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Report Highlights:

The Philippines imports virtually all of its dairy products, especially milk powder, as domestic production cannot meet the country's dairy demand of nearly 3 million metric tons (MMT) liquid milk equivalent (LME) per year. Total imports in 2019 are projected to reach a record 3.5 MMT LME, as shipments of nonfat and whole milk powder are spurred by favorable global dairy prices. Dairy imports in 2020 will likely increase marginally with dairy prices starting to recover. Major suppliers are New Zealand (39 percent), the United States (21 percent), and Australia (7 percent). In 2018, the Philippines was the sixth largest market for U.S. dairy products by value at $246 million.

Production:

The Philippines produces less than one percent of its total annual dairy requirement and imports the balance. Local milk production is projected to reach 25,000 MT in 2019 and will likely hit 26,000 MT in 2020 due to increasing consumer preference for fresh milk and growing local dairying capabilities. Around two thirds of total milk produced is cow's milk, while the rest is mostly carabao's (water buffalo) milk and some goat's milk.

Data from the National Dairy Authority (NDA) shows that local milk production (from cattle, carabao, and goats) was 23,690 metric tons (MT) in 2018, up 4 percent from 22,760 MT in 2017. About 16,000 MT of local dairy production in 2018 was cow's milk. The value of dairy production that year amounted to P901 million ($17.3 million). According to the NDA, the average farm gate price of milk increased from P37.12/liter ($0.71) in 2018 to P39.57/liter ($0.76) in 2019. By contrast the corresponding farm gate price of milk in the United States is about $0.42/liter ($18.90 per cwt /1 cwt = 23.359 kg) as of August 2019.

The Bureau of Agricultural Statistics estimates the country's dairy cattle herd (female dairy animals only) was 10,226 in 2018, plus 9,328 head of carabao and 8,845 goats. Dairy cattle numbers declined slightly due to mortalities and the inability of NDA to import dairy animals due to the unavailability of tropical crossbreeds.

The average Philippine milk production per animal (8 liters/day) remains low mainly because of poor feed and management practices, compounded with high production costs and a lack of adequate dairy infrastructure. In comparison, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom, according to various sources.

There are four main types of dairy farms in the Philippines:

- Individual smallholder producers – consume and sell locally what they produce
- Smallholder cooperatives – deliver their milk to a collection point for transport to a processing plant
- Commercial farms – supply processors
- Government farms – supply school and rural community feeding programs.

A significant amount of the Philippine fluid milk supply is Ultra High Temperature (UHT) milk reconstituted from imported milk powder because of the country's cold chain challenges and limited production.

Consumption:

Annual per capita milk consumption in the Philippines is estimated at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg, and the United States at 287 kg. With a strong economy, an expanding middle class, and a growing population of roughly 105 million in 2018, the Philippines is a large and rapidly expanding market for milk and dairy products. Other factors contributing to the long-term trend of strong growth in dairy consumption are expanding cold chain capacity, an increasing number of supermarkets, and a blossoming food processing industry. Refer to FAS Manila's sectoral reports on food processing and food retail at https://gain.fas.usda.gov for more information.

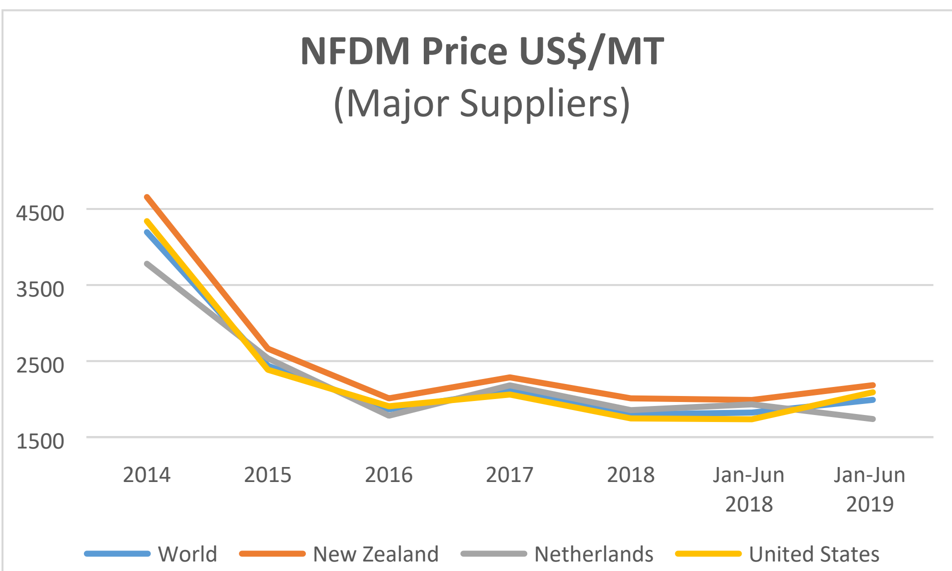
According to NDA, one out of every three glasses of fresh liquid milk (not reconstituted from powder) consumed in the Philippines is produced locally. A Filipino family now spends a little over P4,000 ($82) per year on dairy products.

