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MAN-MADE CALAMITY
TO FARMERS FROM DEFECTIVE RICE IMPORT LIBERALIZATION

AS BRAINCHILD OF FREE-MARKET ADVOCATES WHOSE KIND HAS A TRACK RECORD OF FAILURES IN THE PHILIPPINE ECONOMY, THE ANTI-FARMER RICE TARIFFICATION LAW IS OFF TO A FIERY START BY CREATING A MESS IN THE RICE FARMING INDUSTRY

If the Major Defects of the Rice Tariffication Law are Not Remedied, President Rodrigo Duterte May Go Down in History as the President who Presided Over the Massacre of the Rice Farming Industry—and in One Blow Nullified What Past Philippine Presidents Had Done to Help Rice Farmers Improve their Lives

In their respective times, past Presidents had contributed stones to the edifice of farmers' deliverance from the bondage of poverty. Some of the most significant milestones in agrarian reforms undertaken by them were as follows:

Manuel L. Quezon
Act No. 4054 of 1933: The Philippine Rice Share Tenancy Act, which legalized the 50-50 harvest sharing ratio between landlords and tenant farmers. Thereafter, landlords could no longer shortchange farmers in the sharing of their produce.

Manuel A. Roxas
RA No. 34 of 1946: It established a 70-30 sharing ratio between landlords and tenants, with the latter receiving the 70% share for their labor and expenses.

Ramon F. Magsaysay
RA No. 1199 of 1954: This Agricultural Tenancy Act governed the relationship between landholders and tenants and provided security of tenure to farmers; RA No. 1400 of 1955: The Land Reform Act known as "Land to the Landless" program.

Diosdado P. Macapagal

RA No. 3844 of 1963: This landmark comprehensive legislation abolished share tenancy in the Philippines and converted tenant-farmers into lessees who would eventually become owner-cultivators. In his appointment with history, then Senator Raul Manglapus, who wrote "Land of Bondage, Land of the Free" during his college days at the Ateneo de Manila, had to doggedly push this revolutionary legislation in the Senate to convince initially opposing landed senators to pass the covering bill into law.

Ferdinand E. Marcos

PD No. 27 of 1972: This Decree provided for land reform coverage and distribution to tenants of private rice and corn lands. It did not include large sugar and coconut haciendas owned by influential rich landholders.

Corazon C. Aquino

RA No. 6657 of 1988: In addition to some of her executive issuances, this Comprehensive Agrarian Reform Law of 1988 was passed during her term. Its crucial importance: it subjected to land reform all lands with areas beyond the exempt limit, including sugar and coconut haciendas owned by martial-law cronies previously excluded under PD 27 by President Marcos.

RA 6657 included Hacienda Luisita in Tarlac in the land reform coverage. This is evident from the fact that while the initial reform implementation was through the defective Corporate Stock Distribution Option (SDO), which the Supreme Court unwisely outlawed instead of simply correcting its defects, the Hacienda Luisita land was subsequently distributed to farmer-beneficiaries under RA 6657 without need for a new enabling law. The SDO for Hacienda Luisita, ratified by farmer-beneficiaries in two referenda, was a win-win concept. The farmer-stockholders would have a ready outlet for their sugar cane harvest—the sugar mills ceded into the corporation—while the hacienda owners would have a continuing source of raw-material sugar cane for their mills. But, as implemented, the hacienda owners held a two-thirds majority of the corporation, with only one-third owned by the farmer-beneficiaries. Therefore, the farmers did not have the crucial two-thirds majority control over their lands contributed to the corporation.

The Supreme Court could have just ruled that the clinching majority control of the corporation should be owned by farmers while the minority interest would be owned by the hacienda owners—through reducing the owners' asset contribution. Had this been done, the farmers as majority stockholders could later hold a stockholders' meeting where, in case they changed their mind and wanted to opt out of the SDO, **the farmers as controlling interest could decide to distribute the corporate sugar lands among themselves**.

The Supreme Court overlooked the farmers' options and flexibility under SDO. As a result, it fallaciously outlawed the SDO scheme nationwide even if it was, in substance, the equivalent of beneficial cooperatives being encouraged by the government's Cooperative Development Authority, created under RA 6939 enacted on March 10, 1990, aimed at strengthening the financial and operational capabilities of farmers and other small economic sectors. For instance, the government's Land Bank of the Philippines and National Food Authority (NFA) would rather transact with farmer-cooperatives than with individual farmers. The clincher**:** "The Department of Agriculture (DA) is pushing for 'no cluster, no assistance' policy in the agriculture sector to force farmers to consolidate into cooperatives and associations, which will make it easier for the government to distribute farm assistance.[i]

Gloria Macapagal-Arroyo

RA No. 9700 of 2009: Known as Comprehensive Agrarian Reform Program Extension with Reforms (CARPer) Law, it strengthened and extended the life of the original CARP Law (RA No. 6657).

Other Past Presidents

Some past Presidents did not initiate new legislation to further improve the agrarian reform program, but they supported the implementation of the program already in place during their watch.

President Rodrigo Duterte is Different, Instead of Following the Presidential Tradition of Passing Legislation for Further Betterment of Farmers' Lives, He Approved a Law that Spells Doom for the Rice Farming Industry—Even if this Industry Generates Jobs in the Countryside, Stimulates Allied Small Businesses, and Provides Competition to Rice Exporters that Stabilizes the Export Prices of Imported Rice

President Duterte has also supported the agrarian reform program. However, he did what all past Presidents never did—signed the Rice Tariffication Law (RA 11203) on February 14, 2019 that gave up government protection of farmers under free market. The law leaves rice farmers at the mercy of big-time rice traders, who seem to operate as an invisible cartel. As a result, it is causing some ₱100 billion to ₱150 billion rice farmers' annual losses.

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[i] Madelaine B. Miraflor, "No cluster, no assistance policy pushed," *Manila Bulletin*, June 11, 2020, p. B-3.

The farmers' losses are rooted in the steep drop in prices of their roughly 19-million metric ton annual palay production. However, despite the sharp drop in palay prices and liberalized rice importation, there is no proportionate reduction in rice retail prices.

The Rice Tariffication Law is the brainchild of free-market economic and financial experts whose kind has a track record of failures in the Philippine economy, with concomitant back-breaking high prices of basic necessities to generally poor Filipino consumers, as treated in this book. Unless this law that kills the rice farming industry is amended to restore protection of farmers, President Rodrigo Duterte's economic managers and allies in Congress may have assured for him a harsh verdict of history, especially if compared with past Presidents who instituted agrarian reforms aimed at helping poor farmers.

PART I
THE RICE TARIFFICATION LAW WROUGHT HAVOC IN THE VITAL RICE FARMING INDUSTRY

The Monumental Error in the Power Industry Under EPIRA (RA 9136) Repeated in the Rice Industry Under the Rice Tariffication Law (RA 11203): Removal of the Government from Market Competition

Free-market apostles advocated the privatization and deregulation of industries supplying essential goods and services. They thought that such free-market reforms will promote competition and produce adequate supply of the needed goods and services at lower prices. With free-market reforms in place, they set back and waited for the reforms to bear the expected fruits.

Unfortunately, 24 years after MWSS privatization in the water industry in June 1997, as well as 20 years after enactment in June 2001 of EPIRA that had the power industry privatized and power generation deregulated, they are still doing nothing and patiently waiting for the beneficial fruits of privatization that have yet to come. On the contrary, we have recurring supply shortfall that results in power brownouts and water rationing, at unduly high prices that yield rates of return in breach of the Supreme Court ruled 12% reasonable return cap. They do not display any sign of result-oriented managers' impatience over the failure of privatization to attain its objective. If the people would rely on them as contented proponents of instituted free-market reforms, inadequate power and water supply at unlawfully high rates may remain our abhorred legacy to future generations.

What May Not Have Dawned on Economists: The Root of the Recurring Problem of Inadequate Power Supply—with Corollary High Power Rates—is the EPIRA-Mandated Elimination of the Government from Competition in the Power Industry

The root of the perpetuated recurring power supply shortages—with resulting unduly high power rates—constitutes the fundamental defect of EPIRA: its mandated total elimination of the government from competition in the power industry. As pointed out and treated in detail in Chapter 11, this law prevents the government from doing what profit-motivated private investors have not done and will not do because no one among them is foolish or altruistic enough to do it—providing the financially losing but absolutely needed idle reserve power plants. The reserve plants will take care of power shortages during regular and emergency shutdowns of other plants. Reserve plant capacity is needed during that time because electricity cannot be stored. It cannot be stockpiled as inventory intended for future use whenever there is a supply shortfall. Separate reserve plants have to be operated to make up for the shortfall in supply. Under the circumstances, government intervention through putting up of government-owned reserve power plants as essential public service, not free market, will solve the problem.

