INDUSTRY PERSPECTIVES – AEC 2015

“Impact to the Food Industry: Regulations; Source of Raw Materials; Labor and Technology; Government’s Policy and Plan; and Market Opportunities and Challenges”
INTRODUCTION

Our profound thanks to the main hosts of this conference- the UBM Asia (Thailand) Co Ltd. and the National Food Institute of Thailand.

Conference on the Impact of AEC 2015 to the ASEAN Food Industry in co-location with Food Ingredients ASIA 2011 - very timely and relevant.

The wonderful reception, hospitality and efficiency of arrangements give further testimony to Thailand’s fast growing economy and its full support to the ASEAN Economic Community 2015.
As the President of the Philippine Food Processors and Exporters Organization, Inc. (Philfoodex), I represent more than 250 member-companies directly engaged in food manufacturing and exporting.

They are, together with more than 11,000 small and medium sized food processors including those engaged in fruits and beverages in the Philippines, eagerly await with mixed anticipations the full implementation of the AEC 2015.
The presentation is divided in three parts:

First Part: Overview of the structure and recent performance of Philippine Food Industry sector.


Third Part: How the Philippines’ and ASEAN Food Industry can benefit from the AEC 2015.
PART 1

The Philippine Agro-Food Industry
The Impact of AEC 2015 to the ASEAN Food Industry

The Philippine Agro-Food Industry

- 47% Agricultural land
- 19.8 million hectares Forest land
- 14.2 million hectares Alienable and Disposable lands

“The Impact of AEC 2015 to the ASEAN Food Industry”
Philippine agriculture including forestry and fishery-dominant sectors in the economy.

70% of total population of 101 million (est. 2011), are in rural areas. Two-thirds of this population depends on farming for their livelihood.

One-half of the labor force engaged in agricultural activities. Thus, high priority is given in transforming agriculture into a modern, dynamic and competitive sector.
The Philippines is the world’s 3rd largest exporter of bananas, 7th largest mango exporter, and the largest pineapple producer in the world.
Cavendish banana is the benchmark export variety. The key global banana exporters are Ecuador (no.1) followed by Costa Rica (no.2).

Leading mango exporters are India, Mexico, Brazil, Peru, Pakistan, Ecuador and the Philippines in that order.
Philippines is the largest coconut oil exporter in the world supplying 64% of the world’s coconut oil requirement despite that Indonesia is now the largest producer of coconut producer but exports less of its products to the rest of the world to satisfy its expanding domestic market.
Philippine Food Industry Structure

- The Philippine food industry is composed of the following:

  - Processed Foods
  - Fresh Foods
  - Marine Products
Philippine Exports of Food Products, 2010
FOB Value in Million US $

- **Processed Food**: US $1,012.09 M
- **Fresh Food**: US $426.75 M
- **Beverages**: US $47.25 M
- **Marine/Aquaculture**: US $627.82 M

**Total PH Exports**, US $2,113.90
The Impact of AEC 2015 to the ASEAN Food Industry

Top 10 Markets of RP Exports of Food Products, 2010

- **Germany**, 61.36 or 3%
- **UK GREAT BRITAIN AND N. IRELAND**, 64.54 or 3%
- **China, PROC**, 68.82 or 3%
- **Malaysia**, 71.16 or 3%
- **Korea, REP. OF (SOUTH)**, 73.44 or 4%
- **Thailand**, 84.21 or 4%
- **Hong Kong SAR**, 92.80 or 5%
- **Singapore**, 57.97 or 3%
- **Others**, 682.77 or 32%
- **Japan (includes Okinawa)**, 366.95 or 17%
- **United States of America (incl. Hawaii and Alaska)**, 489.82 or 23%

**Total RP Exports = US $ 2,113.90**

“The Impact of AEC 2015 to the ASEAN Food Industry”
Table 1.

