sets of 'inter-organizational networks grouped around a commodity or product linking households, enterprises, and states to one another in the world-economy.' Gereffi *et al*. explained that the production of a single commodity often spans many countries, with each one performing tasks which has a cost advantage. Gereffi (1994) showed that many chains are characterized by dominant party or parties who determine the overall character of the chain. These lead firms become responsible for upgrading activities within individual links and coordinating interaction between the links (Kaplinsky and Morris, 2000: 8). In this scenario, Gereffi (1994) highlighted the role of 'governance' classified into two types: (i) buyer-driven commodity chain; and (ii) producer-driven commodity chain. The first type occurs when coordination is undertaken by the buyers while in the second type, producers have the main role. Gereffi *et al*. (2005: 88) expanded the commodity chain governance to include the 'spectrum of low levels of explicit coordination and power asymmetry between buyers and suppliers, in the case of markets; to high levels of explicit coordination and power asymmetry between buyers and suppliers, in the case of hierarchy.'

In order to understand the political economy of food chains or food regimes, we use another source on the 'commodity systems or agro-food systems approach' of the so-called 'new political economy' of capitalist agriculture (Friedland *et al*., 1978 and Friedland, 1984 cited in Friedland, 1991: 22) which was developed in view of the globalization of food chains. This has greatly influenced a number of studies on the development of 'international agro-food system' such as Goodman and Watts (1997) and McMichael (1994, 2004). Under this system, agricultural producers and food consumers increasingly become mediated by agro-food industries through industries which are engaged in food processing, which are in turn, supplied by raw materials produced in the farm for the production of durable foods.[8] In the same manner, livestock production, particularly hog and chicken, increasingly become more connected to agri-food enterprises for the supply of inputs (such as feed grains, breeding or parent materials, and medicines) and the sale of

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[7] FAO (2006:18).

[8] Friedmann (1991:66) explained that 'the direct reference is to longevity of foods. What is often referred to in food marketing as 'shelf life', has increased enormously as a result of technological developments in refrigeration, ease of transportation, processing, and the use of preservatives.'

produce for "mass markets and industrial food manufacturing requiring longer durability of livestock products" (Friedmann, 1991:79).

McMichael's (1994) study on the global restructuring of agro-food systems emphasized the increasing specialization of food systems which are clearly seen in the 'niche' markets for fresh and processed food and the development of the intensive meat complexes (see also Friedland *et al*., 1991 and Weis, 2007). Heffernan (2000) found that only a few massive firms are located between many producers and consumers thereby giving firms the greater leverage to influence the quality, quantity, type, location of production, and price of the product at the production stage and throughout the entire [agro] food system (in Weis, 2007:13-14).

Either in terms of agro-inputs or agro-food, transnational companies are dominating the control of inputs (*e.g.*, seeds, fertilizers, agro-chemicals and livestock antibiotics); compelling the standardization and industrialization of farm techniques and technologies; and controlling, refining, combining, distributing, and marketing the produce in the farms in expansive new ways (Friedmann 2004 in Weis, 2007). McMichael (2004) added that as the trend of production of goods become more transnational, the development understanding shifts from a national-focused to a 'globally organized economic growth.'

In general, globalization (within the context of liberalized global markets) drives the evolution of agro-food systems. In this context, many private companies respond by expanding international presence through export operations, international joint ventures, and foreign direct investments (Sterns and Peterson, 2001: 1). Meanwhile, many developing countries choose or adopt policies that will enhance closer integration into the world trading system with the expectation that developing countries may benefit from this development or growth (Akyuz, 2003:1). The policy approach of swift liberalization of trade and financial flows has resulted in increased participation of developing countries in world trade as evidenced, for example, by the increasing membership of states to the WTO and greater regional and bilateral cooperation in trade. However, imports for majority of developing countries expanded faster than exports leading to negative trade balances (*ibid*). Competition further intensifies the differences between and among producers who have the capacity to compete in the market on the one side, and those that are incapable to do so due to high transaction costs of accessing credit, trade networks, and market information; and the lack of economies of scale (FAO, 2006: 12).

With global markets and agri-food systems becoming more competitive, the agribusiness sector is adopting better coordination strategies with the different players of the value chain. As described by Tweeten and Flora (2001), better synchronization of the vertical stages as well as the horizontal integration of agri-food value chains lowers costs by improving productivity, ensuring quality of products throughout the chain; controlling the risks associated with markets and food safety, and enhancing responsiveness to demand (in Da Silva, 2005: 10). What is happening in general is that producers and agribusinesses are linked by greater vertical and horizontal coordination within the value chain. The different modes of these coordination activities

include: (i) 'vertical linkage' ranging from input provision through production, processing, marketing, transport and distribution; or (ii) 'horizontal linkage' consisting of mergers or marketing agreements between enterprises (i.e. at the same level) or formation of producer associations to increase bargaining power (FAO, 2006: 14). Although these schemes promote efficiency to lower cost of goods, provide access to steady and affordable supply of food, and increase bargaining power of producer associations, 'market competition intensifies the differences between producers with capacity to compete in the market and those that' do not have the capacity to enter into the value chain (*ibid*).

These perspectives influence the study and will be used to analyze the Philippines case. Particular attention is given to the changing structure of the hog and chicken industries, the government's policy and program interventions in light of liberalizing trade, and how the small producers and enterprises ought to survive under the context of the political and market environment just described. The value chain of the hog and chicken industries (from input provision to market) together with its external environment (political) is used to understand the power relations of the various actors involved.

In sum, the study analyzes how the government policy and program interventions, within the context of liberalizing trade, affected the hog and chicken industries. The consequence of opening trade on the two industries is discussed using the framework of trade theory of comparative and competitive advantage within the Philippine agriculture and fisheries modernization framework. The development and transformation of the hog and chicken industries and the role of the government policies and interventions in this is discussed using political economy framework of value chains.

1.2 Methodology and Data Sources

A qualitative method using value chain approach was used to analyze how the different actors adjust to the increasing competition due to liberalizing trade. This explained how the power relations between the small and large producers and enterprises and how can the government policies and program interventions played a role in the development of the hog and chicken industries.

Secondary quantitative data from different agencies were constructed into tables and graphs that have been used to describe the trend of the hog and chicken industries in terms of production growth, commercialization, concentration, and imports. Data has been gathered from the Bureau of Agricultural Statistics, Department of Agriculture, Bureau of Animal Industry, and Food and Agriculture Organization of the United Nations. Results from previous studies were also used to analyze the consequence of trade liberalization on the competitiveness of the hog and chicken industries.

Specifically, the analysis of how different actors dominate and influence a specific government policy or program was illustrated by way of a case study on the ACEF, a well known government program to promote the competitiveness of domestic industries under the context of globalization. Semi-structured and key informant interviews of selected beneficiaries and regional and national technical secretariat was used to gather primary data in

August-September 2009 (Annex A). Analysis of official documents and secondary data from relevant statistics sourced from government databases has been used. These were translated into graphs and tables for easier descriptive analysis.

The study analyzes trade-related policies and issues in the livestock and poultry sub-sectors as well as discusses the relevant agricultural development programs introduced since 1995. The illustrative example on ACEF as a government intervention presents some perceptions on the experience of beneficiaries from the hog-chicken-feed industries. However, this does not represent the views of all the beneficiaries but rather present some insights into how this program was implemented, received, and perceived. The study did not include the views and perceptions of those proponents who applied for ACEF but failed to get the assistance. Further, the insights and views of the technical secretariat reflect personal perceptions based on experiences and not of the official position of the Department of Agriculture.

The case study focuses on selected projects that are in an advanced stage of implementation *i.e.,* approved during the period 2000-2007.[9] Interviews were conducted in August-September 2009 by a research assistant in the field. The interviews were done in accordance with the availability of the respondents. The author substantiated the information gathered through desk review and analysis. There were some difficulties encountered in obtaining copies of project proposals from the government and the private sector which contributed to certain limitations of the study.

[9] The respondents interviewed for purposes of this study were selected from regions that have significant share to ACEF approved projects and from top hog and chicken producing regions.

Chapter 2
Philippine Agricultural Policy, Political and Market Environment

Agriculture[10] is an important sector of the Philippine economy contributing some 20 percent of the country's gross domestic product. It employs about 35 percent of the labor force who directly or indirectly depend their source of living in agriculture or agriculture-based activities (BAS, 2008). In 2008, the total gross value added (GVA) in agriculture of PhP 258.02 billion was estimated at US$ 5.8 billion (BAS, 2009).

The Philippines has pursued trade liberalization policies in agriculture with the goal of expanding export markets and enhancing agricultural trade balances. Although the government has adopted a protectionist stance for the agriculture sector in the 1980s, it gradually shifted to productivity and competitiveness building goal. This chapter provides an overview of the trade-related agreements entered into by the Philippines and how such agreements were transformed into domestic policies and specific programs that would affect the future of the hog and chicken industries. It also identifies the concerned stakeholders, particularly, in the hog and chicken industries in an attempt to describe the political dynamics in the Philippines.

2.1 Trade Agreements and Reforms in Agriculture

Initial efforts to liberalize agricultural imports have been apparent since the 1980s although a majority of the commodities continued to enjoy protection through QRs (David 1997: 6; De Dios 1997: 10). In the mid-1990s, the Philippines' membership to the World Trade Organization (WTO) spelled out the country's adoption of the WTO Agreement on Agriculture. As a member of the Association of the Southeast Asian Nations (ASEAN), the Philippines' agricultural policies also became in line with the Agreement on Common Effective Preferential Tariff (CEPT) Scheme and establishment of the ASEAN Free Trade Area.

Commitments in WTO Agreement on Agriculture

The WTO Agreement was concurred in by the Philippine Senate on 14 December 1994 confirming the government's accession to the WTO.[11] The Philippines' membership is expected to enhance the country's trade position in the world market, particularly in agricultural markets, through the opening to

[10] Agriculture includes crops, livestock, poultry, and fishery.

[11] P.S. 1083, a resolution entitled *Concurring in the Ratification of the Agreement Establishing the World Trade Organization* was signed by President Fidel V. Ramos and concurred by the Philippine Senate on December 14, 1994 in Senate Resolution No. 97.

foreign competition. The government adhered to the underlying principles of the WTO Agreement on Agriculture presented in Table 1.[12]

Among the major provisions of the Agreement, the Philippines has focused on market access expansion and harmonization of sanitary and phytosanitary (SPS) measures. Agricultural exports in the Philippines had no subsidies and the level of trade-distorting domestic subsidies is considered 'way below the *de minimis* level of 10 percent of' GVA of agriculture production to which developing countries are entitled to (David, 1997: 14; FAO, 2003; Mangabat, 1998: 14-15; Pascual and Glipo, 2002: 5). Thus, the Philippines was not further compelled to reduce its domestic support levels under the WTO.

TABLE 1
Provisions and Commitments under the WTO-Agreement on Agriculture

Provisions	Commitments of Developing Countries
1. Market Access	
1.1. Tariffication of all non-tariff barriers. Base reference period is 1986-1988. 1.2. Minimum Access Volumes (MAVs). Base reference period is 1986-1988.	1. Tariffs will be reduced by an average of 24% over ten years (1995-2004), with a reduction by at least 10% for each tariff line. 2. MAV of 3% and 5% of base period consumption for 1995 and 2004, respectively.
2. Domestic Support	AMS will be reduced by 13.3% from average of base year (1986-1988) over 10 years; *De Minimis* level of 10 percent of gross value of agricultural production.
3. Export Subsidies	Reduction by 14% in volume and 24% in monetary terms over nine (9) years.
4. Sanitary and Phytosanitary (SPS) measures	Harmonize SPS measures according to international standards, guidelines, or recommendations.

Source: WTO Agreement on Agriculture (http://www.wto.org).

In view of the Philippines' treaty obligations, Republic Act (RA) 8178 known as "An Act Replacing Quantitative Import Restrictions on Agricultural Products, Except Rice, with Tariffs, Creating the Agricultural Competitiveness Enhancement Fund, and for Other Purposes" was enacted into law (RA 8178, 1996). The law replaces all QRs on agricultural imports with tariffs with scheduled reductions from 1995 to 2004, with the exemption of rice. Executive Order 313 issued in 1996 specified the interim tariffs for 'sensitive agricultural products'[13] (EO 313, 1996). RA 8178 also allows a degree of openness to trade through the MAV or the volume of specific agricultural products that are

[12] This is also presented in Pascual and Glipo (2002: 2).

[13] As a national policy, the government considers the following as sensitive agricultural products: rice, corn and its substitutes, live poultry, poultry meat and products, live hogs, pork and pork products, among others (De Dios 1997: 10). These products are subjected to lower tariff rates in lieu of the MAV system.

'allowed to be imported with a lower tariff.'[14] The Philippines' commitment schedule for the MAVs on certain agricultural products was established for the period 1995-2004 (Annex Table 1).[15]

This has resulted in a decline in the protection of the hog and chicken industries. The out-of-quota tariff rate for pork and chicken meat were set to the maximum 100 percent in 1995 and reduced to 40 percent in 2004 (Annex Table 2). Initial in-quota tariffs for pork and chicken meat were imposed at 30% and 50%, respectively. In-quota tariff for pork meat did not change while the tariff for chicken meat was reduced to 40 percent in 2004. The government has also lowered the tariffs on mechanically deboned meat of chicken to 5 percent effectively taking it out from the coverage of MAV (USDA FAS, 2009a: 4).

On market access, the Philippines agreed to remove the anti-trade bias of SPS measures. The government has been actively participating in the on-going harmonization work on rules of origin and SPS measures in the international level (Austria, 2000: 69). Internally, the government is in the process of establishing its own SPS standards on meat and meat products (Manuel, 1996) and processed foods (De Leon, 1996).

Trade Reforms under ASEAN

In 1992, the Philippines and other member countries of the ASEAN (Brunei, Indonesia, Malaysia, Singapore and Thailand) agreed to reduce intra-regional trade tariffs of non-sensitive manufactures and agricultural products to between 0 to 5 percent by 2008 through the creation of AFTA and the agreement on CEPT scheme (ASEAN Secretariat, 1992).[16] Tariff protection for the hog and chicken industries under the AFTA-CEPT scheme are much lower than the most-favored-nation (MFN)[17] tariff rate. Sensitive (unprocessed)[18] agricultural products such as live hog and chicken, fresh meat of hog, and poultry meat, among others are required to achieve the targeted 0 to 5 percent tariff by 2010

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[14] Under the MAV system, a lower in-quota tariff rate is applied to imports falling within the specified volume while a higher out-of-quota duty rate is imposed on those outside the MAV (Habito, 2002; Pascual and Glipo, 2002: 5).

[15] Up until the present time, the DA has retained the 2005 volume level for chicken, hog, and other commodities subject to such MAV as a status quo level until a new agreement is concluded in the next round.

[16] The deadline was first moved to 2004, and then advanced to 2003 (ASEAN Secretariat: http://www.aseansec.org/19801.htm).

[17] "This is the WTO principle of treating others equally. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners — whether rich or poor, weak or strong." (WTO: Principles of the trading system. http://www.wto.org).

[18] "Unprocessed agricultural products are agricultural products defined as:
(i) agricultural raw materials and unprocessed products covered under Chapters 1 to 24 of the Harmonized System (HS) Code and similar agricultural raw materials and unprocessed products in other related HS headings; and (ii) products which have undergone simple processing with minimal change in form from the original products." (Tariff Commission. http://www.tariffcommission.gov.ph/afta-cep.html).

(Annex Table 3). On the other hand, tariffs for processed meat, listed in the inclusion list[19], have gone down to 5 percent since 2002 (Austria, 2000: 71; David *et al.*, 2007: 14; De Dios, 1997: 42). Within ASEAN, the expected trend is for tariffs in processed meat products to be eliminated by 2010 (USDA FAS, 2009b: 5).

2.2 Policy Responses

In response to trade policies, the government provides adjustment measures for the agriculture sector. Policy responses such as the formulation of the Action Plan for General Agreement on Tariff and Trade-Uruguay Round (GATT-UR) Adjustment Measures (1995-1998), the creation of ACEF in 1996, and the enactment of the Agriculture and Fisheries Modernization Act (AFMA) in 1997 were all geared towards enhancing the sector's productivity and competitiveness in the context of open (liberalized) trade, and to cushion the effects of trade openness.

