ECCP ADVOCACY PAPERS 2019

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EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

FOOD AND BEVERAGE ADVOCACY PAPER 2019

ABOUT ECCP

The **European Chamber of Commerce of the Philippines** (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.

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Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.

EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

FOOD AND BEVERAGE

ADVOCACY PAPER

2019

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METHODOLOGY

The 2019 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2018 Advocacy Papers were examined under the following criteria:

Completed/Substantial Progress: Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

Some Progress: Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

No Progress/Retrogression: Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

MESSAGE FROM ECCP PRESIDENT

2019 has truly been a year of opportunities for the European-Philippine business community. This year, we welcome the implementation of the landmark Ease of Doing Business Act as well as the 18th Congress, with its list of legislative economic priorities. We also acknowledge the enactment of laws on Universal Health Care, Tax Amnesty, Energy Efficiency and Conservation, amongst other measures. Steady macroeconomic fundamentals as well as the administration's plans and pronouncements concerning economic reforms also open opportunities for further trade and investments. Furthermore, the ECCP aims to build upon the achievements of the past years in making the Philippine business environment friendlier for European companies and ensuring that these businesses can make the most of these exciting developments.

To further build on such success, several matters need to be addressed in order to fully realize the potential of the European-Philippine economic ties and the Philippine economic growth. It becomes increasingly important for the Philippines to improve global market integration, enhance its competitiveness as a Foreign Direct Investment (FDI) destination, and accelerate infrastructure development in order to achieve much needed sustainable and inclusive growth.

It is in this context that we are pleased to present the 2019 ECCP Advocacy Papers. The ECCP Advocacy Papers include suggested reforms on priority sectors identified by the Chamber and its members. As an advocate of economic liberalization and sustainable economic growth, the ECCP stands ready to support the Philippines in making these much needed changes for the mutual benefit of Europe and the Philippines.

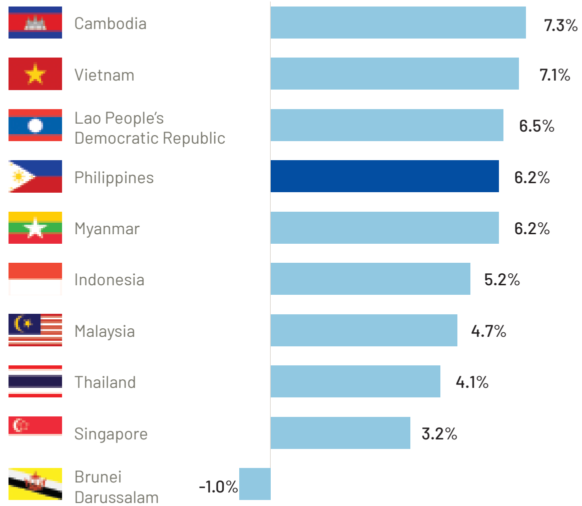
Mr. Nabil Francis
ECCP President

WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines strives to maintain its robust economic performance amidst several challenges. Though the GDP posted a decelerated growth of 6.2% in 2018, it is still considered as one of the fastest-growing countries in the Association of Southeast Asian Nations (ASEAN). With a 10-year average annual GDP growth of 5.4%,[1] the Organisation for Economic Co-operation and Development (OECD) recognizes the Philippines as one of the countries, along with Vietnam, who are expected to lead the ASEAN-5 in terms of economic growth.[2]

GDP Growth Rate, 2018
(% per year)



Source: Asian Development Bank. *Asian Development Outlook 2019*

The GDP was mainly driven by manufacturing, trade and repair of motor vehicles, motorcycles, personal and household goods, and construction. Services accounted for the biggest share with 57.8%, followed by Industry with 34.1%, and Agriculture, Hunting, Forestry and Fishing (AHFF) with 8.1%.[3] The steady flow of remittances from Overseas Filipino Workers (OFWs), the ambitious *Build Build Build* Program, and resilience of the business and knowledge outsourcing industry are anticipated to keep the momentum going in the upcoming years.[4] The GDP Per Capita posted a decelerated growth of 0.5% from 2017, placing the Philippines 5th in rank amongst the ASEAN.[5]

1 World Economic Forum. (2018) *The Global Competitiveness Report*. Retrieved 15 September 2019 from www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

2 OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. Retrieved 14 September 2019 from dx.doi.org/9789264286184-en.

3 Philippine Statistics Authority. (2019). *Gross Domestic Product of the Philippines Highlights for 2018*. Accessed 14 September 2019 from psa.gov.ph/regional-accounts/grdp/highlights.

