USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 06/16/2005

GAIN Report Number: RP5023

Philippines

Exporter Guide

Annual

2005

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Report Highlights:

The Philippines is a robust, dynamic, and growing market for imported foods and beverages with total imports of consumer-oriented high-value products exceeding $1 billion annually. In 2004, the Philippines ranked as 14th largest market for U.S. exports of consumer-oriented agricultural products and remains the largest market in Southeast Asia, with sales of $216.6 million representing an increase of 33 percent over the previous year. Growing competition from other foreign suppliers has created new challenges for U.S. exporters. However, good sales opportunities exist due to Philippine consumer familiarity with American brands and food and beverage trends, growth in large-scale modern supermarkets, and an expanding economy. Record-setting sales levels for wine and petfood products have been posted for the past two years. Other products such as snackfoods, breakfast items, red meats, egg and dairy products, tree nuts and fresh produce posted increases over the previous year.

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

General Market Overview

Macroeconomic and political situation:

Economic: The Philippine economy in 2004 posted its best annual growth in 15 years at 6.1 percent as services and exports expanded. This exceeded most forecasts, including the 4.9 to 5.8 percent that the government had projected earlier in the year. The Philippines was less severely affected by the Asian financial crisis of 1998 than its neighbors, cushioned in part by annual remittances of over $8 billion from overseas workers. From a 0.6% decline in 1998, GDP expanded by 2.4% in 1999, and 4.4% in 2000, but slowed to 3.2% in 2001 amidst a global economic slowdown, an export slump, and political and security concerns. GDP growth accelerated to 4.4% in 2002 and 4.2% in 2003, reflecting the continued resilience of the service sector, gains in industrial output, and improved exports. It will, however, take a higher and sustained growth strategy to make continued progress in alleviating poverty due to the Philippines' high annual population growth and unequal distribution of income.

Political**:** The Philippines is a vibrant, raucous democracy. The country has had only three electoral presidential transitions since the removal of President Marcos in 1986. The current president, Gloria Macapagal-Arroyo, has been in power since January 2001 when a civilian uprising removed President Estrada from office on charges of corruption. President Arroyo was narrowly re-elected in May 2004 that – despite being contested by the opposition - was generally characterized as free and fair by outside observers. Her election to a new six-year term brought some stability to the financial markets, a slight appreciation in the Philippine Peso, and renewed though cautious interest in increased foreign investments. Significant political challenges remain, however, including persistently high levels of corruption; lack of progress on key economic and fiscal legislation; need for judicial reforms; rising energy prices; rapid population growth; and ongoing insurgencies by Islamic groups in the southern islands of Mindanao. The Arroyo Administration promises continued economic reforms to help the Philippines keep up with the pace of development within Asia. The strategy includes improving the infrastructure; strengthening tax collection to bolster government revenues; furthering deregulation and privatization of the economy; enhancing the viability of the financial system; and increasing trade integration with the region.

Trade and Investment: The Philippines has a relatively open trading system and has some of the lowest applied tariffs in the region. Tariff exemptions are also provided by law for a wide range of imported items generally used as production inputs. The United States is the Philippines' most important trading partner. In 2004, the Philippines exported $10 billion worth of goods to the United States and imported nearly $8 billion for a Philippine trade surplus of $2 billion. Other important trading partners are Japan, Korea, China and the ASEAN-member countries.

Agricultural imports comprise roughly 10 percent of all Philippine imports. The Philippines remains an important market for a wide variety of products from the United States. In 2004, the Philippines was the 16th largest export market for U.S. agricultural products (13th if the EU is considered as a single market). For Consumer-Oriented products, the Philippines was the 14th largest market (11th with the EU as a single market). In 2004, the Philippines was our 3rd largest soybean meal market, 4th for dairy products, 6th for snack foods excluding nuts, 7th for wheat, 13th for pet food.

Environment for U.S. Agricultural Imports and Competitive Analysis:

The Philippines is a robust, dynamic, and growing market for imported foods and beverages with total imports of consumer-oriented high-value products exceeding $1 billion annually. Major imports include meats, dairy products, processed foods and fresh fruit. There is a strong interest in American culture and trends due largely to the long history of close bilateral relations, bolstered by a large Filipino-American community that maintains ties to the Philippines. This translates into a natural preference for U.S. food products, which are regarded for their high quality and product consistency. However, Filipinos are very price sensitive and want value for money, meaning U.S. products must remain relatively price competitive.

