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Approved by:

David C. Miller

US Embassy

Prepared by:

Perfecto G. Corpuz

Report Highlights:

Imports of planting seeds in MY02/03 will exceed the previous year's level as the El Niño weather disturbance was milder and shorter than expected. Beyond MY02/03, prospects for increased U.S. seed imports remain positive in view of the enactment of a plant variety protection law. However, the continued influx of illegal imports, particularly of vegetables, is expected to stifle demand for seed by growers.

Includes PSD changes: No
Includes Trade Matrix: Yes
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Executive Summary

The El Niño weather disturbance was very mild and short-lived this season. Anxiety over its intensity and duration, however, did result in a decline of planting seed imports in MY01/02 from previous year levels. Seed imports in MY02/03 are expected to rebound and surge as an early rainy or wet season appears to be likely this calendar year. Beyond MY02/03, prospects for increased planting seed imports still remain positive due to the rising food demand of the growing Philippine population. However, the rampant entry of illegally imported or smuggled agricultural products, particularly vegetables, is expected to stifle legitimate planting seed imports. Budgetary constraints faced by the GRP are also expected to dampen the extension of much needed farm credit to farmers, and consequently, hamper increased use of superior planting seeds.

The Philippine policy environment has significantly moved towards greater commercialization of new plant varieties, including biotech products. Implementation of the biotech commercialization rules has moved forward with two U.S. companies poised to sell and produce Bt corn seeds commercially. A new law providing intellectual property protection to new plant varieties (including those developed through genetic engineering) will assure seed producers fair returns from their investments. Although the implementing guidelines for this plant variety protection law have been issued, some refinements are still expected.

Marketing

The Philippine economy appears to be less affected by the global slowdown than most of its neighbors, but it remains hampered by slow growth, political uncertainty and the weakest currency in the region. GNP growth in 2002 was 5.2 percent, up from 3.4 percent in 2001, supported mainly by increased remittances of overseas Filipino workers (OFWs). There are currently an estimated 7.5 million OFWs scattered all over the world, and their number has been increasing every year. Their annual remittances or "net factor income from abroad" amounted to more than \$8 billion last year, up by 15.5 percent compared to the previous years' level. Their remittances in 2002 almost equaled the total output of the agriculture, forestry and fisheries' sectors.

Agriculture contributes around 20 percent of the country's GDP and employs about 40 percent of the national workforce. The country's farm sector grew 3.7 percent year-on-year in 2002 according to the Philippine DA, better than the official projection of 3.1 to 3.5 percent, but weaker than 4.7 percent growth recorded in 2001. Good agricultural production in 2002 enhanced Philippine GDP growth which accelerated to 4.6 percent, faster than the 3.4 percent expansion of 2001. The 2002 GDP growth rate was the highest for the country since the 1997 financial crisis and surpassed the GRP's domestic growth forecast of 4.0 - 4.5 percent for the year.

For 2003, the GRP has forecast the domestic economy to grow at a rate of 4.2 - 5.2 percent. The International Monetary Fund (IMF), on the other hand, has forecast Philippine GDP at a lower 4.0 percent citing the country's fiscal situation as a risk to the outlook. The IMF sees Philippine

inflation coming in 4.0 percent in 2003.

Crop production accounted for about half of the total output value of agriculture in 2002. In terms of volume, overall crops grew by 1.4 percent from the previous year's level although the performance of individual crops was mixed. Rice, corn, and coconuts have been traditionally the three main crops. They account for about 80 percent of all farmlands but contributed only around 30 percent of the total value of the sector.

Paddy rice production reached another record production of 13.3 MMT in 2002 due to higher yields enhanced by favorable growing conditions. There was likewise increased use of hybrid and certified seeds, sufficient water supply, and sufficient fertilizer use, according to the DA. Corn output, on the other hand, posted a 4.6 percent decline due to a reduction in planted area and unfavorable weather conditions. There was reportedly a shifting to other crops in some major corn producing areas due to prolonged dry spells. Coconut production, on the other hand, registered a 3.6 percent gain mainly due to good 3rd quarter growing conditions.

Onions, mangoes and garlic were the top three gainers last year with volume increases of 16.4 percent, 8.7 percent and 5.8 percent, respectively. Abaca, coffee and sugarcane were the crops that contracted the most with negative growth rates of 7.9 percent, 5.0 percent, and 4.7 percent, respectively.

