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Grain and Feed Annual

Philippine grain situation and outlook

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Report Highlights:

Overall Philippine grain imports in MY10/11 will increase from the previous year's level due to higher demand and an expected decline in local grain production in 2010. Food and feedgrain demand will increase as a result of the positive economic outlook, the rapidly growing Philippine population and considerable election-related spending in 2010. Higher wheat, corn and rice imports in MY10/11 will be facilitated by reduced tariffs for grain imports from the region, including Australia, brought about by the implementation of regional free trade agreements.

Executive Summary:

Philippine rice and corn production in MY10/11 will decline from the previous year's level due to lingering effects of the devastating typhoons in late 2009 as well as an El Nino dry spell in 2010.

In general terms, overall grain demand in MY10/11 will increase compared to the previous year's level due to the rapidly growing Philippine population, the positive outlook for the Philippine economy as well as considerable spending for national and local elections this year. Wheat demand is expected to grow the fastest in MY10/11 due to stable prices with both feed and food consumption increasing from the previous year's levels. Overall corn consumption in MY10/11, on the other hand, will remain flat compared to the MY09/10 level with food corn use expected to decline while feed corn demand likely to increase. For rice, consumption growth will continue to increase in MY10/11 albeit at a slower rate compared to the previous year.

Increased rice, corn and wheat imports are expected in MY10/11 enhanced by improved access to regional grains as a result of the implementation of free trade agreements starting 2010. U.S. wheat and corn imports will be at a disadvantage compared to regional imports (including Australia) as a result.

Commodities:

Wheat

Corn

Rice, Milled

Production:

After expanding 3.9 percent in 2008, Philippine farm output growth failed to reach its 2009 target due to the devastating typhoons (Ketsana and Parma) in the later part of last year. Preliminary estimates from the Philippine Department of Agriculture (DA) show that the farm sector grew 0.37 percent last year, below the revised 0.5 to 1.5 percent target for the period. The original target was 3.5 percent and later scaled down to 2.5 percent in the middle of 2009 prior to the third goal of a 0.5 to 1.5 percent growth rate.

The series of typhoons severely damaged the 4th quarter rice crop (particularly in Luzon island), the main Philippine rice crop, which traditionally accounts for 35-40 percent overall annual rice production. The 60 percent balance is fairly evenly distributed among the other quarters. For corn, the 3rd quarter is the dominant season (accounting for approximately 32-37 percent of corn production) and the majority of the standing crop had likely been harvested prior to the typhoons. The crops subsector accounts for about half of the total agricultural production with paddy rice production accounting for roughly 17 percent of total farm output.

According to the DA, rice harvests in 2009 reached 16.26 million MT for a 3.3 percent contraction from the previous year's level. Corn production during the same period increased to 7.03 million MT, up 1.5 percent from the 2008 output. The higher corn output, the DA attributes to an increase in area harvested and improved yield and as a result, MY09 production and area harvested was slightly raised. The higher area devoted to corn was likely enhanced by the raising of the corn support price from P11(\$.20) to P13 (\$.21) although industry says the increase was not enough. The higher corn output in 2009 is also questioned by the local industry.

Philippine grain production will face many challenges in 2010. The series of typhoons will have far-reaching effects on grain production in the affected areas. Typhoon-affected rice farmers have not fully recovered and because the typhoons damaged mature or ready-to-harvest rice, losses are significant and farm incomes are expected to be down. Farm credit will be critical as production costs continue to rise. The likelihood of a reduced 2010 budget for DA will not help, particularly in mitigating the effects of another weather disturbance this year.

Drier-than-normal conditions as a result of the El Niño weather disturbance have already been confirmed by the Philippine Atmospheric, Geophysical and Astronomical Services Administration. This is expected to result in a decline in rice and corn production in MY10/11. Area harvested and yields for both grains during the same period are likely to decline from the previous year's levels. A ranking official of the DA has estimated potential losses as a result of the weather disturbance to be between 265,000-816,000 MT for rice and 175,000-440,000 MT for corn.

Increased competition from cheaper feedgrain imports from the region as a result of the implementation of regional free trade agreements will also enhance the decline of corn production in MY10/11 (see POLICY) with area harvested and yields sliding compared to the previous year's level. More importantly, the trade agreements have dampened the prospects for increasing Philippine corn production in the long-term and the shifting to more profitable crops is likely starting MY10/11. In the case of rice, while the Philippines possibly could negotiate for a few more years before opening up its rice market, efforts in raising productivity must intensify and accelerate. However, even if this happens, it could be negated by the occurrence of natural calamities the country regularly experiences.

There continues to be no commercial wheat production the Philippines.

