THIRTEENTH CONGRESS OF THE REPUBLIC OF THE PHILIPPINES
First Regular Session

SENATE

S. No. 704

INTRODUCED BY HON. MANUEL B. VILLAR, JR.

EXPLANATORY NOTE

Pursuant to the government's thrust of achieving food security in an efficient, transparent and cost-effective manner, a measure to abolish the sole power of the National Food Authority to import rice specially during shortages is necessary.

The proposed legislation shall be called the "Rice Safety Net Act of 2004," which adopts the use of tariffs in lieu of non-tariff import restrictions to protect local paddy producers in a direct and transparent manner and at the same time generate revenues required to provide the infrastructure and finance the programs that improve farmers' productivity.

The economic as well as political benefits of the tariffication of rice are enormous.

Firstly, this is congruent with the government's thrust to reduce graft and corruption and to rely on the private sector to make timely decisions of when and how much to import. As NFA continues monopoly on international trade in rice, all rice imports are subject to bureaucratic decision-making -- open to political influence, corruption, inflexibility and bad timing. A case in point, is the inclusion of rice imports in PL 480 during the Estrada administration which in the past eight (8) years has been used solely for soybean meal importation. The 104,000 MT of rice imports contracted in year 2000, over and above the approved inter-agency rice imports of 650,000 MT have been left rotting in a private warehouse in Mabini, Batangas. These excess importations have been blamed for the decline of farm gate prices of palay in the last two years.

Secondly, tariffication of rice will stop the highly destabilizing burden of NFA's intervention mechanisms oil the Philippine budget. From 1986 to 1998, NIA's operation resulted in annual losses amounting to P980 trillion on the average. In addition to operational subsidies, the NFA has been receiving equity infusion from the government since 1994 in amounts ranging from P78 million to P435 million.

Moreover, the bulk of NFA's financing comes from loans which comprised 52% of its total assets. Of this amount, the NFA owed P16.96 billion to the government, banks and other creditors-with current liabilities comprising P14.7 billion of total debt.

Thirdly, expected revenues of the government at 90'% to 100% tariff rate is at P1.38 billion annually. The tariff revenue can be directly channeled to affected rice farmers or used to increase their productivity with rural investments in infrastructure.

Fourthly, this move would be in line with our commitments with Multilateral trade organizations. During the WTO-GATT negotiations in 1995, the Philippines negotiated for the exemption of rice from tariffication under "Annex 5" of WTO Agreement. However, this exemption expires on December 31, 2004. Only three countries got exemption on rice: RP, South Korea and Japan. Japan has declared intention to give up rice QR. The Philippines has also committed to ASEAN to include rice in the AFTA-CEPT scheme by January 1, 2005. The Philippines is the only ASEAN member that continues to have rice quantitative restrictions (QRs). Other ASEAN members are advocating for the Philippines to adopt rice tariff.

To address the fears and concerns of farmers, the revenues that will be generated shall be collected into a special fund to be called the Rice Farmers Development Fund for the purpose of providing the necessary support services such as, but not limited to, irrigation, farm-to-market roads, post-Harvest equipment and facilities, credit, research and development, extension services, other market infrastructure and market information.

Clearly, there is a need for government to review and define clearly its food security strategy in view of the need to increase resources to other industries in order maximize their growth and trade potential. For example, it is likely the marginal returns to government investments would be higher if rice farmers would be enabled to shift to high-value crops simply because this strategy has not been emphasized for so long when the market potentials of these other crops have been so big. We believe that this is the only way to increase our farmer's income and spur agro-industrialization.

MANUEL B. VILLAR, JR.
Senator

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S. No. 704

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AN ACT
TO PLACE SAFETY NETS FOR FILIPINO RICE PRODUCERS BY IMPOSING TARIFFS IN LIEU OF QUANTITATIVE RESTRICTIONS ON RICE IMPORTS, DIRECTING TARIFF COLLECTIONS FROM RICE IMPORTS TO PROJECTS AND PROGRAMS THAT ENHANCE RICE PRODUCTIVITY AND INCREASE FARMERS' INCOMES, AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Short Title.* -This Act shall be known as *the "Rice Safety Net Act of 2004".*

SECTION *2. Declaration of Policy. - - It* is the policy of the Slate to enhance farmers' incomes and ensure fool security by increasing the productivity of tile country's rice industry and making transparent and effective the protection accorded to rice producers. Towards this goal, the State adopts the use of tariffs in lieu of non-tariff import restrictions to protect local paddy producers in a direct and transparent manner and, at the sauce time, generate revenues required to provide the infrastructure aid finance the programs that improve farmers' productivity.

The State shall endeavor to raise rice farm productivity by providing the necessary support services such as, but not limited to, irrigation, farm-to-market roads, post-harvest equipment and facilities, credit, research and development, extension services, other market infrastructure and market information. These support services shall, at least partially, be financed front the revenue collections from agricultural tariffs.

SECTION 3. *Definition of Terms.* - For the purposes of this Act, the following terms are defined as follows:

(a) "Quantitative import restrictions" shall refer to non-tariff restrictions used to limit the amount of imported commodities, including but not limited to discretionary import licensing and import quotas, whether qualified or absolute;

(b) "Rice" shall refer to rice III the husk, husked rice, semi-milled or wholly milled rice, or broken rice, classified under tile Harmonized System of Commodity Classification as used in the Tariff and Customs Code of the Philippines; and

(c) Tariff rate equivalent" shall refer to the rate of tariff that will allow the same protection given by existing quantitative import restrictions, reflected by the average price gap between domestic prices and world prices.

