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Report Highlights:

The Philippine economy is projected to expand by 4 to 4.5 percent in 2002, which will fuel increased food and feed grain demand through MY02/03. With corn production expected to remain flat through MY02/03, rising feed grain demand will be met by higher imports of feed wheat. As feed millers continue to shift away from corn, overall corn imports are projected to decline in MY02/03. For rice, record production in 2002 will result in MY01/02 rice imports declining from the previous year and expected to remain flat through MY02/03. However, the possibility of commercial sales of U.S. rice in the near future is enhanced by partial liberalization of the rice market, which may occur as early as the first half of 2002.

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

Executive Summary

Philippine GDP last year grew 3.4 percent driven mainly by the 4 percent expansion by the agricultural sub-sector. The increase in rural incomes combined with remittances from overseas Filipino workers resulted in a 3.4 percent increase in personal consumption spending in 2001. In 2002, GDP is predicted to expand 4 to 4.5 percent. The expanding economy, along with a rapidly growing population, is expected to raise food and feed grain demand in MY01/02 and MY02/03.

Record rice production in 2001 is expected to reduce import demand in MY01/02. Production the following year, or in MY02/03, will likely return to more levels, although imports in MY02/03 are predicted to remain flat compared to the previous market year as a result of ample rice stocks. Rice consumption is projected to grow through MY02/03 at a rate commensurate to the population growth rate of 2 percent annually.

The Philippines has historically imported U.S. rice through the PL-480 Title I Program, and negotiations with the Philippine Department of Agriculture (DA) for a FY2002 agreement are currently underway. In addition, prospects for commercial sales of U.S. rice are enhanced by the impending liberalization of the Philippine rice market. Originally scheduled for 2004, the GOP will be issuing guidelines shortly for rice importation by the private sector. Under the guidelines, only farmer organizations will be eligible to import.

For corn, domestic production is expected to be roughly unchanged through MY02/03 and rising feed grain demand by the feed milling industry will be met through further shifts away from corn feed to feed wheat use. Corn feed consumption is expected to be flat in MY01/02 compared to the previous year's level and will decline slightly in MY02/03 although food consumption of corn is expected to increase slightly in both years. Overall, corn imports will contract in MY02/03 as feed wheat use accelerates. On the other hand, overall wheat demand is expected to increase in MY01/02 and accelerate the following market year as food wheat demand will also increase as a result of the predicted growth of the Philippine economy.

Production

Philippine agriculture grew by 4 percent in 2001 spurred mainly by favorable weather conditions. All agricultural sub-sectors registered positive growth rates last year with the crop's sub-sector growing by 2.58 percent from its previous year's level. Paddy rice output rose by 4.56 percent to reach 12.95 MMT for a third consecutive record year. On a market year basis MY00/01 paddy rice output reached 12.52 MMT as area harvested increased and yields improved. The sector is projected to slowdown and grow between 2.7 and 3.7 percent in 2002.

Improved rice production is expected to extend to the first half of 2002 despite the expected occurrence of a mild El Nino weather disturbance and the Department of Agriculture (DA) expects unmilled rice production to break the 13 MMT level during the year. This is due to increased hybrid rice seeds utilization (see POLICY) and the expected expansion of irrigated lands. The hybrid rice varieties were developed by the International Rice Research Institute (IRRI) and the Philippine Rice Research Institute (PHILRICE) and will be mass produced by private and public institutions. On a market year basis, unmilled rice production is estimated at 13.27 MMT in MY01/02, up from 12.52 MMT in MY 00/01.

Rice production in MY 02/03 will likely decline from levels in the previous year, with the likelihood that the climate will return to more "normal" conditions (frequent typhoons in the latter half of the calendar year, which coincide with the more productive months for rice). However, rice output will remain higher than MY 00/01 production, due to the continued expansion in use of hybrid rice seeds.

