



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 5/15/1999

GAIN Report #RP9025

Philippines

Coffee

Coffee Annual - 1999

1999

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Report Highlights:

The El Nino drought starting April 1997 to late 1998 will result in the steep decline of Philippine coffee production in MY97/98 and MY98/99. Starting the former year, the country has become a net coffee importer and will remain as such for at least the next three years. Indications point to a surge in imports in MY98/99 and beyond with the majority of imports coming from Indonesia and the U.S.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Manila [RP1], RP

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Executive Summary

The Philippines became a net importer of coffee in MY97/98 due to a major production shortfall in the face of increasing demand. The El Nino drought which mid-1997 negatively affected coffee output during the year and increased domestic buying prices of coffee.

The decline in output will extend through MY98/99 and imports are expected to surge to augment local supply. Imports will likely be dominated by nearby Indonesia whose currency has depreciated dramatically. Coffee from the U.S., however, is also expected to rise significantly and will likely make us second largest supplier.

Because of the massive inflow of foreign coffee, domestic buying prices will settle a bit and stabilize in 1999 although they will still be comparatively high. Although projected to slightly increase in MY99/00, production will still remain below normal in MY99/00. Production will only increase as young trees planted under contract growing schemes start commercial bearing sometime 2003 to 2004.

PSD Table						
Country	Philippines					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Planted	137	137	137	137	0	137
Area Harvested	115	115	115	115	0	115
Bearing Trees	112500	112	112500	112	0	112
Non-Bearing Trees	17000	17	17000	17	0	17
TOTAL Tree Population	129500	129	129500	129	0	129
Beginning Stocks	312	312	174	39	0	20
Arabica Production	40	35	35	34	0	35
Robusta Production	720	630	630	616	0	630
Other Production	40	35	35	34	0	35
TOTAL Production	800	700	700	684	0	700
Bean Imports	48	48	90	319	0	335
Roast & Ground Imports	21	21	35	0	0	1
Soluble Imports	30	30	50	31	0	35
TOTAL Imports	99	99	175	350	0	371
TOTAL SUPPLY	1211	1111	1049	1073	0	1091
Bean Exports	13	13	3	3	0	3
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	24	24	20	5	0	5
TOTAL Exports	37	37	23	8	0	8
Rst,Ground Dom. Consum	80	85	80	90	0	95
Soluble Dom. Consum.	920	950	920	955	0	965
TOTAL Dom. Consumption	1000	1035	1000	1045	0	1060
Ending Stocks	174	39	26	20	0	23
TOTAL DISTRIBUTION	1211	1111	1049	1073	0	1091

Production

Coffee production in MY97/98 was adjusted downwards as prolonged dryness brought about by the El Nino weather disturbance was more severe than expected.

Lingering effects of the El Nino and the ensuing abnormal rainfall in major coffee producing areas will extend the decline in coffee production in MY98/99. During the year, Post estimates production at 685 thousand bags

consistent with estimates from the International Coffee Organization Certifying Agency (ICOCA) for a 2 percent drop from the previous year's level. Production will likely increase slightly in MY99/00 as the weather reverts back to "more normal" conditions.

Crop area and yields are difficult to arrive at mainly because most coffee trees are found in backyard farms that do not follow scientific spacing or recommended plant densities. Although there have been contract growing schemes employed by the private sector, young coffee trees will start commercial bean production only in five years or sometime in calendar year 2003 to 2004.

Prices

Domestic buying prices per kilo of green beans jumped by 16 percent at the turn of the year (December 1997 to January 1998) as bean-supply tightened as a result of the El Nino drought. According to data from the ICOCA, prices for 1998 remained fairly flat averaging P64.53 per kilo for the year for a significant 32 percent increase from the previous year's average buying price of P48.76. Current prices have eased a bit as supply was augmented by imports and is currently at P60.60.

Prices Table			
Country	Philippines		
Commodity	Coffee, Green		
Prices in	Pesos	per uom	Kg. GBE
Year	1997	1998	% Change
Jan	43.94	64.50	46.79%
Feb	44.50	64.86	45.75%
Mar	44.50	62.50	40.45%
Apr	44.50	64.50	44.94%
May	46.53	66.50	42.92%
Jun	51.50	64.50	25.24%
Jul	48.50	64.50	32.99%
Aug	48.50	64.50	32.99%
Sep	51.43	64.50	25.41%
Oct	52.50	64.50	22.86%
Nov	53.27	64.50	21.08%
Dec	55.50	64.50	16.22%
Exchange Rate	37.94	Loc.currency/ US \$	

Consumption

Consumption in MY97/98 was adjusted upwards mainly due to the increasing population. Consumption numbers in the table will reflect more accurately true consumption as opposed to numbers in the previous reports which had provided for losses and wastage. Both, however, have significantly declined as stock withdrawals have surged due to production shortfalls. Consumption is predicted to post modest increases through MY99/00 mainly due to the increasing population and the expected turn around of the Philippine economy beginning this year. Increasing consumption is manifest in the increasing number of gourmet/specialty coffee shops in the major urban centers as well as the entry into the country of foreign coffee firms.

