

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

15th Congress
First Regular Session

House Bill No. 3292

Introduced by HON. PRYDE HENRY A. TEVES AND HON. KARLO
ALEXEI B. NOGRALES

EXPLANATORY NOTE

Recent surges in the world price of rice and the increasingly tight global supply of rice have been raising fears of food crisis in many parts of Asia where rice is a staple. Trend in international rice prices has been on the rise since 2001. On the average, rice prices for the first ten months of 2007 was 35% higher at US \$297/ton compared to the same period last year at US\$221/ton. International price of rice continued to rise early 2008. For instance, the high quality Thai 100%-B was quoted at US\$546/ton in March 2008, up by 13% compared to February of the same year.

Many experts believe that the price trend in the global market for rice will be sustained. The high costs of oil and fuel-based chemical fertilizers, the prevalence of crop diseases, the emergence of chemically resistant pests, and the growing impact of climate change have been largely blamed for the price spikes in the world market.

The Philippines' vulnerability to fluctuations in the supply and price of rice in the global market has been underscored by its dependence on importation to fill domestic production shortfalls. Already, the country has been one of the largest importers of rice, accounting for 6% of total rice imports in 2006-2007 (FAO,2008). This is partly due to production efficiency disparities between domestic and foreign rice producers in addition to spiraling costs of production inputs.

On the local front, the aforementioned factors in addition to market speculations of local rice traders have fueled retail price increases. For 2008, a comparison of the January and April

domestic average retail rice price-levels displayed a 37.47% uptrend for regular-milled rice and 31.72% price increase for well-milled rice (Bureau of Agricultural Statistics, 2008).

Thus, the government needs to re-evaluate and subsequently redefine its short-run and long-term priorities and resources aimed at improving rice productivity. The formidable challenge confronting the government involves the attainment of food (rice) security in lieu of food sufficiency.

A pragmatic and effective approach to the problem is by encouraging more private sector participation in agricultural production. Deeper private sector involvement will bring in the most productive inputs and technologies available to help improve farm business structures in the country. It must be noted that about eighty (80%) of landholdings in the country are occupied/leased by small farmers which do not have the necessary resources and skills to increase farm yields.

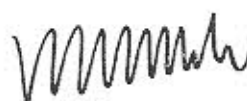
Toward this end, this Act seeks the adoption of a "corporate farming" scheme with the private sector taking the lead role to promote food security. Specifically, this requires the country's most profitable corporations to engage in agricultural production to feed their own employees. In addition, corporations and other business entities shall be required to engage in corporate farming with rice as their primary crop. Vast tracts of unused public lands can be tapped for such corporate farms. Corporations can also enter into joint venture agreements with farmer beneficiaries of agrarian reform communities. As such, employers will not be able to feed their own employees but also ensure the provision of adequate supply to local consumers.

There are two types of facilitating policies that are relevant to corporate/contract farming. One involves regulatory regime adjustments to reduce transaction costs of contractual arrangements. The other involves providing incentive mechanisms to encourage corporate farming.

With the aforementioned effectively in place, corporate farming systems help eliminate the chain of middlemen and bring the producers and processors face-to-face. In the long-run, it leads to better allocative efficiency, induces higher private investment in agriculture, and results in higher outputs, income and exports.



PRYDE HENRY A. TEVES



KARLO ALEXEI B. NOGRALES

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AN ACT PROMOTING CORPORATE FARMING
AND PROVIDING INCENTIVES THEREOF

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

Section 1. Domestic Corporation and Partnerships. For the purpose of this Act, domestic corporations and partnerships shall refer to all corporations and partnerships organized and existing under Philippine laws, operating for profit, provided that said corporations and partnerships report earnings over the last four (4) years that will allow them to engage in the production of rice/corn for their employees' requirements without adversely affecting their financial viability. Appropriate guidelines shall be issued to determine the corporations and partnerships that are to be covered by this Act.

Section 2. Corporate Farming Arrangements. Participation to the Corporate Farming Program shall be on a voluntary basis. For the purpose of this Act, the following are the corporate farming schemes that the corporations/partnerships may engage into:

- a. Corporations/ partnerships with existing landholdings suitable for rice/corn production may manage the land and produce the rice/corn or may enter into a management/ contractual arrangement/s with farmers' groups such as farmers' association, cooperatives, and Agrarian Reform Communities (ARCs);
- b. Corporations/ partnerships may purchase or lease on a long term basis public or private agricultural land suitable for rice/corn production whereby the corporations/partnerships are given full management and production control over the purchased or leased lands or may enter into contractual arrangements or joint ventures with landowners, farmers' organizations and agrarian reform communities;

Agricultural lands purchased or leased for the purpose cannot be converted to other uses within a period of seven (7) years. Fifty percent (50%) of the land should have been developed within a period of three (3) years; and ninety percent (90%) within a period of five (5) years.

