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# **Analysis of Transaction Costs of Rules and Regulations in the Agricultural Distribution Sector<sup>1</sup>**

**Raymund B. Habaradas**

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## **ABSTRACT**

In general, rules and regulations enforced by the National Food Authority, the Sugar Regulatory Administration, and the Philippine Coconut Authority do not constitute a burden for traders. Respondents largely agreed that the rules and regulations themselves "neither promote nor discourage competition" but set the standards for a level playing field. The problem lies in the occasional failure in the enforcement of these rules and regulations, which could result in opportunity costs for the legitimate traders.

Overall, the regulatory agencies have largely been successful in fulfilling their enabling functions, but need to either strengthen their ability to perform their economic regulatory and constraining functions, or to review certain policies that seem to make life more difficult for the various players in the industry.

## INTRODUCTION

Many developing countries rely heavily on domestic agriculture to provide food and employment for a large part of the population. For others, it is a major source of export earnings. The Philippines, for example, continues to derive a significant portion of its foreign exchange by exporting agricultural commodities such as copra, sugar, mangoes, and pineapples.

Consequently, the performance of the agricultural sector has a strong influence on overall economic performance and a direct impact on the well-being of a country's people. The performance of the agricultural sector is, in turn, heavily dependent on the functioning of the agricultural marketing system, which refers to business activities leading to the production of agricultural produce on the farm and associated with its movement to the consumer or manufacturer. It includes the marketing of agricultural inputs (e.g. fertilizers) to farmers, as well as the initial processing and packaging, handling, transporting, assembling, storing, wholesaling and retailing of agricultural products (Cullinan, 1999).

Agricultural distribution is that segment of the agricultural marketing system that focuses on the activities that take place after the farmer harvests his or her produce, i.e. those activities that bring the produce to the final consumers. Farmers have several options in selling their produce. They could: (1) sell at farm gate; (2) deliver to a local assembly market; (3) supply a wholesale market direct; (4) sell directly to individual retailers or to large companies that have many retail stores or supermarkets; (5) sell to companies with whom they have an agreement or "contract" to buy the crop; or (6) sell directly to urban consumers.

While farmers might get a better price by deciding to sell closer to the final consumer, the costs involved might not result in maximum income for them. Their interests might be better served by dealing with traders who could bring the farmers' produce to the right markets more efficiently.

### **The components of marketing cost**

A key function of markets is price formation. According to Intal and Ranit (2001), efficient price formation matches the costs of storage, transportation, processing and other distribution services to their respective price margins. Price margins, in turn, influence the decision of the private businesses to provide agricultural distribution services, and the decision of government to regulate the same (Timmer, 1987). Extremely low price margins indicate that marketing participants are being squeezed by government policy. Very high price margins, on the other hand, could mean that: (a) there are informal taxes or barriers to domestic trade; (b) the quality of roads and other infrastructure facilities as well as domestic shipping services are so bad; and / or (c) traders have some monopoly power.

The monopoly by traders is largely believed to be the cause of the high prices of agricultural commodities at the retail level. In fact, traders are frequently accused of exploiting farmers by offering them very low prices at the farm gate. While such accusations are occasionally justified, the big differences between traders' buying and selling prices can often be explained by their marketing costs. Examples of marketing costs are: preparation and packaging, handling, transport, losses, storage, processing, finance, and fees, commissions and unofficial payments.

### **Role of government in agricultural marketing**

Cullinan (1999) says that laws are essential to any national agricultural marketing system because they establish the framework of property, contractual and other rights that form the foundation for markets and because they are the primary means of regulating the behavior of participants in markets. Furthermore, legal reform is one of the key tools available to policy makers wishing to reform agricultural marketing systems.

Legal reforms, particularly in the context of market liberalization programs, are usually intended to improve the efficiency and effectiveness of a marketing system. Whether or not a reform program is effective depends largely on the extent to which it achieves its policy objectives. An effective marketing system should provide outlets and incentives for increased production: if the agricultural marketing system

is inadequately developed, efforts to increase agricultural production are likely to be negated. Typical objectives include increasing rural incomes and ensuring affordable supplies of basic foodstuffs to urban areas. However, particularly in the past, marketing policies were sometimes designed to achieve other objectives, such as extracting surplus from agriculture in order to finance state investment in other sectors (Cullinan, 1999).

Even where a marketing system is effective in achieving its main objectives of bringing produce from farmers to consumers, it will still often be possible to make the system more efficient. Legal reform can play an important role in this regard by, for example, removing unnecessary restrictions and thereby reducing the costs of complying with the law (compliance cost), and by establishing a sound legal framework for marketing that will reduce uncertainty in the market. A legal framework that is clearly understood and is implemented in a consistent manner will help participants in the market to predict more accurately the consequences of their actions and the actions of others, and so reduce risk and improve the efficiency of the marketing system (Cullinan, 1999).

The intent is to avoid a complex regulatory system, which creates unnecessarily high transaction costs for players in the agricultural distribution industry. The concern is that high transaction costs may simultaneously result in farmers receiving low prices for their produce (which will reduce the incentive to increase agricultural production), and in higher food prices for consumers.

### **Objectives of the study**

This paper focuses on the legal and administrative framework that affects the agricultural distribution system in the country. It seeks to answer the following questions: What are the rules and regulations in the agricultural distribution services and trade sector? How do they affect competition or contestability within the industry? Do they impose any unnecessary burden on private initiative in the sector?

Specifically, this paper aims to briefly describe the agricultural distribution sector, to describe the regulatory regime of the agricultural

distribution services sector, to determine the transaction costs of rules and regulations on the agricultural distribution sector, and to determine the effects of the rules and regulations on private initiative in the sector. The study was limited to examining the marketing and distribution of the following major commodities: rice, corn, coconut, and sugar.

## STRUCTURE OF THE AGRICULTURAL DISTRIBUTION INDUSTRY

### A. Rice and corn

According to figures of the National Food Authority (NFA), the number of registered businessmen engaged in retailing, wholesaling, and retailing-wholesaling of rice and corn has steadily increased over the past decade, reaching its peak in 2000, after which it dipped to its lowest levels since 1994.

**Table 1. Registered retailers, wholesalers, and retailer-wholesalers of rice and corn, Philippines (1991-2002)**

Year	Retailers	Wholesalers	Retailer-wholesalers	Total
1991	61,144	4,605	16,958	82,707
1992	62,583	4,298	16,530	83,411
1993	63,180	4,168	16,290	83,638
1994	59,662	4,086	15,202	78,950
1995	63,218	4,873	14,367	82,458
1996	69,064	5,137	14,624	88,825
1997	67,511	4,458	14,161	86,130
1998	70,618	3,890	13,497	88,005
1999	72,332	3,832	14,042	90,206
2000	77,193	3,614	11,457	92,264
2001	66,946	3,514	10,034	80,494
2002	68,564	3,478	9,889	81,931

*Source: National Food Authority*

The total number of registered retailers also peaked in 2000, suffered a substantial drop the following year, but recovered a bit in 2002. The total number of registered wholesalers, on the other hand, declined over the past decade, except in 1995 when the number rose to 4,873 from the previous year's total of 4,086. This went up further to 5,137 in 1996, but has steadily declined since then.

Many rice and corn traders are in Luzon. Metro Manila has 13,805 registered traders (14.96%); Southern Tagalog, 10,706 (11.60%); and Central Luzon, 7,799 (8.45%). The other regions with the most number of traders are Eastern Visayas and Northern Mindanao (NFA, 2000).

Figures show that there are more retailers in the urban and more populous areas of the country, particularly Metro Manila, Southern Tagalog, and Eastern Visayas, while the wholesalers are concentrated on the major rice- and corn-producing areas of the country, such as Southern Tagalog, Central Luzon, Ilocos, and Cagayan Valley. These figures simply affirm the expected movement of rice and corn from the net-producing areas (where wholesalers abound) to net-consuming areas (where retailers make rice and corn available to the consuming public).

Finally, the total number of registered millers in the country has consistently dropped since 1991, when it stood at 13,003. Eleven years later, in 2002, there were only 9,938 millers registered with the NFA.

## **B. Coconut and coconut by-products**

The coconut industry in the Philippines comprises small, widely dispersed farm holdings scattered across more than three million hectares of land. Primary products are coconut oil, desiccated coconut, fresh coconut and copra, while by-products include copra meal, activated carbon, coconut shell charcoal and coconut coir and coir dust. Coconut end products include detergents soaps, shampoo, cosmetics, margarine, cooking oil, confectionery, vinegar and nata de coco. Coconut intermediates include oleochemicals such as fatty acids and fatty alcohols. According to the Department of Agriculture, there are about 2.5 million families in the industry adding up to some 3.4 million coconut farmers and farm workers (<http://www.da.gov.ph/agribiz/coconut.html#stats>).

The United Coconut Association of the Philippines (UCAP) in 1999 listed about 90 coconut oil mills with a total milling capacity of 16,477 metric tons per day (MTD). Most of these mills are located in the Laguna / Quezon and Mindanao areas. Average utilization of oil mills had been below 50% since the 1980s.

Also in 1999, UCAP listed 57 coconut oil refineries with a total production capacity of 5,486; ten desiccated coconut plants in Laguna, Quezon and Mindanao (total capacity - 385 MTD); eight plants producing activated carbon (total capacity -165 MTD); six coconut charcoal plants (total capacity – 115 MTD); and 20 oleochemical producers.

Figures released by the Philippine Coconut Authority (PCA) reveal that there were 7,816 registered copra traders and coconut lumber dealers / processors in 2003. Of these, 3,568 are copra traders, while, 4,248 are coco lumber dealers / processors. Central Visayas had the largest number of coconut lumber dealers at 1,498, while Eastern Visayas had the most number of copra traders at 782.

