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**Date:** 3/17/2017

**GAIN Report Number:** RP 1702

## **Philippines**

### **Grain and Feed Annual**

#### **Philippine Grain and Feed Situation and Outlook**

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**Report Highlights:**

Wheat imports are forecast to rise 650,000 tons to 5.5 million tons in market year (MY) 16/17 and increase to 5.65 million tons in MY 17/18 due to an expanding population, economic growth, and low prices. U.S. wheat is expected to comprise roughly half of total wheat imports through MY 17/18. For corn, production is expected to increase 210,000 tons to 8.1 million tons in MY 16/17 due to improved weather conditions, and rise to 8.3 million tons in MY 17/18 on rice producers shifting to corn because of anticipated price declines for rice as a result of changes to trade policy. Corn imports are projected to decline through MY 17/18 due to increasing output during the next two years. No significant change to U.S. corn sales is likely during the period. For rice, production is expected to increase 1.064 million tons to 18.5 million tons paddy as more favorable growing conditions prevail in MY 16/17, and then

decline to below 18 million tons in MY 17/18 due to general price uncertainty over the expiration of quantitative restrictions (QR) on rice on June 30, 2017. Post forecasts rice imports in MY 17/18 rising to roughly 2 million tons due to the decline in local production as a result of the expiration of the QR and to replenish stocks.

**Executive Summary:**

With no commercial production of wheat or “small grains” (e.g. barley, oats, and rye) in the Philippines, the country is a major importer of milling-quality wheat and the United States is its largest supplier. Milling wheat imports are exempt from Most Favored Nation (MFN) tariffs and are zero, while feed wheat imports are levied a 7 percent duty. Milling wheat imports over the past several years have remained in the range of 2.1 – 2.3 million tons per year, but are expected to increase as additional capacity becomes operational. The increase in imports has come from feed wheat, which reached around 2.5 million tons in calendar year (CY) 2016, according to industry data. Ample global supplies and low wheat prices will increase milling and feed wheat imports through MY 17/18. On a long term basis, the ongoing expansion and modernization of the local food and feed milling industries, supported by the Philippine Government’s (GPH) aggressive infrastructure development program, are expected to ensure increased wheat consumption for both food and feed uses.

In general terms, local grain (rice and corn) production in the Philippines is a function of the weather. After contracting in calendar years CY 2016 and 2017 as a result of an extended dry period coupled with a series of typhoons, production is projected to recover and increase in MY 16/17 compared to previous year’s level. Better yields on a wider area harvested are expected due to more ‘normal’ weather conditions. Corn production is expected to increase in MY 17/18 because of a likely shift away from rice to corn as a result of the expiration of the QR on June 30, 2017. Rice output in MY 17/18 is consequently expected to decline.

Under the Association of South East Asian Nations (ASEAN) Trade in Goods Agreement (ATIGA), corn imports in CY 2017 have a 5 percent duty while rice tariffs are at 35 percent. The World Trade Organization’s (WTO) MFN tariff rate for corn is 35 percent for the in-quota limit of 217,000 tons, while the out-of-quota rate is 50 percent through CY 2017. Philippine rice imports are subject to QRs through June 30, 2017. Up to this time, the in-quota limit of 805,200 tons will be levied a tariff of 35 percent. Duties increase to 40 percent if brought in from July 1, 2017 to December 31, 2017. Out-of-quota duties are at 50 percent through June 30, 2017. Beyond this date, out-of-quota tariffs have yet to be set, as it will require amendment of a current law.

Despite increasing feed demand in the next two years, MY 16/17 corn imports are likely to decline from the previous year’s level due to considerable feed wheat imports, as well as increased local production. Corn imports in MY 17/18 are again projected to decline as production is anticipated to increase from the expiration of the QR on rice. For rice, MY 17/18 imports are anticipated to considerably increase from the previous year’s level due to the expected decline in local production as a result of the expiration of the QR and to replenish low stock levels.

**Commodities:**

Wheat

Corn

Rice, Milled

**Production:**

Philippine agricultural output is largely a function of weather. The country is visited by roughly 20 typhoons or tropical storms annually, the majority of which occur in the second half of each year. Likewise, the recurrence of the El Nino weather disturbance has become more frequent and regular. Dry conditions through most of CY 2016 seriously affected local grain production.

Compounding the situation were damages brought about by Typhoons Sarika and Haima which made landfall in October 2016. Both dry conditions and the typhoons adversely affected crop output, which traditionally account for about half of overall farm output. Crop output contracted 3 percent in CY 2016 and pulled down total agricultural output by 1.4 percent last year.

GPH planners are hopeful weather conditions will normalize starting in CY 2017 and have set an annual agricultural growth goal of 2.5-3.5 percent from 2017-2022. During this period, the crops subsector is expected to expand 2-3 percent annually through 2022.

