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# Report Name: Dairy and Products Annual

**Country:** Philippines

**Post:** Manila

**Report Category:** Dairy and Products

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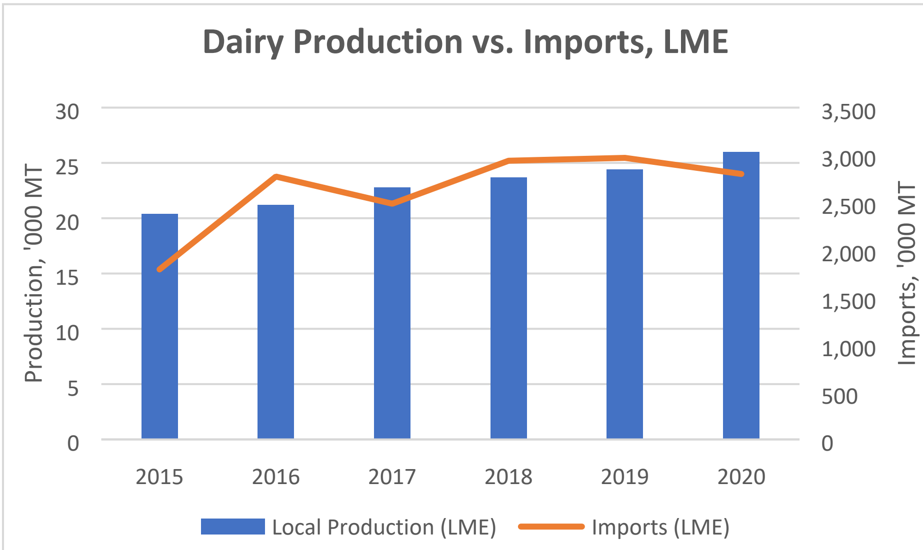
**Report Highlights:**

The Philippines imports virtually all of its dairy products, especially milk powder, as domestic production cannot meet the country's dairy demand of nearly 3.0 million metric tons (MMT) liquid milk equivalent (LME) per year, according to the National Dairy Authority (NDA). Total imports in 2020 are projected to drop due to dampened consumer demand caused by the COVID-19 induced economic slowdown. Dairy imports in 2021 will likely increase marginally as the local economy recovers and purchasing power improves. Major suppliers are New Zealand (37 percent), the United States (31 percent), and Australia (5 percent). In 2019, the Philippines was the sixth largest market for U.S. dairy products by value at $273 million.

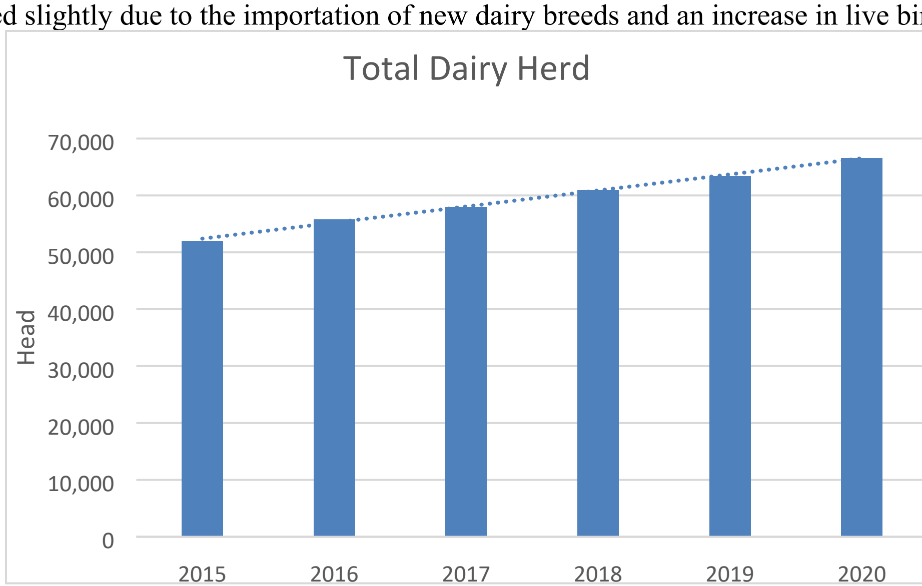
**Production:**

The Philippines produces less than one percent of its total annual dairy requirement and imports the balance. Local milk production is projected to reach 26,000 MT in 2020 and will likely hit 26,500 MT in 2021 due to growing local dairying capabilities and the implementation of new dairy development projects. Around 65 percent of total milk produced is cow's milk, while the rest is carabao milk (31 percent) and goat milk (4 percent).