SECTION *4. Repeal. - Subparagraph* (xii), paragraph (1) Section 6 of Presidential Decree Number 4 (National Grains Authority Act of 1972) as amended by Republic Act 8178 (Agricultural Tariffication Act of 1996), which reads:

"Sec. 6 (a) Powers. "(xii) To *establish rules and regulations governing the importation of rice and to license, impose and collect fees and charges for said importation for the purpose of equalizing the selling price of such imported rice with normal prevailing domestic prices.*

"In the exercise of *this power, the Council after consultation with the Office of the President shall first certify to a shortage of rice that may occur (is a result of a*

short fall in production, a critical demand-supply gap, a state of calamity or other verified reasons that may warrant the need for *importation: Provided, That this requirement shall not apply to the importation of rice equivalent to the Minimum Access Volume obligation of the Philippines under the WTO. The Authority shall undertake direct importation of rice or it may allocate import quotas among certified and licensed importers, and the distribution thereof through cooperatives and other marketing channels, at prices to be determined by the Council regardless of existing poor prices and the subsidy thereof,* if
any, shall be borne by the National Government." is Hereby repealed.

All other laws or provisions of law prescribing quantitative import restrictions on rice or granting government agencies the power to impose such restrictions on rice are hereby repealed: Provided, however, that all such repeals shall become effective starting 1 January 2005.

SECTION 5. *Institution of Tariff Protection. - In* lieu of quantitative import restrictions, the tariff rate of 100% shall be imposed on rice imports beginning 1 July 2005 to accord transparent trade protection for rice producers.

SECTION 6. *Reduction of Tariff Rates - Any* subsequent reduction of the tariff rate shall be based on the implementation of a comprehensive Rice Farmers Development Program to improve the sector's competitiveness. The Department of Agriculture shall develop the program in consultation with the rice sector farmers, stakeholders and the Congressional Oversight Committee on Agriculture and Fisheries Modernization(COCAFM). Provided further, that program implementation shall be validated and evaluated by the COCAFM.

SECTION 7. *Rice Farmers Development Fund - The* tariff revenues generated by the Government from rice imports shall be collected into a special fund at the National Treasury called the Rice Farmers Development Trust Fund created for the exclusive purpose of financing investments and expenditures under the Rice Farmers Development Program. The Governor of the Bangko Sentral ng Pilipinas or his representative shall serve as tile Treasurer of the RDTF. The Bureau of Customs and the Department of Finance shall certify to the Department of Agriculture the volumes of rice imports and the tariff revenues generated from such imports at quarterly intervals. The Department of Budget and Management shall certify to the Department of Agriculture the allocation of such tariff revenues to the financing of public investments and support services in agriculture, as directed by the Rice Farmers Development Trust Fund Board. Provided, however, that the said special fund would be separate, distinct and in addition to the appropriations received by the Department of Agriculture. Provided, further, that any saving made each year shall accrue to the special funds set by this Act.

SECTION 8. *Anti-Rice Smuggling Fund - One* percent (1%) of the Rice Farmers Development Fund shall be allocated to the Coast Guard and other concerned agencies in the prevention of smuggled agricultural products that enters the domestic market and in the implementation of the Anti-Dumping Act and the Countervailing Act.

SECTION 9. *Rice Farmers Development Fund Board.* The Rice Farmers Development Trust Fund shall be managed according to policies set by the Rice Development Trust Fund Board. The Board shall be composed of:
Chairman: Chairman of tile COCAFM / Chairman of the Senate Committee oil Food and Agriculture; Vice-Chairman: DA Secretary and the Vice-Chairman of COCAFM
Members: Peasant Sector Representative, House of Representatives; and Two representatives of national associations of rice farmers appointed for two-year terns by the Secretary of Agriculture.

The RFDF Board shall meet at least once each semester. The RFDF is empowered to organize a Technical Committee and Secretariat to undertake its operational activities.

The budget for the operations of the RTDF Board and Secretariat shall be approved by the Secretary of Agriculture and drawn from interest earnings of the RFDF.

SECTION *10. Emergency Provisions - The* President is empowered to allow the import of rice at a lower tariff rate to meet emergency requirements as well as the requirements of the government's rice distribution program which is targeted to the poorest of the poor. Provided, such imports may be treated as compliance to tile Minimum Access Volume (MAV) commitments under the WTO. The Secretary of Agriculture shall recommend the applicable rate and the volume to be imported on the basis of technical analysis and participatory consultation.

The Secretary of Agriculture shall formulate and implement simple and transparent rules and regulation, governing the importation of rice under such tariff rate quota, including the allocation of the quotas among importers. Provided, that tariff proceeds such imports shall accrue to the Rice Farmers Development Fund.

SECTION 11. *Separability Clause - The* provisions of this Act are hereby declared to be separate and, in the event any such provision arc declared unconstitutional, the other provisions, which are not affected thereby shall remain in force and effect.

SECTION 12. Repealing Clause. - All laws, decrees, rules and regulations, executive or administrative orders and such other presidential issuances as are inconsistent with any of the provisions of this Act arc hereby repealed, amended or otherwise modified accordingly.

SECTION *13. Effectivity - This* Act shall take effect thirty *(30)* days following its publication in a newspaper of general circulation.

Approved,