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Report Highlights:
Poultry meat imports in 1999 will surge to record levels due to increased demand and the slow down in local poultry production. Poultry meat demand will continue to be strong as a result of improvement of the Philippine economy through 2000. Poultry meat imports, however, will likely decline as domestic poultry production recovers and accelerates in 2000.

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

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Executive Summary

After posting consistent high growth rates in recent years, the Philippine poultry sector contracted in 1998. Overexpansion by large broiler integrators in previous years resulted in an oversupply situation starting in 1996. This compelled poultry farms to scale down bird population levels in 1997 which resulted in the decline in chicken meat output in 1998. Prices were erratic in 1998 but generally high. High prices dampened consumer demand for chicken meat during the year but made possible increased entry of cheaper imports compared to their 1997 level. Compounding the situation was the height of economic problems brought about by the Asian crisis which brought down overall meat consumption in 1998.

For 1999, the Philippines is expected to be among the first countries to recover from the Asian crisis. Encouraging signs of economic growth have been noted in the early part of the year and inflation levels have been low. Around half of the average Filipino's income is spent on food and meat demand, including that of poultry meat, is expected to grow from their levels the previous year. The expansion of the food retail sector, specifically, is indicative of the impending recovery of meat consumption. Big poultry farms are cognizant of this and are expected to make the appropriate adjustments. Fine tuning of bird populations in relation to projected demand by poultry farms will take time but is expected to be fairly attuned in the second semester of this year. The gap, however, provided a window for the surge of poultry meat imports which is expected to reach record levels in 1999. Poultry meat production is likely to accelerate in the second half of 1999 and will at best, be just enough for production for the entire calendar year to slightly better its year-ago level.

Poultry production is predicted to accelerate its growth in 2000 as demand for poultry meat is expected to remain strong. Expected low inflation and stable prices will complement the growth in demand and will benefit the food retail sector which have been expanding their outlets. The expected increase in consumption will enhance local production which will likely displace some imports. Some imports are expected to be maintained as lessons in the past in relation to production expansion have made big poultry integrators more modest in pursuing growth in production levels.

Production

The Philippine poultry industry is dominated by chickens which account for around 95 percent of all poultry production. Ducks and some turkeys are raised but production is minimal. According to official estimates, of the chicken inventory in the country, around 12 percent are layers, 30 percent broilers, and the balance of 48 percent classified as native/improved chickens. Chicken meat production according to industry contacts, however, may be broken down as 30 percent native chickens, 10 percent culled, and 60 percent broilers. There are 5 fully integrated operations which produce roughly 90 to 95 percent of all broilers. It takes about six months for a breeder to produce broiler chicks which have an average grow-out period of around 45 days. The average live weight of chicken at time of sale is 1.45 kilograms per bird.

The year 2000 will be a challenging year for domestic poultry raisers as stiff competition from imports is expected. Strong demand for chicken meat on account of the improving economy will likely result in increased production during the year. Improved production will likely displace some imports in 2000. Developments in recent years have forced large poultry raisers to undergo radical adjustments. How well the industry is organized and coordinated, however, is an inherent weakness which resulted in major problems. The following is a chronology of events that provide an illustration of this particular defect.

In 1995, in response to a foot-and-mouth disease (FMD) epidemic which plagued the local livestock industry, broiler integrators aggressively expanded chicken production anticipating a shift to chicken meat the following year. Growth in demand, however, was below expectation resulting in an oversupply of chicken meat in 1996. This depressed chicken prices and led to huge financial losses for most integrators as the cost of maintaining a large inventory rose due to high local feed prices. Compounding the situation was the start of the Asian currency crisis in the middle of 1997 which dampened consumer demand. As a remedial action, large broiler farms began to cut back production levels starting in 1997.

As a consequence, poultry production in 1998 contracted compared to the previous year after consistently posting high growth rates in the past. The decline in production was aggravated by higher mortalities as a result of severe heat as a result of the El Nino drought. There were heavy withdrawals from frozen broiler stocks and by the end of the year, inventories were at critically low levels resulting in the jump in chicken prices at the beginning of 1999. Wholesale broiler prices (dressed weight or RTC basis) are not available and what is provided below are on a live weight basis. Live chicken prices began to rise beginning the second quarter of 1998 as supplies were tight. Prices only eased starting middle of the year but again began to increase in the last quarter of the year.

