

■ PROGRAM ON ESCAPING THE MIDDLE – INCOME TRAP: CHAINS FOR CHANGE

THE HALAL CONUNDRUM

Issues in Certification and Market Access in the Philippines

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INTRODUCTION

The Halal certification industry has gained global significance in recent years, driven by the increasing demand for Halal-certified products in both Muslim-majority and non-Muslim countries. Halal, an Arabic term meaning "permissible," refers to products and services compliant with Islamic law, encompassing a broad spectrum of goods from food and beverages to cosmetics, pharmaceuticals, and logistics. This surge in demand is fueled by the growing global Muslim population and rising awareness of the health, ethical, and quality attributes associated with Halal products. Consequently, the expanding market presents substantial economic opportunities for producers worldwide. The Philippines, endowed with abundant agricultural resources and a strategic location within the ASEAN region, is uniquely positioned to capitalize on this burgeoning industry.

Recognizing this potential, the Philippine government enacted Republic Act No. 10817, also known as the Philippine Halal Export Development and Promotion Act, in 2016. This legislation established a comprehensive framework to develop and promote Halal exports, aiming to enhance the global competitiveness of Philippine Halal-certified products. By instituting clear regulations and fostering a standardized approach to certification, the Act seeks to elevate the Philippines' reputation as a reliable supplier of Halal goods and services. It also aims to safeguard both consumers and businesses by ensuring adherence to internationally recognized Halal standards.

Despite these efforts, the Philippine Halal industry continues to face significant challenges impeding its growth and full participation in the global market. These challenges include: 1) lack of harmonization in Halal standards, 2) high costs, 3) data and regulatory gaps, and 4) limited stakeholder awareness. This paper aims to provide an in-depth analysis of the issues surrounding Halal certification in the Philippines, with a particular focus on the challenges that local producers face in navigating the global Halal market. By examining the motivations behind Halal certification, the global landscape of Halal standards, and the implications of RA No. 10817, this paper offers a comprehensive understanding of the current state of the Philippine Halal industry. Additionally, the paper provides policy recommendations to address the gaps and challenges identified in the analysis, with the goal of enhancing the global competitiveness of Philippine Halal exports and ensuring the sustainable growth of the sector.

The paper is structured as follows: Section 2 delves into the motivations driving consumers, firms, and governments to adopt Halal certification, emphasizing its role in addressing information asymmetry, fostering consumer confidence, and mitigating market failures. Section 3 examines the global Halal certification landscape, highlighting the challenges of divergent standards and efforts toward standardization. Section 4 evaluates the Philippine Halal Export Development and Promotion Act of 2016, analyzing its strengths and limitations in

supporting the industry. Finally, Section 5 concludes with actionable policy recommendations to strengthen the Halal certification system and enhance the Philippines' standing in the global market.

WHY IMPLEMENT HALAL CERTIFICATION?

Halal products are considered pseudo-experience goods under information economics (Adekunle and Filson 2020). Consumers can confirm that the product is Halal after consumption, provided they are highly familiar with Halal quality standards. This inherent characteristic of Halal products perpetuates information asymmetry, necessitating government intervention through certification systems.

According to the market for “lemons” concept introduced by Akerlof (1970), buyers, uncertain about product quality, may drive high-quality goods out of the market due to a reluctance to pay premium prices. Similarly, in the Halal market, consumers may hesitate to trust uncertified products, even if they are genuinely Halal, leading to potential market failures. Certification thus serves as a crucial mechanism to bridge this information gap, ensuring consumer confidence and facilitating market efficiency.

Furthermore, models developed by Leland (1979), Heinkel (1981), and Mishra et al. (2020) highlight the role of certification in standard setting, enforcement mechanisms, and consumer protection. These frameworks underscore the importance of effective policies that ensure credible certification processes and discourage fraudulent practices.

