

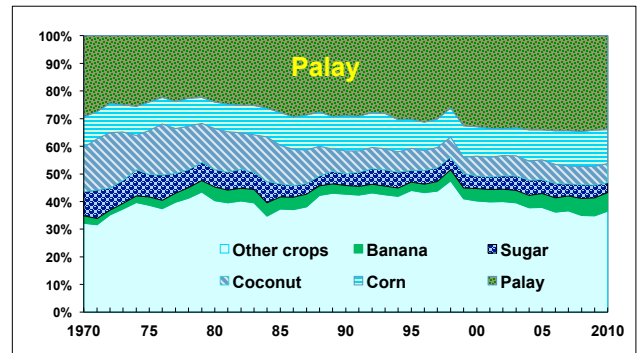


BRIEF OVERVIEW OF STAPLE FOOD SECTOR IN THE PHILIPPINES

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CREW Project
NEDA Makati Building, 7 May 2013

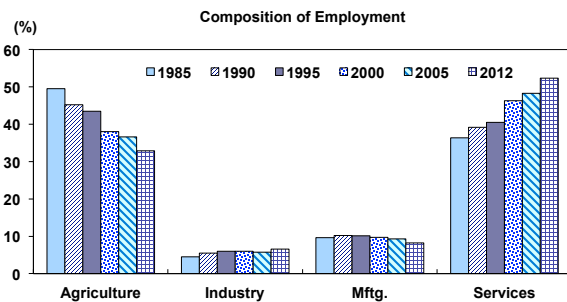
Palay sector accounts for about 25% of total crop GVA and 20% of agriculture GVA.



Source of basic data: BAS.

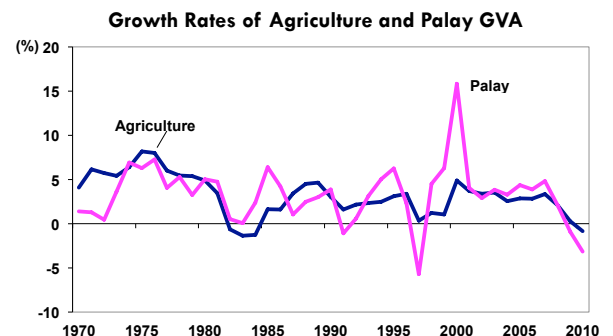
Most important source of livelihood among small farmers.

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Palay sector is a microcosm of the agriculture sector.

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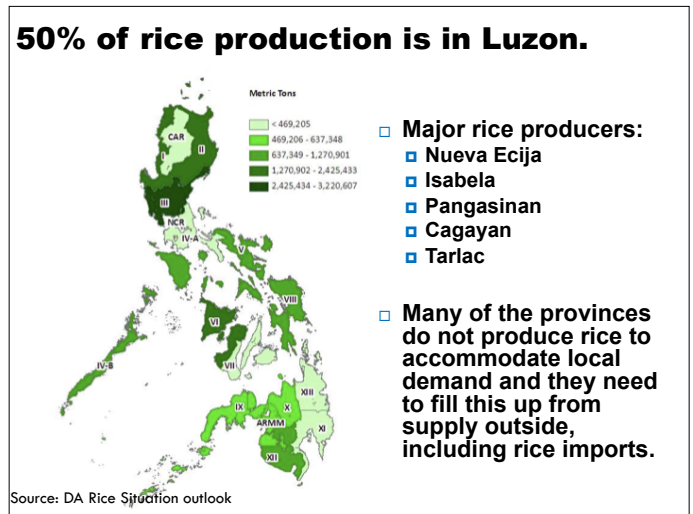
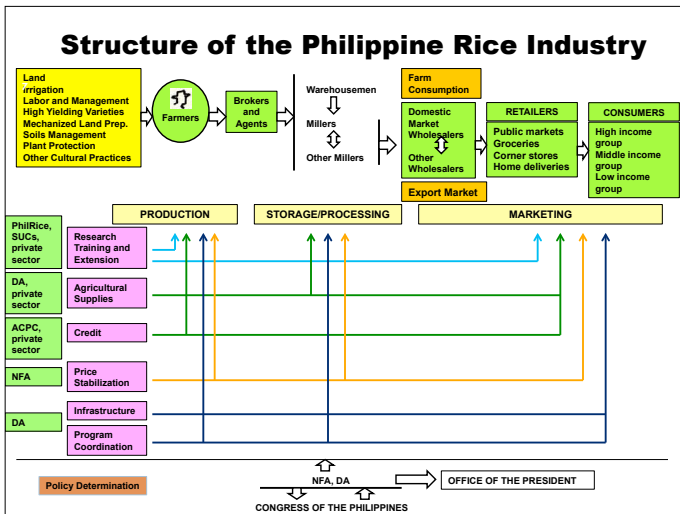
Source of basic data: NSCB and BAS.

