

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

**1st National Reference Group Meeting-Report, July 30, 2013, The Philippines**

### **Welcome Remarks**

The Philippine Institute for Development Studies (PIDS) President Gilberto Llanto welcomed the participants and congratulated the organizers of the National Reference Group Meeting.

He regarded the meeting as a venue of exchanging ideas among stakeholders on research that the PIDS and Consumer Unity & Trust Society (CUTS International) will be conducting.

Dr. Llanto disclosed that PIDS and CUTS International have a joint three-year project titled “Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries” (hereafter CREW).

### **Opening Remarks**

Office for Competition of Department of Justice Atty. Ruth Tan delivered a keynote address on behalf of Asec. Geronimo Sy.

Atty. Tan recognized that CREW Project’s focus on rice and transportation studies complement with the major functions of Office for Competition (OFC), which are to undertake studies on issues related to competition and implement effective measures for markets to become competitive, as well as transparent and accountable for the general public.

She also emphasized that OFC is supportive for the enactment of Competition Law in the Philippines and expressed her confidence on it by the availability of resources, regulations, and policies in the country of pushing competition reforms.

Atty. Tan underscored the importance of cooperation among stakeholders and looking forward to the success of CREW Project.

### **Keynote Address**

CREW Project Advisor Shyam Khemani was confident that the CREW Project will provide adequate trainings for designing competition reforms conducive for the development of Philippine economy.

Khemani described that competition is multidimensional and should not take narrowly as rivalry of various firms. He said the focus of competition is to assess the status of competition in the context of Philippine policy framework and business environment. Khemani was also looking forward to the recommendations of participants for enhancing competition in the country.

He regarded competition law as one of the many instruments of promoting competition, and there are other policies and regulations which need to be addressed. He also disclosed that the project also focuses on identifying other issues on competition, not limiting only on staple food and transportation sectors.

## **Presentations**

### **Project Outline, Progress & Planned Activities (Phase-I): Dr. Rafaelita Aldaba, Senior Research Fellow, PIDS**

Dr. Rafaelita M. Aldaba, senior research fellow from PIDS, formally introduced CUTS and the CREW project to the NRG members. Discussing in brief the importance of competition, she said that quantifying the impacts of competition reforms is essential in analysing consumer welfare as well as benefits to the producers. She provided important indicators in assessing consumer welfare impacts. These are access to goods and/or services, quality and price, choice, price changes, and savings in time for the consumers. As for producer benefits, some of the vital indicators are access to essential services (e.g. power and utilities), mobility of goods and services, predictability of regulatory actions and cost savings. In addition, fair market processes, level-playing field and transparency in market are good indicators of producer welfare.

Dr. Aldaba then went on to discuss the goal and objectives of the three-phased project. She mentioned that the broad objective is to assess the state of competition in rice and passenger road transport sectors. Meanwhile, the general goal is to demonstrate measurable benefits from effective competition reforms. She then presented the three phases of the study including major activities on each phase. After this, she specified the key agencies involved in the country study particularly PIDS and Action for Economic Reform (AER), NRG and various national entities.

### **Overall Diagnostic Country Report (DCR) Methodology: Kristen Harkins, Associate Advisor, Nathan Associates Inc.**

A detailed presentation of the research methods to be applied for the country reports was presented by Ms. Kristen Harkins, associate advisor from the Nathan Economic Consulting India. One of the specifics she mentioned is the use of the DFID Competition Assessment Framework in coming up with diagnostic reports that will provide detailed background on the market structure of the two sectors. Furthermore, “Porter’s Five Forces of Competition” will be used to recommend industries’ strengths and weaknesses. After properly defining the market structure, she said the next step is to identify competition enhancing reforms. Regarding what reforms to adopt, she identified the criteria based on the OECD’s Competition Assessment Toolkit. After this, she presented the framework for impact analysis which requires properly defining the relevant market through qualitative analysis and identifying stakeholders that could be affected by the reforms. Ms. Harkins underscored the importance of mapping relevant stakeholders along the supply chain which will clearly illustrate the particular stage where the impact of a particular reform is likely to have impact.

