

NFA's Policy on Rice Importation: The Key Barrier to Competition

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Overview

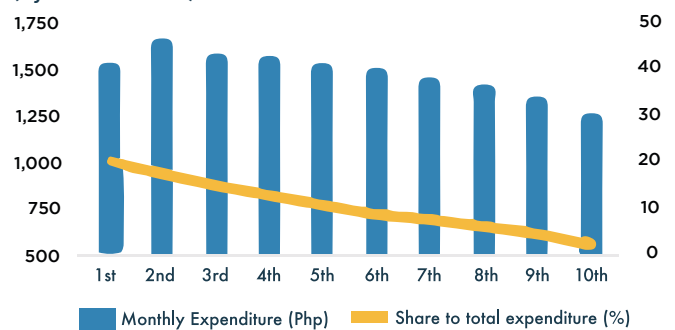
The country's rice sector had been heavily protected due to the statutory import monopoly of the National Food Authority (NFA). As a result, rice importation in the country had been limited, posing setbacks in times of scarce supply in the local market.

The quantitative restriction (QR) on rice, originally set to expire in 2005, was extended by the World Trade Organization (WTO) until 2012. Thereafter, the Philippines provided a waiver of extension until 2017. Since then, both the House of Representatives and the Senate, with technical inputs from the Department of Agriculture, National Economic and Development Authority, and NFA, have conducted proceedings to amend Republic Act (R.A.) 8178 or the Agricultural Tariffication Act in order to bring rice into compliance with international law. Emerging bills in both Houses provide for repeal of NFA's sole right to import rice.² Various government agencies, including the Bangko Sentral ng Pilipinas and the Department of Finance, back the passage of the Rice Tariffication Bill, which seeks the QR's removal.³ After series of discussions and public consultations with relevant stakeholders, the Rice Tariffication Bill has been enacted into law on 14 February 2019.

Both farmers and consumers are expected to reap benefits from RA 11203 or Rice Tariffication Act. The government estimates at most Php 28 billion per year in potential revenues from import tariffs. Said revenues will be used primarily to assist farmers enhance their productivity and improve the competitiveness of the rice sector.⁴

Rice prices are also expected to decrease by Php 4–7 per kg.⁵ This will be most beneficial to the poorest Filipino households, which spend an average of 21 percent of their total budget on rice (Figure 1). Rice is the top expenditure item among the poor. Thus, making the rice sector more competitive is one of the government's thrusts.

Figure 1. Average Household Expenditure on Rice (by income decile)



Source: FIES 2015, Philippine Statistics Authority (PSA)

*The 2015 national average household expenditure on rice per month was Php 1,493.

The Philippine Competition Act (PCA, RA 10667) mandates the Philippine Competition Commission (PCC) to provide policy advice to safeguard and promote market competition, in addition to merger control and investigation of potentially anticompetitive agreements and abuse of dominant position.

This Policy Note, based on the study conducted by Dr. Roehlano Briones,⁶ examines the implications of the chartered import monopoly of NFA to market competition.

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² Briones, R., "Competition in the Rice Industry: An Issues Paper," Philippine Competition Commission Issues Paper (2019)

³ Ballesteros, A. 2018. Rice tariffs to generate P28B for govt - NEDA. Retrieved from <http://www.manilatimes.net/rice-tariffs-to-generate-p28b-for-govt-neda/399482/>

⁴ Ibid.

⁵ Ibid.

⁶ Briones, R. (2019), op. cit.

Philippine Policy on Rice Imports and the Role of NFA

Established in 1972 by Presidential Decree (PD) No. 4, the NFA was granted the sole right to import rice in the country. Previously, the NFA allows private traders to import rice, but subject to issuance of import permits. It also imposed a ceiling on the amount of rice to be imported.⁷ Prior to the enactment of RA 11203, the Minimum Access Volume was set at 805,200 metric tons. Table 1 shows the specific allocations of the import volume, which were identified under the Country Specific Quota.