While production volume is up, local rice production costs remain high, more than costs in Thailand and Vietnam on account of the continued dependence on high cost of labor, land rent and marketing of inputs and outputs (refer to RP1056). This eventually leads to high consumer prices. The same observations apply to the production cost of corn.

Corn, the second most important crop next to rice registered a marginal 0.31 percent increase in 2001 compared to its 1.6 contraction the year before. Better yields in the first semester of the year more than compensated for the slight decline in area harvested. On a market year basis, corn production reached 4.51 MMT in MY00/01 and is expected to increase marginally the following year. Corn output in MY02/03 will likely remain flat.

The use of modern biotechnology in food and feed grain production is one such technology although its development and application are significantly hampered by opposing groups (see POLICY).

Consumption

Philippine GDP last year grew 3.4 percent according to the National Economic and Development Authority (NEDA) exceeding earlier forecasts albeit lower than the 4.0 percent GDP expansion in 2000. Agriculture and the services sector fueled the economic growth last year. Agriculture's growth and income remittances from overseas Filipino workers likewise resulted in a 3.4 percent increase in personal consumption spending. Despite the slowdown of the global economy, GDP this year is projected to grow by 4.0 to 4.5 percent.

Income distribution is highly skewed in the Philippines, however, and the number of Filipinos living in poverty rose to more than one third of the country's population. The 2000 Family Income and Expenditures Survey (FIES) revealed that 33.7 percent of the Philippine population was living in poverty compared to 31.8 percent in the last FIES survey conducted in 1997. The poverty level is based on a monthly minimum amount needed to purchase food and other basic needs. The minimum amount varies from place to place according to the FIES and in Metro Manila only 8.7 percent of the residents were considered poor while poverty incidence in most rural areas increased to as high as 46.9 percent.

Despite very good production, preliminary price estimates from the Bureau of Agricultural Statistics (BAS) reveal that the average monthly rice price from January to October 2001 was slightly higher at P18.79 (\$0.37) per kilo compared to the average monthly price of around P18.30 (\$0.36) per kilo in 2000. Prices for the remainder of 20001 are likely to start declining due to the improved 4th quarter rice production.

Prices Table			
Country	Philippines		
Commodity	Rice, Milled		
Prices in	Pesos	per uom	kilo

Year	2000	2001	% Change
Jan	18.43	18.70	1.47%
Feb	18.44	18.79	1.90%
Mar	18.44	18.78	1.84%
Apr	18.44	18.87	2.33%
May	18.44	18.67	1.25%
Jun	18.44	18.67	1.25%
Jul	18.49	18.35	-0.76%
Aug	18.10	19.04	5.19%
Sep	18.10	19.14	5.75%
Oct	18.10	18.85	4.14%
Nov	18.10		-100.00%
Dec	18.03		-100.00%
Exchange Rate	51.15	Local currency/US \$	

Source: Bureau of Agricultural Statistics

The National Economic Development Authority (NEDA) recently reported that inflation for the month of January 2001 was at 3.8 percent - the lowest in 21 months. The NEDA observed that last month food prices increased by an annual 1.6 percent, but was down from December's 2.1 percent. Food prices dominate the consumer price index with roughly 80 percent of all Filipinos devoting 50-65 percent of their expenditures on food. Because of this, rice consumption was adjusted upwards in MY01/02. This increasing trend is expected to extend to MY02/03.

Local rice prices, however, are still high compared to its other neighbors. In a paper by Dr. Bruce Tolentino, it was revealed that Filipino consumers pay 2 or 3 times as much for rice as do Thai and Vietnamese consumers (refer to RP1056). The same paper attributes the high domestic rice prices to the continuous suppression of rice imports to levels lower than domestically desired.

For corn, preliminary data from the BAS show that local corn prices increased surpassing their year ago levels starting May 2001. Through October 2001, corn prices averaged P8.45 (\$0.17) per kilo, up from the previous year's average of P8.32 (\$0.16) per kilo.

