

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Report Highlights:

The U.S. continues to be the Philippines' largest supplier of agricultural products, and the Philippines is its 11th largest global market. U.S. agricultural exports to the Philippines increased 11 percent to \$2.5 billion in 2016, driven by a robust economy and strong consumer spending. The top U.S. exports in 2016 were soybeans & soybean meal, wheat, dairy products, red meats, and prepared food. Traders forecast export sales in 2017 will increase seven percent to \$2.75 billion. Consumer-oriented food & beverage products remain the best prospects for future export growth.

Post:

Manila

I. MARKET OVERVIEW

The bilateral relationship between the United States and the Philippines is unique because of the depth of historical and human ties, and a shared commitment to upholding democracy. Around 3.9 million Filipino-Americans¹ constitute a major immigrant group in the United States, while more than 250,000 U.S. citizens reside in the Philippines. The U.S. Embassy in Manila is one of the largest overseas posts in the world reflecting the importance of this relationship.

The current president, Rodrigo Roa Duterte was elected in May 2016 on a platform of change and won a clear mandate to instill law and order, but his unconventional leadership style has forced investors to adjust to a haze of policy uncertainty in his first year in office. His anti-crime campaign has resulted in over a million drug users surrendering themselves for drug rehabilitation. Official statistics from the Philippine National Police reveal a considerable 31 percent drop in crime during his first five months in office. There is, however, widespread belief that his anti-crime campaign has resulted in human rights abuses and extra-judicial killings. Despite this, President Duterte enjoys popular backing with the latest poll survey showing an 82 percent approval rating. Philippine national elections are held every six years and the President is allowed only one term.

The more than 7,000 islands that comprise the Philippines are classified under three major island groups: Luzon, Visayas and Mindanao. The land area of the combined islands of the Philippines is about the same size as Arizona with roughly 104 million² inhabitants.

Significant infrastructure challenges persist in the Philippines, including high power costs (among the highest in the world), inadequate post-harvest facilities, and inefficient distribution networks (it is more expensive to ship goods from Manila to nearby islands than from the U.S. to Manila).

The Philippines is one of the fastest-growing economies in Asia. Philippine Gross Domestic Product (GDP) growth reached 6.8 percent in 2016; the strongest in three years and the high-end of the Philippine Government (GPH) growth target of 6-7 percent for the year. For 2017, local economic planners expect GDP to grow 6.5-7.5 percent, increasing to 7-8 percent in the medium-term.

