

PD-ABI-932
84007

EVALUATION OF THE SELF-HELP MEASURES
UNDER THE BILATERAL FOOD AGREEMENTS
IN THE PHILIPPINES

(ORDER NO. 492-0432-0-00-9105-00)

FINAL REPORT

NOVEMBER 2, 1989

Submitted By:

CESAR G. SALDANA
Contractor

TABLE OF CONTENTS

	Page -----
I. EXECUTIVE SUMMARY	1
A. Objectives of the Evaluation	1
B. Summary Evaluation	1
C. Conclusions and Lessons Learned	5
D. Recommendations	7
List of Abbreviations	9
II. SCOPE OF WORK	10
A. Objectives	10
B. Report	10
C. Method	11
III. LIBERALIZATION AND REGULATION OF FERTILIZER TRADE	13
Executive Summary	13
A. Background	14
B. Objectives of the Self-Help Measures	15
C. Implementation	16
D. Achievements	27
E. Other Issues	29
TABLES	
Table 1 Fertilizer Imports and Domestic Production, All Grades, 1975-1988	31
Table 2 Fertilizer Subsidy Claims, 1973-1988	32
Table 3 Comparative Estimated Prices of Urea, Peso per 50-Kilogram Bag, 1980, 1985 1986-1989	33

	Page

Table 4 Average Import and Retail Prices Selected Fertilizers Grades, 1980-1988	35
Table 5 Licensed Fertilizer Handlers, 1978-1988	36
Table 6 Average Price Increase (Decrease) of Selected Fertilizer Grades, Peso per 50-Kilogram Bag, 1981-1988	37
Table 7 Summary of Results, Fertilizer Self- Help Measures, 1985, 1986, 1988	38
IV. LIBERALIZATION OF WHEAT IMPORTS AND FLOUR DISTRIBUTION	40
Executive Summary	40
A. Background	41
B. Objectives of the Self-Help Measures	41
C. Implementation	42
D. Achievements	54
TABLES	
Table 8 Total Government Profit/Loss from Purchase and Sale of Imported Foodgrain Wheat, 1983-1985	60
Table 9 Wheat and Flour Prices, 1975-1987	61
Table 10 Wholesale Flour Prices	62
Table 11 Philippine Wheat Imports and Domestic Flour Production, 1975-1988	63
V. GRAINS PRICE STABILIZATION PROGRAM	64
Executive Summary	64
A. Background	65
B. Objectives of the Self-Help Measures	65
C. Implementation	67
D. Achievements	77

	Page

TABLES	
Table 12-a Average Farm Profit in 1972 Prices, 1978-1988	84
Table 12-b Expected Farm Profit from Effective NFA Operations, in 1972 Prices, 1978-1988	84
Table 13 Retail Prices of Rice, 1978-1988	85
Table 14-a NFA Rice Procurement, 1978-1988	86
Table 14-b NFA Vs. Market Price for Palay, 1978-1988	86
Table 14-c NFA Procurement of Corn and Support Price vs. Market, 1984-1988	87
Table 15 NFA Rice Distribution, 1984-1988	88
VI. DIVESTITURE/PRIVATIZATION OF NFA/DA CORPORATE INTERESTS	89
A. Background	89
B. Objectives of the Self-Help Measures	89
C. Implementation	90
Table 16 Budgetary Support to Philippine Cotton Corporation (PCC) and Philippine Dairy Corporation (PDC), 1985-1989	95
D. Achievements	96
ANNEXES	
Annex 1 Policy Statement of GOP on Agricultural Sector 15 April 1985	98
Annex II Executive Order No. 1028	101
Annex III Status Report by GOP on Self-Help Measures	104
Annex IV Chronology of Events on FY 1985 PL 480 - I	105

		Page

Annex V	PL 480 1986 Title Agreement Chronology of Events	116
Annex VI	FY 1987 PL 480 Title II Section 206 Chronology of Events	131
Annex VII	Chronology of Events for Fiscal Year 1988 PL 480 - I	140

EVALUATION OF THE SELF-HELP MEASURES UNDER THE
BILATERAL FOOD AGREEMENTS IN THE PHILIPPINES
(ORDER NO. 492-0432-0-00-9105-00)

FINAL REPORT

I. EXECUTIVE SUMMARY

A. OBJECTIVES OF THE EVALUATION

The overall objective of the Evaluation is to conduct a critical review of the performance of the GOP in achieving the policy self-help measures under the PL480 Title I and II and Section 416 commodity assistance programs from 1985 up to 1988 and make recommendations for future self-help measures. GOP performance is related to the objectives of the self-help measures. Finally, achievement of the measures' desired developmental impact is assessed whenever feasible.

B. SUMMARY EVALUATION

1. Liberalization of Fertilizer Trading and Deregulation of Fertilizer Prices

The self-help measures of liberalized fertilizer trading and deregulation of prices were implemented. The objective of enabling farmers to obtain fertilizer at competitive world market prices was well-achieved. This favorable evaluation is based on market and institutional assessments conducted in this Project. Fertilizer prices are shown to have moved toward competitive world prices as a consequence of the self-help measures. Farm costs have gone down, contributing to increased farm profitability. There were consistent reductions in

tariff, to a current level of only 5 per cent. The number of importers, traders and distributors of fertilizers have increased over the period. With regard to the institutional role of the Fertilizer and Pesticide Authority (FPA) it has divested its traditional interventionist role in the fertilizer market. FPA's role has also been redirected towards various service functions in support of the Department of Agriculture.

The remaining points for possible future self-help measures or policy dialogues are in the remaining five per cent tariff protection (if necessary) and the GOP's continuing involvement in two corporate entities: Philphos and Planters Products, Inc. (PPI). Such role in corporate operations might lead to potential ambiguity in a market-oriented policy currently pursued by the GOP in the fertilizer sector.

2. Privatization of Wheat Importation and Flour Distribution

The measure to divest the National Food Authority (NFA) of its role in wheat importation and flour distribution was implemented. However, the underlying objective of ensuring that competitive/efficiency conditions shall prevail in this industry was not necessarily achieved. There are remaining questions about the "cartel-like" behavior of the flour millers, the continuing existence of tariffs and vulnerability of direct importers to retaliation by the flour millers acting in cartel. NFA is currently incapable and unable

to take a constructive policy posture partly in view of the divestment of its role and its ineffectual monitoring of the industry.

There remain some potential residual issues for future policy dialogues. The Guingona Committee at the Senate recently recommended the creation of a Regulatory Board, with a strong NFA lobby. This amounts to a regulatory layer with no obvious and compelling prospect for influence on competitive market conditions. Removing tariffs offer better policy support for competitiveness. However, the transportation and handling costs of flour cause natural barriers to trade, limiting the effects of tariff reduction measures. Allowing free entry and exit of flour millers possibly offers the more long-term advantage in terms of market efficiency. But this might lead to short-term dislocation and/or realignment of the flour millers. The situation can then be described as a crossroad, with policy options for regulatory, direct government involvement (NFA can import flour), tariff-induced competition and an industry shake-out scenario.

3. Grains Stabilization Policy and Deregulation of Price for Rice

The measures of deregulating the ceiling price for rice and requirement for the announcement of a price range for NFA to act as a "buyer or seller of last resort" were implemented. On the other hand, the measure requiring a statement of a grains price stabilization

policy was not implemented. The overall objectives of the self-help measures were not achieved. An evaluation of some aggregate indicators show evidence inconsistent with the objectives of increased farmer profits, stabilized consumer rice prices and relegating the role of NFA in the market to a buyer or seller of last resort.

The remaining issues for policy dialogue in this area are quite fundamental. There is an obvious remaining measure to be implemented: the policy statement on grains price stabilization. However, the underlying basis for such a policy, rather than the statement itself, should be where the Mission should focus. Available studies show that historical policy directions taken by DA were beneficiary-oriented and cost-based. In contrast, truly market-oriented policy would be opportunity cost-based. Policies were also saddled by dual, opposing objectives. Policy dialogues should be conducted prior to the announcement of the grains stabilization policy.

4. Privatization of NFA/DA Corporations

Divestments of the corporations under NFA and DA were initiated and are in process and could be considered implemented. While there have been delays, advanced stages of privatization has been achieved as follows:

- a) KADIWA - fully divested
- b) Food Terminal, Inc. - for bidding

- c) Philippine Cotton Corporation - with the Assets Privatization Trust (APT)
- d) Philippine Dairy Corporation - divestment plan completed, assets leased out
- e) Tabangao Loading Facility - with APT
- f) Digos and Northern Grains Complexes - up for approval

There are very little further gains to be made in pursuing the privatization process for these corporate entities from a markets efficiency viewpoint. Given that these corporations are no longer in operation, these organizations have no impact on the market. For the Mission, what is left is merely the issue of encouraging/divesting the GOP to disposing of its nonperforming assets. There are already considerable attention exerted by various sectors on the GOP on this aspect.

C. CONCLUSIONS AND LESSONS LEARNED

A pattern can be derived from associating achievements of the self-help measures, the objectives of these measures and the performance of GOP.

When the self-help measures are clearly identified and set, they were usually implemented. An exception is the "policy statement" on grains stabilization. But as pointed out, such a statement needs to be underpinned by a complex set of basic policy choices.

When the objectives of the self-help measures are clear and simple as in the liberalization of the fertilizer sector and the privatization of corporations, they were well-achieved. Privatization was delayed due to legal and institutional (APT) impediments.

When these objectives were clear but follow-on effects could not be readily foreseen as in the flour milling case, the measures led to short-term achievements, conditional on longer-term questions. In this case, competitive efficiency conditions may have remained weak and the set of future policy options is reduced to one: the self-help measure just taken (NFA's direct market intervention). In cases like this, studies should be conducted to outline the long-term consequences of the measures relative to the stated objectives.

When the objectives are fairly complex as in grains stabilization program, they are not achieved through the self-help measures. Looking back, this should not come as a disappointment or surprise. There is no clear tie-up of the self-help measures with the objectives. It may also be seen as a limitation of these self-help measures as a single tool in face of a global result area ("grains stabilization"). In such cases, self-help measures, an essentially short-term tool, should be integrated with other policy instruments directed at the larger objectives.

D. RECOMMENDATIONS

One question concerns commodity areas that the Mission should consider in future PL 480 self-help measures.

Rice, corn and wheat remain as the most viable commodities for the USPL 480 programs in the Philippines. Rice and corn are the major food staples but domestic supply remains subject to production shortfalls. Meanwhile, wheat remains to have a strong commercial value although US dominance as a supplier could be eroded by competitive pricing by other country sources.

What the Mission needs is some capability to project medium-term commodity needs of the cooperating sponsor. For rice and corn, this should ensure that PL 480 commodities will not cause disruptions in domestic supplies as happened with the FY 1985 rice shipments. For wheat, Philippine flour millers will be assured of quantities which can be programmed into their future needs, thus, assuring US wheat growers of a market for their produce. Of course, this arrangement assumes that the Mission has some knowledge of the availability of PL 480 commodities. This means that the Mission has to seek more information from Washington and US Department of Agriculture on the availability of supplies and potential supply problems in order to allow for contingency planning.

A second question concerns recommendation for changes in planning for future policy reform measures.

If the long-term goal is to achieve a more viable and stronger agricultural sector as defined in the Mission's

agricultural strategy, a comprehensive approach would involve a series of policy reform measures and productivity enhancement steps directed towards the general policy objective. This means that the Mission should consider moving out of single-year programs if it is to achieve longer term policy objectives more effectively. Impact and leverage for the Mission would be enhanced if self-help measures are incorporated in multi-year agreements. With a multi-year program, provision of commodity resources in the succeeding years could be made contingent on the cooperating sponsor's compliance with the terms of the agreement, particularly those for implementation during the preceding years.

If multi-year agreements cannot be achieved, a weaker alternative is to prepare joint (with GOP) multi-year indicative programs, i.e., joint plans that fall short of agreements. These documents will enable both GOP and the Mission to signal self-help measures indicated for longer-term implementations. The advantage is in the facilitation of the next single-year agreement from the viewpoint of both parties. In this sense, the start-up and negotiation aspects of policy reform measures associated with each agreement can be minimized.

LIST OF ABBREVIATIONS

The following acronyms for names of government agencies and other institutions are used in this report.

AAPP	Accelerated Agricultural Production Project
AID	Agency for International Development
APT	Assets Privatization Trust
CCC	Commodity Credit Corporation
DA	Department of Agriculture
FPA	Fertilizer and Pesticide Authority
FTI	Food Terminal, Inc.
GOP	Government of the Philippines
IFDC	International Fertilizer Development Center
NFDA	National Food Authority
PAFMIL	Philippine Association of Flour Millers
PHILBAKE	Philippine Bakers, Inc.
PCC	Philippine Cotton Corporation
PDC	Philippine Dairy Corporation
PHILPOS	Philippine Phosphatic Fertilizer
PHILRICE	Philippine Rice Research Institute
USG	Urea Suprogranules
USDA	US Department of Agriculture
USG	United States Government

II. SCOPE OF WORK

A. OBJECTIVES

The overall objective of this Evaluation is to conduct a critical review of the performance of the GOP in achieving the policy self-help measures under the PL 480 Title I, Title II (Section 406), and the Section 416) commodity assistance programs. The main focus shall be on the GOP with analysis to include the role of the Mission in the formulation and monitoring of the self-help measures.

The specific objectives are to evaluate the program in terms of the following areas:

- 1) Specific program objectives
- 2) Policy reforms related to the self-help measures of PL 480 program. Effectiveness in, and progress of implementation.
- 3) Achievement of the desired developmental impact. Identification and attribution of any unintended consequence or impact of the policy measures.

A final specific objective is to recommend the direction of AID's future PL 480 Program in terms of introducing policy self-help measures and possible support of other AID agricultural initiatives.

B. REPORT

The Evaluation requires the preparation of the report "Evaluation of the Self-Help Measures under the Bilateral Food Agreements in the Philippines" with the following main

components:

- 1) Documentation of the process and accomplishments of the PL 480 in respect to the policy self-help measures for the period around 1985 through 1988.
- 2) Evaluation of the pace of implementation and impact of the self-help measures, including possible determinants of such performance.
- 3) Recommendations for future PL 480 self-help measures.

C. METHOD

The methodology which was employed in this Evaluation consisted of standard post-evaluation procedures as prescribed in current USAID Manuals, which included the following steps:

- 1) **Documentation.** Prepared a detailed schedule of events related to the PL 480 Program including the formulation, implementation and monitoring of self-help measures and key source documents associated with each event.
- 2) **Milestones.** Out of the preceding documented PL 480 Program events, identified significant events, or milestones, relative to the policy self-help measures.
- 3) **Before-and-After Analysis.** The milestones were classified into those which happened before the specific PL 480 Program (e.g., 1985 Title I) and

those which happened after the specific program. This approach indicated circumstantial relationships between the policy measure and GOP actions but not necessarily causal ones. The latter were established in the next steps.

- 4) **Attribution.** Identified roles played by each GOP institution and the Mission in the preceding events/milestones.
- 5) **With-and-Without and Impact Analysis.** Evaluated whether the milestones would have been achieved after the specific PL 480 Agreement (on self-help measures) even without the self-help policy measures. If not, then the event was associated with the self-help measure.

III. LIBERALIZATION AND DEREGULATION OF FERTILIZER TRADE

EXECUTIVE SUMMARY

For years, the Government of the Philippines has pursued a fertilizer policy having apparently two conflicting objectives to: lower the domestic prices of fertilizers and to develop the local fertilizer industry. Interventionist policy instruments failed to achieve these goals simultaneously as evidenced by the soaring domestic fertilizer prices until the mid-1980s and the continued high-cost operations of local fertilizer firms, all to the detriment of the Filipino farmer. The 1985, 1986 and 1988 PL 480 Title I Agreements provided for a number of self-help measures aimed towards vital reforms in the country's fertilizer sector and sustaining any progress made thereafter. These self-help measures dealt with the liberalization of fertilizer importation and deregulation of its distribution, the removal of direct and indirect subsidies, the consideration of various measures intended to lower fertilizer prices and increase its use, and the broadening of the service functions of the Fertilizer and Pesticide Authority.

Significant changes have occurred and continue to occur in the fertilizer sector since the 1985 PL 480 Title I Agreement. Following the fertilizer trade liberalization in that year, a more competitive atmosphere has dominated the sector, resulting in a larger number of fertilizer importers-distributors, impressive reductions in fertilizer prices despite the continued devaluation of the peso, and growing fertilizer demand. Likewise, the GOP has implemented some of the recommendations of the Fertilizer

Sector Study, including the reduction of nominal tariff on all fertilizer grades from 20 per cent to 5 per cent, the creation of a Standing Committee to develop measures regarding fertilizer use and research, and the expansion of FPA's service roles in the areas of research coordination, fertilizer quality standard enforcement and data monitoring and dissemination. Currently, research on urea supergranules (USG) is on-going and the farm-level survey on fertilizer use is about to be contracted out. Furthermore, in a move to cut fertilizer subsidy expenditures, the FPA has proposed the withdrawal of all customs duties on fertilizers that are not locally produced.

To the extent, therefore, that the GOP has instituted fundamental reforms in the fertilizer sector and continues to demonstrate a real concern towards achieving the objectives of the fertilizer self-help measures, compliance to these self-help measures has been achieved.

A. BACKGROUND

The PL 480 Title I Agreements in 1985 and 1986 were intended to assist the efforts of the GOP at structural adjustment; provide balance of payments support; and help in the policy reforms being undertaken that would encourage efficiency in important agricultural markets in the country. In furtherance of these objectives, the intentions of the 1988 PL 480 Title I agreement were the lowering of subsidies being granted to various domestic agricultural marketing activities and the removal of the remaining government interventionist policies in these areas to enhance

their efficiency. In this regard, the focus of several of the self-help measures was on the fertilizer sector which has been of critical importance in the country's food production program.

B. OBJECTIVES OF THE SELF-HELP MEASURES ON FERTILIZER

The specific objective on fertilizer of the 1985 agreement was to make more competitive the then existing fertilizer importation and distribution systems with the view of reducing domestic fertilizer prices. To realize this, the Fertilizer and Pesticide Authority will issue on or before 15 July 1985 guidelines which will let any private firm or group to import fertilizer; allow FPA to intervene in the market by directly importing fertilizer on its own account but only in the situation where prices are unreasonably high; and restrict FPA from subsidizing -- through unfair taxes, surcharges, tariffs and duties on imported fertilizer -- the local fertilizer industry.

The self-help measure to be undertaken under this agreement, thus, is the adoption of the policy of liberalizing fertilizer importation and distribution to all interested parties including the immediate removal of the direct and indirect fertilizer subsidies.

For the 1986 agreement, the goal of the self-help measure on fertilizer was to prepare the grounds for fair competition by fertilizer importers and traders thereby bringing domestic fertilizer prices as close to world prices as possible. In this connection, the GOP would consider for

implementation the recommendations of the fertilizer sector study that would be financed by USAID and due for completion by 31 December 1987.

Even as no explicit specific objectives on fertilizer were contained in the 1985 agreement, the relevant self-help measures which the GOP would undertake were to review and consider by 31 December 1988, measures which would lower domestic fertilizer prices to farmers that is at par with world market prices and broaden by 31 January 1989 the service functions of the FPA. To achieve the latter, the FPA would a) coordinate its activities with other related government agencies and the research and extension community and b) monitor current developments on fertilizer trade as well as provide such information to the domestic fertilizer sector.

C. IMPLEMENTATION

1. Significant Events

- a. The GOP's commitment to open up fertilizer trading to include other firms in addition to the four (4) existing ones^{1/} (Letter of Instruction No. 1419, August 1984).

^{1/} These included Planters Products, Inc. (PPI), Atlas Fertilizer Corporation (AFC), Maria Cristina Fertilizer Corporation (MCFC) and Fertilizer Marketing Company of the Philippines (PHILPOS). Philphos, a state-controlled firm, started operations in 1985.

- b. The GOP commitment to undertake sectoral reforms, including the deregulation in the production and trading of agricultural outputs and inputs (Executive Order No. 1028, 31 May 1985).
- c. Issuance by the FPA of the implementing guidelines for the liberalization of fertilizer importation which is open to all interested entities (FPA Memorandum Circular No. 85-01, 14 June 1985).
- d. Declaration by the FPA of full liberalization of the importation and distribution of all fertilizer grades in the country and setting forth the information needed from each prospective importer/distributor (FPA Memorandum Circular No. 85-02, 14 June 1985).
- e. Signing of the 1985 Title I Agreement on 8 July 1985.
- f. Exclusion of imported phosphatic-based fertilizers from the privilege of availing the 20 per cent subsidy being granted to imported fertilizer grades which were not being produced domestically (FPA Board Resolution, 20 May 1986).
- g. The FPA relinquished its control over fertilizer procurement but maintained existing fertilizer price ceilings (FPA Memorandum Circular No. 1 Series of 1986, 20 May 1986).
- h. Signing of the 1986 Title I Agreement on June 20, 1986.
- i. The 10 per cent advance sales tax on fertilizer imports which were locally produced (phosphate-based)

was ended co-terminus with the adoption of the value added tax system effective 1 January 1988.

- j. Agriculture and Food Secretary Carlos Dominguez, in his letter to the Tariff Commission Chairman, appealed for the immediate reduction in the tariff of fertilizer imports to bring domestic fertilizer prices down to world fertilizer prices (20 January 1988).
- k. The FPA issued guidelines on the enforcement of quality control standards for fertilizers (FPA Memorandum Circular No. 1 Series of 1988, 3 May 1988).
- l. Signing of the 1988 Title I agreement on 23 May 1988.
- m. The effective tariff of locally-produced fertilizer imports was reduced from 20 per cent to 5 per cent, with the 15 percentage point-reduction granted as an indirect subsidy to local-producers. (NEDA Board Resolusion No. 70 series of 1988, 12 October 1988 and which was approved by the FPA Board on 14 October 1988).
- n. The nominal tariff rates on all fertilizer grades were reduced to 5 percent effective 30 August 1989 (Executive Order No. 364, 30 July 1989).

2. Evaluation

Since the 1970s the twin policy objectives of the Government of the Philippines for the domestic fertilizer sector have been to develop the local fertilizer industry

and to lower the domestic prices of fertilizers. To achieve these goals, the government used a combination of policy instruments in the forms of price and direct cash subsidies, tax exemptions and protective tariff. A more coordinated interventionist stance was taken with the creation in 1977 of the Fertilizer and Pesticide Authority (FPA) through Presidential Decree No. 1144 which was expressly tasked to regulate, control and develop the local fertilizer industry. By preventing the entry of new firms in the sector, granting tax exemption privileges to certain fertilizer grades and determining, inter alia, the level and schedule of domestic fertilizer production, the volume and grades of imports and the wholesale and retail prices of all fertilizer grades, the government succeeded in transforming the local fertilizer industry into one wherein the protected firms produced inefficiently and fertilizer prices were no lower than the preceding years.

Between 1977 and 1984, although domestic fertilizer demand was rising, local production (mainly phosphate-based grades) actually declined principally because of the shutdown of the plants of MCFC in 1977 and of Atlas and PPI in 1982. The larger supply gap was filled in by importations (especially of urea, which is not locally produced). In fact, the share of imports to actual domestic demand was so great that during this period, the import-domestic production ratio averaged 2.6 to 1.0 (see Table 1).

The attempt to make domestic fertilizers affordable was initially done through a price subsidy scheme, which failed and withdrawn in 1976. The direct cash subsidy scheme likewise failed and was discontinued in 21 May 1982, after the government incurred around P2.02 billion on the scheme since 1973 (see Table 2).

