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## Agricultural Trade Between the Philippines and the US: Status, Issues and Prospects

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Philippine Institute for Development Studies  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## Agricultural Trade Between the Philippines and the US: Status, Issues and Prospects

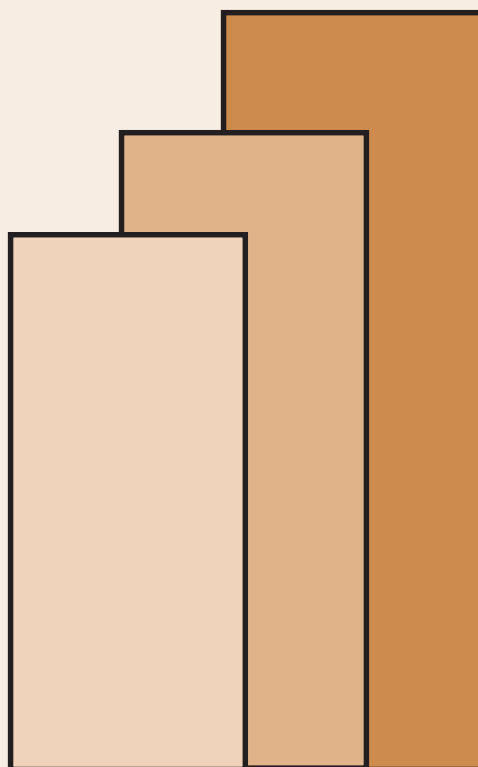
*Liborio S. Cabanilla*

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# **Agricultural Trade between the Philippines and the US: Status, Issues, and Prospects<sup>1</sup>**

**Liborio S. Cabanilla<sup>2</sup>**

## **Abstract**

The paper describes the environment under which RP-US Agricultural trade currently operates. It also highlights key issues affecting current trade flows between the Philippines and the US, and provides background information vital for future bilateral agricultural negotiations with the U.S. Further to this, it shows that two major factors will determine the prospective net effects of a RP-US FTA on Philippine agriculture. First, the effects on exports will depend on the extent of US reduction of NTBs, particularly on mangoes, carrageenan, and canned tuna. Second, Philippine imports from the US will depend on its willingness to reconsider position, particularly on rice and corn. On this count, it must be noted that rice is an important wage good, and corn is a key livestock feed ingredient. Moreover, the advent of an FTA with the US should be a good reason to get Philippine agriculture better organized, in terms of policy and institutional support.

*Key words: Agricultural Trade, US Agriculture support programs, Domestic Support Programs, Non-Tariff Barriers, liberalization, border controls, market access*

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# **Agricultural Trade between the Philippines and the US: Status, Issues, and Prospects**

**L. S. Cabanilla**

## **I. Introduction**

### **Objective**

Differences in resource endowments and agro-climatic and geophysical environments are important bases for agricultural trade between the Philippines and the United States. However, the flow of goods between the two countries is often hindered by sector-specific and trade policies that ultimately result in sub-optimal trade flows.

In support of current plans to pursue a Free Trade Agreement with the US, this paper provides background information for improving the Philippines-US bilateral relations on agriculture. It is an effort to understand the environment under which trade between the Philippines and the US currently operates, and, provide basis for future negotiations. Section II presents an analysis of the status and future prospects of RP-US agricultural trade. Key issues on tariff and non-tariff barriers are also discussed in this section. Section III reviews the policies in the US that have important bearing on Philippine agriculture, and Section IV offers a number of recommendations.

### **Rationale**

A Free Trade Agreement between the Philippines and the United States at this time is significant for Philippine agriculture. It offers new opportunities and establishes better modalities to improve the flow of goods, services, and technology mutually beneficial to both countries. It fosters the need to reconsider policy positions that lead to imbalanced trade. It will be noted that beginning in the early 90's, the country's net

agricultural trade with the US has been on a deficit except in 2003 (Fig. 1). This is in stark contrast to the cases of Thailand and Indonesia which enjoyed predominantly a trade surplus with the US during the nineties (Table 1).

Overall, trade performance of Philippine agriculture had been unimpressive. Amidst global trade liberalization, the country experienced a precipitous drop in net (total) agricultural trade in the mid-nineties. Membership in multilateral trade consortia has not worked to the country's advantage. A stronger bilateral agreement with the US may offer new opportunities for the Philippines to improve its trade balance in agriculture.

It must be pointed out at the outset, that any action towards bilateral relations in agriculture must take into consideration the fact that the Philippines is in a relatively disadvantaged position. Compared to the US, Philippine agriculture is predominantly small scale, and the degree of commercialization and trade is much more limited. Its contribution to gross value added, and employment, however, is relatively more significant. Philippine agriculture plays a much more highly significant role in poverty alleviation and overall economic development but the country's capacity to promote agricultural development is constrained by its overall economic inadequacies. The political and economic ramifications of a Free Trade Agreement are more critical for the Philippines.

## **II. Status and Prospects of RP-US Agricultural Trade**

### **Overview**

The Philippines and the US have been important trading partners in agriculture. USDA data show that over the past 10 years (1994-2003), the Philippines had consistently been among the top 15 destinations of US agricultural exports (Table 2). The US, on the other hand, is the most important destination of sugar, fishery and coconut oil exports of the Philippines. The US sugar market is particularly important for the Philippines in view of the US price premium. Up until the eighties, US sugar

price was on average one-and-a-half times the world price, increasing to more than twice in the last 14 years (1990-2003) (Fig.2). Prospects of sugar and coconut oil exports to the US, however, will be dependent on domestic US policies on sugar beet and soybean production, the subject of the following section.

Based on the eight-digit Philippine Standard Commodity Classification, the Philippines imported 299 line items of agricultural commodities (including agricultural inputs) valued at US\$353 million (FOB) from the US as of July 2004. During the same period, the Philippines exported 294 items valued at US\$339 million. Coconut (oil and other products), fish and marine products, sugar and pineapples are the most prominent exports to the US, altogether representing 86 percent of total agricultural exports during the period (Table 3). The following discussion features a selection of key agricultural exports to the US and highlights existing issues affecting trade between the Philippines and the US.

## **Exports**

**Fishery and Marine Products:** The US is the Philippines' number one market for Fishery exports followed by Japan and South Korea (BFAR). Canned tuna, however, is currently subject to a high tariff duty of 35% and had to compete with duty-free imports from the Andean countries that are currently receiving preferential treatment on canned tuna. Shrimps and prawns exports which averaged over \$25 million per year from 1991 to 2003 were the most important exports under the Fishery category (Table 4). Until 1996, exports of shrimps and prawns were close to 30 million dollars per year. The US ban on imports of shrimps not caught using the turtle excluder device has since then limited exports to mostly inland-produced shrimps.<sup>3</sup>

Carageenan<sup>4</sup> and seaweeds are fast growing exports of the country. In 1998, the Philippines emerged as one among the major exporters of Carrageenan (Table 5). Between 1991 and 2003, exports to the US grew at an average of five percent a year,

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<sup>3</sup>In 1996, the Philippines filed a complaint with the WTO concerning the US import prohibition of certain shrimp products (more particularly, the ban on imports of shrimps not caught using the turtle excluder device). It is not clear whether or not this has been resolved.

but the US market ranked only the fourth among the Philippines' market for carrageenan. Future prospects are currently affected by the issue involving an American company (FMC) engaged in carrageenan processing in Cebu. This has to do with a complaint filed by the Seaweed Industry Association of the Philippines (SIAP) with the DENR about the alleged negligence of FMC in undertaking proper water treatment, thus, in effect, polluting the waters of Cebu. Because of this issue, Carrageenan is reportedly not eligible for a GSP preferential treatment in the US (Manila Times, July 26, 2003). The Seaweed Industry Association of the Philippines argues that in disqualifying carrageenan from GSP eligibility, the US has "politicized" the issue as the complaint against FMC is environmental- rather than trade-related<sup>5</sup>. Future growth of carrageenan exports to the US depends on the resolution of this issue.