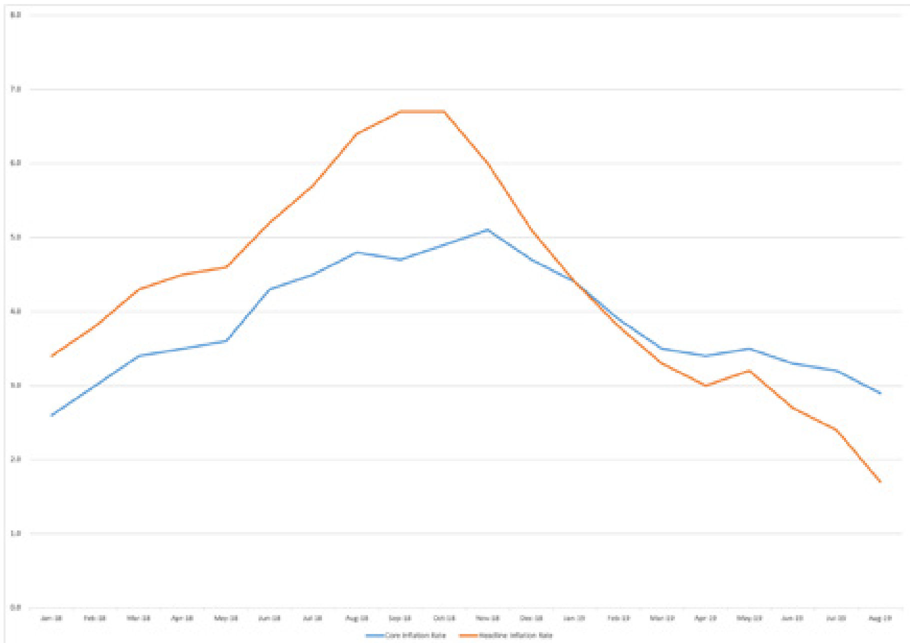
4 OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*.

5 Asian Development Bank. (n.d.) *Economic indicators for the Philippines*. Retrieved 16 September 2019 from adb.org/countries/philippines/economy.

The inflation rate for 2018 steadily rose throughout the year. The headline inflation rate increased from 2.9% in 2017 to 5.2% in 2018. Inflation peaked at 6.7% in the third quarter of 2018, and only decreased during the last two months of the said year. The drastic increase in prices was primarily attributed to the tight domestic supply, impact of natural calamities, and the rising global crude oil rates.[6]

The average core inflation rate reached 4.1% in 2018 – a 2.5% increase from 2017, that could be linked to the impact of fiscal expansion as well as the pass-through effect of a weaker peso.[7] The full year average inflation was brought up to 5.2%, which is above the National Government's announced target range for 2018.[8] However, as of August 2019, the headline inflation rate decelerated to 1.7%, the lowest rate achieved since October 2016 which was at 1.8%. The deceleration was brought about by the slower annual increase in prices of food and non-alcoholic beverages.[9]

Philippines: Inflation Rate, January 2018 – August 2019



Source: PSA and BSP

6 World Bank. (2019) *Philippines Economic Update April 2019: Safeguarding Stability, Investing in the Filipino*. Retrieved 16 September 2019 from documents.worldbank.org/curated/en/442801553879554971/pdf/Philippines-Economic-Update-Safeguarding-Stability-Investing-in-the-Filipino.pdf

7 Ibid.

8 Bangko Sentral ng Pilipinas. (2018) *Inflation Report Q4 2018*. Retrieved 15 September 2019 from bsp.gov.ph/downloads/Publications/2018/IR4qtr_2018.pdf.

9 Philippine Statistics Authority. (2019). *Summary Inflation Report Consumer Price Index (2012=100): August 2019*. Accessed 27 September 2019 from psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2019.

The country's credit rating over the past year proves itself to be stable according to Moody's Investor Service.[10] The table below shows ratings from various agencies throughout the year:

2018 Philippine Credit Ratings		
Date	Agency	Rating
26 April	S&P	BBB Positive
20 July	Moody's	Baa2 Stable
19 December	Fitch	BBB

Source: Standard and Poor's, Moody's, Fitch.

The demographics for 2018 puts the country's economy at a prime advantage. A population of 106.60 million,[11] with a median age of 23.7,[12] adds a young, dynamic and competitive workforce to the country's competitive advantages including its strategic business location in the region and a pursuit for developing infrastructure for global growth,[13] among others.

A 2018 Philippine Statistics Authority (PSA) Survey records the employment rate at 94.7%. Categorically, the Services sector had the biggest share with 56.6%, followed by the Agriculture sector with 24.3%, and the Industry sector with 19.1%.[14] This leaves the unemployment rate at 5.3% and the underemployment rate with 16.4%. Though the statistics on employment displayed a positive growth of approximately 0.3-0.4% from 2017, high levels of unemployment remain to be a recurring challenge for the Philippines.

For international rankings, the 2018 Global Competitiveness Report ranks the Philippines 56th out of 140 countries, with a score of 52.1.[15] The report highlighted the country's Macroeconomic Stability as its strongest pillar, ranking 43rd with a score of 90. However, Innovation Capability was noted as the country's weakest, ranking 67th with a score of 37.2.[16] As for the World Bank Doing Business 2018 Report, the Philippines was given an overall ranking of 113th out of 190 countries. The country's factor of Getting Electricity is ranked best at 31st, while Starting a Business is ranked the worst at 173rd.[17]

10 Moody's Investors Service. (2018) *Announcement: Moody's: Philippines' credit profile supported by strong growth and progress on reform*. Retrieved 16 September 2019 from moodys.com/research/Moodys-Philippines-credit-profile-supported-by-strong-growth-and-progress—PR_387103.

11 Asian Development Bank. (2018) *Philippines: By the Numbers*. Retrieved 16 September 2019 from data.adb.org/dashboard/philippines-numbers.

12 Central Intelligence Agency. (2018). *The World Factbook: Philippines*. Retrieved 15 September 2019 from cia.gov/library/publications/the-world-factbook/geos/rp.html.

