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Report Name: Grain and Feed Update

Country: Philippines

Post: Manila

Report Category: Grain and Feed

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Report Highlights:

After surging in MY2018/19, Philippine grain imports (wheat, corn and rice) will decline in MY2019/20 as the country returns to more normal weather conditions following last year's El Niño, with higher production and adequate inventories. The arrival of African Swine Fever in the Philippines will lead to a 10 percent reduction in hog feed demand, resulting in feed wheat imports falling 500,000 tons in MY 2018/19 to 7.1 million tons. Corn imports are forecast to decline nearly 7 percent to 700,000 tons due to improved production and sufficient stocks. Smallholder rice farmers will continue planting rice despite low prices, while progressive rice producers will become more efficient in MY2019/20. Although area harvested is lowered, rice production will increase by 2 percent due to favorable weather conditions, with imports expected to decline in MY2019/20 because of adequate supply.

Crop output, which accounts for about half of total Philippine farm production, fell 5.7 percent in the April to June 2019 period due to lower rainfall from El Niño. Philippine agriculture production from April to June 2019 contracted by 1.27 percent compared to the 0.64 percent increase during the first quarter of 2019 and gained 0.12 percent in the second quarter of last year, according to data from the Philippine Statistics Authority (PSA). It was agriculture’s biggest quarterly contraction since declining 2.21 percent in the second quarter of 2016.

The Philippine government had identified increasing food prices, particularly rice, as a major contributor to inflation last year, which had peaked at 6.7 percent in October 2018, the highest in nearly a decade. Philippine midterm elections in May 2019 and the initial implementation of agricultural policy reforms, most notably the [Rice Tariffication Law](#), resulted in a surge of imports in MY 2018/19. The imports augmented local food supply, contributing to the further easing of inflation to 1.7 percent in August 2019, the slowest in 34 months, compared to 6.4 percent in the same month last year and 2.4 percent in July 2019.

Post forecasts overall food and feed grain consumption to slow down in MY 2019/20 due to the confirmed outbreak of Animal Swine Fever (ASF) on July 25, 2019 and its expected impacts to animal feed demand. This will be partially offset by the return to more normal weather conditions, contributing to increased rice and corn production.

Wheat

Wheat Market Begin Year Philippines	2017/2018		2018/2019		2019/2020	
	Jul 2017		Jul 2018		Jul 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1491	1491	1723	1723	2208	2208
Production	0	0	0	0	0	0
MY Imports	5987	5987	7545	7545	7400	7050
TY Imports	5987	5987	7545	7545	7400	7050
TY Imp. from U.S.	2501	2440	2845	2845	0	0
Total Supply	7478	7478	9268	9268	9608	9258
MY Exports	55	55	60	60	65	65
TY Exports	55	55	60	60	65	65
Feed and Residual	2500	2500	3200	3200	3300	3000
FSI Consumption	3200	3200	3800	3800	4000	4000
Total Consumption	5700	5700	7000	7000	7300	7000
Ending Stocks	1723	1723	2208	2208	2243	2193
Total Distribution	7478	7478	9268	9268	9608	9258
Yield	0	0	0	0	0	0
(1000 HA) ,(1000 MT) ,(MT/HA)						

Wheat imports in MY 2019/20 are lowered 350,000 tons to roughly 7.1 million tons in light of the confirmed presence of African Swine Fever on the main island of Luzon, a major production area for hogs in the Philippines. Refer to the GAIN Report “[African Swine Fever \(ASF\) Confirmed in the Philippines](#),” for more information.

The reduced volume represents the estimated amount of feed energy needed, assuming a 10 percent reduction in hog feed demand during the July-June crop year. Imported feed wheat is expected to be affected the most compared to corn and cassava (i.e. tapioca), which are both grown locally.

Corn

Corn Market Begin Year Philippines	2017/2018		2018/2019		2019/2020	
	Jul 2017		Jul 2018		Jul 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2604	2604	2480	2480	2550	2550
Beginning Stocks	448	448	456	456	314	314
Production	8084	8084	7608	7608	8100	8100
MY Imports	724	724	750	750	700	700
TY Imports	806	806	750	750	700	700
TY Imp. from U.S.	194	194	0	0	0	0
Total Supply	9256	9256	8814	8814	9114	9114
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	6600	6600	6500	6500	6700	6700
FSI Consumption	2200	2200	2000	2000	2100	2100
Total Consumption	8800	8800	8500	8500	8800	8800
Ending Stocks	456	456	314	314	314	314
Total Distribution	9256	9256	8814	8814	9114	9114
Yield	3.1045	3.1045	3.0677	3.0677	3.1765	3.1765
(1000 HA) ,(1000 MT) ,(MT/HA)						

According to PSA, corn output declined 8.73 percent from April to June 2019, compared to the same period last year. This was due to decreases in harvested areas and yields in most regions because of the dry spell caused by El Niño. A return to more normal weather conditions in MY 2019/20 will enhance increased production during the year.

