

APPEAL FOR AMENDMENT OF THE RICE TARIFFICATION LAW

**THIS MONUMENTALLY DEFECTIVE
LAW MUST BE PROMPTLY AMENDED TO
END THE RIDICULOUS CASE OF RICE FARMERS
SUFFERING HEAVY LOSSES FROM DRASTIC DROP
IN PALAY PRICES—THE DIRECT RESULT OF RICE IMPORT
LIBERALIZATION AND REMOVAL OF NFA PALAY-BUYING
FUNCTION UNDER THIS LAW —BUT WITHOUT BENEFIT
OF CORRESPONDING DROP IN RICE RETAIL PRICES TO
CONSUMERS, THEREFORE, ONLY RICE TRADERS BENEFIT
FROM THIS LAW, A SITUATION ROOTED IN ITS PROPONENTS'
SEEMING IGNORANCE OF:
(1) THE WAY OF THE MARKET, AND
(2) THE CHECK-AND-BALANCE—
OR MISSIONARY—ROLE OF GOVERNMENT IN
INDUSTRIES CLOTHED WITH PUBLIC INTEREST**

OBJECTIVE OF THE LAW

The Rice Tariffication Law (RTL or RT Law)—RA 11203 that liberalized rice importation—was approved on February 14, 2019 to **stabilize rice supply and reduce rice retail prices**, to be done through privatization of the government's role in the rice industry, with expected resulting competition in rice importation and distribution.

BASIC FEATURES

- The RT Law clipped the powers and functions of the government's National Food Authority (NFA) in the rice industry, leaving it with just the maintenance of buffer rice stock to meet contingencies.
- It liberalizes rice importation by the private sector.
- Under its liberalized rice importation, there will be recurring excessive rice importation arrivals even during palay harvest season that can drive down palay prices to unsustainable levels.
- It affects rice importers who are generally wholesalers. It has no provisions that would encourage reduction in rice retail prices by the rice retail industry except assumed pass-on to them of importers' cost savings, which pass-on may not substantially happen.

- To compensate the farmers for the expected drop in palay prices under liberalized rice importation, the RT Law provides for the following protection and subsidies to rice farmers' cooperatives:
 1. Safeguard duty on rice imports.
 2. Annual appropriation of ₱10 billion as Rice Competitiveness Enhancement Fund (RCEF), or Rice Fund, allocated as follows:
 - a. ₱5 billion for buying farm equipment as grant to farmers.
 - b. ₱3 billion for rice seed development and propagation,
 - c. ₱2 billion for rice credit assistance and extension services.
 3. Excess rice tariff over ₱10 billion is for rice farmer assistance....

THE DISGRACEFUL RESULTS OF THE RICE TARIFFICATION LAW (RT LAW)

Hereunder are the two unbelievable but true results of the vaunted Rice Tariffication Law. Hard to believe because these are totally unexpected results from the brainchild of exalted economists. If not refuted, the RT Law results may be considered a **disgrace** to its proponent economists in and out of government and academe—because this law caused so much losses and miseries to millions of farmers' families, for what? For nothing!

1. We gained NOTHING from it.

The RT Law did not produce the promised **reduction** of rice retail prices. Abnormal high rice prices **AFTER** mid-2018 due to government incompetence merely returned to former normal lower levels within last quarter 2022 even before passage of the RT Law on February 14, 2019.

2. We paid a high PRICE for the NOTHING that we gained.

With the abolition of NFA's palay price stabilization function that deprived rice farmers of alternative market, they become captive market of private rice traders who drastically reduced their palay buying prices, only to sell the same purchased palay at higher prices to NFA for its remaining role of maintaining reserve rice inventory. Farmers selling prices dropped by more than **₱5 per kilo**, with at least **₱100-BILLION** revenue loss on their annual palay harvest of 19 million metric tons.

As a result of the RT Law, farmers must practically beg for government subsidies to reduce production costs, but the subsidies would only partly compensate their huge revenue loss from depressed palay prices.

PART I

WE GAINED NOTHING FROM THE RT LAW

Debunking the Myths of the Supposed Benefits from the Rice Tariffication Law:

The monumental defects and errors of this law must be exposed and remedied, otherwise, Filipino farmers will continue to suffer from it without benefit to consumers.

The Rice Tariffication Law has been the culmination of the dream of free-market economists in DOF, NEDA, both houses of Congress, and members of economic societies in and out of the academe. It appears that to them, free-market competition means lower prices and adequate product supply. They applied it to the deregulated power generation industry under EPIRA enacted in June 2001, *and more than two decades after, we still have the second highest power rates in the region, with recurring power supply disruptions as coup de grace in discouraging local and foreign investments in local manufacturing.* Not learning their lesson from their failure to attain lower prices from privatization, our mainstream economists succeeded in having the severely flawed RT Law (RA 11203) enacted on February 14, 2019.

For review purposes, here is a *Philippine Star* news report on the claimed benefits from the RT Law:

Rice Tariffication Law trims prices by up to ₱7/kilo

By Elijah Felice Rosales, *The Philippine Star* Online, May 16, 2022

“MANILA, Philippines — The Rice Tariffication Law (RTL) has brought down the retail cost of the staple by up to **₱7 per kilo** and could even *reduce the number of hungry and malnourished by 2025* if the next administration maintains it. Finance Secretary Carlos Dominguez III yesterday said the passage of the RTL in 2019 proved to be crucial in cutting the per kilo price of rice to ₱39 as of April (2022) from a peak of ₱46 in 2018. *As the RTL converted the import volume cap into tariff, Dominguez said the measure*

managed to slash rice prices to the benefit of low-income Filipinos who spend at least 16 percent of their family budget on the staple. Dominguez said the implementation of the RTL could decrease the proportion of malnourished children by 2.8 percent in the next three years. Further, keeping the measure for up to 2025 can minimize the number of Filipinos at risk of hunger by 15.4 percent. The National Economic and Development Authority estimates that close to 2.1 million Filipinos will be spared from malnutrition and hunger by the RTL.” (Emphasis supplied)

Why the ₱7 per Kilo Rice Price Reduction Under the RT Law is Simply Not True

(Note: EXHIBITS—with rice prices sourced from the website on Commodity Price Monitoring by the Department of Agriculture—are attached to hard copies of this paper.)

In Reality, the RT Law Did Not Reduce Rice Retail Price by ₱7 Per Kilo—Because 2018 High Rice Prices Had Already Returned to Old Low Level Even Before RT Law Approval on February 14, 2019

The Department of Agriculture’s own daily monitoring of retail prices of agri-fishery commodities, posted to the Internet, belied the cited claim of the Department of Finance that the RT Law caused the reduction in rice retail price by ₱7 per kilo, from a peak of ₱46 in 2018 to a low of ₱39 as of April (2022). As shown later, the pre-crisis ₱40 per kilo low-range benchmark price of well-milled rice as of February 14, 2018 (**EXHIBIT 1**) was already back to this amount on October 26, 2018 after its peak price of ₱46 during the crisis earlier that year, and was even lower at ₱35 per kilo on February 13, 2019, or right on the day before approval of the RT Law on February 14, 2019 (**EXHIBIT 2**).

In contrast, despite maintained high rice retail prices, **unduly low palay prices** prevailed. As of September 2022, palay prices were at unsustainably low levels, such as ₱13 to ₱14 per kilo in Central Luzon, as lamented by **Sonny Sioson** and other farmer leaders in Bulacan and Nueva Ecija. (Bella Cariaso, “Burying price of palay drops to ₱13 per kilo,” *The Manila Times*, September 14, 2022, pp. A1, A8).

