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Philippines

Dairy and Products

Annual

2007

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Report Highlights:
Despite continuing government and industry efforts to increase dairy production, Philippine milk production remains at less than one percent of total dairy requirements with import filling most of the supply. Imports of milk and milk products increased by over 10 percent last year, and are expected to continue to grow this year due to rising demand and the appreciation of the Philippine currency. Dairy product is the country's second largest agricultural import.

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

Production

Data from the Philippine National Dairy Authority (NDA) shows that in terms of volume, domestic milk production grew 3.63 percent from 12,340 metric tons in 2005 to 12,870 metric tons last year. Value of dairy production in 2006 amounted to P372 million ($6.74 million at current exchange rate[1]). Currently, the country produces less than one percent of its total annual dairy requirement and imports the balance.

As of January 1, 2007, there were estimated 26,172 dairy animals, an increase of about 1.65 percent from the previous year, comprised of cattle (12,094), water buffalo (13,155) and goats (923). Dairy cattle numbers, in particular, increased by more than 7.4 percent due mainly to the on going herd build-up programs of the NDA. Dairy animal numbers are expected to continue increasing by 500-1,000 annually, due to this government program as well as increasing farmgate prices for milk.

DAIRY ANIMAL NUMBERS (as of January 1, 2005-07)			
	2005	**2006**	**2007**
Cattle	10,043	11,261	12,094
Carabao	13,140	13,380	13,155
Goats	1,209	1,105	923
TOTAL	24,392	25,746	26,172

Source: Bureau of Agricultural Statistics

Female breeders or dams accounted for about 45 percent and 52 percent of total cattle and carabao (water buffalo) population, respectively. The rest were bulls, heifers, yearling and calves. On the other hand, goat female breeders comprised 55 percent of total dairy goat inventory, and the rest classified under kids and bucks.

Despite an increase in the number of dairy animals, the average milking capacity per animal remains low due mainly to inadequate feeding and poor animal management practices. For the NDA-assisted dairy projects in 2006, the total milk production was estimated at 8,519 liters, up 8 percent from the previous year and comprising about 66.2 percent of national production.

The average farmgate price of cow's milk rose by 6.2 percent to P17/liter in 2006 from P16/liter in the previous year, while the price of carabao's milk remained steady at P45.00/liter. Goat's milk declined by nearly 6 percent from P35/liter in 2005 to P33/liter last year, as supply increased. Average composite price of milk (farmgate) was P28.92/liter in 2006, up slightly from the previous year.

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 last year. For 2007, GDP growth rate was 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 in 2007.

[1] $1=P44.21, Source: Bangko Sentral ng Pilipinas as of October 17, 2007

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 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 4.0 percent plus or minus one percentage point in 2008.

The Philippines, with an estimated population of 86 million, growing annually at 2.36 percent, is a large market for milk and milk products. Dairy products are the country's second largest agricultural import after wheat. The country's dairy industry, which sources 99 percent of its inputs from abroad, is estimated to generate sales of up to $1 billion annually. The Philippines is the largest Southeast Asian market for U.S. dairy products. Total dairy exports last year reached $96 million, up nearly 51 percent from 2005. The top US exports to the Philippines in 2006 were: nonfat dry milk powder ($69 million), whey ($13 million) and cheese ($3.3 million).

In 2006, NDA estimated total domestic dairy requirements to be about 2.59 MMT, growing at about 2 percent yearly. According to the latest Food and Nutrition Research Institute (FNRI) surevey, per capita milk consumption increased from 16 kg/year in 2002 to 19 kg/year in 2003.

Over the last few years, numerous dairy cooperatives have sprung up in various regions of the country. About half of local milk production, according to NDA, is absorbed in the local communities where it is produced. The other half goes to school and community milk feeding programs co-funded by local government units. With dairy production in the country being more community-based, maintaining the quality of fresh milk becomes a major concern due to the lack of dairy processing facilities and milk delivery vehicles.

