USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 5/23/2007

GAIN Report Number: RP7027

Philippines

Coffee

Annual

2007

Approved by:
Jude Akhidenor
U.S. Embassy

Prepared by:
Pia Abuel-Ang

Report Highlights:
Total coffee production is forecast to decline slightly in CY 2006/07 attributed in part to the decrease in the number of bearing trees as a result of rejuvenation of trees and a shift to banana and rubber production in Mindanao. Domestic coffee consumption is estimated to remain relatively flat in CY 2006/07. The importation of coffee products slowed down in 2006, across all varieties. Imports are sourced largely from neighboring Asian countries such as Indonesia, Vietnam and Malaysia.

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

Production

According to the Bureau of Agricultural Statistics (BAS), total coffee production declined slightly to 104,090 MT (dried berry basis) in 2006 from 105,850 MT the previous year. The drop in production was attributed in part to the decrease in the number of bearing trees as a result of rejuvenation of trees in Surigao del Sur and a shift to banana and rubber production in Davao as well as the adverse effects of several super typhoons that hit the Cavite-Batangas-Laguna (CALABARZON) and Mindoro-Marinduque-Romblon (MIMAROPA) areas in late 2006. Of the total supply of green beans coffee in 2006, almost 60 percent was sourced from domestic production.

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta. In 2006, the Davao and South Cotabato-Sultan Kudarat-Saragani-General Santos (SOCKSARGEN) Region in Mindanao remain the top producers of coffee.

Coffee: Volume of Production in Metric Tons, Philippines, January-December, 2004-2006P			
Region	**2004**	**2005**	**2006P**
PHILIPPINES	**102,865**	**105,847**	**104,086**
CAR	5,622	6,010	6,346
Ilocos Region	75	78	85
Cagayan Valley	1,550	677	1,040
Central Luzon	1,708	1,627	1,534
CALABARZON	12,324	10,806	10,276
MIMAROPA	203	202	205
Bicol Region	418	382	366
Western Visayas	6,336	6,095	6,004
Central Visayas	718	585	364
Eastern Visayas	217	212	207
Zamboanga Peninsula	1,356	1,372	1,368
Northern Mindanao	6,108	6,037	6,292
Davao Region	30,586	29,769	28,839
SOCCSKSARGEN	20,814	27,187	27,041
ARMM	10,517	10,958	11,000
CARAGA	4,312	3,850	3,120

Source: Bureau of Agricultural Statistics

The area planted in CY 2006 to all varieties of coffee declined slightly. According to BAS, from 127.98 thousand hectares in 2005, area planted fell to 126.46 thousand hectares in 2006. The contraction in area was partly attributed to some shifting to low-maintenance and high-priced crops such as Cavendish banana and rubber in Davao Region and SOCKSARGEN area. Low prices and difficulty in marketing coffee also led to the cutting down of less productive coffee trees and their replacement with low-maintenance and higher priced crops.

In 2006, the average monthly farmgate price of Robusta coffee was relatively higher than in 2005, while Arabica prices were lower.

FARMGATE PRICES OF ROBUSTA, 2005-06 DRY BEANS (Pesos/kg)		
	2005	**2006**
January	36.53	47.16
February	36.91	48.94
March	40.60	46.82
April	34.84	45.19
May	34.99	44.80
June	37.72	46.32
July	42.80	39.28
August	42.70	40.74
September	42.70	43.60
October	43.23	43.26
November	43.21	49.94
December	42.58	51.61
Average	**39.90**	**45.64**

Source: Bureau of Agricultural Statistics

FARMGATE PRICES OF ARABICA, 2005-06 DRY BEANS (Pesos/kg)		
	2005	**2006**
January	67.34	57.71
February	59.93	58.89
March	59.98	59.81
April	60.77	60.62
May	60.10	48.19
June	59.00	48.35
July	59.76	42.69
August	60.46	40.65
September	59.36	42.99
October	54.10	45.78
November	71.88	52.28
December	64.05	54.25
Average	**61.39**	**51.02**

Source: Bureau of Agricultural Statistics

Consumption

Despite the lower-than-expected agricultural output, Philippine GDP in 2006 reached 5.4 percent, up from the revised 5.0 percent GDP expansion the pervious year. The expansion was attributed to double-digit export growth and strong consumption fuelled by record-level overseas remittances. For 2007, GDP growth rate has been upgraded to 6.1-6.7 percent from 5.7-6.5 percent due to an expected surge in investments. Official GNP growth projection for the year, on the other hand, was raised to 6.2-7.1 percent from the original target of 6.0-6.9 percent.

Stable food prices, a stronger local currency, and moderating oil prices slowed year-on-year consumer price inflation, which, as of February 2007, had eased to its lowest rate in nearly three-and-a-half years. Philippine inflation rate averaged 6.2 percent in 2006 and price data for early this year indicate a generally benign inflation environment for 2007. According to the Bangko Sentral ng Pilipinas (BSP), barring unforeseen external and domestic shocks, average inflation for the year is expected between 4.0-5.0 percent, and about 4.0 in 2008.

