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## Philippines

### Poultry and Products

#### Annual

#### 2006

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**Report Highlights:**

In 2005, Philippine chicken production declined by about 1.31 percent due to weak consumer demand for chicken meat by all market segments and a high carryover stocks in cold storage at the end of 2004. While broiler production contracted during the first half of 2006, it is still expected to expand marginally due to anticipated positive interventions by the broiler industry during the second half of the year.

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Includes PSD Changes: Yes  
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Annual Report  
Manila [RP1]  
[RP]

## Production

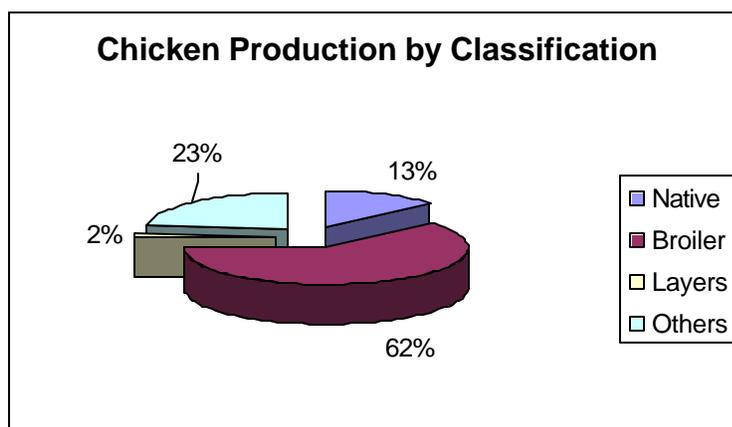
Total chicken inventory as of January 1, 2006 was estimated at 134.3 million birds lower than the previous year's level of 136 million. Broiler inventory was estimated at 36 million birds, 11 percent lower than the previous year. About 2/3 of Philippine broiler stocks are concentrated in Central Luzon (33.2%) and CALABARZON Cavite-Laguna-Batangas (28.2%).

According to the Bureau of Agricultural Statistics (BAS), the country's volume of chicken production registered a decrease of 1.31 percent live weight equivalent (LWE) in 2005 as evidenced by the lower volume of broilers in commercial farms and the drop in the number of dressed chicken during the second half of 2005.

<b>CHICKEN PRODUCTION<sup>1</sup>, 2002-04 (TMT, Live Weight Equivalent)</b>					
	2003	2004	2005	2004/03 % change	2005/04 % change
Jan-Mar	303.74	311.56	332.54	2.6%	6.73
Apr-Jun	229.17	226.47	228.14	-1.2%	0.74
Jul-Sep	269.16	283.33	265.00	5.3%	(6.47)
Oct-Nov	386.68	410.43	389.99	6.1%	(4.98)
Total	1188.75	1231.79	1215.67	3.6%	(1.31)

Source: Bureau of Agricultural Statistics

BAS estimates that broilers account for about 62 percent of total chicken produced in the Philippines last year. Native or village chicken production is at 13 percent while poultry meat from culled layers is estimated at 2 percent. The rest is comprised of other chicken such as roosters.



Source: Bureau of Agricultural Statistics

Broiler production contracted last year mainly as a result of weak local demand for chicken meat by all market segments and a high carryover stocks in cold storage at the end of 2004. To bring down stocks to normal levels, several integrators cutback their production during the 1<sup>st</sup> quarter of last year.

<sup>1</sup> Total chicken production including broilers, native, culled layers and other chicken.

According to BAS, chicken meat production contracted during the first half of 2006, however, broiler production is still expected to expand marginally this year due to the anticipated positive interventions by the broiler industry during the second half of this year. The relatively stable farmgate and retail prices enjoyed throughout the first half of 2006, the annual seasonal peak in chicken demand during the Christmas holidays, as well as improved prospects for export with the lifting of the Japanese ban on Philippine poultry are all expected to positively contribute to poultry output during the second semester.