**TOP 5 MARKETS OF PHILIPPINE MERCHANDISE EXPORTS OF FRESH FOOD - 2010**

- **JAPAN**
- **IRAN**
- **CHINA**
- **KOREA**
- **SINGAPORE**

Source: DTI/BETP-Food

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Processed Foods:

There are currently over 11,000 processed food and beverage companies producing a variety of processed as well as innovative specialty food and beverages—unique mixes and sauces, special delicacies, sumptuous desserts, and a wealth of food ingredients. These products enjoy a growing acceptance and demand worldwide.

Most of the food processors are located in Luzon Island, particularly in the National Capital Region (Metro Manila) and Southern Luzon Region (i.e., 56%).
The top five processed foods exports in 2010 were desiccated coconuts, other milk and cream products in powder form, pineapples preparation/preserved, other fruits and nuts and banana chips. These top five products generated sales of US $ 152.61 million, US$ 128.97 million, US $126.21 million, US$46.95 million and US$ 40.27 million respectively.

“The Impact of AEC 2015 to the ASEAN Food Industry”
Table 1.

**TOP 5 MARKETS OF PHILIPPINE MERCHANDISE EXPORTS OF PROCESSED FOOD - 2010**

- USA
- THAILAND
- MALAYSIA
- VIETNAM
- JAPAN

Source: DTI/BETP-Food

“The Impact of AEC 2015 to the ASEAN Food Industry”
In 2010, marine exports reached US $627.82 million which showed a growth of 12.04% from 2009 exports value at US $560.35 million.

Of the marine products, canned tuna, fresh frozen yellow fin tuna, skipped jack/bonito, frozen shrimps/prawns and crabs were the top five export generators.
Table 1.

**TOP 5 MARKETS OF PHILIPPINE MERCHANDISE EXPORTS OF MARINE FOOD - 2010**

<table>
<thead>
<tr>
<th>Market</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>45%</td>
</tr>
<tr>
<td>Japan</td>
<td>20%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12%</td>
</tr>
<tr>
<td>Germany</td>
<td>7%</td>
</tr>
<tr>
<td>UK, GB, Ireland</td>
<td>6%</td>
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Source: DTI/BETP-Food

“The Impact of AEC 2015 to the ASEAN Food Industry”
**INDUSTRY SNAPSHOT**

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<th>World Demand in US$ Billion</th>
<th>RP Exports in US$ Billion (Priority)</th>
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<td><strong>Year</strong></td>
<td><strong>Value</strong></td>
</tr>
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<td>2008</td>
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(Estimate)

Av. Gr. 2006-2009: 10%
Av. Gr. 2006-2010: 1%

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<tr>
<th>World Demand: By sub-sector</th>
<th>RP Exports: By sub-sector (Priority)</th>
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<tr>
<td><strong>Year</strong></td>
<td><strong>Value</strong></td>
</tr>
<tr>
<td>2009</td>
<td>Processed Food 475.66</td>
</tr>
<tr>
<td></td>
<td>Fresh Food 218.22</td>
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<tr>
<td></td>
<td>Marine Products 74.96</td>
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*BUREAU OF EXPORT TRADE PROMOTION

"The Impact of AEC 2015 to the ASEAN Food Industry"
## INDUSTRY SNAPSHOT

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### World Demand: By sub-sector

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<td>2010</td>
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### RP Exports: By sub-sector (Priority)

<table>
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<tr>
<th>Year</th>
<th>Value in USD</th>
<th>% Share (To Food Exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.01</td>
<td>0.21</td>
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* BUREAU OF EXPORT TRADE PROMOTION

"The Impact of AEC 2015 to the ASEAN Food Industry"
PART 2

The Philippines Perspectives: AEC Impact to The Food Industry
Regulations

- AEC 2015 could be expected to ease some stringent and bureaucratic regulations particularly involving the importation of resourced-based raw materials, packaging materials, machineries and equipment, technology needed to modernize the agro-food industry sector.
Regulations

- Streamlining of regulations to one that involves a common and standardized tariff schedule and classification, and rules of origin could greatly contribute in the competitiveness of export food products produced by the food processing sector.

