ANNEX II

THE EXTENT AND IMPACT OF IMPORT SURGES IN THE PHILIPPINES: THE CASE OF ONIONS AND TOBACCO

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1. INTRODUCTION

1.1 Rationale and objectives

This study is part of an FAO project which documents and analyzes the capacity of the developing countries to use enhanced trade surveillance and trade remedy measures with the objectives of identifying, analyzing and responding to import surges. The study specifically aims to: 1) document surge or increase in imports; 2) investigate the reasons for the surge; 3) identify the injury impact both on the local industry and other related sectors; and 4) determine causality mainly through the elimination of other potential contributors to the injury indicators. This case study, which is one among a number of commodity studies in several countries in Asia and Africa, deals with the case of Philippine onions and tobacco.

In 2000, the Philippines enacted the Safeguard Measures Act (or, Republic Act 8800) to enable the government to implement the safeguard measures provisions of the World Trade Organization's Agreement on Agriculture. Since then, requests from farmers for protection against increased importation of a number of agricultural products were brought to the attention of the Philippines' Department of Agriculture (DA). As soon as the systems for the implementation of safeguard measures, were set in place, particularly special safeguards, the Philippine government through its Bureau of Customs (BOC) and the DA, imposed special safeguards duty on onions, as well as some chicken and pork imports. Requests for safeguard protection were also heard from the tomato paste industry and the vegetables sector including cabbage, potato, and carrots.

The imposition of special safeguard (SSG) duty on onions, based on the breaching of its established trigger price, has been on and off since 2002. This was prompted by the alternating requests of farmers and complaints of importers. To date, SSG duty on onions is lifted and remains until onion farmers request for its re-imposition and deemed warranted by the DA.

Meanwhile, the DA has also received a safeguard protest from the local tobacco industry. Domestic tobacco farmers through their national association has requested for remedial safeguards against what they described as "tremendous increase in importation due to continuing tariff reduction and trade liberalization that is causing the industry to sell lesser quantities of tobacco, and traders buying at low prices." The DA is now evaluating the request.

Hence, with regards to the importation of agricultural commodities and the use of trade remedy measures, the outstanding concerns for the Philippine government particularly of DA are onions and tobacco. As such, this study on the extent and impact of import surges in the Philippines focuses on these two commodities.

This report is organized into five major sections, as follows. The rest of this introductory part, Section I, provides a description of the case commodities--onions and tobacco; the concerns of stakeholders and the corresponding response of the government. Section II establishes import surge or increases and identifies potential factors that influenced the surge. An analysis of the injury elements is presented in

Section III followed by a discussion of causality and other factors that might have caused the injury experienced by the domestic onion and tobacco industries in Section IV. Section V summarizes the findings of the case study and concludes the report.

1.2 Description and importance of local products

Onions and tobacco are two of the major crops grown in the Philippines. Onions are a favorite staple seasoning. Its pungent aroma and sharp taste makes it ideal for spicing up many Filipino dishes--meat, salads and vegetable dishes. It is also used to cure physiological disorders such as cough, obesity, insomnia, hemorrhoid and constipation. There are two types of bulb onions grown in the country, namely, the yellow and the red onions. The yellow varieties grown are either the *granex* (flat) or the *grano* (round) type. Red onion varieties produced domestically are red *creole* and red shallots (cluster onions). Onions are produced mainly in the provinces of Ilocos Norte, Ilocos Sur, La Union and Nueva Ecija, all in the Luzon island. It is usually planted from October to February. Peak harvest season is from March to April.

Tobacco crops grown in the country are of two main types: i) aromatic tobacco comprising of Virginia, Burley and Oriental or Turkish varieties; and ii) native or dark air-cured tobacco. Virginia tobacco provides pleasing fragrance while Burley mainly serves as absorbent to retain additives. Turkish or Oriental tobacco gives distinct flavour, sweet taste and aroma, and improves the burning quality of tobacco. Native or dark air-cured tobacco, on the other hand, is usually of neutral flavour, but strong and full-bodied. In general, domestically-produced tobacco are characterized by low nicotine and high sugar content and are used mostly as filler for manufactured cigars, cheroots and native cigarettes. Tobacco crops are grown in 26 provinces nationwide.

During the last five years (2001-2005), the annual volume of production of tobacco averaged at 49 thousand metric tonnes per annum while production of onions was at 88 thousand metric tonnes. These production quantities each shared only less than one percent of total crop production or together comprised 0.2 percent (Table 1). In 2004, a total of 33 800 hectares were planted to tobacco while 9 500 hectares were planted to onions, which represent 0.28 percent and 0.08 percent, respectively of the total area planted to all types of crops.

Many Filipinos rely on onions and tobacco production for a living. The Philippine Association of Tobacco-based Cooperatives (PATCO) estimated that there are over 1.9 million Filipino farmers and workers, and their families dependent on the tobacco industry. Meanwhile, the onion industry is composed of about half million farmers and labourers.