While American products were once the predominant import on supermarket shelves, food processing facilities, and restaurant menus, competition in the market has greatly intensified over time. Key competitors include Australia, New Zealand, the EU, Canada, and the ASEAN countries. Special mention, however, must be made of the fact that China is aggressively gaining market share in the Philippine market. This is especially true in the fresh fruit sector where Chinese products – known for lower prices and improved quality - have largely displaced Washington Apples and increasingly California Table Grapes. China's ongoing policy of establishing Free Trade Agreements with ASEAN nations will further threaten fresh fruit and other U.S. food and agricultural exports to the Philippines.

Consumption Patterns, Distribution Issues and Consumer Trends:

Consumption Patterns: Industry analysts expect demand for imported food products will continue to grow through the medium term. Factors often cited include the continued growth and efficiency gains in the retail food sector; expanding popularity of fast food restaurants; a growing middle class; increased demand for convenience-especially among women; and the common perception that imported products equal high quality products – a by-product perhaps of the era when PX goods from U.S. military bases were commonly sold on the black-market. Consumption of imported food products peak during the Christmas season months of November and December, when sales can double or even triple.

Distribution Issues: Improvements in recent years in the retail sector are due mostly to the passage of the 2000 retail trade liberalization law. The legislation, which allows foreign retailers to operate independently in the Philippines, has fostered growth in large-scale supermarkets that offer a wider range of imported foods. In order to meet the competition from multi-national stores such as Makro and PriceSmart, local supermarket chains are modernizing, expanding and broadening their line of imported brands, often via direct importation. While expansion was initially focused in the Metro Manila area, all the major chains are now expanding into the major provincial cities. The lack of an efficient distribution system to these cities, however, remains a significant constraint – especially for perishable items requiring a modern cold chain.

Consumer Trends: Filipinos are known to eat about five times a day and have a propensity for snacking between meals. As a result, the between-meal snacks represent a significant market for U.S. products – including processed snack foods for supermarkets and convenience stores, as well as raw ingredients for bakeries and the local food-processing sector. While snacking will remain an indelible part of both the Filipino diet and culture, there is a growing trend towards healthier eating. This health-conscious trend should lead to expanded opportunities for U.S. fruits and vegetables in addition to raw ingredients for the local snack food processing sector such as processed dairy products, processed soy products, and dried fruits & nuts.

Export Highlights:

Highlights for sales of US Agricultural Fish and Forestry Products to the Philippines for 2004:

- Overall growth of 10 percent to $709 million with wheat exports still accounting for nearly one-third of total U.S. exports.
- Within the bulk category, significant increases for soybeans (24 percent), cotton (52 percent), and pulses (16 percent).
- The Philippines remains the largest market in Southeast Asia for consumer-oriented products at $216 million.
- U.S. exports of consumer-oriented exports grew by 33 percent to the Philippines despite the political and economic uncertainties. This includes record levels for dairy products ($69 million), pet food ($8.2 million) and wine ($5.9 million).
- The Philippines was the first country to reopen its market to U.S. beef following the BSE scare in December 2003. This resulted in a 40 percent growth in U.S. exports to $6.6 million in 2004.
- The Philippines remains the largest market in Southeast Asia for wine– having surpassed Singapore in 2002 - with annual growth averaging more than 30 percent over the past four years.
- The Philippines remains the largest market for pet food, with double-digit growth since 2001.
- The Philippines is a major market for processed snack foods, and a rapidly growing market for U.S. raw ingredients for local snack food manufacturers.
- The ASEAN five countries of the Philippines, Malaysia, Singapore, Indonesia and Thailand account for nearly $900 million in U.S. exports of consumer-oriented products.

Advantages	Challenges
Filipinos have high regard for imported products, especially American.	U.S. products are priced higher compared to local products and other imported products
Familiarity with major American brands.	Consumers are highly price sensitive.
Traditional close ties between the Philippines and the U.S.	Preferential tariff rates (35 percent discount on MFN rates) on products from ASEAN countries.
Proliferation of malls and accompanying rapid expansion in the retail and fast-food sectors.	Establishment of Asian manufacturing facilities for American brands to supply the region.
Retail trade liberalization led to more efficient, modern and large-scale supermarket chains.	Market penetration for imported products is concentrated in Metro Manila and major metropolitan cities.
Philippine food standards follow US Food and Drug Administration regulations.	Package sizes tend to be smaller for affordability.
No need for special product labeling; English labels accepted.	Packaging should be able to withstand extreme heat and humidity.
Philippines has a large base of well-qualified and experienced importers familiar with U.S. food products.	Most importers lack a nation-wide distribution network with qualified technical staff that are able to act as