13 Philippine Consulate General. (n.d.) *The Philippines possesses several competitive advantages*. Retrieved 18 September 2019 from vancouverpcg.org/trade-01.html.

14 Philippine Statistics Authority. (2018). *2018 Annual Labor and Employment Status*. Accessed 15 September 2019 from psa.gov.ph/content/2018-annual-labor-and-employment-status.

15 World Economic Forum. (2018) *The Global Competitiveness Report*.

16 Ibid.

17 World Bank. (2018). *Doing Business 2018: Reforming to Create Jobs*. Retrieved 16 September 2019 from doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf.

With regard to Foreign Direct Investments (FDIs), the Bangko Sentral ng Pilipinas officially registered USD 9.8 Billion in net inflows for 2018, down by 4.4% from the USD 10.3 billion record from 2017.[18] Majority of equity capital placements were mainly channeled to manufacturing, financial and insurance activities, and real estate activities with Singapore, Hong Kong, and Japan as the top partners.[19] With the country's relations with the European Union, three member states ranked in the top ten with Netherlands, Luxembourg, and Germany placing 7th, 8th, and 10th, respectively.[20]

Total external trade amounted to USD 182.15 billion in 2018. The top three major trading partners for the year were People's Republic of China, Japan, and the United States of America.[21] The European Union (EU) immediately followed with a 9.6% share in total trade, valued at USD 17.49 billion. Germany ranked the highest as the Philippines' top trading partner in the EU, followed by the Netherlands, and France. Alternatively, the Philippines is the EU's 41st largest trading partner globally, accounting for only 0.4% of the EU's total trade.[22]

Indeed, the Philippines has made notable progress in recent years. However, much work still needs to be done in order to improve the country's global competitiveness. Substantial economic reforms, especially concerning the ease of doing business as well as the creation of a level playing field have yet to be realized to capitalize on the substantive gains of the Philippines. Furthermore, boosting the Philippine manufacturing sector, deepening the ASEAN integration, and enhancing trade facilitation are all imperative to take the Philippine economy to greater heights.

18 Bangko Sentral ng Pilipinas. (2019). *FDI Registers US$677 million in December 2018; Full-Year Reaches US$9.8 Billion in 2018.* Retrieved 14 September 2019 from bsp.gov.ph/publications/media.asp?id=4967&yr=2019.

19 Ibid.

20 Department of Trade and Industry. (2018) *NET FOREIGN DIRECT INVESTMENTS REPORT*. Retrieved 16 September 2019 from dti.gov.ph/resources/statistics/net-foreign-direct-investments-fdi#graph.

21 Philippine Statistics Authority. (2019). *Highlights of the 2018 Annual Report on International Merchandise Trade Statistics of the Philippines (Preliminary).* Accessed 15 September 2019 from psa.gov.ph/content/highlights-2018-annual-report-international-merchandise-trade-statistics-philippines.

22 European Commission. (2019). *Countries and Regions: The Philippines.* Retrieved 16 September 2019 from ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/.

FOOD AND BEVERAGE ADVOCACY PAPER 2019

INTRODUCTION

Throughout the years, the food and beverage (F&B) industry has consistently maintained its position as one of the key contributors to the manufacturing sector and to the Philippine economy at large. In 2017, the F&B industry contributed 10% to the Philippines' Gross Domestic Products (GDP) and 51.2% to the nominal gross value added (GVA) of the Philippine manufacturing industry in 2017.[1]

While the Philippine Food and Beverage industry is indeed promising, the recent developments in the legislative and regulatory framework prove to have direct and huge impact to the F&B industry performance. In this regard, the European Chamber of Commerce of the Philippines (ECCP) proposes the following recommendations: (1) enforce the provisions of the Ease of Doing Business and Efficient Government Service Delivery Act (EODB-EGSDA) for agencies that require authorization for F&B business; (2) further enhance legislative and regulatory measures on food safety; (3) re-visit the proposed measures on alcoholic beverages and improve its fiscal environment; (4) strengthen further the enforcement of anti-smuggling measures and improvement of the National Single Window (NSW); (5) strengthen protection of geographical indications; and (6) re-establish the regular dialogue between the FDA and the private sector.

1 MarketWatch (2018). Philippines Food and Beverage Market Analysis & Forecast 2018-2019. Retrieved from https://www.marketwatch.com/press-release/philippines-food-and-beverage-market-analysis-forecast-2018-2019---researchandmarketscom-2018-0412#targetText=The%20F%26B%20sector%20accounted%20for,Philippine%20Statistics%20Authority%20(PSA)

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

- The Implementing Rules and Regulations (IRR) of the **Ease of Doing Business** and Efficient Government Service Delivery Act of 2018 or Republic Act 11032 was signed last 17 July 2019.[2]
- In 2017, the government launched **TradeNet**, an online platform established as the operating system for all issuances of trade permits and other required documents related to trade facilitation. TradeNet also functions as the country's National Single Window.[3] The TradeNET connection to the ASEAN Single Window (ASW) has been successfully completed by the first quarter of 2018. The Philippine Bureau of Customs also joined the 2nd round end-to-end test with Myanmar and other ASEAN Member States in July and August 2019.[4]
- On 20 August 2019, the House of Representatives approved the proposed alcohol tax hike, or House Bill (HB) 1026, on third and final reading. The said bill seeks to raise additional revenues to fund the Universal Healthcare Program of the Philippine government; to increase the excise tax rates to further discourage and reduce the consumption of alcoholic products; and to address the perceived inequity on the excise tax collections on alcohol and tobacco products.
- In recent months, the Food and Drug Administration (FDA) rolled out a number of issuances including FDA's mandate on the use of aluminum lake colours in the country (FDA Advisory No. 2019-037, Draft Circular concerning lake colors), among others.
- Earlier in 2019, experts re-examined 'Note 161'[5] and found a new compromise on how to recognize and respect regulatory differences on sweeteners while not hampering international harmonization.[6]
- In November 2018, The Department of Agriculture (DA) inked a Memorandum of Understanding (MoU) with the Intellectual Property Office of the Philippines (IPOPHL) in order to protect agricultural products from distinctive geographical regions.[7]

