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## **Philippines**

## **Grain and Feed**

## **Annual**

## **2001**

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### **Report Highlights:**

**The Philippine economy will slowdown in 2001 resulting in reduced demand for meat and meat products and consequently a decline in overall feed grain imports in MY00/01 and MY01/02. For food, increasing rice and corn production through MY01/02 will result in higher food consumption and will likely displace some wheat consumption. Total feed grain imports will decline starting MY00/01 through MY01/02.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Manila [RP1], RP

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## Executive Summary

While the country was the least affected by the Asian financial crisis, its growth prospects is considered one of the lowest in the region and this will definitely have an effect on feed and food grains consumption. Contributory factors include the depreciation of the Peso, the armed conflict in Mindanao, and recently, a slowdown in government activity as a result of a change in the Presidential Administration.

Rice production will reach record level in MY00/01 due to higher yields over an expanded area harvested made possible by favorable weather conditions and the used of certified seeds. Imports during the period, however, will increase due to PL 480 commitments and increased consumption. Despite a predicted dry spell in the second half of 2001, production in MY01/02 will exceed the previous year's level due to less typhoons. Because of this, imports will decrease compared to the MY00/01 level.

For corn, production will continue to remain relatively flat during the three year reporting period with marginal increases in MY00/01 and MY01/02. Total consumption will increase slightly during the same period mainly due to increased food use. Corn used for feed will stay flat through MY01/02 compared to MY99/00 on account of the expected decline in meat and meat products demand.

Wheat imports are expected to decline from the previous year's level in MY00/01 due to a predicted decline in feed and food consumption. Food wheat consumption in MY00/01 will contract as improved rice and corn production during the year are expected to displace some wheat demand. Feed wheat use, on the other hand, will also decrease due to the economic slowdown which is expected to dampen demand for meat and meat products and consequently feed grain demand. Wheat imports the following year will likely stay flat compared to MY/00/01.

The change in Administration as a result of the ouster of Joseph Estrada as President and the assumption of Vice-President Gloria M. Arroyo as of head of state will result in a review of agricultural and trade policy and programs.

## **Production**

Rice output in MY00/01 was raised to 12.4 million tons as area harvested and yields will be higher than the previous year. The higher estimate is attributed to adequate rainfall and the use of high yielding certified seeds (which reportedly increased from 15 percent in 1998 to 65 percent in 2000). The fewer number of tropical typhoons also contributed significantly to the reduction of spoilage and losses.

For corn, area harvested will decline in MY00/01 compared to the previous year's level as a result of shifting to rice because of frequent rains. There will be better yields and higher production, however, compared to the year before mainly due to less typhoons. The possibility of another dry spell occurring late in the second half of this year will prove to be beneficial to grain production the following year or in MY01/02 as spoilage due to flooding and typhoon damage will be reduced.

Increased area planted for rice and corn are also expected in MY01/02. From July 1998 to January 2001, newly constructed irrigation facilities and the rehabilitation of existing ones reportedly have opened around 275,000 hectares to year-round irrigation. In addition, small scale irrigation projects such as diversion dams, small water impounding reservoirs, and shallow tube wells have opened another 60,000 hectares. The country's present developed irrigable area reportedly is around 1.4 million hectares but only about 60 percent

of the irrigation facilities are functional.

For 2001, the Department of Agriculture (DA) is targeting an output of 13.5 MMT of paddy rice. Although Post expects rice production in MY01/02 to be higher than the previous year, the DA's target is considered too high. Corn production during the period is also expected to increase albeit only slightly.

## Consumption

The Philippine economy is expected to slowdown this year after a year of serious political developments that ultimately led to the ouster of Joseph Estrada as GOP President last Jan. 20, 2001. Sitting as President is the former Vice-President Gloria Macapagal Arroyo - an economist. Before this change in leadership, the National Economic Development Authority (NEDA) announced that GDP for the whole year of 2000 at 3.9 percent. Newly appointed NEDA Secretary, Dante Canlas, predicts GDP for 2001 at 3.8 percent. Private analysts and some business groups, however, predict GDP to be lower. While the country was the least affected by the Asian financial crisis growth prospects is considered one of the lowest in the region and this will definitely have an effect on feed and food grains consumption.