According to Rafael Baskinas, Department Manager of the PCA, the number of players in the distribution sector has grown over the past five years. His assessment is based on the increase in the number of processors and exporters, each of which generates its own set of traders, retailers and wholesalers.

However, Gerry Ong, Manager of the Coconut Oil Refiners Association (CORA), pointed out that the legitimate players in the distribution sector are threatened by the proliferation of illegal entrants in the coconut product business. In some areas, according to him, the number of traders has grown so much that it has become less attractive to engage in this type of business.

### **C. Sugar**

Sugar production reached a record high of 2.16 million metric tons in crop year 2002-2003. At this production level, the Philippines, which had been a net importer over the past two decades, attained 100% self-sufficiency. This production level allowed the country to meet local domestic demand of 1.9 M tons, and its export commitment to the USA of 137,000 metric tons. Production grew by 13.85% with only Luzon posting a negative 3%. Negros, Panay, Eastern Visayas, and Mindano registered growth rates of 18%, 22%, 36% and 11% respectively (SRA, 2004). In Crop Year 2003-2004, sugar production was projected to be within the range of 2.16 to 2.27 million metric tons, which enabled the SRA to allocate 4% of production for the world market.

Despite the increase in sugar production in recent years, however, the number of registered sugar traders has significantly decreased over the past two decades. It reached a peak of 437 in Crop Year 1991-1992, and dropped to its lowest level at 245 traders in Crop Year 2003-2004. The number has consistently declined since 1998-1999.

## ROLE OF REGULATORY AGENCIES

This section spells out the functions of the National Food Authority, the Philippine Coconut Authority, and the Sugar Regulatory Administration, using Cullinan's (1999) categories as a guiding framework. According to Cullinan, it is convenient to group the functions that laws perform in relation to agricultural marketing into three categories:

**Enabling functions**, which provide the essential legal framework for the marketing system (e.g. establishing property rights, enabling the establishment of legal entities such as cooperatives, rules about economic behavior, currencies, and negotiable instruments such as cheques) without which markets could not function.

**Economic regulatory functions**, which seek to promote, guide and discipline the operation of markets (e.g. laws dealing with competition, uniform weights and measures, product-quality standards, and tax); and

**Constraining functions**, often designed to restrict the operation of the market in some way in order to avoid what are perceived as socially undesirable consequences (e.g. environmental and consumer protection legislation).

Legal rules may also be classified on the basis of how they operate. For example, a distinction may be made between:

1. Regulation that establish a structure for market interactions but rely on the market to articulate preferences (e.g. by creating rights to transfer ownership of stored grain by transferring certificates of title to the grain)
2. Regulations that regulate conduct and so do not rely solely on the market to determine preferences



### 3. Regulations that attempt directly to specify the result or outcome

This classification gives a general indication of the extent to which a legal mechanism attempts to substitute political decision-making for the decisions of the market. For example, rules that specify an outcome (Category 3) are intended to override market decisions, rules in Category 2 to modify market decisions, and rules in Category 1 to facilitate the operation of the market. Furthermore, it would be expected that the cost of enforcing rules in Category 3 would be higher than for Category 2 and for the costs of enforcing Category 1 rules to be the lowest.

Relating this classification to the previous one based on the functions of the laws, legal rules that serve an enabling function would, generally speaking, relate to structure (Category 1) and would have low enforcement and compliance costs. Rules with an economic regulatory function would mainly prescribe conduct (Category 2) but may also seek to prescribe results (Category 3).

#### **A. National Food Authority (NFA)**

The National Food Authority (NFA) was created under Presidential Decree No. 4 (thereafter amended by Presidential Decree Nos. 699, 1485, and 8178), otherwise known as the National Grains Authority Act. The law was promulgated consistent with the State's policy "to promote the integrated growth and development of the grains industry" so that it can provide adequate and continuous food supply to the nation and contribute its proper share to the national economy. The Authority was created and organized to "undertake and assume primary responsibility for all government activities relating to the processing, storage, transport, and marketing of grains."

**Enabling functions.** One of the stated mandates of NFA is to "promote the organized interrelationship among the components of the industry" particularly, storage arrangements between producers and warehousemen, milling agreements between producers and processors, lease agreements between millers and warehousemen-lessees, financing agreements among producers, processors or warehousemen and the financial institutions, marketing agreements

between farmers, organizations and grouped processors, and arrangements embracing elements of the marketing system.

NFA has also been tasked to undertake the division of the country into regions or districts and to promote the grouping of fragmented private grain establishments into organized grain corporations or cooperatives that can serve as the base for grain milling districts to contain grain production potential and / or economic-sized grain warehousing, milling, packaging, and distribution complexes.

Among its functions is to issue grains bonded business licenses to qualified warehousemen, millers, corn shellers / threshers / dryer owners and / or operators who have complied with NFA's rules and regulations. It also grants franchises to owners / operators of NFA licensed bonded warehouses to enable them to issue negotiable warehouse receipts and avail of financing and other government programs.

The NFA also provides both negotiable and non-negotiable warehouse receipts to franchised bonded warehouses and only non-negotiable warehouse receipts to license grains bonded warehouses, and determines the rules and procedures in the issuance of these warehouse receipts.

**Economic regulatory functions.** The NFA's main regulatory function is licensing all lines of activities in the rice and corn business. The activities that require an application for a license are: retailing, wholesaling, milling, warehousing, threshing, corn shelling, processing / manufacturing, exporting, importing, indenting, packaging, and mechanical drying. The NFA determines the qualifications and disqualifications for license and registration, and the various licensing and registration requirements (e.g. facilities and equipment requirements, signboard requirements, listing of brand names, licensing and registration fees).

Other regulatory activities include the sampling and inspection of grains in order to ascertain the grade and quality of such. To undertake this function, the NFA has set standards concerning the moisture content of grains, and implements a classification and grading system

for palay, milled rice, corn grits, and shelled corn. It has also determined the standards for the packaging, labelling and weight measuring of rice and corn.

**Constraining functions.** The NFA has two major mandates, which illustrate its constraining functions: food security and price stabilization. On one hand, food security requires the NFA to maintain a rice buffer stock all over the country equivalent to 15 days national consumption or about 400,000 metric tons. These are stored in strategically located warehouses so that when a calamity strikes, people in affected areas will still have access to the basic staple. Supply and price stabilization, on the other hand, is done through palay procurement in surplus-producing provinces and rice distribution in deficit areas. NFA buys palay at a set procurement price, with incentives, and sells rice at a uniform price nationwide (PIA, 2004).

Over the past decade, however, the government has begun to reexamine the mandate of the NFA, whose deteriorating financial position it acknowledged to be due to "conflicting policy objectives." Maintaining stable prices all year round, within reach of the poor, and, at the same time, providing farmers with a reasonable profit have resulted in significant financial losses for the NFA, which carries the burden through its current general rice subsidy. Even then, prices have remained volatile, and incomes for farmers have been unduly low (ADB, 2000).

On 15 March 2000, the Estrada Administration decided to embark on a Grains Sector Development Program (GSDP) to overhaul the sector, and to make it more market-based, productive, and internationally competitive. The GDSP, which was supported by a US\$175 million loan from the Asian Development Bank, is an integrated package of policy and institutional reforms and sector investments to improve policies, infrastructure and support services, and institutional capacity at national and local levels.

Among the policy reforms suggested include the restructuring of the NFA from a grain marketing monopoly to a public regulatory agency. Specifically, these reforms meant the abolition of the NFA's monopoly on the importation of rice, opening up of importations to the private sector subject to appropriate tariffs, and separation and privatization of

NFA's trading functions. Separating the regulatory and marketing functions is expected to result in a food security program that is more consistent, cost-effective and transparent (ADB, 2000).

As of October 2004, the NFA was set to submit its rationalization plan to the Department of Budget and Management (DBM) pending the completion of the strategic review of its operations and organizational units, which the NFA management undertook over the past two years. According to NFA Administrator Gregorio Y. Tan Jr., the NFA's strategic review was "fast-tracked" to comply with the requirements of President Arroyo's directive to streamline the bureaucracy as spelled out in Executive Order 366 (PIA, 2004).

## **B. Philippine Coconut Authority (PCA)**

The PCA's mandate is "to oversee the development of the coconut and other palm oil industry in all its aspects and ensure that the coconut farmers become direct participants in, and beneficiaries of, such development and growth (PD 1468, Art. I, Sec. 2). Its mission is "to promote the development of a globally competitive coconut and other palm oil industry that would contribute to food security, improved income and enhanced participation of stakeholders" (<http://www.pca.da.gov.ph/>).

**Economic regulatory and constraining functions.** According to Administrative Order No. 003 (Series of 1981) – Rules and Regulations Governing the Export and Export Pricing, Marketing, Trading and Distribution of Copra, Coconut Oil and Other Coconut Products, the PCA was granted full power and authority to regulate the marketing and export of coconut products, and to initiate and implement measures needed to attain the rationalization of the oil milling industry.

The PCA's regulatory functions cover both natural and juridical persons who are directly or indirectly functioning as traders, processors, exporters, marine surveyors, trade intermediaries, and laboratories, chemists or analysts, which deal with the following products: (a) coconut, either whole or husked nuts, (b) copra, (c) dessicated coconut, (d) coconut oil, and (e) by-products of copra and coconut oil such as, but is not limited to, paring oil, crude coconut oil, cochin oil, refined

edible oil, acid oil, glycerine, methyl ester, fatty alcohol, and copra paring meal.

