



**EN**

This action is funded by the European Union

**ANNEX 1**

of the Commission Implementing Decision on the Annual Action Programme 2016 Part IV and 2017 Part I in favour of the Asia region to be financed from the general budget of the European Union

**Action Document for the EU-Philippines Trade Related Technical Assistance Programme 4**

<b>1. Title/basic act/ CRIS number</b>	EU-Philippines Trade Related Technical Assistance Programme 4 CRIS number: ACA/2016/039568 financed under the Development Cooperation Instrument			
<b>2. Zone benefiting from the action/location</b>	Republic of the Philippines The action shall be carried out at the following location: Philippines, with the project team located in Metro Manila.			
<b>3. Programming document</b>	Regional Multiannual Indicative Programme ASIA 2014-2020			
<b>4. Sector of concentration/ thematic area</b>	Focal sector 1 (ASEAN): Connectivity through Sustainable and Inclusive Economic Integration and Trade	DEV. Aid: YES		
<b>5. Amounts concerned</b>	Total estimated cost: EUR 6 100 000 Total amount of EU budget contribution EUR 6 100 000			
<b>6. Aid modality(ies) and implementation modality(ies)</b>	Project Modality Direct management – procurement of services			
<b>7 a) DAC code(s)</b>	33110 Trade policy and administrative management 33120 Trade Facilitation 32130 SME Development			
<b>b) Main Delivery Channel</b>	1000 Public Sector Institutions			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance		X	
	Aid to environment	X		
	Gender equality (including Women In Development)	X		
	Trade Development			X

	Reproductive, Maternal, New born and child health	X		
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	X		
	Combat desertification	X		
	Climate change mitigation	X		
	Climate change adaptation	X		

### SUMMARY

The EU-Philippines Trade Related Technical Assistance Programme 4 is a five-year programme (2017-2022) with a budget of EUR 6.1 million that contributes to the integration of the Philippine economy into the global production chain through targeted support to both the public and private sectors. It is the national Philippine component of the ARISE Plus Programme supporting regional economic integration and trade in ASEAN under Focal Sector 1 of the 2014-2020 Multiannual Indicative Programme for Asia.

The Philippine economy openness to trade is still comparatively low and lagging behind its emerging ASEAN partners. Trade flows are only a fraction of those reported in Vietnam, Indonesia and Thailand. The creation of the ASEAN Economic Community and the Philippines' accession to GSP+ status in December 2014 (effectively lowering tariffs on a wide range of products entering the EU) could be factors of change. Ongoing negotiations for an EU-Philippines Free Trade Agreement and possible membership in the Trans Pacific Partnership may also offer privileged access to some of the largest markets in the world.

TRTA4 seeks to take advantage of this new context to improve the competitiveness of Philippine exports through 1/ targeted support to the private sector and 2/ the consolidation of legislative achievements obtained under TRTA3.

The programme is structured around six Expected Results:

Result 1: Government and private operators identify and implement export priorities (incl. to the EU)

Result 2: The Philippine competition policy is implemented

Result 3: A National Quality Infrastructure is in place that boosts competitiveness

Result 4: Quality management and control systems for exported food products are in-line with international best practices

Result 5: Strengthened trade facilitation capacity to implement the Customs Modernization and Tariffs Act and the WTO Trade Facilitation Agreement

Result 6: Achievements of the EU-DTI partnership are monitored and advertised widely to the Philippine public

## 1. CONTEXT

### 1.1. Sector/Country/Regional context/Thematic area

The Philippines is a lower middle-income country within the Association of South East Asian Nations (ASEAN) with a population of 102 million (2015) and a Gross Domestic Product (GDP) per capita of USD 2,872 (2015). The Philippine economy expanded by an average 5.9% over the period 2011-2015, the fastest pace since the mid-1970s, as demand rebounded after the 2008-2009 recession and the country reaped the benefits of better governance under President Aquino's administration.

The macroeconomic situation of the Philippines has improved steadily under President Aquino. A positive current account (largely due to remittances from overseas workers), low inflation and moderate budget deficit all contributed to improving the Philippines' macroeconomic profile in recent years. Major credit ratings for the Philippines are currently at or above investment grade and remain positive with stable outlooks.

Unemployment officially stands at 5.8% although poverty statistics reveal a bleaker picture. Poverty incidence stands at 26.3% (2015). In other words, 27 million people live with less than the income required to meet basic food needs and other non-food requirements such as housing (Philippine Statistical Authority). Extreme poverty, defined as the inability to meet even basic food needs, affects 10 million people. The Philippines ranked 115<sup>th</sup> in the 2015 Human Development Index report, down from 105<sup>th</sup> in 2009.

Inequality in the Philippines is of Latin American proportions. The Gini index stands at 43 (2012), effectively the highest in the region. It results from factors deeply rooted in the country's history, ranging from political instability in the South to widespread elite capture inherited from Spanish colonisation.