The GATT-UR action plan (1995-1998) was prepared in 1994 to outline vital infrastructures for productivity and competitiveness enhancement measures (GATT-UR Action Plan, 1994). Significantly, as an immediate and direct response to the perceived negative effects of liberalization, ACEF was set in place together with the Tariffication Act. The purpose of ACEF is to provide assistance to projects and other forms of support to promote and enhance the productivity and competitiveness of domestic industries (*e.g.* hog and chicken) under a liberalized trade era.

In December 1997, the enactment of AFMA was timely in that it provided a comprehensive framework for agriculture and fisheries development, improvement of farm incomes, and global competitiveness. Although ACEF also serves this purpose, AFMA provided the country's 'blueprint' for the sector's modernization and rural development (Annex Boxes 1 and 2).

In all, the government's policies were relevant to achieving a market-driven and export-focused development by way of modernizing the agricultural sector, finding market 'niches' in specific industries, and consolidating groups (*i.e.* cooperatives, farmers' organizations/associations, corporations, and nucleus farms). While assistance to small farmers (micro-firms) remains a priority to reduce poverty and increase incomes, agribusiness development (or agro-industrialization) in the country plays a major role in attaining the sector's productivity and competitiveness.

In line with increasing productivity and competitiveness of the agriculture sector, the Medium Term Philippine Development Plan (MTPDP) of successive governments continuously focused on revitalizing and modernizing agricultural sector in the overall pursuit of a vigorous and broad-based economic growth and development (MTPDP from 1993 to 2010). The

[19] Products in the inclusion list are for immediate transfer to the CEPT Scheme. Tariff rate for these products will be 0-5 percent by 2003.

government had emphasized the promotion of agribusiness to increase farm incomes, create rural employment, lower rural poverty, and provide stable supply of affordable and cheaper 'wage goods'[20]. The MTPDPs[21] focused to improve and substantially expand the existing agri-based production systems as well as promote value-adding activities through innovative packaging and agri-processing technologies, among others. The commitment of the government to make food available at competitive prices involves raising the efficiency in which the country will produce and distribute agricultural products, particularly, wage goods.

The major strategies to meet these commitments include providing: (i) production support services to enhance productivity that will address the constraints to high yields and low production costs; (ii) logistical support to raise distribution efficiency for post-production handling, marketing, and distribution problems to address high agricultural input and food retail costs; and (iii) a policy environment for the efficient production and distribution of commodities. Other government policies prioritize assistance to small producers and enterprises in terms of providing access to credit required for raising capital and competing in a globalized market.

2.3 Political Dynamics and Agribusiness in the Philippines

The political economy of value chain discussed in Chapter 1 presented a framework to analyze the different processes involved in a commodity chain and how each of the actors in the chain interacts with each other. The main focus is to understand the power relations of the different stakeholders within the chain including the political environment. In the Philippine hog and chicken value chains, there are several actors involved in the two industries such as the producers, integrators and feed millers, consumers, farmers' groups, and the government.[22] Certain groups of people also influence the decisions and policies of the government which are supposed to work for a better market and economic environment appropriate for a globalized trading era.

The major actors are the producers consisting of the medium and large-scale producers and the small backyard growers.[23] The interest of these groups is to warrantee a stable source of adequate income by making their enterprises profitable. The producers would like to have a ready access to stable and cheap inputs, breeding stocks, feed, capital, and labor. These actors aspire for steady and growing demand for their products.

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[20] Include rice, sugar, vegetables, poultry, pork and fish, and other important non-wage goods like corn (MTPDP, 2004)

[21] The discussion on the MTPDP strategies draws largely from the MTPDP 2004-2010. Although agribusiness development was only explicitly included as a chapter here, previous MTPDPs were all geared towards promotion of agribusiness.

[22] The discussion on the different actors is drawn largely in Habito (2002: 14-15).

[23] Because of the diversity of the poultry production systems, it is conceivable that some 'small commercial' chickens are actually raised in backyards.

The large commercial integrators and the independent feed millers compose another set of major actors in the two industries. Their main concern is to make their own enterprises profitable by guaranteeing enough demand for their products and stable and adequate supplies of cheapest raw materials.

The consumers or the public in general are the largest group of stakeholders whose main concern is to avail of quality hogs and chicken products (mainly meat) at low and reasonable prices. Non-governmental organizations, people's organizations, farmers' groups, and labor unions are also important stakeholders in that they advocate the interests of their sector and of the society.

The government plays a significant role in providing for local livelihoods and facilitating income generating activities for the public welfare. Public officers and employees including elective officials may at times be motivated by self interest and their actions may not necessarily coincide with national development goals.

Relevant literature provide some evidence of how policies and politics in the Philippines are influenced by economic elites whose roots date back even before 1960s (Abinales and Amoroso, 2005; Balisacan and Hill, 2003; De Dios, 2007; Krinks, 2002). Simbulan (1966) found that the growth path of the Philippines is in some way controlled by the "economic and political behaviour of the most powerful [and influential] families who have been accumulating capital for several generations" (cited in Krinks, 2002: 3). Some political and business elites use their established ties to people of what Bratton (2007: 97) and Krinks (2002: 5) called the 'patron-client' relationship or 'clientism' (De Dios, 2007: 167-71) to gain favor or rent from government officials.

Moreover, De Dios (2007) mentioned that 'political dynasties' or members of the same clan seek to occupy many political positions as possible to maintain power as long as possible. Political dynasties started as local economic elites who run for office in local governments and subsequently become well-known political leaders of the country. Such political clans, along with economic elites, constitute a small but powerful minority who use government office as a source of rent (De Witt, 2008) thereby occupying a substantial clout even in business. Borras (2005: 112-115), for example, showed how landed families have heavily influenced the stagnation of pro-reform agenda in redistributing agricultural lands under the government's agrarian reform program.[24] Further, pertinent positions in the Philippine Department of

[24] Borras (2005) presented three cases of voluntary land transfer schemes where these powerful businessmen used in their own advantage. An example is the sale of the Floirendo clan's plantation through an integrated leaseback contract arrangement with farmer-beneficiary groups. "The worker-beneficiaries would lease the land back to the Floirendo family for 30 years, renewable for another 30 years at the sole option of the Floirendo's……The Floirendo family would have the sole right to buy back the land of any beneficiaries who gave up their land or were later disqualified as beneficiary……The 60-year lease contract is virtually a lifetime; before the sixtieth year, most beneficiaries would have died without ever owning the land they were supposed to have gotten from land reform." (*ibid*: 114).

Agriculture (DA) and Philippine Congress have been occupied by the so-called influential political-economic elites. Notably, the former cronies of the Marcos dictatorship remain in control of big agricultural companies.[25] Several other large agribusiness companies[26] are also owned either by influential business-families or by businessmen-politicians. These large agribusiness enterprises are the key players in chicken and hog industries, including the feed industries in the Philippines (Gonzales, 2004; Krinks, 2002: 111). In this scenario, there appears a seeming weakness on the part of the State to be subject of historical domination of 'state capture' by sectoral interests (Abinales and Amoroso, 2005: 2).

With the influence by large agribusiness groups and the history and dynamics of the Philippine politics (Abinales and Amoroso, 2005; Balisacan and Hill, 2003; De Dios, 2007; Krinks, 2002), economic elites are presumed to have swayed domestic policies in their favor. In a democracy, politicians are often overwhelmed by different interests and powerful lobbies thereby making it difficult for them to strike a balance between competing interests, not to mention, their own. Bello *et al*. (2004: 244) argued that a political system influenced by corruption tends to be biased against the interests of national development and the common good.

The trend toward trade liberalization mostly occurring in the mid-90s has brought a lot of apprehension among the different sectors of Philippine society. For the producers, micro-firms and cause-oriented groups, the move was premature as there was much to lose in trade liberalization. On the other hand, the government and more progressive sectors (*e.g.* large agribusiness groups, multinational companies) believed that there exist many opportunities in the global market.

Large agribusiness groups saw this opportunity to gain access to cheaper inputs or raw materials. Domestic and foreign capitalists sought openings for expansion in their businesses. Transnational corporations expected to participate in most stages of the supply chain. These opportunities also attracted domestic capitalists who were partly drawn by the government's incentives (Krinks, 2002; Balisacan and Hill, 2003; De Dios, 2007).

Likewise, the opening of trade and removal of restrictions allow the importation of cheaper commodities to ensure the availability of possible shortfall in domestic supply. Ideally, this will benefit the greater consuming public since enhanced competition and market access to imported products mean affordable and stable supply of goods. However, increased foreign and domestic competition due to an open market requires the local producers and enterprises to increase their productivity and profitability in order to compete.

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[25] Such as San Miguel Corporation and L.T. Group.

[26] Such as: Monterey Farms, Purefoods and B-Meg Feed (owned by San Miguel Corporation); Foremost Farms (owned by L.T. Group); Robina Farms and Universal Robina Corporation (owned by JG Summit Holdings Corporation); Swift Foods Inc.; Vitarich Corporation; Tyson Agro-Ventures; General Milling Corporation; and Agribands Philippines, Inc. (owned by Cargill Philippines).

This could mean greater opportunity for large agribusinesses to expand their operations and adopt different strategies at the expense of small players of the industries.

As such, the broiler industry is dominated by big player-integrators.[27] Around 65 percent of the total dressed broiler, cut-up chicken meat, and processing of value-added products are supplied by this few big integrators (USDA FAS, 2006: 9). The remaining 35 percent are supplied by backyard raisers and other commercial growers. The large integrators have their own stock farms, hatcheries, feedmills, contract-growers, dressing plants, and processing plants. The small-scale, non-integrated enterprises that produce chicken independently source their inputs from integrators, input retailers, and wholesalers. Since 2000, the share of supermarkets in shopping malls and fast food chains in the total chicken meat market has substantially increased (Costales, 2006: 30). These markets are the ones being served by large agribusinesses.

In the hog industry, some large-scale commercial enterprises utilize vertical integration from breeding and contract production to slaughter and processing of branded meat products. Most of these types of firms are subsidiaries of large integrators and have different markets than the medium-sized commercial farms. Backyard production systems are now highly integrated into the commercial feed market (Delgado & Narrod, 2002; Tauli-Corpuz *et al*., 2006: 43). Large hog producers have expanded their production farms, established their own meat processing plants, and increased their investments.[28] They have developed greater market access to increasing demand for pork in supermarkets, institutional buyers, fast food chains and restaurants, and meat shops (Costales, 2006: 41; USDA FAS, 2004: 14).

Globalization in general has brought better opportunities for large agribusiness groups, locally or abroad. Domestic policies have pushed for modernization and rural industrialization which promote agribusiness development. Various policies and strategies have influenced by the political-economic elites. Local producers and enterprises face the challenge of global competition by increasing productivity and profitability in order to survive. However, the large-commercial producers and agribusiness enterprises dominate or control the input supply, production, sophisticated processing and packaging systems in the Philippine hog and chicken industries. Most, if not all, of these businesses are owned or controlled by political-economic elites.

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[27] Examples include San Miguel Foods, Pure Foods, Tysons Agro-ventures, Vitarich Corporation, and Swift Foods, Inc.

[28] For instance, Monterey Farms, the biggest producer in the Philippines, and Robina Farms, the agribusiness subsidiary of JG Summit Holdings Corporation, have expanded and concentrated their production in Luzon (Guevara, 2007: 3). San Miguel Corporation (SMC) has also allotted PhP 4.89 billion (US$100 million) for the expansion of the Monterey Hog Farm and PhP 840 million (US$16.8 million) for the B-Meg Animal Feed Program (USDA FAS, 2009b: 6).

Chapter 3
Big Brother-Small Brother? Understanding the Changes in Hog and Chicken Industries

This chapter discusses the changes occurring in the hog and chicken industries after liberalizing trade. Discussion is focused on trying to understand why there have been significant proliferations of medium-large scale commercial farms and how different factors and government policies contributed to these phenomena. In particular, factors such as trade liberalization (globalization), agricultural market reforms, agribusiness development, and government policies and interventions are investigated in an attempt to explain the changes affecting the two industries.

3.1 Changing Characteristics of Hog and Chicken Industries

The livestock and poultry subsectors, alongside crops and fisheries, are among the four major sub-sectors comprising the agriculture industry. The two sub-sectors contribute about 21 percent to the total agricultural GVA (Annex Figure 1). The hog and chicken industries constitute about 75 percent of the total livestock and poultry production during the period 1998-2008 (Annex Table 4). Further, the hog and chicken outputs consistently rank among the top 4 commodities in terms of contribution to the total value of production in agriculture (Annex Table 5).

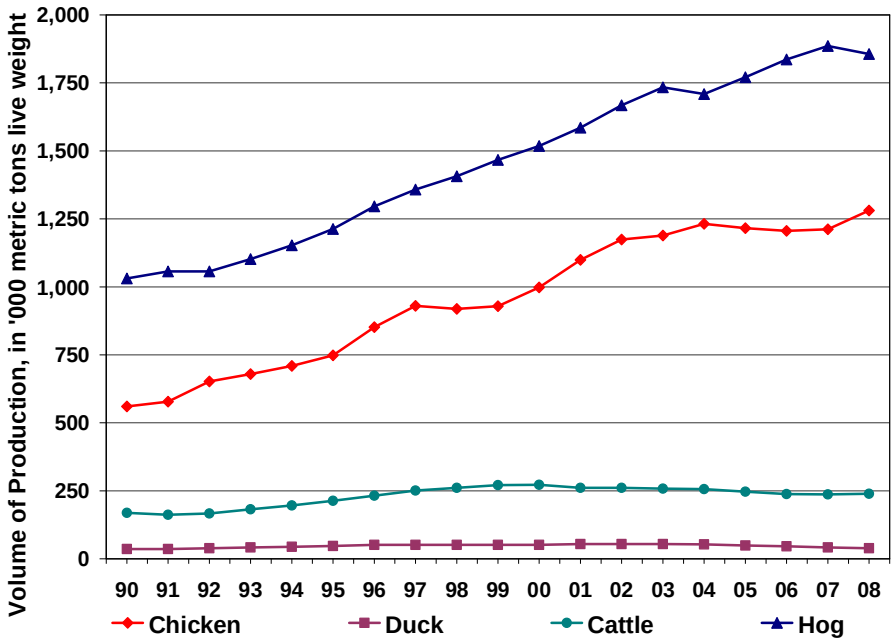
Consumption of pork and poultry meat has grown significantly in the East Asian countries with Malaysia and Philippines having the leading countries in per capita consumption of chicken and pork (Habito 2002: 3). A forecast by the International Food Policy Research Institute indicated that demand for meat production in the developing countries will continuously increase due to increased consumption (Delgado *et al*., 1999).

In the Philippines, high population growth of 2.04 percent per year (NSCB, 2007) and the rapid urbanization in and around the capital region (Costales, *et al*., 2007: x) have dramatically increased the demand for meat. Since the 1990s, per capita consumption of pork and chicken meat (Annex Figure 2) has been rising similar to the trend in the neighbouring countries (Delgado *et al*., 1999:9-10). Developments in the food service industry, particularly in the institutional markets for meat (e.g. fast-food chains, hotel and restaurant, and supermarkets, especially in malls)[29] also represent a larger demand for high-value meat products and food safe meat in major urban areas (Delgado and Narrod, 2002; Digal, 2001: 1). There was also an increasing customers' preference for meat cuts in wet markets, supermarkets, and institutional buyers as the share of dressed chicken and meat cuts increased from 15 percent in the 1990s to around 35 percent in 2005 (Costales, 2006: 23).

[29] Digal's (2001) study indicated that supermarkets dominate the retail food industry.

With the increasing demand for meat production, the hog and chicken output has exhibited an increasing trend since the 1990s as compared with other livestock and poultry industry (Figure 1). However, the increasing production is becoming more commercialized for both hog and chicken industries. Although the hog commercial farms'[30] share was only 29 percent in 2009 inventory, there is an increasing trend of large scale hog production during 1990-2009 as shown in Figure 2. Unlike the hog industry, the commercial chicken industry (broiler and layer) has higher share of production and even increased to more than 50 percent in 2008 and 2009 beginning inventory (Figure 3). The degree of commercialization for the chicken industry was higher considering greater demand of chicken, especially in fast-food chains and supermarkets (Costales, 2006: 23).

