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## Philippines

### Market Development Report

### Central Philippines: Tourism and Distribution

**2006**

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**Report Highlights:**

In her latest State of the Nation Address (SONA), Philippine President Gloria Macapagal-Arroyo announced her intentions to prioritize the development of tourism in the Central Philippines. ATO Manila sees this as an opportunity to promote the availability and applications of U.S. food products, particularly in Cebu, Boracay, Bohol and Palawan by partnering with U.S. Cooperators to organize trade facilitation activities. This report focuses on trends in tourism, and on the current state and trends of imported product distribution to the Visayas region.

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

**KEY POINTS IN PHILIPPINE PRESIDENT ARROYO'S SONA:**

On the June 24, 2006, Philippine President Gloria Macapagal-Arroyo gave her State of the Nation Address (SONA) to Congress.<sup>1</sup> In it, she outlined plans to focus on facilitating tourism in the Central Philippines (composed of the Visayas, Palawan, Romblon, Bicol and the Northern Islands of Mindanao), primarily through increased and upgraded infrastructure.

The plans include:

- "...an instrument landing system for the Kalibo airport [in Boracay] and a P3 billion private investment in a San Jose, Romblon airport, plus good roads to spillover destinations all over Panay."
- International airport for Bohol
- "...upgrading of the airports of Puerto Princesa, Busuanga, San Vicen and the building of a new one in Balabac..."
- "...lengthen the Dumaguete runway for tourism..."
- "...airport being built in Santa Barbara, Iloilo..."
- "...started acquiring the right of way for an international airport in Daraga, Albay."
- "...upgrading the airports of Siargao, Guiuan and Tacloban."
- "...widen the road to Dakak in Dapitan, and RORO will connect Siquijor to Santander, Cebu; Camiguin to Jagna, Bohol; Ubay, Bohol to Maasin, Southern Leyte, for diving in Limasawa."

In addition to the above tourism initiatives, trade related rail, port and road additions and upgrades are on the agenda for the Central Philippines, including the construction and upgrading of the Southrail to Lucena and on to Bicol. All of these additions with both facilitate tourism and increase the ease and speed of moving goods across the region.

**THE CURRENT STATE OF TOURISM IN THE CENTRAL PHILIPPINES:**

Tourism to the Central Philippines is growing, stimulating improvements in infrastructure and product distribution. Much of this growth can be attributed to local tourists using the Arroyo administration's RORO (roll-on roll-off) system.

By Residence:

The Philippines' international tourist arrivals for January to October 2006 reached 2,191,866 growing by 8.6% from the 2,017,388 recorded in the same period last year, per statistics from the Department of Tourism (DOT). American, Korean and Japanese tourists continue to dominate the country's visitor arrivals, jointly contributing 58.3% to the aggregate visitor arrivals. While Americans has been the consistent top contributor of visitor traffic to the Philippines, it is significantly dwarfed by region with the combined East Asia tourists of 47.6% as compared to North America's 22.9%. The table below outlines the number of tourists by country for 2005 and 2006. The table is from the Department of Tourism (DOT), based on A/D Cards & Shipping Manifests.<sup>2</sup>

Rank	Country	Jan-Oct 2006	% Share	Jan-Oct 2005	Growth Rate
1.	USA	467,066	20.2%	432,487	8.0%
2.	KOREA	452,839	19.6%	391,137	15.8%
3.	JAPAN	357,743	15.5%	345,849	3.4%
4.	CHINA	110,525	4.8%	83,817	31.9%
5.	TAIWAN	98,180	4.3%	103,870	-5.5%
6.	HONGKONG	79,557	3.4%	91,117	-12.7%
7.	AUSTRALIA	77,015	3.3%	73,081	5.4%

<sup>1</sup> For a copy of the full text, see the SONA 2006 website: <<http://sona.inq7.net/previousaddresses/2006.php>>

<sup>2</sup> For these data and other statistics visit the DOT at <<http://www.wowphilippines.com.ph/dot/statistics.asp>>

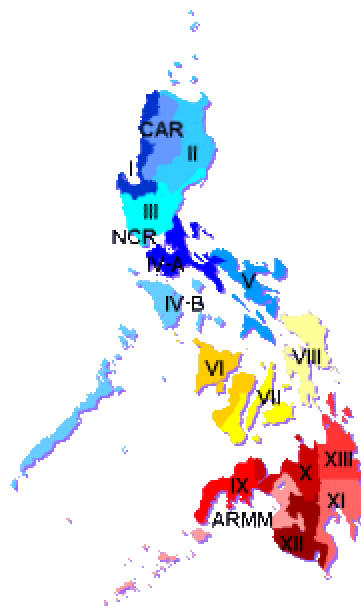
8.	SINGAPORE	64,948	2.8%	55,292	17.5%
9.	CANADA	60,271	2.6%	54,672	10.2%
10.	UK	54,127	2.3%	49,952	8.4%

