

Regulatory issues in the Philippine food manufacturing industry

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In terms of gross value added in manufacturing, the food manufacturing industry (FMI) tops the list with about 50 percent of the manufacturing sector's output as of the fourth quarter of 2015 (PSA 2015). While this can already be considered a significant contribution, it would have performed better had its regulatory procedures and processes been more efficient.

This *Policy Note* summarizes the key findings of an assessment of the regulations in the FMI. Using the framework on the regulatory management system (Figure 1), it assesses the current FMI regulatory procedures and processes and identifies gaps and bottlenecks that hamper the efficiency of the said industry.

Specifically, this study covers eight food manufacturing subsectors (FMS) across various scale of business, type of product, and geographical location. These FMS include (1) processed and preserved meat; (2) processed and preserved fish, crustaceans, and mollusks; (3) processed and preserved fruits and vegetables; (4) vegetables and animal oils; (5) dairy products; (6) grain mill

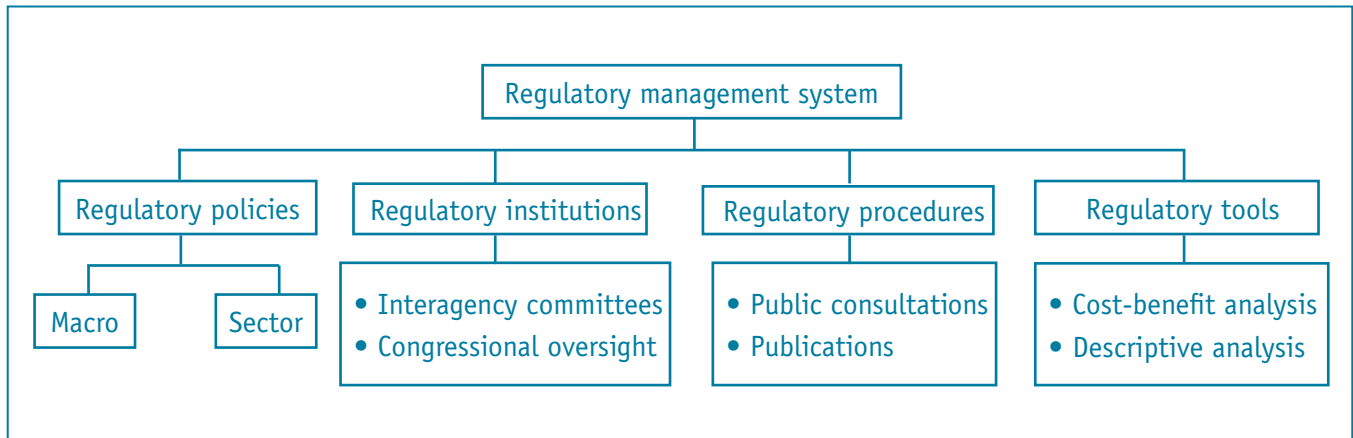
products, starches, and starch products; (7) other food products; and (8) beverages.

Food regulatory policies in the Philippines

In line with the implementation of the Food Safety Act of 2013, the Department of Agriculture and the Department of Health issued Joint Administrative Order 2015-007 specifying the responsibilities of food safety regulatory agencies (FSRAs) and food business operators in the development and enforcement of food safety standards and regulations in the country. The said order mandates the Food and Drug Administration (FDA) to ensure food safety through the development and issuance of authorizations that cover establishments and facilities engaged in the production and distribution of food products. All food establishments are mandated to comply with the regulatory requirements related, but not limited, to the regulations mentioned in Table 1.

In addition to these regulatory requirements, food establishments also have to secure permits and clearances from concerned regulatory agencies depending on their classification. For instance,

Figure 1: Elements of a regulatory management system in the Philippines



Source: Llanto (2015)

importers of processed foods have to obtain a license to operate from the FDA. Meanwhile, the Bureau of Animal Industry issues a certificate of accreditation to importers of meat and meat products and the Bureau of Plant Industry for fresh fruits and vegetables. Exporters are also expected to do the same before they can export to other countries. Note, however, that these requirements may vary at various stages of the supply chain depending on the type of FMS involved.

