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The Philippine Rice Tariffication Law: Implications and Issues

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ABSTRACT

The Philippine rice sector has always been the center of government agricultural policies. The focal points of the policies revolve around promoting food self-sufficiency, providing high income to rice farmers while making prices affordable to the consuming public. The accession to WTO provided for the revision of the quantitative restrictions (QRs) and reduce tariff protection. Rice was exempted from tariffication. The Philippines opened up imports on rice under a minimum access volume (MAV) which is in operation equivalent to QRs. The QR regime mandated for conversion into tariff protection from 2005- 2012 and a waiver to maintain QR up to June 30, 2017. The Philippines' membership to the WTO for 24 years aimed to counter the impact of the expected influx of cheap rice imports. The Rice Tariffication Law signed into law by President Rodrigo Duterte on February 14, 2019 amends the Agricultural Tariffication Act of 1996 that imposed tariff to agricultural imports except for rice. The law was prompted because of the surging inflation of rice price during the last quarter of 2018 after the rice stocks of NFA ran out. As Filipinos continue to struggle with inflation, the government found ways to temper rising inflation.

INTRODUCTION

Overview of Philippine rice industry

The Philippines became self-sufficient in rice in the 1970s and was a rice exporter to neighboring countries such as Indonesia, China, and Myanmar. However, with the rapid increase in population and limited land resources to produce the total rice requirement, the country slowly turned into a net rice importer. The Philippines is the second largest rice importer in the world next to China (Simeon, 2019). In 2017, the country imports rice mainly from Vietnam (52%) and Thailand (29%) (Santiago, 2019).

Rice is a highly political commodity because it is the country's main staple. It has always been the center of government agricultural policies. The focal points of the policies revolve around promoting food self-sufficiency, providing high income to rice farmers while making prices affordable to the consuming public (Tobias *et al.*, 2011)

The Philippines in the WTO

In 1995, the Philippines acceded to the WTO with the premise of revising QRs and reduce tariff protection. Rice, however, was exempted from tariffication. The Philippines opened up imports on rice under a minimum access volume (MAV) which is in operation equivalent to Quantitative Restrictions (QRs). The QR regime of the Philippines was mandated for conversion into tariff protection. The country obtained a special treatment for rice up to 2005, which was later on extended until 2012. The Philippines has been applying for extensions of QR on rice since 1995. Eventually, the Philippines acquired a waiver to maintain QR up to June 30, 2017.

The Philippines' membership to WTO for 24 years aimed to counter the impact of the expected influx of cheap rice imports. The country apparently has been extending protection primarily to safeguard the local rice farmers from increased competition of imported rice. Another reason the Philippines had been pushing for a two-year extension of the restriction is to achieve rice self-sufficiency by 2020. However, given that QR on rice shall be retained, consumers shall continue to bear the burden of overpriced rice, with the poorest households bearing the burden. Based on the 2012 Family Income and Expenditure Survey, the richest 20% of households only devote 3% of their spending on rice while poorer income groups tend to allocate greater share for rice (PIDS, 2012).

THE RICE TARIFFICATION LAW

The Rice Tariffication Law titled "An Act liberalizing the importation, exportation, and trading of rice, lifting for the purpose the quantitative import restriction on rice, and for other purposes" was signed into law by President Rodrigo Roa Duterte on February 14, 2019. This is also known as the Rice Liberalization Act or Republic Act No. 11203, which amends the Agricultural Tariffication Act of 1996 that imposed tariff to agricultural imports except for rice. Primarily, the law aims to lift the quantitative restriction (QR) on rice imports and replace it with a general tariff. The Agricultural Tariffication Act of 1996 served as the Philippine government's compliance to our obligation to WTO, lifting QRs and imposing tariff to agricultural products. The law aims to protect local farmers from the entry of more imported rice into the country through the imposition of 35% tariff on rice coming from member-countries of the Association of Southeast Asian Nations (ASEAN) like Thailand and Vietnam. For non-ASEAN countries, 40% tariff is imposed. The collected tariffs will be used to fund mass irrigation, warehousing, and rice research.

