

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

## REPORT - OPENING MEETING THE PHILIPPINES - May 6, 2013

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### I. Opening Remarks

1.1 In his welcome remarks, **Dr. Josef Yap**, the president of the Philippine Institute for Development Studies stressed that competition policy should be at the heart of strategies to enhance investments and address poverty. He welcomed the CUTS-CREW group and expressed enthusiasm about the collaboration of PIDS and CUTS on the project.

1.2 **Assistant Secretary Geronimo Sy** of the Department of Justice Office of Competition related the importance of competition policies to the impending national mid-term election. The dominance of political dynasties and lack of competition in the political system creates an environment that is prone to bad governance and does not give rise to the best leaders. The Department of Justice Office of Competition, he stressed, is committed to safeguarding consumer welfare. He urged PIDS to ensure that policy research becomes living documents that are translated into policy actions. He emphasized the need to address the key reforms in the areas of transportation, electricity and communication with the goal of safeguarding the welfare of the smallest consumers.

1.3 **Mr. Pradeep S. Mehta**, Secretary General of CUTS International presented an overview of the CREW Project. He outlined the goals, objectives and anticipated outcome of the project, highlighting the planned activities and timeline for the Philippines. The Philippines is one of four countries (Ghana, India, the Philippines and Zambia) that were selected to implement the project over a period of three years.

### II. Session I Presentation

#### 2.1 Overview of the Staple Food Sector in the Philippines (Dr. Majah Ravago, UPSE)

2.1.1 **Dr. Majah Ravago** of the University of the Philippines School of Economics presented brief overview of staple food sector in the Philippines. Below are the highlights of the discussion.

##### 2.1.2 Background

- The Palay sector accounts for about 25% of total crop GVA and 20% of agriculture GVA. As such, the palay sector is the most important source of livelihood among small farmers and reflects the growth trend of the agriculture sector.

### 2.1.3 Market and Distribution Network

- Rice is the Filipinos' staple food. It accounts for 25% of food expenditures of the poorest 30% of the population. Half of the country's rice production occurs in Luzon, particularly regions I, II and III. The major rice producing provinces are: Nueva Ecija, Isabela, Pangasinan, Cagayan and Tarlac. Many of the other provinces do not produce rice; they rely on rice imports from the rice-producing provinces and rice imports from abroad. Rice traders (wholesalers/wholesaler-retailers) play a dominant role in distributing rice from the surplus areas to the deficit areas.
- The National Food Authority (NFA) is mandated to stabilize the price of rice. NFA builds up the government's buffer stock through domestic procurement and/or rice importation. An Interagency Committee (IAC) chaired by the Department of Agriculture (DA) determines the supply-and-demand situation and recommends importation of rice in the event of a deficit. Rice importation has also been used to help even out supply and stabilize prices during lean months.

### 2.1.4 Policies, Laws and Programs

- The current policy on rice and agriculture is embodied in the Agriculture Sector Goals and Strategies under the Medium Term Development Plan (2011-2016). The goal of the MTDP is to achieve a competitive, sustainable and technology-based agriculture and fisheries sector. It aims to improve food security and income, increase resilience to climate change risks, and enhance policy environment and governance.
- *Rice Self-Sufficiency*  
Rice Self-sufficiency has been a major objective in all agricultural programs since the early 1960s. In 2010, the DA launched a 2011-2016 Rice Self Sufficiency Roadmap (which has now evolved into the Food Staples Self-Sufficiency Roadmap). The original aim of the current administration was to be self-sufficient (imports = zero) by 2013. The target timeframe has now been pushed back to 2014.
- *Price Policy*  
The rice price policy aims to maintain a high price for producers and at the same time keep a low price for consumers. To achieve these goals NFA procures and distributes rice, maintains logistical facilities for buffer stocking, and has a monopoly over rice importation.
- *Trade Policy: Rice Quantitative Restriction (QR)*  
Along with Japan and South Korea, the Philippines used the "special treatment" provisions to restrict the volume of rice imports under the Uruguay Round of the GATT-WTO. The Philippines extended its special treatment (QRs) to 2012. In 2012, the Philippines appealed to extend the QRs for another 5 years. At present, the appeal is awaiting decision and the Philippines is negotiating with other rice-exporting countries.

