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07 September 2023

MARILOU P. MENDOZA

Chairperson
TARIFF COMMISSION
4th Floor, West Insula Condominium
135 West Avenue, Quezon City 1105
Philippines

Dear **Chairperson Mendoza**,


We write to request that the Tariff Commission ("TC") **INITIATE AN INVESTIGATION FOR THE REDUCTION OF TARIFF ON IMPORTED RICE** under Section 1608 of Republic Act No. 10863 otherwise known as the "Customs Modernization and Tariff Act".

Attached is the formal "Request for Tariff Modification" for the TC's consideration.

We, however, reserve the right to submit further documents, answers to the questionnaires, and other relevant data as they become available.

We hope for your prompt and favorable consideration.

Respectfully yours,


Calixto Chikiamco
President


Kristine F. Alcantara
Member of the Board of Trustees



REPUBLIC OF THE PHILIPPINES
TARIFF COMMISSION

REQUEST FOR TARIFF MODIFICATION

For TC use only

TCI (TM) No.: _____

Date: _____

Records Officer: _____

I. GENERAL INFORMATION

A. Petitioner

1. Name of Petitioner: **Foundation for Economic Freedom**
2. Name of Head of Company and Position: Calixto Chikiamco, President
3. Contact Details
 - a. Contact Person: Rhea Lyn M. Dealca
 - b. Position: Director for Projects and Administration
 - c. Contact Number: + 63917 6305539
 - d. E-mail Address: feffilippines@gmail.com; rhealyn.dealca@gmail.com
 - e. Address: Room 105, PSSC Building, Commonwealth Avenue, Diliman, Quezon City
4. SEC Registration No. A199508615
Date Registered: October 29, 1996

II. PRODUCT INFORMATION

A. Subject Article

Subject Article	AHTN Heading Number	Rate of Duty	
		Existing	Requested
10.06	Rice	35%	10%
1006.10	Rice in the Husk (Paddy or Rough)		
1006.10.10	Suitable for Sowing		
1006.10.90	Other		
1006.20	Husked (Brown) Rice		
1006.20.10	Hom Mali Rice		
1006.20.90	Other		
1006.30	Semi-Milled or Wholly-Milled Rice, whether or not polished or glazed		
1006.30.30	Glutinous Rice		
1006.30.40	Hom Mali Rice		
1006.30.50	Basmati Rice		
1006.30.60	Malys Rice		
1006.30.70	Other Fragrant Rice		
	Other		
1006.30.91	Parboiled Rice		
1006.30.99	Other		

1006.40 1006.40.10	Broken Rice Of a kind		
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A1. Brief Description, Specification, and Use of Subject Article

Rice is the seed of the grass species *Oryza Sativa* (Asian Rice) or, less commonly, *O. Glaberrima* (African Rice). As a cereal grain, domesticated rice is the most widely consumed staple food for over half of the world's human population, particularly in the Philippines. Rice is considered one of the most important food crops with regard to human nutrition and caloric intake, providing one-fifth of the calories consumed worldwide.

A2. Brief Description of Production Process

Rice production is divided into three (3) phases: pre-planting, growth, and post-production.

Illustration No. 1
Step-by-Step Production of Rice¹



Pre-planting activities involve choosing the right rice variety, developing a cropping calendar, and preparing the rice field for planting. In terms of the growth process, the traditional method for cultivating rice is direct seeding – seeds are sown directly in the field, or transplanting – seedlings are first raised in seedbeds before they are planted in the field. Farmers usually manage soil fertility, pests and diseases, water, and weeds as good management practices are critical in maximizing efficiency and yield.

Post-production processes involve harvesting the mature crop from the rice field, storing the harvest in a grain storage facility, drying, and milling. A rice milling system can be a simple one (1) or two (2) step process, or a multi stage process, as follows:

- One-step milling where the husk and bran removal are done in one pass;
- Two-step process where removing husk and removing bran are done separately; and

¹ See the *Rice Knowledge Bank* by the INTERNATIONAL RICE RESEARCH INSTITUTE (IRRI) at <http://www.knowledgebank.irri.org/step-by-step-production> (last accessed on 7 September 2023).

