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## Philippines

### Grain and Feed

### Annual

## 2008

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**Report Highlights:**

Wheat imports are expected to decline this year as high global wheat prices will result in a shift away from milling and feed wheat demand and move to increased rice and feed corn consumption through MY08/09. Higher domestic corn production will result in corn imports in MY07/08 declining from the previous year's level. However, corn imports are expected to recover and increase in MY08/09 due to strong feed demand. Despite increasing rice production, rice imports through MY08/09 are expected to increase, enhanced by the shift away from milling wheat and food corn use to rice consumption.

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

## SUMMARY

Despite continued and considerable increases in Philippine rice and corn production through MY08/09, the country will continue to be food and feed grain-deficient due to the rapidly growing population. Trade will remain an inherent component of the country's food security program during the period. Shifts in Philippine grain consumption patterns as a result of high global grain prices through MY08/09 will consequently affect grain imports in the next two years.

A shift away from milling wheat to rice for food, and feed wheat to feed corn, are expected starting MY07/08 resulting in a contraction in overall wheat demand and a decline in wheat imports from the previous year's level. The shift in overall wheat demand is expected to be more pronounced the following year and wheat imports are expected to decline anew due to high global prices. Local feed corn use in MY07/08 will increase considerably from the previous year's level as a result, due to competitive prices compared to imported corn. High international corn prices coupled with record-level domestic corn production during the year, will result in corn imports declining in MY07/08 compared to the previous year's level.

Increased corn use during the period, however, will result in lower stocks entering MY08/09 and increased corn imports during the year are expected due to continued strong feed demand. For food corn, demand will likely remain flat in MY08/09 compared to the previous year's level due to a modest shift to rice consumption. As a result, strong rice consumption is expected through MY08/09. Increasing rice imports in the next two years are expected to complement good local rice production through the same period.

## PRODUCTION

The Philippine Department of Agriculture (DA) recently announced that the local farm sector last year expanded 4.7 percent, an improvement from the 3.8 percent growth in 2006 and within the official 4.5-5.0 percent expansion target for the year. The expansion was made possible by favorable weather conditions in the fourth quarter which enhanced good crop production in 2007. Grain output last year raised overall farm output with rice and corn production reaching all-time highs. According to the DA, rice harvests are estimated to have reached about 16.2 MMT (of paddy rice) while corn harvests reached 6.7 MMT, despite an extended dry spell and a series of typhoons in the second half of 2007.

As a result, rice and corn production estimates were raised in MY07/08 to reflect the record-setting production levels of both grains in calendar year 2007. Higher production of both grains, compared to the previous year's level, is attributed to the increased use of better quality planting seeds over an expanded area planted. Both were encouraged by strong food and feed demand as reflected by increasing rice and corn farm gate prices during the year.

The average farm gate price of rice for the first four months of 2007 was P12.00/kilo (\$0.30), slightly higher than the P10.90/kilo (\$0.27) average farm gate price during the same period in 2006. Farm gate rice prices for the remainder of year are likely to be higher than the previous year as a result of firm food demand by the growing Philippine population. Although not exactly ex-farm gate, even the state-controlled National Food Authority (NFA) increased its paddy rice-buying price late last year. It currently buys clean and dry paddy rice (at 14 percent moisture content) at P12/kilo (\$0.29) delivered to its designated buying stations.

## Prices Table (Farmgate)

<b>Country</b>	Philippines		
<b>Commodity</b>	Rice, Milled		
Prices in	Peso	per uom	Kilo
Year	2006	2007	% Change
Jan	10.48	10.58	1%
Feb	10.74	10.91	2%
Mar	11.00	11.42	4%
Apr	11.27	11.62	3%
May	11.39		-100%
Jun	11.55		-100%
Jul	11.53		-100%
Aug	11.25		-100%
Sep	10.70		-100%
Oct	10.25		-100%
Nov	10.20		-100%
Dec	10.40		-100%
Exchange Rate	40.60	LocalCurrency/US\$	
Date of Quote	1/14/2008	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

For corn, the average ex-farm price for the first four months of last year was P11.23/kilo (\$0.27), higher than the P10.90/kilo (\$0.26) average price during the same period in 2006. Farm gate corn prices are likely to continue in 2008 as a result of high global prices and firm local feed demand.

