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Deregulation and Tariffication At Last: The Saga of Rice Sector Reform in the Philippines

V. Bruce J. Tolentino and Beulah Maria de la Pena

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Abstract

Rice has dominated Philippine food security and agricultural policy for the last century. Central to the policy has been government control of rice trade, particularly of imports, implemented through import licensing and quotas, buffer stocking and industry regulation executed by the parastatal National Food Authority (NFA).

Since the early 1980s, many analysts have pointed out the rent-seeking and inefficiencies spawned by the restrictive trade and regulatory regime in rice. Many attempts to reform the sector failed, largely due to the political weight of rice protection and the NFA.

However, on 5 March 2019, Republic Act 11203 finally deregulated rice trade and domestic commerce by eliminating the import monopoly powers of the NFA and replacing quantitative restrictions on rice imports with tariffs. This paper documents: (a) the most important features of rice policy and its impact in the Philippines prior to 2019, and (b) the story of how the entire economic decision-making cluster of the Philippine cabinet (including the Department of Finance and the Bangko Sentral ng Pilipinas (Central Bank of the Philippines), backed by a popular President, and a collaborative legislature finally enabled rice sector deregulation and import tariffication in 2018-2019.

JEL classification: O24, L32

Keywords: RA 11203, rice deregulation, tariffication, National Food Authority

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Deregulation and Tariffication At Last: The Saga of Rice Sector Reform in the Philippines

V. Bruce J. Tolentino and Beulah Maria de la Pena[1]

1. Introduction

Rice has dominated Philippine food security and agricultural policy for the last century. Highlighting the policy has been government control of rice trade, particularly of imports, implemented through import licensing and quotas, buffer stocking and industry regulation executed by the parastatal National Food Authority (NFA).

Since the early 1980s, many analysts have pointed out the rent-seeking and inefficiencies spawned by the restrictive trade and regulatory regime in Philippine agriculture, particularly on rice. International finance institutions and some Philippine policymakers have also attempted efforts to liberalize the rice sector by eliminating import licensing and transforming quotas to tariffs; all such efforts failed, up to 2019. The earlier attempts failed largely due to the broad and persistent political weight and resistance of the NFA, joined by the various groups that had become captive by the regulatory regime. Finally, beginning 5 March 2019, the deregulation of rice trade and domestic commerce by cutting down the monopoly powers of the NFA and replacing quantitative restrictions on rice imports with tariffs was achieved with the passage of Republic Act 11203.

How was the reform of Philippine rice sector policy finally achieved, after decades of failed reform efforts? An earlier paper (Tolentino and de la Pena, 2011)[2] explored the various and multiple attempts at rice policy reform over the period 1980 – 2009 and the political economy factors that stymied the reform efforts. This paper updates the story, documenting: (a) the most important features of rice policy and its impact in the Philippines prior to 2019, and (b) the story of how the entire economic decision-making cluster of the Philippine cabinet (including the Department of Finance and the Bangko Sentral ng Pilipinas (Central Bank of the Philippines), backed by a popular President, and a collaborative legislature finally enabled rice sector deregulation and import tariffication in 2018-2019.

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[1] Respectively: Member, Monetary Board, Bangko Sentral ng Pilipinas (BSP), Philippines, and Agriculture Policy Expert. The expert assistance of Ms. Abigael Ilagan of the BSP Department of Economic Research is gratefully acknowledged.

[2] Tolentino, V. Bruce J. and Beulah Ma. de la Pena, Stymied Reforms in Rice Marketing in the Philippines, 1980 – 2009 in The Asia Foundation, *Built on Dreams, Grounded on Reality*, 2011.

2. Impact of Rice Policy Prior to 2019

2.1 Persistent Structures of Rice Policy and Control in the Philippines

A long succession of laws, institutions, and bureaucratic arrangements have implemented restrictive public policy and participation in rice and food markets in the Philippines. Prior to World War 2, the National Rice and Corn Administration (NRCA) was established in 1935 to control the two most important grain staples in the economy. In the post-WW2 era, the Rice Economic Board (REB) was organized in 1952, quickly followed by the Rice and Corn Coordinating Council (RCCC) in 1955, the Rice and Corn Board (RCB) in 1960, the Rice and Corn Administration (RCA) in 1962, and the National Grains Authority (NGA) in 1973.

The NGA was one of the first agencies created by former President (and virtual dictator) Ferdinand Marcos with the country under Martial Law from 1972 to 1986. In 1981 Marcos issued Presidential Decree 1770, which renamed the NGA the "National Food Authority" (NFA) and put most foodstuffs under the NFA's control.

However, with the Philippine economy having fallen into dire straits and subject to a joint economic rescue program of the International Monetary Fund (IMF) and World Bank (WB), the NFA's mandate and authority were reduced to cover only rice and corn (maize) under Executive Order 1028 of March 1985. However, the Marcos regime was unable to substantially move forward with the reforms agreed with IMF and WB, since by 1985-1986 the growing opposition to his administration had begun to cripple the bureaucracy, culminating in the *"people power revolution"* of February 1986. The "Yellow Revolution" soon led to President Marcos, his family, and cohorts fleeing the country and the assumption of Corazon Aquino into the Presidency.

The new "revolutionary" government under President Aquino immediately set about with reforms across sectors, including the liberalization of trade and commerce in agricultural commodities and goods. Leading the reforms were the Minister of Agriculture and Food Ramon Mitra and his Deputy Minister Carlos Dominguez[3]. Yet even in the reform-heavy aftermath of the "people-power revolution," rice trade continued to be the monopoly of, and heavily regulated by the NFA, while other food grains were liberalized. Continued protection of the rice sector was seen as crucial to maintaining a broad base of support for the coalition Aquino government, and thus the liberalization of rice policy was not pursued, despite such reform being strongly supported by a broad swath of economists and analysts[4].

It was only in 1996, under RA 8178, that NFA's control of and participation in corn trade and marketing was also removed as the Philippines entered into the process of accession toward membership in the World Trade Organization (WTO).

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[3] Mr. Ramon Mitra was elected Speaker of the House of Representatives in the period following the passage of the 1987 Philippine Constitution. Mr. Mitra's deputy Carlos Dominguez was appointed Secretary of Agriculture by President Corazon Aquino.

[4] See for example, the "Yellow Book" (1985) and the "Green Book" (1987), prepared by a coalition of economists and analysts for consideration by the Aquino government. The Yellow book dealt with reforms across the economy as a whole, while the Green book focused on reforms needed for rapid agricultural recovery and rural growth.

The NFA's participation in domestic rice trade and monopoly control of rice imports continued post-WTO accession even while the WTO Agreement on Agriculture required tariffication - the replacement of all quantitative restrictions on imports with tariffs. The Philippines invoked "special treatment" or a waiver on its commitments on selected products for "national food security" from 1995 to 2004.

In 1997, RA 8435 – the Agriculture and Fisheries Modernization Act (AFMA) prescribed a comprehensive set of strategies for "modernizing" the agriculture sector, even as it reinforced rice's special status by mandating self-sufficiency in the staple. On this basis, the Philippines succeeded in requesting from the WTO two extensions of its special waiver of commitments, first from 2005 to 2012, and again up to July 2017. This special treatment of rice in the Philippines' trade policies continued even as the country participated in the efforts of the Association of South East Asian Nations (ASEAN) to build a single regional market and achieve the ASEAN Economic Community.

Finally, in 2018-2019, Republic Act 11203 was formulated and passed into law on 5 March 2019. RA 11203 revoked NFA's sole authority to import rice and eliminated its regulatory powers over both domestic and international trade of rice. RA 11203 went further and also limited the NFA's buffer stocking function to procuring only domestically-grown rice. The law effectively redefined the country's instruments for rice food security from promoting domestic rice self-sufficiency through import restrictions to promoting accessible and lower-priced food through a competitive rice market.

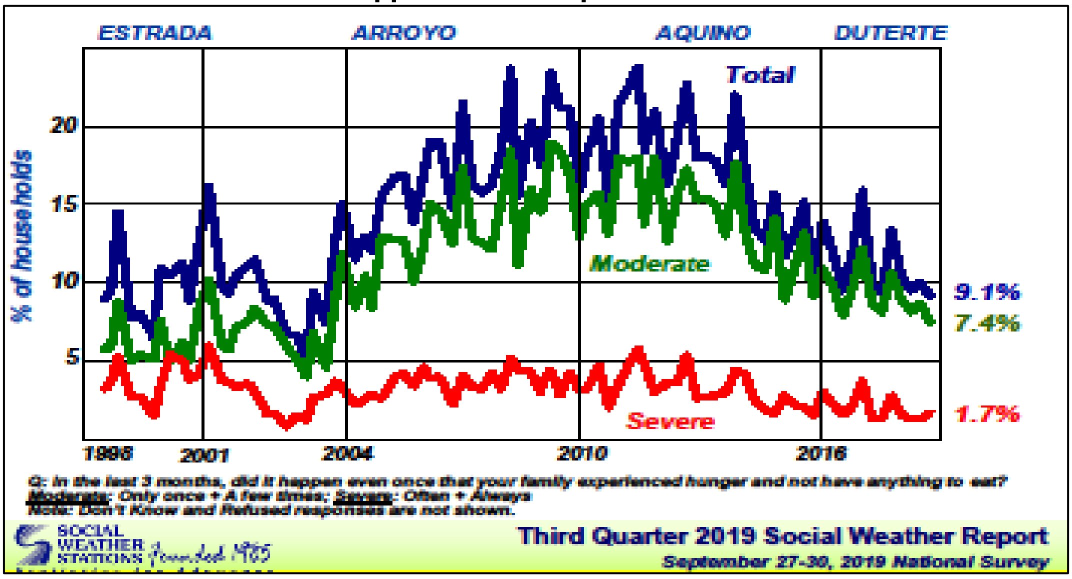
2.2 Long-Pervasive Hunger in the Philippines

RA 11203 (2019) – *"An Act Liberalizing the Importation, Exportation, and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and for Other Purposes,"* is significant because it could be the key to reducing hunger which has beset all of the Philippines' population for decades. Continuing government restriction on rice trade has raised rice prices borne by Filipino rice consumers to at least twice world reference prices. The high price of rice has also significantly contributed to persistent hunger among the poor, and also worsened pressures on wages, downgrading the competitiveness of Philippine labor.[5] Moreover, continuing import restriction and monopoly control of the rice industry has distorted incentives facing Filipino farmers by putting their livelihoods behind trade walls that have encouraged inefficient, high-cost and thereby uncompetitive production.

Figure 1 from the polling firm Social Weather Stations (SWS) shows that there has been no significant reduction in self-reported severe hunger incidence from 1998 to 2019. Moreover, self-reported moderate hunger significantly increased from 2004 to 2008, continued at high levels to 2014 and was on a downtrend but has yet to achieve the levels of the early 2000s.

