

Does rice tariffication in the Philippines worsen income poverty and inequality?

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Rice importation in the Philippines had been limited by a regime of quantitative restrictions (QRs) implemented through a system of direct importation and import licensing by the National Food Authority (NFA). In 2019, a landmark policy reform—Republic Act (RA) 11203 or the Rice Tariffication Law—was passed by the Duterte administration. The law repealed the regulatory and import functions of NFA and converted QRs into ordinary customs duties, also known as “tariffication”. The law aims to reduce the price of the country’s key staple and, in anticipation of its potential adverse impact on *palay* farmers, mandates an annual Rice Fund as production support and other assistance to rice farmers. The Fund, which will be given to small farmers for the first six years of the law’s implementation, equals at least PHP 10 billion per year (plus any tariff collected from rice imports in excess of PHP 10 billion).

However, the ongoing implementation of rice tariffication has recently come under heavy fire. High-profile objections have been raised by some groups. For one, the Federation of Free Farmers (FFF), a large alliance of farmer organizations in the country, has called for amendments to RA 11203, including the reinstatement of QRs.

This *Policy Note* analyzes the poverty and distributional effects of rice tariffication. It also reviews trends in the rice market since RA 11203 took effect in March 2019.

Salient Points:

- *As expected, the Rice Tariffication Law of 2019 (Republic Act [RA] 11203) had resulted in lower prices of palay and retailed rice.*
- *Lower palay price, by itself, increases poverty slightly.*
- *Using targeted cash transfers, countering this poverty effect is just a fraction of the cost of the safety net budgeted under RA 11203.*

The rice market and tariffication

Perspective of a farmer federation

The benefits of tariffication were captured mostly by importers and retailers rather than consumers while inflicting huge losses on farmers, according to a farmer federation.

A position paper of the FFF (Montemayor 2020) offers a detailed analysis of tariffication from the farmers’ perspective:

- In the first year of implementation of RA 11203, about 2.57 million tons of rice were imported, causing a fall in palay prices. Between March 2019–February 2020 and

March 2018–February 2019, palay prices dropped by 21.3 percent, equivalent to a loss of PHP 66.5 billion to farmers.

- On retail prices, the price of well-milled rice (WMR) dropped by 6.9 percent and regular milled rice (RMR) by 9.4 percent between 2018–2019 and 2019–2020, which is equivalent to PHP 38.6 billion in savings for consumers (based on estimated consumption over the 2019–2020 interval).
- Claims that Filipinos were paying “twice or triple” what consumers in other countries were spending on rice were “deceptive and overblown”. Moreover, RA 11203 led to the removal of cheap NFA rice from the retail market, leaving only imported rice, which was still selling at PHP 10 more per kilogram than NFA rice. One reason is that importers tend to procure the equivalent of WMR. In the first year of tariffication, an estimated 85 percent of imports were WMR with 5 percent broken kernels.
- Traders’ margin increased, soaking up the gains from tariffication. In the first year of tariffication, farmers lost PHP 40 billion while consumers gained only PHP 232 million as retail prices “hardly budged” compared to March 2017–February 2018 period.

Trends in domestic prices

Domestic prices of rice fell at the retail, wholesale, and farmgate levels while gross marketing margins of traders increased (except for wholesalers of RMR).

Data from the Philippine Statistics Authority cited in the FFF paper are reproduced in Table 1. Retail prices for WMR and RMR fell by 6.9 percent and 9.5 percent, respectively, which seems inconsistent with the characterization of “hardly budged”. The decline in wholesale prices has been even sharper at 15.4 percent and 19.8 percent for WMR and RMR, respectively. Lastly, the decline in palay prices has been sharpest at 21.8 percent (although, this is higher by only 2-percentage points than the drop in RMR wholesale prices).

Table 1 also displays the percentage change in gross marketing margin (i.e. the simple difference between wholesale and retail price of rice, or in the case of palay, the difference in the price of its milled rice equivalent and wholesale price) per unit of milled-rice equivalent. The RMR retailers’ margin shows the largest increase, which is more than double at 122.3 percent. Meanwhile, WMR retailers’ margin also expands considerably by 59.5 percent while that of RMR wholesalers falls by 13.5 percent for RMR and rises mildly by 4.5 percent for WMR.