Inflation last year averaged 4.4 percent and the NEDA projects inflation this year to reach 6 to 6.5 percent. The inflation target according to Dr. Medalla, former NEDA Secretary would have been higher had it not been for the recent rollback in oil prices as well as the likelihood of the U.S. slowdown influencing inflation in the Philippines which can affect pricing of raw materials used in local industries. this years, Some private groups, however, say that inflation could further rise due to increasing food prices, election-related spending (scheduled for May this year) and the continued depreciation of the Peso.

In response, the National Food Authority (NFA) has started to sell low-cost rice only to poor consumers early this year. The NFA's targeted food subsidy program called "Bigas para sa Masa" will distribute cheap rice to poor communities identified by the Department of Social Welfare and Development (DSWD) and local government units. Low-price rice will be sold to these poor families at P14 per kilo. The NFA will then limit its sale of locally purchased rice stocks to the public markets at prevailing commercial prices. Previously, NFA's low-price rice sales can be purchased by everyone including those who could afford the more expensive rice. The food subsidy program is expected to reduce the operational losses of the NFA.

Rice consumption in MY00/01 was increased due to higher production and sufficient supply. The average Filipino spends roughly half of his income on rice and it constitute around 25 percent of the Filipino's food basket. It should be noted that like most Asians, during economic tightness, rice consumption is likely to increase as the average Filipino will dispense with other food items and increase his rice intake. This is why rice is considered a "political" commodity. The following year or in MY01/02, rice consumption is predicted to continue its growth as a result of continued growth in production and the economic slowdown.

Rice prices increased in 2000 averaged P18.58, slightly higher than the previous year's average of P18.24. Prices are expected not to significantly move the following year due to adequate supply.

Prices Table			
Country	Philippines		

Commodity	Rice, Milled		
Prices in	Pesos	per uom	Kilogram
Year	1999	2000	% Change
Jan	18.49	18.43	-0.32%
Feb	18.49	18.44	-0.27%
Mar	18.49	18.44	-0.27%
Apr	18.08	18.44	1.99%
May	18.08	18.44	1.99%
Jun	18.31	18.44	0.71%
Jul	18.49	18.51	0.11%
Aug	18.10	18.78	3.76%
Sep	18.10	18.78	3.76%
Oct	18.10	18.78	3.76%
Nov	18.10	18.80	3.87%
Dec	18.03	18.73	3.88%
Exchange Rate	49.40	Local currency/US \$	

Source: Bureau of Ag. Statistics

As the Philippine economy slows down in MY00/01 demand for meat and meat products will decline and result in the decline of overall feed grain consumption. The situation will likely extend to MY01/02.

Corn feed consumption was pared down in MY00/01 and will decline from its year ago level. Consumption the following year will be flat compared to MY00/01. Overall corn consumption will increase through MY01/02 basically due to slight increases in food consumption.

Corn prices in 2000 averaged P8.43 per kilo up 12 percent from the average price of P7.55 per kilo the year before. Corn prices are historically lowest in the third quarter which is when the main corn harvest occurs. 2001 corn prices are not predicted to deviate significantly from the previous level as production will slightly increase compared to the previous year.

The issue of Starlink corn, a GMO corn used for feed but inadvertently found its way to the U.S. food chain, did not cause much alarm in the Philippines. The domestic feedmilling industry has been relatively quiet with regards to biotechnology derived feedgrains.

