

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: 12/14/2012

GAIN Report Number:

Philippines

Dairy and Products Annual

Situation and Outlook

Approved By:

Philip A. Shull and William G. Verzani

Prepared By:

Pia A. Ang

Report Highlights:

Producing less than one percent of its growing dairy demand, the Philippines is a major global importer of dairy products, especially milk powder. Total imports for 2012 are expected to reach 2 MMT, up slightly from the 2011 total of 1.903 million tons. Dairy products are the country's second largest agricultural import after wheat. In 2011, the major suppliers were New Zealand (45%), the U.S. (25%), and Australia (11%). After rocketing 50% in 2011, U.S. dairy exports to the Philippines in 2012 are forecast to reach a record \$328 million in 2012. While milk powder exports dominate this category, there has also been strong growth in U.S. cheese and whey sales as well. The Philippines is the 4th largest market for U.S. dairy exports. Total domestic milk production for 2012 was a record, but remains negligible at under 19,000 tons, or less than one pint per person. Local farm gate prices for fresh milk averaged a very high 73 U.S. cents per liter, with average production of 8 liters per day per cow.

Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder

Dairy, Cheese

Dairy, Milk, Fluid

Production:

The country produces less than one percent of its total annual dairy requirement and imports the balance. Data from the Philippine National Dairy Authority (NDA) shows that local dairy production was 16,450 metric tons (MT) in 2011, up from 15,860 MT in 2010. The value of dairy production in 2011 amounted to P499 million (\$12.20 million at the December 7, 2012 exchange rate of US \$1= P40.92). Local milk production is projected to exceed 18,750 MT in 2012, and to continue growing in 2013. Despite this growth and strong consumer demand, per capita production remains less than 0.2 kg per person.

As of July 2012, the Bureau of Agricultural Statistics estimated the nation's total dairy herd included 18,374 female dairy animals (dams and does), an increase of over 9 percent from the previous year. These were comprised of dairy cattle (8,877), water buffalo (7,863) and dairy goats (1,634). Dairy cattle numbers increased due mainly to the continuation of the NDA's longstanding "herd build-up" program. The combination of dairy cattle imports and natural growth is expected to result in a herd increase of roughly 1000 head per year.

TOTAL DAIRY HERD (as of July 1, 2012)		
	2011	2012
Cattle	(7,996) 18,095	(8,877) 19,955
Carabao	(7,421) 14,681	(7,863) 15,677
Goats	(1,497) 3,681	(1,634) 3,744
TOTAL	(16,914) 36,457	(18,374) 39,376

Source: Bureau of Agricultural Statistics

Note: Includes both male and female dairy animals

Female dairy animal numbers in parenthesis

The average Philippine milk production per animal (8 liters/day) remains low due mainly to poor feed and management practices. According to various sources, the average daily milk yield per animal in the United States is 30- 34 liters/day. The NDA reports that the average farm gate price of milk in 2012 did not change from the previous year level of P29.95/liter (\$0.73/liter). By contrast, the corresponding farm gate price of milk in the U.S. is about \$0.51/liter (\$22.10 hundred weight) as of December 2012.

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).

In answer to the country’s cold chain challenges and limited production, a significant amount of Philippine fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder.

Consumption:

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 100 million in 2012, the Philippines is a large and rapidly expanding market for milk and milk products. Other factors contributing to the long term trend of rapid growth in local dairy consumption are expanding cold chain capacity, an increase in the number of supermarkets, and a blossoming food processing industry. In addition, the strengthening Philippine peso (the Philippine currency has appreciated more than 6 percent against the U.S. dollar in 2012) and the weak U.S. dollar vis-à-vis competitor countries make the Philippine market attractive for U.S. dairy exporters.

According to the NDA, 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.

Below are retail prices of various dairy products as of April 2012:

Retail Prices of Dairy Products (as of April 2012)	
Powdered Filled Milk (160g)	P71.50
Evaporated Milk (158 ml)	P18.50
Butter (225g)	P78.00
Cheese, processed (200g)	P41.50
Ice Cream (1 gallon)	P390.00

Source: Food and Agribusiness Monitor

In December 2012, fresh fluid milk in a mid-range Manila supermarket was selling for 90-120 pesos per liter (\$2.20 - \$2.93).

Trade:

U.S. Exports to Philippines Increase 50% in 2011

The Philippines was the 4th largest market for U.S. dairy products in 2011, with record exports of \$280.3 million, up by over 50% from 2010. The major components of 2011 exports were nonfat dry milk powder (\$172 million), cheese (\$20 million) and whey (\$19 million). U.S. exports in 2012 are set to hit another record, estimated at \$325-330 million. Post forecasts exports to continue growing strongly in 2013.

Philippine Dairy Imports

Dairy products are the country's second largest agricultural import after wheat. In 2012, total imports of dairy products are expected to increase slightly to about 2 MMT in liquid milk equivalent (LME) as growth in local demand continued to exceed increases in domestic supply. Despite the likelihood of higher global prices stemming from tighter supplies, post expects Philippine imports will continue to expand in 2013 due to strong demand and growth in food processing.

Imports of milk and milk products in 2011 decreased slightly to 1,903 MMT from 2,015 MMT LME in 2010, due mainly to the increase in world prices. However, U.S. dairy exports to the Philippines have continued to rise dramatically due in part to the weak U.S. dollar vis-à-vis major competitor countries, the strengthening peso as well as supply problems in major dairy producing countries. In 2011, the major country suppliers to the Philippines by volume were New Zealand with 46 percent, the United States with 25 percent, and Australia at 11 percent.