Movements of Rice Prices Before and During the RT Law

The benchmark rice price is that of well-milled rice, the rice variety bought by more than 80% of consumers (Ernesto M. Ordoñez, "Commentary: Rice farmers in grave danger," *Philippine Daily Inquirer*, June 26, 2019, p. B4).

Based on **EXHIBITS 1 to 5**, here is a comparison of well-milled rice prices before and after enactment of the RT Law on **February 14, 2019** (in pesos per kilo):

	Low-Range Price of Well-Milled Rice		
	<u>Imported</u>	<u>Local</u>	<u>Unclassified</u>
BEFORE RT LAW			
EXHIBIT 1: February 14, 2018			40
October 1, 2018			43
EXHIBIT 2: October 26, 2018			40
February 13, 2019			35
DURING RT LAW			
EXHIBIT 3: April 29, 2022	42	40	
November 11, 2022	42	40	
EXHIBIT 4: February 14, 2023	40	37	
EXHIBIT 5: July 13, 2023	40	40	
August 30, 2023	52	47	

Delayed rice importation by the National Food Authority in mid-2018 provoked a rice crisis that caused a spike in rice prices. As can be seen from herein **EXHIBITS 1 and 2**, the peak rice prices as of October 1, 2018 had already started to taper down to pre-crisis February 14, 2018 lower levels as early as October 26, 2018, during the onset of the harvest season, when the low price of well-milled rice returned to the old pre-crisis ₱40 per kilo.

It was the coming of the harvest season and the belated arrival of NFA's delayed rice importation—the root of the drastic rise of rice prices in 2018 to begin with—that caused the sustained lowering of rice prices to old early 2018 lower levels, not the RT Law.

The expected benefit from the RT Law with liberalized rice importation, free-market competition, and eliminated NFA role is a drop in rice prices, but it did not happen.

Despite the sharp drop in prevailing palay price from roughly ₱20 per kilo before RT Law to unsustainably low levels after its enactment (such as the previously cited ₱13 to ₱14 per kilo on September 14, 2022), ***the benchmark ₱40 per kilo low price of well-milled rice before the RT Law (EXHIBIT 1, February 14, 2018) utterly FAILED TO GO DOWN and stabilize at lower level.***

WORSE, the ₱40 per kilo benchmark low rice price not only failed to go down on a sustained basis, but it also even rose higher to ₱42 per kilo as of April and November 2022 (EXHIBIT 3). In other words, ***it moved CONTRARY to the expected rice PRICE REDUCTION from the staggering drop in palay prices.***

As of July 13, 2023, **four years** and five months after the RT Law enactment on February 14, 2019, the best that imported well-milled rice could show was to match local rice price and return to the pre-crisis 2018 benchmark low-range price of ₱40 per kilo.

Before the RT Law, in pursuit of its palay price stabilization function that injected **competition** in the **cartel-prone** rice industry, (a) NFA was farmers' alternative palay market, (b) palay price was about ₱20 per kilo, and (c) low-range price of well-milled rice was ₱40 per kilo. **During the RT Law**, (a) NFA was no longer a farmers' palay market, (b) farmers have no choice but to sell palay to rice traders at distressed prices like ₱12 to ₱15 per kilo, and (c) the low-range price of well-milled rice was also at ₱40 per kilo. In sum, ***farmers incur heavy losses, customers do not benefit, and only a relatively few rice traders make money.***

By August 30, 2023, with NFA taken out of the rice market and without capability to temper rice prices under the defective RT Law, the ₱40 per kilo low-range price of imported and local well-milled rice rose to ₱52 and ₱47 per kilo, respectively (EXHIBIT 5). ***This price surge signaled the return to another rice price crisis. It provoked the issuance on August 31, 2023 of Executive Order No. 39 that set a cap of ₱41 per kilo for regular milled rice and ₱45 per kilo for the well-milled variety. This Executive Order is the eloquent testimony to the utter folly of the RT Law and the urgent need to amend it—to restore NFA's role in the rice industry that economists unskilled in marketing failed to reckon with.***

PART II
WE PAID A HIGH PRICE
FOPR THE NOTHING THAT WE
GAINED FROM THE RT LAW

**The Elimination of the National Food Authority's
Crucial Palay Price Stabilization Function Under
the RT Law Caused the Dehumanization of Already
Poor Rice Farmers, Reduced Further to Begging for
Government Aid to Partly Compensate their Huge
Revenue Loss from the Drastic Drop in Palay Prices**

For the NOTHING that we gained from the RT Law, we as a nation paid the HIGH PRICE of destabilization of the rice farming industry that transformed already poor farmers—feeders of the nation—into poorest of the poor, highly dependent on government aid for survival. This was NOT the case BEFORE the RT Law.

Sadly, the government assistance does not even reach many farmers—especially those in far-flung areas—due to the usual government incompetence in undertaking an efficient large-scale aid delivery system. Concrete examples of the government's not only inefficient but also corrupt nationwide farmer assistance program were the media-reported notorious **₱728-million** fertilizer scam during the Arroyo administration, dwarfed by the subsequent much bigger **₱10-BILLION** pork barrel scam, perpetrated during the terms of Presidents Gloria Arroyo and Benigno Aquino III.

“Palay prices dropped precipitously from ₱22.04 per kilo in September 2018 (without RT Law) to ₱14.40 by October 2019 (with RT Law).” (Raul Montemayor, “Rice traders liberated, at last!” *Philippine Daily Inquirer*, August 26, 2020, p. A7).

Without NFA as an alternative market under the RT Law, unprotected farmers are now easy prey of profit-hungry private traders. During the initial year of the RT Law, traders bought palay from farmers at unsustainably low prices of **₱9 to ₱13** per kilo—a drop from the pre-RT Law price of roughly **₱20** per kilo by **₱7 to ₱11** per kilo—then quickly sold the same to NFA for the replenishment of its buffer stock at about **₱20** per kilo. A PESO drop in per kilo palay price means **₱19 BILLION** revenue loss on the 19 MILLION metric tons (MT) of farmers' annual palay harvest. Even if the price drop is just **₱5.30** per kilo, it translates to a whopping **₱100-BILLION** annual loss to farmers.

**THE PACKAGE OF SUBSIDIES
TO FARMERS IS SIMPLY NOT ENOUGH
TO COMPENSATE THEIR HUGE REVENUE
LOSS FROM DEPRESSED PALAY PRICES**

**More than the Drop-in-the-Bucket
₱10-BILLION Subsidy to Farmers, they Need
an Increase in Revenue from Higher Palay Prices**

Following are the reasons why the legislated ₱10-billion fund assistance to farmers will merely serve to create the false and misleading impression that, with this aid, farmers are net gainers under the Rice Tariffication Law (page 291):

To its proponents, the package of assistance to farmers appears sufficient for its purpose because it has been always expressed in *qualitative* forms—or kinds and descriptions—of subsidies, without any quantified measure of sufficiency or insufficiency in making up for the huge drop in farmers' palay revenue.

From the planning viewpoint—meaning, what NEDA must do—instead of merely describing the benefits, the government must quantify or express in *quantitative* terms the benefits from the ₱10-billion Rice Fund and other assistance to farmers.

