

Agricultural Tariffication Act: Tariff in lieu of Quantitative Import Restriction¹

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Commitment to the World Trade Organization – Uruguay Round Agreement

The Philippines' ratification of the General Agreement of Tariffs and Trade (GATT) or the World Trade Organization (WTO) Uruguay Round Agreement in 1995 was one of the important developments in the Country's trade policy reform effort (Piadozo *et al*, 2011).

Before the Uruguay Round Agreement, import quotas, import licensing, import prohibition and other non-tariff measures restricted agricultural imports. Under the Uruguay Round Agreement specifically on the Agreement on Agriculture, member-countries were committed to remove and convert quantitative import restrictions (QR) into ordinary customs duties corresponding to their *ad valorem* or according to value equivalent, or undergo the process called tariffication (Tariff Commission, n.d.).

In response, the Philippines opened up its agricultural market to other WTO member-countries establishing a tariffication system through Republic Act 8178. The law, otherwise known as the Agricultural Tariffication Act, was enacted on March 28, 1996.

Agricultural Tariffication Act (RA 8178)

The law has the following salient provisions that would harness the potential of the country's agriculture sector to be globally competitive through the imposition of tariff to imported agricultural products rather than use of quantitative import restrictions:

Tariff Commitment. In lieu of the quantitative restrictions, the maximum bound rates committed under the Uruguay Round Final Act will be imposed on the agricultural products whose quantitative restrictions are replaced by this law³.

Philippines, like other developing countries, is entitled to special and differential treatment. The out-quota tariffs, which are really tariff ceilings, are reduced by a minimum of 10% for each tariff line and by an average of 24% for all tariff lines within ten years (1995 – 2004). This is in contrast with those of the developed countries whose tariffs are cut by a minimum of 15% per product and by an average cut of 26% for all products over six years from 1995 to 2000 (Tariff Commission, n.d.).

¹ A short policy paper submitted to the Food and Fertilizer Technology Center (FFTC) for the project titled "Asia-Pacific Information Platform in Agricultural Policy". Short policy papers, as corollary outputs of the project, describe pertinent Philippine laws and regulations on agriculture, fisheries and natural resources.

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³ Lifted verbatim from Section 6. Tariffication

However, in cases of shortage or abnormal price increases in agricultural products, whose quantitative restrictions are lifted under this Act, the President may propose to Congress, revisions, modifications or adjustments of the Minimum Access Volume (MAV)⁴. MAV is the amount of imports of an agricultural product allowed to be imported into the country with a lower tariff as committed to the Uruguay Round Agreement.

MAV Mechanism. The law provides an equitable and transparent mechanism for allocating the MAV of agricultural products, whose quantitative restrictions are herein lifted, shall be developed and established, having the least government intervention, addressing the requirements of each geographical area, and without entailing any cost to importers/users of these products to the detriment of local consumers and other end-users⁵.

Importation under MAV scheme is administered by the MAV Management Committee (MMC) composed of the Secretary of Agriculture as Chairman, with the Secretaries of Agrarian Reform, Finance, Science and Technology, Trade and Industry, and Director – General of National Economic Development Authority (Tariff Commission, n.d.).

Repealed Laws. RA 8178 repealed other laws including RA 1296 (prohibiting importation of onions, potatoes, garlic and cabbages); RA 2712 (prohibiting importation of coffee); PO 1297 (centralizing importation of ruminants for breeding, slaughter and beef); PO 1483 (authorizing the importation of foreign cigar leaf tobacco and blending services); and sections of the Seed Industry Act, Magna Carta for Small Farmers and Virginia Tobacco Industry Act which subjected importation to rigid conditions. Through RA 8178, all agricultural products can now be freely imported into the country, except for rice.

Amendment in the National Grains Authority Act (P.D. 1485). A “special treatment” clause in the Agreement on Agriculture permitted retention of quantitative restriction on rice. Unlike other agricultural product, rice, which is the basic staple grain of the Philippines, was not tariffed. The National Food Authority has the first right to import rice in accordance with the country’s food security policy (Tariff Commission, nd).

As a measure to protect local producers, RA 8178 directs the National Grains Authority (which shall be later on renamed as National Food Authority) to establish rules and regulations governing rice importation. The volume to be imported by the NFA shall be set based on the prevailing supply condition, upon recommendation of an interagency committee. NFA shall be involved in the distribution thereof through cooperatives and other marketing channels to ensure a continuous supply of rice at stable prices across the country.

At present, the Philippines has a MAV of 350,000 metric tons for rice annually at reduced tariff rate of 40%, while importation outside MAV pay higher rates (Galvez, 2013).

Agricultural Competitiveness Enhancement Fund. To ensure the implementation of the law and avoid placing our local farmers at a disadvantage, the Agricultural Competitiveness Enhancement Fund was created.

⁴ Lifted verbatim from Section 6. Tariffication

⁵ Lifted verbatim from Section 7. Mechanism for the Implementation of Minimum Access Volume (MAV)

The proceeds of the importation of minimum access volume shall accrue to the General Fund and shall be deposited with the National Treasury. The entire proceeds shall be set aside and earmarked by Congress for irrigation, farm-to-market roads, post-harvest equipment and facilities, credit, research and development, other marketing infrastructure, provision of market information, retraining, extension services, and other forms of assistance and support to the agricultural sector.⁶

Conclusion

The Agricultural Tariffication Act aims to protect the local producers of agricultural products from unfair trade practices and ensure that the sector reached a global competitiveness level through the adoption of tariff in lieu of non-tariff import restriction. While the imposition of import tariffs may lead to increase in prices above world level, it allows no limits in terms of the volume of imports which eventually stabilizes prices. In the long run, the economy could benefit more from the adoption of import tariffs than implementation of quantitative import restrictions which limit the entry of commodities and may lead to unstable prices.

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⁶ Lifted verbatim from Section 8. Agricultural Competitiveness Enhancement Funds