Bottlenecks in the Philippine regulatory processes

Generally, the regulatory policies mentioned earlier concern three major stakeholders, namely, the government sector, the FMI, and the consumer group. Representatives from each group were interviewed and consulted to understand the regulatory environment of the FMI and identify the regulatory bottlenecks for each FMS.

Limited funds and human resource in the FSRAs

The government incurs costs in enforcing regulations on different sectors. Specifically, those costs cover the following activities undertaken by the regulator (OECD 2008):

1. The administration of the regulations, including the provision of information to businesses, the recruitment and training of government staff, and the processing and approval of licenses and product applications
2. The compliance verification, including the conduct of inspections and audits
3. The enforcement of the regulations and, if applicable, prosecution

In the case of the Philippines, the Department of Budget and Management (2016) estimates that the government spends around PHP 2.2 billion in the implementation of regulatory policies. This figure, however, is only a conservative estimate of the implementation cost as it only covers the FSRAs identified in the Food Safety Act.

The issue is whether those FSRAs have sufficient resources to function effectively. Unfortunately, representatives from FSRAs claim that the scarcity of funds and the limited number of qualified human resources are leading constraints on their effectiveness as regulators. It appears that inadequacy of resources becomes a stumbling block in providing efficient regulatory services to the FMI.

Table 1. Basic regulatory requirements for FMI

Regulatory Activity	Legal Basis
1. Licensing	<ul style="list-style-type: none">• Department of Health (DOH) Administrative Order No. 2016-0003: Guidelines on the Unified Licensing Requirements and Procedures of the Food and Drug Administration (FDA)• FDA Circular No. 2016-004: Procedure on the Use of the New Application Form for License to Operate thru the FDA Electronic Portal
2. Registration	<ul style="list-style-type: none">• DOH Administrative Order No. 2014-0029: Rules and Regulations on the Licensing of Establishment and Registration of Processed Food and Other Food Products, and for Other Purposes• FDA Circular No. 2014-029: Procedure for the Use of Electronic Registration for Raw Materials or Ingredients and Low-Risk Prepackaged Processed Food Products
3. Labelling	<ul style="list-style-type: none">• DOH Administrative Order No. 2014-0030: Revised Rules and Regulations Governing the Labelling of Prepackaged Food Products

Source: Authors' compilation

While the FSRAs earn income from the implementation of regulatory policies, particularly through the collection of permit fees, registration fees, and fines and penalties, these revenues are remitted to the Bureau of the Treasury.¹ This is the general rule unless Congress stipulates in the law governing an agency that it can retain all or a portion of those fees to augment its operating budgets. In the case of the FSRAs, they depend on the annual budgetary appropriation made by Congress for their operating budgets.

Compliance costs for FMI

Interviews and focus group discussions with several firms in the FMI indicated that the cost of complying with government regulations are not a source of concern to them. In fact, those compliance costs have

¹ Section 5 of the General Provisions of the 2017 General Appropriations Act states that "as a general rule, all fees, charges, assessments, and other receipts or revenues collected by departments, bureaus, offices, and instrumentalities of the National Government shall be deposited to the National Treasury as income of the General Fund pursuant to Section 44, Chapter 5 of Executive Order 292 s. 1987 and Section 65 of Presidential Decree 1445." Moreover, the section on the Use of Fees and Income in the National Budget Circular states that "agencies authorized by specific laws may use fees or regular income or excess income, but still subject to the usual budgeting rules and regulations (which include that of the Department of Budget and Management and other legislative bodies)."

a negligible share in their operational costs. They are likewise willing to take the necessary steps to comply with national and international regulations affecting their sector. What they complain about is the delay in the processing and issuance of clearances, permits, or required certifications by FSRAs. Such delays give rise to marketing and opportunity losses, which seems to be true regardless of the size of the firm concerned.