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

(1) **Revenue recovery** from resulting increase in rice production, but there was no dramatic increase in palay harvest per Philippine Rice Research Institute data (philrice.gov.ph), as follows:

	Million MT		Million MT
2017	19.28	2020	19.29
2018	19.07	2021	19.96
2019	18.81	2022	19.76

(2) **Cost reduction** attributable to the subsidies in rice production.

If the government would quantify the actual benefits from the package of subsidies to farmers, it would find that the aggregate benefit is a drop in the bucket compared to the farmers' roughly **₱100-BILLION** annual revenue loss from the drastic drop in palay prices, without proportionate reduction in rice retail prices.

**LOW COST OF GOODS SOLD
DOES NOT AUTOMATICALLY TRANSLATE
TO LOW SELLING PRICES: THE REASON FOR
THE FAILURE OF RT LAW TO REDUCE
RICE RETAIL PRICES**

The RT Law does NOT yield proportionate reduction in rice RETAIL prices despite drastic drop in palay prices—because while it overhauled the rice **WHOLESALE** market through instituting rice import liberalization by private importer-wholesalers, it did not touch at all the other major **price determinant: the rice RETAIL sector**, which will not reduce its rice retail prices in proportion to the sharp drop in palay prices.

Moreover, the RT Law did **not** solve any rice **supply shortage** either. The shortfall in supply in 2018 that drove rice prices upwards was a temporary aberration, caused merely by delayed rice importation due to an internal dispute in NFA on the mode of importation. The solution, timely rice importation, could have been done with or without the RT Law.

The most fundamental assumption of the touted Rice Tariffication Law—that unfettered rice import liberalization will address the high-price problem—is not correct because low cost of goods sold, in this case low rice importation cost, does not automatically mean low selling prices.

As explained in Chapter 6 of the book (pp. 95-98), the existence of competing market players and low cost of goods sold does not necessarily equate to low prices. This is illustrated herein later.

The price behavior in the retail market of imported basic necessities is not necessarily governed by low cost or by supply and demand, but by a subtle way of the market—an ***unwritten code of conduct of no price competition*** among retailers—that stifles competition and the free operation of the economic law of supply and demand. As shown in **ANNEX A**, as in the case of **rice importation**, low-cost **imported pork** (₱160 per kilo) is sold at the same high price (₱330 per kilo) as that of high-cost (₱245 per kilo) locally produced pork.

Excerpts from:

Disconnect between agriculture direction and implementation

Ernesto M. Ordoñez (Agriwatch chair, former Undersecretary of the Department of Agriculture and Department of Trade and Industry *Philippine Daily Inquirer*, December 27, 2022, page B2

“The original (government) decision was to decrease tariff rates of certain agriculture commodities, intended to decrease inflation, until December this year.... However, consumer retail prices for these products hardly decreased. In the end, **importers kept most of the profits from the decreased tariffs, the farmers suffered lower incomes, and consumers paid practically the same retail prices.**

“This phenomenon of unreasonably low tariffs resulting in unfavorable consequences was seen when the **Rice Tariffication Law** was implemented. **Farmer incomes decreased by 23 percent to 25 percent, while consumers saw only a 2 to 3 percent decrease in rice retail prices.**

“There is a severely **mistaken assumption** that temporarily lowering tariffs beyond what would be the appropriate rate will automatically result in significantly lower retail prices (thus decreasing inflation). This has been repeatedly proven wrong.

Average Pork Prices (per kilo)

<u>SOURCE</u>	<u>MEAT COST</u>	<u>RETAIL PRICE</u>	<u>RETAIL MARGIN</u>
Locally Produced	₱245	₱330	₱ 85 (26%)
Imported	160	330	170 (52%)

“This was what happened with the tariff reduction originally planned to end this year. Consider the actual pork prices, submitted last Nov. 11 by Rolando Tambago of the Pork Producers Association of the Philippines, to the Tariff Commission. (See table above). **At the current (low) tariff rates... importers and traders have been keeping most of the profits from the tariff reduction. Despite (low tariff rates), retail prices have hardly changed. Worse, they have caused significant losses for our producers, 65 percent of whom are backyard producers.**”

**THE WAY OF THE MARKET:
THE REASON WHY LOW-COST IMPORTED
AND HIGH-COST LOCAL RICE AND PORK ARE
SOLD AT THE SAME HIGH RETAIL PRICES**

**THE FREE-MARKET LESSON THAT HAS NOT
DAWNED ON UNDISCERNING PROPONENTS OF EPIRA
(RA 9136) AND RICE TARIFFICATION LAW (RA 11203):**

**LETTING MARKET FORCES SET PRICES IS NOT ALWAYS
RIGHT—BECAUSE THE FORCES THAT MAKE UP THE MARKET
MAY INCLUDE GREED AND MARKET MANIPULATIONS THAT
SUPPRESS COMPETITION, IGNORE LOW COST OF GOODS SOLD,
AND UNDERMINE THE LAW OF SUPPLY AND DEMAND**

Free-market competition in the liberalized rice industry under the RT Law was envisioned to reduce the old 2018 rice retail prices, but it did not happen. As previously pointed out, as of September 2022, palay prices were at unduly low levels, such as ₱13 to ₱14 per kilo in Central Luzon, as lamented by **Sonny Sioson** and other farmer leaders in Bulacan and Nueva Ecija. (Bella Cariaso, "Burying price of palay drops to ₱13 per kilo," *The Manila Times*, September 14, 2022, pp. A1, A8). Hence, despite depressed palay prices, why competition under the RT Law did not bring down rice prices may be totally unexpected, even to some economists who advocated this law.

Economists should be conscious of the fallacy of letting market forces set prices because the prices set may not be free-market prices at all. They should be more discriminating in the liberalization of markets—aimed at letting market forces under free market set the ideal market prices—because leaving price-setting to market forces is not always right. Free-market price-setting applies to ordinary goods and services with elastic or price-dependent demand, but not to basic necessities with inelastic or firm demand (not dampened by price increase) that must be bought even at unfair prices because they are essential. Hence, basic necessities are prone to overpricing, so that in their case what the market forces produce are unduly high prices.

Overpricing is probable because the forces that make up the market may include profit-maximizing manipulative practices, like highest pricing to the extent buyers will pay, cartel, hoarding, intentional cutback in production, and/or bid-rigging that render inoperative the law of supply and demand and vitiate free market.

Our government economic managers and legislators must realize that having competition and low cost of goods sold in a market—whether regulated or not—does not automatically mean low selling prices. This is a truism I learned first-hand as a former employee of big business, then a modest entrepreneur for many years who had to buy materials unfairly priced at what the market could bear. **Reason:** under the law of supply and demand, profit-maximizing sellers will price their products as high as they can. This is complemented by the unwritten code of no-price competition in many industries, presented herein shortly.

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

“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 favor.”¹

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

A classic example of how a supplier charged atrociously high prices for its products despite low acquisition or production cost—in one case with more than 4,400 percent profit margin—took place in the bastion of free market itself, the United States, as follows:

“The (US) inspector general, in a report released this February (2019), looked at a random sample of 47 parts TransDigm sold the government between January 2015 and January 2017. And sure enough, the study found that TransDigm earned an “excess profit”—defined as above a 15 percent margin—on 46 of the 47 parts. The margins ranged from 17 to 4,436 percent. The biggest markup came on a 3-inch “nonvehicular clutch disk” that cost \$32 to make, which TransDigm sold for \$1,443. The 46 parts, which totaled \$26.2 million, produced an estimated \$16.1 million windfall for the company.”²

¹ Sean Masaki Flynn, *Economics for Dummies* (NJ: Wiley Publishing, Inc., 2005) p. 334.

