The ASEAN-EU Free Trade Agreement: Issues and Problems for Philippine Agriculture

by

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Foreword

The proposed free trade agreement between the Association of Southeast Asian Nations and the European Union of the ASEAN-EU FTA is certainly a source of concern. For one, it is within the same neoliberal framework of further prying open trade and investments in developing countries. Such neoliberal trade and investment pattern failed to usher its promised development in poor countries supposedly through increased trade opportunities with developed countries and increased investments and job and income generation in developing countries. This model has also been proven to be devastating to vulnerable sectors such as agriculture which constitute a huge percentage of the economy of many developing countries including the Philippines. Unfortunately, FTAs also strip developing countries of policy space and mechanisms that can protect the affected sectors.

The ASEAN-EU FTA is no different from other free trade agreements. It presents huge negative effects on agriculture by removing tariffs, creating "non-discriminatory" climate for trade in services and investments, elimination of non-tariff barriers, improving market opportunities for government procurement and enforcement of intellectual property rights.

While negotiations on the ASEAN-EU FTA are temporarily stalled, the European Union is engaging in bilateral talks with individual member nations of ASEAN who are ready and willing to sign the agreement and are also likely to gain from the agreement. Critics of the agreement must optimize this lull in the negotiations to increase public awareness on and resistance to the agreement to make it more difficult for both parties to resume the talks and conclude the accord.

The ASEAN-EU FTA must be blocked before it can wreak havoc to the ASEAN region, and in particular, to the Philippine agriculture. The country urgently needs to reverse the stagnation that has characterized its agricultural production for several decades now and made it the biggest rice importer in the world.

To create popular resistance against the ASEAN-EU FTA requires a concerted effort of well-informed citizenry. There is a pressing need to disseminate information to organized citizens and the broad public on the content and potential damages of the agreement and to call for actions that will stop the eventual signing of the ASEAN-EU FTA. There is also a need to gather as much information about the agreement and to guard against lack of transparency and railroading of the agreement as shown in past experiences with FTAs. Filipino peasants should be particularly vigilant as they are among the sectors to be severely affected.

Over the past years, the Integrated Rural Development Foundation (IRDF) has strived to contribute to the discourse and actions on neoliberal trade including free trade agreements that the Philippines entered such as the WTO, Japan-Philippines Economic Partnership Agreement (JPEPA) as well as bilateral trade agreements with China. As part of its continuing advocacy against "free trade" and other issues affecting the rural sectors, IRDF also campaigns on the ASEAN-EU FTA through public fora in the Philippines and in regional and international events, networking with other organizations, dialogue with the EU Commission in the Philippines and with other concerned agencies of the Philippine government and liaising with the members of the academe and the mass media.

This research is part of IRDF's ongoing effort to generate resource materials for policy-makers, academics, journalists and trade activists and help improve the capacity of people's organizations to engage on the issue of ASEAN-EU FTA. Through this, IRDF hopes to create greater awareness and generate critique on and resistance against the ASEAN-EU FTA.

This research would not have been possible if not for the support of IRDF's long-time solidarity partner -- the Comite Catholique contre Faim et pour le Developpment (CCfD) in France. Beyond providing financial support for this research, however, CCfD is also actively supporting the campaign against the ASEAN-EU FTA and making the civil society voices on the agreement heard in France and other parts of Europe. IRDF greatly appreciates all these support.

Arze Glipo

IRDF Executive Director

Introduction

Empirical evidence shows that free trade agreements (FTAs) are seldom welfare-improving, especially those involving countries that are not of the same level of competitiveness and development (Salvatore, 2003). However, the last two decades saw a flurry of FTA deals and negotiations, majority of which were between developed countries on one hand and developing countries on the other. One of the several reasons cited for this is the failure of the WTO multilateral talks to substantively move forward with the Doha Development Round. Another is that FTAs are said to be "WTO plus" or more ambitious than the WTO because they cover investments, competition policy, government procurement and other such areas originally opposed by developing countries to be included in the WTO talks. Thus, given the FTA's prospects for more ambitious trade commitments, developed countries are believed to be in a competitive race to capture markets in the developing world.

The ASEAN-EU Free Trade Agreement is one among these FTA initiatives that the European Union launched in 2007. Although negotiations on a regional basis, i.e. between the EU and at the level of the ASEAN, have somehow slowed down in the early 2009, talks are being pursued at the bilateral level between the EU and individual ASEAN countries which are more ready than others in the region to clinch a trade deal with the EU.

Among the so-called ASEAN- 6[2], the Philippines is perhaps the laggard in terms of economic performance, with its aggregate output increases inching up and down a low level "equilibrium trap" instead of cumulatively rising to a higher growth orbit as did most of its Asian neighbors (Alburo, 2009). It has one of the highest incidences of poverty in the region; a burgeoning population and large numbers of unemployed; and a poor reputation in governance and institutional reforms. Owing to these and a host of other structural weaknesses, the Philippines' competitive edge in any FTA such as that with the EU poses serious doubts as to whether the FTA could indeed generate trade gains for the country.

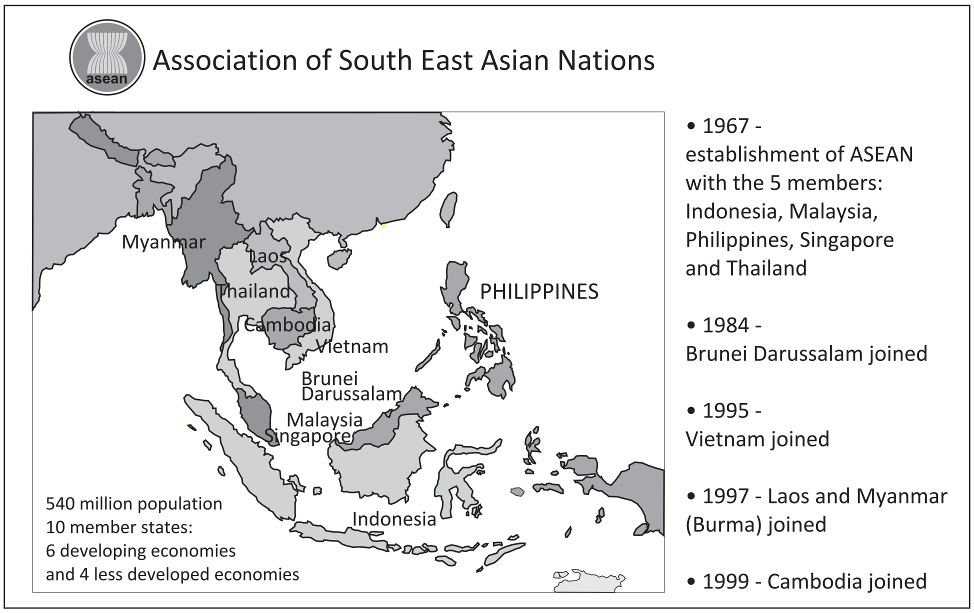
2. The Association of Southeast Asian Nations (ASEAN) consists of ten member-countries but which are often referred to as the ASEAN 6 and ASEAN-CMLV to informally distinguish between the original members and more advanced economies of Singapore, Malaysia, Indonesia, Thailand, Philippines and Brunei Darussalam, and the transition economies of the former socialist countries of Cambodia, Myanmar, Laos and Vietnam.

This paper hopes to identify the potential implications of the ASEAN-EU FTA on Philippine agriculture, the sector with the least competitive edge in the economy; traditionally neglected in terms of public and private investments; employs the most number of poor in the population; and hence most likely to suffer the costs of adjustment in trade openness.

This paper primarily employs a qualitative analysis of the FTA's potential impact on Philippine agriculture by identifying issues and problems that confront the sector. The paper is divided into the following sections: (i) overview of the ASEAN-EU and Philippine-EU trade and economic relations; (ii) the ASEAN-EU FTA; (iii) the potential implications of the ASEAN-EU FTA on Philippine agriculture; and (iv) conclusion and recommendations.

I. Overview of the ASEAN-EU and Philippine-EU Trade and Economic Relations

Figure 1. The Asean



Source: ASEAN secretariat

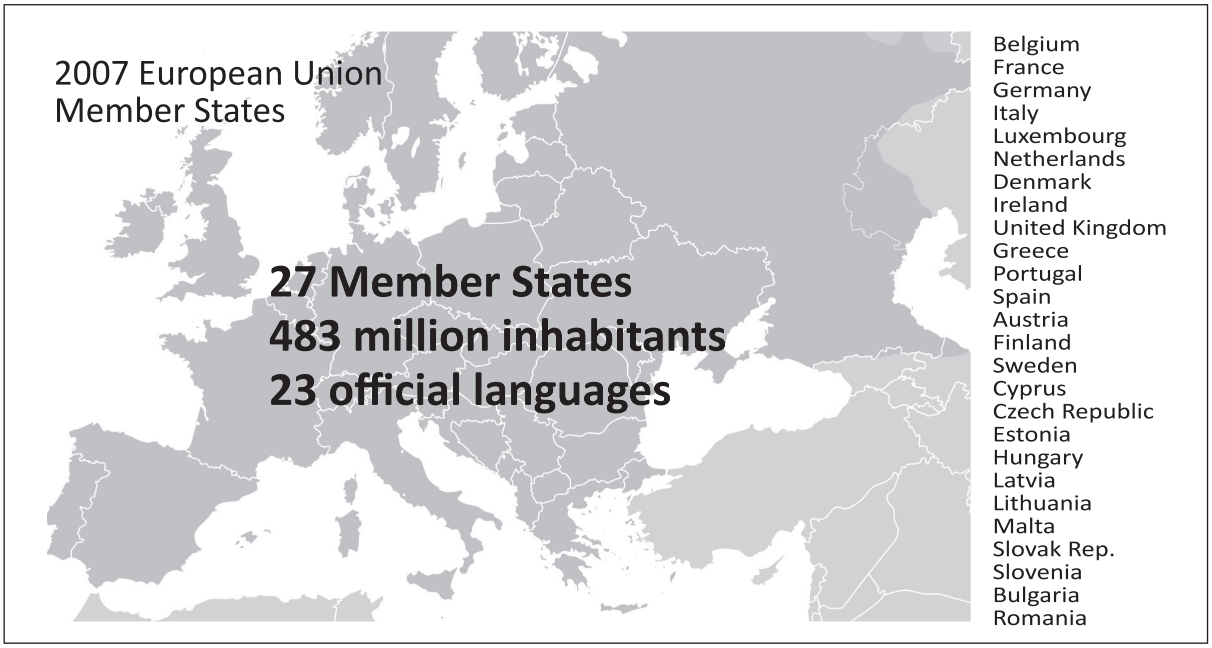
A. ASEAN-EU Trade and Economic Relations

