

## industry views

### MINTEL TALKS TRENDS IN SUGAR

“Sugar reduction is a trend among most consumers (84%), with millennials leading the charge citing more reasons than older consumers for following the health trend, according to Mintel.”

You can read the whole article [here](#).

Comment by Ms. Florence M. Sevilla, Senior Agribusiness Specialist, CFA-UA&P

The top driving factor is diet. Consumers are equally concerned in eliminating sugar as artificial sugar giving rise to stevia and monk sugar.

Leave your comments [here](#).

### SHORTAGE OF MIGRANT LABOR HITS THAILAND

“Many sectors, including construction, fisheries and agriculture face labor shortages due to the new labor law. More than five million migrants are working in Thailand, but only half are documented.”

You can read the whole article [here](#).

Comment by Ms. Annette Galvez-Dacul Agribusiness Specialist, CFA-UA&P

Slow labor growth has affected Thailand with very low unemployment rates. Young Thais prefer urban work.

Leave your comments [here](#).

### FRANCE TO RESTRICT USE OF PALM OIL

“France will restrict the use of palm oil in producing biofuels to reduce deforestation, Environment Minister Nicolas Hulot said early June.

Special tax bills have been tabled on the use of palm oil in food, citing environmental damage caused by plantations. Indonesia and Malaysia, the world’s two largest palm oil producers, opposed such a tax.”

You can read the whole article [here](#).

Comment by Prof. Rolando T. Dy, Ph.D Executive Director, CFA-UA&P

The Philippine palm oil industry is not guilty of destroying forests to plant oil palm. Most of the forests have been cleared by the kaingin system. Some irresponsible loggers in the past were also guilty. The European view of oil palm as forest destructor has been carried to the Philippines. This is unfortunate as the country imported almost one million tons of palm oil in 2016.

Leave your comments [here](#).

### VIETNAM: LOWER PEPPER PRICES, A CAUSE FOR CONCERN

“Industry leaders have called on anxious pepper farmers to remain calm and refrain from selling their produce at low prices, saying the current price plunge is most likely a fleeting phenomenon. Vietnamese pepper exports now account for nearly 50 percent of global output.”

You can read the whole article [here](#).

Comment by Prof. Rolando T. Dy, Ph.D Executive Director, CFA-UA&P

Commodity prices go through price cycles. Growers must maintain competitiveness with lower cost and better quality. Farmers must save excess profits in good times as buffer for bad times.

Leave your comments [here](#).

### FEDERAL LAND DEVELOPMENT AUTHORITY

“Federal Land Development Authority (FELDA) 33 percent stake, as the single largest shareholder in Felda Global Ventures Holdings Bhd (FGV) is now represented with the appointment of three new directors (New Straits Times, July13, 2017). FGV is the world’s largest palm oil producer and oil palm plantation operator, based on planted hectares.”

You can read the whole article [here](#).



Click the photo to view the data  
Photo credits: shutterstock, 123rf, freepik

Comment by Prof. Rolando T. Dy, Ph.D Executive Director, CFA-UA&P

Felda was the most successful public land settlement in the world. Since 1990, it no longer recruited new settlers. It was a key rural poverty alleviating agency that combined private plantation management with state-owned lands.

Leave your comments [here](#).

### SINGAPORE TURNS VACANT SPACE INTO URBAN FARMS

“Resource-scarce Singapore is turning vacant pockets of land into space for urban farming as the island city strives to ease its reliance on imported food.”

You can read the whole article [here](#).

Comment by Prof. Rolando T. Dy, Ph.D Executive Director, CFA-UA&P

There are many vacant lots in Metro Manila, Cebu and Davao. The question is how the entrepreneur can lease these lands. Logistics for fresh produce is getting high due to severe traffic conditions.

Leave your comments [here](#).

# Agriculture Performance in 2016 and Scenarios in 2017<sup>1</sup>

Center for Food and Agri Business<sup>2</sup>  
University of Asia and the Pacific

**A**griculture<sup>3</sup> performance decreased by 1.3 percent in 2016. Most industries registered declines in performance due to unfavorable weather condition.

The leaders were livestock, poultry and agri activities and services.

The commodity-specific highlights are presented below.

**Palay.** The main staple of the country suffered another setback in production in 2016 mainly due to the contraction in area harvested of rain-fed farms in the first quarter coupled with two strong typhoons (Karen and Lawin) in the last quarter. The

contractions were caused by the prolonged effects of the dry spell that started in 2015. The reduced areas were largest in Western Visayas, Cagayan Valley, Soccsksargen and Central Visayas.

