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Report Highlights:

A year after passage of the Rice Tariffication Law, Philippine rice farmers struggle to compete with affordable imports from Southeast Asia. Although the Philippine government has used strict enforcement of Sanitary and Phytosanitary Import Permits to manage trade during the harvest season, Post forecasts that MY 20/21 rice imports will rise 27 percent to 3.3 million tons to offset the expected decline in local production. African Swine Fever's continued spread through the country will dampen hog feed demand, resulting in MY 20/21 imports of wheat and corn declining by 150,000 tons and 50,000 tons, respectively, compared to the previous year. Now the second largest market for U.S. wheat exports, robust Philippine demand of milling wheat is likely to grow by 100,000 tons to a record 4.1 million tons in MY 20/21.

Executive Summary:

Rising incomes have resulted in changing diets of the rapidly growing Philippine population towards more wheat and protein. With no commercial production of wheat or “small grains” (e.g. barley, oats, and rye), the country is a major importer of milling-quality wheat and the United States is its largest supplier. Following a record 7.5 million tons in MY 18/19, overall wheat imports will decline through MY 20/21. Although milling wheat consumption in MY 20/21 is expected to increase 100,000 tons from the previous year’s level, total wheat imports will decline 150,000 tons due to lower hog feed demand from the continued spread of African Swine Fever (ASF). The disease affects feed wheat more than corn as the former is utilized primarily in hog feeds, while poultry raisers prefer using corn.

Corn output will increase in MY 20/21 due to shifting away from rice cultivation to corn production, spurred by low paddy prices and rising industrial food demand. Increased production and dampened feed demand due to ASF coupled with adequate feed grain stocks will result in feed corn imports declining slightly during the same period. Industrial consumption will increase 150,000 tons in MY 20/21 due to new and/or increased excise taxes on fuel and sugar-sweetened products that are forcing food manufacturers to switch to cheaper alternative ingredients. Increased sales of competitively priced quality U.S. corn, however, are constrained by restrictive duties (35 percent Most Favored Nation duty vs. 5 percent ASEAN tariff) and limited import quota (i.e. Minimum Access Volume of 217,000 tons).

A year after passage of the Rice Tariffication Law (RTL), Philippine rice farmers struggle to compete with affordable imports from Southeast Asia. The Department of Agriculture (DA) has used stricter enforcement of Sanitary and Phytosanitary Import Permits (SPSICs) to limit imports during the harvest, but imports are projected to rise 27 percent in MY 20/21 to 3.3 million tons due to an expected decline in local production and political sensitivities to inflationary rice prices. Some farmers are likely to shift to other crops, whereas others continue the trend of converting lands to other commercial purposes. The interventions from a P10 billion (\$192.3 million) Rice Competitiveness Enhancement Fund (RCEF) provided by RTL to make the local industry more competitive are likely to take more time than anticipated. As a result, paddy rice output is forecast at 17.8 million tons in MY 20/21, a two percent decline from the MY 19/20 level.

Commodities:

Wheat

Corn

Rice, Milled

Production:

A disaster-prone country, Philippine agricultural output is largely a function of weather. The Philippine climate is mostly tropical and characterized by high temperatures, oppressive humidity, and plenty of rainfall. The Philippines has a wet and a dry season, with the latter starting in late November and ending in May, while the rainy season is June through October. The country experiences around 20 typhoons annually, most occurring in the second half of each year coinciding with the traditional main rice and corn harvests. Postharvest losses and grain quality issues are serious concerns.

Typhoons Kammuri and Phanfone were the 20th and 21st tropical cyclones that passed through the Philippines in 2019. Both occurred in December and resulted in reduced grain output and lower overall farm output. According to the Philippine Statistics Authority (PSA), local agricultural production grew 0.4 percent in the 4th quarter of 2019, lower than the 1.9 percent growth during the same period in 2018. The last quarter performance brought the full-year average to 0.7 percent, slightly higher than the 0.6 percent growth in 2018 but lower than the targeted 2 percent growth rate for the entire 2019. Crop production, which accounts for roughly half of overall farm output, increased 1.0 percent in the last quarter of 2019, but contracted 0.8 percent for the full 2019.

For 2020, the Philippine Department of Agriculture (DA) expects farm output to expand 2.0 percent. Major challenges to date include the Taal volcano eruption in early 2020, the spread of African Swine Fever (ASF) throughout Luzon and in areas of Mindanao, falling prices of paddy rice as the Philippines adjusts to the Rice Tariffication Law (RTL). Although damages due to the Taal volcano eruption in the Southern Tagalog Region in mid-January 2020 reached P3 billion, according to the DA, grain losses were minimal. Major losses were in aquaculture, coffee, and other high value crops (assorted fruits and vegetables).

Wheat

There is no commercial wheat and “small grain” (e.g., barley, oats, and rye) production in the Philippines.

Corn

Corn production in MY 20/21 is expected to increase modestly by 100,000 tons to 8.2 million tons, due to firm demand and some shifting away from sugarcane and cassava as well as rice to corn production. The local poultry sector, a major user of Philippine corn, is expected to boost production 10 percent in 2020 from the previous year’s level, as chicken partially offsets the drop in domestic pork production, which faces the significant challenge of African Swine Fever.

In 2019, the Philippines produced 8.0 million tons of corn, up three percent from 7.8 million tons in 2018, according to data from the Philippine Statistics Authority (PSA). Area harvested is projected to increase marginally (0.3 percent) to 2.52 million hectares from 2.51 million hectares in 2018, while yields will likely improve to 3.18 tons per hectare from 3.09 tons per hectare. Traditionally, the July to September crop is the main corn harvest, but for 2019 just like the year before, the top producing period was the first quarter (January to March) of the year.