<b>Prices Table (Farmgate)</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Corn		
Prices in	Pesos	per uom	Kilo
Year	2006	2007	% Change
Jan	8.84	9.28	5%
Feb	9.64	9.62	0%
Mar	9.40	10.02	7%
Apr	9.61	10.31	7%
May	9.76		-100%
Jun	9.74		-100%
Jul	9.32		-100%
Aug	9.01		-100%
Sep	8.41		-100%
Oct	8.17		-100%
Nov	8.34		-100%
Dec	8.93		-100%

Exchange Rate	40.60	LocalCurrency/US\$	
Date of Quote	1/14/2008	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Wheat is not grown in the Philippines and the country is a major U.S. wheat importer. The effects of increasing global wheat prices, however, have had more pronounced effects in wheat demand compared to those of rice and corn prices (see CONSUMPTION).

Tight global grain supplies and the resulting high domestic prices since last year stimulated domestic rice and corn production. Because the high global grain prices are not likely to abate soon, the Government of the Republic of the Philippines (GRP) is responding with policy adjustments that will afford the Philippine farm sector, including the domestic grain industry, with more production and marketing support (see POLICY). This is likely to result in increased rice and corn output in MY08/09 onwards, weather permitting. Hence, domestic rice and corn production in MY08/09 are predicted to increase modestly from the MY07/08 levels.

## CONSUMPTION

Philippine GDP growth last year reached 7.3 percent, exceeding expectations and higher than the 5.4 expansion during the previous year. Increased private consumption, investments in public and private construction, more government spending as well as exports of non-factor services combined are credited for the very good performance of the economy. All sectors last year recorded positive growth led by services and industry. GNP growth rate was at 7.8 percent, also the fastest in 31 years and was enhanced by record-level remittances from overseas Filipino workers (OFWs).

Dollar inflows from OFWs in 2007 were estimated at \$14 billion and dampened the inflationary effects of high commodity and increasing fuel prices during the year. The remittances also propped up the local currency making the Philippine Peso the region's best performing currency in 2007 appreciating roughly 19 percent to the US\$, according to the Bangko Sentral ng Pilipinas (BSP). Consumer price inflation is expected to average below 3 percent in 2007 (according to Cable Manila 000010) with private consumption, fueled by OFW remittances, playing a key driver of GDP during the period.

GRP economic planners expect this year's GDP growth rate just below 7 percent year-on year largely due to the expected slowdown of the U.S. economy. OFW remittances are projected to reach a record-level \$15 billion in 2008, according to the BSP, although the stronger Peso will affect its purchasing capacity. The increased \$ inflows, therefore, are not expected to enhance the level of private consumption significantly this year. Philippine exports are also expected to drop. Although the Philippine economy is expected to display some degree of stability in the face of looming global financial problems, increasing food and oil prices in 2008 also threaten to raise average inflation (4.4 percent according to BSP projections). Increasing grain prices also are likely to cause shifts in feed and food grain consumption in then next two years with wheat consumption affected the most.

Overall wheat demand was pared down in MY07/08 with downward adjustments made to both food and feed wheat demand. As reported in GAIN 7071, increasing wheat prices and rising freight costs are forcing local flour millers to raise flour prices. Exacerbating the situation are recent upward adjustments in domestic power and water rates. In response, products of the local baking industry such as bread and pastries have become smaller in size as some bakeries have also put on hold future expansion plans (see MARKETING).

Increasing wheat prices last year have also caused a shift away from wheat to rice consumption during the period.

Increasing raw material and production costs will also dampen feed wheat use in MY07/08 and with high global wheat prices not expected to abate soon, the contraction in overall wheat consumption is expected to extend to MY08/09 with shifts in wheat consumption expected to be more pronounced.

