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Dairy and Products

Annual

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Report Highlights:
Total dairy imports are expected to remain flat through 2003 despite modest economic gains achieved by the country. The volume of dairy imports declined by nine percent in 2001 while the value of dairy imports increased slightly due to the rising cost of milk in the world market. Imports are not expected to increase until after 2004 when tariff rates are scheduled to decrease. Philippine exports of all finished dairy products surged by over 110 percent in 2001

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

Domestic milk production increased by 5.8 percent in 2001 and is expected to continue rising by around ten percent annually due to continuing efforts of the National Dairy Authority (NDA) to build its dairy herd. Domestic production of milk accounts for less than one percent of estimated domestic dairy requirements, and the country continues to rely on imports to supply dairy demand. The volume of dairy imports declined by nine percent in 2001 while the value of dairy imports increased slightly due to the rising cost of milk in the world market. Imports are not expected to increase until after 2004 when tariff rates are scheduled to decrease. Philippine exports of all finished dairy products (i.e., milk and cream, dairy spreads and butter) surged by over 110 percent in 2001 and are expected to continue due mainly to the expansion undertaken by Nestle Philippines in the production of infant nutrition and filled milk products.

Production

According to data released by the NDA in its 2001 Annual Report, domestic milk production increased by 5.8 percent from 10,210 metric tons to 10,800 metric tons in 2001 due in part to the increasing productivity and number of milking cows. Post estimates a higher figure of 12,000 metric tons for fluid milk production in the PSD table to account for backyard dairy operations not registered with the NDA. Despite this increase, total domestic production still accounts for less that one percent of estimated total domestic requirements. The country depends on dairy imports to supply over 99 percent of its total demand.

The total dairy animal population, both dams and does, increased marginally in 2001 to 8,600 head or a slight increase of 20 head in total number. While dairy cow numbers increased by nearly 20 percent in 2001, the number of dairy carabaos (water buffaloes) and goats decreased by about 10 and 32 percent, respectively. The lastest total dairy animal inventory is broken down into 4,260 carabaos, 3,990 cattle and 350 goats.

Production of cow milk represents 70 percent of domestic supply while the remaining 29 percent is made up of carabao milk production. Goat milk production is minimal and stands at one percent of domestic supply.

PHILIPPINE MILK PRODUCTION, 1997-2001		
	(in '000 MT)	
Calendar Year	Production	%Change
1997	10.22	
1998	9.24	-9.59
1999	9.85	6.60
2000	10.21	3.65
2001	10.80	5.78

Source: National Dairy Authority

Domestic production of fluid milk, though minimal, is expected to expand annually by an average of ten percent due in part to the NDA's continuing efforts to increase dairy population, particularly dairy cows, through its Herd Build-Up and Save-the-Herd Programs. These programs allow for the continuing importation of bulls and cows from Australia, New Zealand and some Pacific Island states, adapting them to the local climate and having them bred with local cows and carabaos for milking purposes. In 2001, 3,771 animals were inseminated which resulted in the birth of 1,363 calves.

Other NDA programs include the Dairy Industry Development Module (DIDM) and the Small Livestock Development Program (SLDP). Under these two schemes, dairy farmers receive a loan in the form of a dairy animal, pay interest in the form of milk and repay the loan with another dairy animal. The recipients provide repayment in the form of a pregnant heifer within five years from the date of the utilization of the animal loan.

There is also the Ginituang Masaganang Ani-Countrywide Assistance for Rural Employment Scheme for Philippine Dairy (GMA-CARES-DAIRY). "GMA" is also the initials of Philippine President Gloria Macapagal Arroyo. The credit facility allows the movement of animals across dairy areas without herd diminution while allowing market forces to direct dairy stocks to the most productive dairy farmers and dairy cooperatives. The final financing guidelines were passed by the NDA and the Quedan Credit and Rural Employment and Services Program (QUEDANCOR) for this joint PhP 70 million guarantee program.

Consumption

The Philippine economy continues to show signs of recovery, led by growth in agricultural productivity and a strengthening service sector despite a nagging budget deficit problem. GDP growth for the first half of 2002 was at 4.1 percent which was fueled mainly by the growth in domestic consumption and remittances of overseas Filipino workers. Current population stands at 80 million people and continues to grow at 2.4 percent annually.
Other determining factors affecting the extent of economic growth include the strength and speed of recovery of the United States economy and other world markets as well as growth in inflow of direct foreign investment in the country.