Although the El Niño weather disturbance is not expected to severely affect agricultural production this year, agricultural sector growth slowed to 2.8 percent in the 1st quarter of the year compared to the 5.3 percent expansion posted during the same period in 2001. Overall crop output grew at similar and slower 2.8 percent compared to the 6.3 percent growth in the first three months of 2001. The volume of corn production made a rebound and surged by 21.9 percent in the first quarter of this year, but paddy rice production declined 0.8 percent from the 8.7 percent expansion growth in 2002. Coconut production registered a weak 0.4 increase in volume during the reference period. Production gains were likewise attained by sugarcane, banana, and abaca. In the first quarter this year, fibercrops, other than abaca, were the biggest losers with production output contracting by 49.4 percent year-on-year.

Even without the occurrence of the El Niño weather disturbance, the growth of Philippine agriculture this year will likely decline from its 2002 performance. Growth of the sector is severely limited by a significant budgetary deficit nagging the GRP. The final deficit figure for 2002 has been reported at P210.7 billion or roughly 6.0 percent of GDP. This has a tremendous impact on the 2003 national budget. Of the P804 billion (\$15.2 billion) national budget for this year, around 80 percent, or P645 billion (\$12.2 billion), is allocated for non-discretionary purposes which cannot be aligned for other uses. This allocation is for personal services (salaries and other benefits), local government unit allotment, and for debt servicing. The remaining balance is what is left to fund economic services and developmental projects including agricultural programs. Extension of farm credit and production loans to small farmers will be curtailed considerably because of this, hence, planting activities and the purchase of planting seeds are likely to decline in MY02/03.

Private investments in the sector, on the other hand, are also discouraged by the seemingly

inadequate will to implement sound agricultural policies similar to what befell the Agricultural and Fisheries Modernization Act (AFMA) or Republic Act 8435 (see POLICY, General). The agrarian reform program, on the other hand, identified as a major deterrent to agricultural investment and modernization, is being pursued vigorously. Other discouraging factors frequently cited include graft and corruption, high crime rate, and peace and order problems, particularly in the southern island of Mindanao.

The Philippines, however, remains a large consumer market, made up of approximately 80 million people and growing very rapidly. Expanding 2.3 percent annually, about 1.7 million additional people will need to be fed this year. At this rate, the population will surpass the 100 million level by 2010 and will double to 160 million in 30 years. This market is also composed mainly of young and dynamic consumers with roughly 65 percent less than 29 years of age. Continued growth of the Philippine economy is expected to sustain strong consumer demand. The average Filipino household spends about 40-45 percent of its monthly income on food.

It should be noted, however, that disparity in the distribution of wealth is highly skewed in the Philippines. About two-thirds of the country's income goes to the top 30 percent of Philippine families while the bottom one-third receives less than 8 percent of the income. Rural-urban disparities also exist; roughly half of the Philippine population resides in rural areas where average living standards are considerably lower and poverty levels are significantly higher. Agriculture is the dominant livelihood in rural areas, and good farm production, coupled with strong remittances from OFWs, helped fuel strong consumer spending in 2002.

Domestic food production has been inadequate, however, and in the mid-1990's, the country became a net food importer. The Bureau of Plant Industry (BPI) is the major public producer of planting seeds in the Philippines while private seed companies normally belong to the Philippine Seed Industry Association (PSIA). Although planting seed production data is not readily available, the increasing food demand of a growing Philippine population, coupled with the limited area available for crop expansion, are expected to compel local crop producers to be more efficient. This can only be achieved through the use of better and high-yielding crop varieties as well as the adoption of modern, scientific farming technologies. Delays in modernizing the sector have become apparent with the recent influx of illegally imported or smuggled food imports which have likely reached levels where they now displace a portion of local planting seed market (see TRADE). Vegetable seeds continue to hold the most positive prospects for increased use of superior quality planting seeds in MY02/03. These include, among others, salad vegetable seeds such as broccoli, broccoli leaves, cauliflower, celery, carrots, cabbage, potato and lettuce.

Policy

General

Newly appointed National Economic and Development Authority (NEDA) Director Romulo L. Neri is the author of "Plan 747," the new economic master plan of the Philippines. "Plan 747" aims to attain at least a seven percent growth in the Philippine GDP for the next seven years starting in 2004. The new economic plan replaces the Medium Term Philippine Development

Plan unveiled in 2001, which aimed to eliminate absolute poverty by 2010.