1.3 Stakeholders' concerns

Farmers' views[1]

As early as 2000, onion farmers had complained that the quantity of onion imports had increased and that it had adversely affected their income/livelihood. This phenomenon was greatly felt in 2001 when they observed that markets were flooded with imported onions. They alleged that the onslaught of cheap onion imports mostly coming from China (and including those that entered the country illegally), had resulted in the lowering of prices of domestically-produced onions. Farmers further expressed their concern in the timing of the entry of imports as they were usually brought in during harvest time or when local produce have just been released from storages.

Tobacco farmers, on the other hand, referred to the unusually high importation of unmanufactured tobacco in 2004 compared to earlier years. They noted that during the said year, the volume of importation exceeded local tobacco production. This phenomenon, happening for the first time, reportedly began causing injury to the domestic industry in the

[1] The views of onion farmers presented here were raised during a meeting conducted with the representatives of two onion farmers' groups namely, the Katipunan ng Samahang Magsisibuyas ng Nueva Ecija (KASAMNE), a provincial federation of primary cooperatives whose members are onion farmers, and the Union of Growers and Traders of Onion in the Philippines (UGAT), the umbrella organization of onion farmers' associations in the country. The views of tobacco farmers, on the other hand, are mainly those stated in the general safeguards petition of the Philippine Association of Tobacco-based Cooperatives (PATCO) filed with the Philippines' Department of Agriculture. PATCO is a national association of cooperatives whose members are tobacco farmers.

TABLE 1.
Agricultural crop production, by type of crop, 2001-2005 (quantity, in thousand metric tonnes)

Crop	2001	2002	2003	2004	2005	Average (2001-2005)	
						Quantity	*% share*
Total	67 021	67 997	71 610	75 151	71 569	70 670	100.00
A. Cereals							
Palay	12 955	13 271	13 500	14 497	14 603	13 765	19.48
Corn	4 525	4 319	4 616	5 413	5 254	4 825	6.82
B. Major Crops							
Coconut	13 146	13 895	14 294	14 366	14 797	14 100	19.96
Sugarcane	21 709	21 417	23 978	25 579	20 795	22 696	32.09
Banana	5 059	5 275	5 369	5 631	6 282	5 523	7.81
Pineapple	1 618	1 639	1 698	1 760	1 788	1 700	2.41
Coffee	112	107	106	103	106	107	0.15
Mango	882	956	1 006	967	985	959	1.36
Tobacco	48	50	53	48	45	49	0.07
Abaca	73	63	70	74	74	71	0.10
Rubber	264	268	274	311	326	289	0.41
Cassava	1 652	1 626	1 622	1 641	1 678	1 644	2.33
Camote	545	549	547	545	575	552	0.78
Peanut	26	26	26	27	28	27	0.04
Mongo	28	27	26	26	27	27	0.04
Onions	83	96	94	87	82	88	0.13
Garlic	15	16	16	15	13	15	0.02
Tomato	146	149	150	172	174	158	0.22
Eggplant	170	180	177	183	188	179	0.25
Cabbage	90	91	92	93	91	91	0.13
Calamansi	182	181	181	179	203	185	0.26
C. Other Crops	3 694	3 794	3 417	3 432	3 456	3 559	5.05

Notes: Details may not add up to total due to rounding.
Source : Bureau of Agricultural Statistics

same year. Farmers claimed that because of increased importation, they were able to sell lesser quantities of tobacco compared to the prior years. Traders even bought their tobacco at low prices. Tobacco farmers further cited in their petition for safeguards, the following injuries that were attributed to increased importation: (i) decreased margin of profit; (ii) limited market resulting in lower production; (iii) difficulty selling of 12 million kilos of tobacco valued at 220 million pesos; and (iv) decreased employment.

Importers/traders' views[2]

Onion importation. Importers denied having increased their importation of onions at any time in the recent past. They asserted that there was even a decline in their importation particularly in 2003 and 2004 attributed to what they described as "restricted issuance of import permits" by the Bureau of Plant Industry (BPI). They cited in particular the period January to June 2004, during which they claimed no import permits/papers were issued to them.

Contrary to onion farmers' claim that importation has always been ill-timed, importers maintained that entry of onion imports never coincided with the local harvest period of March to May. In particular, onions from the Netherlands were brought in from October to February while those coming from China usually entered the Philippine ports from June to December. Moreover, onion shipments were usually placed in storages/warehouses or straight to hotels and restaurants. Nonetheless, they emphasized that they *import based on prevailing prices and not on stocks or available domestic supply*.

Importers also cited that the onions they have brought into the country were mostly of the white or yellow granex variety. The kind that are produced locally, i.e., red bulb onions, were imported only in minimal quantities. More importantly, they opined that *imported onions have different markets from those of local onions*. The main buyers/consumers of imported onions are hotels, restaurants and food chains (where onions are used for example in burgers, salads, pizza, onion rings), whereas, local onions are bought and consumed mostly by households. Further, domestic prices of these imported onions are usually higher locally-produced onions.

