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New Philippine Meat Regulations Threatens U.S. & Third Country Exports

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Report Highlights:

The Philippine Department of Agriculture (DA) has issued an Administrative Order (A.O. 22) that imposes new technical requirements on retail sales of frozen meat that could seriously affect exports of U.S. and third country meat and poultry products. The regulation does not apply to meat never refrigerated, or to meat sold in restaurants or for processing. Industry sources estimate that the regulation could affect 25-30% of meat and poultry imports. To date, however, enforcement has focused on open or “wet” market vendors of lower value organ meat and by-products. Traders assert A.O. 22 unfairly targets imports since it applies only to frozen meat and not to fresh. Industry also has criticized the short 15 days between announcement and implementation of the Order, and the lack of infrastructure to comply with it. Governments of major supplying countries have expressed concerns over the Order, and have encouraged the Philippine Government to suspend and notify this new regulation to the World Trade Organization for comment.

While industry sources say the Order is a response to calls from producer groups for trade restrictions in the wake of record pork and chicken imports in 2010, the price impact from these imports is unclear. Though chicken prices for both producers and consumers declined in 2010, hog and pork prices were at record levels. U.S. meat and poultry exports to the Philippines exceeded $100 million in 2010, up 40 and 50%, respectively, over 2009 levels.

General Information:

The Philippine Department of Agriculture (DA) has issued a new regulation that threatens imports of U.S. and third country meat and poultry products. The regulation (A.O. 22) imposes new packaging, labeling, inspection, traceability and cold chain requirements that trade sources say creates one of the strictest regimens in Asia. The regulation does not apply to meat sold in restaurants, or for processing. The complete text of AO22 is available at: http://www.da.gov.ph/agrilaws/AO2010/AO percent2022_Nov2310.pdf

Because A.O. 22 imposes a series of new requirements that could affect trade, several governments and industry organizations have expressed concern to the Philippine Government over its failure to notify the regulation to the World Trade Organization (WTO) for comment prior to implementation. While A.O. 22 has been unevenly implemented to date, trade sources estimate it could ultimately affect 25 – 30% of imports. Many industry representatives believe it was the recent entry of cheaper products in the wet markets that spurred recent protests from hog producers, and was one of the driving forces behind A.O. 22.

The local trade has raised four main objections to the Order: lack of timely notification and opportunity to comment, lack of physical and administrative capacity to comply with the order, the failure of the Order to apply to "warm" meat, and the means of enforcement.

Inadequate Time to Comment, Adjust, and Comply

The trade has repeatedly stated that the 15 days between publication and implementation of the Order on December 13, 2010, was inadequate to prepare for and comply with many of the requirements. Because it takes an average of 25 days for a ship to travel from the West Coast of the U.S. to Manila, dozens of containers of meat were contracted and shipped under one set of regulations, but arrived with no warning under another. Importers have also noted the severe infrastructure barriers to complying with the Order. For example, freezers are almost non-existent in outdoor "wet" markets, and are beyond the means of most small vendors. Many of the meat stalls do not even have access to electricity. There are also well established importers and distributors who do not have the newly required temperature controlled thawing rooms and refrigerated trucks. Most retailers and/or distributors had to urgently source and stock new packaging materials.

The trade also has complained about the inability of the Philippine authorities to comply with all the requirements of A.O. 22 without seriously impeding operations. While the regulation requires 100% inspection and certification of each piece of meat prior to release to the retailer, the trade reports there are an inadequate number of inspectors to carry out such a massive increase in workload. Local traders have already reported major market disruptions in Cebu, the country's second largest city. Numerous sources report that meat vendors who normally purchase their daily supplies from cold storage facilities between 5-6 AM must now wait until noon or later for the meat inspectors to certify each box. One trader reported he was unable to sell any product for the first three days after the order took effect.

Why Does A.O. 22 Not Cover "Warm" Meat?

