

Competition Reforms in Key Markets for Enhancing Social & Economic Welfare in Developing Countries (CREW Project)

Brief Report of the Opening Meeting and Fact Finding Mission (FFM)

The Philippines, 6-8 May, 2013

The objective of this mission was to get an overall idea of both the staple food and passenger transport sector in The Philippines, to identify the whole set of reforms and from it filter it to competition reforms and what has been the implication (benefits/losses) of such reforms on both the consumers and producers.

Day 1: May 6th, 2013

1. Asec Dante M. Lantin: Department of Transportation and Communication (DOTC)

1.1 As per the discussion with the DOTC, it was found that there are various regulatory agencies with specific functions and regulations in the passenger transport sector. They include Land Transportation Franchising and Regulatory Board (LTFRB): franchise, fares, Land Transportation Office (LTO): driver's license, Metro Manila Development Authority (MMDA): Metro Manila, Local Government Units (LGUs): issue own regulations (tricycles), Police and DOTC.

1.2 Passenger rates are regulated however the cargo rates are deregulated. Moreover, different penalties are charged across the north and south of the country, reflecting lack of harmonization. The fare that the farmers/traders have to give to the operators is not regulated and it is negotiable. High prices charged plus the social tax increases the cost of transportation leading to some increase in the price of agricultural products. There is a need for co-ordination between various agencies involved.

1.3 To determine if additional vehicles are needed in the city a Route Measuring Capacity (RMC) is followed by the LTFRB. However, there is over supply of various modes of transportation (Rail, Bus, Jeepney, tricycle, Asian Utility Vehicles). One of the main reasons for the oversupply is that the license fee for application is very less only 550 Peso. Considering this problem of overcapacity, the application for new franchises is closed and it has been almost 10 years now that there has not been any new operator.

1.4 Foreign participation is subject to 60-40% equity rule (Commonwealth Act 4136 of 1936). This hinders the foreign investment is one of the main reason for less foreign investment in this sector. Specific routes are allocated to various modes of transport and schedule of trips is also assigned however they are not followed. There exists regulation for fitness in terms of limiting the age of the vehicles.

1.5 In the case of buses its 15 years, for taxi 13 years, for Utility Vehicles (UVs) it is 13 years. No decision has been taken for jeepneys as it is a political issue. An **integrated terminal system** should be operational by 2015. Wherein provincial buses will load and unload passengers at centralized terminals constructed in the periphery of Metro Manila.

1.6 Some of the problems in this sector are: **illegal operators, lack of enforcement, highly regulated sector with different agencies imposing different rates of penalty, problem of overcrowding in the**

passenger transport and excess supply leads to congestion, delays in implementation due to change in administration, lack of legal issues and changes in political direction and multiple regulators.

2. Dr. Gilbert Llanto: Senior Research Fellow: PIDS

2.1 Some of the main issues highlighted by him were that the transportation sector is poorly regulated; there is lack of coherence and too many regulations. Some of the cities which could be considered other than Metro Manila were also discussed. They include: Batanga city, Sanfenandro which is predominantly agricultural city, Mindanao, Dabau, Cebu, or Cagayan de Oro. Data availability would be one of the major hindrances in this project for passenger transport.

3. FiloMeno Sta Ana III: Action for Economic Reforms (AER)

3.1 A brief overview was given by Men about the functions and roles performed by AER. We also discussed the participation and role of AER in the CREW project. They would lead the advocacy part and outreach workshops as they have a strong network and experience in the same. However, detailed discussion and check list questions could not be asked due shortage of time. However, PIDS would do another meeting with them.

4. Atty. Danilo L. Bonabon: Department Manager Security Services & Investigation Department (ISSD): National Food Authority (NFA)

4.1 The two main functions of NFA are **price stabilization** and **managing the buffer stock**. There exists monopoly of NFA in importation of rice. The procurement level of NFA is 10%. NFA buys rice at high prices from the farmers and sells it at a lower price. Floor price: P25 and Selling price: P17. Moreover, the support from the Government is minimal in terms of provision of subsidy and providing financial support to the farmers.

