

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date:

GAIN Report Number:

Philippines

Dairy and Products Annual

Situation and Outlook

Approved By:

William G. Verzani

Prepared By:

Pia A. Ang

Report Highlights:

Producing less than one percent of its growing dairy requirement of 1.886 million metric tons (MMT) in 2014, the Philippines continues to be a major global importer of dairy products, especially milk powder. Despite the continued rapid expansion of the food processing industry, persistent high prices in 2014 are expected to result in total annual imports dropping to about 1.800 MMT (from 1.946 MMT in 2013). Major suppliers are New Zealand (39 percent), the United States (28 percent), and Australia (9 percent). U.S. dairy exports to the Philippines are forecast to reach a record \$455 million in 2014, up from the 2013 record of \$364 million. While milk powder exports dominate this category, there has also been strong growth in U.S. whey and buttermilk sales. Dairy products are the country's third largest agricultural import after wheat and soybean meal.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Dairy, Cheese

Production:

The country produces less than one percent of its total annual dairy requirement and imports the balance. Data from the Philippine National Dairy Authority (NDA) shows that local dairy production was at 19,460 metric tons (MT) in 2013, up from 18,450 MT in 2012. The value of dairy production in 2013 amounted to P592 million (\$13.45 million). Local milk production is projected to reach over 20,000 MT in 2014 and will likely continue expanding on an annual basis due to strong demand for fresh milk and growing dairying capabilities.

As of June 2014, the Bureau of Agricultural Statistics estimated the nation's total dairy herd at 21,087 dams and does, an increase of 7 percent from the previous year. These were comprised of dairy cattle (9,608), water buffalo (8,501) and dairy goats (2,978). Dairy cattle numbers increased in 2013 due in most part to the ongoing government herd build-up programs and the growing number of dairy multiplier farms of the NDA. Dairy cattle numbers are expected to continue increasing by about 1,000-1,500 head per year for the next several years.

Total Dams/Does		
	2013	2014
Cattle	9,847	9,608
Carabao	8,287	8,501
Goats	1,556	2,978
TOTAL	19,690	21,087

Source: Bureau of Agricultural Statistics

The average Philippine milk production per animal (8 liters/day) remains low due mainly to poor feed and management practices as well as high production costs and a lack of an adequate dairy infrastructure. According to various sources, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom. According to the NDA, the average farm gate price of milk as of July 2014 was P25/liter (\$0.56/liter). By contrast the corresponding farm gate price of milk in the U.S. is about \$0.37/liter (\$16.90 hundred weight) as of July 2013.

There are four main types of dairy farms in the Philippines: individual smallholder producers (who consume and sell locally what they produce), smallholder cooperatives (who deliver their milk to a collection point for transport to a processing plant), commercial farms (which supply processors), and government farms (which supply school and rural community feeding programs).

In answer to the country's cold chain challenges and limited production, a significant amount of Philippine fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder.

Consumption:

NDA estimates 2014 domestic dairy requirements to be at 1.886 million MT. According to FAO estimates, annual per capita milk consumption in the Philippines is at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg and the United States at 287 kg. With a strong economy and a growing population of roughly 100 million in 2014, the Philippines is a large and rapidly expanding market for milk and milk products. Other factors contributing to the long term trend of strong growth in local dairy consumption are expanding cold chain capacity, an increase in the number of supermarkets, and a blossoming food processing industry

According to NDA, one out of every three glasses of fresh liquid milk (not reconstituted from powder) consumed in the Philippines is produced locally. A Filipino family now spends a little over P4000 (\$90) per year for dairy products.

According to the NDA, half of smallholder milk production goes to school and community milk feeding programs and the rest to local commercial sales or household consumption. With dairy production in the country being more community-based, maintaining the quality of fresh milk is a challenge due to the lack of processing and distribution systems, and a dependable, continuous cold chain.