The trade's most serious and insistent assertion is that A.O. 22 unfairly targets imports since it applies only to frozen meat and meat products, and not to fresh "warm" meat. While nearly all imported meat is frozen, the vast majority of locally produced meat is never chilled at all between slaughter and market. Foreign officials and industry representatives have raised questions about the food safety justification of applying cold chain requirements to frozen meat, but not to fresh.

Local Government Unit Enforcement Likely to be Inconsistent

The trade has also specifically criticized the section of A.O. 22 placing enforcement of the Order in the hands of local government units (LGU's), i.e., municipal and city officials. Importers and vendors fear that a lack of familiarity and training in meat inspection is almost certain to result in uneven enforcement and other potential problems. The DA itself admits the difficulty in immediately and fully enforcing this regulation due to lack of personnel and inadequate time to prepare and train the LGUs.

Motivation for A.O. 22

While DA officials claim the objective of A.O. 22 is to improve food safety standards, numerous sources assert that the DA regulation is a response to calls from hog and poultry producers for trade restrictions and import bans in the wake of record pork (up 56%) and poultry meat (up 52%) imports in 2010. They point to past "deliberate" government delays in issuing Veterinary Quarantine Certificates (VQC's) as further evidence of official efforts to impede imports.

While precise statistics on market segmentation are unavailable, trade contacts estimate that roughly 25 percent of all imported pork offals and variety meats (e.g. livers, intestines, jowls, masks) and between 10 to 15 percent of imported chicken (i.e., chicken cuts, leg quarters, and mechanically deboned meat of chicken used by small local sausage makers) are sold in the wet market. A large majority of imported muscle cuts of beef, pork and poultry meat are sold directly to institutional buyers (i.e., restaurants, hotels, quick service restaurants) and are not distributed through retail outlets. Local importers report that the rapid increase in imported pork and poultry by-products has provided an important source of protein for lower income consumers, and increased business for small vendors.

Many analysts believe it was the recent entry of cheaper imported pork products in the wet markets that spurred recent protests from hog producers, and was one of the driving forces behind A.O. 22. While the regulation applies to all frozen meat, government officials have focused attention and comments almost exclusively on the lack of cold chain facilities in the wet market. While most supermarkets could meet the new temperature requirements, the trade has raised concerns over the potential impact of A.O. 22's provisions on packaging, labeling, inspection, and traceability for all retail meats, including beef.

Despite enjoying record prices, hog producer organizations have called for a ban on all pork imports. They have also asked the DA to increase the tariff on offals (i.e. organ meats and by-products) from the current 5-10 percent to the maximum "bound" World Trade Organization (WTO) rate of 35 percent. Higher value pork and poultry meat imports that fall within a specified quota are subject to a 30% and 40% tariff, respectively. Out-of-quota pork is charged a 40% tariff, while out-of-quota chicken is subject to tariffs totaling 80%.

INDUSTRY ACTIONS: Upon learning of the publication of A.O. 22 in early December, the Philippine Meat Importers & Traders Association (MITA) wrote a letter to the Philippine Secretary of Agriculture asking him to delay implementation. Subsequently, they wrote letters asking the Secretary to reject calls for raising the tariff rate on pork offals and by-products, and questioning the “non-inclusion of local warm meat,” which “carries a higher initial microbial load” and “is exposed to more external contamination than frozen meat “ prior to reaching the market. Importers in Cebu sought a legal injunction against implementation of A.O. 22 in early December, but no ruling had been issued as of early February 2011.

Domestic commercial hog producers, on the other hand, have publicly commended the DA for issuing this regulation. The local Pork Producers Federation also expressed support for the implementation of the order, saying that the department should not lift the order on the selling of frozen meat products. They have called on the DA to reinforce the implementation of the order to prevent unfair competition and “ban all frozen meat imports from wet market.”

U.S. AND OTHER GOVERNMENT ACTIONS: The U.S., EU, and Canada, which supply over 97% of pork and over 70% of poultry imports, continues to encourage the Philippine Government to suspend the Order and to notify it to the World Trade Organization for comment, as per standard international practice. Echoing industry, some governments have also questioned why “warm” meat has been excluded from the packaging and cold chain requirements of A.O. 22.