Prices Table			
Country	Philippines		
Commodity	Corn		
Prices in	Pesos	per uom	Kilogram

Year	1999	2000	% Change
Jan	7.16	10.15	41.76%
Feb	7.70	10.70	38.96%
Mar	7.66	9.37	22.32%
Apr	7.66	8.66	13.05%
May	7.67	8.09	5.48%
Jun	7.50	7.61	1.47%
Jul	7.50	7.60	1.33%
Aug	7.50	7.00	-6.67%
Sep	7.01	7.10	1.28%
Oct	6.90	8.86	28.41%
Nov	7.26	7.90	8.82%
Dec	9.13	8.10	-11.28%
Exchange Rate	49.40	Local currency/US \$	

Source: Bureau of Ag. Statistics

Overall wheat consumption in MY00/01 is expected to decline from its MY99/00 level with both food and feed use decreasing from their year ago levels. The fast food chains, a significant user of bakery items and wheat-based products, have started increasing prices and now offer smaller servings. The expected increase in rice and corn production, and the increased consumption of the same during both years, will likely displace some wheat consumption. Food wheat demand in MY01/02 will likely remain flat compared to the previous year. The same will hold true for feed wheat consumption which will decline in MY00/01 due to the economic slowdown. Feed wheat demand the following market year or in MY01/02 will, also like feed corn, remain flat compared to the previous year.

## Trade

Last year, the Philippine peso depreciated by approximately 20 percent on a monthly basis since the beginning of the year and as much as 12 percent since the beginning of October making it one of the worst performing currencies in the world. While less than the 40-60 percent decline seen during the Asian economic crises it is still very significant. Affected will be products with local substitutes. Prior to the change in political leadership, it was predicted that once the peso stabilizes/strengthens, a recovery in imports from the U.S. is expected. Currently, however, a cloud of uncertainty vis-a-vis trade and import policy of agricultural products exists as a result of recent Cabinet changes.

Rice imports in MY00/01 were adjusted upwards to 815,000 tons despite increased rice production during the year inclusive of the contracted volume (104,000 tons) under the FY2000 Title 1 Agreement. Rice imports in calendar year 2000 are estimated to reach 650,000 tons. The increase in imports is in response to the predicted increase in consumption as discussed in the CONSUMPTION Section.

The following market year, rice imports are expected to decline due to another record rice harvest and

adequate stocks entering the year. The Jan.- Dec. import volume from the U.S. in MY01/02 this time represents the estimated volume to be contracted under the FY2001 P.L. 480 Title 1 Agreement. Negotiations, however, have yet to commence. Rice imports during both years will likely be dominated by China, Vietnam and Thailand.

Import Trade Matrix			
Country	Philippines		
Commodity	Rice, Milled		
Time period	Jul-Jun	Units:	Tons
Imports for:	1998		1999
U.S.	65	U.S.	34,976
Others		Others	
PROC	888,413	Vietnam	145,590
Vietnam	703,178	PROC	19,407
Thailand	98,007	Thailand	18,927
India	65,103	Australia	261
Taiwan	220		
Australia	108		
Total for Others	1,755,029		184,185
Others not Listed	70		17
Grand Total	1,755,164		219,178

Source: National Statistics Office

Corn imports in MY00/01 were adjusted downwards to around 550,000 tons, down from 600,000 tons the year before due to the foreign exchange situation and the expected decline in meat demand. Local corn production is expected to remain inadequate for at least the next three years. During scarcity of yellow corn which is quite frequent, even white corn is utilized in feed manufacture. Corn imports in MY01/02 year will likely increase slightly as the economy and the dollar exchange rate stabilizes. Although U.S. corn is preferred by most feedmillers because of its quality and uniformity, corn from other Asian countries, specifically from China and Thailand, will be competitive in the coming years.

Import Trade Matrix			
Country	Philippines		
Commodity	Corn		
Time period	July Jun	Units:	Tons
Imports for:	1998		1999
U.S.	107,901	U.S.	187,313

Others		Others	
Argentina	35,320	PROC	235,388
PROC	24,340	Thailand	1,958
Canada	13,968	Indonesia	1,034
Indonesia	2,894	India	222
Singapore	2,838	Singapore	51
South Africa	514		
Thailand	427		
Total for Others	80,301		238,653
Others not Listed	492		41
Grand Total	188,694		426,007

Source: National Statistics Office

Recent increases in wheat imports were primarily driven by imports for feed production and wheat imports in MY99/00 were reconciled with the GAIN Feedback numbers. Overall wheat imports the following year or in MY00/01 were reduced due to the predicted decrease in food and feed wheat demand.