The Asean was established in 1967 with five original members namely: Indonesia, Singapore, Malaysia, Philippines and Thailand which were joined later by Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia (See Figure 1). Its birth in the '60s and up until the early '80s was primarily motivated by political and security concerns against the threat of communist expansion in the region. With the end of the cold war and subsequent rise of the so-called "war on terror", ASEAN's existence continued to be predicated mainly on political and security reasons, and to some extent, on a professed goal of regional economic integration.

Gains from regional economic integration efforts in the ASEAN have been less than desirable. The ASEAN remains very heterogeneous in terms of income levels and socio-economic policy history and orientation. What could best describe ASEAN's type of integration is one of "open regionalism" where extra-ASEAN trade and economic integration with the outside world is more dominant and often takes precedence over intra-ASEAN integration. The impact of the ASEAN Free Trade Area or AFTA for instance has been minimal. The utilization rate of the AFTA Common Effective Preferential Tariffs (CEPT) is less than 10% while intra-ASEAN trade is only 25% of total ASEAN trade.

The European Union, on the other hand, boasts as the world's most successful economic union. Its membership has ballooned to 27 owing to an enlargement effort that has counted in former socialist states in the East and less advanced economies in the South (See Figure 2). Such an enlargement implies a trend towards economic heterogeneity within the union, something that analysts predict to be another stumbling block to the EU's graduation into a political union.

Figure 2. The European Union



Source: ASEAN secretariat

Trade and Investment Flows

The ASEAN is the 5th largest trading partner of the EU. Of the EU's total exports, 4% are destined to ASEAN countries and of the EU's total imports, 6% originate from the ASEAN. The EU, meanwhile, is ASEAN's third most important trading partner, next to the USA and Japan. Around 12% of ASEAN's exports go to the EU while 10% of all ASEAN imports come from the EU. In 2006, EU-ASEAN trade represented 5% of total world trade.

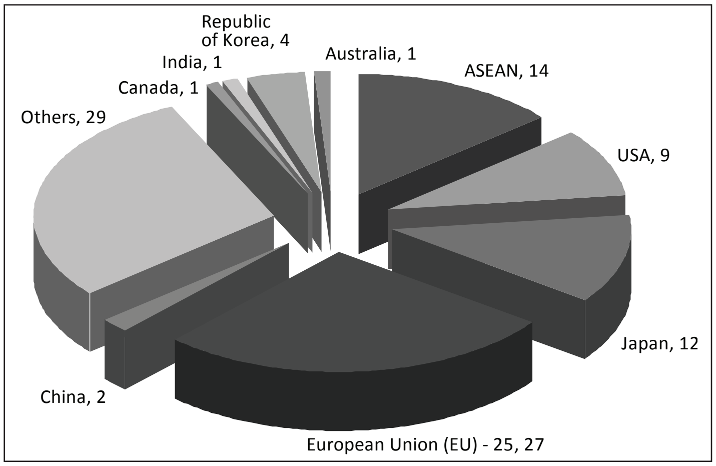
In 2008, ASEAN merchandise exports to the EU totaled $112.8 billion while its imports from the EU were at $89.5 billion. As such, ASEAN enjoys a trade surplus with the EU in merchandise trade, with its main export products consisting of office machines, electrical machinery, telecommunications, apparel & clothing accessories, organic chemicals and footwear. Main EU exports to the ASEAN include electrical machinery, general industrial machinery and equipment, automobiles and aircraft, power-generating machinery, telecommunications equipment, etc. Although there is a great deal of intra-industry trade, exports from ASEAN tend to be more in consumer goods while EU exports to ASEAN involve mostly capital goods.

Agricultural trade between ASEAN and EU represents 11% of total trade between the two regions. In 2008, ASEAN agricultural exports to the EU were valued at $17 billion comprising mainly of fats and oils from coconut and palm, equivalent to 16% of total ASEAN exports to the EU. Its agricultural imports from the EU were placed at $4.2 billion consisting of dairy, cereals, and fishery products, and equivalent to 6.3% of total ASEAN imports from the EU.

The EU is the largest foreign investor in ASEAN countries, accounting for 27% of total FDI inflows into the region from 2001 to 2007 (See Figure 3). On average, EU companies have invested 5.1 billion Euros a year for the period 2003 to 2005. Singapore, being the regional hub for investments into and within ASEAN, gets more than half (58.3%) of total EU FDI flows, followed by Malaysia, Indonesia and Thailand (See Figure 4). EU investments are mainly in financial services (44%) manufacturing (19%) trade & commerce (14%).

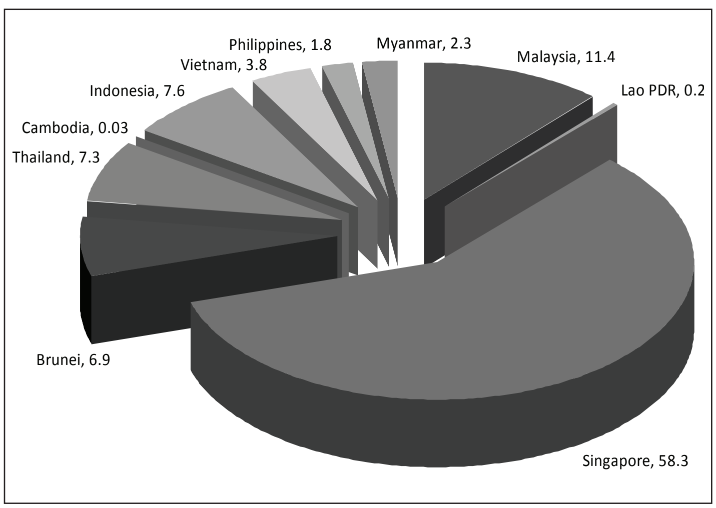
European investors in the region sell more than half (55%) of their products in the domestic market of the host country while a third goes to other ASEAN and Asian countries. European TNCs take

Figure 3. Total FDI in ASEAN by Investing Country



Source: ASEAN Secretariat

Figure 4. EU FDI by ASEAN Country, 2007



Source: ASEAN Secretariat

the lead over their American and Japanese competitors in some sectors, e.g. Royal Dutch Shell in the petroleum industry, Nestlé and Unilever in food processing.

Trade and economic cooperation

Formal ties between the ASEAN and the EU started in the late '70s through the EC-ASEAN Cooperation Agreement. Later in the '90s, the establishment of the Asia-Europe Meeting, within which the ASEAN became one of the strongest Asian blocs, became Europe's diplomatic effort to seize opportunities in the world's economically fastest growing region. Since then, cooperation between the two regional blocs has grown, covering economic and trade, political & security, social & cultural areas and development cooperation

In 2003, the Trans-Regional EU-ASEAN Trade Initiative (TREATI) was launched to deepen trade and economic cooperation between the 2 regions which then became the building block for initiating the FTA negotiations.

B. Philippine-EU Trade and Economic Relations

Philippine-European relations date as far back as the 16th century when the first Spanish conquistadores landed on Philippine islands and established colonial rule for three hundred years until the Americans came and ruled the country from early to mid-1900s.

In 2007, Philippine exports to the EU totaled $ 7.7 billion while its imports from the EU were worth $5.44 billion, representing .4% and .3% market share in EU's total imports and exports, respectively. Among the ASEAN countries, the Philippines ranks 6th next only to Vietnam in terms of share in the EU market (See Table 1). The share of the EU in Philippine total exports and imports is 17% and 10%, respectively (See Table 2).

The Philippines' main exports to the EU consist of computer components and parts (29%), electronics and electrical equipment (24%), vegetable & fruit products (24%), clothing (6%), animal or vegetable oils and fats, mainly coconut oil (4%). Main imports from the EU include electronics, telecoms & electrical equipment (34%), machinery, electrical appliances & computers (19%), aircrafts & parts, pharmaceuticals, dairy products, automobiles and parts.

Among the EU 27, it is the Netherlands, United Kingdom and Germany which account for 65% of Philippine-European trade. At present, the Philippines enjoys a trade surplus with the EU, with total annual trade volume ranging from 8-10 billion Euros during the last five years.