The PCA's main regulatory services include the issuance of permits to cut coconut trees, issuance of business permits, and assessment and collection of PCA fees. The fees authorized under Administrative Order No. 01, Series of 1993 are as follows: (a) registration fee, (b) moisture meter supervisory fee, (c) export processing fee, (d) laboratory services fee, (e) inspection and supervisory fee, and (f) other administrative fees. The PCA is also engaged in product quality control, and undertakes the following: (a) chemical analysis, (b) aflatoxin analysis, and (c) microbiological analysis.

An important regulatory function of the PCA is the setting of grades and standards for copra, coconut oil, dessicated coconut, and other coconut products. To further promote the quality and marketability of Philippine coconut oil and copra, for example, the PCA issued Administrative Order No. 2 (Series of 2003), which spells out the implementing rules governing the treatment and testing of moisture content in copra. The Order specifically prohibits copra buyers, traders, dealers, exporters, or millers from storing and trading copra with moisture content of 14% and above, which are "banned and considered non-merchantable." The revised guidelines were issued in response to the stricter requirements of the European Community concerning the aflatoxin content of copra meal used as feed ingredient.

The PCA is also mandated to protect the consuming public from unscrupulous practices such as the hoarding of coconut products to manipulate pricing policies, and other unfair trade practices such as adulteration, fraudulent designation, admixture, misbranding, etc. These activities are grounds for the suspension and / or non-renewal of a certificate of registration.

Other activities that could result in the suspension or non-renewal of a certificate of registration are the following: (a) giving any false statements in the application for registration; (b) misdeclaration in the application for export clearance of the following data: export price, volume, destination, periods, commodity, quality, etc.; (c) non-reporting

or misdeclaration of inventory in any disposition or location as may be required by the PCA; (d) non-posting of buying prices in conspicuous places in the buying stations or places of business; (e) giving any false statement in any other reports as may be required from time to time by the PCA; (f) violation of any of the provisions of the law intended to rationalize the coconut oil milling industry and / or of any of their implementing rules and regulations; and (g) non-compliance with or circumvention of export policies set by PCA pursuant to the grant of power and authority in furtherance of the steps being taken to rationalize the coconut oil milling industry.

The Regional and Provincial field units of the PCA are primarily responsible in the enforcement / implementation and monitoring of compliance or violations of the said rules and regulations in their respective operational jurisdictions.

### **C. Sugar Regulatory Administration (SRA)**

The central sugar policy and marketing organization in the Philippines is the Sugar Regulatory Administration (SRA), a government agency created during the Aquino Administration, on 28 May 1986 under Executive Order No. 18. The authority was established following the dismantling of the government monopoly institution existing at that time and the privatization of formerly nationalized sugar mills and refineries. Its mandate is to promote the growth and development of the sugar industry through greater and significant participation of the private sector and to improve the working conditions of farm workers.

Among its objectives are: (a) to institute an orderly system in sugar cane production for the stable, sufficient and balanced production of sugar for local consumption, exportation, and strategic reserves; (b) to establish and maintain such balanced relation between production and requirement of sugar, and such marketing condition that will ensure stabilized prices at a level reasonably profitable to the producers and fair to consumers; and (c) to promote the effective merchandising of sugar and its by-products in the domestic and foreign markets so that those engaged in the sugar industry will be placed on a basis of economic viability.

**Enabling functions.** One of SRA's main functions is the allocation of sugar production quotas so as to supply the domestic market and to fill the Philippine export quota to the United States. The SRA cannot buy, own, or market sugar. Sugar is marketed through a system of warehousing receipts (a.k.a., quedans), with the product being withdrawn from warehouses only on presentation of the receipts and a release order from the Authority.

There are four different types of quedan:

- A is sugar allocated for the US market in compliance with the country's quota requirements
- B is sugar for the domestic market
- C is sugar classified as reserve and may subsequently be converted either to A or B sugar as the need arises.
- D is sugar allocated for the world market.

The Sugar Regulatory Administration (SRA) determines the proportion of the sugar that goes to the different types of quedan. The "A" sugar is based on the percentage of production determined by SRA from the volume of the quota allocated to the Philippines by the US market and the estimated volume of production for the crop year. In Crop Year 2003-2004, this was set by SRA at 6 percent of the output of producers. Almost 90% was classified as B sugar, while 4% was classified as D sugar.

**Economic regulatory and constraining functions.** Rules and regulations are contained in the various Sugar Orders released by the SRA, which spell out the sugar policy for each crop year. The Sugar Orders specifically classify sugar, determine quedanning percentages, spell out the conditions for issuance of sugar quedan-permits / molasses storage certificates, and announces the non-revalidation of unused quedan permit forms.

Other relevant regulations include Sugar Order No. 8 (Series of 1994-1995) and Sugar Order No. 12 (Series of 1987-1988). Sugar Order No. 8 contains the rules and regulations covering the importation of sugar and sugar by-products intended for the domestic market. Sugar Order No. 12, on the other hand, provides for the monitoring of the

coastwise movement of sugar, which is meant to prevent, if not eliminate, the illegal entry / smuggling of foreign produced sugar into the Philippines.

Finally, the SRA imposes several fees on those engaged in activities concerning sugar. These fees include registration / renewal fees on sugar and molasses traders and processors of sugar-based products for exports, clearance fees for the export and import of sugar, swapping / exchange / surcharge fees, monitoring service fees, shipping permit, and request for additional allocation (food processor).

## TRANSACTION COSTS OF RULES AND REGULATIONS

Regulation typically involves issuing a license or permit to a corporate applicant, a firm, or subordinate jurisdiction, which lays out the terms of compliance agreed to by both regulator and regulatee (Littrel and Thompson, 1997). This section identifies the costs involved in the issuance of business licenses and / or certificates of registration for undertaking activities under the jurisdiction of the NFA, the PCA, and the SRA.

### A. National Food Authority

The National Food Authority (NFA) requires all persons, natural or juridical, who are engaged or are intending to engage in the rice and / or corn industry, to apply for a grains business license and / or grains business registration. A **license** is an authority or a privilege granted to a qualified applicant to engage in a particular line of activity, and is issued by the NFA for purposes of regulation. Among the lines of activity covered by a license are retailing, wholesaling, milling, warehousing, threshing, corn shelling, processing / manufacturing, exporting, importing, indenting, packaging, and mechanical drying. A **registration certification**, on the other hand, is issued to grains businessmen engaged in certain activities in the rice and / or corn industry for purposes of monitoring only. Among the facilities / lines of activities that merely require registration are the following: motor vehicles used or intended to be used in transport / hauling palay / rice and / or corn, warehouses, threshers, and shellers to be used for own produce, mechanical dryers and packaging machines for the owner's / operator's exclusive use (NFA, 1997).



**Application fee.** Upon securing an application, a new or renewal applicant for license and / or registration shall pay an application fee of P50.00 if he / she is engaged or is intending to engage in a single line of activity; but if the applicant is engaged or is intending to engage in two or more lines of activity, he / she shall pay an application fee of P100.00.

**Requirements for licensing.** Together with the accomplished application form, the applicant must submit two (2) copies each of the following requirements:

**Table 2. NFA requirements for licensing**

Type of applicant	Individual / Sole proprietorship	Corporation / Partnership / Cooperative
For new applicants	<ul style="list-style-type: none"> <li>• Passport-size photos of the applicant</li> <li>• Proof of Filipino citizenship if applicant for rice and / or corn business has acquired Filipino citizenship by naturalization or by any other means of acquisition as provided by law</li> <li>• Proof of ownership such as Deed of Sale, Certificate of Title, Tax Declaration; or other proofs of ownership. In case applicant does not own the facility, a certified copy of document allowing him / her use of the facility, such as a Contract of Lease</li> <li>• If applicant is an estate, Court Orders appointing the Special Administrator / Executor to apply for a license</li> </ul>	<ul style="list-style-type: none"> <li>• Secretary's Certificate of a Board Resolution authorizing the representative to sign for and in behalf of the corporation / entity</li> <li>• Passport-size photos of the representative</li> <li>• Article of incorporation and by-laws and all amendments thereto</li> <li>• Certificate of Registration with the SEC / Certificate of Cooperation with the Cooperative Development Authority</li> <li>• Proof of Filipino citizenship if applicant for rice and / or corn business has acquired Filipino citizenship by naturalization or by any other means of acquisition as provided by law</li> <li>• Proof of ownership such as Deed of Sale, Certificate of Title, Tax Declaration; or other proofs of ownership. In case applicant does not own the facility, a certified copy of document allowing him / her use of the facility, such as a Contract of Lease</li> <li>• If applicant is an estate, Court Orders appointing the Special Administrator / Executor to apply for a license</li> </ul>
For renewal applicants	<ul style="list-style-type: none"> <li>• Passport-size photo of the applicant</li> <li>• Income Tax Return for the preceding year</li> <li>• Financial statement showing the assets and liabilities for the preceding year if applicant's capitalization in the rice and/or corn business exceeds P100,000.00</li> <li>• Original copy of NFA license certificate issued the preceding year</li> </ul>	<ul style="list-style-type: none"> <li>• Passport-size photo of the authorized representative</li> <li>• Should there be a change of representative, a Secretary's Certificate of a Board Resolution authorizing the representative to sign for and in behalf of the corporation/entity</li> <li>• Copy of Information Sheet submitted to the SEC</li> <li>• Corporate Income Tax Return for the preceding year with audited Financial Statements certified by the BIR</li> <li>• Original copy of NFA license certificate issued the preceding year</li> </ul>

Source: Business Regulation Department, National Food Authority (1997)

For applicants for warehousing / milling / shelling / threshing / drying, the additional requirements are as follows: (1) postcard-size picture of the warehouse / mill / sheller / dryer; (2) location plan indicating the principal roads bounding the site of the warehouse / mill; (3) warehouse

plan indicating the materials used, floor area, height, storage space, or capacity and the space occupied by the mill or other facilities / equipment, if any; (4) for mills, location clearance from the Housing and Land Use Regulatory Board, and Environmental Compliance Certificate (pollution clearance from the Environmental Management Bureau, whenever applicable; (5) rice milling recovery should be at least 62% by weight and rice mills should be equipped with such mechanism for controlling and ensuring the milling quality of rice.