Oblivious to the Privatization Failure in the Power and Water Industries and the Root of such Failure, Free-Market Adherents have Succeeded Once Again in Having Private Capitalists Lord it Over the Country's Rice Importation through the Rice Tariffication Law

Free-market advocates seem clueless about the major defects of the privatization of the power and water industries, probably because they lack experience and skill in macro or industry-wide planning and governance of crucial industries like power, water, and rice. These are basic necessities with inelastic demand that is not affected by price changes. These are susceptible to overpricing because these have to be bought even at manipulated high prices set by cartel-prone big-time capitalists. In complete disregard of the peculiarities of rice as a basic necessity produced by a vital local industry, free-market advocates succeeded in having the Rice Tariffication Law passed. It similarly removed the government's National Food Authority (NFA) from competition in the rice industry, in the process depriving farmers of alternative NFA market for their produce.

Without NFA protection, farmers are now easy prey for profit-greedy private traders who buy palay from them at unsustainably low prices, then quickly sell the same to NFA at a hefty profit. In sum, the new law has set the stage for the doom of the rice farming industry if supply glut under liberalized rice imports is allowed and farmers are left with profiteering rice traders as sole market.

The advocates and framers of the Rice Tariffication Law grossly underestimated the adverse implication to rice farmers of rice import liberalization without government intervention. They did not anticipate the staggering extent of its deleterious impact. Worse, there is no matching reduction in rice retail prices despite the mess already created in the rice farming industry. They failed to consider the long-existing rice cartel and smugglers who are the biggest beneficiaries of rice import liberalization.

The proponents of the Rice Tariffication Law seem totally unprepared to properly address the resulting drastic fall in palay prices, yet with mild drop in rice retail prices. Their experiments and flip-flopping solutions keep appearing in media reports, especially on what to do with their ₱10-billion fund assistance to farmers. As explained herein later, there is simply no way such a relatively measly amount of ₱10 billion, even if released annually, could help farmers recoup their roughly ₱100 billion to ₱150 billion annual losses from liberalized rice importation. ***It is definitely not enough to produce the cost reduction and/or increased palay production needed for rice farmers to survive the Rice Tariffication Law***. More help is needed. There is no alternative to government intervention to neutralize rice cartels and smugglers and prevent the collapse of the rice farming industry.

The Unintended Consequences of the Rice Tariffication Law: Easily ₱100 Billion to ₱150 Billion Annual Losses to the Rice Farming Industry that Will Cause its Demise

To promote free-market competition, maintain adequate rice supply, and reduce rice retail prices for the sake of mass consumers, the Rice Tariffication Law liberalized rice importation by private traders and prohibited NFA from importing rice. In effect, the law eliminated government intervention in the rice industry except for NFA's radically reduced mission to maintain minimum rice inventory for the country. Towards making local farmers competitive, the law imposed a 35% tariff on imported rice. The 35% tariff, though, is deemed low by some quarters.

With NFA stripped of its mandate and funding to undertake massive palay procurement from farmers—previously aimed at stabilizing palay prices, maintaining minimum rice inventory, and having enough stock to sell cheap rice to poor consumers at ₱27 per kilo—it now buys mainly from traders the traditionally required minimum inventory and no more. Farmers are left to fend for themselves, consequently making them easy prey to profiteering traders. They succumbed to traders' offered prices of ₱9 to ₱12 per kilo. Compared to NFA's buying prices of ₱17 to ₱20 per kilo, these prices apparently resulted in price drop of as much as ₱8 per kilo (₱20 less ₱12) to ₱11 per kilo (₱20 less ₱9), with price drop of as much as 50%. As applied to the **19 million** metric tons of the country's annual palay production, the falling prices translate to easily **₱100 billion** (at ₱5.26 per kilo) to more than **₱150 billion** (at ₱7.89 per kilo) annual revenue loss to rice farming sector.

The price drop is rooted in the farmers' loss of the government's NFA as their alternative market. This left the farmers no choice but to become captive suppliers to profit-maximizing private traders because they, the farmers, have no choice but to sell to traders. The traders buy the farmers' produce at ₱9 to ₱12 per kilo, quickly turn around and sell the same to NFA at as much as ₱20 per kilo, then laugh all the way to the bank.

Despite the steep drop in palay prices, poor rice consumers, on the other hand, have hardly felt the corresponding low rice retail prices under the law. Its proponents have underestimated the greed of profit-hungry market players.

For Fairness and Consistency, Free-Market Advocates—so Compassionate to Rice Consumers and so Ruthless to Rice Farmers—Must Show the Same Compassion to Power and Water Consumers and the Same Ruthlessness to Big-Time Capitalists in the Enforcement of the Supreme Court-Ruled 12% Profit-Rate Limit for Public Utilities

To avoid discrimination, free-market advocates—who showed resoluteness in espousing free-market rice importation that will reduce rice retail prices for the sake of rice consumers, should display the same resoluteness in enforcing the Supreme Court-ruled 12% rate-of-return limit aimed at reducing service rates of public service providers. Otherwise, it will appear that they can take on adversely affected poor farmers but not influential big-time capitalists, whose rates of return exceed the 12% reasonable return limit ruled by the Supreme Court in 1966, 2002, and 2003.

Based on data that economists and I could gather from media and other sources, I have repeatedly sent letters and emails to our highest executive and legislative government officials on doable solutions to our high public utility rates and inadequate utility supply, copy furnished the Philippine Economic Society and known economists in and out of government and academe. I never received any reaction, favorable or otherwise, from free-market advocates in our midst. They are so concerned for rice consumers to the extent of cruelly sacrificing adversely affected and massacred rice farmers. Where is their similar concern for power and water consumers and similar cruelty to big-time capitalists, who will merely suffer a reduction of excess profit over what is ruled by the Supreme Court as reasonable? Why do they appear so heartless against disadvantaged farmers, yet meek as lamb against influential big-time capitalists?

Shown again hereunder are money-making privatized public service providers with rates of return on equity (ROE) in breach of the Supreme Court ruled 12% reasonable return ceiling. Let free-market advocates responsible for rice import liberalization show similar concern for power and water consumers, as well as direct and indirect toll-rate payers by having their rates reduced to levels that will yield 12% reasonable return, through new legislation if need be.

Meralco (Power)	**Maynilad** (Water)	**NLEX Corporation** (Toll Road)
2016: 26%	2008: 247%	2016: 46%
2017: 28%	2009: 147%	2017: 46%
2018: 28%	2010: 82%	2018: 39%

The high rates of return on equity are ignored on the ground that the corresponding returns on rate base (RORB, wrongly interpreted as return on assets in operation) are within the 12% limit. ROE, not misinterpreted RORB, is the technically correct profit-rate measure under the Supreme Court decision because, under RORB, there is a double reckoning of return on assets financed by creditors: first, correctly as interest expense on loans used to acquire the assets, and, second, erroneously as 12% return to stockholders (pp. 123-126).

If those responsible for the Rice Tariffication Law do not act to protect power and water consumers from high prices to the same extent that they protect rice consumers, then there is ground to suspect that the rice law was passed to benefit some proponents involved with the wholesale and retail rice trading industry, and that the government does not mind reducing the product prices of poor farmers and small traders, but not those of the rich capitalists in the power and water industries.

PRICES DROPPED, INDEED, BUT THE WRONG PRICES—BECAUSE OF BUILT-IN DEFECTS IN THE NEW LAW

The economists' prediction of lower prices has materialized under the Rice Tariffication Law. Indeed, it has produced a dramatic reduction in the farmers' palay selling prices that now threatens their very survival. Unfortunately, there is no commensurate drop in rice retail prices that benefits consumers. Newspaper columnist and Agriwatch chair, Ernesto M. Ordoñez, presented the immediate impact of faulty rice tariffication with accompanying rice import liberalization. Following are some data and quotes from his article:

REGION II FARMGATE PALAY PRICES (Pesos per kilo)

	2018	2019	% Change
Fresh	17.00	12.40	- 37%
Dry	23.00	16.40	- 29%
NATIONAL RETAIL PRICES			
Well milled rice	44.12	43.10	- 2%
Regular milled rice	40.37	38.72	- 4%

"The table (above) uses data for Region II rice farmers as well as retail data nationwide for the first week of June (2019) as reported by the Philippine Statistics Authority. Note that farm gate prices fell by 37% for fresh palay and 29% for dry palay. However, retail prices hardly moved, falling by 2% for well-milled rice and 4% for regular milled rice. ***More than 80% of farmers sell fresh palay while more than 80% of consumers buy well-milled rice.*** Therefore, the great majority shows a 37-percent decrease in farmgate (price) and only 2-percent decrease in retail prices…. It is the trader who is making profit at the expense of both the farmer and the consumer."[ii]

Under the touted rice tariffication and rice import liberalization, while the rice farming industry is on the verge of extinction from disastrously low palay prices, we have the foregoing media-reported spectacle of palay prices dropping by 37% with only a 2% reduction in rice retail prices. As 2018 rice retail prices spiked owing to inordinate delay in NFA rice importation, the meaningful comparison should be between 2017 normal prices and the latest available January 2020 data. This comparison showed similar minimal rice price reduction after about one year of the Rice Tariffication Law.