The Philippine government strategy to create jobs and reduce poverty as reflected in the Philippine Development Plan includes trade liberalisation with a strong focus on export promotion. Chapter 1 of the PDP reads: *“Exports can become an important means of obtaining technological knowhow and in turn generate positive spill over effects to other sectors in the economy. This redounds to faster accumulation and innovation, and therefore accelerated growth.”* It echoes economic studies suggesting that trade can be a powerful engine of growth and job creation - even if positive spill overs depend on existing policies and affect different sectors of the economy differently. Besides, the quality of jobs in export-oriented sectors is reportedly higher. In the EU, each additional EUR 1 billion in exports supports 15,000 additional jobs (Trade, Growth and Jobs, Commission contribution to the European Council, 2013). The Philippine Institute for Development Studies concluded in 2014 in one of the few studies on the subject that the country's Free Trade Agreements with ASEAN and Japan as a whole had a positive impact on employment. (Implications of an EU FTA to the Philippine Labor Market, Leonardo A. Lanzona, Jr., PIDS, 2014)

The Philippines became a member of the World Trade Organisation in 1995 yet overall openness to trade (total trade as percentage of GDP) is still low. It has decreased in the last decade. The Philippines is also characterised by a persistent, although narrowing trade deficit which is only balanced out by remittances from overseas workers (20% of GDP). The trend is the result of stagnant exports in goods. Trade in goods increased slightly between 2012 and 2014 but decreased again by 5% in 2015. Philippine exports in goods perform weakly and are highly concentrated - electronics make up around 50% of the total.

Trade in services on the other hand has enjoyed very strong growth rates for almost a decade largely due to the booming Business Process Outsourcing (BPO) industry. Commercial services boasted a USD 5 billion trade surplus as a result in 2014. The industry however recruits primarily high-skilled English-speaking workers and has possibly less impact on poverty.

Foreign Direct Investment into the Philippines has been increasing at varying paces since 2010 but remains stubbornly low – USD 5.7 billion in 2015, practically unchanged from 2014. The Philippines receives only a fraction of FDI flows reported by its emerging ASEAN neighbours. High corruption levels, lack of infrastructure and foreign investment caps in several industries are seen as key constraints.

Amid this mixed picture overall, trade relations between the EU and the Philippines are improving quickly. Trade flows between the EU and the Philippines are modest compared to the likes of Vietnam or Thailand but they were up 13% in 2013 and 16% in 2014. Despite a relative stagnation in 2015 they are expected to rebound further in 2016 following the signature of several large contracts.

The Philippines was granted GSP+ status in December 2014, effectively reducing tariffs for Philippine exports to the EU on more than 6,000 product lines. Imports of GSP+ related products to the EU were up 27% during the first half of 2015. Negotiations for an FTA with the EU were announced in late 2015 and the first round took place in Brussels in May 2016. The prospect of signing an EU-Philippines FTA during the course of the programme is therefore a realistic possibility.

Another important negotiation track for the Philippines is the Trans Pacific Partnership (TPP) of which the Philippines is not a member but for which it has expressed an interest. The TPP might also guide the trade reform agenda in the country in coming years.

Finally, the Philippines is a founding member of ASEAN and as such is committed to ASEAN integration (ASEAN Economic Community creating a single market of more than 600 million people in 2015). The economic and political priorities of the AEC were recently summed up in the AEC Blueprint 2025, adopted by ASEAN Leaders in November 2015.

#### *1.1.1. Public Policy Assessment and EU Policy Framework*

TRTA4 contributes to the implementation of the Regional Multiannual Indicative Programme Asia 2014-2020 which serves as the main framework for EU regional cooperation in Asia. The MIP Asia 2014-2020 includes a EUR 170 million allocation to ASEAN, including EUR 85 million to support ASEAN regional economic integration. The main initiative under this specific objective is the ARISE Plus Programme of which TRTA4 is the national component for the Philippines.

ARISE Plus is closely aligned with the new 5 characteristics of the AEC Blueprint 2025 which provide a solid basis for trade related technical assistance in the region. TRTA4 will follow this common regional approach and focus on several of the listed AEC Blueprint priorities identified under ARISE Plus (see Appendix 1).

Ongoing economic reforms aimed at increasing trade-oriented growth in the Philippines are slow but are going in the right direction. President Aquino's social contract with the Filipino People broadly outlined his political convictions including "*for a government that creates conditions conducive to the growth and competitiveness of private business*". This manifesto guided the drafting of the Philippine Development Plan 2012-2016 (PDP), the country's comprehensive policy planning document, which will be updated by the new administration in

early 2017 and will serve as a framework during the implementation of TRTA4. Export promotion and the “culture of competitiveness” are central under Chapter 3 of the PDP (*Competitive Industry and Services Sectors*).

The Philippine Export Development Plan 2015-2017 (PEDP), approved by the President in February 2016 (and as such expected to cover the period 2016-2018) aims at “*fully integrating the Philippine economy into the global production network*”. The target of the PEDP is for total exports to reach USD100 billion, by ensuring growth between 6.6 and 8.8% in 2016 and between 7.7 and 10.6% in 2017. The projected additional employment opportunities over the period would be up to 2.8 million. The GSP+ status of the country and the implications for Philippine products appears clearly for the first time in the PEDP.

The PEDP acknowledges the role of government as a facilitator and offers a two track approach to boost competitiveness: 1/ comprehensive business support to selected sectors, and 2/ improvement of the general business environment.