**Sugar:** The Philippines is one among 40 countries eligible for the US sugar quota system. With 13.5 percent share, the Philippines has the third largest sugar quota allocation. In 2003, its total export of raw sugar and sugar products was 144,000 metric tons valued at \$61.2 million. This is expected to increase in 2005 in view of the USDA's decision to increase the total quota scheduled for allocation from 1.112 million to 1.17 million metric tons. Industry leaders are confident that the share of the Philippines in the US sugar quota will remain as stable in the future as it has been in the past (Zabaleta<sup>6</sup>, personal communication). However, available documents indicate that there are some interest groups in the US that are raising questions on the current status of the Philippines' quota allocation. A US General Auditing Office Report (GAO, 1999) for example, raised two specific points concerning the Philippines' sugar quota:

- a. The share of the Philippines has remained the same despite the decline in domestic production.
- b. Brazil's share of 14.5 percent (compared to the Philippines' 13.5) is very small because it exports 21 times more sugar than the Philippines.

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<sup>4</sup> See Annex A for a brief description and list of applications of carrageenan.

<sup>5</sup> A review of the US GSP Guidebook reveal that indeed, the list of criteria for US GSP eligibility/non-eligibility does not specifically cover this particular case.

Indeed, as Table 6 shows the share of the Philippines is relatively large compared to other major sugar producers if the volume of domestic production, consumption and surplus, are to be considered. This factor may come into play in the future as more countries currently enjoying access to the US quota prepare plans of establishing FTAs with the US (e.g. Thailand and a number of Latin American countries). Furthermore, Mexico, under certain conditions (e.g. quantity of surplus), will enjoy unlimited access in the US market by 2008.

**Coconut:** Coconut oil and desiccated coconut comprise the most important coconut products exported by the Philippines. The US and EU, the major export destinations, each share roughly one-third of the Philippines' total exports (Table 7 and Fig. 3). With an average of \$237 million dollars of revenues a year from the US market, coconut exports remained and hopefully will continue to be an important trade item between the Philippines and the US. Health issues against coconut oil, however, may continue to persist. It will be recalled that in the early nineties, coconut oil has been the subject of a massive negative campaign by interest groups in the US particularly the American Soybean Association. The claim was that coconut oil, a saturated fat, increases blood cholesterol count and causes heart disease.

This issue has since then, been resolved by independent research findings that coconut oil's saturated fats are made up mostly (65%) of medium chain triglycerides (MCTs) which are easily digested by the body. The body easily converts coconut oil into energy and therefore not deposited as body fat.

A new issue that has extremely important relevance to coconut oil exports has emerged. In July of 2003 the US Department of Health & Human Services announced that new Food and Drug Administration (FDA) rules would dictate that by 2006 all food labels must list the amount of trans-fatty acids (<http://www.skinnykat.com/litter/archives/000253.html>). Local coconut industry stakeholders have expressed concern that this new USFDA ruling may have negative

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<sup>6</sup> Jose Maria T. Zabaleta is the Executive Director of the Philippine Sugar Millers Association, Inc.



effects on the Philippines' coconut oil exports to the US (Ms. Yvonne Agustin, UCAP). It serves as a discriminatory move against vegetable oils that compete with soybean oil, a major product of the American Soybean industry.

**Tropical Fruits:** Mangoes and bananas, which are among the country's top exports to other countries (e.g. Japan) have only been minor items in the list of exports to the US. Mexico and South American countries are the major suppliers of tropical fruits to the United States. Available data show that in 1998, US banana imports were valued at \$1.1 billion, more than 40 percent of the total value of fruit imports during the year (USDA). Ecuador, Costa Rica and Guatemala supply most of the US imports of bananas. Mexico is the largest supplier of mangoes.

Philippine exports of banana to the US are negligible. In 2003, some 323 tons (including plantains) valued at \$138 thousand were exported to the US. Given the distance between the port of origin and consumption centers in the US, shelf-life poses the greatest problem for fresh banana exports. The same thing is true for fresh mangoes. Under the current situation, dried mango exports have an advantage over fresh mangoes in the US market. Of the total 1,497 tons of mango exported to the US in 2003, 1,280 tons were dried with a value of \$5.5 million. The rest were fresh mangoes valued at \$243 thousand.

While fresh Philippine mangoes are in high demand in rich Asian markets such as Japan and Hong Kong, it has not gained inroads in the US market, however, because of existing phytosanitary requirements which delimit its market potential. To date, only Guimaras mangoes are allowed entry into the US market, subject to a vapor heat treatment (see Annex B for the specific requirements imposed on Philippine mango exports to the US). Among the mango producing regions in the country, only Guimaras Island has been identified as pest-free (from seed weevil and mango fruit flies – the Bactrocera Occipitalis, and Bactrocera Philippinensis), and thus, certified by the USDA as an eligible supplier of fresh mangoes to US markets. Local industry leaders, however, claim that irradiation technology could effectively solve the weevil and fruit fly problems. Furthermore, Guam and Hawaii, two important potential

markets for Philippine mangoes are known to be not totally pest-free, therefore, would not be harmed by Philippine mango exports.

## **Imports**

Imports of agricultural products from the US averaged US\$ 614 million per year over the last 13 years. Among the top imports are: grains (mostly wheat), livestock and dairy products (especially dairy), and protein meal (e.g. products of milling industry such as soybean cake) and oilseeds (mostly soybeans). With an average yearly wheat importation of 1.7 million metric tons valued at \$249 million, the Philippines, is looked upon as a reliable market for US wheat. So also, for other major agricultural exports of the US. In 2000, the Philippines ranked among the US top 10 markets for dairy, wheat, protein meal and vegetables and vegetable preparations (Table 8).

Future imports of these commodities by the Philippines will likely behave in the same pattern because of the lack of domestic substitutes. Cassava flour, for example, is a costly substitute to wheat flour (not to mention the insignificance of domestic cassava production), and, local soybean production is practically nil. But for strong political and economic reasons, a few import items are, however, expected to pose sensitive issues. Imports of basic staples (rice and corn) and meat products are contentious. These will be the subject of the following discussion.

**Rice and Corn:** The two staples, rice and corn, are the centerpieces of Philippine agriculture and have been treated as highly sensitive commodities in trade negotiations. Attainment of food security objectives has been etched in Philippine statutes (e.g. AFMA) and official policy statements as equivalent to self-sufficiency in these two crops. Trade data, however, show that the Philippines has been a net importer of rice and corn. For most of the last century, the country has been a net importer of rice (Dawe, 2001) and corn imports averaged a quarter of a million tons per year over the last 20 years (Cabanilla, 2004). Because of proximity, Thailand and Vietnam have been the main sources of rice imports although the US has occasionally supplied high quality rice in the past. In 2001, the US share of the Philippines rice

imports was 12 percent compared to Thailand's 22 percent and Vietnam's 66 percent. For the period 1991-2003, imports of rice from the US averaged 17,481 MT per year and for corn, 76,080 MT (Table 9).

