



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 9/23/2002

GAIN Report #RP2062

Philippines

Poultry and Products

Annual

2002

Approved by:

Michael D. Woolsey

US Embassy

Prepared by:

Pia Abuel-Ang

Report Highlights:

The Philippine poultry industry is expected to continue expanding this year but at a slower rate than the growth surge experienced in 2001. The impending El Nino phenomenon, which is expected to hit the country starting late this year is expected to slow down domestic broiler production growth in 2003 as poultry is highly sensitive to heat stroke. Poultry meat imports are forecast to remain roughly unchanged through 2003 as high tariffs continue to limit demand.

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

Executive Summary

As the Philippine economy strengthens and as the population continues to expand, demand for poultry meat will continue to grow. However, the rate of growth will be lower than in recent years due to the higher sales of substitute meats such as beef and pork, which are rising as BSE and FMD related misperceptions continue to diminish. The local broiler industry is expected to continue its expansion but at a slower rate than that experienced the previous year. Poultry meat imports are not expected to increase during the year as high tariffs (40-60%) continue to limit sales.

The impending El Nino phenomenon which is expected to hit the country starting late this year is expected to slow down domestic broiler production in 2003 since chickens are highly sensitive to heat stroke. The coming weather disturbance is expected to be milder than the severe bout experienced by the country in 1997.

Production

The Bureau of Agricultural Statistics reported a 10 percent expansion in broiler production for 2001, due to the marked increase in broiler grand parent stock (GPS) and parent stock (PS) importations in the same period. GPS and PS importations in 2001 reached 2.15 million or a total increase of 70 percent from 2000 imports. Both imported GP and PS - broiler stocks increased by 71 percent and 62 percent respectively, over previous year. The 2001 PSD figures for chicken meat production were revised accordingly to account for this expansion in production.

As earlier advised, PSD figures will only include poultry meat of 16-week old chickens. Being the cheapest source of meat, chicken meat accounts for almost the entire production of poultry in the country and a significant share of livestock production in the country.

Chicken meat production was up by a record 10 percent in 2001. The continued stability of chicken prices in the last three years has prompted many industry players, particularly the small poultry raisers to pursue expansion strategies. However, this impressive growth in production is expected to slow down in 2002 due in part to the broiler meat inventory accumulated in the end of 2001 and the weakening of demand. This supply glut which started in the last quarter of 2001 has led to a slight drop in retail prices of chicken meat during the first half of the year.

The mixed business conditions for poultry production in the Philippines have resulted in sharp losses among major integrators. Both Vitarich Corporation and RFM Corporation, two of the five major poultry integrators which make up the Philippine Association of Broiler Integrators (PABI) have already reported large first quarter losses for this current year. Vitarich has announced a first quarter net loss of more than six times that reported in the previous year while RFM's poultry and animal feeds unit disclosed a 22 percent decline in its first quarter poultry sales. The companies blame this recent decline in revenues to oversupply situation, weak sales and higher operating costs experienced by the industry. Despite this setback, Vitarich is confident that its recent strategic partnership with BOCM Pauls, a British feeds company, will positively impact on its production efficiencies.

The recent merger of food and beverage giant San Miguel Corporation which Pure Foods Corporation last year, has boosted SMC's market share in poultry to 40 percent. San Miguel Pure Foods Corporation (SMFPC) has announced

the allocation of P3 billion this year for expansion and plant modernization. However, despite the integration benefits cited by the company, SMPFC has likewise reported a 14.4 percent drop in net income for the first half of the year. The decline in poultry prices is believed to be the largest contributing factor to the drop in operating profits.

Poultry production will continue to grow but at a slightly slower rate in 2003 as demand for competing meats rises which will put downward pressures on chicken meat demand in addition to the reduced production growth anticipated due to the El Niño. Poultry being highly sensitive to heat is expected to experience slower growth and higher mortality during this period. This milder dry spell, which is expected to hit the country beginning the fourth quarter of this year, is the seventh episode to hit the Philippines in the last 20 years.

Despite the El Niño threat, the continued but cautious expansion activities of the large broiler integrators are expected to fuel the growth of the poultry sector but at a slower rate.