Rice and the Filipino HH

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- Rice remains to be the staple food of Filipinos.
- It accounts for 25 percent of the **food expenditures** of the poorest 30 percent of the population.
 - Rice prices have a significant effect on the well-being of Filipinos (including the small rice producers, most of whom are net buyers of rice for household consumption).

Structure of the Market and Distribution network



Rice Traders in surplus areas

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Dominance of either wholesalers or wholesaler-retailers in regions where huge rice surpluses exist.

- Cagayan Valley and Central Luzon – dominated by **wholesalers**
- Ilocos - dominated by **wholesalers-retailers**
- Same pattern can be observed in Visayas and Mindanao like in Western Visayas and SOCCKSARGEN.

Source: Sombilla et al (2006) "Marketing and distribution" in *Securing Rice, Reducing Poverty: Challenges and Policy Directions*. SEARCA/PhilRice/DA-BAR.

Rice Traders in deficit areas

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Clear dominance of retailers in rice-deficit areas.

- **Luzon**: NCR and CALABARZON – dominated by retailers. Metro Manila is the major rice trade destination.
- **Visayas**: Cebu City - major trading center with supplies coming from neighboring Eastern Visayas and SOCCKSARGEN provinces.
 - Additional supplies come from Metro Manila.
- **Mindanao**: Davao City

Source: Sombilla et al (2006) "Marketing and distribution" in *Securing Rice, Reducing Poverty: Challenges and Policy Directions*. SEARCA/PhilRice/DA-BAR.

NFA and price stabilization

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The NFA builds up the government's buffer stock through domestic procurement and/or rice importation.

- Strategic rice reserve
- Rice stabilization buffer stock

Source: Sombilla et al (2006) "Marketing and distribution" in *Securing Rice, Reducing Poverty: Challenges and Policy Directions*. SEARCA/PhilRice/DA-BAR.

Policy Determination

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The Interagency Committee (IAC) chaired by the DA determines the supply-and-demand situation on a crop basis.

- The IAC recommends importation of rice in the event of a deficit.
- Rice importation has been a recourse to help even out supply and stabilize prices during lean months when subsequent rice harvests would take place.

Source: Sombilla et al (2006) "Marketing and distribution" in *Securing Rice, Reducing Poverty: Challenges and Policy Directions*. SEARCA/PhilRice/DA-BAR.

Policies, Laws, and Programs

Agriculture Sector Goals and Strategies (MTDP 2011-2016)

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Vision: Competitive, sustainable, and technology-based agriculture and fisheries sector

- Food security improved and incomes increased.
- Sector resilience to climate change risks increased.
- Policy environment and governance enhanced.

1. Rice Self-sufficiency

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- Objective enshrined in all government programs for the agricultural sector since the early 1960s!
 - In 2010, the Department of Agriculture launched a 2011-2016 Rice Self Sufficiency Roadmap which has changed into the Food Staples Self-Sufficiency Roadmap.
 - The current administration aimed to be self-sufficient—that is, zero imports—in rice by 2013. However, the target has been pushed back to 2014.

2. Marketing policies

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Twin Objectives of rice price policy:
High price for the producers and low price for consumers.

- NFA's role to achieve this objective:
 - procurement and distribution
 - monopoly over rice importation, and
 - maintenance of extensive logical facilities for buffer stocking.