**Wheat**

There is no commercial wheat and “small grain” (e.g., barley, oats, and rye) production in the Philippines.

**Corn**

According to the Rice and Corn Situation and Outlook Report for January 2017 of the Philippine Statistics Authority (PSA), corn production in CY 2016 is estimated at 7.26 million tons, down 3.5 percent from the 7.52 million tons in CY 2015. The decline was attributed to dry conditions in the first half of CY 2016, as well as effects of successive typhoons in the third quarter of the same year. Area harvested in CY 2016 contracted to 2.48 million hectares from 2.56 million hectares in CY 2015, while yields declined to 2.92 tons per hectare in CY 2016 from 2.94 tons per hectare in CY 2015. The major corn producing areas in CY 2016 included the Cagayan Valley, Northern Mindanao, and Central Mindanao.

Local corn prices continued to decline in CY 2016 due to significant feed wheat imports during the year. Yellow and white corn average farmgate prices in CY 2016 declined 1.75 percent and 5.81 percent, respectively, from the CY 2015 levels.

**Yellow Corn: Monthly Average Prevailing Prices (P/Kg)**

	2014	2015	2016	% Change	
Farmgate				15/14	16/15
January	11.73	12.41	12.25	5.80	-1.29
February	12.05	12.92	12.59	7.22	-2.55
March	12.27	12.59	12.4	2.61	-1.51
April	12.56	12.64	12.31	0.64	-2.61
May	13.01	12.50	12.31	-3.92	-1.52
June	13.62	12.33	12.33	-9.47	0.00
July	12.93	12.46	12.99	-3.63	4.25
August	13.14	11.77	11.78	-10.43	0.08
September	13.34	11.41	11.45	-14.47	0.35
October	12.90	11.03	10.51	-14.50	-4.71
November	12.76	10.93	10.13	-14.34	-7.32
December	12.44	10.95	10.45	-11.98	-4.57
Average	12.73	12.00	11.79	-5.77	-1.70

Source: Philippine Statistics Authority

<b>White Corn: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Farmgate				15/14	16/15
January	14.07	11.35	12.65	-19.33	11.45
February	14.00	11.76	13.63	-16.00	15.90
March	14.23	13.22	13.88	-7.10	4.99
April	15.40	13.48	13.62	-12.47	1.04
May	15.75	14.28	13.84	-9.33	-3.08
June	15.35	15.16	14.52	-1.24	-4.22
July	15.00	14.88	14.14	-0.80	-4.97
August	13.29	13.12	11.57	-1.28	-11.81
September	12.76	12.66	10.91	-0.78	-13.82
October	12.61	12.18	9.96	-3.41	-18.23
November	12.40	12.44	9.67	0.32	-22.27
December	11.95	12.32	9.29	3.10	-24.59
Average	13.90	13.07	12.31	-5.97	-5.85

Source: Philippine Statistics Authority

Traditionally, yellow corn accounts for about 70 percent of total corn output, while roughly 35 percent of overall corn harvests occur in the 3<sup>rd</sup> quarter of each year. Corn output began to improve during the July to September 2016 period reaching 2.66 million tons, or 10 percent higher than the 2.41 million tons harvested in the 3<sup>rd</sup> quarter of 2015. As a result, corn output in the last semester of CY 2016 still managed to increase 7 percent from the same period last year.

For the first semester of CY 2017, the PSA projects corn output to increase by a considerable 30 percent from 2.83 million tons in the first half of CY 2016 to 3.67 million tons. Area harvested is expected to increase modestly (21.3 percent) to 1,092 thousand hectares from 900 thousand hectares during the

same period last year. Likewise, yields are likely to rise from 3.14 tons per hectare in the first six months of CY 2016 to 3.36 tons per hectare during the same period in CY 2017.

MY 16/17 production and area harvested were raised based on the PSA projections for the first six months of CY 2017. Corn output is likely to expand 14 percent to over 8 million tons in MY 16/17 compared to 7 million tons in MY 15/16. Area harvested as well as yields in MY 16/17, are also expected to surpass the previous year's level due to more favorable growing conditions. Improved production will likely be enhanced by the passage of regulations that govern the commercial production of genetically engineered (GE) corn (see POLICY). The Philippines is a regional GE leader and rising corn production (before the El Nino drought starting CY 2015) has been attributed to the increased use of quality GE corn seeds. Roughly a fourth of overall corn areas in the Philippines were planted with GE corn seed in CY 2015.

For MY 17/18, corn production is likely to increase 2 percent from 8.1 million tons in MY 16/ to 8.3 million tons during the year due to consistent and firm feed demand by the expanding domestic livestock and poultry industries. In addition, some farmers are expected to shift away from rice to corn as a result of the expiration of the QR on rice imports at the turn of MY 16/17 (see POLICY).