Yellow corn accounts for 70-75 percent of total corn output, with the major corn areas located in the Cagayan Valley, Northern Mindanao, and the Central Mindanao regions. Local white corn has an average yield of roughly 1.9 tons per hectare but has a potential to reach four tons per hectare, while yellow corn has an average yield of over 4 tons per hectare but can reach 12 tons per hectare according to a DA corn expert.

Currently, there is no legislated land use policy in the Philippines and land conversion is common. There are an estimated one million corn farming families in the Philippines. Areas for expansion are increasingly becoming limited to unirrigated upland areas. Recent gains in corn production are largely attributed to the increased use of quality planting seeds, including genetically engineered (GE) seeds.

According to a biotechnology expert, the use of GE seeds likely delayed the spread of fall army worm (FAW), which was detected in Cagayan Valley region (the country's top corn producing area) last year. Local GE corn, however, is confined to yellow corn and industry has recently expressed concerns over vulnerability by white corn farmers to the possible FAW infestation.

Average farm gate prices of yellow corn from January to September 2019 were at P13.80 (\$0.26) per kilo, slightly lower (1.5 percent) compared to the P14.01 (\$0.27) per kilo average price for the entire 2018, according to the latest Palay and Corn Quarterly Bulletin of the PSA. Yellow corn farm gate prices as of the 4th week of February 2020 were at P12.34 (\$0.24) per kilo according to preliminary data from the PSA.

	2017	2018	2019	% Change	
Farm gate				18/17	19/18
January	11.25	12.56	13.96	11.64	11.15
February	11.45	13.30	13.86	16.16	4.21
March	11.41	14.15	13.83	24.01	-2.26
April	11.41	14.26	14.10	24.98	-1.12
May	11.53	13.91	14.07	20.64	1.15
June	11.33	13.94	14.00	23.04	0.43
July	11.2	14.36	13.97	28.21	-2.72
August	11.21	14.24	13.47	27.03	-5.41
September	11.43	14.74	12.91	28.96	-12.42
October	11.58	14.39	-	24.27	-
November	12.07	14.17	-	17.40	-

December	12.35	14.13	-	14.41	-
Average	11.52	14.01	13.80	21.65	-1.54

Source: Palay and Corn Quarterly Bulletin, Philippine Statistics Authority

Although corn procurement is still officially a function of the National Food Authority (NFA), the agency has not been buying corn in recent years. The NFA buys white corn for P13.40-13.70 (\$0.26) and yellow corn for P12.70-13.00 (\$0.25).

With areas for expansion increasingly limited to less productive lands, the DA and Mindanao Development Authority are pursuing sorghum production, primarily in Mindanao Island. An initial delivery of sorghum seeds arrived in early 2020 and have been planted in Mindanao under the DA's sorghum program aimed for cultivation in 100,000 hectares in ancestral domain areas. The program aims to support small village-level rural hog and poultry raisers and involves the establishment of small feed mills by organized hog and poultry raisers.

Rice

The [Rice Tariffication Law](#), which replaced Quantitative Restrictions on rice imports with tariffs, has been in effect for a year. The Quantitative Restrictions protected Philippine farmers from competition by more efficient and productive exporters in Southeast Asia, but also inhibited reforms to boost Philippine competitiveness. The P10 billion (\$196 million) Rice Competitiveness Enhancement Fund (RCEF) created by RTL has various programs to support mechanization and modernization of the rice industry, with the aim to lower the Philippines' high cost of production. Parallel to the interventions from RCEF to keep prices low, the DA also uses the strict enforcement of the Sanitary and Phytosanitary Import Clearance system as a means of managing rice trade (see TRADE).

The RCEF allocates P5 billion (\$98 million) for farm mechanization, P3 billion (\$59 million) for quality seeds provision, P1 billion (\$20 million) for credit, and another P1 billion (\$20 million) for training. The RCEF is to be funded from tariffs of 35 percent on imported rice imports. Initial RCEF disbursements were made in September 2019 and the DA hopes to fully obligate the fund by December 2020. The RCEF will run for six years (through 2024) after which paddy production costs are expected to be reduced by P4 per kilo (\$0.08) from the current P12 per kilo (\$0.24), and average yields and farmer incomes improved and/or doubled. If all goes well, the DA forecasts rice output in 2020 at 19.6 million tons.

To cushion the RTL effects, the DA is also implementing a P2.5 billion (\$49 million) aid program that offers interest-free P15,000 (\$294) loans payable in eight years to farmers tilling one hectare and below, and a P3-billion (\$59 million) Rice Farmer Financial Assistance program that provides unconditional P5,000 (\$98) cash assistance to farmers with one-half to two hectares of rice land.

Paddy rice output is forecast at 17.8 million tons in MY 20/21, a two percent decline from the MY 19/20 level due to shifting away from rice to other crops. The interventions established by RTL and RCEF are likely to take longer than expected to take effect, as they are addressing longstanding and structural factors affecting Philippine competitiveness. Rice area is also

expected to decline in MY 20/21, dropping four percent as some farmers decide to diversify their crops or convert the land to non-agricultural uses.

The shift from rice to other crops due to low paddy prices will be more noticeable in the second half of MY 19/20 based on discussions with industry contacts. Rice production during the year was revised downwards to 18.1 million tons from 18.6 million tons in MY 18/19, while area harvested was pared down from 4.74 million hectares to 4.65 million hectares due to the shift to other crops as well as some land conversion.

The DA is planning for the expected crop diversification away from rice. There are roughly three million rice farm families spread across 80 provinces, 23 of which have been identified as areas that will likely shift from planting rice to other crops, under the draft Philippine Rice Industry Roadmap. As reported in the media, the DA plans to spend P1.3 billion (\$25.5 million) to assist affected rice farmers to shift to high value commercial crops.

