USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 11/21/2008

GAIN Report Number: RP8067

Philippines

Dairy and Products

Annual

2008

Approved by:
Emiko Purdy
U.S. Embassy

Prepared by:
Pia Abuel-Ang

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 are expected to slowdown this year due to continuing high world prices. Dairy products are the country's second largest agricultural import.

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

Data in this report is not official USDA data. Official USDA data is available at http://www.fas.usda.gov/psd.

Executive Summary

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 are expected to slowdown this year due to continuing high world prices. Dairy products are the country's second largest agricultural import.

Production

Data from the Philippine National Dairy Authority (NDA) shows that in terms of volume, domestic milk production grew 3.44 percent from 12,870 metric tons in 2006 to 13,320 metric tons last year. Value of dairy production in 2007 amounted to P387.11 million ($7.9 million at current exchange rate[1]). Local milk production is projected to continue to increase due to the growing demand for fresh milk. The country produces less than one percent of its total annual dairy requirement and imports the balance.

As of January 1, 2008, there were an estimated 28,191 dairy animals, an increase of about 8 percent from the previous year, comprised of dairy cattle (13,864), water buffalo (13,416) and dairy goats (911). Dairy cattle numbers, in particular, increased by nearly 15 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, 2008)			
	2006	2007	2008
Cattle	11,261	12,094	13,864
Carabao	13,380	13,155	13,416
Goats	1,105	923	911
TOTAL	25,746	26,172	28,191

Source: Bureau of Agricultural Statistics

Female breeders or dams accounted for about 58 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 52 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. Milk production of NDA-assisted dairy projects in 2007 was estimated at 9.27 million MT or 70 percent of national milk production.

The average farmgate price of raw cow's milk rose by 11.76 percent to P19/liter ($0.42/li) in 2007 from P17/liter ($0.33/liter) in the previous year, while the price of raw carabao's milk increased slightly to P45.50/liter ($0.99/li). The price of raw goat's milk increased by 6.06 percent from P33/liter ($0.64/li) in 2006 to P35/liter ($0.76/li) last year.

[1] US$1=P49.99, as of November 20, 2008; US$1=P46.15 in 2007 and US$1=P51.31 in 2006

According to trade sources, retail prices of local fresh milk increased by about 4.4 percent per year from P45/liter[2] ($0.87/li) in 2002 to P55/liter ($1.19/li) in 2007. Retail prices of UHT milk on the other hand grew by as much as 10.3 percent per year from P39/liter ($0.76/li) in 2002 to P63/liter ($1.36/li) in 2007.

Basically, there are four farm types in the Philippine producing raw milk: unorganized smallholder producers, cooperative smallholder producers; government and commercial farms. Both smallholder and cooperative producers allocate for home consumption and home-based processing. Milk from smallholder producers and are members of cooperatives is usually consolidated in a collection center and then delivered to a processing plant. There are at least 16 dairy processors in the country. The bulk of raw milk produced in government farms are processed in government-owned processing facilities and are sold to rural consumers. Fresh milk from commercial farms is sold to commercial processors for processing. Among the major suppliers to the coffee shops are milk processors from Batangas and Laguna. Other milk suppliers are importers of UHT milk, mostly coming from Australia and New Zealand. Large dairy companies have milk processing facilities but do tool packaging of their UHT milk from New Zealand. These companies use their known milk brands in the local market but use imported milk (Food and Agribusiness Monitor, University of Asia and the Pacific).

Consumption

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 now the 3rd largest market for U.S. dairy products, after Mexico and Canada. Total dairy exports last year reached $152 million, up nearly 58 percent from 2006. The top US dairy exports to the Philippines in 2007 were: nonfat dry milk powder ($100 million), whey ($23 million) and cheese ($4.3 million).

In 2007, NDA estimated total domestic dairy requirements to be about 2.635 MMT, growing at about 2 percent yearly. According to the latest Food and Nutrition Research Institute (FNRI) survey, 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

Dairy products are the country's second largest agricultural import after wheat. In 2007, imports of milk and milk products declined by about 2 percent in liquid milk equivalent (LME), from 1,733 MMT in 2006 to 1,740 MMT last year. While the value of total milk exports grew by as much as 43 percent last year due mainly to the significant rise in world market prices of dairy products which started in 2006 and a slowdown in global milk production. The major country suppliers by volume were New Zealand with 42 percent share of the total imports; followed by the United States with 18 percent and Australia at 13 percent.

[2] US$1=51.60 in 2002

Non Fat Dry Milk (NFDM) and Whole Milk Powder (WMP) imports comprise about 58 percent of total milk imports. NFDM and WMP imports declined by about 4 percent and 6 percent, respectively in 2007. Liquid milk imports, on the other hand, increased by about 17 percent by volume in 2007 as a result of increasing domestic demand for fresh milk and liquid milk particularly by specialty coffee shops. Imports of butter and other dairy spread also increased by about 26 percent while imports of cheese increased by nearly 20 percent in 2007. Imports of dairy products in the first half of 2008 have fallen by as much as 14 percent and are expected to continue to slowdown for the rest of the year due to high world prices.

