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THE EVOLUTION OF PHILIPPINE FISHERIES POLICIES AND ISSUES FOR DEVELOPING EXPORT MARKETS UNDER A GLOBAL TRADING ENVIRONMENT

by

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THE EVOLUTION OF PHILIPPINE FISHERIES POLICIES AND ISSUES FOR DEVELOPING EXPORT MARKETS UNDER A GLOBAL TRADING ENVIRONMENT

A.C. Costales and Y.T. Garcia[1]

ABSTRACT

The fishery is one of the few food sectors in Philippine agriculture where net exports are positive. However, in the span of two decades, from 1980 to 2000, there were major policy regimes that the fishery export sector had to contend with. These policy regimes coincided with the periods of stagnation (1980-84), rapid growth (1985-94) and the slowing down of the economy in the later years (1996-2000). This paper attempts to review the evolution of the fishery policy within these periods and, at the same time, seeks to identify major domains of the policy to strengthen the export potentials of the country in response to the growing fish demands in the international market.

Keywords: fisheries policy, export, import, global trade, competitive advantage

INTRODUCTION

In the realm of international trade on agricultural commodities, the Philippines has turned into a net food importer, especially in the case o certain major items such as cereals, livestock meat and dairy products. The fishery appears to be one the few remaining sectors in agriculture where positive net exports can be sustained. In a globalized trade environment, however, export potential does not necessarily translate into development from within, or market access to the rest of the world. While the rules on market access as defined by the country's multilateral and bilateral agreements are important, this paper focuses on the domestic policy environment inherent to the fishery sector.

Objective

This paper attempts to review the main aspects of the evolution of the policy environment in the last two decades, examine the character of the export performance of the fishery sector, and identify major domains of the policy to strengthen the export potential in response to the increasingly stringent demands on gaining market access to the international arena. The paper restricts itself to existing literature on policies impacting Philippine fishery production and trade, and secondary data on the trends and character of the fishery industry output, imports and exports.

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Issues

Resource endowments are one of the major determinants of the patterns of trade. In this regard, with the international recognition of its 200-mile Exclusive Economic Zone (EEZ), the endowments of the Philippine archipelago must be recognized as relatively vast. When a resource becomes depleted, however, the matter of export potential is naturally ruled out. While severe resource depletion in Philippine municipal waters is now well documented, there are still other fishery resources that can be properly managed for output and export expansion. Two sets of policy domains are forwarded as influencing the behavior of fishery exports: macro level and sector-specific policies. At the macro level, the exchange rate and interest rate policies are considered most important. At the fishery sector level, trade policies (tariff and non-tariff) that distort relative prices are deemed to matter. There are, likewise, fishery-specific regulations that enhance or inhibit the exploitation of the fishery resources.

The Philippine fishery industry is divided into three broad sectors, i.e., the municipal, commercial, and aquaculture sectors. These sectors are facing different sets of opportunities and constraints, and responding to different changes in the policy environment. Over the years, the outputs of the municipal fisheries have continued to decline due to resource depletion in spite of the numerous laws restricting commercial fishing in the coastal waters. This decline is a testimony to the ineffectiveness of the fishery laws and regulations to avert the undesirable outcomes.

The continuing encroachment by commercial fishers on the municipal waters and their failure to exploit the vast territorial waters covered by the EEZ reveal the fact that there are distortions in the set of incentives the commercial fishers faced in the last two decades. This matter is important as the performance of marine exports is more closely linked to the commercial fishery sector than the municipal one.

The potentials of the aquaculture sector are of great interest as the performance of the industry is subject to greater control. Nonetheless, it is important that the policy is attuned to the imperatives for making the sector competitive in price and product quality, for a global market that is not only growing but also becoming more discriminating. For the municipal fishery sector, a question is looming whether there is room for small-scale fishers to participate in the export market. While it is currently difficult to associate international trade with municipal fishery activities, there is nothing that predestines local level activities to the domestic market. There are, however, two preconditions for the municipal fishery sector to participate in the export market, namely: a) the reversal of the sliding of the municipal fisheries into depletion; and b) the evolution of institutions that will permit access of small-scale fishers to technology, capital, and markets.

THE PHILIPPINE FISHERY INDUSTRY

Resource Endowments

Marine and inland waters

The Philippine archipelago is endowed with a relatively vast marine area within its Exclusive Economic Zone (EEZ), covering 19.3 million km^2 0f oceanic waters and 2.7 million km^2 of coastal waters. The archipelago has a total coastline of approximately 17,460 kilometers. The Philippines, in addition, has some 750,000 hectares of inland

waters, of which fishponds cover about 254,000 hectares (34%); swamplands, 246,000 hectares (33%); lakes, 200,000 hectares (27%); and rivers and reservoirs account for the rest (DA-BFAR 2001).

Human resources.

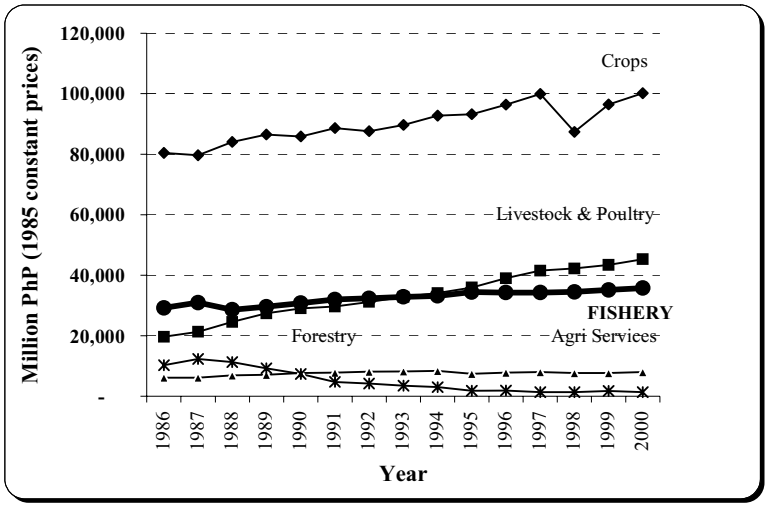
According to the 1990 census, there were about 807,000 workers directly employed in the fishery industry. About 46 per cent of the workers (374,400) were engaged in municipal fisheries; 44 per cent (358,000) in commercial fisheries, and 9 per cent (74,500) in aquaculture. Employment in fishery constituted about 12 per cent of employment in the whole of the agricultural sector.

Significance of the Agricultural Economy

Domestic output

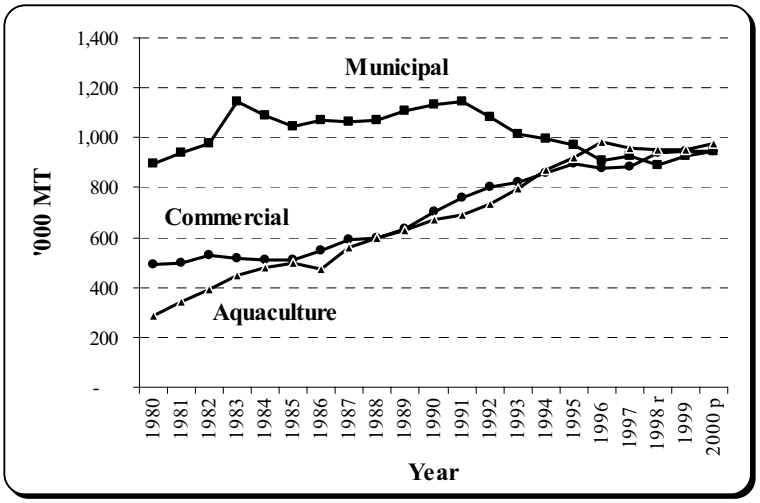
In 2000, gross value-added (GVA) output of the fishery sector constituted about 19 per cent of Agriculture GDP. From its position as the second largest major contributor to the agricultural economy (next to crops) in the 1980's, the fishery output has been overtaken by the more dynamic livestock and poultry industry since the second half of the 1990's. The evolution of the contribution of the fishery sector relative to the other major sectors in agriculture is shown in Figure 1.

