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Approved by:

David C. Miller
FAS Manila

Prepared by:

Pia A. Ang

Report Highlights:

The total Philippine livestock sector is expected to continue to expand through 2004; overall meat consumption is likely to continue growing through 2004 due to the rapidly growing Philippine population. Imports of premium beef cuts are likely to remain insignificant relative to overall beef and veal imports through 2004. No significant changes in live swine and pork imports are expected for the next two years due to good local production.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Executive Summary

The total Philippine livestock sector is expected to continue to expand through 2004 due to the expanding domestic swine industry. Overall meat consumption is likely to continue growing through 2004 due to the rapidly growing Philippine population, currently estimated at 82 million. Beef imports are likely to post modest increases for the next two years mainly due to increasing beef demand by the expanding domestic meat processing industry. Imports of premium beef cuts are likely to remain insignificant relative to overall beef and veal imports through 2004. No significant changes in live swine and pork imports are expected for the next two years due to good local production. Currently, the DA is contemplating imposing a special safeguard duty for pork products as a result of the clamor of the livestock industry for more protection from the alleged onslaught of illegal pork entering the market.

Production

Driven by strong demand for pork and pork products, hog production is expected to continue growing through 2004. Last year, swine production comprised roughly three-quarters of overall livestock production. This made the domestic swine industry the second largest agricultural commodity in 2002, contributing around P87 billion (\$1.58 billion) to the overall agricultural output.

Further consolidation of the industry is expected in the next two years as the share of backyard farms is expected to decline while that of large commercial hog farms is forecast to increase. This indicates increasing scale of swine production and continued inflows of investment into the industry.

Cattle production (inclusive of "carabaos" or water buffalos) last year, was adjusted downwards consistent with estimates from the Bureau of Agricultural Statistics (BAS). Although the 2002 calf crop of water buffalos was higher than the previous year, the decline in live cattle births pulled down overall live cattle production in 2002. There were more-than-usual losses as a result of a higher mortality rate. The overwhelming majority, or around 90 percent of all live cattle in the country continue to come from backyard raisers. These small-scale operations usually involve a few head of feeder cattle for fattening and/or carabaos used as work animals. The few head of cattle are usually contracted out to these small-scale operators by large feedlot operators which have integrated abattoir operations.

Cow-calf operations are declining in number due to reasons that discourage investment in commercial cattle ranching. These, to name a few, include peace and order problems in production areas, policies on pasture leasing, agrarian reform uncertainties, land conversion, etc.

Due to lower cattle production numbers, cattle slaughter rates were likewise pared down during the year. The domestic cattle industry is expected to recover this year and grow through 2004 because of continued expansion of water buffalo production. Carabaos are currently estimated to comprise around 55 percent of the overall Philippine bovine sector

Farm gate prices of live cattle last year, in general, were higher than previous year levels mainly due to the decline in local production. Monthly average farmgate price per kilogram for cattle last year was P51.14 (\$0.94), slightly higher than the P50.73 (\$0.93) average of last year.

Prices Table			
Country	Philippines		
Commodity	Animal Numbers, Cattle		
Prices in	Pesos	per uom	kilogram
Year	2001	2002	% Change
Jan	50.28	50.74	0.91%
Feb	51.10	50.73	-0.72%
Mar	50.55	51.73	2.33%
Apr	51.61	51.38	-0.45%
May	51.24	51.87	1.23%
Jun	51.03	51.14	0.22%
Jul	50.52	50.40	-0.24%
Aug	50.08	50.68	1.20%
Sep	50.27	50.91	1.27%
Oct	49.72	51.12	2.82%
Nov	51.45	51.52	0.14%
Dec	50.86	51.42	1.10%

Source: Bureau of Agricultural Statistics

The average live weight prices of hogs in 2002, on the other hand, decreased slightly (2.03 percent) from the previous year's average price due to good production. Local hog raisers, however, blame the entry of smuggled or illegally imported pork and pork products for the decline in prices. As a result, concerned industry groups have petitioned the GRP for appropriate protective measures (see POLICY).