In a study conducted by Mohamed et al. (2013) on consumer confidence in Malaysia, it was found that misinformation about Halal products can significantly lower consumer trust, which in turn affects their purchasing decisions. This highlights the importance of ensuring that Halal products are accurately certified and that consumers can trust the integrity of these certifications. Moreover, the study by Aziz and Chok (2013) on the intention of non-Muslims to purchase Halal products in Malaysia revealed that Halal awareness, marketing, and certification had a profound effect on consumers' intention to buy. The research concluded that Halal certification itself had a more significant impact on purchase intention than general awareness of Halal

products, emphasizing the value that consumers place on officially certified products.

Firms still obtain certification, despite the additional costs. Their motivation for obtaining Halal certification can be explained through the lens of institutional theory, as discussed by Ab Talib et al. (2016). Institutional theory suggests that firms' actions and strategies are often shaped by external pressures from their environment. These pressures ensure products meet both regulatory and consumer expectations. They are categorized into three types: coercive, mimetic, and normative isomorphism. Coercive isomorphism refers to external pressures from regulatory bodies or the need for business legitimacy. Mimetic isomorphism is the tendency for firms to imitate successful competitors, especially when faced with uncertainty, in an effort to survive and thrive in a competitive market. Meanwhile, normative isomorphism pertains to industry norms and consumer expectations.

THE GLOBAL LANDSCAPE OF HALAL CERTIFICATION

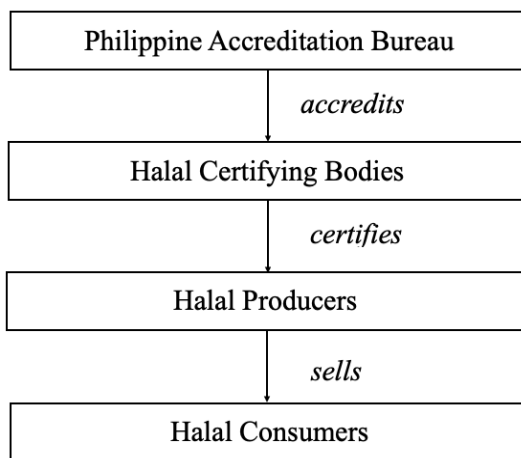
At the global level, one of the key challenges facing Halal certification is the lack of harmonized standards. Harmonization would enable exporters to adhere to a unified set of requirements and technical specifications to simplify access to multiple markets, thus encouraging them to undergo certification. However, diverse interpretations of Halal principles by Islamic scholars across regions have led to fragmented certification systems. This lack of standardization creates trade barriers, as firms must navigate a complex web of certification requirements depending on the country they are exporting to, thus incurring additional costs and logistical complexities.

Efforts to address this issue have been initiated by global and regional bodies. The Islamic Chamber of Commerce and Industry (ICCI) and the International Halal Integrity (IHI) Alliance have introduced the ICCI-IHI Alliance Halal Standard, aimed at harmonizing global certification practices. Similarly, the ASEAN General Guidelines on the Preparation and Handling of Halal Food provide a regional framework, though individual member states maintain their own national standards. Among these, Malaysia's Halal Standards (e.g., MS1500:2009) are widely regarded as benchmarks for compliance, earning global recognition.

Despite these efforts toward standardization, trade concerns related to Halal certification continue to rise within the World Trade Organization (WTO), with increasing notifications of Specific Trade Concerns (STCs). These concerns are a direct result of the growing number of Halal measures being imposed by countries. While efforts to create a global or regional standard that addresses these challenges are ongoing, the reality is that exporters must continue to comply with the diverse regulations currently in place.

THE HALAL EXPORT DEVELOPMENT AND PROMOTION ACT OF 2016

The Philippine Halal ecosystem is fundamentally shaped by the Philippine Halal Export Development and Promotion Act of 2016. This landmark legislation established the Philippine Halal Export Development and Promotion Board, tasked with overseeing the implementation of the Halal Export Development and Promotion Program. Further, this Act establishes the structure of the Halal certification process.