2 Philippine News Agency (2019). IRR of Ease of Doing Business law signed. Retrieved from https://www.pna.gov.ph/articles/1075277.

3 DTI (2018). *TradeNet in Prep Stage for Launch by Midyear 2018*. Retrieved 19 July 2018 from https://www.dti.gov.ph/media/latest-news/27-main-content/emb-news/11564-tradenet-in-prep-stage-for-launch-by-midyear-2018

4 Padin (20 July 2019). Philippine Star: Customs gears up to join the ASEAN Single Window.

Retrieved from https://www.philstar.com/business/2019/07/20/1936149/ customs-gears-join-asean-single-window#1gtv8caR5LrC3409.99

5 This allowed for national exemptions to harmonizing with a Codex standard on sweeteners.

6 Food and Agriculture Organization (2019). Bridging differences on sweeteners. Retrieved from http://www.fao.org/fao-who-codexalimentarius/news-and-events/news-details/en/c/1190696/#targetText=For%20more%20than%20a%20decade,a%20Codex%20standard%20on%20sweeteners.&targetText=CCFA%20will%20continue%20considering%2-0the,in%20a%20given%20food%20category.

7 Ignacio (26 November 2019). Business World: DA, IPOPHL plan to protect distinctive produce. Retrieved from https://www.bworldonline.com/da-ipophil-plan-to-protect-distinctive produce/#targetText=DA%2C%20IPOPHL%20plan%20to%20protect%20distinctive%20produce&targetText=THE%20Department%20of%20Agriculture%20(DA,products%20from%20distinctive%20geographical%20regions.

ADVOCACY RECOMMENDATIONS

1. Improvements on the ease of doing business in the food and beverage industry

While the Philippine government has made great strides in improving the ease of doing business, bottlenecks in terms of business facilitation remain. For the Food and Beverage industry, one of the long-standing issues is the long lead time on the issuance of permits such as License to Operate (LTO) and Certificate for Product Registration (CPR). For instance, in 2017 through mid-2019, LTO, which companies have to accomplish first before applying for CPR takes at least three months to obtain, while the process using the e-registration for CPR usually lasts for more than four to six months. Most of F&B industry members share such challenges on operational delays in putting-up new or expanding businesses, losing opportunities to manufacture and export F&B to neighboring countries, which clearly impede the growth of the industry.

In addition, the FDA cites incomplete requirements and inconsistent entries from the F&B industry applicants as reasons for application denials and consequent delays in the registration process. The FDA encourages the F&B industry to address these concerns, and aim for getting the submissions right the first time.

Also, according to the FDA, the delay is caused by an insufficient number of employees and infrastructure coupled with the increasing volume of registrations due to the country's increasing economic growth.[8] In an attempt to improve business facilitation, several FDA issuances were rolled out including the migration of LTO registrations to an online platform (FDA circular No. 2016-004)[9]; the adoption of risk-based classification for food establishments and products institutionalized by Administrative Order (AO) No. 2014-0029 ; and the facilitation of e-registration of CPR for low-risk food products implemented by Circular No. 2014-029[11]. While there have been positive developments and commendable initiatives in recent years, more work still needs to be done to ensure the efficiency of the operations in the F&B industry.

In line with the government's thrust to enhance the competitiveness of the business environment in the country, it is necessary to streamline business processes and remove any unnecessary bureaucracy that can deter potential investors and businesses from operating in the Philippines. To this end, the ECCP advocates for the **amendment of FDA Circular No. 2016-007**[12], which requires all food establishments to report all sources of raw materials used in the manufacturing of all prepackaged processed foods regardless of their respective risk classification. Further, the Chamber recommends for the FDA to consider the **'LTO listing' approach** wherein raw materials need not secure individual CPR but make use of the LTO application route to register the raw materials that will be imported or distributed under the approved LTO. The Chamber also recommends for the FDA to consider that only new or 'novel' food ingredients are required to secure CPR. All other raw materials that are listed under Codex and other internationally approved ingredients (e.g., EU, US, Japan) need not be evaluated and approved through the issuance of CPR.

