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Annual

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Report Highlights:

Rice imports will continue to be significant in MY04/05 due to stable prices and a shift away from milling wheat consumption to rice. Corn feed and feed wheat imports during the year will decline due to weakening feed demand as a result of high feed prices. Higher local corn use is expected during the year due to very good domestic production. Feedgrain imports in MY05/06 will likely stay flat as consumer prices are expected to increase and demand for meats is likely to slow. While rice consumption is expected to grow during the year, milling wheat and food corn demand is expected to stay flat. Overall food grain imports in MY05/06 are likely to stay flat compared to their previous year's level.

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

Executive Summary

Philippine rice and corn production is projected to increase substantially in MY04/05 as a result of increased use of high-quality planting seed and generally favorable weather. Rice production the following year, however, will likely remain at the MY04/05 level due to increasing farm production costs and the projected slowdown of the Philippine economy. The situation will be compounded by the bloated GRP budget deficit, which will constrain the extension of farm credit, technical and marketing assistance, fertilizer and seed subsidies, etc. Corn production in MY05/06 will likely contract as prices decline as a result of good production in the previous year.

Increasing consumer prices and the imposition of new taxes in 2005, are expected to dampen overall food consumption through MY05/06. Relatively stable rice prices will strengthen rice demand during the period. Food wheat consumption will contract in MY04/05 compared to the previous year level due to high market prices, while food corn consumption is expected to increase as a result of record-level production during the period. Wheat and corn demand for food in MY05/06 will likely stay flat compared to the previous year level as consumers shift to eating rice.

Overall feed demand will likely slow in MY04/05 as backyard hog production is expected to contract during the year. Local corn feed consumption, however, will increase during the year due to increasing feedgrain import prices. Because of this, feed wheat demand will contract from the previous year level. Feed demand in MY05/06 is predicted to remain flat with feed wheat and feed corn consumption expected to remain at their MY04/05 levels.

Although rice production reached a record-level in MY04/05, the GRP in March 2004 requested an extension of its quantitative restrictions on rice imports from the WTO. CY 2005 rice imports are projected to reach 1.4 MMT, up from the import level of 2004. On a market year basis, however, MY04/05 imports will slightly decline from the previous year's level.

Corn and wheat imports in MY04/05 will both contract from the previous year levels due to high import prices and a slowdown in feed demand. Projected shifts in food and feed consumption patterns during the year will favor higher use of local corn over imported feedgrains. U.S. wheat sales in MY04/05 are expected to recover and increase from the MY03/04 level due to lower availabilities of Canadian wheat.

Overall grain imports in MY05/06 (rice, corn and wheat) are likely to remain at their MY04/05 levels due to increasing consumer and energy prices and the overall projected slowdown of the Philippine economy in 2005.

Production

Philippine rice and corn production estimates have been raised in MY04/05 consistent with the latest (January 2005) revisions made by the Bureau of Agricultural Statistics (BAS) for last year's grain output. Despite successive typhoons in late 2004, rice and corn production reached record levels. Rice and corn output during the year reached 14.5 MMT and 5.4 MMT, respectively. The record-production levels are attributed to the increased use of better quality seeds. Several Chinese rice and corn varieties are currently being tested in various locations for efficacy and adaptability for possible commercial production in the future. The GRP's hybrid rice and corn programs are anchored on, and supported by, Chinese technology and assistance.

Despite the GRP's prediction of a slowdown in farm output in 2005 (see CONSUMPTION), the Department of Agriculture (DA) is reportedly projecting record levels of rice and corn production, which account for approximately 15 percent and 6 percent, respectively, of the country's total agricultural output. The DA has a paddy rice output target of 15.1 MMT, and corn production goal of 5.9 MMT. Post finds these targets to be on the optimistic side in view of a number of constraints and uncertainties.