Tariff is the main border protection used for corn with in-quota rate of 30 percent and out-quota rate of 50 percent. For rice, tariff rate is 50 percent but additional protection is conferred by NFA through its controls (e.g. licensing and allocation) on the quantity of rice imports<sup>7</sup>. The minimum access volume for rice was 194,135 MT in 2003 and increased to 224,005 MT in 2004. For corn, MAV in 2004 was 212,119 MT. To date, however, utilization rate of the corn MAV is less than 100 percent. For 2004, MAV utilization in corn is very low at less than one percent (Table 10). Apparently, the additional discretionary controls exercised by the government on cereal importations effectively provided extra protection over what is accorded by the nominal tariff rates.

Up until 2003, the National Food Authority monopolized international trade in rice. The private sector is now allowed to import rice but import licensing remains at the discretion of the NFA. Future tariff and non-tariff protection on rice and corn will inevitably be hinged on the country's objectives in other sectors of the economy. Rice is a wage good and a high border protection will create a wage-price spiral detrimental to manufacturing industries. Corn is a key feed ingredient, comprising as much as 70 percent in hogs and poultry feed mixes. Growth of commercial livestock and poultry production depends, among other things, on the domestic price of corn – a factor that is easily manipulated by trade policies.

**Meat Imports:** Chicken, bovine and swine meat, are the main meat products imported by the Philippines, with chicken comprising the bulk. The preference for fresh pork by the majority of Filipino consumers serves as a natural protection to domestic swine producers. Beef, on the other hand, is not a common consumer item by the average-income family. Between pork and chicken meat, rate of utilization of the Minimum Access Volume is substantially higher in chicken meat in 2004 (Table

10). Pork imports are on average, very negligible. In 2003, total pork imported from the US was 78 tons valued at \$57,897. As of July 2004, pork imports are worth \$35,556 – a very small amount compared to chicken imports worth more than \$2 million for the same period. Chicken meat is also considered by domestic producers to be the more sensitive commodity as it is often subject to what they call “unfair competition”.

Imports of chicken meat come in two general types – whole and cuts. The latter are mostly leg quarters which are of lower demand in the US market where consumers have high preference for white meat. The average quantity of imports of chicken cuts were 3,986 metric tons from 1996-2004. For whole chicken, the average was 1,263 metric tons (Table 11).

All meat imports are subject to quota tariff rates. In-quota and out-quota rates for swine meat are currently 30 percent and 40 percent, respectively, and set to remain at the same levels in 2005. For chicken meat, both in-quota and out-quota rates, are 40 percent, and will remain at that level in 2005. The point about “unfair competition” raised by the local livestock industry stakeholders is illustrated in Table 12. The allegation is that chicken cuts (mainly leg quarters) imported from the US comes out much cheaper than domestic chicken even after tariff is applied. In 2004 where wholesale price data are readily available, we note that indeed, the peso price equivalent of imported chicken is much lower than both the lowest and highest posted wholesale price of chicken during the period. This point is certainly an important matter to take up in future discussions on a US-Philippine FTA.

### **Synthesis:**

The analysis presented above is by no means complete. A simple comparison of the tariff rates currently imposed by the Philippines and the US on a selected group of commodities, however, serves to supplement what have been tackled thus far. Table 13 shows US tariff rates on a few key agricultural commodities. Most of these are

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<sup>7</sup> Up until 2006, the National Food Authority monopolized international trade in rice. The private sector is

either currently major export items of the Philippines (e.g. sugar, coconut oil, pineapples, and fishery products) or potentially important exportable goods to the US (e.g. mango and other tropical fruits and fruit purees). Note that close to half of the tariff lines shown are free. For the rest, the rates are already low (except for canned tuna in oil), relative to that of the Philippines' tariff rates (as shown in Table 11).

Moreover, the commodities with positive tariffs are eligible for GSP preferential treatment (refer to the "special" column). The special treatment under the GSP is, however, bilaterally negotiated periodically and highly discretionary it could be used as a retaliatory measure against what is perceived by the granting party as unfair trade practice by the requesting party. This is exemplified by the carrageenan case which, fortunately for the Philippines, is an isolated case. In the immediate run, what the above observation suggests, in simple terms, is that between the Philippines and the US, there is currently a bigger room for gains from a Free Trade agreement in agriculture for the US.

A review in the next section, of domestic policies implemented by the US, will serve as an additional backdrop in highlighting important points for future negotiations.

### **III. US Policies Affecting Philippines-US Agricultural Trade**

The focus of the following discussion, are domestic support programs and export enhancement program of the US. These are policy areas which have direct bearing on Philippines-US trade relations.

#### **Domestic Support Programs<sup>8</sup>**

The United States Farm Act of 2002, otherwise known as the Farm Security and Rural Investment Act appropriates for agriculture, \$180 billion over a period of 10 years. Among others, the law provides for the implementation of three Commodity

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now allowed to import rice but import licensing remains the discretion of the NFA.

<sup>8</sup> The discussion here is based on (Gray, 2002; and Westcott, et al, 2002).

Programs: Direct Payments, Counter Cyclical Payments and Loan Deficiency Payments – the frequent subject of debates in WTO negotiations..

**Direct Payment** is a fixed amount paid to farmers. Among the three commodity support programs, it is the most “decoupled” as it does not directly distort prices.

**Loan Deficiency payment** is a “one-time amount an eligible producer can collect on grain that is *not* put under a 9-month non-recourse marketing loan.. The LDP rate is equal to the amount, if any, by which a posted county price (PCP) is *below* the designated county loan rate on a specific date” (<http://www.hedger.com/ldp.htm>).

**Counter Cyclical Payment** is paid to farmers in an effort to minimize risk due to price fluctuations.

These payments are available for **corn, soybeans, wheat**, cotton, **rice**, grain sorghum, barley, oats, peanuts, other oilseeds, small chickpeas, and lentils. Each type of payment uses a different formula to compute the payment a producer will receive on a farm. (Gray, A., 2002) <http://www.agecon.purdue.edu/extension/policy/>

To highlight the significance of these payments to Philippine agriculture, payments for corn, soybeans and wheat will be illustrated with emphasis on corn. First, we note in Table 14, the magnitude of the US commodity programs from 1996 to 2002. In 2002, the total payment for corn for example, is several times more than the gross value added of corn in the Philippines which in 2002 was a little over PhP10 billion (in 1985 prices). In Table 15, the farm-level implications of each commodity program are illustrated. Note that for corn, total payments amount to PhP1.07 per kilogram. This represents an income subsidy which a Filipino corn producer does not enjoy. For equity reasons, this observation may justify border protection to domestic corn producers from US producers.

### **Export Enhancement Program**

Export subsidy is a common feature of US agricultural policy. The Export Enhancement Program (EEP) is an effort to assist farm products in competing with exports from other countries (such as the EU) that subsidize agricultural production.

Under the program, the U.S. Department of Agriculture pays cash to exporters as bonuses, allowing them to sell U.S. agricultural products in targeted countries at prices below the exporter's costs of acquiring them. The major objectives are to expand U.S. agricultural exports and to challenge unfair trade practices”.

(<http://www.fas.usda.gov/info/factsheets/eep.html>)

The US Farm Act of 2002 authorizes funding for the Export Enhancement Program to the tune of \$478 million per year until 2007. Justification cited for this program is to counter trade-distorting policies such as labeling, unjustified sanitary and phytosanitary restrictions, and monopolistic state trading enterprises. Other smaller programs such as the **Marketing Assistance Program** with annual funding initially at \$90 million in 2003 and rising to \$200 million in 2006; and the **Foreign Development Cooperator Program**, are also in place. The latter program has an annual budget of \$34.5 million from the 2002 Farm Act. Taken together, these programs confer to US farmers, enormous advantage vis-à-vis the Filipino farmers.