Prices Table, Farmgate			
Country	Philippines		
Commodity	Animal Numbers, Swine		
Prices in	Pesos	Per uom	kilogram
Year	2001	2002	% Change
Jan	50.52	51.68	2.30%
Feb	51.44	52.35	1.77%
Mar	52.13	52.09	-0.08%
Apr	52.82	52.66	-0.30%
May	53.43	52.27	-2.17%
Jun	52.81	51.70	-2.10%
Jul	53.09	50.89	-4.14%
Aug	51.95	50.23	-3.31%
Sep	51.87	49.96	-3.68%
Oct	51.45	49.99	-2.84%
Nov	51.77	49.76	-3.88%
Dec	52.43	49.44	-5.70%

Source: Bureau of Agricultural Statistics

Like swine, good water buffalo production resulted in lower farm gate prices last year. Water buffalo farm gate prices during the period averaged P41.04 (\$0.75) per kilogram, slightly below the 2001 level of P41.80 (\$0.77) per kilogram.

Prices Table, Farmgate			
Country	Philippines		
Commodity	Animal Numbers, Water Buffalo		
Prices in	Pesos	per uom	kilogram
Year	2001	2002	% Change
Jan	40.59	39.85	-1.82%
Feb	41.65	41.72	0.17%
Mar	40.93	41.29	0.88%
Apr	42.84	40.91	-4.51%
May	42.94	41.16	-4.15%
Jun	43.86	41.42	-5.56%
Jul	42.09	40.42	-3.97%
Aug	42.06	41.97	-0.21%
Sep	40.55	40.33	-0.54%
Oct	41.02	41.23	0.51%
Nov	41.66	41.36	-0.72%
Dec	41.35	40.81	-1.31%

Source: Bureau of Agricultural Statistics

Consumption

According to the National Economic Development Authority (NEDA), the Philippine domestic economy grew 4.6 percent last year, faster than the 3.2 percent increase posted in 2001. The 2002 growth rate was the highest for the country since the 1997 financial crisis, and surpassed the government's GDP target of 4.5 percent.

For this year, the GRP has forecast a GDP growth rate of 4.2 to 5.2 percent. Economists from the International Monetary Fund (IMF) and the World Bank, however, have projected Philippine GDP growth to fall to 3.9 to 4.0 percent range in 2003.

Despite the lower projections, however, overall meat consumption is likely to continue growing through 2004 due to the rapidly growing Philippine population, currently estimated at 82 million. Expanding at a rate of 2.3 percent annually, there will be roughly an additional 2 million Filipinos to feed next year.

Increased consumption likewise is enhanced by the relatively low inflation rate (forecast at 4.5 to 5.5 percent this year) and the ensuing stable food prices. The average Filipino household spends roughly half of its earnings on food. Food and meat consumption traditionally peaks in the fourth quarter to coincide with the holiday season.

In addition, increased spending on food is expected in the near future, as a result of Presidential election-related activities scheduled for May 2004. Campaign activities start very early in the Philippines.

Pork, as in the past, will continue to dominate meat consumption through 2004, and relatively low pork prices are expected to further strengthen quantities moving into

distribution. Household demand is estimated to account for 86 percent of total pork consumption, while hotels, restaurant, institutional buyers and processors account for the balance.

Prices Table			
Country	Philippines		
Commodity	Meat, Swine		
Prices in	Pesos	per uom	kilogram
Year	2001	2002	% Change
Jan	110.66	115.80	4.64%
Feb	115.04	116.37	1.16%
Mar	118.36	117.86	-0.42%
Apr	119.08	118.27	-0.68%
May	119.52	115.92	-3.01%
Jun	118.89	113.69	-4.37%
Jul	117.28	112.72	-3.89%
Aug	115.69	111.32	-3.78%
Sep	113.79	108.70	-4.47%
Oct	113.28	108.13	-4.55%
Nov	113.33	108.45	-4.31%
Dec	114.61	109.19	-4.73%

Source: Bureau of Agricultural Statistics

The retail price of beef increased by an average of 5.6 percent in 2002, with January posting the highest price increase of 10.54 percent over the previous year. The price of beef was highest during May 2002, averaging P170.78 per kg. The retail price of beef during the first three months of 2003 continued its upward trend with an average price increase of 8.7 percent between January to March 2003. Since, the local cattle industry is mainly composed of small backyard operations, traders play a significant role in the marketing of cattle and beef. This drives up local beef prices as evidenced by the difference in farmgate and retail prices.