The Act mandates the Philippine Accreditation Bureau (PAB) to develop accreditation policies and guidelines for Halal certification bodies, ensuring that only accredited Halal certification bodies can issue Halal certification to producers. In response to Section 11 of the Implementing Rules and Regulation (IRR) of the said Act, the Manual of Procedures for Philippine National Halal Certification Scheme (PNHCS) of 2018 was issued on October 1, 2018.

The accredited Halal certification bodies can then conduct certification activities for Halal producers in accordance to the applicable Philippine National Standard (PNS). These are the standards issued by the government for Halal products:

- PNS 2067:2008 – Halal food – General Guidelines
- PNS/BAFS 139:2016 – Halal feeds
- PNS/BAFS 101:2016- Halal Agriculture and Fishery Products
- PNS/BAFS 102:2016- Code of Halal Slaughtering Practices for Ruminants
- PNS/BAFS 103:2016 – Code of Halal Slaughtering Practices for Poultry
- PNS/BAFS 49:2017 – Code of Good Agricultural Practices (GAP) for fresh fruits and vegetable farming

This regulatory framework provides consistency and legitimacy, enhancing the competitiveness of Philippine Halal exports. However, challenges such as discrepancies between local and international certification standards often necessitate multiple certifications, imposing financial and logistical burdens on exporters. SMEs are particularly vulnerable to these challenges, with many citing high costs and uncertainty as significant barriers (De Castro et al. 2021).

The active role of the government in certification and standardization aligns with Leland's (1979) conclusion that when industry sets standards, they are often too high or too low, with a tendency toward excessively high standards. He further highlighted potential conflicts of interest, where producers might transfer extra profits from certification to certifiers, deviating from "honest rating." To counteract this, Leland proposed the concept of "certifiers of certifiers." In the Philippine context, this structure is evident as the government issues Halal standards, with the PAB acting as the "certifiers of certifiers."

CHALLENGES FACING THE PHILIPPINE HALAL INDUSTRY

Lack of Harmonized Halal Standards

Despite the establishment of a structured legal and regulatory system, the Philippine Halal industry faces several significant challenges that hinder its full potential. One of the most pressing issues is the disparity between the Halal certification standards and requirements of

various importing and exporting countries (De Castro et al. 2021). This lack of harmonization poses a serious obstacle for Philippine producers, particularly SMEs, who are striving to enter the global Halal market.

In interviews with industry players, De Castro et al (2021) highlights concerns about the differences in certification standards were repeatedly raised:

“For small players, the greatest threat is when the local Halal certifiers are not recognized in the Middle East. They must exit because of acquired losses from shipped products that were not released at the port. Small players find it very expensive to find certifiers who are accredited in the Middle East.”

Another participant remarked:

“A lot of SME Halal-certified companies don’t have a clear idea of what really is the accredited Halal certifier... So, they will abruptly become strict and pull out (the goods). I’m just concerned (for our Philippine products) because of this big obstacle. Perhaps millions of dollars will be lost if this happens again.”

These observations underscore the pressing concern among Philippine exporters regarding the recognition of their Halal certification in key international markets. The lack of consistency and global recognition of Halal certification bodies further complicates the ability of Filipino SMEs to compete effectively on the international stage, putting them at a disadvantage relative to producers from other countries with more widely accepted certifications.

Cost of Certification

High certification costs further constrain the industry. Exporters report prioritizing one certification over others due to financial limitations, restricting their ability to access multiple markets with varying certification requirements. This not only limits market diversification but also hampers the competitiveness of Filipino firms in emerging Halal markets.

Moreover, Section 11(a) of RA No. 10817 mandates certification according to local standards, ensuring that Philippine products meet domestic requirements.

However, when importing countries demand different standards, producers incur additional costs, creating another hurdle for SMEs. It is therefore essential that Philippine certifications gain broader acceptance in international markets.

Regulatory Gaps

Another limitation of RA No. 10817 is the absence of penalties for firms falsely claiming Halal certification. This regulatory gap undermines consumer confidence in Halal-certified products. Senator Gatchalian expressed concern over this issue:

“Nanghihinayang ako sa halal industry natin at sa potensyal nito (I regret our Halal industry and its potential). It seems to me that it is very fragmented and the regulation is not so clear. Without penalties, regulations are just prescriptive and will be ineffective” (Abasola, 2023).