Half of smallholder milk production goes to school and community milk feeding programs and the rest to local commercial sales or household consumption. With dairy production in the country being more community-based, maintaining the quality of fresh milk is a challenge due to the lack of processing and distribution systems and a dependable, continuous cold chain.

Fresh fluid milk in a mid-range Manila supermarket sells for P90-120 per liter ($1.70-$2.20). Note: US$1 =PhP51.64, as of October 15, 2019.

Trade:

U.S. Exports to the Philippines increased marginally by value (2 percent) in 2018, but surged 16 percent in volume due to weak dairy prices. 2018 was a record year for U.S. dairy exports to the Philippines in volume (143,335 MT). During the same year the Philippines was the sixth largest market for U.S. dairy exports by value at $246 million. The top U.S. dairy exports to the Philippines in 2018 were nonfat dry milk powder ($154 million/85,293 MT), dried whey ($13 million/15,387 MT), and buttermilk ($12 million). The marginal increase in dairy exports by value was due to lower U.S. dairy prices, which on the other hand boosted U.S. dairy exports by volume to a robust 16 percent growth. As U.S. dairy prices increase and Philippine dairy demand rises, U.S. dairy exports to the Philippines are expected to continue growing slightly through 2019 and 2020.



U.S. exports of nonfat dry milk to the Philippines are competitive with the other major supplier, New Zealand

Philippine Dairy Imports

Dairy products are currently the Philippines' third largest U.S. agricultural import after soybean meal and wheat. Post projects total dairy imports in 2019 to increase to 3.5 MMT (in Liquid Milk Equivalent, LME) due to low global powder milk prices and growing demand. Dairy imports in 2020 are forecast to remain at about the same levels as prices begin to improve. The major suppliers to the Philippines by volume are New Zealand with a 38 percent share of total imports, the United States with 21 percent, and Australia with 6 percent.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports comprise over 57 percent of total dairy imports. SMP and WMP imports in 2020 are forecast to continue rising marginally due to increasing incomes and consumption, as well as growing use of dairy in food manufacturing, although at a slower pace due to higher global dairy prices. In 2020, liquid milk imports should continue to increase due to rising consumption and increased use in food service, particularly in coffee shops. The Philippines is the top market in Southeast Asia for U.S. dairy ingredients, which includes milk powder and whey. Exports to the Philippines make up a third (135,504 MT) of U.S. dairy ingredients sales to Southeast Asia.

Imports of butter and other dairy spreads as well as cheese should also continue to rise, mainly coming from New Zealand and Australia due to the duty-free advantage of those suppliers. Another factor is the increasing demand for these products from the expanding middle class and strong growth in the fast food industry and hotel and restaurant sectors. The Philippines is the top destination for U.S. cheese exports (7,145 MT) to the region, accounting for 38 percent of sales.

VOLUME OF DAIRY IMPORTS ***('000 MT, in LME) [1]***			
1. Milk and Cream	**2017**	**2018**	**Jan-Jun 2019**
• Skim milk Powder	1,121.44	1,276.15	855.53
• Whole milk Powder	150.51	168.52	139.53
• Butter milk Powder	241.44	291.04	156.11
• Whey Powder	422.34	441.14	239.56
• Liquid (RTD) Milk	61.49	79.39	47.32
• Evaporated Milk	6.73	1.35	-
• Others	82.41	245.85	116.37
Total Milk and Cream	**2,086.36**	**2,503.44**	**1,554.42**
2. Butter, Butterfat & Dairy Spreads	241.65	259.80	155.80
3. Cheese	108.20	125.40	60.14
4. Curd	44.08	50.96	25.11
Total Imports	**2,486.29**	**2,939.60**	**1,795.47**

Source: National Dairy Authority and National Statistics Office

[1] 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 1 kg of cheese

According to trade and industry contacts, imported dairy products are used as follows:

- **Skim Milk Powder:** Recombined sweetened condensed milk, recombined UHT milk, ice cream, infant and follow-on formulas, and medical nutrition formulas.
- **Whole Milk Powder:** Recombined UHT milk, ice cream, infant and follow-on formulas, medical nutrition formulas, and instant powdered milk.
- **Butter Milk Powder:** Recombined sweetened condensed milk, ice cream, and bakery.
- **Whey Products:** Recombined sweetened dairy creamer, ice cream, infant and follow-on formulas, processed meat, processed food, confectionery, bakery, and animal feed.
- **Cheese Curd:** Processed cheese, cheese spreads, and processed food.
- **Liquid Milk:** Retail, primarily organic and extended shelf life (ESL) milk.
- **Cheese:** Retail, quick service restaurants and fast food chains.

Philippine Dairy Exports

Total dairy exports in 2019 (mainly value-added dairy products manufactured using imported dairy products as raw material, e.g., ice cream) are expected to decline to 50,000 MT LME, based on slower year to date shipments of milk and cream. The main markets are Malaysia (16 percent), Singapore (24 percent), and Vietnam (16 percent). Exports are expected to remain low despite duty-free advantages from the ASEAN free trade agreement due to increasing cost of imported dairy inputs and strong competition from other dairy producers.

Volume Of Philippine Dairy Exports (In MT, LME)			
	2017	**2018**	**Jan-Jun 2019**
Milk and Cream	**51,383**	**59,155**	**22,174**
Butter/Butterfat	341	1,124	1,485
Cheese	618	989	425
Curd	0	0	0
TOTAL EXPORTS	**52,342**	**61,267**	**24,084**

Source: National Dairy Authority and National Statistics Office

Policy:

The Philippine Department of Agriculture (DA) continues to make the development of the Philippine dairy industry a priority with a special emphasis on improving local supply of fresh milk. While the DA accepts that the Philippines cannot compete in the powdered milk market, it believes that it can greatly augment the supply of fresh milk to the market.

The NDA is the DA's primary agency overseeing and aiding the development of the Philippine dairy sector. The NDA aims to accelerate dairy herd build-up and milk production, enhance the dairy business through delivery of technical services, increase coverage of school milk feeding programs, and promote milk consumption.

At the heart of the NDA strategy is the *Herd Build-Up Program*. This program aims to expand local dairy production through the importation of dairy animals, embryos, and equipment; upgrading of local animals to dairy breeds via breeding programs; the establishment of multiplier farms; and the preservation of existing stocks. The following are sub-programs of the Herd Build-Up Program:

1. Save-the-Herd (STH) **-** Promotes animal trading, dairy enterprise enhancement and herd conservation. Under this program, the STH partner receives a dairy animal from NDA, which they are obligated to rear, condition, and impregnate according to prescribed dairy husbandry management standards.

2. Herd Infusion **-** Includes importation of dairy stocks, diversification of sources, and local procurement of dairy animals.

3. Improved Breeding Efficiency - Breeding services to maximize the reproductive capacity of dairy animals either through artificial insemination or natural (bull) breeding.

4. Animal Financing - Tailoring of animal loan programs to the dairy business cycle and identifying new sources of affordable loans.

5. "Palit-Baka" Scheme or Dairy Animal Distribution **-** Refers to the program whereby NDA distributes a potential dairy animal to an eligible participant who, in turn, would eventually provide NDA with a female dairy animal as payment in kind.

6. Upgrading of Local Animals **-** Artificial insemination of local cattle with 100 percent purebred Holstein-Friesian semen. Calves born from upgrading programs are distributed to new farmers interested in dairying.

7. Breeding/Multiplier Farm Operations **-** Engaging and encouraging private-public partnerships in producing local-born dairy stocks. There are currently 61 dairy multiplier farms with more than 5,500 dairy animals contributing 4.1 million liters.

8. Bull Loan **–** Loan program that provides purebred and crossbred dairy bulls to regional field units of the Department of Agriculture or to other project partners for semen production, collection, and processing purposes.

Other NDA program areas include

- The *Dairy Business Enhancement Program* which fosters entrepreneurship among dairy producers by installation of business management systems, continuous education, training, and infrastructure development.
- The *Milk Quality Assurance Program* focuses on the installation of quality-based milk test and payment systems, farm and plant audits and installation of quality control systems.
- The *School Milk Feeding Program* serves as the base market of local dairy farmers.

Source: National Dairy Authority

Executive Orders (EO): EO 20 prescribes the Most Favored Nation tariff schedule for 2017 to 2020 for all products, including dairy products took effect on June 30, 2017 and is available here http://tariffcommission.gov.ph/executive-order-20.