### **Food for Peace Program**




US Public Law 480 (PL 480) otherwise known as the Agricultural Trade and Assistance Act of 1954 is designed to assist poor countries suffering from food insecurity. Title I of this law provides the sale of USDA-designated agricultural products to poor countries (government or private entities) on a long-term (e.g. 30 years or more) and highly concessional arrangement. The Philippines is a regular participant in this program. Between 1991 and 2001, the country received a total of \$190 million loan comprising mostly of soybean meal imports and lately, corn and rice (Table 16). In 2003, it had the highest share in the program among 11 Asian countries that include Indonesia, Vietnam and India. From a practical point of view this program is useful to countries unable to generate sufficient foreign exchange for food imports. But maybe equally or more important to note, is that it serves as an effective means of disposing US agricultural production surplus<sup>9</sup>.

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<sup>9</sup> In the context of LDC agriculture, Hla Myint referred this to as vent-for-surplus.

## US Bioterrorism Act

The US Bioterrorism Act was signed by President Bush in June of 2002. This was in response to the heightened security policies following the September 11, 2001 terrorist attack. The primary goal of the act is to protect the US food supply against intentional food contamination<sup>10</sup>. Among the provisions of this Act that have direct bearing on agricultural exports are the following:

- a. Registration of Food Facilities. Facilities that manufacture, process, pack or hold food for human or animal consumption in the US should register must register with the US Food and Drug Administration by December 12, 2003. Imported food from an unregistered facility will be held at the border.
- b. Advance Notice of Food Shipment. Prior notice of food shipments must be sent electronically to the USFDA no more than five days before arrival and no fewer than:
  -  two hours before arrival by land via road,
  -  four hours before arrival by air or land via rail, or
  -  eight hours before arrival by water.

To date, feedback from Filipino food exporters does not indicate any unfavorable reaction to the current implementation of the new set of rules mandated by the Bioterrorism Act.

**Recap:** In concluding this section, it must be noted that the above cursory review of the US policies serve to highlight the discretionary nature of the tools that could be used to promote and protect domestic agricultural production. They complement and reinforce the border protection policies briefly discussed in the previous section. Similar types of tools (particularly Commodity Payments and Export Enhancement) are beyond the means of poor countries such as the Philippines. In practice, even the GSP non-reciprocal preferences granted by developed countries including the US, often work to disadvantage of poor recipient countries (Ozden and Reinhardt). But this imbalance must be used as a

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<sup>10</sup> Supplementary to the Bioterrorism Act, the US Farm Act also requires detailed country-of-origin labeling (COOL) for fish and shellfish products. On October 23, 2003, the USDA issued a proposed country-of-origin labeling guidelines for domestic and imported meat, fish, shellfish, peanuts and other products. Effectivity of the Rule is September 30, 2004.  
([http://www.agf.gov.bc.ca/fisheries/reports/SWOT/SWOT\\_3.0.pdf](http://www.agf.gov.bc.ca/fisheries/reports/SWOT/SWOT_3.0.pdf))



ground for crafting future agreements that minimize deleterious effects to the disadvantaged party.

For purposes of future trade negotiations, it will also be noted that in many countries like the Philippines, US-based agricultural companies have substantial business operations. Monsanto and Pioneer Hi-Bred, are two such companies operating in the Philippines selling agricultural chemicals and seeds (primarily Hybrid corn). In 2003 this two companies registered a total gross sales of P1.7 billion (roughly \$30 million at current exchange rate of P56) with Monsanto garnering 75 percent (SEC files).

#### **IV Concluding Comments**

Greater access to the US market is a privilege and poor countries struggle to enjoy this to the fullest. Among the 40 countries that now have a share of the lucrative US sugar quota, 27 are engaged in different stages of negotiations for an FTA with the US (Table 17). Australia has recently finalized an FTA with the US and Thailand is in a relatively advanced stage of its own negotiation. From the context of agricultural trade, the Philippines has a strong reason to join the trend. For the past 12 years, except 2003, the country had a negative agricultural trade balance with the US. However, the increasing number of FTAs between the US and other countries may constrain opportunities for trade diversion in favor of the Philippines.

One source of optimism however, is that the US and the Philippines are on the same side in what will be referred to here as the so-called “Biotechnology Divide”, thus in a sense are biotechnology allies. Since the biotechnology issue has become one important talking point in the WTO, this alliance should serve as a political economy reason for better trade relationship. The traditional exports to the US, hopefully, will establish stronger foothold, and the emerging export winners (e.g. carrageenan, mangoes) gain more market access.

But as border protection for Philippine agriculture vis-à-vis the US declines in the pursuit of a RP-US free trade agreement, sensitive issues come to the fore. This is underscored by the vulnerability of the predominantly small-holder producers to even the slightest degree of import surge that may emanate from policies pursued by the US particularly in

the area of Commodity Payments and Export Promotion. Appropriate countervailing measures must be crafted early on to address the plight of livestock raisers and vegetable farmers who are highly vulnerable.

The case of rice and corn will be a sensitive issue as well. But for corn, this may in fact open a window of opportunity to expand industries that are corn-dependent (e.g. livestock and poultry). For rice, freer trade may yet resolve the long –standing issue of privatizing NFA and facilitate rural diversification.

Phytosanitary issues will be a source of continuing controversy but strict dependence on science will be the best recourse for resolution. This, however, could be an avenue for stronger collaboration in scientific research and development between and among academic and similar institutions in both countries.

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## Tables and Figures

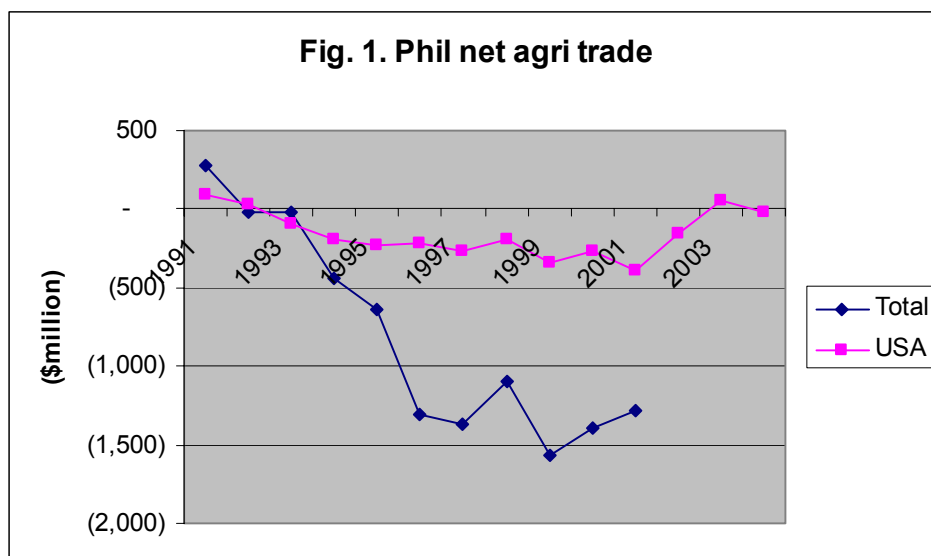


Table 1. US agricultural trade balance (million \$) with the Philippines, Indonesia and Thailand, 1996-2002

Year	Philippines	Indonesia	Thailand
1996	304	(684)	(310)
1997	247	(777)	(313)
1998	113	(884)	(324)
1999	309	(506)	(276)
2000	443	(312)	(278)
2001	379	84	(121)
2002	339	(117)	(123)

Notes: parenthesis indicates trade deficit

Source: <http://usda.mannlib.cornell.edu/reports/erssor/trade/aes-bb/2004/aes41.pdf>

Table 2. Top 15 US agricultural exports destinations based on dollar values, 1994-2003.