4.2 Availability of food grains/imports is decided by the Inter Agency Committee consisting of Department of Agriculture, Department of Finance, and National Land Bank etc. 31st December of every year they estimate and determine the volume of imports. Rice business is a free enterprise in the Philippines.

4.3 There are about 120,000 grain retailers (20% of which are also millers) and it is through contract milling/bidding that the millers buy paddy. Millers have their own fleet of trucks. Agriculture Commodity Exchange System has been started for rice but it is not being practiced. The level of private participation is high (around 85%) and licenses are issued for their registration. Some of the benefits of private participation include: stable prices and improved quality of rice. One glaring feature is that in Philippines rice business is nationalized; only Filipinos can engage in this business.

4.4 There exists a contradiction, the NFA claims there exists fair amount of competition in the staple food sector, however a representative from the Farmers Association at the Opening Meeting stated that there is lack of competition in this sector because of the following reasons: **High input prices, high transportation cost, lack of access to funds and inadequate capital, policy of land conversion and exploitation of farmers by the traders**. Also, NFA stated the existence of co-operative farming; however farmer's association claim that only 1% of co-operatives are alive and farmers are not capable of managing such co-operatives.

5. Opening Meeting of CREW project

5.1 Welcome and **Opening remarks** was given by **Dr. Josef T. Yap**, President, PIDS and **Atty. Geronimo L. Sy**, Assistant secretary and Head, Office for Competition (OFC), Department of Justice.

5.1.1 Dr. Josef did highlight the importance of CREW Project in the Philippines. Poverty, joblessness and low investment rate are some of the main problems in the country because there is not enough competition in sectors such as power, shipping, transportation etc.

5.1.2 Geronimo had two dimensions to his opening speech. One was the perspective talk and the other was his personal experience. There exists lack of competition due to the political scenario and lack of good politicians and good governance. Issue of Consumer protection was also highlighted. Consumers are a driving force and there is weak consumer protection in the country. Though consumer protection is embedded in OFC, how they can increase consumer welfare in the Philippines is a matter of concern.

5.2 The next session was the presentation made by **Pradeep S Mehta**, Secretary General, CUTS International about the CREW project and its implementation in the Philippines. This presentation included the goals, objectives and anticipated outcomes, country-level activities and timeline of Phase I.

5.2.1 **Mr. Filomena** commented after the presentation that competition is a means to achieve economic development. Transportation can be improved only if they get rid of surplus modes of transportation, rationalize the busses and change the concept of public utility.

5.2.2 **Dr. Erlinds M. Medalla**, PIDS Senior Research Fellow, stated that the line between competition and regulation is fuzzy. Measuring benefits would be a challenge. Moreover, there is regulation in this sector but what is lacking is good regulation. A healthy mix of policies is needed to arrive at a framework for optimal allocation.

5.2.3 **Geronimo** pointed out that PIDS along with CUTS should focus on matrix of linking north and south terminals in the case of passenger transport and an intermodal approach.

5.3 A brief overview of the **Staple food Sector in the Philippines** was given by **Dr. Majah-Leah V. Ravago**, University of Philippines School of Economics, Assistant Professor. **Rice** is the staple food of Filipinos and accounts for about 25% of the food expenditure of the poorest 30% of the population. Thus, price of rice has a significant impact on the well-being of the Filipinos.

5.3.1 Moreover, Philippines imports majority of rice to meet the local demand. The presentation mostly focused on food security and issue of self-sufficiency. In order to protect the farmers policy of quantitative restriction is practiced. Two main problems of the farmers include: inadequate capital and high transportation cost.

5.3.2 Private participation in the rice sector could help in stabilize the price of rice and avoid season to season price fluctuations. Moreover, the concept of super-market revolution is upcoming in the Philippines wherein the farmers directly sell the produce to the retailers.

5.3.3 Some of the **suggestions** made during the presentation are: high investments required, policy and governance reforms, improvement in R&D, irrigation, access to information and education, creating

favourable investment climate by lowering cost of business, mobilizing credit and microfinance, empowering local government units and civil society and finally the need to being about an improvement in governance.