The indirect subsidy (equivalent to the 20 per cent customs duty plus 10 per cent advance sales tax) on fertilizer grades not locally produced (e.g., urea and ammonium sulphate), including raw materials used for local production, which were imported by the four domestic fertilizer firms likewise failed to lower domestic prices of these fertilizer grades. As of the end of 1985, the indirect subsidy already amounted to around P4 billion (see Table 2). From FPA data, domestic retail prices of urea, the most widely used source of nitrogen, exceeded import and world prices by an average of 30 per cent and 36 per cent, respectively, in 1980. By 1985, the figures climbed to more than 60 per cent and 100 per cent, respectively (see Table 3) despite falling world prices of urea.

Compounding the above-mentioned situation was the government's other policy of developing the local fertilizer industry. Protection was given to the inefficient domestic fertilizer producers by imposing tariff and advance sales taxes on phosphate-based fertilizer imports which effectively reached as high as

35 per cent. This contributed to higher domestic prices of those fertilizer grades, like ammonium phosphate and NPK, which averaged more than 50 per cent of their import prices during the period 1980-1985 (see Table 4).

The liberalization and deregulation of fertilizer importation and distribution commenced one month before the signing of the 1985 PL 480 Title I agreement. Through FPA Memorandum Circular Nos. 85-01 and 85-02 issued in 14 June 1985, all qualified entities were allowed to import and distribute all fertilizer grades but domestic sales should not exceed the ex-warehouse and retail prices set by FPA. The immediate impact of this policy was that by the end of 1985 the number of chemical-grade (traditional) fertilizer importers/distributors rose to 24 from only 4 in 1984 (see Table 5)

In spite of the agreement's specific self-help measure on fertilizer that subsidies be removed as soon as possible, the FPA Board Resolution on 20 May 1986 (which excluded imported phosphatic-based fertilizers from availing of the subsidy being granted to fertilizer grades not produced domestically) remained in force in an apparent move to continue the government's support of local manufacturers, particularly PHILPHOS. PHILPHOS is majority-owned by the government and started production operations in 1985.

Fertilizer import costs and domestic prices were substantially affected by the weakening peso in 1984 as the exchange rate increased to an average of P16.70 to the dollar from the average of P11.11 the previous year. In 1985, however, even as the exchange rate rose by an average of 11.4 per cent, import prices of urea declined by a mean of 3 per cent, ammonium phosphate by around 1.2 per cent and ammonium sulfate by less than 1 per cent compared to their 1984 levels (see Table 6). On the other hand, NPK import prices went up by around 6 per cent. Consequently, and after a generally continuing rise since the late 1970's, retail prices in 1985 experienced reductions -- urea by 5 per cent; ammonium phosphate by 0.8 per cent; NPK by 2.4 per cent and ammonium sulfate by 2.3 per cent (see Table 6). Thus, even as the prevailing customs duties and advance sales tax on the protected fertilizer grades continued to be imposed and though the exchange rate further deteriorated in 1985, the deregulation of the local fertilizer trade resulted in the reduction, albeit moderate, of domestic fertilizer prices. But still, the difference between domestic retail and import prices remained large.

More significant changes occurred in 1986. As the number of fertilizer importers-distributors more than doubled compared to the previous year (see Table 5) the import prices of urea and ammonium phosphate declined by around 27 per cent and 26 per cent, respectively. These

were translated into decreases in their respective average retail prices: 40 per cent for urea and 26 per cent for ammonium sulfate. Despite the increases in the import prices for ammonium sulphate and NPK, their domestic retail prices also went down by an average of almost 17 per cent for the former and 16 per cent for the latter (see Table 6). Curiously, the FPA, although it encouraged the private procurement of fertilizers, maintained the set fertilizer price ceilings even as their domestic retail prices were falling. In their view, the price ceilings were retained to serve as guideposts in case prices suddenly fluctuate.

In 1987, domestic fertilizer prices especially those of urea and ammonium sulfate continued to go down (see Table 6) notwithstanding the almost 10 per cent depreciation of the peso against the dollar and the non-compliance of the GOP in the 1985 self-help measure of removing the fertilizer subsidies. The difference between domestic retail and import prices (of the four fertilizer grades cited above) also went down from around 35 per cent in 1986 to 32 per cent in 1987. Also during the year number of traditional fertilizer importers-distributors totalled 67, up from 49 the previous year.

The completion of the Philippine fertilizer sector study (1986 self-help measure) in March 1988 paved the way to more decisive actions on the sector. After the Department of Agriculture recommended to the President

and the Cabinet Cluster for Rural Development the immediate removal of protection on local fertilizer manufacturers and the signing of the 1988 PL 480 Title I agreement in May, the effective tariff on imported phosphatic-based fertilizer was reduced to 5% (imported fertilizers of all grades were exempted from paying the value added tax which replaced sales tax in January 1988) in October 1988. However, the FPA continued to provide limited protection to local producers by granting the 15 percentage point reduction of tariff as a subsidy to them. During this year, fertilizer import prices climbed and so with domestic retail prices (Table 6) but retail prices came nearer to import prices by around 23.5 per cent compared to the 1987 levels.

Relative to the other recommendations of the fertilizer sector study and of the 1988 fertilizer self-help measure, a Standing Committee on Fertilizer Use was created to review and develop measures regarding fertilizer use and research. Research efforts have been directed on the use and possible domestic production of urea supergranules (USG) which is a cooperative effort of FPA, Philippine Rice Research Institute (Philrice) and International Fertilizer Development Center (IFDC). An FPA proposal to conduct a farm level fertilizer-consumption survey has been made and being considered for funding under the Accelerated Agricultural Production Project (AAPP). In the process of expanding its service

functions to the local fertilizer sector, the FPA issued the guidelines in the enforcement of quality control standards for all fertilizer grades effective June 1988 and started to strengthen its data monitoring and dissemination activities.

More recent (1989) developments on the fertilizer sector, relative to the 1986 and 1988 self-help measures include the reduction of nominal tariff of all imported fertilizer grades to 5 per cent effective August 30, 1989; the FPA proposal of totally withdrawing the 5 per cent customs duty on fertilizers grades not locally produced; the contracting out by FPA of the farm-level survey on fertilizer use (August, 1989); and the positive research results of the effectiveness of USG at certain nitrogen levels.

Although the GOP, prior to the PL-480 Title I agreements had contemplated, (through LOI No. 1419 and EO No. 1028), complete fertilizer deregulation it was apparent that the government, at the same time, wanted to maintain its original policy of protecting the local fertilizer producers, particularly PHILPHOS whose operation just came on stream in 1985. Hence, the tariff and advance sales tax imposed on locally available fertilizer grades were preserved even after the 1985 PL 480 agreement. The same policy perspective appeared to have prevailed in the next administration. The FPA, through its board resolution on 20 May 1986 continued to

exclude phosphatic-based fertilizers from availing of the subsidy being granted to other fertilizer grades. Government reluctance on this issue is further evident when, following the reduction of effective tariff from 20 per cent to 5 per cent in October 1988, it assumed the payment of three-fourths of the nominal tariff. Nominal tariff was only lowered to 5 per cent in July 1989 and effective protection was likewise reduced to 5 per cent. Based on the above, it is clear that even with the three PL 480 Title I Agreements, the government has bided its time in scrapping the protective tariff owing to its large exposure on PHILPHOS.

Import liberalization and deregulated distribution as enunciated in EO No. 1028 could have had the same impact on domestic fertilizer prices and the number of importers-distributors as that of the self-help measures. The 1985 self-help measure seemed to have, however, prodded the GOP in implementing these particular reforms in the domestic fertilizer sector. On domestic fertilizer prices, one can also attribute the effect of falling world prices of some fertilizer grades, particularly urea. But without the fertilizer self-help measure in the 1988 PL 480 Title I agreement providing for a fertilizer sector study, important short- and long-term policy considerations relevant to the sector could have not been immediately arrived at. In summary, the self-help measures of the PL 480 agreements brought about

significant changes in the domestic fertilizer sector even if there were delays in their accomplishment.

D. ACHIEVEMENTS

Table 7 summarizes the achievements made relative to the fertilizer self-help measures contained in the 1985, 1986 and 1988 PL-480 Title I Agreements. Based on the results, the impact of the compliance with the self-help measures, particularly the opening up of fertilizer importation and distribution and the prompt consideration of the fertilizer sector study recommendations have been immediate. The more significant and readily tangible effects were the quick increase in the number of fertilizer importers-distributors and the decline of domestic retail prices of fertilizers beginning in 1985. In 1986, the decrease in domestic retail prices was more felt, notwithstanding the deterioration of the exchange rate and the continued protective tariff on phosphatic-based fertilizers. Fertilizer import liberalization is not yet complete since the FPA still issues import permits to prevent the entry of "fly-by-night operators" and safeguard fertilizer quality standards, and a limited protective tariff of 5 per cent is still imposed on locally-produced fertilizers. However, a more competitive atmosphere in the domestic fertilizer trade has set in. Fertilizer demand is up and imports have continued to increase (see Table 1).

Except for the delay in the removal of indirect fertilizer subsidies, the speed of the implementation of the

other fertilizer self-help measures were relatively expeditiously done. A number of reasons may be attributed to this. First, the self-help measures, especially those of the 1985 and 1986 agreements were more specific and the achievements could easily be observed and monitored. Secondly, the completion of the USAID-financed fertilizer sector study resulted in recommendations which helped in the implementation of decisive measures affecting the domestic fertilizer sector (e.g., elimination of protective tariff, improved fertilizer use and research, etc.). Thirdly, the GOP itself, acting on the loan rescheduling conditionalities set by the World Bank and the International Monetary Fund was already set on deregulating the production and trading of agricultural inputs. In this manner, the relevant fertilizer self-help measures beneficially supported this contemplated policy.

The reason for the GOP's non-compliance with the self-help measure of totally withdrawing the direct and indirect fertilizer subsidy stems from its twin but actually conflicting objectives of protecting local fertilizer manufacturers and lowering domestic fertilizer prices. The GOP has a substantial investment in PHILPHOS which, understandably, it wanted to protect. By continuing to impose the whole tariff rate and sales tax (effectively at 35 per cent) on phosphatic-based fertilizer imports (which PHILPHOS produces), PHILPHOS is shielded from full foreign competition. The recent reduction of the nominal tariff rate

to 5 per cent on all fertilizer grades still affords domestic producers a limited protection.

E. OTHER ISSUES

The other issues relevant to the fertilizer self-help measures are the following:

1. The FPA continues to maintain the ex-warehouse and retail price ceilings of fertilizers even as actual prices are way below these ceilings;
2. the continued low fertilizer use in the country; and
3. the continued government direct involvement in fertilizer production.

While the domestic fertilizer marketing has been freed from any direct government involvement, the fertilizer price ceilings set by FPA in 1986 have not been withdrawn. These are being maintained, according to FPA, to deter distributors from making uncreasonable profits in the event of a sudden market price increase. In this regard, the government should decide whether protection for farmers is needed at the retail market; domestic prices are solely determined by market forces; or domestic prices should be related with those of important crops.

The continued low level of fertilizer use in the country has been attributed to the lack of an efficient and dependable fertilizer supply and the previously tight regulation of and government involvement in the local fertilizer industry. The equally important tasks of promoting efficient fertilizer use, research and development

to reduce fertilizer costs and prices and the like have been inordinately neglected. In connection with this, the government should consider fertilizer supply sources (domestic and foreign) in terms of prices relative to nutrient content and the importance of each fertilizer grade relative to increasing agricultural productivity; conduct research to come up with better and less costly fertilizer blends; and improve transport facilities to further help lower marketing costs.

The GOP owns 60 percent of PHILPHOS with the remaining 40 per cent owned by the government of Nauru. The firm exports about 80 per cent of its production and sells the rest domestically. Currently, production is high-cost. The protection afforded to PHILPHOS shows that the government, in the process of protecting its investment, tolerated the inefficiency of the firm. More importantly since PHILPHOS' exports of selected fertilizer grades (to Thailand and China) were at times priced lower than the same grades sold locally, Filipino farmers have been implicitly subsidizing the foreign users of PHILPHOS products. Relative to these developments, the GOP should resolve whether to divest and privatize PHILPHOS or continue its protection until the firm can produce efficiently. Again, this can be an issue for policy discussions for the Manila Mission.

Table 1
Fertilizer Imports and Domestic Production, All Grades
(in Thousand Metric Tons)
1975-1988

Year	Imports	Domestic Production	Import- Domestic Prod'n Ratio
1975	233.6	291.7	0.80
1976	193.0	306.2	0.63
1977	448.1	228.0	1.96
1978	549.6	289.7	1.89
1979	734.6	233.7	3.14
1980	745.2	230.0	3.24
1981	426.9	265.3	1.61
1982	765.4	125.8	6.08
1983	613.4	164.2	3.74
1984	626.3	103.4	6.06
1985	557.5	499.8	1.12
1986	875.8	697.5	1.25
1987	975.1	757.1	1.28
1988	1066.1	808.5	1.32

Source: FPA

Table 2
Fertilizer Subsidy Claims (Million Pesos)
1973-1988

Year	Cash Subsidy Claims Filed	Indirect Subsidy (estimated)
1973	46.5	51.2
1974	68.4	231.7
1975	332.7	68.8
1976	108.3	25.1
1977	55.2	106.5
1978	117.0	150.0
1979	15.0	259.9
1980	283.0	368.7
1981	551.0	545.0
1982	443.3 ^{a/}	656.0
1983	-	426.5
1984	-	600.0
1985	-	600.0
1986	-	642.0
1987	-	630.0
1988	-	817.0

^{a/}
For this year, the cash subsidy covered fertilizer sales from 1 January to 21 May, including the high-cost stocks sold after 21 May which were imported/manufactured prior to this date.

Source: FPA

Table 3

Comparative Estimated Prices of Urea, Peso per 50-kilogram bag
1980, 1985, 1986 - 1989

Year	World Price	Import Price	Retail Price
1980	83.38	87.27	114.04
1985	126.53	155.15	263.34
1986	109.06	113.42	156.84
Jan	n.a.	140.37	186.20
Feb	n.a.	124.02	195.19
Mar	n.a.	135.00	180.92
Apr	n.a.	130.98	176.00
May	n.a.	128.14	159.31
Jun	n.a.	110.27	163.82
Jul	n.a.	104.14	162.07
Aug	n.a.	100.05	148.39
Sep	n.a.	98.44	130.87
Oct	n.a.	97.14	129.93
Nov	n.a.	95.46	127.00
Dec	n.a.	88.91	123.38
1987	120.31	112.18	146.02
Jan	99.45	111.49	120.68
Feb	105.70	95.87	114.39
Mar	110.22	96.39	139.06
Apr	114.62	96.44	147.00
May	124.68	105.56	150.41
Jun	127.85	113.25	149.84
Jul	124.34	114.72	155.65
Aug	125.49	112.82	147.47
Sep	130.20	121.80	157.95
Oct	127.76	126.46	154.76
Nov	129.27	123.40	159.88
Dec	130.30	123.39	155.67
1988	156.10	166.27	196.83
Jan	133.42	124.78	166.86
Feb	148.41	145.08	177.63
Mar	155.18	166.01	181.50
Apr	164.87	163.00	185.88
May	166.79	139.32	193.82
Jun	169.47	164.11	201.27
Jul	206.04	165.53	207.49
Aug	172.68	182.98	210.37
Sep	173.18	185.64	209.28
Oct	171.96	180.83	208.95
Nov	172.51	181.17	209.96
Dec	173.84	178.26	209.00

TABLE 3 (Continued)

1988			
Jan	173.94	174.26	211.10
Feb	178.12	170.86	211.30
Mar	177.54	168.04	211.93
Apr	177.09	177.73	211.22
May	163.79	165.44	215.79
Jun	n.a.	162.73	217.96

- Notes: 1. The average world prices of urea in U.S.\$ per metric ton were as follows: 1980 - \$222; 1985 - \$136; 1986 - \$107; 1987 - \$117; and 1988 - \$148 (est.)
2. For the annual figures, the P-\$ conversion rates used were as follows: 1980 - P7.5114; 1985 - P18.6073; 1986 - P20.3857; 1987 - P20.5662; and 1988 - P21.0947.
3. n.a. = not available.

Source: FPA

Table 4

Average Import and Retail Prices
Selected Fertilizers Grades
1980 - 1988

A. Average Import Price, U.S.\$ per metric ton (C & F)

Year	Urea (45-0-0)	Ammon. Sulf. (21-0-0)	Ammon. Phosp. (16-20-0)	NPK (14-14-14)
1980	232.36	136.68	259.63	263.19
1981	275.08	153.14	225.37	235.97
1982	195.07	99.76	168.14	179.79
1983	159.97	88.73	162.83	169.16
1984	191.59	107.71	180.19	179.79
1985	166.76	97.00	163.64	171.20
1986	111.27	65.63	180.31	170.41
1987	109.09	72.03	154.41	162.00
1988	157.64	94.75	176.41	184.52

B. Average Retail Price, Peso per 50-kilogram bag

Year	(45-0-0)	(21-0-0)	(16-20-0)	(14-14-14)
1980	114.04	84.83	104.98	98.64
1981	130.61	99.23	123.10	115.04
1982	128.75	96.52	123.84	125.12
1983	171.72	120.20	169.50	168.83
1984	277.30	156.20	251.60	260.19
1985	263.35	154.82	245.78	253.92
1986	156.84	114.19	204.67	212.52
1987	146.02	107.54	205.26	212.19
1988	196.83	134.84	225.53	233.32

Source: FPA

Table 5
 Licensed Fertilizer Handlers
 1978-1988

Year	Manufacturer/Processor- Distributor/Exporter		Importer-Distributor/ Indentor/Bulk Handler		Area Distributor
	Traditional (Chemical) Grade	Non-traditional Grade	Traditional (Chemical) Grade	Non-tradition Grade	
1978	2	40	6	7	6
1979	2	34	6	18	26
1980	2	42	6	16	55
1981	3	46	4	22	60
1982	3	37	4	22	79
1983	3	35	4	25	90
1984	3	40	4	28	92
1985	3	68	24	21	125
1986	2	68	49	22	108
1987	3	70	67	20	111
1988	3	71	67	20	112

Source: FPA

Table 6

Average Price Increase (Decrease) of Selected Fertilizer Grades
 Peso/50 kilograms bag
 1981-1988

Year	Urea		Ammonium Sulphate		Ammonium Phosphate		NPK	
	Import	Retail	Import	Retail	Import	Retail	Import	Retail
1981	24.4	14.5	17.7	17.0	(18.7)	17.3	(5.7)	16.6
1982	(23.3)	(1.4)	(29.6)	(2.7)	(19.3)	0.1	(17.6)	8.8
1983	6.7	33.5	15.7	24.5	25.6	36.9	22.4	34.9
1984	80.0	61.5	82.4	29.9	66.7	48.4	59.7	54.1
1985	(3.0)	(5.0)	(0.0)	(0.8)	(1.2)	(2.3)	6.1	(2.4)
1986	(26.9)	(40.4)	(25.9)	(26.2)	20.7	(16.7)	9.0	(16.3)
1987	(0.0)	(6.9)	(10.7)	(5.8)	13.6	(0.3)	(4.1)	(0.0)
1988	48.2	34.8	34.9	25.4	17.2	9.9	16.8	9.9

Note: Exchange rates used were those indicated in Table 3.

Table 7

Summary of Results, Fertilizer Self-Help Measures
1985, 1986, 1988

Self Help Measures -----	Results -----
A. 1985 PL-480 Title I Agreement	
<p>1. Liberalization and deregulation of fertilizer trade by 15 July 1985, including the removal of indirect and direct fertilizer subsidies.</p>	<p>1. Guidelines for the full liberalization of fertilizer importation and distribution are issued by FPA on 14 June 1985.</p> <p>2. The number of traditional (chemical) importers-distributors increased from 4 in 1984 to 24 by the end of 1985 (See Table 5).</p> <p>3. Import and domestic retail prices of fertilizers declined moderately despite the continued devaluation of the peso against the dollar (see Table 6).</p>
B. 1986 PL-480 Title I Agreement	
<p>1. The GOP would consider for implementation the recommendations of the fertilizer sector study which would be completed by 31 December 1987 (actual submission was in March 1988). The recommendations included the following:</p> <p>a. The removal of the 30 percent duty and advance sales tax of imported phosphatic fertilizer;</p> <p>b. temporary subsidies on all fertilizer grades may be considered only when fertilizer prices are exceptionally high relative to those for crops;</p> <p>c. expanded analysis of relevant information regarding the fertilizer sector and the dissemination of such analyses for farmers and to the fertilizer industry;</p> <p>d. the encouragement of bulk-blending and the improvement of transport facilities to lower the domestic price of fertilizer;</p> <p>e. the promotion of the use of fertilizer grades with higher nutrient content and according to soil need; and</p> <p>f. the expansion of the service functions of FPA covering a wide variety of work intended to support the efficient operation of a liberalized fertilizer, trade sector.</p>	<p>1. Effective tariff on imported phosphatic-based fertilizers was reduced from 20% to 5% (but the GOP pays the 15% percentage point reduction as an indirect subsidy to local producers) in October 1988. The advance sales tax of 10% was discontinued beginning January 1988.</p> <p>2. Domestic fertilizer prices substantially declined; importers-distributors grew in number to 49.</p> <p>3. A Standing Committee on Fertilizer Use was created to develop and review measures regarding fertilizer use and research; a farm-level survey on fertilizer use was proposed; research on area supergranules (USG) was undertaken and the data monitoring and dissemination capability of FPA is being improved.</p>

BEST AVAILABLE DOCUMENT

Table 7 (Continued)

C. 1988 PL-480 Title I Agreement

1. The GOP, through NEDA, would review and consider by 31 December 1988 measures which would lower domestic fertilizer prices at par with world market prices.
2. The GOP would broaden by 31 January 1989 the service functions of FPA to include coordination of its activities with other government institutions and the research and extension community, and monitoring current developments on fertilizer trade and disseminating these to the local fertilizer sector.
1. The nominal tariff rate on all fertilizer grades was reduced to 5 per cent effective 30 August 1989, thereby limiting the protection to local manufacturers.
2. On-going research by FPA, Philrice and IFDC on USG yielded limited positive results.
3. The farm-level survey on fertilizer use was contracted out in August 1989.
4. The FPA is proposing that imported fertilizers not locally produced not levied any customs duty while the 5 percent nominal tariff on phosphatic-based grades be retained.

IV. LIBERALIZATION OF WHEAT IMPORTS AND FLOUR DISTRIBUTION

EXECUTIVE SUMMARY

Between 1975 and 1985, the GOP through the National Food Authority (NFA) exercised monopoly control on wheat imports. From 1983 to 1985 NFA likewise took over domestic flour distribution. Such policy actions of the GOP resulted in higher marketing costs, higher prices to consumers, lower quality flour and less availability to consumers. Meanwhile, USAID/Manila's policy thrust involved the removal of impediments to market efficiency and competitiveness, particularly in the agriculture and food sector. In the FY 1985 PL 480 program, two of the five specific self-help measures were designed to lift controls on wheat and flour trade and encourage full participation by the private sector.

Through a series of events, import controls and full market deregulation of wheat/flour trade finally took effect on March 11, 1986 after the removal of the import licensing requirement. Wheat importation and domestic flour distribution activities reverted back to private sector control. Prior to complete liberalization of the wheat/flour trade, GOP compliance during the Marcos period (1985 to early 1986) was uneven. The change in government in February 1986 hastened full compliance of the policy reform measures provided in the FY 1985 PL 480 Title I Agreement.