[ii] Ernesto M. Ordoñez, "Commentary: Rice farmers in grave danger," *Philippine Daily Inquirer*, June 26, 2019, p. B4.

PART II
THE MONUMENTAL DEFECTS AND FALLACIOUS ASSUMPTIONS OF THE RICE TARIFFICATION LAW

The Rice Tariffication Law was controversial since its conceptualization because it has to deal with the conflicting interests of two vital economic sectors—the country's farmers who need higher prices for their palay production, and consumers who need lower prices for their rice purchases. To strike a balance between their needs is not easy, therefore it is not surprising that the law is not perfect. Its imperfections showed just a few months after its enactment, such as the following:

1. **The Rice Tariffication Law removed NFA from competition in the rice industry, thereby depriving farmers of alternative NFA market for their produce. Without NFA protection, farmers are now easy prey of profit-greedy private traders who buy palay from them at unsustainably low prices, in the process setting the stage for the eventual demise of the rice farming industry.**

The repeal of NFA's rice trading function—especially its role as rice importer and major purchaser of farmers' produce—eliminated NFA from competition in the rice trading business. In effect, it took away NFA not just from consumers of cheap rice, priced at ₱27 per kilo, but also from farmers, resulting in the farmers' loss of NFA as a huge alternative market, palay price stabilizer, and safety net against their exploitation by private traders. The traders will now have a field day underpricing palay purchases during the harvest period without an equivalent reduction in rice retail prices. The rate of farmers' losses today, if perpetuated and not remedied, is enough to wipe out the rice farming industry.

To say that the law is defective is an understatement. Farmers I talked to are in a dilemma. They do not know whether to plant rice or not this rainy season. They are damned if they do and damned if they don't. Of course, our government officials and economists who need not worry about their next meal may not understand them. Often, only those who have suffered can understand and help the suffering.

2. **Without NFA protection for rice farmers now at the mercy of private rice traders, the rice farming industry stands to suffer the previously cited ₱100-billion to more than ₱150-billion annual loss in revenue on its 19 million metric tons of annual palay harvest. However, the proponents of rice import liberalization under the rice law are not prepared for this havoc on rice farmers nationwide.**

It seems those responsible for the Rice Tariffication Law are not prepared for its catastrophic impact on the rice farming industry. They are still at the stage of experimenting on how to deal with it, as betrayed by their flip-flopping on how to use the ₱10-billion fund assistance to rice farmers, earmarked for helping them cope with the new law. The proponents of rice tariffication think that this amount is enough to make the farmers survive rice import liberalization. I wish they were right but they were not. The measly sum of ₱10 billion if used according to how they think it should be used would not be enough to solve a ₱100-billion to ₱150-billion annual problem of rice farmers.

Following are the reasons why the ₱10-billion fund assistance to farmers will merely serve to create the false and misleading impression that with this assistance, farmers are all right and well under the Rice Tariffication Law:

a. To its proponents, the legislated funding assistance to farmers appears sufficient for its purpose because it is expressed in ***qualitative*** forms or kinds and descriptions of subsidy, without any measure of sufficiency or insufficiency in making up for the huge drop in farmers' palay revenue.

From the planning viewpoint, the need is for the government to quantify or express in ***quantitative*** terms the estimated benefit from the ₱10-billion assistance to farmers.

In other words, the government must determine the beneficial impact to farmers nationwide of the ₱10-billion assistance in terms of the following:

(1) **revenue recovery** from the resulting increase in volume of rice harvest,
(2) **cost reduction** from the subsidy in rice production.

If Finance and Agriculture officials will jointly do the needed monitoring, they will find that the fund assistance will hardly help our nation's rice farmers.

The drop in palay prices to farmers nationwide ranged from easily ₱5 to ₱10 per kilo. One way to recover the losses is to reduce palay production cost by ₱5 to ₱10 per kilo. There is no media-reported calculation of how the ₱10-billion fund relief to farmers would help them achieve this astonishing range of cost reduction. If palay production cost cannot be reduced by the ₱10-billion assistance to farmers by as much as ₱10 per kilo, another way to make up for the losses is to recover the 50% drop in selling prices through doubling the volume of palay production. Simply put, if palay selling prices dropped by half or 50%, the lost revenue can be recovered by doubling or increasing by 100% the annual palay production. Unfortunately, this is easier said than done.

A combination of cost reduction and increased production in enough amount and volume will enable farmers to recoup their significant drop in sales revenue. As a former planning man and rice farmer myself, I see no signs that the ₱10-billion subsidy can miraculously attain the extent of cost reduction and/or increased production needed to keep farmers whole under the Rice Tariffication Law. Its proponents did not—or could not—explain how it can be done through the ₱10-billion assistance.

b. If government economic managers do not trust officers and employees of government corporations like Petron Corporation and National Power Corporation to run these companies efficiently and profitably, so that these were privatized 100% and their operations assumed by private investors, why should they trust officers and employees of government agencies, like the Department of Agriculture, to effectively and efficiently deliver the goods, so to speak, in the implementation of the ₱10-billion fund assistance to farmers? Sorry, but we do not have a tested and proven government machinery that will effectively and efficiently implement the ₱10-billion assistance to all rice farmers nationwide. To prove my point, just look at the ₱10-billion pork barrel scam and the usual mishandling of huge funds for victims of calamities.

3. The Rice Tariffication Law does not yield any proportionate reduction in rice retail prices despite the drastic drop in palay prices. While the law overhauled the wholesale market through instituting rice import liberalization by private importer-wholesalers, it leaves untouched the other major rice price determinant: the rice retail sector which will not reduce their prices in proportion to the sharp drop in palay prices because of existing constraints.

The new law has unwittingly enabled private traders to become exclusive sellers to NFA for the latter's maintenance of rice inventory, which will be regularly sold and replenished to avoid rotting from prolonged storage in warehouses. As NFA is no longer required to buy palay from farmers in small volumes, it can now conveniently buy palay or rice from rich traders in large volumes. Hence, with NFA as their captive market, traders do not need to significantly lower their wholesale prices to rice retailers. Rice importers, veterans in the business who operate more like a cartel than competitors, can easily price cheap imported rice at the highest amount that the market can bear, a standard practice in free market.

Rice Retail Prices are Set by Rice Retailers and, Just like Private Traders Who Buy Dirt Cheap Palay then Sell it at High Prices to NFA, the Rice Retailers Would not Drastically Reduce their Retail Prices Even if the Wholesale Prices of Imported Rice were Significantly Brought Down

"Palay prices dropped precipitously from ₱22.04 per kilo in September 2018 to ₱14.40 by October 2019. For consumers, during the RTL's (Rice Tariffication Law's) first year, retail prices fell by a weighted average of ₱3.90 per kilo. Consumers saved some ₱38.6 billion. However, this gain paled in comparison with the ₱80 billion that farmers lost." [iii]

Here is why rice retail prices do not drop in proportion to wholesale prices:

a. Just because their rice importation cost is low does not follow that rice importers will also set low wholesale prices to rice retailers.

b. Assuming that importer-wholesalers are not greedy enough and will unexpectedly sell their imported rice at low prices, it does not mean that the average rice retailers will correspondingly reduce their retail prices.

   Ordinary rice retailers have to maintain high retail prices because of their high operating costs in relation to their relatively small sales volumes. Each rice retail store has small daily sales because of the sheer number of its competitors in each market. Each of them has fixed costs to be recovered from customers. They pay high store rentals, store helpers, electricity, taxes and licenses, and association dues. The more they are in a particular market, the bigger the aggregate fixed costs that they have to collectively tack on to their selling prices to rice buyers in that market.

[iii] Raul Montemayor, "Rice traders liberated, at last!" *Philippine Daily Inquirer,* August 26, 2020, p. A7.

A simpler and clearer example is the downstream oil industry retail sector, where numerous gasoline service station operators have to maintain unduly high oil retail prices to recover multiple fixed costs in a crowded or supplier-saturated market to earn desired profits. Paradoxically, intense competition in market share under oil industry deregulation has brought about this case of more numerous industry retailers with maintained high prices—instead of competing low prices—to recover their multiple fixed costs plus profit. This observation is illustrated and explained in Chapter 16 (pp. 256-258).

