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Philippines

Dairy and Products Annual

Situation and Outlook

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Report Highlights:

The Philippines imports virtually all of its dairy products, especially milk powder, as domestic production cannot meet the country's dairy requirement of 2.0 million metric tons (MMT) liquid milk equivalent (LME), according to the National Dairy Authority (NDA). Total imports in 2017 are forecast to drop slightly to 2.5 MMT from a high of 2.77 MMT in 2016 as a result of rising dairy prices. Major suppliers are New Zealand (39 percent), the United States (24 percent), and Australia (6 percent). In 2016, the Philippines was the fifth largest market for U.S. dairy products by value at \$227 million and the fourth largest by volume at 125,000 MT.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Dairy, Cheese

Production:

The Philippines produces less than one percent of its total annual dairy requirement and imports the balance. Data from the NDA shows that local milk production (from cattle, carabao, and goats) was 21,160 metric tons (MT) in 2016, up from 20,390 MT in 2015. Roughly 65 percent of it is cow's milk. The value of dairy production in 2015 amounted to P715 million (\$14 million). Local milk production is projected to reach 22,000 MT in 2017 and will likely continue expanding on an annual basis due to increasing consumer preference for fresh milk and improved dairying capabilities.

In 2017, the Bureau of Agricultural Statistics estimates the country's dairy cattle herd at 11,700 head, an increase of 5 percent from the previous year. Dairy cattle numbers increased as a result of ongoing government herd build-up programs and the growing number of NDA dairy multiplier farms as the Philippine seeks to develop its dairy sector. Dairy cattle numbers are expected to continue increasing by about 500-1,500 head per year for the next several years.

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 adequate dairy infrastructure. By comparison, 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 farmgate price of milk increased slightly from P31.54/liter (\$0.65) in 2015 to P34.75/liter (\$0.68) in 2016. The corresponding farmgate price of milk in the U.S. is about \$0.39/liter (\$17.30 hundred weight) as of July 2017.

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).

A significant amount of the Philippines' fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder because of the country's cold chain challenges and limited production.

Consumption:

Annual per capita milk consumption in the Philippines is estimated at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg, and the United States at 287 kg. With a strong economy, an expanding middle class, and a growing population of roughly 102 million in 2015, 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 dairy consumption are expanding cold chain capacity, an increasing 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 P4,000 (\$82) per year for dairy products.

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.

Fresh fluid milk in a mid-range Manila supermarket sells for P90-120 per liter (\$1.76-\$2.35). Note: US\$1 = PhP51.036, as of October 3, 2017.

Trade:

U.S. Exports to the Philippines increased 13% by volume in 2016, but fall by 10% in value

In 2016, the Philippines was the 5th largest market for U.S. dairy products by value at \$227 million. The top U.S. dairy exports to the Philippines in 2016 were nonfat dry milk powder (\$163 million), dried whey (\$11 million) and cheese (\$6.6 million). The drop in 2016 dairy exports by value was due to low U.S. dairy prices; dairy exports by volume showed an increase of 13 percent to 125,000 MT. In 2017, U.S. dairy exports by volume are forecast flat, with only modest increases, but improving prices are expected to raise the value of exports.

Philippine Dairy Imports

Dairy products are currently the country’s third largest agricultural import after wheat and soybean meal. According to NDA, total imports of dairy products reached a record 2.77 MMT LME in 2016 on low global dairy prices and strong local demand. Stocks were accumulated during this period of low prices as well. Post expects imports in 2017 to decline slightly to 2.5 MMT as global dairy prices begin to recover and domestic stocks remain high.

The major suppliers to the Philippines by volume are New Zealand with a 39 percent share of total imports by volume, the United States with 24 percent, and Australia with 6 percent. Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports comprise almost 60 percent of total dairy imports. SMP imports are expected to decline in 2017 (from record import levels in 2016) as global dairy prices recover. WMP imports in 2017 are also forecast to decline modestly based on rising global milk prices.

In 2017, liquid milk imports should increase slightly due to rising consumption and increased use in food service. Imports of butter and other dairy spreads as well as cheese should continue to rise, mainly coming from New Zealand and Australia due to the duty-free advantage of those suppliers and also as a result of increasing demand for the products from the expanding middle class, growing fast food industry, and hotel and restaurant sectors. Australia and New Zealand both benefit from Association of Southeast Asian Nations (ASEAN) agreements that grant access for dairy products at zero percent duty.

VOLUME OF DAIRY IMPORTS <i>('000 MT, in LME) [1]</i>			
	2015	2016	Jan-Mar 2017
1. Milk and Cream			

• Skim milk Powder	787.40	1,435.85	330.69
• Whole milk Powder	134.10	166.17	28.22
• Butter milk Powder	142.50	237.18	61.06
• Whey Powder	375.71	403.93	103.39
• Liquid (RTD) Milk	42.66	65.60	14.42
• Evaporated Milk	0.30	0.60	2.37
• Others	48.15	100.16	21.89
Total Milk and Cream	1,540.82	2,409.49	562.04
2. Butter, Butterfat & Dairy Spreads	148.50	232.21	70.80
3. Cheese	95.05	127.32	32.22
4. Curd	8.92	3.35	6.88
Total Imports	1,793.29	2,772.57	671.94

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 Products: 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 (manufactured using imported dairy products as raw materials) increased by 26 percent in 2016 on favorable price conditions and increased regional trade within the ASEAN Free Trade Area. The main countries of destination were Malaysia (51 percent), Thailand (13 percent), and Sri Lanka (7 percent). The Philippines exports processed dairy products, primarily ice cream.

