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Poultry and Products

Chicken Industry Update

2009

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Report Highlights:
In 2008, Philippine chicken production, valued at about $2 billion, increased by 5.76 percent over the previous year. The growth in broiler production is forecast to slowdown this year as a result of rising feed and production costs and possible weaker consumer demand. Total chicken meat imports, majority of which was chicken leg quarters and deboned chicken meat, increased only slightly last year. San Miguel Corporation, the largest agribusiness conglomerate in the country, announced plans to expand broiler production by $68 million.

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

Executive Summary

In 2008, Philippine chicken production, valued at about $2 billion, increased by 5.76 percent over the previous year. The growth in broiler production is forecast to slowdown this year as a result of rising feed and production costs and possible weaker consumer demand. Total chicken meat imports, majority of which was chicken leg quarters and deboned chicken meat, increased only slightly in 2008. San Miguel Corporation, the largest agribusiness conglomerate in the country, announced plans to expand broiler production by $68 million.

Production

The Philippine poultry sector, valued at about P131 billion ($2.7 billion[i]), expanded by 11 percent in 2008 and represents about 14 percent of total agricultural production in the country. Chicken production, valued at P98 billion ($2 billion) and the primary source of growth in this sector, went up by 5.76 percent. Increased broiler production was particularly noted in dressing plants throughout last year.

CHICKEN PRODUCTION (TMT)					
	2006	**2007**	**2008**	**07/06**	**08/07**
CHICKEN	1,205.95	1,211.62	1,281.35	0.47	5.76
CHICKEN EGGS	330.29	335.11	350.77	1.46	4.67

Source: Bureau of Agricultural Statistics

According to the Philippine Department of Agriculture's (DA) Bureau of Agricultural Statistics (BAS), another contributing factor to the growth in 2008 was the rehabilitation of typhoon damaged farms in Ilocos Region in Luzon. In the fourth quarter, there were reports of establishment of new broiler commercial farms in Ilocos Norte and increase in the number of contract farms in Northern Mindanao.

According to local broiler associations, the growth in chicken output is expected to slowdown this year, partially as a result of weak consumer demand, coupled with rising feed and production costs.

Consumption

Per capita chicken production in 2007 was at 7.86 kg/year decreased slightly from the previous year. Increased production and constant import levels in 2008 are expected to increase per capita consumption in 2008.

CHICKEN CONSUMPTION (Per Capita kg/yr)			
	2005	**2006**	**2007**
Dressed Chicken	7.58	7.95	7.86
Chicken eggs	3.46	3.49	3.48

Source: Bureau of Agricultural Statistics

According to analysts, the ongoing global economic crisis is expected to dampen consumer food demand in 2009, including chicken consumption. However, concerns about Ebola Reston Virus in pigs may result in some shift from pork to chicken by consumers.

Prices

Prices in the poultry sector increased by an average of 5.73 percent. Farmgate prices of chicken in particular recorded a 5.64 percent increment, while that of chicken eggs appreciated by 4.55 percent.

POULTRY FARMGATE PRICES (Pesos)					
	2006	2007	2008	07/06	08/07
CHICKEN	67.78	72.14	76.21	6.43	5.64
CHICKEN EGGS	69.49	75.84	79.29	9.14	4.55

Source: Bureau of Agricultural Statistics

Trade

Importation of chicken meat increased slightly in 2008 by 2 percent. Main country sources are Canada (38 percent), the United States (30 percent) and Brazil (18 percent). Last year, imports of chicken leg quarters, in particular, declined by 35 percent while imports of mechanically deboned chicken, used mainly in meat processing, increased by 41 percent. Adequate domestic production of chicken, coupled with the uncertainty caused by the MAV review and delays in the issuance of MAV licenses contributed in part to the decline in chicken leg quarter imports in 2008.

Importation (kgs)	2006	2007	2008	2006/07	2008/07
Chicken Cuts	1,631,748	1,950,780	3,387,143	20%	74%
Chicken Leg Quarters	20,052,959	24,537,053	16,069,476	22%	-35%
Chicken Offal			15,945		
Deboned	10,442,165	18,080,197	25,421,374	73%	41%
Fats	43,561	10,886	47,174	-75%	333%
Rind/Skin	-	27,020	420,905		1458%
Whole Chicken	509,825	469,023	410,386	-8%	-13%
Total	32,680,258	45,074,959	45,772,404	38%	2%

