



FAO Briefs on Import Surges

- Countries

No. 9 Philippines: onions and tobacco*



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SUMMARY

- The Safeguard Measures Act of the Philippines in 2000 enables the Government to implement safeguard provisions under the World Trade Organization (WTO) Agreement on Agriculture (AoA).
- Special safeguard (SSG) duties were implemented to respond to import surges of onions, while a request has been recently formulated for safeguards for tobacco.
- Low priced imports of onions, mainly from China, appear to be the main factor responsible for a surge in imports into the Philippines. The prices of imported onions are much lower than the wholesale prices of locally grown onions.
- For tobacco, farmers are concerned about the volume of imports which now exceeds local production, resulting in a decrease in their market share and threatening their livelihoods. The surge in imports is attributed to quality difficulties affecting local leaf, since import prices have been steadily above wholesale prices of local tobacco.
- Reductions in tariffs may also have facilitated imports. Under its unilateral tariff programme, the Philippines reduced overall tariff levels during 1999-2004, and the tariff rate quota (TRQ) for onions was eliminated in 2001. Since 1999, the applied tariff rate for unmanufactured tobacco has been much lower than the bound rate.
- Other factors contributing to the displacement of domestic production by imports include rising costs of production inputs, lack of storage facilities, and inadequate handling and transport facilities. There is also a need to upgrade production technology and research.
- The Philippines government has established a comprehensive trade surveillance system. This system provides the data and analyses needed to determine the presence of import surges in the agriculture sector and to assess the need for recourse to safeguard measures, bearing in mind the differing concerns of various stakeholders.

Introduction

The Safeguard Measures Act of the Philippines in 2000 enables the Government to implement safeguard provisions under the World Trade Organization (WTO) Agreement on Agriculture (AoA). As a result, special safeguard (SSG) duties were implemented to respond to import surges of some agricultural products.¹ Onions were among these. Recently, a request has been formulated for safeguards for tobacco.

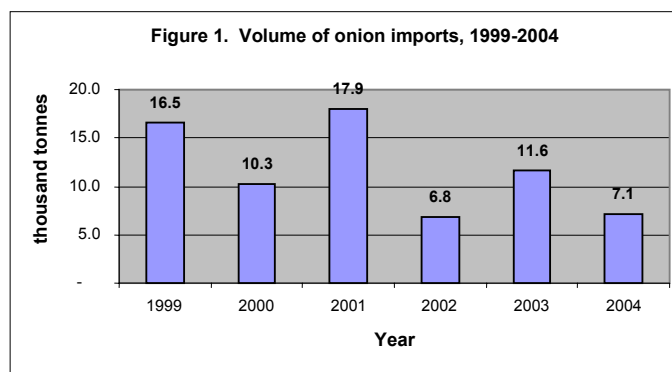
Both the onion and tobacco crops are very important products for rural livelihoods in the Philippines. Onions are also a staple seasoning in the daily diet of the population. Under these circumstances, increases in imports of these products represent a critical and sensitive issue. Farmers claim that cheap imports, mostly from China, have reduced the prices of domestically produced onions, particularly because their timing coincides with the peak harvest period for local produce. For tobacco, farmers are concerned about the volume of imports which now exceeds local production, resulting in a decrease in their market share and threatening their livelihoods.

Importers and traders have distinctly different perspectives on the imports of these two agricultural products. Onion importers claim that there has not been much increase in import volumes, and the timing does not coincide with the local harvest period. In addition, imported onions are reportedly distributed to a different segment of the market, supplying mainly hotels, restaurants, and food chains. Tobacco importers claim that domestic production does not meet the quality requirements of manufacturers. Locally produced tobacco and imported leaf are considered different products with distinct markets. The increase in imports is therefore attributed to inappropriate and inefficient domestic farming and handling.

Identification of import surges

Three approaches were used to identify import surges during 1999-2004. These were examination of trends in imported volumes; assessment of the ratio of imports to consumption and production; and comparison of the volume and value of imports with the trigger volumes and prices calculated on the basis of the AoA SSG methodology.

The volume of onion imports fluctuated during the period, with sharp increases occurring in 1999, 2001 and 2003 over the previous year (Figure 1). Around 60 percent of the imports are from China, by far the biggest supplier.



¹ The Philippines is one of the 22 developing countries having access to the SSG following tariffication under the Uruguay Round.

* Country studies prepared by national experts.

Table 1. Volume of onion imports, relative to domestic consumption and production

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

Source of basic data: National Statistics Office and Bureau of Agricultural Statistics.

Onion imports relative to domestic consumption increased sharply in 1999 and 2001. While the average ratio was around 7 percent, it rose to 12 percent in both years. (Table 1) Similarly, the ratio of imports relative to production also increased in 1999 and 2001, to more than 20 percent.