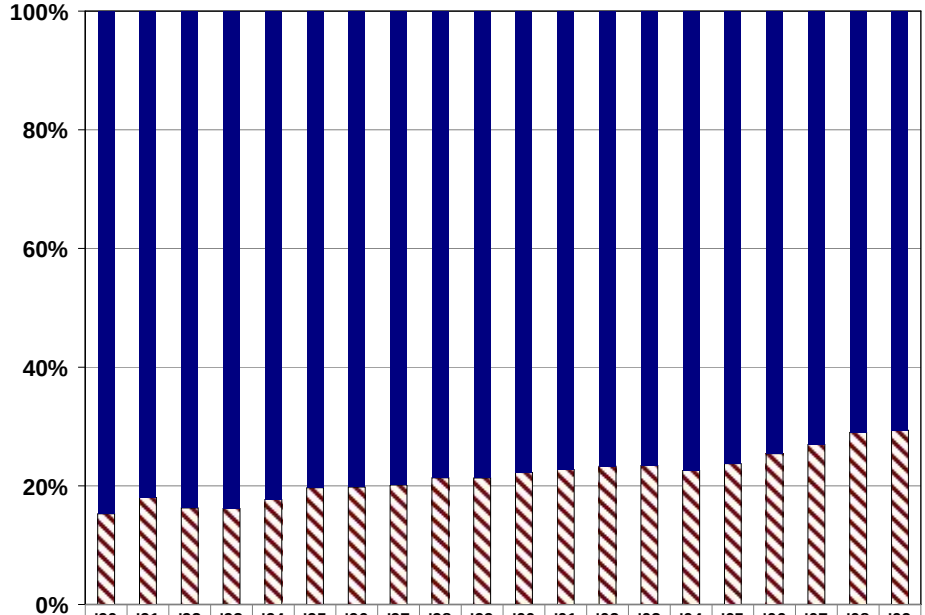
Figure 1
Selected Livestock and Poultry Production, Philippines (1990-2008)



Source: Author's own construction based from Bureau of Agricultural Statistics' CountrySTAT

[30] According to BAS definition, commercial farm refers to any farm which satisfies at least one of the following conditions: 1. For livestock - (a) at least 21 head of adults and zero young (b) at least 41 head of young animals (c) at least 10 head of adults and 22 head of young; and 2. For poultry: a) 500 layers or 1,000 broilers b) 100 layers and 100 broilers if raised in combination c) 100 head of duck regardless of age.

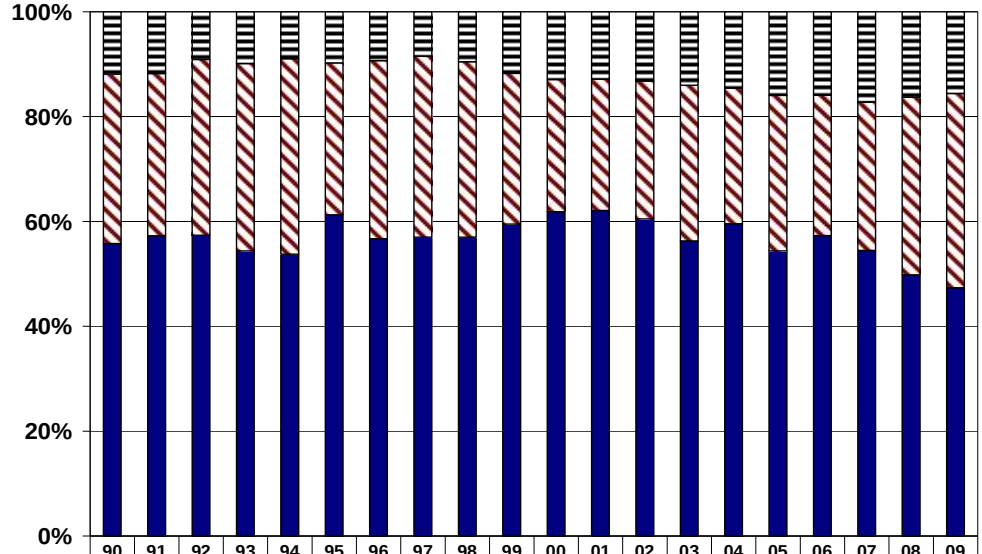
Figure 2
Distribution of Hog Population by Type of Farm per Year, Philippines, in million head (beginning inventory, 1 January 1990-2009)



	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
Backyard	6,77	6,62	6,71	6,66	6,76	7,18	7,23	7,78	8,03	8,17	8,32	8,54	8,93	9,46	9,72	9,25	9,72	9,82	9,72	9,60
Commercial	1,22	1,45	1,30	1,29	1,46	1,76	1,78	1,96	2,18	2,21	2,38	2,52	2,71	2,90	2,84	2,88	3,31	3,63	3,97	3,99

Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Figure 3
Distribution of Chicken Population by Type per Year, Philippines, in million head (beginning inventory, 1 January 1990-2009)



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09
Layer	9,81	9,33	7,40	8,60	8,34	9,36	10,7	11,4	13,1	13,3	14,9	14,8	16,7	18,0	17,7	21,6	21,3	23,3	25,1	25,1
Broiler	26,5	24,5	27,3	31,1	34,7	27,8	39,3	46,5	46,3	32,7	29,0	28,9	33,3	38,1	31,5	40,3	35,9	38,4	52,2	59,9
Native	45,9	45,3	46,7	47,3	50,0	58,9	65,6	76,9	78,9	67,7	71,2	71,7	76,7	72,3	72,6	73,9	76,9	73,8	76,8	76,5

Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

3.2 Increasing Competition but Decreasing Competitiveness: *How to Survive? Who Will Survive?*

Increase in welfare gains is one of the expected benefits of trade liberalization. Narayanan and Gulati (2002: 9) argued that price increases translate to increased incomes for producers. Increased market access and opportunities do not however automatically result in beneficial effects. Asfaha (2005: 3) stressed that welfare effects would oftentimes also depend on the ability to enter into and effectively compete in such markets determined largely by production capacities and competitiveness.

Notably, the livestock and poultry industries have been the most affected subsectors in agriculture under the WTO regime (Lim, 1996: 36-37). Although there had been an increasing trend of hog and chicken production (Figure 1), the livestock and poultry sub-sectors' average growth during the last eight years had declined to 2.45 percent (Table 2) from a steady growth during 1970s to 2000. With a production growth rate way below the usual level of poultry and livestock production and the continuously increasing demand for meat (mainly chicken and pork), it is expected that there will be influx of meat imports especially with a decreasing tariff (Annex Tables 2 and 3).

Table 2
Average Growth Rate in Agriculture, Fishery and Forestry, in % (1970-2008)

ITEM	1970-1980	1980-1990	1990-2000	2000-2008
TOTAL	4.06	1.18	1.87	3.81
Agriculture & Fishery	5.89	2.10	2.27	3.83
Crops	6.26	0.64	1.76	3.25
Livestock & Poultry	3.63	6.02	4.57	2.45
Fishery	4.12	3.92	1.89	6.59
Forestry	-2.15	-7.78	-12.47	3.46

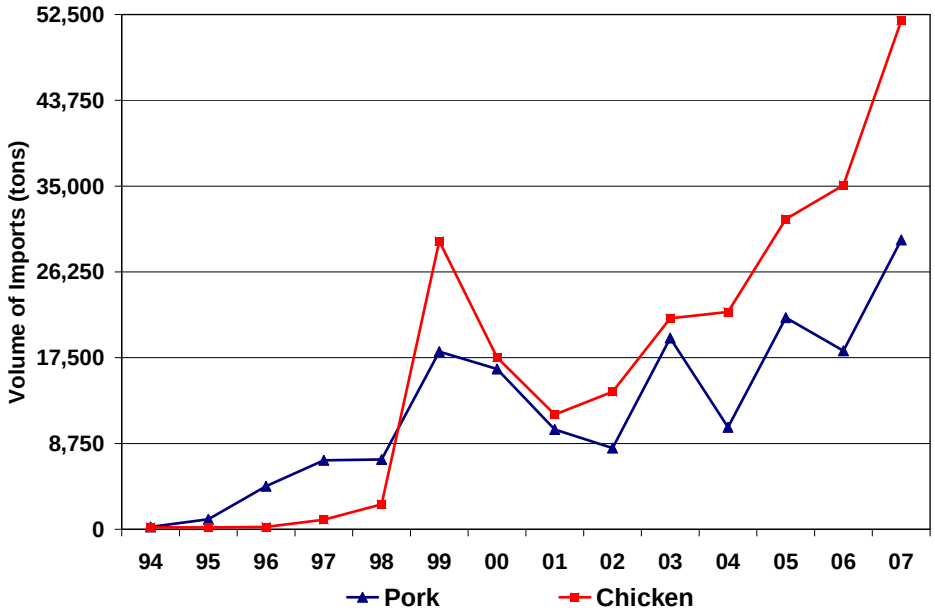
Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

The post-QR period resulted in a considerably high volume of imports (Figure 4). Pork importation went up by more than 300 percent after the lifting of import restrictions in 1996 (Annex Table 6). Since then, volume of pork imports never went down the 1996 level which was relatively high compared to the previous years of import QRs. However, there were decreases in imports particularly in 2002 where the import level almost declined to the Asian financial crisis level of more than 7,000 tonnes. In terms of value, pork imports increased from the 1994 level of US$ 269,000 to US$ 38.8 million in 2007.

For chicken importation during the 1990s, total imports had varied range-- from the 1994 level of 207 tons to a record high 29,387 tons in 1999 (Annex Table 6). Value of importation jumped from US$572,000 in 1993 to US$23.2 million in 1999 when import surges of cheap chicken legs from the USA entered the domestic market (Delgado and Narrod, 2002). Although imports fell down after 1999, the decline was still way above the 1995/1996 level (Figure 4). In fact, imports of chicken meat in 2005 surpassed the 1999 record-level with a total volume of 31,635 tons (Annex Table 6). During this period, the out-quota tariff on chicken had been reduced to 40 percent which made the imported US

leg quarters even cheaper. By 2007, imports reached 51,871 tons which was 75% more than the 1999 level.

Figure 4
Pork and Chicken Import Volume, Philippines (1994-2007)



Source: Author's own construction based from Food and Agriculture Organization, FAOSTAT

With the opening of the market and reduction of tariff on imported pork and chicken meat, competition from abroad, as well as domestically, increases. As imports of pork and chicken meat have increased significantly, domestic producers, especially the small-scale raisers need to be competitive. However, in the studies conducted by Gonzales (1999) and STRIVE Foundation[31] (2001), the competitiveness of hog and broiler chicken have decreased.

Gonzales, in a study conducted in 1999, compared the competitiveness of agricultural commodities which include hog and chicken before (1994) and after (1999) the country's membership to the WTO (Table 3). The study used the resource cost ratio (RCR)[32] as the indicator of global competitiveness. For the livestock and poultry products, analyses were disaggregated by degree of commercialization (Gonzales, 2000).

Table 3 shows that hog producers were competitive with imports both before and after WTO membership. This means that cost of hog production will be cheaper compared to imports. However, the level of competitiveness

[31] Society Towards Reinforcing Inherent Viability for Enrichment (STRIVE) Foundation is a non-stock, non-profit organization doing research on national policies for the agriculture sector and the agribusiness industry.
[32] The Resource Cost Ratio (RCR) is the ratio between the value of the resource used in the production of a unit of a product and the net border value of that product evaluated at the shadow exchange rate.

decreased in 1999. Looking at the 1999 figure for the backyard (0.91) and commercial hog (0.46) farms, the efficiency of commercial hog production is almost twice that of the backyard farms. Notably, the efficiency of backyard farms declined to almost 80 percent from the 1994 level. Thus, the level of competitiveness of commercial hog farms is much higher than the backyard farms in the domestic market. In this scenario, the commercial farms would likely have the higher chance of survival as evidenced by their lower cost of production compared with backyard farms. On the other hand, if hog producers would invest in exporting their produce, the level of competitiveness would be higher in the case of commercial farms (1.03) than backyard farms (1.90). Only the commercial farms would have a slight chance of competing globally.

In the chicken broiler industry, competitiveness of backyard producers decreased after WTO membership while commercial producers minimally improved their competitiveness in domestic markets. At the 1999-RCR level of 0.98 for commercial chicken farms and 1.05 for backyard farms, commercial chicken farms have the slight advantage in surviving intense competition in the local market. Surprisingly, in an export trade scenario, the 1994-level of competitiveness of backyard farms is higher than the commercial farms. Nevertheless, both the commercial broiler and backyard farms have a 1999-RCR level of more than 2 which indicates that it is twice as costly to produce for export market.

Table 3
Competitiveness of Selected Agricultural Products, Philippines
(Pre- and Post-WTO)

Agricultural product	Technology	RCR			
		Before GATT-WTO (1994)		After GATT-WTO (1999)	
		Import scenario	Export scenario	Import scenario	Export scenario
Rice	High technology	0.48	0.94	0.75	1.52
	Medium Technology	0.81	1.53	0.83	1.69
	Low technology	1.19	2.3	0.91	1.96
Corn	High technology	0.31	1.65	0.29	1.52
	Low technology	0.39	1.92	0.56	2.87
Beef cattle	Backyard	0.53	1.09	0.54	0.99
	Commercial	0.52	1.13	0.51	0.95
Hogs	**Backyard**	**0.56**	**1.24**	**0.91**	**1.9**
	Commercial	**0.42**	**0.99**	**0.46**	**1.03**
Broilers	**Backyard**	**0.94**	**1.79**	**1.05**	**2.19**
	Commercial	**1.06**	**2.01**	**0.98**	**2.02**
Eggs	Backyard	0.83	2.4	1.14	3.55
	Commercial	0.73	2.12	1.2	3.81

Note: If RCR < 1, competitive; RCR = 1, neutral; RCR > 1, not competitive, evaluated at the official exchange rate of P25/US$ before GATT-WTO and P40/US$ after GATT-WTO; Data on livestock and poultry came from *The Global Competitiveness of the Livestock and Poultry Subsectors Before and After the GATT-WTO* (Gonzales, 1999).

Source: Gonzales (2000) also cited in FAO (2003)

As Gonzales (1999) generalized the hog and broiler competitiveness within a heterogeneous types of commercial farms, STRIVE Foundation in 2001 analyzed the competitiveness of hog and chicken broiler industries in terms of the type of commercial farms, i.e., small, medium, and large-scale. The study showed that the exports of pork and chicken by the Philippines were only competitive for medium to large scale operations. The reason for the competitiveness is the lower production costs of medium and large commercial farms and cost inefficiency of small commercial farms showing a great disadvantage for the small hog and broiler producers (STRIVE, 2001: 14-18).

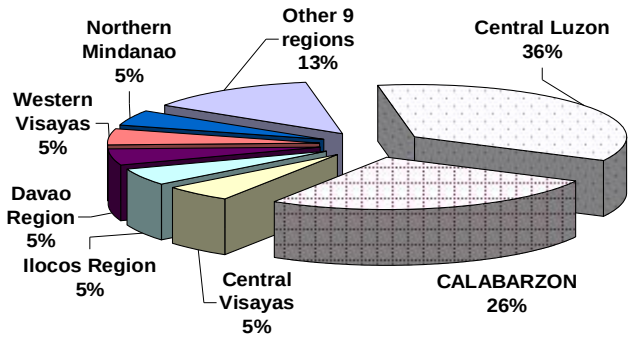
Likewise, another study by Gonzales *et al*. (2004) compared the level of cost competitiveness of the Philippines, Thailand, Malaysia and Indonesia. Based on the study, cost of hog and broiler production in the Philippines is the highest due to high cost of feed, marketing and processing specifically transport and handling, cold storage, shrinkage and other trading costs and margins, The study showed that the Philippines wholesale cost per kilo of pork at US$ 1.42 for small farms and US$ 1.09 for large farms is much higher than Thailand's cost of US$0.81 and US$ 0.77 per kilo for small and large farms, respectively. Likewise, the wholesale cost of broiler was around US$1.13 (integrator) to US$1.14 (non-integrator) compared to Thailand's US$0.56 (integrator) to US$0.59 (non-integrator) per kilo. This high cost structure has affected productivity and global competitiveness of the Philippine hog and chicken industries. The lack of capacity to compete in the international trade arena, even within the neighbouring countries, has pressed the domestic producers and integrators to focus their attention to the local market to compete with imports and the prospect of increasing profitability (Costales, 2006: 30).