² David Dayen, “How Rep. Ro Khanna got a price-gouging defense contractor to return \$16.1 million to the Pentagon,” *theintercept.com*, May 29, 2019.

c. In the Philippines, both privatized and deregulated high-cost oil-fired power plants and low-cost hydropower plants submitted the highest price bids in the Wholesale Electricity Spot Market—which means low production cost does not always matter in free-market pricing, that low product cost does not always mean reduced prices in free market.

The local power generation industry was privatized and deregulated under the Electric Power Industry Reform Act enacted in June 2001 during the watch of economist President Gloria Macapagal-Arroyo, in the naïve expectation that having different private investors in capital-intensive power generation will foster free-market competition and lower power rates. Despite the instituted free market in power generation, as of August 2018, we have the notorious distinction of having the second highest power rates in Asia that serve as an obstacle to our economic growth.

“Based on data presented by International Energy Consultants Managing Director and lead consultant Dr. John Morris, the top 5 countries with the highest power rates surveyed in Asia are Japan (₱12.31 per kWh); Philippines (₱8.96 per kWh); Singapore (₱8.83 per kWh); Hong Kong (₱6.53 per kWh); and Thailand (₱6.23 per kWh).”³

It is given that hydropower plants have power generation cost much lower than that of oil-fired power plants. Therefore, under free market, the new owners of privatized hydropower plants that compete with other private power generators are expected to charge low power rates. Sadly, this is true in theory but not in practice, as shown by the actual result of privatization with deregulation in the power generation industry:

“The oil-fired and hydropower plants have been the ‘high price trendsetters’ in the Wholesale Electricity Spot Market (WESM) during precarious supply situation in the Luzon grid.... One Subic Power Generation Corporation (with an oil-fired power plant, was) making price offers of ₱20 to ₱27 per kWh.... The Angat hydropower plant was similarly making pricey bids of ₱20 to ₱27 per kWh....”⁴

³ Lenie Lectura, “Average electricity price in PHL 2nd highest in Asia—think tank,” *Business Mirror Online*, August 7, 2018.

⁴ Myrna M. Velasco, “Oil-fired and hydropower plants are highest-priced bidders in WESM,” *Manila Bulletin*, April 16, 2019, page B1.

I cannot see any semblance of low power rates from the supposed competition by deregulated private power generators in those price bids. Low-cost Angat hydropower generator's bid was as high as that of high-cost oil-fired plant, with both priced for power generation alone at roughly double the average power rate of Japan, which already constituted the combined power generation and marketing costs. This price gouging can happen because of EPIRA which deregulated power generation without any prescribed rate-of-return limit. This law should be amended.

d. The envisioned... lowering of rice retail prices from rice import liberalization is not axiomatic—because of the *unwritten code of conduct of NO PRICE COMPETITION* among competing market players, long institutionalized through continuing practice: they compete on location, facilities, and quality of service, but not on price (pp. 97-98, 258-260).

As head of the Corporate Planning group in the local oil company subsidiary of a US multinational oil company years ago, I had been attending the company's regular performance review together with my mentor and immediate boss, **Antonio V. del Rosario**, the VP-Corporate Planning and Treasurer, an alumnus of Columbia University, Wharton Business School (University of Pennsylvania), and a business school in London. In one review presided by the company's Chief Executive Officer and attended by other Vice Presidents and operating managers, the marketing-group head reported the progress of their intensified marketing campaign. Our market share increased but they were hiding it from competitors. They thought of everything to attract customers, such as prompt service, sales promos, and advertisements, but they would not reduce selling prices because that would be pointless.

If our company would reduce its prices, competition would simply match our reductions. In which case, our company would gain no advantage against competition from our reduced prices. We would be back to square one—but all with similar lower prices, and all with resulting decline in total revenue. All of us would be hurt, without any benefit in return.

The situation changed when our company was purchased by the government's Philippine National Oil Company (PNOC) to form part of Petron Corporation, the country's largest oil company. Before it was privatized, as a government corporation with social mission, Petron's primary purpose was service, not profit. If typhoons destroyed receiving seaports of oil terminals, or blocked the standard highway routes of oil tank trucks, our operating managers racked their brains thinking of how to deliver to isolated regions. Just as important, as public service, there were times when, **even without cost reduction**, Petron reduced its selling prices (enabled by earnings from increased sales volume) and the other oil companies had to follow suit.

Unfortunately, free-market economists unskilled in good governance prevailed and had Petron privatized. Now we can see what the cited marketing head said. Despite numerous players introduced into the oil industry, if there is no cost reduction, no one among them initiates price reduction that competitors would match. They act in concert and their moves are decided in prior industry meetings. Their prices are generally uniform in each location. They have very high profit margin, from 10% to 20%.⁵ The sprouting of oil industry service stations everywhere like "sari-sari" (small variety retail) stores suggests high oil prices and profits under deregulation.

PART III

THE RT LAW IS NOT THE BEST MODEL—IT DID NOT ONLY FAIL TO SOLVE A PROBLEM, IT ALSO CREATED ANOTHER MUCH BIGGER PROBLEM

**On the claim of the former NEDA Chief
that the RT Law is the best model, it is NOT;
on the contrary, it is the WRONG model—because
it is a classic case of a pitfall to avoid in systems
work but not avoided: solving a problem by
creating another problem; in fact, it is even
worse, it not only created another problem,
it also failed to solve the old problem**

"Socioeconomic Planning Secretary Karl Kendrick T. Chua said that the Rice Tariffication Law (RTL) is the best model that we have to help both farmers and consumers." (NEDA, May 24, 2022, Philippine Information Agency).

⁵ Myrna M. Velasco, "DOE unearths 10%-20% profit margin of oil firms," *Manila Bulletin* Online, March 5, 2019.

Economists are supposed experts on macroeconomics, or economics for the nation as against economics for a firm, but it seems they do not apply their expertise in practice. They institute economic solutions focused on one economic sector, without regard to other economic sectors adversely affected.

One clear example is shown in my 4th email on our highly defective VAT system. Businesses are protected against double taxation, but consumers are subjected to multiple taxation.

Another case is that of public utilities like Meralco and Maynilad Water. They are protected against exchange losses on their unhedged foreign loans through the Foreign Currency Differential Adjustment (FCDA) scheme. It allows them to recover their exchange loss whenever the peso depreciated through an increase in service rate paid by consumers. **However, our economists have not cared to provide the mass consumers with a back-to-back hedging mechanism for their own protection,** which is needed so that what happened to Maynilad during the 1997-1998 Asian meltdown will not be repeated.

Maynilad's unhedged \$800-million foreign loan (assumed from MWSS) suffered 100% exchange loss when the peso depreciated during the Asian crisis. It was such a huge loss that it caused Maynilad's sudden collapse because exchange loss recovery through FCDA was not yet devised then. Through a Court order, Maynilad was rehabilitated under the M. V. Pangilinan Group, made possible by having consumers shoulder a ₱10.27 per cubic meter rate increase, or more than double Maynilad's winning bid of ₱4.96 per cubic meter in 1997. ***This was a clear case of INFLATION avoidable through exchange rate hedging with the central bank or private hedging institution, but it was not avoided due to the apparent negligence, lack of foresight, or lack of skills in risk management by our Bangko Sentral ng Pilipinas (BSP) and Department of Finance (DOF) officials.***

While the functions of both BSP and DOF include fighting **INFLATION**, to this day, it seems ***it never occurred to their officials to mandate regulated public utilities, as well as other public service providers—like tollway and rail transit operators—to obtain EXCHANGE RATE HEDGING on their foreign loans.***

Thus, if the peso would drastically depreciate owing to wars and other internal and external aberrations, service rates to consumers will be drastically raised again, automatic this time for public utilities under the FCDA mechanism.

