



# Rice Science

## FOR DECISION- MAKERS

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# HOW TO MAKE FARMERS WINNERS UNDER THE RICE TARIFFICATION REGIME

Alice B. Mataia and Aerone Philippe G. Bautista

## INTRODUCTION

The implementation of Republic Act (RA) 11203 or Rice Tariffication Law (RTL) increased the volume of imported rice in the country (1.8 million metric tons as of June 2019). Already exceeding our normal annual import volumes, this consequently pulled down the prices of rice (bigas) and, quite significantly, its main raw material – palay. Data from Philippine Statistics Authority (PSA) show that palay prices have dropped to P17.60/kg in August 2019, down by more than 21% as against the same period last year (P22.39/kg). As of August 2019, prices of dry palay ranged from a low of P12.50/kg (in Apayao) to a high of P21.60/kg (in Guimaras), with the country's major rice-producing provinces suffering from the price decline.

While waiting for the programs, funded by rice tariff revenues, which will help rice farmers lower their production cost and increase their income, the government must introduce immediate measures to address this so-called “birth pains” of rice tariffication.

## WHAT IS RA 11203 (RTL)?

Better known as “Rice Tariffication Law”, RA 11203 amends the Agricultural Tariffication Act of 1996 (RA 8178) replacing quantitative restrictions (QRs) on rice imports with tariffs. Approved in February 2019, the law was triggered by the June 2017 expiration of the special treatment for rice that was repeatedly granted by the World Trade Organization

## KEY POINTS

- Unlike in 2017 and 2018, trend in *palay* price in 2019 did not follow normal production seasonality – low during peak harvest months and high during lean periods, with prices continuously falling since January.
- Following the implementation of the rice tariffication law, *palay* prices, in real terms, moved downwards from January to August 2019 contrary to the same period in 2018.
- Given the average yield of 3,972 kg/ha, the P3.24/kg decline in real price of dry *palay* from August 2018 to August 2019 translates to a lost income of P12,869/ha, thus, national level income loss is at P61.77B, rendering RCEF funding seemingly insufficient to offset it.

Immediate measures (e.g. cash transfers, SURE-Aid, institutional procurement, import regulation, SRPs) must be put in place to protect rice farmers from the unintended effects of RTL and provide safety nets while making them capable enough to compete in the global market.

(WTO) to the Philippines. Passing the law was also seen to control the rising inflation in 2018 caused by escalating prices of agricultural commodities, particularly rice, as domestic production and NFA stocks dwindled in that year (Rivas, 2018).



**Tariff refers to a tax levied on a commodity imported from another country. It earns revenues for the government and is regarded as an instrument to promote local industries by taxing their competitors. The benefit is accorded to the local producers by the maintenance of a domestic price at a level equal to the world price plus the tariff.**

Source: Official Gazette, 2019



In fact, rice attributed to 1-percentage point contribution to inflation during the peak inflation of 6.7% in September and October 2018.

To protect local rice farmers from global competition, the law imposes 35% tariff on imported rice from Association of Southeast Asian Nations (ASEAN)-member countries under the ASEAN Trade in Goods Agreement. A higher 40% tax is imposed on rice from non-ASEAN countries that is within the minimum access volume (MAV) our country committed to the WTO; otherwise, 180% tariff will be levied.

For the benefit of farmers, the law also creates the P10-billion Rice Competitiveness Enhancement Fund (RCEF) from the Annual Appropriations as government investment for the next six years to help the rice industry survive global competition in its transition to a more open rice trade system. P5B of the yearly RCEF will be appropriated to the Philippine Center for Postharvest Mechanization and Development (PHilMech) for the mechanization of local rice production; P3B to PhilRice for the development, propagation, and promotion of high-quality inbred rice seeds and strengthening of organizations toward seed production; P1B to Land Bank and Development Bank of the Philippines for the provision of subsidized credit to rice farmers and cooperatives; and P1B to PhilRice, PHilMech, Agricultural Training Institute (ATI), and Technical Education and Skills Development Authority (TESDA) for rice extension services. These agencies are now fast-tracking program implementation under the guidance of a Program Steering Committee led by the Secretary of Agriculture.