Table 1. Changes in prices and margins, March 2018–February 2019 and March 2019–February 2020, by type of rice

	Price (PHP per kg)		Margin (PHP per kg) Milled-rice Equivalent		Change in Price (%)	Change in Margin (%)
	2018–2019	2019–2020	2018–2019	2019–2020		
WMR, retail	45.32	42.21	5.14	8.20	-6.9	59.5
RMR, retail	41.19	37.29	3.00	6.67	-9.5	122.3
WMR, wholesale	40.18	34.01	9.30	9.72	-15.4	4.5
RMR, wholesale	38.19	30.62	7.31	6.33	-19.8	-13.5
Palay	20.07	15.79			-21.3	

PHP = Philippine peso; kg = kilogram; WMR = well-milled rice; RMR = regular milled rice
 Note: Milled-rice equivalent of palay assumes a recovery rate of 0.65.
 Source of basic data: Montemayor (2020)

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The increase in retailers' margins cannot be attributed solely to exercise of market power.

The fact that the gross marketing margin moves in opposite direction to the drop in market price does seem to indicate that traders have captured the gains from more open trade. Montemayor (2020) attributes these changes in the margin to market power. However, the causal link is far from convincing. First, wholesalers' margin for the most common type of rice (RMR) has fallen while that of retailers has increased. Retailers are mostly small and well-dispersed nationwide whereas wholesalers involve some very large local players. Thus, the more likely locus of real market power is among wholesalers rather than retailers (Briones 2019). Second, proponents of the market power hypothesis fail to hypothesize the converse that a decline of the marketing margin (as among wholesalers of RMR) implies a loss of market power.

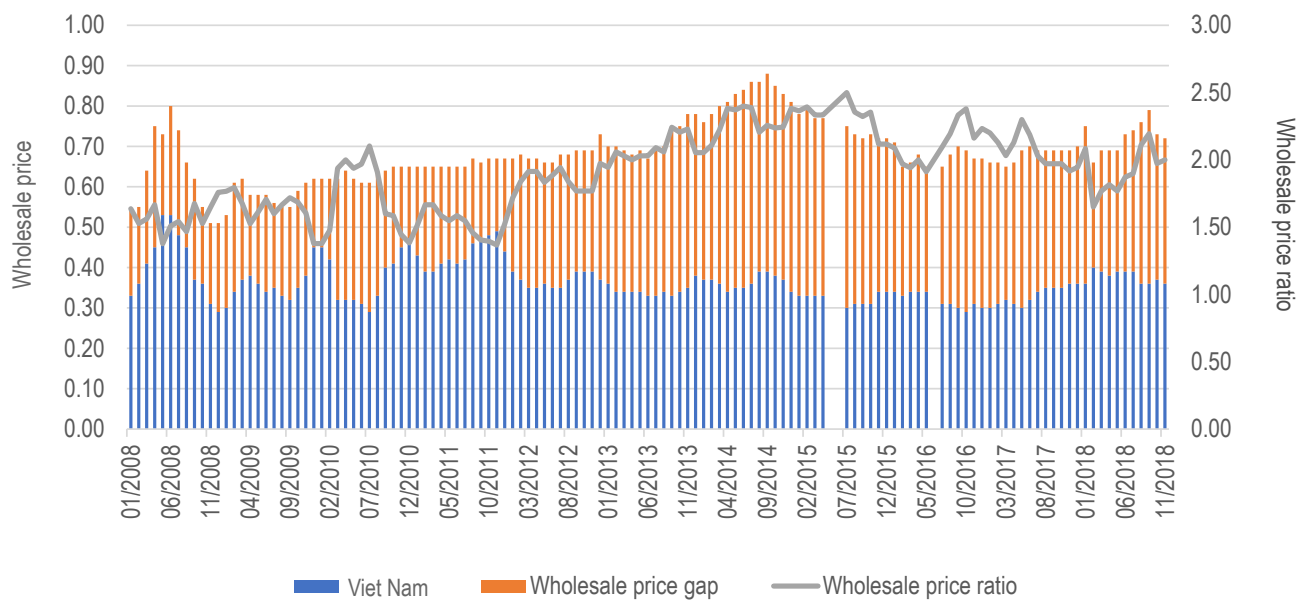
For instance, it is possible that wholesale prices react earlier and faster to trade shocks compared to retail prices

simply because wholesalers own more stocks (and incur higher costs of storage) and are therefore exposed to greater market risk. A retailer whose normal inventory is 10 sacks of rice may be able to stock up an additional 5 sacks in an odd corner of her shop. A wholesaler already stocking 100,000 sacks, on the other hand, may have run out of space for an additional 50,000 sacks. Moreover, wholesalers may be more specialized in rice, and therefore more averse to an expected decline in price; a retailer may be more willing to take risks as rice may be only a small part of his/her overall inventory of goods. These considerations add up to the relative inertia to reduce prices among retailers and a greater willingness to cut prices among wholesalers.

On average, the wholesale price of RMR in the Philippines was nearly double that in Viet Nam from 2008 to early 2019.