Table 1. Country Specific Quota as of May 2018

Country of Origin	Volume (MT)
1. China	50,000
2. India	50,000
3. Pakistan	50,000
4. Australia	15,000
5. El Salvador	4,000
6. Thailand	293,100
7. Vietnam	293,100
8. Omnibus Origin (Any Country)	50,000
TOTAL	805,200

Source: NFA

Aside from issuing licenses to private traders, the NFA also had the primary jurisdiction in providing licenses to other segments of the rice sector, i.e., marketing (retail and wholesale trade), operation of postharvest facilities (e.g., rice mills, threshers, and warehouses), transport, and even export of rice.

However, the newly enacted rice tariffication law abolishes the import monopoly power of NFA. NFA's functions, therefore, has also been limited to maintenance and management of the domestic buffer stocks. The law also lifts the quantitative import restriction on rice and is replaced by a 35-percent tariff for rice sourced from the Association of Southeast Asian Nations (ASEAN) countries. Meanwhile, a 40-percent tariff for rice will be imposed for rice sourced from non-ASEAN countries.

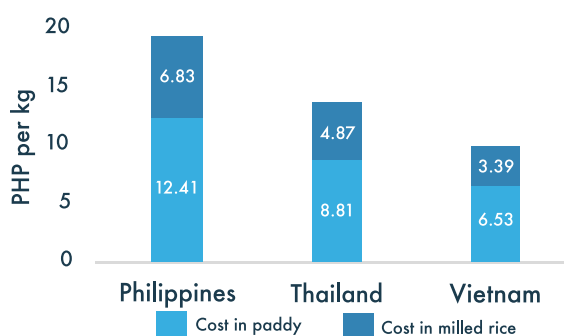
NFA's QR Policy as Barrier to Competition Role of NFA

NFA's QR policy was a key competition barrier in the rice sector by restricting free trade. This has long been a consensus among local and foreign scholars (see Briones⁸, Clarete⁹, Dawe¹⁰, and Roumasset¹¹). Free trade means fair

competition among producers, regardless of nationality, which allows consumers to have access to a wider variety of products and to purchase these at low prices. However, NFA's import monopoly and QR policy prevented Filipino consumers from reaping the benefits of market competition by constraining competition from foreign suppliers.

Local production has been outpaced by the country's growing demand. Producing rice in the Philippines is costlier than in Thailand and Vietnam. In 2013, milled rice production in the Philippines cost Php 19.24 per kg; it cost only Php 13.68 and Php 9.92 in Thailand and Vietnam, respectively.¹² Scholars attribute this to geography, as well as to higher costs of labor, machinery, fertilizer, and irrigation in the country.¹³ With this significant cost difference, importing rice from Thailand and Vietnam can mean more affordable rice prices for Filipino consumers.

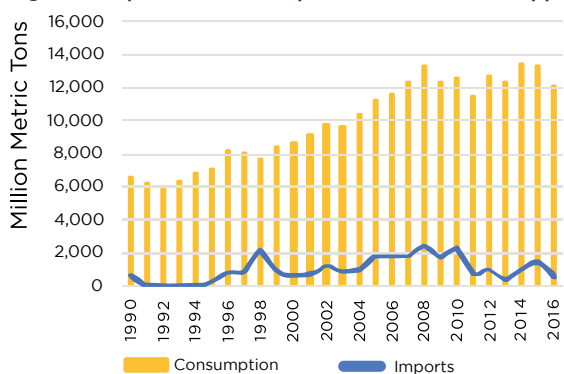
Figure 2. Comparison of Rice Production Cost (Philippines, Thailand, and Vietnam)



Source: Moya et al. (2016)

The QR policy severely limited the entry of rice imports into the country and hampered free and fair competition. Since 1990, imports have accounted for only 10 percent of the rice supply in the country on average. Imports are seen as crucial additions to local production and as supplement to the NFA's buffer stock during lean months and natural calamities. In recent years, our import-consumption ratio has been far lower owing to the government's rice self-sufficiency program.

Figure 3. Import and Consumption of Rice in the Philippines



Source: PSA

⁷ Briones, R., I. Galang, and L. Tolin. *Quantitative Restrictions in Rice Imports: Issues and Alternatives*. Policy Notes 2017-07. Makati City: Philippine Institute for Development Studies (2017).