PORK TRADE AND PRICE TABLES

PORK IMPORTS BY CUT IN KGS					
	2006	**2007**	**2008**	**2009**	**2010**
Pork Cuts	4,183,716	8,585,852	29,106,498	34,196,306	56,790,636
Bellies	1,156,829	4,862,313	7,782,402	8,587,212	16,411,364
Sub-total Meat /1	**5,340,545**	**13,448,165**	**36,888,900**	**42,783,518**	**73,202,000**
Offals	16,365,271	23,461,429	27,986,040	28,959,277	55,246,735
Deboned	603,847	978,944	475,281	27,000	108,000
Fats	22,190,574	26,678,213	29,776,918	26,399,038	29,424,541
Rind/Skin	11,031,716	14,813,840	14,238,866	16,196,325	20,923,820
Sub-total Others/2	**50,191,408**	**65,932,426**	**72,477,105**	**71,581,640**	**105,703,096**
Total	**55,531,952**	**79,380,591**	**109,366,006**	**114,365,159**	**178,905,096**

Source: Philippine Bureau of Animal Industry

1/ sub-total meat (i.e., pork cuts and bellies only) – under TRQ
2/ sub-total others (i.e., deboned meat, fats, skin/rind and offals) – not under TRQ

PORK IMPORTS BY ORIGIN (KGS)					
	2006	**2007**	**2008**	**2009**	**2010**
Canada	19,727,400	25,392,161	31,724,893	42,617,357	47,492,231
Germany	9,306,042	12,558,795	13,728,165	8,788,603	23,648,621
EU	13,268,428	23,336,877	26,277,119	15,427,342	49,881,127
France	*4,024,294*	*9,356,952*	*9,359,284*	*6,517,601*	*19,942,209*
Spain	*1,885,104*	*3,454,060*	*5,773,637*	*2,385,594*	*9,805,782*
Belgium	*4,001,700*	*5,559,677*	*5,072,749*	*3,463,604*	*8,569,275*
Netherlands	*643,055*	*1,656,548*	*2,081,088*	*1,368,210*	*5,197,834*
Denmark	*2,017,178*	*2,030,839*	*3,186,977*	*1,238,065*	*3,475,245*
Ireland	*597,097*	*981,871*	*803,384*	*449,277*	*2,572,151*
U.K.	*100,000*	*296,930*		*4,991*	*318,631*
Australia	1,717,212	1,735,721	1,478,008	1,928,722	2,494,785
Brazil					1,553,626
Others	5,529,560	5,529,560	5,529,560	5,529,560	5,529,560
Total	**55,531,952**	**79,380,591**	**109,366,006**	**114,365,159**	**178,905,096**

Source: Philippine Bureau of Animal Industry

PORK EXPORT TO PHILIPPINES (VALUE*)						
Annual Series: 2005 – Sept 2010						
	United States Dollars					
Reporting Country	**2005**	**2006**	**2007**	**2008**	**2009**	**Jan-Sep 2010**
Reporting Total	40,038,199	42,278,960	60,139,567	118,632,181	130,879,684	161,361,574
United States	5,865,679	7,839,304	14,187,829	45,478,074	58,425,125	69,557,598
Canada	5,751,844	3,783,342	9,828,585	32,416,827	37,561,372	37,092,932
China	13,864,504	19,731,674	14,940,647	8,033,423	13,529,263	16,139,967
EU	9,240,131	6,156,047	14,930,300	26,401,520	14,041,898	33,850,003
France	*3,362,571*	*2,614,441*	*7,202,169*	*10,703,561*	*7,452,351*	*16,230,156*
Germany	*2,320,663*	*1,235,184*	*3,761,015*	*4,378,644*	*1,672,976*	*8,899,443*
Spain	*557,747*	*385,105*	*1,155,481*	*5,746,254*	*1,155,876*	*2,982,836*
Belgium	*215,383*	*165,478*	*1,051,883*	*1,336,876*	*760,525*	*2,123,334*
Netherlands	*1,166,030*	*248,559*	*310,177*	*1,185,314*	*1,464,317*	*2,073,839*
Denmark	*1,617,737*	*1,507,280*	*1,449,575*	*3,050,871*	*1,535,853*	*1,540,395*
Others	5,316,041	4,768,593	6,252,206	6,302,337	7,322,026	4,721,074

