Foundation for Economic Freedom, Inc.

FEF STATEMENT ON PROPOSED AMENDMENTS TO THE RICE TARIFFICATION LAW

We, the Foundation for Economic Freedom (FEF), view with great concern the rush by which Congress is attempting to amend the provisions of the Rice Tariffication Law (RTL or RA 11203 of 2019). In particular, Congress proposes to restore the power of the National Food Authority (NFA) to import rice and engage in rice retail so that it can "buy high" from the palay farmers and "sell low" to the consumers. It is being claimed that if the amendments were adopted, rice prices would decline from Php10 to Php15 in the third quarter of this year.

RTL is the most significant reform in the rice policy landscape since the 1970s as it enabled the country to: a) become fully compliant with our international commitment to the World Trade Organization (WTO); b) ease the staggering debt that NFA incurred at more than Php 170 billion as its "buy high and sell low" strategy was a sure formula for bankruptcy; c) eliminate rent-seeking activities along the rice value chain from its procurement down to the logistics involved in handling and marketing rice; d) tame rice inflation from the period 2019 up to the year 2022 when international rice prices were stable (refer to Figure 1); and e) generate around Php 80 billion in tariff duties during the years of RTL implementation, which were used to further enhance the productivity of our small rice farmers.

RTL is being amended because of the perception among our selected policymakers and officials that it has not arrested the rising rice prices. What is not being said is that the soaring rice prices were brought about by the exogenous factors, which are: a) the outbreak of the Ukraine-Russian conflict which resulted in the upswing of fuel, fertilizer, and grain prices; b) the export ban of non-basmati (white) rice by the Indian government which supplies around 40% of total global rice export; and c) more recently, the spreading and intensifying conflict in the Middle East which has placed upward pressure on petrol prices. Undoubtedly, these factors are beyond the control of RTL.

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Ironically, the law is being blamed as the culprit behind the rising rice prices. Some legislators and senior officials are offering the solution to bring NFA back to its previous role by granting it again the power to import rice and regulate rice retail trading. This proposal will reverse all the beneficial reforms in the rice policy framework achieved by the RTL and will reinstate, for the wrong reason – the short-term adverse external events not related to the RTL, the previous framework, which was historically prone to governance vulnerabilities and fiscal unsustainability.

Recommendations

In principle, it is prudent to distinguish between the short-term impact of adverse external events not intrinsic to the RTL and the short-term weaknesses in implementation and execution versus the long-term beneficial outcomes of the structural reforms represented by the RTL. The short-term issues due to external events and issues in execution should be addressed by short-term measures and not by amendments to the RTL.

If the total rice supply deficit can be addressed in the short term by increased local production, we see no reason why restoring the power of NFA to import rice and to engage in rice retail needs to be permanently embedded in the law to tame the soaring rice prices. But if the rice supply shortage is indeed serious this year because of El Nino, other policy instruments can be applied to satisfactorily address, in a temporary manner, such an extremely urgent challenge.

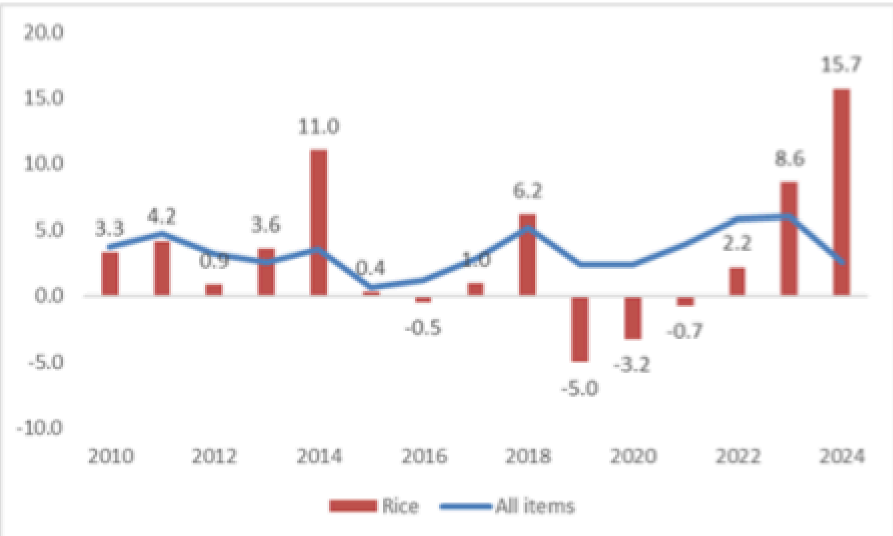
FEF would like to reiterate its proposal last year to temporarily reduce the import duty on rice from 35 to 10%. If this measure is adopted, it would lower the landed cost of imported rice and exert downward pressure on its wholesale and retail prices.

Second, if there is an urgent justification for importing rice, the implementing rules and regulations (IRR) of the RTL provided that another government entity, the Philippine International Trading Corporation (PITC), which is under the Department of Trade and Industry (DTI), can import all the necessary rice requirement of the country. This is a better option because the public perception of the Department of Agriculture (DA) is that it should promote the interest of the cultivators rather than the consumers. DTI is legally mandated to perform the latter function.

Third, NFA should ramp up procurement of palay from our local producers to build the "buffer stock" for emergency situations, which RTL stipulates to be its integral function. Unfortunately, NFA's previous performance in this role leaves much room for improvement. No one is telling the public the real reason why, though the agency persistently claims that its price stabilization function should be restored by allowing it to import rice and regulate rice retail trading.

Finally, we would like to appeal to our legislators and policymakers that when proposing amendments to the RTL, they should consider the results of evaluation studies on how the Rice Competitiveness Enhancement Fund (RCEF) was implemented and how the National Rice Program (which is a much bigger rice productivity program) performed vis-à-vis their task of raising overall the efficiency, productivity, and competitiveness of our rice farmers. They should be able to distill lessons and insights learned from these evaluation studies, which adopted rigorous methodologies in analyzing empirical data and evidence. Only then can we have a rationale and scientific approach to addressing the challenges hounding our rice sector.

Figure 1. Rate of change of Consumer Price Index (CPI), all items and rice, 2010-2023 (%)



Source: PSA Open Stat; Briones (2024)

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