Prices Table			
Country	Philippines		
Commodity	Corn		
Prices in	Pesos	per uom	Kilo
Year	2000	2001	% Change
Jan	10.13	8.85	-12.64%

Feb	10.70	9.02	-15.70%
Mar	9.37	9.00	-3.95%
Apr	8.65	8.35	-3.47%
May	8.09	8.30	2.60%
Jun	7.61	8.30	9.07%
Jul	7.50	8.48	13.07%
Aug	7.00	8.10	15.71%
Sep	7.10	8.10	14.08%
Oct	7.65	8.00	4.58%
Nov	7.90		-100.00%
Dec	8.10		-100.00%
Exchange Rate	51.15	Local currency/US \$	

Source: Bureau of Agricultural Statistics

Positive economic prospects this year will lift demand for meat and meat products and consequently increased feed grain demand by the livestock and poultry meat and fisheries sub sectors. Because of this, the Philippine Association of Feed Millers (PAFMI) projects the country's feed milling industry to grow by at least 7 percent annually in the coming years (refer to RP2005).

Despite the positive outlook by PAFMI, corn feed utilization was adjusted downwards in MY00/01 and MY01/02 as a result of the increased use of corn substitutes particularly of feed wheat starting the first semester of 2001. Feed wheat has displaced a significant portion of corn feed use as a result of low corn production and the GOP's restrictive corn import policies, i.e., high tariffs. While local poultry raisers still prefer corn to wheat, the majority of hog raisers now use wheat in their feed rations. Corn is about 50 percent of feed cost which in turn composes around 70 percent of total production cost.

Corn feed use will likely decline as feed wheat use is expected to increase and accelerate in MY02/03. As a result of the shift, overall corn utilization is likely to decline during the year despite the slight increase in corn food consumption.

Overall wheat consumption, on the other hand, is expected to increase through MY02/03 because of the shift away from corn for animal feed production. Slight gains in wheat used for food is also expected through MY02/03 as the Philippine economy improves and personal consumption increases.

Trade

Legitimate rice imports in MY00/01 almost quadrupled from the previous year's level according to preliminary estimates from the National Statistics Office (NSO). Official GOP estimates are used in the trade matrix while the import figures in the PSD include an estimated 400,000 MT of illegally imported or smuggled rice through MY02/03. The same volume of smuggled rice is incorporated in the Jan-Dec import values. For as long as local rice prices remain

high, the smuggling of rice will continue. Even if confiscated, smuggled rice eventually finds its way to the market.

Rice imports in MY01/02 are likely to decline from its MY00/01 level due to the record production in CY2001. Despite the predicted decline in rice production in MY02/03, adequate stocks coming into the market year are likely to result in flat import growth compared to the MY01/02 level. Rice imports beyond MY02/03 are likely to increase in the light of efforts of the Arroyo administration to liberalize rice importation (see POLICY).

Rice imports from the U.S. in MY00/01 are estimated to have reached 103,000 MT and represents the volume contracted under the FY2000 and FY2001 P.L. 480 Title 1 Agreements. Forecasted U.S. rice imports in MY02/03 reflect expectations of continued importation under PL 480 Title I. However, an agreement for FY2002 is still being negotiated.

Import Trade Matrix			
Country	Philippines		
Commodity	Rice, Milled		
Time period	Jul-Jun	Units:	Tons
Imports for:	1999		2000
U.S.	34,976	U.S.	102,846
Others		Others	
Vietnam	145,590	Vietnam	781,261
PROC	19,407	Thailand	106,360
Thailand	18,927	PROC	38,043
Australia	261	Taiwan	158
		Australia	105
Total for Others	184,185		925,927
Others not Listed	18		17
Grand Total	219,179		1,028,790

Source: National Statistics Office

Corn imports in MY00/01 declined significantly (57 percent) from its previous year's level due to a shift away from corn to cheaper feed wheat. U.S. corn accounted for 47 percent of total imports in MY00/01, up from the 44 percent market share the year before. Corn from the U.S. dominated overall imports during the period.