Data from the NDA shows that local milk production (from cattle, carabao and goats) was 25 million metric tons (MMT) in 2019, about 17,000 MT of which was cow's milk. The value of dairy production in 2019 amounted to P966 million ($19.7 million). According to the NDA, the average farmgate price of milk increased to P44.24/liter ($0.90) in 2020 from P42.06/liter ($0.86) in 2019. By contrast the corresponding farmgate price of milk in the U.S. is about $0.41/liter ($18.80 per cwt /1 cwt = 23.359 kg) as of August 2020.

In 2020, the Philippine Statistics Authority (PSA) estimated the country's beginning inventory of dairy cattle (female dairy animals only) at 11,645, while there are 9,328 head of carabao and 8,851 of goats. Dairy cattle numbers increased slightly due to the importation of new dairy breeds and an increase in live births.



The average Philippine milk production per animal (8 liters/day) remains low mainly due to poor feed and management practices, compounded with high production costs and a lack of adequate dairy infrastructure. In comparison, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom.

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

Production 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 school 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; 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 they are 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 percent 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 5,500 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.

Other NDA program areas include: the *Dairy Business Enhancement Program* which fosters entrepreneurship among dairy producers by installation of business management systems, continuous education, training and infrastructure development. The *Milk Quality Assurance Program* focuses on the installation of quality-based milk test and payment systems, farm and plant audits and installation of quality control systems; and the *Milk Feeding Program* serves as the base market of local dairy farmers.

**Consumption:**

The Philippine economy is seen to decline in 2020 mainly due to the COVID-19 pandemic and shutdown. Economic activity may remain relatively sluggish, with many businesses and industries still operating way below the usual capacity amid social distancing and other stringent health protocols to prevent COVID-19 from spreading further. The Philippine economy will likely rebound in 2021 as the outbreak is contained, the economy is further opened, and more government stimulus measures are implemented.

Annual per capita milk consumption in the Philippines is estimated at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg, and the United States at 287 kg. With a growing population of roughly 107 million in 2020, the Philippines is a large and expanding market for milk and dairy products. Other factors contributing to the long-term trend of strong growth in 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 P4,000 ($82) per year on 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.

The greater Manila area remains the major fresh milk market in the country. Fresh fluid milk in a mid-range Manila supermarket sells for P90-120 per liter ($1.70-$2.20). Note: US$1 =PhP48.37, as of October 10, 2020.

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 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).

**Trade:**

***Imports:***

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. Post projects total dairy imports in 2020 to decline slightly to 2,800 MMT (in Liquid Milk Equivalent, LME) due to a slowdown in demand for dairy products caused by a the COVID induced economic slowdown. However, 2021 dairy imports are forecast to increase marginally as economic activity starts to recover, as the outbreaks are contained.