On June 3, 2019, the DA issued Memorandum Circular No. 8, series of 2019 (DA-MC 8) imposing safeguard and biosecurity measures for plant-based feed products from ASF-declared countries (see attached). For imported feed products arriving from countries with ASF, a holding/quarantine of twenty days will be required from the day the product was put on board, which can include the time in transit. In the case of countries with shorter transport times to the Philippines, such as China and Vietnam, a ten-day holding period will be applied at the consignee's warehouse following the shipment's arrival.

The proposed 300,000 tons of duty-free corn imports petitioned by local feed millers earlier this year will need approval from the National Economic and Development Authority (NEDA) before the Philippine Tariff Commission (PTC) can act on it.

Rising sugar prices strengthened the demand for high fructose corn syrup (HFCS), despite the higher excise tax placed on HFCS. (See FAS Manila's [Sugar Annual Report](#)) Three HFCS plants started operating in 2018, according to an industry contact, but their capacities are currently unknown. Demand for corn feedstock is likely to buoy continued corn imports through MY 2019/20.

The country's corn inventories as of August 1, 2019 reached 724,000 tons, 41 percent lower than the previous year's 1,200,000 tons, according to the PSA's September "Rice and Corn Stocks Inventory". The August inventory was 12 percent lower than the 823,000 tons stock level recorded in July 2019.

Commercial warehouses held 87 percent of corn stocks at 630,800 tons in August 2019. The figure, however, is 45 percent lower than last year's 1.15 million tons. Households accounted for 93,300 tons or nearly 13 percent of the total inventory for the period while National Food Authority (NFA) corn stocks were zero.

Rice

Rice, Milled Market Begin Year Philippines	2017/2018		2018/2019		2019/2020	
	Jul 2017		Jul 2018		Jul 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	4844	4844	4741	4741	4850	4700
Beginning Stocks	2003	2003	2288	2288	3490	3490
Milled Production	12235	12235	11732	11732	12200	12000
Rough Production	19421	19421	18622	18622	19365	19048
Milling Rate (.9999)	6300	6300	6300	6300	6300	6300
MY Imports	1300	1300	3570	3570	2700	2400
TY Imports	2500	2500	3100	3100	2700	2400
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	15538	15538	17590	17590	18390	17890
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	13250	13250	14100	14100	14600	14450
Ending Stocks	2288	2288	3490	3490	3790	3440
Total Distribution	15538	15538	17590	17590	18390	17890
Yield (Rough)	4.0093	4.0093	3.9279	3.9279	3.9928	4.0528
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice production and area planted in MY 2019/20 are expected to decline slightly from the previous year's level due to low prices. Post expects a slight shift to other crops this year because of consistently low prices, with a more pronounced shift the following year, MY 2020/21.

Declining rice prices coincided with the arrival of considerable imports since the implementation of the Rice Tarrification Act in March 2019. An unconfirmed press article reports that from March 5 to August 30, 2019, data from the Bureau of Plant Industry (BPI) show that rice imports reached 1.3 million tons. The BPI data also showed 3,115 Sanitary and Phytosanitary-Import Permits (SPS-ICs) of around 228 eligible rice importers were processed during the same period, according to the same source.

In August 2019, well-milled rice sold for P42.30 (\$0.81)/kilo, 9 percent cheaper than the P46.36 (\$0.89)/kilo retail price in August 2018. Regular-milled rice sold for P37.58 (\$0.72)/kilo, 12 percent cheaper than the P42.74 (\$0.82)/kilo retail price during the same month a year ago, according to PSA. Farm gate prices, however, have declined even more. From P22.70 (\$0.44)/kilo in August 2018, farm gate prices of paddy rice have dropped 28 percent to P16.36 (\$0.31)/kilo in June 2019 (latest data available). According to some legislators and local government officials, paddy prices have dropped even more considerably (P10 (\$0.19)/kilo and below) in some areas, which is below the computed break-even price of around P12 (\$0.23)/kilo.

Newly designated DA Secretary William D. Dar recently announced the P1.5 billion (\$28.8 million) Expanded Survival and Recovery Assistance Program for Rice Farmers (SURE Aid). Under SURE Aid, rice farmers tilling one-hectare of land and below may avail of a one-time, zero-interest loan amounting to P15,000 (\$288), payable up

to eight years, starting Sept. 1, 2019. There are roughly two million rice farmers in the Philippines. Data on the number of farmers tilling a hectare and below, however, are not readily available.