#### By Destination:

President Arroyo's address called for increased tourism in regions VII, IV, V, and VIII. Region VII and IV are currently the most visited regions for foreign tourists. In fact, in the last year, U.S. tourism to Region VII has increased 30 percent. However, V and VIII receive very few visitors. Cebu City continues to be the most robust tourist economy in the country catering to foreigners.

#### Top 10 Visited Regions:

VII Central Visayas: 454,003  
 IV Calabarzon/Mimaropa: 299,265  
 VI Western Visayas: 217,212  
 III Central Luzon: 146,835  
 CAR: 70,626  
 XI Davao: 61,432  
 I Ilocos: 44,516  
 X Northern Mindanao: 29,597  
 II Cagayan: 23,536  
 V Bicol: 18,150



#### Top 10 Visited Provinces:

Cebu City: 403,326  
 Aklan: 157,638  
 Laguna: 149,531  
 Pampanga: 76,133  
 Palawan: 70,066  
 Zambales: 58,507  
 Davao City: 54,122  
 Oriental Mindanao: 42,832  
 Ilocos Norte: 35,238  
 Bohol: 32,926

#### Top 5 USA Preferred Regions:

VII Central Visayas: 49,851  
 III Central Luzon: 45,764  
 VI Western Visayas: 23,906  
 XI Davao: 15,060  
 IV Calabarzon/Mimaropa: 14,662

#### Tourism Timetable:

Based on statistics from the Department of Tourism, the season appears to peak in May. However, there is a great deal of variation from region to region. The resort statistics below do not include the months of October, November and December where tourists from Europe and North America usually visit. In addition, the information is clearly underreported. Interviews with tourism officials and resort associations claim that year round occupancy rate averages 60-80% with many new hotels being built because there are room shortages being reported, particularly high-end rooms, in Cebu and Boracay.

Resort Occupancy rate 2005, by Region:

Region	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
VII	58.31	<b>62.64</b>	61.3	60.99	54.22	47.27	54.23	58.43	50.51
III	47.19	43.17	47.27	<b>64.23</b>	63.57	37.87	51.74	37.71	52.12
VI	<b>44.02</b>	43.79	43.98	...	...	...	...	...	...
V	30.85	32.96	<b>55.91</b>	52.6	50.19	34.15	30.25	35.44	38.8
IV	41.06	45.98	43.87	<b>55.23</b>	52.8	34.96	34.23	33.58	21.38
VIII	30.00	38.18	47.33	24.25	42.05	48.48	58.79	54.93	<b>67.01</b>
<b>Avg</b>	<b>41.90</b>	<b>44.45</b>	<b>49.94</b>	<b>51.46</b>	<b>52.56</b>	<b>40.55</b>	<b>45.85</b>	<b>44.02</b>	<b>45.96</b>

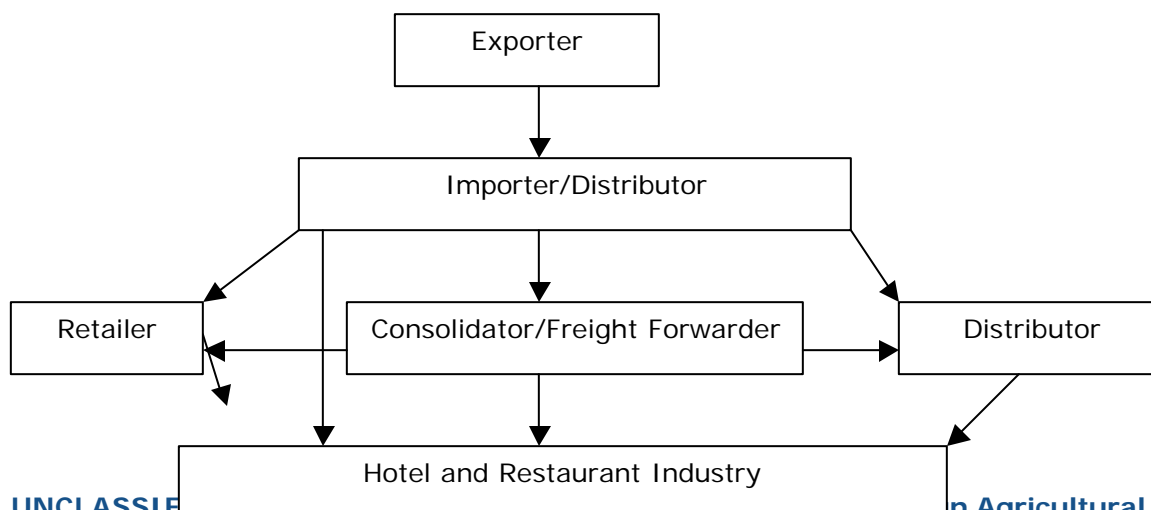
Trends:

The number of foreign and local tourists is expected to continue rising in the near future, particularly in the Central Philippines. While Manila is expecting no changes in overall tourist numbers, Boracay, Cebu and others are expecting room shortages soon as the areas become more accessible due to infrastructure improvements. As a result, many new hotels and resorts, particularly international hotel chains, are expanding and building new facilities in the region. In general, foreign tourists are staying slightly longer in the Philippines than they have in the past, currently an average of nine (9) days. Tourists from the United States, who are also extending their stay slightly every year, are in the Philippines an average of 12 days. Foreign tourists spend an average of 19.75 USD daily on food and beverages in the Philippines, about two dollars less than they did in 2000. Total, they spend about 100 USD a day.

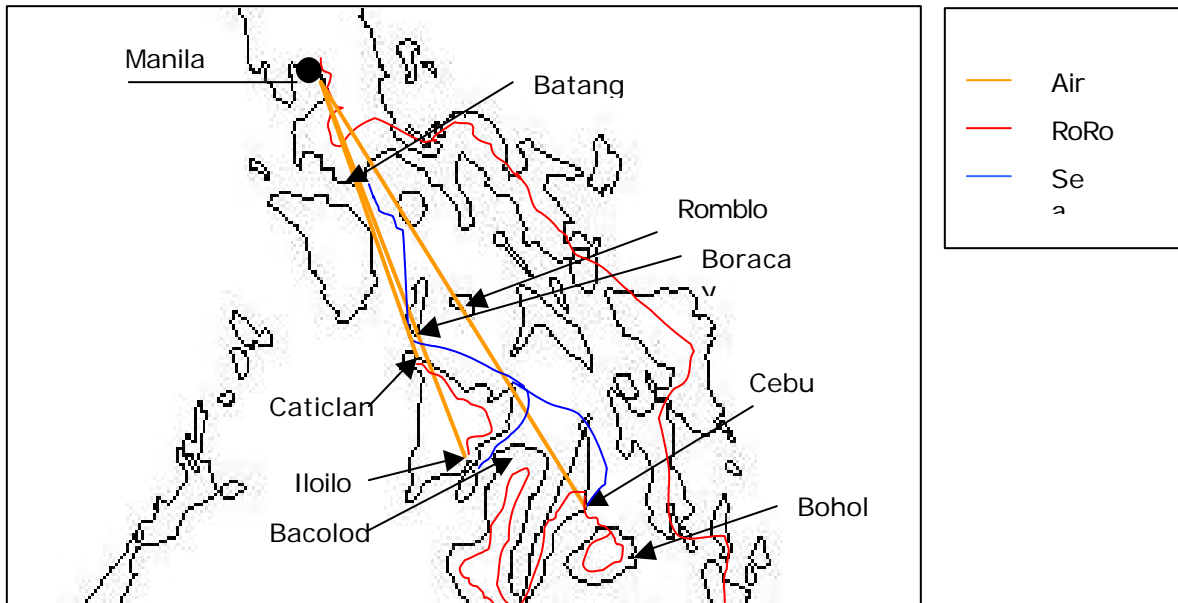
**THE CURRENT STATE OF DISTRIBUTION IN THE CENTRAL PHILIPPINES:**

Due to the high volume of foreign tourists in the Central Philippines, demand for high quality U.S. food products exists. However, there are several challenges to imported product distribution. First, the area is a series of separate islands requiring more than one type of transportation in almost all cases. In transferring products from one type of transportation to the next, breaks in the cold chain are common. Despite that fact, shipping is surprisingly expensive and poor quality. Arroyo's RORO system (roll-on roll-off) was intended to alleviate some of the challenges of the archipelago, however, many commented that the RORO has increased local tourism, but done little for product distribution.