Tobacco importation. *Importation is necessary because domestic production cannot meet demand and quality requirements of manufacturers.* It was cited by a leading manufacturer in the country that the local market consumes approximately 90 billion cigarettes annually, which would require about 80 000 metric tonnes of processed tobacco. The current level of locally- processed tobacco estimated at around 15 000 metric tonnes annually is inadequate to meet the demand. Manufacturers further clarified that there is not enough local tobacco with the *quality* that they require. Cigarette manufacturers search for the kinds of tobacco that would produce the right blend, both in the local and foreign markets. Each manufacturer fashions its product according to market/client preferences and aims to make such finished product as consistent as possible. If there are suitable tobacco varieties, they opined that it would be highly illogical for manufacturers to import. Since there is not enough local supply of the specific quality that manufacturers need, they are left with no other option but to import.

Local tobacco differs from imported tobacco in terms of usage in the manufacture of cigars/cigarettes. Imported tobacco leaves differ from local tobacco in that it gives distinct flavour, aroma and taste that enhances the quality of manufactured tobacco/blended cigarettes. On the other hand, locally-produced tobacco leaves particularly the Virginia variety are more suited as 'filler' rather than for 'flavour'. Imported tobacco therefore does not directly compete but rather complements domestically-produced tobacco.

Decreasing profit margins of farmers is not due to importation. It was raised that the declining profits

[2] The views of importers were also sought essentially to respond to the claim of local producers that increased importation is causing injury to the domestic industry. To get the views of onion importers, a meeting was held with representatives of known traders/importers' associations, namely: 1) Philippine Onion-Garlic Importers and Exporters, Inc. (POGIE); 2) Vegetable Importers/Exporters and Vendors Association of the Philippines (VIEVA Phils.); and 3) Philippine Vegetables Importers/Exporters Inc. (PVIEI). The views of tobacco importers meanwhile were those of the respondents to the farmers' petition for the imposition of safeguard measure including exporters, manufacturers and the National Tobacco Administration, a government agency overseeing the industry.

experienced by farmers are more likely due to the 'inappropriate/inefficient farming techniques and handling methods' that led to poor quality crop and erratic production. Importation of tobacco products is taken simply as the reaction of manufacturers and importers to insufficient supply of suitable tobacco varieties. A suggested solution was thus to develop the local tobacco industry to make it capable of supplying the quantity and quality demands of cigarette manufacturers.

1.4 Government's response

The Philippine government responds to protests and concerns of local industries regarding importation in the context of the present trade policy regime and based on the country's commitments/agreements with multilateral and regional trade organizations. For instance, in responding to petitions of onion and tobacco farmers for safeguard measures to abate adverse impact, if any, of increased importation, DA based its response and action on what are provided in the country's law on safeguards, i.e., Republic Act (R.A.) 8800 or the Safeguard Measures Act of 2000 which is consistent with the WTO Agreement on Agriculture. Specific responses of the government to onion and tobacco producers are discussed below.

Since onions is a commodity eligible for special safeguards, the DA evaluated the petition of local onion farmers following the provisions on the application of trigger price and trigger volume mechanisms specified in RA 8800. Soon after the DA established the trigger price of onions in 2002 and found that it was breached, or that the CIF import price of onions fell below its trigger price, *the government granted the petition of onion producers to impose additional tariff, in the form of a price-based SSG duty*. The initial imposition of the price-based special safeguards on onions became effective for only 1.5 months from 15 November 2002 to 31 December 2002 despite the breaching of the established trigger price. Prompted by the request of importers, the measure was lifted but mainly because there was an expected shortfall in supply of onions and that consumption requirements could not be met by domestic production alone. SSG duty on onions was imposed the second time from 18 December 2004 to 20 January 2005, when again farmers requested for its re-imposition. At present, no SSG duty is imposed on imported onions.

In the case of unmanufactured tobacco which is not eligible for the special safeguard measure, the DA invokes the provisions of the WTO AoA and RA 8800 related to the general safeguard measure in evaluating the petition of tobacco farmers. To date, the DA is conducting the preliminary investigation wherein the DA given available information, is required to establish that tobacco importation increased and that this is causing serious injury or threat of serious injury to the local industry.

Aside from the application of safeguard measure to address the local onion and tobacco farmers' concerns on increased importation, the government provides other assistance for their local produce to become competitive. The onion farmers (i.e. KASAMNE) for example were able to obtain financial assistance under the Agricultural Competitiveness Enhancement Fund (ACEF)[3]. The tobacco farmers meanwhile continue to receive support from the government through the National Tobacco Administration.

2. IMPORT SURGES

The occurrence of import surge during the period 1999-2004 for each case commodity is established using three methodologies: i) examining the trend in the volume of imports; ii) examining imports relative to consumption and production; and iii) comparing the volume and value of imports with the computed 'trigger volume and trigger price' respectively as defined in the WTO Agreement on Agriculture.

2.1 Establishing the surge in onion imports

Trend in the volume of onion imports

Up until 2004, onion imports were classified under one tariff line with HS Code 0703.1000[4] described as

[3] This is the fund where proceeds of the Minimum Access Volume (MAV) go for the use of the local industries to be more competitive in light of the country's commitments with the WTO.