	sales consultants to help market the products.
Reduced import duties and targeted uniform tariff rate of 5 percent.	Insufficient cold chain system.
Rapidly growing population versus limited agricultural resources.	Underdeveloped infrastructure, i.e., storage, roads and shipping facilities.
Growing trend towards healthier diet among middle-class consumers	Food industry in Philippines generally risk averse when it comes to trying new product ideas.
Fast growing emerging markets for wine, cheese, and petfood	Stiff competition in a price sensitive market
Well-educated work force throughout food industry.	Trained work force highly transient with trained workers frequently moving on to different companies
The Philippines is strategically located to serve as a regional hub for food processors, especially as the regional free trade agreements take effect.	Foreign investment often faces bureaucratic red-tape
U.S. boneless beef cuts allowed access after BSE issue addressed with GRP	Lack of awareness of price competitive beef cuts
Expansion of modern supermarket chains into key provincial cities.	High cost of inter-island shipping makes imported products more expensive in areas outside Manila.
Current exchange rates make U.S. dollar-based products more competitive vis-à-vis major competitors such as Australia and the EU.	Philippine Peso remains relatively weak versus the U.S. dollar.

Section II. Exporter Business Tips

- Filipino businessmen highly value interpersonal relations. Such relations lend ease in developing trust between potential business partners. US exporters should maintain a conscious sensitivity to the innate Filipino sense of reciprocity.

- US exporters should maintain close contact and make regular visits to the Philippines to stay abreast of developments and to affirm support to the Philippine agent/distributor and customers. Exporters should commit to provide marketing and promotional efforts, including advertisements.

- Food importation is generally done by traders. Some maintain buying offices on the US West coast. The services of a U.S. consolidator or wholesaler are commonly used because of the need for a wide variety and range of products. The Philippine importer then either distributes directly to retailers and food service entities or through local wholesalers.

- US exporters can work with one or several importers. It is to be noted, though, that exclusive distributorship agreements are difficult to enforce in the Philippines while parallel imports are common.

- There are no non-tariff restrictions on imports of agricultural and food products, except on rice. Import permits are required for shipments of fresh fruits and vegetables, meat and poultry, including processed meat products.

- The Philippines unilaterally implemented a tariff reduction scheme. Tariff rates for most consumer-oriented products now range from 3-15 percent. Agricultural products considered "sensitive" and for which minimum access volumes (MAV) were set, however, have significantly higher tariff rates. These include poultry meat, pork, fresh potatoes and coffee. MAV allocations, which enjoy discounted tariffs, are awarded to Philippine companies on an annual basis. Please contact the Agricultural Trade Office (ATO) in Manila for a complete list of these "sensitive products" and the corresponding tariff rates. ATO Manila also maintains a list of Philippine companies who have MAV allocations.

- All food products must be registered with the Philippine Bureau of Food and Drug. Imported products may be registered only by a Filipino entity.

- US exporters are advised to require payment of goods via letter of credit especially for the initial transactions. Credit terms may be extended to the importer after a thorough background and credit investigation has been conducted and payment habits have been established.

- Philippine food regulations and standards generally follow the U.S. Food and Drug Administration. Products from the United States do not require special labeling and may be sold in the Philippines in the same commercial packaging.

- Products should be packed sufficiently to withstand extreme heat and humidity. Products for the Philippines should also preferably be in smaller consumer packs for affordability. Deficiencies in systematic and mechanical handling of products should also be taken into consideration. There are inefficiencies in the cold chain system, particularly beyond Metro Manila where in some cases these facilities range from insufficient to non-existent.

- Filipino consumers prefer "sweet" foods, even for processed meat products, sauces and juices. Exporters should be willing to reformulate their products to suit the local tastes. Filipino consumers have a preference for cheese and barbecue food flavors.

Philippine Import Requirements and Certifications for Food Products

This section of the report was prepared by the Office of Agricultural Affairs of the USDA/ Foreign Agricultural Service in Manila, Philippines for U.S. exporters of domestic food and agricultural products. While every possible care was taken in the preparation of this report, information provided may not be completely accurate either because policies have changed since its preparation, or because clear and consistent information about these policies was not available. It is highly recommended that U.S. exporters verify the full set of import requirements with their foreign customers, who are normally best equipped to research such matters with local authorities, before any goods are shipped. FINAL IMPORT APPROVAL OF ANY PRODUCT IS SUBJECT TO THE IMPORTING COUNTRY'S RULES AND REGULATIONS AS INTERPRETED BY BORDER OFFICIALS AT THE TIME OF PRODUCT ENTRY.