[5] See Balisacan A. and M.L. Ravago (2003), Briones R, E. Antonio , C. Habito, E. Porio, and D. Songco (2017) and Montalbano P., S. Nenci and L. Salvatici (2015)

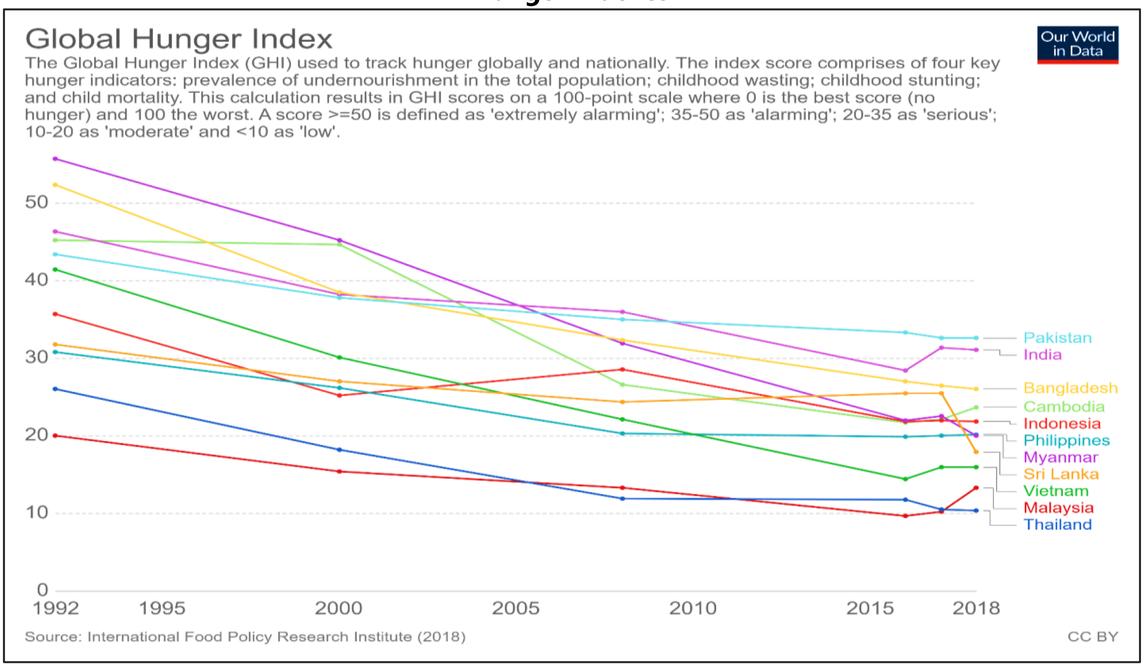
Figure 1
Social Weather Stations: Degree of Hunger in Households, Philippines, 1998- September 2019



Source: Social Weather Stations

Moreover, the country's progress in key hunger indicators – the prevalence of undernourishment, childhood wasting, childhood stunting, and child mortality -- has been slow. The Philippines' performance even pales in comparison to that of Myanmar, Sri Lanka, and Vietnam which started with poorer numbers in 1992 but ended better than the Philippines in 2018. Cambodia and Bangladesh also showed significantly improved numbers over the last two decades (Figure 2).

Figure 2
Hunger Indexes



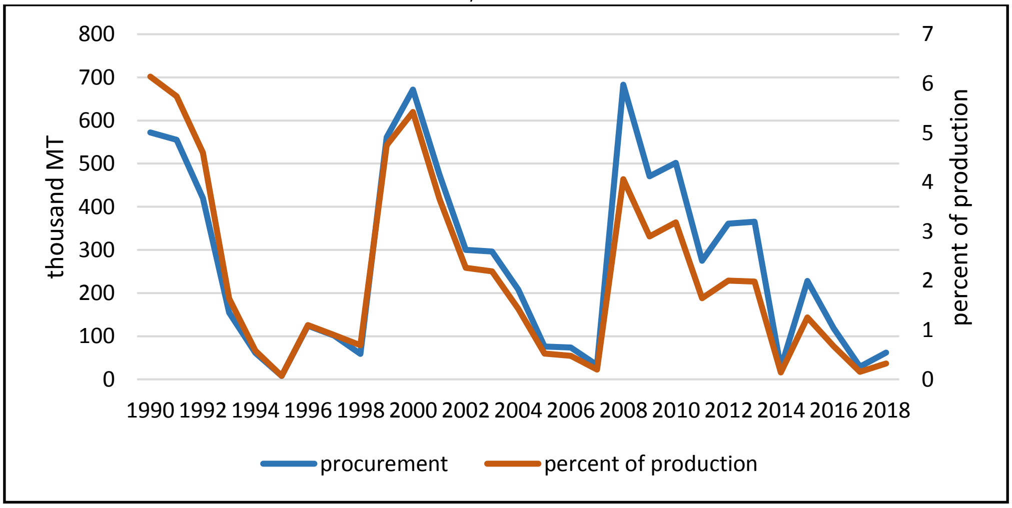
2.3 Rice Policy and Impacts Pre-RA 11203 (2019)

Prior to the Rice Liberalization Law of 2019, the country's food security was basically pursued through: (1) programs aimed at rice self-sufficiency implemented by the Department of Agriculture (DA), and (2) market interventions executed by the National Food Authority (NFA) for rice supply management and price stability.

Apart from regulating market participation and activities, the NFA's interventions in the rice market took the following forms: (a) procurement of *palay* or paddy (unmilled rice) to support a bureaucratically-determined minimum or floor farmgate price; (b) rice procurement and buffer stocking particularly for the "lean" months between rice harvests, and (c) rice release to the market - again subject to bureaucratically-set rice retail prices, and distribution to influence rice consumer prices. The NFA held an unrestricted monopoly on rice imports up to 1995, when the country joined the WTO. Subsequently the NFA administered an import tariff quota or the "minimum access volume" on rice imports as committed by the Philippines to the WTO, and allowed the private sector to import minimal amounts.

The NFA bought *palay* from farmers and farmer organizations at a support price, set at P17.00 per kilo in 2018. Cooperatives of farmers received an incentive that increased the purchase price to P21.00 per kilo. The support price, financed by the national government, was conceived as covering production costs and some notional "fair" level of profit for farmers. In practice, the support price was generally set just minimally higher than the average prevailing farmgate price, at times even below, given the level of government subsidies to NFA, supplemented by NFA's borrowing from the banking system (which was subject to the Government's sovereign guarantee). Given such constraints, the NFA has never been able to procure more than 6% of total annual production of paddy rice (Figure 3). NFA procurement averaged only 2.5% from 1990 to 2010, and even lower at 1% from 2011 to 2018.

Figure 3
NFA Palay Procurement
Volume and % of Total Production
Annual, 1990 – 2018

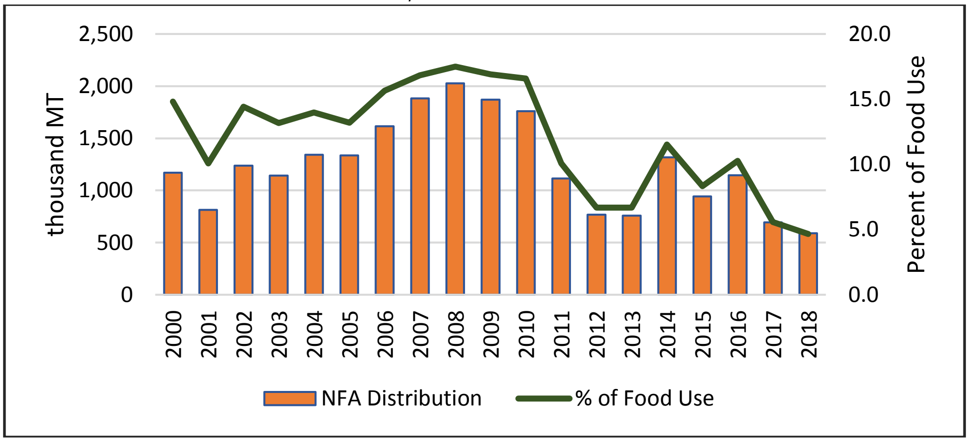


Source of Data: National Food Authority (NFA), Philippine Statistical Authority (PSA)

As buffer stock, the NFA aimed to maintain at least 30 days' supply in its warehouses as of June 1 of each year, and at least 15 days' supply at other points of the year. The 30-day level is a rough estimate of the level needed to ensure that the NFA is able to inject stocks into the market to moderate consumer retail prices during the rice-lean season from June to August. The 15-day level was considered the level enabling the NFA to provide rice supplies within 48 hours and normalize prices within two weeks in areas hit by calamities.

From its stocks, the NFA distributed rice to the public via NFA-accredited shops usually located in the wet markets at a price relatively lower than the prevailing domestic price. The objective was to moderate any increases in consumer rice prices. However, NFA's participation in the consumer market was at most only 18% of annual rice food usage (Figure 4), averaging only 12% from 2000 to 2017. The NFA's participation was even lower in 2011 to 2018, averaging at only 8%.

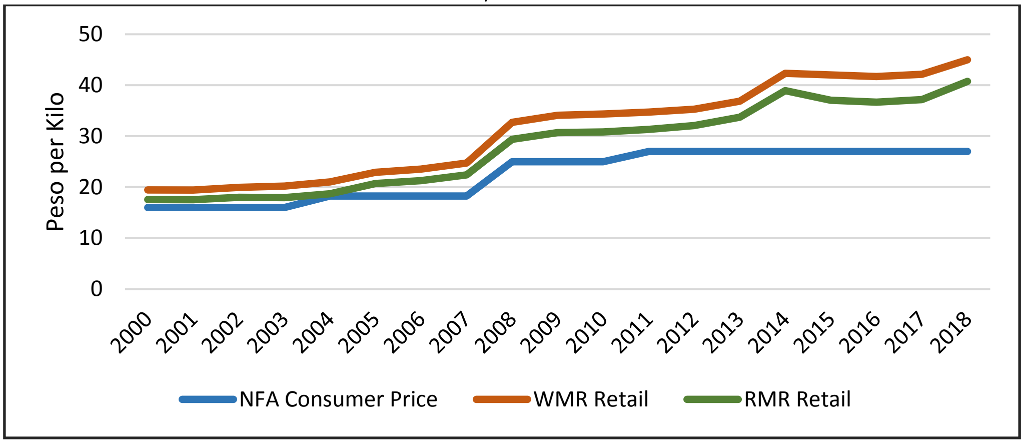
Figure 4
NFA Rice Distribution
Volume and Percent of Food Use
Annual, 2000-2018



Source of Data: NFA, PSA

With NFA's limited participation in the domestic rice market, average rice retail prices have remained much higher than the NFA rice release price (Figure 5). For instance, in 2018 the NFA was selling well-milled rice at P24 – P26 per kilo to retailers, with the final price to consumers set at P26 – P28 per kilo. Prevailing wholesale and retail prices in the same year averaged P42 – P53 per kilo in the national capital region. Cognizant that its releases are in effect subsidized, the NFA has focused its distribution in markets where poor communities predominate. Thus, the NFA's rice distribution activities have evolved into part of the government's social protection measures for the poor instead of being primarily focused at rice market stabilization.

Figure 5
NFA Price vs. Commercial Retail
Annual, 2000-2018

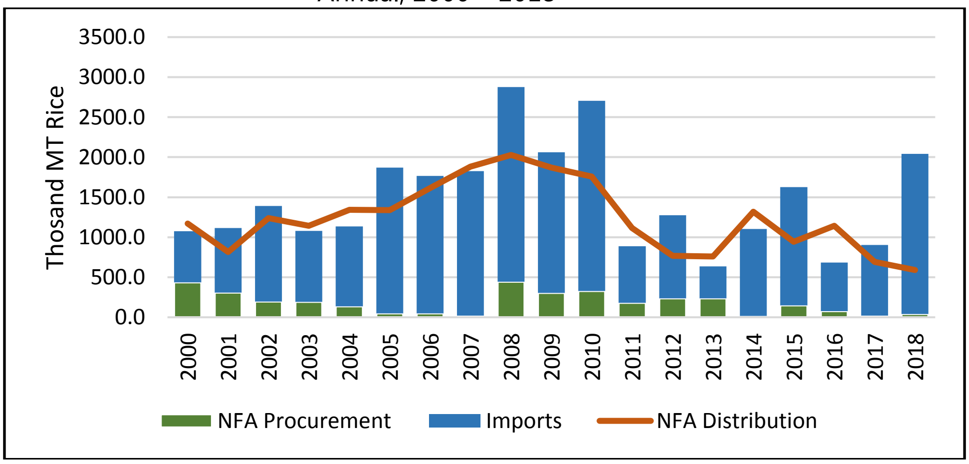


WMR – Well Milled Rice, RMR – Regular Milled Rice
Source: NFA, PSA

2.4 The NFA's Reliance on Imports

Since the NFA's domestic palay procurement was miniscule relative to total local production, NFA relied on imports far more than on local procurement to ensure that it had adequate stocks. NFA imports were regularly much bigger than its domestic procurement (Figure 6). This was the inevitable consequence of import prices being much lower than domestic prices, given that domestic prices have been encouraged to rise behind the country's trade wall.

