Voluntary Report – Voluntary - Public Distribution **Date:** October 17, 2022

Report Number: RP2022-0047

Report Name: Philippines Dairy Supply and Logistics Issues

Country: Philippines

Post: Manila

Report Category: Dairy and Products, Agriculture in the News

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Report Highlights:

The Philippines supplies only one percent of its total dairy requirement, which makes it a competitive market for imported dairy products. The United States and New Zealand are the top two suppliers, the U.S. being the leader. Post sees overall dairy imports recovering in 2022, as the economy reopens, most of the population becomes vaccinated, and business operations expand, all of which will accelerate dairy consumption. The industry is affected by global shipping bottlenecks, the effects of Russia's war on Ukraine, and rising prices. There is no quick solution, but dairy importers will continue to ship imported dairy products despite all these challenges to address the country's increasing demand.

Background

The Philippines supplies only one percent of its total annual dairy requirement, with the rest imported. Production growth has been slow because of the inability to increase the dairy herd, mostly due to insufficient funding and little investment from the private sector. Production declined by two percent to 26,000 MT in 2021 due to a reduction of the dairy herd following the slaughter and retiring of older animals. In 2022, production is forecast to rebound three percent to 26,800 MT, boosted by more dairy animals and the active implementation of the Philippine government's dairy development projects geared towards increasing milk production. These projects will also contribute to improvements in milk yield among dairy cattle.

Dairy consumption reached three million MT in 2021. Post sees these combined factors leading to greater dairy consumption. Rising consumption is also supported by infrastructure investments, particularly in cold chain facilities, supermarkets, and display areas.

Table 1: Dairy Supply and Demand
'000 MT, in LME

	2017	2018	2019	2020	2021
Production	22.76	23.69	24.38	26.71	26.30
+ Imports	2,486.29	2,939.60	2,969.83	2,936.14	3,035.37
- Export	52.34	61.27	65.85	35.81	51.42
= Consumption	**2,456.71**	**2,902.02**	**2,928.36**	**2,927.04**	**3,010.25**

Source: NDA

The Milk Feeding Program (MFP) remains the growth driver for local milk consumption. Around 60 percent of the local fresh milk production goes to the MFP and the rest to local commercial sales or household consumption. The Department of Education has announced it will increase its coverage for the program this school year after it surpassed its target by 183 percent and reached 3.2 million beneficiaries.

The Philippine government has allowed businesses to return to pre-pandemic operations, i.e., increasing seating capacity, allowing dine-in customers, opening hotel operations beyond quarantine hotels, and permitting small businesses like burger kiosks, milk teas, and other food stalls to operate. Malls are open to vaccinated individuals, and a majority of the working population has returned to work. With overall purchasing power improving, Post sees dairy consumption growing in 2022.

From the latest Philippine Family Income and Expenditure Survey conducted in 2018 and released in 2020, middle class households spend a higher percentage of their income on dairy products. Such households are also more responsive to income changes. As incomes grow among the middle class, spending can increase up to 8.9 times for milk and dairy products.

Table 2: Philippine Food Spending Relative to Income			
	The Poor P5,000/mo.	Middle Class >PhP20,000/mo.	Spending Multiplier
Total Spending	**4,000**	**32,300**	**8.1x**
Total Food	2,342	17,947	7.7x
Rice and bread	882	6,273	7.1x
Meat	164	1,882	11.5x
Seafood	324	2,452	7.6x
Dairy, milk, cheese	**119**	**1,062**	**8.9x**
Coffee, cocoa	90	660	7.3x
Soft drinks, juices	32	413	13.0x
Eating out	295	2,200	7.5x