Prices Table, Broiler (Live weight), Wholesale

Prices Table			
Country	Philippines		
Commodity	Broiler, Wholesale (live weight)		
Prices in	Peso	per uom	Kilogram
Year	1998	1999	% Change
Jan	49.24	69.33	40.80%
Feb	52.77	64.92	23.02%
Mar	51.94	55.67	7.18%
Apr	59.12	49.10	-16.95%
May	69.25		
Jun	49.24		
Jul	47.17		
Aug	51.08		
Sep	51.33		
Oct	54.37		
Nov	60.96		
Dec	66.42		
Exchange Rate	38.25	Local currency/US $	

Source: Bureau of Agricultural Statistics

Although prices have been declining in the first four months of 1999, the poultry sector actually contracted during the period as a spillover effect of depopulation activities the previous year. According to preliminary data from the Bureau of Agricultural Statistics (BAS), chicken production was 9 percent lower compared to its year-ago level. The decline in prices is likely the result of the competition from imported chicken meat.

Poultry production, however, is expected to accelerate in the second half of 1999 and into 2000 as poultry raisers are expected to have "normalized" bird populations and capitalize on renewed demand for poultry meat. Whether this will result in growth for the entire calendar year 1999 is uncertain. Post predicts production to slightly grow compared to the 1998 level. Corn this year is expected to be ample and prices are fairly low. In addition, tariffs on corn substitutes have been reduced. The growth of the sector, however, is expected to accelerate in 2000 as the economy continues to improve and demand increases.

Consumption

The Philippine economy slowed down in 1998 as a result of the dismal performance of Philippine agriculture. Real GNP declined to 0.1 percent from the 5.3 percent growth registered the previous year while GDP declined from 5.2 percent the previous year to (0.5) percent in 1998. Unemployment rose to 10.1 percent in 1998 from 8.7 percent in 1997. Average annual inflation for the whole year was 9.7 percent but from May 1998 to January 1999, average annual inflation exceeded 10 percent (10.08 percent to 11.62 percent). There is no doubt that meat consumption was affected by these factors.

Per Capita Consumption Table, Selected Meats

ANNUAL PER CAPITA CONSUMPTION					
OF SELECTED MEATS (Kg/Year)					
YEAR	CHICKEN	PORK	BEEF	TOTAL	FRESH FISH
1991	4.56	11.03	2.19	17.78	22.92
1992	5.55	10.79	2.29	18.63	21.26
1993	5.57	11.04	2.42	19.03	19.76
1994	5.49	11.02	2.68	19.19	19.01
1995	5.83	11.61	2.89	20.33	19.23
1996	6.51	12.21	3.13	21.85	18.71
1997	6.96	12.54	3.46	22.96	18.89
1998	6.75	12.70	3.25	22.70	No data

* Includes buffalo meat
Source: Bureau of Agricultural Statistics

Overall meat consumption (chicken, pork, and beef) declined in 1998 due to the economic crisis. Per capita consumption of chicken meat declined due to relatively high prices. Pork consumption, however, registered a slight increase from the previous year's level due to the likely shift from chicken meat. For 1999, per capita chicken meat consumption is expected to recover and increase. Pork prices for the first four months of the year have been increasing (refer to RP9037) while those for chicken meat have been on a downward trend. Shifting to chicken meat during this period is likely. Continued growth of the economy in 2000 will likely result in increased consumption per capita of meat including chicken meat. A column for fresh fish consumption is provided for comparative purposes and is not included in total meat consumption. Fish is the primary protein source of Filipinos and from 1991 to 1997, fresh fish consumption have been on the decline. The decline is likely the result of declining fishery resources as well as the shift to other meats. Prices of fish are mainly seasonal and in general terms, slightly cheaper than other meats.