Trade

The country's second agricultural import after wheat, imports of milk and milk products rose by 12.3 percent in liquid milk equivalent (LME) in 2006, from 1,464,720 MT in 2005 to 1,644, 730, compensating for the sharp decline in imports the previous year. The major country suppliers by volume were New Zealand with 40 percent share of the total imports; Australia, 21 percent; the United States, 19 percent and Singapore, 4 percent. NFDM and WMP imports stand at about 60 percent of total milk imports.

NFDM imports rose by about 10 percent while WMP imports increased nearly 15 percent from the previous year's levels. Imports of NFDM are forecast to increase in 2007, despite high world prices due in part due to the strengthening of the Philippine peso and rising demand for dairy and dairy products. Imports of whole milk powder (WMP) are also expected to continue to increase due to growing WMP re-exports in the region.

Fluid milk imports on the other hand decreased nearly 20 percent in terms of volume as a result of increasing domestic fresh milk production and higher milk prices in major milk supplying countries. Imports of whey powder rose more that 20 percent in volume while and cheese imports also increased.

VOLUME OF DAIRY IMPORTS 2005-06 ('000 MT, in LME)[2]			
1. Milk and Cream	**2005**	**2006**	**% Change**
o Skimmilk Powder	685.12	750.81	9.59
o Wholemilk Powder	267.99	307.05	14.58
o Buttermilk Powder	148.43	157.34	6
o Whey Powder	284.04	341.72	20.31
o Liquid (RTD) Milk	45.71	37.74	-17.44
o Evaporated Milk	14.69	19.41	-17.44
o Others	18.74	30.86	30.77
Total Milk and Cream	1,464.72	1,644.73	**64.6**
2. Butter & Butterfat & Dairy Spreads	85.50	71.89	-15.92
3. Cheese	24.34	30.35	24.69
4. Curd	30.05	26.35	-12.31
Total Imports	**1,604.61**	**1,773.32**	**10.51**

Source: National Dairy Authority

While total exports declined 10 percent in 2006, exports of whole milk powder, comprising 98 percent of total exports, increased by 8 percent in 2006. The main countries of destination were Indonesia (51 percent) and Malaysia (36 percent).

VOLUME OF PHILIPPINE DAIRY EXPORTS (In MT, LME)			
	2005	**2006**	**% Change**
Liquid (RTD) Milk	6.64	218.7	3194%
Skimmilk powder	290.51	0.46	-100%
Wholemilk powder	29,839.32	32,267.77	8%
Evaporated milk	69.1	4.86	-93%
Cream	39.46	37.63	-5%
Condensed milk	0.93	0.72	-23%
Ice cream/mixes	878.48	962.66	10%
Ice drops	6381.63	314.75	-95%
Whey	34.5	53.89	56%
Others	7.91	3.53	-55%
MILK AND CREAM	**37,548.48**	**33,864.97**	**-10%**
Butter/Butterfat	4.78	14.11	195%
Cheese	274.22	156.13	-43%
TOTAL EXPORTS	**37,827.48**	**34,035.21**	-10%

Source: National Dairy Authority

[2] To get the LME, NDA uses a conversion factor of 8.02 liters per 1 kg of whole and non-fat dry milk powder and 5.51 liters per kg of cheese

Policy

The Philippine DA continues to prioritize the development of the Philippine dairy industry, recognizing the growing demand for fresh milk by the specialty coffee shops, hotels and restaurants as well as by the local government units for their milk feeding programs. While the DA accepts that Philippines cannot compete in the powdered milk market, it believes that it can focus on supplying fresh milk to the market.