Source of basic data: PSA

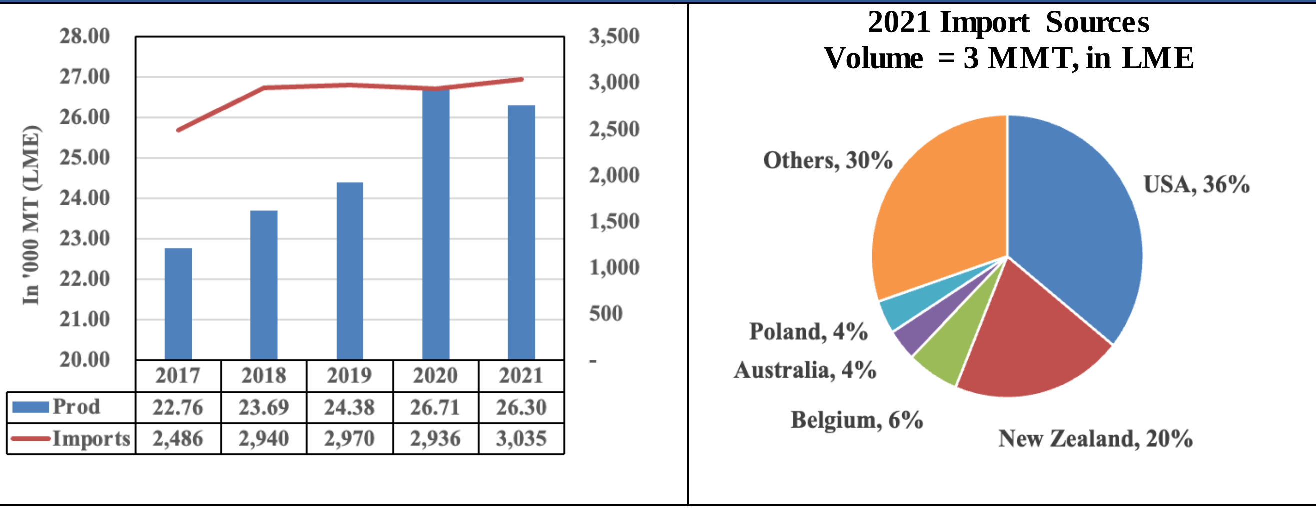
The Philippine dairy industry is categorized into two distinct groups:

1. Importers/re-processors who re-process and repack milk and milk products and import liquid ready-to-drink milk.
2. Local producers/processors who are engaged in milk production, processing, and distribution of fresh milk and derived products to the local market. Production is dominated by small farmers, with a few medium-to-large farms operated by entrepreneurs.

The country has four major milk importers/re-processors: Nestle Philippines, Alaska Milk Corporation (AMC), Magnolia Inc., and RFM Foods Corporation. They are the main suppliers of powdered milk from imported ingredients, imported ultra-high-temperature (UHT) milk or fluid milk reconstituted from imported milk powder, and other imported/re-processed dairy products. Other players include Century Pacific Food, Inc., Fonterra Brands Philippines Inc., Fly Ace Corporation, Consolidated Dairy and Frozen Food Corporation, Montebueno Marketing Inc., and ScanAsia Overseas Inc. NDA maintains a list of importers here.

The limited local supply makes the Philippines a competitive market for dairy imports, with the United States and New Zealand having the largest shares. According to NDA data, overall imports grew by 3.4 percent volume terms and 10.8 percent in value terms in 2021. Cheese contributed the highest growth of 31 percent. Most dairy products, however, had lower import volumes except for whey powder, cheese, butter (including butterfat and spreads), and buttermilk powder. FAS Manila sees overall dairy imports recovering in 2022 as the economy reopens, most of the population becomes vaccinated, and business operations expand. Hotels are resuming full operations in 2022, which will accelerate dairy consumption.