Figure 1 Gross value added output in agriculture, fishery and forestry, 1986-2000, at constant 1985 prices



In the last five years, the volume of fishery output has remained quite stagnant. There are, however, varying growth performances in the three major sub-sectors. The municipal fishery sector reached its peak in 1991, and from then on, a pattern of descent has been observed (Figure 2). On the contrary, both the commercial and aquaculture sectors had shown a rather rapid growth from 1980 to 1995. In particular, the rate of growth in aquaculture output was quite phenomenal. Whereas its share in the total output was smallest (18%) in 1980, by 1996, it had surpassed those of the two others. The growth, however, has decelerated in the recent years.

Figure 2 Volume of output from municipal, commercial, and aquaculture fisheries, 1980-2000



The decline of the municipal fisheries is associated with the degradation of the coastal resources, notwithstanding the laws prohibiting commercial encroachment and the use of illegal fishing methods. Unless the descent of resource depletion is immediately reversed, the coastal fishery resource base will not stand on firm ground to serve as the source of a comparative advantage in fishing output and trade. However, aquaculture and commercial fisheries still appear to have room for output expansion. The export potentials, however, depend on the existence of a competitive advantage, and the ability to capture market niches in the global trade in fish and fishery products.

Contribution to exports

Export products from the fisheries are classified as non-traditional exports of the Philippines. Coconut products had historically and consistently dominated agricultural exports in terms of export revenue. Since 1995, however, coconut products have been on the decline and the non-traditional exports of fish and fishery products, as well as banana, have out paced the traditional exports of fruits, vegetables, and sugar. Fishery products now ranks second to coconut products in terms of their shares in the agricultural export revenue, contributing about 19 per cent of the total value. Among the non-traditional agricultural exports, the contribution of the fisheries was the largest at 41 per cent.

In the major food groups, such as cereals, livestock meat and dairy, the Philippines has now become a net food importer. Fishery is one of the few remaining areas where the Philippines still generates significant net export revenue.

EVOLUTION OF THE POLICY FRAMEWORK FOR FISHERIES ACTIVITY AND TRADE, 1980-2000

Macroeconomic Reforms

From the 1970s up to 1984, the Philippines adopted a fixed exchange rate policy vis-à-vis the U.S. dollar. The external shocks of 1979-83 compounded the impact of policy imbalances. With the stagnation of exports and widening deficits, the exchange rate was sustained only by

resort to foreign borrowing, reflected in the doubling of the Philippine's foreign debt to 75 per cent of GNP from 1975 to 1983 (Houben 1997).

With severely depleted foreign exchange reserves, two successive major devaluations were taken during 1983-84. The measures, however, failed to produce the desired results for a deepening economic crisis, and the exchange rate was floated. Under an officially declared flexible exchange rate policy at the end of 1984, the Philippine currency allowed to gradually depreciate from an official exchange rate of PhP 18.57/US dollar in the first quarter of 1985 to PhP 49.25/US dollar by the 4th quarter of 2000.

Trade Reforms, 1981-2000

The 1980s

Trade liberalization and tariff reform in the 1980s had its roots in two major trade reform programs started in 1981, namely: the Import Liberalization Program (ILP), and the First Tariff Reform Program (TRP-I). The ILP intended to phase down regulations and quantitative restrictions on trade. The TRP, on the other hand, intended to reduce tariff rates on imports and narrow down the range of tariffs to provide a relatively more equitable treatment among sectors. The ILP and TRP-I, however, were derailed when the Philippine economy was hit by a severe and prolonged recession in 1983-85, and then revived with the ascension of the Aquino administration after the overthrow of the Marcos regime in the "People Power Revolt" of 1986.

Trade reform in the early 1990s

Trade reforms in the first half of the 1990s were essentially a continuation of the pursuit of directions initiated by the ILP and TRP-I. In 1991, the Second Tariff Reform Program (TRP-II) was launched. This aimed to further lower the tariff rates on imports, and simplify the tariff structure into a four-tier scheme, with the respective rates of 3, 10, 20, and 30 per cent. In 1994, the Third Tariff Reform Program (TRP-III) was issued to further scale down and simplify the tariff structure. Among others, it sought to lower tariffs on "non-sensitive" agricultural products.

Multilateral trade agreements in the 1990s

There were two multi-lateral trade agreements that the Philippines entered into in the 1990s, namely: the ASEAN Free Trade Area (AFTA) Agreement of 1992, and the WTO Agreement on Agriculture in 1995. According to the AFTA Agreement, fishery items are covered by the implementation of scaling down of tariffs up to 2003 in line with the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme.

The WTO Agreement required the opening up of the agricultural sector by removing quantitative restrictions (QRs) on imports and allowing for the agreed-upon levels of "minimum access volumes" (MAV) for imports in previously protected sectors. In exchange, the country was allowed to impose high bound tariffs for out-quota imports. Fish and fishery products do not fall under the WTO Agreement on Agriculture (Salayo 2000). Fishery, however, is covered by the general rules on the GATT, specifically in Article XI of GATT 1994, which bans the use of quantitative import restrictions.

Institutional Reforms, 1987-98

There are four (4) major pieces of legislation affecting the institutional framework of fishery activities, spanning the period 1987-98. These are the Comprehensive Agrarian Reform Law (CARL) of 1988 under the Republic Act (RA) 6657; the Local Government Code (LGC) of 1991 under RA 7160; the Agriculture and Fisheries Modernization Act (AFMA) of 1997 under RA 8435; and the Philippine Fisheries Code (PFC) of 1998 under RA 8550.

The CARL of 1987 had particular provisions that have impact on aquaculture. Although the provision for a 5-hectare retention limit to land ownership was waived on fishponds and other properties for aquaculture activities (Gonzales et al. 1998), this constitutes an exception to the general rule on retention limits. There are transaction costs resulting from the application of the exception in the course of business activities in aquaculture.

The Local Government Code of 1991 contained a particular provision extending the limits of the municipal waters to 15 km from the shoreline (from the 7-km limit provided for in the 1975 Fisheries Code). This meant that commercial fishing became legally excluded from the new 15-km limit. At the same time, the Code devolved a significant portion of the functions of the national agencies, such as the Department of Agriculture's Bureau of Fisheries and Aquatic Resources (DA-BFAR) to the Municipal Governments and the Local Governments. This is particularly true for matters pertaining to the management, development, exploitation and protection of the fisheries and aquatic resources.