Figure 1 presents the wholesale prices of rice in Viet Nam in USD per kilogram as blue bars; the gap between

Figure 1. Monthly wholesale price gap and wholesale price ratio of rice (25% broken) in An Giang, Viet Nam, and RMR in Metro Manila, Philippines, 2008–2018 (in USD per kg)



RMR = regular milled rice; kg = kilogram; USD = United States dollar
Source of basic data: FAO (2020)

wholesale prices in the Philippines and Viet Nam in USD per kilogram as orange bars (hence, the height of the bars are the wholesale prices of rice in the Philippines). While wholesale prices in the Philippines over that period never quite tripled that in Viet Nam, in many cases, the prices were more than double. On average, the monthly wholesale price of rice in the Philippines was 90 percent higher than in Viet Nam.

The poor devote a large share of their household spending on rice, which is concentrated on RMR, with cheaper rice from NFA (“NFA rice”) being a minor contributor.

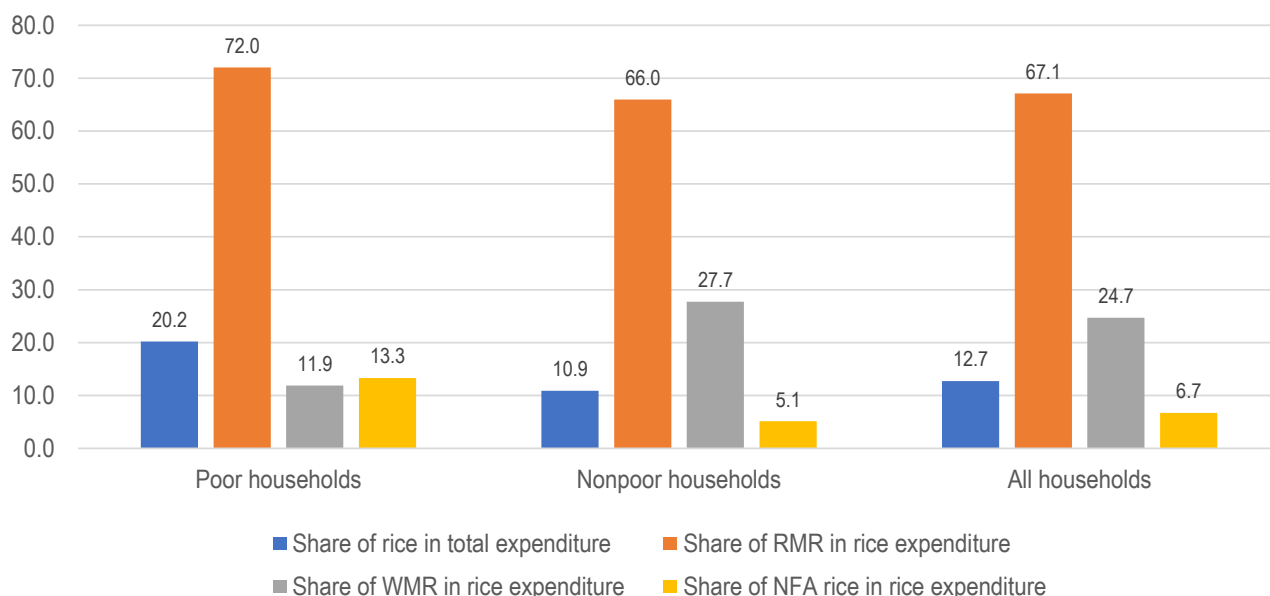
Rice accounts for a fifth of the household expenses of the poor (Figure 2). This is very high, considering that the nonpoor devote only about one-tenth. Of this rice spending of the poor, 72 percent is allocated to RMR, which is cheaper than WMR. Even the rice spending of the nonpoor is likewise skewed toward RMR, although they devote a larger share of their rice spending on

higher-quality rice. NFA rice accounts for just 13.3 percent of the poor’s rice spending, which means that 87 percent is spent on commercial rice. Whereas RA 11203 has stopped the sale of affordable NFA rice, the bulk of the poor’s spending is anyway for commercial RMR rice, which has become considerably cheaper upon tariffication.

Impact of rice tariffication on income poverty and distribution

Based on microsimulation analysis, a PIDS study finds that tariffication causes a slight increase of 0.56-percentage points annually in income poverty in 2019–2021 and 2022–2024, but attenuating in 2025–2030 (Briones 2020) (Table 2). Likewise, the poverty gap (i.e., the total shortfall between income of the poor and the poverty line averaged over the whole population) and the sum of squared poverty gap both increase, suggesting that the income difference is slightly skewed toward the poorer households. This is consistent with the increase in the Gini ratio or income inequality projected over the period.