- Multistage milling which can be done in the village or local consumption or commercially for marketing rice. The rice undergoes a number of different processing steps, such as pre-cleaning, dehulling or dehulling, paddy separation, whitening or polishing, grading and separation of white rice, mixing, mist polishing, and weighing of rice.

The seeds of the rice plant are first milled using a rice huller to remove the chaff (the outer husks of the grain) (see: rice hulls). At this point in the process, the product is called brown rice. The milling may be continued, removing the bran, *i.e., the rest of the husk and the germ*, thereby creating white rice.

Either by hand or in a rice polisher, white rice may be buffed with glucose or talc powder (often called polished rice, though this term may also refer to white rice in general), parboiled, or processed into flour. White rice may also be enriched by adding nutrients, especially those lost during the milling process. While the cheapest method of enriching involves adding a powdered blend of nutrients that will easily wash off, more sophisticated methods apply nutrients directly to the grain, coating the grain with a water-insoluble substance that is resistant to washing.

In some countries, a popular form, parboiled rice is subjected to a steaming or parboiling process while still a brown rice grain. The parboil process causes a gelatinization of the starch in the grains. The grains become less brittle, and the color of the milled grain changes from white to yellow. The rice is then dried, and can then be milled as usual or used as brown rice. Milled parboiled rice is nutritionally superior to standard milled rice because the process causes nutrients from the outer husk to move into the endosperm so that less is subsequently lost when the husk is polished off during milling. Parboiled rice has an additional benefit in that it does not stick to the pan during cooking, as happens when cooking regular white rice.

B. Reasons for the Request

The immediate reduction of import tariffs on rice from 35% to 10% will be effective in solving the demand-supply gap and arrest the increasing food price inflation, for the welfare of the general consuming public.

Over the past couple of months, the retail price of rice has soared. In the case of regular milled rice (“RMR”), the price went from ₱ 38.50 per kg by end-June, to ₱ 48.50 per kg by end-August, which is a staggering 26% increase. Meanwhile, that of well-milled rice (“WMR”) went from ₱ 42.50 per kg to ₱ 51.50 per kg over the same period, a 21% increase. In an attempt to solve the crisis, Executive Order (“EO”) No. 39 was issued last August 31, 2023, imposing price ceilings on RMR and WMR, effective September 5, 2023. The ceiling rates are Php 41 per kg for RMR and Php 45 per kg for WMR.

The current price escalation is due to the rising cost of rice, both from domestic and imported sources. The latter is very important for the Philippines: in 2022, total imports were 3.7 million tons; in 2021, imports were equivalent to 18.5% of the sum of imports and domestic production. In 2020 to 2022, fertilizer and fuel prices had been raising the domestic cost of producing palay, but thanks to the country’s openness to imports, beginning from the rice tariffication law of 2019, rice inflation had remained mostly benign, until this year.

By 2023 however, imported rice has suddenly become more expensive, becoming the main cost push behind retail prices. In June 2023, Vietnam White Rice 5% was averaging US \$ 508 per ton, up by nearly US \$ 100 per ton compared to the same month of the previous year; for the comparable grade of Thai White 25%, the price per ton was US \$ 547 by end-July 2023, breaching the US \$ 600-dollar mark by end-August 2023, or an 11% increase in a matter of a month.

The high cost of imported rice with the tariff is causing traders to scramble for scarce palay stocks, with reports of farmgate prices reaching ₱ 21.00 to ₱ 25.00 per kg of palay in Nueva Ecija last August. High prices cascade down the value chain, leading to wholesale prices reportedly at Php 48 per kg for WMR.