In doing so, a pertinent research hypothesis should assess what extent a reform measure affected the competition in the market, and how it affected consumers and producers. She then gave some

potential hypotheses both for the staple food sector and passenger transport sector. She added that assessing the counterfactual is also important.

To quantify consumer welfare and benefits to producers, Ms. Harkins enumerated potential variables and data to be collected. For example, for the consumers they will look at access to goods and services, quality, price changes, choices. While for sector specific, she said they will look at price data, production costs, quantities produced and sold, availability of substitute products, changes in health outcomes, and number of distribution channels for staple food (rice) sector. And for the bus transport, they will gather data on price (fare), costs of production, frequency and number of buses, number of passengers, available roads and infrastructure, substitute products and their details, number of players, changes in number of fatalities and injuries, capacity of bus, and length of bus routes.

In fulfilling this task, the researchers can get data from secondary sources such as government records and censuses, business associations, and local research institutes. If needed, the researchers can also conduct primary data collection through surveys or focus group discussions, but cautioned on resource constraints. For primary data collection, Ms. Harkins recommends that a single methodology across countries should be adopted. She said implementing probability sampling particularly stratified random sampling with clustering can be ideal for the study. She then enumerated possible quantitative analysis techniques as well as qualitative approaches.

#### **Alignment of DCR Methodology in Staple Food Sector: Dr. Roehlano Briones, Senior Research Fellow – PIDS, Sector Expert**

Dr. Roehl Briones presented the study plan for the Philippine rice sector. He enumerated the major parts of the proposed paper based on the requirements outlined in the DCR. After describing his concept of competition that will define and limit the scope of the paper, he pointed out that the study primarily aims to assess the impact on producers and consumers of competition and the forms through which it is manifested in government. He also added that an extensive background on rice production, supply and utilization trends, as well as trade and price patterns will also be presented to establish the context in which the structural system on rice was shaped and developed.

Dr. Briones identified three (3) major sets of government policies that are directly relevant to the Philippine rice sector:

- Presidential Decree 4 Charter of the National Grains Authority, which is the basis for the creation of the National Food Authority
- Agricultural Tarrification Act, which provides for NFA's import monopoly and quota restrictions
- Price Act of 1991

The first two are complimentary laws, supportive of NFA's twin mandates of food security and price stabilization of staple cereal. It does these through (1) Grains sector regulation; (2) Paddy procurement; (3) Distribution of NFA milled rice and (4) Importation. Since 1972, and even after the country's accession to WTO, the government holds monopoly on rice importation. Dr.

Briones also enumerated eight supply chain activities under which NFA is able to regulate rice supply in the country. From warehousing activities to acquisition of post-production equipment, interested parties must secure government permits through NFA-approved application forms before undertaking any of the eight identified activities. Dr. Briones admitted that the layers of regulations involved may cause dismay to some, particularly those interested in the rice business.

Dr. Briones also explained that recent policy reforms are largely in the foreign trade side. Since 1994, when the Philippines acceded to WTO, the country committed to a minimum import access quota of about 350,000 tons of rice at 40 percent tariff rate. Shipments of rice importation above the specified volume will be subjected to 50 percent tariff or higher. Dr. Briones admitted that reconciling this with the country's rice self-sufficiency drive may prove to be a challenging but interesting issue. He also revealed that since the 2000, the NFA has already provided for the allocation of import quotas among farmers' associations and the private sector. This has become more pronounced recently because of the savings that the government derives from not having to market so much rice, leaving it to the private sector to do the importation. It must be noted however, that while recent reforms allowed the participation of the private sector in rice importation, the NFA still holds virtual monopoly on rice imports since it determines how much the private sector should import yearly. Imports of rice are made through open tenders.

