THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 11/8/2016
GAIN Report Number: 1610

Philippines

Dairy and Products Annual

Situation and Outlook

Approved By:
Jeffrey Albanese

Prepared By:
Pia A. Ang

Report Highlights:
The Philippines imports virtually all of its dairy products, especially milk powder, as domestic production cannot meet the country's dairy requirement of 1.955 million metric tons (MMT) liquid milk equivalent (LME), according to the National Dairy Authority (NDA). Total imports are estimated by NDA to increase to 1.85 MMT in 2016 from 1.80 MMT in 2015 on rapid expansion of the food processing sector and a global supply glut. Major suppliers are New Zealand (29 percent), the United States (29 percent), and Australia (8 percent). In 2015, the Philippines was the 6th largest market for U.S. dairy products by value at $251 million (down 40 percent from the prior year). Due to increasing global milk production and a sharp decline in prices, U.S. dairy exports are expected to decline 20 percent by value in 2016. U.S. dairy exports by volume remain flat.

Commodities:

Dairy, Milk, Fluid
Dairy, Milk, Nonfat Dry
Dairy, Dry Whole Milk Powder
Dairy, Cheese

The Philippines produces less than one percent of its total annual dairy requirement and imports the balance. Data from the NDA shows that local milk production was 20,000 metric tons (MT) in 2015, up from 19,700 MT in 2014. The value of dairy production in 2015 amounted to P653 million ($13.61 million). Local milk production is projected to reach 21,000 MT in 2016 and will likely continue expanding on an annual basis due to strong demand for fresh milk and growing dairying capabilities.

In 2016, the Bureau of Agricultural Statistics estimates the country's dairy cattle herd at 11,000 head, an increase of 5 percent from the previous year. Dairy cattle numbers increased from the ongoing government herd build-up programs and the growing number of dairy multiplier farms of the NDA. Dairy cattle numbers are expected to continue increasing by about 500-1,500 head per year for the next several years.

The average Philippine milk production per animal (8 liters/day) remains low due mainly to poor feed and management practices as well as high production costs and a lack of adequate dairy infrastructure. According to various sources, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom. According to the NDA, the average farmgate price of milk increased slightly from P31.50/liter ($0.65) in 2014 to P32.04/liter ($0.66) in 2015. By contrast the corresponding farmgate price of milk in the U.S. is about $0.09/liter ($17.10 hundred weight) as of August 2016.

There are four main types of dairy farms in the Philippines: individual smallholder producers (who consume and sell locally what they produce), smallholder cooperatives (who deliver their milk to a collection point for transport to a processing plant), commercial farms (which supply processors), and government farms (which supply school and rural community feeding programs).

A significant amount of Philippine fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder because of the country's cold chain challenges and limited production.

Consumption:

In 2016, Post estimates that the total domestic dairy requirement will be 1.955 MMT. According to FAO estimates, annual per capita milk consumption in the Philippines is at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg, and the United States at 287 kg. With a strong economy and a growing population of roughly 102 million in 2015, the Philippines is a large and rapidly expanding market for milk and milk products. Other factors contributing to the long-term trend of strong growth in local dairy consumption are expanding cold chain capacity, an increasing number of supermarkets, and a blossoming food processing industry.

According to NDA, one out of every three glasses of fresh liquid milk (not reconstituted from powder) consumed in the Philippines is produced locally. A Filipino family now spends a little over P4000 ($82) per year for dairy products.

Half of smallholder milk production goes to school and community milk feeding programs and the rest to local commercial sales or household consumption. With dairy production in the country being more community-based, maintaining the quality of fresh milk is a challenge due to the lack of processing and distribution systems, and a dependable, continuous cold chain.

Fresh fluid milk in a mid-range Manila supermarket sells for P90-120 per liter ($1.94-$2.59). Note: US$1 =PhP48.50, as of October 11, 2016.

Trade:

U.S. Exports to the Philippines Decline 40% in 2015

In 2015, the Philippines was the 6th largest market for U.S. dairy products by value at $251 million (down 40 percent from the prior year). The top U.S. dairy exports to the Philippines in 2015 were nonfat dry milk powder ($165 million), dried whey ($15 million) and cheese ($8 million). The drop in 2015 dairy exports by value is due to increasing global milk production and supply and the corresponding sharp drop in world dairy prices. U.S. dairy exports in 2016 are expected to decline roughly 20 percent by value and may only reach $205 million. Dairy exports by volume are expected to remain flat. However, 2016 U.S. nonfat dry milk powder exports by volume are expected to increase by 10 percent.