Below are retail prices of various dairy products as of September 2014:

Retail Prices of Dairy Products (as of September 2014)	
Powdered Filled Milk (370 g)	P191.00
Evaporated Milk (158 ml)	P19.95
Butter (225 g)	P86.00
Cheese, processed (200 g)	P41.00
Ice Cream (1 gallon)	P399.00

Source: UAP Food and Agribusiness Monitor

Fresh fluid milk in a mid-range Manila supermarkets sells for P90-120 per liter (\$2.20-2.93). Note: US\$1 =PhP44.80, as of October 23, 2014.

Trade:

U.S. Exports to the Philippines Increase 14% in 2013

The Philippines was the 4th largest market for U.S. dairy products at \$364 million (up 14 percent) in 2013. Due to persistently high global prices, U.S. dairy exports in 2014 are expected to grow by about 25 percent reaching \$455 million by the end of the year. The top U.S. dairy exports to the Philippines in 2013 were nonfat dry milk powder (\$216.1 million) and whey (\$18.2 million).

Philippine Dairy Imports

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. Despite an expanding food processing industry, total 2014 imports of dairy products are forecast

to decline from the previous year's level of 1.946 MMT (LME) to 1.800 MMT (LME) due to the significantly higher global milk prices. Post expects imports in 2015 to recover and increase slightly to 1.900 MMT (LME) as growth in local demand will likely continue to exceed any increases in domestic supply.

The major country suppliers to the Philippines by volume are New Zealand with 39 percent share of total imports, the United States with 28 percent, and Australia at 7 percent. U.S. dairy exports to the Philippines have continued to rise dramatically due in part to the weak U.S. dollar vis-à-vis major competitor countries, the strengthening peso, as well as supply problems in major dairy producing countries.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports currently comprise about 56 percent of total dairy imports. SMP imports increased by 6.5 percent while WMP imports declined by 18 percent in 2013. Liquid milk imports rose 37 percent. Imports of butter and other dairy spreads also declined by 11 percent imports of cheese also dropped by 28 percent.

VOLUME OF DAIRY IMPORTS <i>('000 MT, in LME) [1]</i>			
	2012	2013	Jan-Jun 2014
1. Milk and Cream			
• Skim milk Powder	833.10	887.38	377.05
• Whole milk Powder	252.06	205.65	76.41
• Butter milk Powder	195.82	175.31	88.18
• Whey Powder	324.75	338.18	190.02
• Liquid (RTD) Milk	34.73	47.51	18.02
• Evaporated Milk	1.86	0.31	0.14
• Cream	15.61	5.01	2.85
• Condensed Milk	7.62	11.15	9.16
• Other	57.30	82.01	16.44
Total Milk and Cream	1,722.85	1,752.51	778.27
2. Butter, Butterfat & Dairy Spreads	140.47	125.43	60.44
3. Cheese	89.00	64.21	24.27
4. Curd	3.09	3.54	1.46
Total Imports	1,955.41	1,945.69	864.44

Source: National Dairy Authority and National Statistics Office

^[1] To get the LME, NDA uses a conversion factor of 8.02 liters per 1 kg of whole and non-fat dry milk powder and 5.51 liters per 1 kg of cheese

According to trade and industry contacts, imported dairy products are used as follows:

Skim Milk Powder: Recombined sweetened condensed milk, recombined UHT milk, ice cream, infant and follow-on formulas, and medical nutrition formulas.

Whole Milk Powder: Recombined UHT milk, ice cream, infant and follow-on formulas, medical nutrition formulas, and instant powdered milk.

Butter Milk Powder: Recombined sweetened condensed milk, ice cream, and bakery.

Whey Powder: Recombined sweetened dairy creamer, ice cream, infant and follow-on formulas, processed meat, processed food, confectionery, bakery, and animal feed.

Cheese Curd: Processed cheese, cheese spreads, and processed food.

Liquid Milk: Retail, primarily organic and extended shelf life (ESL) milk.