Hence, retailers adhering to the price ceiling will already incur a loss of about Php 3 per kg, justifying their open resistance to the price ceiling, and their tendency to keep stocks rather than release them at a loss, leading to government promises of subsidy assistance.

C. Expected Benefits of Tariff Modification

There is an important remaining policy distortion that artificially raises the cost of imported rice, which is the tariff. Despite the liberalization of rice imports since 2019, the Philippines still protects local rice producers by imposing an import duty on milled rice equal to 35%. This tariff is the single most significant driver of the cost of imported rice. Back of the envelope calculation suggests that duty-free importation of rice, even at US\$ 600 per ton, should bring the landed cost of imported rice at parity with wholesale WMR of Php 39 per kg, which in turn is consistent with a retail price of ₱ 45 per kg, the current WMR price ceiling.

We submit that reducing tariffs will bring significant relief to the domestic rice market. The larger the reduction, *i.e. down to zero or close to it*, the greater the relief. A cut down to 10% rate will have significant impact.

Box 1. Back of the Envelope Calculation

The world price proxy is Vietnamese White Rice 5%, free on board (“FOB”); in 2022, the average was 404.43, much higher than the unit value of imports from Vietnam that year of US\$300 – 340 per ton. In other words, the 5% FOB rate for 5% White is a high estimate of the Cost, Insurance, and freight (CIF) lower quality rice imported from Vietnam.

Converted to pesos, with tariff, in 2022 the landed cost of Vietnamese rice was ₱ 29.77. The wholesale price average for WMR for 2022 was ₱ 38.36 per kg, 29% higher than the landed cost. By August 2023, the estimated wholesale price was ₱ 46.53 per kg; at a high US\$ 600 per ton, the margin from landed cost to wholesale price is down to 4%. In other words, compared with 2022, the downstream distribution channel in 2023 has nearly no advantage in importing compared with buying wholesale.

If instead, the tariff on rice is cut down to 10%, even at US\$ 600 per ton, the landed cost falls to ₱ 36.40 per kg. This gives added flexibility to downstream distributors. Applying 2018 to 2023 average retail-to-wholesale margin gives a retail price of ₱ 45 (rounded off to the nearest peso), which just matches the retail price ceiling for WMR. We may expect similar advantages accruing to RMR when tariffs are cut across the entire AHTN 1006.30 line.

As for the fear that importers will simply pocket the cost savings from tariff reduction, this is allayed by recent experience from tariffication. From 2019 to 2021, **rice prices trended downward**, as the difference between domestic prices converted to the border price owing to market competition. Rice price inflation was a modest 2% in 2022, only accelerating in 2023 when the world rice market became less stable. We have every reason to expect, as long as the sanitary and phytosanitary permitting system remains science-based, that competition among importers and traders.

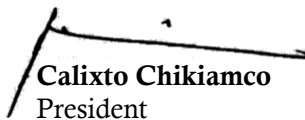
Finally, tariff reduction will obviate the distortions caused by price ceilings imposed by EO No. 39. These are well known from domestic and international experience, namely: the high cost of enforcement, *i.e. monitoring over fifty thousand retailers across the country*; preventing adulteration or reclassification of rice to higher grades; ensuring adequate supply; and preventing shortages. The usual opposition from domestic

producers will be attenuated by the high world prices of rice, which will naturally inhibit importers from flooding the local market with imports. Once world markets normalize or the demand and supply situation stabilizes, the tariff can be adjusted back to its previous level.

III. CERTIFICATION

I hereby certify that all information contained herein is true and correct and relates to the subject article(s).

I commit that any additional information required will be submitted within 10 working days after receipt of a request from the Commission. Non-submission of the same is an indication that I will no longer pursue the application.



Calixto Chikiamco
President

FOUNDATION FOR ECONOMIC FREEDOM



Dr. Roehlano Briones
Fellow

FOUNDATION FOR ECONOMIC FREEDOM