What Economists Do Not Consider in Crucial Markets for Basic Necessities: The More Retail Competition, the Smaller the Per Capita Market Share, the Higher the Needed Price to Recover Multiple Fixed Costs and Generate Profits for All

A similar economic condition exists in the rice retail industry. Multiple rice retailers mean multiple fixed costs to be recovered by all of them from their common market, with each one having a small per capita market share that will not generate profit unless prices are maintained at a high level. Thus, even if rice importers sell to them at low wholesale prices, it does not mean that they will correspondingly reduce their retail prices. Just like traders who buy dirt cheap palay from farmers then sell the same at higher prices to NFA, rice retailers will take this opportunity to earn some more from cheaper imported rice through minimal price reduction. They will slightly reduce their prices simply to placate government economic managers and consumers who demand lower prices.

4. Rice import liberalization under the new law—without regard whatsoever to its evil impact on farmers—will do away with NFA's role of delicate balancing of rice supply and demand, consequently creating rice supply glut even during farmers' harvest period that will drive down palay prices and wreak havoc on farmers.

With unregulated rice importation, rice imported by different big-time traders may arrive at the same time in large volumes during harvest season, instead of mainly during the lean months of July to September. In such eventuality, it does not take a diviner to know that the price of the newly harvested palay will drop to rock bottom, with a devastating impact on farmers.

5. **Rice import liberalization without any need for NFA import permits is conducive to multi-billion-peso rice smuggling, made more profitable by the 35% tariff on legitimate rice imports.**

Big-time smugglers thrive through corruption. Controlling them will avoid tax losses and detrimental arrivals of smuggled rice during harvest season. Under rice import liberalization with 35% tariff and numerous importers, smugglers have more incentive and an easier time to ply their trade—because shipments of smuggled rice are difficult to distinguish from numerous legitimate importations.

If rice importations by private traders are allowed but subject to NFA issuance of import permits, as well as the scheduling of targeted arrivals and distribution points nationwide, it is obvious that legitimate importations can be readily distinguished from smuggled rice shipments. A crack team from the Department of Finance (DOF) can help NFA formulate a streamlined system of import permit issuance that is not susceptible to corruption and delays. They can consult systems and internal control specialists who know how to do it.

6. **The fundamental assumption of the Rice Tariffication Law that unfettered rice import liberalization will address the short-supply and high-price problems in the rice market is correct on the supply shortfall but not on the high-price problem—because the low cost of goods sold, in this case low rice importation cost, does not automatically mean low selling price because of human greed for high profits.**

   As explained in Chapter 6 (pp. 95-98), the existence of competing market players and low cost of goods sold does not automatically translate to low prices because of reasons summarized as follows:

   a. Under free market, the unwritten rule is highest pricing at what the market can bear.

   b. In the United States, the low production cost of $32 is not considered at all in pricing a product at $1,443, for a profit margin of 4,409%.

   c. In the Philippines, privatized and deregulated high-cost oil-fired power plants and low-cost hydropower plants were both submitting the highest price bids in the Wholesale Electricity Spot Market (WESM).

7. **The envisioned lowering of rice retail prices from rice import liberalization is not axiomatic—because the unwritten code of conduct of competing private investors in capital-intensive businesses has long been institutionalized; they compete on location, facilities, and quality of service, but not on price.**

The sample avoidance of price competition as an unwritten code of conduct in the oil industry is treated in Chapter 16 (pp. 258-260).

8. **The free-market or liberalized rice importation under the Rice Tariffication Law left price-setting to market forces, but this is not right. This kind of price-setting applies to ordinary goods and services with elastic or price-dependent demand, but not to basic necessities with inelastic or fixed demand and must be bought even if expensive because needed. Therefore, these are susceptible to overpricing, so that in their case what the market forces produce are unduly high prices because the forces that make up the market normally include profit-maximizing manipulative practices like cartel, hoarding, intentional cutback in production, and bid-rigging that render inoperative the law of supply and demand.**

Dominant Free-market Economists Succeeded in Promoting Neoliberal or Pro-Rich Economic Policies that Produced High Prices of Basic Necessities Like Power and Water, But they Do Not Bother to Look at the Resulting High Prices Instead of Low Prices, and they Do Not Offer Any Viable Solutions to the High-Price Problem Created

Alas, it seems economists and other advocates of rice import liberalization trust naively the ability of free market to produce price-lowering competition. They seem oblivious to and do not factor in the negative impact of dark forces that vitiate markets, such as the long-existing big-time cartel in the rice industry. Our media-reported second highest power rates in the region, as well as the clear case of bid-rigging (resulting in anomalously high winning bid-rate of ₱62 per kWh as against the normal rate of about ₱6.00 per kWh) in the Wholesale Electricity Spot Market, did not elicit from them any known sustained action to address the problems.

Free-market economists espoused the fallacious law EPIRA that produced our second highest power rates in the region and defective WESM, but not one free-market economist appeared in ERC public hearings and consultations, as well as in legislative committee hearings, to denounce or suggest remedies to the daylight robbery of power consumers under this free-market law EPIRA.

With free-market government economic managers not learning a lesson from the mess created by EPIRA—or are they even aware of this mess that requires four chapters (Chapters 11 to 14) in this book?—they then pushed the similar Rice Tariffication Law in a more complex industry. In the power market, it is a case of conflict of interests between majority-poor consumers and minority-rich power companies, so a less hurtful compromise solution can be easily defined.

However, in the rice industry, it is a case of majority poor consumers vs. poorest-of-the-poor rice farmers—or a more difficult case of poor vs. poor. So, the law must be supported by an implementation model that will solve the cost-saving problem of consumers without creating a matter-of-survival crisis for rice farmers. This is what is sorely lacking right now as shown by media-reported financially losing farmers. The farmers would not be losing money if the government had an effective solution in place for them—which should have been put in place first before enacting rice import liberalization. One or two years year after implementation of the government's touted ₱10-billion subsidy to rice farmers, economists should talk to rice farmers in nearby Bulacan and Nueva Ecija and they will find many farmers there who do not even know what that subsidy fund is all about. The subsidy amount is simply not enough and the government has no efficient delivery system for it that can reach all rice farmers nationwide.

A Case of Cost Savings by Consumers Against a Matter of Survival for Farmers

As shown in the cited column of Ernesto Ordoñez, ***more than 80% of consumers buy well-milled rice*** even if priced ₱4.38 per kilo higher than that of regular milled rice, derived as follows: ₱43.10 for well-milled rice vs. ₱38.72 per kilo for regular milled rice (p. 289). This shows a fundamental defect in the Rice Tariffication Law with rice importation liberalization and drastic drop in palay prices. It means that about 80% of consumers can survive even if rice tariffication was legislated without unfettered rice import liberalization because they have income. The remaining 20% of consumers can be taken care of through NFA's selling of cheap rice, funded by the 35% tariff from rice imports.

Farmers, however, cannot survive under rice import liberalization with resulting depressed palay prices, because rice farming is their only major source of livelihood. In which case, ***rice tariffication, with slightly regulated private rice importation for farmers' protection***, should have been chosen because the alternative—rice import liberalization with rock bottom palay prices—will spell the death of the rice farming industry as farmers will obviously stop planting rice. In such an event, the price of imported rice will definitely shoot up for lack of competition from local rice production. `

In essence, the major issue in rice tariffication, with rice import liberalization and lower rice prices for consumers that, in turn, wreaks havoc on rice farmers—is a choice between the conflicting interests of consumers, who need lower prices for their rice consumption, and farmers, who need higher prices for their palay production. ***If the government subjected motorists, commuters, and consumers to high prices resulting from its stubborn raising of fuel tax under the TRAIN Law, why can it not have the capable 80% rice consumers—who buy higher-priced well-milled rice*** (p. 289)—***shoulder higher rice prices for the sake of saving our rice farmers?***

In resolving the issue, here are crucial points to consider:

a. In the case of **80%** of **consumers** who buy more expensive well-milled rice, their survival is not at stake because to them, ***it is a matter of reducing the cost of their rice consumption*.** Their income is not adversely affected by rice import liberalization. The remaining 20% of consumers can buy NFA rice at ₱27 per kilo, or whatever is the subsidized price, to be funded by the 35% tariff collection from rice imports.

b. For farmers, ***their very survival is at stake under rice tariffication*** because they have no other source of sustainable income. With rice import liberalization under the tariffication scheme that depresses palay prices and destroys the financial feasibility of rice farming, farmers cannot survive.

Under the contrasting conditions of consumers and farmers, prompt reforms are needed, otherwise, rice farmers will become a burden to society. Therefore, we should have a pragmatic economic policy that protects our farmers, like what **Otto von Bismarck** had. He let German industries that have comparative advantage over other countries exploit their advantage. In the German steel and agriculture industries where they had no advantage, he raised tariffs in 1879. As high tariffs resulted in higher prices, it worked as consumption tax that protected local industries, unlike our raised fuel consumption tax that merely makes up for well-off taxpayers' reduced income tax under the TRAIN Law.