**Corn.** Corn production similarly declined over the year due to the El Niño weather disturbance, which caused contractions in area harvested. White corn suffered most in terms of percent decrease in area harvested.

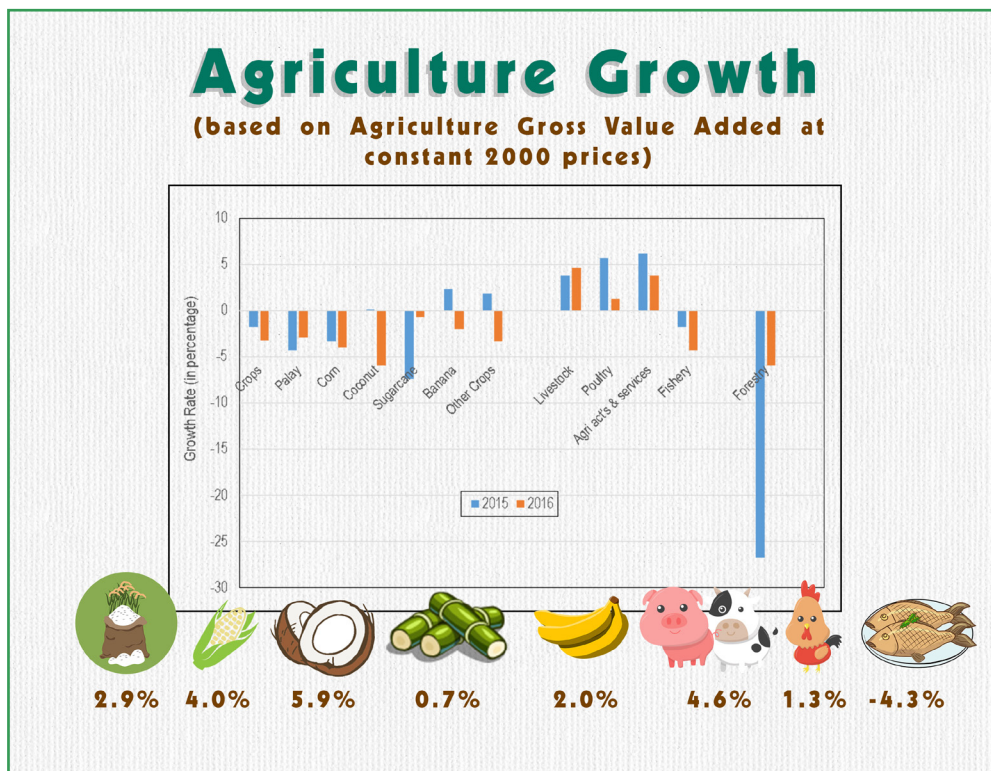
The largest area reductions were in Cagayan Valley, Soccsksargen, ARMM, and Western Visayas. The almost 11 percent production growth in the third quarter, which is the main harvest season, could not overturn three quarters of negative performance.

**Coconut.** The El Niño dry spell from 2015-2016 also negatively affected coconut production during the two years though impact was more severe in 2016 as production in all quarters posted negative growth. Based on United Coconut Association of the Philippines (UCAP) estimates, copra production dropped to 2.05 million tons, which resulted to a contraction in the year's volume of coconut oil and other coconut-based exports with the lack of raw material supply.

**Sugarcane.** Sugarcane sector's contribution decreased by 0.7 percent in 2016. The reduction was due to the dry spell in the early part of the year that lowered sugar production.

**Banana.** Production dropped by two percent in 2016 as against the 2.2 percent growth a year ago. Output declines occurred up until the third quarter of the year due to the effects of the drought especially on farms in Mindanao (e.g. Davao and SOCCSKSARGEN). Recoveries were noted in the fourth quarter with output growth of 1.6 percent.

**Other crops.** Production also slid in 2016 by 1.8 percent from 2.1 percent in 2015. Declines were noted in most "other crops" such as coffee, mango, peanut, sweet potato, tomato, garlic, onion, cabbage, calamansi, rubber and others, attributed



Click the picture to see the tables

<sup>1</sup> Paper presented during the Mid Year Food and Agri Business Conference with the theme "Philippine Food and Agribusiness: Bright Spots and Opportunities" held on July 13, 2017 at UA&P, Pasig City.