The National Dairy Authority, an attached agency of the Philippine Department of Agriculture, is mandated to ensure the accelerated development of the Philippine dairy industry through policy and program implementation. The NDA aims to accelerate dairy herd build-up and milk production, enhance dairy business through the delivery of technical services at farm and enterprise levels, increase the coverage of milk feeding programs to reduce malnutrition and mobilize broad support for local milk consumption. The NDA implements the following four main programs:

1. Dairy Business Enhancement – inculcates enterprise orientation along the supply chain from farm to market. Includes training programs to establish effective business models to assist participants to think business and profits and not merely productivity

2. Herd Build-up Program – increase local dairy stocks and ensure good animal performance. Supervises animal infusion from importation, compliance with quarantine procedures, distribution and provision of technical services, as well as strengthening of the animal loan program of Quedancor. In 2006, 615 dairy animals were imported by NDA from New Zealand for distribution to various dairy associations

3. Milk Feeding Program – the NDA Milk Feeding Program (MFP) provides a steady flow of income to local dairy farmers and cooperatives as well as used to address the problem of malnutrition in children. In cooperation with dairy cooperatives, partner-donors such as local government units and other entities, the NDA undertakes milk feeding projects to raise the nutritional level of malnourished children. Improvement rates are monitored accordingly. Local Milk Trusts are created to facilitate payment to the farmers. A Philippine Milk Fund has been established through a public-private effort to widen the coverage of the NMFP.

4. Milk Quality – in June 2005, the NDA's Central Milk Testing Laboratory was accredited the Bureau of Food and Drug (BFAD) to conduct testing for milk quality and animal health. Following accreditation, the NDA began charging fees for its laboratory services and milk quality assistance and milk formulation standardization for milk feeding programs. The NDA Quality Assurance department was also created to disseminate quality standards and closely monitor quality procedures at the milk collection centers, milk plants and distribution points.

Tariffs: The 2007 MFN tariff rates for dairy and dairy products remain unchanged from previous year.

TARIFF SCHEDULE 2006			
H.S. Code	**Description**	**Rate of Duty**	
		MFN	**CEPT**
0401	**Milk and cream, not concentrated nor containing added sugar or other sweetening matter**		
0401.10.00	Of a fat content, by weight, not exceeding 1 percent	3	3
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	3
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	3
0402	**Milk and cream, concentrated or containing added sugar or other sweetening matter**		
0402.10.00	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent	1	3-5
0402.21.00	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 percent		
	Not containing added sugar or other sweetening matter	1	3-5
0402.29.00	Other	1	3-5
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	5
0402.99.00	Other	5	5
0403	**Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa**		
0403.10	Yogurt		
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter; liquid yogurt	7	5
0403.10.10	Other	7	5
0403.90	Other		
0403.90.10	Buttermilk	3	3
0403.90.90	Other	7	5
0404	**Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included**		
0404.10.00	Whey or modified whey, whether or not concentrated or containing added sugar or other sweetening matter	1	3

0404.90.00	Other	3	3
0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	7	5
0405.20.00	Dairy spreads	7	5
0405.90.00	Other	1	0
0406	**Cheese or curd**		
0406.10.00	Fresh (unripened or uncured) cheese, including whey cheese, and curd	3	0
0406.20	Grated or powdered cheese, of all kinds:		
0406.20.10	In containers of gross weight exceeding 20 kgs.	3	0
0406.20.90	Others	7	5
0406.30.00	Processed cheese, not grated or powdered	7	5
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	5

Source: Tariff and Customs Code 2004

Marketing

In 2006, three new plants were established in Iba, Zambales, San Pablo, Isabela and Pili Camarines Sur to enhance the processing capabilities of the local dairy sector. Though the initiative of the National Dairy Authority, two milk processing plants were also completed last year in Tigbauan, Iloilo and Roxas, Zamboanga del Norte from USDA Section 416(b) funds.

The country's first dairy breeder farm, the Happy Cows Tropical Dairy Farm (HCTDF) was recently established in Calauan, Laguna in partnership the National Dairy Authority. According to news reports, about 50 animals are currently in the farm. An additional 50 more animals are expected to be infused by the NDA. The NDA will be extending technical assistance to the breeder farm while the facilities for the animals and the milking equipment will be provided by the private partner.

