



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/23/2001

GAIN Report #RP1026

Philippines

Coffee

Annual

2001

Approved by:

Charles T. Alexander

US Embassy

Prepared by:

Perfecto G. Corpuz

Report Highlights:

Coffee demand will increase through MY01/02 but Philippine coffee production will decline due to very low bean prices. Coffee imports will increase in MY00/01 but will stay flat the following market year as consumption slows down.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Manila [RP1], RP

TABLE OF CONTENTS

Executive Summary.....	Page 1 of 6
Production.....	Page 1 of 6
Consumption.....	Page 1 of 6
Prices Table.....	Page 2 of 6
Trade.....	Page 3 of 6
Coffee Import Trade Table.....	Page 3 of 6
Coffee Export Trade Table.....	Page 4 of 6
Policy.....	Page 4 of 6
Coffee PSD Table.....	Page 6 of 6

Executive Summary

Philippine coffee consumption will continue to surge in MY00/01. Local coffee production will be unable to satisfy consumption demand and imports in MY00/01 will increase considerably. Ample global coffee supply have brought down world prices and imports would have been much higher had it not been for renewed depreciation of the Peso. Low world market prices have likewise resulted in very low local coffee bean buying prices which will likely discourage investments in coffee production. Because of this, local coffee output is expected to again decline in MY01/02.

Coffee consumption will continue to increase in MY01/02 albeit at a slower rate compared to the previous year's level mainly as a result of the expected slowdown of the Philippine economy this year. Coffee imports are likely to remain flat from their year ago levels as the Peso value continues to fluctuate.

Production

Philippine coffee production as estimated by the Bureau of Agricultural Statistics (BAS) for calendar year 2000 reached 117,000 tons. This is not in GBE terms, however, and is basically flat compared to their 1999 revised estimate. Preliminary estimates from the International Coffee Organization Certifying Agency (ICOCA), on the other hand, projects national coffee production to reach 775,000 bags GBE in MY00/01 for a slight increase from the 739,000 bags GBE output in MY99/00.

The production figure in the table for MY00/01 is Post's estimate and represents a slight decline from the previous year. The MY01/02, coffee output again is expected to decline as land conversion and the shifting to other high-value crops are expected to continue due to low bean prices. As a result, area planted and the number of trees (bearing and non-bearing) will gradually decline through MY01/02 and so will coffee output. The low bean prices will likely result in the neglect and encourage the cutting of some trees.

Around 35 percent of total Philippine coffee is produced in Southern Mindanao. Robusta remains the dominant coffee variety although other coffee varieties are also raised. Arabica coffee is also grown with the good quality beans produced in the province of Benguet north of Manila. It is raised in the mountains at an elevation of 4,000 to 5,000 feet. Arabica beans from this area reportedly is slow maturing and are known as "hard beans." A major problem, however, is the inadequate farm to market road network. The Cordillera region where the province of Benguet is located, produces only around 3 percent of total coffee production.

Consumption

Although the Philippine economy is expected to slow down this year, coffee consumption is expected to continue increasing through MY01/02. Consumption growth, however, is likely to slowdown in MY01/02 compared to MY00/01 as effects of the slowdown become more apparent. The GOP under the new Arroyo Administration initially had targeted a GDP growth of 3.8 to 4.3 percent this year but later opted for the lower end of the targeted range. Private analysts predict a lower figure, however. For 2002, government analysts place GDP at 4.5 percent.

Roughly half of the 76.5 million Filipino population reside in urban centers where incomes are higher compared to its rural counterpart. It is also in the cities where coffee consumption is highest. Fr. Roger

Bag-ao, Chairman of the Coffee Foundation of the Philippines, reportedly estimates that in Manila alone, coffee shops increased by 400 percent in the last 6 years. The majority of these coffee retail outlets serve gourmet coffee like Starbucks Corp. of Seattle and Italian espresso maker of Illycafe SpA. Fr. Bag-ao also observed that coffee drinkers are getting younger and expects these young coffee drinkers to be the biggest coffee market segment in 15 years.

About 95 percent of all coffee consumed in the country is soluble coffee which basically utilizes robusta coffee. Liberica and Excelsa coffee are used as fillers in soluble coffee. Nestle Phils., Inc., the largest coffee bean buyer in the country is also the biggest soluble coffee producer. Nestle's reportedly has 11 established buying stations in the country and Nestle's buying prices normally set the prevailing market price.

Monthly coffee bean prices in 2000 were down from their previous year's levels. Coffee prices during the year averaged P37.14 (\$0.74) per kilo, down 30 percent from the P53.99 (\$1.08) average price per kilo recorded in 1999. Early this year average domestic buying prices dropped to around P30 per kilo due to very good production by Vietnam. The local coffee industry is concerned about the current oversupply of coffee beans and have raised fears that it might be too late to regain lost opportunities in coffee production by the time agricultural tariffs are reduced by 2004.

Prices Table			
Country	Philippines		
Commodity	Coffee, Green		
Prices in	Pesos	per uom	kg. GBE
Year	1999	2000	% Change
Jan	64.50	43.95	-31.86%
Feb	64.50	41.50	-35.66%
Mar	61.98	40.50	-34.66%
Apr	60.60	39.50	-34.82%
May	55.27	39.50	-28.53%
Jun	52.26	39.50	-24.42%
Jul	49.50	36.50	-26.26%
Aug	49.50	33.25	-32.83%
Sep	49.50	33.25	-32.83%
Oct	46.50	32.75	-29.57%
Nov	47.30	32.75	-30.76%
Dec	46.50	32.75	-29.57%
Exchange Rate	50.2	Local currency/US \$	

Source: International Coffee Organization Certifying Agency

Trade

Except for the trade statistics in MY99/00, all numbers have been reconciled with the feedback figures. During the year, the import and export statistics were adjusted upwards based on estimates from the NSO. The increase in coffee imports were driven mainly by a surge in coffee bean imports. Coffee imports the following year are expected to surpass the MY99/00 level as local coffee production is predicted to decline in the face of growing consumption.