A. BACKGROUND

The FY 1985 PL 480 program was a key instrument in the policy dialogue efforts of the USAID/Manila mission in 1984 and 1985. The FY 1985 agreement contained specific policy reforms intended to deregulate the importation and trading of food grains and related agricultural inputs as a means of promoting increased production and lower cost of critical food commodities. Two of the five specific measures in the FY 1985 agreements were designed to lift controls on wheat and flour trade and encourage full participation by the private sector.

B. OBJECTIVES OF THE SELF-HELP MEASURES

1. Policy Objectives

In terms of wheat importation, the objective of the policy reform measure was to introduce competitive conditions for wheat importation. The GOP was to establish reasonable conditions for private access to and utilization of credit for financing wheat imports. With the domestic flour trade, the SHM was designed to encourage increased efficiency and competitiveness in the marketing of flour.

2. Specific Self-Help Measures

- a. Opening the importation of wheat to the full participation of the private sector.
- b. Opening the distribution of flour to the full participation of the private sector.

To achieve both objectives, NFA was set to issue implementing regulations by July 15, 1985. The NFA was to institute the following measures:

- a. phaseout within two months of all NFA involvement in flour distribution;
- b. removal of licensing requirements for private flour distribution;
- c. refraining from instituting procedures for setting flour prices; and
- d. provision for a degree of GOP monitoring so as to permit NFA to institute corrective actions when serious shortages or disruptions are apparent.

C. IMPLEMENTATION

1. Significant Events Related to the SHM

- a. Changing the scope of NFA operations. The changes include the opening of wheat importation and flour distribution to the private sector. E.O. 1028 (May 31, 1985).

- b. Signing of the FY 1985 PL 480 Title I Agreement. Grant Agreement (July 8, 1985).
- c. Granting of all allocation of dollar exchange covering wheat and wheat flour imports for the Philippines to the Philippine Federation of Bakers Association, Inc. through their marketing arm, the Phil. Bakers, Inc. (PhilBake) pending the issuance of an executive order covering importation of wheat and wheat flour products. This issuance was directed to the Central Bank. This directive was withdrawn in mid-September because of strong opposition from the millers. Presidential Directive (released August 23, 1985 - unnumbered).
- d. Tariff rate on flour lowered from 30 percent to 20 percent effective immediately. E.O. 1062-A (November 9, 1985).
- e. Issuance of guidelines on new wheat and wheat flour trade. This circular removed the import permit requirement for each importation. Consequently, the import permit was no longer needed in the opening of the import letters of credit or in the release of imported commodities from the Bureau of Customs. NFA Circular No. 1 (March 11, 1986).
- f. Renewed commitment by the GOP not to reimpose the import permit requirement for wheat and wheat flour imports or use the annual business license

requirement for restricting access to wheat/wheat flour importation by the private sector. This move was intended to continue the progress towards full participation of the private sector in wheat/wheat flour trade. FY 1986 PL 480 Title I Agreement (June 20, 1986).

g. Reimposition of the 30 percent tariff on wheat flour imports. (October 1986).

2. Evaluation

From June 1975 to May 1985, the National Food Authority (NFA) exercised monopoly control over wheat imports. This was made possible through P.D. 726 which authorized NFA to take over the importation of all wheat requirements of the country after world prices of wheat increased sharply. The takeover also involved NFA control over the scheduling of wheat shipments and fixing of wheat grain selling prices to the millers.

The NFA took over domestic flour distribution in December 1983 as a result of three major developments: (a) the delay in the shipment of U.S. wheat after the GOP declared a debt moratorium in October 1983; (b) the USDA's decision to include wheat flour in the import guarantee to be provided by CCC; and (c) the soaring retail prices of wheat flour towards late 1983.

With the debt crisis and the subsequent difficulties in dollar transactions, the NFA sought a commodity loan and credit guarantee from the USDA. This was granted in November 1983 and the \$250 million loan was used to finance the importation of wheat, wheat flour and feedgrains. The inclusion of wheat flour allowed the NFA to stabilize flour prices whenever there was a production slowdown.

According to the analysis by Mission staff, GOP control on wheat imports and flour distribution resulted in higher marketing costs, higher prices to consumers, lower quality flour and less availability to consumers. While world market prices did not substantially increase,^{2/} domestic flour prices were significantly higher. The NFA generated monopoly profits which were used to support other NFA operations including rice and corn procurement, and subsidies to NFAs subsidiaries including Kadiwa operations and the FTI. A paper on the Philippine PL 480 programs in 1985 and 1986 (August, 1986) cites that in 1983, NFA profits on grain import and distribution operations were estimated at around P532 million. Also, newspaper estimates show that, from 1975 to 1982, NFA realized gross profit of P2.5 billion from the wheat import monopoly.

^{2/} ORAD, "Policy Analysis of the Philippine Wheat Flour Industry," (1988?)

The import control had varying impact on the various agents involved in wheat/wheat flour trade. The end users (i.e., consumers and bakers) found inadequate supplies and higher flour prices. For the millers, they benefited from the arrangement as long as world prices were high. NFA may have had to assume the impact of price fluctuations in order to maintain domestic supply levels. On the other hand, the arrangement would have affected production processes/scheduling, which had implications on domestic supply conditions. The private millers were dependent on how efficiently NFA responded to import needs. The prolonged NFA control on wheat/wheat flour trade could have contributed significantly to the reported lower capacity utilization by the millers. However, it may be noted that the low capacity utilization may not be solely attributed to NFAs control on imports. Since the November 1985 guidelines allowed the inflow of wheat flour from other sources, the millers faced competition in supplying flour to the domestic market. Moreover, with the difficulties in importing wheat, it could be expected that milling capacity would be stalled.

Since NFA had the sole import rights for wheat, the agency shouldered all foreign exchange risks associated with wheat importation. In 1983, NFA shouldered the 12.6 percent additional cost of wheat imports when the peso depreciated in value. However,

the agency still generated large revenues from its sole import rights. From 1983 to 1985, NFA earned an average of P236.01 per metric ton of wheat import. In 1984, the margin rose to its highest level (P581.55 per metric ton) but fell to only P11.47 per ton in 1985, the last year of import control (see Table 8). According to NFA sources, its income from the import control was used to offset the huge loss incurred in maintaining the subsidy on other cereals.

Sometime in late 1983, the retail price of flour rose above the government ceiling price of P130.30 per 25 kg. bag. Dealers were charged with hoarding and overpricing. On the other, flour millers charged NFA of manipulating the market by direct price setting and reduction in import volume of wheat. As the retail prices of flour continued to increase, NFA, with strong lobbies from the bakers group, took over domestic flour distribution. Flour millers were required to sell flour only to the NFA at NFA-determined prices.

A USAID draft report observed that the system spawned serious flour allocation problems. NFA sold wheat flour through regional offices, warehouses and Kadiwa centers only. Flour users were required licenses and their quotas were fixed based on stated requirements. Bakers later complained of inadequate supplies and questionable allocation patterns. A number of bakeries closed shop in 1984.

However, flour prices did not decline with NFA's takeover of flour distribution (see Table 9). The licensing process required considerable time and expense, such that black market flour sales ensued. Moreover, credit became a problem. As a result of the flour distribution monopoly, flour mills stopped operating for long periods of time because of large flour inventories at NFA. Milling capacity was reported to have declined to 65 percent, causing huge losses through lower sales volume, disruptions in the flour millers' cash flow and reduced employment.

Actual decontrol started after the issuance of the new guidelines in March 1986. The Philippine Association of Flour Millers (PAFMIL) by then had complete control of all industry operations from wheat importations to flour distribution. This is indicated by the fact that NFA since then, could not monitor the activities of the flour millers and distributors. NFA reported that PAFMIL has refused to provide information on the latter's import activity and domestic flour situation. The view from NFA is that PAFMIL appears wary of any government involvement and monitoring as this could lead to another takeover. It may be noted that E.O. 1028, which mandated the removal of import controls on wheat, did not entirely eliminate the possibility of future government intervention in the industry. The executive order still allows the government to step in "whenever necessary" to

import wheat to stabilize supplies and prices. Thus, by withholding vital information to NFA, PAFMIL denies the government any potential basis for intervention. No legislation or mandate currently exists for PAFMIL to report to NFA, even on pure monitoring basis.

Despite the wheat import liberalization, the domestic price of wheat flour did not follow the decrease in the world market price. During the 1986/1987 crop year, global wheat production rose by 6 percent, reaching a record level. Consequently, export prices weakened. Thus, the average import prices for hard wheat dropped from \$171.06 a ton to \$150.50 a ton between 1985 and 1986. Average import prices for soft wheat likewise declined. However, wholesale prices for flour increased during the same period. Wholesale price for hard wheat increased to P227.74 per bag (25 kilograms) from P196.66 per bag in 1985, while that for soft wheat rose from P187.96 per bag to P221.60 per bag. In 1987 and 1988, wholesale flour prices followed the trend for import prices. (See Tables 9 and 10).

A draft Mission report on the FY 1985 PL 480 program observed that there was "tremendous controversy surrounding the implementation of the wheat import liberalization provisions." Before the issuance of NFA Circular No. 1 (dated March 11, 1986), NFA continued to regulate and limit imports through licensing. At that

time, two powerful groups were competing for import permits. The bakers group was led by Eduardo Cojuangco, a Marcos crony, while the millers were led by Jose Concepcion, a prominent Marcos opponent.

When the NFA agreed to liberalize the wheat/wheat flour trade, the agency opened wheat importation not only to existing flour millers, but also other business interests which were qualified based on their milling capacity and their business arrangement with flour millers. It was reported that Cojuangco was suspected to have simultaneously set up more than a dozen wheat trading companies in an apparent bid to counter the monopoly powers of the wheat milling industry. However, while the private sector was then allowed to import wheat, NFA still determined the volume of wheat import requirement and allocated quotas to individual millers. The NFA drew up the following schemes for wheat importation:

- a. NFA will continue to import the country's wheat requirement and sell the cereal to the millers at NFA prices;
- b. Flour millers will be allowed to import wheat through NFA, which will advance all costs up to the port of destination, in which case, the NFA transfers the wheat to flour millers at CIF value plus all direct costs, duties and

taxes, actual cost of money and a five percent service fee. However, a Central Bank directive required NFA to deposit with the Central Bank the full peso equivalent of the foreign exchange liability involved before the shipments would be released. This prompted the NFA to withdraw the 45-day credit which was previously extended to flour millers. Thus, the millers were required to pay in cash the peso equivalent of all imports two days before the arrival of shipment.

- c. The private sector will import wheat directly without any form of assistance from NFA. There were initial difficulties in reopening bank line and sourcing of credit funds. However, this problem eased up when the Central Bank allowed millers to use the \$3 billion trade facility in August 1985.

At one point, the NFA suspended the issuance of licenses until the bakers and millers group could reach agreement on how to allocate wheat imports. There was an agreement reached with each side getting half of the total import requirement. The suspension of licenses, as well as the licensing procedure itself caused many flour users to complain about delays and shortages of flour supplies. The NFA was charged of arbitrarily setting the

annual import requirement for wheat at low levels which millers claimed would hurt the industry. The annual import requirement was set at around 700,000 metric tons as compared to historic levels of 850,000 to 900,000 metric tons. The millers had been indicating that delays, low imports and the decision of the bakers group to import flour instead of wheat would cause a sharp drop in capacity utilization of the milling industry. This event could cause retrenchment and other negative effects on the feedmill and livestock industries which depend on wheat by-products.

On the operational side, NFA had the following view. The full liberalization of wheat/wheat flour trade was delayed for about a year from the time the GOP (as well as NFA) agreed to leave importations to the private sector since NFA had already placed orders for the country's wheat import requirements in advance. Thus, in the view of NFA, it still had the responsibility of handling all the import arrangements during that period.

A draft analysis done by Mission staff reported that the opening of wheat importation and flour distribution to the private sector raised apprehensions among US wheat growers/suppliers. Opening of imports to private sector could encourage the domestic millers to find better quality and cheaper sources of wheat. In short, US suppliers became wary of competition.

In November 1985, the GOP lowered the tariff on wheat flour imports from 30 percent to 20 percent as part of the overall industry restructuring program. However, PAFMIL requested the GOP to raise the tariff back to 30 percent in order to protect the industry from "dumping." In October 1986, the tariff on wheat flour imports was restored to 30 percent. PAFMIL likewise suggested that the tariff differential between wheat and wheat flour be narrowed down in an apparent move to discourage direct flour imports. This was contrary to reports that PAFMIL did not object to direct importations by the bakers group as long as these imports were not bought at prices less than the fair value.

USAID's view concerning these developments was that the GOP actions constituted non-compliance. A draft letter from USAID (dated February 21, 1986) expressed USAID's concern of the GOP's apparent unwillingness to comply fully with the terms of the 1985 PL 480 Agreement. However, USAID's notice informing the Agency's views on GOP actions were overtaken by the events in February 1986. By March 11, 1986, the GOP issued the new guidelines on wheat importations. This issuance fulfilled the provisions of the self-help measures in the 1985 agreement.

D. ACHIEVEMENTS

1. Summary

A summary table on GOPs compliance of the policy reform measures for the wheat/flour trade is provided below.

Summary of Results, Wheat/Flour Sector Self-Help Measures

<u>Self-Help Measure</u>	<u>Results</u>
Liberalization of wheat importation and flour distribution.	
1. Issue implementing guidelines for open importation.	NFA Issued guidelines through Circular No. 3 in June 1985 which were subsequently revised in October 1985. NFA had not done any importation of wheat/flour since the issuance of the guidelines.
2. Phase out of NFA distribution of flour. Provide no restrictions on the number of local distributors.	NFA transferred flour distribution to the private sector through E.O. 1028, issued on May 31, 1985.
3. NFA not to set prices.	NFA had no basis for intervention.
4. Removal of import permit requirement.	Requirement was lifted through NFA Circular No. 1, dated March 11, 1986.
5. Desist from using annual business license to restrict private sector access to wheat/flour imports.	GOP had not used licensing to restrict private trade in wheat/flour.

6. Tariffs

No policy condition was imposed with respect to tariffs. GOP increased wheat flour tariff in October 1986 from 20 to 30 percent ad valorem. Advanced sales tax of 10 percent already removed.

The policy reforms incorporated in the 1985 PL 480 Self-Help measures involving wheat/wheat flour trade were designed to simply remove impediments to market forces and public intervention which were unwarranted. It may be noted, however, that these reforms were not identified through an in-depth study of the problem. While the policy dialogue process appears to have been quite limited to broad measures of reform, the end result was relatively successful as far as wheat/wheat flour trade liberalization was concerned. It is important to note that the discussions on program elements did not include implementation matters inasmuch as NFA was not directly involved or did not involve itself in the negotiations. Implementation was admittedly difficult especially because the implementing agency (i.e. NFA) had "substantial vested interests in maintaining the arrangements and controls which the reforms were intended to eliminate."^{3/}

^{3/}
p. 13. "Philippines - PL 480 Paper," Draft. August 11, 1986,

2. Attribution

The policy dialogue associated with the 1985 PL 480 program was instrumental in the liberalization of wheat imports and domestic flour distribution in 1985 through 1986. A draft USAID report on the 1985/1986 PL 480 programs cites that while the ADB financed a study which was critical of NFAs direct participation in wheat/flour trade, ADB did not provide assistance for policy reforms. Before an agreement between the USG and the GOP was reached regarding issues on the food and agriculture sector, the NFA did not want to relinquish its role as an exclusive importer of wheat. By April 17, the former president approved a list of policy reforms recommended by the Planning Minister and Minister of Food and Agriculture. The list was comprehensive and included the reforms intended for the wheat sector. Subsequently, shortly before the formal signing of the FY 1985 Agreement, NFA agreed to the policy changes incorporated in the self-help measures of the agreement.

In the FY 1986 Title I Agreement, the GOP further signified its commitment to continue the process of deregulation of wheat importation and domestic flour trading. The issue on wheat imports and flour distribution did not surface again in subsequent PL 480 programs.

On the other hand, it is important to consider that under the Marcos regime, GOP compliance with the self-help measures regarding liberalization of wheat imports was uneven. Were it not for the unexpected turn of events, i.e., the change in government in February 1986, USAID had already decided to declare the GOP to be in violation of the FY 1985 PL 480 Title I Agreement. The new government readily appreciated the importance of the policy measures such that full compliance of the wheat provisions was satisfied immediately after assumption of office in 1986.

3. Other Issues

Complete private sector control of wheat importation and wheat flour trading may have spawned problems which did not appear to have been considered during the identification of policy reform areas and the policy dialogue process. Recent developments in the industry have created the question of whether complete control of wheat/wheat flour trade should have been left to the private sector without appropriate government regulation and monitoring. For instance, domestic prices of flour increased sharply in 1988, which did not appear in tandem with developments in the world wheat market. While PAFMIL insisted that the situation was mainly caused by the drought in wheat growing areas in the US and the alleged unfair trade practices (hoarding and

overpricing) by traders, the sudden surge of flour prices led to some legislative involvement and executive concern. The situation was temporarily alleviated when the millers relented to a price reduction. However, these concerns are likely to surface whenever flour prices move up.

The price question opened the milling industry to more serious allegations of creating/maintaining a market situation which is clearly to their advantage. In addition to the millers' market advantage, the prevailing view is that millers are involved in unfair trade practices. Aside from the regular manufacturing profits, flour millers derive other forms of income from the same operations. The most notable methods employed to extract higher profits include the following:

- use of an in-house trading arm with practically no additional overhead expenses to capture large marketing profits;
- use of cheaper plastic bags instead of the more durable cotton bags for commercial packaging of flour;
- mixing of inferior ingredients as extenders;
- use of higher extraction rate to produce lower quality flour sold under new brand names.

The industry's low capacity utilization rate has likewise been an interesting issue. The industry has always reported underutilization such that during the Marcos years, the industry was declared as overcrowded. However, in spite of the reported underutilization, three new flour milling interests were reported last year to have already ordered equipment for new mills. Another milling concern was reported as being on its planning stage. Moreover, the largest firm in the industry is expanding its milling capacity. If the industry is in fact overcrowded with underutilized capacity, expansion and establishment of new mills betrays the claim that the industry is not profitable. One can thus infer from the situation that millers might be deliberately underutilizing their capacity to project unprofitable operations and in order to discourage entry.

On the claims that PAFMIL is being unduly assisted by the PL 480 programs, the industry has countered that PAFMIL does not want to purchase wheat under these programs. The industry has only utilized the facility because of the request from the GOP (since the GOP wants to monetize the commodity and generate pesos for budget support). PAFMIL further claims that the PL 480 grants would again be forced on flour millers. The US is still the primary source of wheat imports, although Canada, Australia, Japan and the EEC are actively competing for shares in the domestic market.

Table 8

**Total Government Profit/Loss from Purchase and
Sale of Imported Foodgrain - Wheat
1983-1985
(P/metric ton)**

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Import Cost (C/F)	P 1,931.09	P 3,165.00	P 4,017.39
Marketing Cost	100.95	471.81	519.91
Total Cost	2,032.04	3,636.96	4,537.30
Sale Price	2,256.99	4,218.51	4,548.77
Profit (Loss)	224.95	581.55	11.47
Estimated Total Profits* (P million)	P 184.3	P 466.5	P 7.7

*Based on import levels reported in Table 4.

Source of Basic Data: National Food Authority

Table 9
Wheat and Flour Prices
(P/Metric Ton).
1975-1987

Year	Average Wheat Import Prices		Wholesale Flour Prices
	Hard	Soft	
1975	1286.43	1037.84	2440
1976	1212.40	964.48	2460
1977	955.56	837.69	2550
1978	1082.07	1038.99	2550
1979	1301.75	1173.24	2550
1980	1505.16	1231.88	2720
1981	1531.60	1280.38	3100
1982	1437.36	1280.63	3690
1983	1548.96	1392.59	3940
1984	1991.61	1610.36	4110
1985	2856.70	2411.98	6670
1986	2820.37	2319.07	7860
1987	2749.92	2389.45	8520

Sources: PAFMIL Members
NFA

Table 10
 Wholesale Flour Prices
 (P/bag of 25 kg)

Year	Hard	Soft
1975	57.75	57.75
1976	63.65	63.65
1977	63.53	63.53
1978	64.83	65.11
1979	73.02	73.36
1980	77.59	77.95
1981	86.34	86.70
1982	88.99	89.33
1983	93.70	93.69
1984	190.00	180.00
1985	196.66	187.96
1986	227.74	221.60
1987	213.50	210.02
1988	215.30	210.78

Sources: PAFMIL Members
 NFA

Table 11
 Philippine Wheat Imports
 and Domestic Flour Production
 (In Long Tons)
 1975-1988

Year	Wheat Imports	Domestic Flour Prod'n
1975	456643	392661
1976	710150	470052
1977	618173	533196
1978	753914	558249
1979	858128	590043
1980	768294	584105
1981	827706	626706
1982	903181	689195
1983	806447	691942
1984	789563	564421
1985	662753	523069
1986	1015740	
1987	1007160	
1988		

Sources: PAFMIL Members
 NFA

V. GRAINS PRICE STABILIZATION PROGRAM

EXECUTIVE SUMMARY

The stated objectives of the self-help measures on grains price stabilization under the PL 480 Title I program for FY 1985 and FY 1986 are to ensure appropriate production incentives for rice and corn farmers; that adequate supplies of rice and corn are available to consumers; and that seasonal price fluctuations for both producers and consumers are not excessive. Accordingly, the FY 1985 Agreement bound the GOP to deregulate and free all price controls on milled rice by 31 October 1985, and to announce its buying and selling prices before the start of each cropping season. The FY 1986 Agreement sought to have GOP announce a price stabilization program for rice and corn by 30 September 1986.

GOP was able to comply with the FY 1985 self-help measures only as it apparently lacked the political will to pursue a proposed program for rice and corn in the face of farmers' resistance to the then proposed reduction in support prices. Moreover, it is shown that the implemented self-help measures did not suffice to make the GOP's grains price stabilization effective in (a) improving farmers' incentives; (b) stabilizing consumer prices; and (c) implementing the "buyer and seller of last resort" policy.

Future efforts must therefore address whether the present pricing scheme is appropriate vis-a-vis other options which are less costly in terms of the required budgetary support and "opportunity cost" - wise, e.g., the University of the

Philippines at Los Banos proposal to use a reference price/variable tariff scheme. This shall have important implications on the future role of GOP's procurement and distribution operations.

A. BACKGROUND

The formulation of a grains price stabilization policy and program were among the self-help provisions under the PL 480 Title I programs for FY 1985 and FY 1986. Both programs were launched in the context of severe economic crisis, thus the self-help measures were key vehicles in demonstrating U.S. support for the GOP's initial set of policy reforms in the agricultural sector.

B. OBJECTIVES OF SELF-HELP MEASURES

The objectives of establishing an effective grain price stabilization program are "to ensure that there are (1) appropriate production incentives for rice and corn farmers; (2) adequate supplies of rice and corn are available to consumers; and (3) that seasonal price fluctuations for both producers and consumers are not excessive."^{4/}

In support of the abovementioned objectives, the PL 480 Title I Agreement signed in 1985 required the GOP to pursue the following self-help measures:

1. to deregulate and free all price controls of milled rice by 31 October 1985; and

^{4/} FY 1985 PL 480 Title I Agreement.

2. for the National Food Authority (NFA), the rice procurement and distribution arm of GOP, to maintain a rice stabilization program under which it will purchase paddy and sell milled rice at pre-announced prices. Accordingly, NFA should announce its initial buying and selling price by 31 October 1985.