Agricultural trade represents 10% of total trade between the Philippines and the EU. Coconut oil and by-products is the most important primary ex-

Table 1. Philippine Competitive Standing in the EU Market vis-à-vis other ASEAN Member Countries

	EU Imports	Market Share (%)	EU Exports	Market Share (%)
Total EU Imports from World	**1,953.65**		**1,699.99**	
ASEAN	**110.46**		**74.72**	
SINGAPORE	25.24	1.3	28.24	1.66
MALAYSIA	24.83	1.3	15.56	0.92
THAILAND	22.77	1.2	10.81	0.64
INDONESIA	17.55	0.9	7.46	0.44
VIETNAM	10.78	0.5	4.92	0.29
PHILIPPINES	7.73	0.4	5.44	0.32
CAMBODIA	0.94	0.05	0.21	0.01
MYANMAR	0.36	0.02	0.22	0.01

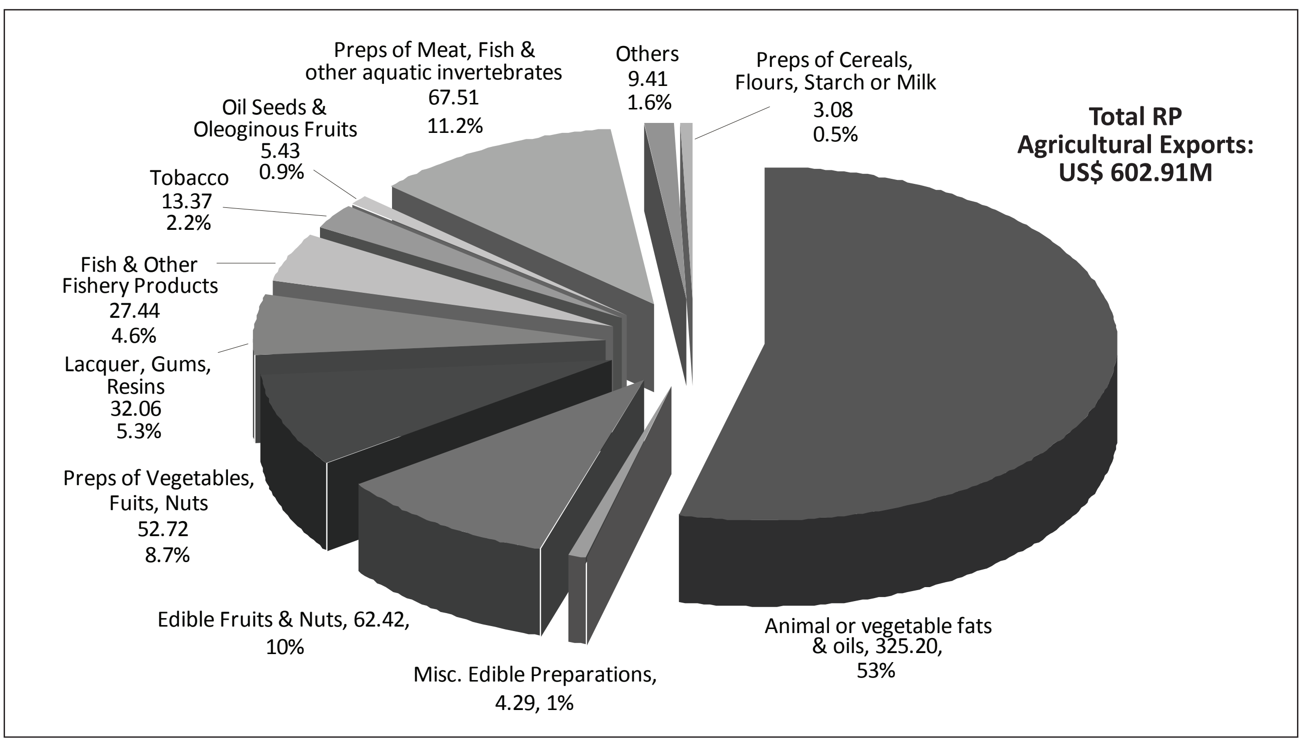
Source: Bureau of International Trade Relations, Department of Trade and Industry

Table 2. Share of EU in RP's Total Trade

	EU	World	Share of EU
RP Exports	8,582,407,973	50,465,723,919	17%
RP Imports	5,309,762,148	55,513,743,221	10%

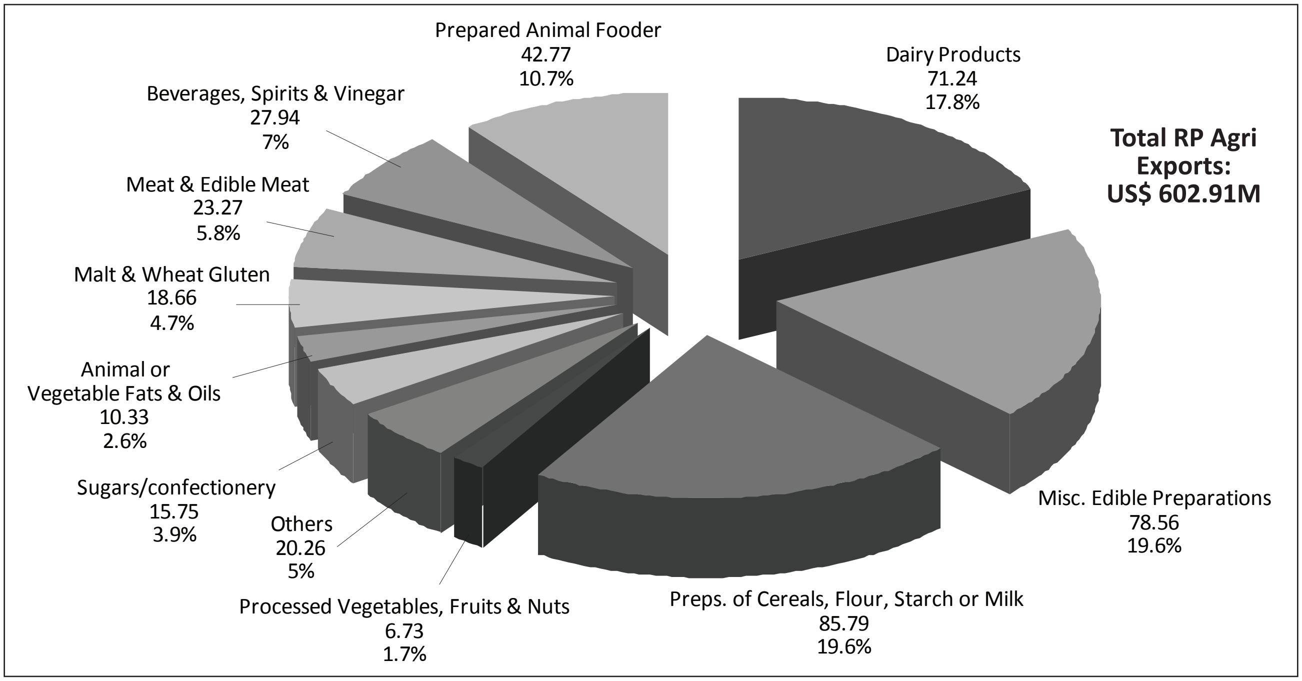
Source: Bureau of International Trade Relations, Department of Trade and Industry

Figure 5. Philippines' Top Ten Agricultural Exports to EU



Source: National Statistics Office (in US $Million)

Figure 6. Philippines' Top Ten Agricultural Imports from the EU



Source: National Statistics Office (in US $Million)

port of the Philippines to the EU, which is supplied as raw material inputs to manufacturing giants such as Unilever. Other Philippine agricultural exports to the EU include tuna, pineapples and seaweeds. The EU on the other hand has dairy products, beverages and spirits (wine, beer, liquor) as its vital agricultural exports to the Philippines. In 2007, the Philippines exported a total of $732 million worth of agricultural products to the EU and imported $453 million worth of agricultural goods from the EU (See Figures 5 and 6).

In the past decade, the EU has surpassed the US and Japan as the biggest source of FDI inflows to the Philippines, accounting for 27% of the total FDI in the country. European portfolio investments on the other hand account for 41% of total portfolio investments. From the period 1995-2006, total EU FDI inflows to the Philippines reached $1.8 billion. These are mainly in banking and financial services, energy and pharmaceutical products. Among the EU member countries, Netherlands, France, Italy, Germany and Sweden have the biggest aggregate foreign direct investments to the country.

The Philippines, however, ranks only 8th and next only to Burma as the top destination of EU FDI flows among the ten ASEAN countries (See Table 3).

In Philippine agriculture, European investments have played a significant role since the introduction of the Green Revolution in the '70s. Companies such as Bayer, Syngenta, Shell Chemicals, etc. have dominated the market for agro-chemicals and seeds. Increasing investor interest has also been observed in bio-fuel production, fish and marine product processing, and poultry and livestock feeds. Although total EU investments in agriculture have reached about $50 million, the number of jobs generated by these investments is only 5,766, which is miniscule in relation to the country's huge number of unemployed.