8 Ibid.

9 FDA (2016). *Procedure on the Use of the New Application Form for License To Operate (LTO) thru the Food and Drug Administration (FDA) Electronic Portal (E-Portal).* Retrieved 4 September 2018 from https://ww2.fda.gov.ph/attachments/article/330042/FDA%20Circular%20No.%202016-004.pdf

10 DOH (2014). *Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, and Other Food Products, and For Other Purposes.* Retrieved 4 September 2018 from https://ww2.fda.gov.ph/attachments/article/194723/AO2014-0029%20-%20Rules%20and%20Regulation%20on%20the%20Licensing%20of%20Food%20Establishement.pdf

11 FDA (2014). *Procedure for the Use of Electronic Registration (E-Registration) System for Raw Materials or Ingredients and Low Risk Prepackaged Processed Food Products.* Retrieved 4 September 2018 from https://ww2.fda.gov.ph/attachments/article/209495/FDA%20Circular%20No.%202014-029.pdf

12 FDA (2016). *Notification of Sources for Raw Materials, Low Risk, Medium Risk and High Risk Prepackaged Processed Food Products.* Retrieved 4 September 2018 from https://ww2.fda.gov.ph/attachments/article/343494/FDA%20Circular%20No.%202016-007.pdf

Moreover, the ECCP recommends the **government agencies' strict compliance with the provisions of the Ease of Doing Business Law to further address inefficiencies in applications, releasing of goods**, among others. Specifically, the Chamber hopes that the prescribed 3-7-20 timeline rule of the EODB would be observed, ensuring that the **License to Operate and Certificate for Product Registration will be processed within 20 working days**.

Additionally, in response to the FDA's appeal to the private sector for improved compliance with application requirements, the ECCP Food and Beverage Committee commits to strengthen its capacity building initiatives. In view of recent industry developments and the Committee's thrust on intensified capacity building, the ECCP aims to provide a platform for the sharing of best practices and industry updates through workshops, learning sessions, and the issuance of the ECCP Handbook on Philippine Food laws and Regulations, among others.

2. Further enhancing food safety measures

Earlier this year, the Food and Drug Administration (FDA) released Advisory No. 037 series of 2019 which sought to clarify the use of color additives in food products. Moreover, a draft FDA Circular was also previously released on the guidelines on the registration of food products, including raw materials and food ingredients, containing aluminum lake colors, and as such as food additives for further processing.

In light of such developments and to further ensure food safety, the ECCP strongly recommends the strict observance of the Codex Alimentarius, the Food Safety Act of 2013, and post-market surveillance. We also urge the FDA to uphold and defer to the expert opinion of the Joint FAO/WHO Expert Committee on Food Additives (JECFA) and the CODEX Committee of Food Additives Working Group (CCFA-WG). The ECCP and its Food and Beverage Committee propose that only items in the white list should be allowed. Otherwise, such directives may undermine the positive work that has been made through the passage of the Food Safety Act of 2013 which the Chamber supported in 2015.

To further ensure strict compliance to the Food Safety Act, the ECCP strongly recommends the continuation of capacity-building measures and the enforcement of post-market surveillance by the FDA in order to protect consumers from unsafe food and beverages resulting from adulterated, parallel imported, expired or erroneously stored products.

3. Improvements to the fiscal environment for alcoholic beverages

Approved by the bicameral conference committee on 10 December 2018, the Universal Health Care Act is a proposal that provides for the automatic enrollment of Filipinos into the PhilHealth, and a full spectrum of health services, from health promotion to prevention, treatment, rehabilitation, and palliative care. Ultimately, this proposal allows for the delivery of free basic services including hospital accommodation, laboratory tests, doctors' professional fees, and medicines.

Among the many efforts to promote the Universal Healthcare agenda is the expanded sin tax law. House Bill No. 1026, as passed in the Congress last 20 August 2019, seeks to raise additional revenues to fund the Universal Healthcare Program of the Philippine government; to increase the excise tax rates to further discourage and reduce the consumption of alcoholic products; and to address the perceived inequity on the excise tax collections on alcohol and tobacco products.

Under the said Bill, distilled spirits, fermented liquors, and wines will be imposed with an ad valorem tax, in addition to the specific tax depending on the volume per category of alcoholic beverage. Similarly, pending before the Senate as of writing time is Senate Bill No. 383, likewise proposing increase in alcohol excise taxes.

While the European business community appreciates the government's effort to advance the Universal Healthcare agenda through this measure, the European Chamber of Commerce of the Philippines (ECCP) hopes that the following be considered:

A. Full and effective implementation of current Sin Tax Law as well as improved tax collection efficiency

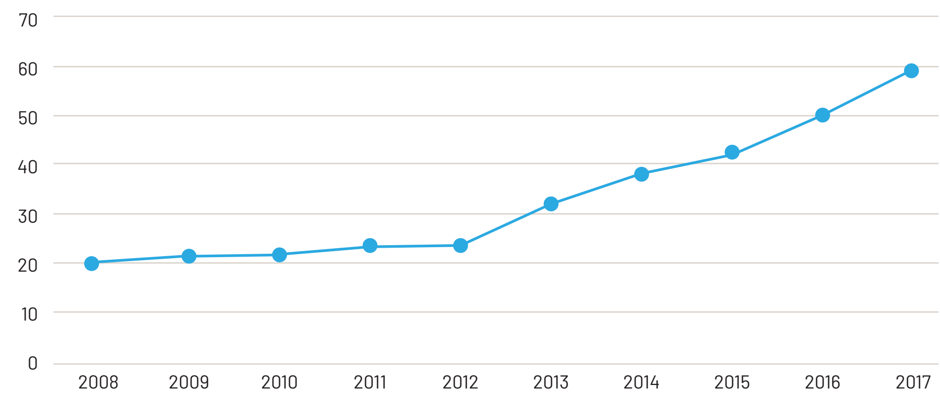
The 2012 Sin Tax Law reflected the Philippines' commitment to abide by international principles and address regulations that deem discriminatory between domestic and imported products. While it has been seven years since the tax scheme was implemented, there remains a massive potential that this measure would largely benefit the country.