Industry sources believe that despite improved prospects for exports, the expansion of the poultry industry is hampered by a lack of investment in new poultry farm operations due to the high risks involved (i.e., long payback period for investments, high capital costs for tunnel ventilated broiler grow out houses, the continued threat of Avian Influenza, difficulty in obtaining financing, price volatility and severe weather conditions). Therefore, while production is forecast to increase incrementally over the next two years, production in the near term is not likely to achieve the significant growth rates of the 90s.

**Farmgate Prices:** In 2005, the average farmgate price of broilers in commercial farms was P63.50/kg (\$1.15/kg) or 5.3 percent higher than the previous year's average price of P60.30/kg (\$1.08/kg). The highest farmgate price at P65.68/kg (\$1.19/kg) was recorded during the month of June while the lowest price of P58.35/kg (\$1.06/kg) was noted in January. Farmgate prices have remained relatively stable throughout the first half of 2006.

<b>Farmgate Prices Table</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Poultry, Meat, Broiler		
Prices in	Pesos	Per uom	Kilogram
Year	2004 <sup>2</sup>	2005	% Change
Jan	63.60	58.35	(8.3)
Feb	56.11	63.76	13.6
Mar	50.43	60.06	19.1
Apr	59.40	63.25	6.5
May	60.88	64.16	5.4
Jun	56.64	65.68	16.0
Jul	64.06	64.75	1.1
Aug	64.41	63.75	(1.0)
Sep	61.04	62.46	2.3
Oct	64.18	65.69	0.8
Nov	61.48	64.74	5.3
Dec	60.45	63.41	4.9
Avg.	60.31	63.50	5.3

Source: Bureau of Agricultural Statistics

According to traders, yellow corn prices remained stable throughout 2005 despite a drop in domestic production due mainly to increased corn importation. According to the Philippine DA, domestic corn production this year is projected to exceed 2005 levels due largely to the rising yields of yellow corn. Despite improved outlook for domestic corn, imports of yellow corn increased dramatically during the first four months of 2006.

<sup>2</sup> Average Peso to Dollar Exchange Rate 2005 \$1=55.0855; 2004 \$1=56.0399

<b>PHILIPPINE CORN PRODUCTION AND PRICES</b>		
<b>YEAR</b>	<b>VOLUME (MMT)</b>	<b>AVG. YELLOW CORN PRICES (Pesos/kg)</b>
2002	4.3	8.21
2003	4.6	8.62
2004	5.6	10.35
2005	5.3	8.99
2006	6.0 <sup>3</sup>	10.95 <sup>4</sup>

Source: Philippine Department of Agriculture

Soybean and SBM prices remained relatively stable throughout 2005 and in 2006. Imports increased last year, mainly driven by the rapidly expanding aquaculture sector and steadily growing hog sector. The Philippines does not produce any soybeans, and, with the exception of a few crushing facilities, the country relies almost entirely on imports for its SBM requirements.

<b>YEAR</b>	<b>SOYBEAN MEAL IMPORTS (MT)</b>	<b>SOYBEAN IMPORTS (MT)</b>	<b>US Soybean Meal FOB Prices (\$/kg)</b>
2002	1,291	264	0.19
2003	1,251	289	0.19
2004	1,160	284	0.25
2005	1,425	146	0.22
2006 <sup>5</sup>	552	55	0.21

Source: Philippine National Statistics Office

While prices of soya and corn have remained stable, overall broiler production costs remain relatively high due in part to the industry's import dependent nature (i.e., day-old broiler (DOB) chicks, feed inputs, etc.) and high levels of protection for domestic corn industry. Feeds account for over half of the total cost of producing live broilers and about a third of dressed chicken production cost (BAI).

In order to address high production costs, integrators have begun to alter their business practices. While some integrators remain fully integrated, others have found it more profitable to halt operations after DOB production and contract out the remaining production stages to independent growers. Simultaneously, some independent producers have found it more profitable to use integrated production methods.