Cheese: Retail, quick service restaurants and fast food chains

Philippine Dairy Exports

Total dairy exports declined 66 percent in 2013 with exports of milk and cream comprising about 91 percent of the total volume. The main countries of destination were the United States (33 percent), Malaysia (19 percent) and Thailand (17 percent). Exports in 2014 are expected to drop even lower due in part to increasing prices of Philippine dairy products as a result of the stronger peso.

Volume Of Philippine Dairy Exports (In MT, LME)			
	2012	2013	Jan-Jun 2014
Milk and Cream	129,520.45	43,970.97	11,495.64
Butter/Butterfat	67.57	52.20	605.92
Cheese	2,652.92	4,326.11	2,046.89
Curd		169.59	7.18
TOTAL EXPORTS	132,240.94	48,518.87	14,155.63

Source: National Dairy Authority and National Statistics Office

Policy:

The Philippine Department of Agriculture (DA) continues to make the development of the Philippine dairy industry a priority with a special emphasis on improving local supply of fresh milk. While the DA accepts that the Philippines cannot compete in the powdered milk market, it believes that it can greatly augment the supply of fresh milk to the market.

The NDA is the DA's primary agency overseeing and aiding the development of the Philippine dairy sector. The NDA aims to accelerate dairy herd build-up and milk production, enhance the dairy business through delivery of technical services, increase coverage of milk feeding programs and promote milk consumption.

At the heart of the NDA strategy is the Herd Build-Up Program. This program aims to expand local dairy production through the importation of dairy animals, embryos and equipment, and through the upgrading of local animals to dairy breeds via breeding programs, the establishment of multiplier farms, and the preservation of existing stocks. The following are sub-programs of the Herd Build-Up Program:

1. Save-the-Herd (STH) - Promotes animal trading, dairy enterprise enhancement and herd conservation. Under this program, the STH partner receives a dairy animal from NDA which he is obligated to rear, condition and impregnate according to prescribed dairy husbandry management standards.
2. Herd Infusion - Includes importation of dairy stocks, diversification of sources and local procurement of dairy animals.
3. Improved Breeding Efficiency - Breeding services to maximize the reproductive capacity of dairy animals either through artificial insemination or natural (bull) breeding.
4. Animal Financing - Tailoring of animal loan programs to the dairy business cycle and identifying new sources of affordable loans.
5. “Palit-Baka” Scheme or Dairy Animal Distribution - Refers to the program whereby NDA distributes a potential dairy animal to an eligible participant who, in turn, would eventually provide NDA with a female dairy animal as payment in kind.
6. Upgrading of Local Animals - Artificial insemination of local cattle with 100% purebred Holstein-Friesian semen. Calves born from upgrading programs are distributed to new farmers interested in dairying.
7. Breeding/Multiplier Farm Operations - Engaging and encouraging private-public partnerships in producing local born dairy stocks. There are currently 61 dairy multiplier farms with more than 5,586 dairy animals contributing 4.10 million liters.
8. Bull Loan – Loan program that provides purebred and crossbred dairy bulls to regional field units of the Department of Agriculture or to other project partners for semen production, collection and processing purposes.

Source: National Dairy Authority

Tariffs: The 2014 MFN tariff rates for dairy and dairy products remain unchanged from previous year.

TARIFF SCHEDULE			
H.S. Code	Description	Rate of Duty	
		MFN	CEPT
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter		
0401.10.00	Of a fat content, by weight, not exceeding 1 percent	3	3
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding	3	3