### **Rice**

Paddy rice output in CY 2016 reached 17.63 million tons, down 3 percent from the CY 2015 level of 18.15 million tons, according to the PSA. Area harvested declined 2 percent to 4.56 million hectares in CY 2016 from 4.66 million hectares in CY 2015, while yields dropped from 3.90 tons per hectare to 3.87 tons per hectare during the same period on unusually dry weather conditions. About 77 percent of overall rice harvests in CY 2016 came from irrigated farms, which accounted for 67 percent of overall rice area harvested during the year. Major rice-producing areas in CY 2016 include Central Luzon, Cagayan Valley, the Ilocos Region, Western Visayas, Central Mindanao, and the Bicol region.

Roughly 40 percent of overall rice production is harvested in the fourth quarter of each year and despite successive typhoons in October 2016, rice production grew two percent from 9.83 million tons to 9.98 million tons during the July to December 2015 period.

For the January-June 2017 period, the PSA projects paddy rice output at 8.54 million tons, up 12 percent from 7.65 million tons output. The PSA attributes the increase to an expected larger area harvested and improved yields. Based on the PSA projections, area harvested may grow 8 percent to 2.08 million hectares in the first half of CY 2017 from 1.93 million hectares during the same period last year. Rice yields may improve to 4.11 tons per hectare in the first six months of CY 2017 from the previous year's level of 3.96 tons per hectare, according to the PSA.

On a July to June market year basis, rice production is forecast to expand 6 percent and reach 18.5 million tons in MY 16/17 from 17.5 million tons in MY15/16 on more favorable weather. Rice output and area harvested were adjusted upwards.

Preliminary data from the PSA shows the average farm gate price of paddy rice in CY 2016 was P17.43 (\$0.35) per kilo, marginally higher than the P17.34 (\$0.35) per kilo average price in CY 2015. This compares to the National Food Authority's (NFA) buying price for paddy at P17.70 (\$0.35) per kilo, inclusive of drying and delivery incentives. (P50 = \$1).

<b>Paddy Rice: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Farmgate				15/14	16/15
January	18.44	17.70	17.04	-4.01	-3.73
February	19.31	17.25	17.23	-10.67	-0.12
March	20.16	17.37	17.32	-13.84	-0.29
April	20.38	16.88	16.81	-17.17	-0.41
May	20.58	17.35	17.22	-15.69	-0.75
June	21.87	17.96	17.45	-17.88	-2.84
July	21.28	17.95	19.15	-15.65	6.69
August	20.66	17.82	18.63	-13.75	4.55
September	19.60	17.47	17.62	-10.87	0.86
October	19.59	16.57	16.08	-15.42	-2.96
November	19.69	16.62	16.72	-15.59	0.60
December	19.31	17.13	17.86	-11.29	4.26
Average	20.07	17.34	17.43	-13.62	0.51

Source: Philippine Statistics Authority

The Philippine Department of Agriculture (DA), early on under the new GPH, announced in 2016 it would pursue a two-year rice self-sufficiency program. Although no official plan has been released, the DA reportedly intends to plant hybrid rice in 1 million hectares of irrigated land to attain self-sufficiency. The expiration of the QR waiver on June 30, 2017, however, may allow a surge of cheaper rice imports (see POLICY). This is expected to discourage and dampen investments into the rice industry, including much needed farm credit in the form of production loans to small farmers. Hence, rice production is forecast to decline 3 percent from 18.5 million tons in MY 16/17 to below 18 million tons in MY 17/18.

### **Consumption:**

According to the Philippine Socioeconomic Planning Secretary (PSPS), after growing 6.6 percent in the last quarter of 2016, GDP growth for the entire year reached 6.8 percent. The 2016 fourth quarter expansion was higher than the 6.3 percent growth during the same period in 2015, while the full-year GDP expansion was at the high-end of the GPH growth target of 6-7 percent for the year. The 6.8-percent growth is the country's strongest in three years, and has actually made the Philippines the fastest-growing economy in Asia in 2016, according to the PSPS. The expansion brings the country's seven-year moving average of real GDP growth rate to 6.3 percent (the highest since 1978).

For 2017, the PSPS is confident that GDP will grow from 6.5-7.5 percent, increasing to 7-8 percent for the medium term thereafter. Risks identified include extreme weather disturbances, greater volatility in capital flow and the possible changes in U.S. policy as a result of the recent administration change. The full statement may be viewed at:

<http://www.neda.gov.ph/2017/01/26/statement-of-secretary-ernesto-m-pernias-on-the-performance-of-the-philippine-economy-for-the-fourth-quarter-and-full-year-2016/>

The Bangko Sentral ng Pilipinas or BSP (Philippine Central Bank), on the other hand, recently reported that inflation accelerated to 1.8 percent in 2016, faster than the 1.4 percent rate in 2015, but within official government projections. Inflation is expected to increase to around 3.5 percent in 2017, up from an earlier forecast of 3.3 percent. For 2018, the BSP forecast inflation at 3.1 percent, up from an earlier 3.0 percent estimate.

