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2016 Annual

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Report Highlights:

The U.S. continues to be the Philippines' number one supplier of agricultural products, and the Philippines is its 10th largest global market. Sales of U.S. agricultural exports to the Philippines declined 15 percent to \$2.3 billion in 2015 due to the strong U.S. dollar, distribution challenges and intense competition. The top five U.S. exports by value were soybeans & soybean meal; wheat; dairy products; prepared food; and pork & pork products. Traders forecast export sales in 2016 will increase five percent to \$2.4 billion because of increased consumer confidence in the overall state of the Philippine economy. Consumer-oriented food & beverage products remain the best prospects for future export growth fueled by consumer familiarity with American brands and the steady expansion of the country's retail, foodservice and food processing sectors.

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 1.8 million Filipino-Americans 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 which reflects the importance of this relationship. While the Philippine government structure is similar to that of the United States, Philippine political life is more freewheeling and centered on the personal charisma of individual political leaders.

The current president, Rodrigo Roa Duterte was elected in May 2016 based on a platform to suppress crime, corruption and the proliferation of illegal drugs in the country. Since Duterte assumed office on June 30, he has enthralled and stunned the international community with his unpredictable rhetoric in response to his critics. There is widespread belief in the Philippines that Duterte's campaign has enhanced the overall business environment and boosted investor confidence.

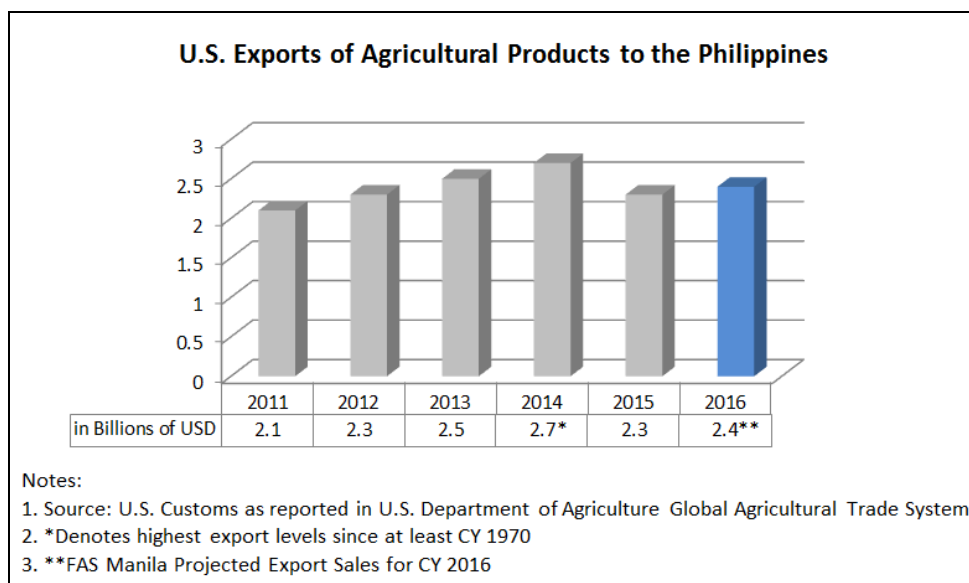
The more than 7,000 islands that comprise the Philippines are classified under three major island groups: Luzon, Visayas and Mindanao. The land area of the combined islands of the Philippines is about the same size as Arizona with roughly 102 million [1] inhabitants.

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

The Philippines has been enjoying good GDP performance with an average growth rate of 6.2 percent from 2010 to 2015. The services sector is the main growth driver in 2015 contributing 57 percent, followed by the industries at 33 percent, and agriculture at 10 percent. GDP grew year-on-year by 7.1 percent in the third quarter of 2016. [2] Citing the robust domestic demand, the International Monetary Fund forecasts a GDP growth rate of 6.4 percent for 2016.