Figure 1: Philippine Dairy Production and Imports



Source: NDA

Table 3: Volume of Milk and Dairy Products Imports (In '000 MT, in LME)

Particular	2017	2018	2019	2020	2021
1. Milk and Cream	2,086.36	2,503.44	2,546.19	2,514.42	2,558.17
• Skim milk powder	1,121.44	1,276.15	1,336.99	1,439.55	1,347.47
• Whole milk powder	150.51	168.52	228.52	197.63	148.19
• Butter milk powder	241.44	291.04	287.32	312.67	341.81
• Whey powder	422.34	441.14	432.41	367.14	525.46
• Liquid (RTD) milk	61.49	79.39	87.20	97.81	89.41
• Cream	3.78	195.68	135.10	54.12	42.37
• Condensed milk	19.63	23.01	5.40	2.66	2.35
• Evaporated milk	6.73	1.35	0.02	-	0.14
• Others	59.00	27.16	33.23	42.84	60.98
2. Butter, Butter fat and Dairy Spreads	247.65	259.80	262.24	250.45	267.67
3. Cheese	108.20	125.40	121.29	125.44	164.16
4. Curd	44.08	50.96	40.11	45.83	45.36
Total Imports	2,486.29	2,939.60	2,969.83	2,936.14	3,035.37

Note: To calculate LME, NDA uses a conversion factor of 8.02 liters per one kilogram of whole and non-fat dry milk powder and 5.51 liters per one kilogram of cheese.
Source: NDA

Increasing Prices

The average import cost of dairy products in 2021 was $0.40/liter in LME, with curd, liquid (RTD) milk, and cheese as high-value products. NDA data showed an increase in the average unit cost of imported milk and dairy products in 2021, especially skim milk powder.

Both the supply problem and ongoing logistics challenges influence costs shouldered by the consumers.

Table 4: Unit Cost of Milk and Dairy Products Imports USD/liter, in LME					
Particular	**2017**	**2018**	**2019**	**2020**	**2021**
1. Milk and Cream	0.30	0.27	0.32	0.33	0.33
• Skim milk powder	0.30	0.23	0.28	0.31	0.35
• Whole milk powder	0.33	0.35	0.39	0.36	0.38
• Butter milk powder	0.28	0.26	0.36	0.33	0.35
• Whey powder	0.14	0.14	0.15	0.15	0.16
• Liquid (RTD) milk	0.81	0.80	0.83	0.76	0.79
• Cream	0.68	0.34	0.38	0.33	0.35
• Condensed milk	0.31	0.33	0.46	0.41	0.43
• Evaporated milk	0.48	0.28	1.50	-	0.73
• Others	0.71	1.31	1.46	1.10	1.12
2. Butter, Butter fat and Dairy Spreads	0.68	0.73	0.72	0.56	0.60
3. Cheese	0.74	0.72	0.76	0.66	0.68
4. Curd	0.83	0.87	0.94	0.81	0.88
Total Imports	0.36	0.34	0.38	0.37	0.40

Source: NDA

Logistics Issues

Dairy importers in the country confront scarce vessel space, delays, high freight rates, and other shipping problems. Aside from COVID-19, frequent travel restrictions were imposed several times, businesses suffered from lost sales and many permanently closed in 2021. The global economy hoped to bounce back, with cargo volumes beginning to increase sharply in June 2021. In response to greater demand, the shipping industry increased capacity. Container shortages, lack of vessel space, and other logistical problems, however, became difficult to handle and the Philippines experienced setbacks.

Most Philippine imports and exports pass through transshipment ports, and according to the Philippine Ports Authority (PPA), more than 80 percent of imports pass through Chinese transshipment hubs, where cargo from around the world is consolidated before being sent to the Philippines. The partial closure of the Ningbo-Zhoushan Port in the East China Sea and the Yantian Port in Hongkong, due to COVID-19 resulted in port congestion, which spilled over to other ports and intensified container shortages, adding to the lingering effects of the Suez Canal blockage in March.