Last year, the National Economic and Development Authority (NEDA) reported that government consumption declined 0.8 percent as the public sector continued to grapple with the budget deficit. Fiscal problems continue to constrain the extension of farm credit and have limited the DA's budget, thereby putting the GRP's investment in its rice and corn hybrid programs at risk. There is also the uncertainty of future weather conditions. The southern part of the country is already experiencing the El Nino weather disturbance, according to the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA). Although predicted to be mild, the possibility of it turning more virulent cannot be discounted. Furthermore, weather during the recent past has not been as normal as usual. There have been excessive rains in some parts of the country while other areas have been extremely dry. Although there was minimal crop damage during the successive storms of 2004, there were delays in planting/replanting activities. To help farmers replant would place additional strain on the DA's already very limited resources.

Despite the funding problems, and in an effort to induce replanting activities, the National Food Authority (NFA) has, since December 2004, increased from P9/kg. (\$0.164/kg.) to P10/kg. (\$0.182/kg.) its buying price for paddy rice during the wet season - the main rice crop in the Philippines. Rice farmers reportedly had demanded the increase as production costs had risen. This price adjustment equalizes the dry and wet season buying price. Cooperatives that sell and deliver acceptable quality rice to NFA's buying stations are given additional incentives. These include P0.10/kg. (\$0.0018/kg.) for direct deliveries; P0.15/kg. (\$0.0027/kg.) for well-dried rice; and P0.25/kg. (\$0.0045/kg.) as an incentive for being a cooperative member.

Despite the aforementioned constraints, rice production in MY05/06 is expected to stay flat compared to the MY04/05 level, due to the increase in paddy buying prices. The new NFA buying price is higher than the average farmgate price for 2003 (P8.91/kg. or \$0.162/kg.) and 2004 (P9.17/kg. or \$0.167/kg.).

Prices Table (Farmgate)			
Country	Philippines		
Commodity	Rice, Unmilled		
Prices in	Peso	per uom	Kg.
Year	2003	2004	% Change
Jan	8.69	8.34	-4%
Feb	8.91	8.63	-3%
Mar	9.05	8.94	-1%
Apr	9.16	9.55	4%
May	9.41	9.86	5%
Jun	9.95	10.55	6%
Jul	9.77	9.86	1%
Aug	9.19	9.21	0%

Sep	8.14	8.38	3%
Oct	8.10	8.64	7%
Nov	8.23	8.93	9%
Dec	8.34	9.19	10%
Exchange Rate	55.15	Local Currency/US \$	
Date of Quote	1/28/2005	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

While the NFA also increased its corn support price to P7.50/kg. (\$0.136/kg.) from the previous P6.00/kg. or \$0.109/kg. (inclusive of incentives similar to that of rice), it is not expected to enhance production. The increased price is still noticeably lower than the average yellow corn farmgate prices (reported by the BAS) in 2003 and 2004. The average farmgate price of corn in 2004 was P8.48/kg. (\$0.154/kg.) or 22 percent higher than the average price of P6.94/kg. (\$0.126/kg.) in 2003. Yellow corn farmgate prices are expected to continue to decline in 2005 as production gains continue. As a result, MY05/06 corn production will likely decline from the MY04/05 level.

Prices Table (Farmgate)			
Country	Philippines		
Commodity	Yellow Corn		
Prices in	Pesos	per uom	Kg.
Year	2003	2004	% Change
Jan	6.98	8.96	28%
Feb	6.91	9.19	33%
Mar	6.77	8.52	26%
Apr	6.51	9.30	43%
May	6.56	9.57	46%
Jun	6.62	9.61	45%
Jul	6.77	8.22	21%
Aug	6.60	8.47	28%
Sep	6.93	7.99	15%
Oct	7.60	7.62	0%
Nov	7.55	7.02	-7%
Dec	7.48	7.26	-3%
Exchange Rate	55.15	Local Currency/US \$	
Date of Quote	1/28/2005	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

There continues to be no known commercial wheat production in the Philippines.