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	(FOB billion dollars)									
Japan	9.457	11.16	11.692	10.523	9.102	8.812	9.29	8.883	8.382	8.935
EU	7.075	8.655	9.265	9.078	7.94	6.413	6.244	6.404	6.145	6.454
Canada	5.559	5.79	6.122	6.767	6.993	7.058	7.64	8.121	8.66	9.3
Mexico	4.592	3.537	5.438	5.173	6.154	5.624	6.41	7.404	7.226	7.914
South Korea	2.337	3.754	3.866	2.86	2.266	2.448	2.546	2.588	2.672	2.853
China (Taiwan)	2.147	2.596	2.958	2.614	1.798	1.945	1.996	2.009	1.966	2.036
Hong Kong	1.243	1.502	1.488	1.712	1.492	1.209	1.262	1.227	1.09	1.114
China (mainland)	1.084	2.633	2.088	1.614	1.358	0.854	1.716	1.938	2.067	4.992
Egypt	0.872	1.448	1.319	0.964	0.914	0.966	1.049	1.022	0.862	1.001
Russia	0.645	1.046	1.327	1.204	0.835	0.728	0.58	0.917	0.551	0.579
<b>Philippines</b>	<b>0.577(12)</b>	<b>0.765(12)</b>	<b>0.891(11)</b>	<b>0.873(11)</b>	<b>0.72(11)</b>	<b>0.783(10)</b>	<b>0.901(10)</b>	<b>0.793(12)</b>	<b>0.776(11)</b>	<b>0.628(13)</b>
Indonesia	0.485	0.816	0.848	0.772		0.531	0.668	0.907	0.809	0.984
Turkey	-	0.536	0.637	0.733	0.665	0.501	0.658	0.571	0.675	0.901
Thailand	-	0.59	-	-	-	-	0.493	0.57	0.611	0.675
Saudi Arabia	0.487	-	-	0.668	0.503	0.447	-	-	-	-
Colombia	-	-	0.632	-	0.59	-	-	-	0.52	-
Dominican Republic	-	-	-	-	-	0.551	0.506	-	-	-
Brazil	0.493	-	-	0.575	-	-	-	-	-	-
Israel	-	-	0.617	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-	-	0.611
Algeria	0.595	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	-	-	-	0.545	-	-
Malaysia	-	0.537	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	0.513	-	-	-	-	-

Note: Numbers do not include exports of agricultural inputs.

Source: USDA (<http://www.ers.usda.gov/Data/FATUS/>)

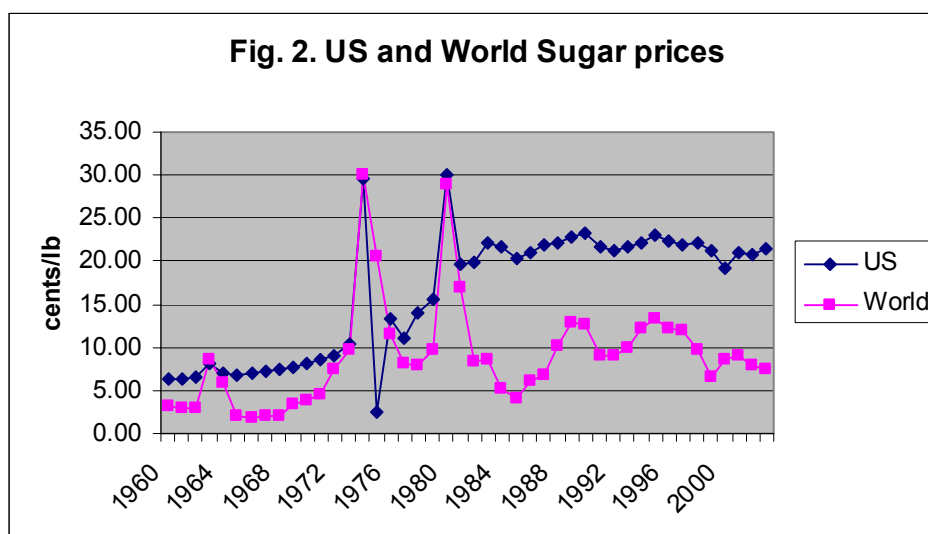


Table 3. Philippines major export items, as of July 2004.

Item	Value (000US\$)	Percent of Total
Sugar	<b>45,361</b>	13.42
Coconut	<b>125,998</b>	37.26
Oil	110,738	
Other	15,260	
Pineapples	<b>43,786</b>	12.95
Canned	27,733	
Concentrate	16,053	
Fishery and Marine products	<b>76,110</b>	22.51
Fish and Others	66,592	
Seaweeds	9,518	
<b>Total</b>	<b>291,255</b>	<b>86</b>

Note:

Total exports for the period = \$339,114,045

Table 4. Major Agricultural Exports to the US

Items	1991		1994		1997		2000		2003	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
	Thousand Tons	(million US\$)	thousand tons	(million US\$)	thousand tons	(million US\$)	thousand tons	(million US\$)	thousand tons	(million US\$)
<b>Coconuts</b>										
Dessicated Coconuts	35	29	37	35	38	43	36	34	36	
Coconut oil (crude)	328	115	237	131	340	209	275	118	243	1
Coconut oil (refined)	68	27	119	69	134	94	166	86	131	
<b>Pineapples</b>										
Pineapples (canned)	136	53	148	53	147	55	165	60	160	
Pineapple juice (oth than conc)	41	7	51	8	52	8	70	11	67	
Pineapple juice (concentrate)	37	20	27	14	25	17	23	14	34	
<b>Sugar</b>	274	115	104	43	198	83	139	52	138	
<b>Fish and oth marine Products</b>										
Shrimps and Prawns	9	54	4	27	1	13	3	22	2	
Octopus (frozen, dried, salted)	4	9	7	14	7	24	7	15	8	
Tuna, whole	4	8	4	8	4	8	6	7	18	
Skipjack	3	5	11	22	17	32	9	10	5	
Carageenan and seaweeds	1	2	3	3	5	16	5	10	63	

Table 5. Top ten world exporters of seaweeds and other algae

Country	1995		1996		1997		1998	
	Quantity (tons)	Value (US\$000)	Quantity (tons)	Value (US\$000)	Quantity (tons)	Value (US\$000)	Quantity (tons)	Value (US\$000)
	24026	128779	20766	99083	21349	94259	25033	104323
China	37436	75081	42130	84717	51008	92482	48988	75709
Philippines							26954	31196
Chile	36847	25043	39078	25212	45419	26862	43340	28161
China, Hong Kong	7515	12105	7576	12970	8672	6829	9453	7290
Indonesia	24957	16262	22310	18962	12698	10521	5213	5936
France	2086	2609	6255	5730	5366	4537	5997	5392
Norway	3633	2955	3622	3196	3988	3176	3741	2846
Mexico	39362	1210	35000	1200	32665	1215	5671	300
Peru			1042	768	2387	1206	3785	1376
Other countries	15672	86426	17248	78491	16847	61233	20715	60573
Total	191529	350470	195027	330329	200399	302320	198890	323102

Source: FAO Fishery statistics (in UA and P)



Table 6. Tariff rate-quota allocation in the US, production and consumption, 1998.