Country Sources (kgs)	2006		2007		2008	
Australia	3,353,273	10%	5,727,112	13%	5,476,811	12%
Belgium	133,845	0.41%	27,000	0.06%	321,005	0.70%
Brazil	2,923,570	6%	5,763,016	13%	8,215,828	18%
Canada	8,559,237	19%	13,626,859	30%	17,122,136	38%
Denmark	52,102	0.12%	53,982	0.12%		0%
Netherlands		0.00%	5,200	0.01%	276,715	1%
Malaysia		0.00%	24,000	0.05%		0%
USA	17,580,224	39%	19,847,791	44%	13,743,182	30%
France	54,008	0%		0%	585,277	1%
New Zealand		0%		0%	31,450	0%
Others	24,000	0%		0%		0%
Total	32,680,259		45,074,960		45,772,404	

Source: Bureau of Animal Industry, National Veterinary Quarantine Service

Policy

WTO Commitments: Since 2005, the DA has continued to maintain 10th or final-year Minimum Access Volume (MAV) levels under its Uruguay Round commitments. For poultry HS 0207, the final-year MAV was 23,490 MT. The DA previously stated that it will continue to do so until such time as a new WTO agreement is reached. In late 2007, the DA announced that it would undertake a review of MAV distribution guidelines in order to allow new entrants and more entities to participate in the MAV system. After extensive and spirited cosultations with local stakeholders and main trading partners, in February 2009, the Philippine Agriculture Secretary announced that the current MAV system would remain in place and that no changes to would be iniated in the meantime.

Minimum Access Volumes: Data from the MAV Management Committee of the Philippine Department of Agriculture (DA) shows that in 2005, fresh/chilled/frozen poultry meat MAV utilization dropped from 89 percent in 2006 to 85 percent last year. Despite uniform in and out-of quota duties of 40 percent for most poultry products, the Philippines maintains a Tariff-Rate-Quota or MAV system for poultry. Annual MAV utilization for poultry meat for the last three years has averaged around 90 percent, but has been declining, in part due to the elimination of special safeguard duties for mechanically deboned chicken (see GAIN RP7056) and thus use of MAV for those products, as well as the uncertainty caused by the extended MAV review last year. The majority of all the country's chicken meat imports (except mechanically deboned or separated poultry) fall under the MAV.

MAV UTILIZATION RATE 2006-08							
HS Code	**Description**	**2006**		**2007**		**2008**	
		MAV (MT)	**Used**	**MAV (MT)**	**Used**	**MAV (MT)**	**Used**
0207	**Fresh/Chilled/Frozen Poultry**	23,490	97% 22,707	23,490	89% 20,906	23,490	85% 19,989

Source: DA-MAV Secretariat

Tariff Rates: In-quota and out-of-quota tariff rates for MAV commodities have not changed since 2005. On the other hand, 2009 tariff rates for ASEAN countries have dropped to 20 percent and are expected to reach 5 percent in 2010. For this year, MFN and AFTA-CEPT[ii] tariff rates for chicken are as follow:

H.S. Code		**IN-QUOTA**	**OUT-QUOTA**	**AFTA CEPT**
0207	Poultry			
0207.1200	Frozen Chicken (Whole)	40	40	20
0207.1410	Frozen Chicken (Wings)	40	40	20
0207.1420	Frozen Chicken (Thighs)	40	40	20
0207.1430	Frozen Chicken (Liver)	40	40	20
0207.1490	Other:		40	20
0207.1490A	Mechanically deboned or separated meat	5	5	20
0207.1490B	Other, In-Quota	40	40	20
0207.1490C	Other, Out-Quota	40	40	20

Source: Executive Order NO. 574 (2007)

Special Safeguards: In 2002, the GRP imposed a price-based special safeguard duty (SSG) on chicken under H.S. 0207.1400 (frozen chicken cuts and offal). This has doubled the effective rate of protection for all out-of-quota imports of the said products. Last year, the United States exported nearly $20 million worth of poultry meat (including chicken, turkey and duck) to the Philippines, majority of which are chicken leg quarters and other chicken cuts. The imposition of the SSG in 2002 was mainly the result of intense political pressure from the domestic poultry industry to keep low-priced chicken imports out.

Marketing

SMC: In February 2009, San Miguel Corporation (SMC), the largest food and beverage conglomerate in the Philippines announced that it has earmarked nearly P10 billion ($200 million) for the expansion of its food group program in the next few years. San Miguel Corporation enumerated the key components of this expansion plan as follows: P4.89 billion ($100 million) for the expansion of the Monterey Hog Farm; P3.37 billion ($68 million) for the expansion of the Magnolia Poultry Farm; P840 million ($16.8 million) for the B-Meg Animal Feeds Program; P231 million ($4.6 million) for the Purefoods-Hormel Corporation Nuggets line; and P215 million ($4.3 million) for the new Magnolia Ice Cream Plant.

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[i] US$1=P48.47, as of March 18, 2008; made up of duck, duck eggs & chicken eggs
[ii] ASEAN Free Trade Agreement-Common Effective Preferential Tariffs