In addition, the FY 1986 Title I Agreement sought to have GOP announce an "effective grain stabilization program" for rice and corn by 30 September 1986. The Agreement did not include explicit activities on how such a program will be formulated by GOP. Nevertheless, the following policy guidelines were emphasized:

1. "that such program shall be established and implemented in a way that limits the intervention of GOP in the market, and primarily depends on the private sector for the marketing of both grains";
2. "that the stabilization program will be based on clearly stated conditions and announced prices under which GOP would intervene in the rice and corn markets to either purchase from producers, sell to consumers or enter into external trade agreements";
3. "that GOP intervention would occur only when price movements fall below announced procurement prices for producers and rise above announced price for consumers. Thus, intervention by government would not be on a continuous basis but only as a buyer or seller of last resort, or when stocks must be rotated

to avoid spoilage".

It should be noted that while the FY 1986 Agreement wanted a grain price stabilization program, the above policy guidelines refer only to a grain price stabilization program since they excluded policies to promote self-sufficiency in grains; policies on buffer stock requirements for the entire economy and how this will be "divided" between GOP and the private sector; and other elements of a national grains policy.

C. IMPLEMENTATION

1. Significant Events

- a. Initial request by GOP to avail of PL 480 Title program in November 1984.
- b. Submission of 'non-paper' on possible policy reforms, by Manila Mission to GOP in first quarter of 1985.
- c. Approval of policy reforms to revitalize the agricultural sector, by then President Marcos on 17 April 1985. (See Annex I).
- d. Signing of Executive Order 1028 by then President Marcos on 31 May 1985. (See Annex II). The EO legislated the approved policy reforms, thus paving the way for implementation.
- e. Signing of the FY 1985 PL 480 Title I Agreement by Ambassadors Bosworth and Romualdez on 8 July 1985.
- f. Deregulation of prices of palay and milled rice effective 1 October 1985, per provisions in EO 1028 (See Annex III).

- g. Signing of the FY 1986 PL 480 Title I Agreement on 20 June 1986.
- h. Announcement of palay and milled rice prices before the cropping season in 1987. (See Annex III).
- i. Postponement of announcement of GOP's grains price stabilization program from September 1986 to June 30, 1987.
- j. Conduct of Grains Price Stabilization Study under the Accelerated Agricultural Production Program in 1989. The study will be the basis of a GOP policy announcement expected to be made in December 1989.

2. Evaluation

Prior to 1985

The socioeconomic objectives of the self-help measures on grain price stabilization have been the stated objectives of the GOP's marketing operations in grains even prior to 1985. However, the strategy of GOP then was to set rice ceiling and floor prices, and to buy and sell domestically at these prices. The effect of the self-help measures was to suspend the former strategy while clarifying the role of NFA under the latter - NFA will now only be a buyer and seller of last resort. However, NFA's monopoly in rice and corn importation is maintained.

Several studies on NFA's operations prior to 1985 concluded that these were not successful at stabilizing prices at either the farmgate or retail levels, and

instead led to misallocation of resources as they were disincentives to private sector investment. Failure to stabilize farmgate and retail prices were traced by Lantican and Unnevehr (1985) to (a) the inadequacy of the official margin to cover marketing costs; (b) government delays in contracting and disbursing imports; and (c) deficit in national budgetary support for the marketing program.^{5/}

1985-1988

This section will briefly discuss the present grains price stabilization program of GOP, which already incorporates the self-help measures in the FY 1985 Agreement and will attempt to evaluate these against the stated objectives of (a) improving farmers income as incentives; (b) stabilizing consumer prices; and (c) limiting GOP intervention to "buyer and seller of last resort."

Present grain price stabilization program

The present program of GOP on grains price stabilization has the following features:

- o Procurement - involves buying of rice and corn to stabilize ex-farm gate prices and maintain a

^{5/} Lantican and Unnevehr, "Rice Pricing and Marketing Policy," Policy Issues on the Philippine Rice Economy and Agricultural Trade, University of the Philippines at Los Banos, 1987.

30-day buffer stock requirement at the following prices:

- o Procurement from individual farmers:
 - P3.50 per kilo for palay; and
 - P2.90 per kilo for corngrain
- o Procurement from accredited farmers' organizations with the following incentives:
 - P0.03 per kilo as Cooperative Incentive Fee (CIF)
 - P0.02 per kilo as Farmers Group Insurance Incentive (FGII)
- o Distribution - sale either through cash, or credit to licensed retailers and wholesalers at the following prices:
 - P6.07 per kilo for regular milled rice
 - P3.89 per kilo for yellow corngrains
 - P3.57 per kilo for white corngrains
 - P4.82 per kilo for white corngrits

The procurement prices were arrived at based on the cost of production; the return to investment (historically at 40 percent); the consumer price index; and the nitrogen-palay ratio. Distribution prices were determined by the support price; marketing costs, e.g. transportation, drying, milling, etc; and a "reasonable" return to investment. Note, however, that because of

NFA's high quality requirements, the support price is discounted at farmgate.

The present level of direct market intervention is supposed to be governed by the policy of "buyer and seller of last resort." To pursue this, NFA has adopted a trigger price strategy: massive procurements are undertaken when the prevailing farm prices are below P2.90 per kilo.

At present, the GOP's Executive Branch is seeking from Congress an increase in the national subsidy for rice price stabilization from the current level of only P1 billion to P2 billion. NFA has estimated that this would allow an increase in its market share from 2.9 per cent in 1988 to 5.4 per cent of annual production, given a support price for palay of P4.00 per kilo or an increase of P0.50 from the current price.

Evaluation of present program

An evaluation of the present GOP program (which already incorporates the implemented self-help measures) against the stated objectives of grains price stabilization is expected to show the following:

- o impact on farm profits: an improvement in the average farm profit due to the deregulation in prices and the GOP's price support scheme;

- o impact on consumer price of rice: stabilization of retail prices of rice around the NFA release price;
- o impact of NFA's "buyer of last resort" policy: a direct relationship between NFA's share in the palay procurement market and the "downward" deviation of market prices from NFA support price, i.e. the lower the market prices fall below the NFA support price, it is expected that NFA's market share should be higher.
- o impact of NFA's "seller of last resort" policy: an inverse relationship between NFA's share in the rice distribution market and the "upward" deviation of market prices from the NFA release price, i.e. the higher the market prices rise above the NFA price, NFA's market share should be higher.

Due to time constraints, data presented in this report are highly aggregative. Also, average market prices are not distinguished whether they are before or after intervention prices.

- o Impact on average farm profit

Available data show that rice production during the period 1978-1982 has yielded real losses on the average of up to P0.10 per kilo of palay. This trend was, however, reversed

starting 1983 when a real profit of P0.07 per kilo of palay was recorded. Moreover, this level rose to P0.13 in 1985. Since then, average real profit did not fall below P0.10 per kilo of palay (See Table 12-a).

The remarkable improvement in the profitability of rice production in 1985 is, however, attributable to the steady decline in the cost of production rather than to an upward trend of the real price of palay. It must be noted that cost of fertilizer has been dramatically going down while real palay prices has remained relatively stable, ranging from P0.37 to P0.46 before the period of agricultural policy reforms, and from P0.38 to P0.44 since 1985.

Were the NFA's price stabilization been effective, higher real profits would have been obtained by farmers. Nevertheless, a similar trend, i.e. losses in the earlier years due to high cost of production, would have still emerged (See Table 12-b).

o Impact on consumer price of rice

Prior to 1985, GOP set ceilings on retail prices of rice to cushion consumers from the impact of erratic increases. With the advent of deregulation, however, retail prices have consistently exceeded the release price of NFA,

starting in 1985 (See Table 13). Nevertheless, it may be noted that domestic retail prices of rice continued to be recorded below world prices even after 1985. Thus, deregulation did not adversely affect the consumers in relation to fluctuations in world prices.

o Impact of NFA's "buyer of last resort" policy

If the NFA has conscientiously followed the stated policy of buying massively from the market only when farmgate prices offered by private traders fall below its support price, data should show the NFA's share in the palay procurement market moving in the same direction as that of the NFA-market price deviation.

The abovementioned scenario is not shown by available data, except in 1988. For example, NFA's market share in 1985 and 1986 stood at about the same level, or 4.6 per cent of the market, despite the fact that the average market price in 1985 did not deviate from NFA's support price whereas the 1986 market price was lower by P0.54 per kilo (See Tables 14-a and 14-b).

With regard to corn, NFA's share has been insignificant, ranging from 0.46 per cent in 1984 to 2.84 per cent in 1985 (the goal being 3 per cent of annual production). Support prices for

corn have also been lower than market prices (See Table 14-c).

An examination of the NFA's market share prior to the announcement of the "buyer of last resort" policy in 1985 will actually show that NFA's marketing strategy did not seem to change at all. Interviews with NFA officials point out that budgetary considerations rather than this policy have been the binding constraint in their marketing operations. In addition, NFA officials also emphasize the difficulty of operationalizing this policy in the strictest sense: they could not reject voluntary offers of farmers to sell to NFA stationary stations even if actual market prices are at par or even above the NFA support price.

The implication of NFA's failure in effectively carrying out the "buyer of last resort" policy is shown in the trend of farmgate prices which were consistently below the NFA support prices. Corollarily, this is an indication of GOP's failure to achieve the stated objective of assuring farmers a "reasonable" rate of return.

o Impact of "seller of last resort" policy

The GOP's policy pronouncement in 1985 of increasing its rice sales volume when market retail prices are higher than its release prices

(i.e. NFA should be a seller of last resort) had mixed results.

NFA sales volume was highest in 1987 when it provided 7.9 per cent of the total rice requirement of the domestic market. Consequently, the average market price went above the NFA price by only P0.11 per kilo, notwithstanding the fact that domestic production during the year was below the total rice requirement. In contrast, NFA limited itself to 1.9 per cent of the market in 1986 due to the rice surplus situation then prevailing, which showed in the average market rising above the NFA's by only P0.06 per kilo (See Table 15).

While NFA's marketing operations were effective in 1986 and 1987, the results in 1985 and 1988 went in the opposite direction. Although a rice surplus was achieved in 1985, average market price actually went above the NFA price by P0.50 per kilo, primarily due to speculations on the first months of the year triggered by the low beginning inventory of NFA, (good for only six days). GOP's uncertainty on the rice situation was also evident in the number of times GOP changed decisions on the commodity mix of the FY 1985 PL 480 program, from all-rice to 50-50 rice and wheat, then finally, to all-rice.

NFA's operations in 1988 was also ineffective, with the average market price soaring at P1.00 per kilo above the official price. Two factors were behind this: (1) NFA's beginning stock inventory which went below the 30-day requirement; and (2) the deficit in rice production during the year.

D. ACHIEVEMENTS

1. Summary

A summary table on the state of GOP compliance to the self-help measures is given below:

Summary of Results, Grain Stabilization
Self-Help Measures

<u>Self-help Measures</u>	<u>Results</u>
1. Deregulation and freeing all price controls on milled rice, by 31 October 1985.	GOP compliance. Deregulation was made effective 1 October 1985.
2. Pre-announcement of palay and milled rice prices before cropping season (May and October).	Implemented in 1987.

3. Announcement of a grains price stabilization program by 30 September 1986.

Implementation of then proposed program which involved reduction in support price did not push through due to farmers' opposition and budgeting problems. GOP requested extension of deadline to 30 June 1987. A policy announcement is expected on December 1989 after GOP's review of the Grains Stabilization Program study under the Accelerated Agricultural Production Project.

2. Attribution

GOP commitment to the first two measures were actually made on 31 May 1985, upon signing of Executive Order 1028 by then President Marcos, or a month before the PL 480 Title I Agreement was signed. Although the measures cannot be categorically attributed to the

Agreement, it may be noted that the policy paper which triggered EO 1028, i.e. NEDA-MAF Joint Memorandum on agricultural policy reforms, was made while negotiations with the Manila Mission were on-going.

While GOP complied with the FY 1985 measures, implementation of the FY 1986 measure, i.e. the third measure, was problematic due to the apparent lack of political will to carry out the then proposed program. The proposed program had the following features:

- a. targeted procurement volume of 10.5 per cent of palay and 3 per cent of corn production;
- b. reduction of procurement prices for palay from P3.50 to P3.00 per kilo; and for corn, from P2.90 per kilo to P2.50.
- c. release price for milled rice of P6.50 per kilo; for corn grits, P4.50 per kilo; and for corn grains, P3.50 per kilo;
- d. open buying system where any farmer will be able to sell to NFA against only farmer passbook holders; and
- e. focus on in-warehouse buying and reduction of procurement through mobile stations.

Farmer organizations strongly resisted the proposal to reduce the support prices, which was then justified by the declining cost of production inputs. Another factor which went against the implementation of the proposal was its funding requirement of over P3 billion, implying a total annual subsidy of P2.3 billion from the national

treasury. In view of these developments, the Mission granted GOP's request for an extension of the deadline to 30 June 1987. The GOP is expected to announce its grain price stabilization policy in December 1989 as an offshoot of the Grain Price Stabilization Study under the Accelerated Agricultural Production Project (AAPP).

3. Related issues

Earlier parts of this report have indicated that the implemented self-help measures were not sufficient in making the GOP's grains price stabilization effective in (a) improving farmers incentive, (b) stabilizing consumer prices; and (c) implementing the "buyer and seller of last resort" policy. Efforts to address the problem must therefore include discussion of the following policy issues:

- a. appropriateness of the present pricing scheme vis-a-vis other proposals which are less costly in terms of the required budgetary support and "opportunity cost-wise", e.g. the UPLB^{6/} proposal;
- b. the role of NFA; and
- c. long-term measures to improve agricultural productivity.

^{6/}
Ibid.

a. The UPLB - proposed pricing scheme

The present pricing scheme is based on the domestic costs of production which are not necessarily the true economic or opportunity costs due to the distortions existing in the agricultural and industrial domestic markets. The opportunity cost of producing or consuming rice domestically is given by the world price of rice. As shown earlier, retail prices of rice in the domestic market have been lower than world prices since 1982 suggesting that domestic consumers have been subsidized at the expense of producers.

Agricultural economists from the University of the Philippines at Los Banos (UPLB) have repeatedly recommended that the domestic price of rice follow the trends in the world price of rice or border price of rice. The UPLB proposal entails the following:

- (1) setting the domestic price goal for rice to reach the moving average of the border price of rice.
- (2) setting the above price goal for Manila (i.e. the Manila reference rate) while prices on other parts of the country will be based on this Manila price plus marketing costs.
- (3) maintaining the Manila reference price through the use of variable import or export taxes which would be equal to the difference between the

domestic price goal and the actual, current world price.

The Manila Mission may consider a study on the feasibility of the concept as a self-help measure in future agreements; since its implementation, is argued to minimize the cost of government intervention. In addition, it is supposed to be less ambiguous and more equitable than the current method. (Note that the AAPP terms of reference does not explicitly state whether this pricing strategy shall be considered).

b. The role of NFA

Under the UPLB proposal, the role of NFA would consequently be reduced to emergency reserve functions or importer of rice stocks to keep consumer prices from rising in case of shortfalls. The NFA Council would be in charge of setting the Manila reference price. However, the need for keeping NFA may no longer arise if the private sector can adequately fill the role of grain importer.

Such a change in policy direction must, however, be carefully studied in order to avoid the unintended consequence of developing a private sector monopoly/oligopoly on grain importation.

c. Long-term measures

A price stabilization policy is essentially a second best solution to the problem of improving productivity in rice and corn production. In this regard, future bilateral agreements may consider supporting the following activities which have been recommended by the Agriculture Staff of the NEDA Secretariat (1989):

- (1) programs to increase investments in the rehabilitation of existing irrigation systems in view of the high complementarity between the use of fertilizer and the availability of water; and
- (2) increased investments in post-harvest facilities and R & D, in view of post-harvest losses which were estimated to range from 10 to 31 per cent of total harvest.

As partially discussed in this report, measures to reduce the cost of production appear to have more bearing on directly increasing farmers' income compared to direct pricing policies and government intervention in markets.

Table 12-a

Average Farm Profit in 1972 Prices
(Pesos per kilogram of palay)
1978-1988

Year	Market Farmgate Price	Average Cost of Production	Average Profit
1978	0.46	0.55	(0.09)
1979	0.41	0.50	(0.09)
1980	0.39	0.47	(0.08)
1981	0.39	0.49	(0.10)
1982	0.37	0.47	(0.10)
1983	0.38	0.31	0.07
1984	0.41	0.34	0.07
1985	0.44	0.31	0.13
1986	0.38	0.27	0.11
1987	0.38	0.28	0.10
1988	0.40	0.28	0.12

Source: BAS, NFA, NEDA

Table 12-b

Expected Farm Profit from Effective NFA Operations, in 1972 Prices
(Pesos per kilogram of palay)
1978-1988

Year	Support Price	Projected Profit
1978	0.51	(0.04)
1979	0.52	(0.02)
1980	0.47	0.00
1981	0.47	(0.02)
1982	0.49	0.02
1983	0.52	0.21
1984	0.48	0.14
1985	0.47	0.16
1986	0.47	0.20
1987	0.45	0.17
1988	0.41	0.13

Source: BAS, NFA, NEDA

Table 13

Retail Prices of Rice
(Pesos per kilogram)
1978-1988

Year	Average Market Price	NFA Ceiling/ Release Price	World Price (FOB; 35% broken)
1978	2.09	2.10	n.a.
1979	2.29	2.45	n.a.
1980	2.45	2.60	n.a.
1981	2.72	2.85	n.a.
1982	2.96	3.10	2.07
1983	3.19	3.80	2.67
1984	5.10	5.35	3.89
1985	7.00	6.50	3.68
1986	6.56	6.50	3.62
1987	6.61	6.50	4.19
1988	7.50	6.50	5.46

Source: BAS, NFA, NEDA

Table 14-a

NFA Rice Procurement
(In Thousand MT)
1978-1988

Year	Total Palay Production	NFA Procurement	NFA Share (%)
1978	7,212	518.5	7.2
1979	7,685	757.7	9.8
1980	7,646	551.1	7.2
1981	7,911	580.6	7.3
1982	8,334	649.2	7.8
1983	7,295	534.0	7.3
1984	7,829	298.0	3.8
1985	8,806	401.2	4.6
1986	9,247	422.3	4.6
1987	8,540	572.0	6.7
1988	8,971	263.9	2.9

Source: BAS, NA

Table 14-b

NFA Vs. Market Price for Palay
(Pesos Per Kilogram)
1978-1988

Year	NFA Support Price	Market Price	Excess of NFA Price Over Market Price
1978	1.10	0.98	0.12
1979	1.30	1.04	0.26
1980	1.40	1.15	0.25
1981	1.55	1.30	0.25
1982	1.80	1.37	0.43
1983	2.10	1.52	0.58
1984	2.90	2.69	0.12
1985	3.50	3.50	0.00
1986	3.50	2.98	0.52
1987	3.50	3.19	0.31
1988	3.50	3.50	0.00

Source: NFA, BAS

Table 14-c

NFA Procurement of Corn and Support Price vs. Market
1984-1988

Year	NFA Procurement (In Thousand MT)	% of Total	NFA Support Price (P/kilo)	Average Ex-Farm Price (P/kilo)
1984	14.941	0.46	2.07	2.41
1985	109.799	2.84	2.81	2.98
1986	34.084	0.83	2.90	2.82
1987	26.951	0.63	2.90	3.26
1988	122.273	2.76	2.90	3.01

Source: NFA

Table 15
NFA Rice Distribution
1984-1988

Year	Total Rice Demand (in Thousand MT)	NFA Sales		Excess of Market Price Over NFA Retail Price (P/kilo)
		Volume (in Thousand MT)	Percent of Total Demand	
1984	5,653.8	504.746	8.9	(.25)
1985	5,689.7	364.902	6.4	0.50
1986	5,787.0	112.514	1.9	0.06
1987	5,916.2	466.542	7.9	0.11
1988	6,105.9	405.226	6.6	1.00

Source: NFA

VI. DIVESTITURE/PRIVATIZATION OF NFA/DA CORPORATE INTERESTS

A. BACKGROUND

The divestiture by NFA of its corporate interests has been a major objective of USAID policy initiatives since 1984. This has been a major focus of both policy dialogue efforts and privatization objectives. Policy reform initiatives involving operations of the National Food Authority which were unrelated to grains stabilization and trading activities were formally included among the self-help measures in the FY 1985 Agreement. The same objectives were likewise contained in the FY 1986 and FY 1987 agreements.

B. OBJECTIVES OF THE SELF-HELP MEASURES

In the FY 1985 program, the objectives of the policy reform measures related to divestiture were as follows:

1. to reduce the need for public subsidies of food marketing activities;
2. to increase the efficiency of food marketing activities; and
3. to reduce public sector involvement in activities traditionally reserved for the private sector.

These objectives were to be accomplished through the divestiture by the National Food Authority of all of its non-grain stabilization and trading activities. NFA was to "take steps, initially to effect (a) the transfer of all KADIWA and other non-grain operations of NFA to the Food Terminal, Incorporated, and subsequently, (b) the transfer or divestment of the operations of Food Terminal, Inc., including the KADIWA operations, as a joint venture between the GOP and the private sector, and eventual transfer to full private sector control.

The objectives of the self-help measures involving NFA's operations in the FY 1986 agreement were basically a restatement of the language in the FY 1985 program. At that time, the GOP had already commenced a divestment program for the National Food Authority involving closure of approximately sixty percent of the KADIWA outlets (FY 1986 Grant Agreement, page 12). The grant agreement language likewise committed NFA to divest itself of activities which were determined to be not necessary for the implementation of an effective rice and corn stabilization program.

C. IMPLEMENTATION

1. Significant Events

- a. Approval by then President Marcos of the adoption of policy reforms in the agricultural sector, including the divestment of all NFAs non-grain related activities. April 17, 1985 (See Annex I).

- b. Signing of E.O. 1028 by then President Marcos. May 31, 1985 (See Annex II).
- c. Signing of FY 1985 PL 480 Title I Agreement. July 8, 1985. This Agreement committed the NFA to divest itself of non-grains operations, including KADIWA operation.
- d. Signing of the FY 1986 PL 480 Title I Agreement. June 20, 1986. The PY 1986 Agreement further committed the GOP to continue with the self-help measures provided for in the FY 1985 agreement.
- e. Closure of all KADIWA units in 1987.
- f. Conduct of study in divestiture strategies for the Department of Agriculture's privatization program in 1987.
- g. Signing of the FY 1987 PL 480 Title II Section 206 Agreement. June 5, 1987. This Agreement committed the GOP to divestiture actions on two subsidiaries of the Department of Agriculture - the Philippine Cotton Corporation and Philippine Dairy Corporation.
- h. Signing of the FY 1988 PL 480 Title I Agreement. April 19, 1988. This Agreement expanded coverage of divestiture actions to include three NFA peripherals.

2. Evaluation

The KADIWA program was initiated in 1981 to provide a check on the rising cost of commodities brought about by worldwide inflation. The KADIWA system comprised of a network of government operated retail stores which "offer consumers a range of food and other commodities at prices which are equal to or lower than the lowest prevailing prices in the area in which the KADIWA is located." In effect, the KADIWAs were outlets for commodities subject to retail price controls. The number of outlets increased to a high of 300 stores but decreased to 178 after rationalization in May 1984. The KADIWA program reportedly operated at close to break-even. Although positive net profits were reported, interest and other unreported expenses pulled down the system's performance.