Philippine paddy production declined one percent from 19.07 million tons in 2018 to 18.81 million tons in 2019, according to the PSA. Area harvested is estimated by Post to be 4.7 million hectares in 2019 or 3 percent lower compared to the 4.8 million hectares harvested in 2018. Yields are likely to improve to 4.07 tons per hectare in 2019 from 3.97 tons per hectare the previous year. The main rice crop is harvested during the fourth quarter each year and output during the October to December 2019 period was less than expected. The major rice-producing areas include Central Luzon, Cagayan Valley, the Ilocos Region, Western Visayas, Central Mindanao, and the Bicol region.

The average farm gate price of paddy rice through September 2019 was P18.27 (\$0.37) per kilo, 12 percent lower than the P20.87 (\$0.42) per kilo average price for the whole 2018, based on the latest Palay and Corn Quarterly Bulletin of the PSA.

Paddy Rice: Monthly Average Prevailing Prices (P/Kg)					
	2017	2018	2019	% Change	
Farm gate				18/17	19/18
January	17.96	19.12	19.84	6.46	3.77
February	18.29	19.75	19.63	7.98	-0.61
March	18.56	20.41	19.00	9.97	-6.91
April	18.83	20.66	18.57	9.71	-10.11
May	19.29	21.02	18.27	8.97	-13.08
June	19.31	21.31	17.91	10.36	-15.95
July	19.44	21.63	17.77	11.27	-17.85
August	19.57	22.39	17.42	14.41	-22.20
September	19.44	22.88	16.05	17.70	-29.85
October	18.70	21.10	-	12.83	-
November	18.51	20.11	-	8.64	-
December	18.86	20.09	-	6.52	-
Average	18.90	20.87	18.27	10.46	-12.45

Paddy prices in October 2019 declined to P14.14.43 (\$0.29), 18 percent below the P17.51 (\$0.34) price per kilo recorded in March 2019 or when the Rice Tariffication Law (RTL) was implemented. Low paddy prices as a result of record rice imports have been a challenge. Milling operations slowed and the resulting lower production of rice bran, a feed ingredient in animal feeds, reportedly pushed feed prices up. Farm gate prices continued to go down for the remainder of 2019 and dropped to roughly P16 (\$0.32) per kilo in late-February 2020, according to preliminary data from the PSA. The NFA buys at P19 (\$0.38) per kilo and declining paddy rice has enabled the agency to buy more. The agency has over 300 buying stations across the country.

Consumption:

According to PSA data, the Philippine economy expanded 6.4 percent in the last quarter of 2019 bringing full year GDP growth to an average 5.9 percent, missing the government's 6 to 6.5 percent goal. The 2019 growth broke a seven-year over 6 percent growth streak and was the slowest pace since the 3.7 percent GDP expansion in 2011. Government of the Philippines (GPH) economists attribute the slowdown in the first half to the delayed national budget approval which stalled state spending. Lower interest rates enhanced increased household consumption and government spending in the second semester. For 2020, the inter-agency Development Budget Coordination Committee (DBCC) projects GDP growth at 6.5 to 7.5 percent. The outbreak of novel coronavirus disease 2019 (COVID-19) is a fast developing threat that could cut Philippine GDP growth to as low as 5.5 percent this year if not contained, according to the National Economic and Development Authority (NEDA). Post does not expect COVID-19 to have a significant impact on the volume of Philippine agricultural production, including rice.

From 5.2 percent in 2018, average inflation settled at 2.5 percent in 2019. Inflation has consistently been declining from 4.4 percent in January to 0.8 percent in October. It inched up to 1.3 percent in November before reaching 2.5 percent in December 2019 due to rising oil prices as a result of recent typhoons and seasonal price hikes during the period. Inflation rose to 2.9 percent in January 2020 before slowing anew the following month at 2.6 percent due to the easing of fuel prices and stable food prices. Inflation for the country's food index remained at 2.1 percent in February 2020, lower than the 4.2 percent posted in February 2019.

Wheat

High quality U.S. wheat consistently dominates the Philippine milling market as consumption of wheat-based products such as flour, bread, pasta, and noodles, continue to grow. The Philippines has risen to become the second largest customer for U.S. wheat exports and the largest market for both U.S. soft white and hard red spring classes. According to industry, consumption has grown four-seven percent annually over the last decade.

Bakery products comprise roughly 50 percent of overall milling wheat consumption. This includes pan de sal and its derivatives (local salt bread consumed as a breakfast muffin), loaf

bread, buns and rolls, cakes and pastries, and Chinese steamed buns. The other half of milling wheat demand is for producing noodles, cookies and crackers, and pasta. The Philippines is the only country in South East Asia that consumes more bread than noodles. Bakery products may be considered a staple, as they are consumed daily by the average Filipino consumer.

The domestic flour milling industry is increasingly becoming more competitive. From 14 mills in 2014, there are currently 22 mills operating with an additional mill set to be established later this year. Aggregate milling capacity has increased 46 percent from 4.2 million tons in 2014 to 6.2 million tons (as of December 2019). Actual capacity utilization, however, is roughly half of total capacity.

Low flour and bread prices, high rice prices, and shifting diets among the burgeoning middle class have kept per capita demand firmly growing in MY 19/20. Milling wheat demand is poised to increase modestly in MY 20/21 due to continued economic growth and the increasing Philippine population. Industry expects consumption of local flour products to grow 3-5 percent annually in the immediate future. Some local flour millers are also looking to export flour and some products, e.g. pasta to regional neighbors but admit more export experience is needed.

The domestic hog and chicken industries for years have been the bright spots of Philippine agriculture. Next to rice (which accounts for roughly a quarter of total agricultural output), hog and chicken production traditionally contribute the most (around 15 and 10 percent, respectively) to Philippine farm output. Investments into both industries remain firm as they continue to modernize and consolidate on the back of strong consumption. The swine sector, however, faces significant challenges as African Swine Fever spreads through the country. In general terms, the Philippine government has so far slowed the spread of ASF, but the disease has reached new areas throughout Luzon and in early 2020 was confirmed in Mindanao. Refer to [December 2019 GAIN Grain and Feed Update](#) for more information. ASF has affected two percent of the estimated 12.8 million hog population with the DA culling around 240,000 head, according to a March 2020 update from the DA. Industry claims the numbers are too conservative, with one recent report indicating over 30 percent of the hog herd could become affected.