Consumption

According to the National Statistical Coordinating Board (NSCB), Philippine annual GDP growth rate last year reached 6.1 percent, with farm output expanding by 4.9 percent, up from the 3.8 percent in 2003, on good performances from key crops such as rice and corn as well as from the aquaculture sector. According to the BAS, the favorable performance by the agricultural sector during the year can be traced to improved production and higher farm prices. For 2005, private analysts predict the local economy to slow to a 5.0 percent growth rate with a significant budget deficit as its biggest challenge. The farm sector is expected to mirror this trend and settle at 4.2 percent growth this year as increasing production costs (due to high oil prices) will eventually stifle output, while higher prices are expected to weaken overall quantities demanded.

The improvement in Philippine GDP growth does not necessarily translate to increased food demand because of a highly skewed income distribution pattern. A recent government-commissioned Family Income and Expenditure Survey (FIES) reported that the poorest 30 percent of Filipinos account for merely 8 percent of national income, while the upper 30 percent well-to-do families represented 65 percent. Roughly 40 percent of the Philippine population is considered poor, living on about one U.S. dollar per day.

Good rice production and adequate supply in 2004 resulted in stable retail rice prices during the period. Average milled rice retail price last year was P20.20/kg. (\$0.367/kg.) for a marginal 1 percent increase from the P19.96/kg. (\$0.363/kg.) average retail price in 2003.

Prices Table (Retail)			
Country	Philippines		
Commodity	Rice, Milled		
Prices in	Peso	per uom	Kg.
Year	2003	2004	% Change
Jan	19.30	19.92	3%
Feb	19.38	19.85	2%
Mar	19.38	19.86	2%
Apr	19.40	19.92	3%
May	19.47	20.13	3%
Jun	19.68	20.44	4%
Jul	20.14	20.70	3%
Aug	21.00	20.89	-1%
Sep	21.31	20.57	-3%
Oct	20.55	20.20	-2%
Nov	20.02	19.95	0%
Dec	19.94	19.97	0%
Exchange Rate	55.15	Local Currency/US \$	
Date of Quote	1/28/2005	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Rice consumption is expected to continue increasing through MY05/06 due to adequate supply and stable prices. Shifting away from other food grains to rice will continue to

increase rice demand. Rice consumption estimates were increased in MY04/05 as wheat demand shifted to rice because of high wheat prices. While prices of wheat-based food products have increased only slightly, their servings have become noticeably smaller. Because of this, food wheat consumption is expected to contract in MY04/05 compared to the previous year, and will likely remain at this level in MY05/06 because of the possible imposition of higher taxes (see POLICY).

Food corn consumption, on the other hand, will accelerate in MY04/05 due to good production, but it is predicted to remain flat in MY05/06 due to an expected production decline the following season. The shift away from food corn to rice will be pronounced in MY05/06 as the NFA reportedly has observed that some corn-consuming provinces have already started to shift to eating more rice. Consistent with this observation, the NFA has raised its national daily rice consumption estimate from 27,000 MT in 2004 to 28,400 MT for 2005.

As reported in RP GAIN 4056, overall feed consumption in MY04/05 is likely to decline from its previous year's level due to high feedgrain prices. Similarly, backyard hog raisers, which represent 75 percent of the domestic hog industry, are reportedly scaling back production. BAS data show that average wholesale prices for yellow corn increased by 20 percent in 2004 to P10.15/kg. (\$0.184/kg.) from the P8.56/kg. (\$0.156/kg.) average 2003 price. Feed wheat demand, despite upward adjustments made in MY04/05, is expected to register negative growth during the year. Feed corn consumption during the year is expected to increase significantly and has been adjusted upwards, as domestic feedmillers are expected to use more local corn and less feed wheat during the year.

With the predicted slowdown of the Philippine economy in 2005, overall feed consumption in MY05/06 will likely remain flat compared to the MY04/05 level. Feed corn and feed wheat consumption in MY05/06 are likely to stay flat compared to the previous year's level as increasing consumer prices dampen food demand.