### **Consumption**

Philippine GDP grew 5.1 percent in 2005, slower than its projected target of 5.3 to 6.3 percent. The slower growth has been attributed to weaker farm output and slow export demand. Philippine GNP, however, rose by 5.7 percent last year, buoyed by remittances from overseas workers, although still lower than the 6.2 percent GNP growth in 2004. Surprisingly, the significant increase in overseas remittances (which have fueled personal consumption in recent years) did not boost personal consumption to expected levels.

<sup>3</sup> BAS Forecast, July 2006

<sup>4</sup> As of June 28, 2006, DA Bureau of Animal Industry-Marketing Development Service

<sup>5</sup> January to April 2005 only

Many analysts have attributed the weak growth in consumption spending to the prevailing political uncertainty in the country. Average inflation was in the 7.7 to 7.9 percent range in 2005, and is projected at 8.0 to 8.5 percent this year. This year's GDP growth target is between 5.7 to 6.3 percent, lower than the previous GRP estimate of 6.3 to 7.3 percent. Some private analysts, however, predict 2006 Philippine GDP growth rate to be similar as last year's level. Rising consumer and oil prices, as well as the imposition of new and additional taxes, are expected to produce shifts in the consumption pattern of the average Filipino.

Per capita consumption of chicken declined in 2005, which reflected the weak purchasing power of Filipino consumers brought about by rising consumer prices as well as the imposition of new taxes. In addition, there is a common perception in the food industry that increased spending on telecommunications (i.e., cellular phone use), especially in lower income bracket, may have affected food expenditure patterns.

<b>Philippine Per capita Chicken Consumption (in kilograms)</b>	
2003	8.00
2004	8.26
2005	7.85

Source: Bureau of Agricultural Statistics

**Retail Prices:** In 2005, Metro Manila's average retail price for fully dressed chicken was P99.78/kg (\$1.81/kg), 1.5 percent higher than last year's average price. The highest retail price at P105.27/kg (\$1.91/kg) was recorded in June while the lowest price was recorded at P94.54/kg (\$1.72/kg) in February. Dressed chicken prices are expected to remain steady throughout 2006.

<b>Retail Prices Table</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Poultry, Meat, Broiler		
Prices in	Pesos	per uom	Kilogram
Year	2004	2005	% Change
Jan	113.10	96.01	(15.1)
Feb	92.81	94.54	1.9
Mar	85.32	97.79	14.6
Apr	94.03	97.58	3.8
May	105.64	101.37	(4.0)
Jun	99.09	105.27	6.2
Jul	98.43	104.99	6.7
Aug	99.72	102.33	2.6
Sep	95.04	99.21	4.4
Oct	94.69	99.53	5.1
Nov	93.94	98.17	4.5
Dec	98.38	100.60	2.3
Avg.	98.27	99.78	1.5

Source: Bureau of Agricultural Statistics

According to industry sources, demand for poultry meat is forecast to remain quite weak this year but is expected to pick up in the last quarter due to the traditional Christmas holiday season. Rising oil and consumer prices will continue to affect purchasing power of Filipino consumers.

## Trade

Based on data from the National Statistics Office, total chicken meat imports increased by 26 percent from 21,700 MT in 2004 to 27,400 MT last year with majority of imports coming from Canada (34 percent), United States (29 percent), Australia (16 percent) and Brazil (16 percent).

<b>Import Trade Matrix</b>			
<b>Country</b>	Philippines		
<b>Commodity</b>	Poultry, Meat, Broiler		
Time Period		Units:	
Imports for:	<b>2004</b>		<b>2005</b>
U.S.	12907	U.S.	7950
Others		Others	
Canada	4871		9225
Australia	1205		4426
Brazil	1753		4376
Total for Others	7829		18027
Others not Listed	970		1425
<b>Grand Total</b>	<b>21706</b>		<b>27402</b>

Source: GTIS/National Statistics Office

Data from the Bureau of Animal Industry (BAI), which includes fats, skin and other offals, also shows an increase in total imports. According to BAI statistics, based on Veterinary Quarantine Clearance (VQC) certificate issuance, imports of mechanically deboned meat (MDM) of chicken rose significantly last year. MDM chicken is used primarily in the manufacture of hotdogs and other processed meat products. Last year, MDM chicken imports comprised about 44 percent of total imports. Chicken leg quarters (CLQ), which make up more than half of total chicken imports, registered a decline in 2005 from the previous year's level likely as a result of weak consumer demand and the temporary closure of certain prime export markets.