Measures related to the “general business environment” are broken down into seven lines of action or “strategies”. They include the implementation of the Customs Modernisation and Tariffs Act (CMTA) in order to speed up the transit of goods at customs. This Act was approved by the Philippine Congress following continuous advocacy from TRTA3. It lays the ground for a more professional and effective customs bureau<sup>1</sup>. Other key legislative reforms under the PEDP are the Fair Competition Act and the National Quality Infrastructure (NQI) Act, both drafted with assistance from TRTA3. The Competition Act was passed in 2015 and effectively creates the Philippine Competition Commission (PCC). The PCC has the mandate to conduct inquiries and penalize all forms of anti-competitive behaviour in collaboration with the Department of Justice. It should ensure efficient market conditions by providing a level-playing field for businesses engaged in commercial economic activities. The NQI Law on the other hand remains to be passed by the next Congress and will be the main priority of TRTA4 Component 3. It reflects a change of paradigm from rigid, mandatory technical regulations to voluntary standards used to penetrate foreign markets<sup>2</sup>. Importantly, these two priorities previously absent from the document will be incorporated in the new Philippine Development Plan. The alignment of national priorities for competitiveness on TRTA advocacy priorities can be seen as a significant achievement of EU trade assistance to the Philippines.

Finally, business support for export promotion under the PEDP identifies a list of 10 priority sectors on the basis of their comparative advantages, share of total exports and growth potential. The agri-food industry covers at least 3 of the 10 products, confirming the importance of food processing for job creation and growth. It echoes the focus on food found in the AEC Blueprint 2025 under priority C.5.

### *1.1.2. Stakeholder analysis*

This Action document reflects the content of consultations carried out with a wide range of stakeholders.

The Department of Trade and Industry is responsible for the implementation and coordination of trade and investment policies as well as for promoting and facilitating trade and investment. The Committee on Tariff and Related Matters (TRM), chaired by the Secretary of

---

<sup>1</sup> In line with “key element” A.1 of the AEC Blueprint 2025.

<sup>2</sup> The NQI and Competition Laws fall under ARISE Plus/TRTA4 assistance towards implementation of the AEC Blueprint “key elements” A.1 and B.1 respectively.

Trade and Industry advises the President and the National Economic and Development Authority Board on tariff and related matters, coordinates the different agencies' positions and proposes national positions for international economic negotiations<sup>3</sup>. It remains unclear how DTI will tap TRTA4 to support its position during FTA negotiations. DTI has understandably expressed concerns about the possibility of a conflict of interest situation. It is suggested that TRTA4 provides resources for studies, expert reports etc. officially to be used by civil society.

Currently, NQI matters including standards and accreditation activities within DTI fall under the “Consumer Protection” Group. This set up is less than ideal. Consumer protection and trade promotion have different focuses – the former requiring controls and enforcement from government as opposed to business promotion and support services which are at the centre of a modern NQI set up. The NQI Law currently in the works will reorganise DTI and effectively separate consumer protection from quality promotion activities.

The private sector in the Philippines is dominated by a handful of large conglomerates – 0.4% in number (but 38% in terms of employment). Those companies have wide access to finance and are often in a quasi-monopolistic situation. The remaining 99.6% are smaller companies which are not always organised in business associations providing support services. Partly as a result, the participation of business organisations in standardisation work for instance is still limited. The National Competitiveness Council (NCC) is the main body with participation from the private sector where NQI reforms are being discussed in a dedicated working group. NCC chairmanship is split between DTI and a co-chair (currently with the Ayala Group conglomerate). The NCC has been peripherally involved in NQI discussions by DTI so far and TRTA4 will aim to rectify this situation.

Following the adoption of the Fair Competition Act in 2015, the President appointed the first Philippine Competition Commission, with Arsenio Balisacan (previously Socioeconomic Planning Secretary) as chair for a 7-year term. The commission is a quasi-judicial body that will enforce and implement the provisions of the Philippine Competition Act, including its implementing rules and regulations which TRTA3 started supporting in 2016. The very recent adoption of the first Philippine Competition Act means that the country has very few if any experts in competition law. The Commissioners themselves, despite being renowned economists or lawyers, have close to zero experience in handling competition cases. Capacity building is urgently needed during the first years.

The Department of Agriculture manages the implementation of the WTO SPS agreement. Within the department SPS policies are coordinated by the Undersecretary for Policy, Planning, Research and Regulation under whom the SPS notification authority and enquiry point is placed. SPS measures are implemented through regulatory agencies of the Department of Agriculture and the Department of Health. The main agencies under the DA include the Bureau of Plant Industry, the Bureau of Fisheries and Aquatic Resources, the Bureau of Animal Industry, the National Meat Inspection Service and the Philippine Coconut Authority. Under the Department of Health, the Food and Drug Administration regulates processed food. Very close coordination among these agencies is therefore needed to ensure food safety and traceability along the supply chain. For instance, a single processing plant producing feeds and managing fish ponds for canned food may receive the visit of 3 different inspectors, at least two of whom from the Department of Agriculture. TRTA3 has exposed

---

<sup>3</sup> TRM members include the Departments of Foreign Affairs, Agriculture, Transportation and Communications, Environment and Natural Resources, Budget and Management, and Finance, the Governor of the Central Bank, and the Chairman of the Tariff Commission.

some of the weaknesses in agency coordination and possible turf wars, particularly between DA and FDA.

The recent nomination of the Food and Drug Administration as National Contact Point for the Rapid Alert System should clarify roles and responsibilities between DA and FDA at least for this important activity. FDA is a small agency with severe staff constraints though. TRTA4 intends to support FDA management build up its pool of inspectors both in Manila and in the provinces to deliver on its new mandate.

The Bureau of Fisheries and Aquatic Resources is the Competent Authority for export of seafood products to the EU. It was under heavy scrutiny during the recent row over the credibility of controls to prevent Illegal, Unregulated and Unreported Fish with the EU. The Philippines was issued a “yellow flag” which was only lifted after the legislation controlling fishing vessels was strengthened, with support from TRTA3.