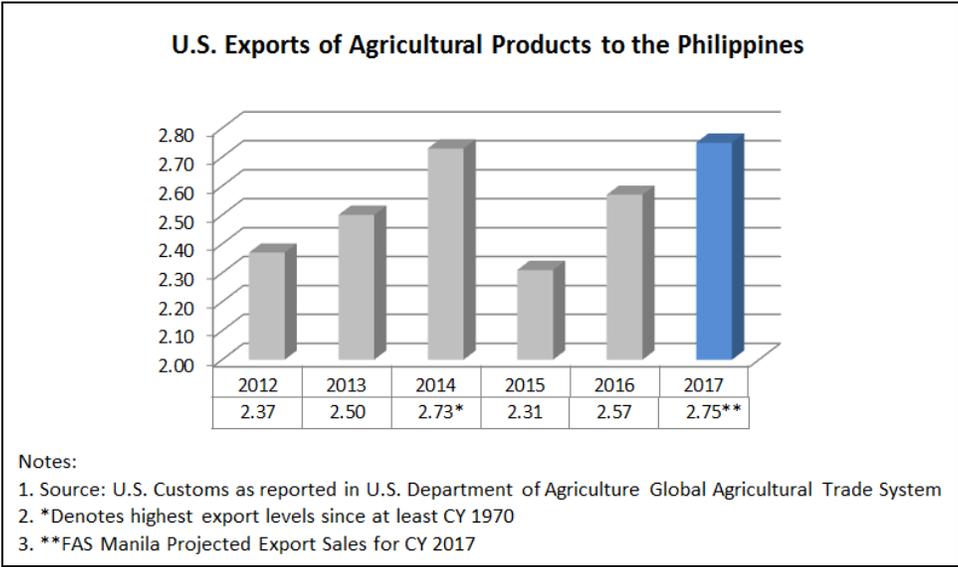
Agricultural Trade Environment

The U.S. continues to be the Philippines' largest supplier of agricultural products, and the Philippines is its 11th largest global market. U.S. agricultural exports to the Philippines increased 11 percent to \$2.5 billion in 2016, driven by a robust economy and strong consumer spending. The top U.S. exports in 2016 were soybeans & soybean meal (\$833 million), wheat (\$592 million), dairy products (\$227 million), red meats (\$143 million), prepared food (\$89 million), poultry meat & products (\$77 million), processed vegetables (\$72 million), fresh fruit (\$65 million), snack foods (\$63 million), and chocolate and cocoa products (\$47 million). Traders forecast export sales in 2017 will increase seven percent to \$2.75 billion. Consumer-oriented food & beverage (F&B) products remain the best prospects for future export growth fueled by consumer confidence in the quality of American products and the steady

¹ United States Census Bureau / American FactFinder. "B02018: Total Asian alone or in any combination population." 2016 American Community Survey. U.S. Census Bureau's American Community Survey Office, 2016. Web. 2 October 2017 <<https://factfinder.census.gov/>>.

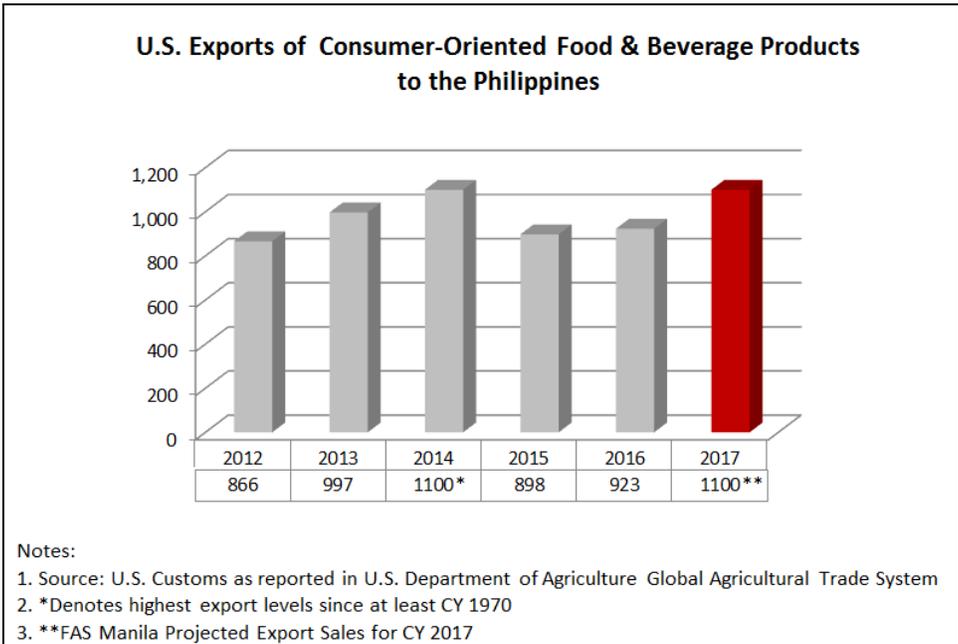
² CIA World Factbook (July 2017 est.).

expansion of the country’s retail, foodservice and food processing sectors.



Export Growth of Consumer-Oriented F&B Products (a Sub-Sector of Total Agricultural Products)

The Philippines continues to be the largest U.S. market in Southeast Asia for consumer-oriented F&B products with export sales of \$923 million in 2016, up two percent from the previous year. Traders expect sales of U.S. F&B products to the Philippines will surpass the \$1 billion mark in 2017 as it did in 2014.



II. REGULATORY SYSTEMS & IMPORT REQUIREMENTS

For detailed information regarding standards and regulations for importing food and agricultural products into the Philippines, please refer to a report entitled, “Philippines: Food and Agricultural Import Regulations and Standards – Narrative” available through the FAS homepage at www.fas.usda.gov.