<sup>2</sup> Senen U. Reyes, Senior Management Specialist, Florence M. Sevilla, Senior Agribusiness Specialist, and Ditas R. Macabasco and Marie Annette G. Dacul, Agribusiness Specialists. Dr. Rolando T. Dy, Executive Director, provided valuable comments.

<sup>3</sup> Real gross value added (GVA) in agriculture, fishery and forestry.

mainly to unfavorable weather conditions (i.e., drought). Nonetheless, crops like pineapple, tobacco, abaca, mongo, cassava and eggplant managed to post increases.

**Livestock.** The livestock sector continued to improve with a 4.6 percent growth in 2016. Hog production gained a 5.3 percent increase during the period. Increasing demand and favorable farmgate prices resulted to increase in number of hogs slaughtered, especially in Ilocos Region, Central Luzon and Calabarzon. Expansion of commercial farms were also reported in Ilocos and Davao provinces.

The carabao and cattle industries maintained a positive production growth with 1.8 percent and 1.3 percent, respectively. This was further boosted by the increase in local demand for beef and carabeef in the last quarter of the year. Growth regions for cattle were Western Visayas, NIR, Eastern Visayas and Northern Mindanao.

Goat production declined in 2016 due to declining production and lower number of animals slaughtered during the period. The dairy industry sustained its growth with a 3.8 percent production expansion in 2016 that can be attributed to weather conditions favorable to milking animals.

**Poultry.** The poultry industry grew by 1.3 percent in 2016. Broiler integrators had been conservative in its expansion and improvement in stocking capacity and broiler loading. This resulted to minimal increase of 0.8 percent for chicken production in 2016. Chicken egg production improved with a 3.9 percent growth attributed to increasing layer inventory.

**Fishery.** Production decreased by 4.3 percent in 2016 from the 1.8 percent drop in 2015. The negative growth was primarily due to unfavorable weather conditions, effects of typhoons and lesser fishing days. The biggest contributor to total output was still the aquaculture. All except for milkfish registered declines in production.

## OUTLOOK FOR 2017

The UA&P-CFA revised its earlier growth forecast for 2017 upward to 3.5 to 4.5 percent

mainly because of better weather conditions. On the other hand, the government has set its growth target at 2.5 to 3.5 percent based on the Philippine Development Plan.

**Palay.** Production in 2017 is expected to recover from the negative effects of the El Nino over the last two years. PAGASA's climate outlook as of May 31, 2017 of a likely ENSO-neutral and weak El Nino for the year will bring good growth. Generally near normal rainfall conditions in most parts of the country until November 2017 will also sustain good

production for the rest of the year. There will be moderate growth barring the occurrence of severe tropical storms in the second semester though total production may still fall short of the highest level reached in 2014.

The effect of Executive Order No. 23 issued in May 2017 that extended the tariff concessions to reduce MFN rates on certain agricultural products per EO 190 of 2015 in exchange for the waiver on the rice QR which expired last June 30, 2017 will have to be considered. This makes it more imperative

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to have the rice roadmap approved and implemented to institutionalize the industry's plans and programs over the long-term and guide industry stakeholders towards a concerted development effort.

**Corn.** The generally fair weather and near normal rainfall conditions for most of the year may allow production to not only overcome two years of negative performance but post double-digit growth with expansion in area harvested particularly during the first semester. This year's production may surpass the highest level posted in 2014.

Demand from the poultry and livestock sectors and the expansion of areas planted to Bt corn hybrids will continue to drive industry growth. Moreover, the Department of Agriculture is looking at surplus production and the potential of yellow corn exports to Asian destinations.

**Coconut.** A significant recovery is seen in production as the coconut tree slowly recovers from the effects of the prolonged dry spell. As in other crops, the good weather condition and near normal rainfall will help as recovery usually occurs one year after the El Niño phenomenon. The UCAP estimates copra production in 2017 to reach 2.24 million metric tons, which is almost the same as the 2015 level. However, there is still a lot to do for the new PCA administration in pushing the programs of the agency to increase production of the raw material inputs for the value-adding/processing segment of the industry.

**Sugarcane.** Output grew by 1.0 percent during the first quarter of 2017. It is projected to grow at five percent during the first half of 2017. Enough rainfall and

increase in fertilizer application will contribute to the favorable growth especially in Negros Occidental. The estimated production of 2.25 million tons is projected to be achieved for crop year 2016/2017. Overall growth

## The global investments in the food-and-agribusiness sector have grown by three times from 2004 to more than US\$100 billion in 2013.

is projected at 6.3 percent in 2017. Block farming initiatives will help boost sugarcane production in major producing areas.