Aside from government regulatory compliance, FMIs also need to conform to the requirements of their client companies. This may entail both local and international regulatory procedures and even those required internally by the client company. During consultations, they identified instances wherein their client companies, particularly the multinational companies, even have more rigid and sophisticated requirements compared to FSRAs. They also conform to additional requirements (e.g., additional training, infrastructure enhancements, food safety tests, adherence to current technologies and equipment, among others) to transact and sustain business with their clients.

Lack of rights awareness of the consumers

It seems that indifference and nonaction pervade the consumer group when it comes to ensuring that



In terms of gross value added in manufacturing, the food manufacturing industry tops the list with about 50 percent of the manufacturing sector's output as of the fourth quarter of 2015. While this can already be considered a significant contribution, it would have performed better in the absence of regulatory bottlenecks. One of these bottlenecks is the limited resources of the food safety regulatory agencies, specifically the Food and Drug Administration (FDA), to implement regulatory policies in the industry. This study urges the government to improve the operational capacity and effectiveness of the FDA by providing it with adequate human resources and modern facilities (Photo by Gizelle Manuel/PIDS).

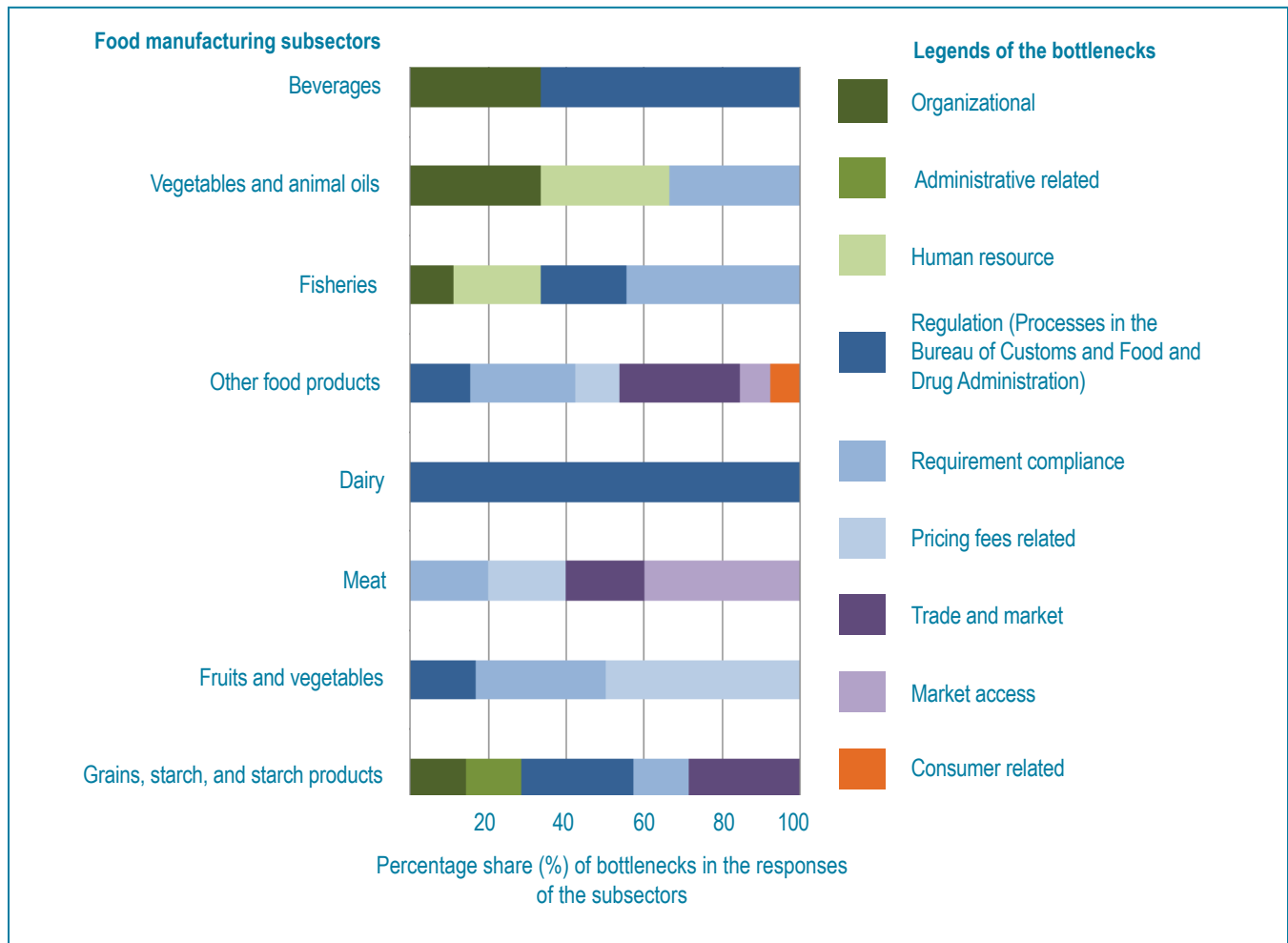
food manufacturers uphold their right to food safety. This points to a general lack of awareness on food safety issues and the different food safety standards and protocols.