**Licensing fees.** In addition to the application fees, the applicant shall pay license fees and charges upon filing of the application. For retailing, licensing fees range from P100.00 to P400.00 depending on capitalization of the business. For wholesaling, the fees range from P300.00 to P3,500 depending on level of capitalization (NFA, 1997).

**Requirements for registration.** Together with the prescribed and accomplished application form, applicants who are required to register with the NFA shall submit two (2) copies of the following: (1) passport-size picture of the registrant or of the authorized representative, if corporation, partnership or cooperative; (2) For registration of transporting facilities used for hauling rice and / or corn: LTO Registration Certificate with LTO Official Receipt; (3) For registration of manufacturers, importers, dealers or distributors of post-harvest equipment, brochures containing the specifications and pictures of the equipment; and (4) original copy of NFA registration certificate issued the preceding year.

**Registration fees.** In addition to the application fees, the applicant shall pay a registration fee ranging from P100 to P200 per unit, for transportation facilities and other equipment.

**Licensing / registration procedure.** According to the NFA's brochure "Information on NFA Licensing and Registration of Grains Businesses", the procedure in filing for application for license / registration includes the following activities: (1) The applicant secures and accomplishes an application form, and submits it to the Registration and Licensing Officer (RLO) together with the documentary requirements, for processing and assessment of fees; (2) The required application and license / registration fees shall be paid to the NFA cashier, after which the official receipt and the application form shall be stamped by the RLO,

with the temporary permit and renewal schedule; (3) For new applicants, a facility inspection shall be conducted by the NFA Enforcement and Investigation Officer on the establishment; (4) An NFA license / registration certificate and sticker for post harvest facility shall be issued to the applicant or mailed immediately upon approval of the application.

According to NFA Senior Grains Officer Mr. Tirso Barrinuevo, the entire process takes about 20 to 25 days due to the need conduct a facility inspection. This was confirmed by NFA Grains Operations Officer Mr. Faustino Nuisa, who gave a more detailed explanation, as follows: Assuming that the trader has all the requirements, on the day a trader registers with the NFA, he or she will be given a temporary permit to operate for 30 days. The license will be given to him after, more or less, two weeks because the NFA Enforcement and Investigation Officer (EIO) must conduct a facility inspection before the issuance of a license.

The mere renewal of a license, however, can be completed in less than a day, assuming all the requirements are complete.

## **B. Philippine Coconut Authority**

The PCA's regulatory functions cover both natural and juridical persons who are directly or indirectly functioning as traders, processors, exporters, marine surveyors, trade intermediaries, and laboratories, chemists or analysts, which deal with the following products: (a) coconut, either whole or husked nuts, (b) copra, (c) dessicated coconut, (d) coconut oil, and (e) by-products of copra and coconut oil such as, but is not limited to, paring oil, crude coconut oil, cochin oil, refined edible oil, acid oil, glycerine, methyl ester, fatty alcohol, and copra paring meal.

**Requirements for registration.** The PCA lists a different set of requirements, depending on the type of business. For exporters / traders of coconut-based products, the requirements include a registration certificate issued by the Securities and Exchange Commission (for corporations), registration with the Bureau of Domestic Trade (for sole proprietorships / partnerships), Articles of Incorporation and By-laws (for corporations), Articles of Contract of Partnership (for partnerships), and a municipal permit / license. For trade intermediaries, the requirements include a broker's license and registration with the Bureau of Domestic Trade.

**Registration fees.** The registration fees vary depending on the authorized capitalization of the business. The adjusted fees, as listed in PCA Administrative Order No. 01, Series of 2003, range from "exempt" for those with authorized capitalization of P20 million and below, P20,000 for those with authorized capitalization of over P100 million.

**Registration procedures.** According to Rafael Baskinas, Department Manager at the Philippine Coconut Authority, traders are normally registered at the regional offices in areas where these traders do business. Only exporters, brokers, trade intermediaries and manufacturers or processors are required to register at the Central Office.

For traders, and those registering at the Central Office, renewal of registration can be finished in a few hours, according to Baskinas, assuming all documentary requirements are in order. Initial registration, however, will take at least three days because the process includes an inspection of the establishment.

### C. Sugar Regulatory Administration

The Sugar Regulatory Administration (SRA) is the government body that handles the registration and renewal of licenses of sugar and molasses traders and of processors of sugar-based products for exports.

According to General Administrative Order No. 1, Series 2002-2003, the fees and charges that are imposed and collected by SRA are as follows:

**Table 3. SRA fees and charges**

<b>Fees and charges</b>	<b>Amount</b>
<b>1. Registration / Renewal fee</b>	
a. Sugar and molasses traders	P12,000.00 per application
b. Processors of sugar based products for export	P2,000.00 per application
<b>2. Clearance fee</b>	
a. Export of sugar	P30.00 per metric ton
b. Export of molasses	P5.00 per metric ton
c. Imported refined sugar	P16.20 per LKg-bag
d. Imported raw sugar	P15.00 per LKg bag
<b>3. Swapping / Exchange / Surcharge fee</b>	
a. Regular swapping	P1.50 per LKg-bag
b. Advance swapping / replenishment	P2.50 per LKg-bag
c. Switching fee	P1.50 per LKg-bag
d. Liens on surrendered export certificates	P13.82 per LKg-bag
<b>4. Monitoring Service Fee</b>	
a. All sugar covered by raw sugar quedan	P2.00 per LKg-bag
b. Food processor	P10.00 per LKg-bag
<b>5. Shipping Permit</b>	P0.80 per LKg-bag
<b>6. Request for additional allocation (food processor)</b>	P2,000.00 per application

**Procedures in the Issuance of Licenses.** According to the flowchart entitled "Issuance of Licenses to Sugar / Molasses and Muscovado Traders" released by the SRA, 10 steps are needed to complete the licensing process.

1. The trader "on a first-come, first-served basis" submits to the One-Stop Shop the following requirements:
  - a. Municipal license / mayor's permit
  - b. DTI Certification of Registration of Business Name (Single Proprietorship)
  - c. SEC Certificate of Registration including Articles of Incorporation and By Laws (Corporation or Partnership)
  - d. CDA Certificate of Registration or proof thereof, including Articles of Incorporation (Cooperatives)
  - e. Tax Identification Number (TIN)
2. The One-Stop Shop receives and records the application, and releases the documents to the Licensing Division. This step (according to the flowchart) should take about 10 minutes.
3. The Licensing Division receives the documents, and verifies the authenticity of such. If the checklist is satisfied, the Licensing Division then computes and prepares the Order of Payment. If not, documents are returned to the trader. [15 minutes].
4. The trader receives the Order of Payment and pays the registration fee. [10 minutes].
5. The Treasury Division receives the payment and issues an Official Receipt. [10 minutes].
6. The Licensing Division processes / prepares, checks and initials / endorses the Certificate of Registration (COR). [15 minutes].
7. The Office of Manager receives / records / releases, reviews, and initials / endorses the COR. [10 minutes].
8. The Office of the Administrator receives / records / releases the COR. [10 minutes].
9. The Administrator or Assistant Administrator approves the COR.
10. The One-Stop Shop receives / records / releases the COR to the trader. [10 minutes].

## DISCUSSION OF SURVEY RESULTS

To get a better sense of the costs involved in dealing with the three regulatory agencies, we conducted a survey among millers and traders handling the commodities that are the object of this study. The results cannot be generalized since random sampling was not utilized, but the responses provided some useful insights concerning the fulfillment / enforcement of the regulatory functions of the three agencies. The respondents, after all, have been in the business for quite some time, and have actually dealt with these agencies over the years.

Interviews were likewise undertaken among officials of the three regulatory agencies, namely the National Food Authority (NFA), the Philippine Coconut Authority (PCA), and the Sugar Regulatory Administration (SRA). For the NFA, the respondents were Tirso Barrinuevo, Senior Grains Officer, and Faustino Nuisa, Grains Operations Officer III. For PCA, the respondents were Rafael Baskinas, Department Manager II, and Chalito Dizon, Market Regulation Division Chief. For SRA, the respondent was Daisy Fabia, Manager I, Sugar Transaction.

Officers of the industry associations were also interviewed. The industry association officers were: Antonio Porneja, President of the Confederation of Grains Retailers; Gerry Ong, Manager of the Coconut Oil Refiners' Association; and Vicente G. Castro, Deputy Director of the Philippine Sugar Millers Association, Inc.

The questionnaires used were divided into five sections. The first section dwelt on the registration, licensing, and renewal process of the regulatory agency; the second section included questions that assessed the compliance of traders with rules and regulations; the third section asked their opinion about the effects of rules and regulations on the traders; the fourth section asked a few questions about the state of the agricultural distribution sector; the fifth section solicited some suggestions on improvements or changes on the rules and regulations in their sectors. The results are presented accordingly.

## A. Rice

**Profile of respondents.** Aside from the two officials of the NFA and the President of the Confederation of Grains Retailers, there were eight other respondents for rice. Three of these are rice millers from Laguna and Bulacan, and the remaining five are owners of rice centers / traders in Manila and Marinduque. Seven businesses are sole proprietorships, while the remaining one is a corporation. The total number of employees of these companies ranges from two (2) to 20 people. The average number of years of existence of these businesses is 13 years, the youngest one having been in business for four years, and the oldest, having operated for 28 years.