### **Wheat**

The local flour milling industry continues to expand to serve the demand of the growing Philippine population. With an estimated 102 million Filipinos in 2016, the country is the 12<sup>th</sup> largest nation globally. The population is also growing close to 2 percent annually, one of the fastest in the region. With a median age of about 23 years, coupled with considerable overseas remittances estimated at \$25 billion annually, some analysts describe the Philippines in a consumption ‘sweet spot’. This is manifest in the diversification of the Filipino diet, the flourishing food retail industry, and the continued growth of the local flour milling industry.

There are currently 17 flour mills with an aggregate milling capacity of over 5 million tons, up from 15 mills in 2016 with an estimated 4.2 million tons capacity. Several mills underwent expansion in recent years and at least two plants are scheduled for commissioning in 2017. Another two mills are expected to be commissioned in 2018.

According to trade contacts, bakery products comprise roughly 50 percent of overall milling wheat consumption. Bakery products include pan de sal and its derivatives (local salt bread consumed as a breakfast muffin), loaf bread, buns and rolls, cakes and pastries, and Chinese steamed buns. The other half of milling wheat is consumed as noodles, cookies and crackers, and pasta. Milling wheat demand is poised to increase through MY17/18 mainly due to continued economic growth and an increasing Philippine population.

Free from Avian flu and declared Foot and Mouth Disease (FMD) free, the domestic livestock and poultry industries continue to be the bright spots of Philippine agriculture expanding by 4.59 and 1.39 percent, respectively, in 2016.

According to contacts, there are currently 545 registered feed mills in the country, 85 percent of which are considered commercial. More than 74 percent of the feed plants are located on the main island of Luzon, 15 percent in Mindanao and 11 percent in the Visayas. The industry’s structure is comprised of (1) commercial producers, who are solely engaged in the feed manufacturing business, (2) integrated farm feed millers, who are engaged in livestock production and at the same time sell feeds commercially, and (3) on-farm feed millers, who produce feeds for their own farms.

Trade contacts estimate overall feed production to have reached roughly 11.75 million tons in 2016, up 3 percent compared to the 11.38 million tons in 2015. Philippine annual feed production is comprised of the following: hog feeds, 56 percent; poultry feeds, 28 percent; aquaculture feeds, 10 percent; and others, 6 percent. The growth of the feed industry is mirrored by the entry of foreign manufacturers in local feed operations (i.e., Thailand’s Charoen Pokphand and China’s New Hope) as well as the expansion of large local poultry integrators and commercial swine farms. Feed wheat consumption is

expected to increase modestly through MY 17/18 due to firm animal feed demand and competitive prices.

The average domestic price of feed wheat in 2016 was P13.16/kilo (\$0.26/kilo), 4 percent cheaper compared to the previous year's level. Overall wheat prices in 2016 were down as a result of a glut in global wheat.

<b>Feed Wheat: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Wholesale				15/14	16/15
January	14.00	15.05	12.40	7.50	-17.61
February	14.10	14.80	12.90	4.96	-12.84
March	14.90	14.35	13.25	-3.69	-7.67
April	15.80	14.30	12.50	-9.49	-12.59
May	15.80	14.65	13.60	-7.28	-7.17
June	15.90	14.20	13.70	-10.69	-3.52
July	16.00	13.45	13.40	-15.94	-0.37
August	16.20	13.10	13.00	-19.14	-0.76
September	15.75	13.10	13.00	-16.83	-0.76
October	15.05	12.65	13.40	-15.95	5.93
November	15.10	12.40	13.70	-17.88	10.48
December	15.30	12.50	13.10	-18.30	4.80
Average	15.33	13.71	13.16	-10.52	-4.01

Source: Philippine Association of Feed-millers

### **Corn**

According to industry, corn is the preferred feed-grain by local end-users. However, quality issues (i.e., aflatoxin) are commonly associated with locally produced corn, and most feed-mills prefer imported corn for its reliability and uniformity. Domestic corn marketing and distribution is largely controlled by local traders. To discourage corn price surges, major feed producers, poultry and swine integrators, and big farm operations regularly import feed wheat as a yellow corn substitute. In addition, and to ensure adequate feedgrain supply, large feedmills enter into supply agreements with local corn producers in exchange for assured prices and technical assistance. Like feed wheat, cassava is also utilized to substitute for a certain percentage of yellow corn. Small cassava farmers are recipients of marketing and technical assistance from major agribusiness companies to encourage production. Cassava output in CY 2016 is likely to have increased from the 270,000 ton production level in CY 2015, according to the PSA.