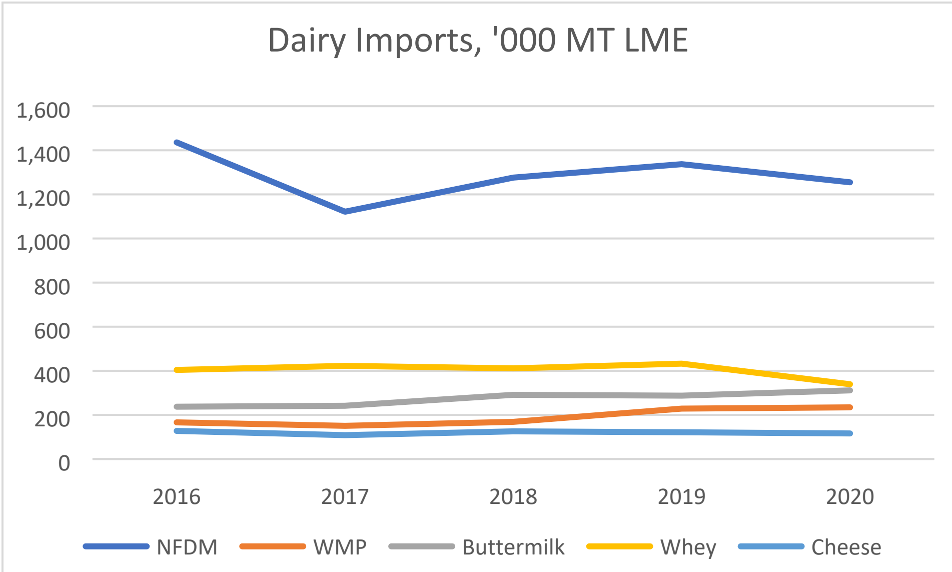
The major suppliers to the Philippines by volume are New Zealand with a 37 percent share of total imports, the United States with 31 percent, and Australia with 5 percent. U.S. exports to the Philippines increased 11 percent in value in 2019 to a record $273 million but decreased 7 percent in volume due to stronger dairy prices. In 2019, the Philippines was the sixth largest market for U.S. dairy products by value, unchanged from the previous year. The top U.S. dairy exports to the Philippines in 2018 were nonfat dry milk powder ($161,103 million/70,649 MT), buttermilk ($19 million), and dried whey ($16,514 million/16,342 MT). The increase dairy exports by value was due to higher U.S. dairy prices. U.S. dairy exports by volume showed an increase of 7 percent.

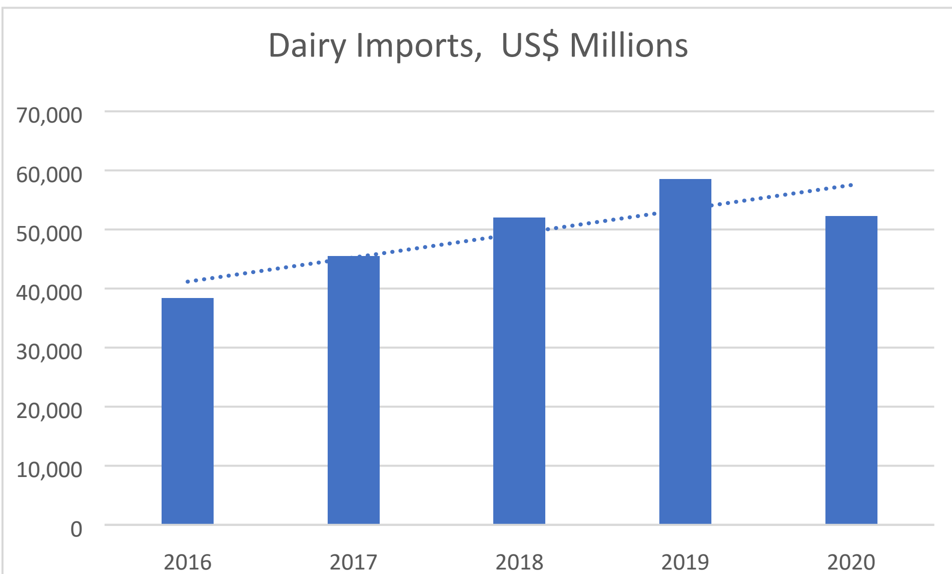
Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports comprise over 41 percent of total dairy imports. SMP and WMP imports in 2020, while up in value, will likely decline in volume due to rising global dairy prices and tepid demand for dairy products. The robust food manufacturing sector is seen recover next year but at a cautious pace due to dampened consumer demand for food products. The Philippines is the top market in Southeast Asia for U.S. dairy ingredients, which includes milk powder, buttermilk and whey used in food processing. Exports to the Philippines make up a third (135,504 MT) of U.S. dairy ingredients sales to Southeast Asia.

