

CPBRD-PIDS
Knowledge Sharing Forum
on the
Assessment of the
Rice Tariffication Law (RA 11203)

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November 27, 2019 / Speaker Montilla Hall, SWA, House of Representatives



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

RICE LIBERALIZATION ACT

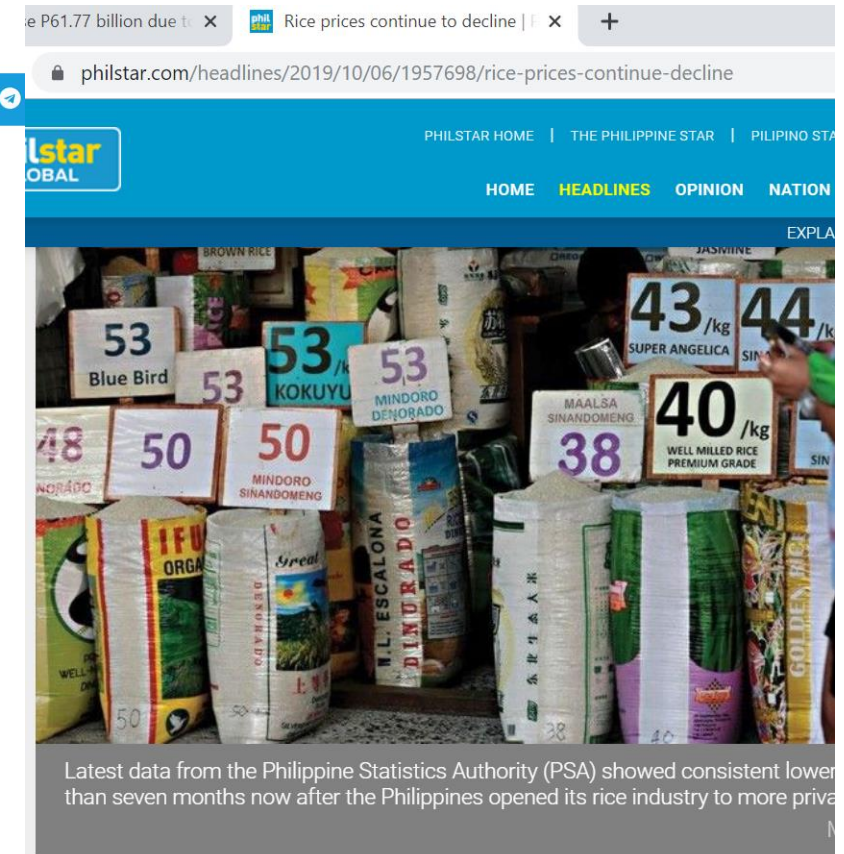
- Introduction
- Implementation of RA 11203 and its immediate aftermath
- Long term analysis
- Concluding remarks

Planters lose P61.77 billion due to rice price drop

By Jasper Y. Arcalás - November 15, 2019



Photo shows farmers harvesting rice in La Union.



Latest data from the Philippine Statistics Authority (PSA) showed consistent lower than seven months now after the Philippines opened its rice industry to more private...