- Improvement of the Customs administration such as for example, towards an e-based system through the Single Window Project, the transaction costs among and between ASEAN countries would be reduced.
Regulations

- Trade could be further facilitated since we could expect the institution of measures affecting the efficiency and costs associated with the movement of goods between buyers and sellers along the entire international supply chain which involve many government agencies responsible for standards, quarantine, import clearances agencies or so-called “behind-the-border” agencies.
Regulations

By and large, the Philippines scorecard in complying to its AEC trade facilitation commitments is satisfactory.

In a latest study, aside from One Stop Shop Export Documentation system, Philippines has implemented many measures to facilitate trade. Among others reforms, the country has launched the National Electronic Single Window Project. This project is expected to substantially speed up customs processing for importers and exporters and enhance transparency and efficiency in transactions.
The Philippines is fully committed to AEC 2015. Tariff rates for agricultural products are higher but had been generally brought down with the Philippines having a small 0.1 average tariff. The non-tariff barriers which remain high in ASEAN will be reduced consequently in 2015. With CEPT-AFTA in full implementation and tariff barriers reduced or eliminated, the next step would be how to create an open business environment that would promote free flow of trade and accelerate transactions between and among economies.

(Source: Jenny Balboa et al. Achieving AEC 2015: Challenges for the Philippines)

"The Impact of AEC 2015 to the ASEAN Food Industry"
A study done by Peter Petri and others, concluded that “The ASEAN Economic Community (AEC) is the largest integration effort attempted in the developing world; if realized, it will create a single market with the free movement of goods, services, foreign direct investment and skilled labor, and freer movement of capital encompassing nearly 600 million people.

The study finds that the AEC could yield benefits similar to those of the European Union, amounting to 5.3% of the region’s GDP and more than twice that if, as expected, the AEC leads to free trade agreements with key external partners. Every ASEAN member will share in these benefits.”

(Source: Peter A. Petri, Michael G. Plummer and Fan Zhai, The Economics of the ASEAN Economic Community, September 2010.)
ASEAN will continue to play an increasing presence in global supply of agro-food products. ASEAN is as a major producer of traditional products such as vegetable oil, rice, seafood, coffee, pulses, spices, sugar, fruits (banana, pineapple, mango) and vegetables.

Most of these commodities are indigenous resourced-based fresh produce to processed food and food ingredients. With the full implementation of the AEC, it is expected that the concerned ASEAN countries will benefit from economies of scale, competitive costs of material inputs and from expanded market base.
SOURCE OF RAW MATERIALS

**Rice** – Thailand, Vietnam, Cambodia and Myanmar already supply nearly half of global rice exports. This level of supply is expected to be sustained as there remain large potentials for expansion in areas and farm productivity in Cambodia, Myanmar and Laos. The Mekong River traverses Cambodia and Laos while Irrawady River drains into Myanmar. These river systems make the countries ideal producers of rice.

**Vegetable Oils** – ASEAN dominates the markets for coconut oil, palm oil, palm kernel oil for both food and non-food uses.
SOURCE OF RAW MATERIALS

Sugar – Thailand remains a global key player while Malaysia plays a significant role as a processor of imported raw sugar. The Philippines already a minor exporter is poised for expansion if and when the land reform program ends in 2013.

Fruits – ASEAN is already rich source of a variety of tropical fruits ranging from banana to mango to pineapple as well as exotic fruits like durian, duku, longan, mangosteen, rambutan, guava and tamarind. Dried bananas, jackfruit, papaya and pineapples are growing exports from the region.
SOURCE OF RAW MATERIALS

**Coffee** – Indonesia and Vietnam will continue to play big roles in the global robusta market. There is room for expansion in the highlands in these countries for Arabica and in the lowlands for liberica and excels.