In summary, the regulatory bottlenecks revolve around three main areas, namely, (1) organizational matters – administrative and human resources; (2) regulation – compliance requirements, regulatory,

and associated fees; and (3) consumer issues. The FSRA's recognize that they have a job to do, which they claim they could do better if given appropriate resources and capacity to implement regulations. The eight FMI subsectors, on the other hand, recognize the importance of food safety regulations and they claim that they comply with them. However, they clamor for a review of regulations affecting the food industry, particularly on the rationale and relevance of

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Figure 2. Bottlenecks in the regulatory processes reported by food manufacturing firms



Source: Authors' compilation based on focus group discussions

regulations, and a more efficient review, processing, and permitting processes among the FSRAs. As stated earlier, these bottlenecks are mainly on the regulatory processes and requirements (Figure 2).

Recommendations

Improve the operation of the FDA and the regulation coordinating body

Because most of the regulatory concerns are associated with the FDA, the government needs to improve the agency's operational capacity and

effectiveness. This may be accomplished by providing the FDA with adequate human resources and modern facilities. It likewise needs to improve the capacity of the Food Safety Regulation Coordinating Board, which is responsible for establishing and coordinating policies on the food safety regulation functions. The role of the Board is crucial given that government agencies sometimes fail to coordinate with other agencies in implementing rules and regulations. In the food sector, all the FSRAs should convene and formulate the best approaches to improve the current food regulatory system.

Improve regulatory procedures and process in the food sector

A major suggestion from the FMI is to have a one-stop processing venue for the various certifications required by FSRAs. This stems from the high transaction cost faced by the industry in securing certifications from several FSRAs. The food manufacturing firms also complained about the lack of sector-specific information on the regulatory requirements imposed by the FSRAs to guide their compliance effort. They claimed that the websites of the FSRAs do not provide the necessary information for efficient compliance with food regulations. They also argued that the standards and protocols are already outdated and do not satisfy current internationally recognized standards and protocols.

Conduct trainings on food safety and consumer education

Consumers should all be made conscious of food safety issues and their consumer rights. In line with the Food Safety Act, the FSRAs should work together to improve consumer education on food safety in the country. It is good to note that the FSRAs and the Department of Trade and Industry have already provided information on their respective websites on the responsible agencies in handling food issues and the procedure for filing complaints.

Conduct in-depth studies on FMS

This study only provides an overview of the regulations affecting a vast sector. As such, the government needs to pursue detailed studies on the different subsectors of food manufacturing and the specific regulatory bottlenecks constraining their performance. In particular, the “dairy” and the “grains mill, starch and starch products” subsectors seem to merit in-depth studies, given that they have been among the most labor-intensive and productive subsectors today. Meanwhile, the “other food products” subsector, which includes all the emerging food subsectors in terms of number of establishments, income, and employment, also demands further researches as the lumping indicates the lack of specific data on proper product category composition. 📄

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