Rice prices continue to decline

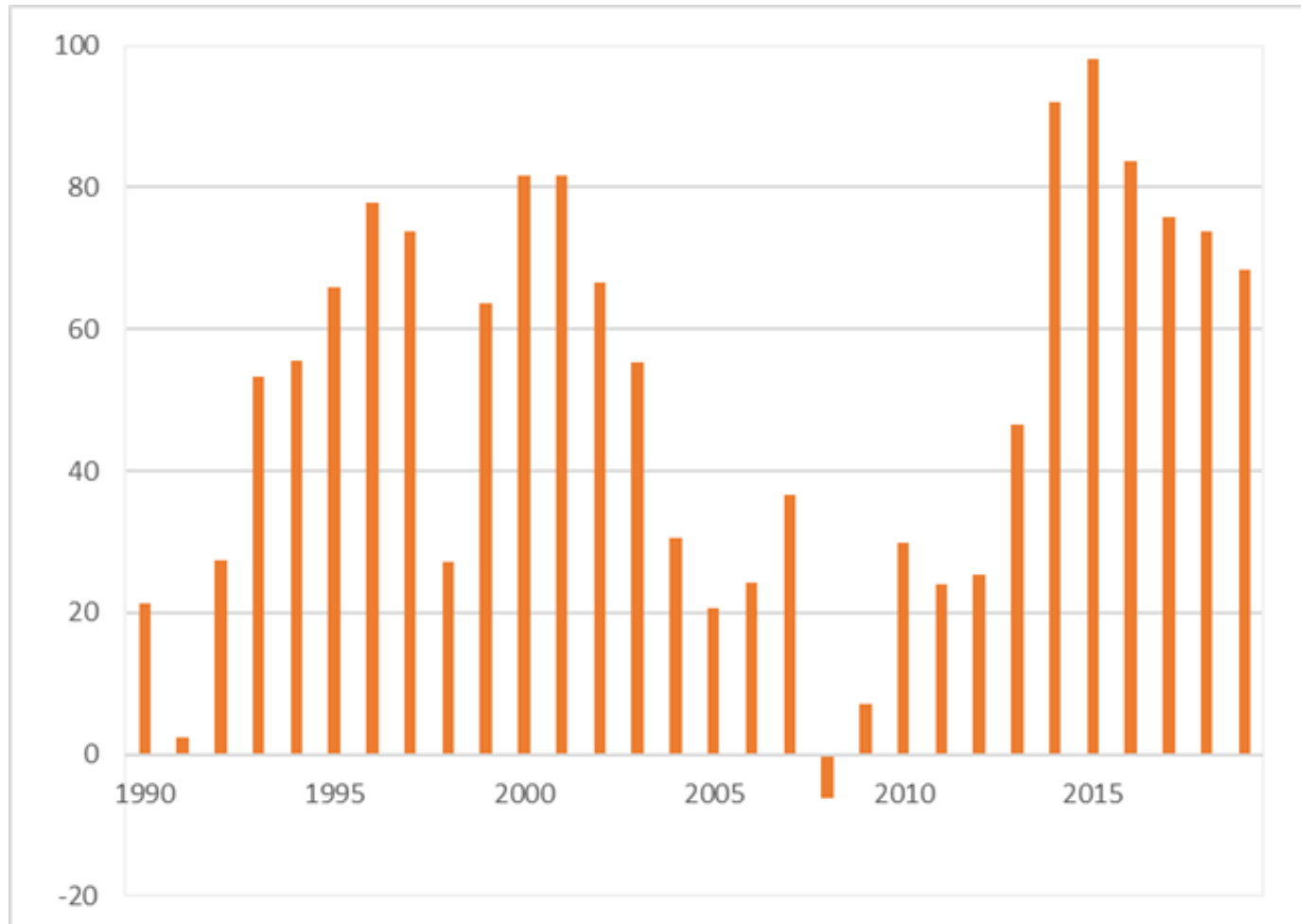
Introduction

Implementation of RA 11203

Context

- 1972: NFA established (previously National Grains Authority)
- 1995: Government joined WTO in 1995; RA 8178 – Agricultural Tariffication Act – exception for rice; but WTO treaty made it time-bound.
- Extended special treatment 2x until 2017.
 - Reluctant to accept further trade concessions
 - NFA lost battle of public opinion → stocks depleted by end-2018, during spike in rice price
 - Even farmer groups joined a consensus on tariffication subject to safety nets for rice farmers

Nominal Protection Rate (%)



Since mid-1990s: world prices going down, but domestic prices insulated from this.

After 2000, NPR averaged around 90%.

Even during crisis (2018), NPR around 67%

The reform

- RA 11203 amended 8178; repealed QR; stripped NFA of regulatory function
- Tariffs:
 - 35% for ASEAN imports
 - 40% for non-ASEAN, below 350K tons MAV
 - 180% (or higher) for above 350K tons
- At least Php 10 billion allocated for Rice Competitiveness Enhancement Fund (Rice Fund):
 - for farmers, farmworkers, and their dependents listed in RSBSA
 - DA-accredited rice cooperatives and associations

The Rice Fund

The Php 10 billion will for the next six years as follows:

- Php 5 billion : in-kind grants of rice farm machineries and equipment
- Php 3 billion: for rice seed development, propagation, and promotion
- Php 1 billion: for rice credit assistance split between LBP and DBP
- Php 1 billion for rice extension: includes Php 700 million to TESDA (Farm Schools)

Excess revenues may be allocated to the following uses:

- Rice farmer financial assistance: for current rice farmers with 2 ha and below Individual titling of agricultural rice lands
- Expanded crop insurance on rice
- Crop diversification program for erstwhile rice farmers

Immediate aftermath

March - June 2019, rice imports = 966,690 tons, a 4-fold jump from imports during the same period in 2018 of only 185,100 tons → Php 5.9 billion in customs revenue

SEPTEMBER 2019	Farmgate price, ordinary rice			Retail price, WMR		
	2019	2018	Change (%)	2019	2018	Change (%)
Week 1	16.28	23.10	-29.5	42.26	49.05	-13.8
Week 2	16.18	23.14	-30.1	42.22	49.27	-14.3
Week 3	15.94	22.84	-30.2	42.11	49.48	-14.9
Week 4	15.82	22.36	-29.2	42.03	49.41	-14.9

In Sept: Retail price peak, farmgate price near-peak

Inflation in Sept 2019 was 0.9%; 0.8% in Oct 2019; vs Oct 2018 at 6.7%.

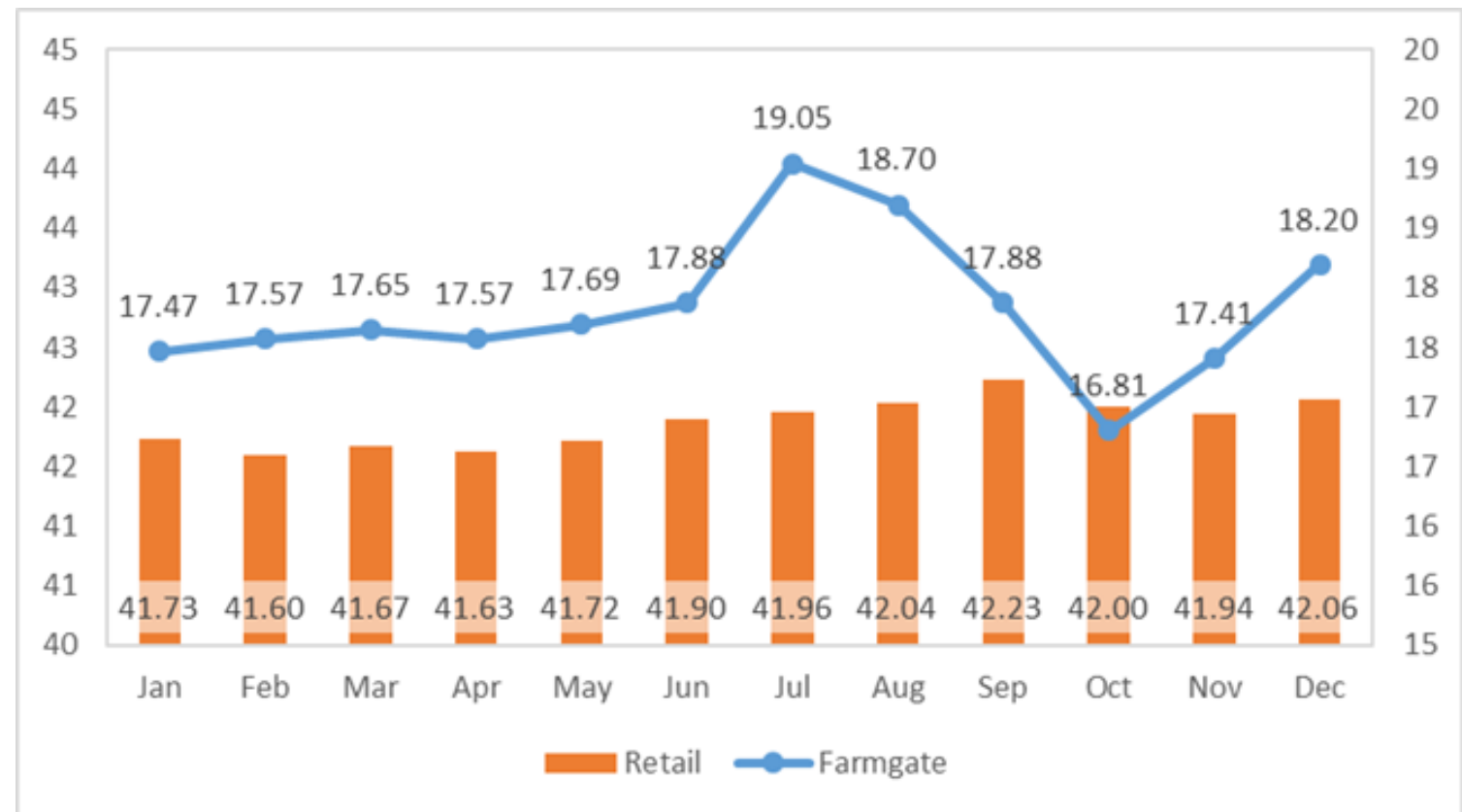
Downtrend in Oct 2019 mainly due to the 0.9 percent annual drop in food and beverage index; rice index alone declined by 9.7 percent.