Figure 6
NFA Rice Distribution, Imports, and Domestic Palay Procurement
Annual, 2000 – 2018



Source: NFA, PSA
Note: Imports include minimal amounts by authorized private traders

NFA imported not only for its buffer stock but also to fill in shortfalls in domestic production vis-à-vis estimated requirements. Estimates were arrived at through a process involving the bureaucracy of the DA – principally the policy and planning units of the Office of the Secretary and the DA-attached Bureau of Agricultural Statistics (BAS), plus the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA).

Just before the harvest weeks of each year, the Inter-Agency Committee on Rice examined the rice supply-use statistics, discussed any developments (including inclement weather, pest infestation, floods, droughts, etc.) that may have affected the harvest and assessed total production and potential harvest shortfalls (relative to forecast). Their recommendations were submitted to the Secretary of Agriculture who, in turn, recommended appropriate trade action to the NFA Council and the NFA – particularly estimated production shortfall relative to total requirements and thus recommended import volume.

In 2010, the NFA was transferred from the supervisory ambit of the Secretary of Agriculture to the Office of the President. A special post - the Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM) was created[6]. In May 2014, the assessment of rice production shortfalls and required imports fell to the Food Security Committee (FSC) of the National Economic Development Authority (NEDA). This function was retained by the FSC-NEDA when the NFA was placed under the Office of the Cabinet Secretary.

In general, the inter-agency's estimates of production performance tended to err on the high side, while its import estimates tended to be lower than optimal. This was driven by the overall attitude of the DA being sensitive to production performance, coupled with the avoidance of unrest from rice farmers who naturally resisted any actions that may reduce farmgate prices.

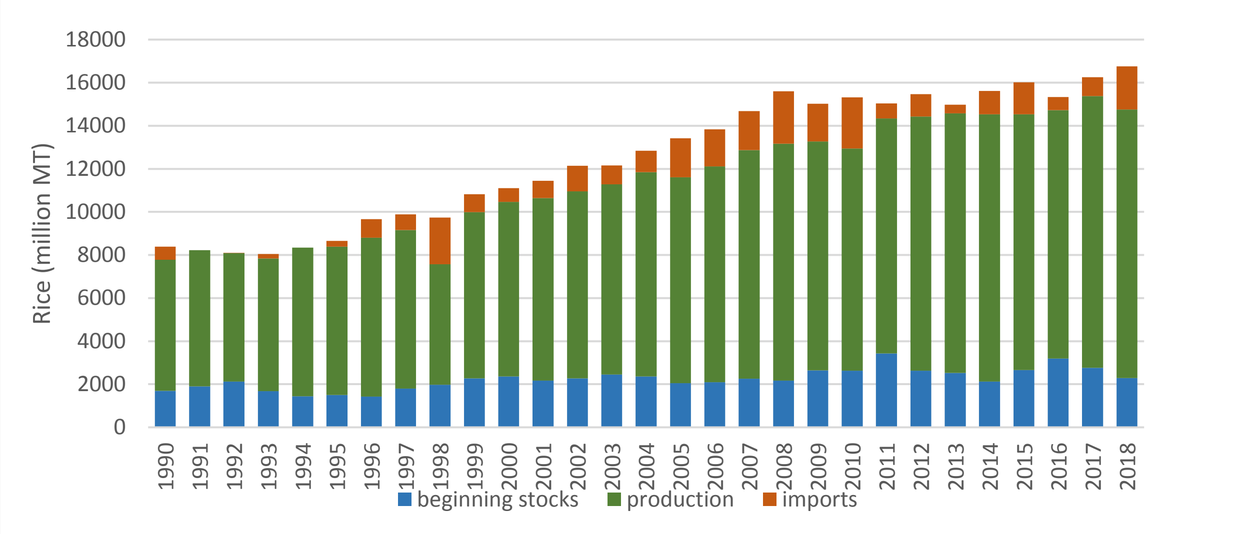
2.5 The Illusion of NFA Rice as "Safety Net" for the Poor

The NFA did not need to directly handle the importation of the volumes of rice needed to make up for any estimated shortfalls in domestic supply – the NFA could have simply allowed private sector players to import. However, the NFA handled imports directly in order to maintain its position in the domestic market, based on the illusion that the distribution of NFA rice moderated "high" domestic prices. The illusion was that while indeed the price of NFA-distributed rice was lower than domestic prices, such high domestic prices were in fact caused by NFA-enforced restrictions on imports and domestic commerce.

In reality, import volumes were controlled by government policy and NFA implementation to keep domestic rice prices high relative to the international market and thereby protect the domestic rice industry from international competition. The NFA's domestic rice distribution at prices lower than domestic market was presented as a "safety net" for poor households – something not needed if more imports were allowed. Because the restrictive import policy was part of the rice self-sufficiency efforts, imports remained small in the context of overall domestic supply (Figure 7).

[6] President Benigno Aquino appointed as OPAFSAM the former Senator Francisco Pangilinan, who, prior to the election of Mr. Aquino as President, had served as Chair of the Senate Committee on Agriculture and Food.

Figure 7
Domestic Rice Supply
Annual, 1990 – 2018



Source: PSA

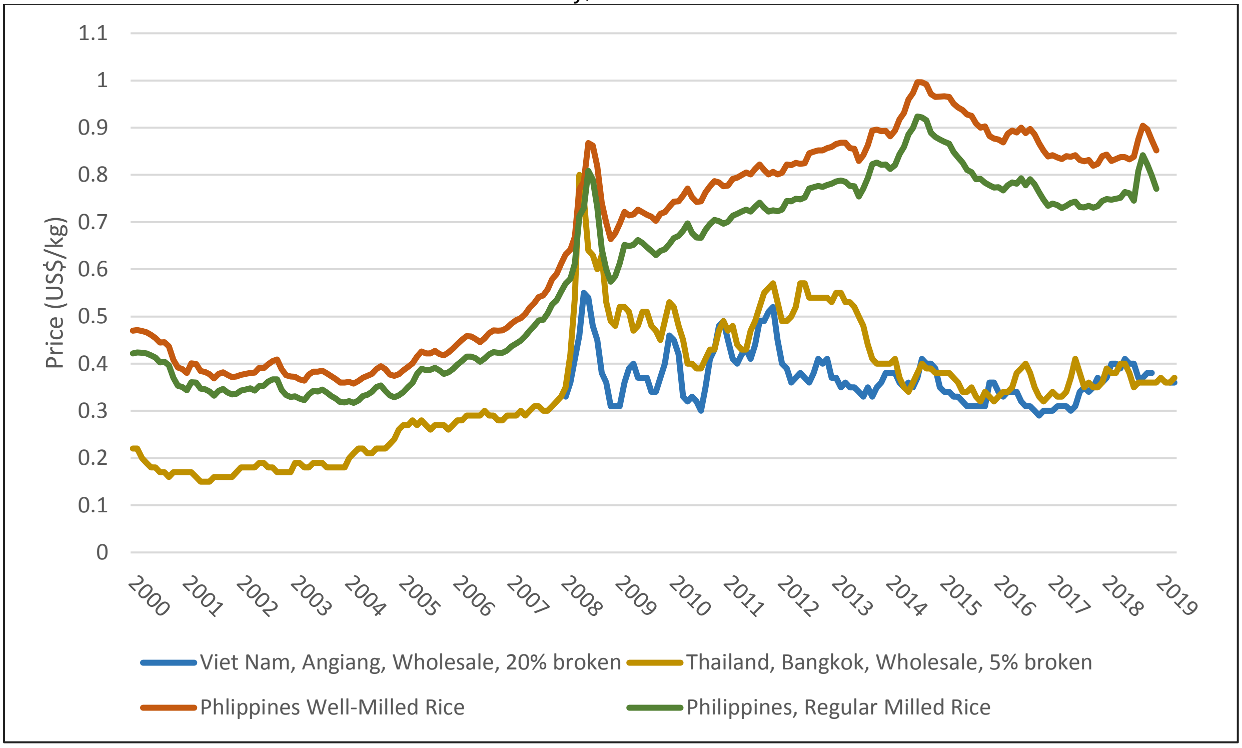
2.6 High Domestic Prices

Restrictive control of imports by government, exercised by the NFA, kept domestic prices for producers and consumers high relative to international norms (Figures 8 and 9). Filipinos generally paid two to three times for their rice compared to Thai or Vietnamese consumers. The gap between Philippine prices and those of Vietnam and Thailand was always wide but grew even wider after 2008-2009 when international prices spiked during the Food Price Crisis which reflected the NFA's frantic sourcing from international rice suppliers.

International prices have softened after 2007-08 but Philippine prices have continued to rise. The wholesale price for rice in the country registered an average USD0.87 per kilogram for well-milled rice and USD0.78 per kilogram for regular-milled rice from 2011 to 2018 while wholesale rice prices for the same period in Vietnam was USD0.36 for 20% brokens and in Thailand was USD0.41 for 5% brokens[7]. Philippine rice was priced about double compared to Vietnam and Thailand.

[7] The Philippines' monitoring of prices classifies rice according to degree of milling where regular-milled rice has bran layers present on more than 10 percent but not to exceed 30 percent of the kernels and well-milled rice has bran layers present on not more than 10 percent of the kernels. Monitoring of international prices classifies milled rice according to percentage brokens included in the rice. Regular milled rice is priced lower than well-milled rice and 20% broken rice is priced lower than 5% broken rice.

Figure 8
Wholesale Rice Prices: Philippines, Thailand and Vietnam
Monthly, 2000-2018

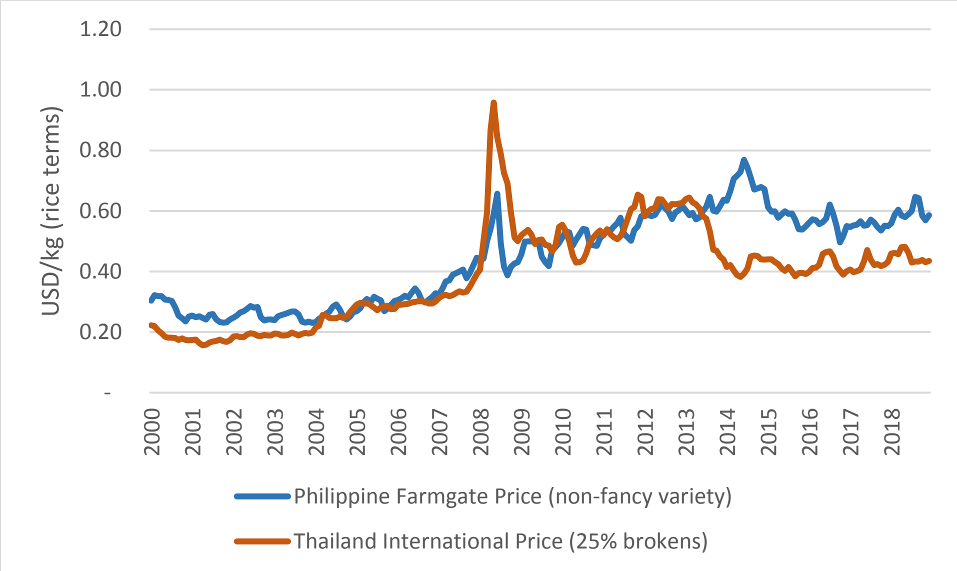


Source: FAO

Since the NFA's rice distribution activities were projected as a social program, the NFA did not allow any significant increases in the price of NFA rice to consumers. In fact, the NFA release price was a pan-national price, the same across the entire country, despite significant regional variations in local and regional distribution and marketing costs.