Shifting to High-Value Crops Is Generally Not Feasible: First, these Crops are Perishable, and, Second, these are of High Value Only if Produced in Small Scale; In Any Case, the Government Should Help Rice Farmers Conduct Market Studies and Market Development Before Having them Shift All-Out to High-Value Crop Production

The suggestion of economists that farmers should shift to high-value crops is not feasible if too many will follow it. High-value crops are profitable only in limited supply. if too many farmers shift, they will have insurmountable problems—because, unlike rice which is our staple food, a basic need consumed three times a day by most Filipinos, and can be stored for long periods, high-value crops are not basic necessities. These are consumed by a small niche market of upper-middle and high-income groups, these are perishable, and these do not have a ready market if produced in large volumes nationwide.

PART III
ADDRESSING THE PROBLEMS OF THE RICE INDUSTRY UNDER THE RICE TARIFFICATION LAW

As reminded by Eduardo G. Gimenez, the country's population explosion that is not matched by growth in wealth and jobs is a root of worsening inequality. Workable population control should be instituted. In the meantime that there is none, especially for our countless poor farmers in the countryside, they have to be helped, not burdened by the ill-advised Rice Tariffication Law. This law will not solve any problem of rice shortage similar to that in 2018 because, actually, there was no such shortage. There was enough supply of expensive high-quality rice for the entire nation, but there was no NFA cheap rice at ₱27 per kilo for poor consumers already saddled with high inflation from the TRAIN Law. The lack of NFA cheap rice was traceable to the failure of Malacañang to promptly break the impasse between the squabbling NFA Council, which wanted rice importation from the open market to get the best possible price, and the NFA Administrator, who insisted purchase on a government-to-government basis where, it seemed, there was a money-making opportunity in NFA's choice of transport vessels. Their rift caused a delay in rice importation that provoked the passage of the Rice Tariffication Law, a legislation intended to solve a consumers' problem that created a problem for rice farmers, as well as numerous NFA employees who faced termination because of NFA's severely clipped powers and functions under the new law.

Why Protect and Assist Farmers: To Prepare for Future Adverse Developments

1. Filipino farmers have to be accorded enough importance because they and their families constitute a bulk of our population. They will become a future problem if they will not survive unrestrained rice importations and become jobless and idle. They may resort to crime just to survive or become a fertile source of recruits for rebel groups who have existed since the spark of agrarian-rooted rebellion in the 1950s.

2. Under ***normal conditions***, with a rapidly growing world population without an increase in land area devoted to rice production, many countries will have to import more rice in the future, thereby culminating in global tight supply with concomitant **high prices**. The government has to plan for this eventuality through working for the nation's increased rice production—and that involves helping and strengthening the farming sector, as mandated under the Agriculture and Fisheries Modernization Act of 1997 (R.A. No. 8435).

We should prepare further for a future reduction in world rice supply owing to other factors and developments like the following: (a) conversion of rice lands to other more productive and profitable uses, such as for industrial sites and residential areas in strategic locations, the benefit from one hectare of which uses is much higher than the net profit from its use as one hectare of rice land; (b) rice production problem in one of our major rice exporters, Vietnam, where there is an intrusion of seawater in its major source of irrigation and advantage in rice farming—the Mekong River, with a low freshwater level in its estuary adulterated with seawater during the dry season (the low freshwater level is caused by constriction of water flow from the upper tributaries of the river by new and planned big dams in China and other countries where the river passes before reaching Vietnam); and (c) reduced subsidies to farmers abroad.

3. We should prepare likewise for potential rice supply-price problems under ***abnormal conditions***, such as in cases of political, economic, and force-majeure aberrations like war which disrupts rice farming and export-import of rice and other goods, as well as severe economic crisis, farm drought in rice-producing and/or importing countries that tighten rice supply with a rise in rice prices, and pandemic—where each country has to fend for itself and conserve its food supply. If the rice farming industry is not protected and allowed instead to die under the Rice Tariffication Law, we are doomed if prolonged emergencies from external and internal conflicts or crises would occur in the future.

4. Local rice production minimizes dollar outflow, conserves our dollar supply, helps stabilize the exchange rate, and prevents peso depreciation that, otherwise, would raise the peso landed cost and selling price of imported rice.

5. At 19-million metric ton annual palay harvest, rice farming is a roughly ₱350-billion industry upon which depend many agri workers, agri suppliers, haulers, rice millers, and other businesses patronized by farmers' families. A robust farming sector will contribute to a huge customer base for local commerce and industry—a vital factor for our economic growth. Also, high farm production helps minimize inflation, for which the BSP representative in the NFA Council should be thankful and help farmers.

6. The government should at least preserve farming as a job provider in the countryside so that many OFWs who hailed from the provinces can eventually return home permanently, so that those who are still here will not have to go abroad as OFWs, and so that Metro Manila and other urban centers will not be congested with poor Filipinos who migrate from the provinces in the mistaken search for a better future in the city.

THE IMMEDIATE MITIGATING SOLUTION TO THE HIDDEN AGGRAVATING CAUSE OF ROCK-BOTTOM PALAY PRICES—WHICH NFA CAN IMPLEMENT EVEN WITHOUT AMENDMENT OF RICE TARIFFICATION LAW: REFORMS IN NFA PALAY PROCUREMENT RULES

NFA or the government may be unwittingly misleading the public whenever it reports through media that it purchased palay from farmers at high prices. In reality, it purchased at high prices from private rice traders who previously purchased palay from farmers at unduly low prices. This form of ***free-market exploitation of farmers,*** which needs remedial government intervention, arose from NFA's pro-rich procurement rules with difficulties for farmers, viz.:

1. **Farmers' difficulty—or inability—in selling to NFA because they cannot comply with the NFA-required large-volume deliveries, thus farmers have to sell at low prices to rice traders who in turn sell at high prices to NFA in required large volumes.**

It is difficult for ordinary farmers and farmers' cooperatives to comply with NFA's rule that palay deliveries must be in truckloads of 300 to 400 bags per truck. Farmers do not harvest at the same time, their cooperatives do not have large capital, hence they cannot readily comply. Before this rule, farmers could sell to NFA because they could deliver 100 to 200 bags in jeep loads with trailers or in small Isuzu Elf trucks.

2. Farmers' difficulty in enduring prolonged queueing time of deliveries to NFA

Affluent rice traders can easily comply with the required 300- to 400-bag truckload delivery—and they do not have to worry about demurrage while the delivery trucks are in the queue in NFA because they own the trucks.

Contrast this with farmers. If their trucks reach the NFA warehouse and there are, say, 10 trucks of big-time traders already in queue to be served first, the farmers must queue for as long as three to five days or even one week before their turn comes, that is, after the traders' earlier large truckloads were weighed and received by NFA. This means expensive truck rental and wasted man-hours on the part of farmers.

3. Farmers' difficulty in enduring prolonged waiting period for payment of delivered palay to NFA

While farmers' sales to private traders are paid on spot cash or COD basis, farmers have to wait for ten (10) working days or two weeks before they get paid by NFA for palay deliveries. Two weeks is tolerable to rich traders, but difficult for cash-strapped farmers who have to promptly pay the delivery cost, other expenses, and their borrowed capital.

EMERGENCY MEASURES THAT WILL ALLOW NFA TO SERVE AS FARMERS' ALTERNATIVE MARKET AS WELL AS SELL CHEAP RICE TO POOR CONSUMERS

1. NFA should promptly reform its restrictive procurement rules, to enable it to buy palay from farmers and serve as their badly needed alternative market:

a. As a rule, big-time rice traders should not be allowed to sell to NFA. NFA's limited funds to purchase required rice inventory should be used to buy palay from farmers' cooperatives, not from rice traders.

b. Farmers' cooperatives sell two kinds of palay stocks: those harvested by its members and those they sell as part of their trading or buying and selling operations.

NFA should weigh and receive palay deliveries on a first-come-first-served basis, subject to the rule that if there are two kinds of palay deliveries, priority should be given to deliveries of farmers' produce, not their cooperatives' traded volume. To do this, NFA should obtain from selling farmers' cooperatives their estimated annual production. During harvest season, each cooperative's first deliveries corresponding to its production capacity will have priority over those delivered by other cooperatives that are already in excess of their respective production capacities.

c. **VERY IMPORTANT:** NFA should allow farmers' cooperatives to deliver palay in a minimum volume of 100 to 200 cavans per delivery, which can be loaded in one or two trucks. This reform in rules should be introduced because the present NFA requirement of 300 to 400 bags per delivery truck is one major reason why farmers cannot sell to NFA. It is designed to favor rich rice traders instead of serving farmers.

d. NFA should pay farmers' palay deliveries within two (2} working days on a first-come-first-served basis, at the NFA warehouse where the farmers' palay stocks were delivered.

e. In past administrations, there were cases of huge waste in precious public funds in large quantities of rotting NFA rice inventory stored for unduly long periods, then advertised for sale at greatly reduced prices as damaged stock or sweepings in NFA warehouses. (The advertisements are shown as EXHIBITS 20 and 20-1 attached to hard copies of this Chapter issued earlier to government officials concerned.) **The huge waste was traceable to the following causes:**

First, the mistaken notion that NFA's role of maintaining the required rice inventory consists of buying rice up to the targeted inventory level, then storing it and doing nothing else until the time to sell it comes during lean months.