[4] Onions and shallots are listed under "Chapter 7: Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled" of the Philippines Tariff Classification and Customs Code (Executive Order No. 164, 10 January 2003, amending Presidential Decree No. 1464 of 1978).

onions and shallots, fresh or chilled. In 2004, this tariff line was broken into two, separating onions from shallots. Nonetheless, both types are lumped under one heading labeled as "*Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled*".

During the years 1999-2004, the country's onion imports range from about seven (7) to 18 thousand metric tonnes or an average of about 12 thousand metric tonnes per annum. It can be noted from Figure 1 that the quantity of onion imports fluctuated and that yearly onion imports peaked in 2001. Moreover, sharp increases in the volume of imported onions were posted in 2001 (from 2000) and 2003 (from 2002).

On aggregate, the bulk or 60 percent of onion imports that entered the Philippines in the last six years came from the People's Republic of China (Table 2). The annual volume of onion imports from China ranged from a low of 1.6 thousand metric tonnes in the year 2000 to a high of close to 10.8 thousand metric tonnes in 2001. Over the same period, significant quantities of imported onions were also sourced from the Netherlands (16 percent) and Hong Kong (9 percent).

Onion imports relative to domestic consumption and production

On the average, onion imports constituted roughly eight (8) percent of total domestic consumption over the past six years. Using import's share of domestic consumption as a gauge of surge in imports, it can be noted from Table 3 that onion importation surged in 2001 and in 1999. During these two years, onion imports comprised 12 percent of domestic consumption, four percentage points higher than the mean share and three times as much as the smallest. In all the remaining years particularly from 2002-2004, import's share of consumption was significantly lower (Table 3).

For every one thousand kilos of onions produced domestically, there was on the average importation of 136 kilos onions, or roughly a ratio of 14 percent. Relative to local production, onions imports comprised a bigger portion in 2001 and in 1999.

Surge based on trigger levels of onion imports

Trigger volume and trigger price, as defined in the WTO Agreement on Agriculture (Article 5) particularly

FIGURE 1.
Volume of onion imports, 1999-2004

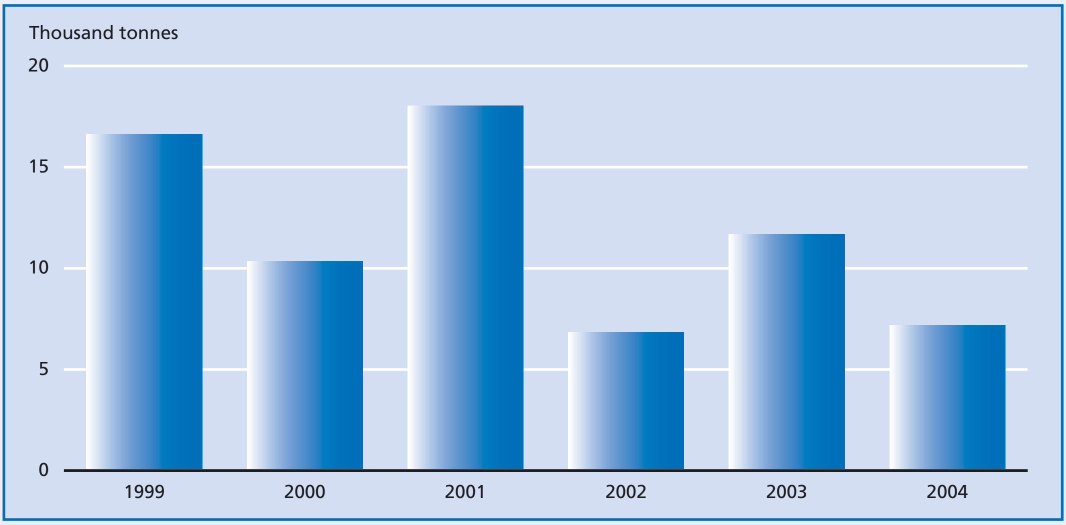

TABLE 2.
Volume of onion imports, by country of origin, 1999-2004 *(metric tonnes)*

Country of origin	1999	2000	2001	2002	2003	2004	1999-2004		
							Annual ave	*Total*	*% share*
Australia	100		169		117		128	385	0.5
Belgium	158		86	28		75	87	347	0.5
China	10 466	1 610	10 762	4 049	9 647	5 729	7 044	42 262	60.3
Hong Kong	415	4 231	964	601	193	52	1 076	6 456	9.2
India	21	230	456	739	84	9	256	1 539	2.2
Indonesia	63	21			331		138	415	0.6
Netherlands	2 404	2 452	3 570	1 012	749	1 177	1 894	11 364	16.2
New Zealand	1 403	340	461		38		560	2 242	3.2
Singapore	313	30	232	56			158	631	0.9
Taiwan	304	583	50		162	50	230	1 149	1.6
United States	859	554	787	33	154		477	2 387	3.4
Others [A]	25	200	389	233	109	-	640	957	1.4
Total	16 530	10 250	17 925	6 752	11 584	7 092	11 689	70 133	100.0

Source: National Statistics Office (NSO).
[a] Includes those country sources with total imports share of less than 0.5% each such as Canada, Japan, Malaysia, Germany, South Korea, Chile, Myanmar and United Kingdom of Great Britain & N. Ireland.