The Bureau of Customs (BOC) has a very poor reputation in the Philippines as possibly one of the most corrupt agencies. Several changes at the top of the Bureau in recent years have yielded little results. Staff at all levels is notoriously seeking rent payments from their positions. The oversight by the Department of Finance whose priority is to collect taxes as opposed to facilitate trade makes it harder to reform the Bureau. TRTA3 contributed to the passage of the CMTA Law which if implemented properly should promote reforms within the Bureau of Customs and make it a more professional and effective agency.

#### *1.1.3. Priority areas for support/problem analysis*

Philippine exports are currently a fraction of those recorded by its ASEAN neighbours. Vietnam alone despite its smaller population and size of economy exports almost twice as much as the Philippines to the rest of the world. At regional level, the Philippines’ total trade with the rest of ASEAN (USD 25 billion as of 2014) is still far behind Vietnam’s (USD 40 billion), Indonesia’s (USD 90 billion) and Thailand’s (USD 100 billion) suggesting the Philippines still has much to do to take advantage of trade opportunities under the ASEAN Economic Community.

This situation applies equally to trade with the EU. The Philippines was only the 44<sup>th</sup> trading partner of the EU in 2014, compared to Thailand (24<sup>th</sup>), Vietnam (29<sup>th</sup>) and Indonesia (31<sup>st</sup>). The Philippines accession to GSP+ status in December 2014 offered privileged access to one of the largest economies in the world. The EU market previously perceived as difficult to access has become much more attractive under the (essentially) zero tariff GSP+ regime.

Much of the Philippines’ poor export performance has its roots in the country’s weak manufacturing base and bias towards domestic consumption (the latter being inflated by remittances from overseas Philippine workers). Few of the smaller companies engage in international trade making the development of globally competitive supply chains difficult. A 2009 ADB survey of the Philippine private sector noted: “*Medium-sized enterprises providing a seamless link between exporting and world-class firms and the rest of the economy are largely absent.*” Unsurprisingly, the Philippines was found to have low utilisation of arrangements under free trade agreements with Japan and with ASEAN.

Turning this situation around requires the **private sector** to become aware of new trade opportunities, e.g. under the AEC and the new GSP+ scheme, but also to upgrade its production processes to meet international quality standards. TRTA4 will therefore take advantage of the Philippines’ integration into ASEAN and unique access to the EU market to improve the competitiveness of selected export industries through direct support to the private

sector<sup>4</sup>. This intervention will fall under Component 1 of TRTA4 (which targets priority sectors in the PEDP) and Component 4 (covering SPS). Synergies between both components (e.g. on fish exports and processed food) will be a priority.

TRTA4 support to private sector will contribute to the AEC Blueprint Characteristic 4 – more precisely “*Strengthening the Role of MSMEs*” and “*Strengthening the Role of the Private Sector*”. It will be consistent with the Communication on Private Sector Development.

The ability of private sector to become competitive at home is also dependent on the overall regulatory framework and on the existence of a level playing field. As a result ARISE Plus is aligned on AEC’s priorities that improve the regulatory framework in a way that is conducive to trade – namely trade facilitation and quality infrastructure (AEC Blueprint “key element” A.1), competition law and protection of intellectual property rights (AEC Blueprint “key elements” B.1 and B.3). Support under TRTA4 will focus on implementing the same legislative measures in the Philippines. Most of them were either enacted during TRTA3 (Competition Law, Customs reform) or expected to be enacted in the early stages of TRTA4 (NQi Law). Many of the provisions in the new laws are unknown to Philippine civil servants. Very little expertise is available. While TRTA3 focused on advocacy (in particular with Congress) to get these important bills passed, the needs now shift to capacity building. For instance, the Competition Act is possibly the single most important building block to achieve a level playing field for businesses. It was passed in 2015. It will also form part of the provisions under the future EU-Philippines FTA. The Philippines currently has no expertise in competition law and will rely heavily on international cooperation to strengthen its institutions. TRTA4 will provide part of that support.

Finally, activities with the public sector and the private sector are interconnected. TRTA4 will seek to bring the two sides together and provide avenues for joint public-private action. This will be particularly apparent under Components 1, 3 and 4 (see 4.2). The programme will seek to replicate the experience of TRTA2 where joint support to private operators and government lead to the Bureau of Fisheries being recognised as competent authority and to seafood products from the Philippines being exported to the EU.

**2. RISKS AND ASSUMPTIONS**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
The general elections of May 2016 turned up a new Philippine government. The new President will take office on July 1, 2016. New priorities will emerge. Continuity in reforms is not guaranteed.	M	Statements made during the political campaign are encouraging. Also, the start of FTA negotiations in Brussels in May 2016 means the new administration cannot easily reverse the course of action and allow trade protectionism to stall reforms.
Customs remains a big unknown. This component has underperformed during	H	The new CMTA Law might signal the start of a new, stable and rule-based cycle for Philippine Customs. Efforts to promote recruitment based

<sup>4</sup> ARISE Plus regional component is expected to contribute to private sector’s involvement in trade but support to small enterprises will be better managed by national components.