Thus, the ECCP highly believes that the Government should **maintain the 2012 Sin Tax Law rates and focus on its full and effective implementation**, while **increasing efficiency in tax collection** and avoiding any further tax hikes. The European alcoholic beverages companies deem the 2012 Sin Tax Reform as encouraging step towards a more sustainable taxation structure.

Philippine Excise Tax on Alcohol Products, 2008-2017

PH Excise Tax Collection on Alcohol Products, 2008-2017		
Year	Collection (in billion pesos)	Growth Rate (in %)
2008	19.72	0
2009	20.69	4.91
2010	21.55	4.13
2011	22.83	5.97
2012	23.54	3.08
2013	32.99	40.19
2014	37.3	13.05
2015	41.83	12.16
2016	49.76	18.95
2017	59.09	18.76

Philippine Excise Tax on Alcohol Products (in billion pesos), 2008-2017



Source: National Tax Research Center, 2018[13]

The Philippines has already benefited from the substantially increased alcohol excise revenues with PHP 41.83 and 49.76 billions collected in 2015 and 2016, respectively. The graph above also shows a generally upward trend in the alcohol excise tax collection since 2012. Should excise taxes be hastily increased, there would also be added incentives for consumers, especially those from lower income groups, to look for cheaper and potentially dangerous illicit products.

Thus, granting the continuous and effective implementation of this tax scheme will provide the Philippine government enough opportunity to maximize the benefits from this measure, assess its efficacy and eventually determine next steps in tax policies.

B. Unrecorded Alcohol Consumption, Illicit Trade, and Health Implications

The 2018 World Health Organization Report on Alcohol and Health reports that there was a downward trajectory of unrecorded per capita alcohol consumption from 2009-2011 to 2015-2017, with an average of 2.4L and 2.1L, respectively. While this downtrend is a positive development, almost one in three liters of alcohol consumed in the Philippines remains unrecorded.[14] This is primarily attributed to prevalent illicit trade in imported alcohol products.

Moreover, several studies show that higher duties and taxes facilitate production, trade and consumption of illicit alcohol products. For instance, Ihrig & Moe's research suggests that increasing tax rates from 9.3% to 10% yields an increase of 1.5% in informal activity.[15]

Similarly, in a 2016 study by the European Union Intellectual Property Office (EUIPO), it was discovered that, after excise tax hikes, the EU spirits sector's sales declined by approximately €740 million, or 4.4% of total revenue due to intellectual property infringements. Additionally, it

13 National Tax Research Center. (2018). A Review of Excise Taxation of Sin Products. Retrieved 1 February 2019. http://www.ntrc.gov.ph/images/journal/2018/j20180304a.pdf.

14 World Health Organisation (2018). Global status report on alcohol and health 2018. Retrieved 25 January 2019. https://www.who.int/substance_abuse/publications/global_alcohol_report/en/

15 Ihrig and Moe (2001). Lurking in the Shadows: The informal sector and government policy. Retrieved 1 February 2019. https://pdfs.semanticscholar.org/368b/3daf50173d631363be7876b9c3ec76a8f35d.pdf

was reported that in 2012, 50 individuals lost their lives after drinking illicit spirits with methanol, while dozens more were afflicted with serious illness in Czech Republic, Slovakia, and Poland due to the same.[16]

Thus, the proposed increase in excise tax on alcohol products provides heightened likelihood that consumers will resort to cheaper and potentially dangerous illicit alcoholic beverage products. The prevalence of unrecorded and illicit alcohol results in significant losses in excise revenue and disruption of the value chain. More importantly, this can threaten the health and well-being of consumers.[17]

This then does not align with the overall health objective of the Bill which seeks to lower alcohol-related harm, nor does it aid the revenue-raising aspect of the legislation. The revenue lost from consumers' shift to cheaper, illicit alcohol products may outweigh the revenue increases that the government is expecting from higher excise taxes. Therefore, the government must exert greater effort to curb down threats to the health and well-being of the consumers, caused by the pervasiveness of informal sector activities.

Also, this situation urgently calls for measures in **improving collecting excise taxes of these unrecorded alcoholic beverages** in the market. In the event that the government pursues excise tax increase, it is crucial that the **strict implementation of the tax shall be done on all imports in the customs**. Furthermore, additional checking and controls should be made available.

C. Efficiency and accountability of earmarking administration to improve health outcomes

Indeed, the funding of health programs is important. Apart from these taxes, there must be measures to ensure that activities are in place to lower alcohol-related harms, and increased efforts to raise awareness on illicit alcohol-attributable health consequences.

It was reported that 47.9% of male and 16.6% of female Filipino drinkers who are 15 years of age and above, are heavy episodic drinkers who consume at least 60 grams or more of pure alcohol on at least one occasion in a month. That is, 12.6% of total the entire Filipino population who are of 15 years of age and above, are involved in heavy episodic drinking.[18]

In this context, an intervention must be made, and funds collected through the current sin tax law should be used for measures that target these harmful drinkers. Moreover, in support of increased accountability, it is imperative that the final version of the law states that the **collected funds shall be allocated completely to the promotion and the enforcement of Universal Health Care programs and policies.**

The ECCP supports the government's twin objectives to reduce harmful alcohol consumption and increase excise revenue to fund government programs, particularly on universal healthcare. The existing excise structure has clearly worked in generating additional revenue. There is a risk further reform could lower the current growth rates of excise receipts, providing sub-optimal revenue.