If the annual generated tariff revenue from imported rice exceeds P10B, RTL provides that the excess will be allocated to: 1) rice farmer financial assistance; 2) titling of agricultural rice lands; 3) expanded crop insurance on rice; and 4) crop diversification program. For these purposes, the Bureau of Customs must declare the total annual tariff revenue from rice importation of the preceding year. The DA, DENR, DAR, Land Registration Authority (LRA), and Philippine Crop Insurance Corporation (PCIC) will prepare proposals for the utilization of these

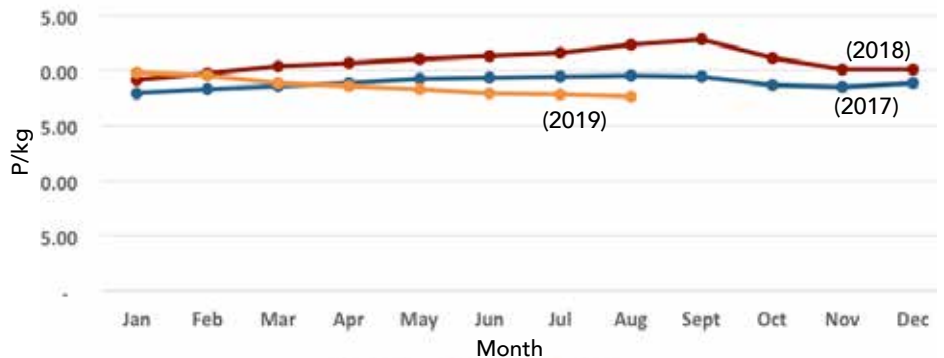
funds for submission to, review of, and subsequent recommendation of the DBM to include these in the National Expenditure Program. This shows that it will take almost two years before rice farmers can enjoy the benefits of these projected excess tariff revenues.

### HOW DOES RTL AFFECT PALAY PRICES?

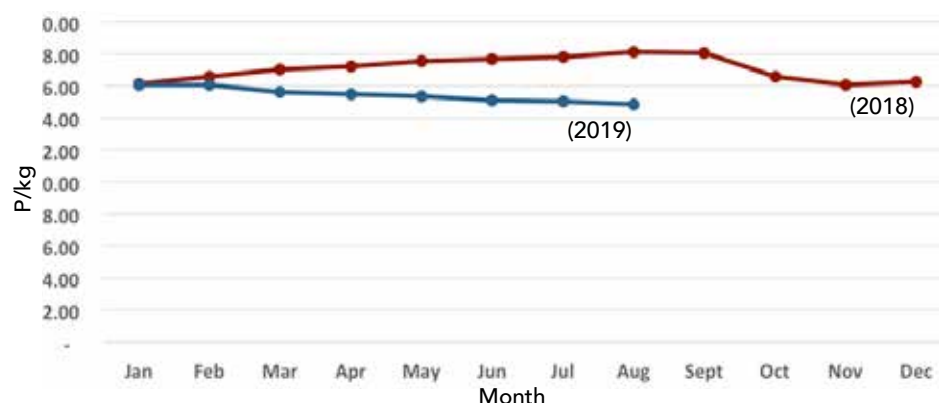
Normally, *palay* prices are seasonal – low during peak harvest months and high during lean months. However, unlike in 2017 and 2018, Figure 1 shows that this trend did not occur in 2019 as prices continuously fell since January.

In 2018, an abnormal rise in *palay* prices was observed partly owing to the low volume of NFA stocks during the year. Using real prices (without the effect of inflation) to address such abnormality, a similar trend is still observed from Figure 2 where *palay* prices moved downwards from January to August 2019 contrary to the same period in 2018. Starting at P16.10/kg in January, national average *palay* price fell to P14.87/kg in August 2019, which is P3.24/kg less than the August 2018 *palay* price, in real terms.