Feed wheat use is more prevalent in hog rations. While industry contacts consider feed wheat as an integral ingredient in feed rations and no longer a corn substitute, the ratio is largely determined by price and not by nutritional attributes. Historical average domestic prices of feed wheat are not readily available. Industry estimates feed wheat prices in February 2020 at around P16.00 per kilo delivered to a Bulacan warehouse (\$0.32 per kilo) located just outside of Manila. This compares to about P14 (\$0.27) per kilo for the current price of local corn.

Feed wheat consumption is expected to decline 250,000 tons to 3.0 million tons in MY 20/21 due to dampened hog feed demand from ASF concerns. Post expects milling wheat demand to increase 100,000 tons, as the growing Philippine middle class continues to shift to a more wheat-based diet.

Corn

The common feed ingredients used in the Philippines include corn, rice bran, copra meal, feed wheat, cassava, soybean meal, fishmeal, coconut oil, salt, and assorted vitamins and minerals. The industry is composed of (1) commercial producers, who are solely engaged in the feed manufacturing business, (2) integrated farm feed millers, who are engaged in livestock production and at the same time sell feeds commercially, and (3) on-farm feed millers, who produce feeds for their own farms. The domestic feed milling industry continues to modernize, servicing the needs of the growing livestock, poultry, and aquaculture industries. The industry is now one of the fastest growing agricultural enterprises.

Corn is the preferred feed grain by local end-users but local supply has been inadequate. In addition, quality issues (i.e., aflatoxin) are commonly and as a result, most feed mills prefer imported corn for its reliability and uniformity. Local feed millers are also keen on all year-round availability and price stability as animal feed demand remains firm. As a result, traders dominate the marketing and distribution of local corn. To discourage corn price surges, major feed producers and big farm operations import feed wheat, capitalizing on the MFN tariff differential between feed wheat and corn, i.e. seven percent (no quota) vs. 35 percent (in-quota of 217,000 tons), respectively.

Hog feeds currently account for an estimated 50 percent of overall feed production; poultry feeds represent roughly 45 percent; and the remaining five percent is with aquaculture and other animal feeds. According to trade contacts, local feed millers prefer the bright yellow corn grain against a paler shade. The latter reportedly crumbles easier into granules and may be better for uses other than animal feed production.

The 2020 Alltech Global Feed Survey estimates that international feed output declined 1.07 percent to 1.126 billion metric tons last year mainly due to the African Swine Fever. Current Philippine feed production data is not readily available. The same survey notes that hog feed production in Asia-Pacific had the largest decline consistent with the prediction of a local feed importer that although pork is the preferred meat of the average Filipino, a shift away from pork to poultry meat due to the ASF is happening. In MY 20/21, feed corn demand will likely decline slightly (50,000 tons) compared to the previous year due to the impact of ASF on the hog sector.

	2017	2018	2019	% Change	
Wholesale				18/17	19/18
January	16.91	18.83	20.30	11.35	7.81
February	17.32	19.16	19.47	10.62	1.62
March	17.83	19.90	19.53	11.61	-1.86
April	17.94	20.11	20.23	12.10	0.60
May	17.99	20.10	19.79	11.73	-1.54
June	17.97	20.10	18.40	11.85	-8.46
July	17.99	20.08	18.26	11.62	-9.06
August	18.02	20.53	19.89	13.93	-3.12

September	18.05	20.93	20.75	15.96	-0.86
October	18.43	20.83	-	13.02	-
November	18.65	20.65	-	10.72	-
December	18.72	20.61	-	10.10	-
Average	17.99	20.15	19.62	12.05	-2.62

Source: Palay and Corn Quarterly Bulletin, Philippine Statistics Authority

According to PSA data, the average monthly yellow corn wholesale price during the first nine months of 2019 was P19.62 (\$0.38) per kilo, three percent lower than the P20.15 (\$0.39) per kilo average price in 2018. Wholesale yellow corn prices were higher at the start of 2019 compared to their year ago levels but increased starting May through September 2019 (most recent data available). Depressed corn prices encouraged local corn farmers to renew calls for the lifting of the corn export ban imposed by the defunct NFA (see TRADE).

The average monthly white corn wholesale prices are provided below. From January to September 2019 wholesale prices averaged P19.62 (\$0.38) per kilo, up from the P20.72 (\$0.41) per kilo average price for 2018.

White Corn: Monthly Average Prevailing Prices (P/Kg)					
	2017	2018	2019	% Change	
Wholesale				18/17	19/18
January	14.94	19.70	20.75	31.86	5.33
February	16.43	20.59	21.03	25.32	2.14
March	15.28	20.43	22.12	33.70	8.27
April	15.47	20.34	19.86	31.48	-2.36
May	17.15	19.87	19.67	15.86	-1.01
June	16.53	21.41	19.37	29.52	-9.53
July	16.70	20.74	18.42	24.19	-11.19
August	17.46	21.75	18.05	24.57	-17.01
September	18.53	20.76	17.29	12.03	-16.71
October	19.81	21.14	-	6.71	-
November	20.62	20.79	-	0.82	-
December	18.75	21.10	-	12.53	-
Average	17.31	20.72	19.62	19.72	-5.31

Source: Palay and Corn Quarterly Bulletin, Philippine Statistics Authority

While white corn eaten as grits is a staple in some parts of the southern Philippines, consumption has been fairly flat in recent years due to shifting diets to more protein and wheat-based products. Industrial consumption in MY20/21, however, is expected to increase by an estimated 150,000 tons to 2.25 million tons on account of heightened demand for corn starch and oil and their derivative products as a result of new and/or increased excise taxes on fuel and sugar products (refer to POLICY). The new taxes are driving food and beverage manufacturers to use corn-derived substitutes, although information on precise volumes are not readily available.