TRTA3 due to frequent changes in management.		on competencies might also reduce rent seeking behaviour.
Civil society opposition to the EU-Philippines FTA might spill over to TRTA4.	L	TRTA3 has started liaising with civil society on contentious issues (fisheries, pharmaceuticals etc). Also, TRTA4 will avoid working openly with DTI on FTA unless civil society is a direct beneficiary.
Trade liberalisation may exacerbate rather than reduce inequalities if the wrong policies are in place.	L	The project will promote policies conducive to inclusive growth, including a robust labour-oriented regulatory framework. FTA negotiations between the EU and the Philippines may provide a good avenue for this.
Collaboration of all agencies involved in food safety and SPS controls may prove difficult (e.g. to achieve recognition by European authorities).	M	TRTA4 will have an inclusive policy for all activities. When possible, it will implement activities through coordination platforms such as the Food Safety Regulation Coordinating Board (FSRCB) or RAS Working Group.
<b>Assumptions</b>		
<ul style="list-style-type: none"> <li>– Donor coordination will continue both through official donor mechanisms (Philippine Development Forum) complemented by ad hoc coordination within each component.</li> <li>– Budget availability for reforming public service (e.g. modernisation of public laboratory network) will not be a bottleneck. Government budget has grown steadily under the Aquino administration (+15% in 2016) in part thanks to solid revenue collection. The possibility of creating a dedicated public fund for the implementation of the PEDP (up to PHP1.76 billion) has already been put forward. Consequently, TRTA4 is not designed to provide capital expenditure or long term staff. Instead, it provides expertise to line agencies, including when requesting additional resources from Congress if needed.</li> <li>– The GSP+ status of the Philippines - which is conditional on compliance with UN Conventions on Human Rights and Environment - will remain in place throughout implementation.</li> </ul>		

**3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES**

**3.1. Lessons learnt**

The shift in lead agency from the National Economic and Development Authority (under TRTA2) to the Department of Trade and Industry (under TRTA3) has had a positive impact on the quality of our interaction with government and has increased ownership significantly. The partnership between DTI and the EU Delegation is excellent - a factor that can only influence positively ongoing FTA negotiations.

Despite strong recommendations for private sector involvement in the final evaluation report of TRTA2, TRTA3 focused heavily on training government officials. This has led to a situation where private sector is insufficiently informed about requirements to enter foreign markets. More focus on the private sector as beneficiary is needed. Private operators also tend to see government staff as enforcers and as an additional constraint on their business. Government must increasingly team up with private operators to improve competitiveness and must market itself accordingly. This will be important for NQI and SPS related activities.

The Final Evaluation of TRTA2 listed the recognition of the Bureau of Fisheries as Competent Authority to export seafood products to the EU as one of the programme's success stories. This achievement was obtained through joint support to private operators and government, indicating that export promotion is more likely to work through the careful selection of a few high potential products and strong support to both public and private sectors.

Component 4 (SPS) under TRTA3 was heavily skewed towards consumer safety following the adoption of the Food Safety Act in 2013. The result was a gradual shift away from traded goods to focus on safety issues affecting domestic production as well (e.g. testing procedures for canned pork despite the fact that 100% of production is consumed in the Philippines). It is important that TRTA4 focuses on goods and services that are traded internationally or have potential for exports. Similarly, capacity building for government should be undertaken as part of an overall plan to boost trade as opposed to ad hoc training on food safety which often addresses domestic issues.

Some components under TRTA3 suffered from turf wars between agencies. Many expected results require the contributions of several Departments or Bureaus. This is especially true under Component 4 where a Rapid Alert System for instance will require constant exchanges of information between the Department of Agriculture and the Food and Drug Administration. The Competition Component is also dependent on the Philippine Competition Commission and Department of Justice working hand in hand. TRTA4 should refrain from implementing activities on demand for a specific agency. Instead, annual work programmes should be drawn jointly and all agencies should take part in workshops organised under their components.

Finally, the 2015 ROM mission reiterated the need for flexibility in terms of budget allocations per component - a major issue during TRTA1. The Rapid Response Facility (RRF) first created under TRTA2 in order to address unforeseen needs was able to address that satisfactorily. It also helped address legitimate needs linked to the overall objectives by government and non-government stakeholders outside the main beneficiary agencies. Examples include support to FLEGT events and rapid mobilisation of expertise during the dialogue on Illegal, Unreported and Unregulated Fishing with the EU – effectively leading to the lifting of the “yellow flag” threatening the Philippine fisheries sector. The RRF will be extended under TRTA4.

### **3.2. Complementarity, synergy and donor coordination**

TRTA4 is part of the ARISE Plus programme, the regional component of which will be implemented roughly during the same period (2016-2022). Identified activities under the regional component which will directly involve the Philippines include the development of an ASEAN Rapid Alert System for Food and Feed as well as harmonisation of standards for food products and pharmaceuticals in ASEAN. The European Intellectual Property Office also provides technical assistance to ASEAN to upgrade systems for IP creation, protection, utilization, administration and enforcement, in line with international best practices and the new ASEAN IPR Action Plan 2016-2025. It is important that TRTA4 allocates resources in a way that complements rather than overlaps with these priorities. The annual regional steering committee is the most appropriate platform to ensure coordination.

There are no trade assistance programmes funded by EU Member States. The largest bilateral donor for trade assistance is currently USAID through the TRADE programme. With a budget of about EUR 10 million, this 5-year initiative ending in 2018 covers competition policy,

trade facilitation as well as the general “trade policy agenda”. To some extent it appears to provide capacity building in the context of the Trans Pacific Trade Partnership (TPP) which the Philippines expressed an interest to join in 2015 despite serious constitutional hurdles including foreign ownership restrictions. Coordination with the TRADE programme is already ongoing under TRTA3 especially under Components 2 (competition) and 5 (trade facilitation).