For calendar year 2000, total coffee imports more than doubled compared to the previous year's level with 70 percent from Indonesia. During the year, raw coffee bean imports accounted for 89 percent of all coffee imports, roasted/grounded coffee 1 percent, and the balance imported soluble coffee.

Import Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	K 60 kg. GBE
Imports for:	1999		2000
U.S.	30	U.S.	5
Others		Others	
Indonesia	36	Indonesia	179
Vietnam	21	Vietnam	43
Taiwan	15	Singapore	15
Singapore	13	Malaysia	10
Malaysia	2	China	1
China	1		
Total for Others	88		248
Others not Listed	7		2
Grand Total	125		255

Source: National Statistics Office

Coffee imports are expected to slow down in the first half of 2001 due to renewed depreciation of the Peso but imports for MY00/01 are still expected to surpass imports during the previous year. Raw coffee bean imports likely to dominate total coffee imports during the year. Imports the following year or in MY01/02 are predicted to remain flat compared to MY00/01 due to the expected slowdown in consumption.

Due to tight coffee supply and the increasing local demand, coffee exports in 2000 declined to 6 thousand bags GBE from 9 thousand bags GBE the previous year. Singapore and Oman were the two dominant destinations of coffee exports during the year. Roughly 65 percent of the total coffee exported in 2000 were raw coffee beans. There were no roasted/ground coffee exported during the year.

Export Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	K 60kg.GBE
Exports for:	1999		2000
U.S.	1	U.S.	
Others		Others	
Singapore	5	Singapore	2
Oman	2	Oman	2
Korea	1	Hongkong	1
Total for Others	8		5
Others not Listed			1
Grand Total	9		6

Source: National Statistics Office

Coffee exports in MY00/01 are likely to exceed exports the previous year. During the period July to December 2000, there were already 3,000 bags GBE exported.

Policy

The 2000 tariff rate quota or Minimum Access Volume (MAV) allocation for coffee beans (HS 0901) was 1,192 tons and was issued to 7 licensees. The volume issued totaled 1,140 tons for a 96 percent MAV utilization rate.

The coffee beans MAV this year is 1,258 tons to go up to 1,324 tons in 2002, 1,391 tons in 2003, 1,457 tons in 2004 and 745 tons up to June 30 of 2005. Duties for imported volumes within the MAV are guided by a recently signed Executive Order.

Executive Order No. 334 (EO 334) specifies the effective tariffs on selected imported items for the years 2001 through 2004 and was signed by former President Joseph Estrada January 3, 2001 (refer to RP1004). In-quota tariffs for decaffeinated coffee beans, not roasted (HS 0901.11) have been raised from 10 percent in 2000 to 30 percent in 2001 through 2004 while in-quota rates for all other raw and roasted coffee types are at 45 percent in 2001, 40 percent in 2002, 35 percent in 2003 and 30 percent in 2004. Out-quota rates for all raw and roasted coffee types are at 60 percent in 2001, 50 percent in 2002, 40 percent in 2003 and 30 percent in 2004.

For soluble coffee or coffee extracts (HS 2101.11 10), the MAV last year was 26 tons issued to 4 licensees. The total volume issued was 18 tons for a 70 percent utilization rate. The soluble coffee MAV for this year is 28 tons, to increase to 30 tons in 2002, 32 tons in 2003, 36 tons in 2004, and 37 tons up to June 30, 2005.

The 30 percent in-quota rate for coffee extracts last year was retained for 2001. This will be in effect for the succeeding years lest a new EO specifying new rates be issued. Tariffs for out-quota imports were set at 65 percent in 2001, 55 percent in 2002, 45 percent in 2003 and 30 percent in 2004.

PSD Table						
Country	Philippines					
Commodity	Coffee, Green		(K HA)(MILLION TREES)(K 60 KG BAGS)			
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Planted	137	137	137	136	0	135
Area Harvested	115	115	115	114	0	113
Bearing Trees	97	97	98	96	0	95
Non-Bearing Trees	16	16	15	15	0	14
TOTAL Tree Population	113	113	113	111	0	109
Beginning Stocks	25	25	50	76	0	113
Arabica Production	35	35	40	35	0	35
Robusta Production	675	675	680	670	0	665
Other Production	30	30	25	25	0	25
TOTAL Production	740	740	745	730	0	725
Bean Imports	120	147	130	200	0	200
Roast & Ground Imports	2	2	2	2	0	2
Soluble Imports	30	31	40	10	0	10
TOTAL Imports	152	180	172	212	0	212
TOTAL SUPPLY	917	945	967	1018	0	1050
Bean Exports	2	4	1	4	0	4
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	1	0	2
TOTAL Exports	2	4	1	5	0	6
Rst,Ground Dom. Consum	65	65	70	75	0	80
Soluble Dom. Consum.	800	800	850	825	0	835
TOTAL Dom. Consumption	865	865	920	900	0	915
Ending Stocks	50	76	46	113	0	129
TOTAL DISTRIBUTION	917	945	967	1018	0	1050