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Philippines

Coffee

Annual

2004

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Report Highlights:

Philippine coffee production is forecast to decline in MY 2003-04 as a result of low yield and senility of existing coffee trees. Due to declining domestic production, coffee imports are expected to remain high to meet nearly half of the country's growing demand. Coffee buying prices (Robusta) increased by 36 percent in 2003.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Production

The country's coffee production is forecast to decline by nearly 5 percent in Market Year 2003-04, according to preliminary estimates submitted by the National Coffee Development Board (NCDB), mostly as a result of poor coffee yield and the senility of coffee trees. Despite an increase in coffee bean buying prices for 2003 (see CONSUMPTION), increases in production may not likely be realized in the short term due to the long gestation period for coffee trees.

Despite the technical assistance and credit facilities reportedly made available by the Philippine Department of Agriculture (DA) to the coffee industry last year, production is likely to fall to 690,000 (60 kg) bags in MY 2003-04 from 730,000 bags produced last year. In 2003, the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) under the DA, made available P300 million (\$5.5 million) for the rehabilitation and expansion of coffee farms around the country. According to experts, given the long coffee gestation time, it may take at least 3 years before increases in production are realized.

Local coffee manufacturers believe that government- and industry-led programs to rehabilitate the declining coffee industry are unlikely to have much impact on the industry as a whole due to the limited funding.

According to the Philippine Bureau of Agricultural Statistics, the total area planted to coffee is forecast to remain flat. The DA recently reported that Mindanao has overtaken Luzon in terms of coffee production, making it the top coffee producer of the country. Coffee production is broken down in the table below:

COFFEE PRODUCTION, 2003 (In Hectares)	
Region	Area¹
CAR	7,628
Ilocos	112
Cagayan Valley	3,646
Central Luzon	1,643
Southern Tagalog	16,766
MIMAROPA	957
Bicol	1,019
Western Visayas	10,108
Central Visayas	1,647
Eastern Visayas	406
Zamboanga Peninsula	1,657
Northern Mindanao	13,315
Davao Region	29,959
Socksargen	24,495
ARMM	13,595
CARAGA	4,837
TOTAL	131,790

Source: Philippine Bureau of Agricultural Statistics

¹ Preliminary Estimates

The urbanization and changing land use pattern in the Southern Tagalog region, notably the conversion of coffee areas to housing subdivisions and golf courses, is the main cause of this shift in production to Mindanao. The DA says that it is looking at rehabilitating about 15,900 hectares of coffee farms in Southern Mindanao by next year.

Consumption

The 2003 Philippine Gross Domestic Product (GDP) grew by 4.5 percent over 2002. The recent growth in GDP is largely due to increased remittances of Overseas Filipino Workers (OFW). Net Factor Income from Abroad (NFIA) grew by a robust 18.9 percent last year, despite a decline in stock of OFWs. Compensation inflow increased by 6.9 percent due to the deteriorating dollar-peso conversion. Economists predict that economic growth in the Philippines will remain stable at 4.5 percent this year; inflation should remain within the official target range of 4.0 to 5.0 percent.

The consumption of coffee is expected to rise with the improvement in the Philippine economy. Coffee is a common beverage for Filipinos from adults down to children. The population growth rate in the Philippines is 2.36 percent, and demand for coffee is projected to mirror that growth.

Domestic buying prices for Robusta coffee beans, as reported by the International Coffee Organization Certifying Agency (ICOCA), increased by nearly 36 percent in 2003. The increase in domestic coffee buying prices comes after the reported decrease in production in Vietnam last year.

DOMESTIC BUYING PRICES			
Robusta, 2002-2004 (Pesos/kg)			
	2002	2003	2004
Jan	25.50	43.38	40.50
Feb	25.50	43.38	42.50
Mar	25.50	40.50	42.00
Apr	26.90	39.50	
May	27.50	39.75	
Jun	27.50	35.53	
Jul	27.50	34.25	
Aug	27.50	40.50	
Sep	30.00	43.00	
Oct	34.68	42.52	
Nov	35.50	39.60	
Dec	40.50	39.00	
Average	29.51	40.08	41.66

Source: International Coffee Organization Certifying Agency

According to National Coffee Development Board (NCDB), the Philippines consumes about 55,000 MT of coffee per cropping season. Based on reported domestic production of 28,000 MT, the country, thus depends on imports for about half of its annual coffee requirement.

According to Euromonitor, for the past five years, Filipinos have witnessed a robust growth in specialty coffee shops in the country, such as *Starbucks* and *Seattle's Best*. Many believe that these coffee shops are here to stay, mainly because the Philippines is a coffee growing nation and Filipinos are loyal coffee drinkers. Local upscale coffeeshops, as well, are springing up such as *Coffee Experience* and *Coffee California*.

Trade

Coffee varieties from Vietnam and Indonesia have dominated import purchases mainly due to the quality of beans and low unit prices as a result of economies of scale in those countries. Declining farm productivity in the Philippines has been blamed on land reform, which limits the size of plantations, and on the transportation challenges associated with a country comprised of so many islands.

In MY 2003, about 86 percent of total coffee import requirements were sourced from Vietnam, followed by Indonesia. Vietnam and Indonesia will likely continue to be the main coffee suppliers for the country, serving mostly the demand of major manufacturers such as *Nestle Philippines*, *Universal Robina Corporation* and *General Milling Corporation*.

Coffee exports increased slightly in MY 2003, with the majority of the coffee purchased by the Sultanate of Oman. Coffee exports are forecast to increase again next year.