In the case of the patently defective RT Law, the thrust is how to reduce rice prices for the sake of consumers. In reckless abandon, it removed NFA's palay price stabilization function—NFA's buying of palay direct from farmers—which removal made no-choice farmers easy prey of rice traders, who lower their palay buying prices during harvest season, only to raise them after it. (This is a very real, basic, and grave problem under the RT Law of countless farmers nationwide that is ignored, or not addressed, by government economists, a seeming case of not fully knowing how to do their job.)

What rice traders bought at cheap competitive prices from rice farmers during harvest season, they sell at high retail prices to consumers. Our economists—apparently not keen observers—concluded then that Filipino farmers are not competitive, when the ones who made local rice uncompetitive are the profiteering middlemen rice traders, the real beneficiaries of the RT Law.

PART IV ON RATIONALIZATION OF THE RICE INDUSTRY

THE IMPERATIVE ROLE OF THE NATIONAL FOOD AUTHORITY IN THE COUNTRY'S RICE INDUSTRY AND ECONOMY: BALANCING THE CONFLICTING INTERESTS OF CONSUMERS, FARMERS, AND RICE TRADERS

“The choice is not between open markets and government control, but rather to ensure that in the context of generally open markets, government regulation and supervision are appropriate, efficient, and effective.” – Stanley Fischer, IMF official (Amando Doronila, “Free-market pleaders preach to the converted,” *Philippine Daily Inquirer*, February 28, 1999, page 8)

A. SAFETY NET AGAINST RICE SMUGGLING.

Smuggling not only cheats on taxes, it also makes unregulated rice arrivals even during palay harvest season, resulting in a supply glut that temporarily depresses private traders’ buying prices at the time farmers have to sell their harvest. Requiring NFA import permits for private traders’ rice importations will help identify smuggled rice. Imported rice without a prior permit submitted to the Port of Entry is smuggled.

B. PROMOTION OF ADEQUATE RICE SUPPLY

Sufficient rice supply will come from local palay production, to be supplemented by rice importation that will continue to be done by the private sector. Any shortfall in local production as determined by the Department of Agriculture will be met through sufficient and timely rice importation by private traders, with NFA allowed to import rice for extreme emergency reasons.

C. PROMOTION OF REASONABLE RICE PRICES

While private traders will buy local harvests and import any shortfall in local production, the rice industry will not be left entirely to them because they are prone to manipulate the market for selfish interest. Through NFA, the government will intervene in the rice free market to keep it really free. Along this line, NFA, in its imperative rice buying and selling functions, must protect the following sectors:

- **Consumers**, against hoarding and overpricing by rice cartels or unscrupulous rice traders.
- **Farmers**, against their inability to sell at reasonable prices owing to rice supply glut from private traders’ unregulated importations, as well as the traders’ buying at low prices from farmers during harvest season, then raising the prices once harvest time is over—without any change in high retail prices throughout the year.
- **Government**, against tax evasion from rice smuggling.

**PRICE AND COST DATA SHOW THAT NFA
CAN BUY PALAY FROM FARMERS AT ₱20 PER KILO,
OR HIGHER, WITHOUT AN INCREASE IN LONG PREVAILING
RICE PRICES UNDER RT LAW, THEREFORE, NFA MUST DO IT**

Prevailing RT Law rice prices per kilo	45.00	40.00	38.00
Cost of rice from ₱20/kilo palay			
₱20/kilo palay x 1.54 kilos + ₱2 other costs	32.80	32.80	32.80
Combined wholesalers' and retailers' margin	12.20	7.20	5.20
Combined margin per 50-kilo bag of rice	610.00	360.00	260.00
Cost of rice from ₱22/kilo palay			
₱22/kilo palay x 1.54 kilos + ₱2 other costs	35.88	35.88	35.88
Combined wholesalers' and retailers' margin	9.12	4.12	2.12
Combined margin per 50-kilo bag of rice	456.00	206.00	106.00

Palay volume to be milled per 50-kilo bag of rice for sale:

At 65% rice recovery from palay to be milled, the ratio is 1.54: 1 or 1.54 kilos of palay per kilo of rice. Thus, **50 kilos** of rice require **77 kilos of palay**. The palay price is as delivered to traders' place.

Other direct costs per 50-kilo bag of rice:

Milling fee	₱ 80.00
Cost of sack	10.00
Recovered rice bran, for sale as "darak"	(40.00)
Trucking to public market	<u>50.00</u>
Total — before cost of required palay	100.00
Total other direct costs per kilo	₱ 2.00

The elected political leaders in government must promptly stop the present ridiculous and insane spectacle of mass consumers gaining NOTHING from the vaunted Rice Tariffication Law that failed to reduce rice prices—paid at the HIGH PRICE of farmers' struggle for survival, caused by their multi-billion-peso annual revenue loss from the RT Law-mandated removal of NFA as their alternative market. It is time for the government to show its concern for lowly farmers by pursuing the heretofore unheralded objective of ECONOMICS: to feed society and provide its other needs and wants, to be done in this case by promoting sustainable rice farming without an increase in rice prices.

Based on the foregoing data, with **₱150 per bag minimum combined margin (₱50 for wholesalers, ₱100 for retailers)**, good quality palay can be procured at **₱20 per kilo** and sold at **₱38 per kilo** as good quality rice. At **₱22 per kilo** of good quality palay, good quality rice can be sold at **₱40 per kilo**. NFA can buy palay at these prices and sell rice at low prices to the poorest of the poor.

**WHY PROTECT FARMERS:
AS FEEDERS OF THE NATION, THEY
ARE INDISPENSABLE TO FOOD SUPPLY
SECURITY AND PRICE STABILITY**

(Pages 300-301)

1. For its own sake, the nation must protect its rice farmers because not to do so would be disastrous. Our local rice production is the source of our rice supply and price stability. The Philippines, with now more than 110 million population, consumes about 15 million metric tons (MT) of rice per year, equivalent to roughly 30 million MT of palay. A total of roughly two-thirds—or about 20 million MT of palay equivalent to 10 million MT of milled rice—is produced by local farmers. The remaining one-third of rice demand is imported.

The Philippines is already the world's top rice importer (Danessa Rivera, "Phl now world's top rice importer," *The Philippine Star*, September 14, 2023, headline, page 1). ***If farmers are not protected from unsustainably low palay prices under the RT Law and rice farming declines, our own increased volume of rice imports would drive rice export prices upwards.*** It would aggravate the present higher prices caused by India's ban on rice exports. The present trend of higher rice import prices will persist. Government to government rice importation may assure us of supply, but this would be at floating rising prices.

Thus, protecting farmers by restoring the feasibility of rice farming, to be done through reinstating NFA as farmers' alternative palay market, is imperative and a no-brainer, especially for marketing specialists who know the way of the market. They know that the market for basic necessities, especially the staple food rice, cannot be left entirely to profit-motive private traders. Left alone without government intervention or competition, they will have the irresistibly tempting opportunity to hoard and overprice the essential goods—precisely because these are necessities with inelastic demand and will be bought and consumed even at high prices.