A few commodities are regulated, i.e., their importation will be allowed if covered by an import authority issued by the concerned government agency. Fewer still are prohibited, those that are specifically prohibited under Section 101, Tariff and Customs Code of the Philippines (TCCP), as amended, and other special laws.

The importation status of any commodity (whether prohibited, regulated or freely importable) may be checked/verified with the Bureau of Customs (BOC), Department of Trade Industry (DTI), Bangko Sentral ng Pilipinas (Central Bank of the Philippines) or any of its authorized agent banks, and the Department of Agriculture for importation which require the issuance of the Minimum Access Volume Import Certificate such as importation of swine, chicken etc.

Import documents required for all shipments to the Philippines are: (1) commercial invoice; (2) bill of lading or air waybill for air shipments; (3) certificate of origin (if requested); (4) packing list; and (5) various special certificates required due to the nature of goods being shipped and/or requested by importer/bank/letter of credit clause, e.g., (a) Bureau of Food and Drugs license, (b) Commercial Invoice of Returned Philippine Goods and (c) Supplemental Declaration on Valuation. (See Chapter VI-F: Customs Regulations and Contact Information).

Import Requirements for Food Products

The Philippines is a signatory to the World Trade Organization and has lifted quantitative restrictions on imports of food products except for rice. Rice may be imported only by the Philippine Government through the National Food Authority, formerly an attached agency of the Department of Agriculture, now seated in the President's Office for Food Security. The Philippines replaced the previous import restrictions with quota rate tariffs on some sensitive agricultural products. Quarantine Clearances that serve as import licenses are required prior to the importation of fresh fruits and vegetables as well as all kinds of meat and meat products and now for fisheries products (see section on Importation of Fresh Produce and Meat). All other food product imports do not have licensing requirements except where permits are required for commodities entering duty-free or are taking advantage of an in-quota tariff on items such as live swine, frozen pork, frozen chevron, frozen poultry, fresh/chilled potatoes, coffee beans, corn, coffee extract.

Import Regulations for Processed Food Products

Philippine food regulations generally follow the U.S. Food and Drug Administration policies and guidelines as they pertain to food additives, good manufacturing practices and suitability of packaging materials for food use. Hence, compliance with U.S. regulations for packaged foods, particularly for labelling will almost always assure compliance with Philippine regulations. All food products offered for sale in the Philippines must be registered with BFAD. Registration of imported products may only be undertaken by a Philippine entity, although some documentation and, for certain types of products, samples need to be provided by the exporter. Products have been divided into two categories with distinct sets of registration requirements and procedures.

Category I includes: bakery & bakery related products; non-alcoholic beverages & beverage mixes; candies & confectionery products; cocoa & cocoa related products; coffee, tea & non-dairy creamer; condiments, sauces & seasonings; culinary products; gelatine, dessert preparation & mixes; dairy products; dressings & spreads; flour/flour mixes & starch; fish & other marine products; fruits, vegetable & edible fungi (prepared); meat and poultry products (prepared); noodles, pastas & pastry wrapper; nut & nut products; native delicacies; oils, fats & shortening; snack foods & breakfast cereals and; sugar & other related products.

Category II includes: alcoholic beverages; food supplements; tea (herbal); bottled drinking water; foods for infant & children; foods for special dietary use; transgenic food products (use of genetic engineering/biotechnology) and; ethnic food products with indigenous ingredient(s) not common in the Philippines.

An application for registration - for each class and brand - should be filed by the local importer for the importation and distribution of food products. Only products with a valid Certificate of Product Registration from BFAD will be allowed for sale in the Philippines.

Following are the list of requirements for the registration of food products:

Category I

1. Letter of application for registration from importer/distributor
2. Accomplished Affidavit of Undertaking, typewritten and notarized
3. Accomplished product list by product classification, three (3) copies
4. Valid License to Operate (from BFAD) with name of supplier/source(s) of imported food product
5. Copy of sales invoice
6. One sample of each product in commercial presentation and a copy of the label that is in conformance with Codex Labeling Regulations and BFAD requirements. In lieu of product sample, a colored picture of each product may be submitted. A sticker indicating the name and address of the importer must be attached if such information is not printed on the label.
7. Registration fee of Pesos 25.00 per product.