Understanding rice price behavior

Farmgate prices exhibit marked seasonality whereas retail prices follow a much more stable pattern year-round.

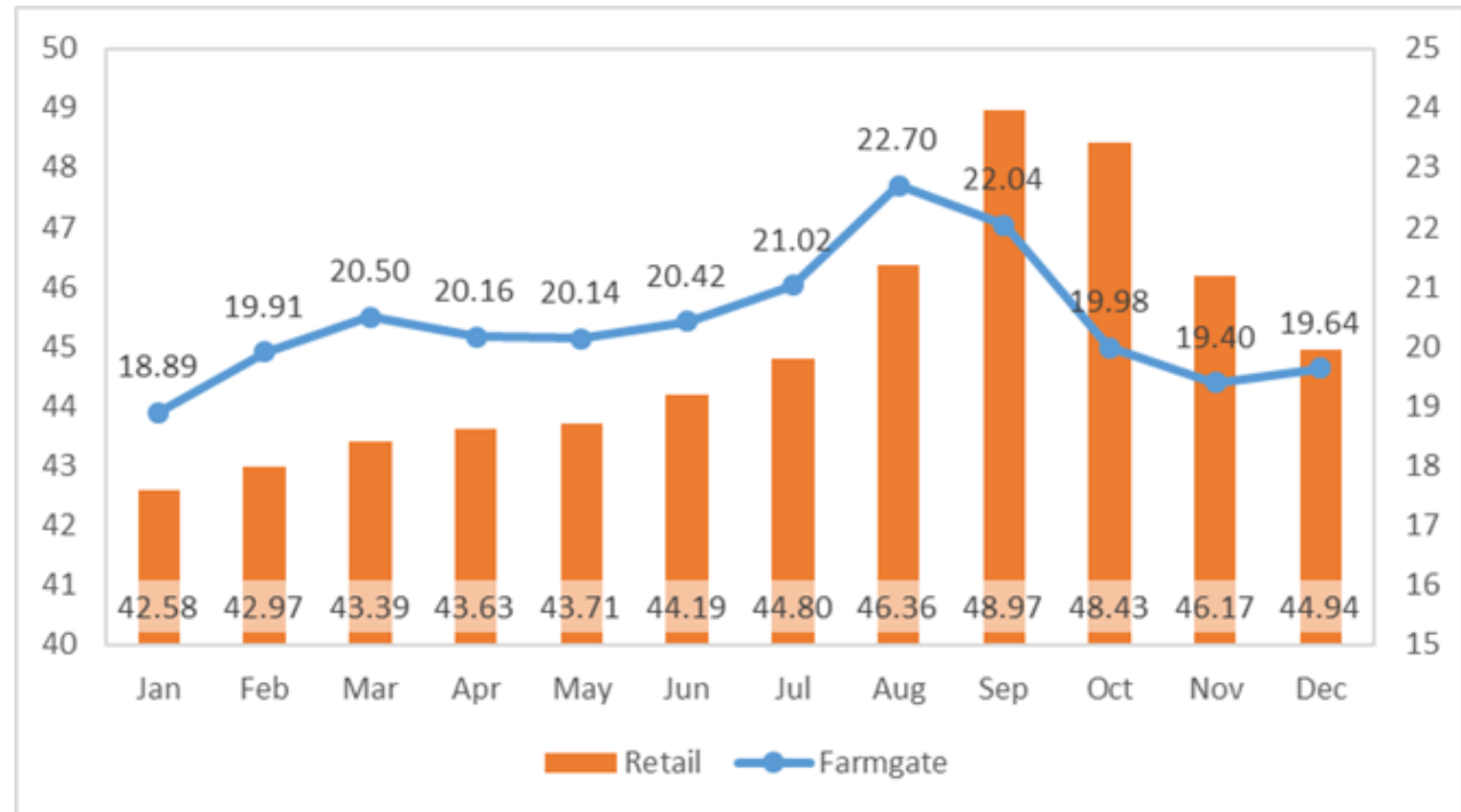
→ Consistent with competitive storage model for traders (and no storage for farmers)