2. Under ***normal conditions***, as part of sound planning and risk management, we should anticipate and prepare for a future reduction in world rice supply due to certain 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; and,

(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).

3. We should prepare likewise for potential rice supply-price problems under *abnormal conditions*, such as in cases of:

(a) Political, economic, and force-majeure upheavals or aberrations, like war that disrupts rice farming and export-import of rice;

(b) Severe economic crises or turbulences;

(c) Farm drought in rice-producing and/or importing countries that tightens rice supply with a rise in rice prices; and

(d) Prolonged pandemic and other calamities, under which each country must fend for itself and conserve its food supply.

If the rice farming industry is not protected and allowed instead to retrogress or become insignificant 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 MT of annual palay harvest, rice farming is a roughly ₱350-billion industry upon which depend many agri workers, suppliers, haulers, rice millers, and other businesses patronized by farmers' families. A robust farming sector will help create demand for local commerce and industry—a vital factor for our economic growth. High farm production helps minimize inflation, for which BSP, represented in the NFA Council, must be thankful and help farmers.

**ON GOVERNMENT AID
TO SUBSISTENCE FARMERS AND
SOCIAL SPENDING FOR POOR CONSUMERS**

We must 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 and financiers.

The nation's infrastructure construction and promotion of industrialization should be private-sector driven (page 90 of book), while agriculture will be government-assisted because, unlike private capitalists with resources, many farmers have no financial and technical capabilities.

We need a viable agriculture sector in pursuit of the goal-oriented definition of economics (Introduction and Chapter 1)—to satisfy the needs and wants of all members of society, in this case, poor farmers and consumers. As a form of social spending under capitalism and part of national-interest objective, the government must help farmers maintain their jobs and increase farm production that helps fight inflation and promote food security. It must also make cheap rice available to poor consumers, especially the poorest of the poor.

Unknown to many, capitalism includes social spending, anti-socialist German Chancellor Otto von Bismarck's capitalist innovation in the 1880s (pages 17-18), wrongly attributed solely to socialism. Capitalism includes social spending for the following reasons (page 449):

- Under the **goal-oriented definition of economics**, its objective is to satisfy society's needs and wants. To satisfy the needs of the majority poor in society, social spending is needed under capitalism.
- Under Sections 25 and 26 of the United Nations' **Universal Declaration of Human Rights**, ***the right to food, clothing, housing, social security, health care, and education are inalienable human rights***, therefore these rights exist regardless of the economic system adopted.

In other words, ***these rights exist under capitalism, socialism, or any other economic system—not under socialism alone. It is wrong to associate social spending for these rights solely to socialism. It is also wrong to red tag those helping the poor as communists.***

- Under our democratic governance, elected political leaders must give primacy not to the economic-ideology free market but to the constitutional political-ideology **Democracy**. Under its tenet ***the greatest good for the greatest number***, satisfying the needs of the majority poor is basic. Satisfying the needs of the poor includes capitalist social spending.

The government's past Masagana 99 rice production program and selling of cheap rice in Kadiwa stores, with the selling of cheap rice at ₱27 per kilo done by NFA during the entire term of the PNoy administration, were both valid programs and must be resumed today because needed.

The contention that Masagana 99 caused the debacle of rural banks in the country is not correct. As reported by the *Philippine Daily Inquirer* on its page B6 on February 1, 1999, the Philippine banking system suffered an unprecedented 20% bad loans—with some bankruptcies—during the fading years of martial law, caused by disastrous high interest rates of up to 60% from central bank "Jobo" bills, used to tighten money supply and prevent runaway inflation. The old Central Bank itself became bankrupt, with **₱302-billion** losses or obligations assumed by the national government, repaid by taxpayers over 30 years. The failed central bank had to be replaced by the present Bangko Sentral ng Pilipinas (BSP) for a fresh start in central banking.

THE RECOMMENDED SCHEME FOR RATIONALIZATION OF THE RICE INDUSTRY

Under the existing Rice Tariffication Law with rice import liberalization, to rationalize the ailing rice industry for higher rice production, progressive farmers, cheap rice to the poor, and other national-interest objectives like food security, following is the corresponding imperative scheme:

(1) Maintain the aid to farmers, like the ₱10-billion fund.

Prioritize government aid on what each individual farmer cannot do, such as acquiring badly needed high-cost **palay dryer**—to be operated by NFA—not on heavy equipment (especially big farm tractors) as substitute to farm labor costs that each farmer can afford even without subsidy, like plowing, harrowing, planting, and harvesting. Subsidies on farm inputs like fertilizer and agrochemicals are also quite valid. Irrigation systems in areas with rivers, creeks, and land terrain suitable for water impounding dams are of utmost importance and must be also prioritized.

Giving heavy equipment, like farm tractors, as aid to farmers entails operational problems like prioritization in their common use and funding for their high cost of repairs. Therefore, it need not be prioritized at the expense of other more beneficial forms of assistance. As a farm tractor can work only on a limited area per day, about three hectares, there is queueing in its use among members of farmers' cooperatives. Before it reaches the last farmers, it may be too late in the case of rainfed farms where immediate tilling of the soil is needed once it rained, otherwise the farm will dry up. If the cooperative officers are not expert managers, payment of operator's wages, fuel consumption, and repair and maintenance costs will ultimately emerge as a real problem, the reason the farm tractors that need high cost of repairs will be prematurely retired.

(2) Allow private traders to continue rice importation under at least two indispensable conditions:

- (a) Arrivals of imported rice must be strictly during lean months only, not during palay harvest season.**
- (b) Rice importation will be only for the estimated shortfall in local rice production, as projected by the Department of Agriculture.**

Setting those conditions is an imperative SAFETY NET against big-time private traders' market malpractices, with overpricing of rice sales to retailers/consumers and underpricing of palay purchases from farmers. It will attain adequacy in rice supply through rice importation, which will be limited to the estimated supply shortfall only. At the same time, it will protect farmers from unduly low palay prices set by rice traders—caused by temporary supply glut if rice importation arrivals are allowed even during palay harvest season. This measure entails more work, but it is needed and must be done as integral part of political leaders' good governance.

(3) EXTREMELY IMPORTANT: Restore NFA's missionary role in the service of rice farmers and consumers in the rice industry, a crucial governance function on the sustenance of the people's lives and promotion of their general welfare under the Constitution.

As often stated, having competition and low cost of goods sold in a market—whether regulated or not—does not automatically mean low selling prices. This is a truism that might not have dawned yet on free-market economists, especially those who advocated rice import liberalization under the Rice Tariffication Law. Reason: under the law of supply and demand, profit-maximizing sellers will price their products as high as they can. This is complemented by the unwritten code of no-price competition in many industries, presented in this paper. Also, the market forces that set the prices may include market manipulations, like cartel, that undermine the law of supply and demand and vitiate free market. Consequently, in the rice industry, NFA is needed to serve as check and balance against profiteering rice traders, whose cheap rice importation is not felt in the unaffected prevailing high rice retail prices.