Agricultural Trade Environment

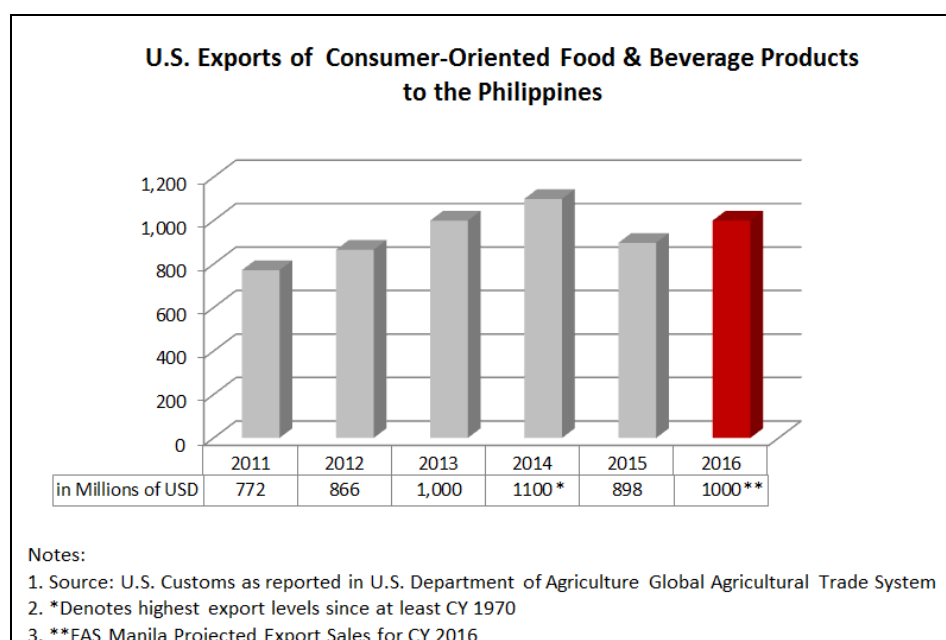
The U.S. continues to be the Philippines' number one supplier of agricultural products, and the Philippines is its 10th largest global market. Sales of U.S. agricultural exports to the Philippines declined 15 percent to \$2.3 billion in 2015 due to the strong U.S. dollar, distribution challenges and intense competition. The top five U.S. exports by value were soybeans & soybean meal (\$682 million); wheat (\$516 million); dairy products (\$251 million); prepared food (\$84 million); and pork & pork products (\$80 million). Traders forecast export sales in 2016 will increase five percent to \$2.4 billion because of increased consumer confidence in the overall state of the Philippine economy. Consumer-oriented food & beverage (F&B) products remain the best prospects for future export growth fueled by consumer familiarity with American brands and the steady expansion of the country's retail, foodservice and food processing sectors.



Historical data of U.S. agricultural product exports can be accessed online through the FAS homepage at www.fas.usda.gov.

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. After reaching a record \$1.1 billion in 2014, export sales of U.S. F&B products to the Philippines dropped to \$898 million in 2015. Despite the 19 percent decline in export sales of top products including dairy, pork and prepared food, traders remain optimistic and expect sales of U.S. F&B products to the Philippines will reach \$1 billion in 2016.



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. TARIFFS RATES

In the Philippines, the simple average most favored nation (MFN) tariff applied to imports is 6.71 percent. Five percent of applied Philippine tariffs are 20 percent and above. The simple average bound tariff in the Philippines is 25.6 percent.

The Philippine government also imposes a tariff rate quota (TRQ) known as Minimum Access Volume (MAV) on several agricultural products including corn, coffee/coffee extracts, potatoes, pork and poultry. Since 2005, the Philippine government has maintained MAV levels at its WTO Uruguay Round commitments despite a continued rise in market demand for MAV products. The high in-quota tariffs, which range from 30-50 percent, significantly inhibit U.S. exports of MAV products to the Philippines. Sugar has the highest in-quota tariff at 50 percent, followed by potatoes and poultry at 40 percent, rice and corn at 35 percent, and pork and coffee at 30 percent. Since 2002, the Philippines has invoked a price-based special safeguard (SSG) on imports of chicken meat, essentially doubling the MAV rate of protection for out-of-quota imports.