Table 3. Philippines' competitive standing in the ASEAN in terms of EU FDI Inflows into ASEAN, 1995-2006 in US $ Billion

Singapore	58.3
Malaysia	11.4
Indonesia	7.6
Thailand	7.3
Brunei Darussalam	6.9
Vietnam	3.8
Myanmar	2.3
Philippines	1.8
Lao PDR	0.2
Cambodia	0.03

Table 4. Philippine External Trade, 2008

Value of total agricultural exports	P 173 billion f.o.b.
% agriculture in total exports:	7.9%
Top agricultural exports:	coconut oil (27%), banana fresh (10%),tuna (10%), pineapple and products (7%)
Major Markets coconut oil: banana fresh: tuna:	 USA (43%), Netherlands (33%) France (54%), Japan (17%) USA (28%), Germany (16%)
Value of total agricultural imports:	P 342 billion c.i.f.
% agriculture in total imports:	13.5%
Top agricultural imports:	rice (25%),wheat and meslin (9%), milk and cream and products (8%)
Major suppliers: rice: wheat and meslin: milk and cream and products:	 Vietnam (66%) USA (83%) New Zealand (45%), USA(26%)
Agricultural trade deficit:	P 169 billion

RP-EU Trade and Economic Relations in a Glance

- EU supplied 10% of RP total import requirements; ASEAN accounts for a higher share (23%)
- 17% of RP total exports were shipped to EU; 16% to ASEAN
- Top (5) export markets in EU: Netherlands, Germany, Belgium, United Kingdom and France (90% share)
- Top (5) EU Import Sources: Ireland, Germany, France, Netherlands, United Kingdom (76% share)
- Has trade deficit with (9) EU member states (e.g., Italy, France, Ireland, Finland)
- Has trade surplus with (18) EU member states(e.g., Netherlands, Germany, Belgium, United Kingdom)

II. The ASEAN-EU FTA

Negotiations for the ASEAN-EU Free Trade Agreement were formally launched on May 4, 2007 in Brunei Darussalam during a meeting of ASEAN economic ministers and the EU Director General for Trade, following the approval in April by the European Council of the EU's negotiating mandate for an FTA with the ASEAN, India and Korea. Subsequently, a Joint Committee was set up comprising of senior economic officials from ASEAN and EU to develop the details of the FTA modalities, work program and time schedule.

Unlike those of Korea and India where the EU has to deal with a single state entity, the FTA with ASEAN requires the EU to negotiate with a regional bloc consisting of 10 country states with varying degrees of economic and political motivation in entering an FTA with the EU. This complexity of negotiating a trade agreement between two regions with a great deal of differences in level of development between and within them has slowed down the process of negotiations. This is apart from the fact that the ASEAN has its hands full already with a "noodle-bowl" of trade deals and negotiations with Japan, Korea, China, Australia & New Zealand, and India.

In February 2009, the FTA negotiations between the two regions have been suspended and the EU is now actively soliciting individual countries within the ASEAN for bilateral trade talks. Initially, those willing to pursue bilateral talks are Singapore, Vietnam and Thailand, countries with strong offensive interests in the FTA and identified in econometric simulations as those benefitting the most from the FTA.[3] According to the EC Directorate General for Trade, it is not a total abandonment of the regional approach but is intended to "create a group of front-runners in the ASEAN that would drag the others along."[4]

3. Among the ASEAN countries, Singapore, Thailand and Vietnam figured as those which will gain most from the FTA with the EU based on the Trade Sustainability Impact Assessment done by Ecorys in 2009 for the EU DG Trade.

Based on the EU negotiating mandate, the FTA shall be comprehensive, progressive and reciprocal and should achieve maximum frontloading or parity. It is deemed comprehensive because it covers the so-called WTO plus areas such as investments, competition policy, government procurement, customs and trade facilitation and sustainable development (which include social and environmental clauses on human rights, gender equality, core labor standards, environmental standards, etc.). By progressive and reciprocal, it meant that the FTA shall achieve ambitious commitments from both parties on a scaled-up approach and with full reciprocity. By maximum frontloading or parity, it meant that the FTA shall contain commitments not less ambitious or even more ambitious than other FTAs that both parties have already inked with other trade partners.

The following are the core elements and scope of the negotiations:

- **Trade in goods** - the ambition is to ensure full elimination of tariffs for 90% of trade and tariff lines within seven years of the entry into force of the agreement. Other products would be subject to either partial liberalization or full elimination within a longer timeframe;
- **Trade in services** - the agreement should have substantial sectoral coverage which goes beyond the level of existing commitments in the WTO and provide for the absence or elimination of substantially all discrimination;
- **Investments** - the agreement should liberalize and facilitate investments and create an open and non-discriminatory climate for establishment, including allowing the transfer of funds for foreign investment;

4. In November 2009, the EC Director General for Trade David O'Sullivan said in a briefing with European civil society groups that the European Commission has temporarily abandoned the regional approach to the ASEAN-EU FTA negotiations and will pursue bilateral talks with ASEAN countries which are most willing to come to the negotiating table.

- **Elimination of Non-Tariff Barriers (NTBs) and Trade Facilitation** - creation of clear, stable, transparent rules for exporters, importers and investors, including provisions which aim at the facilitation of trade and reduction of transaction costs in particular in the customs and related areas, as well as provisions on standards, technical regulations, conformity assessment procedures, and sanitary and phytosanitary measures;
- **Government Procurement** - enhancing transparency in government procurement, as well as possible improvements in market access opportunities on a plurilateral or voluntary basis in view of opposition from Malaysia, Cambodia and Lao PDR to include market access commitments in government procurement;
- **Intellectual Property Rights (IPR)** - the adequate and effective protection and enforcement of intellectual property rights, including encouraging some ASEAN members to sign onto international IPR covenants;
- **Competition Policy** - the establishment of an effective mechanism for co-operation aimed at incorporating minimum standards and principles regarding the prohibition of cartels, abuse of a dominant position, as well as capacity building and regulatory dialogues; and
- **Technical assistance** and capacity building measures should be established to facilitate negotiations and implementation of the agreement and to ensure that all partners especially the least developed member-countries of the ASEAN can fully benefit from the agreement

The areas where negotiations have been difficult owing to ASEAN's opposition are those on competition policy, government procurement and sustainable development (See Table 4, Philippine's BITR chief Kabigting report on the Status of AEUFTA Negotiations).

Table 5. Status of ASEAN-EU FTA Negotiations as of May 2009

FTA AREAS	ASEAN	EU	STATUS/ISSUES
Trade in Goods	✓	✓	• Have exchanged information on tariffs and trade data • Tariff reduction modalities discussed • ASEAN proposes differentiated liberalization commitments for EU, • SEAN (6) and CLMV. • EU proposes an equal approach. All Parties to eliminate tariffs on at least 90% of trade and tariff lines within 7 years.
Services and Establishment / Investment	✓	✓	• ASEAN and EU experts had lengthy discussions on EU non-paper • Main issue centers on whether services and investment are to be placed in a single or separate chapter
Technical Barriers to Trade	✓	✓	• ASEAN and EU have exchanged non-papers • ASEAN wants TBT provisions to be within scope of WTO TBT Agreement; EU prefers WTO plus • EU proposes MRAs based on equivalence of legislation • Harmonization of standards to international standards would suffice to provide common standards in ASEAN. Non common system in place in the region. • EU finds difficulty in dealing with (10) different standards in ASEAN; hence, wants to achieve a single standards system to be adopted for ASEAN under the AEUFTA
Customs & Trade Facilitation	✓	✓	• Discussions still in the exploratory stage. • ASEAN and EU exchanged questionnaires to better understand each other's regimes • U concerns/interests on CTF under the AEUFTA , among others, relate to: - Transparency - Fees, documents & data requirements - International standards & rules - Bilateral Cooperation - Flexibilities

FTA AREAS	ASEAN	EU	STATUS/ISSUES
			• The Philippine BoC as the ASEAN co-chair for the CTF Expert Group has identified a number of concerns: – EU concerns relating to its call for ASEAN to adopt a common customs policy/uniform implementation of customs rules and regulations under the AEUFTA may be difficult to achieve since ASEAN member countries have different regimes/regulations Instituting a consultation process under the AEUFTA - as part of efforts to strengthen customs implementation process (e.g., handling/managing issues relating to goods/shipments) – Strengthening customs enforcement – Facilitating free movement of cargo – Issue on accreditation of authorized economic operators (e.g., exporters, importers, customs brokers). It was pointed out that customs brokers are not recognized in the EU. – Capacity building for customs people – Technical/financial assistance as part of efforts to modernize customs procedures
Intellectual Property Rights	✓	✓	• EU submitted a non-paper on IP • EU requested for formalization of the IP Expert Group but not agreed to by ASEAN • ASEAN raised its concerns on the high level of ambition in the EU non-paper. • ASEAN not able to negotiate TRIPS-plus obligations which substantially exceed • ASEAN's capacity. Difficulty lies on how to narrow down such a divide. • EU position is that an FTA should be WTO-plus.
Sustainable Development	X	✓	• EU provided ASEAN an outline of the Chapter in Sustainable Development • Inclusion in the FTA is still under negotiation, with the ASEAN opting for its exclusion. • ASEAN has concerns on the appropriateness of addressing SD issues • under an FTA; may be turned into a non-tariff barrier • EU reflected a broad range of non-trade issues relating to labor, social and • environmental standards that may be more appropriately addressed under • other fora
Competition Policy	X	✓	• Exchanged information on their respective regimes • ASEAN wants to limit coverage to cooperation initiatives. • EU wants to cover rules on restrictive agreements, abuse of dominant position, • mergers • EU – fundamental to have comprehensive domestic competition laws, addressing • anti-competitive behaviour and based on the principles of transparency due • process and non-discrimination on the basis of nationality
Government Procurement	X	✓	• ASEAN submitted responses to EU questionnaire on GP. • Its inclusion remains a contentious issue • ASEAN averse to its inclusion. ASEAN has not negotiated GP provisions in its FTAs. • EU wants access in ASEAN's GP market

Dispute Settlement	✓	✓	• Initially discussed at JC4. For discussion at a later stage of neg0tiations. • Discussions were at the conceptual, but not at the textual level. • Dispute settlement mechanism should include elements of consultations, arbitration panel and compliance mechanisms similar to that in the WTO DSU

III. Potential Implications of the ASEAN-EU FTA to Philippine Agriculture

A. Basic conditions and political economy of the Philippine agricultural sector

Philippine economic performance has not been as impressive as those of its neighbors in the region. From being next only to Japan in the 1960s, it has slid down to being the least performer among the ASEAN-6 in terms of economic growth. Its GDP growth rate, averaging only 2% in the last 50 years, has failed to cumulatively rise to a higher growth orbit, a situation which economists call a low-level "equilibrium trap" (Alburo, 2009).

