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## **Philippines**

### **Coffee**

### **Annual**

### **2000**

Approved by:

**Charles T. Alexander**

**U.S. Embassy**

Prepared by:

Perfecto G. Corpuz

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#### **Report Highlights:**

**After becoming a net coffee importer in MY97/98, coffee imports surged the following year due to the El Nino drought which pulled down production. Coffee production in MY99/00 improved but consumption declined due to lingering effects of the economic slowdown in 1998 as well as reduction in spoilage and losses as reported in previous reports. Because of this, imports will decline during the year but are expected to recover and increase in MY00/01 as demand recovers due to the continued improvement of the Philippine economy.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Manila [RP1], RP

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## Executive Summary

The Philippines became a net importer of coffee in MY97/98 and imports surged in MY98/99 as production dropped due to the El Nino drought. Production is expected to recover this year through MY00/01 as a result of the return to more normal weather conditions. Output, however, is predicted to remain in the vicinity of 750,000 bags. Coffee consumption will decline in MY99/00 due to the spill-over effects of the economic slowdown of 1998 and the reduction in losses and spoilage as reported in previous reports. Despite low coffee prices and the slight improvement in the economy during the year, a highly skewed income distribution pattern will deter any growth in demand in MY99/00. Imports will decline because of this and recent weakening of the Peso against the U.S. dollar. Consumption will likely recover and increase in MY00/01 and imports are expected to increase gradually as the economy improves. Imports originating from ASEAN member countries are expected to dominate the market with U.S. having the next largest share.

## Production

Philippine coffee production will improve in MY99/00 as a result of the arrival of rains after the El Nino drought of 1997/98. Coffee production figures as estimated by the Bureau of Agricultural Statistics (BAS) still continues to report Philippine coffee production in metric tons rather than on a GBE basis. For calendar year 1999, preliminary estimates from the BAS place total coffee output at 116 thousand tons. The production numbers on the table are Post estimate's and approximate production figures of the International Coffee Organization Certifying Agency (ICOCA). The number of bearing trees and area harvested, however, are based on data from the BAS and does not differentiate coffee production and trees into coffee types, e.g. robusta, arabica, etc.

The dominant Philippine coffee remains to be the robusta variety which account for roughly 90 percent of all coffee in the Philippines. Industry leaders reportedly claim an average 400 kilos of coffee beans per hectare although this may be misleading as coffee farms in the country do not strictly follow a uniform planting density with some trees grown in the backyard. The more high-yielding trees are found in Cavite province near Manila. Other coffee growing areas include Batangas, Davao del Norte, Davao Oriental and Davao del Sur.

Philippine coffee production in MY00/01, will likely increase slightly due to the return to more normal growing conditions and to the initial bearing of young coffee trees planted a few years ago. Whether this growth can be sustained, however, will be determined by the degree of competition from imported beans which has now affected the behavior of prices of local coffee beans.

## Prices

According to data from the ICOCA, coffee bean prices in 1999 (except in November) have been declining starting from P64.50 (\$1.57 at \$=P41) in January to P46.50 (\$1.13) in December. Prices averaged P53.99 (\$1.32) during the calendar year. The year before, the average price was P64.53 (\$1.57). The declining trend has continued in the first four months of 2000 with prices dropping to P43.95 (\$1.07) in January, P41.50 (\$1.01) in February, P40.50 (\$0.99) in March, and P39.50 (\$0.96) in April.

Prices Table			
Country	Philippines		
Commodity	Coffee, Green		
Prices in	Pesos	per uom	Kg. GBE
Year	1998	1999	% Change
Jan	64.50	64.50	0.00%
Feb	64.86	64.50	-0.56%
Mar	62.50	61.98	-0.83%
Apr	64.50	60.60	-6.05%
May	66.50	55.27	-16.89%
Jun	64.50	52.26	-18.98%
Jul	64.50	49.50	-23.26%
Aug	64.50	49.50	-23.26%
Sep	64.50	49.50	-23.26%
Oct	64.50	46.50	-27.91%
Nov	64.50	47.30	-26.67%
Dec	64.50	46.50	-27.91%
Exchange Rate	41.37	Local currency/US \$	

Nestle Philippines Inc., which procures around 85 percent of the total national coffee bean output is the price leader of coffee. It has kept its buying prices steady early this year and has kept local prices low. Because of this, the Department of Agriculture (DA) has requested the major coffee buyer to increase its prices to help small coffee farmers. This developed as local robusta bean prices fell further to P39.50 (\$0.96) per kilo in April due to the global coffee oversupply and the ensuing drop in world coffee prices. To date, however, no information is available if Nestle' has adjusted its prices.

The Philippines is not a member of the Association of Coffee Producing Countries (ACPC) being a minor coffee producer. The ACPC's retention plan, aimed at boosting world coffee prices, if successfully implemented is likely to benefit the local coffee industry as it will stabilize and increase prices, hence, encourage more production as domestic prices are now affected more by global price movements.

## Consumption

Downward adjustments were made to coffee consumption in MY98/99 as effects of the economic slowdown were more severe than anticipated. GDP in 1998 contracted by 0.5 percent as compared to the growth of 5.2 percent the year before. During the same year, agricultural output declined significantly as a result of the El Nino drought. Agriculture employs roughly 40 percent of the work force and the drop in output and consequently in farm incomes resulted in the contraction of consumption demand. Although in general terms the sector recovered in 1999, a series of oil price increases negated the slight 3.2 percent growth during the year.