Country	TRQ (%) Allocation	Allocation (000MT)	Production	Consumption (000) Metric Tons	Surplus
Argentina	4.3	72	1925	1599	330
Australia	8.3	140	6137	1091	5046
Barbados	0.7	9	51	18	33
Belize	1.1	18	130	15	115
Bolivia	0.8	13	366	254	112
Brazil	14.5	244	17306	9700	7606
Colombia	2.4	40	2374	1461	913
Congo	0.3	8	44	39	5
Costa Rica	1.5	25	419	228	191
Cote d'Ivoire	0.3	8	127	182	-55
Dominican Republic	17.6	296	518	331	187
Ecuador	1.1	18	208	413	-205
El Salvador	2.6	44	510	238	272
Fiji	0.9	15	408	57	351
Gabon	0.3	8	22	25	-3
Guatemala	4.8	81	1896	493	1403
Guyana	1.2	20	273	35	238
Haiti	0.3	8	11	83	-72
Honduras	1	17	288	255	33
India	0.8	13	16085	18409	-2324
Jamaica	1.1	18	206	142	64
Madagascar	0.3	8	105	108	-3
Malawi	1	17	215	198	17
Mauritius	1.2	20	725	46	679
Mexico	0.3	28	6052	4674	1378
Mozambique	1.3	22	44	77	-33
Nicaragua	2.1	35	394	204	190
Panama	2.9	49	187	100	87
Papua New Guinea	0.3	8	44	35	9
Paraguay	0.3	8	143	128	15
Peru	4.1	69	507	998	-491
<b>Philippines</b>	<b>13.5</b>	<b>227</b>	<b>1986</b>	<b>2094</b>	<b>-108</b>
St. Christopher-Nevis	0.3	8	28	4	24
South Africa	2.3	39	2660	1507	1153
Swaziland	1.6	27	571	248	323
Taiwan	1.2	20	364	540	-176
Thailand	1.4	24	4679	1872	2807
Trinidad-Tobago	0.7	12	86	93	-7
Uruguay	0.3	8	22	121	-99
Zimbabwe	1.2	20	632	367	265

Source: US GAO (1999) "Sugar Program: Changing the Method for Setting Import Quotas Could Reduce Cost to Users", Report to Congress

Table 7. Value (000 US\$) of Philippine coconut exports by destination, 1988-2002.

Year	United States	Europe	Other Countries	Total	US share (percent)
1988	219239	252463	109213	580915	38
1989	175609	250753	101221	527583	33
1990	154693	260875	85311	500879	31
1991	183446	171747	102480	457673	40
1992	288952	234081	118421	641454	45
1993	244402	215067	110327	569796	43
1994	235108	256659	131242	623009	38
1995	347762	397123	246933	991818	35
1996	334136	257358	152694	744188	45
1997	340766	331879	138497	811142	42
1998	303138	369667	143257	816062	37
1999	206358	146837	96897	450092	46
2000	204087	187918	168969	560974	36
2001	154175	211898	153520	519593	30
2002	173029	171703	128589	473321	37

Source: UCAP

**Fig. 3. Coconut exports**

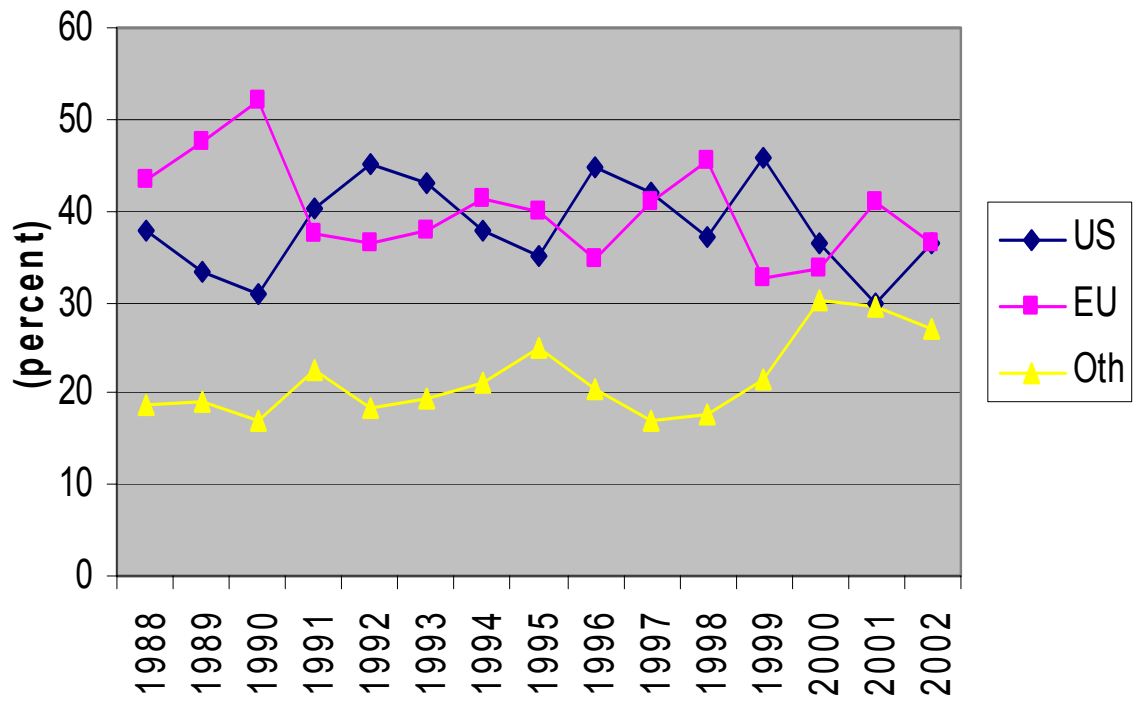


Table 8. Importance of the Philippines in US Agricultural Exports, 1999/2000		
Item	Rank	Value (US\$ million)
Dairy Products	No. 8	36
Wheat and Flour	No. 3	256
Protein Meal	No. 1	161
Vegetables and Preparations	No. 9	49
Source: USDA		

Table 9. Rice and corn imports from the US, 1991-2003.

Year	Rice		Corn	
	Quantity (MT)	Value (\$000FOB)	Quantity (MT)	Value (\$000FOB)
1991	-	-	321	99
1992	-	-	595	172
1993	17	12	1,314	576
1994	-	-	909	408
1995	-	-	106,236	16,114
1996	2,972	1,377	322,621	68,739
1997	12,804	4,436	108,732	17,076
1998	202	97	158,208	24,394
1999	78	81	49,559	49,639
2000	9,400	684	23,509	3,795
2001	109,053	31,033	48,759	4,574
2002	39,769	9,679	157,414	23,429
2003	52,954	11,315	10,861	960
Average	17,481	4,516	76,080	16,152

Source: NSO

Table 10. Minimum Access Volume allocation and Utilization, 2004

Commodity	Unit	Allocation	Issued	Utilization Rate (%)
Pork (fresh, chilled, frozen)	MT	53005	9689	18
Poultry (fresh, chilled, frozen)	MT	22968	15906	69
Potatoes (fresh, chilled)	MT	1516	1516	100
Coffee Beans	MT	1457	186	12.8
Corn	MT	212119	263	0.1
Sugar	MT	62627	0	0
Coffee Extracts	MT	35	27	76.2

Source: MAV committee, DA.