Source: Global Trade Atlas
* Global Trade Atlas Statistics include processed pork products in addition to raw (i.e. frozen/chilled pork products and by-products.) China is the only major supplier whose exports are dominated by processed pork.
Note: While Philippines Customs report much lower imports, market analysts believe the figures in this table are more accurate, particularly as import values often include shipping and tariff charges.

PRODUCTION: While imports of pork have risen steadily in recent years, domestic pork production has fluctuated within a narrow band. Last year, pork production was projected to have increased by one percent.

Hog Production, Philippines 2009-10F (in carcass weight equivalent)				
	2007	**2008**	**2009**	**2010**
Q1	323.46	309.89	317.72	318.84
Q2	318.2	303.97	312.58	321.58
SEM1	**641.66**	**613.86**	**630.31**	**640.42**
Q3	307.28	309.1	313.11	310.26
Q4	371.26	376.05	370.72	375.20P
SEM2	**678.54**	**685.15**	**683.83**	685.46F
ANNUAL	**1320.2**	**1299.02**	**1314.14**	**1325.87F**

Source: Bureau of Agricultural Statistics
F - Forecast; Last data input is Q2 2010-preliminary estimate from BAS

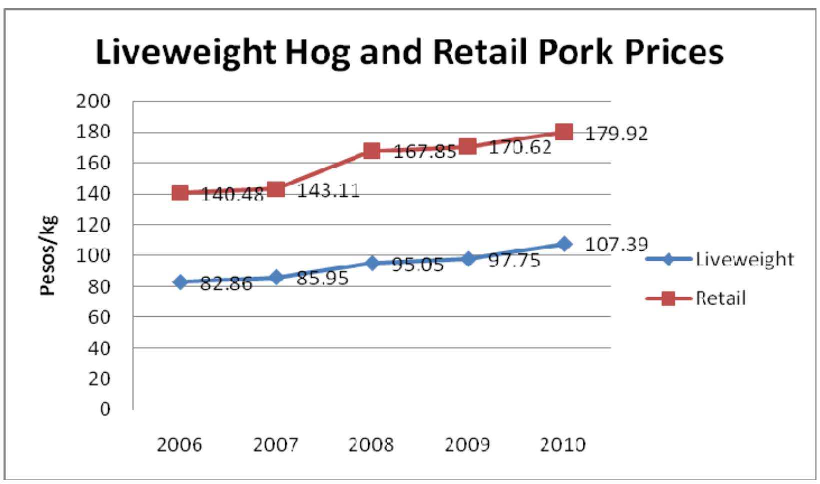
PRICES: Despite the rise in imports, average prices to farmers for live hogs increased steadily between 2006 and 2010, from P82.86 to P107.39/kg, respectively. According to industry contacts, the current estimated cost of production for pork is about P85/kg (US $1= Ph P44.10, as of January 28, 2010).