Dr. Briones presented a snap shot of the supply chain for rice and enumerated the various stakeholders involved in each segment of the rice supply chain. Farm sizes in different parts of the country vary, but he put the average farm size to be roughly around three hectares. What seems apparent, according to Dr. Briones, is the government's presence in almost every stage of the supply chain. Relevant insights from past studies were also reported. These include findings on domestic supply chain, the role and impact of NFA on rice prices, detailed case studies on supply chain analysis among others.

With this as a backdrop, Dr. Briones expressed his plans to do an ex-post analysis as part of the study. A description of the domestic supply chain and policy impacts will be undertaken through a careful examination of secondary data, particularly that of the Rice Mills Survey and other additional data from the NFA. Primary data will be analyzed as well, using data from a case study of supply chain. On the whole, Dr. Briones admitted that the approach may seem highly unconventional considering it has not been covered in past literature, it is similar to an investigative journalism but with research element. The strategy is to look at new type of chain. From a major urban retail center the study will trace the entire segment, covering all the major stakeholders along the value chain all the way back to the production area, which he suspects is in Nueva Ecija. Hence, if there is indeed a rice cartel, it will likely come out in the study. To further validate these assumptions, interviews with relevant stakeholders and focus group discussions will also be undertaken.

In the final analysis, the paper, according to Dr. Briones will be directed towards analyzing and reviewing 'low-hanging fruits'. These include the repeal of NFA rice import monopoly and accession to the WTO rule on competition policy and provision on tariffication. The study will likewise identify problem areas that may be addressed by competition policy, priority interventions as well as knowledge gaps for future research.

## **Open Discussion (Moderator: Mr. Filomeno Sta. Ana, AER)**

### **Mr. Raul Montemayor, National Manager – Federation of Free Farmers**

Mr. Montemayor explained that if the project team wishes to sell the result of the study to policymakers and stakeholder, it is going to be very difficult to focus on the issue of tariffication. He narrated that when the NFA loosened the control of imports by giving shares to the public, rice smuggling became more rampant and there were huge recycling of permits that even legitimate traders complained and asked NFA to take back control of imports. Although liberal importation rule would be good for consumers, Mr. Montemayor argued attention should also be given to other stakeholders, like traders, millers and also the farmers, who are likely to be affected if rice importation becomes liberalized. Contrary to popular belief, Mr. Montemayor claimed there is actually stiff competition in the domestic rice industry despite NFA control. A lot of millers have also modernized milling equipment and have upgraded their distribution channel. In as much as these have contributed to market inefficiency, he also recognized there are still a lot of inefficiencies in the market that is causing domestic price of rice to jack up. He attributed this to the high cost of transporting rice from the farms/paddy to the market as well as lack of needed infrastructure. He pointed out that there are a lot of less sensitive issues that are just as important, the study may wish to examine these rather than the tariffication issue which is too hot to handle and could backfire.

Dr. Briones clarified that tariffication is a ‘low-hanging’ fruit and this has been considered in other studies before. Although he is not totally opposed to other issues, he opined that these are ‘higher fruits’. Furthermore, he also insisted that the current structural arrangement is not totally efficient and the supply chain analysis could help shed light on improving efficiencies along the chain especially in regard to advancing competition. He was also quick to explain that even with fully liberalized trade, complete convergence of domestic and global prices cannot be expected.

### **Atty. Anthony Abad, President and CEO, TA Trade Advisory Group**

Atty. Abad admitted that even though he headed NFA in the past, he found the whole government intervention in the rice market absurd. From an academic perspective, the study could be an opportunity to de-politicize rice. He wanted to know the benefits can be had if the rice sector is de-politicized. He asked if there is really a point in having a state monopoly on rice importation. He also wanted to find out if this will redound to lower rice prices in the domestic market.

Dr. Briones concurred and argued that government interventions borne out of the 1970s seem obsolete now and there may be a need to look for more appropriate interventions for 2013.