Prices Table (Wholesale)			
Country	Philippines		
Commodity	Yellow Corn		
Prices in	Pesos	per uom	Kg.
Year	2003	2004	% Change
Jan	8.49	9.27	9%
Feb	8.53	9.94	17%
Mar	8.35	10.50	26%
Apr	8.26	10.21	24%
May	8.42	10.59	26%
Jun	8.58	10.86	27%
Jul	8.71	10.91	25%
Aug	8.53	10.59	24%
Sep	8.50	9.89	16%
Oct	8.73	9.84	13%
Nov	8.68	9.58	10%
Dec	8.96	9.67	8%

Exchange Rate	55.15	Local Currency/US \$	
Date of Quote	1/28/2005	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Stocks

The composition of Philippine rice stocks is described in RP GAIN RP4037. As noted in the report, Philippine household rice stocks are the dominant component of the overall national rice inventory. This is partly due to the inadequacy of existing Philippine postharvest infrastructure, in particular, warehousing and storage. There are no known new major additional storage facilities being constructed, and large grain silos, like those in the U.S., are a rarity. Existing large grain silos are mainly for wheat storage and are controlled by flour milling companies.

The seasonality of Philippine rice production results in high stocks each January which slowly erode through September. Since food security has become a major policy issue of the GRP, the maintenance of adequate rice stocks in commercial and NFA warehouses takes on a new degree of importance in view of the increasing rice consumption. The withdrawal and replenishment of rice stocks will be more frequent and will require more precision in relation to timing and quantity. This applies to both local rice purchases and imports. Rice stock levels can serve as an important indicator of the need for imports although accurate information is difficult to obtain. Practices such as hoarding reportedly still occur.

Except for wheat stocks, which did not move in MY04/05, overall grain inventory is expected to increase from the MY03/04 level due to record rice and corn production. Wheat stocks are likely to be maintained at this level in MY05/06, while rice inventory is predicted to decline as a result of increased consumption. Corn stocks the following year are also expected to dwindle due to lower production during the year. Local flour and feedmillers reportedly maintain and use adequate wheat inventories as leverage to ensure local corn prices do not increase unreasonably.

Trade

Although record-level rice production has been realized in recent years, the Philippines in March 2004, notified the World Trade Organization (WTO) of its decision to request an extension of quantitative restrictions (QR) on rice imports. According to media reports, the GRP has already received requests from seven countries seeking concessions so it can retain the rice QR. These are Argentina, China, Egypt, India, Pakistan, Thailand, and the United States. Canada and Australia, on the other hand, reportedly have indicated their desire to participate as observers.

In August 2004, a \$20 M FY2004 PL 480 Title 1 Agreement was signed. The entire rice package (approximately 50,000 MT) is expected to arrive in February 2005. This brings to approximately 1.35 MMT the total rice expected to be legitimately imported in 2005, broken down as follows:

NFA	- 1,100 TMT
Private Sector	- 200 TMT
PL 480	- 50 TMT

CY 2005 rice imports are likely to be dominated by Vietnam and Thailand, the former having been already awarded an initial NFA contract of 400,000 MT. The first tranche was bought at

\$281.98 per MT.

Due to its food security emphasis, the NFA deemed it necessary to reinforce existing rice stocks with imports after the successive storms of 2004. As mentioned in the PRODUCTION Section, although there was minimal storm damage on grain production, the delays in planting /replanting activities will likely reduce rice harvests in the first quarter of 2005. Anticipating international prices to strengthen later this year as China is expected to import rice, the NFA deemed it necessary to import early. This is the basis for the upward adjustments made to import estimates for the MY04/05 period. For MY05/06, rice imports are likely to stay flat compared to the MY04/05 level due the GRP's tight fiscal situation. NFA officials intend to conduct another rice tender for 500,000 MT (15-percent and 25-percent broken rice) on March 1 for April and May delivery.

