Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Scheduled Report - public distribution

Date: 11/4/1999

GAIN Report #RP9060

Philippines

Dairy

Dairy Annual - 1999

1999

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Report Highlights:
Although modest economic growth is predicted for 1999 and 2000, imports of milk and dairy products will be flat compared to 1998 as the lingering effects of the economic slowdown of 1998 will dampen increased dairy consumption. A shift from fluid milk imports to milk powders is expected. Imports of nonfat dry milk powder are expected to increase while full fat dry milk powder imports will likely decline. Cheese imports will register a slight increase during the year.

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

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Executive Summary

Historically, Philippine milk production has been very low barely providing one percent of total national consumption. It is one of the lowest, if not the lowest in the region. From 1992 to 1998, local milk production has consistently been less than 15,000 tons and has declined by an average 6 percent annually. Milk production declined the most in 1997 and 1998 due to the El Nino drought which decreased forage and therefore milk productivity as well as led to a reduction to the already small dairy animal population. With no indications of any radical improvement in its dairy herd size and productivity, local milk production is expected to remain low for a very long time although a slight improvement is expected in 1999 and 2000. Despite the improvement, however, the country should be viewed as a market rather than a competitor.

Locally produced milk is mostly consumed as liquid milk while a small amount goes to small-scale processing of dairy candies and white cheese. Because of this, the local commercial dairy processing industry relies on imports for its raw material requirements. It is considered little more than a re-processing and repackaging industry. Dairy products consumption of the average Filipino is very low and is basically a function of imports and price.

From 1992 to 1998 the average annual dairy products imports amounted to only 1,418 thousand tons LME. Imports in 1998 were below this figure at 1,247 thousand tons LME. According to the National Dairy Authority (NDA), more than 84 percent of the country's milk requirements in 1998 originated from four countries, namely: Australia, New Zealand, the U.S. and the Netherlands. Skim milk powder (non fat dry milk) dominated dairy imports in 1998 with a 49 percent share followed by full fat milk powder with a 24 percent share. Fresh milk (fluid milk) and cheese imports during the year had shares of 2 and 1 percent, respectively.

The Philippine economy is expected to grow slightly in 1999 and 2000. Lingering effects of the economic slowdown of 1998, however, will likely dampen any substantial growth in dairy imports. Shifts in dairy products consumption are expected beginning 1999 to 2000. During the period, some shifting of liquid milk to milk powders consumption is predicted particularly non fat dry milk. Cheese imports are also expected to post a slight increase.

Production

Philippine milk production historically has been very low. The dairy farming sector produces barely one percent of the total domestic milk supply. In 1992, according to data from the NDA, local milk production was only 13,430 tons. Since then, milk production has declined by an annual average of 6 percent to reach 9,240 tons in 1998. During the seven-year period, milk output declined the most in 1997 and 1998 contracting by 11 and 10 percent, respectively due to the El Nino weather disturbance which resulted in a decline in dairy animal population as well as decreased productivity. As a rule of thumb, the NDA converts local raw fresh milk to LME terms using an equivalent 1:1 conversion ratio.

PHILIPPINE MILK PRODUCTION, 1992-1998		
Year	Production	% Change
	(In '000 MT)	
1992	13.43	
1993	12.50	-6.92

1994	12.12	-3.04
1995	12.11	-0.08
1996	11.50	-5.04
1997	10.22	-11.13
1998	9.24	-9.59

Source: National Dairy Authority

The low domestic milk output is traceable to a small dairy animal population. Philippine dairy animal population is one of the lowest, if not the lowest, in the region. In 1998, animals actually used for dairy purposes or on the milk line numbered only 3,490 animals, a 2 percent increase from the 3,420 animals the previous year. The number of animals on the milk line will likely increase in 1999 resulting in a corresponding increase in milk production. Although productive cows dominate the productive capacity of the local dairy milk industry, carabaos or water buffalos are a close second. Because meat consumption is also very low, livestock development efforts of the GOP emphasize the development of the water buffalo industry as a source of both milk and meat.