Average monthly retail prices of chicken meat increased by 11.2 percent in 2001 which is a turn around from the negative annual growth experienced the previous year. Nearly all months of the year posted double-digit price increase due to the weakness of the Peso and high costs of imported inputs, except December when retail prices dropped by 4.2 percent from the previous year. The retail price of poultry has continued to drop throughout the first quarter of 2002 owing to large inventory carried over from 2001 and the higher supply levels due to growing production exacerbated by the importation of poultry meat which peaked in the last quarter of 2001.

Prices Table			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Prices in		per uom	
Year	2000	2001	% Change
Jan	80.06	92.86	15.99%
Feb	75.31	90.01	19.52%
Mar	73.16	86.43	18.14%
Apr	73.67	87.84	19.23%
May	78.97	89.33	13.12%
Jun	79.83	89.98	12.71%
Jul	80.63	90.14	11.79%
Aug	81.64	89.57	9.71%
Sep	82.82	90.32	9.06%
Oct	82.59	90.35	9.40%
Nov	84.91	89.59	5.51%
Dec	91.12	87.29	-4.20%

Exchange Rate	51.67	Local currency/US \$
---------------	-------	----------------------

Source: Bureau of Agricultural Statistics

Chicken meat prices are expected to improve slightly and remain steady for the rest of 2002 as local production adjusts to the weakened demand for poultry. Retail prices for chicken meat are expected to begin rising toward the Christmas season as demand picks-up. Prices are likely to remain steady throughout next year as the economy improves and may increase slightly from 2002 levels.

Consumption

Encouraged by the 3.8 percent GDP growth in the first quarter of 2002, single digit inflation and a stable peso, the GOP has optimistically projected a GDP growth of 3.9 to 4.5 % for the entire year in contrast to the more cautious stance being taken by the business community. The result of a recent survey of business expectations conducted by Pulse Asia has revealed the persistence a wait-and-see attitude pervading in the business sector.

PROJECTIONS FOR SELECTED ECONOMIC INDICATORS - 2002				
	1999	2000	2001	2002
GDP Growth (Year-on-year, %)	3.3	4.0	3.4	3.5-4.0
GNP Growth (Year-on-Year, %)	3.7	4.5	3.7	3.9-4.3
Ave. Year-on-year Inflation	6.6	4.4	6.1	4.8-5.2
Ave. Forex Rate (Peso/ US\$)	39.04	44.19	50.99	51.60-52.25

*Embassy Projection as of March 2002

Note: Indicators for 2000 and 2001 are final estimates

The business community is waiting for a revival in demand. A crucial factor would be the strength and speed of recovery of the United States and world markets and the recovery in exports and direct foreign investments. The Philippine economy has been sustained by domestic consumption growing at 3.4 percent which is in turn fueled by the 2.4 percent annual growth in population.

For 2003, the government originally estimated a 5.4 to 5.9 percent GDP growth rate. However, the National Economic and Development Authority (NEDA) has scaled down its growth target for the next year to 5.0 to 5.5 percent. The favorable economic performance reported in the first half of the year and the rise in U.S. dollar remittances by the country's overseas workers are strong indicators that the country will meet its growth forecast for the year.

Chicken consumption is directly proportional to increases in income. With the domestic market, currently estimated at 80.23 million people, growing by an average of 2.4% per annum and the growth of the eating out spending currently estimated at P90.1 Billion (2000 Family and Income Expenditure Survey), consumption of chicken is expected to expand.

ANNUAL PER CAPITA CONSUMPTION				
OF SELECTED MEATS (Kg/ Year)				
YEAR	CHICKEN	PORK	BEEF	TOTAL
1992	5.55	10.79	2.29	18.63
1993	5.57	11.04	2.42	19.03
1994	5.49	11.02	2.68	19.19
1995	5.83	11.61	2.89	20.33
1996	6.51	12.21	3.13	21.85
1997	6.96	12.54	3.49	22.96
1998	6.75	12.70	3.25	22.70
1999	7.03	13.10	3.59	23.72
2000	7.12	13.21	3.79	24.12
2001	7.67	13.45	3.58	24.70

Source: Bureau of Agricultural Statistics

Chicken consumption is relatively low at 7.67 kilograms per capita (dressed weight equivalent), far lower than those of Thailand and Malaysia at 11.5 kilograms and 27 kilograms per capita, respectively.

