Foundation for Economic Freedom, Inc.

CUT TARIFF RATES FOR RICE IMPORTS TO REDUCE RICE PRICES, NOT MANDATE PRICE CAPS

We, the Foundation for Economic Freedom, call on the government to lift or reduce import tariffs for rice from 35% to 10% to arrest the surging price of rice rather than impose a price ceiling on rice.

Executive Order (EO) 39, which places a price ceiling of PHP 41 per kilo on regular milled rice and PHP 45 per kilo on well-milled rice, will harm Filipino consumers and farmers, and the entire economy.

The price cap will harm consumers because it will drive supply away from the market, fuel a black market for rice, cause traders to cheat consumers by mixing inferior broken rice with regular and well-milled rice, and incentivize traders to hoard as the price ceiling is below their procurement and selling prices.

Lower-income consumers in particular will suffer when regular milled rice becomes less available in markets at a controlled price and is passed on as well-milled rice by traders.

EO 39 will similarly harm farmers because traders will use the price cap to justify lowering their buying prices for palay or simply refuse to buy palay from the farmers as they will lose money due to the high farmgate price of palay.

The price cap will harm the entire economy because it will not be effective in solving the demand-supply gap and arrest increasing food price inflation. It will only aggravate the current tight rice supply situation into a full-blown rice crisis. An Executive Order cannot repeal the law of supply and demand.

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Instead, we suggest that import tariffs, currently set at 35% for rice imports from ASEAN countries, be lifted or reduced to 10%. This will have an immediate effect on lowering rice prices. The government can afford to lower rice tariffs because the mandatory P10 billion allocation for the Rice Competitiveness Enhancement Fund (RCEF) as stipulated by the Rice Tariffication Law (RTL), has already been achieved. A recent report by the Bureau of Customs (BOC) revealed that tariff revenues from rice import stands at a healthy PHP 16.8 billion as of August 23.

The government may restore the tariff rates back to 35% when the demand and supply situation stabilizes and if the onset of the harvest season results in falling rice prices.

We also call on the government to amend the Comprehensive Agrarian Reform Law (CARL) to increase the farmland retention limit which is set at five hectares to an economically viable twenty-four hectares. Because of CARL, average farm sizes have fallen to one hectare or less. The country needs bigger and better-managed farms to increase agricultural productivity thereby increasing supply and reducing food prices. Increasing domestic food production through commercial agriculture is the key to meeting the challenge of meeting the food requirements of an increasing population and solving the country's serious malnutrition problem.

Date Released: 02 September 2023

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