TABLE 3.
Volume of onion imports relative to domestic consumption and production

	1999	2000	2001	2002	2003	2004	Average
Volume of imports (mt)	16 530	10 250	17 925	6 752	11 584	7 092	11 689
Domestic consumption (mt)	138 409	149 822	143 075	156 542	175 945	174 011	156 301
Production (mt)	81 360	84 220	82 610	96 360	93 850	86 760	87 527
Import's share of consumption (%)	11.9	6.8	12.5	4.3	6.6	4.1	7.7
Ratio of imports to production (%)	20.3	12.2	21.7	7.0	12.3	8.2	13.6

Source of basic data: NSO and BAS.

the provisions under the special safeguard mechanism may also be used to indicate surge in onion imports. Two definitions of trigger volume levels are given, namely: (1) the sum of the average quantity of imports during the three preceding years for which data are available times a scaling factor (125 percent, 110 percent or 105 percent depending on the share of imports in domestic consumption) plus the absolute volume change in domestic consumption; and, (2) 125 percent of the average volume of imports in the three preceding years for which data are available. The computed trigger volumes of onion imports applicable for each year since 1999 are shown in Table 4. It can be noted that it was only in 2001 that the absolute quantity of onion imports exceeded its trigger volume (computed using the second formula) or that the trigger level was breached. Hence, it may be concluded that there was a surge in onion imports in 2001 based on the breaching of the volume-based trigger.

The other trigger mechanism is the price trigger computed as the average import (CIF) price of the eligible product during 1986 to 1988, if and when breached allows the importing country to impose additional special safeguard duty. For onions, the established trigger price is Php 74.21 per kilo while the CIF import price of onions in the last six years averaged at only USD 0.15 per kilo or, equivalently, Php 8.18 per kilo. Clearly the price-based trigger has always been breached. In fact the CIF price has been, on the average, 90 percent lower than the trigger price (Table 4).

2.2 Establishing the surge in tobacco imports

Trend in the volume of tobacco imports

The types of imported tobacco which are comparable to the domestic product fall under the tariff heading: *unmanufactured tobacco and tobacco refuse* (numbered 24.01). Unmanufactured tobacco imports are classified into three types: i) tobacco, not stemmed/stripped with further categorization

TABLE 4.
Volume of value of onion imports relative to triggers

	1999	2000	2001	2002	2003	2004
Volume of imports (in metric tonnes)	16 530	10 250	17 925	6 752	11 584	7 092
Trigger volume (in metric tonnes)						
Trigger volume 1 [a]	44 953	23 387	20 258	31 535	33 397	17 043
Trigger volume 2 [b]	5 603	11 974	15 353	18 068	13 994	15 109
CIF value of imports (in USD '000)	2 999	1 854	2 663	1 005	1 696	1 034
CIF unit value						
USD per kilo	0.18	0.18	0.15	0.15	0.15	0.15
Pesos per kilo	7.10	8.05	7.58	7.69	7.95	8.18
% higher/(lower) than the established trigger price of 74.21 pesos	(90)	(89)	(90)	(90)	(89)	(89)

[a] Using WTO definition i.e. the sum of the average quantity of imports during the three preceding years for which data are available times a scaling factor (125% 110% or 105% depending on the share of imports in domestic consumption) plus the absolute volume change in domestic consumption.
[b] An alternative WTO definition of trigger volume equal to 125% of the average volume of imports in the three preceding years for which data are available.
Source of basic data: NSO and BAS.

of whether or not it is of the Virginia variety or not; ii) tobacco, partly or wholly stemmed/stripped, also classified further as of the Virginia variety or not; and iii) tobacco refuse.[5] For purposes of this study, all these sub-types of tobacco will be aggregated to constitute 'tobacco imports'.

During the last six years, the average quantity of tobacco imported into the Philippines from all country sources was a little over 30 thousand metric tonnes per annum. About 95 percent of these were 'partly or wholly stemmed/stripped tobacco'. It can be noted from Table 5 and Figure 2 that tobacco imports was largest in 2004 when its total volume reached more than 57 thousand metric tonnes or roughly twice as much as the importation in the immediately preceding year.

[5] This categorization of unmanufactured tobacco and tobacco refuse (HS 24 01) took effect until 2004. In 2005, the following codes hold: i) HS 2401.20 10 -Virginia/Flue-cured tobacco; ii) HS 2401.20 40 – Burley; iii) HS 2401.20 30 – Oriental; iv) Stems – HS 2401.30 10; and v) Scraps - HS 2401.30 90. Since the analysis of import surge is for a period of five years up to 2004, this study uses the old categorization.