The CY 2005 import figure in the rice PSD table is inclusive of an additional 50,000 MT of undocumented rice imports. The volume of smuggled imports is expected to be significantly lower than in previous years as rice-producing countries hold on to existing stocks in anticipation of tight global supplies. An aggressive GRP anti-smuggling campaign is also expected to dampen the illegal trade.

Overall wheat imports in MY04/05 are likely to decline from the previous year level due to relatively high market prices as well as the softening of feed demand by the local livestock sector. The majority of feed wheat imports are likely to come from Ukraine which offers lower prices, compared to traditional feed wheat sources such as China and India. For milling wheat, MY04/05 imports from the United States are expected to surpass the previous year level, with an increase in market share due to lower Canadian supply. The practice of blending lower-quality food wheat with milling wheat from the United States is becoming more popular to suppress further price increases in wheat-based food items, according to an industry contact.

Although still in relatively small volumes, Philippine industry has expressed concern over the entry of cheap and highly subsidized flour imports from China and India. Industry sources reportedly claim that imported flour is being sold to bakeshops at prices ranging from P430 (\$7.82) to P510 (\$9.27) for 25-kg. bag. Locally-milled flour is sold at around P530 (\$9.64) to P610 (\$11.09) per bag. According to press reports, the imported Chinese and Indian flour, including some transshipments from Japan, are often declared at prices far below cost. Flour imported from India, which costs around \$272/ton FOB, reportedly is being declared at a much lower price of \$140/ton, while imported Chinese flour, which costs about \$241/ton, is being declared at only \$200/ton.

The projected corn importation by the NFA last year (refer to RP GAIN 4006) did not push through. Although local end-users prevailed in exempting the corn imports from any duty, the NFA imposed certain fees that made the landed corn price approximate the prevailing local price at that time. Under the NFA guidelines released prior to the tender, yellow corn was to come in at no less than P11/kg., inclusive of a P0.50 service fee. This resulted in no additional corn being imported.

Downward adjustments were made to corn imports in MY04/05 due to very good production and the softening of feed demand. China's unusually high levels of corn procurement strengthened world prices, which likewise favored more use of local corn. Corn imports in MY05/06 are expected to increase slightly as production during the year declines from the previous year level.

While the Peso has strengthened relative to the US dollar recently, it is not likely to be sustained, according to some private analysts. The GRP is expected to give priority to

conserving its limited foreign exchange reserves, which will likely dampen any significant increase in corn imports. Furthermore, corn is considered a sensitive product, and local producers strongly oppose corn importation.

Policy

In response to the GRP's prevailing fiscal problems, the Executive branch is advocating the passage of several revenue-generating measures that seek to raise around P80 Billion (\$1.45 Billion) this year. One such measure, which was recently passed by the Lower House, is a controversial bill that increases the value-added tax (VAT) rate from 10 percent to 12 percent. It is currently being debated in the Senate. Although the GRP has assured the public that prices of basic food commodities would not be significantly affected, some analysts predict the measure would adversely affect lower-income Filipino households that make up the majority of the Philippine population. Roughly half of a typical Filipino household's income is spent on food, and the increased VAT is expected to negatively affect food consumption. A private business council considers the measure to be inflationary. Last year, the average inflation rate was reported at 5.5 percent, higher than the 4 to 5 percent inflation target set by the Philippine Central Bank (PCB). For 2005, the PCB again has set an average inflation rate target of 4 to 5 percent. Consumer spending is a major driver of the domestic economy, accounting for more than two-thirds of GDP.

A bill in the Lower House that seeks a P125 increase for minimum wage earners, however, is being opposed by the NEDA claiming that the detrimental effects of any wage increase, at this point, far outweigh its benefits. While many law makers believe that the increase in minimum wage will boost spending, and thus economic growth, the NEDA says the passage of HB 347 could lead to higher unemployment, higher inflation and lower gross domestic product growth. The unemployment rate as of October 2004 (latest data available), according to the National Statistics Office (NSO) was 10.9 percent, or about 3.9 million of the estimated 35.6 million labor force. In the nation's National Capital Region, the NSO estimates the daily cost of living for a family of six last year at P602 (\$10.90). The daily minimum wage, however, is only about P290 (\$5.27).