It should be noted that income distribution in the Philippines is highly skewed. The most recent statistics available (1997) show that two-thirds of the country's income go to the top 30 percent of families, while the lower 30 percent receive less than 8 percent. It is for this reason that consumption will again decline in MY99/00.

In addition to the above, unlike in previous reports wherein consumption took into account losses and wastage, the consumption number now reflects more accurately actual coffee consumption. Government and private analysts predict continued improvement of the Philippine economy in 2000 and this will likely result in increased coffee consumption in MY00/01 albeit only slightly as economic growth is not as broad based and equitable as previously expected.

## Trade

Coffee imports in MY98/99 were adjusted downwards based on estimates from the National Statistics Office (NSO). MY98/99 coffee imports, however, still represented a dramatic 180 percent increase from the previous year's level due to the decline in production from the previous year. Indonesia was the dominant source of imports with an 80 percent share and the U.S. a distant second with a 10 percent share. A little over 84 percent of all coffee imported in MY98/99 were raw coffee imports with Indonesia accounting for 95 percent of all coffee bean imports. Imports of coffee extracts accounted for a little less than 16 percent with the majority (61 percent) originating from the U.S. There was only a thousand kilo-bag GBE roast/ground coffee imported during the year also coming from the U.S.

<b>Import Trade Matrix</b>			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jul-Jun	Units:	K-60 kg GBE
Imports for:	1998/99		1999/00*
U.S.	29	U.S.	18
Others		Others	
Indonesia	222	Vietnam	42
Singapore	10	Indonesia	30
Vietnam	9	Taiwan	30
Malaysia	2	Singapore	15
UK	1	Malaysia	2
Australia	1	Mexico	2
		China	2
Total for Others	245		123
Others not Listed	3		11
Grand Total	277		152

\*Post estimates

Coffee imports in MY99/00 are predicted to decline from the previous year's level due to decreased demand and improved production. Also, the foreign exchange market has shown signs of some volatility which likely will dampen imports. Imports are likely to consist mainly of beans from ASEAN member countries due to lowered tariffs and from the U.S. due to the entry and growth of American coffee retailers such as Starbucks Coffee Co. The Philippine-based authorized licensee of Starbucks Coffee Co. is Rustan's Coffee Corp.,. Although the Philippines is a coffee producer, Starbucks outlets use imported coffee beans from their parent company.

Imports will increase in the following year as the economy further grows and retail coffee shops increase in number. Mostly located in the big cities, coffee shops such as Starbucks have developed a market following and has become a status symbol among urban dwellers. Rustan's officials have disclosed plans to build 10 more branches in addition to its reported 20 branches established since 1997.

Exports in MY98/99 was slightly raised to reach 10,000 bags GBE with about 50 percent destined for Singapore. Coffee extract or soluble coffee and bean exports during the year composed all coffee exports. There were no roast/ground coffee exports in MY98/99. Exports are predicted to decline in MY99/00 and remain flat the following year due to the growing domestic demand.

<b>Export Trade Matrix</b>			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jul-Jun	Units:	K-60 kg GBE
Exports for:	1998/99		1999/00*
U.S.		U.S.	1
Others		Others	
Singapore	5	Malaysia	1
Oman	4		
Korea	1		
Total for Others	10		1
Others not Listed			
Grand Total	10		2

\*Post estimates

The trade estimates for MY99/00 were based on the July-December trade numbers interpolated for the whole market year.

## Policy

The coffee Minimum Access Volume (MAV) for 2000 is set at 1,192 tons of coffee beans. Duty within the MAV is at 45 percent while coffee imported beyond the tariff rate quota are levied a 65 percent duty. For coffee beans inside the MAV originating from member countries of the ASEAN, the present tariff rate is 20 percent.

Because of the low prices for coffee beans, Father Roger Bag-Ao, president and coffee farmers representative to the Coffee Foundation of the Philippines has requested the DA to increase import tariffs by as much as 30 percent. Raising tariffs by this much would result in duties of 26 and 58 percent from non-ASEAN and ASEAN countries, respectively.

Some coffee companies such as the Rustan's Coffee Corp., on the other hand, are asking the GOP to allow it to import over 100 tons of beans at a cheaper duty. In response, Agriculture Secretary Edgardo Angara suggested that Rustan's buy local beans instead of importing them.

<b>PSD Table</b>						
Country	Philippines					
Commodity	Coffee, Green		(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Planted	137	137	137	137	0	137
Area Harvested	115	115	115	115	0	115
Bearing Trees	112	96	112	97	0	98
Non-Bearing Trees	17	17	17	16	0	15
TOTAL Tree Population	129	113	129	113	0	113
Beginning Stocks	39	39	20	25	0	50
Arabica Production	34	34	35	35	0	40
Robusta Production	616	616	630	675	0	680
Other Production	34	34	35	30	0	25
TOTAL Production	684	684	700	740	0	745
Bean Imports	319	232	335	120	0	130
Roast & Ground Imports	0	1	1	2	0	2
Soluble Imports	31	44	35	30	0	40
TOTAL Imports	350	277	371	152	0	172
TOTAL SUPPLY	1073	1000	1091	917	0	967
Bean Exports	3	5	3	2	0	1
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	5	5	5	0	0	0
TOTAL Exports	8	10	8	2	0	1
Rst,Ground Dom. Consum	90	65	95	65	0	70
Soluble Dom. Consum.	955	900	965	800	0	850
TOTAL Dom. Consumption	1045	965	1060	865	0	920
Ending Stocks	20	25	23	50	0	46
TOTAL DISTRIBUTION	1073	1000	1091	917	0	967