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Philippines

Dairy and Products Annual

Situation and Outlook

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Report Highlights:

As the Philippines produces less than one percent of its annual dairy requirement of 2,820 thousand MT (TMT), the country is a major importer of dairy products with 2011 imports forecast to slightly exceed the 2010 total of 2,015 TMT. Major dairy suppliers to the Philippines are New Zealand with 48 percent share of total imports, the United States with 23 percent and Australia at 13 percent. The U.S. market share continues to grow and 2011 import values from the U.S. are forecast to approach \$280 million, easily surpassing record sales in 2009 of \$219 million. Non fat dry milk accounts for over 50 percent of the Philippines milk imports and largely explains the stronger U.S. sales despite implementation of the ASEAN-Australia-New Zealand (NZ) Free Trade Agreement which, as of 2010, allows several dairy products from Australia and NZ to enter the country duty free.

Commodities:

Dairy, Butter

Dairy, Milk, Fluid

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Production:

Data from the Philippine National Dairy Authority (NDA) shows that local dairy production reached over 15,700 metric tons (MT) in 2010 from 14,410 MT in 2009. The value of dairy production in 2010 amounted to P469.1 million (\$11 million at the current exchange rate US \$1= 43.37). Local milk production is projected to exceed 16,000 MT this year and will continue to rise due to the growing demand for fresh milk. The country produces less than one percent of its total annual dairy requirement and imports the balance.

As of July 1, 2011, there were an estimated 16,914 dairy animals (dams and does), an increase of over 5 percent from the previous year, comprised of dairy cattle (7,996), water buffalo (7,421) and dairy goats (1,497). Dairy cattle numbers increased due in most part to the ongoing herd build-up programs of the NDA. Dairy animal numbers are expected to continue increasing by 500-1,000 annually, due to a herd build-up program of the government as well as increasing prices for milk.

DAIRY ANIMAL NUMBERS (as of July 1, 2011)		
	2010	2011
Cattle	7,865	7,996
Carabao	7,033	7,421
Goats	1,406	1,497
TOTAL	16,304	16,914

Source: Bureau of Agricultural Statistics

Despite an increase in the number of dairy animals, the average milking capacity per animal remains low due mainly to inadequate feeding and poor animal management practices. The average farmgate price of milk did not change from the previous year at P29.77/liter (\$0.69/li).

Basically, there are four farm types in the Philippine producing raw milk: unorganized smallholder producers, cooperative smallholder producers, government and commercial. Both smallholder and cooperative producers allocate for home consumption and home-based processing. Milk from smallholder producers (members cooperatives) is usually consolidated in a collection center and then delivered to a processing plant. There are about 12 dairy processors in the country. The bulk of raw milk produced in government farms is processed in government-owned processing facilities and is sold to rural consumers. Fresh milk from commercial farms is sold to commercial processors for processing. Among the major suppliers to the coffee shops are milk processors from Batangas and Laguna. Other milk suppliers are importers of UHT milk, mostly coming from Australia and New Zealand. Large dairy companies have milk processing

facilities but do toll packaging of their UHT milk from New Zealand. These companies use their own milk brands in the local market with imported milk (Food and Agribusiness Monitor, University of Asia and the Pacific).

Consumption:

The Philippines, with an estimated population of 94 million, growing annually at 2.36 percent, is a large market for milk and milk products. Dairy products are the country's second largest agricultural import after wheat. The country's dairy industry, which sources 99 percent of its inputs from abroad, is estimated to generate sales of over \$1 billion annually.

In July 2011, NDA estimated total domestic dairy requirements to be about 2.82 MMT, growing at about 2 percent yearly. According to the latest Food and Nutrition Research Institute (FNRI) survey, per capita milk consumption increased from 16 kg/year in 2002 to 19 kg/year in 2003.

Over the last few years, numerous dairy cooperatives have sprung up in various regions of the country. About half of local milk production, according to NDA, is absorbed in the local communities where it is produced. The other half goes to school and community milk feeding programs co-funded by local government units. With dairy production in the country being more community-based, maintaining the quality of fresh milk becomes a major concern due to the lack of dairy processing facilities and milk delivery vehicles.

