

**WTO Disciplines on Agricultural Support Update:
Philippine WTO Domestic Support Notification**

April 2013

Caesar B. Cororaton
Virginia Polytechnic Institute and State University

This is a WTO domestic support notification update prepared for the International Food Policy Research Institute (IFPRI) on the chapter for the Philippines in *WTO Disciplines on Agricultural Support: Seeking a Fair Basis for Trade* (Orden, David, David Blandford, and Tim Josling, editors), 2011, Cambridge: Cambridge University Press.

Updates on Philippine WTO Domestic Support Notification

Caesar B. Cororaton

Global Issues Initiative/Institute for Society, Culture and Environment
Virginia Polytechnic Institute and State University

April 2013

1. Introduction

The latest notification on agricultural domestic support submitted by the Philippines to the World Trade Organization (WTO) was dated January 16, 2009 (G/AG/N/PHL/37)¹. The notification contained three years of information: 2002, 2003 and 2004. Cororaton (2011) extended this to 2008 by estimating shadow notification. The purpose of this note is to present updates of the shadow notification and to extend it to 2012.

2. Domestic Support Notification with Shadow Measurements

There are three major categories in the Philippine domestic support notification to the WTO: (a) green box expenditures; (b) special and differential payments (SDT); and (c) market price support (MPS) under product-specific aggregate measurement of support (AMS). There are no support payments directly to farmers under the green box, and no support through direct payments under production-limiting programs. The Philippines does not have a total AMS limit/commitment, thus the *de minimis* level, which is 10 percent of the value of production of an agricultural commodity, is the de facto limit on product-specific AMS support. The Philippines does not notify any non-product-specific AMS support.

Table 1 presents the details of the most recent notification. The average green box expenditures in 2002-2004 were PhP11.9 billion, of which research had a 19.2 percent share and infrastructure services 61.7 percent. In the same period, the average SDT payment was PhP2.9 billion, which contained largely investment subsidies to agriculture (52.5 percent) and input subsidies (47.3 percent).

Under the product-specific MPS, rice and corn are the only commodities included. In 2002-2004, the average administered price for rice was PhP15/kg and for corn PhP6/kg. Both prices were higher compared to the 1986-1988 average external reference prices: PhP4.56/kg for rice and PhP2.26/kg for corn.

¹http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+G%FCAG%FCN%FCPHL%FC%2A%29&language=1

Rice and palay (paddy) procurement of the National Food Authority (NFA) defines the eligible production for rice in the product-specific MPS. The procurement of palay is converted to rice equivalent using a 65 percent recovery rate. In 2002-2004, the average eligible production for rice was 174 thousand metric tons. There was no eligible production for corn during this period. Based on the formula, the average MPS for rice in 2002-2004 was PhP1,818 million, significantly below the 2002-2004 average *de minimis* level (10 percent of the value of production of rice) which was PhP15,013 million.

The exercise of extending the green box and SDT payments is not straightforward because there is no documentation available on how the numbers in the notification were calculated, and it is extremely difficult to trace them back to the main source. Cororaton (2011) devised a method of estimating a shadow notification, and this note applies a similar method of extending the series on aggregate green box expenditures and SDT payments from 2009 to 2012.

There were significant changes in the administration of the government following the presidential election in 2010. The present administration of President Aquino introduced major changes and budget realignment within the Department of Agriculture (DA). These changes are reflected in the data in the General Appropriation Act (GAA) presented in Table 2.

In terms of the budget of the DA, the previous administration of President Arroyo focused on funding the Agriculture and Fisheries Modernization Program (AFMP). Thus, the budget for the AFMP increased dramatically from PhP13.6 billion in 2005 to PhP44.5 billion in 2009. A major part of the AFMP was the hybrid rice program (Cororaton and Corong2009), which provided funding for farmers to adopt the hybrid rice seeds. Incentives and subsidies to support the program included subsidized prices of hybrid rice seeds (the government paid 50 percent of the actual cost of the hybrid rice seeds), and subsidized costs of fertilizer and other chemical farm inputs (100 percent subsidy in some chemical farm inputs). Studies have indicated that the rate of adoption of hybrid seeds by farmers has been very slow despite the support from the government, and the increase in rice yields has not been very encouraging to justify a continued, sizeable funding for the AFMP (David, 2006; and Mataia, et al, 2011). The hybrid rice program under the AFMP and the seed and fertilizer subsidies were terminated in 2010 at the start of the administration of President Aquino. It was dropped from the budget allocation, but no law was passed to repeal it. Thus, in 2010 the funding for the AFMP was reduced to zero. The line items in the GAA that funded the AFMP were consolidated under the overall DA budget, either under the Office of the Secretary of the DA or under sub-items such as the National Rice Program. Thus the budget consolidation increased the overall DA budget from PhP3.6 billion in 2009 to PhP39.2 billion in 2010. The budgetary support for DA corporations also increased from PhP4.7 billion in 2008 to PhP9.6in 2010².