On March 5, 2019, all tariff concessions previously granted as a result of the extension of rice Quantitative Restrictions (which officially ended on July 1, 2017) returned to their original levels. Tariff rates for butter were increased from 5 percent to 7 percent; buttermilk from 1 percent to 3 percent; grated cheese from 1 percent to 3 percent; other cheese from 1 to 7 percent (See GAIN Report RP1906).

Tariffs: The 2019 MFN and ASEAN Trade in Goods Agreement (ATIGA) tariff rates for dairy and dairy products are as follows.

TARIFF SCHEDULE			
H.S. Code	Description	Rate of Duty	
		MFN	ATIGA
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	0
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	0
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	0
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	0
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	0
0402.29.00	Other	1	0
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	0
0402.99.00	Other	5	0
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	0
0403.10.20	Other	7	0
0403.90	Other		
0403.90.10	Buttermilk	3	0
0403.90.90	Other	7	0
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	0
0404.90.00	Other	3	0
0405	**Butter or other fats and oils derived from milk; dairy spreads**		
0405.10.00	Butter	7	0

0405.20.00	Dairy spreads	7	0
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	0
0406.30.00	Processed cheese, not grated or powdered	7	0
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	0

Source: Tariff Commission http://finder.tariffcommission.gov.ph/

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Since 2010, milk powder, cheese, whey, and buttermilk from Australia and New Zealand are able to enter the Philippines duty-free. U.S. milk powder and whey have a MFN duty of 1 percent, cheese 3-7 percent, and buttermilk 3 percent.

The Philippine tariff commitments under the AANZFTA may be viewed at the following link:

http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf

Marketing:

The greater Manila area remains the major fresh milk market in the country and is classified into business and consumer sectors. The business sector includes the institutional and retail operations such as coffee shops, hotels, restaurants, supermarkets, and small retailers. The consumer sector includes households and schools through the government milk feeding program.

The main targets of local milk processors are the institutional buyers, especially coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Locally sourced fresh milk dominates this market because of its superior foaming properties, as compared to UHT milk. The major suppliers of fresh milk to coffee shops are processors from Southern Luzon, particularly Batangas and Laguna. Other suppliers to coffee shops produce UHT milk reconstituted from imported milk powder and packaged under their own brand.

The specialty coffee shop industry is projected to sustain growth of 10 to 15 percent over the next five years. Analysts attribute this expansion to growing consumer preference for specialty coffee and the improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific).

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	12	11	12	11	0	11
Cows Milk Production	16	16	17	17	0	18
Other Milk Production	7	7	7	7	0	7
Total Production	23	23	24	24	0	25
Other Imports	68	68	70	80	0	85
Total Imports	68	68	70	80	0	85
Total Supply	91	91	94	104	0	110
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	80	80	83	92	0	98
Factory Use Consum.	11	11	11	12	0	12
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	91	91	94	104	0	110
Total Distribution	91	91	94	104	0	110
(1000 HEAD) ,(1000 MT)						

Dairy, Milk, Nonfat Dry	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	58	58	58	58	0	58
Production	0	0	0	0	0	0
Other Imports	159	159	190	190	0	200
Total Imports	159	159	190	190	0	200
Total Supply	217	217	248	248	0	258
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	159	159	190	190	0	200
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	159	159	190	190	0	200
Total Use	159	159	190	190	0	200
Ending Stocks	58	58	58	58	0	58
Total Distribution	217	217	248	248	0	258
(1000 MT)						

Dairy, Dry Whole Milk Powder	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	19	14	0	15
Production	0	0	0	0	0	0
Other Imports	23	23	25	28	0	30
Total Imports	23	23	25	28	0	30
Total Supply	34	34	44	42	0	45
Other Exports	5	10	6	13	0	16
Total Exports	5	10	6	13	0	16
Human Dom. Consumption	10	10	11	14	0	16
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	10	10	11	14	0	16
Total Use	15	20	17	27	0	32
Ending Stocks	19	14	27	15	0	13
Total Distribution	34	34	44	42	0	45
(1000 MT)						

Dairy, Cheese	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2	2	2	2	0	2
Other Imports	38	38	40	40	0	42
Total Imports	38	38	40	40	0	42
Total Supply	40	40	42	42	0	44
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	40	40	42	42	0	44
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	40	40	42	42	0	44
Total Use	40	40	42	42	0	44
Ending Stocks	0	0	0	0	0	0
Total Distribution	40	40	42	42	0	44
(1000 MT)						

Attachments:

No Attachments