Trade

Poultry meat imports for 2002 in the PSD Table were based on extrapolated January-May 2002 import data from the National Statistics Office (NSO) while imports for the previous year were provided by the GAIN feedback system. The majority of 2002 poultry meat imports will continue to be chicken meat cuts. As before, the United States and Canada will continue to dominate the poultry trade.

Import Trade Matrix			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Time period		Units:	
Imports for:	2001		2002
U.S.	7,376	U.S.	1,496
Others		Others	
Canada	3,667	Canada	2,248
Australia	1,316	Denmark	870
Hongkong	234	China	230
Brazil	209	Australia	216
Malaysia	138	Taiwan	118

Taiwan	116	Australia	99
China	93	Hongkong	21
United Kingdom	57		
Korea	48		
Total for Others	5878		3802
Others not Listed	29		3
Grand Total	13283		5301

Source: National Statistics Office

Chicken meat imports for 2002 are expected to decline further from last year's level due to the weakened demand and the slowdown of the Philippine economy. However, the continued expansion of local poultry sector and the increased supply of local broiler meat in the market is expected to discourage further imports. Moreover, high tariffs (from 40 to 60 percent) on imports will continue to make these products cost-prohibitive and limit demand. The United States is expected to maintain its dominance in poultry meat imports due to the low F.O.B. prices relative to other foreign suppliers to the Philippine market.

For 2002, the in-quota duty under the Minimum Access Volume (MAV) has been lowered from 45 to 40 percent and the MAV volume is at 20,879 MT. Outside the MAV, the duty ranges from 50 to 60 percent for 2002. Poultry meat and offals will face a uniform 40 percent tariff for both in-quota and out-quota starting 2003. The MAV volume for poultry for the next three years is at 21,923 MT in 2003, 22,968 MT in 2004 and 10,374 MT in 2005.

Despite the lower In-Quota duty imposed on poultry imports, the restrictive importation policies of the DA would continue to prevent any significant increases in the volume of imports. A summary of MAV Import Certificates (MAVIC's) issued by quarter, from 1999 to the first half of 2002 is provided below:

Heading No./ N.?./. Description	CY	MAV (MT)	MAVIC'S Issued (MT)					Utilization
			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL	
HS02.07-Fresh	1999	17,746	2,274	4,166	4,359	5,327	16,126	91
Chilled, Frozen	2000	18,790	4,675	2,464	1,206	3,476	11,821	63
Poultry	2001	19,834	2,361	2,861	1,617	4,982	11,821	60
	2002	20,879	2,896	3,845	-	-	6,741	32

Source: Department of Agriculture

The monthly issuance of poultry MAVICs for the first half of 2002 is provided below. Chicken meat continues to comprise majority of MAVIC's issued at 63 percent, followed by turkey with 37 percent, duck MAVIC's comprise less than one percent.

2002 MONTHLY MAVIC ISSUED (MT)							
	January	February	March	April	May	Jun	TOTALL
HS02.07	712.80	734.16	1,449.20	1,344.69	1,132.93	1,367.85	6,741.63
Chicken	401.71	209.09	707.30	779.01	901.43	1,267.56	4,266.10
Turkey	311.08	525.07	741.91	565.68	231.50	99.74	2,475.03
Duck	0	0	0	0	0	0.50	0.50

Source: Department of Agriculture

Policy

In January 2002, the Department of Agriculture issued Administrative Order No. 3 (AO 3) temporarily banning the importation of domestic and wild birds and their products which originated from the state of Pennsylvania, United States due to the occurrence of a low pathogenic type of avian influenza (AI) outbreaks in the said states. AO 3 was issued after Japan discovered the presence of bird flu in its poultry in its shipment. This poultry ban is still in place. According to the international standards set by the *Internationale de Epizooties* (OIE), low pathogenic (AI) is not a reportable disease. Therefore, quarantine actions, such as a ban on international trade, is not necessary as AI is a animal health issue and does not affect meat.