**Evaluation of the registration / licensing process.** All eight respondents found the registration and / or licensing process of the NFA easy to understand and easy to follow. Four respondents said that the entire process takes about a week to complete, one respondent said it took about one to two weeks, another respondent said it took from two to four weeks, and another still said it took one month. One respondent said that it takes less than an hour, if the application is approved; otherwise it took several weeks. Antonio Porneja, President of the Confederation of Grains Retailers claims that the registration process takes a maximum of 15 minutes.

The response of Faustino Nuisa, Grains Operations Officer of the NFA explains the variety of responses among the traders. According to him: "Assuming that the trader has all the requirements on the day he registers with the NFA, he will be given a temporary permit to operate for 30 days. The license will be given to him after, more or less, two weeks. This is because a facility inspection must be conducted by the NFA Enforcement and Investigation Officer (EIO) before a license is issued." Tirso Barrinuevo, Senior Grains Officer of the NFA, confirms the process saying that the licensing process takes about 20 to 25 days "due to facility inspection."

Both officials of the NFA said that "assuming that all the requirements are complete", the renewal of a license could be done in less than a day. This was confirmed by Porneja and by four of the traders. The four

other traders, though, gave responses ranging from one week to three weeks. In any case, all eight traders expressed their satisfaction with the speed with which the registration and / or licensing process is completed. Barrinuevo attributes this to the simplicity of the procedures involved in the process. One trader even commended the NFA, saying that "they value their clients and do their work on time."

When asked about the usual causes of delay in the completion of the registration and / or licensing process, the respondents mentioned factors that are not due to any fault of the NFA, although one complained about the "piling up of registrants at the cashier's division." The most common cause of delay is the "lack of pertinent papers needed by the NFA people" or "incomplete registration papers" or "lack of requirements".

One respondent probably captures the sentiment of some traders: "Before we can operate our milling business, we need to secure permits from other agencies. These include the Mayor's Office, the Bureau of Fire Protection, and the DENR. Getting permits from these offices takes time, and that's the cause of delay." Of the eight respondents, four mentioned the need to deal with other government agencies to be able to operate their business, while three others said that a permit from NFA is enough. One had no response. The most commonly mentioned government unit is the Mayor's Office / City Hall (for the mayor's permit), followed by the Bureau of Internal Revenues (for taxes), the Department of Trade and Industry (for the business name). Other government agencies mentioned were the Department of Environment and Natural Resources, the barangay, the Fire Department, and the Social Security System. Two of these respondents complained about the high fees charged by their respective Mayor's Office.

When asked whether there are other costs involved in completing the registration / licensing process, six respondents did not mention any; one respondent mentioned paying "association fees" of less than P100, while another mentioned P45 (referring to the application fee).

When asked whether "unofficial costs" (e.g. facilitation fees, bribes, etc) are involved in the registration / licensing process, six traders



responded negatively, and one did not give a response. This was supported by Porneja who pointed out that "to secure a license is easy" and that, therefore, there is "no room for bribery and delay." However, one respondent revealed: "Case-to-case basis, from P300 to P500. This is usually a lunch date."

Six of the respondents did not have any complaints about the registration / licensing process. One asked why the NFA requires an ID picture annually, and suggested that the said requirement be dispensed with upon renewal of the license. Another complained that NFA inspectors play favorites, claiming that "there are some traders who are given favors."

### **Enforcement and compliance with rules and regulations.**

Majority of the respondents credits the NFA for fairly implementing its rules and regulations among traders. A trader from Manila said that "NFA people inspect the rice centers annually" and that "they are very strict." A manager of a rice mill in Bulacan observed that the NFA "conducts random visits" and "gives appropriate actions to violators." A manager of a rice center in Marinduque, on the other hand, said: "as far as I know, all traders' stores are inspected regularly."

However, four respondents acknowledged that there are traders who are able to operate without a license. All four claimed that there are small traders, usually sari-sari stores, which can operate without a license. This was affirmed by both officials of the NFA.

Barrinuevo explains: "It's difficult to monitor all traders especially the small ones because they are too many. That being the case, it is almost impossible to assure that all traders secure a license. Nevertheless, this is not mainly because traders would not want to register but because they don't know that they have to register, especially the ones in the barrio."

Nuisa confirms this saying that "there are some traders who don't know that they need to get a license from NFA. While there are some small traders who cannot afford to pay the fees."

Several respondents felt that this situation is unfair to them. Among their responses are: "License fees are additional costs to me. I have to recover these expenses." "Since operating legitimately involves payment of licenses, permits, and taxes, traders who are able to operate without a permit can usually set lower prices, which makes it impossible for legitimate traders to compete with them." "It affects us in a sense that they earn without spending a single centavo to pay the government."

Two of the respondents, however, are sympathetic to the plight of small traders, as reflected in their responses. A trader from Marinduque says: "Some traders are too small. They only sell one to two sacks of rice that they harvested from their own farms. They are not regular traders. Inspectors simply ignore them." An owner of a rice center in Manila suggested that "NFA personnel should ignore sari-sari store because they are too small to be bothered about by the fees and other rules and regulations. In fact, they should be given incentives to be motivated to do more business rather than discourage them by so many rules and regulations and fees." For these two respondents, the small traders have no significant effect on their own operations.

When asked about the traders' degree of compliance with the rules and regulations of the NFA, four respondents answered that there was a "low degree of compliance (60% or less)", two said that there was a "moderate degree of compliance (61% to 80%)", while one said there was a "high degree of compliance (81% to 100%)". One did not give a response.

Barrinuevo assessed the degree of compliance to be high, saying that "those who are registered comply with the rules because registered stores are inspected every year" and that "besides, the rules are easy to follow."

Nuisa, however, characterized compliance levels as moderate, citing the hoarding and mixture of rice as most problematic areas. According to him, some wholesalers hoard in a large scale "to create artificial shortage." There are also many traders who mix the NFA rice with commercial rice, selling the same for the price of commercial rice. There are still others who sell exactly the same quality rice (even from the same sacks) at different prices.

This situation was confirmed by one respondent from Manila who alleges that "there's bribery in the wholesale sector". According to him "there are Chinese traders who buy good quality NFA rice imported from other countries. These will be re-sacked and sold as commercial rice." The NFA rice, instead of being sold at P16, is therefore sold at P18 to P22 as commercial rice.

Nuisa explained that it is difficult to determine whether commercial rice has been mixed with NFA rice because NFA rice and commercial rice come from the same seed, i.e., the seeds of imported NFA rice come from the Philippines (exactly the same as the ones being planted locally). Thus, the grains are the same. In some instances, however, NFA inspectors manage to catch violators. This happens when the NFA rice that had been mixed was of poor quality (i.e., smelly, grayish). Another instance would be when traders are caught in the act of mixing. This is usually facilitated by reports / complaints coming from co-traders and / or consumers.

Nuisa admits that "the problem is political" since some wholesalers have connections in Malacañang. "If we arrest these traders," he said, "we will lose our jobs. Besides, these traders will never go to jail." One respondent reflects the resignation of Nuisa concerning this issue: "I don't know how NFA can solve it. There seems to be connivance between the traders and the inspectors."

**Effects of rules and regulations on traders.** When asked about the effect of NFA rules and regulation on competition among the players in the industry, four responded "neither promote nor discourage competition among the traders", two responded "promote competition among the traders", and one responded "discourage competition among the traders." One did not give a response. This general sentiment is reflected in the responses of Barrinuevo, Nuisa, and Porneja, who all answered "neither promote nor discourage competition among the traders". Barrinuevo, however, said that the perceived relationship between NFA rules and the level of competition is "difficult to determine."

Nuisa said that "the main factors affecting competition are market forces, not the rules and regulations." One trader complained that "the

NFA is giving too many permits and to new traders particularly." This observation, nevertheless, reinforces the contention of Nuisa, since it would appear that there are businessmen who still find rice trading a profitable undertaking.

When asked if the rules and regulations of the NFA impose any undue burden on the traders, three answered YES, four answered NO, and one had no response.

One respondent specifically complained about the limited allotment given to traders of NFA rice, which jacks up the cost per sack of rice—"the number of sacks that can be bought at one time is so limited. With the high transport cost, it is impossible to sell rice at the prescribed price." The same respondent said that, when there is a shortage of rice, instead of supporting traders by allocating enough sacks of rice that traders can buy, the NFA lowers the allocation per trader. This enables the big millers to control the price.

Another Manila rice trader explained how the government's policy of setting a ceiling price for rice whenever there is a shortage of supply, works to the disadvantage of traders, placing them in a difficult position. "If the cost per kilo of rice is P20 and the price ceiling is set at P18, I cannot comply because I'll be losing P2, so the traders have no choice but to hoard." [Note: The last time the government set a price ceiling was during the Ramos Administration].

Porneja shared this concern, saying that the policy concerning the mark-up on NFA rice distributed by retailers has to be reviewed. "Since time immemorial," he relates, "only P1 per kilogram is allowed as mark-up, not enough to sustain the program. Overpricing results to apprehensions and eventual suspension of rice allocation, hindering the pro-poor programs of the government."

Finally, a small rice trader in Marinduque observed how every time there is a change in the President of the Philippines, "there is also a change in the billboard", adding to her cost of doing business.

**State of the distribution sector.** Five of the respondents characterized the degree of competition among the players in the industry

as “strong”, while two of the respondents characterized it as “moderate”. The two officials of the NFA said that the number of traders, retailers, and wholesalers in the distribution sector “has remained constant over the past five years”, which matches the statistics released by the agency. As of the end of 2002, there were almost 82,000 traders registered with the NFA.