**Banana.** Production grew by 2.5 percent in the first quarter. Growth will be sustained in the succeeding quarters, with full-year growth seen at 2.5 percent to 3.5 percent with better weather conditions.

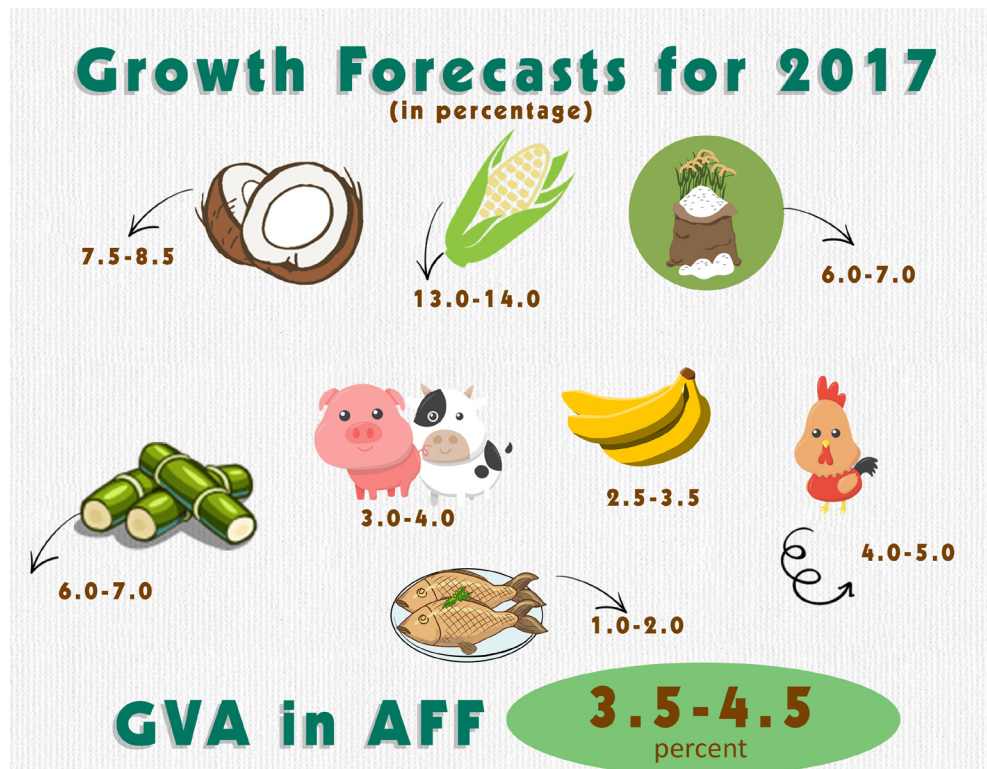
**Other crops.** A growth of 1.7 percent was noted in the first quarter. Recoveries are expected for most crops as weather conditions improve. For the whole of 2017,

growth is projected at two percent to three percent.

**Livestock.** The sector slightly increased during the first quarter with a 3.2 percent growth. Hog production, the highest contributor, managed to move up by 3.5 percent. Growth areas were Central Luzon, Bicol, Central Visayas and Northern Mindanao. The cattle sector also grew by 1.3 percent due to increasing beef demand. However, the increasing cost of inputs and problems on diseases will continue to hamper production growth of the sector. Increasing prices might slowdown total demand as consumer would tend to shift to cheaper source of protein. The problems on diseases resulted to cut down in production especially among backyard hog raisers. Meanwhile, the bright spots for carabao production are seen in Cagayan Valley, Calabarzon, Mimaropa, Bicol, Visayas regions including NIR and Northern Mindanao. Overall growth projection will be at 3.2 percent in 2017.

**Poultry.** The poultry industry recorded a growth of 1.9 percent during the first quarter of 2017. The industry is projected to grow by five percent in the first half and a growth of four percent is expected in the second half as integrators continue to expand. The bright spots and opportunities will remain to be in the eating out demand of the fastfood industry and the increasing demand for rotisserie chicken. Production expansion are expected in areas of Central Luzon, Calabarzon, Bicol, Central Visayas and Northern Mindanao.