FIGURE 2.
Annual volume of tobacco imports, 1999-2004

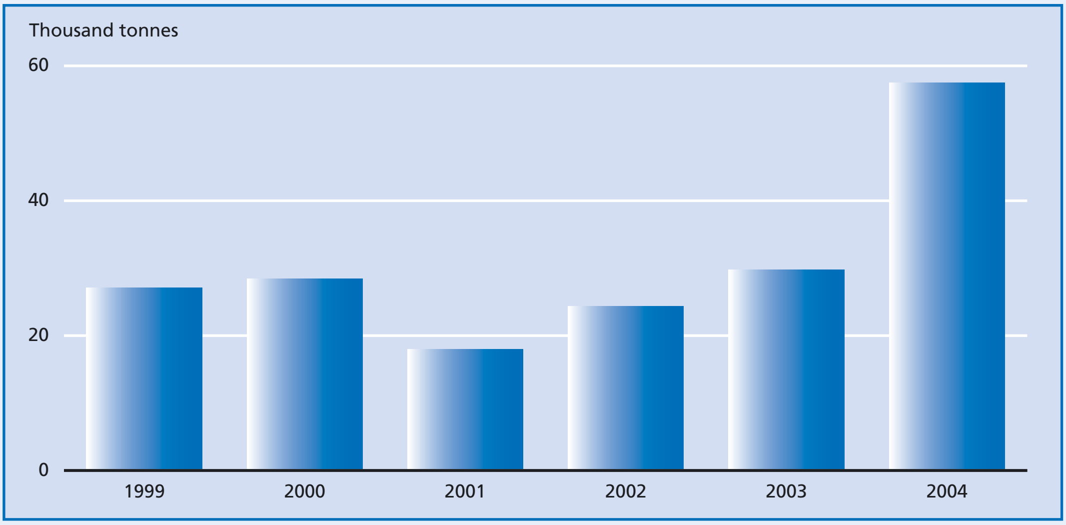

TABLE 5.
Volume of tobacco imports by type of tobacco, 1999-2004

	1999	2000	2001	2002	2003	2004	Average	
							Qty	*% share*
Tobacco not stemmed/ stripped	825	1 119	2 900	975	1 654	942	1 403	4.6
Tobacco partly or wholly stemmed/ stripped	25 964	27 007	14 823	23 068	26 734	55 989	28 931	94.6
Tobacco refuse	-	-	-	-	1 118	319	239	0.8
Total	26 790	28 126	17 723	24 043	29 506	57 250	30 573	100.0

Source: National Statistics Office (NSO).

The country's tobacco imports in the last six years came from 44 countries all over the world. The biggest quantity came from Brazil averaging at about ten thousand metric tonnes per annum and sharing close to 32 percent of total imports throughout the period. Tobacco imports from China and the United States of America were also significant, sharing about 22 percent and 9 percent of total, respectively. Quantities of tobacco imports from other countries are shown in Table 6.

Tobacco imports relative to domestic consumption and production

While the ratio of tobacco imports to production had always been significant (at least 37 percent), the quantity of tobacco imports had always been less than production until the year 2004 when imports exceeded domestic production by 18 percent (Table 7). It was also in the same year when import's share of domestic consumption increased significantly to 64 percent from 46 percent the previous year.

Surges based on trigger levels of tobacco imports

Comparing the absolute volume of tobacco imports to its volume triggers on a yearly basis since 1999, it can be noted that the volume of imports exceeded the computed trigger volume in 1999 and 2004 (Table 8). It can therefore be said that tobacco imports surged in those two years. Meanwhile, using the trigger price mechanism would not give any indication of the occurrence of surge in the importation of unmanufactured tobacco as its trigger price (based on CIF prices in 1986-88) was way below the annual CIF prices. But, applying the trigger price method only to 'tobacco not stemmed/stripped', it can be noted that there were indications of import surges of this particular tobacco product specifically in 1999, 2000, 2001, and 2002. Further, the price difference was at least 20 percent to at most 43 percent.

Summary on import surges

A surge in onion imports was established to have occurred in 2001 based on the volume of imports, both in absolute and relative terms, as well as on the breaching of the trigger levels. For tobacco imports, the year when imports surged was 2004, also based on the same indicators.

2.3 Factors inducing the surge

Import policy regime[6]

Trade policies instituted by the Philippines are aimed at shaping a more outward-oriented trade regime, further integration into the world economy and strengthened overseas market access for Philippine products. In pursuit of these objectives, the Philippines participates actively in multilateral and regional trade negotiations and keeps its commitments made with the WTO, the ASEAN Free Trade and the Asia Pacific Economic Cooperation. Tariff and non-tariff measures, established within the framework of these trade agreements, are viewed to have affected the country's importation particularly inducing surge in imports of agricultural products including onions and tobacco.

Tariff measures. Under the government's unilateral tariff program, the Philippines ensures that the WTO binding commitments are not breached in any process of tariff modification. In the WTO Uruguay Round, the Philippines bound 64 percent of 11 059 tariff lines at the 8-digit level: 97 percent of agricultural tariff lines and 57 percent of non-agricultural tariff lines. Bound rates range from zero percent to 80 percent though 60 percent are lower than 45 percent. In general bound rates exceed applied rates. The 2004 applied tariff rates ranged from zero percent to 65 percent. All applied tariffs are *ad valorem* applied on the CIF value of imports. The average applied MFN rate is 7.5 percent. In-quota tariff rates range from 20 to 50 percent while out-of-quota rates are generally five to 20 percentage points higher ranging from 25 to 65 percent.