Corn prices are provided in the following table. According to preliminary PSA data, the average yellow corn wholesale price in 2016 was at P15.63 (\$0.31) per kilo, marginally higher than the P15.55 (\$0.31) per kilo average price in 2015, but considerably (15-20 percent) more expensive than feed wheat. On the other hand, the NFA buys dried yellow corn delivered to the buying station at a lower price of P12.70 (\$0.25) per kilo (at P50 = \$1).

<b>Yellow Corn: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Wholesale				15/14	16/15
January	16.13	15.31	14.90	-5.08	-2.68
February	16.32	14.53	16.47	-10.97	13.35
March	16.59	15.12	17.19	-8.86	13.69
April	17.07	16.34	15.98	-4.28	-2.20
May	17.21	16.74	16.26	-2.73	-2.87
June	17.43	16.68	16.20	-4.30	-2.88
July	14.56	15.71	16.39	7.90	4.33
August	13.79	15.99	15.51	15.95	-3.00
September	13.49	14.02	15.51	3.93	10.63
October	13.86	15.46	14.26	11.54	-7.76
November	14.11	15.59	14.19	10.49	-8.98
December	14.97	15.11	14.66	0.94	-2.98
Average	15.46	15.55	15.63	1.21	0.72

Source: Philippine Statistics Authority

White corn is a staple in some parts of the Visayas region and Mindanao, and is consumed as grits mixed with rice. The average 2016 retail price of local white corn was P22.69 (\$0.45) per kilo. The NFA, on the other hand, buys dried white corn delivered at the buying station at P13.40 (\$0.27) per kilo.

<b>White Corn: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Retail				15/14	16/15
January	19.37	22.34	22.15	15.33	-0.85
February	20.08	23.00	24.39	14.54	6.04
March	22.06	23.90	24.29	8.34	1.63
April	22.24	23.86	23.48	7.28	-1.59
May	21.51	23.78	22.98	10.55	-3.36
June	22.96	23.96	24.36	4.36	1.67

July	23.73	24.54	23.15	3.41	-5.66
August	21.49	22.68	21.73	5.54	-4.19
September	22.89	23.18	21.26	1.27	-8.28
October	22.90	23.43	21.67	2.31	-7.51
November	22.02	21.30	21.73	-3.27	2.02
December	21.28	22.42	21.06	5.36	-6.07
Average	21.88	23.20	22.69	6.04	-2.21

Source: Philippine Statistics Authority

Corn food and feed consumption is expected to increase through MY 17/18 mainly due to the growing population. Considerable public investments into infrastructure distribution systems including transportation and inter-island linkage projects have been the GPH response to increasing corn demand. The GPH plans to ramp up infrastructure spending to at least 5.4 percent of the GDP through 2022. There are indications that massive investment pledges from Chinese firms as a result of the strengthening of the country's economic ties with China will be directed at infrastructure development. This is consistent with December 2016 adoption by the Philippine Senate of a resolution concurring to the ratification of the Article of Agreements of the Asian Infrastructure Investment Bank.

### **Rice**

Rice is the main staple of the Philippine population, currently estimated at over 100 million people and expanding by 2 percent annually. Rice provides an estimated 45 percent of the average Filipino's calorie intake and its production is considered the main source of livelihood in rural areas. Average rice-consumption spending accounts for about 20 percent of a household's budget. This may go higher by as much as 30 percent for the bottom 30 percent of Filipino families, according to industry.

Average commercial rice retail prices have been declining since 2014. Monthly average retail prices of milled rice from 2014 to 2016, based on PSA preliminary data, are provided in the following table.

<b>Regular Milled Rice: Monthly Average Prevailing Prices (P/Kg)</b>					
	2014	2015	2016	% Change	
Retail				15/14	16/15
January	36.51	38.81	36.77	6.30	-5.26
February	36.85	38.30	36.54	3.93	-4.60
March	37.80	37.72	36.35	-0.21	-3.63
April	38.35	37.16	36.28	-3.10	-2.37
May	38.92	36.85	36.57	-5.32	-0.76
June	39.42	36.45	36.83	-7.53	1.04
July	40.15	36.46	36.62	-9.19	0.44
August	40.35	36.49	36.90	-9.57	1.12
September	40.36	37.01	36.98	-8.30	-0.08

October	39.84	36.33	36.88	-8.81	1.51
November	39.56	36.56	36.74	-7.58	0.49
December	39.11	36.50	36.36	-6.67	-0.38
Average	38.94	37.05	36.65	-4.83	-1.08

Source: Philippine Statistics Authority

The NFA sells well milled rice (WMR) at P24-28 (\$0.48-0.56) per kilo and regular milled rice (RMR) at P23-27 (\$0.46-0.54) per kilo. The NFA also sells imported rice (25 percent broken) at P25-27 (\$0.50-0.54) per kilo and P32 (\$0.64) per kilo for the other types of imported rice (e.g., 15 percent broken and remilled).