Based on the trigger level methodologies defined under the AoA, volume breached the trigger level only in the year 2001; while price breached the trigger level in all the years for the period 1999-2004.²

In the case of tobacco, during 1999-2004 imports were fairly stable except in 2001 when imports were reduced and in 2004 when a large increase took place to 57 000 tonnes. (Figure 2) The Philippines imports more than 30 percent of its total imports from Brazil and more than 20 percent from China.

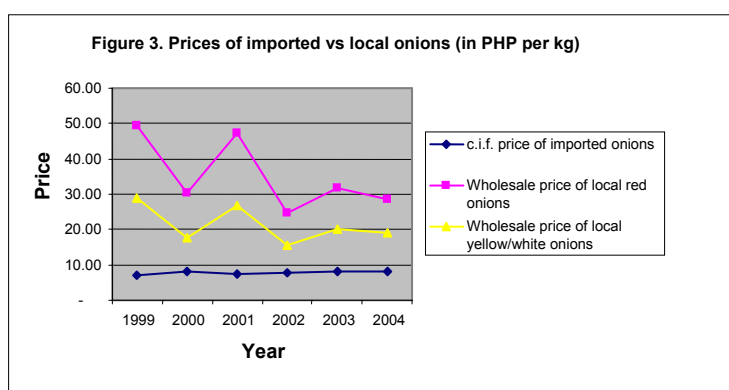
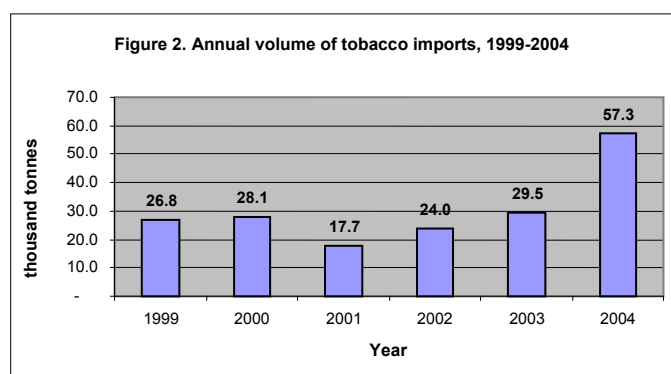
The year 2004 was a critical year in terms of the ratio of imports to consumption which approached 65 percent compared to about 45 percent the previous year. The ratio of imports to domestic production also increased significantly in 2004, with imports exceeding domestic production for the first time in recent history by nearly 20 percent.

Based on trigger level computations, the volume trigger was breached in 1999 and 2004. However, there was no indication of import surge based on the trigger price computation. Interestingly when unmanufactured tobacco is disaggregated further accordingly to the HS code, the price is triggered for the subcategory of 'tobacco not stemmed/stripped' in all the years from 1999 to 2002.

Reasons for surges

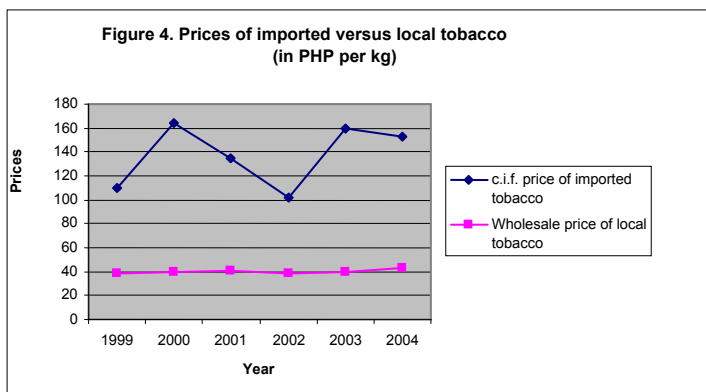
There are several possible factors that might bring about import surges of onion and tobacco. These include international prices, tariff measures, non-tariff measures, exchange rate variations, adverse weather conditions, and deteriorating soil conditions. The Philippines government has engaged in more outward-oriented policies recently, and as a result, the country is more integrated into the world economy, participating in multilateral and regional trade agreements. Therefore, externally induced changes in domestic policies and economic variables have become more evident. However, internal factors also play a role in influencing levels of imports.

Prices: The c.i.f. prices of imported onions are much lower than the wholesale prices of locally grown onions. In fact, there were huge price differences throughout the period, averaging 360 percent for red onions and 178 percent for yellow onions. (Figure 3). In 1999 and 2001, the price of locally grown red onions was 5 times greater than imported ones, while the price of locally grown yellow/white onions was three times greater. Obviously, price competition has exerted a significant effect in encouraging imports, particularly during certain times of the year when domestic supplies are less available, and in uses where the particular quality attributes of domestic onions are not a determining factor in consumer choice. Interestingly, the years 1999 and 2001 were those when import surges of onions occurred in the Philippines.