The agricultural sector is similarly stagnant, characterized by low rates in productivity increases and correspondingly low growth rates. From a relatively high annual average of 6.7% in the 1970s largely on account of the Green Revolution, its growth rate decelerated to just about 2% annual average in the succeeding decades. The sector contributes roughly between 16% -20% of the country's GDP and employs around 35% of the labor force. If linkages with agriculture-related sectors are included such as food processing and farm supply industry, the total farm and food-related industry accounts for 40% of GDP and employs two-thirds of the labor force (David, 1997 cited in Cororaton 2003).

The Philippine agrarian economy is predominantly characterized by small plot production of traditional food and cash crops such as rice, corn, coconut and vegetables, with an average farm size of 1.5 to 2 hectares. Large plantations exist in either two types of production systems: the *haciendas* growing traditional export crops such as sugarcane and coconut and the capitalist-run farms operated by subsidiaries or subcontractors of transnational corporations in the southern island of Mindanao growing bananas, pineapples and oil palm (Bernardino, 2008).

Land monopoly continues to exact feudal forms of exploitation from the peasantry such as land rent, usury and merchant profits which for centuries have been the structural causes of poverty and communist insurgency in the country. The traditional land-owning elite remain a powerful political force, occupying elective seats in the national and local government and hence had succeeded in resisting any attempt at instituting a meaningful agrarian reform policy. The Comprehensive Agrarian Reform Program (CARP) which has been in place for 20 years since its enactment in 1988 has been criticized for failing to break land monopoly in the countryside and lift millions of peasants out of poverty.

The stagnation of Philippine agriculture is blamed on the government's historically inherent policy bias against the sector, coupled by the collapse of world commodity prices. The sector was a net exporter until the 1970s, contributing two-thirds of total exports and representing only 20% of total imports. It thereby provided the foreign exchange needed to support the import-dependent yet low value-added manufacturing sector.

However, the trend was drastically reversed in the 1990s, as farm exports stagnated and imports dramatically increased to the point that the Philippines became a net importer of agricultural goods (Intal and Power, 1990 cited in Cororaton, 2005). Such a reversal in agricultural trade patterns is attributed to the country's fading comparative advantage and low productivity levels in agriculture—a situation greatly brought about by a historically inherent policy bias against agriculture (David, 2003 cited in Cororaton, 2005).

According to David (2003), this anti-agriculture policy bias started with the promotion of import substituting industries in the 1950s to 1960s that maintained a tariff structure of low tariff rates for primary products and intermediate & capital goods used as inputs to manufacturing and high tariffs for finished products. Such tariff scheme was coupled by an overvalued currency which altogether penalized agricultural exports and reduced returns to agriculture. This was followed by the imposition of increased agricultural export taxes in the '70s intended to shore up the country's balance of payments position. All these eventually led to negative effective protection rates for agriculture and other market distortions which promoted rent-seeking activities and economic disincentives against investments in agriculture.

B. Trade Policy Reforms

Since the 1980s, a series of trade policy reforms were implemented aimed at removing quantitative trade restrictions, reducing the level and dispersion of tariffs, and liberalizing the foreign exchange market. This policy shift was at the heart of the structural adjustment programs promoted by the International Monetary Fund (IMF) during the decade, supposedly intended to rescue developing countries from the debt crisis of the '80s.

The Tariff Reform Program (TRP), in particular, underwent four phases:[5]

- TRP-I (1981-1991) which reduced maximum tariff rates for unregulated goods from 100 to 50 percent and equalized the sales taxes on imports and locally produced goods. As a consequence, the average nominal tariff fell from 42% in 1981 to 28% at the end of TRP-I.
- TRP-II (1991-1995) which reduced the number of regulated goods with quantitative restrictions and removed tariff peaks by narrowing the tariff clusters to a range of 3%, 10%, 20% and 30%, covering 95% of total tariff lines. By the end of TRP-II, the average nominal tariff was reduced from 28% to only 20%, with manufacturing getting the biggest reduction from 27% to only 19% while the average agricultural tariffs declined from 35% to 28%; the more moderate reduction in agricultural tariffs was a consequence of the decision to protect sensitive agricultural products by retaining their tariffs at 50%.
- TRP-III (1995-1997) which coincided with the formation of the WTO that further reduced tariffs, and removed all quantitative import restrictions (QRs) except for sensitive agricultural products including rice. At the end of TRP-III, the average nominal tariff declined from 19.72% in 1994 to 13.43% in 1997;
- TRP-IV (1998-2004) which recalibrated tariffs under a range of 0 to 30% and set average nominal tariffs to further fall to 5% by 2004.

Table 6.
Effective Protection Rates for Agriculture and Industry

Year	Agriculture	Industry
1979	9	44
1999	25	10
2000	24	15
2004	14[7]	9[8]

Source: Bautista, Power and Associates 1979, Manasan and Pineda 1999 and Habito 2002 as cited in Cororaton 2005; Philippine Tariff Commission website

These series of tariff reforms effectively removed protection for import substituting industries and reversed the negative effective protection rate for agriculture (See Table 5).

By 2008, the simple average applied MFN tariff rates for agriculture and industry were 9.7% and 5.7%, respectively while the simple average bound tariffs were 35% for agriculture and 23% for industry. In terms of trade weighted average, agricultural and non-agricultural products have even lower average rates of 13.4% and 3.5%, respectively (See Table 6).

Agricultural product groups with relatively high MFN applied import duties are animal or meat products, coffee & tea, sugar & confectionary, with tariff rates ranging from 15%-20%. Raw sugar, in particular, has a considerably high tariff rate of 38%, mainly on account of a strong lobby by the powerful landed elite of the sugar industry. Except for cereals & preparations under which rice is included, all agricultural products have binding coverage of 100% (See Table 7). This was an essential component of the WTO Uruguay Round Agreement on Agriculture which mandated 100% tariff binding coverage and elimination of quantitative import restrictions (QRs), except for very few cases that temporary exemptions through tariff quotas were granted as in the case of rice for the Philippines.

5. The Tariff Reform Program is the review and restructuring of the Philippine tariff system that government undertakes on a continuing basis to make the tariff structure responsive to the needs of the economy and changing patterns of trade.

6. TRP I was temporarily suspended in the mid-1980s due to a balance of payments crisis and was resumed in 1987 during the Aquino administration. Export taxes on all products except logs were abolished.

7. Includes fishery and forestry

8. Includes only manufacturing

Table 7. Summary and duty ranges of Philippine tariffs and imports

Summary		Total	Ag	Non-Ag	WTO Member since		1995
Simple average final bound		25.6	34.7	23.4	Binding Coverage:	Total	66.8
Simple average MFN applied	2008	6.3	9.7	5.7		Non-Ag	61.8
Trade weighted average	2007	4.5	13.4	3.5	Ag: Tariff Quotas (in %)		2.1
Imports in billion US$	2007	43.7	4.3	39.4	Ag: Special Safeguards (in %)		13.3

Frequency distribution		Duty-free	0 <= 5	5<= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100
		Tariff lines and import values (in %)							
Agricultural products									
Final bound		0	3.5	5.2	0.7	9.6	79.8	0.6	0
MFN applied	2008	0.1	49.1	28.0	9.5	3.3	9.8	0.1	0
Imports	2007	0.0	52.8	23.6	4.1	0.5	18.9	0.1	0
Non-agricultural products									
Final bound		3.0	0	8.0	0.2	25.9	24.7	0	0
MFN applied	2008	2.7	59.8	22.6	13.2	1.0	0.6	0	0
Imports	2007	34.5	49.3	8.1	4.5	1.0	2.6	0	0