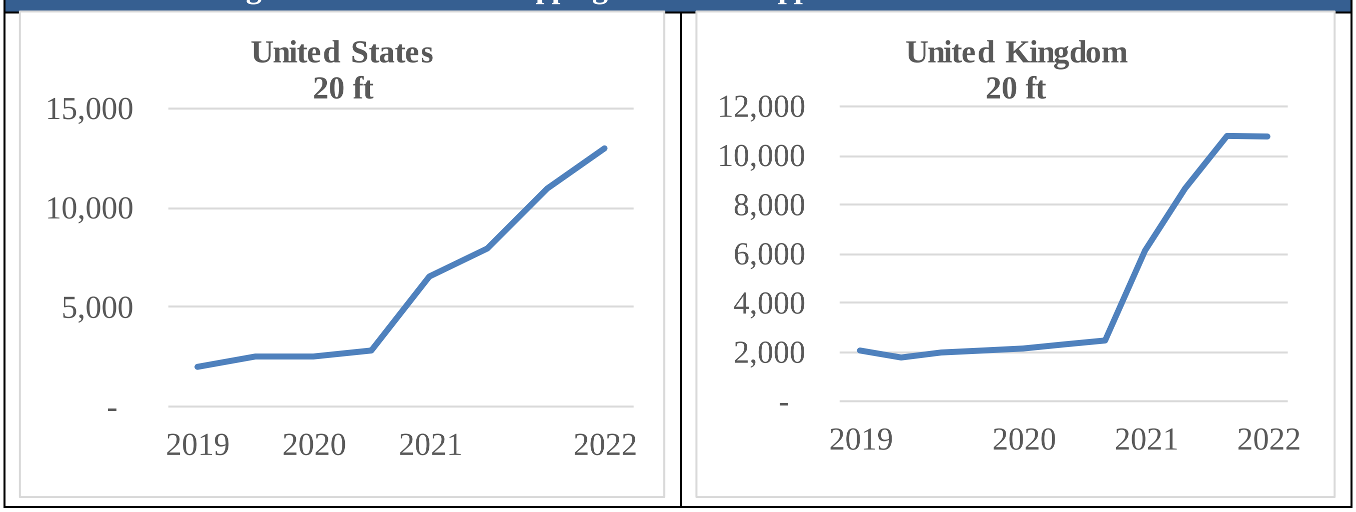
In 2020, the global logistics disruptions resulted in a build-up of empty containers in the Port of Manila. Empty containers filled-up the port, and even used outside depots. Fortunately, the Container Depot

Alliance of the Philippines (CDAP) initiated depot expansions in 2019, which prevented the congestions and the possible negative effects in port operations.

Initially, there were containers available, but due to slow turnaround of vessels, the problem lingered on and in the first quarter of 2021, scarcity of containers and vessels remained. The decline, however, was only four percent compared to container traffic in 2019.

Soaring freight rates. Global congestion extended container ship turnaround times, which eventually resulted in surging freight rates. Manila-Los Angeles freight rates escalated from $2,000-2,500 per 20-footer (20ft) in 2019 to $13,000 per 20ft in 2022, a 470 percent increase. Freight rates started to climb in the first quarter of 2021 at $6,500-8,000 per 20ft, and since then the trend has continued to rise. Shipping rates to the United Kingdom jumped 442 percent for a 20ft from a low of $1,780 in 2019, reaching $10,800 in 2022. The Netherlands recorded a 200 percent increase for a 40-footer container from a low of $3,150 in 2019 to $10,600 towards the end of 2021. The Chinese New Year shutdown in 2021 also contributed to an overload of shipments and delays. The holiday disrupted the shipping schedule (normally up to three weeks to a month) but the event that happened at the Suez Canal further exacerbated the problem and marked the start of the drastic increases in shipping rates as illustrated below.

Figure 2: Trends in Shipping Rates: Philippines to Other Countries



Shipping costs have been on the rise since 2020, but the war in Ukraine has exacerbated this trend and reversed a temporary decline in shipping prices. There were media reports that between February and May 2022, the price paid for the transport of goods increased by nearly 60 percent. The increase in freight rates leads to higher prices for dairy products.

Shipping Delays. Dairy importers complained of shipping delays, which hampered delivery of goods and added to logistics costs. Currently, shipping costs to the United States are six times higher than in 2019. Dairy importers complain of shipping delays from 30 days to 90 days and some up to 120 days from the normal travel time to/from the United States of 20-25 days (West Coast) and 30-35 days (East Coast). The normal two weeks to/from Australia can be delayed up to one month, similar to/from

Canada. Securing space on next sailing after getting a quote has a 50/50 chance at best, and bookings for container space could be pushed out three or four weeks.