ANIMALS ON THE MILKLINE & MILK PRODUCTION BY ANIMAL TYPE AND BY AGE, 1997-1999						
('000 Heads)						
		1997		1998		1999*
Animal Type/	Animals on	Production	Animals on	Production	Animals on	Production
Source	the Milkline	1,000 li.LME	the Milkline	1,000 li. LME	the Milkline	1,000 li. LME
CATTLE	1.78	8415.34	1.73	7185.75	1.60	4070.53
Individual	0.12	349.53	0.09	167.69	0.09	225.20
Cooperative	0.92	4431.75	1.19	5567.65	1.23	2994.30
Commercial	0.68	3289.98	0.35	966.37	0.18	541.60
Institutional	0.06	344.08	0.10	484.04	0.10	309.43
CARABAO	1.48	1649.36	1.63	1951.83	1.37	1130.53
Individual	1.36	1315.59	1.49	1525.07	1.22	784.34
Commercial	0.04	68.28	0.04	93.38	0.02	33.49
Institutional	0.08	265.49	0.10	333.38	0.13	312.70
GOAT	0.16	155.30	0.13	101.93	0.11	48.94
Individual	0.09	49.66	0.08	51.42	0.06	24.47
Institutional	0.07	105.64	0.05	50.51	0.05	24.47
TOTAL	3.42	10220	3.49	9240	3.08	5250

* January - June

Source: Bureau of Agricultural Statistics

Provided below are farm gate prices for the various milk types for 1997-1999. In general terms, average prices of cattle, carabao and goat's milk were increasing from 1997 to 1999.

AVERAGE FARM GATE PRICE OF MILK BY ANIMAL TYPE			
1997-1999 (Peso/Liter)			
	1997	1998	1999
Animal Type			
Cattle, Dairy	10.50	11.00	13.03
Carabao	31.84	33.08	34.00
Goat	25.00	25.00	26.25

Source: Bureau of Agricultural Statistics

The very low milk output is due to the lack of investment which results in the shortage of good-performing dairy animals, high costs of production, and inadequate storage and distribution facilities. With minimal investments in the industry, no real growth in milk production is predicted in the foreseeable future although slight improvements in 1999 and 2000 are likely due to an increase in dairy animals on the milk line. Higher productivity is also expected during the year as a result of the return of more normal weather conditions.

Consumption

As expected, consumption of milk and dairy products of the average Filipino is also very low. In a 1993 survey conducted by the Food and Nutrition Research Institute (FNRI), it was found that the per capita milk and milk products (as converted into whole milk) consumption of the country was less than one-fourth cup or 44 grams per capita per day or an equivalent 16 kilograms per year. The same group recommends a minimum per capita consumption rate of 30 kilos of milk annually. Although no reliable studies after this 1993 survey have been conducted, there are no indications that the 1993 FNRI findings have changed except in 1998 where consumption likely declined as it coincided with the slow down of the Philippine economy.

Limited domestic milk production also limits the domestic dairy industry to little more than a reprocessing and repackaging industry. Locally produced liquid milk is largely used to make short-life liquid milk drinks with a small amount going to small scale cottage-processing industries engaged in dairy candies and white cheese production. The commercial processing/reprocessing and repackaging sector, on the other hand, rely on imported milk and dairy products for their raw materials. In 1998, there were 8 importer-processors and 16 importer traders, according to the NDA. With limited local dairy milk supply, consumption is more a function of dairy products imports.

Milk powders are becoming more popular as consumers are shifting from canned condensed milks to retail milk powder. Retail milk powders in the Philippines consists mainly of filled full fat powder, full cream powder, skim milk powder and infant formula. Except for infant formula, almost all milk powders are used to make liquid milk or as a beverage creamer in the case of cream powders. Nonfat dry milk or skim milk powder is used mainly in the manufacture of ready-to-drink milks and are also sold in retail packs. Full-fat or whole milk powders, on the other hand, are mainly utilized for infant formulas and other infant dietetics.

Sophistication of the cheese market is comparatively low. High-quality cheeses are not appreciated much and the ordinary Filipino uses cheese mainly as an ingredient rather than a food item. Cheese consumption is very low and has likely stayed at the same level, if not has declined, of several years before 1998.

Consumption of milk and dairy products in urban centers are estimated to be twice as much as the rural populace mainly due to their comparatively higher incomes. They are also where more developed storage and distribution facilities are found. Consumption of frozen dairy products (especially ice cream) is higher in these places and is popular during the warm days of summer. Expanding operations of fast-food eateries, shopping malls, etc. facilitate higher consumption. Yogurt consumption is, however, negligible and is mainly in drinking form.