Trade:

Dairy products are the country's second largest agricultural import after wheat. In 2010, imports of milk and milk products increased in liquid milk equivalent (LME), from 1,790 thousand MT (TMT) in 2009 to 2,015 TMT last year. Imports of milk and milk products are expected to increase again this year. The major country suppliers by volume are New Zealand with 48 percent share of the total imports; followed by the United States with 23 percent and Australia at 13 percent. The U.S. market share continues to grow and 2011 import values from the U.S. are forecast to approach \$280 million, easily surpassing record sales in 2009 of \$219 million. The top US dairy exports to the Philippines in 2010 were non fat dry milk (NFDM) (\$135 million), whey (\$13 million) and lactose (\$5.4 million). The Philippines is the 5th largest market for U.S. dairy products.

NFDM accounts for over 50 percent of the Philippines milk imports and largely explains the stronger U.S. sales. NFDM imports increased by 24 percent while WMP imports declined by 3 percent in 2010. Liquid milk imports also rose by about 24 percent last year. Imports of butter and other dairy spread also increased by about 16 percent while imports of curd increased by 82 percent. Imports of dairy products in the first half of 2011 increased by just over 1 percent by volume compared to the same time last year, while the value of dairy product imports rose by 26 percent over the same timeframe.

VOLUME OF DAIRY IMPORTS 2009-11 <i>('000 MT, in LME) [1]</i>			
	2009	2010	Jan-June 2011
1. Milk and Cream			
• Skimmilk Powder	697.64	867.42	466.53
• Wholemilk Powder	262.72	253.74	124.54
• Buttermilk Powder	169.13	153.63	91.69
• Whey Powder	304.31	320.91	166.72
• Liquid (RTD) Milk	39.00	48.48	21.58
• Evaporated Milk	1.03	1.04	0.04
• Cream	5.86	8.74	3.97
• Condensed Milk	20.23	13.96	5.82
• Others			
	77.36	113.02	19.02
Total Milk and Cream	1,577.28	1,780.94	899.91
2. Butter, Butterfat & Dairy Spreads	145.88	169.31	96.54
3. Cheese	59.81	52.60	32.06
4. Curd	6.68	12.17	3.78
Total Imports	1,789.65	2,015.02	1,032.29

Source: National Dairy Authority and National Statistics Office

Total dairy exports increased 28 percent in 2010 with exports of whole milk powder comprising about 96 percent of the total volume. The main countries of destination were Malaysia (29 percent) and Thailand (23 percent) and Indonesia (14 percent) in 2010.

VOLUME OF PHILIPPINE DAIRY EXPORTS <i>(In MT, LME)</i>			
	2009	2010	% Change
Milk and Cream	194.01	249.95	29
Butter/Butterfat	0.14	0.11	-21
Cheese	5.64	4.92	-13
TOTAL EXPORTS	199.79	254.98	28

Source: National Dairy Authority and National Statistics Office

Exports of dairy products from January to June 2011 increased by 15.54 percent by volume and as much as 21.64 percent in value.

[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 kg of cheese

Policy:

The Philippine DA continues to prioritize the development of the Philippine dairy industry, recognizing the growing demand for fresh milk by the specialty coffee shops, hotels and restaurants as well as by the local government units for their milk feeding programs. While the DA accepts that Philippines cannot compete in the powdered milk market, it believes that it can focus on supplying fresh milk to the market.

The National Dairy Authority, an attached agency of the Philippine Department of Agriculture, is mandated to ensure the accelerated development of the Philippine dairy industry through policy and program implementation. The NDA aims to accelerate dairy herd build-up and milk production, enhance dairy business through the delivery of technical services at farm and enterprise levels, increase the coverage of milk feeding programs to reduce malnutrition and mobilize broad support for local milk consumption. The NDA implements the following programs:

Herd Build-Up. This program aims to ensure and accelerate the increase in both local dairy stocks and local milk production. Increase in local dairy herd may be realized through the importation of genetic materials like dairy animals and dairy breeding materials, upgrading of existing local animals to dairy breed, production of replacement stocks through dairy breeding programs like artificial insemination programs and multiplier farm establishment, and the preservation of existing stocks. The following are sub-programs of the herd build-up program:

1. **Save-the-Herd (STH) Program.** 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.** This includes importation of dairy stocks, diversification of sources and local procurement of dairy animals.
3. **Improved breeding efficiency.** Breeding services are regularly provided 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 tapping new sources of affordable animal loans. Financing institutions are being tapped for this purpose.
5. **“Palit-Baka” Scheme or Dairy Animal Distribution.** Refers to the program whereby NDA distributes potential dairy animals to new but eligible and qualified participants who in a certain period of time, would resort to a payment-in-kind by way of female dairy animals.
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 partnership in producing local born quality dairy stocks to become major sources of affordable dairy animals.

8. **Bull Loan Program.** NDA delivers purebred and crossbred dairy bulls to Regional Field Units of the Department of Agriculture or other Dairy Bull project partners to be managed, trained and maintained for semen production, collection and processing purposes.

Source: National Dairy Administration

Tariffs: The 2011 MFN tariff rates for dairy and dairy products remain unchanged from the 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	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
0403.10.10	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 and Customs Code 2009

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The most recent Philippine trade agreement entered into by the country is the AANZFTA which was signed in February 2009. Parties to the AANZFTA are Australia, New Zealand and the ten ASEAN members. Some U.S. food and agricultural exports to the Philippines, including dairy products, are at a tariff disadvantage as a result of this FTA. As of 2010, milk powder, cheese, whey and buttermilk from Australia and NZ enter the Philippines duty free, while U.S. milk powder and whey have an 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:

Metro Manila remains the major market for fresh milk and is classified into business and consumer markets. The business markets include the institutional markets and the retail sector such as coffee shops, hotels, restaurants, supermarkets and small retailers. The consumer markets include households and schools through the milk feeding program of the government.

The main targets of local milk processors are the institutional buyers like coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Local suppliers are enjoying this market as most

coffee shops demand local fresh milk for their coffee concoctions due to its superior “foaming” ability compared to UHT milk.

The specialty coffee shop industry is projected to sustain growth of 20 percent for the next five years. Players attribute this to the growing awareness of specialty coffee among consumer 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 Philippines	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	14	14	14	14		15
Cows Milk Production	16	16	17	17		18
Other Milk Production	3	3	3	3		3
Total Production	19	19	20	20		21
Other Imports	48	48	50	55		55
Total Imports	48	48	50	55		55
Total Supply	67	67	70	75		76
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	61	61	63	66		67
Factory Use Consum.	6	6	7	9		9
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	67	67	70	75		76
Total Distribution	67	67	70	75		76
1000 HEAD, 1000 MT						

Dairy, Milk, Nonfat Dry Philippines	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	8	8		10
Production	0	0	0	0		0
Other Imports	95	95	100	115		118
Total Imports	95	95	100	115		118
Total Supply	105	105	108	123		128
Other Exports	15	15	15	17		18
Total Exports	15	15	15	17		18
Human Dom. Consumption	82	82	84	96		100
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	82	82	84	96		100
Total Use	97	97	99	113		118
Ending Stocks	8	8	9	10		10
Total Distribution	105	105	108	123		128
1000 MT						

Dairy, Dry Whole Milk Powder Philippines	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Other Imports	40	40	42	35		35
Total Imports	40	40	42	35		35
Total Supply	40	40	42	35		35
Other Exports	30	30	30	24		22
Total Exports	30	30	30	24		22
Human Dom. Consumption	10	10	12	11		13
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	10	10	12	11		13
Total Use	40	40	42	35		35
Ending Stocks	0	0	0	0		0
Total Distribution	40	40	42	35		35
1000 MT						

Dairy, Cheese Philippines	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	2	2	2	2		2
Other Imports	14	14	14	15		15
Total Imports	14	14	14	15		15
Total Supply	16	16	16	17		17
Other Exports	1	1	1	1		1
Total Exports	1	1	1	1		1
Human Dom. Consumption	15	15	15	16		16
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	15	15	15	16		16
Total Use	16	16	16	17		17
Ending Stocks	0	0	0	0		0
Total Distribution	16	16	16	17		17
1000 MT						