Putting rice on the table: rice policy, the WTO, and food security

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The Philippines has been and shall continue to be a major rice importer

Rice production in the Philippines has been increasing consistently, due to both area expansion and yield growth (Figure 1). From 5.5 million tons in 1970, output rose to over 16 million tons in 2008. However, consumption has also been increasing: from 84 kilograms (kg) in 1990, annual per capita consumption has risen to 120 kg by 2009 (Figure 2). The country’s population continues to grow at a rapid clip (2% annually), further accelerating the growth of demand.

Growth of domestic supply has not kept pace with growth of demand; the country has

In 2012, however, the negotiated exemption of rice from the Philippines’ World Trade Organization (WTO) commitments will expire. This therefore provides a rare opportunity for reform to take place, awaiting only political will from the government to seize it.

1 Data from the International Rice Research Institute (www.irri.org).
therefore relied on imports to bridge the demand-supply gap. Since the mid-1990s, the country has experienced diminishing self-sufficiency in rice (Figure 3).

From an average of 104 thousand tons in the 1980s, rice imports rose to half a million tons in the 1990s and ballooned to 1.3 million tons in the 2000s. In fact, the Philippines has become the world's biggest rice importer since 2004, outranking Iran, Iraq, Saudi Arabia, and Nigeria (Figure 4).

One may argue that these trends would soon be reversed if rising world prices continue their upward trend. It is true that world rice prices have risen sharply in the past decade, particularly with the 2008 episode. World Bank projects prices to linger at current high levels. However, these would eventually drop as supplies rise in response to higher prices (Figure 5). Hence, foreign rice would, in the long term, continue to be cheaper than domestic rice – precisely the rationale to import.

Since the country has been historically a net rice importer, the divergence in domestic and foreign costs requires an explanation deeper than simply government neglect or poor aptitude of the Filipino farmer. According to Dawe (2006), the fundamental explanation is geography. Consistent rice exporters, namely, Thailand, Viet Nam, Cambodia, and Myanmar, are all endowed with large river deltas, abundant land suitable for rice, and water. In Asia, consistent rice importers are typically island countries with lower arable land per person and landscapes favoring alternatives such as corn, oil palm, or coconut. These include Indonesia, Malaysia, Japan, Sri Lanka, and the Philippines.
In pursuit of self-sufficiency, government policies have singled out rice for special treatment

The Philippines has made international commitments under the WTO toward liberalized trade. According to the agriculture market access provision of the WTO, all quantitative restrictions (QRs) should be converted to tariffs. Countries are committed to maintain a tariff binding that is initially set at high rates but scheduled to decline over time. Foreign products up to a minimum access volume shall be imported at rates lower than the bound rates.

However, a country can exempt its staple food from tariffication. RA 8178 or the Agriculture Tariffication Act of 1996 implements the tariffication commitment for all crops except rice, for which the QR is retained. This was done to protect the local rice sector (Tolentino 2002). For the Philippines, special treatment for rice was negotiated from 1994 to 2005. After 2005, the country negotiated another extension to 2012, in exchange for lower tariff rates on some agricultural products as well as increased minimum access for rice.

QRs are enforced through the import monopoly provided by law to the National Food Authority (NFA), a state-owned agency. The volume to be imported by the NFA is set annually by the NFA Council, upon recommendation of an interagency committee. The NFA is mandated to stabilize rice prices and supply both at the producer and consumer level, and ensure food security throughout the country. To do this, the NFA tries to ensure that farmgate prices are high enough for farmers to gain reasonable returns, retail prices remain affordable to consumers, and rice distribution is restored quickly in calamity-stricken areas.

Following its mandate, the NFA engages in procurement and distribution, setting a procurement price for palay while subsidizing retail price of milled rice. It also maintains a food security reserve, with rice stocks kept at levels equivalent to 15 days of consumption.
been operating at a loss since it was established, and in the late 2000s, its net losses exploded, hitting PHP 30 billion in 2009 (Figure 6).

To continue operating, the NFA has relied heavily on corporate borrowing, on top of subsidies from the national government (Figure 7). NFA’s liabilities to domestic creditors escalated from only about PHP 5 billion in 1994 to almost PHP 156 billion in 2009 (Figure 8). Since 2000, the NFA’s net worth has been negative, deteriorating sharply thereafter. Save for sovereign guarantee, the NFA would likely go bankrupt.

High costs incurred by NFA are attributable in part to operational inefficiencies, such as low stock turnover, poor financial management information system, overstaffing and administrative costs, policy constraints and bureaucratic processes, and weak equity base, among others (Coffrey International Development Report, as cited in Intal et al. 2010). However, a more important reason for the financial hemorrhage is policy: the ‘buy high, sell low’ mandate to achieve price stability is a certain formula for draining public coffers.

Had the “buy high” mandate been focused on domestic procurement, NFA would have at least benefited the poor Filipino farmer. However, domestic procurement of NFA has averaged just around 2.5 percent of total rice production in the country over the last two decades (Figure 9), implying weak support to domestic producers.

On the consumer side, Figure 9 also shows that domestic sales account for a significant share of year-round, rising to not less than 30 days equivalent consumption every first of July.

The country’s rice policies have been detrimental to public finances and the welfare of the consumer
While rice policy has been intended to benefit the citizenry, it has in fact penalized taxpayers by wreaking havoc on the treasury. The NFA has
consumption, from one-tenth to over one-fifth since the late 1990s. Figure 10 compares the domestic and world price of rice. Domestic prices appear to move along a smoother time path compared to the world price (in pesos), at least until 2007. This is consistent with the finding of Intal et al. (2010) that NFA distribution activities have contributed to stabilizing the domestic consumer price.