The HCTDF is expected to supply the future dairy calves needed by the country. According to NDA, such breeder farms will make the domestic dairy industry independent from any more government assistance and keep the cost of pregnant heifers down. At present, pregnant heifers are sold at P90,000 each, the breeder farm is expected to supply the same at only P50,000. The breeder farm is projected to have 100 calves by the end of this year.

PSD Table									
Country	Philippines								
Commodity	Dairy, Milk, Fluid						(1000 HEAD) (1000 MT)		
	2006			2007			2008		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Cows In Milk	12	12	12	12	0	12	0	0	0
Cows Milk Production	14	14	13	15	15	13	0	0	13
Other Milk Production	3	3	3	3	3	3	0	0	3
Total Production	17	17	16	18	18	16	0	0	16
Other Imports	51	51	40	53	53	45	0	0	50
Total Imports	51	51	51	53	53	53	0	0	53
Total Supply	**68**	**68**	**56**	**71**	**71**	**61**	**0**	**0**	**66**
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Fluid Use Dom. Consumption	63	63	51	66	66	56	0	0	61
Factory Use Consumption	5	5	5	5	5	5	0	0	5
Feed Use Dom. Consumption	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	68	68	56	71	71	61	0	0	66
Total Distribution	**68**	**68**	**56**	**71**	**71**	**61**	**0**	**0**	**66**
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table									
Country	Philippines								
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)		
	2006			2007			2008		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	7	7	7	3	3	3	2	2	2
Production	0	0	0	0	0	0	0	0	0
Other Imports	90	90	95	98	98	98	0	0	100
Total Imports	90	90	95	98	98	98	0	0	100
Total Supply	**97**	**97**	**102**	**101**	**101**	**101**	**2**	**2**	**102**
Other Exports	18	18	18	20	20	18	0	0	18
Total Exports	18	18	18	20	20	18	0	0	18
Human Dom. Consumption	76	76	81	79	79	81	0	0	84
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	76	76	81	79	79	81	0	0	84
Total Use	94	94	99	99	99	99	0	0	102
Ending Stocks	3	3	3	2	2	2	0	0	0
Total Distribution	**97**	**97**	**102**	**101**	**101**	**101**	**0**	**0**	**102**
CY Imp. from U.S.	20	20	23	20	20	25	0	0	25
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table									
Country	**Philippines**								
Commodity	**Dairy, Dry Whole Milk Powder**						(1000 MT)		
	2006			2007			2008		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	0	0	0	0	0	0	0	0	0
Other Imports	45	45	40	50	50	42	0	0	45
Total Imports	45	45	40	50	50	42	0	0	45
Total Supply	**45**	**45**	**40**	**50**	**50**	**42**	**0**	**0**	**45**
Other Exports	29	29	30	32	32	32	0	0	33
Total Exports	29	29	30	32	32	32	0	0	33
Human Dom. Consumption	16	16	10	18	18	10	0	0	12
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	16	16	10	18	18	10	0	0	12
Total Use	45	45	40	50	50	42	0	0	45
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	**45**	**45**	**40**	**50**	**50**	**42**	**0**	**0**	**45**
CY Imp. from U.S.	1	1	2	1	1	3	0	0	3
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

PSD Table									
Country	Philippines								
Commodity	Dairy, Cheese						(1000 MT)		
	2006			2007			2008		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	2	2	2	2	2	2	0	0	2
Other Imports	6	6	6	7	7	7	0	0	7
Total Imports	6	6	6	7	7	7	0	0	7
Total Supply	**8**	**8**	**8**	**9**	**9**	**9**	**0**	**0**	**9**
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Human Dom. Consumption	8	8	8	9	9	9	0	0	9
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	8	8	8	9	9	9	0	0	9
Total Use	8	8	8	9	9	9	0	0	9
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	**8**	**8**	**8**	**9**	**9**	**9**	**0**	**0**	**9**
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0