Figure 2. Shares (%) of rice in expenditure by type of household, 2015



WMR = well-milled rice; RMR = regular milled rice; NFA = National Food Authority
 Source of basic data: Public-use file of the Family Income and Expenditure Survey, PSA (2018)

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Table 2. Annual percentage-point changes (%) in poverty measures and population due to tariffication

	2019–2021	2022–2024	2025–2027	2028–2030	2019–2030
Poverty incidence	0.56	0.56	0.23	0.07	0.29
Poverty gap ratio	0.25	0.19	0.04	0.01	0.08
Squared poverty gap ratio	0.13	0.08	0.01	0.00	0.03
Gini ratio	0.07	0.07	0.08	0.08	0.08

Source: Author's calculation

However, these poverty and inequality measures all show only minimal increments.

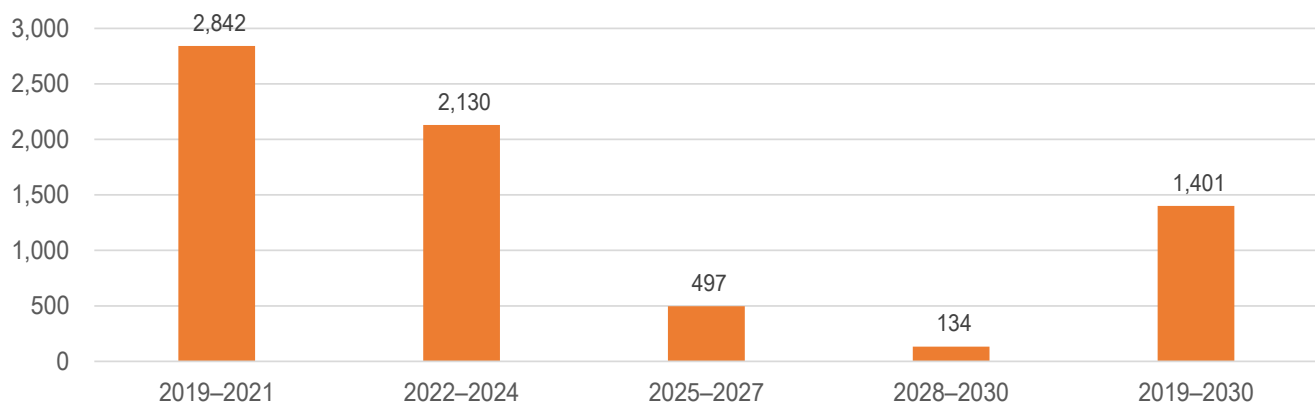
The weakness of the poverty impact is striking, considering that the bulk of poor workers are in agriculture and that rice farming likely generates the most employment, whether for own-account or hired workers. This is because the PIDS study accounts for various intersectoral effects that may mitigate the loss in palay farmers' and workers' income, including income gains of the poor elsewhere in the economy (Briones 2020).

How large, in monetary terms, are these poverty impacts? One way to gauge this is to determine the peso value of the difference between per capita annual income of poor

households with and without tariffication. This amount also denotes the cash transfers needed to bring poor households back to their without-tariffication incomes. Figure 3 shows the difference in incomes of the poor due to tariffication. It shows that in the first three years, poor households are losing just PHP 2.84 billion annually, on average, and this further declines to PHP 2.1 billion in 2022–2024.

Subsequently, the annual poverty gap declines to about PHP 500 million in 2025–2027 and further down to PHP 134 million in 2028–2030. The total absolute poverty gap in the six-year period is PHP 14.9 billion, which is the minimum amount of cash transfers needed to compensate the poor for the increase (if any) in their respective absolute poverty gaps due to tariffication.

Figure 3. Difference in annual incomes of the poor (in PHP millions), with tariffication, 2019–2030



Source: Author's calculation

This amount is far below the PHP 60 billion, which is the minimum amount allocated for the Rice Fund under RA 11203. The Rice Fund even exceeds the total income difference cumulating over the 12-year scenario, which is equivalent to only PHP 16.8 billion. Therefore, if properly targeted, the Rice Fund budgeted in the tariffication law is more than enough to offset the impact of tariffication on income poverty.

Concluding remarks

Rice tariffication ultimately causes an increase in income poverty, across a variety of measures, geographic categories, and time. However, the increase in income poverty comes in small increments and diminishes over time. The value of income loss suffered by the poor is far below the amount provided by the law to address problems associated with tariffication in the rice economy.

Meanwhile, further research is needed to look into the Rice Fund programs and their impact on the rice industry at the grassroots (farm operators, farmworkers, and other entrepreneurs and workers in the value chain). This evaluation necessitates an extensive collection of primary data, preferably through field surveys. Such data are essential to assess whether, in fact, RA 11203 has adequately compensated the losers of the policy reform, and whether it has helped accelerate the transformation of rice and other agricultural value chains.

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