Policy

In the original Philippine WTO Accession commitments, in-quota and out-of-quota tariff rates for coffee beans were to be equalized at 30 percent in 2004. However, as a result of the GRP's 2003 comprehensive tariff review, Executive Order No. 264 was issued in December 2003 by the Office of the Philippine President, which maintained out-of-quota tariff rates at the 2003 level of 40 percent and raised in-quota tariffs for all roasted coffee beans and decaffeinated green beans. Moreover, the Common Effective Preferential Tariff Program (CEPT) under the ASEAN Free Trade Agreement (AFTA) grants preferential treatment for coffee from selected ASEAN countries, effective 2004.

The 2004 MFN and CEPT tariff rates for coffee are as follows:

Tariff Code	Description	MFN	CEPT	Remarks ²
09.01	Coffee, whether or not roasted or			
	decaffeinated coffee husks and skins; coffee			
	Substitutes containing coffee in any proportion			
	- Coffee, not roasted			
0901.11	-- Not decaffeinated			
0901.11.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.11.90	--- Other			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.12	-- Decaffeinated			
0901.12.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
0901.12.90	--- Other:			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
	- Coffee, roasted			
0901.21	-- Not decaffeinated			
0901.21.10	--- Unground			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
0901.21.20	--- Ground			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
0901.22	-- Decaffeinated			
0901.22.10	--- Unground			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
0901.22.20	--- Ground			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH
0901.90.00	- Other			
	A. In-Quota	40	5	Except BN, KH, MM & TH
	B. Out-of-Quota	40	5	Except BN, KH, MM & TH

Source: Tariff and Customs Code of the Philippines 2004

² BN- Brunei Darussalam/KH- Cambodia/MM- Burma/TH- Thailand/ID- Indonesia/LA- Laos/VN- Vietnam

Marketing

Food Processing Sector: Key players in the food processing sector include *Nestle Philippines (Nescafe)*; *Commonwealth Food (Café Puro)*; *General Milling Corp. (Kaffe de Oro)*; *Universal Robina (Great Taste and Blend 45)*; and recently, *Kraft Philippines (Maxwell House)*. *Nestle* has long dominated the coffee industry in the country and is estimated to enjoy about 85 to 90 percent share of the processed coffee market.

In 2001, to further generate economies of scale, *Nestle* consolidated all its *Nescafe* production in the city of Cagayan de Oro in Mindanao. *Nestle* is expected to continue expanding and upgrading its manufacturing facilities in the area. Currently, *Nestle* reportedly sources about 65 percent of its coffee requirement from Mindanao.

Retail Sector: Instant coffee has proven successful in the Philippines given the changing lifestyles of the urban population. Parents and busy working people who have very little time to prepare food at home have taken to convenience of using soluble coffee. The instant coffee sector accounts for about 90 percent of total retail sales. Last year, *Kraft Philippines* introduced its *Maxwell 3-in-1* coffee, which gained a substantial following only months after its release. Industry experts believe that the entry of *Kraft* with its *Maxwell* brand may stimulate some activity and growth in the mature instant coffee sector.

Food Service Sector: The largest domestic coffeeshop, *Figaro Coffee Company* currently has 30 outlets, mainly in Metro Manila. With one overseas outlet in Hongkong, *Figaro* is now planning to open up stores in China, India, Dubai and Thailand.

Starbucks, the first international coffee chain to penetrate the Philippine market, has had a powerful impact on the country's coffee drinking habits. Through its local licensee, *Rustan's Coffee Corporation*, *Starbucks* now operates about 55 outlets throughout the country.

Following the strong entry into the market by *Starbucks*, numerous local and international players have also entered the market this year. Two U.S.-based specialty coffeeshops, *Coffee Bean & Tea Leaf* and *Gloria Jean's Coffee* have just opened in Metro Manila. *McDonald's Corporation* also joined the coffee retail business by launching *McCafe* in Manila last year. Other foreign retail outlets in the country include *Segafredo Zenetti* from Italy and the Japanese *Ueshima Coffee Company (UCC)*.

PSD Table						
Country	Philippines					
Commodity	Coffee, Green					
					(1000 HA) (MILLION TREES) (1000 60 KG BAGS)	
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	New]
Market Year Begin		07/2002		07/2003		07/2004
Area Planted	135	135	135	135	0	135
Area Harvested	113	113	113	113	0	113
Bearing Trees	95	95	95	95	0	95
Non-Bearing Trees	15	15	15	15	0	15
TOTAL Tree Population	110	110	110	110	0	110
Beginning Stocks	215	215	227	227	231	209
Arabica Production	38	38	42	35	0	30
Robusta Production	660	660	660	630	0	630
Other Production	28	28	30	25	0	30
TOTAL Production	726	726	732	690	0	690
Bean Imports	200	200	205	225	0	235
Roast & Ground Imports	2	2	3	3	0	3
Soluble Imports	90	90	90	90	0	90
TOTAL Imports	292	292	298	318	0	328
TOTAL SUPPLY	1233	1233	1257	1235	231	1227
Bean Exports	3	3	3	4	0	4
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	3	3	3	2	0	2
TOTAL Exports	6	6	6	6	0	6
Rst,Ground Dom. Consum	90	90	100	100	0	110
Soluble Dom. Consum.	910	910	920	920	0	930
TOTAL Dom. Consumption	1000	1000	1020	1020	0	1040
Ending Stocks	227	227	231	209	0	181
TOTAL DISTRIBUTION	1233	1233	1257	1235	0	1227