The presence of TRADE and ARISE Plus may call for smaller allocations under Components 2 and 5 relative to other components.

Donor coordination will be an integral part at all stages of project implementation. The Philippine Development Forum is the official forum between the government and the donor community to coordinate development efforts. The Working Group on Growth and Investment Climate, co-chaired by the Department of Trade and Industry and the International Monetary Fund is the appropriate platform to ensure consistency on the Aid for Trade agenda. Unfortunately the group has been dormant since 2010. TRTA3 experience shows that coordination works better when carried out at *component* level. TRTA4 will therefore organise donor coordination meetings with each beneficiary agency, with participation from DTI, tentatively on a yearly basis.

### **3.3. Cross-cutting issues**

Environmental mainstreaming will be particularly relevant in the field of SPS/agriculture. International/EU best practices in this area shall promote sustainable production including for exports. It will also play a role in trade policy activities with civil society (e.g. Sustainable Impact Assessments). While studies show that trade liberalisation has the ability to benefit women when more jobs are created in export-oriented manufacturing sectors (see for instance Globalization and Employment: The Impact of Trade on Employment Level and Structure in the Philippines, PIDS, 2002), the project needs to closely monitor gender balance of participants/direct beneficiaries. Activities in the area of customs and trade facilitation will be particularly relevant from a good governance and anti-corruption perspective.

## **4. DESCRIPTION OF THE ACTION**

### **4.1. Objectives/results**

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 8 “Decent Work and Economic Growth” but also promotes progress towards Goal 1 “No Poverty” and Goal 10 “Reduced Inequalities”. This does not imply a commitment by the Philippines benefitting from this programme.

The overall objective is inclusive economic growth and poverty reduction in the Philippines.

The specific objective is an improvement of the Philippines’ trade performance and competitiveness.

### **4.2. Main activities**

This is a list of indicative activities per expected result. It may be adjusted during implementation to reflect the Philippine Government’s evolving priorities.

Result 1: Government and private operators identify and implement export priorities (incl. to the EU)

- Technical and marketing support to priority sectors under the current PEDP (clinics for private sector) in close collaboration with Component 2
- Inform private stakeholders, in particular MSMEs on global trade opportunities esp. GSP+ and FTAs
- Support carefully selected Philippines MSMEs and export promotion agencies to participate in trade fairs in Europe
- Monitoring system for PEDP priority sectors
- Update and draft the PEDP 2018-2021 following broad consultations
- Awareness raising campaigns and economic studies for civil society on FTA-related matters (e.g. Intellectual Property Rights, Government Procurement, Geographical Indications)

Result 2: The Philippine competition policy is implemented

- Train PCC staff on competition policy, incl. legal and economic tools for analysis
- Organise study visits with competition authorities in Europe on selected topics
- Draft guidelines and implementing rules on competition policy
- Prepare studies on competition (e.g. regulatory impact analysis, sectoral studies etc.)
- Advise on inter-agency coordination for competition procedures
- Legal counsel to the PCC at short notice on highly technical issues (legal clinics)
- Train judiciary and prosecutors on new competition rules
- Advocacy and information campaigns on competition law for the business community
- Key reference materials on competition law and practice for PCC staff

Result 3: A National Quality Infrastructure is in place that boosts competitiveness

- Develop advocacy campaign on NQI in the 17<sup>th</sup> Philippine Congress
- Drafting of the NQI Law implementing rules
- Survey of private Conformity Assessment Bodies (CABs) in the Philippines
- Technical Assistance to CABs for gradual accreditation by the Philippine Accreditation Bureau
- Rebranding and advertising of NQI to export-oriented private sector
- Develop strategy for targeted participation in meetings of international standards bodies
- Support local standards development bodies with participation from private sector
- Support risk based market surveillance system, through training and mentoring

Result 4: Quality management and control systems for exported food products are in-line with international best practices

- Mapping of priority food products for exports in collaboration with other agencies (e.g. Export Marketing Bureau)
- Conduct resource and training needs assessment for FDA and DA to act as competent authority
- Technical training for export-oriented operators along the value chain on food safety best practices and international standards
- Inventory of available resources and gap analysis for public and private laboratories
- Design National Laboratory network
- Support ISO 17025 certification for public (national and regional) and private laboratories
- Prepare RAS operating procedures in line with other regional RASFF

Result 5: Strengthened trade facilitation capacity to implement the Customs Modernization and Tariffs Act and WTO Trade Facilitation Agreement

- Drafting of relevant CMTA implementing rules and guidelines and support to the implementation of provisions contained in the CMTA
- Development of a common IT platform (interoperability) among agencies involved in import/export operations
- Assess gaps for future connectivity with ASEAN Single Window
- Recommend improvement in control systems to align them with risk management best practices
- Review existing rules, procedures and organisational structure for warehousing

Result 6: Achievements of the EU-DTI partnership are monitored and advertised to the Philippine public

- Ongoing impact monitoring for all components
- Identifying success stories for publication in main media, incl. stories of women beneficiaries
- Press briefings on quarterly basis
- Press articles following key project events
- EU-DTI Conferences on trending trade topics
- Development of project website

#### **4.3. Intervention logic**

TRTA4 follows a two-track approach. The focus will be on strengthening the regulatory environment while upgrading the knowledge and processes of private operators. This approach builds on the experience from TRTA3 (where policy reforms have been substantial but where private sector was almost absent) and is aligned on the Philippines own export development strategy.