Objectives of the tariffication law

1. Fulfill our international commitment when we joined the World Trade Organization in 1995. Replace the QR on rice with another form of protection that is more transparent and generate revenues to support the sector – or a tariff.
2. Ensure the availability of rice in the domestic market for the accessibility of greater majority of the population by allowing more private traders (big or small) to participate in importing rice.
3. Lower domestic rice prices to levels that would be affordable to greater majority of the population.
4. Make domestic market function effectively and efficiently with much reduced/no government intervention.
5. Provide farmers equivalent protection with the imposition of 35 % or higher tariff rates on rice imports and preferential assistance to rice farmers, adversely affected by tariffication.
6. Provide opportunity for farmers to earn more in the world market. The law also lifted the restriction on rice exports to encourage farmers to produce much better quality heirloom/ traditional rice geared to exports.

Key provisions of the rice tariffication act

1. **Tariffication**. Tariffs are set at 35% tariff rate on all rice imports from ASEAN countries, and a 50% tariff on all imports from non-ASEAN countries.

2. **Lifting of quantitative restriction on imports and exports.** Removal of the QR will also increase imports and depress “palay” prices.

3. **Powers of the President.** Upon the recommendation of NEDA and as advised by the National Food Authority Council (NFAC), the President “may increase, reduce, revise or adjust existing rates of import duty up to the bound rate” of rice tariffs. In case of “imminent or forecasted shortage,” the draft IRR provides that the President may allow the importation of rice at a lower applied tariff “for a limited period and/or specified volume” to address the situation.

4. **Creation of the Rice Competitiveness Enhancement Fund (RCEF)**. A fund that will be created from tariff revenues of rice imports and will be used to directly support rice farmers and fund innovative undertakings of the government to further strengthen the rice industry. It aims to provide key interventions to support farmers and enhance their competitiveness and profitability, including farm machinery and equipment to improve farm operations, rice seed development, propagation, and promotion, expanded rice credit, and extension services. The RCEF will be allocated to rice producing areas and earmarked as follows:

    a. 50% will go to the Philippine Center for Postharvest Development and Modernization (PhilMech) to provide farmers with rice farm machineries and equipment;
    b. 30% will be released to the Philippine Rice Research Institute (PhilRice) to be used for the development, propagation and promotion of inbred rice seeds to rice farmers and the organization of rice farmers into seed growers’ associations engaged in seed production and trade;
    c. 10% will be made available in the form of credit facility with minimal interest rates and with minimum collateral requirements to rice farmers and cooperatives to be managed by the Land Bank of the Philippines and the Development Bank of the Philippines; and
    d. 10% will be set aside to fund extension services by PhilMech, Agricultural Training Institute (ATI), and the Technical Education and Skills Development Authority (TESDA) for teaching skills on rice crop production, modern rice farming techniques, seed production, farm mechanization, and knowledge/ technology transfer through farm schools nationwide.

5. **Rice industry road map.** The Department of Agriculture (DA), together with relevant agencies, will have to formulate a Rice Industry Roadmap to spell out the critical interventions that need to be put in place to assist the small rice farmers, especially those that will be most affected by the tariffication. DA Secretary Emmanuel Piñol issued Special Order No. 358 which created a National Rice Roadmap Team.

6. **Issuance of Sanitary and Phytosanitary Import Clearance for Rice for the Sole Purpose.** The law allows unlimited importation of rice as long as private sector traders secure a phytosanitary permit from the Bureau of Plant Industry and pay the 35% tariff for shipments from neighbors in Southeast Asia. This covers even rice importation for the purposes of donation during calamities and emergency situations. In these instances, the agency/office/organization or private entities, if they are based in the Philippines, will be required to secure phytosanitary import clearances (SPSIC).

7. **National Single Window Program**. A proposed measure the setting up of a single window system for rice by the Bureau of Customs to address rice smuggling.

8. **Exclusion and transfer of the regulatory function of the National Food Authority (NFA) to the Bureau of Plant Industry (BPI).** NFA will retain its power to maintain a rice buffer stock which will be used in emergency situations and to sustain the government's disaster relief programs. Rice for this purpose will be sourced solely from local farmers.

9. **Special Rice Safeguard.** The Implementing Rules and Guidelines (IRR) provides for a Special Rice Safeguard to help protect local rice farmers from sudden or extreme price volatilities. These will be imposed in accordance with RA 8800 or the Safeguard Measures Act and its IRR.

10. **Priority beneficiaries of mechanization.** There are 1,100 producing towns that have been identified as priority beneficiaries of mechanization in the form of tractors, transplanters, harvesters, dryers, and rice milling equipment.