2016 – 2017 average of monthly prices



2018 Monthly prices

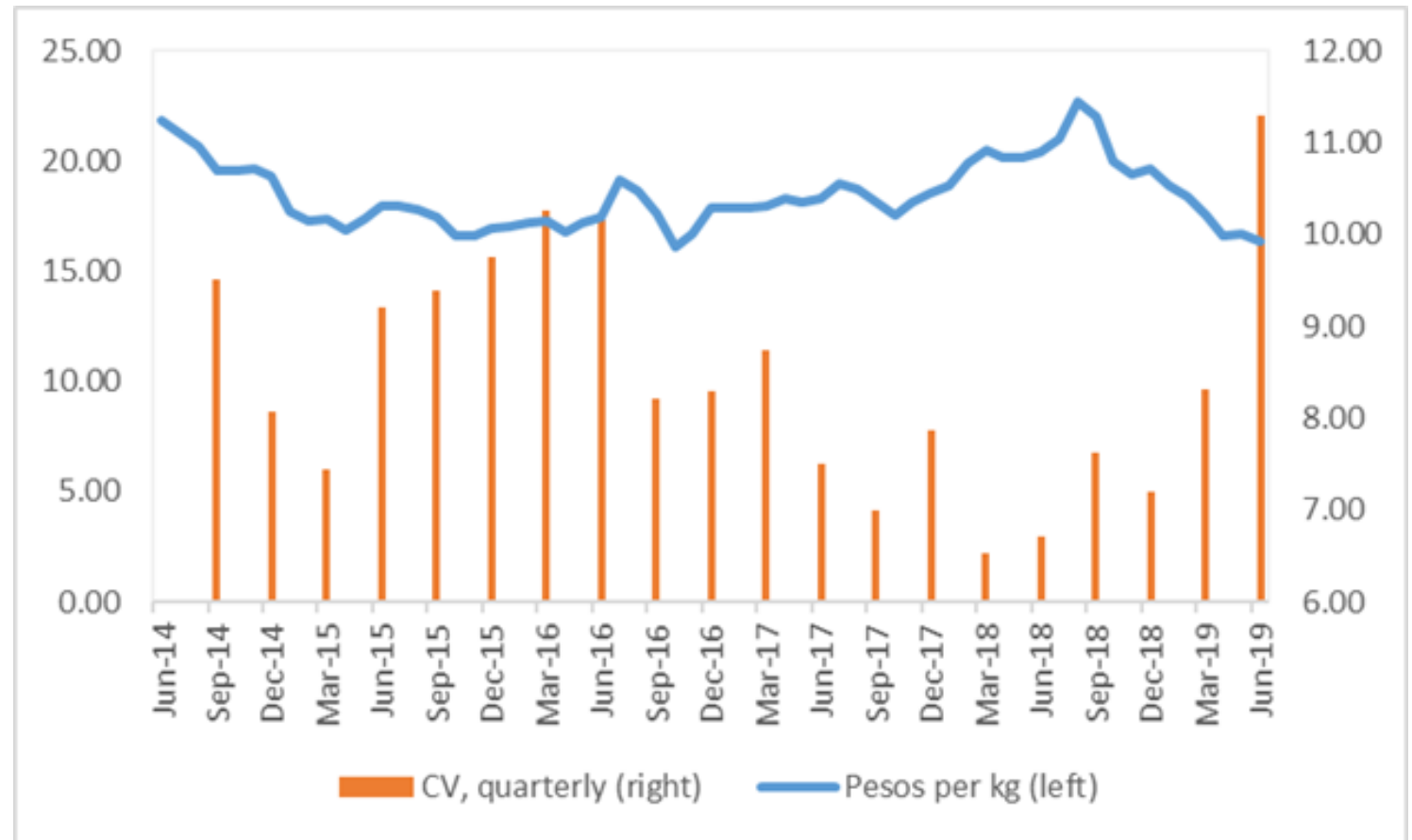
the range (as a percentage of average price) reached 18.7 percent for farmgate price, and 14.2 percent for retail price; compare this with the average ratio of 12.3 percent and 1.5 percent for the two types of prices, respectively, in 2017-2018.



Farmgate price across space

- Farmgate prices across regions highly dispersed
- range of Php 3 – 7
- CV (measure of dispersion) increased in 2015 -16, fell in 2017 – 18
- In 2019 CV started to increase breaching 11% by June 2019
- Using PSA data, *computed loss in palay revenue = Php 8.22 B (before-after method, April – Sep 2019)*