In general, the NFA was losing for every kilo of rice it sold because it was selling "low" to consumers while buying high from farmers. This is why the NFA preferred importing over domestic procurement – imports were cheaper, procurement was much easier, and the NFA made profits on imports but lost money on locally-procured rice. Milled rice from Thailand and Vietnam costs cheaper than palay farmgate in rice terms (accounting for milling recovery of 65%). Moreover, NFA's imports entered the country duty-free as the NFA received a subsidy for tariffs.

Figure 9
Thai FOB Price versus Philippine Farmgate Price
Monthly, 2000-2018
USD/kg in rice terms



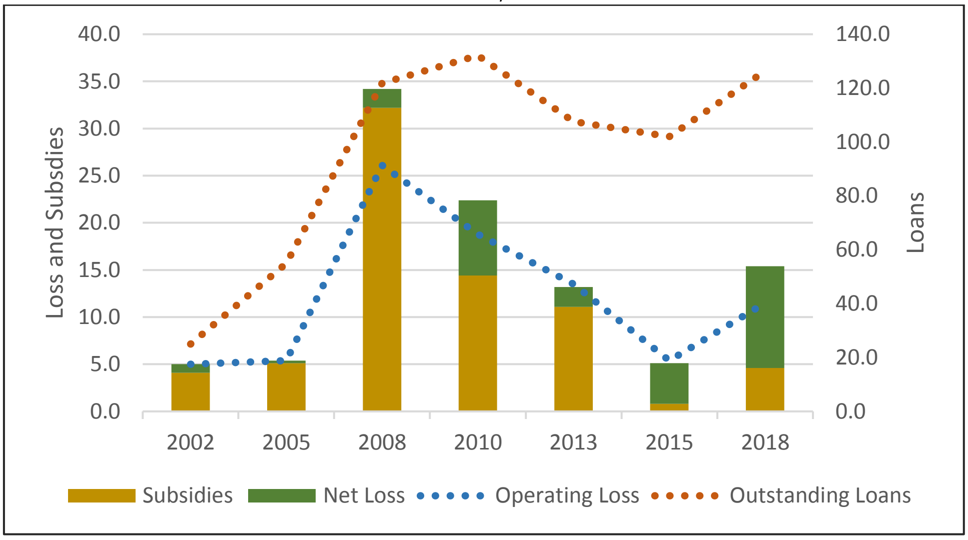
Source: FAO, PSA

2.7 Growing NFA Losses and Borrowings

By adhering to a strategy of "buy high, sell low", the NFA inevitably and unavoidably lost money on its operations – both in trading as well as regulatory activities. Thus, over the years the NFA required ever-growing annual budgetary subsidies legislated as part of the national budget, as well as ever-increasing borrowing authority from the commercial banking system, with cover by sovereign guarantees issued by the Department of Finance (DOF) (Figure 10).

Public subsidies for the NFA peaked in 2008 when rice prices, NFA rice distribution and NFA operating losses also peaked at the height of the food price crisis. With the exception of the 2008 crisis year when the subsidy level peaked, the budgetary allocation for NFA was never enough to offset NFA's operating losses. With repeated annual losses, NFA needed external funds to finance its procurement and importations. It borrowed heavily to defray the costs of imports as well as at least part of the domestically procured palay. The NFA's borrowings under sovereign guarantee ballooned in 2008 and stood at P126 billion in end-2018 from P25 billion in 2002. This level does not include loan interest, compounding the burden of supporting the NFA's continuing losses.

Figure 10
NFA's Financial Status (in P billion)
Selected Years, 2002-2018



Source: Commission on Audit (COA) Audited NFA Financial Statements

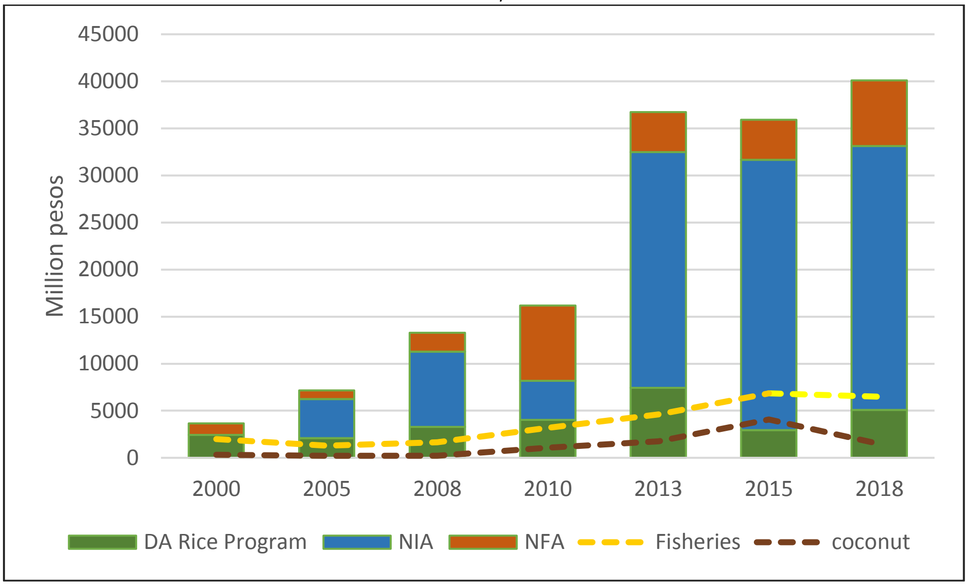
2.8 Substantial Budgetary Support for the NFA

The budgetary allocations for the NFA's participation in the procurement and distribution of rice peaked in 2010, surpassing support for both the rice productivity program of the DA, and the irrigation development program of the National Irrigation Administration (NIA).

Support for increasing productivity in rice via the DA waned relative to market support via NFA around 2010. Investment in irrigation, while acknowledged as the most important factor for increasing rice productivity nevertheless received negligible support in the 2000s but gained clear prominence starting in 2013. Support for the DA's rice productivity programs – mostly for input and post-harvest equipment and facilities for rice farmers had been fairly constant through the years.

Still, the importance given to rice is obvious in government appropriations. Overall allocations for the sector have dwarfed those for other significant subsectors in agriculture like fisheries and coconut (Figure 11).

Figure 11
Budgetary Appropriations for Rice
Selected Years, 2000-2018



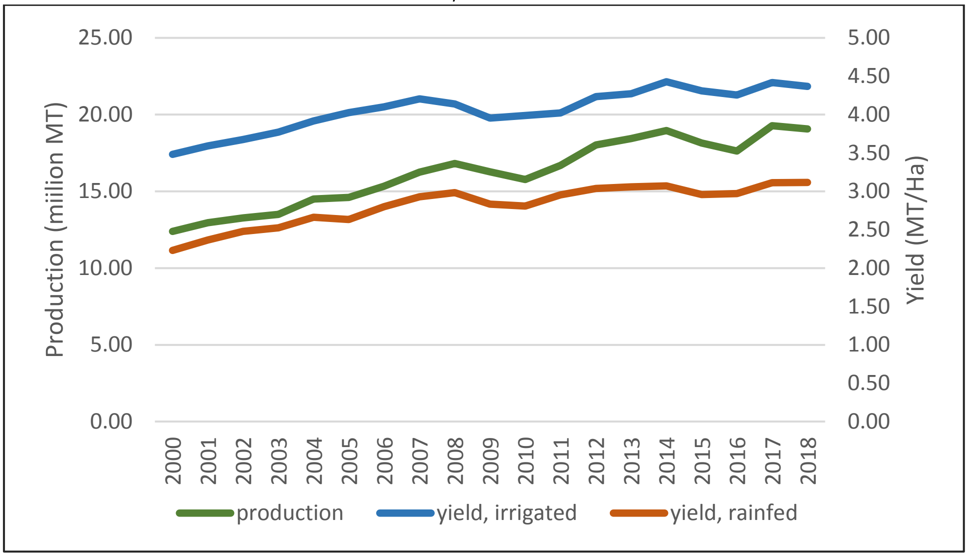
Source: General Appropriation Act (GAA), various years
Excludes appropriations for irrigation under foreign assisted projects and Bureau of Soils and Water Management.
Also excludes support for rice research in DA agencies like Bureau of Agricultural Research, Philippine Rice Research Institute and Philippine Center for Post-harvest Development.

2.9 Rice Productivity Programs

The DA's focus on increasing rice productivity for domestic food security has changed little through the years. However, the drive towards rice self-sufficiency became more pronounced with the passage of the Agriculture and Fisheries Modernization Act (AFMA) of 1996. Under the leadership of Senator then Agriculture Secretary Edgardo Angara, the AFMA was the most significant law enacted aimed to develop the Philippine agriculture sector in the last two decades. A listing of public programs for rice sector development is included as Appendix 1.

With all the support directed to rice, total rice production grew respectably from 2000 to 2007, faltered thereafter but still managed to effectively grow an average 2.4% per year over the 18-year period This is faster than the country's population growth estimated at 1.8% per annum. However, yield growth was sluggish at 1.2% per year for irrigated rice and 1.8% for rainfed rice production (Figure 12). Production growth was primarily gained via increases in hectarage, notably in irrigated areas.

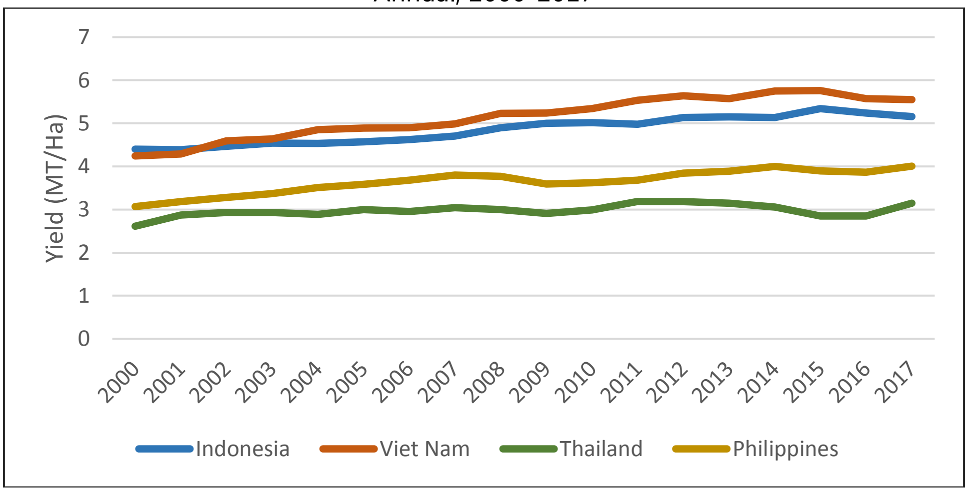
Figure 12
Rice Production and Yield
Annual, 2000 -2018



Source: PSA

Despite growth in total production, the country's average paddy yield failed to catch up with those of Vietnam and Indonesia. Nonetheless, Philippine yields remained higher than those of Thailand (Figure 13).