III. FREE TRADE AGREEMENTS & TARIFF RATES

Bilateral and regional free trade agreements in recent years have intensified competition from ASEAN, Australia, New Zealand and China. As a party to the Association of Southeast Asia Nations Free Trade Agreement (AFTA), Philippine exports to the region benefit from the lower common effective tariff applicable to products of ASEAN members. Tariff rates on all products (with exemptions for a few sensitive products such as rice) in the ASEAN region fell to between zero and five percent under the framework of the ASEAN Trade in Goods Agreement (ATIGA). The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) provides products from Australia and New Zealand with the same lower tariffs as ASEAN-origin products. Several U.S. agricultural exports 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.

Tariffs for 2017 to 2020 on goods traded outside preferential agreements can be viewed at: <http://tariffcommission.gov.ph/executive-order-20>.

Trade Capacity Building Opportunities

Trade capacity building opportunities abound (e.g., cold chain, food safety standards, and distribution systems) and are crucial in strengthening the country’s ability to take part in increased agricultural trade.

IV. EXPORTER BUSINESS TIPS

- Filipino businessmen value trust and personal relations. U.S. exporters are encouraged to maintain close contact with their Philippine importers. Regular market visits are favored by Philippine importers and are regarded as a show of support.
- Some Philippine importers maintain buying offices in the U.S. and consolidate their shipments through third-party consolidators on the West Coast.
- Exclusive distributorship agreements are preferred by Philippine importers. U.S. exporters can work with one or several importers provided the market coverage of each importer is properly identified.
- There are a few retail supermarkets that have the capacity to import directly.
- Philippine food regulations and standards generally follow the U.S. Food and Drug Administration. All food products must be registered with the Philippine Food and Drug

Administration. Imported products may be registered only by a Filipino entity. Products from the U.S. do not require special labeling and may be sold in the Philippines in the same commercial packaging.

- U.S. exporters are advised to require payment of goods via letter of credit especially for initial transactions. Credit terms may be extended to the importer after conducting a thorough background and credit investigation, and after payment habits have been established.
- There are no distribution hubs. It is key to identify importers that can distribute to the three major cities (Manila, Cebu and Davao). Most importers distribute on their own while some appoint distributors.
- General Pricing Structure
 - From Landed Cost (CIF + Duties & Taxes)
 - Add 30 percent to arrive at the wholesale price for food service customers
 - Add 20-40 percent to arrive at the price for supermarkets
 - Supermarkets add a 6-15 percent mark-up to arrive at the price sold to end-consumers
 - For food manufacturing, importers usually act as indentors and earn a 2-5 percent mark-up for importing and releasing the products
- Credit Terms
 - For retail, products are mostly on a consignment basis; importers collect payment after 30 days
 - For products purchased outright, retailers demand 60-90 days credit terms from importers
 - Hotels and restaurants request for 30-60 days credit
 - Food processors request for 30 days credit
- Retailers demand high slotting fees (about \$100-\$120 per stock keeping unit or SKU) and year-round marketing support (\$1,000-\$2,000 per annum). U.S. exporters should, as much as possible, support marketing and promotional efforts.
- Filipino consumers generally prefer smaller packaging sizes.
- Due to insufficient cold chain infrastructure in the Philippines, products should be packed to withstand extreme heat and humidity.
- The high cost of inter-island shipping makes imported products more expensive in areas outside Manila.
- The release of imported goods from Philippine Customs sometimes poses a challenge.

V. MARKET SECTOR STRUCTURE & TRENDS

General Market Profile

The Philippine market has a strong and growing consumer base. While annual GDP per capita is about \$3,000, two-tenths of the population earn an average annual income of \$12,510³. Consumption growth in the coming years is underscored by the country's robust economy and a young, fast-growing, highly-urbanized population with increasingly sophisticated tastes and ever-growing access to supermarkets.