Non Fat Dry Milk (NFDM) and Whole Milk Powder (WMP) imports generally comprise about 60 percent of total dairy imports. NFDM imports increased slightly in 2011, while high prices led to a decline in WMP and liquid milk imports by 12 percent and 6 percent, respectively. Imports of butter and other dairy spreads also declined slightly (4 percent). On the other hand, rapid growth in gourmet and convenience food demand and fast food restaurants drove a 34 percent increase in cheese imports.

VOLUME OF DAIRY IMPORTS <i>('000 MT, in LME) [1]</i>			
	2010	2011	Jan-June 2012
1. Milk and Cream			
• Skim milk Powder	867.42	877.63	432.43
• Whole milk Powder	253.74	223.14	118.77
• Buttermilk Powder	153.63	159.92	107.15
• Whey Powder	320.91	302.73	150.74
• Liquid (RTD) Milk	48.48	45.80	13.65
• Evaporated Milk	1.04	0.66	1.59
• Cream	8.74	14.20	12.17
• Condensed Milk	13.96	9.06	3.25
• Other	113.02	32.07	17.87
Total Milk and Cream	1,780.94	1,665.21	857.62
2. Butter, Butterfat & Dairy Spreads	169.31	162.51	66.65
3. Cheese	52.60	70.47	46.22
4. Curd	12.17	2.22	0.49
Total Imports	2,015.02	1,903.41	970.98

Source: National Dairy Authority and National Statistics Office

Philippine Dairy Exports

Total dairy exports increased 16 percent in 2011 with exports of milk powder comprising about 99 percent of the total volume. The main countries of destination in 2011 were Malaysia (28 percent), Thailand (17 percent) and Indonesia (16 percent). Exports this year are expected to be slightly lower than in 2010/11 due in part to the strong appreciation of the peso.

VOLUME OF PHILIPPINE DAIRY EXPORTS

(In MT, LME)			
	2010	2011	Jan-June 2012
Milk and Cream	249,950	291,016	124,392
Butter/Butterfat	107	248	46
Cheese	4,926	4,550	1,646
TOTAL EXPORTS	254,984	295,815	126,085

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

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. Specifically, 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.
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

Tariffs: The 2012 Most Favored Nation (MFN) tariff rates for dairy and dairy products remain unchanged from previous year.

TARIFF SCHEDULE			
H.S. Code	Description	Rate of Duty	
		MFN	CEPT
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	3
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	3
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	3
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	3-5
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	3-5
0402.29.00	Other	1	3-5
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	5
0402.99.00	Other	5	5
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	5
0403.10.10	Other	7	5
0403.90	Other		

0403.90.10	Buttermilk	3	3
0403.90.90	Other	7	5
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	3
0404.90.00	Other	3	3
0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	7	5
0405.20.00	Dairy spreads	7	5
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	5
0406.30.00	Processed cheese, not grated or powdered	7	5
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	5

Source: Tariff and Customs Code

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Starting in 2010, milk powder, cheese, whey and buttermilk from Australia and NZ are able to enter the Philippines duty free; U.S. milk powder and whey will have a MFN duty of 1 percent; cheese 3-7 percent, and buttermilk 3 percent. Some U.S. food and agricultural exports to the Philippines are likely to be at a disadvantage as a result of the AANZFTA.

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 as 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 20 percent over the next five years. Analysts attribute this expansion to the 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 Distribution Statistics:

Dairy, Dry Whole Milk Powder Philippines	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	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	30	30	32	32	34	34
Total Imports	30	30	32	32	34	34
Total Supply	30	30	32	32	34	34
Other Exports	24	24	22	22	23	23
Total Exports	24	24	22	22	23	23
Human Dom. Consumption	6	6	10	10	11	11
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	6	6	10	10	11	11
Total Use	30	30	32	32	34	34
Ending Stocks	0	0	0	0	0	0
Total Distribution	30	30	32	32	34	34
1000 MT						

Dairy, Milk, Nonfat Dry Philippines	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8	8	10	10	8	15

Production	0	0	0	0	0	0
Other Imports	111	111	105	112	110	115
Total Imports	111	111	105	112	110	115
Total Supply	119	119	115	122	118	130
Other Exports	17	17	12	12	15	18
Total Exports	17	17	12	12	15	18
Human Dom. Consumption	92	92	95	95	95	98
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	92	92	95	95	95	98
Total Use	109	109	107	107	110	116
Ending Stocks	10	10	8	15	8	14
Total Distribution	119	119	115	122	118	130
1000 MT						

Dairy, Milk, Fluid Philippines	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	14	14	15	15	16	16
Cows Milk Production	17	17	18	19	19	20
Other Milk Production	3	3	3	3	3	3
Total Production	20	20	21	22	22	23
Other Imports	50	50	45	45	50	50
Total Imports	50	50	45	45	50	50
Total Supply	70	70	66	67	72	73
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	61	61	57	58	63	64
Factory Use Consum.	9	9	9	9	9	9
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	70	70	66	67	72	73
Total Distribution	70	70	66	67	72	73
1000 HEAD, 1000 MT						

Dairy, Cheese Philippines	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	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	2	2

Other Imports	20	17	22	20	23	23
Total Imports	20	17	22	20	23	23
Total Supply	22	19	24	22	25	25
Other Exports	1	1	1	1	1	1
Total Exports	1	1	1	1	1	1
Human Dom. Consumption	21	18	23	21	24	24
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	21	18	23	21	24	24
Total Use	22	19	24	22	25	25
Ending Stocks	0	0	0	0	0	0
Total Distribution	22	19	24	22	25	25
1000 MT						