According to Porneja, the economic crisis resulted to the slowdown of other lines of businesses. The grains sector, in particular, “managed to show some success stories, thereby, resulting to a shift from other lines to the grains industry.” This view was shared by all the other respondent traders, as reflected by their responses: “There are so many people engaged in this kind of business.” “The stores are located side by side.”

**Suggested improvements or changes on rules and regulations.** There seems to be a general sentiment that “existing laws are good enough” and that there is no need to make changes to promote growth and greater competition in the distribution sector. “What is needed is strict implementation”, according to a rice trader from Manila, whose business has been operating for 18 years. The existing distribution system, he says, is already good. Besides, “it is not practical for retailers to get directly from the farmers.”

A rice trade trader from Marinduque observes that “the competition is already strong. What should be done is to improve the monitoring and implementation system. If some traders can cheat without being apprehended, legitimate and honest traders may also, sooner or later, find illicit ways to get their product sold at a lower price.” This same trader said that rice mixing will be rendered useless if commercial rice is sold at the same price as NFA rice. “Lowering the price of commercial rice can be achieved,” he said, “by improving the agricultural system.” He suggests that government direct its efforts instead to improving the irrigation system and farm-to-market roads, lowering the transport and production costs of farmers, and expropriating or renting unutilized land to farmers at a very low cost.

A rice miller from Bulacan agrees, saying that the NFA must “conduct research on how to improve and produce more palay so that our farmers

can be benefited and get extra income. He said that more production and plantation of palay will eventually contribute to the growth and efficiency of the distribution sector.

Barrinuevo, Nuisa, and Borneja all agreed that the current system is "already good" and that it is a matter of focusing on the implementation of these rules and regulations, particularly those concerning the smuggling, hoarding and mixing of rice.

## **B. Coconut**

**Profile of respondents.** Aside from the two officials of the PCA and the Manager of the Coconut Oil Refiners' Association, there were eight other respondents for coconut. One of these is a coconut oil miller from Quezon, another copra trader from Quezon, and six traders from Marinduque. All eight businesses are sole proprietorships. The average number of employees of these companies is 9.6, ranging from two (2) to 22 people. The average number of years of existence of these businesses is 21.25 years, the youngest one having been in business for six years, and the oldest, having operated for 40 years.

**Evaluation of the registration / licensing process.** All eight respondents said that the registration and / or licensing processes of the PCA are easy to understand and easy to follow. Five respondents said that the registration / licensing process can be completed within a day; one said that it takes about a week, while another said that he can't remember. The coconut oil miller estimated three to six months, since the registration for manufacturers / processors must be done at the Central Office in Manila.

The renewal of a license is equally easy. Chalito Dizon, Market Regulation Division Chief of the PCA, said that it only takes one to two days to complete both registration and renewal of licenses. Five respondents said it takes only about a day, two said it takes about a week. The coconut oil miller from Quezon said that it takes about two months to renew his company's license.

Gerry Ong, Manager of the Coconut Oil Refiners' Association (CORA), said it takes about six weeks to complete the registration

process, and about three to four weeks to complete the renewal of one's license. Ong added that "if bureaucratic red tape is reduced, the process could be shortened considerably."

According to Rafael Baskinas, Department Manager of the PCA, traders are normally registered at the regional offices where they do business; only exporters, brokers, trade intermediaries and manufacturers / processors are required to register at the Central Office. "For traders and those registering at the Central Office, assuming all documentary requirements are in order, renewal of registration can be finished in a few hours." Initial registration, however, will take at least three days because the process includes an inspection of the establishment.

All eight respondents expressed their satisfaction with the speed of registration and renewal of licenses, including the coconut oil miller, who explained that "although it takes months to renew, we can continue our operations while the renewal is ongoing, so the period for renewal doesn't really matter to us."

Delay in the registration / licensing process is usually caused by incomplete registration papers and / or requirements. Delay may also be caused by the absence of a signatory to the license, requiring the registrant to return to the same office again. The miller takes some time to pay VAT for some of its products, causing some delays in the renewal of its license.

Dizon explained that when the desiccated coconut sector was regulated before 1991, there were lots of complaints from the traders, which had to meet so many requirements. Sometimes, even if the traders met all the requirements, "licenses were still not issued because the number of traders was also controlled" to avoid the oversupply of desiccated coconut. This was addressed with the deregulation of the sector through Department Administrative Order No. 2 (Series of 1991).

When asked whether there were other costs involved in the registration and / or licensing process, six respondents said none, while one mentioned the cost of notarizing the application form (P100).

Another respondent mentioned a surcharge of P210, in addition to the renewal cost of P1,500. Only one respondent said that there are "unofficial costs (e.g. facilitation fees, bribes, etc) based on the general experience of traders, but claimed that he has not experienced paying these unofficial costs himself. He admits, though, that he once went to the association's office "with some pasalubong".

Ong, on the other hand, confirmed that there are "expediting fees" involved in the registration / licensing process, but he did not cite a specific amount. According to him "there is a continuing discussion among the association's leaders and PCA officials" to address the problem of red tape. However, he said that the movement of personnel in PCA is often a barrier because "new personnel mean new people to deal with," and everyone has to start all over again.

**Enforcement and compliance with rules and regulations.** Six of the eight traders said that the PCA fairly implements its rules and regulations. One respondent, in fact, described PCA personnel as "efficient, honest, and hardworking." One respondent, however, said that the PCA does not implement its rules fairly because "some small traders can operate without any license here in Quezon." One respondent did not have a response.

Practically all the respondents acknowledged, though, that there are those who are able to operate without a permit, a fact admitted even by the PCA officials interviewed. Dizon explains that "it is difficult to monitor traders because they are too many. What we effectively monitor are the big ones. We had an agreement with the Bureau of Customs to check if copra exporters have PCA clearances and permits."

The PCA officials said that limited personnel have hampered their ability to monitor traders. The PCA usually has only one personnel in a municipality, but in some provinces, there is only one field personnel for three or even more municipalities. Therefore, it is not uncommon that there are traders who have no license, particularly in remote areas, where traders are not aware that they have to get a license. "Some don't even know that PCA exists," Dizon added.



Dizon also recounted that "there are some areas like Mindoro, where our personnel are being harassed by the NPA, so we cannot really go after the traders even if they violate our rules." One respondent, on the other hand, revealed that there are copra buyers in the remote areas who operate on a commission basis under a financier. In effect, these buyers act as agents of the financier. They do not secure any license because their financier already has one."

This situation, according to Baskinas, "translates into an uneven playing field" Unregistered traders gain a certain advantage in terms of less overhead costs, which they can factor into their prices either in buying or selling. One of the respondents also pointed out that the weighing scales of these traders may not be accurate because these illegal traders cannot be monitored.

When asked to characterize the traders' degree of compliance with rules and regulations, there were differences in the assessment of the people interviewed. Among the traders, two said that there was a "high degree of compliance (81% to 100%)", two said that there was a "moderate degree of compliance (61% to 80%)", one said that there was a "low degree of compliance (60% or less)", while three said that it was difficult to determine.

The two PCA officials admit that the level of compliance, particularly in adhering to standards set by the Authority for products, leaves much to be desired given the PCA's personnel constraint. Dizon said that "the rule about moisture content is usually violated through the connivance of retailers and farmers. Farmers are also not given a premium price for good quality copra." This is supported by the responses of some of the traders.

The Authority's response, according to Baskinas, "is basically one of regulation and motivation (carrot and stick)." The regulatory response, he explained, involves increased enforcement and monitoring, which finds its limitation in the actual resources that the agency has at hand. "Notable also is our recent amendments to existing rules and regulations," Baskinas adds. "We are engaging the private sector in policing its own ranks."

**Effects of rules and regulations on traders.** The PCA officials interviewed believe that the rules and regulations implemented by the Authority "promote competition among the traders" primarily because it provides for an even playing field. This was also the view of the industry association and three of the traders who responded to the survey. The four other respondents said that the rules "neither promote nor discourage competition among the traders."

According to Baskinas, "the rules, inclusive of their built-in incentives and sanctions, are even-handed. Additionally, from a comparative viewpoint and considering usual and normal ground conditions, monitoring of compliance and adjustments to results of this monitoring can be regarded as more than fair." Baskinas adds, that while these rules and regulations "impose additional financial and reportorial requirements", these could not be considered "undue burden" going by the current standards in the playing field. Majority of the traders who responded agreed. Ong, however, had a contrary opinion—"fees are high" and "sometimes seem to be unreasonable."

When asked whether they had to deal with other agencies to be able to operate their businesses, five respondents answered YES, two said that a permit from PCA is enough, while one did not respond. The agencies they had to approach include the city / municipal hall for the mayor's permit, local taxes and sanitary permit; the barangay hall for the barangay permit, the BIR for taxes, the DTI for the business name, and the Bureau of Fire Protection for the fire safety tax. Two of the respondents complained about the expensive mayor's permit, one complained about the payment of VAT for some products, while the rest did not consider these as an additional burden for them.

**State of the distribution sector.** Given the relative lack of statistics coming from the PCA itself, we asked the PCA officials, based on existing statistics and their personal assessment, whether the number of players in the distribution sector has increased or decreased over the years. They came up with conflicting assessments. Baskinas said that the sector "has grown over the past five years," while Dizon said that the numbers have "fluctuated unpredictably over the past five years." Baskinas, however, backed up his claim by saying that his assessment

is based on the increase in the processors and exporters, "each of which generates its own set of traders, retailers, and wholesalers."

Most of respondents, however, agreed that market forces have affected the number of players in the sector. Five respondents said that there was "strong competition," while two others said that there was "moderate competition" among the traders. Ong specifically cited "cut-throat competition and the proliferation of illegal entrants" as factors that have reduced the profitability of the legal players. Baskinas, on the other hand, cites the level of production and the demand for the product as critical to growth of the distribution sector.