**Seafoods** – ASEAN is already a leading exporter of shrimps and tuna. Thailand, Indonesia and Vietnam are among the leading world shrimp exporters. Vietnam is the leading supplier of catfish/pangasius.

“The Impact of AEC 2015 to the ASEAN Food Industry”
Several studies by Word Bank confirmed the fact that redeployment of resources induced by economic integration and trade liberalization is not without friction. Workers in import-competing industries may become unemployed for a period before finding jobs in expanding export industries. Output losses suffered by the economy as a result of such unemployment are the social adjustment costs of trade liberalization. However, the empirical evidence suggests that the social costs of trade liberalization tend to be small relative to its benefits. The adjustment costs will be minimized if there is strong private sector response to liberalization, particularly in newly profitable export sectors.
LABOR & TECHNOLOGY

- The Philippines’ catching up with adoption of science and technology packages and products including value adding technologies in the agro-food sector. Several challenges being addressed are:

1) Because of decentralization, measures are established to strengthen the weak links between technology producers and extension workers and farmers/fisherfolks,

2) Intensify use of media and public awareness campaign of the benefits of technologies and

3) Improve access to financial/credit facilities of MSME’s and

4) Enhance capacity of intended food producers and processors

“The Impact of AEC 2015 to the ASEAN Food Industry”
GOVERNMENT POLICY & PLANS

The ADB survey in 2008 in general, found out that “as much as of East Asia, ASEAN economies have outward-oriented trade and investment strategies. Their policies have focused on macroeconomic stability, trade liberalization, infrastructure investments in ports and roads, human capital development, and support for technology.

A more detailed view of the trade policy environment suggests that:

- Protection is relatively high in agriculture and beverage products relative to manufactures (with exception of chemicals, transport equipment and clothing for some countries)
- Protection is reasonably symmetric otherwise in any given country, tariffs are similar across most commodity categories. This limits distortion effects.
- Protection tends to fall with income. The region’s wealthiest economies—Singapore and Brunei—have essentially free-trade regimes; those with intermediate incomes—Indonesia, Malaysia, the Philippines and Thailand—have mostly low tariffs and its low income economies—Cambodia, Laos, and Vietnam—have relatively high tariffs. (Myanmar is an exception with low tariffs).”
GOVERNMENT POLICY & PLANS

- In the case of the Philippines, as noted in some studies, the major cross-cutting issues affecting the agro-food industry that have prevented it from maximizing its gains from trade liberalization include: low investments in infrastructure, high transaction costs, and the lack of coherent industrial policy.

- The Agriculture and Fishery Sector Plan is enshrined in the Philippines Development Plan of 2011 to 2016 which envisions a “competitive, sustainable and technology-based sector, driven by productive and progressive farmers and fisherfolks, supported by efficient value chains and well-integrated in the domestic and international markets, contributing to inclusive growth and poverty reduction.”

- This will be achieved through adoption of multi-pronged measures, such as: 1) to promote more value-adding into products and develop capacities of stakeholders for value-chain management 2) promote vertical and horizontal integration of input, production and marketing and strengthen the country’s agricultural exports by focusing resources on high value crops (fruits and vegetables, oil palm, coffee, coconut etc. and fishery products (grouper, seabass, seaweeds etc.).
MARKET OPPORTUNITIES & CHALLENGES

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MARKET OPPORTUNITIES & CHALLENGES

- The ASEAN is a fortunate region with its mix of resources, climate, people and proximity to large markets (i.e., China, India), all of which combine to make it a global player in food and agriculture materials. ASEAN accounts for:
  - Half of the global rice exports
  - Over 90% of palm oil and coconut oil exports
  - Over three-quarters of natural rubber exports; and large volumes of fruits, principally banana and pineapples, coffee, cocoa and spices (pepper, cinnamon, cloves, etc.) and sea-caught and cultured foods (tuna, cuttlefish, shrimps, seaweeds and catfish).
MARKET OPPORTUNITIES & CHALLENGES