On the other hand, the figure also shows that domestic prices have remained significantly higher than world prices, except for 2008–2009. Despite greater price stability, this persistent gap represents high opportunity costs to the Filipino rice consumer.

Clearly, given low domestic procurement, the ability of the NFA to stabilize domestic consumer prices is due to its import monopoly. Figure 11 juxtaposes NFA subsidies and the nominal protection rate (NPR) on rice. During periods when the NPR is high, the NFA is able to source cheaper rice from abroad for local distribution, hence requiring lower subsidies. It

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2 The nominal protection rate is the ratio of domestic to world price (less one). It is the margin, in percent, imposed on foreign goods to maintain domestic prices.
was when the NPR fell due to sharp increases in world prices that the subsidy became unmanageable (Intal et al. 2010).

While the restrictive import policy keeps domestic price high, part of this cost is attenuated by distribution of relatively cheaper NFA rice. However, even this is fraught with problems. The NFA program, which is intended to alleviate hunger and poverty, benefits mostly those who are not poor. In 2006, the leakage to the nonpoor was estimated to be around 71 percent (Manasan 2009). According to Reyes et al. (2010), 32 percent of the lowest income quintile are not able to access the NFA program while 15 percent of the highest income quintile are able to do so. Jah and Mehta (2008) likewise showed that only 25 percent of the poor benefit from the program while 48 percent of beneficiaries are nonpoor. One explanation for the faulty targeting is that the geographic distribution of NFA rice is not sensitive to poverty incidence (Manasan 2009); it may in fact be biased toward more affluent regions (Figure 12). This is supported by Reyes et al. (2010) which finds the National Capital Region (NCR) to have the highest leakage rate.

**Sporadic attempts at reform have been thwarted by strong political opposition**

The observations made in the foregoing are not new; numerous calls for reforms have been sounded since the 1970s. The latest major initiative was under the Grains Sector Development Program. However, opposition of interest groups, namely, farmer organizations, NFA employee associations, favored grains businessmen, and the DA itself, led to the defeat of House bills on import liberalization, and ultimately, to the early termination of the program in 2003 (Tolentino 2002).

The current push for self-sufficiency by the DA is politically expedient. Its supporters also advocate “reform” of the NFA, but by this, they mean strengthening its role in domestic procurement and improving the management of the import monopoly (Tanchuling 2010). There are positive steps under the new administration toward such improved management. The current thrust to allocate a sizable share (about 60%) of the import quota to the private sector is laudable. In the presence, however, of sizable quota rents—the inevitable outcome of a binding quota—it is difficult to sustain a credible system of quota allocation that is efficient and fair to all participants.

By implication, in 2013, the import quota would be set at zero. To achieve this and prevent skyrocketing prices, the Roadmap is explicit
about its supply and demand side strategies. On the supply side, it proposes to expand the irrigation service area, extend seed subsidy and credit guarantees, and promote balanced fertilization, postharvest facilities, and modernization of rice mills. On the demand side, it proposes to partner with other agencies and nongovernment organizations (NGOs) to diversify staple sources (white corn, sweet potato, cassava, and plantain), reduce table waste, and promote brown rice. It can be inferred that the DA would prefer to negotiate another extension of the special treatment of rice, again forestalling urgently needed reforms.

The time has come to incorporate rice into the WTO and reform domestic rice policy

This study recommends against negotiating a further extension of the special treatment for rice under the WTO. After 2012, the rice QR should be tariffied; that is, importation is liberalized subject to payment of custom duties. This eliminates the problem of setting up a fair, efficient, and credible allocation of the import quota. Moreover, the momentum for reforming the NFA becomes unstoppable owing to the double whammy from its massive debt and repeal of its import monopoly. The NFA shall continue to operate but its function would be limited to regulation and managing the food security reserve. NFA storage and marketing facilities may be transferred to a different, perhaps new government corporation with no regulatory powers. These reforms should be enabled by appropriate legislation. The current rice distribution system should be supplanted by more targeted schemes such as conditional cash transfers.

Opponents of reform shall of course raise the specter of food and poverty crises when the quota is removed. Import competition would depress farmgate prices, reduce domestic rice production, and diminish the nation’s capacity to feed its own people. However, rice self-sufficiency is neither necessary nor sufficient for food security. A nation can be self-sufficient and face food insecurity; on the other hand, it can be a rice importer and maintain a high level of food security. Food self-sufficiency at best protects a country from external policy shocks emanating from export restrictions. However,
If the Philippines does opt to negotiate an extension, it would face opposition from WTO rice exporters. Ironically, the Philippines must confront other countries to defend a domestically indefensible policy. Such a pathetic exercise is completely avoidable.

This is best addressed through regional and multilateral cooperation and negotiation, rather than through costly domestic policies.

The high cost of self-sufficiency is essentially due to the country’s lack of comparative advantage in rice production. Under import liberalization, farmers would shift to other crops where the country does have comparative advantage. To ease the adjustment and defuse political opposition, the country can negotiate a Member’s Commitment with the WTO to maintain high bound tariffs (at levels comparable to historical NPRs), in exchange for the removal of the special treatment. The ceiling, however, should be scheduled to decline within a reasonable time frame, say 7–10 years, toward levels closer to average tariff rates.

If the Philippines does opt to negotiate an extension, it would face opposition from WTO rice exporters. Ironically, the Philippines must confront other countries to defend a domestically indefensible policy. Such a pathetic exercise is completely avoidable. Policymakers should thus take advantage instead of this historic opportunity for reform toward improved food security, fiscal soundness, and good governance.

References