Prices Table			
Country	Philippines		
Commodity	Meat, Beef and Veal		
Prices in	Pesos	per uom	kilogram
Year	2001	2002	% Change
Jan	151.49	167.46	10.54%
Feb	158.88	166.55	4.83%
Mar	158.93	166.46	4.74%
Apr	158.25	169.71	7.24%
May	158.00	170.78	8.09%
Jun	158.90	169.57	6.71%
Jul	158.96	169.01	6.32%
Aug	159.49	169.18	6.08%
Sep	159.28	168.95	6.07%
Oct	159.22	168.15	5.61%
Nov	163.99	164.55	0.34%
Dec	165.82	168.46	1.59%

Source: Bureau of Agricultural Statistics

Water buffalo meat prices are not readily available but are generally regarded to be cheaper than beef or meat from conventional breeds.

Trade

Live cattle import statistics for 2002 were revised as local production was lower than expected and beef demand started to strengthen due to the diminishing concern over BSE. Feeder cattle represent about 99 percent of all live cattle imports, and local cattle raisers turned to imports to replenish their feeder stocks. Live cattle imports are expected to remain flat in 2003 mainly due to renewed weakness of the Peso. Australia is the overwhelming source of Philippine live cattle imports and is also a major beef supplier.

For meat, beef imports are likely to post modest increases for the next two years mainly due to increasing beef demand by the expanding domestic meat processing industry. Imports of premium beef cuts are likely to remain insignificant relative to overall beef and veal imports through 2004. India is the dominant source of manufacturing grade beef imports and is expected to maintain its dominance in that sector. India provides over 60 percent of the country's overall beef imports, with Brazil and Australia roughly supplying 20 percent each.

Local livestock farmers have raised animal health concerns, particularly foot and mouth disease (FMD), relative to the continued entry of buffalo meat from India, which is not FMD-free. Outbreaks of FMD still occur in the Luzon and Visayas regions and disease control is a major problem of the local livestock sector. Indian beef, however, is cheaper compared to traditional beef sources and is a major ingredient used by meat processing firms. Despite robust growth, the domestic hog industry has claimed injury from the proliferation of buffalo

meat in the wet markets. In response, the Philippine Department of Agriculture (DA) released last December, Administrative Order No. 31 (AO 31) or "Supplemental Guidelines on the Importation and Utilization of Buffalo Meat from India" (refer to RP 3004). AO 31 requires that imported Indian buffalo meat be used for processing only and that a third party inspection certificate accompany all Indian beef imports. AO 31 likewise specifies appropriate labeling to enhance traceability of manufacturer/producer.

Also in late 2002, Department of Agriculture (DA) officials together with a group of Philippine meat importers, went to South America to establish relations with alternative meat sources. They reportedly accredited meat processing plants and abattoirs.

No significant changes in live swine and pork imports are expected for the next two years due to good local production. Legitimate pork imports remain minimal and go mostly to the expanding domestic meat processing industries. Local hog raisers are positioning themselves to gain a share of this growing market and are therefore quite vocal about illegal imports. Local meat processors, however, prefer imported frozen pork for their raw material, contending that locally produced pork does not conform to their quality specifications, uniformity, consistency, etc. The major sources of frozen pork (carcasses/half-carcasses, hams, shoulders and cuts) include Denmark, Canada, United States, Korea and Australia.

Tariff-Rate Quota

Utilization of the Minimum Access Volume (MAV) or tariff-rate quota for fresh, chilled or frozen pork last year was 13.3 percent. MAV usage for pork has remained low and has been declining since 2000. This may partly be the result of the inflow of illegally imported livestock and poultry meats, including pork. For 2003, the MAV for pork is 50,595 MT. The in-quota duty for fresh, chilled or frozen pork (0203) is 30 percent while the out-of-quota rate is 40 percent.

Heading	CY	MAV	MAVIC'S* Issued (MT)				TOTAL	Utilization
			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
Description		(MT)						
HS 02.03								
Fresh	200	48,185	1,450	1,295		6,410	13.3	
Chilled, Pork	200	50,595	1,548	2,834	798	5,179	10.2	

Source: Department of Agriculture

* Minimum Access Volume Import Certificates

MAV utilization for this year will likely not deviate significantly from the previous year's performance. Based on issued Minimum Access Volume Import Certificates (MAVICs), the in-quota importation of pork for the January to July 2003 period represents just a little over 10 percent of the total tariff rate quota for the whole calendar year.