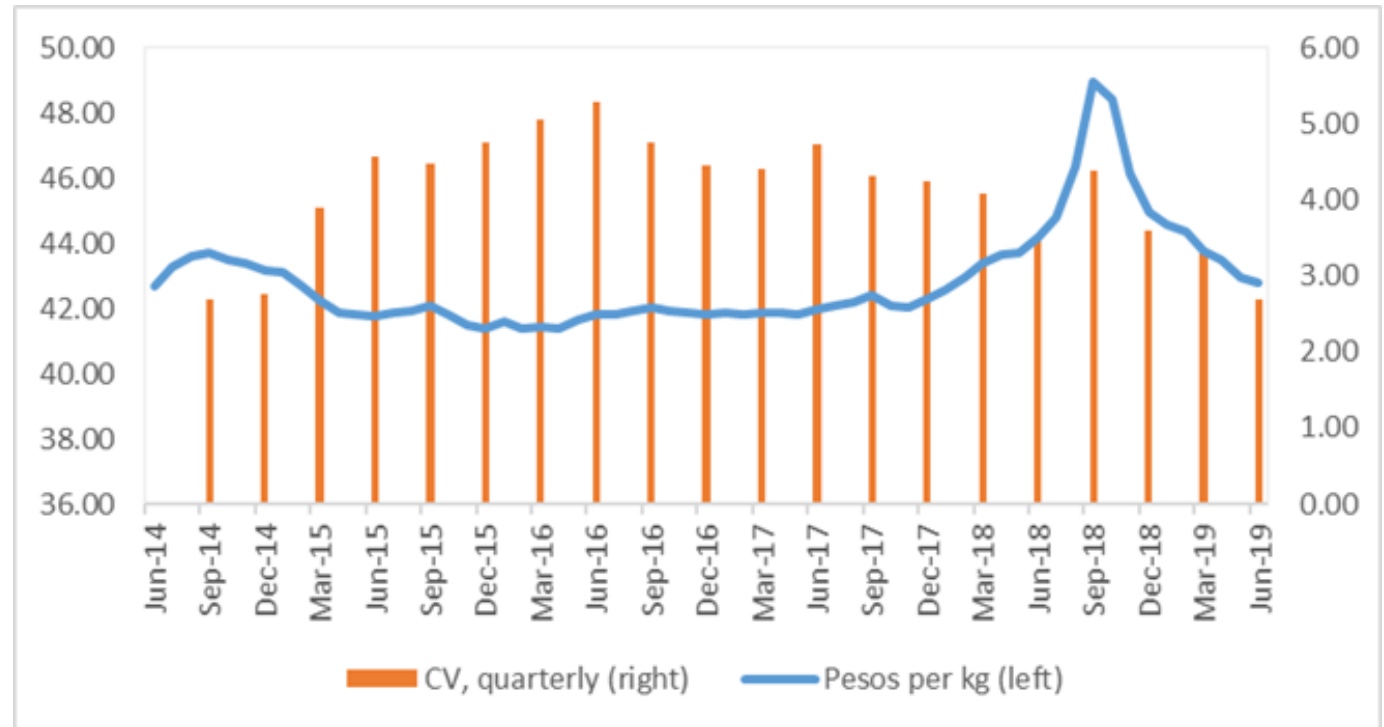
Monthly farmgate price



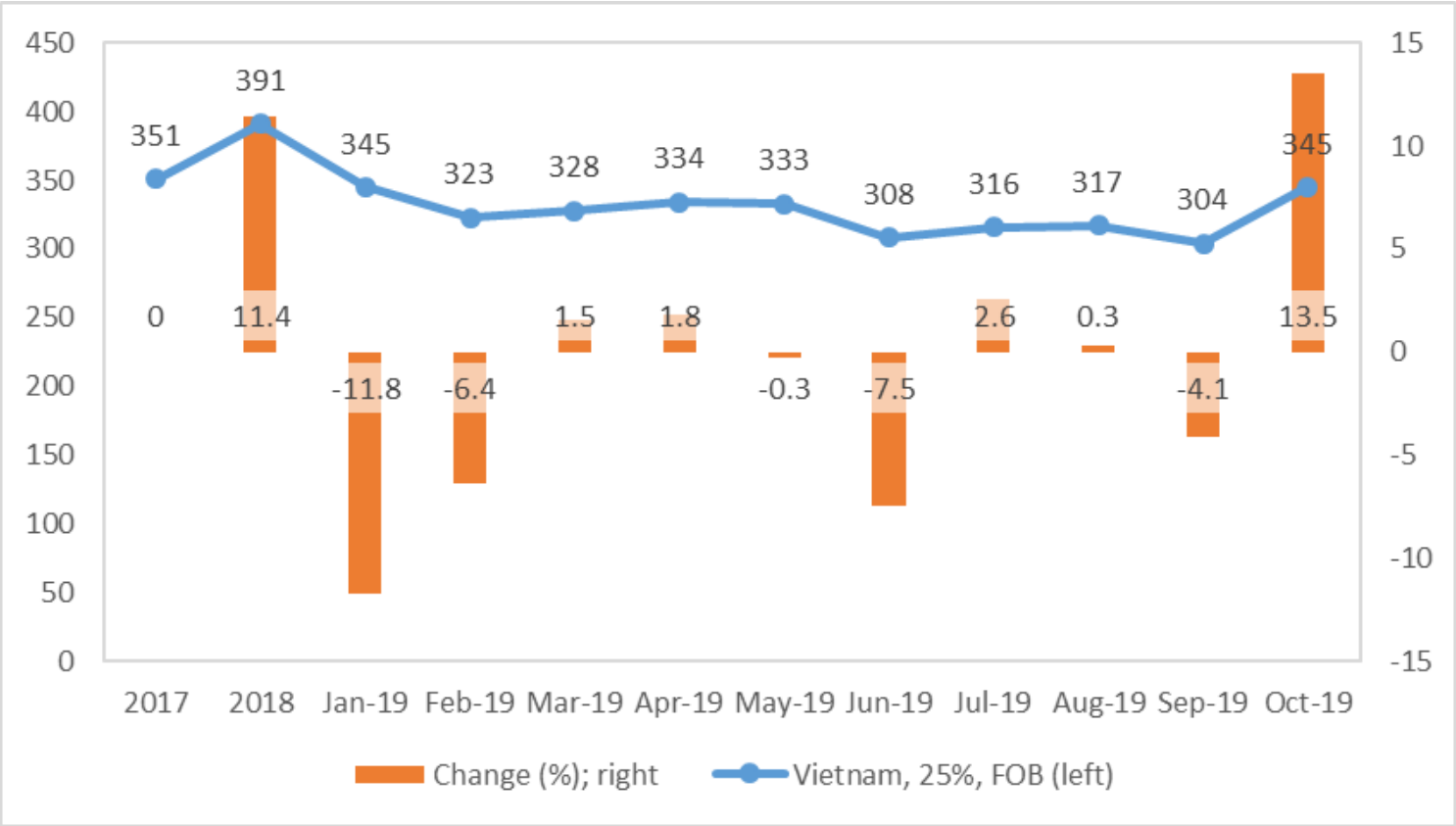
Retail price across space

CV for retail price across regions is much smaller than that of farmgate price.

Dispersion of regional prices declines from final quarter of 2018 onward → opposite of the direction of change for farmgate price.



Annual and monthly world price, rice, 2017-Oct 2019



The October 2019 price → border price of just Php 20 per kg; with tariff = Php 27 per kg; versus wholesale price of about Php 38 per kg