Following are NFA's primary missions or excuses for being:

- a. To stabilize palay prices by serving as local farmers' alternative market for their palay harvests, otherwise they will become victims of rice traders who set low palay prices during harvest season, then restore the palay prices to old high levels after the harvest period. In this regard, NFA must resume its role as alternative market for farmers by buying palay at a minimum price of ₱20 per kilo from them.**

At present rising prices of basic commodities, NFA can buy palay at ₱20 to ₱23 per kilo—the price range suggested by Bulacan farmer leader **Simeon “Sonny” Sioson**—without affecting prices in rice retail markets. There will be no annual cash infusion either to raise NFA's initial working capital because, *as it disburses cash to buy palay, it also collects cash* from the sales as rice of previously procured then milled palay.

CAUTION: NFA must buy palay solely from legitimate farmers and farmers' cooperatives—to lighten NFA's workload, as well as prevent rice traders from acting as profiteering middlemen between farmers and NFA, as explained herein later.

- b. To sell rice at break-even price to regular consumers, and at subsidized cheap price to poor consumers, at Kadiwa stores as part of the government's social spending for the poor, to be done under democratic capitalism, the elusive ideal economic system.**

The crucial NFA role of continuously buying palay and selling rice must be done under the remaining NFA function of maintaining reserve rice inventory for emergency purposes under the Rice Tariffication Law. NFA's doing it is needed to cushion, at least partially, the adverse impact of this law on rice farming and allied industries, like rice milling and agri supply.

c. To maintain reserve rice inventory for contingent emergency situations, such as whenever there is disruption in rice importation due to political or economic turmoil in rice exporting countries, or when there is naval blockade of cargo shipping due to wars and other external conflicts.

In this connection, maintaining rice reserve inventory **does not** mean buying palay up to the desired number of days inventory level, then having the palay milled as rice and stored in NFA warehouses as reserve inventory, **to be wrongly withdrawn only when the contingent need arises. *Prolonged rice storage would cause financial losses from rotting rice inventory*** and its eventual sale as damaged stocks for animal feed purposes, as was experienced by NFA in prior years, evidenced by its advertised notices of sale in the newspaper *The Philippine Star* on June 30 and July 1, 2003 (**EXHIBIT 20**), as well as October 6-8, 2004 (**EXHIBIT 20-1**). In those instances alone, rotting NFA rice stocks for sale at a loss as cheap animal feeds aggregated to 76,126 bags or **3.2 MILLION kilos**, equivalent to 304 truckloads at 250 bags each. In another case, 14-month old NFA rice stacks were remilled in San Miguel, Bulacan (**EXHIBIT 20-2**, not shown here) to partly restore their lost quality.

Even without amendment of the Rice Tariffication Law, and to avoid rotting rice inventory in NFA warehouses, NFA can already go into the continuous and intensified cycle of buying palay from farmers, milling the palay, selling cheap milled rice, then buying palay again as replenishment of the sold rice stocks—***by raising its number of days rice reserve inventory level, thereby increasing the needed volume of palay purchases from farmers.*** In its warehouse operations, NFA must use the first-in-first-out (FIFO) method of stock movements, to avoid prolonged storage and rotting of old stocks under the alternative last-in-first-out (LIFO) method.

Under the foregoing rationalization scheme, farmers will reduce costs and increase production through government assistance, as well as augment their revenue through increased palay prices to higher pre-Rice-Tariffication-Law levels, without corresponding increase in rice retail prices. Under the government's democratic capitalism with social spending, cheap rice will be sold to poor consumers in NFA outlets or Kadiwa stores catering exclusively to them.

**EXTREMELY IMPORTANT:
WHY NFA MUST BUY PALAY FROM
FARMERS AND FARMERS' COOPERATIVES ONLY:
TO LIGHTEN NFA'S RESPONSIBILITY BY MINIMIZING
ITS PALAY PURCHASES AND FUNDING REQUIREMENTS**

Before the enactment of the Rice Tariffication Law in February 2019, NFA was buying palay from rice traders and farmers' cooperatives to stabilize palay prices and maintain reserve rice inventory. For so long, however, NFA substantially excluded farmers from their buying operations by the simple expediency of requiring palay deliveries in minimum volume of 300 to 400 bags per truckload. Consequently, many farmers and farmers' cooperatives who could not meet the requirement had to sell to private rice traders. As the farmers, in effect, had lost NFA as their alternative market, they had to sell to rice traders at lower prices. After accumulating the palay purchases from farmers, the traders, in turn, would sell the cheap palay at high prices to NFA, then laugh all the way to the bank.

Today, NFA's buying palay from farmers and farmers' cooperatives only will greatly reduce its volume of operations and working capital requirements, and yet it will already accomplish its mission of stabilizing palay prices. As farmers have a choice of selling to NFA as their alternative market, rice traders cannot unduly bring down palay prices, especially if rice importation is for the shortfall in local rice production only. Therefore, many farmers can still sell their palay harvests to rice traders at reasonable prices, in the process minimizing the need for NFA's palay purchases. Provided rice traders will match the buying price of NFA—or set a price just a little lower than it—farmers will sell to the traders because they pay cash on the spot. When this happens, NFA's mission is accomplished because, even if it was not the one who bought palay from farmers, the farmers were able to sell to traders at a high price, thanks to NFA.

This SCHEME of PROTECTION to FARMERS by way of stabilizing palay prices is a product of simple **systems work**, not economics. The lack of this vital protection scheme in the Rice Tariffication Law is one of its monumental defects. As this system of farmers' protection may be farthest from the minds of ECONOMISTS who seem illiterate on systems work, elected POLITICAL LEADERS responsible for political and economic governance must take charge and right the wrong committed to rice farmers—by restoring NFA's protection to farmers through a prompt amendment of the Rice Tariffication Law.

**THE MAJOR DEFECT OF EPIRA (RA 9136)
AND THE RICE TARIFFICATION LAW (RA 11203)
THAT MUST NOT BE REPEATED IN RCEP:
LACK OF SAFETY NET FOR THE PROTECTION
OF LOCAL PRODUCERS AND CONSUMERS**

In closing, elected political leaders must realize that they cannot leave everything in the economy to economists. As presented right at the Introduction of my book, managing the economy requires the collective expertise of professionals representing varied disciplines—not just economics—like planning, political science, management, engineering, marketing, and systems and procedures.

For example, when I applied planning and systems work techniques in looking at economics and what economists are doing, I found out that *economists—who seem deficient in political science or governance—are working at cross-purposes with elected political leaders*. Political leaders are mandated under the Constitution to promote economic equality under the political-ideology Democracy, which lives by the majority rule and the democratic tenet *the greatest good for the greatest number*. This means—and requires—equitable sharing of economic growth between the minority rich and the majority poor through progressive taxation and other means of attaining economic equality.

Economists, on the other hand, seem oblivious to the implications of Democracy in our Constitution. They do not give primacy to economic equality demanded by Democracy. They appear obsessed with free market and government non-intervention in business, which betrays their lack of expertise on model industry regulation. They have no qualms about pursuing economic policies and practices that work against equality, like unfettered free market and neoliberal capitalism. *From the systems viewpoint, these economic policies and practices will not produce economic equality. There is no cause in them that will produce the desired effect*. Economic growth gobbled up mainly by the few rich will not do it.

As can be seen, from economists, we have deregulation susceptible to product overpricing, trickle-down economics, maximization of shareholders' value, and regressive taxation, all of which are pro-minority rich capitalists that make them richer, without equivalent increase in wealth for the majority poor, thereby resulting in inequality—or the opposite of economic equality that the elected political leaders are constitutionally mandated to attain.