Import Trade Matrix			
Country	Philippines		
Commodity	Corn		
Time period	Jul-Jun	Units:	Tons
Imports for:	1999		2000

U.S.	187,313	U.S.	85,291
Others		Others	
PROC	235,388	Argentina	49,910
Thailand	1,958	PROC	41,301
Indonesia	1,034	Thailand	2,521
India	222	India	1,512
Singapore	51	Indonesia	543
		Pakistan	81
		Singapore	66
Total for Others	238,653		95,934
Others not Listed	41		114
Grand Total	426,007		181,339

Source: National Statistics Office

For MY01/02 corn imports are expected to increase modestly and reach 220,000 MT with the U.S. market share expected to increase considerably. Imports during the October to September period are all expected to originate from the U.S. and represents the approximate quantity contracted under the FY2001 P.L. 480 Title I Agreement. Corn imports the following market year are likely to decline from the MY01/02 level as increased use of feed wheat is likely to displace a portion of corn feed consumption.

The rise mainly in feed wheat demand drove overall wheat imports up 19 percent reaching 2.9 MMT in MY00/01 according to data from the NSO. The U.S. captured a 68 percent share of the market during the year, down from its 74 percent market share the year before. Canada had the second largest share with 29 percent followed by India with an 8 percent market share.

Import Trade Matrix			
Country	Philippines		
Commodity	Wheat		
Time period	Jul-Jun	Units:	Tons
Imports for:	1999		2000
U.S.	1,799,231	U.S.	1,969,806
Others		Others	
Australia	374,399	Canada	567,309
Canada	240,703	India	154,839
France	27,671	Singapore	114,878
Belgium	3,262	Australia	92,278
Korea	990		

Total for Others	647,025		929,304
Others not Listed	433		18,396
Grand Total	2,446,689		2,917,506

Source: National Statistics Office

Wheat imports are expected to grow in MY01/02 due to strong food and feed grain demand and will likely accelerate its expansion the following market year as the Philippine economy improves. Wheat imports from the U.S. are expected to dominate overall wheat imports through MY02/03 although feed wheat imports are expected to grow in relation to overall wheat imports. As a result, U.S. market share is expected to decline in MY01/02 and MY02/03 as U.S. wheat is of higher quality and therefore is intended more for flour milling.

Policy

Executive Secretary Alberto G. Romulo signed for the President last December 2001 Administrative Order No. 25 (AO 25) entitled "Adoption of the Hybrid Rice Technology as a Strategy to Achieve Rice Sufficiency and Setting Program Targets Therefore." AO 25 directs the DA, the Department of Trade and Industry (DTI), the NFA and their respective agencies to accelerate and intensify the promotion and use of hybrid rice technology. The program targets 135,000 hectares of hybrid rice areas this year, 200,000 hectares in 2003, and 300,000 hectares in 2004. Most of these areas are located in the major irrigated rice producing areas.

Parallel to the hybrid rice program, the Arroyo administration continues to pursue liberalizing rice imports. In her first state of the nation address last year, President Arroyo announced her plans of removing the NFA's monopoly over rice imports by allowing local farmers to import the grain as long as the necessary duties are paid (refer to RP1035). Originally and under WTO rules, rice was a highly sensitive commodity eligible for quantitative restrictions until 2004.

Militant groups reportedly claim that liberalizing rice imports before the 2004 deadline is a concession by the Arroyo administration to the Asian Development Bank (ADB) from which it is seeking the release of a multimillion loan under the Grains Sector Development Program (GSDP). They contend that opening up the market would further aggravate smuggling. Rice millers, on the other hand, believe that no farmer group is capable of importing rice as it requires considerable capital. They support maintaining the status quo or NFA's monopoly.