Philippine Dairy Imports

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. According to NDA, total 2015 imports of dairy products reached 1.80 MMT LME on low global dairy prices and strong local demand. Post expects imports in 2016 to rise to 2.0 MMT if low global dairy prices continue to prevail, which is 0.15 MMT above NDA estimates.

The major suppliers to the Philippines by volume are New Zealand with a 29 percent share of total imports by volume, the United States with 29 percent, and Australia with 8 percent.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports currently comprise roughly 50 percent of total dairy imports. SMP imports are expected to increase significantly in 2016 as the country expands exports of dairy products to the ASEAN region and increases stocks by taking advantage of low global dairy prices. WMP imports in 2016 are also forecast to increase based on prices but at a slower pace than SMP.

In 2015, liquid milk imports remained flat. Imports of butter and other dairy spreads increased by 15 percent and imports of cheese rose by 38 percent, mainly coming from New Zealand and Australia due to the duty-free advantage of those suppliers and also as a result of increasing demand from the growing fast food industry and hotel and restaurant sectors. Imports of butter, cheese, and liquid milk are all forecast to increase this year due to low prices and increasing demand for these products.

VOLUME OF DAIRY IMPORTS
('000 MT, in LME) [1]

1. Milk and Cream	2014	2015	Jan-Mar 2016
• Skim milk Powder	746.30	787.40	365.45
• Whole milk Powder	154.00	134.10	82.10
• Butter milk Powder	146.76	142.50	72.20
• Whey Powder	380.41	375.71	90.73
• Liquid (RTD) Milk	43.66	42.66	13.35
• Evaporated Milk	0.48	0.30	-
• Others	76.00	48.15	16.21
Total Milk and Cream	**1,533.61**	**1,540.82**	**640.04**
2. Butter, Butterfat & Dairy Spreads	129.63	148.50	54.45
3. Cheese	68.86	95.05	28.23
4. Curd	7.98	8.92	0.48
Total Imports	**1,740.08**	**1,793.29**	**723.20**

Source: National Dairy Authority and National Statistics Office

[1] To get the LME, NDA uses a conversion factor of 8.02 liters per 1 kg of whole and non-fat dry milk powder and 5.51 liters per 1 kg of cheese

According to trade and industry contacts, imported dairy products are used as follows:

Skim Milk Powder: Recombined sweetened condensed milk, recombined UHT milk, ice cream, infant and follow-on formulas, and medical nutrition formulas.

Whole Milk Powder: Recombined UHT milk, ice cream, infant and follow-on formulas, medical nutrition formulas, and instant powdered milk.

Butter Milk Powder: Recombined sweetened condensed milk, ice cream, and bakery.

Whey Products: Recombined sweetened dairy creamer, ice cream, infant and follow-on formulas, processed meat, processed food, confectionery, bakery, and animal feed.

Cheese Curd: Processed cheese, cheese spreads, and processed food.

Liquid Milk: Retail, primarily organic and extended shelf life (ESL) milk.

Cheese: Retail, quick service restaurants and fast food chains.

Philippine Dairy Exports

Total dairy exports (manufactured using imported dairy products as raw materials) increased by 143 percent in 2015. The main countries of destination were Malaysia (42 percent), Thailand (18 percent), and South America (8 percent). Exports in 2016 are expected to rise as a result of increased regional trade with ASEAN neighbors and duty-free advantages from the ASEAN free trade agreement.

Volume Of Philippine Dairy Exports (In MT, LME)			
	2014	**2015**	**Jan-Mar 2016**
Milk and Cream	**65,530**	**165,640**	**59.45**
Butter/Butterfat	1,110	965	95.39
Cheese	2,740	1,715	24.41
Curd	10	5	-
TOTAL EXPORTS	**69,400**	**168,325**	**59,565**

Source: National Dairy Authority and National Statistics Office

Revisions to the PSD Tables

The PSD table for dairy fluid milk underwent a revision. Historically, this report counted water buffalo in cow's milk production. The table now only factors in dairy cows for cow's milk production. Fluid milk produced by water buffalo is now accounted for in other milk production. Imports of SMP in 2016 were revised upwards from 110,000 MT to 150,000 MT to reflect increased Philippine purchases as a result of low global prices. SMP imports in 2017 are expected to remain flat at 150,000 MT as dairy prices begin to normalize. Imports in 2016 of Whole Milk Powder WMP were also raised from 24,000 MT to 28,000 MT to meet increased demand from other ASEAN countries. As such, 2016 exports were revised upwards from 9,000 MT to 13,000 MT.