Duties for fresh, chilled or frozen swine meat (0203) and processed pork products (1602) were supposed to be brought down to 40 percent beginning January 1, 2003. Executive Order No. 164 (EO 164), dated January 10, 2003, however, effectively delayed the scheduled tariff rate reduction until June 30, 2003. Effective July 1, 2003, fresh, chilled and

frozen pork out-of-quota imports will be levied a 40 percent duty. In-quota tariff will be 30 percent.

2003-2004 Tariff rates for live swine follow:

TARIFF RATES FOR 2003-2004		
H.S. Code	Description	Rate of Duty
0103	Live swine	2003
0103.10.00	Pure-bred breeding animals	3
	Other	
0103.91	- - Weighing less than 50 kg	
0103.91.10	- - - In-Quota	30
0103.91.20	- - - Out-of-quota	35*
0103.92	- - Weighing 50 kg or more	
0103.92.20	- - - In-Quota	30
0103.92.20	- - - Out-of-Quota	30

(* In effect as of July 1, 2003 as amended by Executive Order No. 164)

There is no change in import tariffs for live bovine animals and their meats from the 2002 rates. Duties for live bovine animals, whether pure-bred or otherwise, remain at 3 percent while imported fresh, frozen or chilled meat of bovine animals is levied a 10 percent tariff.

Marketing

Although the wet markets supply about 90 percent of the food demand of the Filipino market, the number of supermarkets and grocery outlet has been increasing, particularly in the urban centers of the country. This trend is expected to continue as the urban population continues to expand. This is cause to project increased consumption of prepared and preserved, as well as processed meat products in the coming years, and local meat processors appear to be positioning themselves accordingly.

The Philippine Association of Meat Processors (PAMPI) reportedly has said that at least one third of its 30 million kilograms of meat imports (worth \$51 million) may be sourced from Brazil and other Latin American countries if more of their meat plants and abattoirs are accredited by the National Meat Inspection Commission (NMIC). PAMPI believes that the South American beef suppliers may be able to replace the 30 percent of PAMPI's meat requirement, which it lost from Europe when it experienced an outbreak of BSE two years ago. Local meat processors are reportedly projecting a growth of 15 percent this year with gross sales of about P46 billion.

San Miguel Corporation (SMC), the largest food and beverage conglomerate in the Philippines, has announced that it will undertake an over-all strategy of developing an integrated market approach for poultry, meats and branded processed products. SMC, reportedly intends to gradually shift from its dependence on commodity type products such as poultry and basic meats by further developing its branded value-added meats portfolio. Expansion into other branded products variants and extensions is also being studied as another source of future growth. SMC's basic meats business ended 2002 with total sales volume growing by 7 percent. Beef and pork grew by 25 percent and 8 percent, respectively.

Policy

In September 2002, the Philippines notified the WTO of its intention to require accreditation by 3rd party auditors of all plants exporting meat, poultry and dairy products to the Philippines. Memorandum Order Number 7 (MO 7) was supposed to ensure compliance with "internationally recognized standards in Hazard Analysis and Critical Control Point (HACCP) program." The measure was to take effect April 1, 2003 and would have adversely affected over \$55 million worth of US exports to the Philippines. Protests against MO 7, both bilaterally and at the SPS Committee in Geneva in November 2002 resulted in the postponement of the implementation of MO 7. The proposed regulation is currently under review by the DA.

Perhaps the most significant development relative to agricultural policy is the replacement of then DA Secretary, Leonardo Q. Montemayor with Luis P. Lorenzo Jr. on November 30, 2002 (refer to RP 2079). Early in office, Mr. Lorenzo announced he would work for continued protection of sensitive agricultural products, such as rice, sugar, corn, poultry and pork. He has likewise expressed his intention of providing local farmers with government support to enhance their competitiveness in a liberalized trade environment, and part of that support includes keeping tariff rates for major local commodities at current levels.

Currently, the DA is contemplating imposing a special safeguard duty for pork products as a result of the clamor of the livestock industry for more protection from the alleged onslaught of illegal pork entering the market. Local swine producers have been lobbying for additional protection. BAS data show a decline of only 2.5 percent for both retail and farmgate price of pork in 2002.