The AFMA of 1997 and the Fisheries Code of 1998 are closely related. The AFMA prescribes the urgent measures that the government shall undertake regarding the incentives for agriculture and fisheries to become efficient and competitive amidst a globalizing and liberalizing trade environment.

The Philippine Fisheries Code of 1998 is considered a landmark Act for the fisheries sector because it consolidates all fisheries laws. It was the Act explicitly providing for the "development, management, and conservation of the fisheries and aquatic resources, integrating all pertinent laws thereto…" (RA 8550). On the stance pertaining to fisheries trade, the 1998 Code is significant in that although food security was an overriding concern in Chapter 1, Section 2 on the Declaration of Policy states that:

"2a. …A flexible policy towards the attainment of food security shall be adopted in response to changes in demographic trends for fish, emerging trends in trade of fish and other aquatic products in domestic and international markets, and the law of supply and demand"; and

"2c. To ensure rational and sustainable development, management and conservation of fishery and aquatic resources in the Philippine waters including the EEZ and in the adjacent high seas…."

The 1998 Code also provides for specific incentives for as well as restrictions on fishery production and trade activities.

Fishery Specific Programs and Policies, 1980-2000

The content and thrust of the country's fishery programs were reflected in the elements of various local and foreign-assisted programs for fisheries in the 1980s and the 1990s. In

addition, the content and tone of fisheries policies could be discerned from the various Fishery Administrative Orders (FAOs) of the DA-BFAR on matters relating to the exploitation of fishery resources, and in the exportation and importation of fish and fishery products. The relevant FAOs relating to trade in fisheries are provided in the Appendix, Tables 1-3.

1980-1986: Exploitation of fisheries resources

The period up to 1986 could be characterized by the existence of two major fishery programs for small-scale fishers, which provided supervised credit schemes for the purchase of motorized boats and fishing equipment. Price controls on diesel fuel (the "poor man's fuel") were also in effect.

In the realm of international trade, import and export permits were required. Export and import bans on particular fish species were imposed (see the Appendix, Table 1.). This was consistent with the general description of a trade regime that had rigid import and export controls.

1986-92: Steering away from supervised credit programs

During this period, the supervised credit programs for fishery operations established in the previous regime were discontinued. Export taxes were also removed in 1986. With the passage of the Omnibus Investment Code of 1987, the set of incentives for pioneering investments provided by the Board of Investments (BOI) also became available to commercial fisheries and aquaculture ventures. The incentives included, among others, interest rate subsidies on equipment, and tax exemptions on diesel fuel and inorganic fertilizer (Gonzales, et al., 1998).

Although it was during this period that the Import Liberalization Program (ILP) and the Tariff Reform Programs (TRP-I and TRP-II) were resumed, the ban on exporting mollusks was issued (see the Appendix, Table 2). The ban on importation of tuna from Mexico and Venezuela was also imposed.

1992-98/2000: Training sites on the country's EEZ

In this period, poverty in the coastal areas and the rehabilitation of the degraded municipal fisheries became major concerns. With fishery resources in the coastal waters close to depletion, the high seas within the country's EEZ became the logical new frontier for commercial fishing. Incentive schemes were devised in the 1998 Fisheries Code for commercial fishing in the high seas.

On the trade side, a more serious consideration was given to the export market for fish. The more stringent quality requirements for the exportable fish became explicitly recognized. Fish exporters were encouraged to adopt the HACCP standards for food safety (see the Appendix, Table 3).

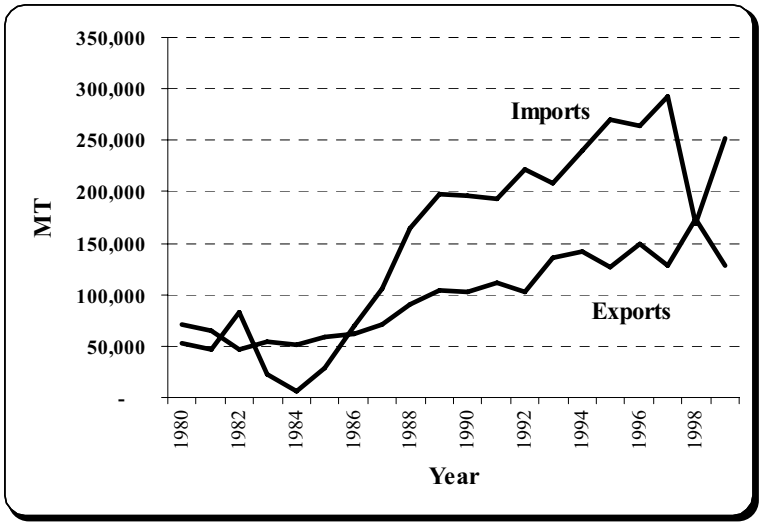
In summary, the evolution of fisheries policies revealed a gradual movement from subsidized exploitation of the municipal fisheries to a more conservational approach; from focusing on the municipal fishery resources to realizing the potential of the entire EEZ; and from an early regime of the import and export regulations on fish to gradual liberalization of trade in fish and fishery products.

FISHERIES TRADE PERFORMANCE, 1980-2000

Volume of Trade

The volume of exports and imports of fish and fishery products, in metric tons (MT), is presented in Figure 3. The downturns in the volume of imports almost exactly correspond to what happened in the periods of economic recession in 1983-85, 1990-91, and the Financial Crisis of 1997-98.

Figure 3 Volume of exports and imports of fish and fish products, 1980-99



For exports, the low-volume levels in the early years of 1980-1984, extending into 1985 correspond to the period of a fixed exchange rate regime, coupled by tight foreign exchange and export and import controls, and export taxes in the Marcos era. Starting in 1986, the volume of exports began to expand steadily and consistently. Over the same period, extending into 1997, the volume of imports quadrupled.

Value of Exports and Imports

The pattern of fishery exports and imports from 1980-99 is shown in Figure 4. The value of exports was consistently and significantly higher than that of imports, suggesting that the Philippines was exporting high-value fish and fishery products while importing low-value counterparts.

The early years (1980-85) also marked a period of very low levels of import and export values. The period of rapid growth in export value spanned 1985-94 while that of imports was in 1985-1997. At its peak in 1994, net export revenue reached US$ 425 million.

Structure of Fishery Exports

The distribution of value of exports in million US dollars for 2000, is given in Table 1. Under the DA-BFAR classification of fishery exports, the major items generating export revenue are readily identifiable as crustaceans, tuna, and seaweeds/carrageenan. Crustaceans, the top export revenue earner (39%), consisted mainly of shrimp and prawn, fresh/chilled or frozen. Tuna, which came second (30%), was exported in two forms: fresh/chilled, frozen; or

processed (canned). Seaweed and carrageenan was then a newcomer in the fishery export scene. This commodity, however, is not included in the standard FAO system of commodity classification for fisheries.