11. **Rice Farmer Financial Assistance program**. Focuses on rice farmers, cooperatives, and associations adversely affected by rice tariffication. Also allocates tariff revenues in excess of Php10 billion to the Rice Farmer Financial Assistance program to compensate rice farmers who will lose income as a result of the measure. A portion of the excess tariff will be allocated to titling rice lands, expanded crop insurance, and crop diversification program.

Rice tariffication and inflation

The newly approved Rice Tariffication Law, approved by Congress on November 2018, will remove the National Food Authority's (NFA) power to import and distribute cheaper rice. With Senator Cynthia Villar as the principal author, the measure was prepared jointly by the Committees on Agriculture and Food, on Ways and Means, and on Finance. It is in substitution of Senate Bill Nos. 1476, 1689, 1839, taking into consideration Proposed Senate Resolution Nos. 143, 146 and House Bill No. 7735, with Senators Ralph Recto, Leila De Lima, Joel Villanueva, Risa Hontiveros, Grace Poe, Sherwin Gatchalian and Cynthia Villar as authors.

Pres. Rodrigo Duterte signed into law the Rice Tariffication Bill which was imposed recently on March 5, 2019. The law was prompted because of the surging inflation of rice price during the last quarter of 2018 after the rice stocks of NFA ran out. Further, according to Philippine Statistics Authority (PSA) data, rice was the number one contributor to inflation in September 2018, while food items in the consumption basket accounted for more than half of the inflation rate in the same month. Consumers bought regular-milled rice at an average price of Php 37.89/kg (US$ 0.72/kg) and well-milled rice at Php 41.93/kg (US$ 0.80/kg). Prices of rice have continued to go up since then. Farmers enjoyed the highest buying price for "palay" which was recorded at Php 22.00/kg. The rise in rice prices, both at the farm-gate and retail levels, contributed significantly to inflation. As Filipinos continue to struggle with inflation, the government found ways to temper rising inflation. One way of doing it is by passing the Rice Tariffication Bill.

On the other hand, according to the National Economic and Development Authority (NEDA), rice tariffication will directly benefit farmers and the poor through lower rice prices and increased government assistance to the agricultural sector. The newly-signed law provides for the establishment of the Rice Competitiveness Enhancement Fund (RCEF), which will pipe in Php10 billion (US$ 190.84) annually to the rice sector for the next six years. The RCEF is allocated for the procurement of farm machinery and equipment, rice development, propagation and promotion, as well as expanded rice credit and extension services.

Meanwhile, the NEDA is taking the lead in crafting the Implementing Rules and Guidelines (IRR) of the Rice Tariffication Law along with the Department of Budget and Management, Department of Agriculture, and other concerned government agencies to ensure the country's smooth transition to a new rice regime. This draft IRR takes into account the feedback and concerns brought up by various stakeholders during the drafting of the bill and after it was signed into law.

The following sections present the objectives, key provisions and possible implications and issues associated with the enactment of the Rice Tariffication Law.

Effects of rice tariffication

Positive

1. **Lower retail prices for consumers.** Possible savings for the consumers as it allows no limit in terms of the volume of imports which will eventually stabilize prices. However, in the long run, the economy could benefit more from the adoption of import tariffs than implementation of QRS which limit the entry of commodities and may lead to unstable prices.

2. **Address the rice shortage.** Would address the urgent need to improve availability of rice in the country, prevent artificial rice shortages, reduce the prices of rice in the market, and curtail corruption and cartel domination in the rice industry.

3. **Lower inflation rates.** The law will also reduce government's role in rice importation and lead to more rice imports by the private sector, thus, lowering rice prices and help tame inflation.

4. **Interventions to support rice farmers.** RCEF will provide key interventions to support farmers and enhance their competitiveness and profitability, including farm machinery and equipment to improve farm operations, rice seed development, propagation, and promotion, expanded rice credit, and extension services. Likewise, it will open up a window for farmers to export and contribute to the world market.

Negative

1. **New law lacks safety nets for Filipino farmers**. Farmer groups clamor that the new law will make them compete with cheap rice imports, making them more penniless. Measures should be in place to ensure that Filipino farmers will not suffer with the rice tariffication law and that "safety nets" are available for farmers. While it has its good points, the lack of government regulation worries stakeholders.