Heinkel's (1981) model on penalties in imperfect quality testing suggests that while penalties can increase total welfare by balancing consumer and producer surpluses, their optimal level must consider firm costs and consumer benefits.

Data Limitations

Another key hurdle is the limited availability of reliable data on the industry which benefits firms, consumers, and the government. Firms benefit from the availability of consumer demand data as they can predict what product and which country to sell. Although the Department of Trade and Industry's Export Marketing Bureau (DTI-EMB) provides some estimates, comprehensive data on Halal product demand remains sparse. Philippine Halal exports are typically based on rough approximations, relying on figures for exports of commodities like bananas, pineapples, carrageenan, crude coconut oil, dried mangoes, and calamansi to Muslim-majority countries, especially those in the Gulf Cooperation Council (GCC) region. However, these approximations do not fully capture the actual demand for Halal products. The market for Halal goods is not limited to Muslim-majority countries; there is also growing demand in non-Muslim countries driven by factors such as the increasing Muslim population due to migration, and the rising interest in healthier, ethically produced foods.

Consumers also benefit from the availability of data on Halal-certified products. If a centralized database of Halal-certified products is accessible, consumers can check the validity of the Halal-certification, discouraging firms from falsely claiming Halal certification.

The government can also use data to gain a deeper understanding of the impact of the Philippine Halal Export Development Plan such as monitoring of the growth of exporters since the implementation of the Act. This choice of policy to address information asymmetry is subject to factors such as the opportunity cost of producers with respect to quality level and sensitivity of demand of consumers (Leland 1979).

Awareness Gaps

Awareness of industry players in this Act also needs attention. Interviews by De Castro et al. (2021) revealed that six out of eight industry players were unaware of RA No. 10817. One participant commented:

"So many are still not aware of that (R.A. No. 10817)...we hope that more (manufacturers) will become more aware."

This raises an important question about the law's effectiveness in supporting the industry when the very stakeholders it seeks to benefit are not informed about it. Extensive promotional efforts may be required to increase awareness among industry players and maximize the potential of the Act.

Despite these challenges, there is still strong interest among firms in entering the Halal market, primarily driven by the recognition of Halal as a rapidly growing market segment. As one interviewee from De Castro et al. (2021) explained:

"We want to access the Halal market simply for that reason because we believe in statistics that it is a growing market."

Thus, while the Philippine Halal industry faces formidable obstacles in terms of certification recognition, cost barriers, and data limitations, the potential rewards of entering the global Halal market remain attractive to many businesses.

Given these challenges, it is evident that improvements are needed in both the law's implementation and the broader regulatory framework. Policymakers and regulators must address these gaps to build a more robust and competitive Halal industry in the Philippines.

CONCLUSION AND POLICY RECOMMENDATIONS

While the Halal certification industry holds significant potential for Philippine exports, it faces numerous barriers that hinder growth. These include differences in certification standards, high costs, data and regulatory gaps, and limited stakeholder awareness. To address these issues, the following policy recommendations are proposed to the Halal Board defined by RA 10817:

1. **Enhance International Recognition of Local Certification Bodies:** Pursue international accreditation to boost the credibility of Philippine Halal certifiers and ensure their recognition in key markets.
2. **Harmonize Halal Standards:** Advocate for regional and global harmonization of Halal certification standards to reduce trade barriers.
3. **Introduce Sanctions for Fraudulent Certification:** Implement clear penalties to deter false claims and maintain consumer trust.
4. **Develop Comprehensive Data Systems:** Create centralized databases to provide insights into consumer demand, certified products, and industry performance.
5. **Increase Awareness of RA No. 10817:** Launch outreach initiatives to educate industry players about the law and its benefits.

By addressing these challenges, the Philippine Halal industry can unlock significant economic opportunities, strengthen its global presence, and foster inclusive growth for local producers.

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