**Alignment of DCR Methodology in Passenger Transport Sector: Dr. Gilberto Llanto, President – PIDS, Sector Expert (Presented by Ms. Debbie Gundaya)**

Ms. Gundaya presented the methodology for the Philippine DCR on the passenger transport sector. She started by discussing the main structure of the analysis: identification of components of competition reform; institutional responsibility in reform implementation and actual performance review, looking at coordination issues among concerned agencies (DOTC, LTO, LTFRB, MMDA) and local government units (LGUs); impact of competition reforms on market structure; impact of competition reform on consumer and producer welfare; assessment of consumer and producer concerns; and further suggested reform initiatives and likely benefits.

She discussed the methodology in detail, divided in four parts: desk based research, field work, analysis and report writing. The desk based research involves literature review, hypothesis formation, collection and analysis of secondary data, and planning and preparations for the field work. Fieldwork will involve data collection, FGD, in-depth interviews, and the possibility of a perception survey on producers is also considered. The analysis part will be both quantitative and qualitative, and will look at impact of reform, trends/changes over time, and comparisons across cites/routes.

Ms. Gundaya explained the framework for the analysis, looking at several aspects/facets of consumer and producer welfare. For producer welfare: ease of entry for operators; freedom and transparency in operational decisions; competitive neutrality; predictability of regulatory actions, government intervention; ease of doing business; access to essential services. For consumer welfare: availability of bus transport; price setting mechanism; price dynamics; price-quality interaction; services available; environmental standards; passenger safety standards; time delays due to traffic congestion. She also presented the possible study areas, intra- and inter-city bus routes in Manila in particular.

**Open Discussion (Moderator: Dr. Adora Navarro, PIDS)**

**Mr. Rene Santiago, Foundation for Economic Freedom**

Mr. Santiago noted that the study seemed to be centered on Manila bus transport services. He said a different “flavor” can be observed from the perspective of provincial operations. Further, he opined that the study may not need to conduct a survey because this has been done before in WB, JICA and ADB studies on passenger transport. He mentioned as an example a recent (2010 or 2011) survey on Metro Manila transport – bus, jeepney, which has a lot of information (travel time, profitability, etc) that can be analyzed. He also mentioned a study he had done in 2006/07 which looked at bus supply and demand situation in EDSA. An ADB nationwide study with a passenger (bus) transport survey was also done about 20 years ago. In his opinion, the Ilocos corridor and the Cainta Rizal-eastward route as the best sectors/routes.

He also shared some findings from his previous studies. In a 2006 study there were 120 bus operators in Metro Manila (he added that now it has increased to around 600). He further shared that many years ago, in 1977 and 1988, many operators (suppliers) disappeared when the bus fare was lowered. He also shared findings on the difference in bus fare prices between Luzon and

Mindanao (Mindanao charged lower fares, although fuel cost should have been higher and the LTFRB had officially set the fares higher).

In other urban transport studies, such as the one by GTZ, he said one may gather that two or three large competitors would be needed for the sector to be efficient. He shared that in the last 20 years large bus operators have stopped operation, and Manila now has around 600 bus operators.

From these insights, he suggested that a good question for the study, as far as analyzing competition is concerned, is to determine whether the consumers, given the many bus franchises/companies in Metro Manila, can identify the supplier (distinguish the good from the bad supplier).

**Engr. Sheila Javier, University of the Philippines National Center for Transportation Studies (NCTS)**

Ms. Javier shared that there are studies on Mega Manila public transport (different routes, bus population, issues), on transport planning support system, and other extensive studies, which can be viewed at the UP-NCTS website. There are also other ongoing feasibly studies and surveys being conducted. She suggested that the team may also be interested to look into CNG and hybrid buses.

**Dr. Adora Navarro, PIDS**

Dr. Navarro asked why urban transport is not progressing and issues are not sufficiently being addressed, despite all the studies that have been done previously as shared by the participants.