Accordingly, *palay* prices in major rice-producing provinces in the country have declined (Table 1). In top producing Nueva Ecija, price of dry *palay* has shrunk to P18.00/kg as of the last week of August 2019 from P27.00/kg in August 2018. Wet *palay* (at 24% moisture content [MC]) is even cheaper, making farmers who sell it earn less. Agusan del Sur and Sultan Kudarat have the lowest prices with dry *palay* at only P14.00/kg and wet *palay* at P12.37/kg. Cagayan, Nueva Ecija, and Palawan have the largest gap between August 2018 and 2019 *palay* prices (less P9.00/kg, dry *palay*), pulling down the income of its rice farmers.



**Figure 1.** Nominal monthly price of dry *palay* for periods 2017, 2018 and 2019  
Source of basic data: PSA



**Figure 2.** Deflated/real monthly price of dry *palay* for periods 2018 and 2019

# EFFECTS ON RICE FARMERS' INCOME

Starting in the dry season planting of 2019, the income of rice farmers has been contracting as farmgate prices continuously fell. Those with small farms and no other dependable source of income are suffering the most.

**Table 1.** Nominal prices of dry and wet *palay*, with and without tariff, in major rice-producing provinces

Province	Palay Price (P/kg)					
	August 2018 (without RTL*)		August 2019 (with RTL*)		Difference	
	Dry @ 14% MC	Fresh Price Equivalent (24%)	Dry @ 14% MC	Fresh Price Equivalent (24%)	Dry @ 14% MC	Fresh Price Equivalent (24%)
<b>Philippines</b>	<b>22.68</b>	<b>20.04</b>	<b>16.68</b>	<b>14.74</b>	<b>-6.00</b>	<b>-5.30</b>
Cagayan	25.00	22.09	16.00	14.14	-9.00	-7.95
Nueva Ecija	27.00	23.86	18.00	15.91	-9.00	-7.95
Palawan	26.00	22.98	17.00	15.02	-9.00	-7.95
Negros Occ.	24.63	21.76	16.06	14.19	-8.57	-7.57
Davao del Sur	26.00	22.98	17.50	15.47	-8.50	-7.51
Sultan Kudarat	22.50	19.88	14.00	12.37	-8.50	-7.51
Pangasinan	24.00	21.21	16.00	14.14	-8.00	-7.07
Tarlac	25.00	22.09	17.00	15.02	-8.00	-7.07
Camarines Sur	24.00	21.21	16.00	14.14	-8.00	-7.07
Aklan	27.00	23.86	19.00	16.79	-8.00	-7.07
Davao del Norte	24.00	21.21	16.00	14.14	-8.00	-7.07
Bukidnon	24.63	21.76	17.13	15.14	-7.49	-6.62
Ilocos Norte	22.00	19.44	15.00	13.26	-7.00	-6.19
Zambales	25.00	22.09	18.00	15.91	-7.00	-6.19
Zamboanga del Sur	24.09	21.29	17.67	15.61	-6.42	-5.68
Isabela	22.45	19.84	16.25	14.36	-6.20	-5.48
North Cotabato	20.80	18.38	14.70	12.99	-6.10	-5.39
Kalinga	22.00	19.44	16.00	14.14	-6.00	-5.30
Pampanga	21.00	18.56	15.00	13.26	-6.00	-5.30
Antique	21.00	18.56	15.00	13.26	-6.00	-5.30
Ilocos Sur	21.00	18.56	15.50	13.70	-5.50	-4.86
Nueva Vizcaya	23.00	20.33	17.50	15.47	-5.50	-4.86
South Cotabato	22.00	19.44	16.75	14.80	-5.25	-4.64
Bohol	26.00	22.98	21.00	18.56	-5.00	-4.42
Agusan del Sur	18.75	16.57	14.00	12.37	-4.75	-4.20
Laguna	22.00	19.44	18.00	15.91	-4.00	-3.53
Capiz	23.00	20.33	19.50	17.23	-3.50	-3.09
Iloilo	20.00	17.67	16.50	14.58	-3.50	-3.09
Zamboanga Sibugay	21.00	18.56	20.00	17.67	-1.00	-0.88
Sorsogon	21.00	18.56	20.70	18.29	-0.30	-0.27