² There are two definitions of trigger volume: (i) the sum of the average quantity of imports during three preceding years for which data are available, which is then multiplied by a scaling factor (125 percent, 110 percent, or 105 percent depending on the share of imports in domestic consumption), and this is added to the absolute volume change in domestic consumption; (ii) simply 125 percent of the average volume of imports in the preceding years for which data are available. The price trigger is computed as the average c.i.f. import price during 1986 to 1988.

In the case of tobacco, imported leaf, particularly the Virginia variety, was more expensive than locally-produced leaf throughout 1999-2004. (Figure 4). Tobacco manufacturers claim that local tobacco is suited more for filler rather than for flavouring, the difference being caused by weather and soil conditions. Consequently, it appears that price is not a significant causal factor responsible for import surges.



Tariff measures: Under its unilateral tariff programme, the Philippines reduced overall tariff levels during 1999-2004. As for other products, tariffs for onions and tobacco are at *ad valorem* rates applied to the c.i.f. value of imports. A Tariff Rate Quota (TRQ) was in effect for onions until 2001. The in-quota tariff rate was 30 percent, and the out-quota rate was 60 percent. Since 2001 when the quota was eliminated, the applied tariff rate for onions was reduced by 10 percent each year to reach its bound rate of 40 percent by 2003. For ASEAN countries however the rate was set at 5 percent. Since 1999, the applied tariff rate for unmanufactured tobacco has been much lower than the bound rate of 50 percent. It was reduced from 20 percent in 1999-2000 to 7 percent by 2002, while the preferential tariff under the ASEAN agreement was 3 percent.

Non-tariff measures: Such measures do not appear to be a factor influencing levels of imports. Import licensing procedures are in place for both quota and non-quota products. In the case of onions and tobacco, quotas do not exist. Applications for imports are granted immediately upon payment of the required license fees.

Exchange rate: Since 1999, the value of the Philippine peso *vis-à-vis* the US dollar has been depreciating. For both onions and tobacco, import surges took place in years of weakening currency rates, and therefore the peso to dollar exchange rate was not a cause of the increases.

Adverse weather conditions: The relationship between production shortfalls and imports is not clear. Domestic onion production decreased in 2001, the year the import surge occurred, but it also decreased in 2003 and 2004 when imports declined as well. Similarly, both production and imports of tobacco dropped in 2001 and a recovery in output in 2002 and 2003 was accompanied by higher imports. However, some reduction took place in 2004 production when imports surged to a record level. Aggregate volume data do not provide indications regarding quality factors influencing market demand.

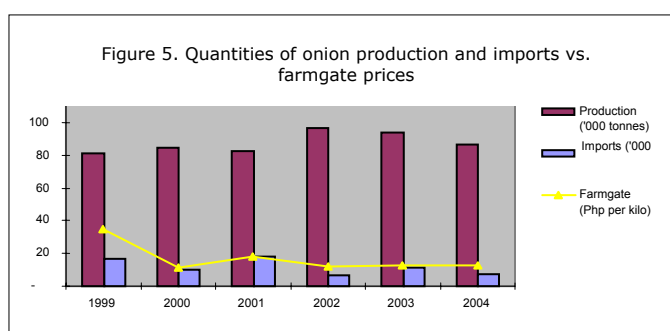
Deteriorating soil conditions: This factor is more applicable, over the longer run, to tobacco products than onions. In recent years, farmers reduced land allocated to tobacco production and shifted to other crops as soil salinity increased. Between 2003 and 2004, the total tobacco area was reduced by 19 percent.

Evidence of injury

In assessing possible injury, efforts are needed to define *inter alia* similar or competing products affected by the import surge, and the spatial and temporal conditions under which injury might occur. Imported and domestically produced onions share many common physical aspects although there are some quality differences between the two. In the Philippines, onions are planted only during two months of the year, while in China onions are planted and harvested throughout the year. Locally grown onions also have a shorter shelf life than the imported ones.

Market segmentation of imported onions is greater than for locally grown onions for which the main buyers are local traders who buy in bulk or on a wholesale basis at the farms. Around 50 percent of the imported onions are distributed to hotels and restaurants, but the rest are bought by supermarkets and grocery stores in both urban and rural areas. Thus, imported onions compete directly with locally-grown onions in the retail markets, and this competition is greater during certain times of the year.

Since prices of imported onions are significantly lower than those of domestic produce, the rising volume of imports has influenced domestic prices which have trended downwards during the review period. In fact, prices of local onions at the farmgate, as well as in the wholesale and retail markets have declined significantly over the period 1999-2004. By 2004 farmgate prices were about one-third the 1999 level (Figure 5). For tobacco, reduced market share of domestic production was the main result of the import surge.