Policy:

The Philippine Department of Agriculture (DA) continues to make the development of the Philippine dairy industry a priority with a special emphasis on improving local supply of fresh milk. While the DA accepts that the Philippines cannot compete in the powdered milk market, it believes that it can greatly augment the supply of fresh milk to the market.

The NDA is the DA's primary agency overseeing and aiding the development of the Philippine dairy sector. The NDA aims to accelerate dairy herd build-up and milk production, enhance the dairy business through delivery of technical services, increase coverage of milk feeding programs, and promote milk consumption.

At the heart of the NDA strategy is the Herd Build-Up Program. This program aims to expand local dairy production through the importation of dairy animals, embryos and equipment, and through the upgrading of local animals to dairy breeds via breeding programs, the establishment of multiplier farms, and the preservation of existing stocks. The following are sub-programs of the Herd Build-Up Program:

1. Save-the-Herd (STH) **-** Promotes animal trading, dairy enterprise enhancement and herd conservation. Under this program, the STH partner receives a dairy animal from NDA which he

is obligated to rear, condition, and impregnate according to prescribed dairy husbandry management standards.

2. Herd Infusion **-** Includes importation of dairy stocks, diversification of sources, and local procurement of dairy animals.

3. Improved Breeding Efficiency - Breeding services to maximize the reproductive capacity of dairy animals either through artificial insemination or natural (bull) breeding.

4. Animal Financing - Tailoring of animal loan programs to the dairy business cycle and identifying new sources of affordable loans.

5. "Palit-Baka" Scheme or Dairy Animal Distribution **-** Refers to the program whereby NDA distributes a potential dairy animal to an eligible participant who, in turn, would eventually provide NDA with a female dairy animal as payment in kind.

6. Upgrading of Local Animals **-** Artificial insemination of local cattle with 100% purebred Holstein-Friesian semen. Calves born from upgrading programs are distributed to new farmers interested in dairying.

7. Breeding/Multiplier Farm Operations **-** Engaging and encouraging private-public partnerships in producing local-born dairy stocks. There are currently 61 dairy multiplier farms with more than 5,586 dairy animals contributing 4.1 million liters.

8. Bull Loan – Loan program that provides purebred and crossbred dairy bulls to regional field units of the Department of Agriculture or to other project partners for semen production, collection, and processing purposes.

Source: National Dairy Authority

Executive Order 190 (EO190): In November 2015, EO190 was issued modifying the most favored nation (MFN) rates of duty for certain dairy products. Tariff rates for certain dairy products (e.g., cheese, buttermilk, and butter) were lowered in 2014 as a result of concessions granted to WTO members for an extension of the Philippines' domestic support program for rice. These concessions end on June 30, 2017 with the expiration of quantitative restrictions on rice. Tariff rates for the following products will increase starting July 1, 2017:

HDG NO.	AHTN Code 2012	Description	2014 30 June 2017	Starting 01 July 2017
			Rate of Duty in %	
04.03	0403.90.10	- - Buttermilk	1	3
04.05	0405.10.00	- Butter	5	7
04.06		- Grated or powdered cheeses, of all kinds		
	0406.20.10	- - in packages of a gross weigh exceeding 20 kg	1	3
	0406.20.90	- - Other	1	7

Source: EO190

Tariffs: The 2016 MFN and ASEAN Trade in Goods Agreement (ATIGA) tariff rates for dairy and dairy products remain unchanged from the previous year.