Several livestock import bans were imposed under the new DA administration although most of them were lifted after scientific investigation indicated that the necessary corrective measures were in place. These include:

1. A temporary ban on the entry of Australian beef after receiving a report that a heifer from Victoria, Australia had died of Anthrax. The DA subsequently lifted the import restriction after receiving a report from the Australian government outlining efforts to contain the anthrax.
2. In response to reports of Dioxin contamination in March 2003, the DA banned all imports of feed, milk and milk products, eggs, meat and meat products from Germany and the Netherlands. The ban was lifted after two weeks after receiving assurances that adequate measures were being undertaken to contain the contamination in those countries.
3. On May 2003, the DA prohibited the importation of live cattle, sheep and goats and their meat and meat products from Canada in response to a confirmed case of BSE in that country. The ban was subsequently lifted in August 2003.
4. The DA likewise lifted the temporary ban on the importation of pork and pork products and by-products from the Republic of Korea after a report from the Office Internationale des Epizooties (OIE) declaring Korea as a FMD-free country in May 2003. The Bureau of Animal Industry has found the risk of contamination from importing pork, pork products and by-products from the ROK to be negligible.

PSD Table						
Country	Philippines					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Total Cattle Beg. Stks	5512	5512	5502	5567	5477	5592
Dairy Cows Beg. Stocks	0	0	0	0	0	0
Beef Cows Beg. Stocks	0	0	0	0	0	0
Production (Calf Crop)	1185	1141	1190	1190	0	1195
Intra EC Imports	0	0	0	0	0	0
Other Imports	70	120	100	120	0	130
TOTAL Imports	70	120	100	120	0	130
TOTAL SUPPLY	6767	6773	6792	6877	5477	6917
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	1225	1150	1275	1237	0	1250
Total Slaughter	1225	1150	1275	1237	0	1250
Loss	40	56	40	48	0	50
Ending Inventories	5502	5567	5477	5592	0	5617
TOTAL DISTRIBUTION	6767	6773	6792	6877	0	6917
Calendar Yr. Imp. from U.S.	5	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	1225	1150	1275	1237	0	1250
Beginning Stocks	28	28	10	0	5	0
Production	220	220	230	230	0	235
Intra EC Imports	0	0	0	0	0	0
Other Imports	115	115	130	120	0	125
TOTAL Imports	115	115	130	120	0	125
TOTAL SUPPLY	363	363	370	350	5	360
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	330	330	345	340	0	350
Other Use, Losses	23	33	20	10	0	10
TOTAL Dom. Consumption	353	363	365	350	0	360
Ending Stocks	10	0	5	0	0	0
TOTAL DISTRIBUTION	363	363	370	350	0	360
Calendar Yr. Imp. from U.S.	2	2	0	2	0	2
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country	Philippines					
	Animal Numbers, Swine				(1000 HEAD)	
Commodity	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
TOTAL Beginning Stocks	11816	11816	12218	12218	12345	12620
Sow Beginning Stocks	1950	1950	1975	2000	0	2075
Production (Pig Crop)	21500	21500	21725	22000	0	22550
Intra EC Imports	0	0	0	0	0	0
Other Imports	2	2	2	2	0	2
TOTAL Imports	2	2	2	2	0	2
TOTAL SUPPLY	33318	33318	33945	34220	12345	35172
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	19500	19500	20000	20000	0	20750
Total Slaughter	19500	19500	20000	20000	0	20750
Loss	1600	1600	1600	1600	0	1622
Ending Inventories	12218	12218	12345	12620	0	12800
TOTAL DISTRIBUTION	33318	33318	33945	34220	0	35172
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meat, Swine				(1000 MT CWE)	(1000 HEAD)
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	19500	19500	20000	21000	0	21500
Beginning Stocks	11	11	11	0	11	0
Production	1095	1095	1120	1145	0	1175
Intra EC Imports	0	0	0	0	0	0
Other Imports	10	10	10	10	0	10
TOTAL Imports	10	10	10	10	0	10
TOTAL SUPPLY	1116	1116	1141	1155	11	1185
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	1075	1116	1100	1155	0	1185
Other Use, Losses	30	0	30	0	0	0
TOTAL Dom. Consumption	1105	1116	1130	1155	0	1185
Ending Stocks	11	0	11	0	0	0
TOTAL DISTRIBUTION	1116	1116	1141	1155	0	1185
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0