The increasing cost of inputs will continue to be the limiting factor for production expansion among integrators. Commercial broiler



raisers will continue to contribute to total sector's growth given the continuous availability of day old chick supply that encouraged increase in stocking density among raisers. Growth is projected at 4.5 percent in 2017.

**Fishery.** Output grew by 0.7 percent in the first quarter of 2017 due to good quality fingerlings, proper usage of quality inputs, increased fishing efforts. Overall, production is expected to increase provided there is favorable weather conditions, adequate supply of quality seed, better level of productivity and abundant catch.

### POTENTIAL OPPORTUNITIES IN FOOD AND AGRIBUSINESS

Based on McKinsey Quarterly (July 2015), the global investments in the food and agribusiness sector have grown by three times from 2004 to more than US\$100 billion in 2013. However, finding the right investment opportunity in this sector is no easy feat.

In the report of McKinsey entitled "Ag 2020: Growth and investment opportunities in food and agribusiness" (2013) as cited by Goedde, et al. (July 2015), hot spots have been recognized where investments in food and agribusiness is likely to focus. It defines high growth segment as opportunities with expected growth of more than seven percent in the next five to ten years. Under medium segment are those with projected growth between three to seven percent. The low segment covers opportunities with less than three percent expected growth. Opportunity, however, does not come without risks. Thus, the opportunity matrix it presents likewise measures the composite risk index which was based on four types of risk assessed – execution, geopolitical, regulatory and market, and technological.

Let us focus on the high growth segment. The only potential opportunity with relatively lower risk is precision agriculture. Further, attractive possibilities with low to moderate risk are aquaculture and agricultural machinery. Opportunities with moderate risk include bio-pesticides, information services, fruits and vegetables in Middle East and North Africa, GMO seeds and diagnostic products for food safety. On the other hand, the possible

prospects for investors with relatively high risk are input distribution in developing world, agricultural products for nontraditional use, irrigation, storage infrastructure in emerging markets and microbial fertilizers.

However, food and agribusiness remains to be complex and idiosyncratic, according to Goedde, et al. (July 2015). Thus, the identified investment considerations need thoughtful approach and sector-specific capabilities. Five approaches are proposed that can increase investors possibilities to attain attractive returns as well as address global needs. Investors should deepen (entire) value-chain understanding, recognize the importance of emerging markets (include awareness in social and political constraints), take a through-cycle approach (i.e. investment horizon of more than seven years), develop commercial relationships (with suppliers, major multinational companies, and strategic investors) and develop operational capabilities in agribusiness.

Today, the middle class of China is the largest global market. By 2022, it will comprise 75 percent of its urban population earning US\$9,000 to US\$34,000 annually per household (McKinsey, 2013) . That is estimated to be around 700 million people. Chinese business groups are moving overseas to seek for agricultural commodities to ensure food sources. In 2016, the Asean supplied about 17 percent (US\$18 billion) of the agri-food imports of China. The key suppliers were Thailand (US\$6.2 billion), Indonesia (US\$4.1 billion), Vietnam (US\$3 billion) and Malaysia (US\$2.6 billion). The Philippines was distant fifth (US\$618 million) (Dy, June 2017).

The key products were palm oil (US\$7 billion); fruits and nuts (US\$5.9 billion); natural rubber (US\$3.4 billion); cassava chips (US\$1.8 billion) and starch (US\$892 million), rice (US\$1.6 billion), cocoa preparation (US\$685 million) and coffee (US\$494 million). Thailand, Indonesia and Vietnam were the most diversified exporters given their focused productivity and diversification strategies. The Philippines is a key supplier of fruits, specifically banana and pineapple. However, it had a minimal share and lagged behind the main Asean agri-based countries.

In the local front, there is potential for agribusiness in the long-term. The commodities with import substitution opportunities include palm oil, coffee, cacao and rubber. At present, the Philippines imports majority of its palm oil, coffee and cacao requirement. Meanwhile, export gains are seen in commodities like rubber, seaweeds and coconut products like coconut water and virgin coconut oil.

The Philippines can also capitalize on the hot spots with high growth potential as identified in the report of McKinsey (2013) such as aquaculture, agricultural machinery, storage infrastructure and microbial fertilizer. Aquaculture is set to be the biggest source of food fish with the plateauing output from capture fisheries. The Philippines accounts for one percent of global fish production wherein half of its production is sourced from aquaculture. It has the opportunity to drive growth with its endowed and underutilized resources. The major farmed fish products of the country are seaweed, milkfish, tilapia and shrimp. The aquaculture products identified with potential investments are grouper, pompano, seabass, snapper and blue crabs.