The intervention logic addresses the main constraints at home – in the footsteps of TRTA3 achievements: fair competition, professional sanitary controls and facilitative customs procedures - while making information on opportunities outside the Philippines available to the private sector. Coupled with technical support to exporters on quality management, this intervention will make Philippine products more competitive on international markets. The expected impact pathway will be through increased exports that generate more jobs and revenues.

The trend in exports to the EU since GSP+ status has been granted to the Philippines is encouraging. Overall, while TRTA4 activities are spread out over several components, the focus on support to economic integration in the context of the ASEAN Economic Community and GSP+ holds them together.

## **5. IMPLEMENTATION**

### **5.1. Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

## 5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

## 5.3. Implementation modalities

### 5.3.1. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance	Services	1	Q4 2016
Evaluation	Services	2	Q2 2019 Q4 2021
Audit	Services	1	Q1 2020

## 5.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

## 5.5. Indicative Budget

Item	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1. Procurement (direct management) for technical assistance, incl. communication and visibility	5 800 000	N/A
5.8. Evaluation	200 000	N/A
5.9. Audit	100 000	N/A
<b>Total</b>	<b>6 100 000</b>	<b>0</b>

## **5.6. Organisational set-up and responsibilities**

A Project Steering Committee (PSC) will be established with responsibility for guiding the project and for approving work plans. The PSC will meet every six months, and ad hoc, as required. Membership will include representatives of the EU Delegation, the Department of Trade and Industry, the Department of Agriculture, the Department of Health (Food and Drug Administration), the Philippine Competition Commission, the Department of Justice (Office for Competition) and the Department of Finance (Bureau of Customs). Other relevant stakeholders as well as Member States or other donors may be invited when appropriate. The PSC will be chaired by DTI. The Secretariat of the PSC will be the responsibility of the Team Leader of the Technical Assistance team.

The Steering Committee will coordinate activities with other components of the ARISE Plus programme in the region and ensure timely exchange of information and best practices. Work programmes will be prepared in consultation with the regional component. An annual joint regional steering committee will be set up, with the participation of EU Delegations and a representative from the Philippines.

## **5.7. Performance monitoring**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8. Evaluation**

Having regard to the importance of the action, a mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving and learning purposes. The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the project will look back at four consecutive phases of trade assistance delivery in a context of strengthened trade relations between the EU and the Philippines.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in 2019 and 2021.

#### **5.9. Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in 2020.

#### **5.10. Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

## Appendix 1: Elements of the five characteristics of AEC 2025

Underlined are the main areas of intervention under ARISE Plus (regional component).

**Bolded** are the main areas of intervention under TRTA4 (Philippine component).

HIGHLY INTEGRATED AND COHESIVE ECONOMY	COMPETITIVE, INNOVATIVE, AND DYNAMIC ASEAN	ENHANCED CONNECTIVITY AND SECTORAL COOPERATION	RESILIENT, INCLUSIVE AND PEOPLE-ORIENTED, PEOPLE-CENTRED ASEAN	GLOBAL ASEAN
<ul style="list-style-type: none"> <li>• <b><u>Trade in Goods</u></b></li> <li>• Trade in Services</li> <li>• Investment Environment</li> <li>• Financial Integration, Financial Inclusion, and Financial Stability</li> <li>• Facilitating Movement of Skilled Labour and Business Visitors</li> <li>• <b><u>Enhancing Participation in Global Value Chains</u></b></li> </ul>	<ul style="list-style-type: none"> <li>• <b><u>Effective Competition Policy</u></b></li> <li>• <u>Consumer Protection</u></li> <li>• <u>Strengthening Intellectual Property Rights Cooperation</u></li> <li>• Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation</li> <li>• Taxation Cooperation</li> <li>• Good Governance</li> <li>• Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice</li> <li>• Sustainable Economic Development</li> <li>• Global Megatrends and Emerging Trade-related Issues</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Transport</u></li> <li>• Information and Communications Technology</li> <li>• E-commerce</li> <li>• Energy</li> <li>• <b><u>Food</u></b>, Agriculture, and Forestry</li> <li>• Tourism</li> <li>• <u>Healthcare</u></li> <li>• Minerals</li> <li>• Science and Technology</li> </ul>	<ul style="list-style-type: none"> <li>• <b><u>Strengthening the Role of Micro, Small, and Medium Enterprises</u></b></li> <li>• <b><u>Strengthening the Role of the Private Sector</u></b></li> <li>• Public-Private Partnership</li> <li>• <u>Narrowing the Development Gap</u></li> <li>• Contribution of Stakeholders on Regional Integration Efforts</li> </ul>	<ul style="list-style-type: none"> <li>• <u>More strategic and coherent approach towards external economic relations</u></li> <li>• Review existing FTAs</li> <li>• Enhance economic partnerships with non-FTA Dialogue Partners by upgrading and strengthening trade and investment work programmes/plans</li> <li>• <u>Engage with regional and global partners</u></li> <li>• <u>Continue strongly supporting the multilateral trading system and actively participating in regional fora</u></li> <li>• Continue to promote engagement with global and regional institutions.</li> </ul>