Category II

1. Letter of application for registration from importer/distributor
2. Valid License to Operate (LTO) as an importer/distributor (issued by BFAD)
3. Product Information
    a. List of ingredients in decreasing order of proportion. For additives with prescribed limit, the amount added must be indicated.
    b. Finished product specification (physio-chemical and microbiological)
4. Samples of the product in its commercial presentation for laboratory analysis.
5. Loose label and labeling materials to be used for the products.
6. Estimated shelf-life, parameters used and methods for determining shelf-life.
7. Brief description/flow diagram of the method of manufacture
8. Certificate of analysis. Include analytical methods used. Additional requirements for food supplements may apply as necessary.
9. Registration fee of Pesos 25.00 per product plus cost of laboratory analysis.

Laboratory testing by BFAD for products under category II is mandatory to determine the safety of the product and to assure that there will be no misbranding or adulteration of products. Products under Category I may be subject to random examination at any time during the validity of the registration and the cost of laboratory analysis shall be charged to the importer.

A Certificate of Product Registration (CPR) shall be issued by BFAD and shall be valid for two (2) years. Subsequent renewal of CPR shall be valid for a period of three (3) years.

Exporters should also note that a local importer must secure a License to Operate from BFAD, which is actually a pre-requisite for the registration of any food products. The License lists names of foreign suppliers or sources of the products being registered. Thus, the importer is required to obtain from the exporter and submit to BFAD the following: (1) a copy of the Foreign Agency Agreement duly authenticated by the Philippine Consulate in the country of origin and; (2) a Certificate of Status of Manufacture by the exporter issued by the Government Health Agency from the country of origin which should also be authenticated by the Philippine Consulate.

Import Regulations for Fresh Produce and Meat

In all cases, imported meat, fish or produce require that a registered importer be the receiver of the shipment. Consequently, the importer would have to be knowledgeable of the regulations associated with the particular commodity being imported.

New regulations governing the import of meat and poultry are in effect since the end of December 2000. The Department of Agriculture issued Administrative Order No. 39, September 27, 2000 and its amendment, Administrative Order No. 56, December 27, 2000 that supersedes any other previous regulations for importing meat and poultry products. The primary change is that importers must secure a veterinary quarantine certificate (VQC) prior to importing. VQC's will have validity out of the United States for 60 to 90 days. Extensions are possible up to an additional 30 days. Essentially, the date for the shipment of goods (as reflected in the bill of lading/airway bill) should not be earlier than the date of the issuance of the VQC. There was a great deal of sensitivity in the Philippines as a result of some U.S. chicken that was packed in surplus cartons that still had labels on them indicating a shipment for Russia. Naturally, this was only excess cartons being used. If at all possible, it is recommended that such markings should be covered or removed since the Philippines does not require the cartons to be marked for export to the Philippines.

On September 20, 1999, the Department of Agriculture completed implementing rules and regulations for Republic Act 8550 of 1998 known as the Fisheries Code. The regulations are embodied in Fisheries Administrative Order 195. The new order more or less has clarified the need for importers to obtain quarantine permits. One particular feature which has been called in to question under WTO rules is the approval for any imports must also be reviewed by the Secretary of Agriculture together with a committee of officials at the Bureau of Fisheries.

No changes in regulations are reported for the Bureau of Plant Industry (BPI) of the Philippine Department of Agriculture regulates imports of fresh fruits and vegetables. All imports of fresh produce require phytosanitary clearances from BPI, which also serve as import licenses. These clearances are applied for by the local importer for each shipment. Shipments of fresh fruits and vegetables should be accompanied by a USDA Phytosanitary Certificate (PC) issued at the port of origin. The freight container number and corresponding seal number should be listed on the PC under distinguishing marks. Shipments from the United States may transit through Hong Kong, Taiwan, etc., however, container seals should remain intact. Breakage of container seals before verification by BPI on arrival may subject shipment to re-exportation or precautionary fumigation. The BPI also conducts random checks on shipments.

Market access for fresh fruit imports for oranges, tangerines and grapefruit from Florida have been achieved in 1999 with the approval of a protocol for these products. The protocol allows imports from areas controlled for the caribfly in Florida. However, fresh fruit imports from Texas are still currently prohibited due to phytosanitary reasons, i.e., the presence of fruit flies. The efforts of the Foreign Agricultural Service in Manila will continue to try to resolve these impediments to trade.