Second, unconsciously following the last-in-first-out (LIFO) instead of the first-in-first-out (FIFO) method in the physical handling of the rice inventory, resulting in lack of movement of the oldest rice stocks purchased unless the inventory is fully exhausted, which does not happen because maintaining zero inventory goes against the objective of maintaining inventory in the first place.

Third, deliberate holding of rice inventory without sales for long periods despite offers to buy from small- and medium-size traders and farmers' cooperatives, apparently ***to avoid giving competition to big-time traders,*** like the winners of the October 2010 rice auction (p. 308). ***While the numerous small and medium traders and farmers' cooperatives nationwide were allocated a measly 20% of total volume for auction despite their clamor for bigger allocation, only six favored big-time traders cornered 80% of total NFA volume auctioned off.*** NFA intentionally excluded small and medium traders and farmers' groups from the auction of the 80% volume, done through the subtle expediency of setting a restrictive ***5,000-metric ton minimum lot bid***, equated to more than ***₱100 million,*** which small and medium traders and cooperatives could not afford. These observations are evident from EXHIBITS 4, 6, 6-1, 7, 12, and 14, attached to my letters issued to government officials concerned years ago. The long storage of rice inventory under this anomaly ended in rotting rice stocks sold at huge losses as animal feed.

To avoid rotting rice inventory due to prolonged storage in warehouses as well as minimize NFA's cash funding needs for palay procurement, NFA should operate nationwide a continuing cycle of buying palay, milling palay, selling milled rice to poor consumers at ₱27 per kilo, then selling the remaining stocks to market outlets like government agencies that require rice, such as the Philippine Army, DSWD, local government units distributing rice to victims of calamities, government hospitals, etc.. Any remaining rice stocks should be sold through auction with a minimum bid price set at break-even cost.

NFA needs to develop a continuing market for its rice stocks to enable it to have a continuing reduction in its inventory and, in the process, create a continuing need to replenish it through continuing palay purchases from farmers. Farmers, in turn, will have NFA as their continuing market. With NFA as farmers' alternative market, private traders will then encourage farmers to sell to them through competitive prices, thereby minimizing NFA's need to buy palay from farmers.

Under this scheme, while NFA disburses cash for palay procurement, it simultaneously collects cash from rice sales, therefore it will not need further huge cash injection from the national government.

2. The Office of the President should help poor farmers and consumers through NFA.

a. It should authorize NFA to resume palay procurement from farmers.

b. It should authorize NFA to increase its minimum inventory level to raise its volume quota for palay procurement from farmers. By simply raising its minimum inventory level, which is not prohibited under the new law, NFA will need expanded palay purchases from farmers.

c. It should authorize NFA to resume selling cheap rice to poor consumers at ₱27 per kilo or so. Permanently stopping this social mission will make the Duterte administration worse than previous ones that maintained it.

d. It should require all government agencies, offices, corporations, and local government units to buy their rice requirements from NFA so that it will have a continuing need for replenishment of its rice inventory. This scheme will, in turn, result in continuing need to purchase palay from farmers in large volumes, consequently making NFA an effective stabilizer of palay prices for farmers.

e. It should harness emergency or contingency funds and transfer it to NFA as additional working capital for palay procurement from farmers. Doing this is imperative at the moment to enable NFA to resume buying palay from farmers in significant volumes.

LONG-TERM SOLUTIONS TO MONUMENTAL DEFECTS OF THE RICE TARIFFICATION LAW

We do not need economists to tell us to import rice to meet demand that local rice production cannot satisfy—even non-economists know this. ***We do need economists, however, to tell us how to drastically minimize rice importation, through maximized utilization of our available land and manpower.*** Attaining this objective will enable us to save precious dollars, create jobs, and stimulate businesses in the countryside. Further, based on the herein presented problems and concerns on rice tariffication with rice import liberalization, I urge responsible executive and legislative government officials to have their expert technical staff conduct in-depth studies on how to address the major problems in the rice industry, especially the abnormally low palay prices with a devastating impact on farmers, as well as the negligible drop in rice retail prices despite depressed palay prices and liberalized rice importation. The government has to act because the unfettered free market will not remedy on its own the problems it created.

Following are some basic considerations in the formulation of solutions to rice industry problems, which should solve problems without creating other problems:

1. There should be macro planning, coordination, proper execution, and monitoring of rice industry operations to take care of present needs and prepare for future exigencies, as well as consultations with farmers on their problems and solutions. This function should be done by responsible service-motivated government officials paid to do it, not by profit-hungry rice traders not paid to do it—and this is simply common sense.

   As strategy, the government should subsidize farmers now and prepare them to eventually stand on their own with much reduced assistance. This has been done for years, but unsystematically and unsuccessfully. The government provides some farm equipment—like costly-to-operate tractors for plowing and harrowing—but fails to include ***palay dryers, badly needed by 80% of farmers who sell fresh palay harvest at lower prices*** (p. 289). The fresh palay harvests are priced lower as these have to be sundried at extra cost and with loss in weight after drying—but the price reduction is more than what is necessary.

   With its limited funds, the government has to prioritize its forms of assistance to farmers. ***It should allocate more funds to things that farmers cannot do, rather than to those that they can do.*** Provided palay prices are sustainable, farmers can plant during the rainy season, though at a high cost if without government aid. However, it is given that planting rice in unirrigated or rain-fed areas is a big gamble, as treated herein later. For many farmers far from irrigation systems, ***small water impounding dams*** will be of greatest help. They badly need this kind of small-scale irrigation system, which can be done in many areas but is not done for lack of funds. This small system is much more useful to rain-fed farmers than fuel-consuming heavy equipment like farm tractors which are costly to operate and maintain.

   The government must demonstrate to farmers nationwide the efficacy of new technologies—such as the use of high-yielding hybrid seeds—through pilot projects in every province that will serve as a show-window of more productive rice farming. The Department of Agriculture can pick typical irrigated and non-irrigated lands owned by farmers' cooperatives, then apply to them at government cost the new technologies. Farmers will be encouraged to adopt new technologies if they can attend seminars and actually see their successful application in pilot projects.

The government should also encourage big-time corporations to operate corporate farms as part of their corporate social responsibility. We need ***adequately funded and professionally managed farms*** for rice and high-value crops as show windows of progressive and profitable farming. From their performance, the government can see whether our farmers' lack of competitiveness is due to their fault or the government's failure to provide the needed economic environment that will make them competitive within the region. Let corporate farms blaze the trail on how to make farming profitable so farmers can follow their lead.

2. There should be an in-depth study of the rice retail industry to see how reduced rice importation costs can translate to low rice retail prices.

3. The first and foremost need of rice farmers is government help in stabilizing palay prices. At present the government's failure to do so resulted in easily more than **₱100-billion** loss to farmers on an annualized basis. ***It is a crime to sit back, relax, and think that the ₱10-billion subsidy to farmers will make up for their loss because, definitely, it will not,*** as explained earlier.

   Our economic managers, agriculture officials, and exalted legislators have to realize that, without protection to farmers under rice import liberalization, the subsidy on their production cost is a drop in the bucket compared to their loss from the axiomatic drop in palay prices under the unbridled free market. One peso alone in palay price reduction translates to ₱19-billion loss to them on their 19 million metric tons of annual harvest.

   Moreover, the government subsidy to farmers has limited reach. It cannot extend to rice farmers spread nationwide, some in far-flung islands, because doing it is an administrative nightmare. The government bureaucracy simply does not have what it takes to properly do it on a macro basis.

4. Rice importation should be handled by private traders, but NFA should be also allowed to import rice as part of competition and safety net against rice cartels. If the **Presidential Management Staff (PMS)** will properly monitor NFA's performance (p. 424), NFA can make money from rice importation. Once NFA generates importation profits, its import volume can be raised so it will have more funds for palay-buying from farmers. NFA can sell its rice imports to small and medium rice traders and farmers' cooperatives. This scheme, which entails the prevention of over importation by private traders, is doable and should be done to protect poor farmers, whose interest should prevail over that of rich traders.