Continued economic growth has resulted in a growing middle class and shifts in food consumption patterns. This is evident through the rapidly expanding food retail sector and fast food industry. While per capita rice consumption declined, overall rice demand in MY 16/17 was raised slightly and should remain flat compared to the previous year's level because of population growth. No significant change in rice consumption is expected in MY 17/18.

#### **Trade:**

Under ASEAN, Philippine exports to the region benefit from the lower common effective tariff applicable to products of member countries. All tariff rates on all products (with exemptions for a few sensitive products such as rice) in the ASEAN region fell to between zero and 5 percent in 2011 under the ATIGA framework. Several U.S. agricultural exports (including grains) to the Philippines face higher tariffs than competing products imported from ASEAN-member countries and/or ASEAN-FTA member countries such as Australia, New Zealand, China, and India.

On May 23, 2016, Republic Act No. 10845 (RA 10845) or "The Act Declaring Large-Scale Agricultural Smuggling as Economic Sabotage" was signed into law by then President Benigno Aquino III. RA 10845 makes large-scale agricultural smuggling an offense without bail. To be considered economic sabotage, the amount of smuggled agricultural product must be at least P10 million (\$200,000) for rice, and equal or more than P1 million (\$20,000) for other agricultural products such as sugar, corn, pork, poultry, garlic, onion, carrots, fish, and cruciferous vegetables (either in their raw state, or have undergone simple preparation or preservation processes for the market). Violators are penalized by a maximum life imprisonment and a fine of twice the fair value of the smuggled agricultural products, plus taxes, duties, and other charges a legitimate shipment would be subject to. While RA 10845 is not expected to completely eradicate smuggling, it is expected to curb and dampen its frequency and intensity.

On July 21, 2015, amendments to the Cabotage Law embodied in Republic Act 10668 (RA 10668) was approved by then President Benigno Aquino III. RA 10668 or "*An Act Allowing Foreign Vessels to Transport and Co-Load Foreign Cargoes for Domestic Transshipment and for Other Purposes*" allows foreign ships to transport import or export cargo directly to and from any local port other than the Port of Manila. The implementing rules and regulations or IRRs of RA 10668 as contained in Joint Department Administrative Order No. 001-2016 was published in May 2016, and took effect 15 days later. RA 10668 is expected to result in lower costs of importing products to the Philippines.

## Wheat

Milling wheat imports are exempt from MFN tariffs, but are subject to a 12 percent Value Added Tax (VAT) on the subsequent flour sales, payable at the time the wheat is imported. Feed wheat imports, on the other hand, are subject to a 7 percent MFN duty and are not subject to VAT. Wheat flour imports are also subject to a 7 percent MFN tariff.

Under the ASEAN-Australia-New Zealand Free Trade Agreement, both milling and feed wheat imports to the Philippines from member countries are duty-free.

In 2016, the Philippines was the 3rd largest U.S. wheat market globally with sales reaching \$577 million. During the same year, wheat was the second largest U.S. agricultural export to the Philippines, next to soybean meal. Overall wheat imports increased 650,000 tons from 4.85 million tons in MY 15/16 to 5.5 million tons in MY 16/17. Wheat imports are expected to reach 5.65 million tons in MY 17/18 with U.S. market share forecast at roughly 50 percent.

## Corn

Corn imports into the Philippines have a two-tiered MFN tariff structure: 35 percent in-quota duty and a 50 percent out-of-quota rate. For 2017, the corn in-quota is 217,000 tons, unchanged from the previous year. Corn imports originating from member countries of ASEAN are charged a much lower 5 percent duty under the ATIGA. The lower ATIGA duty is the main challenge to increased U.S. corn sales to the Philippines.

According to preliminary customs data, corn imports in 2016 increased 39 percent from 519,000 tons in 2015 to 718,000 tons last year, the majority (77 percent) originating from Thailand. Corn imports from the U.S. increased 24 percent from 66,000 tons in 2015 to 82,000 tons in 2016. U.S. corn comprised 11 percent of overall imports in 2016 while Argentinian corn accounted for six percent.