The U.S. consistently dominates the wheat market followed by Canada and Australia. Australian wheat imports have been growing the last 3 years and mirrors the increasing use of wheat in feed production. Wheat imports in MY01/02 will likely be flat compared to the MY00/01 level due to the economic slowdown and the projected gains in domestic rice and corn production.

Import Trade Matrix			
Country	Philippines		
Commodity	Wheat		
Time period	Jul-Jun	Units:	Tons
Imports for:	1998		1999
U.S.	1,364,216	U.S.	1,799,231
Others		Others	
Canada	232,304	Australia	374,399
Australia	142,609	Canada	240,703
Ukraine	35,777	France	27,671
Malaysia	25,969	Belgium	3,262
Netherlands	23,320	Korea	990
Singapore	10,252		
Total for Others	470,231		647,025
Others not Listed	25,356		433
Grand Total	1,859,803		2,446,689



Source: National Statistics Office

## Policy

Congress passed into law last November 7, 2000 Republic Act No. 8976 (RA 8976) or the Philippine Food Fortification Act. The law requires mandatory fortification for four food products, namely rice, wheat flour, refined sugar and cooking oil. RA 8976 requires the following to be added to these food products: iron for rice; Vitamin A and iron for wheat flour; and Vitamin A for refined sugar and cooking oil. The provision applies to all food products regardless of whether it is locally processed or imported.

Responsibility of fortifying locally processed food products is assigned to producers and manufacturers, as opposed to traders and rice farmers. In the case of imported products, the importer is responsible. The food fortification program for the four products shall commence by 2004.

During the term of Secretary Angara at the D.A., the Philippines asked the WTO to give the country's agriculture sector four more years of protection to prepare farmers for global competition. Parallel to this, Mr. Angara proposed the delay in lowering of tariffs for agricultural products because he says competing local industries were not yet ready for globalization. As a result, former President Joseph Estrada signed last January 3, 2001 Executive Order No. 334 (EO 334) which specifies the effective tariffs on selected imported items for the years 2001 through 2004 (refer to RP1004). In general terms EO 334 maintained the 2000 tariff levels for most agricultural items although there were a few cases where duties were increased. Duties for some sensitive agricultural products which had in and out-quota tariffs but whose Minimum Access Volumes (MAV's) had yet to be established were standardized into a uniform tariff rate equivalent to the higher out-quota rate.

Duties for wheat, other than feed wheat in 2001 remains unchanged from the previous year's level at 3 percent and will remain in effect till 2004. Feed wheat, likewise, remained unchanged at 10 percent in 2001, to go down to 7 percent in 2002 and 2003, and to 5 percent in 2004. Corn duties remain unchanged with in and out quota rates at 35 and 65 percent, respectively, till 2004 unless otherwise specified. Like corn, rice tariffs also remain the same at 50 percent till 2004.

Although Mr. Estrada was impeached and may be tried for graft charges, the sudden ascension of Gloria Macapagal Arroyo as the President of the country last Jan. 20, 2001 caught the country by surprise. As expected during changes in leadership, a transition period is required wherein priorities and policies of the previous administration are closely studied and reviewed. A certain degree of uncertainty exists in relation to agricultural and trade policy programs. As a result a lot of government agencies are virtually at a standstill as new Cabinet Secretaries adjust to their new roles.

A good example is the NFA's recent tender for around 55,000 tons and 6,000 tons of yellow and white corn, respectively, last Feb. 1, 2001 (refer to RP1006). The bidding was declared a failure as the NFA had yet to receive confirmation from the President. The NFA likewise has reportedly postponed talks for the import of some 200,000 tons of rice from Thailand and Pakistan. The proposed talks have yet to be rescheduled.