TARIFF SCHEDULE			
H.S. Code	**Description**	**Rate of Duty**	
		MFN	**ATIGA**
0401	**Milk and cream, not concentrated nor containing added sugar or other sweetening matter**		
0401.10.00	Of a fat content, by weight, not exceeding 1 percent	3	0
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	0
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	0
0402	**Milk and cream, concentrated or containing added sugar or other sweetening matter**		
0402.10.00	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent	1	0
0402.21.00	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 percent		
	Not containing added sugar or other sweetening matter	1	0
0402.29.00	Other	1	0
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	0
0402.99.00	Other	5	0
0403	**Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa**		
0403.10	Yogurt		
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter; liquid yogurt	7	0

0403.10.20	Other	7	0
0403.90	Other		
0403.90.10	Buttermilk	1	0
0403.90.90	Other	7	0
0404	**Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included**		
0404.10.00	Whey or modified whey, whether or not concentrated or containing added sugar or other sweetening matter	1	0
0404.90.00	Other	3	0
0405	**Butter or other fats and oils derived from milk; dairy spreads**		
0405.10.00	Butter	5	0
0405.20.00	Dairy spreads	7	0
0405.90.00	Other	1	0
0406	**Cheese or curd**		
0406.10.00	Fresh (unripened or uncured) cheese, including whey cheese, and curd	3	0
0406.20	Grated or powdered cheese, of all kinds:		
0406.20.10	In containers of gross weight exceeding 20 kgs.	1	0
0406.20.90	Others	1	0
0406.30.00	Processed cheese, not grated or powdered	7	0
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	0

Source: Tariff Commission http://finder.tariffcommission.gov.ph/

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Since 2010, milk powder, cheese, whey, and buttermilk from Australia and New Zealand are able to enter the Philippines duty-free. U.S. milk powder and whey has a MFN duty of 1 percent, cheese 3-7 percent, and buttermilk 3 percent.

The Philippine tariff commitments under the AANZFTA may be viewed at the following link: http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf

Marketing:

The greater Manila area remains the major fresh milk market in the country and is classified into business and consumer sectors. The business sectors include the institutional and retail operations such as coffee shops, hotels, restaurants, supermarkets and small retailers. The consumer sectors include households and schools through the government milk feeding program.

The main targets of local milk processors are the institutional buyers, especially coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Locally-sourced, fresh milk dominates this market because of its superior foaming properties, as compared to UHT milk. The major suppliers of fresh milk to coffee shops are processors from Southern Luzon, particularly from Batangas and Laguna. Other suppliers to coffee shops produce UHT milk reconstituted from imported milk powder and packaged under their own brand.

The specialty coffee shop industry is projected to sustain growth of 10-15 percent over the next five years. Analysts attribute this expansion to growing consumer preference for specialty coffee and the improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific).

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year Philippines	2015 Jan 2015		2016 Jan 2016		2017 Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	19	10	20	11	0	12
Cows Milk Production	21	13	22	14	0	15
Other Milk Production	3	7	3	7	0	7
Total Production	24	20	25	21	0	22
Other Imports	45	45	48	48	0	50
Total Imports	45	45	48	48	0	50
Total Supply	69	65	73	69	0	72
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	58	54	62	58	0	61
Factory Use Consum.	11	11	11	11	0	11
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	69	65	73	69	0	72
Total Distribution	69	65	73	69	0	72
(1000 HEAD) ,(1000 MT)						

Dairy, Milk, Nonfat Dry	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	5	5	0	38
Production	0	0	0	0	0	0
Other Imports	100	100	110	150	0	150
Total Imports	100	100	110	150	0	150
Total Supply	106	106	115	155	0	188
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	101	101	105	117	0	130
Other Use, Losses	0	5	0	0	0	0
Total Dom. Consumption	101	106	105	117	0	130
Total Use	101	106	105	117	0	130
Ending Stocks	5	5	10	38	0	58
Total Distribution	106	111	115	155	0	188
(1000 MT)						

Dairy, Dry Whole Milk Powder	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Other Imports	22	22	24	28	0	28
Total Imports	22	22	24	28	0	28
Total Supply	22	22	24	28	0	28
Other Exports	8	8	9	13	0	13
Total Exports	8	8	9	13	0	13
Human Dom. Consumption	14	14	15	15	0	15
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	14	14	15	15	0	15
Total Use	22	22	24	28	0	28
Ending Stocks	0	0	0	0	0	0
Total Distribution	22	22	24	28	0	28
(1000 MT)						

Dairy, Cheese	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2	2	2	2	0	2
Other Imports	25	20	25	22	0	24
Total Imports	25	20	25	22	0	24
Total Supply	27	22	27	24	0	26
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	26	21	26	23	0	25
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	26	21	26	23	0	25
Total Use	27	22	27	24	0	26
Ending Stocks	0	0	0	0	0	0
Total Distribution	27	22	27	24	0	26
(1000 MT)						