From an original GDP growth estimate of 5.4 - 5.9 percent, the National Economic and Development Authority (NEDA) has scaled down its growth target for for 2002 to 4.0 - 4.5 percent. The favorable economic performance reported in the first half of the year and the rising value of U.S. dollar remittances by the country's growing number of overseas workers are strong indicators that the country will meet its reduced growth targets
for the year.

PROJECTIONS FOR SELECTED ECONOMIC INDICATORS			
	2000	2001	2002
GDP Growth (Year-on-year, %)	4.0	3.4	3.5-4.0
GNP Growth (Year-on-Year, %)	4.5	3.7	3.9-4.3
Avg. Year-on-year Inflation	4.4	6.1	4.8-5.2
Avg. Forex Rate (Peso/ US$)	44.19	50.99	51.60-52.25

*Embassy Projections as of March 2002
Note: Indicators for 2000 and 2001 are final estimates

This upswing in the economy may not, however, directly translate into higher consumption of dairy products in 2002. Total consumption of dairy products is not expected to increase in 2002 and 2003 despite slight improvements in the Philippine economy. Wide disparities in the distribution of wealth is a large factor in explaining the low consumption of dairy products in the country. It is estimated that about two-thirds of national income go to the top 30 percent of Filipino families while the lowest 30 percent of families receive only eight percent of national income. Consumption of milk powder, generally consumed by the majority of Filipinos, is expected to decrease in 2002 and 2003 due to price increases. However, consumption of fresh (UHT) milk and imported cheeses, mainly consumed by the the more affluent sectors, is expected to continue rising in 2002 and beyond.

Retail prices of milk and milk products have increased significantly over the past two years, due mainly to the rise in prices of milk in the world market according to NDA data. Fresh milk prices increased by an average of 7 percent while powdered milk prices surged by as much 18 percent in 2001. This trend continues into 2002, and is expected to further dampen the already weak demand for dairy products in the country.

RETAIL DAIRY PRODUCT PRICES (IN PESOS)				
Product	Units	2000	2001	% Change
Fresh Milk (UHT)	(1 liter)	38.25	40.75	6.64
Powdered Milk	(.400 kg)	68.82	81.72	17.58
Cheese	(.225 kg)	39.70	42.05	5.92
Butter	(.225 kg)	38.95	41.30	6.03
Ice-Cream	(1 gallon)	315.95	340.15	7.66

Source: National Dairy Authority

Fresh milk and other products produced and processed by NDA-assisted dairy farmers continue to make strides in meeting dairy industry standards. A noteworthy achievement is the Gouda cheese (Queso de Oro) produced by the Nothern Mindanao Federation of Dairy Cooperatives (NMFDC) and distributed by the Dairy Development Foundation of the Philippines (DDFPI) which has been purchased by KLM, the Dutch flag carrier, as a corporate give-away, gaining acceptance among chefs of first-class hotels. Unsalted cheese "Panir," produced by the Sta. Maria Dairy Farmers Multi-Purpose Cooperative (SMDFMPC), is patronized by Indian customers.

A major concern facing the country is the continuing problem of malnutrition. The most recent national nutrition survey conducted by the Food and Nutrition Research Institute of the Department of Science and Technology (FNRI-DOST) disclosed that 31 out of every 100 preschool children five years and below are underweight. Similarly, 33 out of every 100 school children six to ten years old are underweight. These figures mean that 6.8 million children are nutritionally deficient. In 2001, nearly 45,000 children were covered by the NDA's milk feeding activities or a total of 210,000 beneficiaries since 1995, when the NDA was established.

Trade

The Philippines, with only a handful of commercial dairy farms, is not competitive with other countries' flourishing dairy industries. Thus, it is a lot cheaper to import than to produce milk locally. Leading imports include milk and cream (which include skim milk powder, whole milk powder, evaporated milk, buttermilk and whey powder, fresh milk and others), with Australia, New Zealand and the United States as the main suppliers. Other imports are in the form of processed cheese, butter and yoghurt.