Average yellow corn wholesale price for the January-April 2007 period, according to available data from the Bureau of Agricultural Statistics (BAS), was P11.23/kilo (\$0.27), higher than the P10.84/kilo (\$0.26) average price during the same period in 2006. While corn prices are likely to increase for the remainder of 2007, overall corn consumption in MY07/08 is still expected to increase from the previous year's level due to an expected shift away from feed wheat to corn demand during the period. This shift will likely extend and be more acute the following year or in MY08/09 where local corn use is expected to surge. Overall feed consumption (feed wheat and yellow corn) during the year, however, is likely to slowdown as some feed mills are expected to scale down their operations due to rising costs which will weaken meat demand. Some hog farms have reportedly cut back on production late last year and pork prices have risen this month due to reduced supply of pork. Projected double-digit growth for poultry output in 2008, however, will likely offset the loss of feed grain demand by the hogs sector during the year.

Food corn demand will likely remain at the MY07/08 in MY08/09 as some shift to rice consumption is expected due to comparatively more stable rice prices during the period.

<b>Prices Table (Wholesale)</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Corn		
Prices in	Pesos	per uom	Kilo
Year	2006	2007	% Change
Jan	10.62	10.88	2%
Feb	11.36	11.05	-3%
Mar	11.32	11.33	0%
Apr	11.05	11.65	5%
May	11.27		-100%
Jun	11.25		-100%
Jul	11.09		-100%
Aug	10.84		-100%
Sep	10.48		-100%
Oct	10.19		-100%
Nov	10.24		-100%
Dec	10.45		-100%
Exchange Rate	40.60	Local Currency/US \$	
Date of Quote	1/14/2008	MM/DD/YYYY	

Source: Bureau of Agricultural Statistics

Average retail rice prices in the first four months last year was P23.94/kilo (\$0.59) slightly higher than the P23.56 (\$0.58) average retail price for calendar year 2006, according to BAS data. Commercial retail rice prices are expected to further increase during the remainder of 2007 and will likely even extend its rise through 2008. The NFA, on the other hand, still sells its milled rice at controlled prices but is losing heavily as a result of selling imported rice at P18.25/kilo (\$0.44) against the actual value of P22/kilo (\$0.54). Even at the latter price level, however, Philippine rice consumption is still expected to continue increasing through MY08/09 due to the expanding Philippine population and the expected shift away from demand for food corn and wheat-based products to rice during the period.

<b>Prices Table (Retail)</b>			
<b>Country</b>			Philippines
<b>Commodity</b>			Rice, Milled
Prices in	Peso		
Year	2006	per uom	Kilo
Jan	23.23		
Feb	23.36	2007	% Change
Mar	23.48	23.72	2%
Apr	23.50	23.81	2%
May	23.59	24.07	3%
Jun	23.69	24.17	3%
Jul	23.78		-100%
Aug	23.85		-100%
Sep	23.71		-100%
Oct	23.50		-100%
Nov	23.51		-100%
Dec	23.54		-100%
			-100%
Exchange Rate	40.60		-100%
Date of Quote	1/14/2008		

Source: Bureau of Agricultural Statistics

## STOCKS

Because of downward adjustments made to wheat imports in MY07/08, overall wheat stocks were pared down accordingly and decreased compared to the previous year's level. Wheat stocks are expected to continue to dwindle through MY08/09 due to high prices.

For corn, record-level local production in MY07/08 is expected to result in higher year-end inventories during the year. Although domestic corn production is likely to again increase the following year, the surge in corn feed use as a result in the shift away from feed wheat is expected to result in a decline in ending stocks in MY08/09.

Anticipating possible tightness in global rice supply as well as increased competition in the international rice market, the GRP is aggressively pursuing rice importation in order to

reinforce increasing rice production supply and strengthen its buffer rice stock requirements. In addition, the NFA has also reportedly strengthened its local rice procurement program to reinforce rice inventories as indicated by their raising the buying price of its paddy rice. Rice ending-stocks through MY08/09 are expected to increase as a result of both interventions.

## TRADE

On a fiscal year basis, according to BICO data, the Philippines in FY07 was the 17<sup>th</sup> largest U.S. export market for agricultural, fishery and forestry products with exports reaching nearly \$1 billion, up from the \$861 million export value in FY06. Enhanced by the strengthening of the Philippine Peso, the country was the 5<sup>th</sup> largest U.S. wheat export destination with shipments reaching a value of \$305 million, higher than the \$291 million wheat export value of FY06. Wheat was the largest agricultural, fish and forestry U.S. export commodity to the Philippines in terms of value during both years. Wheat imports are levied a 3 percent MFN tariff while imports from other ASEAN countries have a 5 percent duty.

