



# Foundation for Economic Freedom

## FEF STATEMENT ON RICE POLICY

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We, the Foundation for Economic Freedom, an organization dedicated to market-oriented reforms, good governance, well-defined and secure property rights, and consumer protection, call on President Rodrigo R. Duterte to rescind his decision to stop all rice importation.

We believe that neither allowing the National Food Authority (NFA) to solely import rice, nor stopping all rice imports, is good for the Filipino consumer or the Filipino rice farmer.

Stopping all rice importation is a dangerous policy that could lead to significant shortages and increased rice prices. The country is not self-sufficient in rice production. Stopping rice imports even during rice harvest season will put upward pressure on rice prices and lead to significant hikes, worsening hunger and poverty in the country.

On the other hand, allowing only the NFA to import rice is also the wrong policy. The government is a poor judge of the timing of rice imports. Typhoons can hit the country at anytime and destroy rice crops. Neither is the government equipped to respond quickly to a rice shortage given its bureaucratic procedures. A delay in importing rice will lead to considerable spikes in rice prices and make rice more unaffordable to the poor.

If the NFA will do a government-to-government purchase of rice, there should be full disclosure of the terms of the purchase, including the commissions. But there is the more important benefit if the government liberalizes rice imports: the government will

not incur debt to finance the importation. The NFA had amassed debt in billions of pesos a year, as in the 2000s when its debt rose from about 20 billion pesos in 2000 to 140 billion in 2010. If the NFA panics, as in 2008 when it over-imported rice causing world rice prices to spike, it doesn't only drag its finances down, but also that of the entire government.

Having the government solely import rice may cause rice producers to plant less as more often than not, political, rather than economic, decisions drive government decisions to import. Rice farmers understand that if rice prices increase, the government will be tempted to panic and over import, leading to a subsequent price collapse. Decisions to import are best left to the market since it is in the interest of suppliers to import at the lowest possible price and in an amount that will not lead to an oversupply.

Moreover, maintaining the NFA monopoly on rice importation violates the country's commitment to liberalize rice trade in the World Trade Organization (WTO). The deadline for complying with the commitment is June 2017.

For 22 years from 1995 to 2017, the government has postponed the country's obligation to impose tariffs instead of the quantitative restrictions on rice for the reason that poor rice farmers are not prepared for competition. But will they ever be ready? Or are poor rice farmers being used as a subterfuge to benefit big rice farmers and traders, as well as those involved in the so-called rice self-sufficiency program of the government? Poor rice farmers are rice consumers for most of the year and are hurt by high rice prices brought about by protectionism.

We thus call on the Duterte administration to remove the NFA monopoly on rice importation and liberalize the rice trade. We support the tariffication of rice imports and the use of tariff revenues to help rice farmers to either shift production to higher-value crops or increase productivity.

We believe that rice import liberalization will lead to lower rice prices, lower consumer inflation, and higher disposable income for the working class. It will make manufacturing more

competitive since rice, which is the single biggest source of calories for workers, will become more affordable.

Rice self-sufficiency is neither a desirable nor a practical objective for the country. The Philippines is an archipelagic country. It does not have vast lands and giant river systems in neighboring countries, like Vietnam and Thailand, which enable them to plant and harvest rice several times a year. Instead, the Philippines should rely on international trade to guarantee food security, just as Malaysia and Singapore have done. Furthermore, the country can forge a rice security pact with fellow ASEAN members, such as Vietnam and Thailand, to guarantee rice supply in the Philippines in case of global shortage.

*Release Date: April 12, 2017*

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