The Philippine economy is predicted to slightly improve in 1999. Whether this will translate into a corresponding increase in per capita milk and milk products consumption, however is unlikely. Post believes that a considerable rise in per capita incomes is needed to effect the increase. Overall consumption may increase only marginally but this would be on account of the growing urban population which currently account for roughly half of the 75 million Philippine population.

Trade

VOLUME OF MILK & MILK PRODUCTS IMPORTS, 1992-1999								
(In 1,000 MT, LME)								
Dairy Product	1992	1993	1994	1995	1996	1997	1998	1999*
Skim milk Powder	603	606	708	831	656	786	607	320
Whole milk Powder	240	215	284	275	265	318	297	128
Evaporated Milk	22	18	28	19	28	9	1	9
Buttermilk	117	118	150	167	136	183	160	108
Whey Powder	93	83	121	146	122	163	153	78
Fresh Milk	2	3	7	12	18	27	22	9
Others	3	3	8	3	5	4	6	3
TOTAL MILK & CREAM	1080	1046	1306	1453	1230	1490	1247	656
BUTTER/BUTTERFAT	73	79	96	86	85	99	81	36
CHEESE	6	7	10	14	11	18	12	8
CURD	72	45	55	53	53	64	51	22
TOTAL	1231	1177	1467	1606	1379	1671	1392	722
% CHANGE		-4.39	24.64	9.48	-14.13	21.17	-16.70	

* Preliminary January to June only

Source: National Dairy Authority

Dairy products imports since 1992 have been mixed. From 1992 to 1998, dairy product imports averaged only 1,417 thousand tons LME. Except for the years 1993, 1996, and 1998, overall dairy imports were increasing. The decline was greatest in 1998 due to the slowdown of the economy which led to a contraction in dairy consumption. All individual dairy products during the year experienced import declines from the previous year's level. According to the NDA, total dairy products imports in 1998 reached 1,392 thousand tons LME, 17 percent short of the 1,671 thousand tons LME in 1997. In terms of gross value (CIF), imports in 1998 were valued at US$313 million, 30 percent down from the US444 million import value the previous year. More than 84 percent of the country's milk requirements in 1998 originated from four countries, namely: Australia, New Zealand, the U.S. and the Netherlands. In general terms, a slight increase in dairy products imports is expected for 1999. While some imports of certain dairy products may increase slightly, however, some are expected to decline. Pricing is of prime consideration.

The economy posted moderate growth in the first half of the year but increasing prices in the second semester as a result of recent oil price hikes will likely stunt overall dairy imports for the rest of the year. Overall dairy imports are predicted to grow more the following year or in 2000 as the economy continues to improve. The table above summarizes milk and milk product imports from 1992 to the first half of 1999 in liquid milk equivalent (LME) terms while the following trade matrices are expressed in product weight values. The corresponding conversion rates are specified accordingly.

For the first time since 1992, fresh milk (fluid milk) imports declined in 1998. From 28,388 tons in 1997, imports fell 5 percent to 22,564 tons in 1998. Whole milk imports accounted for around 90 percent of all fresh milk imports in 1998 with the majority coming from New Zealand (62 percent) and Australia (31 percent). The U.S. had barely one percent of fresh milk imports during the same year. Fluid milk imports will again likely decline in 1999 due to increasing food prices in the second half of the year as a result of recent oil price increases. Increasing prices will also likely encourage a shift from liquid milk consumption to the cheaper milk powders. This trend will likely extend through the year 2000. How imports will behave beyond 2000 will largely be determined by how the economy performs and to the improvement of incomes.

Skim milk with a fat content exceeding 1 percent is converted to LME terms using a conversion factor of 0.87 while those with a fat content exceeding 1 percent has a 0.79 LME conversion rate. Whole milk has a 1:1 conversion ratio.

Import Trade Matrix			
Country	Philippines		
Commodity	Dairy, Milk, Fluid		
Time period	Jan-Dec	Units:	Tons
Imports for:	1997		1998
U.S.	76	U.S.	151
Others		Others	
New Zealand	14,335	New Zealand	13,896
Australia	9,190	Australia	6,942
Netherlands	2,487	Belgium	541

Belgium	1,124	Singapore	275
France	455	Netherlands	221
UK	180		
Total for Others	27,771		21,875
Others not Listed	541		538
Grand Total	28,388		22,564

Source: National Statistics Office

For cheese imports, except in 1996 and 1998, cheese imports displayed strong growth. In 1998 cheese imports reached 2,388 tons for a 25 percent decline from the 3,199 ton 1997 level. Australia had the largest market share (39 percent) followed by New Zealand (25 percent). Cheese imports from the U.S. had a 16 percent share. The majority of cheese imports in 1998 were classified as other cheese (not soft, cheese powder, processed or blue-veined cheese). Cheese imports in 1999 will likely increase from its 1998 level as indicated by the import level for the first half of 1999.