<b>Chicken Meat Importation 2003-2005</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>04/03</b>	<b>05/04</b>
Chicken Cuts	813.24	2,443.49	1,252.52	200%	-49%
Chicken Fats	24.44	16.28	28.71	-33%	
Chicken Leg Quarters	13,286.24	17,272.95	14,426.07	30%	-16%
MDM	1,427.49	2,983.84	12,282.38	109%	312%
Whole Chicken	217.63	186.95	-	-14%	-100%
Offals	0	24.62	46.50		89%
Rind/Skin	0	-	17.96		
<b>Total</b>	<b>15,769.05</b>	<b>22,928.13</b>	<b>28,054.14</b>	<b>45%</b>	<b>22%</b>

Source: Bureau of Animal Industry

For the first four months of 2006, total chicken meat imports surged from 4,125 MT for the same time period recorded in 2005 to 5,941 MT (GTIS/NSO), due mainly to low world market prices of chicken. While chicken meat prices dropped to an all time low in the world market, Philippine retail prices remained relatively steady despite the sharp increase in imports. According to the Minimum Access Volume Secretariat, about 60 percent of the Minimum Access Volume of 23,490 MT has been utilized as of July 2006.

In 2004, several Philippine food manufacturing companies began exporting processed poultry products mainly to Japan and a few other Asian countries. However, an AI scare in Luzon prompted the Japanese government to halt all Philippine poultry exports in July 2005. Philippine poultry exports were later resumed in July of this year, after complying with all Japanese food safety and animal disease requirements. Prior to the import restriction, the Philippines exported to Japan chicken products worth \$5.8M (2,605 MT) from January to July 2005. This included imported U.S. chicken leg quarters that were further processed in the country. Despite the ban, total Philippine poultry exports in 2005 reached nearly 4,400 MT, about three times more than the previous year. With the opening of the Japanese market, exports are expected to reach or even surpass last year's levels.

## Policy

**Avian Influenza Protection Program:** In 2004, the Office of the President issued Executive Order No. 280, which defined the powers, functions and responsibilities of government agencies in response to Avian Influenza (AI). A National Avian Influenza Taskforce was convened with the Secretary of Health as the overall Chairman and the Secretary of Agriculture as the Co-Chair. The Department of Health is tasked to protect humans from possible infection or transmission of AI, while the Department of Agriculture is tasked to control the possible entry of poultry and fowls, and their by-products that are suspected to be infected with the virus.

In 2005, the GRP established an Avian Influenza Preparedness Plan, which is a four-staged approach to dealing with AI. Stage 1 is preventing the introduction of AI into the country from affected countries; Stage 2 deals with counter-measures for an outbreak of AI within the Philippines from domestic bird flocks; Stage 3 involves measures to prevent transmission of AI from birds to humans, and; Stage 4 deals with human to human transmission. DA is responsible for Stages 1 & 2, while the Department of Health (DOH) is responsible for Stages 3 & 4. The complete AI Prevention Plan is available at:

<http://www.da.gov.ph/BirdFlu/ProtectionProgram/stage1a.html>

In 2006, the DA imposed temporary restrictions on the importation of poultry and poultry products from the following countries as a result of avian influenza detection: Netherlands (August 2006); Cote d' Ivoire (May 2006); United Kingdom (April 2006); Afghanistan, Georgia, Hungary, Iran, Israel, Niger, Slovakia and Sweden (March 2006); Albania, Cameroon, Denmark, Myanmar (Burma); Serbia, Montenegro Poland and Switzerland (March 2006); Malaysia, Austria, Bosnia and Herzegovina (February 2006); France (February 2006); Germany (February 2006), Bulgaria, Slovenia and Azerbaijan (February 2006); Italy, Greece (February 2006), India, Egypt (February 2006); Iraq (February 2006); and Nigeria (February 2006). Majority of all the poultry imported by the Philippines is sourced from the United States and Canada.