Figure 13
Comparative Paddy Yield
Annual, 2000-2017



Source: Food and Agriculture Organization (FAO) of the United Nations

2.10 Attempts to Reform NFA and Rice Policy

Given the issues surrounding rice policy and the NFA, reforming the institution has always been on the policy agenda. Many international development donors including the United States Agency for International Development (USAID), World Bank (WB), Australian Agency for International Development (AusAid), Asian Development Bank (ADB), Food and Agricultural Organization (FAO), Organization for Economic Cooperation and Development

(OECD), United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP), United Nations Development Programme (UNDP) and others supported studies and analyses to shed light on the issues in the rice sector and define options for policy and reform since as early as 1983.

Some of the many reforms and changes recommended in the donor-supported analyses were adopted but these tended to focus more on the NFA's involvement in commodities other than rice, as well as enhancing NFA's existing rice operations. The NFA's pervasive role in the rice market as both state trader and industry regulator, flagged as a conflict of interest as far back as the late 1980's, was never significantly reformed.

A listing of attempts to reform rice sector policy, including rice trade and the role of NFA, is in Appendix 2.

When the Philippines joined the World Trade Organization (WTO) in 1995, rice was exempted from the country's commitment to remove quantitative restrictions (QRs) on imports, in favor of tariffs. In return for the waiver, the Philippines committed to an annual import level of 238,940 MT of rice at 50% ad valorem tariff as its minimum access volume (MAV) on rice. In actuality, the country imported an average of 939 thousand MT per year or about four times more over the period 1995 to 2004. As regulator and state trader, the NFA administered part of the MAV allocation to private importers and brought in the rest.

In 2004, the Philippines' 10-year exemption of rice from tariffication was extended for the period 2005 to 2012. In the 2005-2012 extension, the MAV was made country-specific – that is, for rice imports to be sourced from pre-identified country suppliers. The MAV was also increased to 350 thousand MT at a lower 40% tariff.

In 2012, the Philippines again requested the extension of the tariffication waiver. This was granted after a very difficult round of negotiations. The result was that the MAV was more than doubled to 805,200 MT at 35% tariff.

Actual annual imports were, on average, five times the MAV in 2005-2012 but a mere 20% more than the MAV in 2012 -2017. The second extension also saw the country committing to lower tariffs on several non-rice products, like livestock, poultry, meat, peas, potatoes and oilseeds.

It was clear that trading partners extracted deeper commitments from the Philippines in exchange for agreeing to the 2nd extension. The Philippines more tightly curtailed rice imports in the latter years of the extension period, limiting imports to only 20% higher than MAV. Thus, a third extension attempt would likely result in the demands ("requests") of its trading partners for concessions exceeding what the Philippines would be comfortable with – i.e. higher volumes and lower tariff rates for rice MAV and lower tariffs or reduced NTBs on more agricultural products. Before the expiration of the waiver in 2017, the Cabinet Economic Cluster decided not to negotiate for any more extension.

2.11 Recent Analyses of Rice Sector Reform Options

In 2015-2016, the DA, IRRI and PhilRice collaborated on a study[8] comparing the country's rice productivity and production costs to those of China, India, Indonesia, Thailand and Vietnam. The results showed that the Philippines' cost of production was third highest – Indonesia and China have higher production costs while Vietnam, Thailand and India have lower.

In 2016, the DA requested the support of the World Bank on a study to evaluate the accomplishments, costs and benefits of the country's Food (primarily rice) Self-Sufficiency Program. Also, in 2016 the DA undertook nationwide consultations with rice farmers on tariffication after the lapse of the waiver in 2017.

For the DA, these studies and the consultations provided bases for needing more time to raise the productivity and competitiveness of rice; i.e. seeking to further extend the special treatment on rice, which was to lapse on July 1, 2017.

Indeed, rice sector reform in the Philippines has been an area of continuing interest to economists and development analysts over the last 40 years. A large body of literature has developed, with most works focusing on the economic and financial costs of the current policies that restrict trade and the monopoly powers of the NFA on rice trade. [9]

The studies continued just before and after tariffication to look at the ex-ante impact of the policy change on poverty, prices, consumption and welfare. Using computable general equilibrium (CGE) model simulation, Cororaton and Yu[10] conclude that rice tariffication, with tariff revenues used for cash transfers, would improve income distribution and reduce poverty.

Perez and Pradesha[11], using the International Food Policy Research Institute (IFPRI) model called IMPACT and a CGE model of the Philippines, project that with climate change and rice tariffication, Philippine consumer and producer prices of rice would be lower by 26 percent in 2025, while world prices would be minimally higher by 0.64 percent; Philippine rice consumption per capita would be higher by 6.3 percent; and there will be 2.1 million less hungry people and malnourished children in the country by 2025.

Briones[12], also using CGE, projects that liberalization would slow down the increase in farmgate price of palay to only 0.2 percent per year to 2030 from 1.5 percent to 1.7 percent per year without liberalization. Without liberalization, the retail price of rice would increase by 0.5 percent per year compared to -3.5 percent per year with liberalization. Projected total consumer welfare gain is equivalent to almost Php 200 billion per year to 2024, rising to Php

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[8] Bordey FH, Moya PF, Beltran JC, Dawe DC, editors. 2016. Competitiveness of Philippine Rice in Asia. Science City of Muñoz (Philippines): Philippine Rice Research Institute and Manila (Philippines): International Rice Research Institute.

[9] See for example David, C.C. and A.M. Balisacan (1995), Clarete, R.L. (1999), Tolentino, B. J. 1999), and Balisacan A and L. Ravago (2003), Baliscan, A, M. Sombilla and R. Dikitanan (2010)

[10] Assessing the Poverty and Distributional Impact of Alternative Rice Policies in the Philippines

[11] Philippine Rice Trade Liberalization: Impacts on Agriculture and the Economy, and Alternative Policy Actions.

[12] Welfare Impacts of Rice Tariffication

280 billion per year to 2030, with the biggest percentage increases, if not absolute increases, occurring among the lower deciles.

3. Rice sector Deregulation and Import Tariffication 2018-2019

3.1 Impetus for Successful Rice Sector Reform in 2017-2019

The contentious national elections of May 2016 ushered into office the administration of President Rodrigo Duterte. President Duterte appointed a new economic team led by Finance Secretary Carlos Dominguez III, who had served as Agriculture Deputy Minister and Secretary in 1986-1989, during the Presidency of Corazon Aquino. Dominguez had attempted to reform rice trade policy in 1986-1989 but had been frustrated. In 2016 he came into office as the Finance Secretary with fresh resolve to work with the Duterte cabinet toward reform of the rice sector.

The economic team of the Duterte administration was united in its vision for reform of the rice sector. Secretary Ernesto Pernia of the National Economic and Development Authority (NEDA) wrote in the 2016-2022 update of the Medium-Term Development Plan that the reform of NFA and rice trade was key to the revitalization of the agricultural sector. Budget Secretary Benjamin Diokno and Trade and Industry Secretary Ramon Lopez also supported the rice sector reforms. Governor Nestor Espenilla Jr. of the *Bangko Sentral ng Pilipinas* (Central Bank of the Philippines) expressed support for the deregulation of the rice industry as key to macroeconomic management and price stability.

Agriculture Secretary Emmanuel Piñol was initially resistant to the reform. This was understandable, since his primary constituency consisted of farmers. The members of the Cabinet and finally the President were persuasive in impressing Secretary Piñol with the larger economic benefits of the reform, which he embraced as the reform process moved into its latter stages.

In February 2017, a few months before the expiration of the second extension of the special waiver on rice tariffication granted by the WTO to the Philippines, the NEDA Board, chaired by the President, decided that the Philippines would no longer seek a further extension of special treatment of rice. This decision was reached after intense debate in the cabinet.

What was finally decided was that the Philippines would request the WTO for time to put in place legislation to effect the tariffication of the rice QR. In the meantime, on 27 April 2017 the President issued EO 23 to extend, until the rice QR was tariffied by law, the annual rice MAV of 805,200 MT and the “most favored nation” (MFN) tariff rates adopted on various agriculture products as committed by the Philippines in exchange for the 2012-2017 WTO waiver on rice.

In May 2017, the Economic Cluster of the Cabinet, Chaired by Finance Secretary Dominguez III, received a briefing on the overall budgetary costs of the national rice program, including the cost of NFA’s operations and rice market interventions. Secretary Dominguez also sat as the Government’s representative on the Monetary Board of the Central Bank of the

Philippines, which was increasingly concerned about rising inflation. The briefing was provided by a team led by Dr. V. Bruce J. Tolentino, then the Deputy Director-General of the International Rice Research Institute (IRRI). The briefing was based on analysis undertaken by Drs. Eliseo Ponce and Arlene Inocencio.[13]

3.2 Bureaucratic Missteps Facilitating Reform

When the Duterte administration took office in June 2016, the NFA was part of the structure of the Office of the President, an arrangement that had been instituted by the previous government of President Benigno Aquino. Prior to the Aquino regime, the NFA had been part of the structure of the Department of Agriculture.

In December 2016, the President appointed retired army officer Jason Aquino as NFA Administrator. Overseeing the NFA and many other agencies attached to the Office of the President was Cabinet Secretary Leoncio Evasco. In early 2017, open disagreement emerged between Secretary Evasco and Administrator Aquino on rice import procedures and pricing, including mutual accusations of corruption. In the immediate aftermath of the dispute, the President summarily fired an Undersecretary in Secretary Evasco's office, citing corruption.

A key aspect of the disagreement between Administrator Aquino and Secretary Evasco was the extent to which private sector players would be allowed to participate in rice imports, in contrast to exclusive government-to-government procurement. Administrator Aquino emphasized a dominant role for government while Secretary Evasco called for large private sector participation. The points of contention included speed and flexibility in procurement and delivery, pricing, and the ability (or inability) of private players in international rice trade.

As the intra-office conflict worsened, the NFA Council, charged by law to govern NFA operations, was rendered inutile.

More telling, as the conflict worsened, government and NFA decisions about rice imports and the management of stocks were seriously delayed, and when finally made, poorly-considered or hurriedly executed. Consequently the NFA's participation in the domestic rice market fell, and NFA-held stocks were drawn down to negligible levels by early 2018 – a very significant factor in the spike in headline inflation that peaked September 2018.

3.3 Legislative Initiatives on Rice Sector Reform

From the 1st Congress of 1987-2000, up until the 17th Congress of 2015-2018, there has been no lack of legislative proposals on the rice sector. Many bills have been proposed for consideration, with more bills proposing the diminution of regulation of the rice sector, as well as other bills seeking greater budgetary support for the NFA along with the continuation if not the strengthening of NFA's regulatory powers.

Congressional action on rice policy reform that led up to the tariffication law began in 2016 with congressional inquiries on the implications of the lapse of special treatment of rice

[13] Eliseo Ponce and Arlene Inocencio, "Toward a More Resilient and Competitive Philippine Rice Industry: Lessons from the Past Three Decades " IRRI, 2017.

under the WTO. The NEDA was a frequent resource for the congressional hearings, having set rice sector reform among the Duterte government's priorities in the 2016-2022 Medium Term Development Plan, which led to the NEDA Board decision not to renegotiate for special treatment. The Philippine Institute for Development Studies (PIDS) made several policy papers on the expected gains from and options with tariffication.