Price Table, Broiler Meat (Dressed), Retail

The retail price of dressed chicken averaged P81.88 for 1998, 14 percent higher than the P71.91 average retail price the year before. Prices were higher during the second and the last quarters of 1998 as demand during these periods is historically high in view of increased food spending associated with the Christmas holidays and the fiesta (local Thanksgiving) season. Increased demand during this period eroded year-end frozen inventories which resulted in the jump in retail prices coming into 1999.

Prices Table			
Country	Philippines		
Commodity	Broiler Meat, Retail (Dressed)		
Prices in	Peso	per uom	Kilogram
Year	1998	1999	% Change
Jan	73.70	97.28	31.99%
Feb	74.30	93.87	26.34%
Mar	75.81	88.60	16.87%
Apr	79.87	86.16	7.88%
May	93.85		
Jun	90.10		
Jul	79.76		
Aug	80.54		
Sep	78.68		
Oct	79.46		
Nov	85.01		
Dec	91.55		
Exchange Rate	38.25	Local currency/US $	

Source: Bureau of Agricultural Statistics

Prices have been declining in the first four months of 1999 on account of the entry of imported chicken meat. A considerable amount of these imports entered the country tax and duty-free via Duty-Free Shops in Special Economic Zones (see MARKETING). They are sold for as low as P37 (US$1) a kilo. Prices are expected to further go down. For domestic chicken, unofficial estimates for July 1999 place prices at P79.62 per kilo dressed.

The outlook for poultry meat demand in 1999 and 2000 is very positive. For the first quarter of 1999, GDP expanded by 1.2 percent year-on-year while GNP grew by 2 percent. The average annual inflation rate covering January to June 1999 was 8.4 percent with the inflation rate for June 1999 dropping to 5.8 percent - a 22-month low. Inflation in July is expected to be even lower. Low inflation and stable prices will translate to increased demand by the average Filipino in 1999. Around half of the average income of the Filipino household is spent on food. The demand for poultry meat is expected to accelerate in 2000 as economic conditions are predicted to continue to improve.

Trade

Poultry imports to the Philippines have been growing in recent years. Last year, poultry meat imports reached 4,009 tons for a 41 percent increase from the 2,800 tons imported in 1997. The increase is attributed to the continued downsizing of local poultry integrators and the increased demand for chicken meat.

During the mid-90's, France dominated the market. The market then was still relatively small (US$0.8 to US$1.5 million). In 1996, the U.S. overtook France as the largest poultry meat supplier to the country by which time the market was US$2 million in size and growing.

The U.S. maintained its dominance through 1998 with a 59 percent market share followed by Canada (27 percent), China (8 percent), and Australia (3 percent). Poultry imports during the year consisted of chicken meat (60 percent), turkey meat (31 percent), duck meat (8 percent) and other poultry meat (1 percent). Other poultry meat included meats of goose, guinea fowl, pigeon and other meats of domestic fowls. There were no poultry meat exports in 1998.

In terms of value, total poultry imports in 1998 reached US$ 3.9 million FOB for a 29 percent increase from the previous year’s level. CIF prices are not yet available for 1998 imports. Chicken meat accounted for 60 percent; turkey meat 29 percent, and the balance consisting of both duck meat and other poultry meats, of the total value of all poultry meat imported.

Import Table, Poultry Meat, Total

Import Trade Matrix			
Country	Philippines		
Commodity	Poultry, Meat, Total		
Time period	Jan - Dec	Units:	Tons
Imports for:	1998		1999*
U.S.	2360	U.S.	4349
Others		Others	
Canada	1064	Canada	829
China	325	Taiwan	531
Australia	115	Australia	190
Hongkong	80	Singapore	63
Singapore	25	Hongkong	30

Total for Others	1609		1643
Others not Listed	40		11
Grand Total	4009		6003

* Through April
Source of Basic Data: National Statistics Office

For 1999, poultry meat imports are expected to surge to record levels due to depressed production and strong demand. Another round of tariffs reduction during the year will also complement this surge. Imports for the first four months of 1999 have already surpassed imports for the entire calendar year 1998 due to a significant increase in imported chicken parts (leg quarters) entering the country through Duty-Free Shops. The table does not segregate imports coming through the Duty-Free shops, however.