**Suggested improvements or changes on rules and regulations.** Baskinas opines that the current rules of the PCA are enough to promote greater competition in the distribution sector. He said that implementation must be improved, "but we have to live with the fact that levels of implementation are often a function of the resources of implementing agencies, which is often lacking." Dizon agrees, saying that additional funds are needed by the agency. "Through recent administrative orders, we increased our fees. We hope to get more money so that we can improve our service."

Respondents pointed out, however, that reviving the coconut industry as a whole is imperative to growth of the distribution sector. Among their suggestions are the following: (a) massive replanting of coconut, (b) research and development for new technology, (c) improvement in infrastructure, i.e., roads, networks, communication, transportation, etc., and (d) trade missions to open up markets for foreign investments.

## C. Sugar

**Profile of respondents.** The respondents for sugar include Ms. Daisy Fabia, Manager for Sugar Transaction of the Sugar Regulatory Administration, Mr. Vicente Castro, Deputy Director of the Philippine Sugar Millers Association (PSMA), and representatives of seven milling and / or trading companies, namely: Mr. Juan Balisalisa of Lopez Sugar Corporation; Mr. Nards Calmerin, Business Planning Manager of Central Azucarera Don Pedro; Ms. Delaila Gabitoya, Head of Sales and Trading

of Central Azucarera Don Pedro; Mr. Steven Chan, President of Central Azucarera de Bais; Mr. Dante Damian, Sugar Trader of Cargill Philippines; Mr. Pablo Lorenzo, Owner of Adlerberg Industrial Corporation; Ms. Liza San Juan, Sugar Trader of ManSugar (formerly Southwind Sugar Corporation); Mr. Joey Villacrusis, Financial Analyst of Hacienda Luisita Corporation.

The companies they represent are all corporations, which have offices at Makati City. The average age of the seven companies is 33.71 years, the youngest having been in existence for only seven years, and the two oldest companies having existed for 77 years each. The seven companies have an average number of employees of 742.43, ranging from only two to as much as 3,000 employees.

**Evaluation of the registration / licensing process.** All the respondents from the seven companies agreed that the registration / licensing process of the SRA is easy to understand and easy to follow. Several respondents, however, complained that the collecting and processing of the requirements could take time. One respondent said that “the difficulty lies in the processing since we need to get the allocation requirements from the SRA.” Another observed that while the procedures are easy to follow, “the processing is not that fast. Government agencies make it difficult. It takes a lot of time and patience.”

The registration / licensing process, according to five respondents, took about a week to complete. One said it took at least a month, while another claimed that the submission of requirements is easy, “but the releasing [of the license] depends on the availability of the signatory.” Renewal of licenses, on the other hand, took about a week, according to four respondents. One said, it would take at least two weeks, while another said it would take about three weeks. The remaining respondent said it depends on the availability of the signatory.

Vicente Castro, Deputy Director of the PSMA, says the milling permit takes one day or two, if the checklist of requirements is okay. “However, if the signatory is out, there is a need to wait. But as long as the requirements are complete, there is no problem.”

While five of the seven individuals interviewed expressed satisfaction with the speed of the registration process, their detailed responses concerning the causes of delay betray some discontent. Three respondents attributed the delay to the SRA personnel: "Usually it is the people involved in the handling of papers; sometimes the papers are not being taken care of; *kailangan ng follow-up*. They need to be pushed every now and then to speed up the processing." "Absence of signatories; backlog; uncoordinated records / data (discrepancies, unreconciled)." "*Minsan mabagal*. The processing can be very slow. Some people don't want to work overtime. As the need arises, *kailangan bayaran ang overtime pay*."

Two people expressed dissatisfaction, saying that they expect a much faster procedure in obtaining a license because "it delays the issuing of *quedans*."

One respondent, however, pointed out that since the license is renewable annually, the company must file a new one immediately. "*Kung kulang ang requirements, sorry, matagal talaga* [If the requirements are incomplete, it really takes time]. It all depends on the applicant." Another respondent said that even if the Certificate of Registration (COR) has not yet been released, getting an official receipt after payment [i.e., the fourth step in the 10-step procedure] "is as good as being registered."

When asked about other costs involved in the registration / licensing process, six companies said there were none, except for "tips" and "tokens of gratitude such as corporate gifts" and "representation expenses once they become your friends". One respondent mentioned the need to pay residence certificates, business permits, barangay clearance, and VAT before registering with the SRA, which, he clarified, "are totally independent activities."

When asked whether unofficial fees (e.g. facilitation fees, bribes, etc.) were involved in the registration / licensing process, the respondents from all seven companies said there were none, but one hinted that "they are very minimal, not that significant *padulas*." Another

explained that “no unofficial costs are involved since deregulation has been established”; another respondent claimed there was no need for such (“*hindi naman kinakailangan*”).

When asked what the usual complaints of traders are concerning the registration / licensing procedure, Daisy Fabia of SRA said that she was not aware of any. Three respondents from the companies said there were none, while the others gave varying responses.

Liza San Juan, a sugar trader of ManSugar, complained about the occasional changes in procedures (“*pabago-bago ang procedure paminsan-minsan*”), and said she would appreciate a simpler, more specific, and faster process.

Steven Chan, President of Central Azucarera de Bais, complained that the law-abiding establishments are burdened with red tape “because of the irregularities committed by a few. Surprisingly, these erring establishments are still issued licenses by the SRA.”

Joey Villacrusis, Financial Analyst of Hacienda Luisita, supposes that traders based in the provinces “might have to go to Manila just to register” if the SRA does not have provincial or regional offices in their areas. He admits that this could be inconvenient and cumbersome for them.

Nards Calmerin of Central Azucarera Don Pedro, however, said that “as far as difficulties are concerned, SRA officials are very open. Should things get messy, they have some arbitration regarding the matter, and they meet the industry players concerned.”

**Enforcement and compliance with rules and regulations.** When asked the question “Do you think the SRA fairly implements the rules and regulations among the traders?” six answered YES (including Castro of PSMA) and two answered NO.

One respondent asserted that “there is no fair implementation of rules and regulations because several traders who have been caught to violate the same were not given disciplinary actions. In fact, they still

continue to be issued licenses and permits." Another hinted that certain officials at the SRA issue policies that favor certain firms in exchange for financial considerations (*lagay*). Another respondent observed that SRA seem to favor traders over planters and millers. "Even though traders are the object of complaints of millers and planters when it comes to profit sharing, traders are a necessary evil. Without them, there is no movement of sugar," he said.

Three respondents, however, assessed the current administration of the SRA positively: "He [the SRA administrator] tries to be fair as he can, and I have been with the sugar industry for 20 years." "The incumbent administration is very fair and open. *Okay ang leader*." "Renewal is considered complete with registration. No *padrino* system, no *pa-merienda*, and no *pasigarilyo* [no special favors, no snack money, no cigarette money], based on my experience so far."

When asked whether traders are able to operate without a permit, three said YES, three said NO, and one said he did not know. The respondents agreed that "it is difficult to do so" because traders cannot withdraw sugar from the mills without a license / SRA permit. Some of them acknowledged, however, that there are some unlicensed small traders who work for licensed traders on a commission basis. One respondent says this happens "because the risk of getting caught is low," and there is no serious monitoring on the part of the SRA. According to another respondent, if an unlicensed trader defaults, "SRA could not be called for help to enforce the rules" because the defaulting partner has not obtained a license in the first place.

The respondents from the milling companies, though, said that they did not deal with illegal traders, as captured in this response: "For anyone to engage in a business transaction with Luisita, he / she must have a license first. There is a master list provided by SRA. If the name is not in the list, we don't transact with them." The traders we interviewed, on the other hand, revealed the occurrence of smuggling, especially in the Visayas and Mindanao. These "guerilla traders" (illegitimate traders), who operate at a very low cost" can afford to sell sugar at much lower price to the detriment of legitimate traders, millers, and ultimately the sugar farmers themselves.

Most of the respondents agreed, though, that the degree of compliance with the rules and regulations of the SRA is high among registered sugar traders because there are not many rules involved on the part of the trader. Castro, explained that "marketing of sugar has long been established" and that players could not transact without a license because the firms are familiar with each other.

One respondent, however, said that compliance was only moderate; one said that compliance is low. The problem lies with the failure of the SRA to eliminate smugglers [who take advantage of the movement of sugar through shipping], which constitute roughly 5% of the entire sugar industry, according to the estimate of one respondent. Another respondent, however, said that certain businessmen in Binondo are really the culprits. He said that in Binondo (where the market of sugar is 60% wholesale and 40% industrial), the non-issuance of official receipts is rampant, and therefore, the correct withholding tax of traders cannot be determined.

When asked whether there are "unofficial costs" involved in complying with SRA rules and regulations, five respondents answered NO, while two answered YES. Again, some respondents mentioned "representation expenses" (e.g. token gifts, snacks, lunch, or dinner), which they still considered official. One respondent, however, said that certain officials that frame specific rules favoring certain players receive a "percentage share of the windfall profits."

**Effects of rules and regulations on traders.** The people interviewed had varied opinions on whether SRA rules and regulations promote or discourage competition among the traders. Three said that these "neither promote nor discourage competition". One said the rules "promote competition" while another said they "discourage competition." Two did not respond.

One respondents said that "SRA is concerned with regulation only" and acts to protect the interest of the industry. Competition actually comes from the NFA since the NFA sells sugar too. Another respondent said that some Sugar Orders, by their nature, are favorable to large traders and prevents the small and medium traders from competing.



"The Sugar Orders become exclusive to the favored group, eliminating competition, and often results in irregularities. The beneficiaries then share the windfall." This was affirmed by another respondent, who said that certain policies favor some traders because [these policies] shrink export volumes."