Consumption:

To the credit of the Arroyo Administration, the country avoided most of the effects of the world recession in 2009. Despite two (2) extremely damaging storms in the second half of 2009, Gross Domestic Product (GDP) expanded 0.9 percent last year, within the Philippine government's (GRP) 0.8-1.8 percent growth target.

For 2010, GRP economic planners predict a growth range of between 2.6 percent and 3.6 percent, consistent with expectations from the World Bank and Asian Development Bank that Philippine GDP would more than double last year's growth rate. The GRP has announced its intention to continue to inject into the economy stimulus funds, albeit in lesser amounts, possibly until 2012 to ensure the country's full economic recovery. The Philippine Central Bank is also expected to maintain low interest rates through most of 2010 to stimulate the economy

Remittances from Overseas Filipino Workers (OFWs) continued to be the bright spot of the Philippine economy last year with remittances expected to reach a record \$17.1 billion in 2009, up 4 percent from \$16.4 billion in 2008. OFW remittances are expected to grow even stronger (6 percent) in 2010, according to press reports. Remittances from abroad enhance higher consumption, help keep inflation in check and have a stabilizing effect on foreign exchange. Average inflation rate for 2009 was 3.2 percent, down sharply from 9.3 percent in 2008 while the average foreign exchange rate last year was P47.64/\$, up 6.6 percent from P44.47/\$ in 2008. Another recent and emerging economic driver that drives consumption up is the local business process outsourcing (BPO) industry that reportedly grew over 20 percent in 2009, and is expected to generate between \$11-13 billion in revenue in 2010 as more companies improve efficiency and cut down costs. The main stimulus for increased consumption this year, however, will be spending for the May 2010 elections. Some economists expect GDP to rise by an estimated half point by increasing consumption and providing jobs as a result of election-spending. Higher consumption, including grain demand, is expected through MY10/11. Consumption would have been higher had it not been for the dampening effect of recent fuel and consumer price increases as well as the effects of another El Nino episode in 2010.

Likely to drive higher grain consumption in MY10/11 will be wheat demand enhanced by stable prices as a result of the improved global wheat supply. The Philippine Association of Flour Millers (PAFMIL) reportedly expects a ten (10) percent rise in this year's flour output and as a result expects stable flour prices this year. According to PAFMIL, however, prices may increase should there be an abrupt increase in petroleum prices, a drastic change in global weather conditions and/or if China's demand for wheat imports increases. While flour prices are predicted to remain stable, the very recent spike in sugar prices have already resulted in higher local bread prices.

Feed consumption in MY10/11 will also increase from the previous year's level as the domestic livestock and poultry raisers brace for more competition from imports from the region. Some shifting away from locally grown corn to feedwheat use during the year is expected despite being priced competitively. Quality issues with locally grown corn have made feedmillers prefer using imported feedgrains including feedwheat. Local corn reportedly was selling at the range of P10.50 to P11.50 (\$0.22 to \$0.25) per kilo early this year which approximates the landed price of imported feedwheat. Feed corn consumption, however, is still likely to increase in MY10/11 using more acceptable-quality corn imports originating from neighboring countries in the region compared to the previous year's level. Food corn demand during the year, on the other hand, is expected to decline from the MY09/10 level as a result of the decrease in local corn production in 2010. No significant change in overall corn consumption is expected in MY10/11 compared to the previous year's level as a result.

Last year, the National Food Authority (NFA) reportedly purchased more than 425,000 MT of local paddy rice, less than the original one (1) million MT target. The latter was reduced to about 881,300 MT in October as a result of the typhoon-damages to local paddy production. The NFA buys local unmilled rice with 14 percent moisture content for P17 (\$0.36) per kilo, but offers a lower price for deliveries with higher moisture levels not to exceed 24 percent. This specification has discouraged growers selling to the agency as drying problems persists. As a result, rice farmers opt to sell to private traders which reportedly have also offered to buy at a higher price. The NFA continues to sell subsidized rice at P18.25 (\$0.39) per kilo or roughly half the average price of commercial rice.

MY10/11 rice consumption will slightly increase from the previous year's level due to the growing Philippine population. Rice consumption figures in the table below are inclusive of considerable spoilage losses which spiked in MY09/10 and are expected to decrease in MY10/11. The MY10/11 consumption figure, therefore, is expected to represent more actual rice consumed as food and less spoilage.