In an effort to preserve foreign exchange, the NFA is encouraging countertrade arrangements with prospective rice suppliers. Winning bidders may undertake such arrangement with the Philippine International Trade Corporation (PITC). It is basically a barter scheme wherein locally-produced agricultural products are made as partial or full payment for the imported rice. The NFA and the DA, however, recognize that more study is needed vis-a-vis the nature of commodity-payments that can be offered for barter. Traditional rice supplying countries (Vietnam and Thailand) have similar agricultural products with those of the Philippines and in previous barter-trade agreements, the matching of quantities as well as the timing of deliveries and valuation of products encountered problems.

Philippine rice importation is based on the quarterly assessment of the GRP's Interagency Committee on Rice and Corn (IAC). The committee includes the NFA, BAS, NEDA, the Department of Trade and Industry (DTI), the Bureau of Animal Industry (BAI), the National Agricultural and Fisheries Council (NAFC), the National Irrigation Administration (NIA), and the PAGASA. The DA acts as head of the committee.

For corn imports, the IAC determines and declares whether a shortfall in local production is likely, thus necessitating importation. The NFA's role in corn importation is similar to that of a consolidator, importing on behalf of several small private importers. Only in cases where there is a confirmed corn shortage will the agency intervene and directly import the commodity.

PSD Table						
Country	Philippines					
Commodity	Rice, Milled			(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2003		07/2004		07/2005
Area Harvested	4115	4115	4115	4115	0	4115
Beginning Stocks	3807	3807	3847	3847	0	3997
Milled Production	9000	9000	9200	9300	0	9300
Rough Production	13846	13846	14154	14308	0	14308
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	1290	1290	900	1250	0	1250
Jan-Dec Imports	1100	1000	800	1400	0	1100
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	14097	14097	13947	14397	0	14547
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	10250	10250	10300	10400	0	10600
Ending Stocks	3847	3847	3647	3997	0	3947
TOTAL DISTRIBUTION	14097	14097	13947	14397	0	14547

PSD Table						
Country	Philippines					
Commodity	Corn				(1000 HA)	(1000 MT)
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2003		07/2004		07/2005
Area Harvested	2485	2485	2550	2495	0	2500
Beginning Stocks	234	262	181	305	0	305
Production	4845	4845	5100	5300	0	5200
TOTAL Mkt. Yr. Imports	52	88	50	5	0	5
Oct-Sep Imports	52	86	50	5	0	5
Oct-Sep Import U.S.	1	2	0	0	0	1
TOTAL SUPPLY	5131	5195	5331	5610	0	5510
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	3450	3375	3550	3750	0	3750
TOTAL Dom. Consumption	4950	4890	5100	5305	0	5305
Ending Stocks	181	305	231	305	0	205
TOTAL DISTRIBUTION	5131	5195	5331	5610	0	5510

PSD Table						
Country	Philippines					
Commodity	Wheat				(1000 HA)	(1000 MT)
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2003		07/2004		07/2005
Area Harvested	0	0	0	0	0	0
Beginning Stocks	442	450	482	400	0	400
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3000	2900	3100	2725	0	2745
Jul-Jun Imports	3000	2900	3100	2725	0	2745
Jul-Jun Import U.S.	1213	1200	0	1350	0	1350
TOTAL SUPPLY	3442	3350	3582	3125	0	3145
TOTAL Mkt. Yr. Exports	10	0	10	0	0	0
Jul-Jun Exports	10	0	10	0	0	0
Feed Dom. Consumption	950	1275	1000	1100	0	1120
TOTAL Dom. Consumption	2950	2950	3050	2725	0	2745
Ending Stocks	482	400	522	400	0	400
TOTAL DISTRIBUTION	3442	3350	3582	3125	0	3145