Moreover, local biofuels stakeholders have shown interest in looking at corn as a possible ethanol feedstock, as an alternative to the high prices and limited supply of sugar molasses.

Rice

Rice is the main staple of the Philippine population, currently estimated at 109 million people and growing roughly 1.7 percent annually. Rice provides an estimated 45 percent of the average Filipino’s calorie intake and its production is the main source of livelihood in rural areas. Average rice consumption accounts for about 20 percent of a household’s budget. This may go higher by as much as 30 percent for the bottom 30 percent of Filipino families, according to industry. High rice prices are a major contributor to inflation, as was seen in the months leading to the passage of the Rice Tariffication Law (RTL) in February 2019.

The Philippines implemented the RTL to meet its obligations under the World Trade Organization to replace its Quantitative Restrictions on rice imports with tariffs. Philippine economic managers had pushed to liberalize rice imports with the expectation that rice prices would decline by P2 to P7 per kilo (\$0.04-0.13 per kilo) and help tame inflation. While inflation did abate in 2019, the decline in farm gate prices have not translated to a commensurate decline in wholesale and retail milled rice prices. The price gap has been a contentious issue. It also confirms the significant role intermediaries play in the rice supply chain.

Monthly average retail prices of commercial milled rice from 2017 to 2019 are provided in the following table based on the July-September 2019 Palay and Corn Quarterly Bulletin (most recent available). Retail prices were generally lower in 2019 compared to their 2018 levels, helping ease rising inflation.

Milled Rice: Monthly Average Prevailing Prices (P/Kg)					
	2017	2018	2019	Change	Change
Wholesale				18/17	19/18
January	38.24	39.51	41.59	3.32	5.26
February	38.47	40.13	41.29	4.32	2.89
March	38.46	40.70	40.62	5.82	-0.20
April	38.34	41.01	39.91	6.96	-2.68
May	38.58	41.18	39.45	6.74	-4.20
June	38.79	41.52	39.27	7.04	-5.42
July	39.00	42.23	39.14	8.28	-7.32
August	39.26	43.78	38.97	11.51	-10.99
September	39.31	45.97	38.35	16.94	-16.58
October	39.12	44.79	-	14.49	-
November	39.17	42.97	-	9.70	-
December	39.25	42.10	-	7.26	-
Average	38.83	42.16	39.84	8.56	-29.12

Source: Palay and Corn Quarterly Bulletin, Philippine Statistics Authority

Average retail prices for regular milled rice dropped to P36.33 per kilo in early January 2020, the lowest since October 2015 when it registered the same price. The NFA, on the other hand, continues to sell well milled rice for P27 (\$0.53) per kilo against P41 (\$0.81) per kilo commercial price.

Continued economic growth has propelled a growing middle class and shifts in food consumption patterns toward more wheat-based foods and protein. This is evident through the rapidly expanding food retail and fast food sectors. Rice consumption has been flat in recent years, although demand is expected to increase modestly in two-three years as the effects of the RTL become more apparent (i.e., increased imports resulting in lower rice prices). That being said, Post forecasts growing rice consumption through MY 20/21, as this also takes into account the substantial rice losses due to natural calamities and postharvest spoilage.

Trade:

The Association of South East Asian Nations (ASEAN) Trade in Goods and Services Agreement (ATIGA) was signed on February 26, 2009 and consolidated all relevant ASEAN Free Trade Agreement Common Effective Preferential Tariff (AFTA-CEPT) provisions with ASEAN economic agreements. In 2011, all tariff rates on all products (with exemptions for a few sensitive products such as rice) in the ASEAN region fell to between zero and five percent under the ATIGA framework. Several U.S. agricultural exports (including grains) to the Philippines face higher tariffs than competing products imported from ASEAN-member countries and/or ASEAN-Free Trade Agreement (AFTA) member countries such as Australia, New Zealand, China, and India, among others.

High in-quota tariffs for agricultural products under the Philippines' tariff-rate quota program, titled the Minimum Access Volume (MAV) system, significantly inhibit U.S. agricultural exports to the Philippines. Under the MAV system, the Philippines imposes a tariff-rate quota on several agricultural products including rice and corn.

Philippine tariff rates under the various trade agreements may be found in:

<http://tariffcommission.gov.ph/finder/>

Wheat

Milling wheat imports are exempt from tariffs but are subject to a 12 percent Value Added Tax (VAT) on the subsequent flour sales, payable at the time the wheat is imported. Feed-wheat imports, on the other hand, are subject to a seven percent Most Favored Nation (MFN) duty and are not subject to VAT. Likewise, wheat flour imports are levied a 7 percent MFN tariff. Under the ASEAN-Australia-New Zealand FTA, both milling and feed-wheat imports to the Philippines from member countries are duty-free. Overall wheat imports are expected to decline 150,000 to 7.2 million tons in MY 20/21 due to a reduction in feed wheat imports, adequate inventories and increased corn production.

Although the Philippine government has implemented regulations to safeguard against imported ASF-contaminated feed ingredients, implementation varies. Feed wheat from Ukraine is subject

to 20-day quarantine while feed ingredients from China and/or Vietnam are subject to a 10-day period, according to media reports. Industry has concerns that ASF may still come in through imported feed ingredients, as the three countries mentioned above are battling significant outbreaks of the disease.

The price spread of feed wheat (between originating countries), the quality, and how it compares to local corn prices are the main considerations in choosing the imported feed grain, according to local traders. Domestic corn may be price-competitive at times, but quality is usually an issue. Buyers are also concerned with the tendency for prices to increase when a major buyer enters the market.

According to U.S. Customs data, in 2019, the Philippines was the second largest U.S. wheat market, with sales reaching over \$700 million, nine percent higher than the \$643 million level in 2018. Wheat remains the second largest U.S. agricultural export to the Philippines after soybean meal.