Trade:

The significant increase in overall wheat imports in 2009 was driven by feedwheat. More than a million MT of feedwheat was imported when the GRP issued Executive Order 765 allowing for zero-duty importation of wheat from January to June 2009. Local corn farmers complained, however, as prices did go down forcing the GRP to respond by issuing Executive Order 818 which extended the duty free importation of food wheat for another six months, but restored the original 7 percent tariff on feedwheat imports until the end of 2009. Even with the restoration of tariffs in June 2009, however, it remained attractive to import feedwheat as Eastern European countries turned in a bumper harvest. Duty-free importation of milling wheat was allowed for practically the entire year.

Overall wheat imports in MY10/11 will increase from the previous year's level due to increased food demand as a result of the coming elections as well as stable global wheat prices. Eastern European countries are likely to strengthen their share of the market by dominating feedwheat imports due to good production. Australian wheat is also likely to increase in MY10/11 due to lower tariffs brought about by a free trade agreement signed in February 2009 (see POLICY) as well as lower freight costs.

The expected decline in corn production this year as well as quality issues associated with local corn are expected to result in higher MY10/11 corn imports compared with the previous year's level. Corn imports from Thailand, Indonesia and countries in the region are expected to increase as a result of lower tariffs afforded by the ASEAN free trade agreement.

The National Food Authority (NFA) has so far awarded 1.96 million MT of the 4 tenders last year and subsequently ordered an additional 25 percent of the awarded tender volumes (an option provided in the tender contract). Hence, total NFA imports to date amount to roughly 2.4 million MT. This, plus another estimated 200,000 MT of private sector imports add up to approximately 2.6 million MT for MY09/10. The arrival of the shipments is expected in the first quarter of this year, mostly from Vietnam. The DA, however, is also currently studying the need for more imports in the face of the El Nino drought. Post predicts this to happen and rice imports in MY09/10 were adjusted accordingly.

Rice imports the following year are likely to surpass the previous year's level as local production declines in MY10/11.

Stocks:

As mentioned in previous reports, Philippine rice inventory is comprised of those stocks held by the NFA, the commercial sector, and household. Quantifying commercial and household rice inventories, however, is difficult. In general terms, rice stocks are highest beginning each January, after the main rice crop harvest in the 4th quarter, and gradually erode through September. Hence, as a matter of policy, the NFA tries to maintain a 90-day national rice buffer stock entering the third quarter of each year. Of this desired stock level, 30 days worth of rice stocks should be in the NFA's possession. Additionally, at any given time, the NFA should have a stock level good for 15 days. As of

December 29, 2009, the NFA reportedly had 996,311 MT of rice enough to satisfy nationwide demand for an estimated 28 days.

Ending rice inventories in MY10/11 is likely to decline from the previous year's level. At the current estimated daily consumption rate of 34,000 to 35,000 MT, MY10/11 ending stocks would be good for about 90 days. The percentage distribution of the stocks (i.e., commercial, household or with the NFA) however, is unclear.

Wheat inventory is almost entirely private-sector-held in large silos owned by local flour millers who are likewise engaged in feedmilling operations. Local millers maintain and use feedwheat inventories as leverage to deter unreasonable local corn price increases. No significant change in milling and feedwheat stock levels are expected in MY10/11 as the local industry is likely to adopt a conservative position in view of possible changes in GRP leadership and policy as a result of the national elections.

Ending MY10/11 corn and rice stocks will likely remain flat compared to the previous year's level reinforced by increased imports during the year. A portion of ending stocks of both grains will eventually form part of a "disappearance" the following year due to inferior storage facilities. Ending corn inventories will likely be mostly locally produced corn with quality issues, however.

Policy:

Under the Association of Southeast Asia Nations (ASEAN, composed of Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam) Free Trade Agreement (AFTA), all tariff rates on all products (with special protocol exemptions for a very few hyper-sensitive products such as rice) in the ASEAN region will fall to between zero and five percent by 2010.

Despite disagreement on rice tariffs with Thailand, the GRP went on with the implementation of the tariff reductions beginning January 2010. Executive Order 850 (EO 850), published before the end of 2009, brought down tariffs of nearly all remaining goods sourced from the 10 member states of ASEAN to between 5 and zero percent starting 2010. Thailand has yet to agree to the Philippines' proposal to exempt its local rice industry from liberalization until 2015, however. In exchange for not reducing tariffs, the Philippines reportedly offered to buy 370,000 tons of rice a year tariff-free from Bangkok. According to unconfirmed press reports, Thailand countered by asking for an additional 1 million MT government-to-government rice deal. Under the AFTA, the Philippines should have reduced the rice tariff to 20 percent this year from the current 40 percent duty.

U.S. exports of corn, poultry and pork products to the Philippines will now face higher tariffs than competing products imported under the lower tariffs of AFTA. Pork and poultry products from the region are now levied a 5 percent duty, much lower than the 30-40 percent MFN tariff for the U.S. counterpart. Corn tariffs have also been reduced to 5 percent under AFTA versus an MFN rate of 35-50 percent at the start of 2010.