Extremely low dairy self-sufficiency rates continue to characterize the Philippine dairy industry. Even as dairy production posted a slight increase in 2001, domestic production remains at less than one percent of total dairy requirements. Data from the National Statistics Office (NSO) show that the Philippines is highly dependent on Australia and New Zealand for the supply of its dairy products. Australia currently supplies 38 percent and New Zealand 29 percent of all dairy imports. The two other major suppliers include the United States at 10 percent and the Netherlands at 4 percent.

PHILIPPINES: VOLUME OF MILK & MILK PRODUCT IMPORTS, 2000-01			
(In million liters, Liquid Milk Equivalent)			
Dairy Products	2000	2001	% change
Skim Milk Powder	869.53	742.65	-14.59
Whole Milk Powder	413.66	363.51	-12.12
Buttermilk/ Buttermilk Powder	203.57	163.80	-19.54
Whey Powder	223.03	245.33	10.00
Fresh Milk	22.08	38.45	74.14
Evaporated Milk	2.39	17.85	646.86
Others	5.94	25.83	334.85
TOTAL MILK & CREAM	1,740.20	1,597.42	8.20
BUTTER & BUTTERFAT	92.10	60.87	-33.91
CHEESE	17.70	23.31	31.69
CURD	54.26	53.82	-0.81
TOTAL	1,904.26	1,735.42	-8.87

Source: National Dairy Authority

The value of dairy product imports continued to rise in 2001 due to the rising prices of dairy products in the world market as well as the depreciating value of the peso. The Philippines imported a total of US$ 448 million worth of dairy products in 2001. Higher import values were recorded while import volumes declined. According to the NDA, the estimated average cost of dairy products increased to $0.26 per liter in 2001 from only $0.21 the year before.

Importation of dairy products is expected to drop slightly once again in 2002 and is not expected to increase until 2004 when tariffs are scheduled to come down. Currently dairy imports are assessed a 3-7 percent customs duty; tariffs are expected to drop slightly to about 3-5 percent by 2004.

TARIFF SCHEDULE 2002-2004				
H.S. Code	Decription	Rate of Duty		
		2002	2003	2004
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%	3	3	3
0401.20.00	Of a fat content, by weight, exceeding 1% but not	3	3	3
	exceeding 6%			
0401.30.00	Of a fat content, by weight, exceeding 6%	3	3	3
0402	Milk and cream, concentrated or containing added sugar			
	or sweetening matter			
0402.10.00	In powder, granules or other solid forms, of a fat	3	3	3
	content, by weight, not exceeding 1.5%			
	In powder, granules or other solid forms, of a fat			
	content, by weight exceeding 1.5%			
0402.21.00	Not containing added sugar or other sweetening	3	3	3
	matter			
0402.29.00	Other	3	3	3
	Other:			
0402.91.00	Not containing added sugar or other sweetening	5	5	5
	matter	5	5	5
0402.99.00	Other			
0403	Buttermilk, curdled milk and cream, yoghurt, kefir and other			
	fermented or acidified milk and cream, whether or not			
	concentrated or containing added sugar or other sweetening			
	matter or flavoured or containing added fruit, nuts or cocoa			
0403.10	Yoghurt			
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter;	7	7	5
	liquid yoghurt			
0403.10.10	Other	7	5	5
0403.90	Other			
0403.90.10	Buttermilk	3	3	3
0403.90.90	Other	7	5	5
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	3	3	3
	concentrated or containing added sugar or other			
	sweetening matter			
0404.90.00	Other	3	3	3
Butter or other fats and oils derived from milk; dairy spreads				
0405.10.00	Butter	7	7	5
0405.20.00	Dairy spreads	7	7	5
0405.90.00	Other	1	1	1
0406	Cheese or curd			
0406.10.00	Fresh (unripened or uncured) cheese, including	3	3	3
	whey cheese, and curd			
0406.20	Grated or powdered cheese, of all kinds:			
0406.20.10	In containers of gross weight exceeding 20 kgs.	3	3	3
0406.20.90	Others	7	5	5
0406.30.00	Processed cheese, not grated or powdered	7	7	5
0406.40.00	Blue-veined cheese	3	3	3
0406.90.00	Other cheese	7	5	5

Source: Philippine Tariff and Customs Code (June 2002)

The volume of total dairy exports increased by about 110 percent in 2001 from 51.10 million liters to 107.77 million liters (LME). Milk and cream remain the major dairy exports of the country, accounting for over 99 percent of exports. Re-exports of finished dairy products will continue to grow as the dairy processing industry continues to expand. The main export markets are the ASEAN countries, particularly Indonesia and Malaysia, which account for 42 and 43 percent of the market, respectively. Other export destinations include Vietnam and Thailand. This rise in exports was attributed to the aggressive expansion undertaken by Nestle Philippines (refer to Marketing section).