Source: WTO Database, Philippine Tariff Profile

Table 8. Philippine tariffs and imports by product groups, 2007

	Final bound duties				MFN applied duties			Imports	
Product groups	**AVG**	**Duty-free**	**Max**	**Binding**	**AVG**	**Duty-free**	**Max**	**Share**	**Duty-Free**
		in %		**in %**		**in %**		**in %**	**in %**
Animal products	36.5	0	50	100	20.8	0	45	0.5	0
Dairy products	27.2	0	40	100	3.9	0	7	1.5	0
Fruit, vegetables, plants	37.3	0	60	100	9.8	0	40	0.5	0
Coffee, tea	41.2	0	50	100	14.9	0	45	0.3	0
Cereals & preparations	37.7	0	50	95.1	10.8	0.4	50	4.1	0.0
Oilseeds, fats & oils	36.7	0	60	100	5.6	0	15	1.5	0
Sugars and confectionery	42.8	0	80	100	15.2	0	65	0.2	0
Beverages & tobacco	44.8	0	50	100	8.2	0	15	0.6	0
Cotton	10.0	0	10	100	2.6	0	3	0.0	0
Other agricultural products	24.9	0	50	100	3.4	0	35	0.6	0
Fish & fish products	31.0	0	50	4.7	8.1	0	15	0.3	0
Minerals & metals	24.6	0.1	50	34.5	4.9	1.0	20	11.2	19.1
Petroleum	-	-	-	0	2.9	0	3	20.2	0
Chemicals	19.6	0.2	50	74.0	3.8	0.8	30	9.1	9.4
Wood, paper, etc.	24.2	0	50	39.5	6.6	2.8	30	2.2	2.4
Textiles	27.2	0	50	95.7	9.1	0.3	30	2.6	1.1
Clothing	30.0	0	30	100	14.9	0	15	0.2	0
Leather, footwear, etc.	32.7	0	50	36.3	6.6	1.3	20	0.8	12.1
Non-electrical machinery	19.0	8.6	50	74.7	2.3	5.3	30	13.6	68
Electrical machinery	18.1	38.	50	64.6	4.0	18.3	30	21.7	83.2

Source: WTO Database, Philippine Tariff Profile

After decades of trade policy reforms, initially under the structural adjustment program of the '80s and later through multilateral agreements in the WTO, the Philippines was among the world's top "globalizers" in terms of largest proportionate reduction in tariffs and largest proportionate increase in imports as a proportion of GDP (Rodrik, 2000).[9]

Import liberalization likewise reduced government revenues from import tariffs, which for a long time have been one of the major sources of government funds. The share of revenue from import duties and taxes in total revenue was 26.4 percent in 1990 and sharply fell to 19.3% in 2000 (Cororaton, 2005). To offset the drop in import tariff revenues, income and indirect taxes such as the value-added tax (VAT) were increased.

C. Impacts on food security and poverty

Under conditions of stagnant growth, low productivity levels and fading comparative advantage, the agriculture sector was not in a competitive position to face the challenges of trade liberalization. Traditional exports such as coconut oil (copra) and bananas have lost their edge in the export market while agricultural imports continue to increase. As a result, agricultural trade deficits have risen to P169 billion or approximately $3.8 billion in 2008.

Rice is the country's staple food and considered a politically sensitive commodity, especially since majority of Filipinos spend 60% of their income on food, and 30% on rice and cereals (Glipo, 2009). Since 2001, the country's rice import dependency increased to an average 12% of annual domestic consumption from around 4% in the 1990s. The country produces approximately 10 million metric tons (mt) of rice per year and imports an average of 2 million mt to satisfy domestic consumption of about 12 million mt (See Table 8). The Philippines has now become Asia's biggest rice importer from a period in the 1970s when it used to be a net rice-exporter. Its dependence on imports makes it vulnerable to increases in the price of rice due to the limited volume of rice traded in world markets (about 7% of world rice production) and increased global demand for grains from huge and high income growth economies such as China and India.

Table 9. Rice Production, Importation, Consumption and Import Dependency Rate, 1990-2007
(in `000 metric tons).

Year	Production ('000 MT)	Growth Rate %	Imports ('000 MT)	Consumption ('000 MT)	Import Dependency %	Self-Sufficiency %
1990	6095		606	6492	7	94
1991	6326	3.79%	-	6095	-	100
1992	5970	-5.63%	1	6383	0	94
1993	6170	3.35%	202	6601	3	93
1994	6892	11.70%	-	6838	-	100
1995	6894	0.03%	264	7234	3	95
1996	7379	7.04%	867	7875	8.9	94
1997	7370	-0.12%	722	7906	9	93
1998	5595	-24.08%	2171	7466	2.9	75
1999	7708	37.77%	834	8456	10	91
2000	8103	5.12%	639	8941	7	91
2001	8472	4.55%	808	9175	8.8	92
2002	8679	2.44%	1196	9698	12.3	89
2003	8829	1.73%	886	9800	9	90
2004	9481	7.38%	1001	10793	9.3	88
2005	9550	0.73%	1822	11329	16	84
2006	10024	4.96%	1716	11581	15	87
2007	10621	5.96%	1805	12560	14.4	84.5
2001-2007		3.97%			12	88
1990-1997		2.88%			4	95

Source: Bureau of Agricultural Statistics

9. This was based on Rodrik's recalculation of Dollar & Kray's list of top "globalizers" from the period 1980-'84 to 1995-'97 using proportionate reduction in average tariffs and imports as a proportion of GDP as indices. This selection rule yielded the following list of "globalizers": Argentina, Brazil, Colombia, Haiti, Hungary, Jamaica, Korea, Morocco, Mexico, Mauritius, Malaysia, Nepal, Philippines, Paraguay, Sierra Leone, Thailand, Uruguay.

The food crisis of 2008 underscored the country's food security problem and vulnerability to shocks in world rice prices. Panicky of possible political repercussions arising from a food shortage, the government imported 4.2 million metric tons of rice at a very expensive price of $1,100 per metric ton. This imported rice was eventually rationed to urban poor families at subsidized prices, thereby adding pressure on the government's fiscal position at a time of global economic contraction.

Retail prices of rice in the Philippines climbed by 53% between January and June 2008. Combined with fuel price increases, the food crisis drove inflation rates to a 14-year high of 8.3% in April rising to 12% in July 2008. Hunger incidence rose by 18.4% in September 2008, six points above the 10-year hunger incidence average of 12.3%. The Asian Development Bank (ADB) estimated that for every 30% increase in food prices, an additional nine million Filipinos join the ranks of the poor. (Glipo, 2009)

Table 10. Incidence of Poor Families and Incidence of Poor Population Years 2000, 2003, 2006

	2000	2003	2006
Families	27.5	24.4	26.9
Population	33.0	30.0	32.9

Source: National Statistics Office

Unlike its rice-exporting Asian neighbors (e.g. Thailand and Vietnam) that employed a carefully planned subsidy program for enhancing rice productivity and exports, the Philippine government provided little support for domestic production, with only around 4% of national government expenditure spent for agriculture in the last two decades. Irrigation, for instance, covers only 45% of total farm land. Worse, the delivery of public goods and services for agriculture had always been saddled with inefficiencies and corrupt practices, often used as the milking cow of crooked politicians. Efforts to increase productivity through the adoption of hybrid rice in 1998 have obviously not yielded positive results. The much later FIELDS program which is the government's policy response to the recent food crisis is criticized to be more of the same old productivity programs laden with government inefficiencies and corruption.[10]

The econometric simulation done by Ecorys in its Trade Sustainability Impact Assessment confirms the fear that the Philippine rice sector will be adversely affected by the ASEAN-EU FTA. Based on the econometric model used, the FTA will have negative short-run and long-run impacts on output, prices and employment in the grains sector under all the three scenarios of partial to full liberalization simulated by the computable general equilibrium (CGE) model. This means that with the FTA in place, Filipino rice and corn farmers will suffer decreased output, loss of jobs and livelihoods and lower farm prices. Under a scenario of full liberalization in the FTA, output is expected to decrease by as much as 5.2% and rural unemployment to increase by as much as 6% (See Table 10). Among the rice-importing countries of the ASEAN, the Philippines is expected to bear the worst effects in the grains sector under the FTA.

Table 11. Model outcomes of the FTA impact on the cereals and grains sector in the Philippines (% change)

	Scenario 1		Scenario 2		Scenario 3	
Indicators	SR	LR	SR	LR	SR	LR
Output	-1.31	-2.78	-1.89	-4.28	-2.28	-5.2
Prices	-0.85	-0.4	-1.02	-0.43	-1.24	-0.55
Skilled labour	-1.65	-3.52	-2.4	-5.43	-2.93	-6.72

Source: Ecorys, Trade Sustainability Impact Assessment of the FTA between the EU and ASEAN

10. FIELDS is an acronym for fertilizer, irrigation and other rural infrastructure, education and extension services for farmers, loans, dryers and other postharvest facilities and seeds. It is the government's response to address the food crisis to increase productivity and achieve rice self sufficiency.

11. For a detailed presentation of the model outcome in the cereals and grains sector, see Annex C, Volume II of the *Trade Sustainability Impact Assessment of the FTA between the EU and ASEAN –Final Report* done by Ecorys in May 2009 for the European Commission Directorate General for Trade.

The negative impact on output and employment in this sector will have serious implications on poverty since rice and corn farming families constitute about half of the rural population. To date, four out of ten people in the rural areas are poor, consisting mostly of seasonal farm workers and subsistence farmers and fishers.

A related study by Cororaton, Cockburn and Corong (2005) on the impact of trade liberalization on poverty in the Philippines shows similar conclusions. Simulating scenarios of trade liberalization, poverty is found to increase slightly with the implementation of the prospective WTO Doha Round, primarily affecting rural households in the wake of falling demand for Philippine agricultural exports. In a separate simulation of complete domestic liberalization, rural households are expected to be worse off than urban households as import prices fall more for agricultural goods than industrial goods since initial import-weighted tariff rates are higher for agricultural goods.