\*RTL - Rice Tariffication Law  
Source of basic data: PSA

**Table 2.** Effects of RTL on income under different deflated/real *palay* prices

Item	Dry <i>palay</i> @ 14% MC	Fresh <i>palay</i> @ 24% MC	Price @ P12.00/kg	Price @ P10.00/kg
<b>August 2018 (baseline scenario)</b>				
Palay Price (P/kg)	18.11	16.00 <sup>a</sup>	16	16
Unit cost (P/kg)	12	12	12	12
Net income (P/kg)	6.11	4	4	4
Ave. yield (kg/ha)	3,972.00	4,494 <sup>b</sup>	4,494.00	4,494.00
Net income (P/ha)	24,268.00	17,996.00	17,996.00	17,996.00
<b>August 2019 (with RTL*)</b>				
Palay price (P/kg)	14.87	13.14 <sup>a</sup>	12	10
Unit cost (P/kg)	12	12	12	12
Net income (P/kg)	2.87	1.14	0	-2
Average yield (kg/ha)	3,972.00	4,494 <sup>b</sup>	4,494.00	4,494.00
Net income (P/ha)	11,399.00	5,128.00	0	-8,989.00
<b>Impacts</b>				
Reduction in <i>palay</i> price (P/kg)	3.24	2.86	4	6
Net income loss (P/ha)		12,869.00	17,996.00	26,985.00
Total area harvested (ha)	4,800,406.09			
Total income (P) reduction (Phil.)	61,774,192,823.00		86,389,542,888.00	129,539,157,758.00

\*RTL = Rice Tariffication Law

<sup>a</sup>fresh price/weight equivalent @24% MC of dry *palay*

Source of basic data: PSA weekly data: 4th and 5th week of August 2018 and 2019

Table 2 shows RTL's effect on income, in real terms, using 2018 as baseline scenario. Given the average yield of 3,972 kg/ha, the P3.24/kg decline in price of dry *palay* translates to a lost income of P12,869/ha. Farmers who sell wet *palay* (at 24% MC) earn much less with lower prices of their output, weakening their purchasing power.

Worse, possible collusion among traders to further lower prices of fresh *palay* to P10.00/kg and P12.00/kg during the peak harvest season (September to November) may exist. This will further exacerbate the situation with farmers earning just enough to breakeven or even lose, earning less than their cost of production. Results of PhilRice's Rice-based Farm Household Survey (RBFHS) reveal that 10% of rice farmers have hesitated to plant rice if price of dry *palay* would only be at an unprofitable P12.00/kg. Many of those who would still plant would rather consume instead of sell their produce.

On the national level, total income losses of farmers are estimated at P61.77B escalating to P86.39B or P129.54B during the peak harvest season if prices further drop to P12.00/kg or P10.00/kg, respectively (Table 2). With this potential massive loss, the government should supplement its P10-billion annual rice fund allotment through RCEF, and administer immediate measures to cushion the adverse effects of the law on rice farmers' income. This should hopefully motivate them to continue planting rice.

## CONCLUSION

Prices of local *palay* have declined substantially after the initial implementation of RTL. The virtually unbridled importation of rice is dampening local *palay* prices and robbing the income of rice farmers. While RTL helped lower inflation and eased the public's access to affordable rice, it also appears that rice farmer's real income significantly plunged by P12,869/ha. By and large, this translates to P61.77B overall loss to the domestic rice industry rendering the P10-B RCEF seemingly insufficient to offset it. Worse, government bureaucracy prevents the immediate roll-out of RCEF-funded programs so farmers have yet to be benefited. The National Economic Development Authority (NEDA) estimates a 1 to 2-year time lag before the effects of RCEF on farm productivity can be felt (Ocampo, 2019).