Monthly Average Farmgate Price of Pork in Selected Provinces* January- December 2006-10 (in Pesos per Kg)					
	2006	**2007**	**2008**	**2009**	**2010**
Jan	79.77	81.49	88.88	102.96	111.80
Feb	80.87	83.02	94.07	104.88	112.601
March	81.04	84.96	105.24	100.82	113.79
Q1	**80.56**	**83.16**	**96.06**	**102.89**	**112.73**
April	83.94	88.10	109.60	93.86	114.76
May	86.08	90.73	105.73	93.69	115.07
June	86.68	91.06	101.76	92.23	112.24
Q2	**85.57**	**89.96**	**105.70**	**93.26**	**114.02**
July	86.32	90.67	96.92	87.17	109.31
Aug	84.61	87.24	91.98	87.98	104.36
Sept	82.59	84.69	85.70	94.86	99.91
Q3	**84.51**	**87.53**	**91.53**	**90.00**	**104.52**
Oct.	80.87	82.24	81.95	99.83	97.30
Nov.	80.60	82.48	85.86	104.88	96.72
Dec.	80.98	84.68	92.86	109.87	100.88
Q4	**80.82**	**83.13**	**86.89**	**104.86**	**98.30**
Annual Average	**82.86**	**85.95**	**95.05**	**97.75**	**107.39**

SOURCE: Bureau of Animal Industry
* Series farmgate price gathered from selected farms in Cavite, Laguna, Batangas, Rizal, Pampanga and Bulacan while 2010 series was taken from the input of National Federation of Hog Farmers, Inc.

Average Retail Price of Pork Belly in Manila, 2006-10 (in Pesos per Kg)					
Period	**2006**	**2007**	**2008**	**2009**	**2010**
Jan	138.16	138.83	146.64	176.74	183.72
Feb	138.43	139.39	157.23	178.05	184.04
Mar	138.35	141.19	174.00	173.62	182.25
Q1	**138.31**	**139.80**	**159.29**	**176.14**	**183.33**
Apr	139.59	143.80	181.44	170.23	182.84
May	143.20	146.58	179.06	168.88	183.38
June	144.14	147.19	175.64	166.77	183.05
Q2	**142.31**	**145.86**	**178.71**	**168.63**	**183.09**
July	144.77	143.00	172.88	163.54	180.53
Aug	143.46	144.15	170.55	162.86	178.15
Sep	139.52	143.67	166.24	167.10	175.04
Q2	**142.58**	**143.61**	**169.89**	**164.50**	**177.91**
Oct	137.83	142.90	159.88	170.63	173.44
Nov	137.73	142.68	159.83	173.21	173.14
Dec	138.83	144.03	166.54	178.45	174.87
Q4	**138.13**	**143.20**	**162.08**	**174.09**	**173.82**
Annual Average	**140.48**	**143.11**	**167.85**	**170.62**	**179.92**

Source: Bureau of Animal Industry (BAI). The BAI published pork belly prices are indicative; it does not collect data on offals and organ meat.



SOURCE: Bureau of Animal Industry
Note: Pork producers reported an average cost of production of about P85/kg in 2010.

CHICKEN TRADE AND PRICE TABLES

CHICKEN IMPORTS BY CUT (KG)					
	2006	**2007**	**2008**	**2009**	**2010**
Chicken Cuts	1,631,748	1,950,780	3,387,143	2,992,675	3,384,227
Chicken Leg Quarters	20,052,959	24,537,053	16,069,476	26,371,512	38,449,181
Whole Chicken	509,825	469,023	410,386	250,777	603,258
Chicken Offal			15,945	40,387	121,114
Sub-total Chicken Meat/1	**22,194,532**	**26,956,856**	**19,882,950**	**29,616,973**	**42,557,780**
Deboned (MDM)*	10,442,165	18,080,197	25,421,374	36,887,340	59,063,738
Fats	43,561	10,886	47,174	211,526	103,680
Rind/Skin		27,020	420,905	510,654	232,248
Sub-total Others/2	**10,485,726**	**18,118,103**	**25,889,453**	**37,609,520**	**59,399,667**
Total	**32,680,259**	**45,074,959**	**45,772,404**	**67,264,871**	**101,957,447**

Source: Philippine Bureau of Animal Industry

/1 Chicken meat sub-total (i.e., leg quarters, cuts, whole and offal) – under TRQ

/2 Others sub-total (i.e., MDM, fats and rinds/skin for meat processing) – not under TRQ

*Note: In 2007, the Philippine Government ilowered the tariffs on chicken MDM to 5 percent and made it exempt from MAV/TRQ. This resulted in a rapid increase in MDM imports and allowed more high-value poultry products (i.e., chicken leg quarters and other chicken cuts) to enter under the TRQ.