Coffee is generally considered to be a household staple even among the lower economic classes. Despite a more favorable economic outlook for 2007, domestic coffee consumption is expected to remain flat as some consumers shift to other beverages such as teas. At present, soluble or instant coffee accounts for about 90-95 percent of all the coffee consumed in the Philippines.

Trade

Importation of coffee products slowed down in 2006, across all varieties. Imports are sourced largely from neighboring Asian countries such as Indonesia (29 percent); Vietnam (25 percent); Malaysia (23 percent) and Singapore (18 percent). Trade data from the National Statistics Office show imports of coffee beans in 2006 as declining significantly, with Indonesia overtaking Vietnam this year as the largest supplier. While import volumes decreased, it is very likely that all coffee imports were not accurately captured by official government data. Without significant increases in coffee production and with continued growth in domestic coffee consumption, coffee bean imports will likely remain high at nearly 40 percent of total domestic requirement

According to NSO data, exports of all coffee varieties increased except for Excelsa variety. Exports of roasted and ground blends of coffee also increased. The largest buyer of Philippine coffee in 2006 was Japan, accounting for 88 percent of the total coffee export, followed by Europe (4 percent); the United States (2 percent); Canada (1 percent); and the rest of the importing countries (3 percent).

Policy

The 2007 MFN and CEPT tariff rates for coffee have not changed from the previous year.

Tariff Code	Description	MFN	CEPT	Remarks[1]
09.01	**Coffee, whether or not roasted or**			
	decaffeinated coffee husks and skins; coffee			
	Substitutes containing coffee in any proportion			
	- Coffee, not roasted			
0901.11	-- Not decaffeinated			
0901.11.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.11.90	--- Other			

[1] BN-Brunei Darussalam/KH-Cambodia/MM-Burma/TH-Thailand/ID-Indonesia/LA-Laos/VN-Vietnam

	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.12	-- Decaffeinated			
0901.12.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.12.90	--- Other:			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
	- Coffee, roasted			
0901.21	-- Not decaffeinated			
0901.21.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.21.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22	-- Decaffeinated			
0901.22.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.90.00	- Other			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH

Source: Tariff and Customs Code of the Philippines, 2004

Marketing

According to Euromonitor, specialist coffee shops in the Philippines are expected to continue growing in coming years in terms of number of outlets, transactions and sales value. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear in the market. The strong growth is mainly attributed to good consumer demand, as coffee drinking has become a very popular social activity. Increasingly, Filipino consumers are settling for a good coffee instead of alcohol on a night out. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

In the Philippines, multinational chains dominate specialist coffee shops. Led by Starbucks, specialist coffee shops have been enjoying robust growth since appearing in the late 1990s. Other popular foreign franchised specialist coffee shops include Seattle's Best, The Coffee Bean & Tea Leaf and UCC Coffee. Figaro Coffee Company, the most popular local specialist coffee shop in the Philippines, was actually established earlier than Starbucks in the country. Recognizing the good growth potential for specialist coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector has also helped to rejuvenate the Philippine coffee industry.

PSD Table									
Country	Philippines								
Commodity	Coffee, Green			(1000 HA)(MILLION TREES) (1000 60 KG BAGS)					
	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
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Planted	135	135	135	135	135	133	0	0	135
Area Harvested	118	118	118	120	120	116	0	0	118
Bearing Trees	95	95	95	95	95	91	0	0	95
Non-Bearing Trees	15	15	15	15	15	15	0	0	15
Total Tree Population	110	110	110	110	110	106	0	0	110
Beginning Stocks	213	213	213	214	214	214	213	213	137
Arabica Production	35	35	35	38	38	34	0	0	35
Robusta Production	650	650	650	665	665	645	0	0	652
Other Production	25	25	25	25	25	24	0	0	25
Total Production	710	710	710	728	728	703	0	0	712
Bean Imports	350	350	350	365	365	292	0	0	400
Roast & Ground Imports	3	3	3	3	3	3	0	0	3
Soluble Imports	50	50	50	50	50	47	0	0	50
Total Imports	403	403	403	418	418	342	0	0	453
Total Supply	**1326**	**1326**	**1326**	**1360**	**1360**	**1259**	**213**	**213**	**1302**
Bean Exports	4	4	4	2	2	2	0	0	2
Rst-Grnd Exp.	0	0	0	0	0	0	0	0	0
Soluble Exports	48	48	48	60	60	60	0	0	64
Total Exports	52	52	52	62	62	62	0	0	66
Rst,Ground Dom. Consum	120	120	120	130	130	120	0	0	120
Soluble Dom. Cons.	940	940	940	955	955	940	0	0	940
Domestic Use	1060	1060	1060	1085	1085	1060	0	0	1060
Ending Stocks	214	214	214	213	213	137	0	0	176
Total Distribution	**1326**	**1326**	**1326**	**1360**	**1360**	**1259**	**0**	**0**	**1302**
Exportable Production	0	0	0	0	0	0	0	0	0