² Among these DA corporations are: National Food Authority; Philippine Rice Research Institute; Philippine Coconut Authority, and Philippine Crop Insurance Corporation.

Another major change in the new administration is reflected in the drop in the overall budget, an effort to trim down the deficit of the national government. The overall GAA budget declined from PhP1,304 billion in 2010 to PhP1,000 billion in 2011 (23 percent drop). The budget for the DA was also reduced from PhP39.2 billion in 2010 to PhP34.8 billion in 2011 (11 percent drop). The budgetary support for DA corporations was cut by more than half. However, in 2012 the overall budget in the GAA increased by 24 percent.

Because the budget for the AFMP dominated the total budget of the DA, Cororaton (2011) utilized information on AFMP's budget to estimate green box expenditures and SDT payments. He assumed that the total green box expenditures and SDT payment was higher than the AFMP's budget by 25 percent³. Thus, using the actual budget data for AFMP in 2005, 2006, and 2007, he estimated the total of green box expenditures and SDT payments in those years. However, his estimates for 2008 and 2009 were based on projected AFMP budget because the actual budget figures were not yet available then. The actual budget for the AFMP for 2008 and 2009 are now available and are used to update the previous estimates for these years. The results indicate significant increases in the estimates for green box expenditures and SDT payments in 2008 and 2009 (Table 1) because of the substantial increase in the budget for AFMP especially in 2009 (Table 2).

Since AFMP's budget was realigned to the main DA starting 2010, the present note utilizes the combined budget of the DA and the budgetary support to DA corporations in extending the series on green box expenditures and SDT payments to 2010, 2011 and 2012. The estimates for these years were calculated by applying the same 25 percent historical ratio and using the share distribution in the 2009 notification to disaggregate the green box expenditures and SDT payments. Table 1 shows that green box expenditures decline in 2011 due to the drop in the overall 2011 GAA budget as well as the decline in the DA budget. But the expenditures increase in 2012.

As a result of the 2008 international food crisis, the government started increasing the administered prices for rice and corn in order to encourage local production of these crops. By 2012, the administered price for rice has increased to PhP26.15/kg, while for corn PhP10/kg (Table 1). In 2005-2007, the average NFA procurement of rice was 40 thousand mt. The procurement increased to 359 thousand mt in 2008-2010, but declined to 204 thousand mt in 2011-2012. The NFA has not been active in corn procurement. As a result of low NFA procurement, eligible production is low for rice and zero for corn. Thus, the MPS for rice and corn is significantly below the 10 percent *de minimis* limit.

3. NFA and the Rice Sector

The low product-specific MPS for rice in Table 1 does not give an adequate picture of the rice sector in the Philippines. In reality, the government has been supporting the rice sector with

³ Historically, this has been the average ratio.

financial resources and trade protection. The support ranges from the government's financial assistance to NFA's operation, to tax exemptions, and to import control through quantitative restriction (QR).

Historically, NFA's procurement of rice has been low, representing only less than 4 percent of rice production. This low procurement is largely due to NFA's sizeable financial deficit. The NFA has not released publicly up-to-date information on its financial standing, thus Table 3 presents data until 2010 only. The 2010 data is not even complete because the NFA has not disclosed its expenditure for the year. However, the trend clearly indicates the deteriorating financial standing of the NFA. A separate analysis from the Commission on Audit (COA) presented in Table 4 indicates the rapid deterioration of NFA's capital adequacy. Despite the deficit, the NFA survives through government guaranteed loans from private commercial banks (Cororaton, Clarete and Sharma, 2013).