Post estimates total imports through July 1999 to have reached 12,000 tons (8,000 tons MAV and 4,000 tons duty-free shops) and projects full year imports at 22,000 tons. The U.S. will be the dominant poultry meat supplier in 1999. Imports in 2000, however, will decline as domestic production is likely to increase.

Tariffs

Following are tariffs for fresh, chilled or frozen poultry meat through the year 2000. Tariff rates for "sensitive" agricultural products including poultry meat were established in Executive Order (EO) 313 of March 1996 and set varying in-quota and out-quota rates. In-quota rates apply to products imported within the established Minimum Access Volume (MAV) and imports in excess of the MAV are assessed out-quota rates. Tariff rates beyond 2000 have not yet been established. A corresponding EO to this effect will be required. The GOP has expressed its aim to have a uniform 5 percent rate by January 1, 2004.

				RATE OF DUTY (%)		
HS CODE	DESCRIPTION				1 January	
				1998	1999	2000
	Meat and edible offal, of the poultry of					
	heading No.01.05, fresh, chilled or frozen:					
	- Of fowls of the species Gallus					
	domesticus (includes chickens):					
207.11	- - Not cut in pieces, fresh or chilled:					
0207.11 10	- - - In-Quota			45	45	45
0207.11 20	- - - Out-Quota			80	60*	60
207.12	- - Not cut in pieces, frozen:					
0207.12 10	- - - In-Quota			45	45	45
0207.12 20	- - - Out-Quota			80	60*	60
0207.13	- - Cuts and offal, fresh or chilled:					
0207.13 10	- - - In-Quota			45	45	45
0207.13 20	- - - Out-Quota			80	60*	60

0207.14	- - Cuts and offal, frozen			
0207.14 10	- - - Liver			
0207.14 11	- - - - In-Quota	45	45	45
0207.14 12	- - - - Out-Quota	80	60*	60
0207.14 90	- - - Other			
0207.14 91	- - - - In-Quota	45	45	45
0207.14 92	- - - - Out-Quota	65	50*	50
	- Of turkeys			
207.24	- - Not cut in pieces, fresh or chilled:			
0207.24 10	- - - In-Quota	45	45	45
0207.24 20	- - - Out-Quota	80	60*	60
0207.25	- - Not cut in pieces, frozen:			
0207.25 10	- - - In-Quota	45	45	45
0207.25 20	- - - Out-Quota	45	40*	40
0207.26	- - Cuts and offal, fresh or chilled:			
0207.26 10	- - - In-Quota	45	45	45
0207.26 20	- - - Out-Quota	80	60*	60
0207.27	- - Cuts and offal, frozen			
0207.27 10	- - - Liver			
0207.27 11	- - - - In-Quota	45	45	45
0207.27 12	- - - - Out-Quota	80	60*	60
0207.27 90	- - - Other			
0207.27 91	- - - - In-Quota	30	30	30
0207.27 92	- - - - Out-Quota	45	45	45
	- Of ducks, geese or guinea fowls			
0207.32	- - Not cut in pieces, fresh or chilled:			
0207.32 10	- - - Of ducks:			
0207.32 11	- - - - In-Quota	45	45	45
0207.32 12	- - - - Out-Quota	80	60*	60
0207.32 20	- - - Of geese or guinea fowls			
0207.32 21	- - - - In-Quota	30	30	30
0207.32 22	- - - - Out-Quota	50	45*	45
0207.33	- - Not cut in pieces, frozen:			
0207.32 10	- - - In-Quota	45	45	45
0207.32 20	- - - Out-Quota	65	50*	50
0207.34	- - Fatty livers, fresh or chilled:			
0207.34 10	- - - In-Quota	45	45	45