Though increasing significantly in value, dairy export figures cannot be adequately captured in the PSD tables due to the negligible amounts in comparison to the total dairy supply. In 2001, exports represent a mere 6 percent of total supply and are expected continue rising due to the current expansion efforts of the dairy industry.

Policy

The Philippine Department of Agriculture (DA) announced plans to introduce mandatory safety inspections for all meat and dairy plants exporting to the Philippines. The DA issued Memorandum Order No. 7 which will require the quarterly audit of all foreign meat and milk plants exporting to the Philippines in terms of their compliance with internationally recognized standards of the Hazard Analysis and Critical Control Point (HACCP) program. Only organizations accredited by DA are eligible to conduct the inspection. The measure is expected to be implemented on January 1, 2003. The USDA AgAffairs office has strongly opposed the said measure on the basis of its inconsistency with principles of the WTO Sanitary and Phytosanitary Agreement and its expected adverse effects on trade with the Philippines.

In July 2002, the DA imposed a ban on milk powder produced by a Danish company following a report from the Danish goverment that the imported milk powder was contaminated with components of lubricating oil and microscopic steel flakes. The contaminated milk powder was being imported as a pediatric milk supplement. The DA subsequently lifted the ban on September 5 on the condition that the imported product be certified to have been manufactured under hygienic conditions and fit for human consumption by an independent verification agency.

Earlier this year, the Philippines threatened to halt importation of all dairy products from Australia as a protest against the refusal of that country to allow entry of Philippine bananas. The Philippines currently imports about 40 percent of its total dairy requirement from Australia and 30 percent from New Zealand. Australia still remains the major source of imported products, although actual imports from Australia have dropped by 11 percent during the first six months of 2002. New Zealand, being the second largest supplier of dairy products, and due to its proximity to the Philippines, is expected to be the short term beneficiary of this situation.

Marketing

The country's dairy processing industry may be divided into milk processing and other dairy products, i.e. butter, cheese and ice cream processing among others. Industry output is dominated by milk processing, composed of the preserved milk sector, which reprocesses or repacks milk, and the dairy farming sector, which provides less than one percent of total requirements.

The industry is composed of a few large multi-product firms and several medium-scale and small producers (see table below). Other than Philippine Dairy Products Corp., the leading players are: (1) New Zealand Creamery, which manufactures butter and cheese under the brands Che-Vital and Queensland; (2) Alaska Milk Corporation (AMC), the manufacturers of Alaska Milk: condensed, evaporated and powdered milk and ready-to-drink milk. AMC is focused on the milk business; (3) Selecta-Walls produces ice cream and frozen novelties, and milk and juice products for wholesale and retail stores and its own scooping stations. It also distributes Hershey's confectionery products. Selecta-Walls attained nationwide market leadership in bulk ice-cream in five years time unseating the 80-year-long market leader. Unilever recently bought 50% share in its ice cream business; (4) Nestle Philippines, Inc. the manufacturer of chocolate drinks such as Milo, Nestle chocolate and milk products like Nan infant formula, Nido milk powder and yoghurt, Milkmaid and Carnation Coffee Mate. It also manufactures Nestle Magnolia ice-cream which is a close second to Selecta-Walls. Nestle products have been in Philippines for over 100 years, and; (5) Universal Robina Corporation (URC), the manufacturer of Presto ice cream and frozen novelties such as Tivoli, Drumstick, Pinipig Crunch and others.