Villacrusis, on the other hand, pointed out that Hacienda Luisita completely dominates the Central Luzon market, and therefore does not worry about competition. "It would be quite expensive for other competitors to enter Central Luzon because we can compete with them in terms of price. We are the market leader in the area; we are the largest sugar refinery as well. We have our mill, refinery and distillery (integrated operation)."

Asked whether the rules and regulations impose any undue burden on the traders, six respondents answered NO, while one answered YES. One complained that a fraction of the proceeds of sugar sales is donated to a research foundation (SMDF) and to marginalized planters or workers, which implies a subsidy. The rest, however, believe that everything is in order, and that the costs involved (e.g. renewal fee of P12,000) are really part of doing business.

When asked whether they had to deal with other agencies to be able to operate their businesses, three respondents answered YES, while four said that a permit from SRA is enough. The agencies they had to approach include the SEC, the BIR, the DTI, the BOC, the LTO, and the Coast Guard. When asked whether dealing with these agencies resulted in undue burden for them, two said YES, three said NO, and two did not respond. One specifically complained about the confusing nature of transactions with the BIR, the LTO, and the Coast Guard.

**State of the distribution sector.** The degree of competition among traders, according to most of the respondents, is strong. Only the representative of Hacienda Luisita said that there was no competition at all.

Several respondents characterized the transaction that takes place between the millers and traders as "cut-throat" or "head-to-head", with the mark-up reaching as low as P1 per kilo. Those who can obtain

sugar at the cheapest price are the ones who are very competitive. One trader said that "we maximize the buying of sugar and sell it at a low price. We earn profit through volume sales." One respondent said that "amongst the favored interest group (large operators), the degree of competition is strong, though not necessarily above reproach; amongst the small and medium traders, it is also strong, but trading is fair and transparent."

Majority of the respondents believe, however, that competition is due largely to market forces. All but one of the respondents said that SRA's rules and regulations neither promote nor discourage competition among traders. The lone voice said that SRA's favoritism "discourage competition between the large operators and the rest of the small and medium traders."

**Suggested improvements or changes on rules and regulations.** A variety of responses were solicited concerning changes that can be made on government rules and regulations to promote growth and greater competition in the distribution sector.

One respondent simply batted for a more transparent implementation of the rules and regulations—"Wala dapat kinikilingan" (There must be no favoritism). This view was supported by another respondent, who believe that more traders will be encouraged into the market by making the rules "clear, transparent, and fair". This means disallowing Sugar Orders that give undue advantage to special groups. Another called upon the SRA to "review permits and to involve industry players through meetings in reviewing provisions should there be any room for improvement." Several suggestions were directed towards the red tape in SRA, which "could be a source of corruption".

Other suggestions referred to matters that are not directly the responsibility of the SRA, such as the issues concerning smuggling and taxes. According to Castro, addressing smuggling is "beyond the capacity and power of the SRA", and is rightly the responsibility of the Bureau of Customs. The payment of correct taxes, on the other hand, is the concern of the Bureau of Internal Revenue. There is also a need to coordinate closely with the National Food Authority concerning the selling of sugar.

The ultimate solution to these problems, though, would be increasing the productivity and efficiency of the various players of the industry so that the price of sugar at the mill gate and at the retail markets could be brought down without sacrificing the interests of the farmers. Improving the country's infrastructure, for example, will contribute to reducing transport costs, and thus reduce the market price of sugar. Castro advocates "the modernization of sugar mills to achieve global competition and to be at par with global standards."

## SUMMARY AND CONCLUSIONS

This paper sought to answer the following questions: What are the rules and regulations in the agricultural distribution services and trade sector? How do they affect competition or contestability within the industry? Do they impose any unnecessary burden on private initiative in the sector?

Specifically, the paper described the agricultural distribution sector and its regulatory regime, determined the transaction costs of the rules and regulations on the agricultural distribution sector, determined the effects of the rules and regulations on private initiative in the sector, and explored what regulatory refinements can be made in order to enhance the benefits and attenuate the negative effects of existing mechanisms and alternative arrangements. Hereunder is the summary of our findings:

**Industry structure.** Statistics coming from the concerned regulatory agencies show that there had been a decline in the number of registered rice / corn, and sugar traders, as well as of rice / corn millers, over the past few years, although the total number of players remains substantial.

Specifically, the number of rice / corn retailers reached a peak of 92,264 in 2002. It dropped substantially in 2001, but recovered somewhat in 2002. The number of rice / corn wholesalers, however, has been declining since 1996, suggesting a slight consolidation of the wholesale sector. The number of sugar traders has, likewise, experienced a decline since 1998.

Based on the assessment of the PCA officials, the number of copra traders has increased. The number coconut oil processors, however, has remained constant because of the utilization requirements imposed by the PCA on existing mills.

**Transaction costs.** All three agencies require millers / processors and traders to acquire certificates of registration or licenses for them to be able to operate legitimately. These licenses and permits must be renewed annually. Although all of the respondents thought that the registration and licensing processes of the three agencies are "easy to understand" and "easy to follow", the procedures of the SRA seem to take much longer compared to those of the NFA and the PCA. In the cases of NFA and the PCA, delays are usually caused by failure of registrants to submit complete requirements. For the SRA, however, the relatively protracted process, which involves several offices and which involves apparently redundant steps, seems to result in more instances of inconvenience on the part of the registrants.

In general, the rules and regulations themselves do not constitute a burden for the millers and traders interviewed. NFA application fees range from P50 (one line of activity) to P100 (for two or more lines of activity). Licensing fees for retailers range from P100 to P400, while licensing fees for wholesalers range from P300 to P3,500 depending on the level of capitalization of the business. In short, license fees are determined with the size of business taken into consideration.

The same principle is followed by the PCA, which exempts businesses with a capitalization of less than P20,000.00 from paying registration fees. Fees range from only P60.00 (for businesses with capitalization of P30,000 or below) to as much as P20,000.00 (for business with capitalization of over P100.0 million). The PCA also charges other fees for additional services (e.g. export processing fee, laboratory analysis fee, inspection and supervisory fees).

The SRA, on the other hand, charges processors of sugar-based products for export P2,000.00 per application, and sugar and molasses traders P12,000.00 per application. It also charges additional fees for other services (e.g., clearance fee for export or import of sugar,

swapping / exchange / surcharge fee, monitoring service fee, shipping permit, and request for additional allocation).

Aside from the above-mentioned fees, some "unofficial costs" (e.g. facilitation fees, bribes) are involved in isolated cases. Those who mentioned instances of "unofficial costs" considered these costs minimal. In several cases, the companies have already set aside "representation expenses" for meals and / or tokens of appreciation for officials of the said agencies.

**Effects of rules and regulations on competition.** The respondents largely agreed that the rules and regulations themselves "neither promote nor discourage competition" but set the standards for a level playing field. The problem lies in the occasional failure in the enforcement of these rules and regulations, which could result in opportunity costs for the legitimate traders.

In the case of rice, for example, the mixing of NFA with commercial rice allows unscrupulous traders to sell their commercial rice at lower prices. There are also suspicions of bribery in the wholesale sector, particularly among Binondo traders, who purportedly buy good quality cheap NFA rice imported from other countries, re-sack them, and pass them off as more expensive commercial rice.

Some respondents attribute these violations not only to inadequacies in enforcement but also to failure of policy. For example, the government's policy of setting a ceiling price for rice whenever there is a shortage of supply places traders in a difficult position, especially if the price ceiling is lower than their purchasing price. Antonio Porneja, President of the Confederation of Grains Retailers, therefore, suggested a re-examination of the policy concerning the mark-up on NFA rice, which seems to be forcing some traders to violate the law.

For coconut, the PCA itself admits that there are traders who are able to operate without a permit. Also, there are unlicensed copra buyers in the remote areas who act as agents of a financier, who is the only one who has a license. Unregistered traders gain a certain advantage in terms of less overhead costs, which they can factor into their prices

either in buying or selling. Limited personnel, according to PCA officials, have hampered their ability to monitor traders. Given its limited resources, the PCA has engaged the private sector in policing its own ranks.

In the case of sugar, there are reported instances of violators who have not been given disciplinary actions, and whose licenses have been renewed. There are also accusations that certain Sugar Orders favor larger traders at the expense of the small and medium players in the industry. Another serious concern is the smuggling of cheap sugar from other countries, one that threatens the operations of legitimate traders and millers, and ultimately the income of sugar farmers throughout the country. This could be addressed in the short-term by tougher measures by the SRA, the Coast Guard, and the Bureau of Customs. The long-term solution would be to improve the productivity of farmers and to increase the efficiency of millers through new technology, coupled with improvements in infrastructure facilities, so that the cost of producing, processing, and distributing sugar could be substantially reduced to render smuggling a less attractive option.

Overall, we conclude that the regulatory agencies have largely been successful in fulfilling their enabling functions (e.g. establishing property rights and setting the rules for economic behavior). The quedan system, as implemented by the Sugar Regulatory Administration, seems to have worked for the sugar industry for so long, even if there are certain quarters that question the wisdom of certain Sugar Orders issued by the SRA. The same goes for the NFA's issuance of warehouse receipts to franchised bonded warehouses and license grains bonded warehouses, which facilitates the trading of rice / corn in the country.

However, these regulatory agencies need to either strengthen their ability to perform their economic regulatory and constraining functions, or to review certain policies that seem to make life more difficult for the various players in the industry. The NFA's proposed rationalization plan, stemming from a perceived "conflict of policy objectives" (coupled with the deteriorating financial position of NFA), seems to be a step towards the right direction, and could probably be replicated by the two other agencies.

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## FOOTNOTE

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