The Food Terminal, Inc. (FTI) started operations in 1974. The terminal became a subsidiary of NFA in September 1984. FTI comprised of marketing, facilities management and corporate services operations. The marketing arm operated the Kadiwa stores not directly operated by NFA. The facilities management operation included a slaughterhouse, a chicken processing plant, a refrigerated warehouse and other similar facilities. According to the draft report on PL 480 (August 1986), accounting information of FTI was incomplete although the total loss in 1983 may have reached P81 million.

The thrust of the FY PL 480 Title II program was to further reduce subsidies in agricultural marketing activities and eliminate government intervention in agriculture. The agreement required the Department of Agriculture to divest itself of two subsidiaries - the Philippine Cotton Corporation (PCC) and the Philippine Dairy Corporation (PDC). In particular, DA was to develop definitive divestiture program for PCC and PDC by March 15, 1987 and initiate the divestiture process by 1989.

The FY 1988 PL 480 Title I program expanded the scope of divestiture actions. NFA peripherals were identified for divestiture. The entities included were the Tabangao Loading Facility, the Digos Agro-Industrial Complex and the Northern Grains Complex. The objectives of these divestiture operations were basically adopted from the FY 1987 Title II agreement..

Divestiture of KADIWA operations was completed in June 1987. All provincial Kadiwas were closed/sold as of that date. With respect to FTI operations, the study on the subject was completed only on February 1987, or over a year from the previous deadline which was January 1986. In view of the GOPs reorganization during that period and the delayed issuance of privatization policy directives, this particular self-help measure, i.e., divestiture of NFA non-grains operations, was carried over to the 1986 PL 480 Self-Help Measures.

Privatization of FTIs operations has been slow because of the following reasons: (a) legal question on FTI land title; (b) privatization plan has to take into account the needs of existing lessees; and, (c) difficulty in leasing the entire complex. Meanwhile, a catalog of FTIs assets has been completed. The specific bidding rules and contract to sell have been finalized. Pre-bidding conference is scheduled for the third quarter of 1989.

With respect to the FY 1987 self-help measures involving DAs subsidiaries, the privatization plan for PCC has been completed. PCC's major assets have been turned over to the Asset Privatization Trust (APT). APT has conducted two biddings so far, but there have been no interested parties. The third bidding (for the ginneries) is scheduled for the third quarter of 1989. For PDC, the divestiture plan has also been completed. All PDC facilities have been leased out. An inventory/registration of working stocks/animals is still on-going.

GOP budgetary support to PCC and PDC from 1985 to 1989 is shown in Table 16. Of the two, PDC has received the larger financial support, about P95 million between 1985 and 1987. PCC has received subsidies of about P18 million for 1985 to 1989. Evidence indicated no further budgetary support to be given to both corporations.

Table 16

Budgetary Support to Philippine Cotton Corporation (PCC)
and Philippine Dairy Corporation (PDC)
1985-1989
(In Thousand Pesos)

	PCC			PDC		
	Equity Investment	Subsidy	Total	Equity Investment	Subsidy	Total
1985	-	9,354	9,354	26,176	-	26,176
1986	-	-	-	43,360	-	43,360
1987	-	-	-	24,853*	-	24,853
1988	-	3,000	3,000	-	-	-
1989	-	6,000	6,000	-	-	-

*

Capital Outlay

Source: Department of Budget and Management

With respect to NFA's peripherals, the disposition of TLF has been turned over to APT. All TLF assets have been appraised and a pre-bid conference is scheduled for the third quarter of 1989. Meanwhile, evaluation for the Digos Complex and the Northern Grains Complex has been completed. Both entities have been recommended for privatization. The recommendation is up for approval by the NFA Council.

D. ACHIEVEMENTS

Summary Table

Self-Help Measure	Result
1. NFA to take steps to effect:	
a. transfer of all KADIWA and other non-grain operations of NFA to the Food Terminal, Inc., and subsequently	Closure of all KADIWA units as of June 1987.
b. transfer or divestment of the operations of Food Terminal, Inc., including KADIWA, as a joint venture between GOP and the private sector.	
2. Completion of divestiture study by 31 January 1986	a. Included in FY 1986 Title I Agreement, with deadline extended to 15 February 1987. Study was completed in February 1987. As of August 1989, the following preparatory steps have been done: i) appraisal of FTI assets ii) preparation of FTI asset catalog

iii) finalization of specific bidding rules and contract to sell. Pre-bidding conference in scheduled for third quarter of 1989.

iv) declaration by the Department of Energy and Natural Resources that FTI is a public land. This will pave the way for privatization.

3. Design of a divestment program for the dairy and cotton corporations by 15 March 1988, with the objective of starting the divestment program during 1988.

Final report on divestiture strategies for the Philippine Cotton Corporation and Philippine Dairy Corp. completed January 1988.

4. Submission by Department of Agriculture to the Committee on Privatization of formal recommendation of the following NFA peripherals, by 31 December 1988:

- a. Tabangao Loading Facility (TLF)
- b. Digos Agro-Industrial Complex; and
- c. Northern Philippines Grains Complex (NPGC)

a. TLF disposition turned over to APT; TLF assets appraised; and pre-bid conference scheduled for third quarter of 1989.

b. Evaluations for disposition of Digos and NPGC completed. Recommendation for privatization submitted to NFA Council for approval.

POLICY STATEMENT OF GOP ON AGRICULTURAL SECTOR
15 APRIL 1985MEMORANDUM -

FOR : HIS EXCELLENCY
PRESIDENT FERDINAND E. MARCOS

FROM : MINISTER SALVADOR H. ESCUDERO
MINISTER VICENTE B. VALDEPEÑAS, JR.

SUBJECT : REVITALIZATION OF THE AGRICULTURAL SECTOR

DATE : 15 APRIL 1985

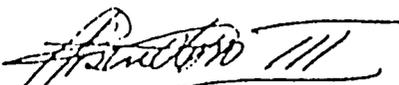
17 April 1985
Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 673-50-31 to 50

1. THE PROSPECTS FOR THE EARLIEST AND STRONGER RECOVERY OF THE PHILIPPINE ECONOMY HINGES MAINLY ON INTERNAL EFFORTS ESPECIALLY THE REVITALIZATION OF AGRICULTURE. WITH A MORE OPEN, LIBERAL AND LESS REGULATED POLICY CLIMATE, THE FULL POTENTIALS OF AGRICULTURE CAN BE UNLEASHED FOR THE BENEFIT OF THE PEOPLE AND SMALL FARMERS.
2. SEVERAL POLICIES TO REINVIGORATE AGRICULTURE HAVE ALREADY BEEN TAKEN, INCLUDING:
 - A) ALL PRICE CONTROLS EXCEPT ON RICE HAVE BEEN LIFTED;
 - B) FANCY-RICE VARIETIES ARE NO LONGER SUBJECT TO PRICE CONTROL AND A MULTI-TIERED RICE PRICE CEILING SYSTEM IS IN PLACE;
 - C) COCONUT EXPORTS AND DOMESTIC SUGAR TRADING HAVE BEEN OPENED UP TO PRIVATE ENTERPRISE;
 - D) INSTITUTIONAL ARRANGEMENTS HAVE BEEN IMPROVED FOR A MORE BROADLY BASED REPRESENTATION OF ALL

SECTORS IN THE COCONUT AND SUGAR INDUSTRIES; AND,

- E) FEEDGRAIN IMPORTATION IS NO LONGER LIMITED TO NFA,
3. HOWEVER, IT IS VERY CRITICAL THAT THESE RECENT ACTIONS BE REINFORCED TO FURTHER IMPROVE INCENTIVES TO FARMERS, TO STABILIZE PRICES, AND TO RAISE THE EFFICIENCY OF THE AGRICULTURAL SECTOR AS SOURCE OF FOOD AND EXPORTS, A MORE PROFITABLE INVESTMENT CLIMATE IN AGRICULTURE WILL ALSO ACCELERATE RURAL DEVELOPMENT AND REDUCE SUCH THREATS TO NATIONAL SECURITY AS INSURGENCY IN THE COUNTRYSIDE,
4. THE FOLLOWING RECOMMENDATIONS ARE THEREFORE RESPECTFULLY PRESENTED FOR PRESIDENTIAL APPROVAL:
- A) COMPLETE DEREGULATION OF RICE PRICES. THIS CAN BE ANNOUNCED IN MAY (START OF PLANTING) AND IMPLEMENTED IN OCTOBER (START OF HARVESTING), THIS ACTION WILL GREATLY IMPROVE INCENTIVES TO FARMERS FOR MORE RICE PRODUCTION,
- COMPLEMENTARY TO THIS ARE STEPS TO ENSURE PRICE AND SUPPLY STABILITY, SUPPORT PRICES SHOULD BE ADJUSTED UPWARDS IN PROPORTION TO INCREASED PRODUCTION COSTS, AND NFA BUFFER STOCK OPERATIONS SHOULD BE STRENGTHENED,
- B) OPENING UP OF WHEAT IMPORTATION AND FLOUR DISTRIBUTION TO THE PRIVATE SECTOR. THE EXISTENCE OF AT LEAST THREE LARGE FLOUR MILLS AND THE ENTRY OF OTHER ELIGIBLE PARTICIPANTS WILL RESULT IN A MORE COMPETITIVE SYSTEM AND ENSURE THE AVAILABILITY OF RICE SUBSTITUTES LIKE WHEAT,

- c) DELIMITING NFA'S STABILIZATION FUNCTIONS ONLY TO RICE AND CORN AND DIVESTMENT OF ALL ITS NON-GRAIN RELATED ACTIVITIES. THIS WILL IMPROVE NFA'S OPERATIONAL EFFICIENCY AND RAISE INCENTIVES TO THE PRIVATE SECTOR TO ENGAGE IN TRADING OF OTHER GRAINS. WITH ITS FOCUSED AND CONCENTRATED EFFORTS IN THESE AREAS, THE GOVERNMENT THROUGH NFA CAN POSITIVELY AND BETTER INFLUENCE THE RICE AND CORN SITUATION. THE PRIVATIZATION OF FTI AND KADIWA OPERATIONS WILL ALSO REDUCE GOVERNMENT COSTS.
- d) FULL IMPLEMENTATION OF THE POLICY TO ALLOW ALL SECTORS TO IMPORT AND DISTRIBUTE FERTILIZER. THIS WILL ENCOURAGE MORE COMPANIES/END-USERS TO IMPORT AND DISTRIBUTE FERTILIZER.
- e) GRADUAL REMOVAL OF SUBSIDIES TO FARM INPUTS, E.G., CREDIT AND IRRIGATION. THIS MAY BE DONE GRADUALLY WITHIN A PERIOD OF AT LEAST ONE YEAR. SUCH POLICY ACTION WILL FURTHER REDUCE GOVERNMENT COSTS, IMPROVE THE PROFITABILITY OF INDUSTRIES PROVIDING SUCH INPUTS, AND STABILIZE PRICES OVER THE MEDIUM-TERM. MOREOVER, PROGRAMS TO DEVELOP SUCH CHEAPER INPUTS AS AZOLLA AND MORE EFFICIENT TECHNOLOGY AND FARMING SYSTEMS SHOULD BE ACCELERATED.
5. FAVORABLE ACTION ON THE ABOVE RECOMMENDATIONS WILL IMPROVE THE POLICY ENVIRONMENT AND ENCOURAGE MORE EXTERNAL SOURCES OF FUNDING SUCH AS FOREIGN INVESTMENTS AND OFFICIAL DEVELOPMENT ASSISTANCE (ODA) TO THE COUNTRY. ODA IS CRITICALLY NEEDED DUE TO THE DELAY IN THE NORMALIZATION OF ACCESS TO COMMERCIAL CREDIT.


SALVADOR H. ESCUDERO III


VICENTE B. VALDEPEÑAS, JR.

ANNEX II

EXECUTIVE ORDER NO. 1028

PROVIDING FOR FURTHER DEREGULATION IN THE PRODUCTION AND
TRADING OF FOOD GRAINS AND RELATED AGRICULTURAL INPUTS

WHEREAS, under the New Republic, national development shall be pursued with renewed dedication and greater determination through a more efficient, effective and economical government;

WHEREAS, it would be desirable, as a general policy, to encourage the participation of the private sector in the development of the country and to rely as much as feasible on the free interplay of competitive market forces in the production and trading of food grains and related agricultural inputs;

WHEREAS, for this purpose, it would also be desirable to liberalize the governmental regulatory framework in support of the above-stated national policy; and

WHEREAS, under Presidential Decree No. 1416, as amended, the President is empowered to undertake such organizational and related improvements as may be appropriate in the light of changing circumstances and new developments;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution and the authority vested in me by Presidential Decree No. 1416 as amended, do hereby order and ordain;

SECTION 1. It is the policy of the State to achieve and maintain an adequate supply of food grains at mutually satisfactory price levels for both farmers and consumers, primarily through reliance upon the market mechanism and by encouraging the participation of competitive private enterprise in the production and trading of food grains as well as of related agricultural inputs, such as fertilizers, seeds and pesticides.

SECTION 2. The price of milled rice is hereby deregulated, and shall no longer be subject to price controls: Provided, however, That in order to ensure price and supply stability, the government, through the National Food Authority, shall, whenever necessary, engage in the procurement of palay from farmer-producers at such floor or support prices as it may determine, for the purpose of stabilizing the price of palay or of maintaining a desirable buffer stock level: Provided, further, That the National Food Authority shall continue to have the exclusive authority to import rice when necessary and when authorized by the President: and Provided, finally, That the deregulation of the price of milled rice shall take effect on October 1, 1985.



SECTION 3. The stabilization functions of the National Food Authority shall henceforth be limited to rice and corn, and where necessary, wheat: Provided, however, That the President may, for stabilization purposes, authorize the intervention of the appropriate government entity in the trading of other food items if so warranted by conditions as may exist from time to time.

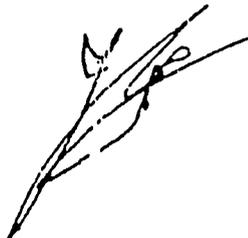
Accordingly, the National Food Authority proper shall relinquish or transfer to another government entity or to the private sector, as appropriate, all its non-grain stabilization and trading activities. Steps shall accordingly be taken initially to effect (a) the transfer of all KADIWA and other non-grain operations of the National Food Authority to the Food Terminal, Incorporated, and subsequently (b) the transfer or divestment of the operations of Food Terminal, Incorporated, including the KADIWA operations, as a joint venture between the government and the private sector, without prejudice to the possibility of a full transfer to the private sector immediately or ultimately.

SECTION 4. The importation of wheat and the distribution of flour shall henceforth be open to the participation of and undertaken by the private sector: Provided, however, That the government through the National Food Authority may import wheat and distribute flour under competitive conditions with the private sector, whenever deemed necessary to maintain the domestic selling prices of flour within reasonable levels.

SECTION 5. The policy of open importation and distribution of fertilizer by all interested private parties, including distributors and end-users thereof, shall be fully implemented. All remaining subsidies, whether direct or indirect, for fertilizers shall be removed as soon as possible to accelerate the development of less expensive similar inputs, such as azolla and other organic fertilizers, in order to eventually reduce the cost of food production.

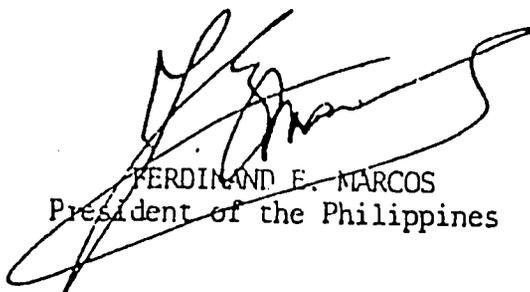
SECTION 6. The National Food Authority shall issue the necessary guidelines for the implementation of the policies set forth under Sections 2, 3, and 4 and the Fertilizer and Pesticide Authority for Section 5 hereof.

SECTION 7. All laws, decrees, orders, proclamations, rules, regulations or parts thereof which are inconsistent with any of the provisions of this Executive Order are hereby repealed or modified accordingly.

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive name, likely of the President mentioned in the text.

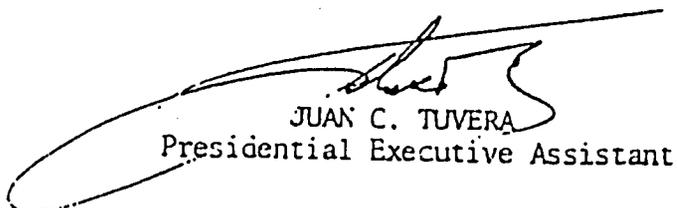
SECTION 8. This Executive Order shall take effect immediately except as provided in Section 2 hereof.

DONE in the City of Manila, this 31st day of May, in the Year of Our Lord, Nineteen Hundred and Eighty-Five.



FERDINAND E. MARCOS
President of the Philippines

By the President:



JUAN C. TUVERA
Presidential Executive Assistant

STATUS REPORT BY GOP ON SELF-HELP MEASURES

Republic of the Philippines
 National Food Authority
 101 E. Rodriguez Sr. Avenue
 Quezon City, Philippines

7-410
RECEIVED
 SEP 24 12 52 PM '87
 U.S. AIR MAIL

Transfer to Mr. Schieck

Tel. Nos. 712-17-08 * 712-33-41 to 53
 23 September 1987

Mr. Frederick W. Schieck
 Director
 U.S. Agency for International Development
 Ramon Magsaysay Center Bldg.
 Roxas Blvd., Manila

RE: PL 480 SELF-HELP MEASURES

Dear Mr. Schieck:

We are pleased to inform you of the status of our self-help measures as follows:

1. All the NFA Provincial Kadiwa Centers have been closed. The last unit was closed in June 1987.
2. NFA has begun announcing its buying price for corn and rice (palay) before the start of each crop season; this is done in May and October of each year.
3. The implementation of Privatization Program for the Food Terminal Incorporated is already on-going. In fact, a study team from USAID is now at Department of Agriculture to validate the Privatization Program previously prepared by NFA.
4. The ceiling prices for grains including rice and corn have been deregulated or lifted since late 1985.
5. Effective March 11, 1986, the importation of wheat grains and wheat flour and feedgrains has been opened to the private sector.

For your information and reference.

Received in PO 9/25

Very truly yours,

EMIL L. ONG
 Administrator

Clearance/Action Log 5200
 Document No. 6290
 Forwarded to _____

[Signature]
 JORGE M. CATALAN
 Deputy Administrator and
 Chairman, Executive Committee

ACTIV	ACTIVE
OD	<input checked="" type="checkbox"/>
E	<input type="checkbox"/>
PE	<input type="checkbox"/>
RLA	<input type="checkbox"/>
PO	<input checked="" type="checkbox"/>
TD	<input type="checkbox"/>
EO	<input type="checkbox"/>
PER	<input type="checkbox"/>
CSD	<input type="checkbox"/>
LOG	<input type="checkbox"/>
GSO	<input type="checkbox"/>
TRV	<input type="checkbox"/>
CO	<input type="checkbox"/>
DMD	<input type="checkbox"/>
CCD	<input type="checkbox"/>
OSAD	<input type="checkbox"/>
OPHE	<input type="checkbox"/>
FEED	<input checked="" type="checkbox"/>
IC/L	<input type="checkbox"/>
IG/II	<input type="checkbox"/>
R	<input type="checkbox"/>
DUE DATE	
10-5-87	

ACTION TAKEN	
NAN	Other _____
Date	No. _____
Date	Initials _____

ANNEX IV

Chronology of Events on FY 1985 PL 480 - I

Date	Event/s	Document/s	Location of Document
AGREEMENT			
8 July 1985	<p>I. Signing of Agreement. Agreed self-help measures with definite timetable:</p> <ol style="list-style-type: none"> 1) deregulation of milled rice prices by 31 Oct. 1985; 2) issuance of implementing regulations by NFA re: opening of wheat importation to private sector by 15 July 1985; 3) issuance of implementing regulations re: opening of flour distribution to private sector participation by 15 July 1985; 4) programmed phase-out of all NFA distribution of flour within 2 months; 5) study on divestiture plan for NFA subsidiaries (KADINKA, FTI) by 31 Jan. 1986 6) regulations on the following to be issued by FFA by 15 July 1985; <ol style="list-style-type: none"> a) permitting the private sector to import fertilizer; b) permitting FFA intervention if prices are unreasonably high; c) policy of non-subsidy on domestic fertilizer production and distribution. 	1985 PL 480-1 Agreement (85, A-1)	Program
Aug. 1985	<p>II. Developments affecting GOP compliance to agreed self-help measures:</p> <ol style="list-style-type: none"> A) Pres. Marcos' order to CB that all allocations of foreign exchange for wheat and wheat flour products be given to the Phil. Fed. of Bakers Association, Inc. 	Mentioned in "USAID view concerning compliance" (85, A-2)	Program
Sept.- Dec. 1985	<ol style="list-style-type: none"> B) Issuance of import license to the Phil. Bakers, Inc. for importation of 325,000 MT of wheat and wheat flour products 	Mentioned in "USAID view concerning compliance" (85, A-2)	Program
Sept. 1985	<ol style="list-style-type: none"> C) NFA reallocation of shipments of 80,000 MT of wheat ordered prior to the PL 480 agreement among the mills [These actions lead to regional market distortions] 	Mentioned in "USAID view concerning compliance" (85, A-2)	Program

Date -----	Event/s -----	Document/s -----	Location of Document -----
8 Sept. 1985	D) Agreed phase-out of wheat flour inventories of NFA	Mentioned in "USAID view concerning compliance" (85, A-2)	Program
3 July 1985	III. Utilization of PL 480-I Approval by Pres. Ferdinand E. Marcos of the rice import- ation from U.S. using PL 480 Title I Facility	Joint Memo- randum of Min- isters Valde- penas (NEDA), Escudero (MA), and Tanchanco (NFA) dated 1 July 1985 seeking appro- val of same matter (85, A-3)	Program
IV. Amendment to 1985 Agreement			
14 April 1988	A. Clearance by USAID officials of Amendment No 1 of 1985 Title I, PL 480 Agreement. Amendment pertains to pur- poses for which proceeds accruing to GOP are to be used, and on uses of local currency (F)	Action Memoran- dum for the Director re: Amendment No.1 to 1985 PL 480 Title I Agree- ment (85, A-4)	Program
13 April 1988	B. GOP and USG negotiators reached final agreement on the text of Amendment I	Action Memoran- dum for the Director re: Amendment No.1 to 1985 PL 480 Title I Agree- ment (85, A-4)	Program
12 April 1988	C. GOP complies with Amendment I, i.e., to deposit approx. P709 M in a special account. Said amount is P equiv- alent of \$ disbursements of USG under 1985 PL 480	Action Memoran- dum for the Director re: Amendment No.1 to 1985 PL 480 Title I Agree- ment (85, A-4)	Program

Date -----	Event/s -----	Document/s -----	Location of Document -----
<u>SELF-HELP MEASURES</u>			
14 June 1985	A. Issuance of FFA Memo Circular No. 85-01 for qualified entities to import fertilizers pursuant to LOI No. 1419 and EO No. 1028. The FFA Memo Circular liberalizes the importation and distribution of fertilizers; and states pricing policy for fertilizer, i.e., retail price must not exceed the FFA ex-warehouse price plus any transport cost or other cost allowed by the Provincial Price Stabilization Council. To foster competition in the industry, viable entities with a national distribution network shall be given first option to offtake their fertilizer needs from importations.	FFA Memo Circular signed by M. Zosa (85, SHM-1)	Program
30 July 1985	Implementing guidelines issued by NFA and FFA on wheat importation and flour distribution	Letter to USAID Director from NEDA D. G. Valdepenas (85, SHM-21)	
31 May 1985	B. E.O. No. 1028 was issued, providing for further deregulation in the production and trading of food grains and related agricultural inputs. The E.O. 1) deregulates price of milled rice (to take effect 1 Oct. 1985) but NFA shall continue to have exclusive authority to import rice; 2) limits stabilization functions of NFA to rice and corn; 3) orders NFA to relinquish all non-grain stabilization and trading activities, e.g., divestment of FTI and KADIWA; 4) opens importation of wheat and the distribution of flour to private sector participation.	E.O. 1028 (85, SHM-2)	Program
Mid 1985	C. Phil. Bakers, Inc. ("Philbake") was organized and is intended to operate as the trading arm of the Phil. Federation of Bakers Asso., Inc. for commodities and ingredients required, necessary and/or incidental to the baking industry	29 Aug. 1985 letter of Bartolome T. Harnosura, Jr., Phil. Fed. of Bakers Asso., Inc. president to Phil. Asso. of Flour Millers, Inc. (85, SHM-3)	Program