Table 11. Philippine Tariff Rates on selected agricultural products

Items	In- quota	2004 Out- quota	Other	In- quota	2005 Out- quota	Other
Live Animals*						
Swine	30	35		30	35	
Goats	30	40		30	40	
Poultry						
Fowls	35	35		35	35	
Turkey	35	40		35	40	
Ducks	35	40		35	40	
Meat						
Bovine	10	10		10	10	
Swine	30	40		30	40	
Chicken	40	40		40	40	
Turkey						
Whole (fresh, chilled)	40	40		40	40	
Whole (frozen)	30	35		30	35	
Ducks	40	40		40	40	
Vegetables						
Potatoes (fresh chilled)	40	40		40	40	
Onions			40			40
Garlic			40			40
Cauliflowers			25			25
Cabbages			40			40
Lettuce			25			25
Carrots			40			40
Cassava			40			40
Sweet Potato			40			40
Coffee						
Not Roasted						
Not decaffeinated	30	40		30	40	
Decaffeinated	40	40		40	40	
Roasted	40	40		40	40	
Corn	35	50		35	50	
Rice			50			50

Note: \* Only for animals not used for breeding purposes

Source: Tariff Commission

Table 12. Before and after tariff per unit values of chicken imports.

Year	Before Tariff Per Unit Value (\$/kg)		After Tariff Per Unit value (\$/kg)		After Tariff Per Unit value (Pesos/kg)	
	Cuts	Whole	Cuts	Whole	Cuts	Whole
1995		2.35		3.29		
1996		1.99		2.78		72.97
1997	0.79	1.31	1.11	1.84	32.65	54.1
1998	0.92	0.99	1.28	1.39	52.39	56.93
1999	0.61	0.68	0.86	0.95	33.44	37.23
2000 (in qta)	0.57	0.6	0.8	0.84	35.29	37.08
2001 (in qta)	0.61	0.49	0.86	0.69	43.65	35.07
2002 (in qta)	0.55	0.71	0.77	0.99	40.66	52.56
2002 (o-qta)	0.5		0.69		36.8	
2003 (in qta)	0.5	0.41	0.7	0.57	38.43	31.57
2004(in-qta)	0.57	0.73	0.8	1.02	44.58	56.96
<b>2004 ave.</b>						
<b>Domestic</b>					<b>Low = 78.94</b>	
<b>Wholesale</b>					<b>High = 84.05</b>	

Source: NSO for trade data  
BAS for prices



**Table 13. US Tariff rates on selected agricultural products.**

<b>Commodity</b>	<b>Tariff Heading</b>	<b>Tariff Rate</b>	<b>Special</b>
		1.1606	
Sugar	1701.11.05	cents/kg	A*
Coconut oil	1513.11.00	Free	
Dessicated coconut	0801.11.00	Free	
Soybean oil	1507.10.00	19.10%	
Pineapples (bulk)	0804.30.20	0.51/kg	A+
Pineapples (crate)	0804.30.40	1.14/kg	A
Bananas	0803.00.20	Free	
Plantains (dried)	0803.00.40	1.40%	A+
Mangoes (fresh)	0804.50.60	6.6 cents/kg	A
Mangoes (dried)	0804.50.80	1.5 cents/kg	A
Avocados	0804.40.00	11.2 cents/kg	A
Durian	0810.60.00	2.20%	A+
Papayas	0807.20.00	11.20%	A+
Fish			
Live	0301.91.00	Free	
Tuna (chilled, fresh, frozen)	0302.32.00	Free	
Tilapia	0303.79.20	Free	
Lobsters	0306.12.00	Free	
Shrimps and Prawns	0306.22.00	Free	
Crab Meat	0306.14.20	7.50%	A+
Other crab	0306.14.40	Free	
Oysters	0307.10.00	Free	
Mussels	0307.49.00	Free	
Squid	0307.49.00	Free	
Snails	0307.60.00	5%	A+
Canned tuna (in oil)	1604.14.10	35%	A+
Canned tuna (not in oil)	1604.14.22	6%	A+
Other canned fish	1604.14.30	13%	A+
Fruit Purees			
Mango	2007.99.50	1.30%	A
Papaya	2007.99.55	14%	A+
Pineapple (preserved)	2008.20.00	1.35 cents/kg	
Pineapple (juice)	2009.41.00	4.24/liter	(A+)

Source: USITC: [http://hotdocs.usitc.gov/tariff\\_chapters\\_current/toc.html](http://hotdocs.usitc.gov/tariff_chapters_current/toc.html)

**A** = articles that are generally GSP-eligible for GSP-eligible developing countries.

**A+** = articles that are GSP-eligible only for imports from the developing countries identified as Least Developed Beneficiary Developing Countries.

**A\*** = articles that are GSP-eligible except for imports from one or more specific countries that have lost GSP eligibility for that article.

Table 14. Total amount of contract payments (billion US\$), and allocation by commodities.

Year	Commodity and percent allocation							
	Total	Wheat	Corn	Sorghum	Barley	Oats	Cotton	Rice
	<b>100</b>	<b>26.26</b>	<b>46.22</b>	<b>5.11</b>	<b>2.16</b>	<b>0.15</b>	<b>11.63</b>	<b>8.47</b>
1996	5.5700	1.4627	2.5745	0.2846	0.1203	0.0084	0.6478	0.4718
1997	5.3850	1.4141	2.4889	0.2752	0.1163	0.0081	0.6263	0.4561
1998	5.8000	1.5231	2.6808	0.2964	0.1253	0.0087	0.6745	0.4913
1999	5.6030	1.4713	2.5897	0.2863	0.1210	0.0084	0.6516	0.4746
2000	5.1300	1.3471	2.3711	0.2621	0.1108	0.0077	0.5966	0.4345
2001	4.1300	1.0845	1.9089	0.2110	0.0892	0.0062	0.4803	0.3498
2002	4.0080	1.0525	1.8525	0.2048	0.0866	0.0060	0.4661	0.3395

**Table 15. Government Payments Calculator (2002 Farm Bill)**

Items	Corn	Soybeans	Wheat
<b>Direct Payments</b>			
1.Payment Rate	0.28	0.44	0.52
2.Base Acres	812.44	687.56	150
3.Direct Payment Yield	120	35.44	58
4.Adjustment Factor	0.85	0.85	0.85
Total Direct Payments (1)x(2)x(3)x(4)	23203	9114	3845
Direct Payments per Base Acre	28.56	13.26	25.65
<b>CCP Payment Calculations</b>			
	<b>Corn</b>	<b>Soybeans</b>	<b>Wheat</b>
5. Target Price	2.6	5.8	3.86
6. Direct Payments Rate	0.28	0.44	0.52
7. Effective Target Price (5)-(6)	2.32	5.36	3.34
8. 12-month Marketing Year Price	2.05	4.75	2.85
9. Loan Rate	1.98	5	2.8
10.Higher of (8) or (9)	2.05	5	2.85
11.CCP payment Rate (7)-(10)	0.27	0.36	0.49
12.Base Acres (Same as (2) above)	812.44	687.56	150
13.CCP payments Yield	141	42.31	69.73
14.Adjustment Factor	0.85	0.85	0.85
Total CCP Payments (11)x(12)x(13)x(14)	26290	8901	4356
CCP payments per Base Acre	32.36	12.95	29.04
<b>LDP Calculations</b>			
	<b>Corn</b>	<b>Soybeans</b>	<b>Wheat</b>
15. Planted Area	825	700	125
16. Actual Yield	155	51	73
17. County Loan Rate	2.01	5.14	2.83
18. Posted County Price on Exercise Date	1.92	4.54	2.84
19. LDP Rate (17)-(18)	0.09	0.6	0
Total LDP ayment (15)x(16)x(19)	11509	21420	0
LDP Payments Per planted Acre	13.95	30.6	0
	<b>Corn</b>	<b>Soybeans</b>	<b>Wheat</b>
Total Payments	61002	39436	8201
Total Payments per Planted Acre	73.94	56.34	65.61
Total Payments per harvested Bushel (US\$)	0.48	1.1	0.9
	<b>(Pesos/kilogram) 1.05</b>	<b>2.27</b>	<b>1.85</b>
Effective Price Received on Current Production	2.4	5.64	3.74

Source: Gray (2002)

Table 16. PL 480 Title I availed by the Philippines, 1991-2001.