⁸ Briones, R. and I. Galang. *Bakit Nagmahal ang Bigas Noong 2013? At Bakit Mahal Pa Rin? The Continuing Saga of Rice Self-Sufficiency in the Philippines*. Makati City: Philippine Institute for Development Studies (2014).

⁹ Clarete, R. *Should the Philippines Extend (Again) Its Special Treatment on Rice? Proceedings of the Policy Seminar on Philippine Rice Trade Policies and Rice Security: Future Directions*. Science City of Muñoz: Philippine Rice Research Institute (2012).

¹⁰ Dawe, D. *Rice Trade Liberalization Will Benefit Poor*. In "Why Does the Philippines Import Rice? Meeting the Challenge of Trade Liberalization," edited by D. Dawe, P. Moya, and C. Casiwan. Philippines: International Rice Research Institute (IRRI) and PhilRice (2006).

¹¹ Roumasset, J. *Market-Friendly Food Security: Alternatives for Restructuring NFA*. Working Paper (2000).

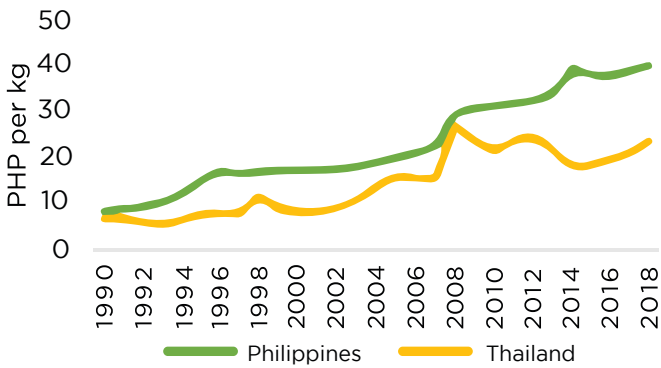
¹² Moya, P., F. Bordey, J. Beltran, R. Manalili, C. Launio, A. Mataia, A. Litonjua, and D. Dawe. *Costs of rice production*. In *Competitiveness of Philippine rice in Asia*, edited by F. Bordey, P. Moya, J. Beltran, and D. Dawe. Science City of Muñoz: PhilRice (2016).

¹³ Bordey F., P. Moya, J. Beltran, D. Dawe. *Competitiveness of Philippine Rice in Asia*. Philippines: PhilRice and IRRI (2016).

Limiting competition from the foreign sector has resulted in Filipino consumers spending more on rice. Local prices have consistently exceeded world prices. Using Thai prices as proxy, Thailand being the largest rice exporter, analysis has shown that the gap between global and local prices has widened over the years, reaching as high as Php 39.51 in 2014. According to Briones¹⁴, this pattern holds even after adjusting world prices by 10 percent to account for freight and ancillary costs. Figure 4 shows that the price difference has widened in recent years amid further advances in Thailand's rice production.

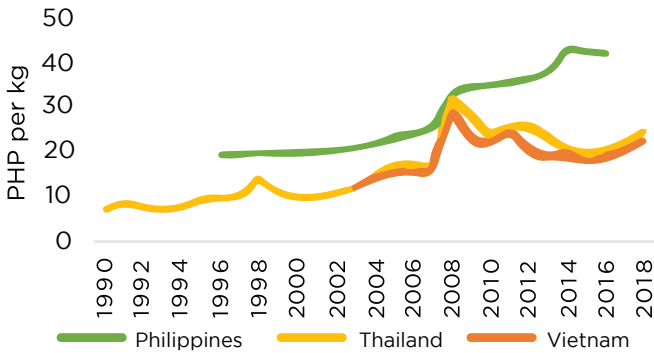
In early 2018, Philippine well-milled rice stood at Php 40.37 per kg, almost double compared with Thailand's Php 23.95 per kg. The same is true for premium rice in 2016: the local price of Php 42.3 per kg was more than double Thailand's Php 20.68 and Vietnam's Php 18.59.