	6 percent		
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	3
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter		
0402.10.00	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent	1	3-5
0402.21.00	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 percent		
	Not containing added sugar or other sweetening matter	1	3-5
0402.29.00	Other	1	3-5
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	5
0402.99.00	Other	5	5
0403	Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa		
0403.10	Yogurt		
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter; liquid yogurt	7	5
0403.10.10	Other	7	5
0403.90	Other		
0403.90.10	Buttermilk	3	3
0403.90.90	Other	7	5
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included		
0404.10.00	Whey or modified whey, whether or not concentrated or containing added sugar or other sweetening matter	1	3
0404.90.00	Other	3	3
0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	7	5
0405.20.00	Dairy spreads	7	5
0405.90.00	Other	1	0
0406	Cheese or curd		
0406.10.00	Fresh (unripened or uncured) cheese, including whey cheese, and curd	3	0
0406.20	Grated or powdered cheese, of all kinds:		
0406.20.10	In containers of gross weight exceeding 20 kgs.	3	0
0406.20.90	Others	7	5
0406.30.00	Processed cheese, not grated or powdered	7	5
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	5

Source: Tariff and Customs Code 2006

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Since 2010, milk powder, cheese,

whey and buttermilk from Australia and NZ are able to enter the Philippines duty free; U.S. milk powder and whey has a MFN duty of 1 percent; cheese 3-7 percent, and buttermilk 3 percent.

The Philippine tariff commitments under the AANZFTA may be viewed at the following link:
http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf

Marketing:

The greater Manila area remains as the major fresh milk market in the country and is classified into business and consumer sectors. The business sectors include the institutional and retail operations such as coffee shops, hotels, restaurants, supermarkets and small retailers. The consumer sectors include households and schools through the government milk feeding program.

The main targets of local milk processors are the institutional buyers, especially coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Locally sourced, fresh milk dominates this market because of its superior foaming properties, as compared to UHT milk. The major suppliers of fresh milk to coffee shops are processors from Southern Luzon, particularly from Batangas and Laguna. Other suppliers to coffee shops produce UHT milk reconstituted from imported milk powder and packaged under their own brand.

The specialty coffee shop industry is projected to sustain growth of 20 percent over the next five years. Analysts attribute this expansion to the growing consumer preference for specialty coffee and the improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific).

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Philippines	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	17	16	18	19		21
Cows Milk Production	19	19	20	20		20
Other Milk Production	3	3	3	3		3
Total Production	22	22	23	23		23
Other Imports	45	45	50	50		50
Total Imports	45	45	50	50		50
Total Supply	67	67	73	73		73
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	58	58	62	62		62
Factory Use Consum.	9	9	11	11		11

Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	67	67	73	73		73
Total Distribution	67	67	73	73		73
1000 HEAD, 1000 MT						

Dairy, Milk, Nonfat Dry Philippines	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8	8	12	12		14
Production	0	0	0	0		0
Other Imports	110	110	115	115		118
Total Imports	110	110	115	115		118
Total Supply	118	118	127	127		132
Other Exports	6	6	8	8		8
Total Exports	6	6	8	8		8
Human Dom. Consumption	100	100	105	105		110
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	100	100	105	105		110
Total Use	106	106	113	113		118
Ending Stocks	12	12	14	14		14
Total Distribution	118	118	127	127		132
1000 MT						

Dairy, Dry Whole Milk Powder Philippines	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Other Imports	32	26	36	30		32
Total Imports	32	26	36	30		32
Total Supply	32	26	36	30		32
Other Exports	8	8	10	8		8
Total Exports	8	8	10	8		8
Human Dom. Consumption	24	18	26	22		24
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	24	18	26	22		24
Total Use	32	26	36	30		32
Ending Stocks	0	0	0	0		0

Total Distribution	32	26	36	30		32
1000 MT						

Dairy, Cheese Philippines	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	2	2	2	2		2
Other Imports	17	17	18	14		16
Total Imports	17	17	18	14		16
Total Supply	19	19	20	16		18
Other Exports	1	1	1	1		1
Total Exports	1	1	1	1		1
Human Dom. Consumption	18	18	19	15		17
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	18	18	19	15		17
Total Use	19	19	20	16		18
Ending Stocks	0	0	0	0		0
Total Distribution	19	19	20	16		18
1000 MT						