In the public auction of its imported and locally purchased rice stocks to rice traders and farmers' cooperatives, NFA should discard its old practice of multiple or split awards to different winning bidders at varying winning price bids whenever the highest bidder cannot afford to buy the total volume object of bidding. In an actual case, in NFA's public auction in October 2010 with the indicated price of **₱22.50 per kg**., the highest bid by rice trader Rogelio Guzman was ₱22.66 per kg., all right, but it was for a token small volume of 3,750 metric tons (MT) compared to the 27,693 MT for the **₱20.90 per kg**. lowest winning bid. The latter bid was submitted by Purefeeds Corporation and declared a co-winner despite being below the **₱22.50 per kg.** indicated price. To avoid this case of apparent bid rigging, NFA's public auction should have only one winning highest bid price. ***If there is only one winning bidder, if being second best bidder is no good at all because he loses just the same, then unless there is a cartel, each bidder will try to outbid all of his competitors and come up with the possible highest bid price.***

5. NFA's mandate should consist of palay price stabilization through buying farmers' produce, maintenance of rice inventory, and selling of cheap rice at ₱27 per kilo or whatever is the appropriate amount that will evolve.

6. As treated at length in this book, we cannot rely on free market to manage well the rice industry and produce reasonable prices for both consumers and farmers. Government intervention is needed. Just look at the fantastic rates of return of privatized industries engaged in price gouging (p. 288). Farmers have to be protected from their kind.

7. **VERY IMPORTANT:** ***The job of government economists is to reduce rice prices to consumers without harming farmers.*** This can be done so it should be done. They should prevent a **rice supply glut** from liberalized rice importation arrivals during palay harvest season. Any supply glut at this time will benefit only the rich rice traders, who take advantage of the money-making opportunity without benefit to consumers and, worse, at serious harm to rice farmers. Thus, ***the government should mandate that arrivals of rice imports should be during lean months like July to September, not during palay harvest season*.** With supply glut avoided at that time, private traders cannot do what they do when there is oversupply—unduly bringing down palay prices, then raising the prices again after harvest time. ***Farmers will be protected without foregone opportunity for reduced rice retail prices. Even when past supply gluts enabled rice traders to buy palay at low prices, consumers hardly benefited because traders did not pass on to them the savings from low prices.***

If there is a rice supply glut, NFA cannot dispose of its rice stocks, thereby causing rotting rice inventory. It cannot continue buying palay either. Farmers, who lost NFA as a market under the new tariff law that stripped NFA of its palay price stabilization function, will be at the mercy of rice traders, who will buy palay at very low prices then sell at high prices.

Clearly, in preventing supply glut, there is something to gain—poor farmers' protection—and nothing to lose except rich traders' profiteering. Hence, the government should institute a flexible tariff system as safety net against untimely rice import arrivals. Under it, imported rice arrivals during harvest season shall be subject to tariff at a much higher rate. Arrivals in other months will be at regular lower rate.

The unfettered free-market economic ideology foisted on our economy is a product of mainstream economists and experts apparently unskilled in the fine points of governance, such as in balancing the conflicting interests of economic sectors under the political ideology democracy, which equates to majority rule or the greatest good for the greatest number. They solve the high-price problems of rice consumers by creating a survival problem for rice farmers. They cannot even see the evil of open rice importation that causes supply glut. This means we do not have the right kind of dominant economists in our midst.

8. The government should implement an intensified **irrigation** infrastructure program nationwide to boost rice production. It should provide funds for it, set physical targets, and closely monitor the accomplishment of targets. Any non-performing National Irrigation Administration (NIA) officials who cannot accomplish targets should be promptly terminated. Irrigation is quite important in rice farming. Upon transplanting, palay seedlings are submerged in water to drown newly growing weeds but not the tall seedlings with upper parts above water. If the rice fields are not initially submerged, the sturdy, faster-growing weeds soon deprive the planted palay of badly needed nutrients. When farmers fertilize the palay, the weeds grow even faster and overcome the palay. Thereafter, when new grains are developing in the palay, if the farm is unirrigated and rain does not come, the palay grains will not develop due to lack of moisture and will just become empty husks.

9. The government should determine why Filipino farmers are not globally competitive. It should make an item-by-item comparison of the high palay production costs per hectare in the Philippines vs. those in our rice exporting neighbor countries, then find ways of reducing our comparatively high local costs.

Two local cost items that readily stand out as quite high are interest expense and cost of farm inputs like fertilizer and agrochemicals—because our government economic managers are free-market apostles who rely on market forces to set local prices. They seem oblivious to the fact that, as earlier presented (pp. 258-260), the evolved unwritten practice in business is competition in all aspects of marketing but not in selling prices.

10. While rice farmers have not adjusted to the adverse impact of the Rice Tariffication Law, the government has to ascertain the amount of subsidy needed to help them survive. If the amount is tolerable, especially if taken together with the benefits from local rice production, then the situation is not that bad and the needed subsidy scheme can be promptly instituted.

    To do what I mean, NEDA and Agriculture officials should prepare a comparison of the following costs as delivered to retail markets:

    a. Cost per kilo of imported rice;
    b. Average cost per kilo of locally produced rice.

    What is the difference between the cost per kilo of imported rice and that of locally produced rice? The excess of the higher local price vs. that of imported rice is the needed government subsidy per kilo if farmers are to be kept whole under the rice tariffication regime. Apply it to the annual rice production in kilos to determine the total amount of needed subsidy.

    Next, how much is the annual rice tariff collection under the new law? Compare it with the amount of government subsidy needed to keep farmers whole. If the difference is not much, then there is a solution to the farmers' survival problem—use the tariff collection to subsidize them.

    However, if the difference is substantial, there is indeed a problem. All possible measures to address it should be explored. First, make a detailed comparison between local and foreign palay production costs. Thereafter, ascertain the causes of variances. Ascertain how to help reduce specific cost items that are high for local farmers. Conduct project feasibility studies of high-value crop production nationwide. Farmers will readily learn new technologies if they will see how proper agri production is done in pilot projects. Encourage the operation of corporate farms run by professional managers to provide farmers with show windows of successful agri production. Amend existing laws—like CARP—if needed instead of whining about them as defective.

11. To address one obstacle to our farmers' competitiveness, the government should provide cheap credit to farmers through Land Bank at 1% per annum interest rate, with provision for bad debts as a normal business cost. If depositors earn less than 1% per annum on ordinary savings deposits with the Philippine commercial banking system, what is wrong with Land Bank, as the government's lending arm, earning similar one percent on its loans to the country's rural farmers? The loans are in a way entrusted funds or deposits with farmers.

How to Promote Lending to Farmers

Lack of access to the cheap credit enjoyed by their counterparts in the region is one of the handicaps contributing to Filipino farmers' lack of competitiveness in agri-food production. To address farmers' lack of cheap credit, the government has mandated the banking system to earmark part of their loanable funds for lending to farmers but not necessarily at cheap interest rates. This solution, however, does not work because the government cannot force private banks to lend at high risk of bad loans to farmers. Local banks lend with risk premium at relatively high interest rates to farmers, thereby making the loans more burdensome and more prone to delinquencies. The banks also follow normal strict credit evaluation and documentation, which farmers cannot satisfy. As a result, the bank funds earmarked for agricultural lending remain idle and hardly touched. Banks would rather pay penalties for non-compliance than lend to farmers.

The government itself should assume the risk of bad loans on farm lending, with normal provision for bad debts as part of its effort to attain the net gain of having farmers produce more through expedited access to cheap credit. The government should be willing to pay the normal price of, say, 10% bad loans on agri lending, to enable it to attain the benefit of 90% good loans used in increased farm production and poverty alleviation.

The government should provide cheap credit to farmers not through private banks but through its own Land Bank of the Philippines. This bank was created precisely to serve the agriculture sector. It can fulfill this mission because it already has a vast network of branches nationwide. Land Bank's performance should be gauged based not on its huge net income but on whether it has extensively extended loans for economic development at a tolerable bad-debt ratio. Otherwise, it is merely duplicating the function of profit-oriented private banks. To minimize bad accounts on its agri lending, Land Bank should extend loans to farmers' cooperatives whose leadership will assume responsibility for loan repayment. In case of defaults, the entire memberships of delinquent cooperatives will lose access to the low-interest loan facility. The interest rate should be low enough to motivate the maintenance of good credit standing.

For the protection of both Land Bank and the debtor farmers, Land Bank should arrange crop insurance to cover the risk of loan delinquency due to crop losses from natural calamities, like typhoons, floods, and crop diseases. For Land Bank loans to hog and poultry raisers, the insurance should be against deadly animal diseases.

NOTE: The Secretary of Agriculture should handle the coordination towards having farmers without Land Bank loans insure their crops and animals against applicable risks of crop losses and animal diseases.