## Appendix 2 – Indicative Logframe matrix

The activities, expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Target (incl. reference year)	Sources and means of verification	Assumptions
<b>Overall objective: Impact</b>	Inclusive economic growth and poverty reduction in the Philippines	SDG Goal 1 on “poverty reduction” SDG Goal 8 on “decent jobs and economic growth”	O.1 - 26.3% Filipinos under the poverty line (Q1 2015) O.2 - 5.8% GDP growth rate/19.6% underemployment rate (2015)	O.1 - 50% reduction by 2030 O.2 - Decent work for all by 2030	UN Reports Philippine Statistics Agency (PSA)	
<b>Specific objective: Outcome</b>	Improvement of the Philippines' trade performance and competitiveness	Total Philippine exports (EU RF L1 30) Philippine exports concentration index Market share of key Philippine products in global/regional trade (EU RF L2 29)	P.1 \$75 Billion in 2014 (28.7% of GDP) P.2 HH Index 0.22 in 2013	P.1 +10%/year (PEDP)	PSA/DTI WB Trade Indicators UNCTAD Trade and Development Report	Continued commitment of Government to economic integration Political stability
<b>Result 1</b>	Government and private operators identify and implement export priorities (incl. to the EU)	1.1 (GSP+ related) exports to the EU 1.2 Number of Philippine enquiries related to EU export procedures 1.3 Participation in EU-Philippines FTA consultation events 1.4 Growth rates of PEDP priority export sectors	1.1 Goods: €5.7 Billion in 2014	1.1 +35% compared to pre-GSP+ 1.3 Civil society/private sector contribute to the Philippines' position on FTA	DTI statistics WTO Trade Policy reviews EU Export Helpdesk PEDP M&E system	Private and public sectors working together FTA negotiations and AEC integration continue throughout TRTA4 GSP+ status maintained during entire project cycle

<b>Result 2</b>	The Philippine competition policy is implemented	2.1 Number of available guidelines related to the Philippine Competition Act 2.2 Sector studies available 2.3 Number of cases satisfactorily dealt with by competition authorities 2.4 Competition chapter in the EU-PH FTA follows international best practices	2.1 - None as of 2016 2.2 - Two as of 2016 (electricity and telecom) 2.3 None as of 2016 2.4 None as of 2016		PCC case registry OFC/NPS case docket	Good collaboration between agencies New administration supportive of Competition Policy
<b>Result 3</b>	A National Quality Infrastructure is in place that boosts competitiveness	3.1 Passing of Law establishing Philippine NQI 3.2 Participation of Philippines in international QI bodies meetings 3.3 Participation of private sector in standards definition 3.4 Number of accredited CABs 3.5 Risk based inspection plans	3.1 Draft law deposited in Congress in 2016 3.2 One peer evaluator as of 2016 3.4 Approx. 200 as of 2016 3.5 None as of 2016	3.1 Passing within 17 <sup>th</sup> Congress 3.2 At least 3 Philippine peer evaluators 3.3 Representation in all technical groups 3.4 Increase by 20% by 2021 3.5 Five product areas by 2021	Official gazette DTI reports Project reports ISO and other QI international bodies minutes of meeting	Private and public sectors working together on competitiveness Ongoing standard harmonisation at ASEAN level
<b>Result 4</b>	Quality management and control systems for exported food products are in-line with international best practices	4.1 Accreditation of FDA as Competent Authority for animal product exports to EU 4.2 Number of Food Safety Regulatory Agencies ISO 17020 certified 4.3 Number of export-oriented business operators adopting HACCP standards 4.4 Increased exports of food products to EU 4.5 Number of SPS incidents for exported food products reduced	4.1 No products as of 2016 4.2 - one as of 2016 (BFAR) 4.4 €0.8 Billion in 2015 4.5 Approx. 70 incidents between 2010-2015	4.1 At least one product in 2021 4.2 100% by 2021 4.3 100% by 2021 4.5 50% reduction	DA statistics DG SANTE Eurostat EU RASFF	Private sector is consulted throughout Budget availability for modernisation of public laboratory network

<b>Result 5</b>	Strengthened trade facilitation capacity to implement the Customs Modernization Act and WTO Trade Facilitation Agreement	<p>5.1 Cargo clearing time</p> <p>5.2 Average time to process import/export permit</p> <p>5.3 Number of operators using self-certification for rules of origin</p> <p>5.4 BOC staff competency tests results</p> <p>5.5 Percentage of positive results from interdiction at the border.</p>	<p>5.1 - 6.5 days as of 2014</p> <p>5.2 Varies depending on product</p> <p>5.3 None as of 2016</p> <p>5.4 – No baseline as of 2016</p> <p>5.5 – None as of 2016</p>	<p>5.1 Down 20% by 2021</p>	<p>TRTA3 Time release study</p> <p>BoC statistics</p> <p>3<sup>rd</sup> party studies (e.g. JICA, WB, USAID)</p> <p>Staff competency testing</p>	<p>CTMA budget availability</p> <p>Government commitment to single platform</p> <p>Limited staff turnover at BOC</p>
<b>Result 6</b>	Achievements of the EU-DTI partnership are monitored and advertised to the Philippine public	<p>6.1 Quantified project impact (e.g. on jobs, exports) on a bi-annual basis</p> <p>6.2 Success stories for non-specialists</p> <p>6.3 Number of TV interviews and articles on TRTA4 achievements published</p>	N/A	<p>6.1 10 impact reports</p> <p>6.2 - 30 stories by 2021</p> <p>6.3 - 20 articles in national papers</p>	<p>Newspapers</p> <p>Project Website</p> <p>Project reports</p>	<p>Timely contributions from beneficiary agencies</p>