CHICKEN IMPORTS BY COUNTRY OF ORIGIN (KGS)					
	2006	2007	2008	2009	2010
USA	17,580,224	19,847,791	13,743,182	27,635,614	51,137,356
Canada	8,559,237	13,626,859	17,122,136	17,115,460	21,885,103
Brazil	2,923,570	5,763,016	8,215,828	14,125,214	16,865,319
EU	157,845	32,200	1,182,997	2,392,512	7,116,489
Belgium	*133,845*	*27,000*	*321,005*	*1,477,000*	*2,541,000*
UK				*525,336*	*2,295,950*
Netherlands		*5,200*	*276,715*	*390,176*	*1,347,153*
Germany					*561,385*
France	*24,000*		*585,277*	*-*	*320,324*
Ireland					*50,677*
Australia	3,353,273	5,727,112	5,476,811	5,881,464	4,953,182
Others	106,110	77,982	31,450	114,607	184,064
Total	32,680,259	45,074,960	45,772,404	67,264,871	101,957,447

Source: Philippine Bureau of Animal Industry

CHICKEN IMPORTS BY COUNTRY OF ORIGIN (VALUE)*						
Annual Series: 2005 - Sept 2010						
	United States Dollars					
Reporting Country	**2005**	**2006**	**2007**	**2008**	**2009**	**Jan-Sep 2010**
Reporting Total	22,569,222	21,298,253	45,353,816	53,355,010	71,772,635	71,440,676
United States	9,594,725	12,190,291	21,785,345	20,281,866	39,766,975	38,842,405
Canada	8,711,587	5,095,096	13,762,238	20,532,687	16,106,872	12,189,974
Brazil	1,121,094	1,488,892	3,210,484	6,995,032	9,024,391	8,489,856
Iran						2,285,290
Australia	2,212,707	1,243,709	2,723,616	3,062,239	3,514,492	2,029,301
Others	929,109	1,280,265	3,872,133	2,483,186	3,359,906	7,603,850

Source: Global Trade Atlas
Note: Global Trade Atlas statistics include processed chicken in addition to frozen/chilled, however imports of processed chicken meat are minimal. While Philippines Customs Statistics report import values significantly below the figures in this table, market analysts believe the export values are more accurate, particularly as import values often include shipping and tariff charges.

BROILER PRODUCTION, Philippines 2007-10F (in thousand metric tons, carcass)			
Qtr	**Year**		
	2008	**2009**	**2010**
Q1	161.19	171.00	175.37
Q2	154.31	161.9	169.97
SEM 1	**315.50**	**332.9**	**345.34**
Q3	157.56	157.00	165.34
Q4	179.56	174.98	175.68
SEM 2	**337.12**	**331.98**	**341.02**
Total	**652.62**	**664.88**	**686.36**

Source: Philippine Bureau of Agricultural Statistics P- Preliminary F – Forecast

Monthly Average Farmgate Price of Chicken in Selected Provinces 2006-10 (Pesos per Kg)					
Period	**2006**	**2007**	**2008**	**2009**	**2010**
Jan	63.63	62.27	69.03	68.45	73.79
Feb	64.11	57.16	57.72	73.29	73.45
Mar	55.91	54.83	62.41	75.61	66.48
Q1	**61.22**	**58.09**	**63.05**	**72.45**	**71.24**
Apr	54.18	55.51	68.66	76.11	65.26
May	58.40	65.06	72.41	72.67	77.34
Jun	59.35	62.17	77.34	85.42	74.17
Q2	**57.31**	**60.91**	**72.80**	**78.06**	**72.26**
Jul	64.81	73.60	78.44	81.70	68.51
Aug	59.67	73.91	71.22	68.32	63.32
Sep	56.82	63.88	69.18	72.31	54.22
Q3	**60.43**	**70.46**	**72.95**	**74.11**	**62.02**
Oct	63.17	68.89	67.83	84.13	60.53
Nov	69.34	69.78	63.31	93.44	76.67
Dec	73.29	75.83	70.75	93.60	78.14
Q4	**68.60**	**71.50**	**67.30**	**90.39**	**71.78**
Annual Average	**61.89**	**65.24**	**69.03**	**78.75**	**69.32**