Figure 4. Prices of Well-Milled Rice in the Philippines and Thailand



*Philippines - wholesale prices; Thailand - 25% broken F.O.B adjusted by 10%.
Source: PSA, World Bank

Figure 5. Prices of Premium Rice in the Philippines, Thailand, and Vietnam



*Philippines - wholesale prices; Thailand - 5% broken F.O.B adjusted by 10%; Vietnam - 5% broken F.O.B adjusted by 10%.
Source: PSA, World Bank

Statistical analysis shows that local prices are unaffected by world prices, underscoring the inability of cheap rice imports to effectively compete with expensive local rice.¹⁵

The negative impact of restricting competition pressure from foreign suppliers was particularly evident during the years when the government tightened imports as part of its drive toward rice self-sufficiency. Sharp dips in imports went hand in hand with sharp spikes in prices. In 2014, the price per kg of local well-milled rice jumped by 15 percent as imports

shrank from 1,087,000 MT to 398,000 MT - the lowest in more than two decades.

Figure 6. Previous Year Imports vis-à-vis Real Prices of Well-Milled Rice, Philippines

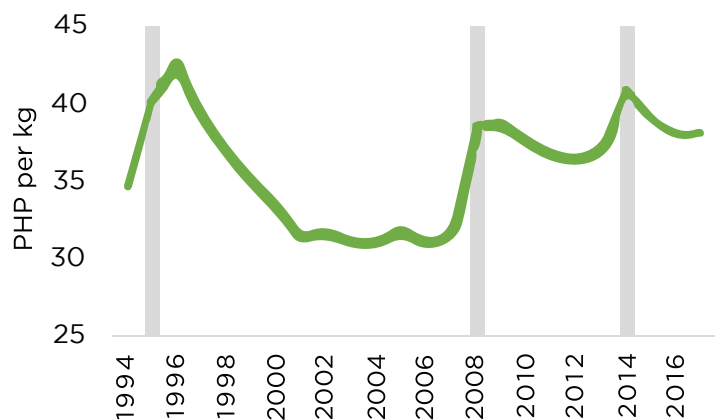


*Wholesale prices were used. All are in 2016 prices.
Source: PSA

The other consequences of NFA's QR policy were supply shortage and price uncertainty. In the past, optimistic rice harvests that did not materialize have led to sudden increases in prices such as in 1995 and 2014. Without the QR policy in place, the private sector could have acted swiftly, importing rice and mitigating the increase in prices.

Clarete¹⁶ argues that letting traders make their own predictions about market conditions will result in stable prices. Experienced traders have their own views of the market, but the likelihood that all these traders will have a wrong outlook is very low.

Figure 7. Real Prices of Well-Milled Rice, Philippines (2016=100)



*Wholesale prices
Source: PSA

To be fair, the QR policy managed to control local prices in 2008 when global prices were sharply increasing. But this came at a considerable cost: nearly Php 40 billion in NFA's financial losses and the country being blamed by the rest of the world for aggravating international rice prices.¹⁷

¹⁴ Briones, R. (2019), op. cit.

¹⁵ Ibid.

¹⁶ Clarete, R. (2012) op.cit.

¹⁷ Ibid.

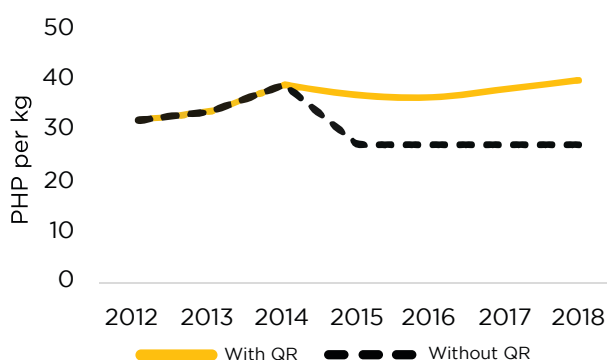
Briones¹⁸ also notes that while there are only 300 licensed importers in the country, thousands of market players abound in milling, warehousing, wholesaling and retailing nationwide. The limited number of importers naturally arised from the QR policy and was a concern since a market with few players is prone to anticompetitive practices.