Figure 4 Value of exports and imports of fish and fish products, 1980-99

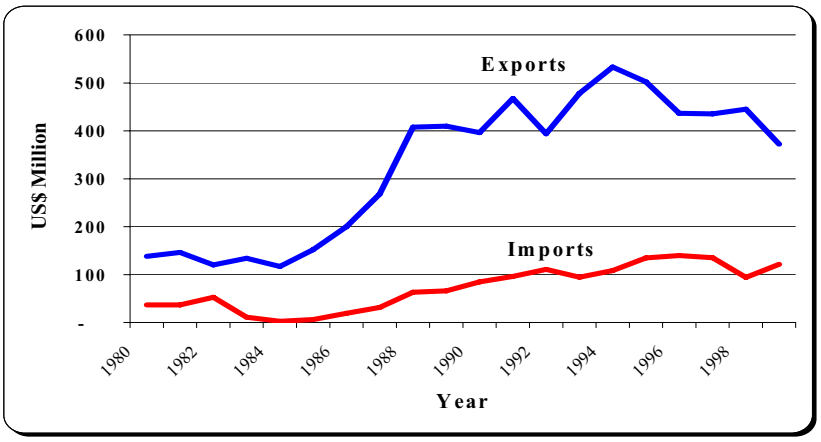


Table 1 Value of fishery exports by major classification, 2000

COMMODITY	Value (US$ M)	Share (%)
Crustaceans	168.14	38.7
Tuna	128.31	29.6
Seaweeds/carageenan	85.12	19.6
Mollusks	32.22	7.4
Other fish	20.36	4.7
TOTAL	434.15	100.0

Source: DA-BFAR 2001

Presented in Table 2 is the average annual value of fishery exports in the last five years covering the period 1995-99, using the 7-commodity FAO system of classification of fish and fishery products. Only three of the seven commodity types figure prominently as Philippine exports. These are: *crustaceans and mollusks - fresh, chilled, frozen, dried or smoked* (49%); *fish products and preparations* (29%); and *fish - fresh, chilled or frozen* (20%). The dominance of crustaceans is still reflected but the importance of tuna is more or less masked. The structure of fishery exports indicates that Philippine exports are limited to a rather narrow range of high-value items. Export revenue crucially depends on the market conditions of these commodity groups.

It could be asked whether the structure of Philippine fishery exports has always consisted of the three dominant commodity classes. In Figure 5, the dominant position of the three commodity groups as a whole had been maintained through the last two decades. There were, however, changes in their shares in export revenue. In the early period (1980-84), the shares were relatively balanced. During the next 10 years (1985-94), crustaceans and mollusks became

extremely dominant, accounting for about 60 per cent of the total fishery export revenue. At the same time, these years witnessed a steep decline in the relative share of *fresh, chilled and frozen fish*, down to only about 10 per cent of the export revenue.

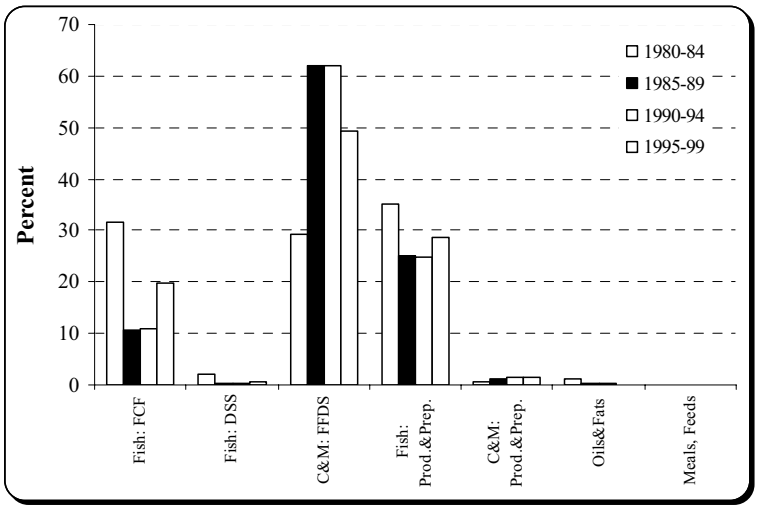
The last period (1995-99) saw the decline in the relative position of crustaceans and mollusks, and the significant recovery of *fresh, chilled and frozen fish*. The relatively stable position of *fish products and preparations* can be noticed all through the two decades.

Table 2 Structure of fishery exports by average annual valueand major classification, 1995-99

COMMODITY CLASSIFICATION	Value, 1996-99 ('000 US$)	Share (%)
a. Fish: fresh, chilled or frozen	83,435	19.8
b. Fish: dried, smoked, salted	3,114	0.7
c. Crustaceans and mollusks: fresh, chilled, frozen, dried, smoked	208,314	49.3
d. Fish: products preparations	121,010	28.7
e. Crustaceans and mollusks: products preparations	6,334	1.5
f. Oils and fats	15	0.0
g. Meals, feeds	59	0.0
TOTAL	422,281	100.0

Source: FAO 2001

Figure 5 Shares in value of fishery exports by commodity class, 5-yr averages, 1980-99



Structure of Fishery Imports

The structure of Philippine fishery imports in the last five-year period, 1995-99, by FAO commodity classification is shown in Table 3. Of the seven commodity classes, Philippine imports can be seen practically concentrating on only two items: *fish - fresh, chilled or frozen* (56%); and *meals and feeds* (39%).

Table 3 Structure of fishery imports by annual average value andcommodity class, 1995-99

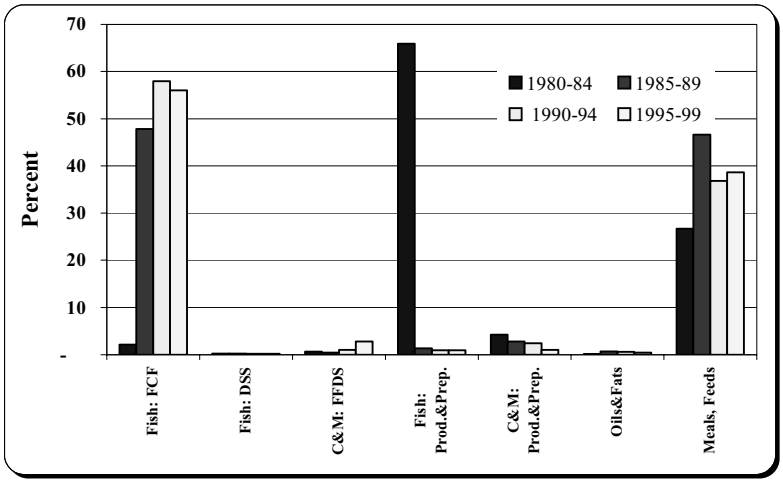
COMMODITY CLASSIFICATION	VALUE Annual Average 1995-99 ('000 US$)	SHARE (%)
Fish: fresh, chilled or frozen	87,482	56.0
Fish: dried, smoked, salted	292	0.2
Crustaceans and mollusks: fresh, chilled, frozen, dried, smoked)	4,368	2.8
Fish: products and preparations	1,506	1.0
Crustaceans and mollusks: products and preparations	1,548	1.0
Oils and fats	705	0.5
Meals, feeds	60,375	38.6
TOTAL	156,275	100.0

Source: FAO 2001

What this information reveals is that the Philippines also imports fresh, chilled or frozen fish. It should be noted that these are mainly inputs for the tuna canning industry because the country has a significant domestic and export market for *canned tuna* as well as *fish products and preparations*. The other significant import commodities are *fish meals and feeds*. With the rapidly expanding livestock sector and growing aquaculture industry, the importation of significant volumes of fish meals and feeds could be readily understood.