Bills to replace the rice QR with tariffs were filed in the House of Representatives starting February 2017 and, in the Senate, starting May 2017. Early supporters of tariffication were House Speaker Gloria Arroyo, Congressman Arthur Yap and Senator Ralph Recto. In December 2017, the Senate Economic Planning Office released a Policy Brief (PB-17-02) on the necessity of rice tariffication. In 2018, the Congressional Policy and Budget Research Department of the House of Representatives released a paper on the impacts of shifting the rice trade policy regime (PB 2018-04).

The initial bills focused on merely removing the QR in favor of tariffs and creating the fund for the tariff collections to be used for increasing rice productivity. However, the final version included the elimination of the NFA's regulatory functions because Senator Franklin Drilon, who authored the GOCC Governance Act of 2011, felt that true QR elimination could not succeed if NFA was to retain regulatory powers.[14] Finally, Senator Cynthia Villar, the Chair of the Senate Committee on Agriculture and Food, exerted her considerable persuasive powers to ensure that the Senate as a whole would support the draft bill that was put together under her close stewardship.

The buildup of support for tariffication began slowly in 2017. However, in 2018 with the emergence of conflict in the Office of the President on the management of rice import and stocks, legislative interest in NFA and tariffication intensified. The cabinet economic cluster was united in its call for rice tariffication, and as inflation worsened from March to September 2018, the positions of the executive and legislative branches, with the open support of the President, coalesced.

The list of bills filed in Congress that eventually led to tariffication of the rice QR is shown in Annex 3.

3.4 Key Factors That Hindered Previous Reform Efforts

Tolentino and dela Pena (2011) discussed the main hindrances to reforming rice policy in general and the role of NFA in the rice market in particular. These included: (a) strong resistance among stakeholders who benefit from the existing highly regulated system, (b) NFA's multiple and confused purposes making reform a complex undertaking with broad consequences, and (c) the short horizon of programs and policy formulation in the government favoring quick benefits over long-term gains.

The opposition posed by the stakeholders who benefit from the existing NFA systems was the strongest reform hindrance. These stakeholders include the small farmers and

[14] Senator Drilon was looking at the experience in sugar QR tariffication where the Sugar Regulatory Administration has been able to work around the law.

cooperatives able to sell palay to NFA; the retailers able to buy and sell NFA rice; the consumers able to buy NFA rice; the LGUs, civic institutions and politicians able to access NFA rice for constituents; the various suppliers of NFA for the packaging, storage and transport of palay and rice; the traders able to import under the minimum access volumes; and the NFA staff, including the NFA-supported provincial, regional and national farmers' advisory councils.

One can imagine that the strongest opposition to reform would come from the sectors, within and outside NFA, who take advantage of the opportunities for corruption inherent in NFA's operations. The small farmers who are not able to sell to NFA also oppose reform to reduce the NFA's "farmer-protecting" role in the market because they do not see any other significant government support for agriculture.

The other rice stakeholders who stand to gain from reform – the consumers who do not buy NFA rice and the rice traders who do not deal with the NFA --- can best be described as passive bystanders, perhaps unaware of how reform may impact them. Also, many are sympathetic with the notion that domestic agriculture should be supported and the NFA seemed like it was doing this.

The NFA's multiple purposes also made defining the reform complex. NFA supposedly supports the farmgate price of palay, moderates consumer rice prices, provides low-priced rice to the poor, stabilizes the supply of rice, and stands ready to provide rice supplies in areas affected by calamities. All these were laudable objectives, yet the NFA was not effectively fulfilling any of these mandates because, operationally, the NFA's various objectives were at conflict. Meaningful NFA reform requires that the agency focus on the function(s) NFA could do best. Whichever of the functions to de-emphasize, even if passed on to another institution with a different set of tools, would be hard to sell politically. Also, it was difficult to sort out which reform would affect what purpose as NFA's operations seemingly attempted to serve all objectives with the same set of tools.

Moreover, it did not help that the policy making and program implementation horizon in the country is largely short-term, dictated by the limited terms of elected and appointed officials. The limited terms of office (of three to four years) encourage patronage politics and officials who favor populist policies and programs that provide immediate benefits although long-term costs may be substantial. A reform of rice trade policy involves clear immediate displacements for many visible stakeholders while the major benefits, related to building a more competitive economy, accrue over the long term and are harder to isolate and quantify.

Even with widespread reports of inefficiency and corruption in the NFA, over the many years up to 2018, there was no political will to drastically redefine the organization. Instead, supervision over the institution was transferred back and forth between the Office of the President to the DA, hoping the transfers would address the inefficiencies and corruption.

More recently NFA supervision was moved from the DA to the Office of the Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM) in May 2015, to the Office of the Executive Secretary in June 2016, and back to the DA in April 2018. Without significant institutional reforms, these transfers accomplished little. Inefficiencies and corruption were made possible by the institution's set of functions.

3.5 Catalysts of Tariffication in 2018-2019

It took a unique confluence of events to turn the tide for NFA reform. The lapse of the WTO special treatment of rice, conflicts within the Office of the President and the NFA on importation strategies leading to critically low level of rice stocks and increasing rice prices combined with other pressures that led to a spike in inflation, united legislative action, and a President who listened to his economic officials were key catalysts for tariffication.

The special treatment of rice in WTO lapsed in July 2017. A bid for a third extension would have meant more and bigger concessions to trading partners, not just in rice but also in other products. The country would have had no allies since the other three countries that also opted for the waiver in 1995 had by this time given up or indicated giving up the special treatment with no unmanageable domestic impacts. Thus, the NEDA Board decided in February 2017 that the country will move to tariffy the rice QR and informed the WTO Committee on Agriculture accordingly.

Government missteps in stock management and imports starting in the 2nd semester of 2017 and persisting to 2018 saw the price of rice increasing with retail in NCR reaching as high as P48 per kilo for well milled rice in October, 14% higher than the P42 per kilo a year earlier. At first it was not clear that overall rice stocks were low – market manipulation by big traders was always offered and deemed as a possibility.

But it was clear that NFA management was in crisis, bringing rice trade policy under the spotlight. The relationship between the NFA Administrator and the NFA Council had broken down with a public airing of policy differences on major points including the deadline for first quarter 2018 MAV arrivals, on the timing of 2018 imports, and on the mode of importation. The NFA Council wanted to extend the deadline for MAV arrivals, the Administrator did not. The Administrator announced that the NFA had only 2 days' worth of stocks in February 2018 and wanted to import as soon as possible. The NFA Council did not give the clearance to import until May to protect 2nd quarter palay harvests. The Council felt the NFA was not buying locally enough, the NFA reasoned that its buying price was not competitive.

The Administrator wanted to import under government-to-government arrangement because it was faster; the Council opted for government-to-private sector imports for more transparency. With spiraling prices in August, the NFA Council allowed the private sector to import beyond the MAVs.

As other inflationary pressures – particularly increasing global oil prices came to fore, domestic rice prices rose. The first tranche of Tax Reform for Acceleration and Inclusion (TRAIN) was passed into law in December of 2017 reducing taxes for many individual taxpayers but imposing higher taxes on some items including cars, tobacco, sweetened drinks and fuel. The impact of the higher tax on fuel was exacerbated by increasing international price for oil in 2018 reaching a high in August 2018.

Prices for other food items like fish, meat, fruits and vegetables also increased substantially as weather issues also affected domestic production. Food items make up more than a third, with rice contributing more than 9 percent, of the basket of goods that go into the consumer price index and determine inflation (table 1).

Table 1
Components of CPI and Weights

COMMODITY	*Weights*
ALL ITEMS	*100.00*
I. FOOD AND NON-ALCOHOLIC BEVERAGES	*38.34*
A. FOOD ITEMS	*35.46*
Rice	*9.59*
B. NON-ALCOHOLIC BEVERAGES	*2.88*
II. ALCOHOLIC BEVERAGES AND TOBACCO	*1.58*
III. NON-FOOD	*60.08*
A. CLOTHING AND FOOTWEAR	*2.93*
B. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	*22.04*
C. FURNISHING, HOUSEHOLD EQUIPMENT AND ROUTINE	*2.95*
D. HEALTH	*3.89*
E. TRANSPORT	*8.06*
F. COMMUNICATION	*2.93*
G. RECREATION AND CULTURE	*1.41*
H. EDUCATION	*3.28*
I. RESTAURANT AND MISCELLANEOUS GOODS AND SERVICES	*12.59*

Figures may not exactly add up due to rounding
Source: Philippine Statistics Authority (PSA) and Department of Economic Research (DER)-Bangko Sentral ng Pilipinas (BSP)

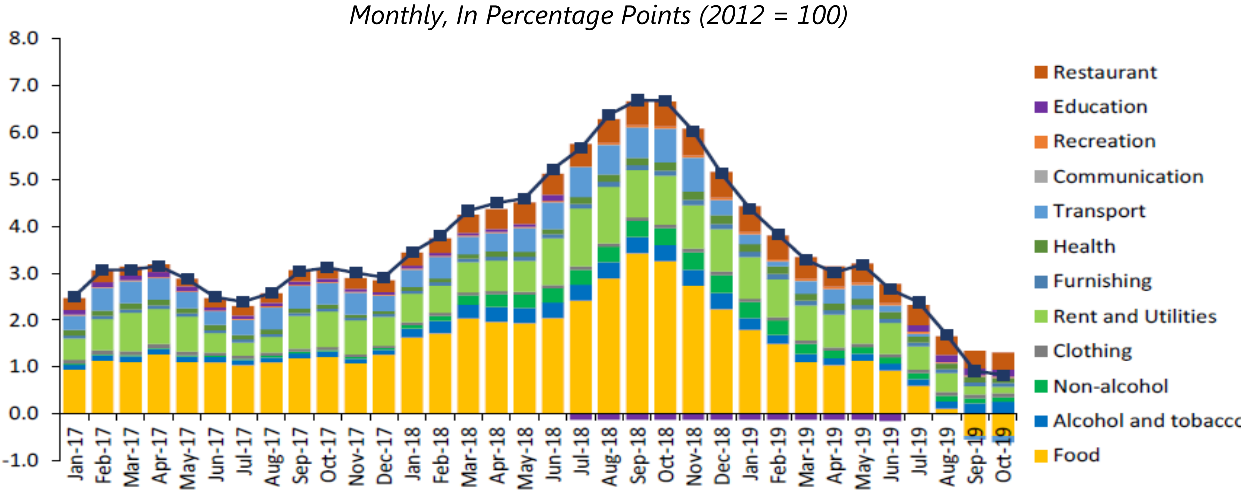
The country's headline inflation rate exceeded 4% by March 2018, breaking the Bangko Sentral ng Pilipinas' (BSP) policy rate range of 2-4%, peaking at 6.7% in September 2018. Year on year, the inflation rate for 2018 was 5.2 percent, much higher than the 2.9% average for 2017.

Figure 14
Headline Inflation
By Month, In Percentage Points (2012 = 100)

Source: BSP

The increasing rice price was significant among the components of inflation because its impacts are greatest on the lowest-income groups. Also, it is the one commodity for which government market participation – executed by the NFA - is supposedly in place precisely to stabilize the market.

Figure 15
Contribution to Inflation
Monthly, In Percentage Points (2012 = 100)



Note: Rent and utilities refers to housing, water, electricity, gas, and other fuels.
Sources: PSA and BSP staff calculations.

As the rest of government got involved in various efforts to stem the rice price increase, it became even more obvious that government regulation could not efficiently stabilize markets. The Department of Trade and Industry (DTI) imposed suggested retail prices in October 2018 -- P39 for local RMR, P44 for local WMR, and P39 for imported WMR, among others – with little impact.