Under these circumstances, farmers reported six injury factors between 1999 and 2004.

For tobacco, they included decreased sales and production. In 2004 sales declined by nearly 40 percent compared to the previous year. Farmers claimed that they were constrained to produce smaller amounts due to the low buying price and the refusal of cigarette manufacturers to buy their produce. For onions, injury was most associated with the price decreases. Farmgate prices for white/yellow granex onions, mostly produced domestically, declined more than 75 percent over the period.

For both commodities, income and profits from the crops were adversely affected. Decreased volumes of tobacco produced and sold, and the significantly lower prices for onions, resulted in pronounced declines in both net income and profits for farmers. In the case of tobacco, the net income of farmers decreased by 31 percent during 1999 to 2004. During this period, onions and tobacco profits also declined as a result of rising costs of inputs.

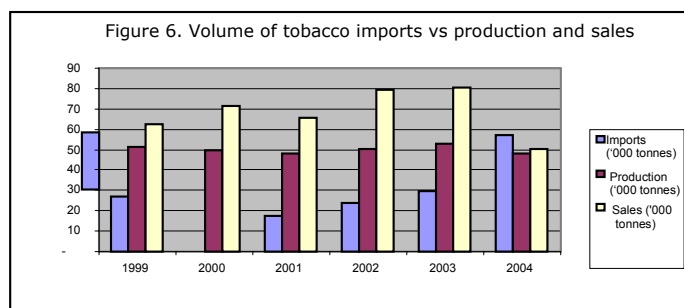
For both commodities, the producers, farm labourers, and haulers claimed that employment decreased due to the increase in imports.

Because of the low profits in the tobacco sector, difficulties arose in coping with increasing capital demands for investment and modernization; while research and development could not be supported for either product.

Causality

Figure 5 shows the declining trend of the farmgate price of onions. It does not appear that the farmgate price is correlated with the increase in importation of onions. However, correlation analysis confirms that the very low c.i.f. import prices, were associated with the drop in domestic prices.

For tobacco, there seems to be no negative correlation between the volume of tobacco importation and domestic production or sales. Higher imports seem positively associated with greater production and sales during the period 1999-2004 except the year 2004 when they move in opposite directions. (Figure 6) It is difficult to prove that there is a negative correlation between higher imports and lower production and sales of domestically produced tobacco.



Non-attribution factors

There are factors other than increased imports that might have caused the injuries experienced by the domestic onion and tobacco industries. These include the following:

Increased cost of production: Both tobacco and onion farmers claimed that the cost of production increased throughout the period of 1999-2004 due to the rising prices of fertilizers and pesticides. For tobacco, in the period between 2003 and 2004 farmers experienced a sharp 25 percent in production costs.

Poor quality of produce: Tobacco farmers reported that the main reason for their low sales was the decision of traders and manufacturers not to buy the low grade and salty varieties produced domestically.

Lack of storage facilities: Most of the onion farmers do not have proper storage facilities. Community facilities are available, but are very expensive. Traders and importers also observed that onion farmers need to be assisted in handling and marketing their produce.

Need for new technology to adapt to varying consumer preferences and poor handling and transport of onion produce: Onion traders and importers claim that farmers must learn new technologies and ways of planting onions; they should also produce varying types to cater to consumers' different preferences.

Lack of training, production and marketing assistance: The lack of training on technology, assistance for marketing, and financial support for production are the major concerns of tobacco farmers who are facing competitive tobacco imports.

Trade surveillance

Currently, in the Philippines there are 26 government agencies that address trade-related matters such as trade policy formulation and implementation, and the monitoring of trade flows. Four agencies are specifically involved in implementing trade remedy measures for the agriculture sector: the Department of Agriculture, the Bureau of Customs, the Tariff Commission, and the National Statistics Office. In order to have effective trade surveillance, these agencies try to provide timely and appropriate responses to import surges and cushion any adverse impact of importation. Therefore, these agencies emphasize coordination, regular consultation with stakeholders, good databases, and strong analytical capabilities.

Concluding remarks

Both absolute and relative measurement proves that there was import surge of onions and tobacco during the review period. While declines in domestic production and the lowering of tariffs on both products might have contributed to the increase of imports, other factors such as low international prices and quality considerations appear to have exerted a significant influence.

Correlation analyses confirm that the low c.i.f. prices of imported onions over the 1999-2004 period could have had a damping effect on farmgate prices. However, it is difficult to confirm that decreasing sales of tobacco and the resultant reductions in profits and income were caused by imports. Other non-attribution factors such as increasing costs of production and poor quality of locally produced tobacco are considered potential contributors to the injury.

The trade surveillance systems which are in place in the Philippines could provide the data and analyses needed to determine the presence of import surges in the agriculture sector and to define whether possible recourse should be taken to safeguard measures consistent with WTO provisions.