According to Krugman's new trade theory, in order for the domestic producers to have the comparative advantage, they need to be more efficient to reduce cost. One way to do this is to expand their operations to realize economies of scale. This is probably one of the reasons why there is an increasing trend of commercialization and integration of the hog and chicken industries, especially after 1999. Most of these producers were pushed to reduce costs through economies of scale (horizontal) and vertical integration to provide the momentum for large scale operations as argued by Krugman (1981, 1983, 1989). Da Silva (2005), Tweeten and Flora (2001) and FAO (2006) explained that what is happening in general is that producers and agribusinesses are linked by greater vertical and horizontal coordination within the value chain that lowers cost through improved productivity, minimized market risk, and increased bargaining power. As mentioned in Chapter 2, some of the large-scale commercial hog enterprises utilized vertical integration across the supply chain to compete. These enterprises are subsidiaries of large integrators that dominate the market. Big hog producers have also expanded their production farms and increased their investments. Likewise, few big-player integrators dominated the broiler industry that supply dressed broiler, cut-up chicken meat, and processed value-added products. As shown in the 1999-2000 'broiler crises', Delgado and Narrod (2002) observed that these large integrators were minimally affected due to their vertically integrated operations that placed them in a more stable position in an environment of rapidly changing input and output prices. On the other hand, small producers are anticipated to suffer from the intense competition especially if the

prevailing cost structure is too high. With lesser competitiveness compared to large enterprises, the small producers are unlikely to survive. In such a scenario, the small and even medium scale enterprises are particularly placed at a disadvantageous position unless they are able to improve their production strategies.[33]

The STRIVE (2001) and Gonzales *et al*. (2004) studies showed that the cost competitiveness of producers was affected by distribution and handling cost. Transaction cost will definitely be lower if handling and distribution will be reduced and operations concentrated near the cities. For the chicken industry, the majority of the commercial broiler farms are located in the provinces near the capital, particularly those from CALABARZON[34] and Central Luzon (Figure 5).[35] An increasing trend of commercial hog farming is also expected nationwide due to the decreasing trend of backyard farm operations and increasing pattern of commercial hog operations in these two regions (Figure 6).

Figure 5
Regional Distribution of Broiler Chicken Population, Philippines
(01 January 2009 beginning inventory)



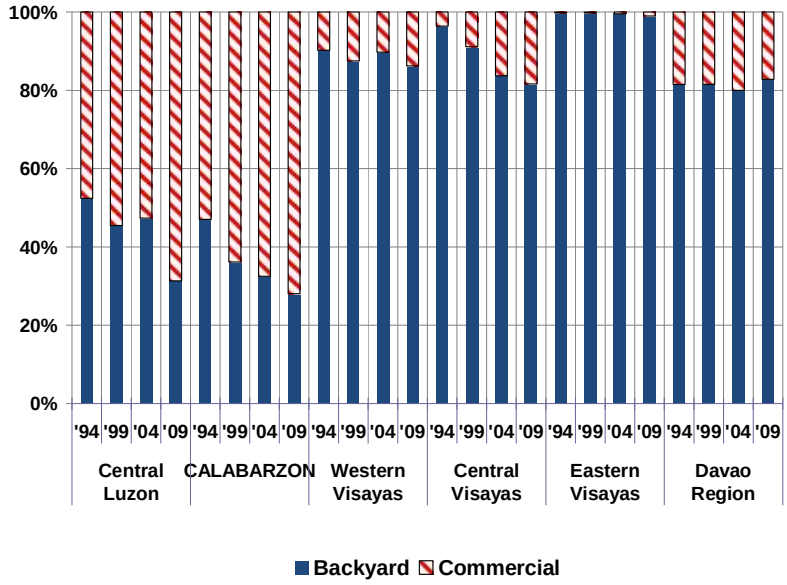
Source: Author's own construction based from Bureau of Agricultural Statistics data

The proliferation of commercial farms (especially in regions near the urban center) does not automatically mean that small players have expanded their operations. Rather, small producers in the Philippines are gradually being removed by big players. Aside from the high production cost of small producers, lack of distribution and handling capacity and inadequate

[33] Such seldom successful case is the Soro-Soro Ibaba Development Cooperative, Inc. based in Batangas City where predominantly smallholder hog growers united into a cooperative that achieved significant improvements in overall productivity (Habito, 2002: 21).
[34] CALABARZON refers to the following provinces located near the capital; Cavite, Laguna, Batangas, Rizal, and Quezon.
[35] The combined share of CALABARZON and Central Luzon to the total chicken population is about 36 percent in 2009 (Annex Figure 3). Regional hog population from CALABARZON and Central Luzon, dominate with more than 26 percent share of total hog population in 2009 (Annex Figure 4).

infrastructure contributes to the lower prices they receive for their produce. The small producers' bargaining power is weakened relative to that of traders (including wholesalers and retailers) or large integrators who have the resources and better market information (Digal, 2001: 25). On the other side of the value chain, large local and multinational firms may exert their 'power' against retailers who source processed meat products from them.[36]

Figure 6
Distribution of Hog Population, Top 6 Producing Regions, per Type of Farm, Philippines (beginning inventory, 01 January: 1994, 1999, 2004, 2009)



Source: Author's own construction based from Bureau of Agricultural Statistics data

As only a handful of firms dominate the both end of the hog and chicken value chains, there is tendency to drive down commodity prices into low levels that do no benefit the primary producers. This happens considering that few large corporations are also linked to processors and retailer or have their own processing and retailing businesses themselves. Hog and chicken producers compete with a large number of small players. Even if they are linked-up to the integrators, large agribusinesses could still control the price as they source out production to other producers. This explains why the two industries are dominated by backyard producers (particularly hog), albeit increasing commercialization. With these large integrators dominating the industries (*e.g.* input, distribution), producers are exploited while the main profits are earned by such large agribusinesses. Likewise, small-medium enterprises (*e.g.* meat processing, retailing) also face intense pressure to bring down price of their products if these large corporations will cut down prices. Given the above

[36] Digal (2001: 26) explained that meat products are dominated by brands of large corporations (e.g., San Miguel Corporation) which have their own retail outlets for processed and unprocessed meat products.

arguments, only producers and enterprises that cut down the price to a profitable level will survive.

Market ability between large and small farms and agribusiness enterprises arises from differences in access to assets (*e.g.* financial, social networks), company size, and dependence or position of small farms to large farms and agribusiness enterprises. As these large players dominate both the hog and chicken production and control the entire value chain (from input provision, processing, to market distribution in supermarkets), small players definitely have a hard time to enter (or survive) the value chain and to compete (especially in the long-run) with other players without the proper networks and support from the government.

3.3 Solace and Fortitude for Whom?

Kanji and Barrientos (2002:16) argued that small producers and enterprises are not well-placed to react to either new threats or new opportunities. Limitations in natural as well as financial and human capital, technology, and market information make it difficult for them to meet the challenges of liberalized trade. Inadequate infrastructure, high cost of transportation, lack of access to financial services, and high and variable input costs hinder agricultural enterprises to compete and improve their livelihoods (Bird, 2004: 61-62; World Development Report, 2008: 143). These factors push marketing costs and eventually damage domestic markets and exports like in the case of the Philippine agriculture sector (Llanto, 2004:1). Hence, good governance in the form of excellent public policy is instrumental for the working of efficient markets (World Development Report, 2008: 118).

To overcome this effect, Dorward (1998: 165) argued that government's provision of market information and development of transportation and market infrastructure have a tendency to minimize transaction costs in the market. The government should facilitate a market environment that attracts investors, producers, and other value chain players. Likewise, Tilburg *et al*. (2000: 8) claimed that investment in infrastructure (e.g. communication and market infrastructure) and transport shows affirmative effects on agricultural productivity and commodity markets (cited from Antle, J., 1983 and Binswanger and Kandler, 1993). The government should also provide producers and other industry players with access to financial resources to establish efficient production systems and operations that would create quality, affordable, and competitive products.

In the Philippines, the government has pursued policy and program interventions to promote competition but at the same time protect domestic producers and enterprises, especially the small ones in the context of trade liberalization. Policy responses and interventions have thus far focused on reducing the 'cost of doing business' resulting from market failures (*e.g.* market information and credit) and externalities due to high transaction costs and missing markets (Krugman 1981 and 1983; North 1995; Dorward 1998; Dedehouanou and Van Ufford 2000; and Tilburg *et al*., 2000). Apparently, increased competition from imports further intensifies the differences between and among producers who could and could not compete. Thus, the government also focuses on assisting small farmers and enterprises.

Since the implementation of the GATT-UR action plan in 1995, establishment of ACEF in 1996, and the enactment of AFMA in 1997, the government policies have been geared towards enhancing the sector's productivity and competitiveness in the context of open trade. Subsequent plans and programs of the DA and other government agencies working in the rural development sector have focused on enhancing productivity and competitiveness of the rural sector in order to enhance profits and incomes. As mentioned in Chapter 2, government policies emphasized the need to modernize, specialize into a 'niche' market, and strengthen consolidation and linkages, among others. There is effort to provide intervention in increasing productivity and improving market efficiency through public investments in transport and market information. Financial assistance to small producers and industries is also provided in an effort to increase capital necessary to create good quality, value-added, and competitively priced products. Agribusiness activities are promoted in different programs and projects of the government through enhanced linkages throughout the value chains.

However, previous efforts by the government in providing for the needed investments to reduce transaction cost and diminish market failures have come short of its expectations. Budgetary support for the adjustment measures for GATT-UR action plan was not met due to financial constraints and implementation bottlenecks (Habito and Briones, 2005: 8-10).[37] For AFMA, the law committed some Php120 billion (€1.85 billion) of government funds for a period of seven years following the law's effectivity to pump prime programs and projects in the sector. Since 1999, however, the government was unable to pour in the required levels of budgetary support despite the strict and specific provisions of the law (Pascual and Glipo, 2002: 5).[38] The additional fund of PhP20 billion in the first year (1999) and PhP17 billon a year in the next six years (2000-2005), and in the next 10 years (2006-2015) of its extension, was realized only in 2008 (Table 4). As the programmed additional resources were not granted, many stakeholders believed that AFMA has not achieved its goals (Dy *et al*., 2007). Aside from the low level of government investment in agriculture compared to the sector's actual requirements, there had been low utilization of the funds allocated for the purpose.

As mandated by Section 109 of AFMA, the government provides incentives by allowing agriculture and fisheries enterprises to import certain farm inputs duty-free (Annex Box 2: vi)[39] Implementation reports, however,

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[37] For the period 1995-1998, the proposed budgetary allocation for the DA was estimated at PhP 73 billion (€1.12 billion) to finance irrigation facilities, farm-to-market roads, and postharvest facilities, among others (Pascual and Glipo, 2002: 5).
[38] For example, the proposed budget of PhP 37 billion under AFMA in 1999 was cut down to PhP 11.6 billion.
[39] Executive Order No. 376 "Modifying the Rates of Import Duty on Certain Imported Articles under Section 104 of the Tariff and Customs Code of 1978 as Amended, In Order To Implement Section 1 of Republic Act 9281, Reinstating the Effectivity of Tax Incentives under Section 109 of RA 8435, Otherwise Known as AFMA of 1997." (http://www.tariffcommission.gov.ph/eo_376.htm).

found that most of those who availed of this incentive where the same large agribusiness firms who control the supply chain in the two industries (Annex Table 7). Seven (61 percent share) of the top 10 importers (78 percent share) were directly involved in hog and chicken production and feed milling. Four of these agribusiness firms are the largest integrators in the hog and chicken industries, dominating not only commercial production but also commercial feed milling businesses (Annex Table 8). About 75 percent of the importation of duty-free agricultural inputs consists of soya bean meal and feed supplement (Annex Table 9). An estimated 42 percent of 344 firms were located in the CALABARZON provinces and Central Luzon (Annex Table 10 and Figure 7). There appears an intensive commercialization of the hog and chicken industries in these two regions which is mainly driven by few large integrators, supporting the argument raised in section 3.2.

Table 4
General Appropriations and Allotment for
Agriculture and Fisheries Modernization Act, in Thousand Pesos (1999-2008)

Year	Funding per AFMA	GAA	Allotment	Variance	
				GAA	Allotment
1999	20,000,000	11,612,233	*	-41.94	*
2000	17,000,000	16,635,428	11,703,582	-2.14	-31.16
2001	17,000,000	11,449,739	11,397,839	-32.65	-32.95
2002	17,000,000	14,440,018	11,081,291	-15.06	-34.82
2003	17,000,000	12,289,019	9,848,276	-27.71	-42.07
2004	17,000,000	9,473,209	8,497,231	-44.28	-50.02
2005	17,000,000	10,261,068	9,603,315	-39.64	-43.51
2006	17,000,000	11,173,079	10,973,079	-34.28	-35.45
2007	17,000,000	14,428,144	19,543,874	-15.13	14.96
2008	17,000,000	22,003,904	-	29.43	-

[*] Separate financial monitoring of funds for regular and AFMA only started in CY 2000.
[-] Data not available as of December 2008
GAA = General Appropriations Act

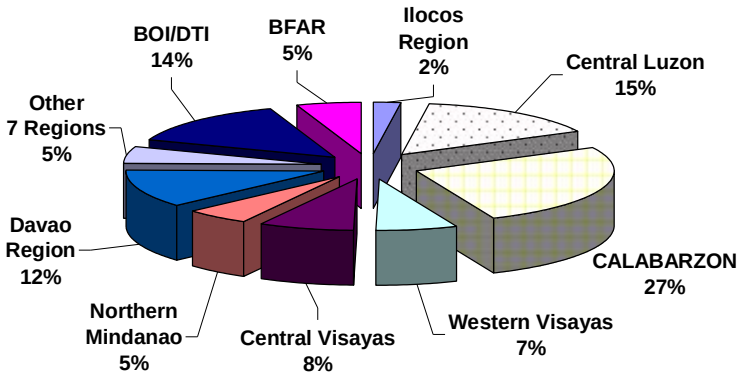
Source: Department of Agriculture

Most local producers have limited choices of buying their inputs through these large integrators and commercial feed companies (via retailer or distribution branch) or through home-mixed feed and feed ingredients from their own corn production or from other local corn producers.[40] However, they have to be contended with the price offered by commercial mixed-feed

[40] Classification of feeds can be feed ingredients or mixed feeds. The commercial mixed feeds contains several formulations depending on the specific use and application. Feed ingredients can be a range of commodities, but principally is corn. According to Gonzales et al. (2004: 41), corn 'comprises 50 percent of the volume and 70 percent of total production cost' of hog and broiler production.

companies or the price of domestic corn producers. David (1997: 20-21) observed that farmers' associations, large seed companies, and integrators exercise some sort of political influence in the corn subsector. Meanwhile, hog and chicken producers lobby for greater protection of output in terms of retaining existing tariffs. Given the nature and dynamics of Philippine political environment presented in Chapter 2, politicians tend to favor camps representing a great number of the voting population. As such, instead of providing a rational solution to intense lobbying, government policies have maintained the corn import tariff of 35 percent under MAV's in-quota (Annex Table 2) while giving import allocations to the more organized, outspoken, producers and agribusiness enterprises of the hog, chicken, and feed industries. Access to lower priced corn through the MAV mechanism provides an advantage to large, organized medium-scale, hog and chicken producers in terms of cost of production over the smaller producers.[41] Further, import-rights and allocations given to domestic hog and chicken producers were not often fully utilized (Annex Table 1) for protection of their local production (David *et al*., 2007: 14). Thus, both government policy on tax incentives and MAV's in-quota tariff are favouring larger and more organized producers, feed millers, meat processors, and integrators and do not include the small producers and enterprises.

Figure 7
Availment of Tariff Incentives
by Regional Distribution of Firms in the Philippines (1999 to 2005)



Source: Author's own construction based from Department of Agriculture data

[41] Large feedmillers are members of the Philippine Association of Feedmillers, Incorporated (PAFI) that also include big players in the hog and chicken production and distribution. Hog producers are likewise organized such as the National Federation of Hog Farmers, Incorporated (NFHFI) and the Philippine Association of Hog Raisers, Incorporated (PAHRI). For the broiler industries, big integrators are members of the Philippine Association of Broiler Integrators (PABI) while a number of small and medium-sized producers established the United Broiler Raisers Associations (UBRA). Large food companies are also affiliated with the Philippine Association of Meat Processors of the Philippines, Incorporated (PAMPI), that represent 90 percent of the country's total income from the meat processing sector.