16 Spirits Europe (n.d.). High Tax, Incentive for Illicit Alcohol. Retrieved 1 February 2019. https://spirits.eu/taxation-economy/high-tax-incentive-for-illicit-alcohol

17 OECD. (2016). Fighting the Hidden Tariff: Global Trade without Corruption. Retrieved 1 February 2019. http://www.oecd.org/cleangovbiz/2016-Integrity-Forum-Background-Report.pdf

18 World Health Organization. (2018). Global status report on alcohol and health 2018. Retrieved 25 January 2019. https://www.who.int/substance_abuse/publications/global_alcohol_report/en/

If the government was looking to reform the excise system for spirits, **focusing on the specific rate** rather than the ad valorem rate would generate additional revenue, in addition to increasing compliance. In this case, the following are hereby proposed, specifically addressing the Department of Finance's position contained in Senate Bill No. 383.

On Distilled Spirits

The tax on spirits should gradually move to the global best practice of a fully specific tax structure that taxes based on alcoholic content. This would enhance and simplify tax collection and administration, and harmonize the spirits tax structure with other types of alcoholic beverages. Maintaining the current 20% ad valorem rate while focusing on increases to the specific component would support efficient tax forecast for both the government and the taxpayers, as well as increase the government's total revenue.

Net Retail Price

Senate Bill No. 383 proposes minor administrative amendments to the provisions on "Net Retail Price" (NRP). The ECCP supports the further clarification provided to NRP, which is used as the basis to determine tax liability of manufacturers or importers. We recommend the publication of the Bureau of Internal Revenue's (BIR) price survey as producers have no control and hence ability to accurately assess the retail price of products sold at supermarkets or other retail outlets. Clarification would enable taxpayers to more easily and accurately calculate their tax liability. Thus, we further recommend the following:

- Publishing BIR's price survey every January and July (biannually);
- Clarifying the methodology to determine the NRP from the price survey (e.g. whether it is based on the average price instead of the highest price of the survey outlets, how the surveyed supermarkets are selected, etc.);
- The latest BIR's price survey shall be the basis to determine and validate the suggested NRP in the sworn statements submitted after the date of the price survey; and
- With the latest BIR's price survey, the suggested NRP in the importers' sworn statement shall be immediately validated / rejected during the customs clearance procedures.

On Wines

Any introduction of tax based on value is going against the direction and objective to move towards an efficient tax structure that supports administration and enhance revenue forecast and collection.

We note that while the SB 383 recognizes this by maintaining the tax structure for wines, the counterpart House Bill No. 1026 proposes ad valorem tax on wines.

This proposal to introduce ad valorem tax on sparkling wine and still wine, which is only 1% of the total alcoholic beverages markets, would add administrative complexity and require greater resources to conduct price surveys and validate the price declaration.

A stable tax environment is important for the healthy development of legitimate alcohol businesses. Excessive increase could lead to more illicit activities.

The **greater reliance on specific tax** and the **transparency of NRP determination** supports better tax administration and compliance, hence minimizing the potential risk of undervaluation, and maximizing government revenue to augment resources for Universal Healthcare.

4. Enforcement of anti-smuggling measures and improvement of the National Single Window (NSW)

Implement and strengthen measures against illicit trade

The fight against illicit trade has long been ongoing in the Philippines. Several industries, including the food and beverage, have all been affected by the rampant occurrence of illicit trade in the country. As of September 2018, the National Committee on Intellectual Property Rights (NCIPR) has seized a record-breaking P17.9 billion worth of fake and counterfeit goods, exceeding its 2014 seizure of P13.3 billion.[19]

The impact of smuggling activities concerns not only the industry but also the consumers as these smuggled goods and counterfeit products poses health risks to the population. In recognition of the adverse impacts of illicit trade, the ECCP strongly advocates for the enforcement of the National Single Window (NSW) which will not only facilitate easier flow of goods in and out of the country but would also address the lack of coordination between the BIR, Bureau of Customs (BOC) and FDA. Further, the ECCP believes that in order for the country to efficiently address illicit trade, all sectors should participate and cooperate with each other. In this regard, we recommend for the government to tap into Public-Private Partnerships (PPPs) to ensure the proper implementation of anti-counterfeit measures.

Information dissemination and proper capacity building training should also be provided to evaluators of relevant government agencies which will enable them to distinguish genuine products from counterfeit goods. This will allow the government to block forged products from even entering the country, making it easier for the regulatory bodies to monitor and ensure the quality of goods in the Philippines.

5. Protection of Geographical Indications (GIs)

The strengthening of Intellectual Property Rights (IPR) protection and enforcement framework is becoming increasingly important as the ASEAN market of 600 million people increases pressure on their member states to safeguard IPR in their respective jurisdictions and avoid intra-ASEAN movement of counterfeit goods.