NFA is a government-owned-and-controlled corporation (GOCC) which was given the mandate to manage the food security programs of the Philippine government. In undertaking this task, the NFA intervenes in both palay (unmilled rice) and rice markets. It purchases palay from farmers at NFA procurement prices to provide reasonable rates of return to rice farmers. In the rice market, the agency ensures adequate and stable supply of rice at NFA release prices affordable to poor consumers. However, the NFA has not been able to fulfill this mandate because of its financial difficulties. For example, Figure 1 shows that the domestic wholesale price of milled rice has been much higher than the NFA's release price. Figure 2 shows that the farmgate price of palay has been lower than the NFA's procurement price of palay. Thus, the price of rice has been outside the price band set by the NFA to support farmers and consumers. The fact that the government has been allocating resources to support the sector and protecting it through trade restrictions, and yet the NFA has not been able to adequately fulfill its mandate only indicates leakages and loopholes in the system.

Another major policy on rice is the control on imports through QR. Because of the special treatment of Philippine rice in the WTO, rice imports remain under QR. This special treatment was first negotiated in the WTO in 1995 for 10 years, but was extended for another 7 years until June 2012. At present, the government is negotiating for another extension. Since the negotiations are still ongoing, the special treatment of Philippine rice is still in effect.

Administratively, the NFA has the monopoly control over rice imports. Using projections of palay production and of the supply-demand rice gap, the volume of imports is determined by the NFA (de la Peña, 2012). After the volume of rice imports has been determined, the NFA conducts the import bidding process. Usually, it is during the rice-lean months when rice imports arrive.

The government also committed levels of minimum access volumes (MAVs) to the WTO. The MAVs started at 29.2 thousand mt in 1995, but increased to 350 thousand mt in 2005

with in-quota tariff of 50 percent. The 350 thousand mt MAV was maintained during the second extension of the special treatment of rice with 40 percent in-quota tariff. The out-quota tariff was set at 50 percent. In 2008-2010, the average imports of rice was 2.1 million mt. However, the MAVs are immaterial because rice imports are practically tariff-free because the government exempts rice importers from paying import duties. Table 3 (last row) shows that the average 2008-2010 tax expenditure on rice imports was PhP 26.34 billion

4. Alternative Calculations of MPS

Table 5 presents alternative ways of calculating the market price support for rice. The price of Vietnam rice is a good indicator of the border price because the Philippines buys 75 percent of its rice import requirements from Vietnam. Columns (a) to (e) convert the Vietnam price into border price in PhP/kg. The border price has reached a peak of PhP30.1/kg in 2008 during the international food crisis. From the peak, the border price has declined to PhP19.3/kg. Two factors contributed to the decline: (1) the decline in the price of Vietnam rice, and (2) the appreciation of the exchange rate.

The domestic prices of rice are the wholesale price in column (f) and the administered price support for rice in column (g). The administered price is the procurement price of palay converted into rice price using the 0.65 rice recovery ratio.

There are three price gap measures presented in Table 5. Column (h) compares the wholesale price in (f) with the border price in (e). Except for 2008, the wholesale price of rice has been significantly higher than the border price. In 2012, the price gap was about 56 percent. This is the result of government's policy that restricts the inflows of lower-priced rice imports through quantitative controls. Cororaton, Clarete and Sharma (2013) have shown that this trade restriction has significant effect on poverty because 22 percent of the total expenditure of poor households is on rice.

Column (i) compares the administered price support for rice in (g) with the border price in (e). The price gap was negative in 2005 to 2008. In 2012, the price gap has increased to 35.7 percent. However, the actual farmgate price of palay is generally lower than the procurement price as shown in Figure 2. This is because of low palay procurement by the NFA. Thus, the actual price support for price farmers is generally lower than what is indicated by the administered price support.

The market price support computed using the WTO method is shown in the last column (j). This price gap is computed using the administered price in (g) and the average reference price in 1986-1988, which was PhP4.56/kg (Table 1). The price gap was more than 200 percent in 2000, and has been consistently increasing over time. In 2009, the price gap has increased to 474 percent. Compared to columns (h) and (i), this measure of market price support using the WTO method is difficult to interpret economically.

5. Conclusion

The last domestic support notification submitted by the Philippines to the WTO (as of April 2013) was dated January 16, 2009. The notification contained three years of information: 2002, 2003, and 2004. This note extends the shadow notification estimates of Cororaton (2011) to 2012.