The temporary trade bans on poultry and poultry products from Germany (August 2006); Malaysia (July 2006) and France (July 2006) were subsequently lifted following their notification to the OIE confirming that AI has been completely eradicated.

**Import Policy:** Aside from the FSIS Certificate of Wholesomeness, which accompanies all meat and poultry shipments from the United States, the Philippine DA strictly requires all accredited importers to obtain a Veterinary Quarantine Clearance (VQC) certificate from the Bureau of Animal Industry (BAI) prior to importation (please see RP 6030 for more information about Philippine import policies for meat and poultry). In the past, DA has restricted imports of all poultry outside the MAV by limiting the issuance of VQCs to holders of Minimum Access Volume (MAV) licenses. However, the formal imposition of the special safeguard (SSG) on out-of-quota chicken imports in 2002 has doubled the effective rate of protection, thus effectively keeping out-of-quota imports out. All in-quota imports of chicken under MAV, consistent with the WTO AoA, are exempt from SSG application. However, food processors/exporters located in Special Economic Zones are now allowed to import chicken meat outside of MAV, tariff-free, if used as a raw material for processing and then re-exported.

**Minimum Access Volumes:** Despite an increase in total poultry imports recorded last year, Minimum Access Volume (MAV) usage for fresh, chilled and frozen poultry meat declined from 92 percent in 2004 to 72 percent last year. Increasing imports of CLQ and poultry MDM that were further processed and re-exported to other Asian markets may have contributed to the increase in out-of-quota imports. Under Philippine laws, all raw materials for use by export-processing industries located in Special Economic Zones are allowed to enter the country duty-free. Moreover, Mechanically Separated Turkey Meat, which is not subject to SSG (see section on Import Policy), may be also be imported outside MAV provided a VQC is issued by the BAI.

Annual MAV utilization of poultry meat for the last three years has averaged around 86 percent. As of July 2006, the MAV utilization rate for this year has reached nearly 60 percent largely due to low chicken prices in the world market during the first quarter of the year. Despite the leveling off of global poultry prices, 2006 MAV is expected to be fully utilized due to the minimal growth in chicken production projected for this year.

MAV UTILIZATION RATE 2003-05							
HS Code	Description	2003 MAV (MT)	Percent Used	2004 MAV (MT)	Percent Used	2005 MAV (MT)	Percent Used
0207	Fresh/ Chilled/ Frozen Poultry	21,923	95	22,968	92	23,490	72

Source: MAV Secretariat

Despite the uniform in and out-of quota duty of 40 percent for most poultry products, the Philippines continues to maintain a Tariff Rate Quota (TRQ) for poultry. For 2006, the tariff rate quota has been established at 23,490 MT, same as last year. Last year, the Philippine Department of Justice ruled that the Philippines would continue to maintain final-year MAV levels for all products until such time as a new WTO agreement is completed.

**Tariff Policy:** The 2006 MFN and Common Effective Preferential Tariff (CEPT) rates for ASEAN countries for all poultry and poultry products follow:

2006 TARIFFS FOR POULTRY AND POULTRY PRODUCTS						
HS Code	Description	MFN		CEPT		Remarks <sup>6</sup>
		In-quota	Out-quota	In-quota	Out-quota	
<b>Poultry - Fresh, Chilled or Frozen, Dried or Smoked</b>						

<sup>6</sup> All ASEAN members may avail of Common Effective Preferential Tariff (CEPT); KH-Cambodia, LA-Laos, VN-Vietnam