The ASEAN has also forged free trade agreements with other countries. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) signed in February 2009 provides products from Australia and New Zealand with the same lower tariffs as ASEAN-origin products. Executive Order 851 (EO 851), published at the same time with EO 850, implements the tariff cuts starting January 2010. Tariff for wheat imports originating from AANZFTA-member countries were reduced to zero at the start of

2010, compared to the 3 percent MFN rate. Wheat flour duties will also be reduced to zero by 2011 under AANZFTA.

Marketing:

The PAFMIL intends to pursue educational programs on the use of wheat flour it produces through targeting the country's small bakeries. Most Philippine bakeries are small in scale and family owned with only an estimated 20 percent having mechanized operations. The rest still use manual labor in mixing dough. The appropriate training program will have positive effects on increasing U.S. wheat demand in 3-5 years.

Production, Supply and Demand Data Statistics:

Wheat	Philippines	2008			2009			2010		
		2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
		USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
				Data			Data			Data
Area Harvested		0	0	0	0	0	0			0
Beginning Stocks		571	264	571	591	514	591			466
Production		0	0	0	0	0	0			0
MY Imports		3,201	3,000	3,201	3,000	2,650	3,000			3,250
TY Imports		3,201	3,000	3,201	3,000	2,650	3,000			3,250
TY Imp. from U.S.		1,467	0	1,467	0	0	0			0
Total Supply		3,772	3,264	3,772	3,591	3,164	3,591			3,716
MY Exports		31	0	31	25	0	25			0
TY Exports		31	0	31	25	0	25			0
Feed and Residual		1,000	600	1,000	900	500	900			1,000
FSI Consumption		2,150	2,150	2,150	2,200	2,300	2,200			2,250
Total Consumption		3,150	2,750	3,150	3,100	2,800	3,100			3,250
Ending Stocks		591	514	591	466	364	466			466
Total Distribution		3,772	3,264	3,772	3,591	3,164	3,591			3,716
Yield		0.	0.	0.	0.	0.	0.			0.
TS=TD				0			0			0

Corn	Philippines	2008			2009			2010		
		2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
		USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
				Data			Data			Data
Area Harvested		2,655	2,655	2,655	2,655	2,665	2,685			2,650
Beginning Stocks		727	826	727	671	782	671			671
Production		6,846	6,846	6,846	6,850	6,846	7,000			6,800
MY Imports		400	310	400	400	400	400			600

TY Imports	450	310	450	400	400	400			600
TY Imp. from U.S.	18	100	18	0	0	0			0
Total Supply	7,973	7,982	7,973	7,921	8,028	8,071			8,071
MY Exports	2	0	2	0	0	0			0
TY Exports	0	0	0	0	0	0			0
Feed and Residual	5,300	5,200	5,300	5,400	5,400	5,400			5,500
FSI Consumption	2,000	2,000	2,000	2,000	2,000	2,000			1,900
Total Consumption	7,300	7,200	7,300	7,400	7,400	7,400			7,400
Ending Stocks	671	782	671	521	628	671			671
Total Distribution	7,973	7,982	7,973	7,921	8,028	8,071			8,071
Yield	3.	3.	2.5785	3.	3.	2.6071			2.566
TS=TD			0			0			0

Milled	2008			2009			2010		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	4,528	4,400	4,528	4,450	4,400	4,450			4,425
Beginning Stocks	4,418	4,816	4,418	4,121	3,859	4,121			3,636
Milled Production	10,753	10,593	10,753	10,300	10,593	10,300			10,200
Rough Production	17,068	16,814	17,068	16,349	16,814	16,349			16,190
Milling Rate (.9999)	6,300	6,300	6,300	6,300	6,300	6,300			6,300
MY Imports	2,600	1,750	2,600	2,600	2,000	3,000			3,200
TY Imports	2,000	1,750	2,000	2,600	2,000	3,000			3,200
TY Imp. from U.S.	0	0	0	0	0	0			0
Total Supply	17,771	17,159	17,771	17,021	16,452	17,421			17,036
MY Exports	0	0	0	0	0	0			0
TY Exports	0	0	0	0	0	0			0
Consumption and Residual	13,650	13,300	13,650	13,785	13,450	13,785			13,900
Ending Stocks	4,121	3,859	4,121	3,236	3,002	3,636			3,136
Total Distribution	17,771	17,159	17,771	17,021	16,452	17,421			17,036
Yield (Rough)	4.	4.	3.7694	4.	4.	3.6739			3.6588
TS=TD			0			0			0