Fast Facts⁴:

- 104 million (July 2017 est.); annual growth rate of 1.6%
- 53% below 24 years old
- 44% living in urban areas
- High literacy: 96% of the 69 million Filipinos that are 15 years old and above can read and write
- High awareness of and preference for U.S. F&B products
- Growing demand for “healthy,” organic, gourmet and convenience foods
- Steady growth in retail, foodservice and food processing industries

Potential Customers: At least 20 million people with an average annual income of \$12,510

Food Retail Sector

The Philippine food retail sector continues to modernize and expand, fostering steady sales of a wide range of U.S. F&B products. Supermarket chains are opening large, Western-style stores in Metro Manila, Cebu, Davao and other key provincial cities including Bacolod, Cagayan de Oro and Iloilo. This expansion is driven by continued economic growth, which has led to a boom in consumer spending. Markets continue to be dominated by national chains, due to investment regulations that limit ownership by foreign investors. Rapid growth in retail sales are creating new opportunities for imported F&B products, with many U.S. brands widely recognized by Philippine consumers.

The proliferation of modern convenience stores such as 7-Eleven, All Day, Family Mart, Lawson, and Mini Stop are partly due to the bullish business process outsourcing (BPO) sector that operates around the clock. Products that can be classified as “convenient,” sweet and savory snack food products, meal-replacements, and ready-to-drink beverages are in strong demand.

Food Service Sector

The continued growth in the Philippine foodservice sector is driven by the robust economy, rising disposable income among the upper and middle class, proliferation of retail shopping centers and hotels, steady influx of tourists, rapid growth of the BPO sector, and increase in the number of women joining the workforce. Dining out continues to be an important aspect of Filipino family bonding and celebrations.

³ Philippine Statistics Authority. 2015 Family Income and Expenditure Survey.

⁴ CIA World Factbook (July 2017 est.).

Restaurants in five-star hotels and upscale malls, Western-style diners and cafes, and fast-food chains require high-quality F&B products such as meats, poultry, seafood products, dairy products, processed fruits & vegetables, fruit juices, dried fruits, nuts, wines and craft beers. Restaurant operators are keen on introducing new and exciting menu offerings to attract customers.

Food Processing Sector

The Philippines' rapidly expanding production of processed foods and beverages presents robust opportunities for U.S. exporters of agricultural raw materials and high-value ingredients. Roughly 90 percent of the Philippine food and beverage processing industry's output is consumed domestically, with excellent growth prospects stemming from the country's resilient economy and strong consumer base. In addition, as quality and efficiency continue to improve, the Philippines will be in a position to exploit export opportunities due to its strategic location and membership in various free trade agreements.

The following detailed reports are available through the FAS homepage at www.fas.usda.gov:

- Philippines: Retail Foods
- Philippines: Food Service – Hotel, Restaurant & Institutional
- Philippines: Food Processing Ingredients

VI. ACTIVE U.S. COOPERATORS IN THE MARKET

California Table Grape Commission, California Milk Advisory Board and U.S. Potato Board, Northwest Cherry Growers

Represented in the Philippines by Synergy Asia Marketing Services, Inc.

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530 Shaw Boulevard, Mandaluyong City

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Cotton Council International

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Wine Institute of California, Raisin Administrative Committee, Food Export-Midwest, Food Export-Northeast and the Western United States Agricultural Trade Association

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USA Dry Pea & Lentil Council and U.S. Dry Bean Council

Represented in the SEA Region by AgriSource Co., Ltd.
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Email: dee@agrisource.co.th and agsource@loxinfo.co.th
2. Ms. Jenny Lumain, Philippine Representative
Email: jenlumain@gmail.com

USA Poultry and Egg Export Council

#15-04 Liat Towers, 541 Orchard Road
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Fax: (65) 6737 1727
Website: <http://www.usapeec.org>

Contact: Ms. Margaret Say, Regional Director
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U.S. Dairy Export Council

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Fax: (65) 6248 4531

Website: www.usdec.org

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3. Mr. Tony Emms, Regional Director, SEA Strategy & Market Access
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U.S. Grains Council

50-12-2, Level 12, Wisma UOA
50 Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel: (60) 3 2093 6826

Website: www.grains.org

Contact: Mr. Manuel Sanchez, South & Southeast Asia Regional Director

Email: grains@grainsea.org

U.S. Meat Export Federation

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Fax: (65) 6732 1977

Website: <http://www.usmef.org>

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Website: <http://www.uswheat.org>
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VII. FURTHER INFORMATION AND ASSISTANCE

USDA-FAS at the U.S. Embassy in the Philippines is ready to help exporters of U.S. agricultural products achieve their objectives in the Philippines. For further information or assistance, please contact:

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