BEST AVAILABLE DOCUMENT

Annex IV
Page 4 of 11

Date -----	Event/s -----	Document/s -----	Location of Document -----
30 Aug. 1985	Recent actions of GOP which shut down further wheat imports	Manila 26674 (85, C-23)	
1 Oct. 1985	D. NFA announces deregulation of milled rice prices. [Also, NFA is injecting 3,000 MT at current period of milled rice into the market vs. 6,000 MT it has historically injected].	Manila 31570 (85, SHM-22)	Program
CORRESPONDENCE -----			
29 April - 8 June 1985	GOP request re: commodity mix for PL 480-I	Letters from NEDA to USAID & USAID Memo from Dir. Schieck (85, C-32)	
4 June 1985	Mla. Mission reply to NEDA request for PL 480-I	Letter to NEDA D.G. from USAID Dir. (85, C-33)	
27 June 1985	Manila Mission report on GOP negotiations	Manila 18914 (85, C-31)	
20 Aug. 1985	E. Pres. F. E. Marcos signed EO assigning all wheat importations to PhilBakers (allegedly backed by Eduardo Cojuangco)	Mentioned in Memo to Mr. Schieck dated 10 Oct. 1985 re:current status of wheat inputs, PL 480-I (85, SHM-4)	
19 Sept. 1985	F. Pres. F.E.Marcos rescinded EO assigning all wheat importations to PhilBakers	Mentioned in Memo to Mr. Schieck dated 10 Oct. 1985 re:current status of wheat inputs, PL 480-I (85, SHM-4)	
29 Oct. 1985	G. USAID Regional Advisor suggests remedies if GOP fails to carry out self-help measures: USG has a sound legal basis for terminating PL 480 Agreement and demand immediate repayment of the entire principal amount if GOP has either breached or expressly or implicitly repudiated the obligation to carry out the self-help program.	Information Memorandum for the Director from Regional Legal Advisor B.Miller (85, SHM-15)	
10 Oct. 1985	H. USAID's Mr. Goodwin reported that PhilBaker is rumored to have ordered 12,500 MT of flour which will place it in an advantageous market position with peak demand in December and low supply (i.e., no orders for wheat importation had been reported for past 2 months). This could then be used to rationalize a return of NFA intervention in the wheat and flour market.	Mentioned in Memo to Mr. Schieck dated 10 Oct. 1985 re:current status of wheat inputs, PL 480-I (85, SHM-4)	

Date -----	Event/s -----	Document/s -----	Location of Document -----
22 Nov. 1985	I. NEDA forwarded that NFA had favored one group of importers (the bakers) by giving them, in effect veto power over the right of other potential importers to obtain import licenses. Hence, it suggested that NFA should be directed to issue import licenses for future wheat and flour imports as individual firms so request.	NEDA Report to USAID re: Implementation of Self-Help Measures (85, SHM-5)	
21 Jan. 1986	.J. Correspondence Re: PL-480 Self-Help Report. USAID viewed compliance to PL-480 as "questionable" while GOP maintained they are in 'substantial compliance'	Memorandum of (Bet. USAID and NEDA officials) (85, SHM-16)	
21 Jan. 1986	K. Corresp. from then FM Virata informing USAID of DOF endorsement of a request for grant funding of NFA's rationalization plan.	Letter of USAID Dir. from exPM Virata (85, SHM-17)	
22 Jan. 1986	L. USAID concern on non-compliance of GOP on PL 480-I conditions.	Agenda Items for Ambassadors' Meeting with the Prime Min. (85, SHM-8)	
31 Jan. 1986	M. Revision of PL 480 Title I/III allocation table for FY 1986 as of Jan. 1, 1986. Phil. is allocated \$35 M worth of wheat and rice	United States Department of Agriculture Office of Info. (85, SHM-18)	
31 Jan. 1986	N. NFA Divestiture Plan	Technical Assistance for Food Terminal Inc. and KADIWA Prog. (85, SHM-18)	
	D. Evaluation of PL 480	Info. Memorandum for the Administrator [from AA Greenleaf] (85, SHM-9)	
14 Feb. 1986	P. Monitoring of developments re: a) changes in duties and taxes affecting flour milling and distribution (per EO 1062-A signed 9 Nov. 1985; PD 1991 signed 31 Oct. 1985; PD 2006 signed 31 Dec. 1985; PD 2031 signed 5 Feb. 1985)	Memo to USAID Dir. from ORAD re: wheat/flour update (85, SHM-10)	

BEST AVAILABLE DOCUMENT

Date -----	Event/s -----	Document/s -----	Location of Document -----
21 Feb. 1986	<p>Q. USAID evaluation of GOP compliance to PL 480 I self-help conditionalities, viz.:</p> <p>a) anomalies in the opening of wheat importation and the delay in NFA divestment plan;</p> <p>b) failure to make prompt remittance of the Currency Use Payments; and</p> <p>c) submission of a less than satisfactory Self-Help Report</p>	<p>Letter to NEDA Dir. Gen. from USAID Director (NOT SENT due to EDSA Revolution) (85, SHM-11)</p>	
21 April 1986	<p>Phil. Flour Millers Asso. position re: opposition to wheat importation under PL 480 by NFA</p>	<p>Letter to Mr. Schieck from PAFMIL (85, SHM-12)</p>	
28 April 1986	<p>R. USAID "Reminder" to new GOP administration re: status of 1985 PL 490-I; the possibility of a 1986 agreement and recommendations regarding thereon. USAID recommended</p> <p>1) submission of a letter of request for 1986 Title I Program</p> <p>2) deposit by GOP of P counterpart in a special account as required under 1985 agreement;</p> <p>3) joint review regarding GOP's intentions with respect to measures still open under 1985 agreement</p> <p>4) joint agreement on self-help measures for possible 1986 agreement through sale of the imported food commodities</p>	<p>Letter to Minister Ongpin from USAID Director with Annex re: Policy Reforms Under PL 480 Title I Agreement (85, SHM-13)</p>	
14 May 1986	<p>S. GOP (Aquino Administration) maintained it has complied 1985 US PL 480 agreements except a delay in the implementation of NFA divestiture program. The latter will be based on a study funded by ADB Technical Assistance. New deadline for divestment is 31 Jan. 1987</p> <p>T. Status report of NFA re: compliance to 1985 PL 480 self-help measures viz.:</p> <p>1) closure of all KADIWA units by June 1987</p> <p>2) deregulation of ceiling prices of grains</p> <p>3) opening of wheat and wheat product importation to private sector effective 11 March 1986</p> <p>4) announcement by NFA of its buying prices</p>	<p>Letter of then Min. Ongpin to USAID Director (85, SHM-14)</p> <p>Letter to USAID Director from NFA Administrator (85, SHM-19)</p>	

BEST AVAILABLE DOCUMENT

Date -----	Event/s -----	Document/s -----	Location of Document -----
	5) on-going implementation of NFA privatization program.		
	U. USAID accepted full closure of self-help measures re: NFA divestiture program	Letter from USAID to NFA (85, SKM-20)	
CORRESPONDENCE			
20 Sept. 1985	A. Framework for Monitoring PL 480 Agreement Main points: 1. Monitoring should not be seen in audit-based sense of compliance but in broader and more programmatic context of progress in an ongoing policy dialogue and development assistance program 2. Five categories of monitoring are identified: - formal policy agreement. - progress in policy implementation - impacts of policy implementation on reform goals and objectives - changes in the reform environment - modifications of reform strategy	Internal USAID Memo dated 20 Sept. 1985 [To Chief, ORAD from Koppel Consultant (85, C-1)	
	B. Cash Status of US PL 480-Title I as of June 30, 1985	USAID internal document (85, C-2)	
24 May 1985	Certification by U.S. Mission Re: 1. Facilities and Conditions (in the Phil.) for Receiving, Storage and Distribution of PL 480 Rice without spoilage or waste 2. Agricultural counselor estimates that there is current rice shortage in the Phil.	Manila 15311 (85, C-16)	
20 April 1985	Timing Requirements of Rice for Delivery under FY 1985 PL 480 Unsigned note re: \$20 million loan and Cojuangco's moves to take over wheat importation	State 119664 (85, C-15) "Wheat/Flour" (85, C-22)	
June 1985	C. Timing of Title I Philippine Rice Program	State 185223 (85, C-30)	
June 1985	D. Request for use of P 10 million from the peso proceeds of the U.S. PL 480 Title I loan to augment FIDS Endowment Fund	Letter to US-AID Director from NEDA DG (85, C-3)	

BEST AVAILABLE DOCUMENT

Date	Event/s	Document/s	Location of Document
18 July 1985	E. Issues re: monitoring of PL 480 Title I Self-Help Measures	USAID Internal Memo (85, C-4)	
28 Aug. 1985	F. Request for use of local proceeds for Low Income Community Assistance Project (LICAP) [Comments of USAID's ORAD on LICAP attached but NEDA's concept paper missing]	Letter from USAID Director to NEDA DG (85, C-5)	
15 Aug. 1985	Arrangements Re: Monitoring of 1985 PL 480 I Agreements: a) Progress Report by GOP due 15 November 1985 b) Financial report on the generation and use of sales proceeds on a quarterly basis	Letter to NEDA DG from USAID (85, C-6)	
15 Aug. 1985	G. Off-loading arrangements perceived to be "less than desirable" by USAID due to contracting by NFA of a bulk unloading company (owned by a relative of Ms. I. Marcos) with no bagging on board vessel.	Manila 24770 1/2 (85, C-7)	
30 Oct. 1987	H. GOP request for conversion of Rice Loan availed by the NFA in 1985 under PL 480 into grant for the following reasons: a) NFA procured the rice at \$300 / MT compared to that from Thailand which then cost \$175 / MT. (Part of rice procurement was distributed during 1986 snap elections). b) Senator Helms' verbal concurrence of the same request by then Secretary Mitra of DA.	Manila 035194 (85, C-27)	
25 Nov. 1987	I. GOP-USAID discussion on outstanding issues re: PL 480-I: 1) deposit of sales proceeds in accordance with the terms and conditions of agreement [GOP indicated Title I rice formed part of GOP's buffer stock within its grain stabilization program]; 2) GOP's problem re: above because purchase price of rice was much higher than the domestic sales price, hence GOP needs to allocate budget resources to make up difference between sales proceeds and loan amount in order to fund agreed purposes of loan proceeds. 3) NFA had to remill Title I rice several times thus incurring losses; and	Manila 038283/01 (85, C-8)	

BEST AVAILABLE DOCUMENT.

Date -----	Event/s -----	Document/s -----	Location of Document -----
	4) the question of when US rice lost its identity, i.e., upon arrival in the Philippines, the rice was then co-mingled with Philippine milled rice so it now has "accounting" character rather than "physical" character. For FY 1986, "utilization" should be redefined to include stockbuilding -- the act of placing the Title I commodity in stock in the act of utilization.		
21 March 1988	J. Disposal of rice under 1985 PL 480 Rice Loan.	Letter of NFA Admin. to DDF Secretary (85, C-9)	
21 March 1988	K. Notice of GOP compliance to section D of article II of 1985 PL 480-I (i.e., full disposal of rice imported under the agreement)	Letter of DDF Undersec. Leung to USAID Dir. (85, C-10)	
25 March 1988	L. Proposed Uses of the Local Currency Proceeds for the FY 1985 and proposed FY 1988 agreements: measures that will reinforce the dual objectives of stability and economic recovery, i.e., budget allocations to agriculture, resource development and rural development	Manila 010027/02 (see 82-I, C-14)	
10 April 1987	M. Status of FY 1985 PL 480 rice: 1) since GOP entered into rice agreements with other Asian suppliers and at the same time it requested rice from USG, these led to net surplus of rice in the Philippines. Thus, 2) Actual peso sales of the rice is less than \$ value of rice sold at GOP. Since GOP has to pay USG for \$ value of rice, the Aquino administration will pay the price for Marcos administration mismanagement.	USAID internal document (85, C-11)	
20 July 1987	Status of FY 1985 PL 450-I Rice Program	Attachment to letter to USAID Dir. Schieck from Robert Michtman (chief, FVA/FFP/ANE) (85, C-19).	
15 May 1987	Request for clarification re: FY 1985 Title I Rice Problem	Letter from Food for Peace. Deputy Asst., Adm. Reese to USAID Director Schieck (85, C-20)	

BEST AVAILABLE DOCUMENT

Date	Event/s	Document/s	Location of Document
5 June 1987	USAID request to GOP to submit report of receipt and expenditure of sales proceeds of the 1985 PL-480 rice. USAID acknowledges that said rice was ultimately not required to supplement Philippine domestic production.	Letter of USAID Dir. Schieck to DOF Sec. Ongpin (85, C-21)	
13 Apr. 1988	Dollar disbursements under 1985 Title I, from 8/27/85 to 10/29/85	Manila 011678 (85, C-17)	
14 Apr. 1988	Amendment No. 1 to 1985 Title I Agreement	Manila 011635 (85, C-18)	
15 April 1988	N. Acknowledgment by USAID of GOP compliance of Section 3 of 1985 PL 480 Agreement (establishment of the 1985 Title I Proceeds Account, and the deposit of peso proceeds) and authorization for GOP to transfer proceeds to General Fund Account (pursuant to Section 4 of Amendment I of 1985 Agreement)	USAID letter to DOF Undersec. Leung (85, C-28)	
15 Sept. 1988	D. USAID Notice to GOP of GOP noncompliance of agreement re: submission of 1988 first quarter unaudited quarterly report due 30 June 1988	Letter to DOF Undersec. Leung from USAID (85, C-29)	

PROCEEDS

	Schedule of Hard & Soft Shipment for the Remainder of 1985 Based on Quantities Indicated as Outstanding Balances	(85, S/T1)	
20 Feb. 1985	GOP requests for USAID concurrence re: allocation of local proceeds to Project Development Fund	Letter from NEDA D.G. Valdepenas to USAID Dir. Schieck (85, P-7)	
14 Mar. 1985	USAID concurrence to GOP request re: allocation of some local proceeds of FY 1985 PL 480-I to Project Development Fund	Letter to NEDA D.G. Valdepenas from USAID Dir. Schieck (85, P-8)	
14 May 1985	Research Project on the State of the Art of Bakeries by R. K. Davis - Research	(85, S/T2)	
29 June 1985	NEDA endorsement of PIDS' request for use of local proceeds of the FY 1985 PL 480-I	Letter to USAID Dir. Schieck from NEDA D.G. Valdepenas (85, P-9)	
16 Oct. 1985	Wheat and Wheat Flour Situation, as of Oct. 1985	Memo from AGR to the Amb. (85, S/T3)	

BEST AVAILABLE DOCUMENT

Date	Event/s	Document/s	Location of Document
8 Nov. 1985	A. Supporting Papers to Evaluate Proposed Use of P 10 M peso proceeds from PL 490-I loan for PIDS' Endowment Fund	Attachments to letter of NEDA External Assistance Staff to USAID (85, P-6a)	
22 Nov. 1985	B. USAID concurrence in GOP's request for use of P 10 million peso proceeds for PIDS' Endowment Fund. Out of earnings of said proceeds to Endowment Fund, at least 50 % should be used for research on poverty and basic needs of the poor, e.g., poverty and income distribution, population and human resources, agriculture and rural development, and urbanization and regional development.	Letter to NEDA DG from USAID; and Project Agreement (85, P-5)	
December 1985	C. Monetization of 150,000 MT of rice worth \$ 40 million expected to start in March 1986. Also, NEDA concurs with with model for recording USAID/NEDA agreements on utilization of sales proceeds	Letter to USAID from NEDA (85, P-6b)	
16 Jan. 1986	Model format for recording USAID/NEDA agreements on the utilization of sales proceeds	Letter of USAID Program Office Chief, W. Oliver to NEDA Asst. D.G. Romeo Reyes (85, P-10)	
12 Oct. 1987	D. GOP report on receipts and expenditures of rice importations under PL 480 Title I Agreement and reiteration on request of conversion of 1985 rice loan into grant	Letter to USAID from DOF Undersec. Leung (85, P-1)	
28 March 1988	E. GOP report on 1988 first quarter funding warrant releases for 1985 PL 480 Title I	Attachment to letter of DEM to DOF (85, P-2)	
13 April 1988	F. Report Re: Disbursements of FY 1985 PL-480	Manila 011678	
14 April 1988	G. Establishment of 1985 Title I Proceeds Account and the deposit of peso proceeds to the account	Letter to USAID Controller from DOF	
21 April 1988	H. Computation of Deposits to the Special Account Required Under FY 1985 PL-480	USAID internal memo (85, P-3)	
11 April 1989	I. Outstanding GOP actions on FY 1985 PL-480: disbursement of P 4.0 M against P 7.1 M deposited.	USAID internal memo (85, P-4)	

BEST AVAILABLE DOCUMENT

ANNEX V

PL 480 1986 TITLE AGREEMENT
CHRONOLOGY OF EVENTS

AGREEMENT

Date	Events	Documents	Location
20 Jun 86	Signing of PL 480 1986 Title I Agreement (wheat)	PL 480 1985 Agreement (86-A-1)	USAID Prog. Off.
24 Oct 86	Signing of Sales Proceeds Agreement	Sales Proceeds Agreement (86-A-2)	-do-
24 Jul 86	Amendments to the agreed minutes of negotiations re: "exchange rate provisions"; denies request of GOP deleted from Part I, Art. II, Sec. F and Part I Art. III, Sec. G.	(86-A-3)	-do-
no date	Agreement for the opening of L/C bet. Metrobank and PAFMIL to fund the importation of wheat in the amount of P 35.0 M under PL 480	Opening of L/C Agreement with annexes	-do-

CORRESPONDENCE

Date	Events	Documents	Location
17 Oct 85 (ref:86C-1)	Request to GOP Treasurer V. Macalincag to deposit by 22 Oct 85 the peso equivalent amount of \$ 524,974.05 as partial payment of the CUP under PL 480 1985 Title I agreement; per Wash. office, the CUP available for collection as of 16 Oct 1985 is \$ 1,217,754.86.	Letter of B. Eckersley, USAID Controller, to V. Macalincag	USAID Prog. Off.
18 Oct 85	Informs Washington on the request made to GOP (thru the Bureau of Treasury) to deposit to USAID's account the peso equivalent of \$ 524,974.05 under the PL 480 Title I 1985 agreement and anticipates GOP requiring documents supporting CCC disbursements.	Mia US emb cable to SecState, Wash.	USAID Prog. Off.
23 Oct 85 (ref:86C-2)	First indorsement of the 17 Oct 85 letter of USAID Controller to V. Macalincag re: CUP of \$ 1,217,754.86	Letter of B. Difuntorum to the NFA Admstr.	-do-
24 Oct 85 (ref:86C-3)	Request to GOP Treasurer V. Macalincag to make add'l peso equivalent deposit of \$ 692,780.81 by 6 Nov 85	Letter of Eckersley to Macalincag	-do-
13 Nov 85 (ref:86C-4)	Informs GOP Treasurer V. Macalincag on the Currency Use Payment (CUP) under PL 480 agreement dated 7 Jul 85 and asks about the status of the two earlier requests to deposit a portion of the CUP	Letter of B. Eckersley, USAID Controller to V. Macalincag (86-C-4)	-do-

13 Nov 85 Release of draft operational reporting system for PL-480 Cable from Secstate

Dates	Events	Documents	Location
13 Nov 85	Request by DCC working group re: 01 Aug 86 due dates of PL 480 1986 agreements & amendments to satisfy on time the food needs of recipient countries	-do-	
22 Nov 85	USAID's concurrence to the then NEDA's request for an additional P10.0 M out of the PL 480 Title I 1985 sales proceeds for the Phil. Inst. of Devt. Studies.	Letter of W.T. Oliver, USAID Actg. Dep.Dir. to NEDA DG V.B. Valdepenas	-do-
23 Nov 85	Informs CUP under PL 480 Title I 1985 available for collection is the peso equivalent of \$230,097.98	Cable from SecState to Mla US Emb.	-do-
26 Nov 85 (ref:86C-5)	Letter informing GOP re: CUP collections due	Letter of Eckersley to Macalincag	-do-
27 Nov 85 (ref:86C-6)	Transmittal of 11 Nov 85 letter of NFA Dep. Admstr. re: 23 Oct 85 indorsement od CUP	Letter of F. Jandusay, Sp. Asst. to the GOP Treasurer to Eckersley	-do-
10 Dec 85	Informs all rice shipments to the Phils. under 1985 Title I progra# completed	Cable from Mla US Emb. to USOA, Wash.	-do-
16 Dec 85	Solicits advice re: programming Title I sales proceeds for private enterprise development.	Internal Memo from W. Oliver. OD	-do-
7 Jan 86 (ref:86C-7)	Clarification on the supporting documents from the Commodity Credit Corp. and the schedule of CUP payments.	Letter of Eckersley to Macalincag (86-C-7)	-do-
8 Jan 86 (ref:86C-8)	Provision of billing schedule (as of 31 Dec 85) to the GOP on the CUP under PL 480 1985 agreement	Letter of Eckersley to Macalincag (86-C-8)	-do-
27 Jan 86 (ref:86C-9)	Request response to earlier requests re: payment of CUPs.	Letter of Eckersley to Macalincag (86-C-9)	-do-
11 Feb 86 (ref:86C-10)	Provision of billing and collection schedule (as of 31 Mar 85) re: CUP under PL 480 1985 agreement. Also gives reminder of the following CUP billings:	-do-	-do-
	Date Due	Dollar Amt.	Remarks
	10-22-85	524,974.05	112 days overdue
	11-6-85	692,780.21	98 days overdue
	2-28-86	765,518.63	
	3-31-86	16,547.36	