In addition, there are bright opportunities for the agriculture machinery industry in the Philippines given the farm mechanization projects of the present government. The local market centers on production facilities, factories and market (storage and distribution) development and enhancement. Remarkable progress is expected within the industry especially with official development assistance-supported projects such as the Japan International Cooperation Agency which pledged to help in the PhP1 billion farm mechanization project of the country. The country targets to be at par with Asean neighbors in mechanization level. There are also initiatives to enhance storage infrastructure and promote the use of microbial fertilizer in the country.

It is of strategic imperative that the country addresses scale, quality compliance and reliability to fully benefit from the opportunities. Moreover, competitiveness will depend on support infrastructure such as roads and research and development as well as in the continuity of vision and institution.

## CONCLUSION

The year 2016 has not been good for Philippine agriculture. Agriculture grew by only 0.5 percent in the second half from a negative 3.2 percent in the first half. Overall, the sector slumped by 1.3 percent due to the prolonged dry spell and the series of typhoons (e.g., Lando and Nona in the first quarter, and “Karen” and “Lawin” in the fourth quarter), which heavily impacted on crop and fisheries production.

For 2017, improvements are expected considering the low base in 2016. The UA&P-CFA forecasts growth at six percent for the first half, considering the first quarter growth of 4.9 percent. Full-year growth is projected at 3.5 to 4.5 percent, a significant recovery from 2016.

Under the Philippine Development Plan (PDP) 2017-2022, agriculture is targeted to grow by 2.5 percent to 3.5 percent per year during the period. The key question is how this will help reduce rural poverty from 30 percent of the rural population in 2015 to 20 percent in 2022. (Note: The GDP target is seven to eight percent annually from 2017-2022).

The agriculture growth target will be difficult to attain if the focus will remain on rice only, amidst a backdrop of slowing domestic demand and limited water resources. Rice accounted for about 20 percent of the GVA in agriculture in 2016, or about two percent of GDP. There is need to address the bigger 80 percent - other crops, livestock, poultry and fishery.

Other crops and fisheries host most of the poor. As incomes improve, there will be a tendency to consume less rice and shift to more meat, fruits and vegetables. Eventually, demand for rice will taper off to just about the growth of the population at 1.5 percent

to 1.7 percent. But demand for meat may be tempered by dietary preferences (health and wellness concerns) and supply constraints.

There are low-hanging fruits – coffee, cacao, oil palm and rubber – which the country currently imports. There is also potential for jackfruit especially during the summer season. Considering that there are large areas of idle and under-utilized lands, the need to foster a more favorable environment for investments is important.

Agricultural exports, on the other hand, are projected to grow by nine percent per year from 2017 to 2022 under the PDP. From \$5.1 billion in 2015, the target is to hit \$9.3 billion by 2022. The export target though still lags in comparison to ASEAN neighbors - Malaysia at \$25.4B, Vietnam at \$26.5B, Thailand at \$36.5B and Indonesia at \$39.8B and (WTO, 2016).

There are a lot of opportunities but they are left uncaptured. The government’s thrust to build, build and build (i.e., infrastructure) will have a big impact on agribusiness. But some policies (e.g., moratorium on land conversion, including agro industrial plants) and cabinet members are perceived to be anti-agribusiness.

The Philippines has been enjoying the “demographic sweet spot,” with a larger proportion of young, dynamic working population. “Based on the 2010 population census, about 33.4 percent or 30.7 million Filipinos were below 15 years of age; 60.3 percent were between 15 to 64 years old (comprising the working or productive ages); and 4.2 percent were aged 65 and over” (PDP 2017-2022). There are only two other countries enjoying the same status – Indonesia and India. Such a population structure presents vast market opportunities such as for processed foods.

On the whole, there will be definite

improvements in agriculture especially coming from the series of droughts which severely impacted on sector growth. But the bigger question is how to sustain the gains to hit the 2.5 percent to 3.5 percent growth target under the PDP? Massive smuggling of various commodities from rice to garlic to meat also has to be addressed.

Philippine rural poverty at 30 percent in 2015 was highest among ASEAN peers. The target of 20 percent in 2022 appears “modest”; it would, however, still remain the highest in ASEAN.

Farm productivity and crop diversification are crucial for poverty reduction. ☞

*The key question is how this will help reduce rural poverty from 30 percent of the rural population in 2015 to 20 percent in 2022.*

## food and agri business

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