Based on the estimates, green box expenditures and SDT payments increase significantly because of higher budget allocation for the DA. The product-specific MPS for rice, computed using the WTO method, remains significantly below the 10 percent *de minimis* limit because of limited NFA procurement of rice due to the agency's weak financial position. However, the low product-specific MPS for rice does not give an adequate picture of the rice sector in the Philippines because the government has been supporting the rice sector with financial resources and protection. Government support ranges from financial assistance to NFA's operation, to tax exemptions, and to import control through quantitative restriction.

Measured in terms of the price gap between the wholesale or administered price of rice and the border price, the market price support has been increasing since the drop in 2008. In 2012, the market price support measured by the wholesale price versus the border price was more than 55 percent and more than 30 percent when measured by the administered price versus the border price. But using the method of the WTO, which compares the average reference price in 1986-1988 with the administered price, the price gap has increased to almost 500 percent in 2012, which is difficult to interpret economically.

References

- Cororaton C. B., R. Clarete, and M. Sharma. 2013. "Impact of Alternative Philippine Rice Policies on Poverty and Income Distribution". A paper submitted to the World Bank.
- Cororaton, C. B. 2011. "The Philippines" in *WTO Disciplines on Agricultural Support: Seeking a Fair Basis for Trade* (David Orden, David Blandford and Tim Josling, editors). Cambridge (UK): Cambridge University Press. pp. 353-387
- Cororaton, C. B., and E. Corong. 2009. *Philippine Agricultural and Food Policies: Implications on Poverty and Income Distribution*. International Food Policy Research Institute (IFPRI) Research Report No. 161. Washington DC: IFPRI
- David, C. 2006. The Philippine Hybrid Rice Program: A case for redesign and scaling down. Philippine Institute for Development Studies (PIDS) Research Paper 2006-03. Makati City, Philippines: PIDS.
- de la Peña, 2012. "The Philippine Rice Situation". Technical Assistance Consultant's Report. Project No. TA 7495-REG. Asian Development Bank. Manila, Philippines: ADB.
- Mataia, A.; N. Jamora; P. Moya; S. Francisco; and D. Dawe. 2011. "Sources of Decade Rice Yield Growth in the Philippines". *Philippine Journal of Crop Sciences*. Vol. 36; No. 2. pp. 20-29

Table 1: Philippine Domestic Support Notification with Shadow Measurement

	Reference (a) (pesos/kg)	2009 Notification			Shadow notification							
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Green Box Payments (DS:1), Php million		13,516	11,045	11,041	14,435	12,201	20,857	24,841	47,327	51,927	40,573	62,660
General Services		12,456	10,424	10,420								
Research		2,526	2,161	2,162								
Pest and disease control		59	55	55								
Training services		174	169	169								
Extension and advisory services		498	549	549								
Inspection services		203	228	228								
Marketing and promotion services		404	563	563								
Infrastructure Services		8,591	6,698	6,693								
Public stocking for food security purposes												
Stabilization program for food items		902	467	467								
Payments for relief from natural disasters												
Crop Insurance		159	154	154								
Special and Differential Treatment (DS: 2), Php million		2,966	2,880	2,866	1,869	1,580	2,701	3,216	6,128	6,724	5,254	8,113
Investment subsidies to agriculture		1,800	1,399	1,374								
Input subsidies		1,160	1,473	1,491								
Funds for agricultural investment		5	8	1								
Direct payments under production-limiting programs (blue box) (DS: 3)		-	-	-	-	-	-	-	-	-	-	-
Product-specific AMS (DS: 4, 5, 6, 7, 8)												
Market Price Support (DS: 5)												
Rice (b)	4.56	15.00	15.00	15.00	15.38	15.38	15.38	22.56	26.15	26.15	26.15	26.15
Corn	2.26	6.00	6.00	6.00	7.13	8.50	8.50	9.50	10.00	10.00	10.00	10.00
Rice (c)		195	193	135	50	48	21	444	306	326	179	230
Corn		-	-	-	3	-	-	-	70	10	-	-
Rice (c)		8,626	8,775	9,423	9,492	9,962	10,556	10,930	10,573	10,252	10,845	11,721
Corn		4,319	4,616	5,413	5,253	6,082	6,737	6,928	7,034	6,377	6,971	7,407
Rice		2,034	2,011	1,409	538	521	229	7,993	6,608	7,047	3,860	4,963
Corn		-	-	-	16	-	-	-	539	74	-	-
Non-exempt payments		-	-	-	-	-	-	-	-	-	-	-
Product-specific threshold												
Rice (e)		14,250	14,487	16,302	18,168	19,417	21,809	29,642	29,869	29,167	31,634	34,870
Corn		3,848	3,951	5,489	4,980	6,599	7,707	9,104	9,735	9,189	10,547	11,688
Non-product-specific AMS (DS: 9)		-	-	-	-	-	-	-	-	-	-	-
Non-product-specific threshold (f)		31,312	33,070	38,425	40,870	45,675	51,227	64,429	64,495	67,303	80,409	79,770