In sum, the government's difficulty to raise resources for improving the market environment and the issue of whether the small producers and enterprises could cope up with increasing competition in the market are the major concerns. Insufficient public infrastructure investment makes the cost structure of the hog and chicken industries higher than in other countries. Large producer-integrators survive in the existing environment because of investments in storage, distribution, quality control, and in general economies of scale. To compete, small producers resort to such strategies as forging alliances or contract growing with large integrators in order to reduce cost of distribution and risk of missing markets and market failures. Small producers and enterprises in this kind of set-up are in a disadvantage position compared to the large agribusinesses which influence, if not control, the entire supply chain.

Friedmann (1991, 2004), Heffernan (2000), Gereffi (1994) and McMichael (1994) argued that the development of 'agro-food systems' give the large firms greater leverage to influence the quality, quantity, and price of product at the production stage and throughout the entire agro-food system. Using the value chain 'governance structure' as backdrop, Gereffi *et al*. (1994, 2005) explained that power asymmetry between buyers and suppliers are determined on the level of their coordination. This means that the more dependent or linked the small producers or enterprise to large integrators and agribusinesses, the greater the chance that they will be exploited.

The differences in terms of financial and social networks, not to mention political ties, have put the balance of power in favor of large agribusiness enterprises. Government policies of providing tariff or tax incentives (*e.g.*, through the MAV mechanisms) have proved not really accessible to small producers and enterprises. In all, few large agribusinesses have gained more than the small producers from the opportunity provided by the government in accessing tax-free inputs and import allocation for cheaper corn imports through the MAV mechanism. These issues raise serious implications on how the government shape the Philippine agricultural competitiveness, particularly, in the hog and chicken industries.

Chapter 4
Improving Competitiveness through ACEF

This chapter illustrates the issues raised in the preceding chapter in the case of the government's ACEF program. This chapter aims to discuss how this program, which is intended to help increase productivity of MSMSEs, is dominated and influenced by major actors. The objective is to draw some insights on how government shapes the nature and level of competitiveness of the hog and chicken industries.

Increasing competition due to open trade has forced the domestic players to adopt strategies that minimize the cost of production. Large producers and agribusiness enterprises have sought ways of increasing competitiveness, enhancing capacities (*i.e.* in terms of financial and social capital), and availing of the different government incentives available to them.

4.1 An Overview of ACEF Program

The Agricultural Tariffication Law (RA 8178) includes a provision creating the ACEF as a form of government intervention in lieu of trade liberalization. The ACEF is a special fund comprising the proceeds collected from the importation of agricultural products covered by the MAV (Annex Table 1). The collections under the MAV mechanism accrued to Special Account 183 of the General Fund (RA 9178, Section 8). Managed by the DA, ACEF is intended to plough back resources to the agricultural sector by providing financial assistance to projects aimed at enhancing competitiveness. The focus is on affected domestic industries that include the hog, chicken, and corn commodities.

ACEF seeks to raise producer and enterprise's productivity and cut costs by providing loans for income-generating and competitiveness enhancing projects, including those of MSMSEs. The Fund essentially supports the AFMA with the objective of modernizing and enhancing productivity and income in the agriculture and fisheries sector by providing for the necessary support services such as: 'irrigation; farm to market roads; post-harvest equipment and facilities; credit; research and development; extension services; and market infrastructure and information;' and agri-based production and post-production and processing activities (RA 8435, 1997; DA-AO 6, 1998; RA 9496, 2007; DA-AO 19, 2008).[42] Availment of ACEF loan enhances the capacity of stakeholders for exports as it is also the objective of the Fund to

[42] The original implementation guidelines on the utilization and disposition of the ACEF are provided for under the DA's Administrative Order (AO) No. 39 of 1999 as amended by AO No. 10 of 2000. The implementation guideline was revised and amended through the years; the latest was in 2008 with the provisions under DA-AO No.19 of 2008 as amended by AO No.14 in 2009.

assist those which have potential for export markets. Some of the significant features of the ACEF implementation guidelines are shown in Annex Box 3.

Further, beneficiaries of the program are classified into micro, small, and medium enterprise categories. These categories refers to any group or business activity that is engage in industry, agribusiness and/or services,[43] which total assets[44] fall within the following: (i) micro - not more than €46,153; (ii) small - €46,154 to €230,769; and (iii) medium - €230,770 to €15,384,615 (DA-AO No.19, 2008:4-5).[45]

4.2 Structure and Procedures[46]

The ACEF is governed by the project executive committee (ExeCom) which is tasked to allocate the funds, review, approve, and prioritize project proposals and feasibility studies recommended by the ACEF National Technical Committee (NTC) (Figure 8). The ExeCom recommends the project proposals and work and financial plans to the Department of Budget and Management for the release of funds. The DA Secretary and the Chairpersons of the Congressional Oversight Committee on Agriculture and Fisheries Modernization of the Philippine Congress act as the Chair and Co-Chairs of ExeCom, respectively. The other members of ExeCom include representatives from government financing institution (1), private sector representatives (2), the National Agriculture and Fishery Council, and small farmers, fisherfolk, industry, and agricultural councils (2).

On the lower end of the ACEF structure, the NTC and the Regional Technical Committee (RTC) are headed by a DA Undersecretary and Regional Executive Director of the concerned region, respectively. Both have private sector member representatives from the agriculture and fishery sectors. The NTC reviews project proposals which have been endorsed and prioritized by the RTC for projects that are regional in scope. The RTC is tasked to review, rank, and prioritizes proposals for endorsement to the ACEF NTC. Meanwhile, the National Technical Secretariat (NTS) assists the NTC in the initial screening, pre-appraisal, and final evaluation of endorsed projects by the RTC and conducts evaluation of pre-qualified national projects (or cross-cutting projects). The RTC is also assisted by a Regional Technical Secretariat (RTS) in the conduct of initial screening, pre-appraisal, and regional evaluation of submitted project documents. The regular monitoring of project implementation is conducted by the NTC assisted by the NTS.

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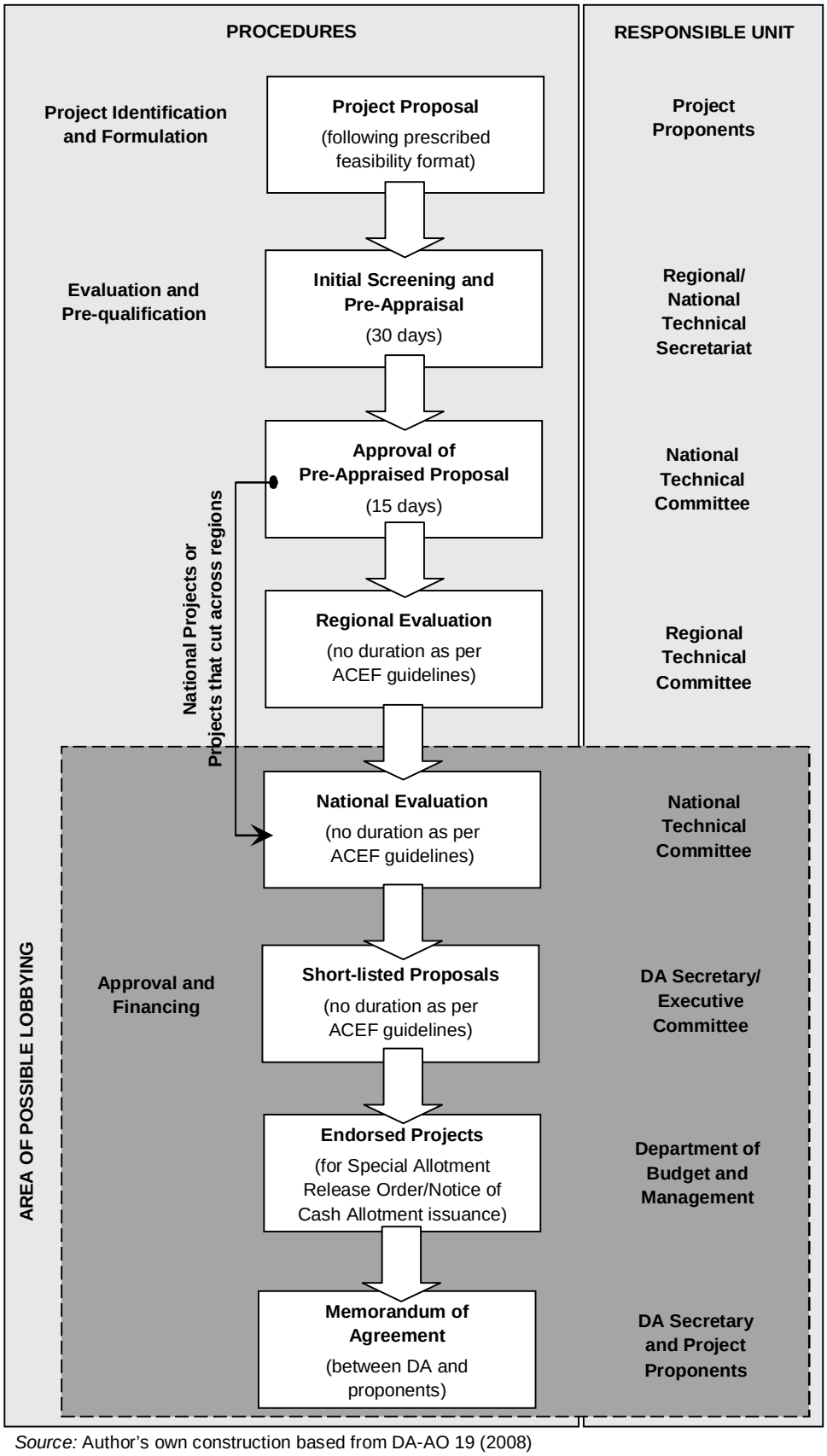
[43] Whether single proprietorship, cooperative or farmer group, partnership or corporation.

[44] 'Inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated' (DA-AO19, 2008).

[45] Computed based on exchange rate of €1 is to PhP 65.

[46] Based on ACEF Implementing Guidelines, Section II (DA-AO 19, 2008).

Figure 8
Application and Approval Process under ACEF Program and Areas of Possible Lobbying



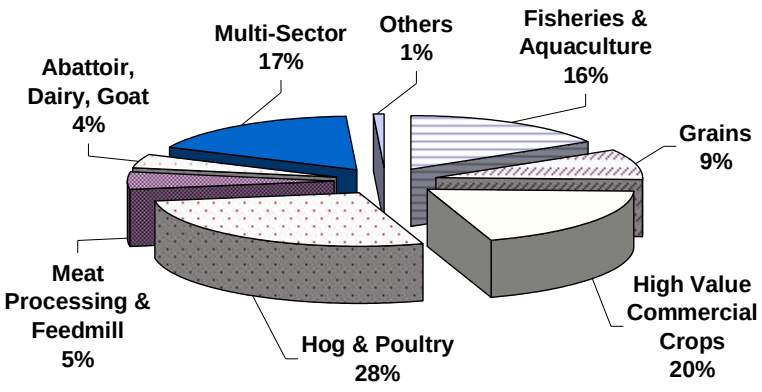
Source: Author's own construction based from DA-AO 19 (2008)

4.3 Helping the MSMSEs: *Who Are Excluded?*

The policies provided by the government have not really included the small farmers or enterprises, or at least those that have been raised from the previous chapter. Few large agribusinesses have gained from the opportunity provided by the government. This is not surprising considering the point raised in Chapter 2 about the nature of policy making and political environment in the Philippines. As such, access of farmer-groups or enterprises to ACEF is expected to favor the higher category of MSMSE (i.e. medium)[47] considering that most of them are also members of strong groups that include the large producers and integrators having control of the hog and chicken value chains. Further, the difference in their financial and social networks definitely favors access to ACEF compared to small players.

From 2000 to August 2009, ACEF has supported a total of 251 on-going and approved projects totalling about €136 million (Annex Table 11). Largest approved projects were on hog and poultry industries at 28 percent (excluding 5 percent for meat processing and feedmill), followed by the high-value crops at 20 percent (Figure 9). Data show that ACEF had no clear guidelines on how the Fund is apportioned by sector but indicate that projects in the two industries are expected to be profitable based on the feasibility studies submitted for review.[48]

Figure 9
Availment of ACEF Projects by Commodity (2000-2009)

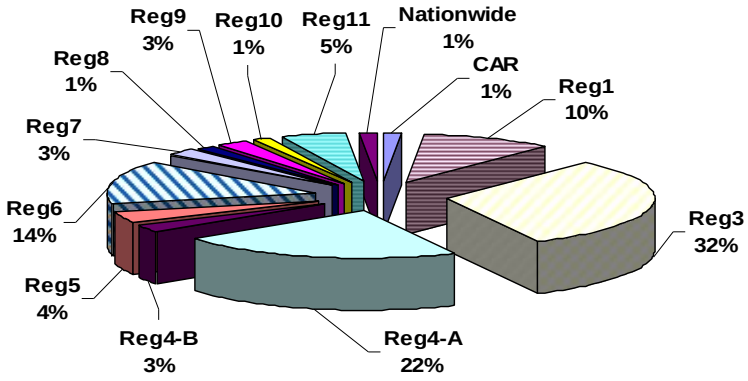


Source: Author's own construction based from ACEF Technical Secretariat data

[47] The medium enterprise category can be considered large since its maximum range of €15.4 million worth of total assets is relative large to the other categories.
[48] NTS interviews: 5 and 15 September 2009.

Also, the presence of strong groups of producers, processors, and integrators provides a strong lobby for the industries that were affected by trade liberalization.[49] The 54 percent share of CALBARZON and Central Luzon (Figure 10) in the approved livestock and poultry projects (mostly agri-based and post-production expansion) indicates that commercialization of the hog and chicken industries is concentrated in these two regions and that business development in general is focused on these areas (as also mentioned in Chapter 3).

Figure 10
Regional Distribution of Livestock and Poultry Approved Projects (2000-2009)

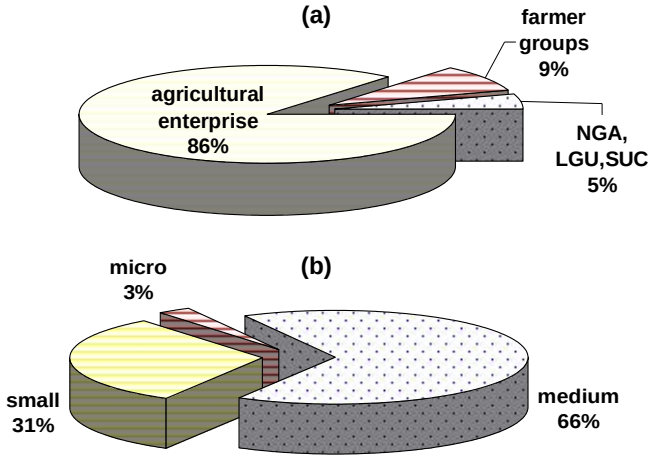


Source: Author's own construction based from ACEF Technical Secretariat data

Similar to the availment of the duty-free incentives and MAV mechanism, agribusiness enterprises comprise the biggest share of allocation among beneficiaries (about 70 percent) of ACEF. Majority of the enterprises are engaged in production as well as processing activities. Only about 20 percent of the approved projects were proposed by farmer and fisherfolk groups.[50] In the hog-chicken-feed subsectors including those in meat processing, majority of the beneficiaries are agribusiness enterprises while only 9 percent were from the farmer groups and cooperatives (Figure 11a). In terms of MSMSEs category, the micro and small enterprises represent only about 34 percent (Figure 11b). The bulk of the projects approved were proposed by medium-enterprises which through the years have shown greater advantages in accessing the Fund over the micro-small enterprises (ACEF Technical Secretariat, 2009).

[49] Such as PAFI, NFHFI, PAHRI, PABI, UBRA, and PAMPI.
[50] NTS interview: 16 September 2009.