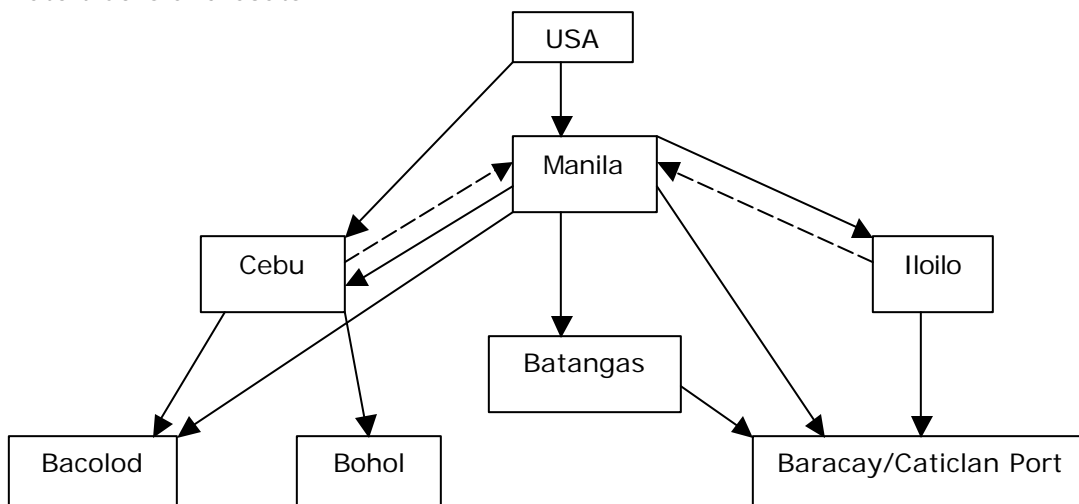
Most of the high-end hotels and restaurants currently facilitate the distribution of imported goods to their establishments. Many have offices in Manila to receive international shipments. They buy boats and cold-storage facilities to guarantee the proper handling of their goods and reduce shrinkage. Chain retailers and wholesalers consolidate in Manila and distribute using their own trucks over the RORO. A few establishments are simultaneously importers, distributors and retailers. The chart below outlines the basic chain of distribution of imported food goods.



Because of the nature of the Philippines as an archipelago, there are several key geographical locations in the distribution of imported goods by air, sea or land (the RORO system developed by the Arroyo administration). Most goods travel by sea, either direct or from Manila. Chain stores and some geographical locations find it more economical to import over the RORO system from Manila. Many of the trucks are reefer trucks, but the roads are often slower than by sea. High value goods, such as cheese, or emergency shipments are distributed by air. Below is a map of the Central Philippines outlining the general distribution of goods by these three modes highlighting the few points that most goods pass through.



Below is a chart outlining the important distribution points and the directional flow of goods through these cities. Please note that some products do flow “backwards” towards Manila (see the dashed lines), but most containers return to Manila empty. These goods are fresh local produce and fish, but also some imported specialty items are shipped to Manila from Cebu International Port. Also, the cargo to Boracay from Manila is primarily privately owned: the high-end HRI establishments transport goods for their personal consumption via their private trucks and boats.



Frozen Products: The Central Philippines poses the most challenge to imported frozen goods. Most frozen products are shipped direct to Manila and then consolidated and forwarded to other locations by domestic passenger flight, boat, or truck over the RORO. Few use the public shipping lines, partially for their cost, but also because most do not have steady electricity for reefers or a public refrigerated unit of their own on board. The few boats that do have their own cold storage use it only for their own consumption. In addition, the large to midsize boats cannot dock at the ports of Iloilo or Boracay. Instead, they stop in the middle of the channel while their cargo is hand lifted into smaller out-rigger boats. The frozen freight is then mixed and hand loaded onto tricycles or jeeps to be distributed to smaller establishments.

Others use planes to distribute frozen goods, but there are no cargo flights available. Instead, the frozen goods are put in Styrofoam coolers on ice and wait for space on one of the many passenger flights to Iloilo or Caticlan airports. This is how much of the seafood is transported. On its way Boracay, however, airfreight is still transported from Caticlan across the strait on out-riggers and then tricycle to its final destination. Public cold storage is not used frequently, due both to price and scarcity.

Despite all these challenges, many are finding safe and reliable transportation for their frozen goods. U.S. meats, including beef and turkey roasters, are widely distributed in these areas.