The economic plan reportedly intends to tap local sources of growth and supply side productivity and efficiency, with the private sector taking the lead. For agriculture, Plan 747 proposes drastic measures such as the removal of quantitative restrictions on rice, sugar and corn; the removal of regulations on shipping rates for farm-based goods; and the implementation of infrastructure projects like farm-to-market roads and irrigation support systems. Industry-related measures, on the other hand, involve strengthening small-and-medium scale enterprises, aggressive housing programs, and revival of the mining industry.

Regarding agricultural policy, the AFMA expired in February 2003 and is considered by many to have failed as a result of the failure to put adequate money into the program. Although huge amounts were appropriated for the program, actual releases were inadequate. Under the AFMA, the Philippine Congress was reportedly to appropriate at least P20 billion (\$377 million) as initial funding for the first year of implementation, and P17 (\$321 million) billion yearly for the remaining years. The DA, according to press reports, is exerting efforts to have the AFMA extended by Congress to 2010. More of the AFMA and its detailed IRR may be found in GAIN RP9001.

Presidential elections are scheduled for May 2004, and President Arroyo in December 2002 announced her decision not to run for another term. This position was reiterated in her recent State visit to the United States. Under this scenario of a short, one-term administration, new agriculture chief, Secretary Luis P. Lorenzo Jr. announced that the DA, under his leadership, would concentrate its efforts on six commodities: rice, corn, coconut, sugar, coffee, and fisheries (i.e. tilapia, bangus or milkfish, seaweed, and sea cucumber). Secretary Lorenzo was appointed DA secretary Nov. 30, 2002 and has a master's degree in international business at the Wharton School of the University of Pennsylvania. He is a respected agribusiness entrepreneur with a seed-to-shelf, market driven vision for Philippine agriculture and is supportive of modern agricultural biotechnology.

Biotechnology

As mentioned in GAIN RP2018, the approval in April 2002 of Administrative Order No.8 (AO 8) or the biotechnology commercialization guidelines by then DA Secretary Leonardo Q. Montemayor, made the Philippines the first country in Southeast Asia with commercialization guidelines for genetically engineered plants and plant products. Under AO 8, by June 30, 2003, all GE plant varieties ("regulated articles") imported as food, feed or for processing, must be assessed for safety by GRP regulators and a third-party Scientific and Technical Review Panel (STRP). Proper implementation of this requirement is vital to ensuring uninterrupted imports of U.S. GE foods (including processed foods that contain GE ingredients) valued at more than \$400 million per year. The BPI was designated the lead agency implementing AO 8.

Post is ensuring that trade disruptions do not occur as a result of AO 8 implementation and is working with the DA to issue written guidance for importers and food processors that stipulates

that contracts for GE commodities entered into by the June 30th deadline, will not be subjected to GE-related food safety assessments or delays upon arrival in the Philippines, even if that arrival is many months past the June 30 deadline.

Around the time of the training needs assessment, Monsanto Philippines, Inc. (MPI) formally filed for a permit to commercially propagate its field-tested Bt corn with the Plant Quarantine Service (PQS) of the BPI. MPI's application was approved by BPI in December 2002 - a few days after Secretary Lorenzo's appointment as DA Secretary. The first batch of commercial Bt corn propagation reportedly was planted December 2002 to January 2003 in around 127 hectares in 10 provinces. The first commercial harvests have started just recently.

Du Pont's biotechnology research firm, Pioneer Hi-Bred Philippines (PHPI), on the other hand, has finished its wet season Bt corn multi-locational field tests, and is conducting another set of tests for the dry season crop. These tests will reportedly end sometime in July or early August 2003. PHPI has likewise applied for commercialization of its Bt corn and its application is currently under review.

Greenpeace and other local NGOs reportedly expressed dismay over the approval of Monsanto's application to commercialize Bt corn. In the House of Representatives under the Committee on Trade and Industry, several bills calling for labeling of GE food products have reportedly been filed. The filed bills may have difficulty, however, as the position of the BFAD, the agency responsible for food labeling is supportive of voluntary labeling. In a statement issued late last year (refer to GAIN RP2060), the BFAD stated that "Labeling does not provide one with additional health or safety information. At present, BFAD conforms with the labeling requirements of the WHO/FAO Codex Alimentarius, the international standards for processed foods."