<b>Reporting Countries Export Statistics (Partner Country: Philippines)</b>				
<b>Commodity: 1005, Corn (Maize)</b>				
Annual Series: 2014 - 2016				
Reporting Country	Unit	Quantity		
		2014	2015	2016
Reporting Total	T	750,824	518,756	717,944
Thailand	T	472,467	71,163	551,711
United States (Consumption/Domestic)	T	62,758	66,473	82,290
Argentina	T	155,685	46,579	41,405
Brazil	T	113	67,108	41,050
South Africa	T	3,122	6,517	1,178
Australia	T	484	69	309
France	T	586	963	0
India	T	22,864	28,991	0

Indonesia	T	32,719	230,872	0
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Source: Global Trade Atlas

Despite record global corn production and low prices, corn imports in MY 16/17 were revised downwards and are likely to decline from the previous year's level to 600,000 tons as a result of the expected improvement in local production and competitively priced feed wheat imports. Corn imports the following year (MY 17/18) are expected to decline 100,000 tons to 500,000 tons as local output is projected to continue increasing during this period.

### **Rice**

Under the ATIGA, rice imports from ASEAN-member countries are levied a 35 percent duty. There are no quotas.

The Philippines is the only country that has QRs on rice imports. In July 2014, the WTO granted the Philippine request to extend the QRs through July 2017, its third extension. In exchange, the rice Minimum Access Volume (MAV) was raised to 805,200 tons (from 350,000 tons). In-quota tariffs were also reduced from 40 percent to 35 percent while out-of-quota tariffs remained at 50 percent through June 30, 2017. In-quota tariffs revert to 40 percent starting July 1, 2017 through December 31, 2017. Tariffs beyond this date have yet to be established (see POLICY).

Provided in the following table are rice imports (through November 2016), based on Philippine customs data. Import estimates in the PSD table include imports from Vietnam, the dominant source of rice imports to the Philippines, as well as estimates of undocumented imports into the country.

<b>Reporting Countries Export Statistics (Partner Country: Philippines)</b>				
<b>UDG: Rice, Group 58 (2012)</b>				
Annual Series: 2014 - 2016				
Reporting Country	Unit	Quantity		
		2014	2015	2016*
Reporting Total	T	381365	840125	322161
Thailand	T	353044	821088	308726
India	T	22186	7187	
China	T	3306	9643	13335
Japan	T	294	134	37
Singapore	T	629	283	33
France	T	1	3	10
Switzerland	T	27	13	10
United States (Consumption/Domestic)	T	1459	19	6
Others	T	419	1755	4

\*January to November, most recent data available

Source: Global Trade Atlas

On a July- June MY basis, rice imports in MY 16/17 are forecast at 1 million tons, down 38 percent from the MY 15/16 level. The decline is due to adequate ending stocks. Rice imports should increase significantly in MY 17/18 due to the anticipated decline in local production as a result of the expiration of the QR and to replenish low inventory levels. Post forecasts overall imports in MY 17/18 at two million tons or double the MY 16/17 level.

**Stocks:**

**Wheat**

Wheat stocks are largely private sector-held. Wheat stocks are expected to strengthen modestly in MY 17/18 to meet increasing demand as more capacity becomes operational.

**Corn**

The majority of corn stocks are with private traders and large integrated operations. Corn inventories should increase in MY 16/17, and remain at this level in MY17/18.

**Rice**

Philippine rice inventory is comprised of those stocks held by the GPH, the commercial sector, and households. As a matter of GPH policy, a 90-day national rice buffer stock entering the third quarter of each year (the lean months of production) should be maintained. Of this desired stock level, a 30-day supply of stocks should be in the GPH's possession. Additionally, at any given time, the GPH should have inventories good for 15 days. Based on Post's calculations, however, the desired stock levels are not strictly met.

Ending rice stocks in MY 16/17 have dropped considerably from the previous year's level due a significant decline in production and imports. Stocks are estimated to be sufficient for 46 days (at a daily requirement of 32,000 tons) in MY 16/17 and 56 days in MY 17/18.

The Philippines has also committed to maintain 12,000 tons of rice at any given time for other ASEAN-member countries in times of emergencies under the ASEAN plus Three Emergency Rice Reserve Agreement.

**Policy:**

The current president, Rodrigo Roa Duterte, was elected in May 2016 on a platform of change. The Duterte government assumed office in July 2016 and since then, has initiated major policy changes, including those for agriculture.

President Duterte signed Republic Act No. 10924 (RA 10924) in late December 2016 which approves the 2017 budget at P3.35 trillion (\$67 billion), 12 percent higher than the previous year's budget, the biggest ever. According to press articles, the DA and the Department of Agrarian Reform were allocated P45 billion (\$900 million) and P10 billion (\$200 million), respectively, while the National Irrigation Authority was allocated P38 billion (\$760 million) in line with the President's campaign promise of free irrigation for farmers. The DA reportedly intends to plant 1 million hectares of irrigated land with hybrid rice in its quest for rice self-sufficiency in two years.