VOLUME OF DAIRY IMPORTS 2006-08 ('000 MT, in LME)[3]				
1. Milk and Cream	**2006**	**2007**	**Jan-June 2008**	**% Change 2007/06**
• Skimmilk Powder	750.81	720.24	312.81	(3.03)
• Wholemilk Powder	307.05	287.76	205.40	(4.07)
• Buttermilk Powder	157.34	158.29	71.03	(6.28)
• Whey Powder	341.72	321.07	114.21	0.60
• Liquid (RTD) Milk	37.74	44.28	17.10	17.33
• Evaporated Milk	19.41	11.95	0.43	(38.43)
• Others	30.86	51.26	21.75	66.10
Total Milk and Cream	1,644.73	1,594.85	**742.73**	**(3.03)**
2. Butter, Butterfat & Dairy Spreads	71.89	90.45	44.78	25.82
3. Cheese	30.35	36.35	22.83	19.77
4. Curd	26.35	18.22	6.74	(30.85)
Total Imports	**1,773.32**	**1,739.87**	**817.08**	**(1.89)**

Source: National Dairy Authority and National Statistics Office

Total dairy exports increased by 8 percent in 2007 with exports of whole milk powder comprising about 95 percent of the total volume. The main countries of destination were Indonesia (51 percent) and Malaysia (26 percent); other export markets include Thailand and Vietnam in 2007.

VOLUME OF PHILIPPINE DAIRY EXPORTS (In MT, LME)			
	2006	**2007**	**% Change**
Milk and Cream	261.67	280.81	7.31
Butter/Butterfat	0.09	0.21	133.33
Cheese	0.88	2.78	215.91
TOTAL EXPORTS	**262.64**	**283.80**	**8.06**

Source: National Dairy Authority and National Statistics Office

[3] 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

Exports of dairy products from January to June 2008 grew by 12 percent by volume and as much as 47 percent in value. The re-export of dairy products to other Asian countries is expected to remain strong.

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 2008/09 MFN tariff rates for dairy and dairy products remain unchanged from previous year.

TARIFF SCHEDULE 2008/09			
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

Metro Manila remains as the major market for fresh milk classified into business and consumer markets. The business markets include the institutional markets and the retail sector such as coffee shops, hotels, restaurants, supermarkets and small retailers. Meanwhile, the consumer markets include households and schools through the milk feeding program of the government.

The main target of local milk processors are the institutional buyers like coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Local suppliers are enjoying this market as most coffee shops demand local fresh milk for their coffee concoctions because of its superior taste and ability to promote foaming compared to UHT milk.

The specialty coffee shop industry is seen to sustain its growth of 20 percent for the next five years. Players attribute this to the growing awareness of specialty coffee among consumer and the improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific)

Dairy, Milk, Fluid Philippines	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Cows In Milk ('000 heads)	12	0	12	12	0	13			14
Cows Milk Production ('000 MT)	13	0	13	13	0	14			15
Other Milk Production	3	0	3	3	0	3			3
Total Production	16	0	16	16	0	17			18
Other Imports	45	0	45	50	0	40			45
Total Imports	53	0	53	53	0	0			0
Total Supply	61	0	61	66	0	57			63
Other Exports	0	0	0	0	0	0			0
Total Exports	0	0	0	0	0	0			0
Fluid Use Dom. Consum.	56	0	56	61	0	52			58
Factory Use Consum.	5	0	5	5	0	5			5
Feed Use Dom. Consum.	0	0	0	0	0	0			0
Total Dom. Consumption	61	0	61	66	0	57			63
Total Distribution	61	0	61	66	0	57			63
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	0	0	0	0	0	0			0

Note: Not Official USDA Data

Dairy, Milk, Nonfat Dry Philippines	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks ('000 MT)	3	64	3	2	61	2			2
Production	0	175	0	0	180	0			0
Other Imports	98	32	98	100	32	85			95
Total Imports	98	32	98	100	32	85			95
Total Supply	101	271	101	102	273	87			97
Other Exports	18	0	18	18	0	15			15
Total Exports	18	0	18	18	0	15			15
Human Dom. Consumption	81	185	81	82	185	70			80
Other Use, Losses	0	25	0	0	25	0			0
Total Dom. Consumption	81	210	81	82	210	70			80
Total Use	99	210	99	100	210	85			95
Ending Stocks	2	61	2	2	63	2			2
Total Distribution	101	271	101	102	273	87			97
CY Imp. from U.S.	20	0	34	25	0	44			45
CY. Exp. to U.S.	0	0	0	0	0	0			0

Note: Not Official USDA Data

Dairy, Dry Whole Milk Powder Philippines	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks ('000 MT)	0	0	0	0	0	0			0
Production	0	0	0	0	0	0			0
Other Imports	42	42	42	45	45	50			52
Total Imports	42	42	42	45	45	50			52
Total Supply	42	42	42	45	45	50			52
Other Exports	32	32	32	33	33	36			38
Total Exports	32	32	32	33	33	36			38
Human Dom. Consumption	10	10	10	12	12	14			14
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	10	10	10	12	12	14			14
Total Use	42	42	42	45	45	50			52
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	42	42	42	45	45	50			52
CY Imp. from U.S.	3	3	0	3	3	3			3

Note: Not Official USDA Data

Dairy, Cheese Philippines	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks ('000 MT)	0	15	0	0	15	0			0
Production	2	41	2	2	47	2			2
Other Imports	7	215	7	7	215	9			10
Total Imports	7	215	7	7	215	9			10
Total Supply	9	271	9	9	277	11			12
Other Exports	0	0	0	0	0	0			0
Total Exports	0	0	0	0	0	0			0
Human Dom. Consumption	9	256	9	9	262	11			12
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	9	256	9	9	262	11			12
Total Use	9	256	9	9	262	11			12
Ending Stocks	0	15	0	0	0	0			0
Total Distribution	9	271	9	9	262	11			12
CY Imp. from U.S.	0	7	1	0	9	2			2
CY. Exp. to U.S.	0	0	0	0	0	0			0

Note: Not Official USDA Data