Trade

Coffee trade reversed in MY97/98 with the country ending as a net importer of coffee. Imports reached 99 thousand bags overtaking exports which totaled 38 thousand bags during the year.

Mainly due to low production and rising demand, coffee imports in MY98/99 are expected to surge and significantly increase from their year-ago levels while exports will decline. Imports during the year are expected to reach 350 thousand bags mostly raw coffee originating from Indonesia followed by the U.S. Imports are predicted to increase the following year. The country will likely be a net importer of coffee for the next three years.

Import Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jul-Jun	Units:	K-60 kg GBE
Imports for:	1997/98		1998/99*
U.S.	7	U.S.	127
Others		Others	
Vietnam	42	Indonesia	199
Indonesia	26	Vietnam	9
Singapore	7	Singapore	9
Thailand	6	Malaysia	4
Hongkong	3	Australia	1
China	3		
Japan	1		
Total for Others	88		222
Others not Listed	4		1
Grand Total	99		350

*Post estimates

Exports, on the other hand, are projected to drop to 8 thousand bags in MY98/99 with the majority destined for Saudi Arabia and Singapore. Trade estimates for the year are extrapolated figures based on trade data from July

1998 to February 1999. Exports the following market year are expected to remain flat compared to the previous year.

Export Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jul-Jun	Units:	K -60kg GBE
Exports for:	1997/98		1998/99*
U.S.	1	U.S.	
Others		Others	
Singapore	26	Singapore	4
Oman	8	Saudi Arabia	2
Taiwan	1	Malaysia	1
Korea	1		
Total for Others	36		7
Others not Listed	1		1
Grand Total	38		8

*Post estimates

Tariffs

The applicable in-quota or Minimum Access Volume (MAV) and out-quota tariff rates for coffee beans (0901.11) in 1999 originating from Indonesia and Singapore are 20 percent and 30 percent, respectively, to go down to a uniform 20 percent in the year 2000 under the ASEAN Free Trade Agreement (AFTA).

Not-roasted, not-decaffeinated coffee from all other sources (0901.11) are charged a 10 percent in-quota tariff rate while out-quota rates are 60 percent through year 2000. For decaffeinated, not-roasted coffee (0901.12), a 45 percent and 60 percent duty, respectively, are levied for the in-quota and out-quota during the same period.

Stocks

Post estimates around 9 percent or about 7 thousand bags of the MY97/98 ending stocks to be of exportable grade. Exportable grade-stocks are likely to be wholly held by the private sector. Stocks significantly declined and fell below the 100 thousand bag level during the year. For MY98/99, stocks are predicted to again decline.

Policy

The following policy developments occurred shortly after submitting the last coffee annual report (RP8015) and

were mainly in response to scarcity of local coffee beans:

Last May 1998, then President Fidel Ramos signed Executive Order No. (EO) 478 which increased the 1998 MAV or tariff rate quota for coffee beans from 1,060 MT to 6,060 MT. EO478 also specified that “the unavailed balance as of end of 1998 shall not be carried over to 1999.”

The following month, President Ramos then signed EO486 reducing the in-quota tariff rate on raw coffee beans from 45 percent to 10 percent through the year 2000.

Under the new Estrada Administration, The Cabinet-level MAV management committee chaired by Dr. William Dar, recommended to the President another increase in the coffee MAV by 10,000 MT in response to a petition filed by coffee processors and roasters who complained of a shortage in coffee beans due to the El Nino drought. The Senate Committee on Agriculture and Food turned, however, turned down the proposal in early 1999 citing it as more of a discretionary item in the consumers budget rather than a basic staple.

The coffee MAV for 1999 is set at 1,126 tons to go up to 1,192 tons in 2000.

Marketing

MY98/99 was characterized by the sale of San Miguel Corporation's (SMC) 45 percent equity in Nestle Philippines, Inc. - the largest coffee buyer of local beans (around 80 to 85 percent) in the country. Before this, Nestle reportedly entered into an agreement with Tri-Partners Agribusiness Corp. to launch its Coffee Development Project in the southern province of Negros Occidental in the Visayas region. It is being undertaken with cooperation of the Negros Occidental Agricultural College (NOAC) and the Commission on higher Education.