Applied tariffs on fresh citrus fruits, including grapes, apples, oranges, lemons, grapefruits, and strawberries are at 7-15 percent. Their bound rates are at 40-45 percent. While the reduced applied rate provides increased export potential, U.S. stakeholders report frequent changes in the applied rate for these products make it difficult to consistently take advantage of identified opportunities.

The reduction of tariffs to below MFN rates for regional competitors with preferential trade agreements threatens to reduce the competitiveness of U.S. products and erode U.S. market share in the Philippines. U.S. beef, for example, is subject to a 10 percent MFN duty, while Australian beef enters the Philippine market duty free. The Philippines has also eliminated tariffs on approximately 99 percent of all goods from ASEAN trading partners.

To know the tariff on specific products, refer to the amended Tariff and Customs Code of the Philippines at <http://www.tariffcommission.gov.ph/eo-61> or use the Philippine Tariff Finder at <http://finder.tariffcommission.gov.ph/>.

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 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.
- Only a few retail supermarkets 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 retail 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 \$120 per stock keeping unit or SKU) + 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 estimated at \$3,042¹, two-tenths of the population earn an average annual income of \$12,510². 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 Facts³:

- 102 Million (July 2016 est.); annual growth rate of 1.59%
- 53% below 24 years old
- 44% living in urban areas
- High literacy: 90% of the 67 million Filipinos between the age of 10 to 64 years old are functionally literate (can read, write, compute and comprehend)
- High awareness & 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 the 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 food & beverage products, with many U.S. brands already widely recognized by Philippine consumers.

¹ Philippine Statistics Authority.

² Philippine Statistics Authority, 2015 Family Income and Expenditure Survey.

³ CIA World Factbook

The proliferation of modern convenience stores such as 7-Eleven, Mini-Stop and Mighty Mart 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 Philippine foodservice sector continues to grow driven by the robust economy, growing 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 number of women joining the workforce. Dining out continues to be an important aspect of Filipino family bonding and celebration.

Restaurants in five-star hotels and upscale malls, fast-food chains, cafes and Western-style diners require high-quality f&b products such as meats, poultry, seafood, 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 food and beverage (F&B) presents robust opportunities for U.S. exporters of agricultural raw materials and high-value ingredients. In 2015, the F&B processing industry’s gross value-added output increased three percent over the previous year and reached \$27.8 billion. Roughly 90 percent of the Philippine F&B 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, such as the ASEAN Free Trade Area and the EFTA-Philippines Free Trade.

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

- Philippine Food Retail-A Growing Opportunity for U.S. F&B
- Philippines: HRI Food Service Sector
- US Ingredients Flourish in Philippine Food Processing Industry

VI. ACTIVE U.S. COOPERATORS IN THE MARKET

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

Represented in the Philippines by Synergy Asia Marketing Services, Inc.
Unit 602-C, Summit Office Tower
530 Shaw Boulevard, Mandaluyong City
Metro Manila, Philippines
Tel: (63) 2534 8534, 534 8223
Fax: (63) 2534 8234
Contact: Ms. Reji Retugal and Ms. Evelyn Mercurio
Email: rejiretugal@gmail.com; evmercurio@synergyasia.biz

Cotton Council International

2 Soi Farm Wattana
Phrakanong, Klontoey
Bangkok, Thailand
Tel: (66) 81 753 1000
Contact: Mr. Kraipob Pangsapa, ASEAN Representative
Email: kraipob@pangsapa.com

Represented in the Philippines by Strategic Edge, Inc.
5/F Emmanuel House, 115 Aguirre St.,
Legaspi Village, Makati City
Metro Manila, Philippines
Tel: (63) 2 892 0247, 2892 0250
Fax: (63) 2 892 0223
Contact: Ms. Ana Marie Gonzalez Marques, Managing Partner
Email: anamag@seinc.com.ph