Source: WTO notifications, Bureau of Agricultural Statistics, and author's calculations

(a) External reference price, average 1986-1988

(b) 1995-2004 from official WTO notifications; 2005 to 2008 computed as palay (paddy) support price converted into price of rice using 65 percent milling recovery r

(c) Eligible production consists of rice procured plus palay (paddy) procured converted into rice equivalent using a 65 percent milling recovery rate, i.e.,

total production of palay (paddy) converted into rice

(d) Administered price less external reference price multiplied by eligible production

(e) Value of production computed using palay production converted to rice equivalent and valued using wholesale price of rice

(f) Agricultural crops

-: zero

Table 2: General Appropriations Act, PhP billion

	2005	2006	2007	2008	2009	2010	2011	2012
Total Budget in GAA	947.6	1,044.8	1,126.3	1,066.2	1,170.3	1,304.4	1,000.4	1,245.2
Department of Agriculture (DA)								
Budget for DA	2.9	3.4	3.1	3.2	3.6	39.2	34.8	52.9
Budgetary support to DA Corporations	1.4	2.6	1.7	2.6	4.7	9.6	3.4	6.0
Agriculture and Fisheries Modernization Program (AFMP)	13.6	11.5	19.6	23.3	44.5	-	-	-

Source: Department of Budget and Management

Table 3: Financial Performance of the NFA, 2000-2010 (PhP million)

Financial accounts	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010/b/
Total receipts	22,688	14,408	19,472	17,136	25,239	40,591	30,369	35,765	39,108	39,497	38,730
Operating receipts	21,523	12,480	19,176	16,886	24,387	40,375	30,101				
Sales of goods and services	21,523	12,390	18,256	15,964	19,806	27,204	25,290				
Subsidy income	0	90	920	922	4,581	13,171	4,811	2,100	2,000	4,000	8,000
Other Receipts	1,165	1,928	296	250	852	216	268				
Current expenditures	28,474	15,342	23,742	24,765	31,493	46,664	44,041	40,763	73,317	65,918	
Operating expenditures	22,768	11,138	19,596	18,810	26,339	40,846	37,625				
Other operating expenditures	5,706	4,204	4,146	5,955	5,154	5,818	6,416				
Interest payments	1,430	1,718	1,471	1,964	2,748	3,186	3,927				
Others	4,276	2,486	2,675	3,991	2,406	2,632	2,489				
Internal cash generation	-5,786	-934	-4,270	-7,629	-6,254	-6,073	-13,672	-4,999	-34,209	-26,421	
Capital expenditures /a/	-3,888	1,341	3,815	-3,939	-4,418	3,905	2,758				
Financing deficit (-1)/surplus(+)	1,898	2,275	8,085	3,690	1,836	9,978	16,430				
Net domestic financing	1,898	2,578	8,085	3,840	1,853	9,996	16,497				
Net domestic bank credits	-89	3,244	8,109	-311	107	5,732	17,328				
Net other domestic financing	1,987	-666	-24	4,151	1,746	4,264	-831				
Net external financing	0	-303	0	-150	-17	-18	-67				
NFA tax expenditure subsidy for rice importation /b/									37,300	17,703	24,575

Source: Department of Finance, Commission on Audit Reports, NFA Annual Report

/a/ Major component is changes in inventories

/b/ To support the cost of rice importation

Table 4. Capital deficiency of the NFA (PhP million)