The NFA, which was recently transferred to the Office of the President (refer to RP1053) will proceed with liberalization. Guidelines for rice importation by the private sector will be finalized shortly and reportedly will be issued by the end of February 2002. This will make possible import contracting for arrival before the third quarter of this year. The NFA will make the final decision in relation to the volume to be imported. The majority of the import requirement is expected to be awarded to rice farmer groups which reportedly will be accredited by a committee to be headed by the DA. The chairman of the NFA governing council is the DA Secretary, Leonardo Q. Montemayor.

Tariffs for rice, corn and wheat remain unchanged from the previous years annual report (refer to RP1007).

In the area of agricultural research, Bt corn field tests by Monsanto during the wet season reveal an average yield

increase of 40 percent over traditional corn varieties on top of additional savings as a result of reduced pesticide applications. Monsanto is preparing and has applied for field testing of Bt corn during the dry season. For rice, PHILRICE has obtained approval to field test its bacterial blight resistance rice variety last month. Planting is scheduled sometime this February at the PHILRICE central experiment station in the city of Munoz, Nueva Ecija province. According to PHILRICE, rice infected with bacterial blight suffer 20-30 percent yield loss and 50 percent or more in extreme cases. The cultivation of GM crops still requires GOP approval even for experimentation or testing. To date, there exists no commercial GM cultivation in the Philippines.

Marketing

Negotiations for a \$20 million FY2002 P.L. 480 Title 1 Agreement recently commenced. Initially the package includes a \$10 million soybean meal and a \$10 million rice component. As expected the DA has expressed some resistance to the rice component. Further negotiations are still underway. While U.S. rice mainly was imported through P.L. 480 Title I Agreements, the impending liberalization of rice imports improve prospects for commercial U.S. rice sales in the future.

PSD Table						
Country	Philippines					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Prelim.	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	4030	4030	4100	4087	0	4150
Beginning Stocks	2002	2002	2587	2797	0	3144
Milled Production	8135	8135	8250	8622	0	8450
Rough Production	12515	12515	12692	13265	0	13000
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	1200	1410	700	650	0	650
Jan-Dec Imports	950	1175	800	600	0	650
Jan-Dec Import U.S.	0	104	0	0	0	35
TOTAL SUPPLY	11337	11547	11537	12069	0	12244
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consum.	8750	8750	8900	8925	0	9105
Ending Stocks	2587	2797	2637	3144	0	3139
TOTAL DISTRIBUTION	11337	11547	11537	12069	0	12244

PSD Table						
Country	Philippines					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Prelim.	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	2484	2484	2550	2550	0	2550
Beginning Stocks	450	450	300	289	0	166
Production	4508	4508	4525	4525	0	4525
TOTAL Mkt. Yr. Imports	300	181	600	222	0	205
Oct-Sep Imports	300	167	600	209	0	215
Oct-Sep Import U.S.	0	79	0	209	0	135
TOTAL SUPPLY	5258	5139	5425	5036	0	4896
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	3458	3200	3650	3200	0	3100
TOTAL Dom. Consum.	4958	4850	5125	4870	0	4800
Ending Stocks	300	289	300	166	0	96
TOTAL DISTRIBUTION	5258	5139	5425	5036	0	4896

PSD Table						
Country	Philippines					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Prelim.	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	0	0	0	0	0	0
Beginning Stocks	350	350	350	218	0	133
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3050	2918	3300	3100	0	3350
Jul-Jun Imports	3050	2918	3300	3100	0	3350
Jul-Jun Import U.S.	1942	1970	0	1850	0	2000
TOTAL SUPPLY	3400	3268	3650	3318	0	3483
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	1100	1300	1600	1400	0	1550
TOTAL Dom. Consum.	3050	3050	3300	3185	0	3350
Ending Stocks	350	218	350	133	0	133
TOTAL DISTRIBUTION	3400	3268	3650	3318	0	3483