The National Food Authority (NFA) was also instructed to buy the harvests of rice farmers who avail of a SURE Aid loan. The NFA has a P7 billion (\$135 million) paddy-buying fund. The NFA currently buys paddy at P17.40 (\$0.33)/kilo (14% Moisture Content) from individual farmers and P17.70 (\$0.34)/kilo from farmers' organizations/cooperatives. Very recently, the Philippine House of Representatives approved increasing the fund to P10 billion (\$192 million) in the 2020 national budget.

On September 11, 2019, the Philippines formally informed the World Trade Organization (WTO) of an investigation into the surge in rice imports following the plunge in local paddy prices. The investigation will help determine whether a safeguard measure on rice imports can be imposed. Under consideration is a safeguard duty of at least double the current 35 percent, according to media reports.

The DA is also looking at the imposition of a suggested retail price as well as legislation increasing buffer stocks from 30 days to 90 days. Currently, NFA warehouses still has imported rice stored but have received orders from the DA to dispose inventories aggressively as it adopts a buy-mill-sell strategy to stretch its limited budget and influence prices to narrow the paddy and retail prices gap.

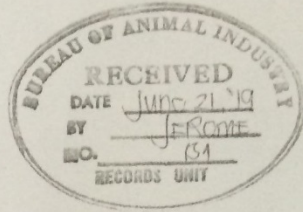
Overall rice inventories have consistently averaged 2.5 million tons per month since January 2019, according to PSA data. Stocks reached 2.13 million tons in August 2019 for a 40 percent increase from the previous year's 1.52 million tons. Commercial warehouses had 880,150 tons, accounting for 41 percent of national inventories, while households had a 37 percent share or 792,700 tons during the same month. Rice stocks with the NFA reached 461,000 tons (from 101,150 tons the year before) for a 22 percent share during the same period.

Although area harvested is pared down, rice output in MY2019/20 will increase slightly (2 percent) due to favorable weather conditions compared to the last year with El Niño. Coupled with adequate inventories, rice imports are expected to decline in MY2019/20 compared to the previous year's level.

To summarize, a surge in rice imports due the Rice Tariffication Law has brought down rice prices and helped tame inflation. Low paddy prices, however, will not significantly discourage smallholder rice farmers from planting rice in MY2019/20. The more progressive rice producers, on the other hand, will cut down costs and be more efficient. Interventions as embodied in the Rice Competitiveness Enhancement Fund and the resulting behavioral change and industry shifts will take time. Meanwhile, the Philippine government is expected to intensify efforts in finding the ideal balance of subsidies to reach an acceptable pricing compromise.



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MEMORANDUM CIRCULAR
 No. 08
 Series of 2019

Subject: SAFEGUARD/BIOSECURITY MEASURES FOR PLANT-BASED FEED PRODUCTS, CATEGORIZED AS MEDIUM RISK, IMPORTED FROM AFRICAN SWINE FEVER (ASF) INFECTED COUNTRIES

WHEREAS, Memorandum Order No. 6, series of 2019, temporarily banned the importation of processed porcine animal protein originating from ASF-infected countries;

WHEREAS, there are scientific findings that ASF can be transmitted through plant-based feed products;

WHEREAS, a series of consultations with the stakeholders and private sector were conducted to discuss the safeguard/biosecurity measures for plant-based feed products, categorized as medium risk, imported from African swine fever (ASF) infected countries;

NOW, THEREFORE, I, EMMANUEL F. PIÑOL, Secretary, Department of Agriculture, by the powers vested in me by law, do hereby institute the following safeguard/biosecurity measures for the importation of plant-based, medium risk feed products originating from ASF-infected countries:

- 1.) Upon arrival of the imported feed product, an ASF declaration form from an independent third party surveyor stating the last outbreak date of ASF from the country of origin must be included with the shipping documents. The outbreak declaration follows OIE announcement/update on ASF outbreaks.
 - a. If the latest outbreak date from the country of origin is more than 2 months or 60 days, product is cleared upon arrival and is free to use. This particularly applies to said products originating from non-Asian countries (e.g. Europe).
 - b. If the latest outbreak date from the country of origin is less than 2 months or 60 days, then quarantine protocol (2) applies.
- 2.) A holding/quarantine period of 20 days shall be observed to commence from the day the feed product was laden on board the carrier vessel, only after which it shall be cleared for utilization.
 - a.) When originating from non-Asian countries (e.g. Europe) where duration of transport takes at least 20 days, the feed product may be utilized following clearance by the quarantine officer from the Port of Entry upon arrival at the consignee's warehouse.
 - b.) When originating from Asia (e.g. China and Vietnam), where the duration of transport is less than 20 days, a 10-day holding/quarantine period shall be applied at the consignee's warehouse following its arrival which shall be certified by the deputized feed control officer.

This ORDER shall take effect immediately.

EMMANUEL F. PIÑOL
 Secretary

DEPARTMENT OF AGRICULTURE

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Attachments:

No Attachments