To ensure product availability, some traders have increased the number of shipping lines they worked with, utilizing more ports to expedite deliveries, placed orders earlier, and sourced products from various suppliers. Problems were eventually resolved, or at least mitigated significantly.

Dairy importers also complained of blank sailing, which delayed the arrival of imported skim milk and other dairy products. Some shipping lines were not accepting bookings or had canceled bookings due to lack of space in congested ports. Shipping lines also opted to change the vessel schedule or the transshipment ports resulting in longer transit time.

Importers suffered from delays as shipments were bumped in some instances, and those passing transshipment ports in Singapore had a longer turnaround of up to 60 days. Others reported delays up to 90-120 days from the United States using international shipping lines. Perishable goods are not prioritized and spoilage is a problem.

Business Reactions

There were some efforts to address the problem. In mid-2021, the Philippine Exporters Confederation Inc. (Philexport), the Export Development Council (EDC), and Royal Cargo worked with various industry groups to address the vessel capacity issues. The Philippine Department of Trade and Industry (DTI) also got involved due to maritime regulations that limit ships' authorization to move between trades. The United States Agency for International Development (USAID) supported this initiative through its Regulatory Reform Support Program for National Development (RESPOND) project. Through various efforts, the Philippines launched its first shipping service to the United States in September 23, 2021. *MV Iris Paoay*, operated by the Iris Logistics Company, departed Manila with interim stops in Cebu and Davao and started the 21-day journey to Long Beach Port (LGB), in Los Angeles, California. The vessel has a capacity of 1,100 TEU with 22 reefer slots. Cargo exported to the United Stated was mostly food and related agricultural products. It loaded empty containers and dairy products on the return trip to the Philippines. According to EDC, this initiative has inspired other local shipping lines to consider providing regional intra-Asia and trans-Pacific shipping services. Another Philippine shipping company based in Mindanao, the Reefer Express Line Filipinas, Inc. took on the United States route with its vessel *MV Cool Spirit* to help Philippine exporters ship their goods. The voyage started from General Santos City last September 2021 and services Long Beach and Philadelphia.

Despite direct shipping, importers still face high shipping costs. The EDC with the Philippine Chamber of Commerce and Industry (PCCI), PhilExport, UPPAF, Supply Chain Association of the Philippines (SCMAP), Royal Cargo and DTI are working on the proposed Substitute Bill (House Bill No. 10575), which consolidates HB Nos. 4316 and 4462, on Local Charges imposed by the International Shipping Lines on Philippines imports and export cargoes. HB 10575 prohibits the imposition of local charges or surcharges – except for internationally accepted surcharges, fees for value-added services, and behavioral charges such as late payment fee and container insurance. It was approved on final reading at the House of Representatives on January 31, 2022. The PPA issued the latest tariff rates through PPA MC 17-2021 imposing a uniform two percent increase in port charges effective August 6, 2021.

What Lies Ahead

Despite all these challenges, dairy importers will continue to ship imported dairy products to meet the country's increasing demand for dairy products.

The global shipping bottlenecks will continue to affect the Philippines in terms of escalating freight rates, and the surge in freight rates shows no sign of losing steam this year. Shipping lines have increased their freight rates during the first two quarters of 2022, and the rise will prevail due to port congestions, continuing effects of COVID-19, and rising fuel prices. If major transshipment ports remain congested or closed, the logistics crisis will continue to affect dairy imports.

Dairy importers will continue to do advance orders and stock up inventory in anticipation of delays. Orders had been placed early but will still be haunted by existing logistics problems. High freight rates, lack of vessel space, shipping delays due to port congestions, lack of equipment in transshipment ports, empty sailing, unpredictable arrival of vessels, and other current challenges will remain.

Shipping lines and dairy importers agree that there is no quick solution to the supply chain disruptions and challenges experienced in 2021 and 2022. The major shipping lines and the PPA have cautioned that the problems are likely to persist with the current high fuel prices.

Attachments:

No Attachments.