The structure of Philippine fishery imports has been relativelyconsistent, except in the early period (1980-84). Shown in Figure 6are the shares in import value of the major commodity classifications of fish, evaluated at 5-year averages from 1980-99. In the early years of fixed exchange rates prior to the recession period, the imports of *fish products and preparations* occupied the most dominant position, constituting 66 per cent of the total value of fishery imports. In the subsequent years, this class of imports almost dropped out and never recovered, and only two classes of fishery imports remained.

Figure 6 Shares in value of fishery imports by commodity class, 5-yr averages, 1980-99



Trends in Fishery Exports, 1980-99

Crustaceans and mollusks: fresh, chilled, frozen, or salted

As the top fishery export revenue earner, crustaceans and mollusks consist largely of *fresh, chilled or frozen shrimp and prawn*. In Figure 7 is shown the trends in volume and unit value of exports of crustaceans and mollusks, from 1980 to 1999. In volume terms, the first decade marked the rapid and sustained expansion in output, witnessing almost a nine-fold increase in output from 1980 to 1991. From 1991 onwards, however, the volume of exports began to gradually decline.

For unit value of exports, 1984-1988 was a period of continuously increasing unit value. From 1989 onwards, however, a general decline in unit values could be observed. The decline in export volume, compounded by falling unit values, had a telling effect on the export revenue from crustaceans and mollusks during 1991-1999. As these were the top fishery export earners, one would expect adverse effects on the overall fishery export revenue.

Fish products and preparations

Shown in Figure 8 are the trends in volume and unit value of exports of *fish products and preparations*. This category mainly consists of manufactured (canned) tuna, for which manufacturing grade tuna can either be domestically sourced or imported. In terms of export volume, a rather long period of general expansion in the sector can be noted, spanning the years 1980-1996. The downturn in output starting in 1997 coincided with the Asian Financial Crisis of 1987-98.

In terms of unit value, it may be noted that unit values for *fish products and preparations* experienced a general decline, then stabilized in the the 1990s, fluctuating about US$2/kg.

Figure 7 Trends in volume and unit value of exports of crustaceans and mollusks, 1980-99

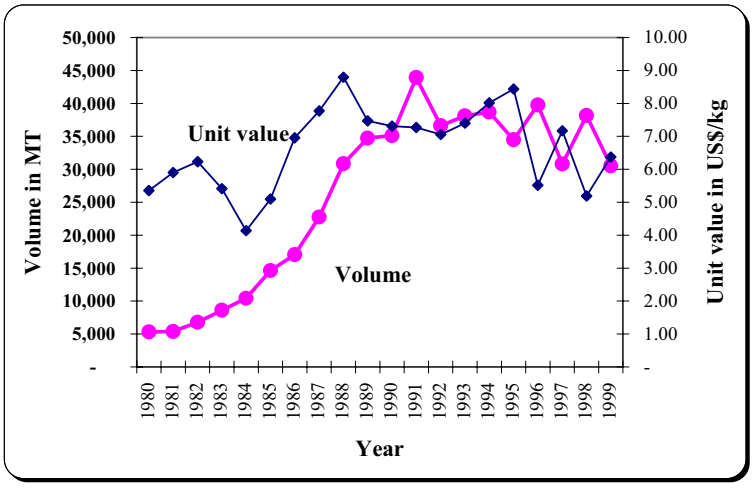
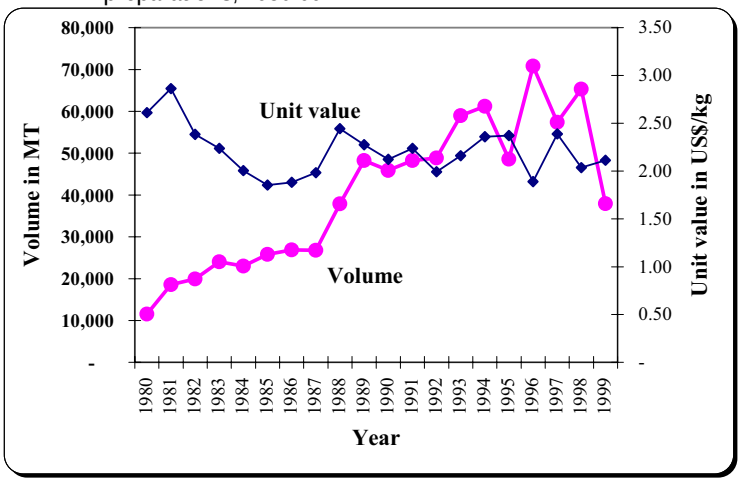


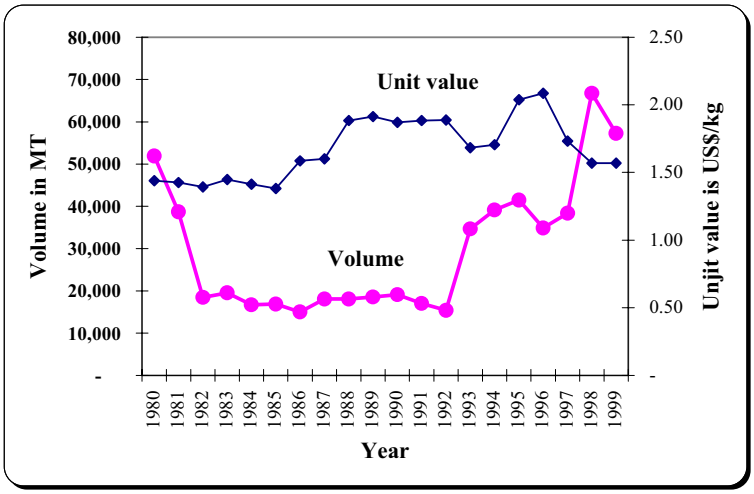
Figure 8 Trends in volume and unit value of exports of fish products and preparations, 1980-99



Fresh, chilled and frozen fish

The movement in volume and unit value of exports of *fresh, chilled and frozen fish* over two decades is shown in Figure 9. This category consists mainly of fresh, chilled, or frozen tuna. In general, unit values of exports were increasing during 1980-1997, indicating an attractive international market for this class of fishery export. The volume of exports, however, stagnated for over a decade from 1982 to 1992. Although the export taxes were already removed in 1986 and the process of trade liberalization was started, the response from this sector was rather slow. It was only in 1993 that this sector began to recover, reaching a new peak of 66,700 MT by 1998.

Figure 9 Trends in volume and unit value of exports of fresh, chilled and frozen fish, 1980-99



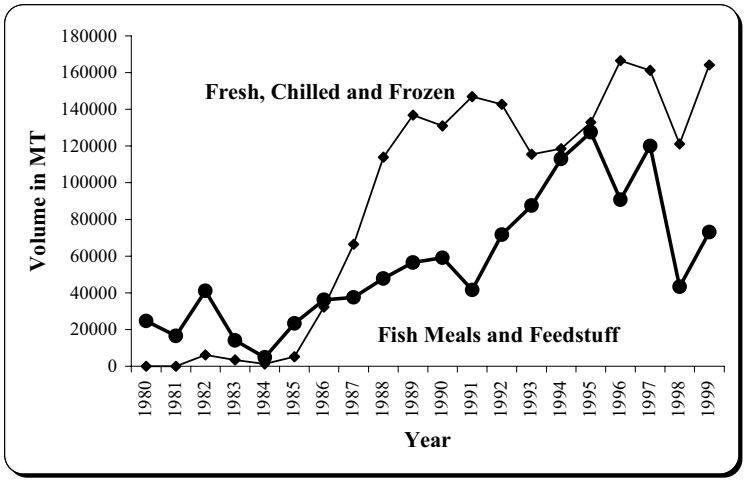
Trends in Fishery Imports, 1980-99

Only two major categories of fishery commodities are significant on the importation side: a) *fresh, chilled, frozen fish*; and b) *fish meals and feedstuff*. In Figure 10 is shown the behavior of the volume of imports for the two major classes. For both, 1980-85 was a period of very low levels of imports. This coincided with the period where quantitative import restrictions were still in place.