In a desperate bid to gain support, a recent hunger strike by local individuals opposed to biotechnology was staged at the gates of the DA building in Quezon City, Baguio City in Northern Luzon, and Iloilo City in the Visayas region. A handful of protesters fasted, calling for a moratorium on the commercial propagation of Bt corn. The strike ended after Secretary Lorenzo declared that without any scientific evidence of harm to health and environment, commercial propagation of Bt corn will be allowed.

Plant Variety Protection

Parallel to the positive developments in the area of biotechnology are legislative developments in plant variety protection. The Philippines finally achieved full compliance with its obligations under the WTO-TRIPS agreement with the passage of Republic Act 9168 (RA 9168) otherwise known as the Plant Variety Protection Act of 2002 (PVPA). RA 9168 was signed into law on June 7, 2002 by President Gloria Macapagal-Arroyo (refer to GAIN RP2056).

Also, on February 2003, DA Secretary Lorenzo issued Administrative Order No. 7 series of 2003 providing the Implementing Rules and Regulations (IRRs) of the PVPA. The PVPA aims to protect and secure the exclusive rights of breeders of new plant varieties, and enable them to be remunerated for their technological innovations. Under the law, breeders or seed companies are

accorded the right to authorize commercialization of their varieties. The IRRs took effect in April 2003. The full text of the PVPA may found in GAIN RP3017.

Holders of PVP certificates have the right to authorize production or reproduction, conditions for the purpose of propagation, offer for sale, sell or market, and export or import the varieties that they have developed. These rights also extend to harvested material resulting from the unauthorized use of their protected varieties - except if the use is by small farmers. Their rights also cover derived varieties (or those varieties predominantly derived from the initial variety that is being protected). Provisional protection may be provided to breeders, entitling them to some remuneration from the time the application is published until the granting of the certificate of PVP. In cases of infringement, the holder of the PVP certificate may petition the regional trial court for relief. As with other IPR laws, the courts are relied upon for enforcement.

All varieties accorded PVP protection are recorded in the Plant Variety Registry and published in the Plant Variety Gazette. The PVP certificate, the document attesting to ownership and protection, will be effective for 25 years following the grant of protection for trees and vines and 20 years for seeds and other planting materials.

Key guidelines for determining the distinctness, uniformity, and stability (DUS) of a plant variety are yet to issue by the PVP Board, an advisory group mainly composed of government agencies. As provided in the PVPA, the DUS criteria will be the bases for the grant of plant variety protection. A variety should be clearly distinguishable from any commonly known variety; sufficiently uniform in its relevant characteristics; and have stable characteristics even after repeated propagation.

Based on the IRRs, the Board may carry out the necessary tests, commission its conduct or consider the results of tests or trials already done within and outside the country. They will only accept tests performed by DUS testing centers - generally, government educational and research institutions or appropriate private research institutions that they will accredit. However, the IRRs are silent on the criteria that they will employ in the accreditation of these centers.

The specific guidelines to implement small farmers' rights are yet to be issued. Under the PVPA, farmers are accorded the traditional right to save, use, exchange, share or sell their farm produce of a protected variety, except when the sale is for the purpose of reproduction under a commercial marketing agreement. The exchange and sale of seeds among farmers is on the condition that these are reproduced and replanted on their own lands. The new guidelines will need to define "small" farmers and provide safeguards against the loose interpretation of the farmer's exemption. The nature of the plant cultivated, how it is grown or sown are considerations for developing these specific guidelines, e.g., a one-hectare corn farm is considered small but a cut flower farm of the same size is considered medium-scale.

Trade

Anticipating another harsh episode of the El Niño dry spell, farmers likely increased the use of "home saved seeds" last year instead of the more expensive registered or certified seeds. As a result, planting seed imports in MY01/02 significantly declined from the previous year's level.

Overall planting seed imports dropped 75 percent in MY01/02 to reach 591 MT from the 2,340 MT import level in MY00/01.

Seed imports from the U.S. also declined by 75 percent during the same period but became the second largest seed supplier with a 20 percent market share of the total volume of planting seed imports in MY01/02. India was the dominant seed supplier cornering 30 percent of the market during the same period. South Africa had an 8 percent market share making it the 3rd largest seed supplier in MY01/02. Vegetable seeds continued to dominate planting seed imports during the year.