Also, in October 2018, the President announced that rice imports should be allowed unimpeded. The DTI offered to facilitate NFA import clearances for big traders/ supermarkets it oversees. The DA Secretary suggested to legalize "smuggling" in Zamboanga area, where inflation had broken 9% and rice prices were highest. Secretary Piñol proposed that rice traditionally brought in as part of the traditional barter trade system between Southern Philippines and Malaysia and Indonesia would henceforth be brought in to some centralized location where some minimal tariff may be collected.

3.6 Achievement of Rice Liberalization – at Last

Congressional inquiries on rice and rice trade had begun in 2016 following the lapse of the WTO special treatment and rising domestic prices of rice. These hearings already saw presentations on the negative, but also positive, implications of tariffication. As the conflicts within NFA became known together with insinuations of corruption and as rice prices rose even as the government used available means to contain the same, it became clear to legislators that existing rice trade policies and NFA systems were ineffective and prone to corruption.

On the executive side, economic managers who had long been advocating for rice import tariffication for food security and economic efficiency, but never got the support of the DA, found the opportunity to convince the President of its merits when the conflicts between the NFA Administrator and Council highlighted key policy issues on rice importation and the resultant rice price increases became a significant driver of inflation.

Moreover, the *Bangko Sentral ng Pilipinas* (BSP) released a series of statements and analyses indicating that "supply-side factors explained the breach in the inflation target in 2018. These factors pertain to the sustained increases in domestic food and oil prices which drove second-round effects, as transport groups petitioned for increases in minimum fares while various labor groups lobbied for upward adjustments in minimum wages across the country. The Central Bank thus joined in the calls for reforms in rice industry management.

President Duterte has always maintained that while he has strong ideas about peace and order, making him popular, he listens to the wisdom of his appointed Secretary of Finance Carlos Dominguez III and NEDA Director General Ernesto Pernia on economic policies. It also helped that the knowledge of the Secretary Dominguez in agriculture is recognized, having once headed the DA. Senator Franklin Drilon's knowledge of government corporations and his continuing influence in the Senate enabled the inclusion of key reforms in NFA in the tariffication bill. With the business-savvy Senator Cynthia Villar leading as Chair of the Committee on Agriculture and Food, the support of the President on the removal of the rice

QR finally pushed the key legislators to get the bill enrolled as Senate Bill 1998/ House Bill 7735 and presented by Congress to the President on 15 January 2019.

The bill was expected to become law with the President's signature, or simply lapse into law on 15 February 2019. On 14 February 2019, after a last-meeting with petitioners against tariffication, the President demonstrated his commitment to tariffication by signing the bill into law as Republic Act 11203 *"An Act Liberalizing the Importation, Exportation and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and for Other Purposes."* Full effectivity of the law followed upon publication, on 5 March 2019.

Immediately following the President's signature, the key Departments, led by the NEDA, worked on the Implementing Rules and Regulations (IRR) of RA 11203. Many of the provisions of RA 11203 were self-executory, but there were aspects that required detailed guidelines for implementation. The IRR for RA 11203 were signed by the NEDA, and the Departments of Agriculture, and Budget and Management on 5 April 2019.

4. The Aftermath

At this writing in June 2019, the Rice Tariffication Law has been a little more than a year in implementation. The transition process is underway, with emerging gainers and losers. So far, the clearest gainers are Filipino consumers, who are now experiencing lower domestic rice prices. Overall, inflation has fallen to historically low levels, with annual inflation measured at a historically low 0.8% in October 2019 and 2.6% in February 2020![15]

At the moment, the losers due to rice tariffication appear to be the rice farmers. Farmgate prices for fresh and unmilled palay have fallen significantly, and have fallen faster and deeper than milled rice prices. The Federation of Free Farmers (FFF) and IBON Foundation estimates of rice tariffication impact by February 2020 place farmers income losses at P67.2 million[16] and 73.5 million[17], respectively. Estimates of the DOF places farmers losses at P22.9 million, because farmers are also consumers, hold some of their production for household food and benefit from lower inflation. Consumer gains of P64.3 million places total benefits to the economy at P41.4 million.

[15] Period after February 2020 saw added burden to the economy with the coronavirus disrupting normal business and living
[16] press release on February 22, 2020
[17] press release on February 4, 2020

Table 1
Estimates of Losses and Benefits from Rice Tariffication
April 2019 to Feb 2020 (11 months)
(in million pesos)

Source	Estimate
Net farmer income loss from lower palay price	**-27.1**
Farmer income loss	-32.7
Add: Non-marketable surplus (17%)	5.6
Farmer gain from lower prices	**4.2**
Add: Consumer gain of rice farmers from lower retail rice price	1.6
Add: Consumer gain of rice farmers from lower inflation in general	2.6
Net benefit to rice farmers	**-22.9**
Consumer gain from lower prices	**64.3**
Add: Consumer gain of all non-rice farmers from lower retail rice	21.6
Add: Consumer gain of all non-rice farmers from lower inflation in	42.7
Total net benefit to the people	**41.4**

Source: DOF
Notes: Using average prices in period 2015-2017 and April 2019 – February 2020; farmers' non-marketable surplus equivalent to 17%.

Thus, so far, farmers have not experienced the liberalized policy regime in full, and the production side of the rice industry has not had a chance to adjust to the new regime. The Rice Tariffication Law became effective in early March 2019, toward the end of the 2018-2019 dry cropping season. Traders and millers have had more flexibility to adjust to the more liberal trade regime. Recognizing the adjustment difficulties among farmers, the Philippine government is now implementing catch-up adjustment and transition support measures for the most badly-affected farmers, including cash payments, highly-subsidized loans, and grants of seed, farm machinery, and training support. All together, these measures have granted farmers benefits that, by DOF estimates, more than make-up for their estimated losses.

On the milled rice and rice trading side, prior to the enactment of the Rice Tariffication Law, the only entity authorized to engage in international trade was the NFA. No other entities, public nor private, had the authority – and thus the experience, contracts, and operational supply chains in international rice trade. It will take a year or two – two to four planting cycles, for the transition in trade to be substantially in place.

On the farm production side, exposure to international trade will change the competitive context of the rice industry. Those farmers who are uncompetitive in rice production will shift to other crops or take up other occupations or livelihoods. Those farmers who are competitive will take up the slack, particularly if farm consolidation and operational sizes of farms is allowed to grow, thereby enabling mechanization. Under the new law, the domestic industry will remain protected by a relatively high tariff wall of 35-40%.

Tariffication and liberalization also provides the opportunity for government to direct the substantial resources heretofore wasted in price support through the NFA toward those aspects that truly matter for the competitiveness and sustainability of the Philippines rice industry – support for productivity and resilience.

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Annex 1
Rice Programs, Key Objectives, and Major Strategies
1986 -2016

Programs	Key objectives/goals	Major Strategies
Masagana 99 (M99), 1986-87	To plant 691,529 hectares of irrigated area and 71,278 hectares of rainfed area in 58 priority and 10 associate provinces. Target: 64.2 million cavans of 50 kg (3.2 MMT); projected average yield per ha of 85 cavans (4.25 t/ha for irrigated) and 70 cavans (3.5 t/ha for rainfed)	• Use technology package, IR40 and IR42 • No-collateral production loans • Improve seed production and distribution • Improve distribution of fertilizer • Training for extension workers and farmers • Intensified pest and disease control campaign • National artificial rain stimulation • Formulation and implementation of policies on price support, procurement, and storage • Improve the management information system • Set up Rice Management Task Force
Rice Productivity Enhancement Program (RPEP), 1987-89	To increase palay production in 1990 to 9.7 MMT from the projected 9.3 MMT in 1989 and provide contingencies to cover probable losses due to inclement weather and allow a sufficient buildup of NFA stock carried into the 1990 lean season	• Fertilizer and seed palay exchange, 3 bags palay for 4 bags fertilizer and 1 bag certified seeds • NFA to lease out all its underused facilities • DA to accelerate construction of SWIPs and rehabilitation of large systems • Credit: enhance farmers' access to production credit • Price stabilization • Rice information dissemination
Rice Action Program (RAP), 1990-92	Increase 1990 production of rice by 3% to 3.5% over the 1989 harvest, stabilize 1990 prices of rice at levels for both consumers and producers, initiate continuing actions to promote rice productivity and increase rice yields through better availability and more efficient use of water, fertilizer, and quality seed; reduce postharvest losses	• Strengthen capability for rainmaking • Ensure supply of stock seed • Lower irrigation cost • Establish farm-level rice centrals • Repair communal and national irrigation systems • Provide transportation-handling facilities in trading routes • Construct SWIP • Expand and strengthen credit support • Intensify NFA procurement to absorb 5% of expected production in 1990

Programs	Key objectives/goals	Major Strategies
		• Expand fertilizer assistance to farmers • NFA to focus on grains stabilization • Improve irrigation management system • Intensify varietal and production and postharvest technology improvement activities • Increase use of organic fertilizer • Monitor the fertilizer market • Review and reform seed policies and programs • Establish seed certification laboratories in each province
Key Production Areas, 1992-96	Improving farm productivity by addressing the low use of certified seeds, and inadequate irrigation systems and postharvest equipment and facilities	• Subsidized certified seeds and organic fertilizers • Shallow tube well (STW) development
Gintong Ani Program, 1996-98	To attain palay production of 10.5 MMT in 1996, improve rice productivity from 3.5 to 5.0 t/ha in irrigated areas and from 2.0 to 3.0 t/ha in nonirrigated areas, enhance farm income and stabilize prices of palay and rice at levels equitable to both producers and consumers	• Soft loans for farm inputs • Remove subsidies on output and input prices • Remove nontariff barriers • Provide efficient support services, growth in productivity, and increased expenditure on R&D
Agriculturang Makamasa Program, 1998–2000	Cover 300,000 to 500,000 ha of rice production area in all provinces with irrigation facilities; in wet season 1999-2001 (4 seasons), yields will be analyzed; in dry season 2001 to 2004 (6 seasons), production technologies will be widely implemented to achieve high yields of 5-7 t/ha during the wet season and 7-10 t/ha during the dry season. Average yield will be 5-6 t/ha.	• Provide support to LGUs to attain target yield increase • Avail of trade and fiscal incentives • Promote production-intensifying cost-reducing technologies • Tap expertise of state universities and colleges (SUCs) • Increase public investment in irrigation, postharvest facilities, FMRs, and farm mechanization • Improve production marketing systems • Improve quality of seeds • Monitor rice supply situation in deficit areas
Ginintuang Masaganang Ani Countrywide for Rural Employment and Services (GMA-CARES), 2001-10	To increase rice yield by 9% and farm income by at least 10% per year, reduce postharvest losses by at least 1% per year, generate additional jobs in hybrid and inbred rice seed production and cultivation, increase palay production from 14.49 MMT in 2004 to 15.12 MMT in 2005, 15.88	• Fertilizer subsidy of PhP 500 per farmer and subsidy of certified and hybrid seeds • Location-specific and LGU-centered program planning and implementation • Adoption of precision rice farming with latest technologies

Programs	Key objectives/goals	Major Strategies
	MMT in 2006, and 16.67 MMT in 2007, and increase yield by 20% from 2004 to 2007	• Strengthen commercialization technologies • Focus on state-of-the-art postproduction technologies • Improve irrigation services and systems • ESETS Innovation: Palay Check • Make credit facilities accessible • Develop marketing system
Agri-Pinoy Program, 2010-16	To produce our domestic rice/palay requirement by 2013; beyond this year, the aim is to strengthen national resilience in staple/rice production to impacts of climate change, from 15.77 MMT of palay in 2010, it aims to increase production to 22.73 MMT by 2016 at an average growth of 6% per year.	• Promote widespread use of yield-enhancing technologies and appropriate farm machinery and postharvest facilities • Bolster public investment in key public goods, including irrigation, research and development, and extension services • Reform the domestic staples market and policy

Source: Eliseo Ponce and Arlene Inocencio, *Toward a More Resilient and Competitive Philippine Rice Industry: Lessons from the Past Three Decades*. International Rice Research Institute, 2016.