Import Trade Matrix			
Country	Philippines		
Commodity	Dairy, Cheese		
Time period	Jan-Dec	Units:	Tons
Imports for:	1997		1998
U.S.	298	U.S.	385
Others		Others	
Australia	1,103	Australia	928
New Zealand	881	New Zealand	588
China	437	Netherlands	123
Netherlands	173	Switzerland	86
UK	73	Ireland	57
Total for Others	2,667		1,782
Others not Listed	234		221
Grand Total	3,199		2,388

Source: Bureau of Agricultural Statistics

Milk powders or dry milk consistently makes up the greatest percentage of all dairy products imports since 1992. In 1998, skim milk powder (nonfat dry milk) and whole milk powder (full-fat dry milk) accounted for 65 percent of all imports of dairy products. Imports of skim milk powder in 1998 reached 75,726 tons or 23 percent below the 98,049 imports the previous year. Dominating nonfat dry milk imports were Australia and New Zealand with 54 and 23 percent market shares, respectively. The U.S. had a 7 percent share in 1998, slightly higher than the 5 percent share in 1997. Imports of nonfat dry milk will increase in 1999 as shifting from liquid milk to milk powders, specifically skim milk powder, are expected. Whole milk powder imports, however, are also likely to decline again in favor of skim milk powders which are cheaper. An LME conversion factor of 8.02 is used for skim milk powder. Imports of milk powders will increase in 1999 due to a likely shift from whole milk to non fat dry milk powder consumption, encouraged mainly by price considerations.

Import Trade Matrix			
Country	Philippines		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Jan-Dec	Units:	Tons
Imports for:	1997		1998
U.S.	5,100	U.S.	5,293
Others		Others	
Australia	44,617	Australia	40,710
New Zealand	21,070	New Zealand	17,412
Netherlands	8,631	Netherlands	3,208
Russian Fed.	3,228	Singapore	2,488
Ireland	3,160	Switzerland	1,124
Germany	2,526	Germany	1,074
Switzerland	1,432		
Poland	1,400		
Total for Others	86,064		66,016
Others not Listed	6,885		4,417
Grand Total	98,049		75,726

Source: National Statistics Office

Imports of dry whole milk powder declined 7 percent from 39,656 tons in 1997 to 37,072 tons in 1998. Australia and New Zealand again had the two largest market shares (54 and 27 percent, respectively) of total full-fat dry milk imports in 1998. During the year, the U.S. barely had a 1 percent share. As mentioned above, whole milk powder imports are again expected to decline in 1999 from their year ago level. The same LME conversion factor (8.02) is used for full-fat milk powder.

Import Trade Matrix			
Country	Philippines		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	Tons
Imports for:	1997		1998
U.S.	142	U.S.	199
Others		Others	
Australia	13,605	Australia	19,887

New Zealand	12,047	New Zealand	10,086
France	3,993	Netherlands	2,216
Netherlands	3,769	UK	949
UK	1,593	Switzerland	809
Switzerland	1,053	France	655
Denmark	1,013	Germany	603
		China	532
		Denmark	477
Total for Others	37,073		36,214
Others not Listed	2,441		659
Grand Total	39,656		37,072

Source: National Statistics Office

Philippine exports of milk and milk products exist but remain very small and insignificant. Exports of dairy products are expected to remain low as such for as long as milk production remains very low. Likewise, high production costs make exports uncompetitive in foreign markets.

Policy

In general terms, tariffs for dairy products are levied low tariffs as domestic production is very low. Provided below are effective tariffs through 2000. Beyond 2000, effective duties are still unknown and will require an Executive Order to effect.