The study further revealed that the impacts of full trade liberalization – either under a free world trade or complete domestic liberalization – largely depends on the mechanism the government adopts to offset forgone tariff revenues. "If an indirect tax is used, the incidence of poverty falls marginally, but the depth (poverty gap) and severity (squared poverty gap) increase substantially. If, instead, an income tax is used, all measures of poverty increase. In both cases, full liberalization favors urban households, as exports, which are primarily non-agricultural, expand". (Cororaton, et al, 2005)

From a global perspective, the experience of many developing countries from agricultural trade liberalization reveals a pattern where benefits have only accrued to a few middle-income developing countries of the Cairns group which are large agricultural exporters, such as Brazil, Argentina, Chile and Thailand. Even if assuming that the Doha Round could force a reduction of agricultural subsidies in Europe and the US, a Word Bank research (cited in Rodrik, 2004) shows that most Sub-Saharan African countries could actually end up worse off as a result of the rise in world food prices. Rodrik (2004) further cites microeconomic studies showing that the poverty impact of increases in relative agricultural prices tends to be heterogenous and uncertain, even for the producers themselves. He argues that the direct beneficiaries of potential increases in border prices of agricultural products are most likely to be the traders and intermediaries than the farmers themselves.

D. EU's Agricultural Protectionism

Europe is notorious for its protectionist policies in agriculture. Through export and domestic subsidies, tariff and non-tariff barriers, European governments were able to protect and develop the agricultural sector to where it is now since World War II. EU's protectionist policies remain a contentious issue in the WTO and its hesitation to substantially reduce its subsidies and non-tariff barriers is one among the sticky issues that had kept the Doha Round from moving.

Europe's agricultural subsidies have been largely responsible for a distorted world trading regime where European exports sell at prices below their production costs, hence depressing import prices to the disadvantage of agricultural producers in the rest of the world.

Since the issue of subsidies can only be addressed in the multilateral trading system and not in bilateral FTAs, the reciprocal elimination of agricultural tariffs in the EU-ASEAN FTA could only bear greater benefits for EU producers and exporters than to their ASEAN counterparts.

Apart from this, the EU has consistently maintained a list of sensitive agricultural and fishery products that remain protected through high tariffs and tariff quotas. Tariff quotas and special safeguards are applied to 15% and 24% of its agricultural tariff lines, respectively while its average applied MFN tariffs for agricultural products is 16% (See Table 8). Compare this to the Philippines' average applied MFN agricultural tariffs of 9.7% and proportion of tariff quota and special safeguards to total agricultural tariff lines at 2% and 16%, respectively (See Table 11). The EU is particularly protective of specific product groups such as dairy products and sugar, on which it imposes average tariff rates of 64% and 33%, respectively. Likewise, the EU has thus far not accorded duty-free access to these products under its Generalized System of Preferences and "Everything But Arms" initiative which extends duty-free and preferential access to imports from least developed and developing countries (See Table 12).

Table 12. Summary and duty ranges of EU-27's tariffs and imports.

Part A.1		Tariffs and imports: summary and duty ranges								
Summary			Total	Ag	Non-Ag	WTO member since			1995	
Simple average final bound			5.5	15.9	3.9	Binding coverage:			Total	100
Simple average MFN applied		2008	5.6	16.0	4.0				Non-Ag	100
Trade weighted average		2007	2.7	4.6	2.7	Ag: Tariff quotas (in%)				15.1
Imports in billion US$		2007				Ag: Special safeguards (in %)				23.8
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		32.5	9.5	15.2	11.9	10.0	10.1	7.2	1.5	32.0
MFN applied	2008	29.6	9.3	15.8	13.2	10.8	9.1	6.1	1.7	36.6
Imports	2007	51.3	12.2	17.5	12.2	6.0	0.7	0.1	0	2.5
Non-agricultural products										
Final bound		28.4	37.2	26.7	6.9	0.9	0	0	0	0.6
MFN applied	2008	26.4	38.8	27.2	6.7	1.1	0	0	0	0.7
Imports	2007	53.2	27.1	12.6	6.2	0.8	0	0	0	0.4

Source: WTO Database, EU Tariff Profile

Table 13. EU-27's tariffs and imports by product groups.

Part A.2	Tariffs and imports by product groups								
	Final Bound duties				MFN applied duties			Imports	
Product groups	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	28.7	20.6	236	100	27.6	23.8	236	0.2	25.3
Dairy products	67.8	0	225	100	64.1	0	205	0.0	0
Fruit, vegetables, plants	10.8	22.8	233	100	12.4	18.6	233	1.0	17.5
Coffee, tea	7.2	27.1	99	100	7.2	27.1	99	0.7	83.4
Cereals & preparations	27.0	6.3	124	100	22.3	7.2	123	0.1	6.7
Oilseeds, fats & oils	6.0	48.2	180	100	6.4	43.4	180	1.2	69.7
Sugars and confectionery	31.3	0	143	100	33.3	0	143	0.0	0
Beverages & tobacco	24.3	23.4	239	100	20.7	19.8	203	0.4	23.9
Cotton	0.0	100.0	0	100	0.0	100.0	0	0.0	100.0
Other agricultural products	5.2	66.4	133	100	5.8	65.5	133	0.4	70.6
Fish & fish products	11.2	10.7	26	100	11.8	9.0	26	1.3	5.1
Minerals & metals	2.0	49.5	12	100	2.0	49.2	12	18.0	59.4
Petroleum	2.0	50.0	5	100	3.1	20.0	5	18.9	83.8
Chemicals	4.6	20.0	7	100	4.6	21.4	7	9.2	43.1
Wood, paper, etc.	0.9	84.1	10	100	0.9	81.2	10	3.3	85.0
Textiles	6.5	3.4	12	100	6.6	2.1	12	2.4	2.0
Clothing	11.5	0	12	100	11.5	0	12	4.4	0
Leather, footwear, etc.	4.2	27.8	1	100	4.2	22.7	17	2.4	17.0
Non-electrical machinery	1.7	26.5	1	100	1.9	210	10	12.3	54.7
Electrical machinery	2.4	31.5	14	100	2.8	20.1	14	11.5	54.8
Transport equipment	4.1	15.7	22	100	4.3	12.5	22	5.5	10.8
Manufactures, n.e.s.	2.5	25.7	14	100	2.7	20.6	14	6.7	52.7

Source: WTO Database, EU Tariff Profile

Table 14. Philippine exports to major trading partners and duties faced

Major markets	Bilateral imports		Diversification		MFN AVG of		Pref.	Duty-free imports	
		in million	95% trade in no. of		traded TL		Margin	TL	Value
		US$	HS 2-digit	HS 6-digit	Simple	Weighted	Weighted	in %	in %
1. United States	2007	842	13	32	10.7	6.1	2.0	65.7	59.9
2. Japan	2007	833	12	21	10.2	18.1	0.6	37.2	13.6
3. European Communities	2007	629	17	31	3.7	9.8	3.1	17.2	33.8
4. Korea, Republic of	2006	310	10	13	26.3	25.5	2.3	35.9	17.0
5. China	2007	160	11	15	16.1	10.9	9.0	14.1	77.4
Non-agricultural products									
1. China	2007	22,970	9	34	9.5	2.1	0.2	20.0	90.6
2. United States	2007	8,292	33	272	4.3	4.3	0.5	73.6	77.1
3. Japan	2007	7,574	37	206	2.8	0.5	0.3	77.2	96.4
4. European Communities	2007	6,847	39	242	4.4	1.2	0.7	66.1	94.2
5. Hong Kong, China	2007	6,193	9	45	0.0	0.0	0.0	100.0	100.0

Source: WTO Database

Philippine imports to the EU face a weighted MFN average tariff rate of 9.8% while 33.8% of the total value of its imports to the EU is duty free (See Table 13). These figures apparently show that tariff barriers are not so much of a problem for Philippine access to the European export market. What appears as a bigger problem are the non-tariff barriers that the EU has erected against imports coming from developing countries like the Philippines.

Non-tariff measures such as sanitary and phytosanitary standards (SPS), technical testing procedures and environmental regulations are the other type of market access barrier in the EU. Because European standards are more complex and often higher than the standards set by Codex Alimentarius, developing country exporters face difficulty complying with these standards.

Philippine exports of food and feeds to the EU, for instance, declined by 21% in 2004 due to tighter health regulations and a five-month long EU ban on Philippine aquaculture exports. Even copra exports, which for long has been the Philippines' largest agricultural export to the EU, declined by 85% from 1995 to 2003 due to stiffer standards imposed by the EU on aflatoxin residue levels (Avila, 2005).

Experience has shown that only a few large agricultural exporters in developing countries, which usually are transnational corporations (TNCs), are capable of compliance with harmonized standards. Small producers, given their level of resources and technology, are therefore left out of the competition.

Because the modalities texts of the FTA have yet to unravel, several questions can be posed: Will the FTA lead to dismantling EU's agricultural protectionism and hence improve the market access of developing countries? Since the FTA prescribes for liberalization of trade in 90% of all goods, will the remaining 10% be tantamount to an exclusion list or will there be provisions for sensitive products under which some highly protected European agricultural products may be exempted from tariff reduction? Will harmonization of health, safety and environmental standards be feasible in the short and medium term as a way of addressing EU's non-tariff barriers?

E. Sustainable Development Clauses

Another distinct but controversial issue in EU FTAs is the chapter or clauses on sustainable development where human rights, core labor standards, gender equality and environmental standards are considered an integral part of the FTA.