	2006	2007	2008	2009
Equity contribution from National Government	3,891	5,000	5,000	5,000
Deficit:				
Balance at the beginning of the year	-35,692	-47,605	-49,626	-80,085
Correction of prior years' earnings	-1,444	878	1,750	-681
Adjusted deficit ^{a/}	-37,137	-46,727	-47,876	-80,766
Net loss for the year	-10,468	-2,899	-32,209	-26,421
Balance at the end of the year	-47,605	-49,626	-80,085	-107,188
Capital deficiency ^{b/}	-43,714	-44,626	-75,085	-102,188

Source: Commission on Audit Report

^{a/} Beginning balance plus correction of prior years' earnings

^{b/} Balance at the end of the year plus equity contribution from National Government

Figure 1: Various Prices of Rice, PhP/kg

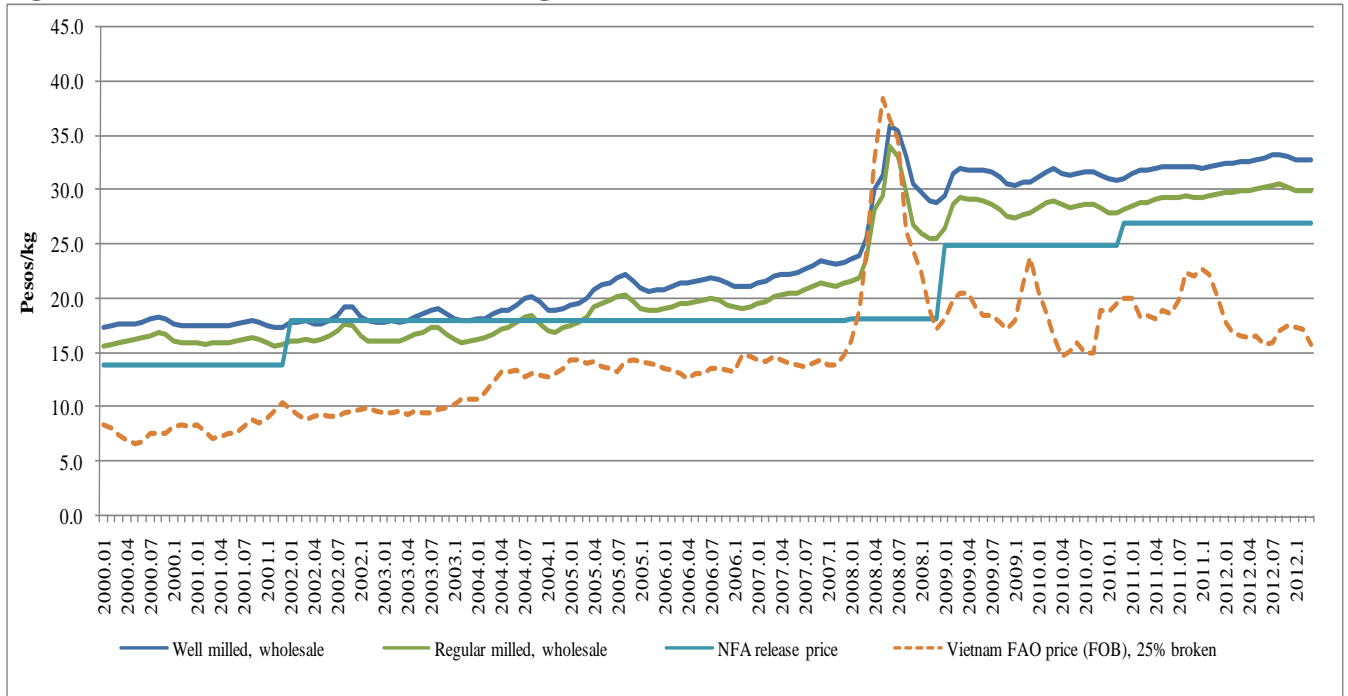


Figure 2: Administered Palay Procurement Price and Farmgate Price, PhP/kg

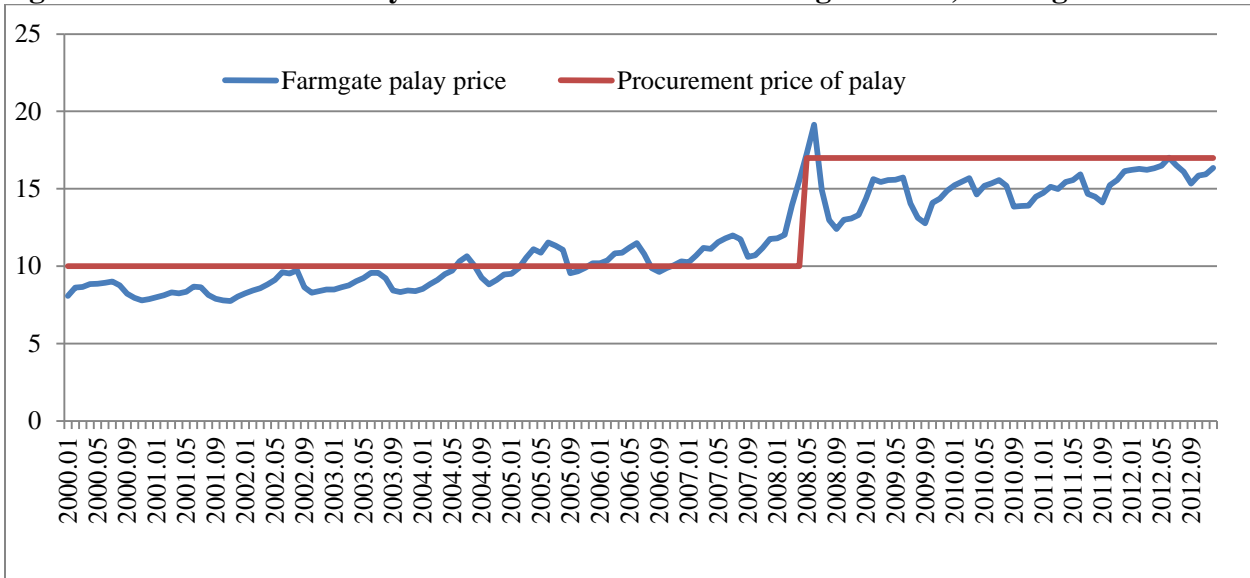


Table 5: Various Measures of Protection on Rice

	Computation of Border Price of Rice					Philippine Rice Prices, PhP/kg		Rice Price Gap, %		
	Vietnam price \$/ m. tons	CIF border price \$/ m. tons	Border price \$/kg	Exchange rate PhP/\$	Border price PhP/kg	Wholesale price (f)	Administered price support for rice (g)	Wholesale vs border price (h)	Administered vs border price (i)	Administered vs WTO ref. price (j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
2000	173.75	199.81	0.20	44.19	8.83	16.20	14.62	83.46	65.56	220.61