5.3.4 During the open forum, **Edwin Paraluman**, President of Phil Farmers Advisory Board (PFAB) highlighted some of the main concerns of the farmers. Policy of land conversion is a matter of concern as the size of farmland is reducing. Because of very low prices of imported rice from Thailand and Vietnam, farmers in the Filipino suffer and cannot compete because of high cost of production, high input prices. Lot of importance was given to mechanization, but government did not given any subsidies to the farmers for the inputs. Farmers are also exploited by the traders.

5.4 Followed by this was a presentation on the brief overview of **Passenger Transport** made by **Gilberto M. Llanto**, Senior Research Fellow, PIDS. He presented the structure of the passenger transport market in the Philippines, discussing the modes of transportation in both road and railways, and statistics on passenger traffic and motor vehicles for hire. He also discussed the main legal and regulatory provisions pertaining to the passenger transport sector, including as well the law setting the rules for private sector participation in the sector. In addition, he discussed major reforms undertaken and performance based on available data and literature, and consumer and producer concerns.

5.4.1 In the open forum, **Matthias Niggel** of GIZ shared his observation concerning enforcement of regulations in the Philippines. On some instances, he observed that the local government officials know what they want or need to do but would not do it so as not to disappoint the voting public (avoiding ‘political suicide’). Such local officials wait for someone or an organization to sue/pressure them, thus giving them reason to implement/enforce the law or regulation.

5.4.2 Metro Manila Development Authority (MMDA) Undersecretary **Corazon Jimenez** shared information on the latest activities of the agency. MMDA recognized the need to have a massive transport system, considering the traffic congestion in Metro Manila. The agency has started the integrated transport system in Metro Manila, and is expected to be fully operational in 2 years.

5.4.3 **Usec Jimenez** also shared the improvements made in the other major thoroughfares in Metro Manila and infrastructure projects to address the congestion problem. She added, however, that the behavior of motorists and passengers is also a factor, not only infrastructure. There are rules, laws and policies that are not followed.

5.4.4 **Dr. Sheila Siar of PIDS** pointed out that there seems to be a lack of clear transport regulation for instance, on the use of old vehicles. However, there is a regulation pertaining to the lifespan of vehicles. (This has been spelled in detail in the meeting with DOTC).

The closing remarks were made by Rafaelita M. Aldaba, Vice President, PIDS.

-Proceedings of meeting ends-

6. Atty. Geronimo L. Sy, Assistant Secretary, Office for Competition (OFC), Department of Justice (DOJ)

6.1 Geronimo was very enthusiastic about the CREW project and showed his inclination to support the same. He further indicated that CUTS along with OFC should have publications/newsletters. For the milling market, there is no cartelization; however the problem lies in the inefficiency of the NFA. He also emphasized on that the political economy of a country plays a major role in bringing about reforms. Red-tapism and exploitation of Small and Medium Enterprises (SMEs) is a matter of concern.

Day 3: 8th May, 2013

7. Gerald Bernabe C. Calderon, Senior Trade and Industry Specialist: Bureau of Trade Regulation & Consumer Protection (BTRCP)

7.1 The main functions of the BTRCP are to formulate and monitor programs relating to consumer protection, to see the effectiveness of policies and laws and monitor and handle consumer concerns. But the BTRCP does not deal with the staple food sector. They are mainly focusing on the processed food. They do not focus on passenger transport sector.

8. Asec Virginia P. Torres, Assistant Secretary: Land Transport Office (LTO)

8.1 She directed us to the team which looks after the projects to answer our queries. The main functions of LTO include issue of driving licenses and registering motor vehicles. However, the concerned person was more focusing on the issues of LTO as such which was not in line with the CREW project.

9. Ronaldo F. Corpus, Board Member: Land Transportation Franchising & Regulatory Boards (LTFRB)

9.1 All the public sector units are privately owned. A monopoly did exist in this sector, however over the years there have been more players in this market. During the late 80s-90s few of the Metro Manila Transit was State Owned Enterprise (SOE), but since the spare parts were imported, and could be repaired if damage thus SOE did not last for long. There are 3 to 4 bus companies operating in one route. Price fluctuations in the passenger transportation depend on the fuel price predominantly. Public hearing and petitions are undertaken to decide whether to increase the price or not. There is a regulation against overloading of passengers in the jeepneys, however it is not followed and overcrowding is seen in the jeepneys.