As for all other imports, tariffs for onions and tobacco are *ad valorem* applied on the CIF value of imports. Onion imports were subjected to tariff quota until the year 2000 with the in-quota rate

[6] Sourced mainly from the Philippine government's submissions to the Trade Policy Review of the WTO in 2005.

TABLE 6.
Volume of tobacco imports by country of origin, 1999-2004 *(in metric tonnes)*

	1999	2000	2001	2002	2003	2004	Annual Average	Total 1999-2004	% share
Argentina	401	198		394		104	274.0	1 096.0	0.6
Australia		-	12			1 317	443.1	1 329.3	0.7
Belgium		42	148		644	764	399.3	1 597.3	0.9
Brazil	3 545	9 137	6 255	6 339	9 010	24 270	9 759.4	58 556.5	31.9
China	10 311	6 438	3 727	3 597	3 974	12 483	6 755.0	40 529.7	22.1
Hong Kong		12	6	535	450	150	230.8	1 153.8	0.6
India			127	632	350	873	495.4	1 981.6	1.1
Indonesia	1 462	1 564	665	2 297	1 921	3 001	1 818.5	10 911.1	5.9
Malawi	-	1 584	1 054	2 814	372	271	1 015.9	6 095.5	3.3
Malaysia	529	467	445	536	575	474	504.3	3 026.0	1.6
South Africa	1 963	552	575	495	1 208	2 435	1 204.6	7 227.7	3.9
Switzerland	-	20	40	368	1 913	4 060	1 066.8	6 400.9	3.5
Taiwan	2	-	554	465	631	147	300.0	1 800.2	1.0
Thailand	400	286	281	430	2 315	1 308	837.0	5 021.7	2.7
Turkey	197	91	136	224	1 833	1 943	737.2	4 423.0	2.4
United States	3 020	4 606	3 436	3 006	2 425	373	2 810.9	16 865.5	9.2
Vietnam					1 470	2 365	1 917.4	3 834.9	2.1
Zimbabwe	4 215	2 335	177	1 214		418	1 671.8	8 359.2	4.6
Others [a]	747	793	85	696	414	493	1 453.9	3 227.9	1.8
Total	26 790	28 126	17 723	24 043	29 506	57 250	30 572.9	183 437.6	100.0

[a] Includes those country sources with total imports share each of less than 0.5% such as Japan, Israel, Nicaragua, Hungary, Singapore, Canada, Bangladesh, France, Germany, Italy, Spain, United Kingdom, Albania, Greece, Netherlands, South Korea, Mexico, New Zealand, Sweden, Ireland, Uruguay, Cambodia, Malta, Saudi Arabia, Ecuador, Trinidad and Tobago.

Source: National Statistics Office (NSO).

TABLE 7.
Volume of tobacco imports relative to domestic consumption and production

	1999	2000	2001	2002	2003	2004	Average
Imports (mt)	26 790	28 126	17 723	24 043	29 506	57 250	30 573
Production (mt)	51 520	49 530	48 170	50 180	52 900	48 310	50 102
Consumption (mt)	58 911	48 740	35 491	58 447	64 906	89 038	59 256
Ratio of imports to production (%)	52.0	56.8	36.8	47.9	55.8	118.5	61.3
Import's share of consumption (%)	45.5	57.7	49.9	41.1	45.5	64.3	50.7

Source: NSO and BAS

TABLE 8.
Volume and value of tobacco imports relative to computed triggers

	1999	2000	2001	2002	2003	2004
Unmanufactured tobacco and tobacco refuse						
Volume of imports (mt)	26 790	28 126	17 723	24 043	29 506	57 250
Trigger volume (mt)						
Trigger volume 1[a]	21 115	33 296	38 535	48 379	30 921	49 077
Trigger volume 2[b]	21 945	27 530	30 103	30 266	29 122	29 697
CIF value of imports (in USD '000)	105 528	104 277	61 959	72 612	89 969	172 855
CIF unit value						
USD per kilo	3.94	3.71	3.50	3.02	3.05	3.02
Pesos per kilo	154.22	165.12	178.28	155.90	165.46	169.34
% higher/(lower) than computed trigger price of Php 93.97 pesos	64.12	75.71	89.72	66.54	78.26	79.91
Tobacco not stemmed/stripped						
CIF unit value in pesos per kilo	111.35	112.74	92.83	81.22	159.20	145.16
% higher/(lower) than computed trigger price of Php 141.72 pesos	(21.43)	(20.45)	(34.49)	(42.69)	12.33	2.43

[a] Using WTO definition, i.e., the sum of the average quantity of imports during the three preceding years for which data are available times a scaling factor (125%,110% or 105% depending on the share of imports in domestic consumption) plus the absolute volume change in domestic consumption.
[b] An alternative WTO definition of trigger volume equal to 125% of the average volume of imports in the three preceding years for which data are available.
Source of basic data: NSO and BAS.

of 30 percent while the out-quota rate was twice as much (60 percent). Since 2001 when the quota was eliminated, the applied tariff was reduced by 10 percent annually to reach its bound rate of 40 percent by 2003 (Table 9).