ASEAN, in particular, has raised the appropriateness of including these issues in the FTA, arguing that they are better addressed in other forums. ASEAN member governments are worried that these clauses may pose as non-tariff barriers. The EU, on the other hand, is known for its political advocacy of these issues and wants to continue to be known as such; whether or not the preaching meets practice is another debate altogether.

For civil society groups, the sustainable development clause has been a tricky matter to the extent that some groups are in favor of it and others are not. Some European CSOs and trade unions view this as a welcome move from the EU and should be supported and further enhanced. They say that since FTAs have more teeth than most non-binding international conventions on human rights, labor, etc., countries would be obliged to comply or face economic sanctions. Other groups, especially those from the South, are opposed to it, saying that the economic underpinnings and corporate profit agenda of the FTA are inherently contradictory to and violative of the normative framework of human rights, labor and environmental standards. They argue that the sustainable development clause is only a sweetener to a rather bitter pill as the FTA.

III. Conclusion and Recommendations

The current suspension of talks on the ASEAN-EU FTA may in fact augur well for the Philippines as it provides a breather for the government to assess the potential implications of the FTA on the economy as a whole and on vulnerable sectors such as agriculture.

The global economic recession may have been a factor as well in tempering the pursuit of developed countries for FTAs, since they themselves are busy putting up protectionist barriers as their way out of the crisis. The same is true with the deadlock in the WTO Doha Round which is expected to be even more difficult to untangle under the current situation.

If there's anything that the crisis clearly demonstrated, it is the pitfall of unregulated financial markets and heavy dependence on export-oriented growth. For developing countries, the situation thus presents an opportunity to rethink trade and other macroeconomic policies away from the orthodox belief that trade openness and free markets are the panacea to growth and development.

Lessons from both distant and recent history disprove this orthodoxy. As Chang (2003) puts it,

> "virtually all of today's developed countries did not practice free trade and laissez faire industrial policy when they were developing countries themselves; rather they promoted their national industries through tariffs, subsidies and other measures...The developed countries that propagate such orthodoxy seem to be indeed 'kicking away the ladder' that they used in order to climb up to where they are. Debunking the myth of free trade from the historical perspective demonstrates that there is an urgent need for thoroughly re-thinking some key conventional wisdom in the debate on trade policy, and more broadly on globalization."(Chang, 2003:1)

The Philippines, for one, can undo many of its failed policies that have been responsible for its lackluster economic performance and the stagnation of Philippine agriculture. Combined with a sound industrial policy, the government can adopt agricultural policies such as tariff protection and price stabilization schemes which in the short-run may impose efficiency costs but in the long-run could promote agricultural growth and economic growth in general. This can happen if tariff revenues are invested by the government in improving agricultural productivity (for example, investments in rural infrastructure, research, and extension) and/or if the increased agricultural incomes create offsetting extra demand for domestic industries. Germany in the late 19th century, South Korea and Taiwan in the late 20th century are examples (Chang, 2009).

Finally, trade per se is not bad; it is trade policy that is often amiss. FTAs, for example can either be trade-creating (hence, welfare-increasing) or trade-diverting (welfare-decreasing) depending on a host of factors such as geographical proximity, similarity or difference in the countries' level of economic development and extent of existing trade barriers. FTAs that are said to most likely lead to increased welfare are those between and among nations with similar levels of economic development where competition rather than complementariness result in greater opportunities for specialization in production. Thus, an FTA is more likely to increase welfare if formed by two competitive industrial nations rather than by an industrial nation and an agricultural (complementary) nation (Salvatore, 2003). Empirical evidence tends to support this economic theory.

Following this argument, the Philippines apparently does not have the competitive edge to realize trade gains from an FTA with the EU. Perhaps Singapore or even Thailand and Malaysia may be in a better position among ASEAN countries to weigh the possibilities of immediate benefits from the FTA. But for the Philippines, the suspension of the talks at the regional level and plans by the EU to pursue bilateral talks with only those who are ready may have presented an occasion for the country to step back and do its homework first, if not totally opt out of the FTA negotiations.

For purposes of policy advocacy, the following recommendations are herein put forth:

1. Promote economic cooperation between the EU and the Philippines based on a mutual recognition of uneven levels of development between nations where trade policy is made to support developmentalist goals and not tied to the dogma of "free competition" or full market access reciprocity.
2. Uphold food sovereignty as a key development goal to protect vulnerable sectors (such as small farmers and ordinary consumers) from shocks resulting from food price increases and natural disasters.
3. For the EU to implement a unilateral reduction towards elimination of its trade-distoring agricultural subsidies.
4. For the EU to eliminate its non-tariff barriers that discriminate against developing country exports. Technical and economic assistance must be provided to developing nations in the ASEAN to upgrade their capacities for harmonized standards.
5. For the EU to support sustainable resource management of agriculture, fisheries and forestry in developing countries rather than focus on sheer exports promotion.
6. For the Philippine government to prioritize agricultural development by improving farm productivity, providing subsidies and tariff protection to support smallholder production and increase farm incomes.
7. For the Philippine government to institute redistributive equity measures such as agrarian reform to ensure that agricultural development-benefits the large majority of poor and landless farmers.
8. Promote democratic participation of all stakeholders especially the marginalized sectors such as small farmers, fishers, women, workers, indigenous communities in all aspects of trade policy-making and trade negotiations.

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IRDF PROGRAMS

Farmers' Capacity Building Program – strengthens the capacities of small farmers, women, fishers and indigenous groups to access and control land, water, forests, seeds, market and capital through organizing, leadership enhancement, value formation, policy advocacy, paralegal work, campaigns and sustained local struggles. The target is to build autonomous active people's organizations that carry the aspirations of the marginalized rural sectors for social justice, to promote and protect their rights, and to increasingly influence and redirect national and local policies in favour of genuine agrarian reform, greater public support for smallholder farmers, food sovereignty, gender equity, economic and environmental justice.

Sustainable Community-Based Resource Management Program (SCBRMP) – enhances the people's environmental awareness and builds their capabilities in natural resource utilization, protection, and management. Directed towards the formation of community resource management structures, SCBRMP activities aim to consolidate and strengthen community initiatives against resource depletion, environmental degradation, and unsustainable utilization of land and aquatic resources.

SCBRMP includes **Coastal Resource Management and Development** which is being implemented in the coastal communities of Sorsogon and in the neighboring Albay Province. Projects and activities include community organizing, information and education campaign, gender and development advocacy, the development of a marine fisheries reserve and sanctuary, alternative livelihood generating enterprises, and mangrove forest rehabilitation initiatives. An important component of this sub-program is environmental advocacy and networking and engaging local government in policy discussions and proposals.

Rural Livelihoods Development Program (RLDP) – contributes to the development of sustainable livelihood systems and the promotion of greater equity in rural areas by increasing incomes of rural households, both from farm and off-farm sources. The program's key strategies focus on facilitating the rural poor's access to credit, technology and market, strengthening their bargaining power through the formation of cooperative and appropriate self-help associations, developing economically viable and sustainable enterprises where the beneficiaries can effectively exercise management and control and receive equitable benefits.

IRDF supports micro-enterprises and livelihood projects of poor farmers, fishers, and rural women. The RLDP assistance covers the following: Cooperative Development, Credit Support, Product Development Services and Market Link aging, and Training and Technical Consultancy Services.

Policy Research, Advocacy and Campaigns

IRDF's advocacy focuses on the people's agenda for food security, food sovereignty, and economic justice. IRDF's work provides a thorough critique of the economic and trade policies of the WTO and the international financial institutions (IFIs), multilateral, regional and national governments, and popularizes the concept of food sovereignty as the framework for policy and structural changes in the food and agriculture sector. It seeks to build a consensus among civil society organizations (CSOs) and social movements on how food sovereignty and food security can be achieved and works at building cooperation to improver the capacity of CSOs in building strong social movements working for lasting policy changes and in engaging governments, inter-governmental bodies and other actors.

Policy Research
IRDF's research work covers studies on the impact of trade agreements, loans and official development assistance, policy and sectoral reforms imposed by IFIs and issues on agrarian and land tenure, farmers, fishers', IPs rights, women and gender issues, public regulation and declining investments in agriculture, etc.

Advocacy and Campaigns
The advocacy and campaign work encompasses legislative lobbying, engaging executive and government agencies in dialogues, and leading people's action campaigns on issues related to trade and agriculture. At the national level, IRDF is campaigning against the liberalization of Philippine agriculture, the over reliance on food imports, lack of support for local agriculture and the "decoupling" or privatization of the National Food Authority and irrigation services. IRDF also campaigns against the corporatization of agriculture that further promotes unsustainable export-oriented production systems and results in greater deprivation and displacement of small-scale peasants. At the local level, IRDF assists local peasant struggles addressing issues of land tenure, ancestral domain rights of indigenous peoples, commercial logging and mining, small fishers' access to municipal waters, destructive and commercial fishing, and the people's access to water, and other basic social services.

Disaster Risk Reduction Program (DRRP) – aims at preparing vulnerable rural communities to lessen, if not prevent, the damage and/or loss of homes, lives and livelihoods as a result of natural calamities that frequent the Philippines. IRDF employs a participatory approach to DRRP involving a large array of stakeholders such as the local communities, local and national governments, scientists, NGOs, faith groups, schools and the private sector. This allows for the integration of local and scientific knowledge as well as top-down and bottom-up actions. Activities include information dissemination, trainings, drills, and the participatory 3-dimensional mapping that consists the building of relief maps from locally available materials over which are overlapped thematic layers of geographical information.