The DA has confirmed plans to invoke the Special Safeguards measure provided for by the WTO to protect the local poultry industry from cheap chicken meat imports. The Department has recently established the trigger prices for certain meat products in order to ensure a balance between local production and stable supply of food products. After reviewing local production and selling costs as well as the cost of competing products from other countries, the DA has determined the trigger price for chicken meat to be P93.96 per kilogram. Implementation of this special safeguards measure would still require notification of the WTO Committee on Agriculture as well as consultation with interested WTO member countries. The DA is expected to complete the evaluation of data from the Bureau of Customs within the month and may begin administration of the special safeguards measure 15 days after the complete publication of details in two newspapers of general circulation.

Last August 7, 2002, the DA published a listing of trigger prices of agricultural products eligible for special safeguards under the Safeguards Act (RA 8800). The trigger prices of the agricultural product covered is the average c.i.f. unit value for the years 1986 to 1988 (as defined in RA 8800, section 24(a) and the WTO Agreement on Agriculture, Article 5 paragraph 1(b)). Provided is a list of poultry products covered as well as the established trigger price per unit:

HS Code (2001)	Product Description	Unit	Trigger Price
0105.11.10	Chicks for breeding weighing not more than 185 g.	No. of heads	66.15
0105.12.20	Turkeys for breeding weighing not more than 185 g.	No. of heads	160.25
0105.19.10	Ducks and geese for breeding weighing not more than 185 g.	No. of heads	29.35
0105.92.10	Chicken for breeding, weighing more than 185 g. but not exceeding 2000 g.	No. of heads	526.76

0105.93.10	Game cock or any male chicken for cockfighting weighing more than 2000 g	No. of heads	3196.25
0105.99.12	Ducks, geese and turkey, weighing more than 185 g.	No. of heads	640.51
0207.11.00	Meat offal of fowls of the species Gallus domesticus, not cut in pieces, fresh or chilled	Kilograms	93.96
0207.11.20	Meat offal of fowls of the species Gallus domesticus, not cut in pieces, frozen	Kilograms	93.96
0207.13.20	Cuts and offal of fowls of the species gallus domesticus, cut in pieces, fresh and chilled	Kilograms	117.23
0207.14.12	Livers of the species gallus domesticus, frozen	Kilograms	423.55
0207.14.92	Other cuts and offal of fowls of the species gallus domesticus, frozen	Kilograms	93.96
0207.14.92	Other cuts and offal of fowls of the species Gallus domesticus, frozen	Kilograms	93.96
0207.24.20	Meat of turkey, not cut in pieces, fresh or chilled	Kilograms	49.14
0207.26.20	Cuts of offals turkey, fresh or chilled	Kilograms	73.45
0207.27.12	Livers of turkey, frozen	Kilograms	423.55
0207.32.12	Meat of ducks, not cut in pieces, fresh or chilled	Kilograms	37.81
0207.33.20	Meat of ducks, geese or guinea fow, not cut in pieces, frozen	Kilograms	37.81
0207.34.20	Fatty livers of ducks, geese or guinea fowls, fresh or chilled	Kilograms	423.55
0207.32.12	Cuts and offal of ducks, geese or guinea fowls, cut in pieces, fresh or chilled	Kilograms	37.81
0207.36.12	Livers of ducks, geese or guinea fowl, frozen	Kilograms	123.55
0207.36.92	Cuts and offal, other than liver of ducks, geese or guinea fowl, frozen	Kilograms	37.81

As earlier reported (refer to RP 2029), poultry tariffs have been reduced for 2002. Executive Order No. 84 (EO 84) dated March 15, 2002 outlines the tariff schedule for poultry meat products through 2004. EO 84 took effect May 19, 2002. The reduced tariff rates are not expected to significantly increase poultry imports because of the restrictive importation policies maintained by the Department of Agriculture. Provided below, are the new and reduced rates through 2004.