Volume Of Philippine Dairy Exports (In MT, LME)			
	2015	2016	Jan-Mar 2017
Milk and Cream	165,640	210,406	11,845
Butter/Butterfat	965	663	49
Cheese	1,715	512	109
Curd	5	0	0
TOTAL EXPORTS	168,325	211,581	12,002

Source: National Dairy Authority and National Statistics Office

Revisions to the PSD Tables

The PSD table for dairy fluid milk underwent a revision. Historically, this report counted milk from water buffalo in cow's milk production. The table now only factors in dairy cows for cow's milk production (roughly 65 percent of total). Fluid milk produced by water buffalo is now accounted for in other milk production. SMP imports in 2017 were revised downwards from 170,000 MT to 160,000 MT as dairy prices begin to normalize. Imports of WMP in 2017 were lowered from 20,000 MT to 18,000 MT to reflect the higher dairy prices, particularly of butterfat.

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 4.1 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

Livestock and Dairy Development Program: Starting in 2018, the DA will launch an ambitious 10-Year Livestock and Dairy Development Program which aims to increase the country’s cattle population (livestock and dairy, including carabao) from 2.5 million to 5 million, and raise milk production from 1 to 10 percent of the national requirements. The program will be anchored mainly on the plan to import 10,000 heads of the dual-purpose Girolando heifers from Brazil and 100,000 heads per year thereafter from 2019 to 2022. The DA’s Bureau of Animal Industry will be provided an additional funding of P1 Billion for the purchase of the 10,000 heifers and an additional P1 Billion has been earmarked for the cattle sheds and other facilities needed. However, Post notes that past efforts at large-scale purchase of breeding animals have been plagued by contract disputes and legal challenges.

The Livestock and Dairy Program will implement the “Multiplier Farm Concept” where breeding and dairy farms with 100 heads each will be established as a community project and managed by a group of farmer. For 2018, about 100 Multiplier Farms will be established in Batangas, Cordillera Region and in two other areas in Visayas and Mindanao. The milk produced by the program will target children in communities with very high malnutrition rates, assuring ready a market for the milk produced by the multiplier farms

Executive Orders (EO): EO 20 which prescribes the Most Favored Nation tariff schedule for 2017 to 2020 for all products, including dairy products, took effect on June 30, 2017. EO 20 is available here: <http://tariffcommission.gov.ph/executive-order-20>. Shortly after, EO 23 extended tariff concessions granted in 2012 for certain agricultural products in exchange for the continued implementation of a Quantitative Restriction (QR) on rice.

EO 23 extends the tariff rate reduction for the following dairy products (and other affected products) beyond July 1, 2017: butter to 5 percent from 7 percent; buttermilk to 1 percent from 3 percent; grated cheese to 1 percent from 3 percent. These concessions will remain in place until December 31, 2020 or an amendment to the Agricultural Tariffication Act (which exempts rice from tariffication) is enacted by Congress. The complete text of EO 23 is available here: <http://www.gov.ph/2017/04/27/executive-order-no-23-s-2017/>)

Tariffs: The 2017 MFN and ASEAN Trade in Goods Agreement (ATIGA) tariff rates for dairy and dairy products are as follows.

TARIFF SCHEDULE			
H.S. Code	Description	Rate of Duty	
		MFN	ATIGA
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	0
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	0
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	0
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	0
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	0
0402.29.00	Other	1	0
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	0
0402.99.00	Other	5	0
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	0
0403.10.20	Other	7	0
0403.90	Other		
0403.90.10	Buttermilk	1	0
0403.90.90	Other	7	0
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	0
0404.90.00	Other	3	0

0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	5	0
0405.20.00	Dairy spreads	7	0
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.	1	0
0406.20.90	Others	1	0
0406.30.00	Processed cheese, not grated or powdered	7	0
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	0

Source: Tariff Commission <http://finder.tariffcommission.gov.ph/>

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 New Zealand are able to enter the Philippines duty-free. U.S. milk powder and whey have 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 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 sector includes 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 10-15 percent over the next five years. Analysts attribute this expansion to 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	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	11	11	12	12	0	12
Cows Milk Production	14	14	15	15	0	16
Other Milk Production	7	7	7	7	0	7
Total Production	21	21	22	22	0	23
Other Imports	48	48	50	50	0	55
Total Imports	48	48	50	50	0	55
Total Supply	69	69	72	72	0	78
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	58	58	61	61	0	67
Factory Use Consum.	11	11	11	11	0	11
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	69	69	72	72	0	78
Total Distribution	69	69	72	72	0	78

(1000 HEAD) ,(1000 MT)

Dairy, Milk, Nonfat Dry	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	5	5	48	48	0	58
Production	0	0	0	0	0	0
Other Imports	185	185	170	160	0	160
Total Imports	185	185	170	160	0	160
Total Supply	190	190	218	208	0	218
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	142	142	155	150	0	160
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	142	142	155	150	0	160
Total Use	142	142	155	150	0	160
Ending Stocks	48	48	63	58	0	58
Total Distribution	190	190	218	208	0	218

(1000 MT)

Dairy, Cheese	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2	2	2	2	0	2
Other Imports	22	22	24	24	0	25
Total Imports	22	22	24	24	0	25
Total Supply	24	24	26	26	0	27
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	23	23	25	25	0	26
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	23	23	25	25	0	26
Total Use	24	24	26	26	0	27
Ending Stocks	0	0	0	0	0	0
Total Distribution	24	24	26	26	0	27
(1000 MT)						