3. Rice Quantitative Restriction (QR)

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- In the Uruguay Round, Japan, South Korea, and the Philippines used the “special treatment” provisions to restrict imports of rice.
- Philippines and South Korea extended their special treatment of rice to 2012 and 2014, respectively.
- In 2012, the Philippines appealed with the WTO Council for Trade in Goods to extend the QRs for another 5 years.
 - However, the WTO delayed the release of its decision to 2013 due to opposition against the request.
 - The government is currently negotiating with other rice-exporting countries.

Impacts of reforms, policies and programs

1. Rice Self-Sufficiency: Yes or No?

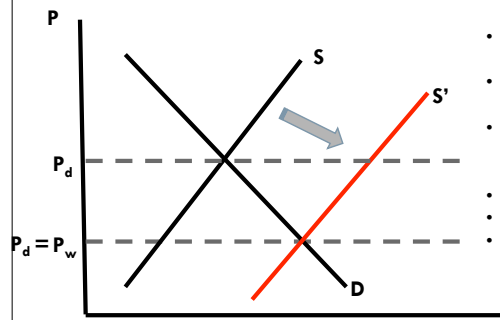
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- **No:**
 - Throws away the gains from trade.
 - Briones [2012]¹ argues that the rice self-sufficiency target is unlikely to be achieved, whether in 2013 or even over the course of the decade (to 2020). The only way to make self-sufficiency possible is to raise barriers to rice imports, which will make rice substantially more expensive.
- **Yes: Political economy argument**

¹Briones, R. [2012] "Rice self-sufficiency: is it feasible?" Philippine Institute for Development Studies Policy Notes No. 2012-12.

Is it still possible to pursue rice self-sufficiency?

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- Planting quality seeds
- Efficient use of fertilizers
- Promoting farm mechanization
- Reducing Postharvest losses
- Irrigation
- R and D
- Extension service

At what cost?

We spend to become rice self-sufficient!

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- We could have imported about 10 to 15% of our rice requirement more cheaply.

Php 141.98 billion – expected cost of the five-year rice program.

Total of 4.524 mln. tons of rice – Expected output of the program

Ph could have imported the quantity at Php 91.38 bln., or Php 50.6 bln. lower.

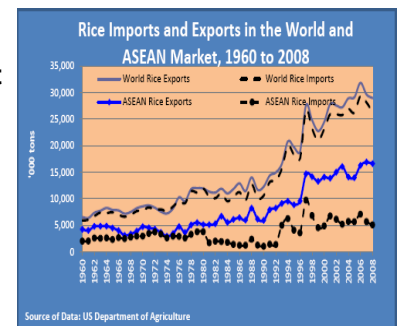
Source: Clarete (2013) "Food shocks: are our coping mechanisms effective?" Presented in *Shocks, Traps, and Nets: Pressing Needs and Present Seeds of Social Protection* (15 Apr 2013).

2. On importation and buffering

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- Our rationale is that trade is thin and unreliable, but our moves along with other rice importers like Indonesia help make rice trade thin.

- ASEAN is a net exporter of rice.



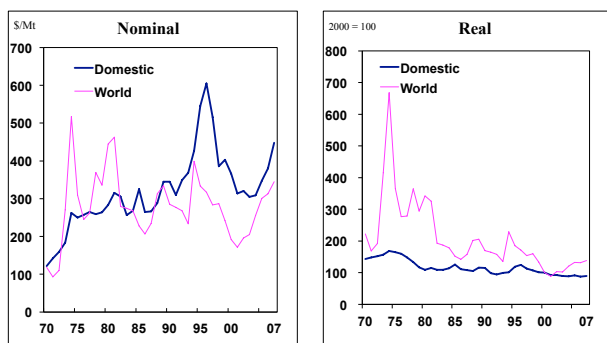
Source of Data: US Department of Agriculture

Source: Clarete (2013) "Food shocks: are our coping mechanisms effective?" Presented in *Shocks, Traps, and Nets: Pressing Needs and Present Seeds of Social Protection* (15 Apr 2013).

Indeed domestic prices has been stabilized...