For purchased lands, the government has the right to offer the said lands to other interested parties based on the original acquisition cost and initial development if any, to be refunded to the corporation/partnership, in case the land has not been developed as intended.

- c. Corporations/partnerships may enter into contractual arrangements with farmers' organizations/agrarian reform communities whereby the corporations and partnerships will provide the production inputs and technical and related services, then buy back the produce;
- d. Corporations/partnerships may enter into joint ventures/contractual arrangements with timber licensees and pasture lessees for the cultivation of lands found suitable for rice/corn production in the timber concessions or leased pastures; through the Department of Environment and Natural Resources.

The Local Government Units (LGUs) shall be required to identify appropriate land areas for corporate farming in consonance with their comprehensive land use plan and ordinances. The LGUs shall require the participating corporations/partnerships to provide livelihood projects/opportunities to families who will not be offered as incentives for corporate farming.

Section 3. Disposition of Excess Production. The Corporations/partnerships shall be required to provide a minimum of 600 kilograms of rice/corn per employee per year or 50 kilograms per employee per month. Production in excess of the employees' consumption requirements may be sold in the local markets, provided that such will be reported to the National Food Authority (NFA).

Section 4. Implementing Agencies and Implementing Rules and Regulations (IRR). The Department of Agriculture (DA) and the Department of Agrarian Reform (DAR) shall be the lead agencies to institute measures to ensure higher rice/corn productivity through corporate farming schemes. Moreover, DA and DAR shall facilitate with the appropriate government agencies the processing of management contracts between the corporations/partnerships and the farmers groups. Further, DA and DAR shall oversee and monitor the IRR and guidelines of this Act. DA and DAR shall exercise the following functions:

- a. Develop eligibility criteria for both corporations/partnerships and farmer groups, cooperatives, and/or agrarian reform communities for consideration under this Act and to institute their accreditation; Provided that, the farmers group criteria should include management capabilities, technical and production skills critical to the effective operation of the corporate farm;

- b. Identify suitable private and public-owned rice/corn production areas for corporate farming and determine maximum ceiling of landholdings for corporate farming arrangements; Provided that, the DA and DAR shall periodically determine the need to expand/reduce rice/corn production areas for corporate farming schemes on the basis of rice/corn demand-supply gaps;
- c. Facilitate and promote grassroots cooperation to access agricultural services such as information, inputs and technical assistance;
- d. Initiate and develop periodic rural/farm assembly markets to provide avenues to showcase their produce;
- e. Exercise regulatory functions with respect to the adherence to the provisions of contracts and arrangements entered into by both corporations/partnerships and farmers groups, cooperatives and/or agrarian reform communities and to develop mechanisms to facilitate negotiations and mediate in disputes between stakeholders on matters of contract enforcement;
- f. Coordinate with appropriate government agencies to ensure the timely establishment of support services such as credit, infrastructure, extension services and others;
- g. In consultation with other concerned government agencies, non-government organizations, private sector and farmer groups involved in rice/corn production, formulate the IRR necessary to operationalize the provisions of this Act within ninety (90) days from its approval.
- h. Facilitate the registration of the participating corporations/partnerships with the National Food Authority (NFA).

Section 5. Incentive Package. Corporations/partnerships, which will participate in the Corporate Farming Act, shall be entitled to tax incentives covering all aspects of the operation germane to corporate farming activities. These include the following:

- a. Exemption from the payment of tariff and Customs duties for the importation of all types of agricultural inputs particularly seeds, fertilizers, agricultural machinery, and other agricultural implements as provided under RA 9281 which amends RA 8435 or the Agricultural and Fisheries and Modernization Act.
- b. Exemption from the Value Added Tax (VAT) on the importation of agricultural inputs in accordance with Section 109 (d) of the National Internal Revenue Code, as amended;
- c. Exemption from the payment of capital gains tax for a person, either natural or juridical, who sells and/or transfers idle agricultural land to corporations and partnerships engaged in corporate farming; and
- d. Tax incentives, including income tax holiday, in accordance with the provisions of E.O. 226 or the Omnibus Investment Incentives Code, as amended.

Section 6. Other Incentives. Loans extended by banks, both government and private, to participating corporations/partnerships shall be treated as compliance to PD 717 or the *Agri-Agra Law*.

Section 7. Duration. Participating corporations/partnerships with existing landholdings may engage in rice/corn production within a period of time to be determined by this Act. However,

those corporations/partnerships which purchased agricultural lands for the purpose cannot convert the land to other uses within a period of seven (7) years. Arrangements/ negotiations for leased public or idle private agricultural lands shall be for a period not less than seven (7) years.

Section 8. Automatic Review. The Department of Agriculture and the Department of Agrarian Reform, being the lead government agencies in the Corporate Farming Program, shall submit periodic reports to both Houses of Congress on the accomplishment of the Program. A review on the viability of the program shall be made by the concerned agencies after five (5) years of its implementation.

Section 9. Effectivity. This Act shall take effect upon its approval.

Approved,