Year	Amount (\$ 'M)	Commodities	Specific Purpose
1991	15	Soybean meal	National budget support
1992	20	Soybean meal	National budget support
1993	20	Soybean meal	For Medium-Term Livestock Development Program
1994	15	Soybean meal	For Medium-Term Livestock Development Program
1998	10	Soybean meal	For agricultural programs and projects
1999	30	Soybean meal, sorghum and rice	For agricultural programs under the 10-point Agenda in Agriculture and Fisheries
2000	40	Soybean meal and rice	For agriculture and fisheries modernization programs
2001	40	Soybean meal, corn rice and feed peas	For agriculture and fisheries modernization programs
<b>Total</b>	<b>190</b>		

NAFC, DA website.

Table 17. Potential US FTAs and sugar TRQ allocation

Country	Production	Exports metric tons	US allocation
North and Central America			
Mexico	5135000	182000	7258
Canada	50000	14000	0
Caribbean			
Barbados	47000	41000	7371
Dominican Republic	465000	185000	185335
Haiti	10000	0	7258
Jamaica	175000	138000	11583
St. Kitts and Nevis	24000	18000	7258
Trinidad and Tobago	102000	68000	7371
Costa Rica	385000	155000	15796
El Salvador	476000	255000	27379
Guatemala	1821000	1327000	50546
Honduras	332000	78000	10530
Nicaragua	361000	179000	22114
Belize	120000	102000	11583
Panama	165000	55000	30538
South America			
Argentina	1633000	206000	45281
Bolivia	368000	116000	8424
Brazil	22187000	12750000	152691
Colombia	2458000	1103000	25273
Ecuador	492000	52000	11583
Guyana	294000	261000	12636
Paraguay	110000	21000	7258
Peru	960000	41000	43175
Uruguay	140000	21000	7258
Other Countries			
South Africa	2709000	1395000	24221
Swaziland	542000	516000	16580
Australia	4971000	3913000	87402
Thailand	6030000	4085000	14743

**Annex A**  
**Carrageenan: Description and List of Applications**



Carrageenan is a hydrocolloid extracted from red seaweeds. Refined carrageenan undergoes an elaborate process that involves drying, cleaning, bagging, dissolving, filtration, precipitation and grinding into powder. The natural grade carrageenan, however, is not dissolved.

It is an effective agent used in the processing of sausages, ham, hamburger, chocolate milk, ice cream, frozen desserts, low-fat cheese, milk pudding, salad dressing, beverage mixes, toothpaste, gummy candies, pet foods, air freshner gels, dessert gel, cough syrup, hard capsules and even beer.

Below is a list of applications of carrageenan.

***FOOD APPLICATION***

Beer/Wine/ Vinegar	-accelerates and improves clarity.
Chocolate Milk Drink	-stabilizes and improves viscosity.
Ice cream	-prevents ice crystals formation.
	-enhances excellent mouthfeel.
Flans/Dessert Gel	-enhances flavor release and excellent mouthfeel

Sauces and Dressings                      -thickens and improves viscosity.

***PROCESSED MEAT***

Beef Patty	-substitutes fat, retains moisture and increase yield.
Luncheon Meat	-prevents fat separation serves as a meat extender.
Poultry and Ham	-controls dehydration of frozen poultry, enhances juiciness and increases yield.

***NON-FOOD APPLICATION***

Petfood	- binder
Canned meat and fish	-gelling and stabilizing agent.
Toothpaste	-stabilizer.
Air freshener	-gelling agent.

Source:

<http://home.howstuffworks.com/framed.htm?parent=question315.htm&url=http://philexp.ort.org/members/siap/intro.htm>.

**Annex B**  
**Mango Export Requirements:**

Sec. 319.56-2ii Administrative instructions: conditions governing the entry of mangoes from the Philippines.

Mangoes (fruit) (*Mangifera indica*) may be imported into the United States from the Philippines only under the following conditions:

- (a) Limitation of origin. The mangoes must have been grown on the island of Guimaras, which the Administrator has determined meets the criteria set forth in Sec. 319.56-2(e)(4) and Sec. 319.56-2(f) with regard to the mango seed weevil (*Sternochetus mangiferae*).
- (b) (b) Treatment. The mangoes must be subjected to the following vapor heat treatment for fruit flies of the genus *Bactrocera*. The treatment must be conducted in the Philippines under the supervision of an inspector.
  - (1) Size the fruit before treatment. Place temperature probes in the center of the large fruits.
  - (2) Raise the temperature of the fruit by saturated water vapor at 117.5 deg.F (47.5 deg.C) until the approximate center of the fruit reaches 114.8 deg.F (46 deg.C) within a minimum of 4 hours.
  - (3) Hold fruit temperature at 114.8 deg.F (46 deg.C) for 10 minutes.
  - (4) During the run-up time, temperature should be recorded from each pulp sensor once every 5 minutes. During the 10 minutes holding time, temperature should be recorded from each pulp sensor every minute. During the last hour of the treatment, which includes the 10-minute holding time, the relative humidity must be maintained at a level of 90 percent or higher. After the fruit are treated, air cooling and/or drench cooling are optional.
- (c) APHIS inspection. Mangoes from the Philippines are subject to inspection under the direction of an inspector, either in the Philippines or at the port of first arrival in the United States. Mangoes inspected in the Philippines are subject to reinspection at the port of first arrival in the United States as provided in Sec. 319.56-6.
- (d) Labeling. Each box of mangoes must be clearly labeled in accordance with Sec. 319.56-2(g).
- (e) Phytosanitary certificate. Each shipment of mangoes must be accompanied by a phytosanitary certificate issued by the Republic of the Philippines Department of Agriculture that contains additional declarations stating that the mangoes were grown on the island of Guimaras and have been treated for fruit flies of the genus *Bactrocera* in accordance with paragraph (b) of this section.
- (f) Trust Fund Agreement. Mangoes that are treated or inspected in



the Philippines may be imported into the United States only if the Republic of the Philippines Department of Agriculture (RPDA) has entered into a trust fund agreement with APHIS. That agreement requires the RPDA to pay, in advance of each shipping season, all costs that APHIS estimates it will incur in providing inspection services in the Philippines during that shipping season. Those costs include administrative expenses and all salaries (including overtime and the Federal share of employee benefits), travel expenses (including per diem expenses), and other incidental expenses incurred by APHIS in performing these services. The agreement requires the RPDA to deposit a certified or cashier's check with APHIS for the amount of those costs, as estimated by APHIS. If the deposit is not sufficient to meet all costs incurred by APHIS, the agreement further requires the RPDA to deposit with APHIS a certified or cashier's check for the amount of the remaining costs, as determined by APHIS, before any more mangoes will be treated or inspected in the Philippines. After a final audit at the conclusion of each shipping season, any overpayment of funds would be returned to the RPDA or held on account until needed, at the RPDA's option.

(g) Department not responsible for damage. The treatment for mangoes prescribed in paragraph (b) of this section is judged from experimental tests to be safe. However, the Department assumes no responsibility for any damage sustained through or in the course of such treatment.

Done in Washington, DC, this 8th day of June 2001.

Bobby R. Acord,  
Acting Administrator, Animal and Plant Health Inspection Service.  
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