Based on international customs data from Trade Data Monitor (TDM), wheat imports declined five percent from 7.3 million tons in 2018 to 6.9 million tons in 2019, due to adequate stocks as a result of a surge in feed-wheat imports in 2018. Feed wheat imports mainly come from Australia, Ukraine, Brazil, and recently, from Russia.

Global Exports to Philippines						
Commodity: 1001, Wheat And Meslin						
Calendar Year: 2017-2019						
Reporter	Unit	January - December			% Change	
		2017	2018	2019	18/17	19/18
Total	T	5,665,437	7,264,902	6,865,648	28	-5
United States	T	2,448,063	2,645,628	2,925,508	8	11
Australia	T	1,938,957	1,448,619	1,828,084	-25	26
Ukraine	T	876,761	1,754,936	1,019,570	100	-42
EU 28 External Trade	T	0	64,750	607,328	-	838
Russia	T	155,650	1,023,376	294,625	557	-71
Brazil	T	0	109,792	187,837	-	71
Canada	T	245,825	217,417	2,356	-12	-99
Malaysia	T	180	380	340	111	-11

Wheat flour imports, on the other hand, have been declining through 2019. In 2019, wheat flour imports declined 60 percent to 25,200 tons from 63,000 tons in 2018 (or roughly 34,000 tons in 2019 to 86,000 tons in 2018 in wheat grain equivalent). Turkish wheat flour, the dominant

wheat flour imported, had sales decline 55 percent from 45,000 tons or 61,000 tons WGE last year to 20,000 tons or 27,000 tons WGE in 2018. Industry contacts say Vietnamese wheat flour is gaining a significant share of flour imports, reflected in the below table with derived data.

The local flour milling industry has also expressed concern over wheat flour imports as these are likely not compliant with the Philippine Food Fortification Law of 2000 or Republic Act No. 8976 (RA 8976). Signed in November 7, 2000, RA 8976 mandates the fortification of flour, oil, and sugar with Vitamin A, and flour and rice with iron by November 7, 2004. The same source adds that while the local milling industry fully complies with the fortification requirements, imported flour is not inspected thoroughly.

Global Exports to Philippines						
Commodity: 1101, Wheat Or Meslin Flour						
Calendar Year: 2017-2019						
Reporter	Unit	January to December			% Change	
		2017	2018	2019	18/17	19/18
Total	T	147,428	84,332	41,510	-43	-51
Turkey	T	68,383	44,608	19,927	-35	-55
Australia	T	2,447	211	1,581	-91	649
European Union	T	3,527	1,480	1,409	-58	-5
India	T	668	908	1,282	36	41
South Korea	T	2,134	1,745	1,239	-18	-29
Indonesia	T	29,534	12,505	1,154	-58	-91
Others	T	7,592	1,477	1,267	-81	-14
Vietnam*	T	33,143	21,398	13,651	-35	-36

Source: Trade Data Monitor

*Derived data from trade contacts

Corn

The Philippines has a two-tiered MFN tariff structure for corn imports: a 35 percent in-quota duty and a 50 percent out-of-quota rate. For 2020, the MAV for corn is 217,000 tons, unchanged in many years. Corn imports originating from member countries of ASEAN are levied a much lower 5 percent duty under the ATIGA. The higher MFN duty makes U.S. corn uncompetitive. Of the corn MAV for 2019, only 121,000 tons (56 percent) were utilized, highlighting that even the in-quota duty rate is cost prohibitive.

In early 2019, Philippine feed millers requested the Philippine government to allow traders to import 300,000 tons of feed corn duty-free, as effects of the El Niño dry spell reduced local supply. A public hearing was conducted in June 2019, but the decision was postponed to September (which coincides with the main corn harvest). No known decision has been issued to date.

The MAV system has been in place since 1995 and is based on domestic consumption levels during the 1986-1988 period. Corn demand has grown significantly since then and an update is in order, according to feed milling contacts. The high corn tariffs increase production costs not only of feeds but of pork, poultry meat, and aquaculture products as well. Feed millers are forced to stockpile and import their feed energy from less optimal sources such as feed wheat. Local corn farmers, on the other hand, have to reckon with seasonal depressed prices.

According to data from the PSA, corn imports declined 54 percent from 915,000 tons in 2018 to 422,000 tons last year. Myanmar corn comprised the majority (39 percent) of imports in 2019, followed by Vietnamese corn with a 21 percent share. U.S. corn accounted for 20 percent of total imports in 2019. Average corn imports for the 2017-19 period was 604,000 tons. Corn imports are expected to be flat in MY 20/21 due to improved local production, adequate feed-grain stocks, and dampened hog feed demand due to ASF.

Philippines Imports						
Commodity: 1005, Corn (Maize)						
Annual Series: January – December 2019						
Partner	Unit	2017	2018	2019	% Change	
					18/17	19/18
World	T	475,244	915,078	421,962	0.93	-0.54
Myanmar	T	4,500	16,203	165,620	2.60	9.22
Vietnam	T	2,324	80,946	87,438	33.83	0.08
United States	T	16,252	196,613	85,385	11.10	-0.57
Brazil	T	33,058	602	51,304	-0.98	84.22
Argentina	T	78,429	98,156	18,819	0.25	-0.81
India	T	25,253	83,239	5,750	2.30	-0.93
Thailand	T	312,437	210,464	4,604	-0.33	-0.98
Indonesia	T	1	225,636	1,237		-0.99
France	T	506	790	1,083	0.56	0.37
South Africa	T	1,081	846	581	-0.22	-0.31
Others	T	1,399	1,583	141	0.13	-0.91

Source: Philippine Statistics Authority

The Rice Tariffication Law restructured the mandate of the NFA, limiting the agency to buffer stock management and local paddy procurement. Under the previous NFA, corn exports were banned unless the agency declared a shortage. With the NFA charter changed and its regulatory functions removed, the question remains whether Philippine corn can be exported.