### 2.1.5 Impacts of Reforms, Policies and Programs

- The main rationale for rice self-sufficiency is the political economy argument: rice is the country's staple food and is the major source of income for the country's farmers. However, arguments against this policy abound. By imposing QRs, the country is missing out possible gains from trade. Recent studies show that it is highly unlikely for the country to achieve rice self-sufficiency, whether in 2013 (current government target) or even 2020. The country would have to raise barriers to rice imports and thus make rice substantially more expensive. Studies also show that this policy is very costly. The country could have imported 10 to 15% of its rice requirement more cheaply. The expected cost of the five year rice program is PhP141.98 billion.
- *Overall impact of rice price stabilization policy*  
Domestic rice prices indeed been stabilized. But domestic rice prices are higher compared to our neighbors like Indonesia, Thailand, Vietnam and India. Huge welfare losses are incurred by the rice QR amounting to PhP 32.25 billion in 2012.

### 2.1.6 Private Participation

- If the market is left on its own, the private sector could have participated by smoothing out the fluctuations in the natural planting and harvest cycle through storage and arbitrage. The major hindrance is high transport cost, which makes the flow of rice over long distances difficult.

### 2.1.7 Conclusion

There is a need to change the focus of policies from rice self-sufficiency to development and improvement of the well-being of the poorest farmers. This can be done by making them food secure and increasing their incomes regardless of the crops they plant. The major recommendations for greater rice security are as follows:

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

### Discussion

- Dr. Danilo Israel (Senior Research Fellow, PIDS) emphasized that rice is a well-studied sector. The issues of rice self-sufficiency and food security have been at the forefront of agricultural policies. One of the major policy issues remains to be what to do with the rice stabilization policy and the National Food Authority.

- Mr. Edwin Paraluman of the Philippine Farmer Advisory Board raised the following concerns:
  1. Farmlands are now shrinking due to massive land conversion from agricultural lands to subdivisions.
  2. If QRs are lowered/removed, the government must ensure that there are safety nets for farmers who would not be able to compete with much cheaper rice coming from abroad.
  3. Local rice is relatively more expensive because of high production cost.
  4. Other problems include the persistence of smuggling and instances when farmers are exploited by traders.
  
- Mr. Noel de Luna of the Department of Agriculture commented that rice self-sufficiency does not necessarily mean zero imports. The country has to achieve its goals within the context of its international obligations.
  
- Mr. Matthias Nigel of Partnership with the Private Sector mentioned that traders are not always the bad guys. They act as consolidators and thus have an important role in the distribution of rice.

#### Questions from the floor

1. Where are the problems in the supply chain?

The main problem lies in transportation.

2. Clarify: farmers are net buyers (is this for rice or all crops/produce?)

Farmers are net buyers of rice and produce in general.

3. Why is the Philippines using QRs instead of tariff? (Japan and Korea uses high tariffs).

The government imports rice to fill the gap in case there is a supply shortage. With QRs, the government retains control of the volume of rice imports.

4. How successful are farmers' cooperatives in the rice sector?

Dr. Linda Medalla of the PIDS mentioned that based on past studies about cooperatives in the agricultural sector, the success of farmers' cooperatives has been limited. There are only a few cases where cooperatives have been sustained and successfully operated. Another commentator added that in general, farmers do not have the capability to maintain and operate a cooperative on a long-term basis. They need education and support in order to be sustainable.

### **III. Session 2 Presentation**

#### **3.1 Brief Overview of the Passenger Transport Sector in the Philippines (Dr. Gilberto M. Llanto, PIDS)**

3.1.1 **Dr. Gilberto Llanto** 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. (see powerpoint slide for details)

### 3.1.2 **Open Forum:**

1. **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. 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.