As rice tariffication has initially stunned domestic prices, which does not sit well with rice farmers, government compensatory measures must be immediately put in place to support rice farmers in this transition.

# CALL FOR ACTION

While optimistically waiting for 2 years for RCEF measures to bear good fruit, what government remedies can be pursued to provide “first aid” to affected rice farmers?

To immediately shield farmers from the initial unintended effects of RTL and provide safety nets while making them capable enough to compete in the global market, the following measures are recommended:

- Provide conditional cash transfer, to compensate for the income losses of rice farmers while the Rice Competitiveness Enhancement Program is being rolled-out. This, together with the DA's SURE Aid zero-interest loans, have an immediate, tangible, and direct impact on rice farmers;
- Accelerate the rolling-over of existing NFA rice stocks to facilitate and intensify the agency's palay procurement from farmers focusing on rice surplus provinces experiencing severe palay price reduction (procure-mill-sell strategy). This will benefit both producers through the price support given by NFA, and consumers through lower rice prices;
- Support the DA in encouraging LGUs, particularly in top rice-producing provinces, to provide incentives to farmers by buying their produce. NFA-owned warehouses with excess capacity must then be leased to LGUs and farmers' cooperatives
- Establish border protection measures through the Bureau of Customs (BOC);
- Implement Suggested Retail Prices (SRPs) to stabilize the market price of milled rice in the market, whether local or imported; and
- Update the existing registry and targeting system like the Registry System for Basic Sectors in Agriculture (RSBSA).

Additionally, the following measures also need to be carried out to further support farmers throughout the implementation of RTL:

- Speed up the implementation of RCEF-financed programs through immediate disbursement of funds for seeds, credit, extension and mechanization;
- Adopt the DA's plan on creating National and Regional Task Forces on Rice to regularly monitor palay farmgate prices as well as collect planting and harvesting data, and intensify communication support plan;

- Revive and adopt the Quedan Guarantee System through partnership between LGUs and NFA;
- Support the DA's initiative to discuss or negotiate with millers, traders, wholesalers, and retailers;
- Intensify the investigation of the Philippine Competition Commission (PCC) and the DA on possible collusion and anti-competitive behaviors of scrupulous traders; and
- Encourage consumers to buy locally-produced rice to support rice farmers.



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## ABOUT THE MATERIAL

Rice Science for Decision-Makers is published by the Department of Agriculture-Philippine Rice Research Institute (PhilRice). It synthesizes findings in rice science to help craft decisions relating to rice production and technology adoption and adaptation. It also provides recommendations that may offer policy triggers to relevant rice stakeholders in search of opportunities to share their knowledge on rice-related products.

The articles featured here aim to improve the competitiveness of Filipino rice farmers and the Philippine rice industry through policy research and advocacy.

This policy brief discusses the impact of Rice Tariffication Law (RTL) on the prices of local *palay* and its effects on the income of rice farmers. It presents scenarios before and after the enactment of the law. The paper appeals for the immediate implementation of measures to support farmers as we transition to a more open rice trade.

For comments and requests for additional copies, please write to:

### Development Communication Division

Philippine Rice Research Institute  
Maligaya, Science City of Muñoz, 3119 Nueva Ecija  
Contact: [prii.mail@philrice.gov.ph](mailto:prii.mail@philrice.gov.ph) • (44) 456-0277, loc. 500  
PhilRice Text Center: 0917-111-7423

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Managing Editor/Design and Layout: Reuel M. Maramara  
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Philippine Rice Research Institute  
Central Experiment Station  
Maligaya, Science City of Muñoz, 3119 Nueva Ecija