Figure 11
Distribution of Livestock and Poultry Approved Projects, by Type of Proponent and MSMSE Category (2000-2009)



Source: Author's own construction based from ACEF Technical Secretariat data

What factors hinder the small and micro enterprises in accessing ACEF? The first is the unintentional outright exclusion of micro-enterprises and farmer groups. The approval of projects under ACEF is currently demand-driven wherein only interested parties submit project proposals to the technical secretariat for funding (Figure 8). Based on the guidelines, the review and approval process is cumbersome requiring several supporting documents. Interviews with the technical secretariat suggest that small-scale livestock and poultry farmer cooperatives and associations had little capacity to do sound feasibility studies or proposals less they engage or hire consultant/s.[51]

Moreover, small players had difficulty in providing the required counterpart or equity fund. In evaluating project proposals, the following are the common problems encountered by small farmer groups and micro-enterprises: lack of any proof of counterpart resources and good standing status in terms of tax and other obligations; inaccessible sources of other operating capital (*e.g.* other loans from banks); and difficulty in complying with required permits and/or certifications.[52] Unlike the micro- to small enterprises and farmer groups, the medium-scale enterprises have greater advantage because they have the resources to prepare a good feasibility study and the required equity. All the beneficiaries interviewed in this study admitted other sources of incomes such as savings from their employment abroad or from other businesses.[53] Proponents belonging from medium-scale enterprises

[51] NTS interviews: 5, 15, and 16 September, 2009; and RTS interviews: 18&25 August, 11&25 September, 2009.
[52] *ibid*.
[53] Beneficiary interviews: 17(3), 20, 24(3), 29(2) August 2009.

complied with the requirements as most of them were able to engage the services of consultants.[54]

Although the required counterpart or equity (Annex Box 3: iv) is based on MSMSE category[55], the considerable wide range of medium enterprise (up to €15.38 million) compared to that of micro and even small (up to €46,153 and €230,769, respectively) enterprise categories makes it more difficult for the small players (especially micro-enterprise) to compete for ACEF funding. Micro-enterprises and farmer groups may not also possess the needed resources to compete in ACEF allocation.

The long process of approval presents some problems for the small players. The process usually takes two to four years from the submission of the proposal to the regional offices. The long wait makes it difficult for the small players to update a cost-benefit analysis and provide a timely counterpart fund. The fund counterpart of proponents is measured as a percentage of the total project cost thereby increasing the costs if the total cost of the project would have to be increased in time. With these premise, it is not surprising that a large portion of the approved project proponents have already requested restructuring. Half of the beneficiaries interviewed have indicated that they were not able to amortize their loans on time. Some have asked for restructuring of the amortization of their loans.[56] Notably, the repayment rate is only 23 percent and that about 40 percent of the total approved projects had already requested loan deferment or restructuring (ACEF Technical Secretariat, 2009). Meanwhile, medium-enterprises have thus far demonstrated an ability to assume the added costs as part of their equity since they have the resources. In short, those who have 'other' source of financial resources would be able to absorb the necessary cost or price changes due to time lags in the evaluation process.[57]

Another constraint encountered for the micro-enterprises and farmer groups is getting a marketing contract or agreement. Prospective buyers are reluctant to enter into a marketing agreement or contract with the proponents (small farmers) especially if the proposal for loan financing has yet to be approved.[58] On the other hand, medium enterprises usually have marketing arrangement or contract, even before they avail of ACEF assistance. Some have contract growing or out-sourcing arrangements with large integrators and agribusinesses.[59]

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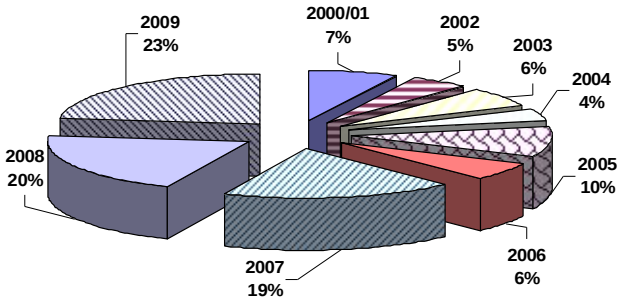
[54] NTS interviews: 5, 15, and 16 September, 2009; and RTS interviews: 18 and 25 August, 11 and 25 September, 2009.
[55] Equity is based on MSMSE category i.e. 20% for micro; 30% for small; and 40% for medium (DA-AO 19, 2008:8-9).
[56] Beneficiary interviews: 17, 24, and 29 August 2009.
[57] NTS interview: 5 September, 2009 and RTS interviews: 25 August and 25 September 2009.
[58] NTS interviews: 5 and 15 September, 2009; and RTS interviews: 11 and 25 September 2009.
[59] Beneficiary interviews: 17(1), 20, 24(2), 29 August 2009.

The 3-year delay in the establishment of the special account of ACEF was another concern for the small players. The time could have been used to finance projects immediately following the country's accession to the WTO and would have contributed to beefing up competitiveness projects of the industries. As a result, local producers and enterprises sought different ways of coping up with the agribusiness development occurring in the changing market environment. As an interest-free loan, ACEF presents an option for borrowing capital from banks and other lending institutions that usually charge high interest rates and collateral. Thus, small and micro enterprises and farmer-groups were faced by stiff competition from the medium-enterprises in accessing ACEF. In 2007, the government approved a number of projects benefiting medium-enterprises due to the impending closure of the fund during the same year as originally mandated in Section 8 of RA 8178.[60] Notably, data show that approved projects from 2007-2009 was more than half of the total cumulative approved projects (Figure 12), majority of which are medium-enterprises[61] (ACEF Technical Secretariat, 2009).

Figure 12
Availment of ACEF Projects by Year of Approval (2000-2009)



Source: Author's own construction based from ACEF Technical Secretariat data

There is evidence that those in the upper MSMSE category have the edge in accessing ACEF because they have the capacity more than the other enterprises to implement a project that is aimed at bringing down costs of local production or penetrating the international market. In 2003, the DA allocated a PhP 1.0 billion (€15.4 million) loan extended to Quedancor,[62] an attached

[60] Although RA8178 was passed into law in 1996, Special Fund 183 (ACEF) was only established in 1999. Thus, the nine year implementation period stated in Section 8 of RA8178 effectively started in 1999.
[61] For the livestock and poultry sector, medium-enterprises got 9 out of the 13 approved projects in 2007 (ACEF Technical Secretariat, 2009).
[62] Quedan and Rural Credit Guarantee Corporation is a government financing corporation attached to DA. www.quedancor.gov.ph.

agency to provide piece-meal loans[63] to small farmers and fisherfolk who are not able, by their own, submit a proposal to ACEF.(ACEF Technical Secretariat, 2008). The mechanism enabled farmers and fisherfolk access to the Fund by retailing credit to small farmers and fisherfolk in the form of production inputs, processing, retailing, and other forms of livelihood (Quedancor, 2003). The loans which consisted of a maximum of PhP50,000 or €769 for each applicant have an interest charge of 12 percent per year in contrast to the collateral-free and interest-free loan projects directly provided by the ACEF NTS. The scheme does not provide an equal treatment for the small players.[64]

4.4 Political Dynamics in Play: *Who Gets What?*

It is evident from the discussion above that micro-enterprises and small farmer groups from ACEF program have limited access to ACEF because of inadequate capacities to meet certain requirements such as project proposals, required equity, marketing agreement, and availability of supplementary financial resource. Although it seems unintentional, there has been an outright exclusion of the small players in the program. Further, the interplay of political or social networks or connections between and among the proponents influences the approval of and release of funds through lobbying. Figure 8 presents in detail the approval process of ACEF and areas of lobbying.

The main approving authority is the ExeCom or the DA Secretary, in case of loans less than PhP 15 million (€230,769.23). In effect, approval of micro-small enterprises (including farmer-groups within this category) is only under the authority of the DA Secretary as Chairperson[65] of the ExeCom while the ACEF Project ExeCom, on the other hand, approves all proposals within medium-enterprise category. Given the dynamics of the political environment in the Philippines as discussed in Chapter 2, the intensity of lobbying for project prioritization and approval is logically and possibly high at this level. The nature of political environment in the Philippines, as suggested by Balisacan and Hill (2003), De Dios (2007) and Krinks (2002), is dominated by political-economic elites who have strong ties within the higher level of the political system (Bello *et al*., 2004) and history of 'state capture' of sectoral interests (Abinales and Amoroso, 2005).

Looking at the structure of the ExeCom, two of the Co-Chairs are members of the Philippine Congress. At this level, approval is supposed to have passed the technical evaluation. However, the prioritization of projects were done absent clear directions or criteria (*e.g.* first-come-first-serve basis or

[63] The subprogram is called the Self-Reliant Team model similar to the Grameen bank model of providing microfinance.
[64] NTS interviews: 5, 15, and 16 September, 2009; and RTS interviews: 18 and 25 August, 11 and 25 September, 2009.
[65] "Provided that a corresponding report is made to the ExeCom of the action taken" (DA-AO 19, 2008: 14).

type of intervention).[66] There was pressure from the proponents, politicians, and from DA officials who are in charge of the approval of projects.[67] Most of the medium agribusiness enterprises, if not all, have the necessary connections, politically or otherwise.[68] In one instance, the ExeCom ordered a moratorium on processing of proposals in Region 3 (especially hogs) because there were already too many proposals approved and funded in the region (Figure 10).[69]

Moreover, the objectivity of the approving committee in screening and selecting projects is a concern. Some beneficiaries interviewed alleged unfair treatment because of unnecessary delays in the processing and approval of their project.[70] Implementation is sometimes compromised because of influential proponents favored by the higher authorities.[71]

ACEF assistance for these medium-enterprises comprises the bulk of the total funds and leaving only a small portion (if there will still be remaining) for smaller, relatively weaker applicants. This is aggravated by the strong commitment of one of the Co-Chairs of the ExeCom (as well as other legislators) to revise the allocation of funds, cutting 30 percent of available funds for income-generating loans and activities and allocating it to a grant portion for research and development (20 percent) and agriculture scholarship (10 percent).[72] With this kind of environment happening within the ExeCom, small groups and enterprises are at a disadvantage position to access ACEF.

However, the advantageous position of the medium-enterprises does not guarantee their success in implementing their income-generating projects that can contribute in the sector's competitiveness. The events and environment that had been discussed have some implications on the nature of production and agribusiness enterprises that the government is trying to help in order to attain the productivity and competitiveness of the sector, particularly the hog and chicken industries. The long approval process and delay due to constant lobbying have caused some ripple effects on the outcome of the approved projects, as far as those interviewed are concern.

Half of the respondents have indicated that they experienced delay in the release of their project budget. The long period of processing and approval and the delays in the budget releases according to them have implications on the timing of the implementation of the projects and on the cost and benefit assumptions or projections of the project.[73] In majority of the projects reviewed, the timing of budget release is not consistent with the urgent

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[66] NTS interviews: 5 and 15 September 2009; and RTS interview: 25 August 2009.
[67] NTS Interview: 15 September 2009; and RTS interview: 25 August 2009.
[68] *Ibid*.
[69] NTS Interview: 15 September 2009; and RTS interview: 25 September 2009.
[70] Beneficiary interviews: 17, 20, 24(2), 29 August 2009.
[71] This is also known as the *padrino system* similar to the example of what Bratton (2007: 97) and Krinks (2002: 5) called the 'patron-client' relationship or 'clientism' (De Dios, 2007: 167-71) to gain favor or rent from government officials.
[72] NTS interviews: 5 and 16 September 2009; and RTS interviews: 18 and 25 August 2009.
[73] Beneficiary interviews: 17, 20, 24, 29 August 2009.

requirements of the projects. Even with increased incomes, half of the respondents have experienced problems amortizing their loans due to delay in the releases of funds. This caused delays in implementation and shortened the supposedly one year grace period thus putting much pressure to project beneficiaries in terms of cash flow and available money to make payments, especially in the early periods of the project.

Nevertheless, interviewed project beneficiaries claimed of increased incomes as a result of ACEF. Based on the interviews, the expansion in the volume of production and market share or coverage resulted in increased profits though in varying degrees. A possible factor contributing to the increase is the assured market brought in by the contract agreement with large agribusiness-integrators. Some small-enterprises engaged in meat processing plant have adopted 'house branding'[74] as market strategy to cope up with the competition with more established brands. With the adoption of this approach, some operational cost was cut down and the product was able to reach other markets. These beneficiaries have increased their profits by adopting contract growing or outsourcing schemes. This may continue but the existing power asymmetry between the producers and the buyers continues to pose a threat particularly with the intensed competition in the market environment.

[74] This entails producing and selling products under the names of known brands instead of competing with them.

Chapter 5
Conclusion

The opening of trade to foreign competition and removal of restrictions has put domestic producers and enterprises in an intense battle for survival. As a consequence, increasing importation was seen amid decreasing competitiveness (especially for small players) of the two industries as argued in Chapter 3 and supported by the studies of Gonzales (1999, 2004) and STRIVE (2001). This was aggravated by the government's difficulty to raise resources for improving the market environment. Insufficient public infrastructure investment makes the cost structure of the hog and chicken industries higher than in other countries, in particular of the small and medium sized ones.

Local producers and enterprises have adopted different strategies to cope with intense competition and high cost structures in a globalized market environment. Large producer-integrators survive in the existing environment because of investments in storage, distribution, quality control, and in general economies of scale to reduce cost as argued by Krugman (1989). To compete, small producers resort to such strategies as forging alliances or contract growing with large integrators in order to reduce cost of distribution and risk of missing markets. Small producers and enterprises in this kind of set-up are in a disadvantaged position compared to the large agribusinesses which influence, if not control, the entire supply chain. This phenomenon was explained by Friedmann (1991, 2004), Gereffi (2004), Heffernan (2000) and McMichael (1994) and argued that the development of agro-food systems gives the large firms a greater leverage to influence the quality, quantity, and price of product at the production stage and throughout the entire agro-food system. Using the value chain 'governance structure' as backdrop, Gereffi *et al*. (1994, 2005) explained that power asymmetry between buyers and suppliers are determined by the level of their coordination. Thus, the more dependent or linked the small producers or enterprise to large integrators and agribusinesses, the greater the chance that they are exploited.

Domestic policies regarding modernization and rural industrialization have promoted agribusiness development to increase productivity and competitiveness of the agriculture sector, particularly, in the hog and chicken industries in the context of liberalized trade. However, this meant greater opportunity for large agribusinesses to expand their operations and adopt different strategies at the expense of small players. The differences in terms of financial and social networks, not to mention political, have put the balance of power in favor of large agribusiness enterprises. Government policies of providing tariff or tax incentives, as provided for in the trade agreements, (e.g., duty-free incentives under AFMA or through the MAV mechanism) have proved not really accessible to small producers and enterprises. In all, few large agribusinesses have gained more than the small producers and enterprises from the opportunity provided by the government to compete in the market. As suggested by Abinales and Amoroso (2005), Balisacan and Hill (2003), Bello *et al*. (2004), De Dios (2007) and Krinks (2002), this was due to the nature of

political environment in the Philippines that is dominated by political-economic elites who have strong ties in the political system and history of 'state capture' of sectoral interests. As such, various policies and strategies have been influenced by political-economic elites. Most, if not all, of the dominant agribusinesses are owned or controlled by these political-economic elites or influential families connected to them or form its core.

The government's ACEF program aimed at enhancing productivity and competitiveness of the agriculture sector illustrated an example of how the political elites have influenced the nature of the hog and chicken industries. This study suggests that micro-enterprises and small farmer groups from ACEF program had effectively limited access to ACEF due to various reasons such as cumbersome procedures, inadequate capacities to meet certain requirements (e.g., project proposals, required equity, marketing agreement), and availability of supplementary financial resource. Notably, political ties with economic elites play an important role in the allocation of resources and project approvals.

A majority of the projects approved by the ExeCom consisted of medium-scale enterprises. The ACEF ExeCom is Co-Chaired by two political figures having strong ties with agribusiness enterprises and other politicians. In the absence of clear prioritization criteria, there was pressure from the proponents, politicians, and from DA officials in charge of the approval of projects. Strong lobbying was seen that resulted in the approval of most projects in hog, chicken, and feed subsectors including meat processing belonging to the medium-enterprise category. Most of the medium agribusiness enterprises, if not all, have the necessary connections, politically or otherwise. There were also claims that delays in some of the proposals were due to unfair treatment which favors influential project proponents having connections to authorities (ExeCom members or member of ruling political parties). While the high range of category for ACEF program beneficiaries is that of the medium-enterprise, the size of the assets or capital of this is still considered far larger when compared to that of a micro or small enterprise. Nevertheless, medium-scale enterprises have tie-ups with large integrators and agribusinesses through marketing agreements.