In 2020, liquid milk imports have dropped as the use of liquid milk in food service, particularly in coffee shops has declined due to COVID-19 lockdowns. Similarly, imports of butter and other dairy spreads as well as cheese, mainly coming from New Zealand and Australia due to the duty-free advantage of those suppliers, are also seen to drop due to the economic slowdown and reduced food service operations. The Philippines is the top destination for U.S. cheese exports (7,145 MT) to the region, accounting for 38 percent of sales.

| **Volume of Dairy Imports** ***('000 MT, in LME) [1]*** | | | | |
|---|---|---|---|---|
| 1. Milk and Cream | **2018** | **2019** | **Jan-Jun '19** | **Jan-Jun '20** |
| • Skim milk Powder | 1,276.15 | 1,336.99 | 855.53 | 627.43 |
| • Whole milk Powder | 168.52 | 228.52 | 139.53 | 117.11 |
| • Butter milk Powder | 291.04 | 287.32 | 156.11 | 155.59 |
| • Whey Powder | 441.14 | 432.41 | 239.56 | 169.56 |
| • Liquid (RTD) Milk | 79.39 | 87.20 | 47.32 | 37.76 |
| • Evaporated Milk | 1.35 | 0.02 | - | - |
| • Others | 245.85 | - | 116.37 | - |
| **Total Milk and Cream** | **2,503.44** | **1,546.19** | **1,554.42** | **1,353.20** |
| 2. Butter, Butterfat & Dairy Spreads | 259.80 | 262.24 | 155.80 | 127.02 |
| 3. Cheese | 125.40 | 121.29 | 60.14 | 57.96 |
| 4. Curd | 50.96 | 40.11 | 25.11 | 23.14 |
| **Total Imports** | **2,939.60** | **2,969.83** | **1,795.47** | **1,353.20** |

Source: National Dairy Authority [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




Source: National Dairy Authority

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

- Fluid Milk: Retail, primarily organic and extended shelf life (ESL) milk.
- 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: Retail, quick service restaurants and quick service food chains.

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

***Exports:***

Total dairy exports (mainly value-added dairy products manufactured using imported dairy products as raw materials e.g., ice cream etc.) will decline sharply to 25,000 MT LME in 2020. The main markets are Malaysia (16 percent), Singapore (24 percent), and Vietnam (16 percent). Exports are expected to remain low despite duty-free advantages from the ASEAN free trade agreement due to increasing cost of imported dairy inputs and strong competition from other dairy producers.

| **Volume of Philippine Dairy Exports (In MT, LME)** | | | | |
|---|---|---|---|---|
| | **2017** | **2018** | **Jan-Jun '19** | **Jan-Jun '20** |
| Milk and Cream | **51,383** | **59,155** | **22,174** | **9,688** |
| Butter/Butterfat | 341 | 1,124 | 1,485 | 1,210 |
| Cheese | 618 | 989 | 425 | 1,270 |
| **TOTAL EXPORTS** | **52,342** | **61,267** | **24,084** | **12,167** |

Source: National Dairy Authority

Trade Policy:

**Executive Orders (EO):** EO 20 prescribes the Most Favored Nation tariff schedule for 2017 to 2020 for all products, including dairy products took effect on June 30, 2017 and is available here http://tariffcommission.gov.ph/executive-order-20.

On March 5, 2019, all tariff concessions previously granted as a result of the extension of rice Quantitative Restrictions (which officially ended on July 1, 2017) returned to their original levels. Tariff rates for butter were increased from 5 percent to 7 percent; buttermilk from 1 percent to 3 percent; grated cheese from 1 percent to 3 percent; other cheese from 1 to 7 percent (See GAIN Report RP1906).

**ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA):** The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009 and may be viewed at the following link: http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf.