2. **Mr. Rene Santiago of Foundation for Economic Freedom (FEF)** shared that in the past there were efforts to reform the passenger transport market in the Philippines. There were attempts to reform the regulatory system, and a bus consolidation program was introduced in Metro Manila in 1976 but was abandoned after about 10 years. As for Dr. Llanto's presentation, he suggested that since the project is on competition, the paper may consider determining whether there is free competition in the passenger transport market or if there is over-regulation.

4. **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. **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. She inquired if there is a regulation pertaining to the lifespan of vehicles. To which, Alex Macalaba of LTFRB responded and informed everyone that there is a regulation that does not allow registration of more than 15 year old buses and 13 year old taxis. In general, public utility vehicles have a life span of 15 years.

6. **Rodel Meris of DOJ-OFC** gave several suggestions. One is for the research to have a working definition of congestion and traffic. He said that it is not only about the number of vehicles but also the concept of travel time (e.g. from one city to another) that would be relevant and useful in coming up with a reasonable set of expectations. As for the presentation, he pointed out that there might be some "colorum"<sup>1</sup> public utility vehicles (PUVs) that are not accounted for in the statistics on registered vehicles for hire. He added that there seems to be too much franchise given

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<sup>1</sup> Colorum refers to illegal PUVs consisting of busses, taxis, FXs, jeepneys, including tricycles.

to PUVs. Furthermore, he suggested that it may be relevant to also identify potential sources of congestion. Finally, he shared his observation that MMDA has implemented some improvements in Metro Manila.

7. **MMDA Usec Jimenez** shared that one problem concerning colorum vehicles, buses for instance, is that the operators/drivers already operate even while their registration or grant for franchising is still pending. MMDA apprehends them but assistance from LTRFB is needed to strengthen enforcement of colorum apprehension.

8. **Ed David of Confederation of Truckers** suggested that the PIDS research look into the pressing problems faced by truckers. He first shared the issue on the unsynchronized truck ban, wherein different areas/highways have different truck ban hours. He also mentioned the lack of harmonization in overloading guidelines, wherein local government units (LGUs) use different criteria in assessing overloading. For instance, in NLEX (North of Manila), truckers are assessed in terms of maximum weight per axle (allowing up to 13.5 tons/axle). However, going south to SLEX, truckers are assessed in terms of maximum gross load weight. Truckers are also subjected to annual fees-- a passing through fee (wherein stickers are issued), in some cities and provinces, indicating additional costs aside from the truck's registration fee.

9. **Mr. Santiago of FEF** added that the truck issue should be given priority. He shared that the Philippines has one of the highest trucking costs (higher than Vietnam). He said it may also help to review the earlier plan of the government to synchronize the truck ban in different LGUs and also review the fees charged by LGUs.

10. **Dr. Llanto's response:** He welcomed the new developments from the MMDA. He informed everyone that the research is not yet done, and that the presentation simply discussed the literature. The main thrust of the research is to look at the impact on consumer and producer welfare, for instance, how the regulations, actual implementation of the law impact on their welfare. A good research requires good data and information, and for this he hoped to get support from relevant agencies such as MMDA. He thanked everyone who shared relevant and new information during the session. He thanked the suggestions, but maintained that some suggestions may be discussed in passing, because the focus of the research is on passenger transport market.

#### **IV. Closing Remarks**

4.1 In her closing remarks, Dr. Fita Aldaba expressed that CUTS and PIDS will capitalize on their strengths from years of experience in competition policy research to accomplish the CREW project in the Philippines. She echoed Assistant Secretary Sy's call to translate policy discussion into action and reform. She highlighted the complexity of the challenges facing rice and passenger transport, the two sectors covered by CREW. She called for the support and cooperation of the government agencies and stakeholders present to move the project forward.