Chilled Products: Chilled goods face many of the same challenges as frozen food and thus arrive with compromised quality. They face steeper competition from fresh local products, which sometimes have a longer shelf life and generally lower price due to the handling of the imported products. In addition, they are often displayed un-chilled until they are sold. However, some retailers actually found the opposite to be true. The local produce was so badly handled from the field to the shelf that it sometimes yellowed before the imported products, such as with broccoli.

Dry Goods: Imported dry, shelf stable goods are in demand and widely distributed throughout this region, particularly the high volume tourist destinations. A concern with dry goods is that they are often shipped in mixed containers with chilled and frozen goods.

#### Retail and Quick Service Restaurant Chains:

The continued positive growth and expansion of these two sectors outside of Metro Manila has contributed greatly to the increase in opportunities for the distribution of U.S. food products to a wider customer base. Both utilize their own distribution systems, usually consolidated in Manila or Cebu. With the volume of traffic to meet their requirements, both maintain storage facilities and/or commissaries that keep the same standards they have in their Metro Manila establishments which puts a premium on on-time distribution and uniform temperature controls especially for frozen/chilled products. The high quality and sanitation requirements especially by international QSR chains has maintained or even increased the demand for products and ingredients that adhere to international standards which U. S. food products are.

#### Major Constraints:

- Lack of rental/public storage facilities on sea and air transportation. Reefers can sometimes be plugged into mid-large size boats, however, most cold storage is simply Styrofoam boxes.
- There are currently no companies coordinating to combine shipments from Manila, i.e. fill up a container with similar products to be distributed to two establishments at the destinations. This could be a potential money saving shipping method.
- No cargo planes available.

- No public cold storage is available in some provincial locations, even some tourist hot-spots.
- “Regional” distributors identified by Manila offices are sometimes not accessible to areas in their jurisdiction that have demand for their products.
- High costs of inter-island transportation, particularly air and sea.
- Sanitation and food safety due to breaks in the cold chain, mixed product shipments and low technology handling techniques.

## RECOMMENDATIONS AND CONCLUSIONS:

Tourism in the Central Philippines is growing more rapidly than the distribution system. There is a need to put in place or upgrade infrastructure projects especially in the transport and storage of goods and services to make it more affordable and safer to major resort areas such as Boracay. In order to remain competitive with other South East Asian resort communities, such as Bali, the Central Philippines will have to improve high-end tourists experience. For example, in Boracay reputed to be the best beach in the world, tourists must ride tricycles to get to the beach along with commercial vehicles, including trash trucks and frozen produce. Also, the quality and variety of food goods available should be increased both for economic and health reasons.

Opportunities for US Cooperators, exporters and importers to introduce or increase awareness of the availability their products exist as well thru the following channels:

### 1) Technical Seminars

Food handling and safety was high on the list of recommended topics mentioned in our discussions with local resort and hotel organizations. According to sources, incidents of food poisoning are remarkably high in some resort areas and dangerous to overall the competitiveness of the tourism industry of the Philippines.

### 2) Sampling and Cooking Demonstrations

While some U.S. products like US meat, poultry, wine and grocery items are already being distributed in the region through retailers or independent distributors, there is interest in learning more about other applications in cooking and preparation that could be used to increase consumption and awareness. Several cooperators like the US Meat Export Federation, US Wheat Associates, California Raisins and the USA Poultry and Egg Export Council have been successfully conducting such demonstrations with positive results and feedback.

### 3) Cold Chain

Public or rental cold storage, even in vital installations such as airports or seaports, is non-existent or inadequate in most areas except Cebu. This has limited the transport of frozen and chilled foods to large volume users such as retail or QSR chains or those with own facilities. Affordable cold storage warehouses and transportation with chambers of different temperatures that could be rented by smaller business owners would increase distribution and also food safety in the area.

FAS Manila continuous to work closely with the Cold Chain Association of the Philippines (CCAP) in its mandate to establish linkages with various private and government sectors to spearhead infrastructure development and raise the local cold chain industry standards. Current efforts include working with an international organization to promote industry development of the cold chain sector in the Central Philippines which can likely lead to higher imports of value added food products to the Central Philippines as well as improve food safety in the area.

## POST CONTACT AND FURTHER INFORMATION

The U.S. Agricultural Trade Office in Manila maintains up-to-date information covering food and agricultural import opportunities in the Philippines and would be pleased to assist in facilitating U.S. exports and entry to the Philippine market. Questions or comments regarding this report should be directed to the U.S. ATO in Manila at the following address:

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