Also, for both, the period of rapid growth started in 1986. *Fresh, chilled and frozen fish* reached its peak in 1996 while importation of *meals and feedstuff* reached its own a year earlier in 1995. The Financial Crisis of 1997-98 had an adverse impact on importation of both fish categories, but with a stronger one on the *meals and feedstuff*.

It should be noted that the importation of *fresh, chilled and frozen fish* is linked to the demands of the fish canning industry, which has both domestic and export markets. Importation of *fish meals and feedstuff*, on the other hand, is linked to the domestic livestock industry, and to some extent, to the aquaculture industry.

Figure 10 Volume of imports of fresh, chilled and frozen fish, and fish meals and feedstuff, 1980-99



THE MACROECONOMIC AND TRADE POLICIES UNDERLYING FISHERIES TRADE PERFORMANCE

Macroeconomic Policies

The real exchange rate

While the periods of a fixed exchange rate regime (1980-84) and floating exchange rate regime (1985-onwards) are readily identified, it matters also whether over the period of floating exchange rates, the series of depreciations of the local currency were sufficient to remove the distortions of an overvalued exchange rate. The judgment is made by comparing the official exchange rate (OER) with the estimates of the shadow exchange rate (SER) over time.

Alviola (1997) provided estimates of the SER from 1981-94. These estimates are

summarized and presented in Table 4. As presented in the table, the OER, SER, and rates of overvaluation of the local currency vis-à-vis the US dollar in three periods can be compared. During the regime of fixed exchange rates, the overvaluation averaged at a high of 31 per cent. During this period, it is thus possible to surmise the magnitude of the penalty imposed on exporters of the three major categories of fish. The rate of over-valuation declined substantially to an average of 18.5 per cent in the next period, 1985-1990, and again slightly to 17.4 per cent in the next period.

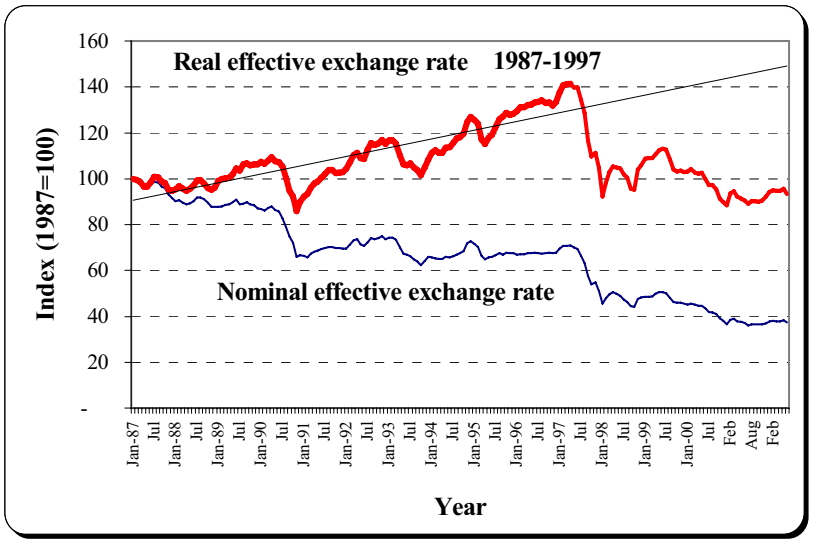
Table 4 Official and Real Exchange Rates of the Philippine Peso, 1981-1994 (in US$/Ph peso)

PERIOD	Official exchange rate	Estimated real exchange rate	Estimate of overvaluation (%)
1981-84	0.098	0.075	*30.9*
1986-90	0.048	0.040	*18.5*
1991-94	0.037	0.032	*17.4*

Source: Alviola 1997

For the period 1995-2000, no new estimates can be found in the literature. Available, however, are the nominal (NEER) and real (REER) effective exchange rate indices provided by the Central Bank. The REER represents the appreciation or depreciation of the Philippine peso against the currencies of its major trading partners. With 1987 as the base year, the NEER and REER indices for 1987-2001 are shown in Figure 11. It can be observed that even as the Philippine currency depreciated in nominal terms, 1987-97 represent a period of real appreciation of the local currency.

Figure 11 Nominal and real effective exchange rates, Philippines, 1987-2002



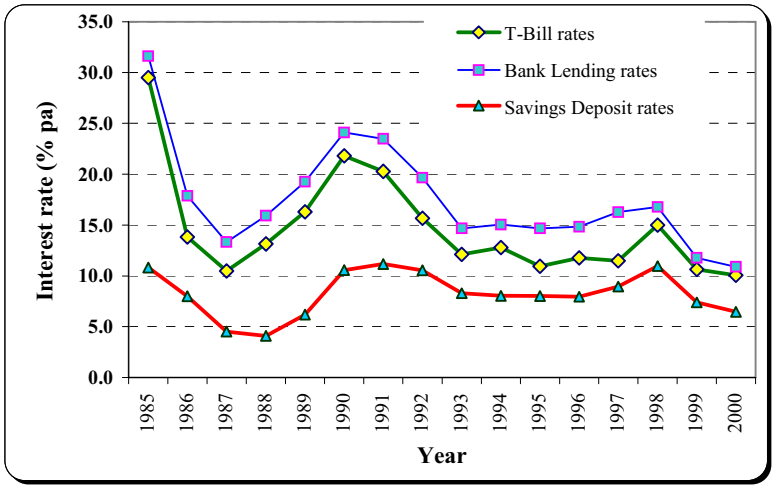
The plunge in both the NEER and REER after 1997 coincided with the series of devaluation of the peso when the Asian Financial Crisis hit on July 1997. It could also be

observed that the magnitudes of the nominal depreciation were large enough to bring the REER back to its base level in 1987.

Interest Rates

The Central Bank guidelines for interest rates on loans and deposits by the rate it sets for its 91-day Treasury Bills (T-Bills). Shown in Figure 12 is the pattern of interest rates on 91-day T-Bills on an annual average basis, from 1985-2000. The pattern can be easily viewed in two equal periods. The first one, from 1985 to 1992, was a period of financial instability with relatively high interest rates. In five of the eight years, lending rates were between 19 and 32 per cent per annum.

Figure 12 Interest rates on treasury bills, lending rates, and savings deposit rates, annual averages, 1985-2000



For the second period spanning 1993-2000, the T-Bill rates had generally came down to 10-13 per cent per annum. Lending rates also went down 11-15 per cent per annum. It is an acknowledged fact that, for about a decade up to 1992, investors in the fisheries for the export market had to come to terms with the extremely high cost of loan.