Using before-after method: gain to consumers = **Php 4.9 billion**

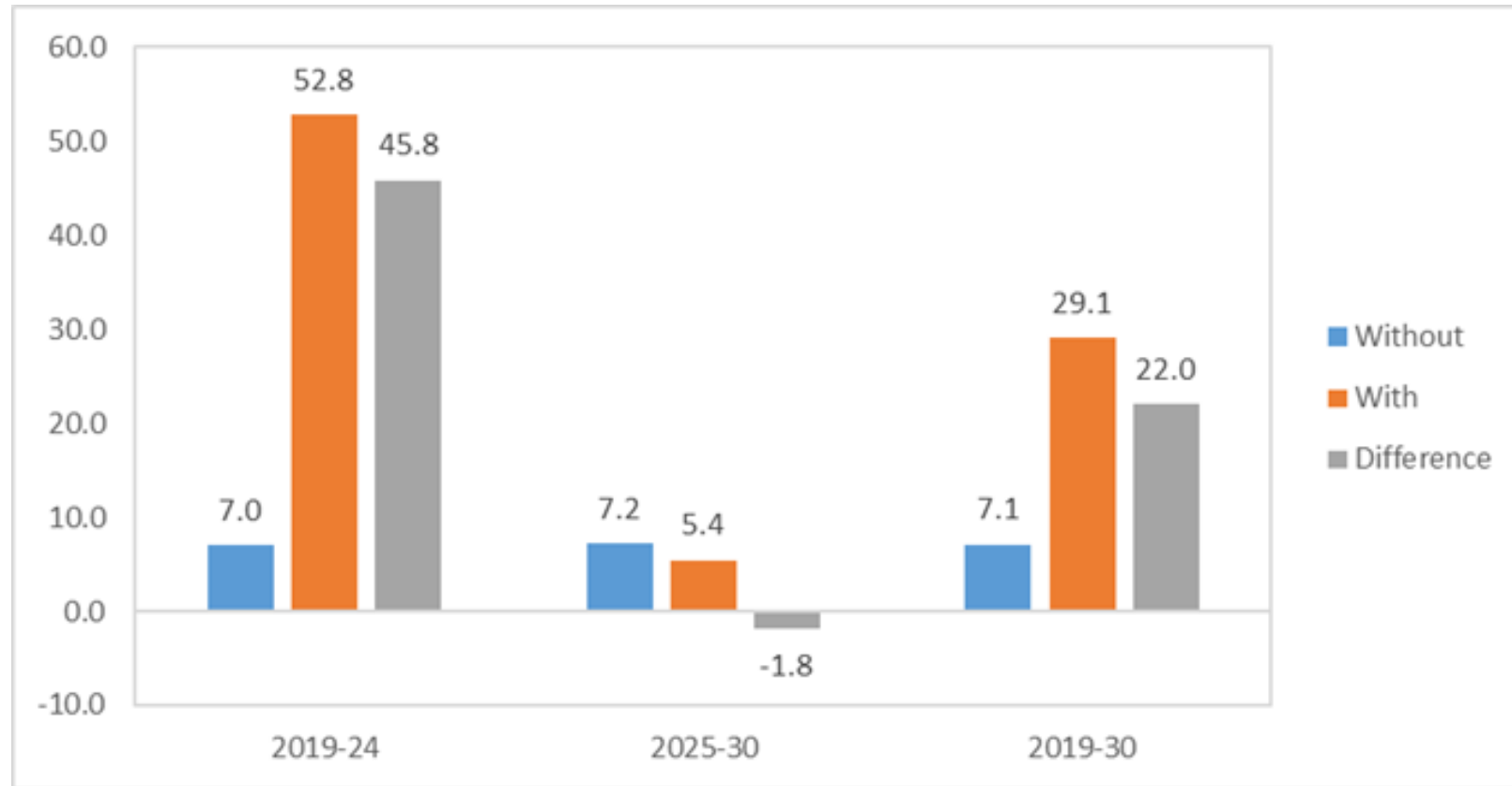
Short-term vs long-term adjustment

- Difficult it is to pin down the impact of a policy in the very short-term (month-to-month, quarter-to-quarter)
 - too much background noise
 - based on before-after → correct way is *with vs without* → analyze using *normal or equilibrium* price
- Short-term data difficult to apply for change in equilibrium owing to short-term volatility → change in price can be **change in equilibrium** or **transition to equilibrium**.
- Change in equilibrium → better analyzed from a long term perspective

Long-term analysis (2019-2030)