Geographical Indication (GI) is a widely recognized form of IPR. It refers to products that have a strong identification with its place of origin due to a given quality, reputation or other characteristics that is essentially attributed to the goods' geographical origin.[20] Aside from combating counterfeiting, the benefits of GI registration are multifaceted. Not only does it help spur economic growth through job generation and increase the products' competitiveness, it also enriches the cultural heritage and reasserts the sense of unity in a community. Further, consumers can be assured that all GI goods are of high quality and safe for their health. Unsurprisingly, more and more countries have acknowledged the benefits of having a GI protection framework. In fact, most ASEAN member countries namely Singapore, Thailand, Vietnam, Cambodia, Lao PDR, Malaysia, Indonesia, and Myanmar have already enacted GI legislation or are in the process of adopting one.

While the ECCP recognizes the initiative of the government to institutionalize a GI framework in the country through the inclusion of GIs as one of the recognized forms of IPR in Section 4 of the Intellectual Property Code of the Philippines (IP Code), a specific legal framework containing action points for their protection along with a concrete definition of **GIs should be further established in the country** to fully maximize the benefits of having a GI registration. To this end, we support and look forward to the release of the Rules and Regulation on GIs being drafted by the Bureau of Trademarks of the Intellectual Property Office.

6. Revival of a regular dialogue between the FDA and the private sector

In the spirit of true public-and private partnership, the ECCP **recommends the revival of the then active dialogue between the FDA and the private sector** which can help boost growth in the industry but also the Philippine economy.

Further, given that European countries are among the top trading partners of the Philippines with food products significantly contributing to the share, we strongly advocate for the creation of a special technical working group (TWG) between the concerned government agencies and the ECCP F&B Committee. The TWG will provide and discuss all upcoming regulations affecting the industry. Through the establishment of the TWG, the ECCP aims to foster transparency and exchange of best practices between the public and private sector in pursuit of enhancing the efficiency of policies and regulations set for the industry.

19 Intellectual Property Office of the Philippines (2018). NCIPR, IPOPHL net P17.9 B in pirated, counterfeit goods - highest in a decade. Retrieved from https://www.ipophil.gov.ph/news/ncipr-ipophl-net-p17-9-b-in-pirated-counterfeit-goods-highest-in-a-decade-breaches-2014s-record-p13-3-b/

20 WIPO. (n.d.). Geographical Indications. Retrieved 6 September 2018 from http://www.wipo.int/sme/en/ip_business/collective_marks/geographical_indications.htm

ASSESSMENT OF 2018 RECOMMENDATIONS

ISSUE	RECOMMENDATIONS	COMPLETED / SUBSTANTIAL PROGRESS	SOME PROGRESS	NO PROGRESS / RETROGRESSION
Business Facilitation	Promote the Ease of Doing Business in the Philippines, particularly for the government agencies that require authorization from Food and Beverage Industry.		On 28 May 2018, President Duterte signed Ease of Doing Business and Efficient Government Service Delivery Act of 2018 into law. The new law is expected to cut red tape, simplify requirements and streamline procedures for government transactions. More recently, the Implementing Rules and Regulations (IRR) of the Ease of Doing Business and Efficient Government Service Delivery Act (EODB-EGSDA) of 2018 or Republic Act 11032 was signed last 17 July 2019.	
Improvement in the Authorization Process and Ways-of-Working with Regulators	Address inefficiencies in the issuance of LTO and CPR and other marketing permits.		In one of the 2019 ECCP F&B Committee meetings, FDA representative mentioned that additional human resources were employed by the FDA. ECCP welcomes this news, and is hopeful for an efficient delivery of service to the F&B industry sector. The FDA also mentioned that the Agency is also working towards complying with the IRR of the EODB-EGSDA.	
	Enforce post-market surveillance		In 2017, with support from the European Union, the Philippines launched its own Rapid Alert System, known as PhilsRASFF, intended to aid the regulatory bodies in quality control.	
	Revival of a regular dialogue between the FDA and the private sector.		The ECCP has been invited to the recent FDA *Kapihan* Sessions, where it was announced that FDA welcomes a regular dialogue with the industry.	
Improvements to the Fiscal Environment for Alcoholic Beverages	Reduce the excise tax on champagne and sparkling wines.		On 20 August 2019, the House of Representatives approved the proposed alcohol tax hike, or House Bill (HB) 1026, on third and final reading. The said bill was transmitted to the Senate on 22 August 2019.	

Enforcement of Anti-Smuggling Measures and Implementation of the National Single Window	Operationalize a National Single Window that allows full alignment between the BOC and key government agencies.		The TradeNET connection to the ASEAN Single Window (ASW) has been successfully completed by the first quarter of 2018. The Philippine Bureau of Customs also joined the 2nd round end-to-end test with Myanmar and other ASEAN Member States in July and August 2019.	
	Train FDA and BOC staff so that they can identify counterfeit products.		The BOC is partnering with the Philippine Coast Guard (PCG) to strengthen measures against counterfeit products. Further, in 2017, the FDA released circular no. 2017-002 which mandates the Agency to conduct seminars and trainings on counterfeit products open to all stakeholders.	
Protection of Geographical Indications (GIs)	Implement a GI protection framework.		In November 2018, The Department of Agriculture (DA) inked a Memorandum of Understanding (MoU) with the Intellectual Property Office of the Philippines (IPOPHL) in order to protect agricultural products from distinctive geographical regions.	

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