The Evolution of Fisheries Tariff Policy

The evolution of tariff policy in the fisheries sector has to be viewed within the overall context of the Philippines' Import Liberalization Program (ILP) and the Tariff Reform Programs. The schedule of tariffs on fish and fishery products from 1985 to 2000 is shown in Table 5. The extension to 2001-2005 is also included.

There are "seasonal" tariffs for major fish items, in fresh, chilled or frozen form. The higher tariffs are imposed during the "regular season" from March to July. The tariffs are lowered significantly in the "lean" months from August to February.

Table 5 Tariff schedules for fish and fish products, 1980-2000; 2001-2005 (in percentage)

HS Code	Product	1985-88	1989-92	1993	1994	1995-97	1998	1999	2000	2001	2002	2003	2004-05
3.02	Fish, fresh or chilled (March to July)						10	10	7	7	7	5	5
	(August to February)*						3	3	3	3	3	3	3
3.02.32	> Yellowfin tuna (March to July)	30	30	50	40	30	10	10	7	5	5	5	5
	(August to February)*	10	10	10	10	10	3	3	3				
	> Milkfish (March to July)	30	30	30	30	30	3	3	3	3	3	3	3
	(August to February)*	10	10	10	10	10							
3.03	Fish, frozen												
3.03.4200	> Yellowfin tuna (March to July)	30	30	30	30	30	10	10	7	5	5	5	5
	(August to February)*	10	10	10	10	10	3	3	3				
	> Milkfish	20	20	20	20	20	20	20	15				
3.04	Fish fillets and other fish meal	20	30	30	30	20	10	10	7	7	7	5	5
3.04.1000	> Fresh or chilled (March to July)	20	30	30	30	20	10	10	7	7	7	5	5
	(August to February)*	10	10	50	40	40							
3.04.2000	> Frozen fillets (March to July)	20	30	30	30	30		10	7	7	7	5	5
	(August to February)*	10	10	50	40	40							
3.05	Fish, dried, salted or in brine	50	50	40	35	30	20	20	15	15	10	7	5
	Fish smoked	50	50	80	60	30	20	20	15	15	10	7	5
3.06	Crustaceans, live, fresh, chilled, frozen, dried, salted or in brine												
3.06.1300	> Shrimps and prawns, frozen	20	20	20	20	20	20	20	15	15	10	7	5
3.06.2300	> Shrimps and prawns, not frozen	20	20	20	20	20	20	20	15	15	10	7	5
3.07	Mollusks, oysters, scallops,						20	20	15	10	10	7	5
23.09	Animal feed preparations												
	>Prawn feeds	10	10	10	10	10	3	3	3	3	3	3	3
	>Others ('catch all' tariff line for animal feeds: hog feeds, bangus feeds, tilapia feeds, etc.)	30	30	50	50	50	45	45	45	40	35	30	20

Source: Philippine Tariff Commission, various years.

* In general, the tariff rate from March to July is imposed, but the tariff rate is reduced when importation occurs during the lean fishing months from August to February.

** input to canning industry, zero tariff is acceptable beginning 1999.

*** not localy produced, zero tariff is acceptable as beginning rate.

Over the years, there were discernible shifts in tariff policy. The first period, 1985-92, would more or less be covered under TRP-I. The "regular season" tariffs range from 20 to 30 per cent for fresh, chilled or frozen fish and crustaceans. These rates are comparable to those for "non-sensitive" agricultural products. During the "lean season," the tariffs fall to 10 per cent, providing an opportunity for local fish processors (canning) to have access to cheaper raw materials. Primary processed fish (smoked, salted, dried), however, faces a relatively high tariff rate at 50 per cent.

The second period (1993-97) was a reversion to a more protectionist regime, as higher tariff barriers were imposed on certain fish items. In particular, regular season tariffs were raised for tuna (40-50%), fish fillets (40-50%), and smoked fish (60-80%).

The third period (1998-1999) witnessed a substantial lowering of tariff barriers, with the regular season tariffs ranging from 10 to 20 per cent. The "lean season" tariff went down to just three (3) per cent. This further decline in tariff extends up to 2005.

While a movement towards lower tariffs could be observed over the entire period 1985-2000, there existed a class of fishery products that was imposed very high tariffs all throughout – that on feed preparations for fish and animals. For the period 1993-97, the tariffs were raised to 50 per cent. Even for the period 2000-2005, the tariffs were still high at 20-40 per cent.

At the same time, however, there existed a class of feeds that was given preferential entry – that of feeds for prawns, with relatively a low tariff rate of 20 per cent for the period 1985-1997, then down to 3 per cent from 1998-2005. The big tariff differentials between prawn feeds and feeds for other fish imposes a severe penalty on raising tilapia and milkfish relative to that of crustaceans. It is worth noting that although milkfish and tilapia together constitute major aquaculture outputs in the Philippines, they have not become competitive export products.

ECONOMIC PROTECTION AND PENALTY IN THE FISHERIES

The trade performance of the Philippine fisheries can be associated with their degree of protection or non-protection over the years. There are two major sources of incentives distortion: the direct and indirect policy interventions. The former pertains to interventions that are sector-or commodity-specific, distorting prices of outputs and inputs. On the other hand, the latter stems from existing economy-wide policies, such as the exchange rate interventions (Krueger, Schiff and Valdes 1988). Using the Krueger-Schiff-Valdes (KSV) approach to measuring nominal rates of protection (NPR), Alviola (1997) provided estimates of rates of protection on various Philippine fishery products, subdivided into its direct and indirect components. In Table 6 are provided the estimates of nominal protection rates for major export items, i.e., *chilled tuna, chilled prawn, and canned tuna.*

Based on Table 6, for the two fresh/chilled/frozen items, both were directly and indirectly penalized, with the exchange rate overvaluation reinforcing the penalties imposed by direct intervention. In the case of canned tuna, while there were relatively high levels of direct protection ranging from 37-54 per cent, these were dampened by the exchange rate overvaluation effects.

Table 6 Nominal protection rates (NPRs) for major fishery products, 1991-94

ITEM/YEARS	NPR		
	Direct	Indirect	Total
a. Tuna, chilled			
1981-86	-66.1	-19.5	-85.6
1987-90	-65.2	-14.9	-80.1
1991-94	-57.5	-12.2	-69.7
b. Canned tuna			
1981-86	54.1	-13.7	40.4
1987-90	46.6	-10.5	36.1
1991-94	37.0	-10.2	26.8
c. Prawn, chilled			
1985-90	-20.5	-10.6	-31.1
1991-94	-29.6	-10.2	-39.8

Source: Alviola 1997

Between the non-protected items, the highest penalties were imposed on chilled tuna, for which total NPRs ranged from –85 per cent during 1981-86 to –70 per cent during 1991-94. The greater magnitude of penalties on the fresh/chilled/frozen tuna industry than on the prawn (and shrimp) sector coincided with the markedly slower growth in export volume of fresh/chilled/frozen tuna as against its crustacean counterpart.

The case of canned tuna is interesting in that the relatively high regular season tariffs on fresh/chilled/frozen tuna indeed reflect the positive high direct protection levels on the item. The imposition of barriers to inputs for canned tuna, however, does not serve the objective of efficiency because fish products and preparations are in fact the second largest source of fishery export revenue.

