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Philippines

Dairy and Products Annual

Situation and Outlook

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Report Highlights:
Producing less than one percent of its growing dairy requirement of 1.991 million metric tons (MMT) in 2015, the Philippines continues to be a major global importer of dairy products, especially milk powder. Due to the continued rapid expansion of the food processing industry and large global dairy supplies in 2015, total imports are expected to increase to 1.800 MMT (from 1.740 MMT in 2014). Major suppliers are New Zealand (30 percent), the United States (24 percent), and Australia (7 percent). The Philippines was the 4th largest market for U.S. dairy products by value at $422 million (up 16 percent) in 2014. Due to increasing global milk production, and supplies, a sharp decline in world dairy prices, as well as a strengthening U.S. dollar, U.S. dairy exports in 2015 are expected to drop about 40 percent by value and may only reach $255 million by the end of the year. U.S. dairy exports by

volume are expected to remain flat. While milk powder exports dominate this category, there has also been strong growth in U.S. whey products 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 20,010 metric tons (MT) in 2014, up from 19,530 MT in 2013. The value of dairy production in 2014 amounted to P629 million ($13.56 million). Local milk production is projected to reach 21,000 MT in 2015 and will likely continue expanding on an annual basis due to strong demand for fresh milk and growing dairying capabilities.

As of January 2015, the Bureau of Agricultural Statistics estimated the nation's total dairy herd at 19,792 dams and does, an increase of 2.5 percent from the previous year. These were comprised of dairy cattle (10,036), water buffalo (8,736) and dairy goats (1,020). Dairy cattle numbers increased in 2015 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		
	2014	**2015**
Cattle	9,831	10,036
Carabao	8,501	8,736
Goats	976	1,020
TOTAL	19,308	19,792

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 2015 was P25/liter ($0.55/liter). By contrast the corresponding farm gate price of milk in the U.S. is about $0.38/liter ($16.60 hundred weight) as of July 2015.

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 1.991 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 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 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 2015:

Retail Prices of Dairy Products (as of September 2015)	
Powdered Filled Milk (370 g)	P191.50
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 ($1.94-$2.59). Note: US$1 =PhP46.40, as of October 6, 2015.

Trade:
U.S. Exports to the Philippines Increase 16% in 2014
The Philippines was the 4th largest market for U.S. dairy products by value at $422 million (up 16 percent) in 2014. The top U.S. dairy exports to the Philippines in 2014 were nonfat dry milk powder ($292 million), whey ($18 million) and cheese ($14 million). However, due to increasing global milk production and supply and the corresponding sharp drop in world dairy prices as well as a strengthening U.S. dollar, 2015 U.S. dairy exports are expected to decline by about 40 percent by value and may only reach $255 million by the end of the year. Dairy exports by volume (MT) are expected to remain flat.

Philippine Dairy Imports

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. Total 2015 imports of dairy products are forecast to recover to reach 1.800 MMT (LME) due to strong local demand. Post expects imports in 2016 to continue to rise as growth in demand will continue to outpace any increase in domestic production.

The major country suppliers to the Philippines by volume are New Zealand with 30 percent share of total imports, the United States with 24 percent, and Australia at 7 percent. U.S. dairy exports to the Philippines have increased dramatically over the last 5 years and have continued to increase in market share.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports currently comprise about 59 percent of total dairy imports. SMP imports dropped by 16 percent while WMP imports declined by 25 percent in 2014. Liquid milk import declined 8 percent. Imports of butter and other dairy spreads also increased by 3.33 percent and imports of cheese also rose by 7.25 percent.

VOLUME OF DAIRY IMPORTS ***('000 MT, in LME) [1]***			
1. Milk and Cream	**2013**	**2014**	**Jan-Mar 2015**
• Skim milk Powder	887.38	746.30	183.27
• Whole milk Powder	205.65	154.00	45.75
• Butter milk Powder	175.31	146.76	40.97
• Whey Powder	338.18	380.41	109.24
• Liquid (RTD) Milk	47.51	43.66	9.67
• Evaporated Milk	0.31	0.48	0.15
• Others	98.17	62.27	11.60
Total Milk and Cream	**1,752.51**	**1,533.61**	**400.65**
2. Butter, Butterfat & Dairy Spreads	125.43	129.63	44.21
3. Cheese	64.21	68.86	22.86
4. Curd	3.54	7.98	3.01
Total Imports	**1,945.69**	**1,740.08**	**470.73**

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 43 percent in 2014 with exports of whole milk powder comprising 60 percent of total volume up 33 percent from the previous year. Other major dairy exports including ice cream (21 percent) and evaporated liquid milk (8 percent) also increased sharply from 2013. The main countries of destination were Malaysia (43 percent), Thailand (28 percent) and Nigeria (3 percent). Exports in 2015 are expected to continue to rise due to growing demand from other ASEAN neighbors.

Volume Of Philippine Dairy Exports (In MT, LME)			
	2013	**2014**	**Jan-Mar 2015**
Milk and Cream	**43,971**	**65,530**	20,234
Butter/Butterfat	52	1,110	571
Cheese	4,326	2,740	852
Curd	170	10	4
TOTAL EXPORTS	**48,519**	**69,400**	**21,661**

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 Efficienc**y** - 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 2015 Most Favored Nation (MFN) and ASEAN Trade in Goods Agreement (ATIGA) tariff rates for dairy and dairy products remain unchanged from the previous year.

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	3	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	7	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.	3	0
0406.20.90	Others	7	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 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 10-15 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	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	18	18	21	19	0	20
Cows Milk Production	20	20	20	21	0	22
Other Milk Production	3	3	3	3	0	3
Total Production	23	23	23	24	0	25
Other Imports	50	50	50	45	0	48
Total Imports	50	50	50	45	0	48

Total Supply	73	73	73	69	0	73
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	62	62	62	58	0	62
Factory Use Consum.	11	11	11	11	0	11
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	73	73	73	69	0	73
Total Distribution	73	73	73	69	0	73
(1000 HEAD) ,(1000 MT)						

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	12	12	6	6	0	5
Production	0	0	0	0	0	0
Other Imports	95	95	90	100	0	105
Total Imports	95	95	90	100	0	105
Total Supply	107	107	96	106	0	110
Other Exports	5	5	2	0	0	0
Total Exports	5	5	2	0	0	0
Human Dom. Consumption	96	96	89	101	0	105
Other Use, Losses	0	0	0	5	0	0
Total Dom. Consumption	96	96	89	106	0	105
Total Use	101	101	91	106	0	105
Ending Stocks	6	6	5	5	0	5
Total Distribution	107	107	96	111	0	110
(1000 MT)						

Dairy, Dry Whole Milk Powder	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Other Imports	20	20	25	22	0	24
Total Imports	20	20	25	22	0	24
Total Supply	20	20	25	22	0	24
Other Exports	8	8	8	8	0	9
Total Exports	8	8	8	8	0	9
Human Dom. Consumption	12	12	17	14	0	15
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	12	12	17	14	0	15
Total Use	20	20	25	22	0	24
Ending Stocks	0	0	0	0	0	0
Total Distribution	20	20	25	22	0	24
(1000 MT)						

Dairy, Cheese	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
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	19	18	25	20	0	25
Total Imports	19	18	25	20	0	25
Total Supply	21	20	27	22	0	27
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	20	19	26	21	0	26
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	20	19	26	21	0	26
Total Use	21	20	27	22	0	27
Ending Stocks	0	0	0	0	0	0
Total Distribution	21	20	27	22	0	27
(1000 MT)						

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