In terms of value, planting seed imports declined by 18 percent from \$4.7 million in MY00/01 to \$3.8 million in MY01/02. The U.S. was the dominant seed supplier in MY01/02 with a 38 percent market share, followed by Japan and Korea with market shares of 28 percent and 9 percent, respectively. Imports of U.S. seed were valued at \$1.4 million during the year.

The effects of the El Niño weather disturbance in 2002 were apparent only in some areas of the Philippine archipelago. There were only isolated and minor dry spells. In general terms, favorable weather conditions for crop growing prevailed in the country, and there were fewer-than-usual occurrences of tropical storms, particularly in the second semester of 2002. Because of this, planting seed imports rose 174 percent during the period compared to the second half of the previous year. As mentioned in the previous annual report (GAIN RP2042), seed imports during the second semester of the year traditionally account for the majority of all planting seed imports. Planting seed imports in the first half of MY02/03 have already surpassed seed imports for the whole MY01/02 in terms of volume and value.

Import Trade Matrix (Kgs)					
Country	Philippines				
Commodity	Planting Seeds				
Time period	Jul-Jun		Jul-Jun		Jul-Dec
	2000/01		2001/02		2002
U.S.	453,382	U.S.	115,581	U.S.	52,790
Australia	946,930	India	174,939	India	256,068
China	454,194	South Africa	45,012	South Africa	229,366
India	113,914	Indonesia	41,532	China	102,022
Hong Kong	89,174	Hong Kong	39,837	Indonesia	39,799
Japan	60,500	Japan	38,322	Hong Kong	32,541
Myanmar	45,180	New Zealand	28,963	Japan	29,141
Thailand	33,045	Thailand	22,476	New Zealand	22,434
Belgium	26,520	Singapore	20,100	Canada	21,319
Netherlands	21,247	Korea	16,110	Thailand	10,459
Indonesia	21,000	China	14,750	Korea	6,586

Total for Others	1,811,704		442,041		749,735
Others not Listed	71,041		33,501		26,892
Grand Total	2,336,127		591,123		829,417

Source: National Statistics Office

As mentioned in the MARKETING Section, the entry of smuggled agricultural items is likely to continue to dampen increased sales of domestic and legally imported planting seeds, particularly for vegetables. These vegetables reportedly include leeks and other alliaceous vegetables; cauliflower and headed broccoli; lettuce and chicory; carrots, turnips, salad beetroot, radishes and other similar edible roots; cucumbers and gherkins; peas; beans; celery; fruits of the genus *Capsicum/Pimenta*; spinach; vegetables provisionally preserved; peel of citrus fruits or melons; and ginger.

The practice has become so rampant that DA Secretary Lorenzo reported that at least one in nine refrigerated container that passes through the Manila International Container Terminal, the country's biggest port of entry, enters the country illegally. The problem is so serious that the DA has admitted it can no longer totally eliminate it. Unofficial estimates place the value of smuggled goods intercepted by authorities at between P25 billion (\$471.7 million) and P30 billion (\$566.0 million) annually.

Export Trade Matrix (kgs)					
Country	Philippines				
Commodity	Planting Seeds				
Time period	Jul-Jun		Jul-Jun		Jul-Dec
	2000/01		2001/02		2002
U.S.	570	U.S.	800	U.S.	0
Malaysia	145,241	Malaysia	263,720	Malaysia	133,430
Singapore	110,976	Singapore	108,040	Indonesia	20234
Japan	31,013	China	101,150	Japan	17,105
Sabah	28,000	Hong Kong	70,110	Thailand	10,510
Hong Kong	12,688	Japan	30,597	Germany	10,360
Netherlands	949	Taiwan	21,000	Peru	630
Indonesia	332	Belgium	20,000	Hong Kong	475
Costa Rica	299	Thailand	7,456	TTP	19
Hawaii	286	Indonesia	1,350	Chile	2
Turkey	137	India	292		
Total for Others	329,921		623,715		192,765
Others not Listed	49		212		0
Grand Total	330,540		624,727		192,765

Source: National Statistics Office

Legitimate Philippine exports of planting seeds, on the other hand, expanded 89 percent to reach 625 MT in MY01/02, from its 331 MT level in MY00/01. The top three destinations of Philippine seed exports were Malaysia, Singapore and China with export market shares of 42 percent, 17 percent, and 16 percent, respectively. Overall Philippine planting seed exports in MY01/02 were valued at \$1.1 million.