HS Code	Description	Rate of Duty (%)	
		1999	2000
04.01	Milk and cream, not concentrated nor		
	containing added sugar or other		
	sweetening matter.		
0401.1000	Of a fat content, by weight, not		
	exceeding 1%	3	3
401.2	Of a fat content, by weight, exceeding		
	1% but not exceeding 6%	3	3
0401.3000	Of a fat content, by weight, exceeding 6%	3	3
04.02	Milk and cream, concentrated containing		
	added sugar or other sweetening matter.		
0402.10	In powder, granules or other solid forms,		
	of a fat content, by weight, not exceeding		
	1.5%:		

0402.1010	In bulk containers of gross weight 20 kgs		
	or more	3	3
0402.1090	Other	5	5
	In powder, granules or other solid forms,		
	of a fat content, by weight exceeding 1.5%		
0402.21	Not containing added sugar or other		
	sweetening matter		
0402.2110	In bulk containers of gross weight of 20		
	kgs or more	3	3
0402.2190	Other	5	5
0402.29	Other		
0402.2910	In bulk containers of gross weight 20 kgs		
	or more	3	3
0402.2990	Other	5	5
	Other		
402.91	Not containing added sugar or other		
	sweetening matter	5	5
0402.9900	Other	5	5
04.03	Buttermilk, curdled milk and cream, yogurt,		
	kephir 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 fruits,		
	nuts or cocoa.		
0403.10	Yogurt		
0403.1010	Containing fruits, nuts, cocoa or flavoring		
	matter	15	10
0403.1090	Other	10	7
403.9	Other		
0403.9010	Buttermilk	3	3
0403.9090	Other	10	7
04.04	Whey, whether or not concentrated or contain-		
	ing added sugar or other sweetening matter:		
	products consisting of natural milk		
	constituents, whether or not containing added		
	sugar or other sweetening matter, not else-		
	where specified or included		

0404.1000	Whey and modified whey, whether or not		
	concentrated or containing sugar or other		
	sweetening matter	3	3
0404.9000	Other	3	3
04.05	Butter and other fats and oils derived from		
	milk; dairy spreads		
0405.1000	Butter	15	10
405.2	Dairy spreads	15	10
0405.9000	Other	3	3
04.06	Cheese and curd		
0406.1000	Fresh (unripened or uncured) cheese, inclu-		
	ding whey cheese, and curd	3	3
0406.20	Grated or powdered cheese, of all kinds:		
0406.2010	In bulk containers of gross weight exceeding		
	20 kgs	3	3
0406.2090	Other	10	7
0406.3000	Processed cheese, not grated or powdered	15	10
0406.4000	Blue-veined cheese	3	3
0406.9000	Other cheese	10	7

Source: Tariff and Customs Code of the Philippines, April1999

PSD Table						
Country	Philippines					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Cows In Milk	0	2	0	2	0	2

Cows Milk Production	0	7	0	8	0	8
Other Milk Production	0	2	0	3	0	4
TOTAL Production	0	9	0	11	0	12
Intra EC Imports	0	1	0	1	0	2
Other Imports	0	22	0	23	0	24
TOTAL Imports	0	23	0	24	0	26
TOTAL SUPPLY	0	32	0	35	0	38
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	0	31	0	34	0	37
Factory Use Consum.	0	1	0	1	0	1
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	0	32	0	35	0	38
TOTAL DISTRIBUTION	0	32	0	35	0	38
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	0	0	0	0	0

Production	0	1	0	1	0	1
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	2	0	3	0	3
TOTAL Imports	0	2	0	3	0	3
TOTAL SUPPLY	0	3	0	4	0	4
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	0	3	0	4	0	4
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	3	0	4	0	4
TOTAL Use	0	3	0	4	0	4
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	3	0	4	0	4
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	29	0	17	0	10

Production	0	0	0	0	0	0
Intra EC Imports	0	6	0	6	0	8
Other Imports	0	70	0	72	0	76
TOTAL Imports	0	76	0	78	0	84
TOTAL SUPPLY	0	105	0	95	0	94
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	0	88	0	85	0	87
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	88	0	85	0	87
TOTAL Use	0	88	0	85	0	87
Ending Stocks	0	17	0	10	0	7
TOTAL DISTRIBUTION	0	105	0	95	0	94
Calendar Yr. Imp. from U.S.	0	5	0	6	0	8
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	0	0	0	0	0

Production	0	0	0	0	0	0
Intra EC Imports	0	5	0	4	0	5
Other Imports	0	32	0	30	0	34
TOTAL Imports	0	37	0	34	0	39
TOTAL SUPPLY	0	37	0	34	0	39
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	0	37	0	34	0	39
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	37	0	34	0	39
TOTAL Use	0	37	0	34	0	39
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	37	0	34	0	39
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0