0207.34 20	- - - Out-Quota			80	60*	60
0207.35	- - Other, fresh or chilled:					
0207.35 10	- - - In-Quota			45	45	45
0207.35 20	- - - Out-Quota			80	60*	60
0207.36	- - Other, frozen					
0207.36 10	- - - Fatty livers					
0207.36 11	- - - - In-Quota			45	45	45
0207.36 12	- - - - Out-Quota			80	60*	60
0207.36 90	- - - Other:					
0207.36 91	- - - - In-Quota			45	45	45
0207.36 92	- - - - Out-Quota			65	50*	50

*Effective 1 July as per EO313

Source: Tariff and Customs Code of the Philippines

MAV Utilization

The MAV or tariff rate quota for fresh, chilled and frozen poultry meat (HS 02.07) was 16,701 tons in 1998. Only 16.2 percent or 2,710 tons of the 1998 MAV was utilized. For 1999, the MAV is 17,746 tons of which the utilization rate for the January to June period was already at 36.3 percent. Utilization during the same period last year was only 4.8 percent. The MAV by the year 2000 is 18.790 tons. Poultry meat imports through the duty-free shops are considered outside the MAV commitments under the WTO.

Heading No./	Calendar	MAV	MAVIC's Issued (MT)					Utilization
Description	Year	(MT)	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL	Rate (%)
HS02.07-Fresh, Chilled,	1998	16,701	242.0	558.9	836.3	1072.4	2709.6	16.2
Frozen Poultry								
	1999	17,746	2273.6	4165.8			6439.4	36.3

Source: Philippine Department of Agriculture

The latest report from the MAV - Management Committee from the Agriculture Department place the total volume issued as of July 31, 1999 at 8,020 tons for a 45 percent utilization rate.

Policy

Although certain policy adjustments were earlier made concerning import regulations of meat and meat products, milk and milk products , eggs and processed foods containing the same in response to the dioxin contamination in Belgium, these apparently did not and will not seriously affect overall poultry imports as the country imports only minimal amounts from the affected countries. These policies are discussed in more detail in RP9037 and RP9040.

Marketing

Special Economic Zones (SEZ) such as the Clark Special Economic Zone (CSEZ) were established to increase investments and to generate employment and economic activity. SEZ's were intended to operate as export processing zones which are eligible for duty-free importation of raw materials, capital and equipment. Subsequently, selected private entities were allowed to operate duty-free shops inside the zones and there are now around 30 such stores in Subic and Clark - the two former U.S. military bases. Duty-free shopping privileges are US$1,000 for inbound international travelers and US$2,000 for returning Filipino nationals or Filipinos who have been away for at least 6 months. Residents around the zone also have a shopping privilege of US$100 per month while transients are entitled to a US$25 per day duty-free shopping privilege.

Duty-free privileges are sometimes abused and control measures are inadequate. Because of this, duty-free chicken meat, particularly those entering in the CSEZ, have been found to be sold in the fresh markets of Metro Manila and nearby wet markets. Local producers insist that this has resulted in a decline in retail prices of chicken in some wet markets. Most supermarkets, however, have maintained stable retail prices. They normally sell duty-paid imported chicken as well as locally produced. Poultry integrators have raised protests against the duty-free chicken imports and are calling for a curtailment of poultry meat imports through the CSEZ. Unofficial estimates of the total duty-free chickens which have entered the country from January to July 1999 is placed at 4,000 tons.

PSD Table, Poultry Meat, Total

PSD Table						
Country	Philippines					
Commodity	Poultry, Meat, Total			(1000 MT)(MIL HEAD)		
	Revised		Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	5	0	1	0	5
Production	0	491	0	495	0	520
Whole, Imports	0	3	0	9	0	5
Parts, Imports	0	1	0	13	0	5
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	4	0	22	0	10
TOTAL SUPPLY	0	500	0	518	0	535
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	0	495	0	510	0	525
Other Use, Losses	0	4	0	3	0	3
Total Dom. Consumption	0	499	0	513	0	528
TOTAL Use	0	499	0	513	0	528
Ending Stocks	0	1	0	5	0	7
TOTAL DISTRIBUTION	0	500	0	518	0	535
Calendar Yr. Imp. from U.S.	0	2	0	20	0	8