- With estimated population of over 600 million people, ASEAN is also a significant market for agribusiness products.
- Several market reports that the global market for additives is valued at US $ 19.60 billion. Flavors represent the largest segment with a value of US$ 6 billion, followed by hydrocolloids at US $2.82 billion, flavor enhancers US $2.5 billion, acidulants US $ 2.16 billion, sweeteners US $ 1.5 billion, gums and thickeners US $ 1.41 billion.
MARKET OPPORTUNITIES & CHALLENGES

- ASEAN Inter and intra-regional trade will further grow. More affluent and health conscious consumers will demand greater quality, variety, and convenience from the food system.

- Rapid income growth and urbanization are having a profound impact on the food system in the developing member-economies of the region, creating opportunities to enhance farm sector profitability and encourage vibrant rural areas.

- Demand for packaged foods and eating out will likely increase faster.
MARKET OPPORTUNITIES & CHALLENGES

- In the long run, the challenges remain to include the spectre of high food, energy and fertilizer prices as oil, natural gas and fertilizers are non-renewable resources. These problems will be exacerbated by water scarcity and climate change,

- While tariff barriers have come down, the export markets are getting more stringent with food safety considerations. Chemical residue limits and supply chain traceability have become more demanding and certification, more expensive.
ASEAN has made considerable progress in economic integration, with its aim to create the AEC by 2015. The AEC would have a population of over 600 million, a total area of 4.5 million square kilometers, a combined GDP of almost US $ 1,100 billion, and a total trade of about US $ 1,400 billion.

However, after the global financial crisis that hit the world, the ASEAN Economic Community (AEC) target of 2015 (free movement of goods, services, investment, skilled labor, and freer flow of capital) has delayed the much-needed progress and targets been missed or below expectations. The global financial crisis has called for rebalancing of priorities, policies, and measures. For one, the crisis emphasized the importance of nurturing domestic economies, and underscored the value of adopting a more prudent stance in terms of trade liberalization.
CONCLUDING REMARKS

For the Philippines, committing the economy to the further opening up of markets, at a time when domestic sectors, due to limited government support, has yet to achieve parity in terms of competitiveness with its trade partners in key sectors, requires a careful evaluation as well judicious balancing of the opportunities and risks associated with these economic integration and liberalization measures.
CONCLUDING REMARKS

The Philippines Agro-Food Industry can benefit from AEC 2015 and can be more competitive through increased investments and stronger Private Public Partnerships:

- **First**, the Philippine agro-food industry needs to seize fully the immense market opportunities that AEC 2015, the FTA and other new FTAs present for both traditional and new agricultural exports. The industry must be made aware of these opportunities, as well as threats from imports so the sector can adjust. Lower cost of farm inputs and raw materials- through improved infrastructure, lower ground and sea transport cost, less government red tape - become even more relevant. Also, R&D, agricultural education and training need ramping up.
CONCLUDING REMARKS

- **Second**, agribusiness must update old models and develop new ones. By linking small crop farmers to global and domestic markets, large corporate integrators (foreign and domestic) are proving the Philippines can compete.

- **Third**, to reduce costs and increase efficiencies there must be increased integration – backwards and forwards – in priority agriculture subsectors, such as grains/feeds, livestock and poultry and fruits and vegetables. Small crop farmers should increasingly be linked in consolidated or cooperative arrangements with large companies in order for their products to be more competitive, in domestic as well as export markets.

- **Finally**, an ASEAN Supply and Value Chain collaboration among the ASEAN countries may be explored.
AEC 2015 IMPACT TO THE FOOD INDUSTRY:

Regulations; Source of Raw Materials; Labor and Technology; Government’s Policy and Plan; and Market Opportunities and Challenges

September 21, 2011
QNSCC,
Bangkok, Thailand