BEST AVAILABLE DOCUMENT

Dates	Events	Document	Location
-------	--------	----------	----------

14 Mar 86	Informs of ADB T. Walsh's advice that the ADB study on NFA divestment is on hold and that "informally" it has been concluded at his level that the study is unnecessary b/c of the recent pronouncements on FTI and KADINA by the GOP; ADB will wait a few weeks before reaching a final decision.	Internal memo from D. Clark, Chief ORAD to F. Schieck.	-do-
10 Apr 86 (ref:86C-11)	Then Finance Minister J. Ongpin is requested that the GOP renegotiate the availment of PL 480 for 1986	Letter of PAFMIL Pres. Maramba	-do-
21 Apr 86 (ref:86C-12)	Washington's view on the new PL 480/Sec. 415	1985 Legislative Summary	-do-
14 May 86 (ref:86C-12a)	Update on GOP efforts to comply with 1985 self-help measures; and the intention of the GOP to avail itself of the PL 480 for 1986	Letter of Min. Ongpin to F. Schieck	-do-
20 May 86 (ref:86-13)	Informs letter of Min. J. Ongpin re: GOP's efforts to comply on the outstanding self-help measures and the GOP's intention of choosing wheat for the PL 480 1986; letter also includes issues on commodity prices arising out of the lobbies made by the millers and issues on the delivery dates.	Cable from Mla. US Emb. to SecState (86-C-11)	-do-
23 May 86 (ref:86-14)	Instruction (part 1) for negotiating the proposed 1986 PL 480 Title I Sales Agreement with the GOP.	Cable from SecState to US Emb Mla (86-C-12)	-do-
27 May 86	The GOP, thru NEDA, signifies interest to avail itself of US PL 480 Title I for FY 1986.	Letter of NEDA DIC F. Pante to F. Schieck, USAID Director	-do-
30 May 86 (ref:86C-15)	Informs that the Phils. has the capacity to receive, handle & store approx. 267,000 mt of wheat w/o danger of spoilage if delivered to US ports bet. July & Sept., 1986; advises that no improvement in bulk grain handling in the Port of Manila.	Cable from US Emb. Mla. to SecState	-do-
3 Jun 86 (ref:86C-16)	Relay of NEDA's formal request for the 1986 availment	-do-	-do-
5 Jun 86 (ref:86C-16a)	Issuance of authority to negotiate 1986 PL 480	SecState to US Emb	-do-
5 Jun 86 (ref:86C-17)	Issuance of Operational Reporting Cable for the 1986 PL 480-I	US Emb to SecState	-do-
14 Jun 86 (ref:86C-	Washington approves the 1986 PL480-I	SecState to US Emb	-do-

Dates	Events	Document	Location
14 Mar 86 (ref:86C-18)	Inform of ADB T. Walsh's advice that the ADB study on NFA divestment is on hold and that "informally" it has been concluded at his level that the study is unnecessary because of the recent pronouncements on FTI and KADIWA by the GOP; ADB will wait a few weeks before reaching a final decision.	Internal memo from D. Clark, Chief ORAD to F. Schieck.	-do-
10 Apr 86 (ref:86C-11)	Then Finance Minister J. Ongpin is requested that the GOP renegotiate the availment of PL 480 for 1986	Letter of PAFMIL Pres. Maramba	-do-
21 Apr 86 (ref:86C-12)	Washington's view on the new PL 480/Sec. 415	1985 Legislative Summary	-do-
14 May 86 (ref:86C-12a)	Update on GOP efforts to comply with 1985 self-help measures; and the intention of the GOP to avail itself of the PL 480 for 1986	Letter of Min. Ongpin to F. Schieck	-do-
20 May 86 (ref:86-13)	Inform letter of Min. J. Ongpin re: GOP's efforts to comply on the outstanding self-help measures and the GOP's intention of choosing wheat for the PL 480 1986; letter also includes issues on commodity prices arising out of the lobbies made by the millers and issues on the delivery dates.	Cable from Mla. US Emb. to SecState (86-C-11)	-do-
23 May 86 (ref:86-14)	Instruction (part I) for negotiating the proposed 1986 PL 480 Title I Sales Agreement with the GOP.	Cable from SecState to US Emb Mla (86-C-12)	-do-
27 May 86	The GOP, thru NEDA signifies interest to avail itself of US PL 480 Title I for FY 1986.	Letter of NEDA OIC F. Pante to F. Schieck, USAID Director	-do-
30 May 86 (ref:86C-15)	Inform that the Phils. has the capacity to receive, handle & store approx. 267,000 mt of wheat w/o danger of spoilage if delivered to US ports bet. July & Sept., 1986; advises that no improvement in bulk grain handling in the Port of Manila.	Cable from US Emb. Mla. to SecState	-do-
3 Jun 86 (ref:86C-16)	Relay of NEDA's formal request for the 1986 availment	-do-	-do-
5 Jun 86 (ref:86C-16a)	Issuance of authority to negotiate 1986 PL 480	SecState to US Emb	-do-
5 Jun 86 (ref:86C-17)	Issuance of Operational Reporting Cable for the 1986 PL 480-I	US Emb to SecState	-do-
14 Jun 86 (ref:86C-18)	Washington approves the 1986 PL480-I	SecState to US Emb	-do-

BEST AVAILABLE DOCUMENT

18)

15 Jul 86 (ref:86C-19)	Request advice on PL-480 Title I wheat tender	US Emb to USDA	-do-
21 Jul 86 (ref:86C-20)	Informs amendments to Minutes of 1986 PL480-I negotiations	Memo from Schieck to J. Mark	-do-
22 Jul 86	Informs the difficulty of providing an exact peso equivalent of the PL 480 Title I loan because it was earlier agreed that the exchange rate to be used would be the rate prevailing at the time of the drawdown; contains attachments on the summary of expenditures by NFA and NIA.	Letter of J. Tambanillo, Chief, Planning Services, MoF to W. Goodwin, Chief, Policy & Planning Div. ORAD.	-do-
25 Jul 86	Inform that new PL 480 legislation emphasizes immunization programs under Titles I & III health self-help measures, and said legislation also adds health programs and projects, including immunization for Title III sec(?) 206 currency support.	Cable from Secstate to Mia US Emb.	-do-
31 Jul 86 (ref:86C-21)	Schieck informs Min. Ongpin re: \$1.9M counterpart deposit by the GOP should really be a CUP; reminds him of the deadline for the submission of progress reports of the self-help measures	Letter	-do-
11 Aug 86	Informs Washington of PAFMIL's Pres. Maramba's letter to Min. J. Ongpin requesting that the GOP make representation with the USG for \$ 50.0 million in wheat under PL 480 Title I & for 400,000 light tons of wheat under the export enhancing program (EEP) for FY 1987; such request constitute one full year's reat. of wheat of the Phils.	Cable from US Emb. Mia. to SecState	-do-

Dates	Events	Document	Location
12 Aug 86 (ref:86C-22)	Informs GOP's request for debt rescheduling re: reconciliation of payments on CCC and PL 480 (see xeroxed copy)	Cable from US Emb. to USDA Wash (86-C-13)	-do-
25 Aug 86	Idea broached re: the possibility of USAID funding (thru a peso loan), maybe via the PL 480 Sec.108 provision to a proposed Phil. development bank for agri-business financing.	aLetter of F. Schieck to Mr. Joseph Sagesse, Phil-American Chamber of Commerce President.	-do-
29 Aug 86 (ref:86C-	Letter advice to Min. Ongpin to make a request to V.E. Lanier, US Agric. Counsellor in the Phils., re: GOP's	Letter of V.E. Lanier to Min. ONgpin	-do-

22a)	plan to export rice so as to reduce current NFA stocks. Such exports, as per the 1985 PL 480 Title I agreement requires a waiver from the USG.	Letter of W. Oliver to Paul Bundick, Asia Program Director (86-C-14)	-do-
3 Dec 86 (ref:86C-23)	Re: Unsolicited proposal on the alternative use of PL 480 Title I sales proceeds (see xeroxed copy)	Letter of W. Oliver to Paul Bundick, Asia Program Director (86-C-14)	-do-
3 Mar 87	<p> Informs of the difficulty/delay encountered by the vessel Ming Hai in discharging wheat under 1986 PL 480 Title I resulting in infestation and the worsening quality of the remaining cargo; unloading still going on b/c initially, the vessel's cranes were not working and after these were repaired (after 2 months during w/c PAFMIL borrowed vacuators to unload about 8,000 mt) the cranes could only lift 1.5 tons each time vis-a-vis the agreed minimum of 7.5 tons. Unloading the remaining 1,000 mt for Manila is thru slings with the remaining 5,000 mt to be discharged in Iligan. </p> <p> Because of the delay, about P 1.5 million in charges is being charged by the Port of Manila and would not allow the vessel to leave for Iligan unless these are paid. T.J. Stevenson which time-chartered the vessel refuses to pay the fines b/c it claims it off-hired the vessel to COSCO. Despite messages from PAFMIL and its shipping agent, Universal Shipping, T.J. Stevenson refused to respond. PAFMIL has filed damage claims against Stevenson. PAFMIL claims that the infestation was triggered either by the ineffectiveness of the Malathion treatment or the vessel's hatches were opened along the way to the Phils. Requests action that a review of the background of the case with the Universal Shipping. </p> <p> All because of these, the GOP is unable to complete the shipment and arrival report under the FY 1986 agreement. </p>	Cable of US Emb. to USDA Wash.	-do-
Dates	Events	Document	Location
23 Apr 87	Memorandum on the private sector (Phil. Chamber of Commerce and Industry - Food, Agriculture and Forestry Committee) incentives on agricultural policy; with attachments (see xeroxed copy)	Internal Memo from W. Goodwin to J. Brady	-do-
23 Apr 87	Confirmation of agreed-upon pricing of the PL 480 and Section 416 (wheat)	Letter of Maramba to Undersec. Leung	-do-
16 Jun 87 (ref:86C-24)	<p> Informs receipt of "Shipment & Arrival Report" and "Report of Usual Marketing Export Limitations, Utilization & Publicity Requirements" with a portion of the latter omitted; requests some clarification on "Discharge Ports" for the vessel 'Ming Hai'; requests that GOP review the Date Discharge Completed and Quantity Discharged Received; further requests that a statement should be </p>	Letter of V. Lanier to Leung	-do-

BEST AVAILABLE DOCUMENT

added under Sec. 3 that the GOP is pursuing the stated losses/damages against the concerned shipping company

- | | | | |
|--------------------------|--|---|------|
| 18 Jun 87 | Clarification on the issue on PAFMIL, in importing wheat and selling it within the Phils., is acting as a cartel. Related to this is the GOP's need to monetise the PL 480 sales proceeds at the highest possible price in order to maximise its budget support. | Letter of W. Oliver, Chief, USAID Program Office to M. Crosswell, Chief Economist, USAID Bureau of Asia & the Near East | -do- |
| 26 June 87 | Request for the cancellation of the scheduled July 15-30 shipment of 25,000 mt of Western White (WW) but replaced with 25,000 mt of Northern Spring/Dark Northern Spring (NS/DNS) for Sept. 15-30 b/c of the bunching of two vessels with 25,000 mt of WW purchased from Cargill and due to be shipped in July 1987. | Letter of Maramba to B. Beyer, Actg. Chief, Program Office, USAID Mla. | -do- |
| 30 June 87 | Request to cancel the Aug. 10-25th 25,000 mt of WW w/c will be replaced with 25,000 mt of NS/DNS shipped in the July 15-30th shipment was not received on time & that USAID is shipping 25,000 mt of WW in July 15-30 as originally scheduled. | Letter of PAFMIL Actg. Pres. G. Martinez to B. Beyer | -do- |
| 23 Dec 87 | Submission as per Sec. 5.2 of the 1986 PL 480 Title I Sales Proceeds Agreement, of the final disbursement reports of NFA and NIA for the period 1 July 1986 to 31 Dec 1986, excluding that of the DNR due the delays For DNR, the deadline of submission is requested to be extended from 31 Dec 87 to 31 Jan 87. | Letter of E. Leung to W. Oliver | -do- |
| 5 Feb 88
(ref:86C-25) | Concurrence of the request to extend the deadline for the submission of the DNR audited reports to -- because of the delay of USAID's response -- 29 FEB 87; also gives reminder that the Certification as required in Sec. 5.2 has not been received. | Letter of D. D'Antonio, Actg. Chief, Program Office | -do- |
| 6 Sep 88
(ref:86C-27) | Reminder of the 6-month delay of the submission of the COA-audited DNR disbursement report and a second reminder of the submission of the required Certification. | Letter of W. Oliver to E. Leung | -do- |
| 9 Sep 88
(ref:86C-26) | Summary of Self-Help Measures for the 1986 PL 480-I | | -do- |

SELF HELP MEASURES

Date	Events	Documents	Location
30 April 1986	<ul style="list-style-type: none"> - Proposed self help measures: <ul style="list-style-type: none"> a) grain stabilization b) fertilizer c) wheat/flour - Compliance by the Marcos Administration under the FY 1985 agreement was marginal and approached default; discussions with the Finance Minister is going on to bring the 1985 agreement into full compliance before completing an agreement for 1986. Sufficient progress/commitment will be made to bring the 1985-self help measures into full compliance. - Local currency funds generated for the 1986 agreement will be used for selected agricultural sector budget support purposes that compliments the budget support program of the FY 1986 ESF funding. 	<p>Cable US Embassy Manila 14206 to Sec State Washington DC (ref:86 SHM-1)</p>	<p>US AID Program Office</p>
05 May 86	<p>Transmits proposed SHM & use of local currency proceeds of the Agreement. Self-help measures further reinforces and refines the self-help measures in the 1985 agreement. The 1985 self-help measure requiring the phaseout of all NFA flour distribution has been totally achieved proposed S.H. measures for the 1986 agreement:</p> <ul style="list-style-type: none"> a) grain stabilization - to establish an effective grain stabilization program for rice and corn so as to ensure that adequate supplies of rice are available to consumers and that seasonal price fluctuations for producers at consumers are not excessive. The grain stabilization program should be free from government intervention in the grains market, and instead should depend primarily on the private sector on this aspect. The government can only act as a grains buyer or seller of last resort. The 	<p>Cable Manila 18225/01 (US Emb to Sec State) (ref: 86 SHM-2)</p>	

BEST AVAILABLE DOCUMENT

stabilization program will be established and announced by 30 September 1986. The prices for both rice and corn will remain free from controls. (Price controls on rice were removed on 1 October 1985; on corn - 20 October 1984)

- b) Open importation of wheat/wheat flour.
 - purpose: to establish competitive coordination for these commodities' importations by the private sector. To accomplish this, there will be no reimposition of the import permit requirement for wheat and wheat flour which was removed on 11 March 1986, and the annual business license requirement be not used to restrict access to such importation.
- c) NFA divestiture - NFA's divestment of all its activities that are unrelated to the implementation of a rice and corn stabilization program. Divestiture plan will be completed by 15 February 1987.
- d) Fertilizer - GOP will agree to consider for implementation the recommendations of a study on the fertilizer sector of the Philippines which will be completed by 31 December 1987.

14 May 1986

Reply letter to then Finance Minister J. Ongpin to F. Schieck re: purchase of rice by the GOP under PL 480 Title I Agreement in July 1985 and the prospective availment in the purchase of wheat under PL 480 in 1986.

(ref: 86 SHM-3)

-do-

informed that the policy reforms embodied in the 1985 PL 480 Title I Agreement have been complied with except the divestiture of the NFA's non-grain stabilization and trading policies; that a final report on the study of NFA organizations and systems under an ADB Technical Assistance is used as basis in reviewing NFA functions.

noted that USAID extended the study on the NFA divestment effort was extended from 31 January 1986 to 31 January 1987.

enclosed a summary of the status of 124

BEST AVAILABLE DOCUMENT

the implementation of the self-help measures concerning NFA.

informed that to date, a total of US\$1,999,820.83 in peso counterpart under Article II of the July 1985 agreement has been deposited.

informed that the GOP intends to avail itself of the 1986 PL 480 Title I or Title III Agreement to purchase wheat provided that private millers be consulted as to quality, the schedule of wheat shipment and price (which should not be more than the price if the wheat were directly imported by them).

17 Nov 1986	Memo from K.E. BROWN, CHIEF, OCD RE: Responsibilities, mechanisms, conclusions and recommendations on the privatization of NFA.	Internal AID Memorandum (ref: 86 SHM-4)	-do-
17 Nov 1986	Memo from JS BLACKTON to P. DEUSTER & B. GOODWIN Deals on the issue that after one year of bringing about a change in which the local flour milling industry accessed wheat imports, it seems that such flour millers merely replaced the NFA and Philbake in controlling the domestic wheat trade.	Internal AID Memorandum (ref: 86 SHM-5)	-do-
05 Nov 1986	Letter of then Food & Agric. Dep. Minister Ong to Acting Minister A. de Roda requesting for the postponement from 31 December 1986 to 31 December 31 1987 of the stabilization program for grains as required by the 1986 PL 480 agreement (Item 5, self-help measures) due to uncontrollable factors. The letter also cites (but with no annexes) NFA's attempts to put into place a grains stabilization program and the reasons of its non-implementation (with annex: "Philippine Grains Stabilization Program").	(ref 86 SHM-6)	-do-
06 Nov 1986	Letter of Acting Minister de Roda to F. SCHIECK USAID Director - transmits the report of Ong on the progress of the grain stabilization program; requests that the steps taken so far regarding this program "be considered as substantial compliance" with this self-help measure; asks that the implementation of the grains	(ref: 86 SHM-7)	-do-

BEST AVAILABLE DOCUMENT

stabilization program be moved to 31 December 1987.

Undated	Note from W. OLIVER, PRO	note (addressed to one in particular but presumably to SCHIECK) (ref: 86 SHM-8)	-do-
	Confirms that the operative request for the implementation of the grains stabilization program is an extension to 31 December 1987.		
28 Jan 1987	Column report that local flour millers are against massive importation of flour at a time when they are operating at 50% level of capacity.	Malaya, column by J. Macasaet	US AID Program Office
	on claims by baker's federation that tariff on imported flour rose from 20 to 30 to 50%, the actual increase to 30% was a mere restoration of the old rate under Marcos. As per Executive Order No. 36 dated 30 July 1986, there is no hint that sales tax from 10 to 20%. Local millers are paying a 10% sales tax.		
	reports that the increasing importation of flour is a source of concern for local millers.		
	reports the observation by key leaders of the baker's federation that the 8 local flour millers have unwillingly created a cartel.		
30 Jan 1987	Letter of F.W. SCHIECK to MIN. J. ONGPIN	(ref: 86 SHM-9)	-do-
	sites the factors which inhibited the establishment of the grains stabilization program (as described in the earlier letter to Ongpin to Schieck) and the proposed actions/decisions on the part of GOP that are needed to establish such a program. Unfortunately, Schieck pointed out that no timetable was set to reach these decisions or completing such actions. Presumably, they would be in place by 31 December 1987, the requested deadline for the program's implementation.		
	reluctantly grants the request of extending the implementation date to 30 June 1987.		
4 Feb 1987	Letter of Finance Dep. Minister E. LEUNG to F. SCHIECK re NFA divestment plan; submits the Divestiture Plan for NFA Retail Store and Food Terminal, Inc.	(ref: 86 SHM-10)	-do-

BEST AVAILABLE DOCUMENT

17 Feb 1987 Letter of F. MARAMBA to DM E. LEUNG (ref: 86 SHM-11) -do-

re: wheat flour prices

23 Sept 1987 Letter of then NFA Administrator Ong to F.W. SCHIECK re: PL 480 Self-Help Measures (ref: 86 SHM-12) -do-

all NFA provincial KADIWA centers have been closed as of June 1987.

NFA has started announcing its buying price of corn and palay before the start of each crop season (May and October).

the privatization program of the Food Terminal, Inc., is on-going. A USAID study team is validating the Privatization Program prepared by NFA.

price ceilings for rice and corn have been lifted since 1985.

effective 11 March 1986, wheat and wheat flour imports have been opened to the private sector.

2 Dec 1987 Letter of D. D'Antonio to Finance Under-secretary E. LEUNG. re PL 480 1986 Title I Self-Help measures (ref: 86 SHM-13) -do-

noted that of the 4 self-help measures, only one has been fully satisfied -- the open importation of wheat and wheat flour; that, even with Congressional pressure to return the importations back to NFA, government statements reaffirming its commitment to maintain the importation by the private sector.

admitted the delay in the implementation of a fertilizer sector study on pricing, importation, distribution and domestic production. The study commenced in October 1987 and a draft report is due by 22 December 1987. Closure is by 31 December 1987.

noted that the NFA divestiture plan has been outstanding since 15 February 1987. Arthur Young & Co. has prepared a package of recommendations for the divestment. It is hoped that an acceptable divestiture plan by the Department of Agriculture be formed by 15 February 1988, thus extending the closure date by a year.

on the grain stability program admitted

BEST AVAILABLE DOCUMENT

in an earlier letter (30 January 1987) to Department of Finance the difficulties the GCP was facing in establishing an effective price stabilization program for rice and corn resulting in the extension of the deadline from 30 September 1986 to 30 June 1987. The status report from Adm. Ong is being awaited, following the Budget Support Program policy dialogue held on 15 October 1987. USAID is willing to fund (under the Accelerated Agricultural Production Project) a study aimed to analyze and recommend various grain stabilization strategies and program options to be conducted by the NFA and Department of Agriculture. Appropriately, the closure deadline is extended to 30 June 1988.