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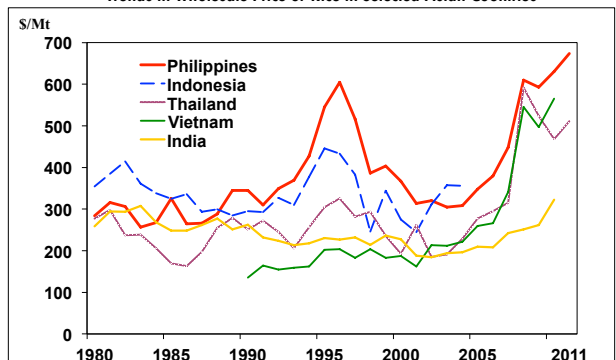
Trends in Domestic and World Price of Rice



Source: BAS, BSP, World Bank, ADB, US BLS.

But domestic rice prices are higher compared with our neighbors!

Trends in Wholesale Price of Rice in Selected Asian Countries



Source: IRR, BAS, BOT, India Ministry of Agriculture, ADB Key Indicators

Furthermore....

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- Importation is done through NFA only!
 - Before engaging in rice business, any individual, group, or corporation must first register and apply for a license from NFA.
- We are at the mercy of those who decide how much rice to import and at what price.

3. Rationale for QR?

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- Extend our quantitative restriction (QR) on rice to protect rice farmers.
- **Two-thirds of them are net buyers!**
- Where there are rents to be had... corruption arise! - **Picking winners.**
- Creates uncertainty – when do we import/ export?

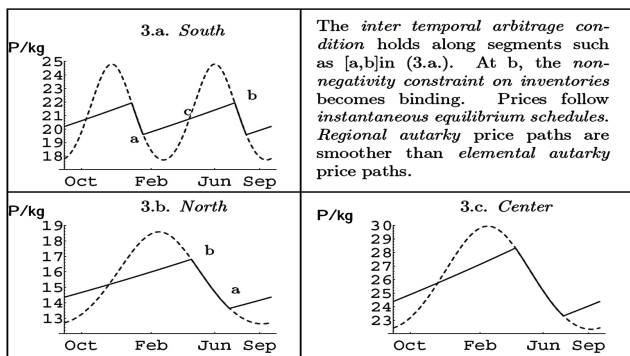
Welfare Cost of the Rice QR (in billion pesos)

	Consumer Surplus ¹	Producer Surplus ¹	Gov't Surplus	Importers' Surplus	Tariff revenue	Tax subsidy ²	Net surplus
2006	-65.39	51.21	-	7.68	-	-	-6.50
2007	-74.05	58.03	-	8.62	-	-	-7.40
2008	43.75	-39.43	-	-7.05	-	-	-2.73
2009	-89.52	69.54	-	9.82	-	-	-10.17
2010	-130.10	91.81	0.00	18.54	27.29	-27.29	-19.76
2011	-81.51	69.40	0.00	3.62	6.69	-6.69	-8.50
2012	-165.99	128.76	0.00	4.98	5.39	-5.39	-32.25
Average							
2006-09	-46.30	34.84	0.00	4.76	-	-	-6.70
2010-12	-125.87	96.65	0.00	9.05	13.12	-13.12	-20.17

Source: Clarete (2013) "Food shocks: are our coping mechanisms effective?" Presented in *Shocks, Traps, and Nets: Pressing Needs and Present Seeds of Social Protection* (15 Apr 2013).

Private Participation?

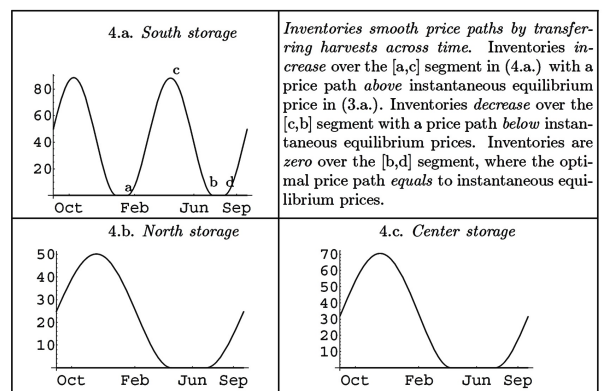
Season-to-Season Price Fluctuations With and Without Storage (No Transportation)



31 price unit: Pesos/kg.