Further, a majority of the beneficiaries interviewed for this study have increased their profits due to assured markets brought in by the contract agreements with large agribusiness and integrators. Other small enterprises engaged in meat processing plants have adopted outsourcing contracts from well- established competitors rather than continue using there own brand name. In both of these cases, the large agribusiness and integrators have played a big role in their survival within the hog and chicken value chains. This may continue but the existing power asymmetry, as argued by FAO (2006), Friedmann (1991, 2004), Gereffi *et al*. (1994, 2005), Heffernan (2000) and McMichael (1994), between the producers and the buyers continues to pose a threat particularly with the intensed competition in the market environment.

Thus, the government's goal of improving the competitiveness of the hog and chicken industries has been mainly influenced by large agribusinesses, enterprises and other big players, leaving out the small ones. In this sense, the small producers or micro-enterprises become losers as they are driven out of

competition (or exploited) by the big players and large agribusiness already being supported by government. The large players gained more in that they tend to dominate both the hog and chicken production and control the entire value chain-- from provision of inputs, processing, to market distribution in markets.

Future research would want to include the other segments of ACEF beneficiaries in the hog-chicken- and feed industries to get a wider perspective on ACEF implementation. This next step could focus on potential applicants and/ or beneficiaries who failed to avail of ACEF assistance. In addition, the position or views from the other actors in the value chain could enrich our understanding of the processes by which trade liberalization and government's policy and program interventions affected the hog and chicken industries in the Philippines. A comprehensive assessment of the effectiveness of ACEF and other related or similar policies could also be considered.

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Annex A

Sample ACEF Projects with Respondents

Project Name and Details	Category	Brief Description
1. Meat Processing Plant Capacity Increase and Strengthening Marketing Development Year approved: 2005 Project Cost: € 281,092	Small Enterprise (Sole Proprietorship)	• Procurement of additional equipment requirement to increase production capacity from 600 kilos/day to 3,000 kilos/day after 3 years. • Development of marketing network and consumer awareness of the products.
2. Swine and Poultry Production Project Year approved: 2007 Project Cost: € 438,062	Medium Enterprise (Sole Proprietorship)	• Rehabilitation of farm fixtures that would increase the sow level from 100 to 200 sows. • Purchase of additional 100 ready-to-bred gilts and 5 boars. • Improvement of hog and layer production through cost efficient strategy of home mixing the locally produce corn with a new hammer mill. • Showcases the positive effect of direct linkage of hog and poultry raisers with corn producers. Include weanling dispersal loaned out to farming families.
3. Feed Mill Expansion and Swine Production Project Year approved: 2007 Project Cost: € 606,202	Medium Enterprise (Corporation)	• Feed mill expansion and establishment of piggery business. (Project details are not available for access)
4. Extrusion Plant for Crops into Feed (completed project) Year approved: 2000 Project Cost: € 164,154	Medium Enterprise (Corporation)	• Construction of facilities for extrusion equipment. • Procurement and installation of extrusion equipment. This will modernize the production of animal and fish feed. • Proponent implementing other approved ACEF project.
5. Hog Breeding and Growing Project Year approved: 2003 Project Cost: € 525,829	Medium Enterprise (Sole Proprietorship)	• Expansion and modernization from 70 to 300-sow level breeding and growing farm. • The project will sell fatteners/slaughtered pigs, culled sows, and ventures into hog dispersal scheme with the assistance of Cargill, Philippines to qualified beneficiaries within the community.
6. Broiler Contract Growing Using Tunnel Ventilation Year approved: 2005 Project Cost: € 776,604	Medium Enterprise (Sole Proprietorship)	• Expansions of capacity from 30,000 to 150,000 broilers employing the broiler growing technology called 'tunnel ventilation'.
7. Broiler Chicken Contract Growing Project Year approved: 2006 Project Cost: € 159,927	Small Enterprise (Sole Proprietorship)	• Expansion of capacity from 10,000 to 30,000 broilers through the construction of two (2) additional poultry houses, purchase of poultry equipments, and the use of the integrator's technology i.e. day-old-chicks, feed, medicines, and technical assistance.
8. Swine Production Expansion Year approved: 2007 Project Cost: € 812,312	Medium Enterprise (Sole Proprietorship)	• Expansion of existing production of 500 to 1000-sow level breeding and growing farm through construction of new facilities and technologies. (Project details are not available for access)

Note: Project cost was estimated at €1 is to PhP 65.

Source: Interviews and Philippine Department of Agriculture-ACEF Technical Secretariat.

Annex Boxes

Annex Box 1
Objectives of Agriculture and Fisheries Modernization Act of 1997

The following were the objectives of the agricultural modernization framework:

(i) transformation from a resource-based to a technology-based industry;

(ii) to protect small farmers and fisherfolk from unfair competition by promoting a policy environment that provides them priority access to credit and strengthened cooperative-based marketing system;

(iii) to enhance profits and incomes in the sector, particularly the small farmers and fisherfolk, by ensuring equitable access to assets, resources and services, and promoting higher-value crops, value-added processing, agribusiness activities, and agro-industrialization;

(iv) to encourage horizontal and vertical integration, consolidation and expansion of agriculture and fisheries activities, groups, functions and other services through the organization of cooperatives, farmers' and fisherfolk's associations, corporations, nucleus estates, and consolidated farms and to enable these entities to benefit from economies of scale, afford them a stronger negotiating position, pursue more focused, efficient and appropriate research and development efforts and enable them to hire professional managers;

(v) to pursue a market-driven approach to enhance the comparative advantage of agriculture and fisheries sectors in the world market;

(vi) to adopt policies that will promote industry dispersal and rural industrialization by providing incentives to local and foreign investors to establish industries that have backward linkages to the country's agriculture and fisheries resource base; and

(vii) to provide 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. (author's emphasis)

Source: Drawn largely from Republic Act 8435 (AFMA, 1997)

Annex Box 2

Major Provisions of Agriculture and Fisheries Modernization Act of 1997

The major provisions of AFMA include:

(i) *Production and marketing support services.*

- Identification of Strategic Agriculture and Fisheries Development Zones (SAFDZs);
- Crafting and implementation of medium- and long-term Agriculture and Fisheries Modernization Plans (AFMPs) that focus on food security, poverty alleviation and social equity, income enhancement and profitability, especially for farmers and fisherfolk, global competitiveness, and sustainability;
- Phase-out of the directed credit programs (DCPs) and provision for the Agro-Industry Modernization Credit and Financing Program (AMCFP)
- Irrigation and watershed development, providing for economic cost recovery, and the devolution of communal systems to LGUs, promotion of private sector-led development of minor systems;
- Establishment of the National Marketing Assistance Program (NMAP) and National Information Network (NIN);
- Agriculture and fisheries infrastructure support services; and
- Establishment of the Bureau of Agriculture and Fisheries Products Standards (BAFPS) for product standardization and consumer safety;

(ii) *Human resource development.* Establishment of National Agriculture and Fisheries Education System (NAFES) that offers high quality agriculture and fisheries education at all levels;

(iii) *Research and development*. Establishment of National Research and Development System in Agriculture and Fisheries (NARDSAF) under the coordination of the Department of Agriculture;

(iv) *Extension*. Integrated, strengthened and rationalized system of National Extension System in Agriculture and Fisheries (NESAF) that promotes better coordination among the national government agencies, local government units, civil society and the private sector;

(v) *Rural nonfarm employment*. Promote a basic needs approach to rural development, make rural workers more adaptable and flexible through education and training, promote rural industrialization and the establishment of agro-processing enterprises in rural communities, and increase the income of rural workers*;*

(vi) *Trade and fiscal incentives*. Exemption of all agriculture and fisheries enterprises from tariffs and duties in the importation of specific types of inputs; and

(vii) *Budgetary appropriation provisions*. Provides for an initial year PhP 20 billion funding for AFMA and PhP17 billion annually for the next 6 years for the needed steady stream of public investment support to agriculture and fisheries modernization."

Note: Trade and fiscal incentives and budgetary appropriations were extended until 2015 by virtue of the enactment of RA 9281 dated 30 March 2004 "An Act To Strengthen Agriculture and Fisheries Modernization in the Philippines by Extending the Effectivity of Tax Incentives and its Mandated Funding Support, Amending for This Purpose Sections 109 and 112 of RA 8435."

Source: Drawn largely from Republic Act 8435 (AFMA, 1997)

Annex Box 3

Significant Features of the Implementation Guidelines on the Utilization of the Agricultural Competitiveness Enhancement Fund

(i) Priority beneficiaries/sector/groups involved with sensitive agricultural products that was affected by the lifting of QRs and are covered by the MAV mechanisms;

(ii) Intended beneficiaries are cooperatives/associations of Filipino farmers and fisherfolk, MSMSEs in agriculture and fisheries sectors; agriculture and fishery cooperatives and other entrepreneurs engaged in economic enterprises related to agriculture and fisheries, academic and educational institutions with business arrangement/tie-up with farmer's/fisherfolk's cooperatives/associations, and the government sector who have joint venture undertakings with farmers, fisherfolk, women's group, young agriculture and fisheries graduates, POs/NGOs and indigenous people;

(iii) Priority is given to projects and activities directly related to enhancing the competitiveness of an agricultural product/s and those having sector/industry-wide impact such as establishment of common service facilities including generation of local employment;

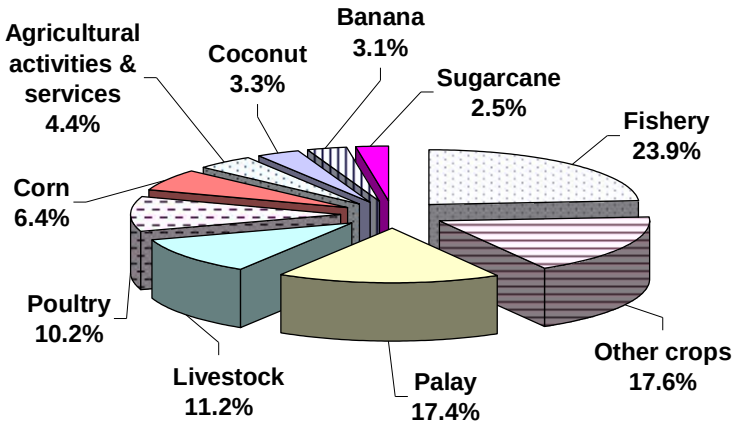
(iv) Supports income and non-income generating projects on a cost-sharing basis with the proponent with different level of equity based on MSMSE category or LGU income class; Proponent's equity may be in the form of capital outlay, labor, land for the project site, facilities, equipment, personnel salary, and the like. Part of the equity can also be generated from other public or private sources, which the proponents need to identify and access by themselves; and

(v) Minimum amount of assistance is PhP150,000.00 (€2,308), not to exceed a maximum amount that may be set by the Executive Committee according to importance to agri-development, extended as a loan, free of collateral and interest; Original minimum amount of ACEF assistance was pegged at PhP 500,000.00 (€7,692.31).

Source: Drawn largely from DA-AO No. 19 (2008)

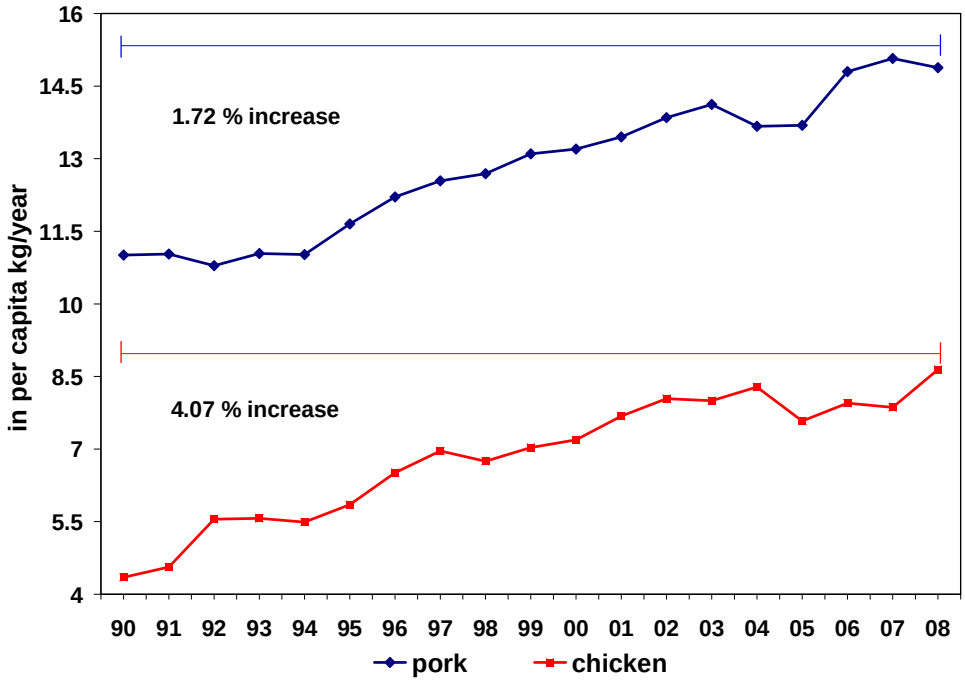
Annex Figures

Annex Figure 1
Percentage Distribution of GVA in Agriculture, Philippines (2008)



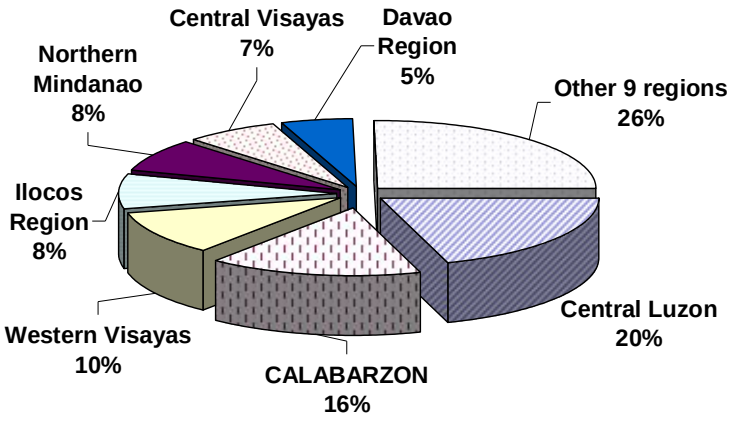
Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Figure 2
Per Capita Consumption of Pork and Chicken (Carcass) in the Philippines (1990-2008)



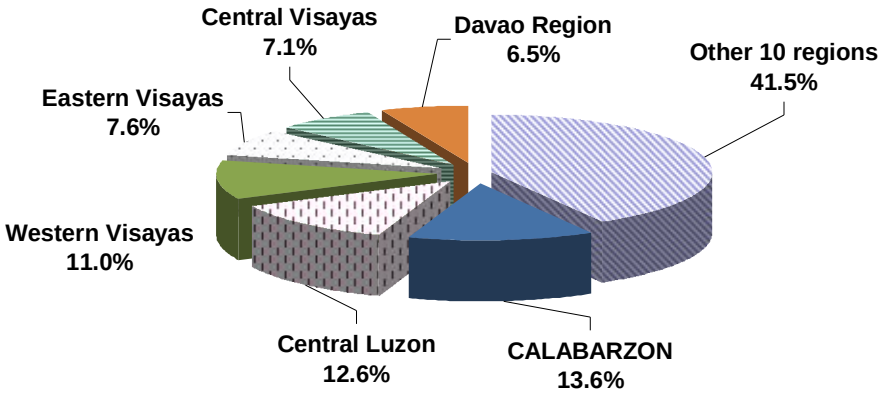
Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Figure 3
Regional Distribution of Total Chicken Population, Philippines,
(01 January 2009 beginning inventory)



Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Figure 4
Regional Distribution of Hog Population, Philippines
(01 January 2009 beginning inventory)



Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Tables

Annex Table 1

Minimum Access Volume Allocation, in '000 MT and Utilization Rate, in percentage (CY 1995/96 to 2008)

Description	1995/96		1997		1998		1999		2000		2001		2002	
	MAV	%	MAV	%	MAV	%	MAV	%	MAV	%	MAV	%	MAV	%
Fresh/ chilled beef	6.1	35	4.3	0.0	4.4	0.3	4.6	0	4.79	0	-	-	-	-
Frozen beef	21.1	92	86.1	90	71.3	10	85.6	0	98.42	0	108.3	0	-	-
Pork	49.9	6	36.1	21	38.6	16	41.0	44	43.37	45	45.8	19	48.2	13
Poultry	22.5	4	16.2	10	16.7	16	17.8	91	18.79	63	19.8	60	20.9	86
Potatoes	1.4	0	1.0	2.0	1.1	7	1.2	39	1.24	82	1.3	95	1.4	100
Coffee Beans	0.9	0.1	1.0	93	6.1	100	1.1	97	1.19	96	1.3	93	1.3	88
Corn	200.1	99	144.6	99	154.3	71	163.9	99	224.55	99	183.2	73	192.8	41
Sugar	59.1	0	42.7	0	45.6	100	48.40	0	51.24	62	54.1	60	56.9	100
Coffee Extract	0.02	81	0.02	72	0.02	87	0.03	82	0.03	69	0.03	100	0.03	100
Average Utilization	**35**		**43**		**45**		**50**		**57**		**62**		**75**	

Description	2003		2004		2005		2006		2007		2008		Average
	MAV	%	MAV	%	MAV	%	MAV	%	MAV	%	MAV	%	1995/96 to 2008
Pork	50.6	17	53.0	18	54.2	10	54.2	5	54.2	119	54.2	58	**22**
Poultry	21.9	95	23.0	72	23.5	72	23.5	97	23.5	897	23.5	85	**65**
Potatoes	1.5	100	1.5	100	1.6	0	1.6	0	1.6	0	1.6	0	**40**
Coffee Beans	1.4	88	1.5	79	1.5	46	1.5	90	1.5	927	1.5	12	**75**
Corn	202.5	24	212.1	0.1	216.9	37	216.9	67	216.9	0.2	216.9	46	**58**
Sugar	59.8	48	62.6	0	64.1	0	64.1	0	64.1	0	64.1	0	**28**
Coffee Extract	0.03	94	0.04	76	0.04	84	0.04	97	0.04	100	0.04	97	**88**
Average utilization	**66**		**49**		**36**		**51**		**43**		**43**		**54**

CY= calendar year, MAV = minimum access volume, MT= metric ton, %= percentage

Note: Report as of June 2009; MAV for Sugar has not been distributed since 2001.