EXPORT MARKETS

The view into the export performance of the fishery sector of the Philippines would not be complete without some insights on the destination of its major export items. The three main export items are fresh, chilled or frozen shrimp and prawn; fresh, chilled or frozen tuna; and canned tuna. The major countries of destination and their import shares of the respective items in 2000 are shown in Table 7.

For fresh, chilled and frozen shrimp and prawn, the significance of the Japanese market is obvious (72%). For fresh, chilled and frozen tuna, the U.S. market is significant (42%). The case of canned tuna is different in that there is greater diversification in export markets than in the fresh, chilled and frozen products.

It is glaring that the entire block of the EU market is absent from the list of major destinations. Under the current agreements, no exporting firm can export fish and fish products to the EU without a particular plant of the firm obtaining a formal or official accreditation to export to the EU. For the Philippines, the BFAR has now been deputized by

the EU to perform the accreditation function. As of June 2002, there were only 36 plants of exporting firms in the entire Philippines that had obtained such EU accreditation.

Table 7 Major countries of destination of main fishery exports, 2000 (in percentage)

COUNTRY	Shrimp and prawn	Tuna: fresh, chilled, or frozen	Canned tuna
	(%)	(%)	(%)
Japan	71.6	28.3	-
USA	14.9	42.2	25.7
South Korea	5.3	-	-
Singapore	-	-	23.6
Canada	-	-	10
Others	8.2	24.9	40.7
Total	100	100	100

Source: DA-BFAR 2001

SUMMARY AND ISSUES FOR DEVELOPING EXPORT MARKETS

In the span of two decades from 1980 to 2000, there were, indeed, major policy regimes that the fishery export sector had to contend with. The policy regimes coincided with the periods of stagnation (1980-84) and rapid growth (1985-94). The slowing down of export performance in the later years (1996-2000), however, appears to be associated more closely with the shocks in the export market, with structural constraints in productive capacity and failure to gain market access outside the traditional Japan and the U.S. markets. Market access is related to the issue of certifiability at the point of origin of products in matters pertaining to food safety according to the standards of alternative EU export market.

The fisheries are still one of the few food sectors in Philippine agriculture where net exports are positive. The export items, however, are limited to only three classes of fish products. These are: i) *fresh, chilled or frozen fish*; ii) *fresh, chilled, frozen*, or *primary processed crustaceans and mollusks*; and iii) *fish products and preparations*. By item, these were mainly fresh*, chilled or frozen tuna; fresh, chilled or frozen shrimp and prawn; and canned tuna.*

On the policy side, both economy-wide and sector-specific policies had their respective impacts on incentives for the main export products. The period of stagnation and low levels of activity in the trade of fish during 1980-85 coincided with the policy regime of fixed exchange rates, high interest rates, and explicit quantitative restrictions on foreign currency holdings, as well as on the export and import of commodities. During this period, export taxes were imposed on fish products, and the local currency was extremely overvalued.

The following years, 1986-92, were a period of major trade and tariff reforms. A floating exchange rate system came into play. Although some residual overvaluation of the domestic currency still remained, it was significantly lower than in the first regime. Export taxes on fishery exports were removed. While there were still a number of quantitative trade

restrictions at work, the volume of exports in all the three main commodities experienced a phenomenal expansion.

The years 1993-2000 were a period of strengthening the trade reforms initiated in the second period. On the monetary side of the economy, bank-lending rates declined significantly relative to the previous decade. Fishery export growth, however, was not sustained, foundering in the last five years, particularly for the fresh, chilled and frozen crustaceans and tuna. Although it was acknowledged that export demand were adversely affected by the Asian Financial Crisis of 1997-98, the structural weaknesses of domestic productive capacity began to make its presence felt. Technology in shrimp and prawn production was unable to prevent the breakout of a major disease problem. Growth in the total commercial fishing output began to slow down, suggesting decline in the natural productivity of the traditional fishing grounds. This, however, also mirrored the limited capacity to explore and exploit the fishery resources in the country's entire recognized EEZ.

The resilience of export volumes in the *fish products and preparations* sector, even in the face of declining average world prices, suggests a potential source of output and export growth that needs to be judiciously addressed by domestic trade policy. Currently, canning grade tuna is protected. As an input of the tuna canning industry, which has a large export market, it does not make economic sense to continue penalizing an industry that has become the second largest source of export revenue of the Philippines.

Despite two long decades of non-protection of the fresh, chilled and frozen crustacean and tuna industries, these two industries are still able to generate net export revenue. This fact points to the vitality of these two sectors and suggests that if they are to continue their roles in the coming decades as major export earners in agriculture, the policy direction should be changed to remove direct penalties.

The issue of certifiability at origin for food safety of main export products, particularly fresh, chilled and frozen shrimp, prawn, and tuna must be institutionally addressed to ensure future market niche creation and expansion. The body to undertake the inspection and testing for certification of food safety, in accordance with internationally accepted standards (e.g., HACCP), should be an institution that has the mark of credibility. The certifiability of output quality will play a significant role in fisheries trade in the decades ahead.

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APPENDIX

Appendix, Table 1 FAO's Provisions on Fisheries Trade, Series 1982-86

FAO No.	Year	Salient Provisions
135	1982	Requirement of an import permit before the importation of fish and fisheries products is allowed
141	1982	Ban on the export of live gravid shrimps or the genus *Peneaeus*
143	1983	Ban on the export of live prawns of the species *Peneaeus monodon*
143-5	1983	Regulation on the size of live prawns allowed for export (< 60 g/piece) Export ban of fry, fingerlings and spawners
147	1984	Requirement for issuance of a commercial permit/commodity clearance before fish or fisheries products could be exported; Requirement for the payment of export fee (tax) for the export of fish
162	1986	Size regulation for the export of mud crab (alimango) (< 10 cm carapace length) Requirement of export permit before live mud crabs could be exported

Source: DA-BFAR 2002

Appendix, Table 2 FAO's Provisions on Fisheries Trade, Series 1990-92

FAO No.	Year	Salient Provisions
168	1990; 1991	Export ban on shelled mollusks of the species *Tridacna derasa*, *Tridacna gigas, and Hippopus porcellanus* Allowing the export of shelled mollusks of the species *Tridacna crocea* and/or its derivatives
173	1991	Export ban on *Bangus* (milkfish) fingerlings
183	1992	Ban on the importation of yellow fin tuna and tuna products from Mexico and Venezuela

Source: DA-BFAR 2002

Appendix, Table 3 FAO's Provisions on Fisheries Trade, Series 2000-2001

FAO No.	Year	Salient Provisions
189	1994	Banning the importation of live shrimp and prawn of all stages
168-2	1996	Suspending the effectiveness of FAO 168-1 (1990; 1991) on the prohibition of export of shelled mollusks
198	2000	Requirement for approval/clearance (permit) prior to the importation of fishing vessels Requirement for license granted by the BFAR to operate a commercial fishing vessel
207	2001	Ban on the importation and culture of live shrimp and prawn at all stages
210	2001	Requirement of certification of processed fish products prior to export, i.e., from fish processing establishments that have been duly certified by the BFAR as meeting standards; Subjection of exports to specific product tests required by importing country (e.g., HACCP standards)

Source: DA-BFAR 2002