The local corn farmers’ association had been lobbying to export corn as an alternative market when local prices are down. The industry group claims that under House Bill 7735, a precursor to RTL, a provision directing the NFA to establish rules and regulations governing rice and corn exportation was included. Language on corn exportation, however, was absent in RTL. The DA

is of the position that exports of agricultural products should not depend on surplus production to supply the international market. This infers corn exports during times of seasonal low prices are possible without certification of a surplus.

Rice

The Implementing Rules and Regulations (IRRs) of the RTL set the Minimum Access Volume (MAV) or tariff rate quota for rice imports at 350,000 tons. The in-quota Most Favored Nation (MFN) rate is 40 percent while the out-quota tariff is 180 percent or the tariff equivalent based on the WTO Agreement on Agriculture upon the expiration of the waiver of the special treatment for rice, whichever is higher. Imported rice from ASEAN countries is levied a uniform 35 percent duty. These guidelines are provided by Joint Memorandum Circular (JMC) 01-2019 or the Implementing Rules and Regulations (IRRs) of Republic Act (RA) No. 11203 (“An Act Liberalizing the Importation, Exportation and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and for Other Purposes”) signed March 5, 2019.

PSA data show Philippine rice imports increased by roughly a million tons from 1.77 million tons in 2018 to 2.76 million tons in 2019. Vietnam, Thailand, and Myanmar were the top rice exporters with shares of 73 percent, 13 percent, and 8 percent, respectively. Significant imports in 2019 slowed inflation and depressed rice prices.

Philippines Imports						
Commodity: 1006, Rice						
Annual Series: January – December 2019						
Partner	Unit	January to December			% Change	
		2017	2018	2019	18/17	19/18
World	T	888,086	1,768,696	2,759,747	99	56
Thailand	T	281,574	842,959	349,497	199	-59
Vietnam	T	499,375	675,557	2,017,766	35	199
India	T	10,813	73,430	13,348	579	-82
Myanmar	T	10,043	62,380	217,490	521	249
China	T	4,352	58,126	12,678	1236	-78
Pakistan	T	81,679	56,222	148,156	-31	164
Cambodia	T	0	13	0	-	-100
Italy	T	9	6	1	-33	-83
Spain	T	2	4	6	100	50

Source: Philippine Statistics Authority

In an effort to slow imports, the DA is enforcing the issuance and monitoring of sanitary and phytosanitary import clearances (SPSIC) more strictly. The issuance of SPSICs began slowing down around September last year, which was also the start of the main rice harvest. Recently, the DA cancelled all SPSICs issued in 2019 whose volumes were not brought in. This translates to the cancellation of about 1,700 SPSICs, equivalent to roughly 1.8 million tons of milled rice. While the stricter administration of SPSICs has succeeded in slowing imports, trade contacts

point out that SPSIC issuance should not be considered as an import licensing procedure but strictly of a plant health measure. The DA is expected to continue issue SPSICs and regulate trade in such a manner through June 2020 or the start of the rainy season.

The RTL interventions are likely to take more time before they effectively lower costs and increase productivity and raise farmer incomes. With lower production forecast for MY 20/21, Post expects Philippine rice imports to grow to 3.3 million tons to replenish stocks and help ensure inflation remains within manageable levels. Rice is a politically sensitive commodity. As seen in late 2018, high rice prices can contribute significantly to the overall cost of living, particularly for the lower income population that spends a larger share of its income on food.

Stocks:

Large grain silos and bulk handling facilities are not common in the Philippines. Holding bins are small and feed ingredients usually stacked in sacks.

Wheat

Wheat stocks are largely private sector-held. Wheat stocks are expected to decline 100,000 tons to 2.3 million tons in MY 20/21, due to reduced feed wheat imports.

Corn

Total corn stocks stood at 812,000 tons as of January 1, 2020, 20 percent higher compared to the previous year's level of 676,000 tons and two percent higher than the 795,000 tons during the previous month.

Stocks in households and in commercial warehouses increased by 82 percent and 7 percent, respectively, compared to the same period the previous year. There were no recorded stocks in NFA warehouses for two consecutive years. Around 74 percent percent of total corn stocks were in commercial warehouses while 26 percent were in households, as of January 1, 2020.

Corn stocks are likely to remain flat at 340,000 tons through MY 20/21.

Rice

As of January 1, 2020, total rice inventory was 2.68 million tons, five percent higher compared to 2.55 million tons during the same period in 2019 but 14 percent lower than the 3.1 million tons in the previous month.

Compared to the previous year, household rice stocks and those in commercial warehouses decreased 4 percent and 21 percent, respectively, at the start of 2020. NFA stocks rose by 436 percent from the previous year's level, as the RTL instructed the agency to concentrate on buffer stocks management and local procurement. Household stocks comprised roughly 45 percent, commercial stocks 35 percent, while NFA inventories accounted for 20 percent of total rice inventory.

For MY 20/21, overall inventories are expected to be maintained at the previous year's level of 3.1 million tons, to avert any price hikes or inflation comparable to MY 18/19.

Policy:

To accelerate poverty reduction and to sustainably address inequality, the GPH is implementing a Comprehensive Tax Reform Program (CTRP). Signed by President Duterte on December 2017, the first of up to five tax reform packages, the Tax Reform for Acceleration and Inclusion (TRAIN) or RA 10963 took effect January 1, 2018. TRAIN cut personal income, estate, and donors' tax rates, while increased and/or imposed new taxes on fuel, automobiles, electricity, sugar-sweetened beverages, among others. It is an aggressive reform program where 70 percent of the incremental revenues will be channeled to the GPH's infrastructure program. In early 2020, the Duterte administration revised its poverty reduction target, now aiming to lower poverty to 11 percent of the population by 2022, compared to the previous goal of 14 percent.