Annex 2
Timeline of NFA Reform
1983 – 2018

Period	Reform Accomplished	Key Objectives	Technical Assistance	Agencies Involved	Related Developments
1983 – 1985	EO withdraws NFA involvement in non-grains; wheat and feed trading liberalized, privatized; NFA trading limited to rice and corn	Limit support for Government corporations, including NFA; Reduce NFA involvement in food trade	Loan with Conditionalities, Structural Adjustment Program	Office of the Prime Minister, IMF - WB	Debt crisis; Aquino assassination; snap elections
1986 – 1989	Corn trading privatized but QR maintained; NFA trading limited to rice	Implement NFA adjustments given reduced support to GOCCs; Improve NFA efficiency	Analysis TA; Study	DA, NFA, USAID AAPP	People Power; Revolutionary Aquino Government
1991 – 1995	Philippines accedes to WTO; Remaining QRs on agriculture products, including corn but except rice, tariffied.	Improve agriculture sector productivity and support liberalization of regulated sectors	Analysis and Advocacy TA	DA, USAID ASAP	Conclusion of GATT UR Negotiations; WTO created; Philippine rice crisis of 1995
1996 – 1997	Preparations for rice sector reform project	Improve food security	Rice Sector Reforms Study (becomes basis for ADB & USAID assistance)	DA, ADB	Asian Financial Crisis of 1997-98
1998	Promotion of food security plus sufficiency in rice and corn, made official policy	Agriculture and Fisheries Modernization Act		Congress	
1996 – 2003	Improved understanding of rice sector issues	Corporate reform of NFA; Privatize trading function; Improve NFA's finances. Transfer subsidized-rice distribution to DSWD	Studies	NFA, DSWD, USAID AGILE, EGTA	People Power 2 (2001) AGILE project under Senate investigation for rice policy advocacy.

Period	Reform Accomplished	Key Objectives	Technical Assistance	Agencies Involved	Related Developments
2002 – 2004	NFA rice buying price adjusted	Liberalize rice trade in keeping with WTO commitments (exemption of rice from tariffication lapses by 2005)	GSDP TA component, aimed at advocacy	DA, NFA, ADB GSDP	ADB Grains Sector Development Program (GSDP) loan terminated
2002-2005	President announces open participation in rice trade subject to payment of tariffs (2002). NFA begins paying tariffs on rice imports using, initially, loan proceeds and, later, FIRB subsidies. NFA begins allocating volume for private sector imports	Adjustments toward reduction of NFA monopoly of rice trade. Reduced fiscal subsidies for NFA.			Philippines successfully negotiates at WTO for extension of exemption of rice from tariffication
2007 – 2008	More studies on rice policy	Enhance grains productivity and marketing efficiency	Study on Food Security	PhilRice, SEARCA	
2006 – 2007	Some improvements in NFA administration and management	Enhance efficiency of NFA corporate operations; Improve governance of GOCCs	Study, Advocacy TA	NFA, DA, DOF, AusAID PEGR	

Period	Reform Accomplished	Key Objectives	Technical Assistance	Agencies Involved	Related Developments
2008 – 2009	NFA palay support price adjusted upward. Distribution of low-priced NFA rice limited to poor families (those with Access Cards); Price of NFA rice distributed to regular markets adjusted upwards. NFA reorganized pursuant to EO on "Government Rationalization".	Adjustments to food price crisis; Improvements in targeting of beneficiaries of subsidized rice. Improved efficiency of NFA		OP, DA, NFA, DSWD, DBM	International food price crisis (2008) US and international financial crisis (2009);
2009-2010	Improved understanding of rice sector issues.	Enable recovery from food price crisis, enhance grains productivity and marketing efficiency	TA, Emergency Food Loan	DA, USAID, FAO, World Bank	

Source: V. Bruce J. Tolentino and Beulah Maria de la Pena, Stymied Reforms in Rice Marketing in the Philippines. The Asia Foundation, 2011

Annex 3
Timeline of Legislative Action on Rice Tariffication
2016-2018

Date Filed	HR/HB/ SR/SB No.	Author/s	Full Title
House of Representatives			
26 September 2016	HR 392	Rep. Tomas Villarin	A Resolution directing the Special Committee on Globalization and WTO, to conduct an inquiry, in aid of legislation, on the implications of the expiration of the Special Treatment on Rice under the Agreement on Agriculture of the Uruguay Round of the General Agreement on Tariffs and Trade
5 October 2016	HR 442	Rep. Horacio Suansing, Jr.; Rep. Estrellita Suansing	A Resolution directing the proper House Committee to conduct an inquiry, in aid of legislation, on the alleged need to support the lifting of quantitative import restrictions on rice to better attain national food security and to review for this purpose Republic Act No. 8178, otherwise known as the "Agricultural Tariffication Act of 1996"
11 October 2016	HB 4018	Rep. Peter Unabia	An Act providing free insurance premium for farmers under the Philippine Crop Insurance Corporation, amending for the purpose Republic Act 8178, as amended, entitled "An Act Replacing Quantitative Restrictions on Agricultural Products, except Rice, with Tariffs, creating the Agricultural Competitiveness Enhancement Fund, and for other purposes"
1 February 2017	HB 4904	Rep. Arthur Yap	An Act amending Republic Act 8178, otherwise known as the "Agricultural Tariffication Act," and Presidential Decree No. 4, as amended, otherwise known as "Proclaiming the Creation of the National Grains Authority and Approving Funds Therefor"
13 February 2017	HB 5023	Rep. Gloria Macapagal-Arroyo	An Act to place safety nets for Filipino rice producers by imposing tariff in lieu of quantitative restrictions on rice imports, directing tariff collection from rice imports to projects and programs that enhance rice productivity and increase farmers' income and for other purpose

Date Filed	HR/HB/ SR/SB No.	Author/s	Full Title
16 March 2017	HB 5326	Rep. Cecilia Leonila Chavez	An Act strengthening rice self-sufficiency, directing all proceeds from rice importations and auctions of smuggled rice to rice production support projects and programs
6 April 2017	HB 5433	Rep. Jose Panganiban	An Act replacing quantitative import restrictions on rice with tariffs, and creating the Rice Competitiveness Enhancement Fund, amending for the purpose Republic Act 8178, as amended by Republic Act 9496, further amended by Republic Act 10848
18 April 2017	HB 5443	Rep. Sharon Garin	An Act replacing quantitative import restrictions on rice with tariffs, and creating the Rice Competitiveness Enhancement Fund, amending for the purpose Republic Act 8178, as amended by Republic Act 9496, further amended by Republic Act 10848
14 August 2017	HB 6190	Rep. Rico Geron	An Act to place safety nets for Filipino rice producers by imposing tariffs in lieu of quantitative restrictions on rice imports, directing tariff collections from rice imports to projects and programs that would enhance rice productivity and increase farmers' incomes
21 May 2018	HB 7735 (Substitute Bill under Committee Report No. 739)	Sponsor: Rep. Jose Panganiban (57 authors in the Third/Final Reading)	An Act replacing the quantitative restrictions on rice with tariffs and creating the Rice Competitiveness Enhancement Fund
Senate of the Philippines			
30 June 2016	SR 53	Sen. Francis Pangilinan	An Act establishing a strategic food security rice reserve and for other purposes
13 September 2016	SR 143	Sen. Grace Poe	A Resolution directing the proper Senate Committee to conduct an inquiry, in aid of legislation, on the alleged need to support the lifting of quantitative import restrictions on rice to better attain national food security and to review for this purpose Republic Act 8178, otherwise known as the "Agricultural Tariffication Act of 1996"
13 September 2016	SR 146	Sen. Ralph Recto	A Resolution directing the Senate Committee on Agriculture and Food, to conduct an inquiry, in aid of legislation, on

Date Filed	HR/HB/ SR/SB No.	Author/s	Full Title
			the proposed rescission of the quantitative import restrictions on rice, with the end in view of ensuring accessible rice supply in the country and protecting the interests and welfare of Filipino rice farmers
29 May 2017	SB 1476	Sen. Ralph Recto (co-authored by Sens. Leila De Lima and Joel Villanueva)	An Act replacing quantitative import restrictions on rice with tariffs and creating the Rice Competitiveness Enhancement Fund, amending for the purpose Republic Act 8178, as amended, and for other purposes
12 February 2018	SB 1689	Sen. Risa Hontiveros	An Act imposing tariffs on imported rice, creating the Rice Industry Competitiveness Enhancement Fund, and for other purposes
30 May 2018	SB 1839	Sen. Sherwin Gatchalian	An Act replacing quantitative import restrictions on rice with tariffs, lifting the quantitative export restrictions on rice and corn, and creating the Rice Competitiveness Enhancement Fund, amending for the purpose Republic Act 8178, as amended, and for other purposes
11 September 2018	SB 1998 (Substitute Bill under Committee Report No. 440)	Sponsor: Sen. Cynthia Villar (7 authors in the Third/Final Reading)	An Act replacing quantitative import restrictions on rice with tariffs, lifting the quantitative export restrictions on rice, and creating the Rice Competitiveness Enhancement Fund, amending for the purpose Republic Act 8178, as amended by Republic Act 9496, as further amended by Republic Act 10848, and for other purposes
28 November 2018	Bicameral Conference Committee Report	Sponsors: Sen. Cynthia Villar and Rep. Jose Panganiban	An Act liberalizing the importation, exportation, trading of rice, lifting for the purpose the quantitative restriction on rice and for other purposes

Acronyms

ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
ASEAN	Association of South East Asian Nations
AusAid	Australian Agency for International Development
BAR	Bureau of Agricultural Research
BAS	Bureau of Agricultural Statistics
BSP	Bangko Sentral ng Pilipinas
CGE	computable general equilibrium
CPI	consumer price Index
COA	Commission on Audit
DA	Department of Agriculture
DOF	Department of Finance
DTI	Department of Trade and Industry
EO	Executive Order
FAO	Food and Agriculture Organization
FIRB	Fiscal Incentives Review Board
ESCAP	Economic and Social Commission for Asia and the Pacific
FSC	Food Security Committee
GAA	General Appropriations Act
GOCC	Government-Owned and Controlled Corporation
HB	House Bill
HR	House Resolution
IFPRI	International Food Policy Research Institute
IRR	Implementing Rules and Regulations
IRRI	International Rice Research Institute
LGU	Local Government Unit
MAV	minimum access volume
NEDA	National Economic Development Authority
NFA	National Food Authority
NIA	National Irrigation Administration
NTB	non-tariff barrier
OECD	Organization for Economic Cooperation and Development
OPAFSAM	Office of the Presidential Assistant for Food Security and Agricultural Modernization

PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PhilMech	Philippine Center for Postharvest Development and Mechanization
PhilRice	Philippine Rice Research Institute
PIDS	Philippine Institute for Development Studies
PSA	Philippine Statistics Authority
RA	Republic Act
RMR	regular-milled rice
QR	quantitative restriction
TRAIN	Tax Reform for Acceleration and Inclusion
SB	Senate Bill
SR	Senate Resolution
SWS	Social Weather Stations
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WMR	well-milled rice
WTO	World Trade Organization

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