When the government wanted to promote rural lending for countryside development more than half-century ago, it encouraged the setting up of rural banks in all municipalities nationwide. The old Central Bank of the Philippines provided seed capital at 3% interest rate to rural banks, which lent it at the maximum 14% interest rate, the ceiling under the then Anti-Usury Law. The rural banking system has survived to this day. This special lending to rural banks for economic development purposes was the counterpart of the Land Bank lending scheme for farmers that is quite needed today.

WHY FILIPINO FARMERS ARE NOT GLOBALLY COMPETITIVE

Paging Agriculture Government Officials: Past Very High Prices of Agrochemicals for Mango Production—as well as for Rice Farming—Will Not Self-Correct and, Therefore, Probably Still Persist Today

In the case of Filipino farmers, following is what I wrote in the book *Puzzlers: Economic Sting* published in 2005:

For so long, Filipino farmers have been unjustly maligned as inefficient by those justifying globalization for the sake of consumers. They have been accused as unable to produce at competitive prices. In reality, their supposed inefficiency can be beyond their control. It might have been partly caused by our government officials who, to begin with, ***do not properly identify problems in their jurisdiction, so they do not come up with the needed appropriate solutions.***

Firstly, many agricultural products are in fact sold at much lower prices ex-farm, but middlemen jack up prices upon reaching the market because of desire for higher profits, rationalized on the bases of problems and difficulties not of their own making, foremost of which is poor infrastructure in distant areas of farm production.

Secondly, as pointed out in a TV program and later in a newspaper, our farmers—as well as entrepreneurs for that matter—lack access to cheap credit enjoyed by their counterparts in the region (pp. 143, 157 of the book *Puzzlers: Economic Sting*), which hampers their ability to produce goods in economical volumes at competitive costs.

Thirdly, while government economic managers do nothing in the name of free market, the prices of farm inputs have become so expensive compared with those in other countries that in the case of one important farm product, mango, its production cost has become uncompetitive.

As reported, the price of agrochemicals represents 60% or more of mango production cost in Mindanao, so it really affects competitiveness.

In Mindanao, farmers can now produce exportable quality mango the whole year-round. ***"The big problem, however, is the high cost of agrochemicals. A team of fruit experts who made an agribusiness technology visit to Thailand last June 18 to 23 (2003) found that the average cost of agrochemicals in the Philippines is four times those of Thailand and other mango-producing countries. This makes the Filipino mango farmers uncompetitive in the global market...."*** [iv]

Considering that some of these agrochemicals are also used in the production of rice and other crops, and that similar price disparity may also exist in other farm inputs, those who condemn our farmers should know just what is wrong with globalization without safety nets to local producers.

In most probability, our higher prices of farm inputs compared with those in our Asian neighbors have been carried forward to this day. Our Agriculture officials should look into this problem and, if it persists, institute remedial measures.

[iv] Dr. Pablito P. Pamplona and Marisa Garcia, "High Cost of Agrochemicals Makes Mango Production Unprofitable," *Agriculture* magazine, October 2003, pp. 6-7.

Free Market is a Double-Edged Sword—It Can Bring About Low Prices from Genuine Competition, or High Prices to the Extent the Market Can Bear; in the Philippines, Free Market Has Generally Brought High Prices, so that Filipino Farmers Need Government Assistance on High Cost of Farm Inputs

"Economists firmly believe that voluntary transactions in free markets tend to work toward the common good. But they also believe that nearly every participant in the market place would love to rig the system in his or her own favor." [v]

Therefore, despite the presence of numerous suppliers, free market can yield high prices to the extent the market can bear—regardless of comparatively low cost of goods sold by the competing market players—for as long as there is a chance for "every participant in the market place... to rig the system in his or her own favor."

Profiteering free-market pricing was seemingly the case of our previously ultra high prices of medicines, halved or reduced by 50 percent when the Cheaper Medicines Act (RA 9502) was enacted in 2008, without the demise of the still thriving pharmaceutical industry. In the past, if local medicine prices were at least four times those in other countries—as pointed out during Senate deliberations on this law—reducing local prices by 50% would still translate today to local prices twice those in better managed countries.

In agriculture, Filipino mango farmers becoming uncompetitive as a result of high-priced agrochemicals brings to the fore the unseen problem of free market. Competing suppliers under globalization and deregulation can easily provide low-priced agrochemicals, but irresistible opportunity to profiteer under unbridled free market stands in the way. Our mango farmers—as well as rice and other farmers for that matter—cannot become fully competitive, for as long as the government leaves them helpless at the mercy of free-market pricing to the extent the captive market can bear.

Free-market pricing—the highest that consumers will pay despite low cost of goods sold—seems the product of our economists who are not productive administrators, are not result-oriented, are not taking action against high prices instead of low prices expected from free market, and are unable to see beyond the economic aspect of governance.

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[v] Sean Masaki Flynn, *Economics for Dummies* (NJ: Wiley Publishing, Inc., 2005) p. 334.

WHY FOCUS ON BOTH INDUSTRIALIZATION AND AGRICULTURE IN OUR ECONOMIC POLICIES

We have to do things in parallel, not in series, to attain faster economic growth. We need not prioritize industrialization at the expense of agriculture. We can focus on both through division of labor. Promotion of industrialization should be private-sector driven. As treated in Chapter 5 (p. 90), we have, as our nation's asset or resource, private capitalists who have the capacity to raise capital and make their big businesses prosperous, it is a matter of preventing them from becoming oligarchies. The government's role in industrialization is to promote a favorable business climate, in the forms of low power rates, enough infrastructure, less corruption, less flip-flopping policies, less red-tape, and so on. This way, the government can devote more funds for agriculture, which should be government-assisted because farmers generally lack enough resources and technical know-how. We need a progressive agriculture sector for, among other things, food security, job creation, and increased production that contributes to lower inflation, as borne by central bank and other data.

How Agriculture Officials Can Help Farmers

The government can help generally poor farmers in many ways. The first step is to ask them what their problems are and their perceived solutions to them. The government should determine the farmers' needs—especially those not provided to them by our government, but provided by governments of our neighbor countries to their farmers—then explore ways to address those needs. Offhand, our farmers need cheap credit, cheap fertilizer and agrochemicals, irrigation facilities, palay dryers, hybrid seeds, and technical assistance, such as nationwide soil analysis of farms for economy through application of fertilizer solely for the lacking nutrients, proper fertilization, plant pest and disease control, artificial insemination services for carabaos and cattle, and marketing assistance for their produce.

The government should also have ***listening posts in our embassies and consulates abroad on new technologies*** in agriculture—as well as other fields or sectors—that can be passed on to Filipinos. The government should have nationwide, continuing agriculture technology dissemination to farmers—instead of the present case where I, as a farmer myself, learned more from Mr. Zac Sarian (Ramon Magsaysay awardee and *Manila Bulletin* agriculture editor) than from our Agriculture officials. The government's ***The Philippines Recommends*** publication series used costly material (book paper or coated paper) and were high-priced. These were not widely disseminated to farmers, a case of wasted researches that did not benefit farmers who needed them.

In the case of high-priced agrochemicals being sold in the local captive market, one way to address this problem is for our Department of Agriculture (DA) to request the government-owned Philippine International Trading Corporation (PITC) to import agrochemicals at lower prices, then sell these at break-even costs to farmers, with the resale prices lower than the present high prices. DA and PITC should coordinate with farmers' associations in key parts of the country, pool their resources, and import for them their needed agrochemicals for vegetable, fruit, and rice production. If this measure is taken, agrochemical prices may drop owing to competition from PITC. In such an event, PITC may reduce its importations to a minimum.

The Government Should Look at the Total Picture—Including What Other Countries are Doing to Help their Farmers—to Address the Long-Standing Problems of Our Suffering Poor Farmers

Filipino farmers are uncompetitive for decades not because of what they do not do but because of what are not afforded to them that are afforded to their competitors, notably cheap credit, cheap inputs, and $350 billion farm subsidies per year.[vi]

In fact, Nobel laureate Joseph Stiglitz "criticized his own country (the US) and the EU (European Union) for providing excessive subsidies to their agriculture sectors resulting in *depressed agriculture prices worldwide*... making the poorest of the poor (the farmers of the developing countries) even poorer."[vii]

In other words, under globalization, unsubsidized farmers' high-cost produce in poor countries are unfairly made to compete with subsidized farmers' low-cost produce in advanced nations.

The government should not play into the hands of advanced nations by letting globalization devour local farmers. It should level instead the playing field by similarly subsidizing them. As pointed out by Renato T. Sioson, a businessman-golfer from the US and San Miguel, Bulacan, If we cannot force advanced nations to level the playing field by removing their huge farm subsidies, we should follow their example by also subsidizing our farmers.

[vi] Some gain, some lose on globalization--WB report," *Manila Bulletin*, Dec. 9, 2001, p. 5
[vii] Globalization must be managed well," *Philippine Daily Inquirer*, April 21, 2003, p. C5.