PHILIPPINE MILK PRODUCT MANUFACTURERS		
Company	Major Product Line	Brand Names
1. Philippine Dairy Products Corp.	butter, margarine, cheese	Anchor, Magnolia, Baker's Best, Buttercup, Dari Creme,
2. New Zealand Creamery	butter and cheese	Che-Vital and Queensland
3. Alaska Milk Corporation	condensed, evaporated powdered and ready-to-drink milk	Alaska
4. Selecta-Walls	ice-cream, frozen novelties	Selecta, Hershey's
5. Nestle Philippines	milk and chocolate products infant formula, yoghurt	Nido, Milo, Nan, Milkmaid, Carnation
6. Universal Robina Corp.	ice-cream and frozen novelties	Presto

In May 2002, San Miguel Purefoods Co. Inc. (SMPCI), the dominant food manufacturer in the Philippines, bought out the 30-percent stake of its strategic partner, New Zealand Dairy Board (NZDB), in subsidiary Philippine Dairy Products Corp. San Miguel Purefoods is reportedly spending three billion pesos to expand and modernize its plants this year to prepare for globalized competition. It disclosed that it would strengthen operations in order to seize opportunities in the food service segment, which has been growing at an unprecedented growth rate both locally and globally. Philippine Dairy produces and markets butter, margarine and cheese products bearing the brands Anchor, Magnolia, Dari Creme and Star. It has one plant and one subsidiary, Star Dari, Inc. After overcoming the Asian crisis from 1997-99, beverage and food giant San Miguel Corporation bought Pure Foods Corp., its major competitor in the processed food business, from the Ayala group.

Nestle Philippines has announced that it will continue its expansion program in the country to cater to the growing infant nutrition products market. During a visit by President Gloria Macapagal Arroyo to Nestle’s export facilities in Cabuyao, Laguna, Nestle announced that it would invest an additional P2 billion to upgrade its facilities in the country, in addition to the P3 billion investment that it disclosed last year. Nestle Philippines achieved a P48.5 billion sales turnover last year and continues to rank among the top Philippine corporations. The local subsidiary has also remained among the top performers in the Nestle Group, ranking 11th worldwide and No. 1 among Nestle companies in the ASEAN region.

US dairy company, Hester-Foods Inc. launched its HesterFARM low-lactose milk drinks in May 2002 in the Philippines. As documented by a 27-year study at Johns Hopkins Medical Center in Bethesda, Maryland, about 90 percent of Filipinos suffer from varying degrees of lactose intolerance. HesterFoods Inc. has chosen the Philippine market for its Asian launch, citing favorable economic conditions and the stable peso as reasons for its decision.

PSD Table						
Country	Philippines					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Cows In Milk	2	2	2	2	0	2
Cows Milk Production	9	9	10	10	0	11
Other Milk Production	3	3	3	3	0	4
TOTAL Production	12	12	13	13	0	15
Intra EC Imports	0	0	0	0	0	0
Other Imports	30	30	35	40	0	45
TOTAL Imports	30	30	35	40	0	45
TOTAL SUPPLY	42	42	48	53	0	60
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.	38	38	43	48	0	54
Factory Use Consum.	4	4	5	5	0	6
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	42	42	48	53	0	60
TOTAL DISTRIBUTION	42	42	48	53	0	60
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, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	50	50	55	45	0	42
TOTAL Imports	50	50	55	45	0	42
TOTAL SUPPLY	50	50	55	45	0	42
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	50	50	55	45	0	42
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	50	50	55	45	0	42
TOTAL Use	50	50	55	45	0	42
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	50	50	55	45	0	42
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	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	14	14	4	4	6	2
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	89	89	105	92	0	92
TOTAL Imports	89	89	105	92	0	92
TOTAL SUPPLY	103	103	109	96	6	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	99	99	103	94	0	92
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	99	99	103	94	0	92
TOTAL Use	99	99	103	94	0	92
Ending Stocks	4	4	6	2	0	2
TOTAL DISTRIBUTION	103	103	109	96	0	94
Calendar Yr. Imp. from U.S.	5	5	10	10	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	0	0	0	0	0	0
Production	0	1	1	1	0	1
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	5	6	5	0	6
TOTAL Imports	0	5	6	5	0	6
TOTAL SUPPLY	0	6	7	6	0	7
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	6	7	6	0	7
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	6	7	6	0	7
TOTAL Use	0	6	7	6	0	7
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	6	7	6	0	7
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0