	Of fowls of the species Gallus domesticus					
0207.11.00	Not cut in pieces, fresh or chilled	40	40	40	40	All ASEAN
0207.12.00	Not cut in pieces, frozen	40	40	40	40	All ASEAN
0207.13.00	Cuts & offal, fresh or chilled	40	40	40	40	All ASEAN
0207.14.00	Cuts & offal, frozen	40	40	40	40	All ASEAN
	Turkey					
0207.24.00	Not cut in pieces, fresh or chilled	40	40	5	5	All ASEAN
0207.25.00	Not cut in pieces, frozen	30	35	5	5	All ASEAN
0207.26.00	Cuts & offal, fresh or chilled	40	40	5	5	All ASEAN
0207.27.00	Cuts & offal, frozen					All ASEAN
0207.27.10	Livers	40	40	40	40	All ASEAN
0207.27.90	Others	30	40	30	40	All ASEAN

Source: Tariff and Customs Code of the Philippines

## Marketing

At present, four major integrators are supplying the bulk of the Philippine market with poultry and poultry products: San Miguel Foods, Inc., Tyson Agro-Ventures, Swift Foods, Inc. and Universal Robina Corporation. These integrators are said to supply about 65 percent of total demand, while non-integrators and other commercial growers supply the remaining 35 percent. The integrated poultry operation consists of the core live bird operations which extends up to the production of dressed broiler, cut-up chicken meat, up to further processing of value-added products.

Non-integrated operations are primarily recipients of DOC-broiler for grow-out. The capacities of commercial grow-out farms range from 24,000 birds to 600,000 birds. These growers market their produce as live birds through market intermediaries called "viajeros." Commercial growers are the main market of PS breeders in the country. In terms of broiler output, nearly all of their produce is channeled mainly to the wet markets and small retailers primarily throughout Metro Manila and other nearby cities. Broilers sold in wet markets are dressed in the market place or dressing areas near the market place (Yanson, 2005)

According to the University of Asia and the Pacific, the Philippine poultry market is composed of the food service and the household sector, each with distinct product preferences. The fastfood chains require volume delivery, mainly marinated parts and is very particular about product specifications, value, quality and reliability. Hotels, restaurants and other institutional buyers require whole chickens and have more variable pricing against the relatively stable prices of fastfood chains.

Wet markets still provide the majority of daily household requirements, offering both whole chicken and parts, although households are increasingly buying from supermarkets and hypermarkets. While the emerging Philippine retail sector is increasing its role in supplying fresh and frozen poultry meats to consumers, it is estimated that currently only about 10 percent is being sold at the supermarket level. Based on the latest Annual Poverty Indicator Survey (2003, APIS), refrigeration in Philippine households stands at only 10 percent and thus fresh meats are cooked soon after purchase.

The Philippine poultry industry is expected to remain highly viable with value-added chicken products having a large potential for expansion. There are a number of both imported and domestically produced processed chicken products now available in the market (i.e., nuggets, hotdogs, Vienna sausages, marinated chicken, etc.). Additionally, a growing segment of

consumers is turning to alternatives to higher priced red meats, which may spur demand for chicken and turkey products.

<b>PSD Table</b>						
<b>Country</b>	<b>Philippines</b>					
<b>Commodity</b>	<b>Poultry, Meat, Broiler</b>				<b>(1000 MT) (MIL HEAD)</b>	
	Revised	2005	Estimate	2006	Forecast	2007
	Old	New	Old	New	Old	New
<b>Market Year Begin</b>		01/2005		01/2006		01/2007
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	4	4	0	0	0	0
Production	647	647	662	651	0	661
Whole, Imports	0	0	0	0	0	0
Parts, Imports	23	27	24	28	0	28
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	23	27	24	28	0	28
<b>TOTAL SUPPLY</b>	<b>674</b>	<b>678</b>	<b>686</b>	<b>679</b>	<b>0</b>	<b>689</b>
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	4	0	4	0	6
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	0	4	0	0	0
TOTAL Exports	0	4	0	4	0	6
Human Consumption	665	665	677	666	0	674
Other Use, Losses	9	9	9	9	0	9
Total Dom. Consumption	674	674	686	675	0	683
TOTAL Use	674	678	686	679	0	689
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	<b>674</b>	<b>678</b>	<b>686</b>	<b>679</b>	<b>0</b>	<b>689</b>
Calendar Yr. Imp. from U.S.	18	18	18	18	0	0