2. **Potential displacement of farmers, NFA employees, accredited NFA retailers, rice millers and rice by-product producers.** Aside from the obvious displacement of rice farmers, NFA employees, and some 90,000 accredited NFA rice retailers nationwide, the deregulation of rice imports goes beyond the industry. Some of the businesses and industries that will be affected by liberalized rice importation includes the following:

    a. **Millers.** There are around 6,600 registered rice millers all over the country, employing 55,000 workers. Industry stakeholders, in a position paper, said that a complete milling facility costs from Php 30 million (US$572,519.08) to Php 50 million (US$954,198.47)[1] . This would place the value of the whole industry itself at Php200 billion (US$ 3.82 billion) to Php300 billion (US$ 5.73) ((Orly Manuntag, Confideartion of Grains Retailers Association of the Philippines).

    b. **Animal feeds and beer industry.** A by-product of the rice milling process, the rice bran is used for making animal and aquaculture feeds. A shortage in local unhusked rice production would also mean there would be a drop in its by-product. If feed mills produce less, it would cause a possible increase in the prices of pork and chicken which use rice bran as major ingredient for its feeds.

       Another by-product which comes from the milling process is the brewer's rice or "binlid" which is used in manufacturing alcoholic drinks, particularly beer.

    c. **Biomass, construction industry.** A drop in local rice output will also mean a decrease in rice hull, which is used as fuel for biomass furnaces used in the provinces to provide electricity. Rice hulls are also used as a binder for cement and land fillers (Orly Manuntag, Confideartion of Grains Retailers Association of the Philippines).

3. **Enable cartels of the rice trade and will throw poor sectors into a worsened state of hunge**r. There is no guarantee that retail rice prices will be lower in the long run with unhampered importation. Relying on rice imports makes the country vulnerable to higher world market prices as well as to rice production and export decisions of other countries. In 2008, for instance, Vietnam, India and Pakistan restricted their rice exports amid rising global rice prices. Thailand also raised the idea of creating a global rice cartel similar to that for oil exporting countries.

Some salient issues on rice tariffication

1. Rice imports are cheaper than domestically produced rice. Under a free market, the market price of rice will decline with the influx of cheaper rice imports.

2. Liberalizing rice imports will help, but will not solve the Philippines' inflation problem.

3. Tariff are set at 35% tariff rate on all rice imports from ASEAN countries, and a 40% tariff on all imports from non-ASEAN countries. However, some experts claim these tariff rates are still too high, and lower rates (10% to 20%) might be more feasible in keeping with the central goal of making rice more affordable for Filipinos. While this will result in imported rice becoming more expensive, the flood of imported grains will still threaten local produce and worse, affects the farmers.

4. To ensure that the rice to be imported will not be infested by pathogens or pests like *bukbok* (weevils), the new law requires that all private players secure “sanitary and phytosanitary import clearances” from BPI before they can import. Past experience tells us that this could be prone to abuse (Dr. Ramon Clarete, University of the Philippines School of Economics).

5. The Rice Fund will be put to better use if it were focused instead on improving rice farmers’ access to credit and crop insurance (Dr. Emil Q. Javier, National Academy of Science and Technology).

CONCLUSION AND RECOMMENDATION

Much has been said on the ratification of the Rice Tariffication Act. However, the main concern is the negative impact of the rice tariffication law on local farmers, saying that the “over supply” of cheap rice could adversely affect them following its implementation. On the other hand, the law is seen to help expand the access of Filipinos to cheap rice that in return will prevent inflation pitch brought in large part by the supply. Nevertheless, the core concern of the government should be on how to prevent 2.4 million rice farmers and farm workers from getting poorer because of the implementation of the new law. Although special key provisions are already laid out to protect the farmers and the consumers, the focus is on the proper implementation so that everyone should benefit from the law.

The newly-signed law provides for the establishment of the Rice Competitiveness Enhancement Fund (RCEF), which will pipe in Php10 billion (US$ 190.84 million) annually to the rice sector for the next six years. The RCEF is allocated for the procurement of farm machinery and equipment, rice development, propagation and promotion, as well as expanded rice credit and extension services. RCEF is a package of support programs to help the farmers and serve as safeguard to cushion the sudden effects of inflation. However, it is imperative that DA to strongly support the local rice industry and diligently perform its mandated functions in identifying eligible beneficiaries which include farmers, other farm workers, rice cooperatives and associations. Most importantly, in crafting the IRR, research and development should be highlighted since it has been proven to help develop improved technologies and increase farmers’ income.

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