P.L. 480 TITLE I 1986 SALES PROCEEDS

Date	Events	Document	
11 Nov 86	Submission of the Statements of Eligible Budget Categories and Estimated Disbursements by Eligible Entities for the period 1 July 1986 to 31 March 1987, and the Implementation Plan of the PL 480 Sales Proceeds Agreement (see xerox) Note: The estimated disbursement of MNR for the 1st quarter 1987 is not included in the Statement b/c the 1987 Budget is still pending.	Letter of J. Tambanillo to W. Oliver (86-SP-1)	USAID Prog. Off.
08 Dec 86	Informs the revision of the heading of the table on eligible budget categories of NFA and NIA to indicate that this also refers to estimated disbursements; such revisions fulfill the Mission's requirements to facilitate the immediate transfer of PL 480 proceeds from the Special Fund to the General Fund.	-do-	-do-
11 Dec 86	Agreement on USAID's end to the transfer of up to P 712,328,000.00 from the Sales Proceeds Account of the 1986 PL 480 Title I Sales Proceeds Agreement to the Gen. Fund of the GOP after the Implementation Plan, Statement of Eligible Budget Categories and the Statement of Estimated Disbursements by Eligible Budget Category for the period 1 July - 31 Dec 1986 were reviewed. Also makes request that an advice re: date and amount transferred be provided to USAID immediately after the completion of the transfer.	Letter of F. Schieck to E. Leung	-do-
18 Dec 1986	Request to charge the amount of P 654,895,335.50 against the Bureau of Treasury Special Acct.- 1986 PL 480 Title I Sales Proceeds Budget Support Program and credit the Treasury's Regular Demand Deposit Acct. in compliance with the clearance given by USAID to the transfer of P 712,328,000.00 to the Gen. Fund of the GOP (copy furnished to USAID)	Letter of the GOP Asst. Treasurer F. Puno to the CB Governor	-do-
24 Dec 86	Submission of the disbursement report of the MNR to comply with the Implementation Plan of the Sales Proceeds Agreement of the 1986 PL 480 Title I. The equity transfer from the sales proceeds of the PL 480 Title I to NIA and NFA are still being processed so that an extension on the deadline for the submission on their disbursement reports is requested -- from 31 Dec 1986 to 31 Jan 1987	Letter of E. Leung to W. Oliver	-do-
21 Jan 87	Granting the deferment of the submission of the unaudited quarterly reports for NIA and NFA to 31 Jan 1987.	Letter of F. Schieck to E. Leung (86-SP-2)	-do-
28 Jan 87	Submission of the 3rd qtr (1 July - 30 Sept) 1986 disbursement report of NIA and NFA on the sales proceeds of the 1986 PL 480 Title I agreement	Letter of J. Tambanillo Chief. Planning Service DoF, to Oliver (86-SP-3)	-do-

BEST AVAILABLE DOCUMENT

Dates	Events	
31 Mar 87	Submission of the unaudited disbursements reports of DNR, NFA & NIA for the period 1 Oct - 31 Dec 85 as well as a revised unaudited 3rd disbursement report of DNR. Also provides information that the entire 1986 Sales Proceeds totalling P 654.9 M had been fully expended since cumulative disbursements on eligible budget categories for the 2nd semester of 1986 have totalled P736.09 M.	Letter of Leung to Schieck
-do-		
2 Apr 87	Informs that the 1986 sales proceeds is \$31,986,831.95 & that the peso equivalent of P654,895,335.50 has been full deposited at the Special Acct. with the CB & cosequently transferred to the GOP Gen. Fund upon the receipt of USAID's approval dated 11 Dec 86.	Letter of Leung to Schieck
-do-		
21 May 87	Agreement on USAID's end that the unaudited 3rd & 4th qrtr. disbursement reports for MNR, NIA & NFA conform to the Sales Proceeds Agreement; also reminds that htis partic account cannot be closed until a final audited report as specified in the Sales Proceeds Agreement Sec. 5.2 w/c is due by 31 Dec 1987	Letter of Blackton to Leung (86-SP-4)
-do-		
23 Dec 87	Submission of final (audited) disbursement reports of NFA & except that of DNR; requests that the deadline for the submission of the DNR report be moved from 31 Dec 87 to 31 Jan 88	Letter of Leung to Oliver
-do-		
5 Feb 88	Concurrence with the DoF request to extend the deadline for submitting the audited report of DNR -- the deadline is further moved to 29 Feb 88. However the CERTIFICATION as required in Sec. 5.2 has yet to be received.	Letter of D'Antonio to Leung (85-SP-5)
-do-		
12 Dec 88	Submission of the audited disbursement report of DNR and the 1st qrtr. 1987 report of NFA,	Letter of R. de Leon (DoF) to Oliver
-do-		
11 Apr 89	Presentation of the Summary of Outstanding GOP Actions on Past (since 1985) Bilateral Food Aid Programs.	Internal USAID Memo from A. Davis
-do-		

BEST AVAILABLE DOCUMENT

ANNEX VI

FY 1987
 PL 480 Title II
 Section 206

Chronology of Events

Dates	Events	Documents
June 5, 1987	Program Approval Date (Original)	U. S. Intl Devt Cooperation Agency, A. I. D. *Transfer Authorization
June 16, 1987	Grant signing *Features - cooperating sponsor shall maintain a Special Account in which it shall deposit the proceeds generated from the sale of commodities - quarterly reports on receipt of commodities and disbursements from the Special Account - suspension or termination clause - - absence of storage faci- lities - - if distribution of the commodity in the recipient country will result in a substantial disincentive to or interference with domestic production	Agricultural Commodity Grant Agreement between the USG and GOP
Nov 8, 1986	Approval of Regular PVO Title II Programs for FY 1987	State 351320 Subject: PL 480 Title II Supplemental Programming for FY 1987
March 11, 1987	Letter of T. Taurus (CRS) to FWSchieck, re: budgetary allocation for MSSD to cover in-country costs for PL 480 food programs	CRS letter dated March 11, 1987
April 6, 1987	Notice to AID/W that GOP repre- sentatives have requested that USG meet additional 1987 wheat import requirements through a combination of Title II, Sections 206/416 and SQ-2	Manila 10288
June 11, 1987	Notice of AID/W approval of Transfer Authorization for PL 480 Title II	State 178488

BEST AVAILABLE DOCUMENT

FY 1987
PL 480 Title II -
Section 206

Dates	Events	Documents
Aug 13, 1987	: Inter-Agency meeting on issues : pertaining to Title II Inland : Transport and Program Costs : Supported by GOP	: Memcon (ADavis) : Sept 3, 1987
June 16, 1987	: Memo (WTOliver) : Subject: Budget Allocation of : Sales Proceeds from Section 416 : and Section 206 Programs	: Memo dated June 16, 1987
Sept 25, 1987	: MOF Letter (de Leon) to USAID : (WTOliver) : - submission of documents ful- : filling conditions precedents to : initial transfer of funds from the : 1987 Section 206 Sales Proceeds : - - implementation plan : - - statement of eligible budget : categories : - - statement of estimated : quarterly disbursements	: MOF letter of the same date
Oct 29, 1987	: USAID approval of documents (CPs) : and approval of release of : P574,354,000 from the Section 206 : Sales Proceeds Account to the GOPs : Gen Fund Account, equivalent to : reported disbursements from : January 1, 1987 through June 30, : 1987	: WTOliver letter to MOF : dated Oct 29, 1987
Nov 5, 1987	: Notice from BTr informing transfer : of P322,563,264.50 to the BTr : Regular Demand Deposit Account, : with balance amounting to : P251,790,735.50 to be transferred : as soon as deposits are made to : the Special Account	: BTr letter to USAID : (WTOliver) dated Nov 11, 1987
Dec 2, 1987	: Submission of unaudited disburse- : ment reports on eligible budget : categories	: DOF letter to WTOliver : dated Dec 2, 1987

BEST AVAILABLE DOCUMENT

FY 1987
PL 480 Title II -
Section 206

Dates	Events	Documents
Dec 3, 1987	Notice from DEM informing USAID of actual disbursements for the period Jan 1 through June 30, 1987 amounting to P508.2 million, which was charged against the P574.4 million initial transfer from the PL 480 Section 206 Special Account	DEM certification dated Dec 3, 1987
Jan 4, 1988	USAID response to DOF letter stating satisfaction of Section 8.1 of the Grant Agreement except, as provided for in Section 6.4(b) actual disbursements fell short of transfer of P258,313,000 to the General Fund, representing planned disbursements for the third and fourth quarters less the noted shortfall	USAID letter to DOF dated Jan 4, 1988
Jan 15, 1988	DEM certification of actual cumulative disbursements for the period Jan 1 through Sept 30, 1987 for the eligible budget categories under the PL 480 Title II Program, amounting to P682.95 million, in which P641.1 million of such amount was sourced from the total transfer of pesos, to date, from the PL 480 Title II Special Account to the General Fund	DEM certification dated Jan 15, 1988
April 25, 1988	Submission of unaudited disbursement reports on the eligible categories, with expenditures amounting to P812.6 million in actual cumulative disbursements for the period Jan 1 through Dec 31, 1987	DOF letter dated April 25, 1988 (with attachments)
Sept 30, 1988	Expected submission of COA audit report and central COA office/ DEM certifications for this program	Cited in agreement and other documents

BEST AVAILABLE DOCUMENT

FY 1987
PL 480 Title II -
Section 206

Dates	Events	Documents
March 25, 1987	Proposed monetized Title II program : - background on discussions with : GOP on programming local currency : proceeds under a Title II : monetization program	Manila 09240
April 4, 1987	Guidance for implementation of : Section 206 Government to : Government Development Programs	State 100679
May 12, 1987	PL 480 Title II, Section 202/206 : 1987 Self-Help Measures : - contains proposal by Country : Team that the 1987 PL 480 Title II, : Section 202/206 be used to assist : the GOP to complete the divestiture : of state-owned corporations in : the agricultural sector	Manila 13998
May 29, 1987	PL 480 Title II, Section 202/206 : Status of Agreement : - contains approval by the DCC : Sub-Committee on Food Aid of the : language for a self-help measure	State 163584
Feb 27, 1987	Examples of ways in which A.I.D. : has worked with recipient : countries to encourage significant : policy changes using food aid as : an instrument	Letter of Administrator : McPherson to Dir Schieck
June 15, 1987	Letter of acceptance of donated : 234,800 metric tons of wheat and : request the USG undertake all : expenses to be incurred for ocean : transport; notice that PAFMIL had : certified that domestic ports have : capacity to handle shipments; : assurance that wheat shipments : shall not be disruptive of : domestic grains production	Letter of DOF(Leung) to : FWSchieck dated June 15, 1987

BEST AVAILABLE DOCUMENT

FY 1988
PL 480 Title II
Section 206

Dates	Events	Documents
May 23, 1988	Program Approval Date	Transfer Authorization (US Intl Devt Cooperation Agency, AID)
		Grant Agreement between the USG through USAID and GOP
April 23, 1988	PL 480 Title II: Transfer of Additional US \$20 million from Title I to Title II Program for the Philippines - informing USAID/Manila of DCC Title I Working Group consent to transfer \$20 million for the Phil program from the budget reserves of Title I to Title II; said allo- cation will cover both the cost of rice and ocean freight charges	State 127835
April 30, 1988	PL 480 Title II: Approval of Section 206 - informing USAID/Manila of Title II DCC approval (April 28) of US \$20 million from Title II for Section 206 Program; DCC agreed that there is no need for self-help measures different from those contained under the Title I agreement between USG and GOP; existing ones will apply equally well to the Section 206 Agreement	State 137566
May 4, 1988	PL 480 Title II: Bilateral Negotiations - Round One: Technical Issues - clarification on the following major issues: UMR relief, shipping arrangements, payments of bags, needles and twine (BNT) and commodity losses	Manila 14087
May 12, 1988	PL 480 Title II: Transfer Authorization - notice that GOP would assume	Manila 15095

BEST AVAILABLE DOCUMENT

FY 1988
PL 480 Title II
Section 206

Dates	Events	Documents
	: responsibility for bagging the : bulk rice upon arrival, on the : assumption that ocean freight costs : will be kept to a minimum	
May 20, 1988	: PL 480 Title II: Proposed Docu- : mentation for FY 1988 Section 206 : Program	: State 162152
May 23, 1988	: 1. FY 1988 PL 480 Section 206 : Agreement : 2. Amendment to FY 1988 PL 480 : Title I Agreement	: Manila 16198
June 23, 1988	: PL 480 Title II: FY 1988 : Section 206 : - notice of completion of : contracting arrangements for first : shipment : - combined commodity and freight : costs to date total \$7.6 million	: State 201780
July 29, 1988	: Letter from USAID (Blackton) to : DOF (Leung) : Re: 1988 PL 480 Title II : Section 206 Program : MV Korean Peace Rice Consignment	: Undated draft
Aug 3, 1988	: Internal memo on Section 416/206 : correspondence problems	: BBeyer to WTOliver memo : dated Aug 3, 1988
Sept 2, 1988	: Status Report on Self-Help Measures : PL 480 Title II, Section 206	: Internal memo from BBeyer
Aug 9, 1988	: PL 480 Title II, Section 206 : (TA-8617) : - USAID info for the GOP on the : dollar disbursement made by USG : in connection with the program	: Manila 27779
Sept 12, 1988	: Memo on USG Dollar Disbursements : Under Subject Agreement (TA-8617) : Rice	: Memo from ADavis, FFPVC : dated Sept 12, 1988

BEST AVAILABLE DOCUMENT

FY 1988
PL 480 Title II
Section 206

Dates	Events	Documents
Sept 27, 1988	: Memo on 1988 Title II Section 206 : CPs and Eligible Budget Categories	: Memo from ADavis, FFPVC : dated Sept 27, 1988
Oct 1, 1988	: Letter from USAID (WToliver) to : DOF (CSoriano) : - acknowledging receipt of Sept 22 : 1988 letter from DOF transmitting : documents required to satisfy the : conditions precedents and informing : DOF that said documents satisfy : conditions precedent requirements	: Letter from Oliver to Soriano : dated Oct 1, 1988
Nov 9, 1988	: PL 480 Title II Section 206/416 : Bilateral Wheat Programs: AID : Regulation Eleven, Section 211.8: : Disposition of Unfit Commodities	: Manila 35948
Nov 14, 1988	: Unaudited Quarterly Disbursement : Reports: 1988 PL 480 Title II : Section 206 : - acknowledging receipt of un- : audited disbursement reports for : the first and second quarters of : 1988; DEM certifications stating : taht such disbursements have not : been reported against other exter- : nal assistance to GOP	: USAID (WToliver) letter to : DOF (De Leon) dated : Nov 14, 1988
Nov 15, 1988	: Letter from DOF (De Leon) to USAID : (WToliver) : - submission of credit advises : amounting to P376,097,060.42 under : the 1988 Section 206 Program; : amount of peso equivalent of dollar : disbursements in connection with : the delivery of rice grant on : board MV Missouri and MV Korean : Peace	: Leter from DOF to USAID : dated Nov 10, 1988
Dec 2, 1988	: GOP Quarterly Report on the 1988 : Bilateral Section 206 Rice Program	: Memo from ADavis, FFPVC/Manila : to George Wood, FVA/FFP/ANE : dated Dec 2, 1988

BEST AVAILABLE DOCUMENT

ANNEX VII

Chronology of Events For Fiscal Year 1988 PL 480 - I

Date	Event/s	Documents	Location of Document
<p style="margin: 0;">-----</p> <p style="margin: 0;">AGREEMENT</p> <p style="margin: 0;">-----</p>			
19 Apr 88	<p>Signing of Agreement providing for \$ 30 million worth of rice loans.</p> <p>Agreed self-help measures:</p> <ol style="list-style-type: none"> 1. NFA divestiture 2. Access to fertilizer at competitive world market prices 3. Fertilizer marketing services 	<p>Agreement between the USG and the GOP for sales of Agricultural Commodities</p>	<p>Program</p>
19 Apr 88	<p>Signing of Proceeds Agreement.</p>	<p>1988 PL 480 Title I Proceeds Agreement</p>	<p>Program</p>
19 Apr 88	<p>Signing of Agreed Minutes of Negotiations.</p>	<p>1988 PL 480 Title I Agreed Minutes of Negotiations</p>	
23 May 88	<p>Signing of Amendment No. 1 to Agricultural Commodities Sales Agreement.</p>	<p>Amendment No. 1 to the Agreement between the USG and the GOP for Sales of Agricultural Commodities</p>	
<p style="margin: 0;">-----</p> <p style="margin: 0;">PROCEEDS</p> <p style="margin: 0;">-----</p>			
07 May 88	<p>Submission of GOP implementation plan for Proceeds Agreement, against which disbursement shall be reported (These are documents required to facilitate the transfer of sales proceeds to the General Fund of GOP).</p>	<p>Letter to USAID from DOF (with attachments)</p>	
06 Jun 88	<p>USAID advise to GOP re: revisions suggested by USAID on the statement of eligible budget categories including 1988 quarterly program for expenditures, i.e. GOP must state "minimum total amount of pesos agreed to be disbursed by GOP in those budget categories" per Section 3.2 (b) of Proceeds Agreement.</p>	<p>USAID letter to DOF</p>	

BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
13 Jun 88	USAID and GOP agreement that "minimum total amount of pesos agreed to be disbursed by GOP in..." shall be at least the amount of pesos required to be deposited in the 1988 Title I Proceeds Account.	1. USAID internal memo 2. USAID Program Office letter to DOF staff 3. Letter of DOF Under-secretary Leung to USAID Program Office with attachments	
12 Jul 88	USAID advise to GOP that funds in the 1988 Title I Proceeds Account may be transferred to GOP General Fund.	Letter to DOF Under-secretary Leung from USAID	
05 Oct 88	USAID advise to GOP re: transfer of up to P 1.7 billion from 1988 Proceeds Account to the General Fund.	Letter from USAID to DOF staff	
11 Oct 88	GOP deposit of peso equivalent (P 1.6 billion) of rice shipment under 1988 PL 480 Title 1, equivalent to 240.919 MT.	Letter to USAID from DOF staff	
11 Oct 88	GOP notice to USAID on transfer of P 557.4 million from Proceeds Account to General Fund, out of P 1.7 billion as advised by USAID on 15 September 1988.	Letter to USAID from DOF staff	
27 Oct 88	USAID request to DOF for clarification re conflicting statements on peso amount which have been: (a) deposited to Proceeds Account; and (b) transferred to General Fund.	Letter to DOF staff from USAID	
14 Nov 88	USAID notice to GOP re: disallowing (by USAID) of reported disbursements of P .9 million which is equal to excess in agreed budget for 4 DENR budget items.	Letter from USAID to DOF staff	
20 Jan 89	GOP submission of unaudited disbursements report on eligible budget items under 1988 PL 480 Title I Proceeds Agreement.		

BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
21 Feb 89	USAID reconciliation of 1988 PL 480 Title I dollar disbursements. Concludes GOP has complied with provisional deposit requirement of agreement.	USAID internal memo	
07 Mar 89	USAID notice/advise to GOP to deposit P .3 million in 1988 Proceeds Account.	USAID letter to DOF staff	
30 Mar 89	USAID policy paper re: possible availment of GOP of rice under PL 480.	USAID internal memo	
11 Apr 89	USAID-listed outstanding issues on PL 480 programs: most of issues pertain to submission of reports.	USAID internal memo	
24 May 89	USAID findings on GOP peso disbursements.	USAID letters to DOF staff	
GENERAL CORRESPONDENCE			
Oct 87	Philippine Congress investigation on wheat importation by PAFMIL, NFA abolition.	Malaya, 30 Oct 87 Philippine Star, 8 Oct 87 Philippine Star, Oct 87 Bulletin Today, 24 Oct 87 Business World, 20 Oct 87 Manila 034269	
21 Oct 87	USAID guidance on programming local proceeds.	Manila 034269 State 070833	
28 Jan 88	Policy issue paper re: positioning of US interests in connection with visit of Canadian Wheat Board in the Philippines, visit of Secretary Lyng and inquiries from GOP officials on application for food aid programs. Regarding the latter, USAID-Manila feels that Washington is responding too slowly re request for a \$ 30 million Title I program.	USAID internal memo from Ron Maas to Nelson Denlinger	

BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
29 Jan 88	<p>Denlinger response to Maas' memo. Main points:</p> <ol style="list-style-type: none"> 1. US officials led to believe GOP prefer loans (Title I) over grants (Title) due to red tape involved in latter; 2. Last rice shipment (date not mentioned) arrived too late, i.e. at same time of Philippine harvest. Fault of USG more than GOP. 	Memo to Maas (USW/Manila) from Denlinger	
02 Feb 88	<p>USAID's economic justification for Philippine PL 480 Title I allotment viz., financing of public sector deficit, balance of payments situation and opportunity to support and further structural adjustments. USAID-Manila requests for USAID-Washington action.</p>	Manila 004802 (From Manila Embassy to Secretary of State, Washington)	
29 Feb 88	<p>GOP (DOF) request to USG for PL 480 Title I loan for rice importation to alleviate BOP and national government deficit and impending rice shortage.</p>	Letter to Ambassador Platt from DOF Acting Secretary Macalincag	
04 Mar 88 and 12 Mar 88	<p>GOP (DA) requests for 114,000 MT of rice under PL 480 Title I for shipment in June 1988. This amount equal to estimated 200,000 MT rice shortage net of 86,000 MT to be supplied by PL 480 Title I.</p>	Letter to Ambassador Platt from DA Secretary Dominguez; and Letter to Ambassador Platt from DOF Secretary Jayme	
10 Mar 88	<p>Status of negotiations re GOP request:</p> <ol style="list-style-type: none"> 1. Although Secretary Lyng "announced" availability of \$ 30 million of 1988 Title I with the commodity to be selected by the GOP, the various members of the DCC must first approve the \$ amount; 2. Issue re: need for GOP to deposit local currency equivalent to the \$ disbursement of 1985 PL I have to be settled as requisite in finalization of 1988 program. 	USAID internal memo from Alan Davis (OFFPVC) to USAID Director thru Blackton (OD) and B. Miller	

BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
11 Mar 88	USAID-Manila's concern re: timely approval from USAID-Washington of GOP's request for delivery of rice under 1988 FL 480-I. Rice must be delivered between 15 May to 15 June to allow NFA the necessary time to transport and position their stocks.	Manila 008374 From Embassy, Manila to Secretary of State, Washington	
14 Mar 88	USAID-GOP officials agreed in principle on resolution of 1985 FL 480 I issues. Manila mission reiterates request for negotiating instructions from Washington.	Manila 008518 From Embassy, Manila to Secretary of State, Washington	
25 Mar 88	<p>Negotiating instructions from Washington. Main points:</p> <ol style="list-style-type: none"> 1. DCC requests that a schedule of payments be provided for local currency deposits (under 1985 FL 480 I) into the special account. 2. Said schedule should provide for a 20% downpayment and payment of the balance within one year of signing 1988 agreement. 3. 1988 agreement is for supply of \$ 30 million worth of only no. 5 medium grain rice, 20% broken. 4. Arrearages of \$ 67,343 must be paid before signing of agreement. 5. Must remind President to "take steps to assure that US obtains fair share of any increase in commercial purchase of agricultural commodities by the purchasing country." 6. To the maximum extent feasible, self-help measures agreed to are to be additional to the measures that GOP otherwise would have undertaken irrespective of this agreement. 		
25 Mar 88	USAID-Manila confirms to USAID-Washington that NFA stock operations in 1986-1987 were in excess of rice provided under FY 1985 FL 480 I. Since FY 1985 rice went into NFA's buffer stock operations, it was therefore utilized in a manner consistent with FY 1985 agreement. USAID-Manila requests authority to negotiate an amendment to FY 1985 agreement to permit a different set of activities to be funded from	Manila 010027/01	

BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
31 Mar 88	Washington authorizes Manila mission to open negotiations for the FY 1988 agreement but GOP must settle arrearages amounting to \$ 67,343 before signing.	State 099615 from Secretary Schultz to Embassy Manila	
05 Apr 88	USAID Report on negotiations with GOP officials. Main points: 1. GOP: total amount of the local proceeds must equal only the amount of pesos actually realized by the NFA 2. USAID-Manila: local proceeds must equal at least the local currency equivalent of the \$ disbursement of the loan. USAID asks for Washington advice.		
07 Apr 88	USAID-Washington advises USAID-Manila that local currency proceeds must equal CCC commodity values at date of disbursement.	State 108306 from Whitehead to Embassy Manila	
09 Jun 88	Reports on: Over/Short shipment under Section 416, Titles I and II of PL 480 (from PAFMIL).	Attachments to letters to USAID from PAFMIL Director Wilfredo Reyes	
14 Jun 88	Alleged losses, short-shipments and damaged Title I, II and Section 416 wheat.	Internal USAID memo from Regional Legal Advisor B. Miller to Mr. W. Oliver, OD	
01 Aug 88	GOP submits credit advice evidencing deposit of P 16.7 million of rice shipment from USG TO NFA arrived 8 July 88. (Requiremnt for transfer of funds to General Fund).	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
04 Aug 88	Quezon City Regional Trial Court Stopped NFA from implementing service contract for bagging service on rice donations from US due to awarding of contract other than to the lowest bidding party.	Malaya, 4 Aug 88	
31 Aug 88	Fil-Asia, NFA wharf up for bidding.	Manila Chronicle, 31 Aug 88	
02 Sep 88	Status of 1988 PL 480 I self-help measures (descriptive, no analysis).	USAID internal briefing paper by BK Beyer	BEST AVAILABLE DOCUMENT

Date	Event/s	Documents	Location of Document
04 Jul 88	GOP submits credit advice dated 21 June 88 evidencing deposit of P 68.7 million of initial rice shipment (10,500 MT) which arrived 15 June 88.	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
14 Jul 88	GOP submits credit advice dated 6 July 88 of P 6.9 million for rice shipment of 1,006.35 MT.	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
28 Jul 88	GOP submits credit advice of P 92.8 million for rice shipment last 4 July 88 equal to 13,959.122 MT.	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
10 Aug 88	GOP submits credit advice dated 2 August 88 for rice shipment amounting to P 200.35 million or 33,667.669 MT, arrived 8 July 88.	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
23 Aug 88	GOP submits credit advice for rice shipment amounting to P 112.4 million or 16,460.188 MT, arrived 11 July 88.	Letter to Mr. W. Oliver, USAID from Ms. De Leon, DOF	
15 Sep 88	USAID-Manila (c/o Mr. Oliver) notifies/clears GOP (c/o DOF) to transfer up to P 1.7 billion from 1988 Title I proceeds Account to General Fund Account.	Letter to Ms. De Leon, DOF from Mr. W. Oliver, USAID	

BEST AVAILABLE DOCUMENT