On January 7, 2020, Philippine President Rodrigo Duterte signed into law the 2020 General Appropriations Act (GAA), which appropriates P4.1 trillion (\$80 billion) for the national government's operations. The 2020 GAA is 12 percent larger than the 2019 budget and provides the social services sector 37 percent, the largest share, of this year's budget. The Department of Agriculture (DA) has a P64.7 billion (\$1.3 billion) budget, inclusive of the P10 billion (\$196 million) RCEF and the P3 billion (\$59 million) financial subsidy to rice farmers. The DA's 2018 budget was P53.3 billion (\$105 million).

Wheat

Anti-dumping duties on Turkish wheat flour imports since January 2015 were set to expire on January 8, 2020. The anti-dumping duties on Turkish flour were imposed consistent with the RA No. 8752 or the Anti-Dumping Act of 1999. On May 17, 2019, the local flour milling industry association filed a petition with the DA seeking to extend the imposition of the anti-dumping duty for another five years. The DA referred the petition to the Philippine Tariff Commission on June 11, 2019. To date, no hearings have been scheduled. Until the Tariff Commission rules on the extension, the tariffs remain in place.

Corn

In February 2020, the House Committee on Agriculture and Food created a technical working group (TWG) tasked to consolidate several bills seeking to establish the Philippine Corn Research Institute (PhilCorn). HB 2617 aims to "unify, coordinate, fund, implement, and strengthen all corn research and development as well as manpower training and extension of technologies on corn and corn-based farming systems." It also seeks to ensure "adequate and stable supply of quality corn products" for domestic and foreign markets.

Foreign companies in the Philippine grains sector are concerned over a longstanding divestment policy. Presidential Decree (PD) No. 194 signed on May 1973 was passed to develop the domestic rice and corn industry by encouraging large scale foreign investments. PD No. 194 authorized the NFA (then known as the National Grains Authority) to establish the duration allowing wholly-owned foreign companies to engage in the local rice and corn business. In a 1998 resolution, the NFA prescribed a 30-year period but also mandated the eventual divestment of 60 percent of a foreign company's equity participation to Filipino citizens. Big foreign-owned companies (including those whose products use corn) that have invested significantly in terms of infrastructure and manpower will be affected by the time limitation.

Memorandum Order No. 16 (MO 16) issued by President Duterte on November 21, 2017 may not be sufficient to nullify PD 194. MO 16 directs the National Economic Development Authority to exert efforts to ease restrictions on investment areas with limited foreign participation, including rice and corn trading (except retailing and acquiring by barter and purchase). Nullifying PD 194 would augment the administration's goal of encouraging foreign direct investment in the country.

Rice

On September 11, 2019, the Philippines formally informed the World Trade Organization (WTO) of an investigation into the surge in rice imports following the passage of RTL and the plunge in local paddy prices. The initial DA investigation was terminated in October 2019 and although the results are not clear, GPH economic planners decided to give more time to the RTL and observe how prices behave. To date, no safeguards have been imposed.

Production, Supply, and Distribution Data Statistics:

Wheat Market Begin Year	2018/2019		2019/2020		2020/2021	
	Jul 2018		Jul 2019		Jul 2020	
	Philippines USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1801	1801	2276	2276	0	2311
Production	0	0	0	0	0	0
MY Imports	7546	7546	7300	7300	0	7150
TY Imports	7546	7546	7300	7300	0	7150
TY Imp. from U.S.	2845	2845	0	0	0	0
Total Supply	9347	9347	9576	9576	0	9461
MY Exports	71	71	65	65	0	65
TY Exports	71	71	65	65	0	65
Feed and Residual	3200	3200	3200	3200	0	3000
FSI Consumption	3800	3800	4000	4000	0	4100
Total Consumption	7000	7000	7200	7200	0	7100
Ending Stocks	2276	2276	2311	2311	0	2296
Total Distribution	9347	9347	9576	9576	0	9461
Yield	0	0	0	0	0	0

(1000 HA) ,(1000 MT) ,(MT/HA)

Corn Market Begin Year	2018/2019		2019/2020		2020/2021	
	Jul 2018		Jul 2019		Jul 2020	
	Philippines USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2480	2480	2550	2550	0	2600
Beginning Stocks	456	456	339	339	0	339
Production	7608	7608	8100	8100	0	8200
MY Imports	675	675	700	700	0	700
TY Imports	600	600	700	700	0	700
TY Imp. from U.S.	95	95	0	0	0	0
Total Supply	8739	8739	9139	9139	0	9239
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	6400	6400	6700	6700	0	6650
FSI Consumption	2000	2000	2100	2100	0	2250
Total Consumption	8400	8400	8800	8800	0	8900
Ending Stocks	339	339	339	339	0	339
Total Distribution	8739	8739	9139	9139	0	9239
Yield	3.0677	3.0677	3.1765	3.1765	0	3.1538

(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice, Milled	2018/2019		2019/2020		2020/2021	
Market Begin Year	Jul 2018		Jul 2019		Jul 2020	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	4741	4741	4700	4650	0	4450
Beginning Stocks	2288	2288	3520	3520	0	3120
Milled Production	11732	11732	12000	11400	0	11200
Rough Production	18622	18622	19048	18095	0	17778
Milling Rate (.9999)	6300	6300	6300	6300	0	6300
MY Imports	3600	3600	2600	2600	0	3300
TY Imports	2900	2900	2500	2500	0	3300
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	17620	17620	18120	17520	0	17620
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	14100	14100	14400	14400	0	14500
Ending Stocks	3520	3520	3720	3120	0	3120
Total Distribution	17620	17620	18120	17520	0	17620
Yield (Rough)	3.9279	3.9279	4.0528	3.8914	0	3.9951

(1000 HA) ,(1000 MT) ,(MT/HA)

Attachments:

No Attachments