Increasing wheat prices resulted in a decline in wheat imports in MY07/08 compared to the previous year's level. Milling industry contacts estimate milling and feed wheat imports in calendar year 2007 to have reached 2 MMT and 0.4 MMT, respectively. Wheat import estimates in MY07/08 were pared down as a result. With no signs of global prices weakening, overall wheat imports in MY08/09 are again expected to contract from the MY07/08 level with feed wheat imports sharply declining during the period.

The Minimum Access Volume or tariff rate quota for corn (MAV) this year is unchanged from the 2007 level at 216, 940 MT subject to a 35 percent tariff. Corn imports outside the MAV are levied a 50 percent duty. Corn imported under the 2007 MAV was practically nil as landed prices (even under the lower tariff) were still uncompetitive price-wise compared to local corn prices. Corn imports in MY07/08 were pared down and declined from the previous year's level to reflect the estimated volume (135,000 MT) brought in by feed millers as part of the 400,000 MT duty-free corn allocation awarded to the group last year (refer to GAIN 7014). The entire duty-free corn volume imported during the period originated from Argentina.

For 2008, industry contacts estimate corn imports around 300,000 MT but note that this will likely be brought in during the second half of the year due to adequate domestic corn stocks during the first half of the year. Hence, corn imports in MY08/09 are likely to increase from the previous year's level.

For the Philippines immediate food requirements, in this case rice, the GRP, through the NFA has opted to import early its buffer stock requirements for 2008 in view of impending tightness in global rice stocks. The agency reportedly cites significant reductions in projected global rice supply due to natural calamities in India, Bangladesh and Australia, and major pest problems in South China, Vietnam and Thailand, that will negatively affect rice output. The agency likewise noted that countries from the Middle East, Indonesia, India and Africa are now buying rice in the world market together with Philippines. Rice imports are subject to a 50 percent duty although quantitative restrictions (QR) will remain through 2012.

Late December 2007, the NFA auctioned a purchase of 450,000 MT of rice of which an estimated 420,000 MT was awarded to Vietnamese and a Thai supplier. About 40 percent of the awarded volume was scheduled to be delivered in January, 30 percent for delivery in February and the remaining 30 percent for delivery in March this year. Another auction, this time for 500,000 MT of rice was held late January 2008 and initial news point that the awarded volume was also short of the tendered volume. The average price was around

\$430/MT, higher than the estimated \$410 price in the December 2007 auction, according to industry contacts. Although future import plans of the agency are still unclear, additional tenders are expected. Only roughly around 800,000 MT had been awarded in both auctions, according to the same source. The initial GRP import estimate for 2008 has been set at 1.6 MMT although Post expects rice imports may exceed this level. Rice imports in MY08/09 are therefore expected to increase from the previous year's level.

## MARKETING

Concerns by domestic flour millers over the increased competition from cheap Chinese flour imports are likely to abate as a result of the recent imposition of export restrictions by the Chinese government on wheat flour exports (refer to GAIN 8001). This will be disadvantageous to local bakeries although wheat flour imports account for only an estimated 2-3 percent of total wheat flour demand. Gardenia Bakeries Inc., the country's biggest bread manufacturer, reportedly may put on hold its P700 million (\$12.2 million) expansion plans this year should global wheat prices fail to stabilize. Gardenia currently accounts for over 60 percent of the total branded bread segment and more than 40 percent of the total bread market in Metro Manila, according to press reports.

Local feed millers, on the other hand, continue to try using cheaper corn-substitutes. Arcane to most feed end-users is the use of corn-based Distiller's Dried Grains and Solubles or DDGS (HS Code 2303.30.00) in domestic feed rations. However, recent promotions on its use by the U.S. Grains Council (USGC) have been received with interest as it offers an opportunity to save on feed costs. According to the USGC, at current local ingredient prices, feed formulation savings can reach up to P150/MT (\$3.69) of feed when using DDGS at a maximum level of 10 percent.

For rice, concurrence on the revised terms and conditions of the \$20 million rice package under the delayed FY06 PL 480 Title I Agreement was reached in late 2007. A key revision included the testing for GM traces which was satisfactorily complied with. The 44,100 MT of milled rice is expected to arrive on Philippine ports early this year. The revival of the food aid program to the country is expected to alleviate significantly Philippine food security concerns and at the same time conserve fiscal resources of the GRP.