**Tariffs:** The 2019 MFN and ASEAN Trade in Goods Agreement (ATIGA) tariff rates.

| HS 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 | 3 | 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 | 7 | 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. | 3 | 0 |
| 0406.20.90 | Others | 7 | 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/

**Production, Supply and Distribution Data Statistics:**

| Dairy, Milk, Fluid | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2019 | | Jan 2020 | | Jan 2021 | |
| Philippines | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Cows In Milk** (1000 HEAD) | 11 | 11 | 11 | 12 | 0 | 12 |
| **Cows Milk Production** (1000 MT) | 17 | 17 | 18 | 18 | 0 | 19 |
| **Other Milk Production** (1000 MT) | 7 | 7 | 7 | 7 | 0 | 7 |
| **Total Production** (1000 MT) | 24 | 24 | 25 | 25 | 0 | 26 |
| **Total Imports** (1000 MT) | 105 | 105 | 110 | 90 | 0 | 90 |
| **Total Supply** (1000 MT) | 129 | 129 | 135 | 115 | 0 | 116 |
| **Total Exports** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Fluid Use Dom. Consum.** (1000 MT) | 117 | 117 | 123 | 103 | 0 | 104 |
| **Factory Use Consum.** (1000 MT) | 12 | 12 | 12 | 12 | 0 | 12 |
| **Feed Use Dom. Consum.** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 129 | 129 | 135 | 115 | 0 | 116 |
| **Total Distribution** (1000 MT) | 129 | 129 | 135 | 115 | 0 | 116 |
| | | | | | | |
| (1000 HEAD) ,(1000 MT) | | | | | | |

| Dairy, Milk, Nonfat Dry | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2019 | | Jan 2020 | | Jan 2021 | |
| Philippines | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Beginning Stocks** (1000 MT) | 58 | 58 | 58 | 58 | 0 | 33 |
| **Production** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Imports** (1000 MT) | 177 | 177 | 135 | 135 | 0 | 150 |
| **Total Supply** (1000 MT) | 235 | 235 | 193 | 193 | 0 | 183 |
| **Total Exports** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Human Dom. Consumption** (1000 MT) | 177 | 177 | 148 | 160 | 0 | 165 |
| **Other Use, Losses** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 177 | 177 | 148 | 160 | 0 | 165 |
| **Total Use** (1000 MT) | 177 | 177 | 148 | 160 | 0 | 165 |
| **Ending Stocks** (1000 MT) | 58 | 58 | 45 | 33 | 0 | 18 |
| **Total Distribution** (1000 MT) | 235 | 235 | 193 | 193 | 0 | 183 |
| | | | | | | |
| (1000 MT) | | | | | | |

| Dairy, Dry Whole Milk Powder | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2019 | | Jan 2020 | | Jan 2021 | |
| Philippines | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Beginning Stocks** (1000 MT) | 9 | 9 | 11 | 11 | 0 | 10 |
| **Production** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Imports** (1000 MT) | 32 | 32 | 27 | 27 | 0 | 30 |
| **Total Supply** (1000 MT) | 41 | 41 | 38 | 38 | 0 | 40 |
| **Total Exports** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Human Dom. Consumption** (1000 MT) | 30 | 30 | 28 | 28 | 0 | 30 |
| **Other Use, Losses** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 30 | 30 | 28 | 28 | 0 | 30 |
| **Total Use** (1000 MT) | 30 | 30 | 28 | 28 | 0 | 30 |
| **Ending Stocks** (1000 MT) | 11 | 11 | 10 | 10 | 0 | 10 |
| **Total Distribution** (1000 MT) | 41 | 41 | 38 | 38 | 0 | 40 |
| | | | | | | |
| (1000 MT) | | | | | | |

| Dairy, Cheese | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2019 | | Jan 2020 | | Jan 2021 | |
| Philippines | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Beginning Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Production** (1000 MT) | 2 | 2 | 2 | 2 | 0 | 2 |
| **Total Imports** (1000 MT) | 40 | 40 | 39 | 36 | 0 | 36 |
| **Total Supply** (1000 MT) | 42 | 42 | 41 | 38 | 0 | 38 |
| **Total Exports** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Human Dom. Consumption** (1000 MT) | 42 | 42 | 41 | 38 | 0 | 38 |
| **Other Use, Losses** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 42 | 42 | 41 | 38 | 0 | 38 |
| **Total Use** (1000 MT) | 42 | 42 | 41 | 38 | 0 | 38 |
| **Ending Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Distribution** (1000 MT) | 42 | 42 | 41 | 38 | 0 | 38 |
| | | | | | | |
| (1000 MT) | | | | | | |

## Attachments:

No Attachments