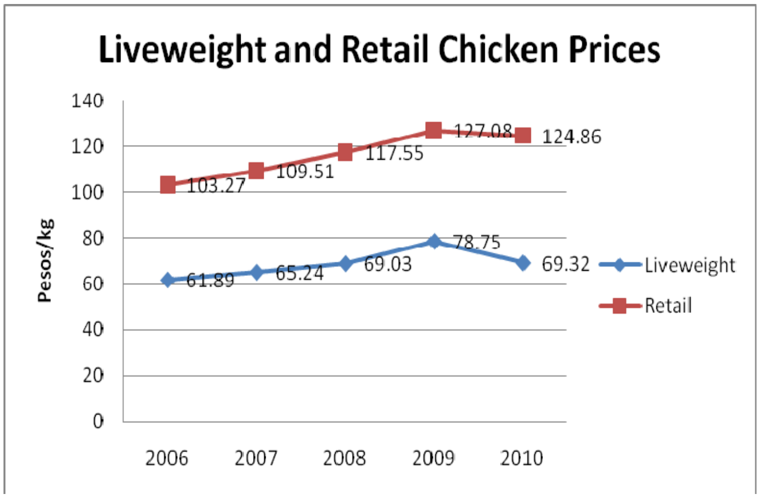
Source: Philippine Bureau of Animal Industry

Note: Farmgate poultry prices dropped 12 percent in 2010 compared to 2009 (P78.75-69.32/kg). Both retail and farmgate prices of broiler meat reached an all time high during the 4th quarter of 2009 due to a tight supply situation. As a result, the Philippine DA approved a special importation of 8,000 MT (exempt from SSG duty) in November 2009, which arrived in early 2010. The table below shows that the local poultry industry has long experienced the classic “boom and bust” cycle.

Monthly Retail Prices of Fully Dressed Chicken in Metro Manila: 2006-10 Pesos per Kg					
PERIOD	**2006**	**2007**	**2008**	**2009**	**2010**
Jan	102.32	109.60	117.56	119.00	133.71
Feb	103.33	102.30	109.46	120.29	130.73
Mar	102.26	99.39	109.17	120.84	125.05
Q1	**102.64**	**103.76**	**112.06**	**120.04**	**129.83**
Apr	98.37	101.20	113.82	123.23	123.36
May	97.72	104.40	116.70	121.49	125.66
Jun	97.94	103.70	121.87	128.83	127.52
Q2	**98.01**	**103.10**	**117.46**	**124.51**	**125.51**
Jul	101.61	115.60	123.64	132.70	123.80
Aug	105.13	118.30	122.07	122.79	122.67
Sep	101.86	110.90	119.65	123.31	117.36
Q3	**102.87**	**114.93**	**121.79**	**126.26**	**121.28**
Oct	104.78	113.50	117.62	129.48	115.54
Nov	109.97	116.10	117.70	139.44	123.80
Dec	114.00	119.10	121.39	143.56	129.09
Q4	**109.58**	**116.23**	**118.90**	**137.49**	**122.81**
Annual Average	**103.27**	**109.51**	**117.55**	**127.08**	**124.86**

SOURCE: Bureau of Animal Industry

Note: While First Quarter consumer prices for whole chicken were on a significant upward trend from 2005-2010, the average prices in 2010 dipped below the 2009 average



SOURCE: Bureau of Animal Industry