Meanwhile, the applied tariff rate for unmanufactured tobacco since 1999 has been much lower than its bound rate of 50 percent. The applied tariff of unmanufactured tobacco products during the period 1999 - 2000 was 20 percent, although leaf tobacco wrapper had lower tariff of ten percent. This went down to seven (7) percent in 2001 until to date.

Non-tariff measures. Non-tariff barriers to imports, such as the required licensing and permits, affect a number of goods. Import licensing is intended mainly to safeguard public health, national security and welfare, and to meet international treaty obligations related to the regulation of certain products.[7] Two different licensing procedures are in place: for non-quota products and for products subject to quotas. For non-quota products, the application has to be filed at least two weeks prior to the loading date and licenses are granted immediately. License fees vary according to product and are collected by the agency in charge of granting the license.

All importers are required to register with the Customs Intelligence and Investigation Service of the Bureau of Customs (BOC). In addition, to be allowed to import agricultural products, importers need to be accredited with the designated government agency. The Bureau of Plant Industry (BPI) is the government agency that accredits importers of most plants and plant products including onions. Tobacco importers meanwhile get accreditation and commodity clearance from the National Tobacco Administration (NTA). There are no fees for such accreditation. 6Certain national standards also have to be met by imports. For agricultural food products, standard qualities are formulated by the Bureau of Agriculture and Fisheries Product Standards (BAFPS). Onion imports in particular have to comply with a new set of Philippine national standards for 'bulb onions' prepared by the Bureau of Agriculture and Fisheries Product Standards (BAFPS) in 2003.[8]

[7] The import licensing regime is regulated by the Tariff and Customs Code of 1978 (PD 1464), and by other laws that govern the importation and licensing regime of specific commodities.

TABLE 9.
Tariff schedule of onions and tobacco, 1999-2004

HS Code	Description	1999	2000	2001	2002	2003	2004	
							MFN	CEPT
0703.1000	Onions and shallots, fresh or chilled							
	In quota	30	30	60	50	40	40	5
	Out-quota	60	60					
2401.1000	Tobacco, not stemmed/stripped			10	7	7	7	3
	Leaf tobacco wrapper	10	10					
	Other	20	20					
2401.2000	Tobacco, partly or wholly stemmed/ stripped	20	20	10	7	7	7	3
2401.3000	Tobacco refuse	20	20	10	7	7	7	3

MFN- Most Favored Nation; CEPT – Common Effective Preferential Tariff under the ASEAN Agreement.
Source: Tariff and Customs Code of the Philippines.

On the other hand, the National Tobacco Administration (NTA) has formulated official grades and specifications of locally-grown tobacco but essentially to guide farmers on the types of tobacco leaves suited for manufacturing. However, standards with regard to the suitable quality of tobacco have yet to be formulated.

Other potential factors inducing the surge

Other factors that might have induced the surge or increase in the importation of onions and tobacco are explored here.

Exchange Rate. Since 1999, the Philippine peso to US dollar exchange rate has been depreciating at an average rate of about eight percent per annum (Table 10). In 2001 when there was a surge in onion imports, the exchange rate was almost P51 to the dollar, from an average of P45 to $1 the previous year of a depreciation of the peso by 14 percent. This means that imports are more expensive in 2001 than in 2000. Meanwhile, the peso to dollar exchange rate in 2004 when tobacco imports surged was P56, the lowest during the review period so that imports are even more expensive. Hence, the peso to dollar exchange rate could not be a key factor that caused the surge in imports in both onions and tobacco.

Adverse weather condition which led to the decline in onion production. It can be noted that the production of local onions in 2001 was lower by 1.6 million kilos compared to the production during the previous year. From 84.2 million kilos in 2001, total production of onions was only 82.6 million kilos in 2002. The decrease in production was mainly attributed to too much rainfall during the cropping period. Thus, adverse weather condition which resulted in low onion production (which is usually known during the March to April of the year) can be considered to have induced, albeit indirectly, a bigger volume of importation.

Deteriorating soil condition affected tobacco production. Likewise, tobacco production declined significantly as imports surged in 2004 compared to the previous-year level. The main reason for the decrease is that farmers reportedly reduced land planted to tobacco and/or shifted to other crops due to high soil salinity. In fact, total area planted to tobacco decreased by 19 percent that is, from 41 700 hectares in 2003 to only 33 800 hectares in 2004. The deteriorating soil condition caused the production of poor quality tobacco—with high salt content which traders refused to buy. Some farmers reportedly shifted to corn, cassava, tomato or legumes. Another reason cited for decreased production was the low buying price of tobacco during the previous season.

[8] In formulating the new standards, BAFPS was assisted by a technical committee of government and private sector representatives. Earlier standards (1969 Bulb Onion Standards and 1982 Standards the National Food Authority) were used as reference. BAFPS also conducted a series of technical reviews and public consultations before the standards were finalized.

TABLE 10.
Exchange rate, 1999-2004

	1999	2000	2001	2002	2003	2004
Peso equivalent of one USD	39.1513	44.5363	50.9948	51.6212	54.2615	56.0866
% depreciation		13.75	14.50	1.23	5.11	3.36

Source of basic data: NSO and BAS.