2001	163.50	188.03	0.19	50.99	9.59	15.99	14.62	66.76	52.48	220.61
2002	183.33	210.83	0.21	51.60	10.88	16.53	15.00	51.89	37.87	228.95
2003	181.75	209.01	0.21	54.20	11.33	16.51	15.00	45.74	32.40	228.95
2004	227.08	261.15	0.26	56.04	14.63	17.30	15.00	18.18	2.50	228.95
2005	254.50	292.68	0.29	55.09	16.12	19.14	15.38	18.74	-4.57	237.38
2006	264.42	304.08	0.30	51.31	15.60	19.49	15.38	24.90	-1.40	237.38
2007	308.58	354.87	0.35	46.15	16.38	20.66	15.38	26.15	-6.06	237.38
2008	587.75	675.91	0.68	44.47	30.06	27.12	22.56	-9.78	-24.94	394.83
2009	409.17	470.54	0.47	47.64	22.42	28.26	26.15	26.05	16.68	473.55
2010	386.83	444.86	0.44	45.11	20.07	28.45	26.15	41.76	30.33	473.55
2011	466.83	536.86	0.54	43.31	23.25	29.17	26.15	25.44	12.48	473.55
2012	396.83	456.36	0.46	42.23	19.27	30.04	26.15	55.85	35.71	473.55

(a) Vietnam price of rice, 25% broken (Food and Agriculture Organization)

(b) CIF border price = Vietnam price + 15%, \$/ m. tons

(c) Border price in \$/kg

(d) PhP/US dollar, (Bangko Sentral ng Pilipinas)

(e) Border price in PhP/kg

(f) Wholesale price of regular milled rice, 25% broken (Bureau of Agricultural Statistics)

(g) Table 1 (palay procurement price divided by 0.65, the rice recovery ratio)

(h) % difference between columns (f) and (e)

(i) % difference between columns (g) and (e)

(j) % difference column (g) and the WTO reference price PhP4.56/kg (Table 1)