Source: Figure 3 – Regional Autarky price paths, Kratz and Roummasset (2001)

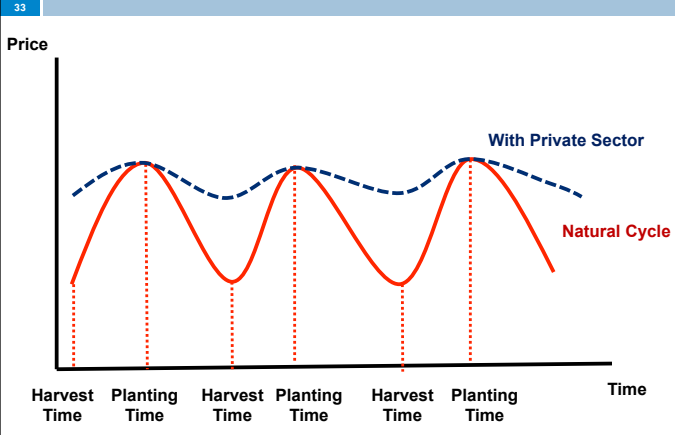
Without Transportation, There Would be Lots of Storage



32 storage unit: 1000 metric tons.

Source: Figure 4 – Regional Autarky storage paths, Kratz and Roummasset (2001)

Where private sector could have participated.



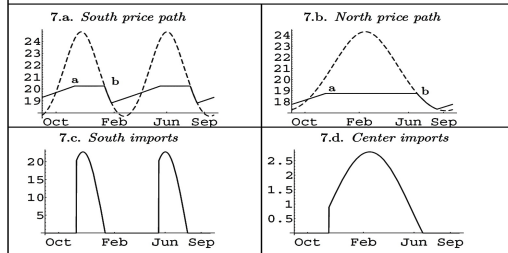
High transport costs

High transport cost hinders the flow of rice to much longer distances.

- For instance, in the Ilocos region rice flow takes place within provinces in the region before rice is moved to other deficit areas (primarily NCR).

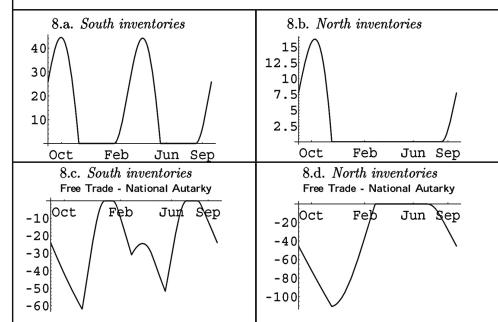
Trade Substitutes for Storage

The constant world price causes a significant price smoothing effect, because of the zero correlation with regional instantaneous demand schedules (dashed lines in 7.a. and 7.b.). Regional optimal price paths first follow the inter-temporal arbitrage schedule with the corresponding regional inventory build-up and draw-down. At point *a* in figures 7.a. and 7.b., regional price paths hit the world price. Because *North* competes with imports in *Center*, the *North* price path is constrained by the world price minus the transportation cost between *North* and *Center*. Imports satisfy regional excess demand in *South* and *Center* (figures 7.c. and 7.d.). At point *b*, imports cease, as regional production and demand match.



Trade (Transport) Efficiently Displaces Most Storage

Imports displace regional storage. As shown in figures 8.a. and 8.b., *South* and *North* store less over shorter periods of time relative to *national autarky*. Figures 8.c. and 8.d. track how imports substitute to storage.



Concluding Remarks

Why don't we change the focus from rice self-sufficiency to our development goal?

- Improve the well-being of the poorest farmers by:
 - making them food secure and
 - increasing their incomes regardless of the crops they plant.

Reversing the Trends for Greater Rice Security

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- Higher investment requirement
- **Policy and governance reforms**
- Improvement in R&D, irrigation, access to information, and education
- Creating favorable investment climate by lowering cost of business
- Mobilizing credit and microfinance
- Empowerment of LGUs and civil society
- Improvement in governance

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THANK YOU!

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