## POLICY

Increasing world grain prices is forcing the GRP to give more emphasis on increasing domestic grain production as part of its strategic food security policy. This is manifest in the recent Philippine Congressional extension of the Agricultural Competitiveness Enhancement Fund (ACEF), a fund intended to help modernize Philippine agriculture, until 2012 (refer to GAIN 8002). This is expected to complement the December 2006 approval of the Quantitative Restrictions (QR) on rice imports under Annex 5 of the WTO Agreement on Agriculture (refer to GAIN 7056).

The ACEF and rice QR extension combined, affords the Philippine farm sector time and funding to modernize and hopefully satisfy the country's long-term food security concern. Agricultural modernization efforts are also expected to be complemented by an impending increase in the DA's budget for 2008.

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Wheat</b>						(1000 HA)(1000 MT)	(1000 MT/HA)	
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	0	0	0	0	0	0	0	0	0
Beginning Stocks	413	413	413	479	388	479	0	0	429
Production	0	0	0	0	0	0	0	0	0
MY Imports	2746	2250	2746	2500	2700	2350	0	0	2000
TY Imports	2746	2250	2746	2500	2700	2350	0	0	2000
TY Imp. from U.S.	1604	0	1604	0	0	0	0	0	0
Total Supply	3159	2663	3159	2979	3088	2829	0	0	2429
MY Exports	30	25	30	25	25	0	0	0	0
TY Exports	30	25	30	25	25	0	0	0	0
Feed Consumption	500	300	500	500	600	400	0	0	50
FSI Consumption	2150	1950	2150	2150	2000	2000	0	0	1975
Total Consumption	2650	2250	2650	2650	2600	2400	0	0	2025
Ending Stocks	479	388	479	304	463	429	0	0	404
Total Distribution	3159	2663	3159	2979	3088	2829	0	0	2429
Yield	0	0	0	0	0	0	0	0	0

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Corn</b>						(1000 HA)(1000 MT)(MT/HA)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	2637	2500	2637	2650	2650	2650	0	0	2650
Beginning Stocks	698	714	698	791	664	791	0	0	826
Production	6230	5800	6230	6100	6310	6500	0	0	6600
MY Imports	163	50	163	200	400	135	0	0	300
TY Imports	150	50	150	75	400	135	0	0	300
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	7091	6564	7091	7091	7374	7426	0	0	7726
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	4700	4300	4700	4900	5050	4900	0	0	5350
FSI Consumption	1600	1600	1600	1700	1700	1700	0	0	1700
Total Consumption	6300	5900	6300	6600	6750	6600	0	0	7050
Ending Stocks	791	664	791	491	624	826	0	0	676
Total Distribution	7091	6564	7091	7091	7374	7426	0	0	7726
Yield	2.36253 32	2.32	2.3625 33	2.3018 87	2.3811 32	2.4528 3	0	0	2.4905 66

<b>PSD Table</b>									
<b>Country</b>	<b>Philippines</b>								
<b>Commodity</b>	<b>Rice, Milled</b>								
	2006	Revised		2007	Estimate		2008	Foreca st	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	4180	4175	4180	4200	4050	4200	0	0	4200
Beginning Stocks	5292	5292	5292	5627	5592	5627	0	0	5767
Milled Production	10085	10050	10085	10010	9700	10400	0	0	10600
Rough Production	15515	15462	15515	15400	14923	16000	0	0	16308
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500	0	0	6500
MY Imports	1800	1800	1800	1800	1800	1800	0	0	1900
TY Imports	1800	1900	1800	1900	1900	1900	0	0	1900
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	17177	17142	17177	17437	17092	17827	0	0	18267
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Total Consumption	11550	11550	11550	12060	11750	12060	0	0	12450
Ending Stocks	5627	5592	5627	5377	5342	5767	0	0	5817
Total Distribution	17177	17142	17177	17437	17092	17827	0	0	18267
Yield (Rough)	3.7117 22	3.7034 73	3.7117 22	3.6666 67	3.6846 91	3.809 524	0	0	3.8828 57