**Raisin Administrative Committee, Food Export-Midwest, Food Export-Northeast
and Western United States Agricultural Trade Association, The Wine Institute**

Represented in Southeast Asia by Lieu Marketing Associates Pte. Ltd
48 Toh Guan Road East
#02-129 Enterprise Hub
Singapore
Tel: (65) 6515 6113
Fax: (65) 6278 4372
Contact: Mr. Richard Lieu and Ms. Siew Keat Chuah
Email: richelieu@lieumktg.com.sg ; siewkeatc@lieumktg.com.sg

USA Poultry and Egg Export Council

#15-04 Liat Towers, 541 Orchard Road
Singapore
Tel: (65) 6737 1726
Fax: (65) 6737 1727
Contact: Ms. Margaret Say, Regional Director
Email: usapeec_sing@pacific.net.sg, msay@usapeec.org.sg
Website: <http://www.usapeec.org>

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

Represented in Southeast Asia by AgriSource Co., Ltd.
Ambassador's Court, 4th Floor, No. 416

76/1 Soi Lang Suan, Ploenchit Road
Bangkok, Thailand
Tel: (66) 2251 8655/6, (66) 2251 8669 & 8772
Fax: (66) 2251 0390
Contact: Ms. Jenny Lumain, Philippine Representative
Dr. Dee Richmond, Southeast Asia Representative
Email: jenlumain@gmail.com, dee@agrisource.co.th, agsource@loxinfo.co.th

U.S. Dairy Export Council

80 Raffles Place, #36-01 UOB Plaza 1,
Singapore
Tel: (65) 6334 7030
Fax: (65) 6248 4531
Contact: Mac Macatangay, Philippine Representative
Ms. Dalilah Ghazalay, Regional Director, SEA Marketing & Operations
Mr. Tony Emms, Regional Director, SEA Strategy & Market Access
E-mail: mac.macatangay.ct@dairyconnect.biz, tony@dairyconnect.biz, dali@dairyconnect.biz
Website: www.usdec.org

U.S. Grains Council

Suite 3B-7-3A, Block 3B Level 7
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur, Malaysia
Tel: (60) 32273 6826
Fax: (60) 32273 2052
Contact: Mr. Adrian Morales, Technical Director - Philippines
Mr. Adel Yusupov, Regional Director
Email: adiemorales@gmail.com; usgckl@usgc.com.my
Website: www.grains.org

U.S. Meat Export Federation

627A Alijunied Road
04-04 Biztech Centre
Singapore
Tel: (65) 6733 4255
Fax: (65) 6732 1977
Contact: Ms. Sabrina Yin, Regional Director
Email: singapore@usmef.com.sg, syin@usmef.com.sg
Website: <http://www.usmef.org>

U.S. Soybean Export Council

Represented in the Philippines by Ted M. Cortes Consultancy Svcs.
Unit 10-1, One Global Place
25th Street corner 5th Avenue
Bonifacio Global City, Taguig
Metro Manila, Philippines
Tel: (63) 2224 4106

Fax: (63) 2224 4107
Contact: Mr. Teodoro M. Cortes, Philippine Representative
Email: ted@cortesconsulting.net
URL: <http://ussec.org>

U.S. Wheat Associates

28/F Ayala-FGU Center
6811 Ayala Avenue, Makati City
Metro Manila, Philippines
Tel: (63) 2818 4610
Fax: (63) 2815 4026
Contact: Mr. Joseph Sowers, Country Director
Email: jsowers@uswheat.org, InfoManila@uswheat.org
Website: <http://www.uswheat.org>

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:

U.S. Department of Agriculture
Foreign Agricultural Service
Embassy of the United States of America
1201 Roxas Boulevard
Manila, Philippines
Trunk Line: (632) 301-2000
Email: AgManila@fas.usda.gov