In their fixation with free market and government non-interference in business, *free-market economists*, who dominate government economic policy-making, seem to have become *experts in having the government do nothing and letting capitalists do everything* in the free-market economy. Classic examples are the Electric Power Industry Reform Act (EPIRA) approved in 2001 and the Rice Tariffication Law enacted in 2019. These laws promoted trade liberalization and eliminated government role in the power and rice farming industries, without providing SAFETY NETS for the protection of consumers and local producers, as treated in this paper and in my book. Therefore, to provide the needed SAFETY NETS, prompt amendment of both laws is the compelling need of the hour.

**THE REGIONAL COMPREHENSIVE
ECONOMIC PARTNERSHIP (RCEP) MUST HAVE
SAFETY NETS THAT WILL PROTECT LOCAL
PRODUCERS AS POTENTIAL LOSERS FROM IT**

Free market produces mixed results: good and bad, winners and losers (page 92 of book). Having awakened to this reality, to protect potential losers from RCEP, the Senate has agreed to adopt as part of RCEP implementation the six conditionalities related to agriculture recommended by the AgriFisheries Alliance or AFA (Ernesto M. Ordoñez, "Using RCEP for agriculture," *Philippine Daily Inquirer*, March 3, 2023, page B2). Following are exact quotes of the six conditionalities:

- Vastly improve border controls, including quarantine and safety measures, and the restoration of the "public-private oversight committee on anti-smuggling;"
- Proper use of agriculture funds, including the restoration of the "public-private budget monitoring committee;"
- A market information network mandated in the 2007 Agriculture and Fisheries Act, but has not yet been implemented;
- A cluster-cooperative approach to achieve economies of scale;
- Identification of RCEP threats and corresponding measures; and
- Specific action plans to address the new RCEP environment.

Whether part or not of the six conditionalities, where applicable, the government must also institute in RCEP agriculture importations—to serve as SAFETY NET for potential losing local producers—the two indispensable conditions in rice importations, as follows:

- (a) Arrivals of importations must be strictly during lean months only, not during harvest season.
- (b) Importation will be only for the estimated shortfall in local production, as projected by the Department of Agriculture.

In the importation of processed agriculture products that are without fixed harvest or production season, the government can protect local producers and promote local production by following the model on promotion of **dairy products** (Chapter 24), presented below.

PROMOTION OF LOCAL DAIRY INDUSTRY

The government must generate jobs by creating an entire dairy industry in the Philippines with the help of mall owners who prospered from mass-consumer patronage. This model applies to other local cottage industries, like those in the coconut industry.

As previously reported by media, roughly 98% of dairy products locally consumed are imported. If we would rely on free market, this situation would not change because many importer-retailers do not go out of their way to patronize local producers. However, the government can intervene for the sake of providing jobs and reducing poverty in rural areas. Because local taipans enjoy mass-consumer patronage, as part of their corporate social responsibility, they must be asked to reciprocate and help revitalize the economy through investing in dairy processing plants in strategic locations nationwide, then selling the products of those plants.

Offhand, based on articles in the monthly *Agriculture* magazine, depending on capacity and configuration, a processing plant similar to those put up by some existing cooperatives may cost ₱10 million or more. To ensure the viability of the projects, as a source of the raw material milk, the government, with the aid of taipans, should accelerate the dispersal of dairy cattle and buffaloes within the cluster of towns surrounding each dairy plant.

The dairy plant will serve as a ready market for the milk produced. To provide a market, in turn, for the processed dairy products, the taipans will buy the products of the milk processing plants that they wholly or partly own, sell or use these in their malls or other establishments, and minimize the importation of competing dairy products. The taipans will not exactly sacrifice, though. They will even expand their operations. What's more, their investments will generate jobs, create purchasing power, and stimulate demand for their businesses. ***The government must use moral suasion to attain this end.*** Mall owners can also help in the promotion of other local products, especially those of small industries, by giving them preference over imported products.

**IN CLOSING,
THE CAPSULIZED RATIONALIZATION
SCHEME FOR THE RICE INDUSTRY**

**AS THE GOVERNMENT CANNOT GIVE
EVERYTHING TO FARMERS, WHATEVER IT IS
DOING NOW TO HELP THEM WILL NEVER BE
ENOUGH WITHOUT RESTORATION OF NFA'S
PALAY PRICE STABILIZATION FUNCTION—IN THE
FORM OF PALAY BUYING FROM FARMERS—AS THE
INDISPENSABLE MEANS OF MAINTAINING THE
VIABILITY OF RICE FARMING; WITHOUT IT,
FARMERS WILL NEED SUBSIDIES BEYOND
THE GOVERNMENT'S ABILITY TO PROVIDE**

Here is the summary of reforms to rationalize the rice industry, implementable through an amended model of the RT Law:

1. Have the National Food Authority maintain adequate reserve rice inventory for rice price and supply stabilization.
2. Have private traders continue rice importation under, among other things, two indispensable conditions:
 - (a) Arrivals of imported rice must be strictly during lean months only, never in palay harvest season.
 - (b) Rice importation will be only for the shortfall in local rice production as projected by the Department of Agriculture.

3. EXTREMELY IMPORTANT: *Have NFA serve as farmers' alternative market for their palay harvests by restoring its palay buying function aimed at palay price stabilization. Otherwise, farmers will become victims of rice traders who set low palay prices during harvest season, then restore the palay prices to old high levels after harvest period.*

NFA must buy palay from legitimate farmers and farmers' cooperatives only—to lighten NFA's work and prevent rice traders from acting as profiteering middlemen between farmers and NFA, as was the case in the past, when many small-time farmers had no choice but to sell at low prices to rice traders, who in turn sold to NFA at high prices. Most farmers did not sell to NFA as they did not qualify under NFA's rule that palay deliveries must be in 200- to 300-bag truckloads.

If NFA would stabilize palay prices by starting with intensified buying of palay from farmers at sustainable prices, traders would also have to buy at such prices from farmers. This will reduce NFA's palay buying from farmers' groups because, provided rice traders' buying prices are competitive, farmers would sell instead to them. Unlike NFA, they pay spot cash on delivered palay. Consequently, NFA's volume of palay purchases from farmers will be minimized, which means not only less NFA work but also less NFA working capital requirement.

It becomes clear then that, in effect, performing NFA's palay price stabilization function does not mean buying as much palay as possible from farmers at *sustainable prices*—which is a daunting and costly mission—but *merely to join the market competition and induce rice traders to buy palay from farmers at prices competitive with those of NFA.*

4. Have NFA sell rice at break-even price—nay, at subsidized cheap price—to poor consumers at Kadiwa stores, to be done as part of the government’s social spending program for the poor under our existing economic system, capitalism.

5. Maintain the government’s aid to farmers, like the present annual ₱10-billion fund. Prioritize aid on what farmers cannot do or acquire, such as badly needed palay dryers—to be operated by NFA—as well as water impounding dams for irrigation purposes.

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The herein simplified rationalization scheme for the rice industry is an example of imperative government intervention in a basic-necessity industry, to function as SAFETY NET that will promote rice supply and price stability, as well as protect consumers and farmers from abuse of market power by rich importers and traders.

Elected political leaders must do justice to their constituent farmers and consumers by pursuing rice industry rationalization through amendment of the RT Law. This SAFETY NET will stop the present pointless revenue losses from depressed palay prices by rice farmers—as exploited captive suppliers by rice traders under the RT Law—without benefit of lower rice prices to consumers.

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