**Mr. Alejandro Yague, Provincial Bus Operators Association of the Phils (PBOAP)**

Mr. Yague shared a bit of history on the bus transport sector. In the 1970s, there were less than 20 large bus operators in Metro Manila and each had a designated route. In 1987, this system (monopoly) in bus operations was seen to be bad. The sector was then liberalized-- the government opened franchising in the sector (franchise/license allowed even for just one unit/bus). One of the consequences of this is that drivers and their aides now received salaries based on "boundary" system. [Note: in a 'boundary' system, the driver/aide is expected to hand over a fixed amount of money (from the day's earnings) to the bus owner/operator, and whatever is left is the driver/aide's compensation/remuneration (somewhat commission based).].

Mr. Yague shared that before 1987, there were no dilapidated buses, and the drivers and aides wore uniform and were paid well (hourly)-with social security benefits, unlike now (post 1987). He added that after liberalization in 1987, the big companies went bankrupt; one of the reasons was the labor union issues.

He also shared examples of good bus transport services in the province, where there are two to three large bus operators and in-territorial responsibility is maintained. The Metro Manila city buses, he said, are suffering because they do not have identities. He added that the provincial bus

sector is doing well – vibrant and competitive, and he hoped the government would not impose regulations that would hurt businesses in the sector (he mentioned the impending reform in provincial-to-city bus routing via the integrated terminal system).

**Cdr. Mitzie S. Campo, Department of Transportation and Communication (DOTC)**

Ms. Campo shared that the DOTC is also looking into other transport sectors such as the ports (issue on congestion) and the rail system, which also affect the flow of traffic in Metro Manila.

**Ms. Kristin Harkins, Nathan Associates, Inc.**

Ms. Harkins suggested that the study also define the current market structure and the relevant market (also substitutes). Aside from the reform mentioned in the presentation, she suggested that other reforms in the transport sector be included in the study as well. She also strongly suggested that the team conduct a perception survey, as the results of previous studies/surveys may not be able to answer the research questions of the current study.

Ms. Gundaya responded saying that the current market structure and relevant market structure will be included. And that memorandum circulars and regulations from the relevant agencies that concern passenger transport competition issues, including coordination issues, will be looked into. The perception survey will be discussed.

**Mr. Rene Santiago, Foundation for Economic Freedom**

For the study, Mr. Santiago suggested that it give additional attention to consumer welfare, as institutional/regulatory and market structure is easy to identify given the previous studies. Furthermore, Mr. Santiago shared that the agencies (involved in passenger transport) do not coordinate. More so it becomes difficult to police 60,000 vehicles. He added that the government is focused on fare issues rather than the quality of service provided by bus companies.

**Mr. Raul Montemayor, Federation of Free Farmers**

Mr. Montemayor opined that perhaps the problem is not that there is no competition but there might be too much competition in passenger transport in Metro Manila.

**Ms. Raksha Sharda, CUTS International**

Ms. Sharda invited suggestions from the participants on the transport routes that should be covered by the study, based on the possible routes presented by Ms. Gundaya.

It was suggested that the route Quiapo-Fairview and Baclaran-Monumento are good case studies for intra-city transport. On the other hand, Batangas-Cubao/Pasay was said to be a good inter-city case because it is a commuter route and a major part of the RORO (inter-island, passenger and cargo) route as well (via Batangas port).

### **Closing Remarks: Ways Forward— Mr. Udai Mehta, CUTS International**

Mr. Mehta firstly thanked the participants for the rich discussions. He informed everyone that the NRG meeting in India was just concluded, and now the Philippines have completed its first NRG meeting. Next will be the NRG meetings in Zambia and Ghana. What will be done is to get a stock of the meetings' proceedings and comments and suggestions from the participants as these will be important inputs for the project. In the NRG meeting in Manila, the insights from the discussions will also be important inputs for localizing the DCR for the Philippines. The project may look academic to some extent but the approach is to gather evidences for the project to impact on policy making on the next phase. He also emphasized that the support from the NRG members is critical to successfully implement the project. Finally, he thanked the NRG members, local partners (PIDS, AER), Dr. Khemani, and GIZ and DFID for the support.