Source: DA-ACEF Secretariat, MAV Secretariat

Annex Table 2
Most Favored Nations Tariff rates on Live Hog, Live Poultry, Pork, Chicken meat, and Maize (corn), Philippines (1996 to 2010)

Animal	Year								
	1996	1997	1998	1999	2000	2001	2002	2003	2004-10
Live Swine									
Weighing <50kg									
In-Quota	30(3)	30(3)	30(3)	30(3)	30(3)	30(3)	30(3)	30(1)	30(1)
Out-Quota	60	50	50	45	45	35	40	40/35	35
Weighing ≥50kg									
In-Quota	30	30	30	30	30	30	30	30	30
Out-Quota	40	40	40	35	35	35	30	30	35
Meat of Swine									
In-Quota	30	30	30	30	30	30	30	30	30
Out-Quota	100	80	80	60	60	60	60	60/40	40
Live Poultry									
In-Quota	40(3)	40(3)	40(3)	40(3)	40(3)	40(3)	35(3)	35/30(1)	35(1)
Out-Quota	80	65	65	50	50	50	45	45/30	35
Meat of Poultry									
In-Quota	50	45	45	45	45	45	40	40	40
Out-Quota	100	80	80	60	60	60	60	60/40	40
Maize (corn)									
In-Quota	35	35	35	35	35	35	35	35	35
Out-Quota	100	100	80	80	65	65	65	50	50

Note: Rates in parentheses refer to breeding animals. Two numbers in a year means that the higher number was implemented on the 1st half of the year.

Source: Philippine Tariff Commission; Executive Order 313/164/574; DA-Policy Research Service

Annex Table 3
Common Effective Preferential Tariff Rates on Live Hog, Live Poultry, Pork, Chicken Meat, and Maize (corn), Philippines (2002 to 2010)

Animal	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Live Swine									
Weighing < 50kg									
In-Quota	30(3)	30(0)	30(0)	30(0)	30(0)	20(0)	20(0)	20(0)	5(0)
Out-Quota	40	35	30	30	30	20	20	20	5
Weighing ≥50kg									
In-Quota	30	30	30	20	20	20	10	10	5
Out-Quota	30	30	30	20	20	20	10	10	5
Meat of Swine									
In-Quota	30	30	30	30	30	30	30	20	5
Out-Quota	60	40	40	40	30	30	30	20	5
Live Poultry									
In-Quota	35(3)	30(0)	30(0)	30(0)	20(0)	20(0)	20(0)	10(0)	5(0)
Out-Quota	45	30	30	30	20	20	20	10	5
Meat of Poultry									
In-Quota	40	40	40	40	30	30	30	20	5
Out-Quota	60	40	40	40	30	30	30	20	5
Maize (corn)									
In-Quota	40	35	35	35	35	35	35	30	5
Out-Quota	60	50	50	50	40	40	40	30	5

Note: Rates in parentheses refer to breeding animals.

Source: Philippine Tariff Commission; Executive Orders 165/263/489; ASEAN Secretariat

Annex Table 4
Volume of Production of Philippine Livestock and Poultry
by Year and Animal Type, in '000 metric ton live weight (1980-2008)

Year	Chicken	Duck	Chicken eggs	Duck eggs	Cara-bao	Cattle	Hog	Goat	Dairy	Total	% Share of Chic-ken	% Share of Hog
1980	370	44	119	27	69	132	534	22	-	1,317	28.09%	40.55%
1981	413	53	136	32	63	132	653	25	7	1,514	27.28%	43.13%
1982	426	64	149	26	69	128	623	33	7	1,525	27.93%	40.85%
1983	433	56	140	36	63	114	672	37	7	1,558	27.79%	43.13%
1984	422	49	144	30	69	123	702	36	7	1,582	26.68%	44.37%
1985	375	34	104	36	72	140	606	43	14	1,424	26.33%	42.56%
1986	400	29	112	28	89	151	692	44	15	1,560	25.64%	44.36%
1987	404	31	125	26	98	161	768	50	15	1,678	24.08%	45.77%
1988	455	32	140	27	112	160	858	53	17	1,854	24.54%	46.28%
1989	499	34	155	29	120	166	962	57	17	2,039	24.47%	47.18%
1990	560	36	166	30	107	169	1,031	55	19	2,173	25.77%	47.45%
1991	578	36	171	33	101	162	1,057	58	19	2,215	26.09%	47.72%
1992	652	39	181	37	109	167	1,057	60	15	2,317	28.14%	45.62%
1993	679	42	202	39	108	182	1,102	66	14	2,434	27.90%	45.28%
1994	709	44	196	42	109	196	1,153	69	14	2,532	28.00%	45.54%
1995	748	47	200	48	104	213	1,213	71	12	2,656	28.16%	45.67%
1996	852	51	206	54	99	232	1,296	70	12	2,872	29.67%	45.13%
1997	930	51	223	53	106	251	1,358	71	10	3,053	30.46%	44.48%
1998	919	51	227	53	113	261	1,407	72	9	3,112	29.53%	45.21%
1999	929	51	230	53	119	271	1,467	74	10	3,204	29.00%	45.79%
2000	998	51	243	53	124	272	1,518	75	10	3,344	29.84%	45.39%
2001	1,099	54	247	54	125	261	1,585	75	11	3,511	31.30%	45.14%
2002	1,174	54	261	54	132	261	1,668	75	11	3,690	31.82%	45.20%
2003	1,189	54	275	54	132	258	1,734	74	11	3,781	31.45%	45.86%
2004	1,232	53	297	57	138	256	1,709	75	12	3,829	32.18%	44.63%
2005	1,216	49	320	53	134	247	1,771	77	12	3,879	31.35%	45.66%
2006	1,206	46	330	50	130	238	1,836	75	13	3,924	30.73%	46.79%
2007	1,212	42	335	47	137	237	1,886	77	13	3,986	30.41%	47.32%
2008	1,281	39	351	42	140	239	1,856	78	14	4,040	31.71%	45.94%

[-] Data not available

Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Table 5
Ranking of Different Commodities' Contribution to the Value of Agriculture Production, Philippines (Four-year averages from 1989-2008)

Commodity	1989-1992	1993-1996	1997-2000	2001-2004	2005-2008
Palay	1	1	1	1	1
Aquaculture	7	6	4	4	2
Hog	3	3	2	3	3
Chicken	6	4	3	2	4
Coconut	4	5	5	5	5
Corn	8	9	9	8	6
Commercial Fisheries	9	8	7	6	7
Municipal Fisheries	5	7	8	7	8
Banana	11	11	10	9	9
Chicken eggs	12	12	12	11	10
Other Crops	2	2	6	10	11
Sugarcane	10	10	11	12	12
Mango	16	14	13	13	13
Cattle	13	13	14	14	14
Pineapple	17	17	15	15	15
Cassava	15	16	17	17	16
Coffee	14	15	16	16	17
Rubber	22	24	22	20	18
Carabao	19	20	19	19	19
Duck	20	18	18	18	20
Duck eggs	24	22	20	21	21
Camote	21	19	21	22	22
Calamansi	33	33	27	24	23
Goat	23	23	23	23	24
Eggplant	28	26	25	25	25
Onion	29	29	28	28	26
Tomato	26	27	29	29	27
Tobacco	18	21	24	26	28
Garlic	25	25	26	27	29
Cabbage	30	30	31	31	30
Abaca	27	28	30	30	31
Mongo	32	32	32	32	32
Peanut	31	31	33	33	33
Dairy	34	34	34	34	34

Source: Author's own construction based from Bureau of Agricultural Statistics, CountrySTAT

Annex Table 6
Pork and Chicken Meat Imports, Philippines (1993-2007)

Year	Pork				Chicken			
	Quantity (tons)	% change	Value (US$'000 CIF)	% change	Quantity (tons)	% change	Value (US$'000 CIF)	% change
1993	39	-	29	-	142	-	572	-
1994	239	513	269	828	207	46	1,434	151
1995	1,017	326	886	229	194	-6.28	1,642	15
1996	4,391	332	7,589	757	236	22	453	-72
1997	7,037	60	12,385	63	969	311	1,117	147
1998	7,126	1.26	10,385	-16	2,549	163	2,763	147
1999	18,123	154	21,322	105	29,387	1,053	23,223	740
2000	16,344	-10	17,535	-18	17,519	-40	19,930	-14
2001	10,186	-38	9,091	-48	11,707	-33	6,565	-67
2002	8,285	-19	7,273	-20	14,015	20	6,845	4.27
2003	19,496	135	16,700	130	21,517	54	12,767	87
2004	10,393	-47	8,419	-50	22,168	3.03	13,597	6.50
2005	21,591	108	22,571	168	31,635	43	24,276	79
2006	18,201	-16	17,682	-22	35,089	11	22,831	-5.95
2007	29,516	62	38,814	120	51,871	48	48,560	113

CIF= cost in freight

Source: Author's own construction based from Food and Agriculture Organization, FAOSTAT

Annex Table 7
Top Ten Importers under Executive Order 376 (2005), Philippines

Name of Enterprise	Enterprise Activity	Assets	Value of Import	Percent	Tariff Waived
		(PhP million)	(PhP million)	Share	(in Million PhP)
1. San Miguel Foods, Inc.	Poultry & livestock Prod. & feedmilling	10,641.90	5,713.70	37.04	171.4
2. Dole Phils, Inc.	Processing	10,508.70	1,384.60	8.98	41.5
3. Philippine Foremost Milling Corporation	Feed manufacturing	3,302.40	1,172.20	7.6	35.2
4. Tyson Agro-Ventures, Inc.	Poultry raising	774.9	687.9	4.46	20.6
5. Nation Granary Inc.	Post harvest facilities	1,352.30	613.6	3.98	18.4
6. Pampanga-Angeles Livestock	Hog production	500	583.6	3.78	17.5
7. Southern Negros Devt. Corp. *	Production of sugar	2,919.20	583	3.78	17.5
8. Philippine Super Feed, Corp.	Feed manufacturing	624.4	531.5	3.45	15.9
9. Fil-Am Foods, Inc.	Hog production	1,201.40	424	2.75	12.7
10. Vitarich Corporation	Feed milling	4,264.00	386	2.5	11.6
Sub-total			12,080.20	78.32	362.4
Others**			3,340.90	21.68	100.2
Grand Total			**15,421.00**	**100**	**462.6**

Source: Department of Agriculture

Annex Table 8
Top 10 Registered Feedmillers based on Capacity

Name of Company	Brand Name	Daily Capacity, MT
San Miguel Foods	B-Meg Feeds	3,229
Cargill Philippines	Purina Feeds	1,760
Swift Foods	Blue Ribbon Feeds	1,612
General Milling	General Feeds and Megamix	1,520
Vitarich Corporation	Vitarich, Vitalux and Bionic	1,387
Tyson Agro-Ventures	Tyson Feeds	800
Sun Jin Philippines	Sun Jin Meals	760
Foremost Farms	Famous and Rich Feeds	720
Universal Robina Corporation	Star Feeds 555	598
Grain Handlers	Mighty Feeds	450

MT= metric ton

Source: Department of Agriculture-Bureau of Animal Industry

Annex Table 9
Value and Percent Share of Importation by Commodity, under Executive Order 376 (2005), in million PhP

Commodity	Value	% Share
Soybean meal	10,199.90	66.14
Machinery & equipment	2,005.20	13.00
Feed supplement, vitamins & other veterinary products	1,469.10	9.53
Fertilizers	852	5.52
Pesticides	448	2.90
Fish meal/whey powder	277	1.80
Livestocks (catte & hogs)	155	1.00
Planting materials (Oil palm)	7	0.05
Others	8	0.05
Total	**15,421.00**	**100**

Source: Department of Agriculture

Annex Table 10
Distribution of Firms that Availed of TEFAM, Philippines (1999 to 2005)

Region / Agency	CALAB-ARZON	Central Luzon	Davao Region	Central Visayas	Western Visayas	Northern Mindanao	Ilocos Region	Other 7 Regions	BOI/ DTI	BFAR	Total
Number of Firms	90	52	41	27	23	18	8	18	49	18	**344**
Percent share (%)	26.16	15.12	11.92	7.85	6.69	5.23	2.33	5.23	14.24	5.23	**100**

BOI= Board of Investments, DTI= Department of Trade and Industry, CALABARZON= Cavite, Laguna, Batangas, Rizal, and Quezon, TEFAM = Tariff Exemptions for Fisheries and Agriculture Modernization

Source: Department of Agriculture

Annex Table 11
Approved Agricultural Competitiveness Enhancement Fund Projects by Sector and Commodity (2000-2009)

SECTOR / COMMODITY	No. of Project	% Share	ACEF Assistance (PhP)	% Share
1. FISHERIES & AQUACULTURE	**41**	16.33%	**855,902,933.00**	9.69%
2. GRAINS	**23**	9.16%	**853,425,336.00**	9.66%
a. Corn	8	3.19%	133,755,960.00	1.51%
b. Rice	15	5.98%	719,669,376.00	8.15%
3. HVCC (Regular ACEF)	**48**	19.12%	**771,939,529.00**	8.74%
a. Fruits, Vegetables, Foods (and related products)	33	13.15%	560,561,548.00	6.35%
b. Industrial Crops	15	5.98%	211,377,981.00	2.39%
4. HVCC (Sugar ACEF)	**1**	0.40%	**599,543,000.00**	6.79%
5. LIVESTOCK & POULTRY	**93**	37.05%	**1,494,125,201.00**	16.91%
a. Abattoir	5	1.99%	79,370,000.00	0.90%
b. Dairy	3	1.20%	18,591,000.00	0.21%
c. Feedmill	9	3.59%	132,301,460.00	1.50%
d. Goat	3	1.20%	30,449,054.00	0.34%
e. Meat Processing	4	1.59%	88,000,853.00	1.00%
f. Poultry	37	14.74%	681,328,809.00	7.71%
g. Swine/Hog	32	12.75%	464,084,025.00	5.25%
6. MULTI - SECTOR	**43**	17.13%	**4,234,847,427.00**	47.94%
a. Fertilizers	6	2.39%	97,410,543.00	1.10%
b. Activity/Training Centers	3	1.20%	46,031,335.00	0.52%
c. Tractor/Farm Mechanization	11	4.38%	67,951,045.00	0.77%
d. Multi-sector/commodity	23	9.16%	4,023,454,504.00	45.55%
7. OTHERS	**2**	0.80%	**23,496,900.00**	0.27%
TOTAL	**251**	**100.00%**	**8,833,280,326.00**	**100.00%**

Source: ACEF Technical Secretariat