Announced just last Feb. 5, 2001, is the new Ag. Secretary Congressman Leonardo Q. Montemayor, the sectoral representative of the peasant sector. A change in focus vis-a-vis agricultural directions is possible with

Mr. Montemayor as DA chief. Mr. Montemayor has in the past opposed free trade and the WTO and has shown apprehension toward biotechnology. He is the Chairperson of the Lower House Committee on Agrarian Reform and has authored/co-authored the following laws (partial listing):

- 1- Agriculture and Fisheries Modernization Act - (R.A. No. 8435)
- 2- An Act Strengthening further the Comprehensive Agrarian Reform Program - (R.A. No. 8532)
- 3- Fisheries Code - (R.A. No. 8550)
- 4- Safeguard Measures Act - (R.A. No. 880)

## Marketing

Prior to his leaving the DA, former Ag. Secretary Angara said the DA will allow private traders starting 2003 to bring in a bigger portion of the country's rice import requirement. He said the DA will increase this allocation yearly until the DA fully transfers the imports rights of the NFA to private traders. He did not however say when the DA would fully dismantle the NFA. Angara added that the NFA loses about P2 billion yearly because of its importation.

The application of modern biotechnology represent very positive prospects in increasing corn output of the country. Currently, however, debate over the environmental and food safety of GMO's continues to be the subject of debate. The Philippines successfully implemented its first field test of Bt corn last year. Despite the controversy, results were impressive. Applications for similar field tests (for rice and corn) have been filed and approved but opposition by local anti-biotechnology NGO's have intensified. Biotechnology commercialization guidelines have been drafted by the DA, however, and are currently undergoing various public consultations. The inadequacy of existing regulatory infrastructure as well as the qualified regulatory personnel have been identified as two major impediments in the adoption of modern biotechnology on a commercial level.

PSD Table						
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Country	Philippines					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	3995	3995	3850	4019	0	4100
Beginning Stocks	1965	1965	2002	2002	0	2267
Milled Production	7772	7772	7883	8095	0	8300
Rough Production	11957	11957	12128	12454	0	12769
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	665	665	750	815	0	700
Jan-Dec Imports	900	900	700	650	0	800
Jan-Dec Import U.S.	0	0	0	104	0	33
TOTAL SUPPLY	10402	10402	10635	10912	0	11267
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consum.	8400	8400	8550	8645	0	8815
Ending Stocks	2002	2002	2085	2267	0	2452
TOTAL DISTRIBUTION	10402	10402	10635	10912	0	11267

PSD Table						
Country	Philippines					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	2549	2549	2500	2484	0	2550
Beginning Stocks	500	500	450	450	0	358
Production	4449	4449	4300	4508	0	4525
TOTAL Mkt. Yr. Imports	600	600	600	550	0	650
Oct-Sep Imports	600	600	600	460	0	460
Oct-Sep Import U.S.	0	0	0	150	0	180
TOTAL SUPPLY	5549	5549	5350	5508	0	5533
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	3500	3500	3600	3500	0	3500
TOTAL Dom. Consum.	5099	5099	5150	5150	0	5250
Ending Stocks	450	450	200	358	0	283
TOTAL DISTRIBUTION	5549	5549	5350	5508	0	5533

PSD Table						
Country	Philippines					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	0	0	0	0	0	0
Beginning Stocks	350	350	350	350	0	250
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3000	3000	3000	2700	0	2700
Jul-Jun Imports	3000	3000	3000	2700	0	2700
Jul-Jun Import U.S.	0	0	0	1700	0	1700
TOTAL SUPPLY	3350	3350	3350	3050	0	2950
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	1300	1300	1100	1100	0	1100
TOTAL Dom. Consum.	3000	3000	2800	2800	0	2800
Ending Stocks	350	350	550	250	0	150
TOTAL DISTRIBUTION	3350	3350	3350	3050	0	2950