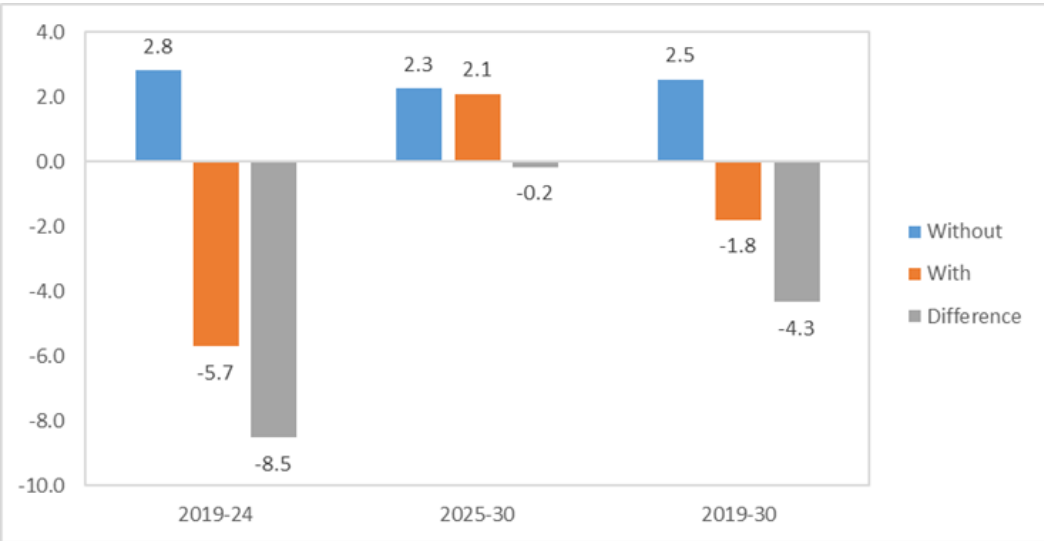
N.B. CHANGES ON AVERAGE ANNUAL BASIS

Growth of rice imports

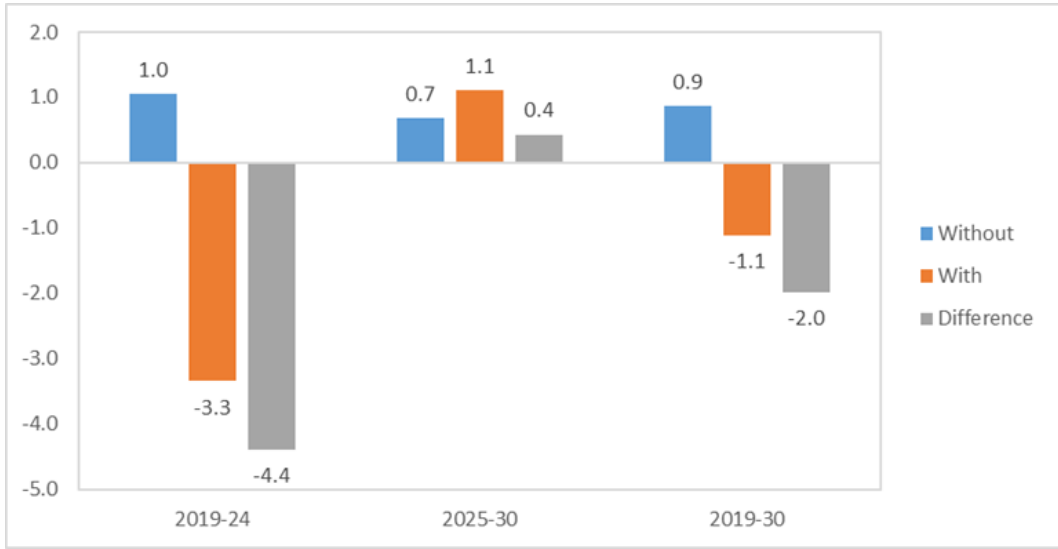


Production and area harvested

PRODUCTION

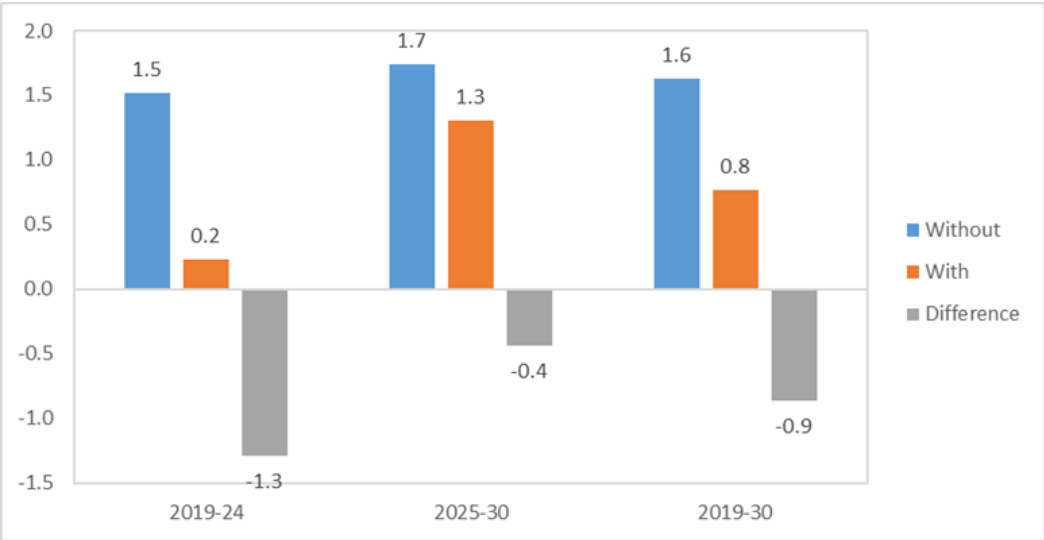


AREA HARVESTED

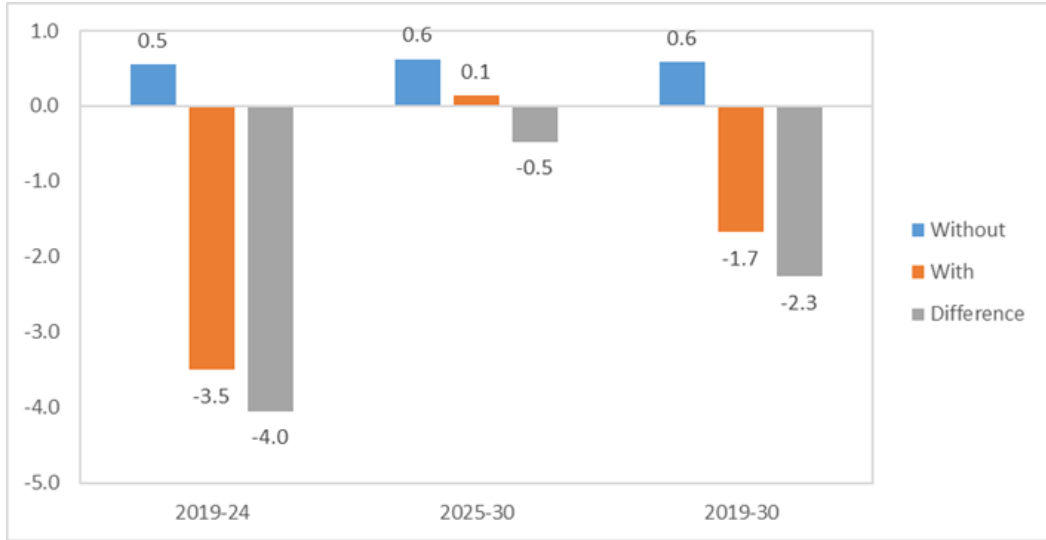


Farmgate and retail price

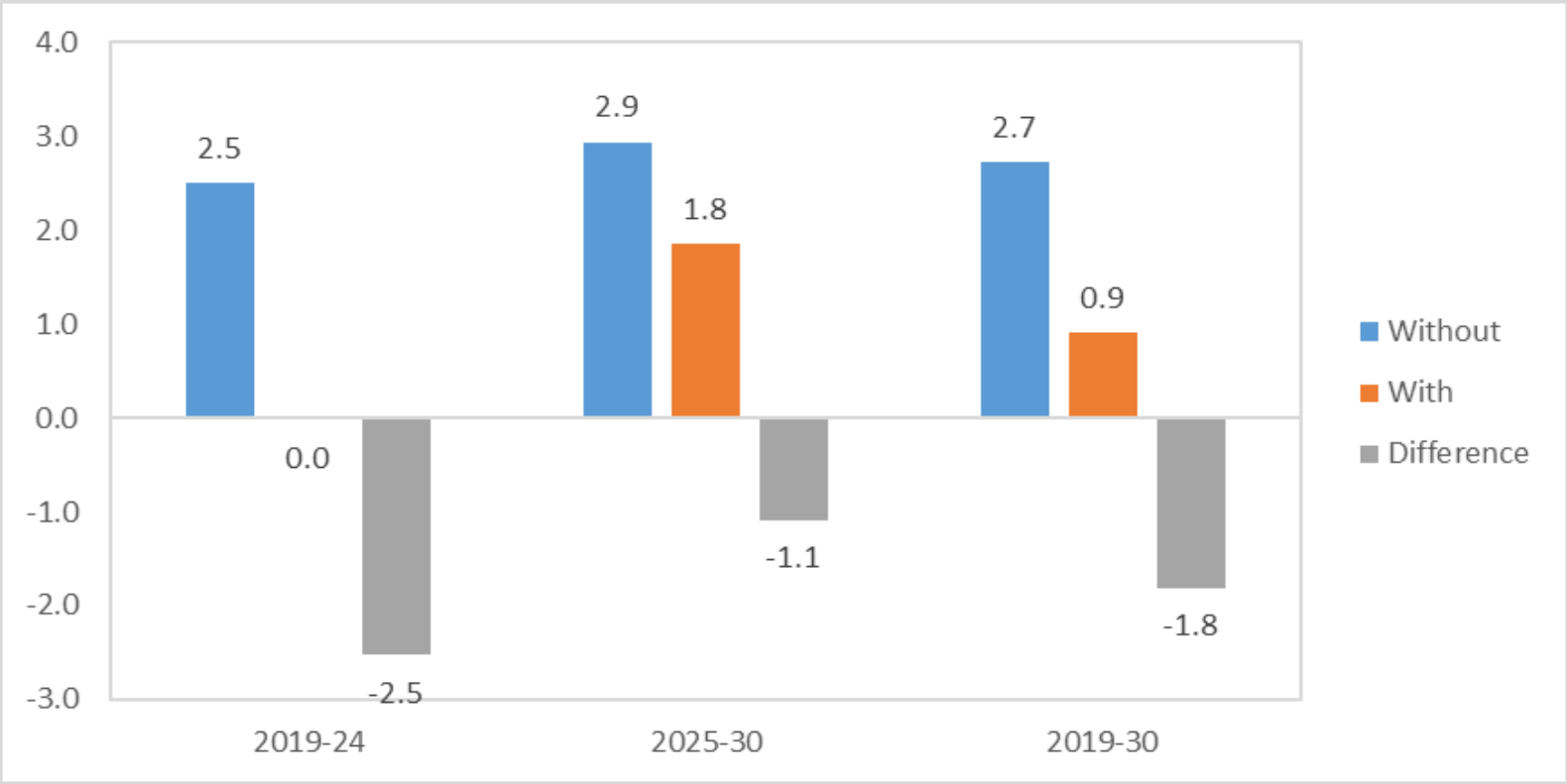
FARMGATE



RETAIL



Growth in farmers' income



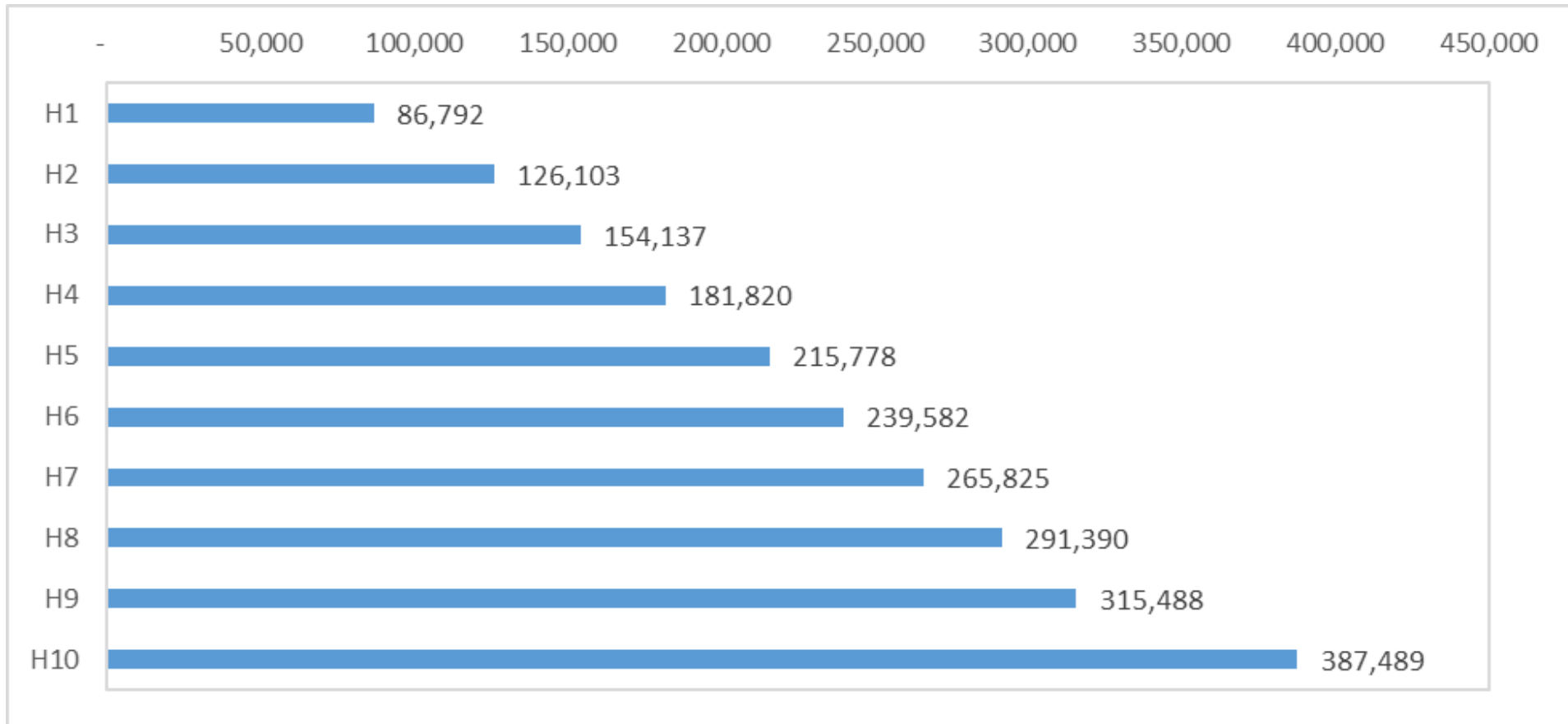
Change in farmers' income by decile (Php M)

	Share in net rice producers (%)	2019-24	2025-30	2019-30
H1	13.5	-1,019	-1,698	-1,359
H2	14.2	-1,071	-1,784	-1,428
H3	12.3	-927	-1,543	-1,235
H4	13.1	-988	-1,645	-1,316
H5	10.0	-760	-1,265	-1,012
H6	8.7	-657	-1,094	-875
H7	9.2	-695	-1,158	-927
H8	7.3	-551	-917	-734
H9	6.8	-516	-859	-688
H10	5.0	-376	-626	-501
Total	100.0	-7,560	-12,589	-10,075

Equivalent variation by decile

	Equivalent variation			Change from reference scenario expenditure (%)		
				2019-24	2025-30	2019-30
H1	9,403	10,361	9,882	2.4	2.1	2.2
H2	12,604	15,292	13,948	2.4	2.3	2.3
H3	14,462	18,850	16,656	2.3	2.4	2.4
H4	16,605	22,557	19,581	2.3	2.4	2.3
H5	18,927	26,604	22,765	2.1	2.3	2.2
H6	20,615	29,531	25,073	1.9	2.1	2.0
H7	22,599	33,051	27,825	1.8	2.0	1.9
H8	24,390	36,120	30,255	1.6	1.8	1.7
H9	26,204	39,148	32,676	1.3	1.5	1.4
H10	31,657	48,037	39,847	0.9	1.0	1.0
Total	197,467	279,550	238,509	1.8	1.9	1.9

Putting it together: discounted value of social benefits



NPV total = Php 2.26 TRILLION

Limitations of the analysis

- Disaggregate by decile; better to disaggregate *by household* → obtain changes in poverty and income distribution (to be addressed in study next year)
- Based on long term adjustment: avoids short-term volatility
 - Short-term volatility is driver of policy discussions
 - Numerous factors to consider: changes in time and across space

Implications

- To realize the aforementioned positive benefits for society as a whole, government should continue to enforce RA 11203
- Focus efforts on providing offsetting compensation for losers from the reform
- Investigate the state of competition in rice marketing and diligently enforce competition policy in the rice industry.