

DOF Economic Bulletin on Rice Sector Reform, 4 December 2017

The tariffication of rice QR with an equivalent tariff protection (estimated at 35% by NEDA) will bring the following benefits to the economy:

- It will encourage the private traders to participate in rice importation, allowing inflow of cheaper rice in the market. This will result in a reduction in the retail price of rice of up to P7 per kilo¹. The reduction in prices of rice will be beneficial to the majority of poor households who spend at least 20% of their budget for rice².
- The tariff revenues that will be generated from rice imports can augment the funds used for the government's social welfare programs for the poor (e.g., Conditional Cash Transfer) and rice productivity programs that will enhance efficiency. Tariff revenue is estimated at P27.3 billion annually from 2017 to 2023.
- Replacing the quota with tariff and using the revenue as transfers to poor can reduce poverty incidence³ by as much as 3% on both rural and urban areas and move at least 730,000 people out of poverty. (PIDS) Further, poverty gap⁴ and poverty severity⁵ will be reduced by 6% and 10%, respectively.

¹ Based on PIDS: Options for Supporting Rice Farmers Under a Post-QR Regime: Review and Assessment. According to De la Pena (2014), palay/rice value chain is highly competitive such that any cartel-like behavior will not thrive.

²Based on National Economic Development Authority Socio Economic Development Report..

³ Poverty incidence among Filipinos is the proportion of people below the poverty line to the total population

⁴ Poverty gap refers to the income shortfall of families with income below the poverty threshold, divided by the total number of families.

⁵ Poverty severity is the square of poverty gap.

- Instead of subsidizing imports, the National Government can reallocate its funds to invest in public goods and services that directly benefit the farmers. These include farm-to-market roads, irrigation, and storage which reduce production and marketing costs. Note that the National Food Authority (NFA), a government corporation, which has the authority to import rice and, at the same time regulate importations⁶, has been receiving tax subsidies for its rice importations. From 2005 to 2015 NFA received tax subsidies totaling P187 billion or an average of P19 billion per year.
- Lifting the QR will also pave way to the proposed reorganization of the NFA. Given import quotas will be eliminated, the private sector is encouraged to increase importations thereby reducing import requirements of the NFA and its financial burden to the GOCC. The NFA can now reorganize and limit its function on proprietary activities, in particular buffer stocking for food security and calamities, and local procurement. Note that in its present state, the NFA loses about P11 billion annually, even after operating subsidy of P5 billion average per year, from 2005 to 2015⁷ and has an accumulated debt of P155.84 billion as of end of September 2016⁸.

The country ranks fourth among 6 Asian countries in rice production cost. (Table 1) The country's palay production

⁶ Section 6 of Presidential Decree No. 4 of 1972 and Section 2 of Executive Order 1028 s. 1985

⁷ Based on NFA's Audited Financial Statements

⁸ Based on NFA's unaudited Financial Statements as of September 2016. This includes bank debts and National Government advances but excludes other payables (e.g. interest, due to BIR, GSIS, and officers and employees)

cost is about 10% higher than the average for 6 Asian countries and 48% higher than the least cost producer.

Table 1.
COMPARATIVE COST OF
PRODUCING
1 KILO OF PALAY

Pesos per Kilo, 2013-2014

		Milled rice Equivalent
Vietnam	6.53	9.92
Thailand	8.81	13.68
India	9.87	..
PHILIPPINES	12.41	19.24
China	14.08	..
Indonesia	15.69	23.67
AVERAGE	11.23	16.63

Source: PIDS Policy Notes,
March 2017

A rice productivity program will bridge this difference. Measures proposed by various sectors during a Senate hearing in October 2016 include the following:

1. Use of new milling technology/modern drier/mechanical harvester which will reduce wastage and increase recovery from 60% to 65%. This will enhance efficiency by 8.3%.

2. Use of Hybrid rice seed (SL8H variety being sold by a Filipino company SL Agritech Corp., reportedly the biggest seed producer in Asia) which will raise yield per hectare from 3.9 MT/ha to 10-12 (as tested in Iloilo farms). This will boost productivity by 156 to 208%.

3. Assuming P4B budget annually for NIA, irrigation coverage will be raised from 1.7M hectares (only 57% of irrigable area) to 3.0 M hectares.