HDG.	HS		RATE OF DUTY (%)			
			Old Rate	New Rates		
NO.	CODE	DESCRIPTION		2002*	2003	2004
02.07		Meat and edible offal, of the poultry of the heading				
		No. 01.05, fresh, chilled or frozen.				
		- Of fowls of the species Gallus Domesticus:				

0207.11	- - Not cut in pieces, fresh or chilled:				
0207.11 10	- - - In-Quota	45	40	40	40
0207.11 20	- - - Out-Quota	60	60	40	40
0207.12	- - Not cut in pieces, frozen:				
0207.12 10	- - - In-Quota	45	40	40	40
0207.12 20	- - - Out-Quota	60	60	40	40
0207.13	- - Cuts and offal, fresh or chilled:				
0207.13 10	- - - In-Quota	45	40	40	40
0207.13 20	- - - Out-Quota	60	60	40	40
0207.14	- - Cuts and offal, frozen:				
0207.14 10	- - - Liver:				
0207.14 11	- - - - In-Quota	45	40	40	40
0207.14 12	- - - - Out-Quota	60	60	40	40
0207.14 90	- - - Other				
0207.14 91	- - - - In-Quota	45	40	40	40
0207.14 92	- - - - Out-Quota	50	50	40	40

Source: Tariff and Customs Code of the Philippines, June 2002

Last May 31, 2001, the Paris-based *Internationale de Epizooties* (OIE) restored the FMD-free status of Mindanao, Visayas, Palawan and Masbate islands in the Philippines. Shortly thereafter, the DA issued Administrative Order No. 5 (AO 5) banning the entry of uncooked meat from Luzon to Mindanao ports starting August 1 to preserve the FMD-free status recently attained by the island. At present, this AO is being revised to allow the transshipment of imported meat through Luzon provided compliance with certain safety procedures.

Marketing

The Philippines is estimated to be a P 37 billion (US \$ 725 million) broiler market and has been growing at about 4-6% per annum in the last five years. It is segmented into two broad groups: food service and HRI (hotels, restaurants and institutions); and households. The food service and HRI sector include major fast food chains, hotels, and restaurants; while households are catered by the wet markets, supermarkets, hypermarkets, groceries, meat shops, convenience stores and some direct selling activities.

The food service and HRI sector account for almost 70% of institutional consumption while the smaller food stalls "carinderias" capture the rest. Wet markets are by far the most popular source of chicken for Filipino households. Household buyers tend to purchase their daily needs at the wet market because of preference for warm meat, mostly in cut up forms.

Five integrators are supplying the market: San Miguel Foods, Inc., Swift Foods, Inc., Vitarich Corporation, Tyson Agro Ventures, Inc. and Universal Robina. These integrators supply 80% of the total demand; non-integrators or other commercial growers are supplying the remaining 20%.

The market will remain concentrated on food service and households. Both markets have distinct preferences. The fastfood chains require large volume delivery, mainly marinated cut-ups. They are very strict in size and product specifications and very particular on value, quality, service and reliability. HRI, however requires primarily whole chicken and have more variable pricing as against the relatively stable prices of fastfood chains. Wet markets, on the other hand, provide the daily requirement of households, offering both whole and cut-up chicken. Households also buy from supermarkets and hypermarkets. According to an industry source, only around 10% of the volume is sold at the supermarket level.

PSD Table						
Country	Philippines					
Commodity	Poultry, Meat, Broiler			(1000 MT)(MIL HEAD)		
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	6	0	3	0	0	0
Production	535	582	540	602	0	620
Whole, Imports	2	2	2	2	0	2
Parts, Imports	9	11	9	8	0	8
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	11	13	11	10	0	10
TOTAL SUPPLY	552	595	554	612	0	630
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	546	588	550	602	0	624
Other Use, Losses	3	7	3	10	0	6
Total Dom. Consumption	549	595	553	612	0	630
TOTAL Use	549	595	553	612	0	630
Ending Stocks	3	0	1	0	0	0
TOTAL DISTRIBUTION	552	595	554	612	0	630
Calendar Yr. Imp. from U.S.	7	7	7	6	0	6