Benefits of Lifting NFA's QR Policy on Rice

Filipino consumers are expected to gain tremendously from a more open, competitive rice sector. Allowing foreign competition by lifting the QR policy on rice imports will result in cheaper rice prices. With less spending on rice, the poor can have funds for health and education expenditures, thus, increasing the chances of improving their long-term income opportunities.

Doing away with the QR policy but keeping the 35 percent tariff rate on rice, Briones and Tolin¹⁹ estimate that imports will double, reaching more than 4 million MT. At the retail level, prices of regular-milled rice may decrease by 20 percent or a saving of Php 6.97 per kg for households.

Figure 8. Effect of Lifting QR on the Retail Price of Regular-Milled Rice, Philippines



Source: PSA and Briones and Tolin (2015)²⁰

The case of garlic provides further support that lifting the QR policy will make for more affordable rice prices. In 1996, RA 8178 replaced the QR on garlic with tariffs. After the effects of the 1997 Asian financial crisis, real prices of garlic began to significantly go down. In real terms, garlic is cheaper today than in 1996.

Briones²¹ notes that repealing the QR does not automatically translate to the removal of all anticompetitive distortions in the markets of onion, sugar, and garlic. A strong regulatory regime and a strong competition authority are crucial in ensuring that the gains of freer trade reach Filipino consumers.

The repeated extension of NFA's QR policy has been primarily driven by the fear that local rice farmers will be adversely affected. However, studies have shown that the effect of a more open rice sector to farmers can be positive, particularly for poor rice-farming households who are net consumers of rice.²² Dawe²³ found that it is the rich rice farmers who have reaped most of the benefits from the long-standing QR policy. Allowing entry of more imports will benefit the urban poor, non-rice farmers, fisherfolk, and subsistence rice farmers.

In addition, foreign competition may also encourage farmers to rapidly adopt technology to bring down the costs of rice production. Considering the Philippines' eventual compliance with its WTO commitments, maintaining the

QR policy may do more harm by delaying the transition of some of rice farmers toward crops that the country has a comparative advantage such as yellow maize, sugarcane, mango, coconut, banana, and pineapple.²⁴

Conclusions and Policy Implications

Allowing foreign competition to flourish in the rice sector is one of the low-hanging fruits for regulatory reform. For many years now, the QR policy has restricted foreign competition in the sector, resulting in Filipino consumers having to pay higher prices for rice compared with their ASEAN neighbors.

Given the Philippines' long-standing commitments to the WTO, the enactment of RA 11203 which signifies the imposition of tariffs in lieu of quantitative restrictions on rice is a big step towards rice liberalization. Tariffication allows consumers to purchase rice at lower prices and, at the same time, provide rice farmers with some level of protection. Revenues from tariffs will allow the government to provide safety nets for affected farmers and resources for improvements in rice production technology.

Apart from amending RA 8178 to remove the QR policy, the Philippine Development Plan 2017-2022 includes the amendment of the NFA's charter (PD No. 4 of 1972) as part of the government's legislative agenda. The removal of the QR policy is expected to unburden NFA from predicting market conditions and allocating import permits. NFA can now focus on its regulatory functions and reorganize toward maintaining domestic buffer stocks.

The efficient operation of the rice sector depends on free and fair competition throughout the value chain. Hence, assessing existing and upcoming government policies and regulations to determine whether or not these hamper competition is crucial. Through the National Competition Policy, the government can foster a culture of strong competition and a level playing field, not only in the rice sector but in other industries as well, for the benefit of all consumers.

¹⁸ Briones, R. (2019), *op. cit.*

¹⁹ Briones, R. and Tolin, L. *Options for Supporting Rice Farmers under a Post-QR Regime: Review and Assessment. Discussion Papers. Philippine Institute for Development Studies (2015).*

²⁰ *Ibid.*

²¹ Briones, R. (2019), *op. cit.*

²² Manzano, G. and S. Prado. *Distributional Impact of the 2008 Rice Crisis in the Philippines. UNCTAD (2014).*

²³ *Ibid.*

²⁴ Briones, R. *Domestic Resource Cost in Philippine Agriculture: Measuring Global Competitiveness of Key Commodities. Philippine Journal of Development 2014-2015: 41-42 (2016).*