## Corn

In December 2015, the Philippines Supreme Court (SC) enjoined biotechnology trials and struck down existing GE regulations so that a new set of rules could be promulgated. An inter-departmental working group drafted new GE regulations that were approved on March 2016. In a July 26, 2016 press briefing, and subsequently in its August 18, 2016 final decision issuance, the SC reversed course and lifted restrictions to commercialize ongoing GE trials, but upheld that the new GE regulations supersedes the existing GE rules. The shift in biotechnology regulations has resulted in delays in the processing of biosafety permits, although there have been no reported trade disruptions.

## Rice

Rice is a politically-sensitive commodity in the Philippines. Under the new GPH, the DA had announced early it would pursue a rice self-sufficiency program, and that it would seek a two-year extension of the rice QR. The latter expires on July 1, 2017 but there have been no moves, to date, to initiate negotiations for another extension. GPH economic planners believe there is not enough time (to negotiate for an extension) and are generally supportive of liberalizing the rice market as it could possibly translate to cheaper rice prices. The DA, however, contends that tariffing rice imports once the QR expires is not possible without amending an existing local law, Republic Act No. 8178 (RA 8178) or the Agricultural Tariffication Act of 1996. Two bills reportedly have been filed at the Philippine House of Representatives to this end, consistent with the recently approved Philippine Development Plan 2017-2022 (PDP 2017-2022), the country's economic blueprint. According to the PDP 2017-2022, the amendment of RA 8178 is part of the priority legislative agenda of the Duterte administration. Tariffs collected from rice imports would fund programs that could help farmers cut on production costs, according to the PDP 2017-2022. RA 8178 may be viewed at the following link:

<http://www.gov.ph/1996/03/28/republic-act-no-8178-s-1996/>

## **Production, Supply, and Demand Data Statistics:**

Wheat Market Begin Year Philippines	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1128	1128	1123	1123	0	1348
Production	0	0	0	0	0	0
MY Imports	4850	4850	5500	5500	0	5650
TY Imports	4850	4850	5500	5500	0	5650
TY Imp. from U.S.	2274	2274	0	2600	0	2700
Total Supply	5978	5978	6623	6623	0	6998
MY Exports	55	55	50	50	0	50
TY Exports	55	55	50	50	0	50
Feed and Residual	2200	2200	2350	2350	0	2420
FSI Consumption	2600	2600	2875	2875	0	2960
Total Consumption	4800	4800	5225	5225	0	5380
Ending Stocks	1123	1123	1348	1348	0	1568
Total Distribution	5978	5978	6623	6623	0	6998

(1000 HA) ,(1000 MT)

Corn Market Begin Year Philippines	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

<b>Area Harvested</b>	2420	2420	2600	2680	0	2700
<b>Beginning Stocks</b>	682	682	279	279	0	389
<b>Production</b>	6970	6970	7900	8110	0	8300
<b>MY Imports</b>	727	727	900	600	0	500
<b>TY Imports</b>	644	644	900	600	0	500
<b>TY Imp. from U.S.</b>	80	80	0	80	0	80
<b>Total Supply</b>	8379	8379	9079	8989	0	9189
<b>MY Exports</b>	0	0	0	0	0	0
<b>TY Exports</b>	0	0	0	0	0	0
<b>Feed and Residual</b>	6000	6000	6400	6400	0	6550
<b>FSI Consumption</b>	2100	2100	2200	2200	0	2250
<b>Total Consumption</b>	8100	8100	8600	8600	0	8800
<b>Ending Stocks</b>	279	279	479	389	0	389
<b>Total Distribution</b>	8379	8379	9079	8989	0	9189
(1000 HA) ,(1000 MT)						

Rice, Milled Market Begin Year	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Philippines						
<b>Area Harvested</b>	4523	4523	4600	4710	0	4600
<b>Beginning Stocks</b>	2210	2210	1810	1810	0	1480
<b>Milled Production</b>	11000	11000	11500	11670	0	11300
<b>Rough Production</b>	17460	17460	18254	18524	0	17937
<b>Milling Rate (.9999)</b>	6300	6300	6300	6300	0	6300
<b>MY Imports</b>	1600	1600	1000	1000	0	2000
<b>TY Imports</b>	800	800	1400	1400	0	2000
<b>TY Imp. from U.S.</b>	0	0	0	0	0	0
<b>Total Supply</b>	14810	14810	14310	14480	0	14780
<b>MY Exports</b>	0	0	0	0	0	0
<b>TY Exports</b>	0	0	0	0	0	0
<b>Consumption and Residual</b>	13000	13000	12900	13000	0	13000
<b>Ending Stocks</b>	1810	1810	1410	1480	0	1780
<b>Total Distribution</b>	14810	14810	14310	14480	0	14780
(1000 HA) ,(1000 MT)						