Philippine imports of fresh vegetables have previously been restricted and occasional imports were allowed only for tourist-oriented establishments. Import restrictions were lifted in 1995 as part of the Philippines Uruguay Round Commitments. However, imports remain very limited as phytosanitary import protocols for most fresh vegetables are still being formulated by the Philippine Bureau of Plant Industry. Fresh potatoes, onions and garlic are the only vegetables that have existing import protocols. The establishment of import protocols is usually a lengthy process as it involves pest and pesticide risk analysis, including ocular inspection of potential source of products by BPI personnel. Our office hopes to continue progress on this front in the near future.

Tariff rates for sensitive agricultural products were established in Executive Order 313 of March 1996, which set varying in-quota and out-quota rates for most tariff lines. In-quota rates apply to products imported within established minimum access volumes (MAV). Any imports in excess of the MAV would be assessed the out-of-quota rate. Most of the MAV products are those for which the Government committed to WTO to provide minimum market access in exchange for the lifting of quantitative import restrictions. Both the administration and allocation of minimum access volumes is handled by an MAV Management Committee. The licensing procedures followed by the Philippines for these two commodities are specified in bilateral MOU agreement. The MOU amended previous regulations that the U.S. found to be ineffective because the previous licensing scheme allowed the bulk of the allocations to given to local pork producers and poultry integrators. Please contact our office for further information on minimum access volumes and current MAV license holders.

Section III. Market Sector Structure and Trends

Retail Sector

Philippine food retailing is rapidly modernizing and expanding. National and upscale supermarket chains are attracting customers by opening large and modern stores, which is increasingly displacing the traditional small-scale retail chains and corner "*sari-sari*" stores. While focused primarily on urban markets in Metro Manila and Cebu, in recent years the national chains have expanded into smaller regional markets, including Bacolod, Iloilo, Cagayan de Oro, and Davao. Overall, the number of national supermarket outlets in the Philippines was expected to reach 140 in 2004, up from 76 in 2000.

The growth in modernized retailing presents new opportunities for U.S. foods since the modern chains offer improved cold chain and distribution systems; market a wider variety of products; and tend to rely on imports more than traditional retailers. Customer bases for the modern supermarkets are generally more upscale and demanding in terms of product quality and variety. Overall, this creates a positive environment for American foods and beverages. Imported products tend to be pricier than local products, but offer superior quality, variety, and reliability. Given the modern chain's improved infrastructure, growth prospects, and customer demographics, these outlets represent the overall best platform to promote American high-value foods and beverages in the Philippines.

The market is dominated by locally owned and operated chains led by Shoemart, Robinson's/Big R and Rustans/Shopwise. Makro and PriceSmart are currently the only foreign-owned supermarkets in the Philippines. Modern convenience stores are on the rise, led by 7-11, Mini-Stop, Shell Select, and Caltex Star Mart. Range of imported products is only slightly better than sari-sari stores but there is good potential for growth, particularly in snacks, beverages, and microwaveable/ ready-to-eat meals. Growth in this segment is also due to the bullish call center market industry, which grew from 10,000 seats in 2002 to 40,000 seats to date.

Food Service Sector:

The Philippine foodservice market continues to expand in response to growing demand for convenience. Fast-food restaurants account for the great majority of the market. Upscale restaurants and cafes (known locally as the 'casual dining' market) in Metro Manila present a wide range of sales opportunities for U.S. foods and beverages. Restaurants located in five-star hotels and upscale malls are important outlets along with popular western-style chains, including Burgoo's, TGIF, Tony Roma's, Outback, Country Waffle, Hard Rock Cafe, and Pancake

House. All use imported ingredients, including meats, wine, seafood, dairy products, sauces, and fresh produce. While restaurant managers will be price-sensitive when considering new ingredients, this is balanced with a need to present new menu items to attract the notoriously fickle upscale Filipino consumer.

- The Philippines has a young population, ages 1-29 comprise about 64 percent of the total population, which heavily favors dining in fast food and casual/family restaurants.

- Purchases of food away from the home continue to grow steadily. Eating out accounts for about 12 percent of the food budget, up from less than 9 percent in the mid-1990s. Higher consumer standards and concern for food safety are driving Filipinos toward dining in restaurants and away from traditional food hawkers.

- Popular chains led by Jollibee, McDonalds, ChowKing, Tropical Hut, and Goldilocks offer attractive menus and fiercely competitive prices, with full meals available for as little as 75 cents. U.S. products found in these outlets include french fries, processed poultry products, sauces, and cheese toppings.

- Foodservice sales are currently valued at approximately $2.5 billion, increasing by an estimated 15-20 percent per year in the past decade.

- American franchises, which normally require standard or US-approved food ingredients, have encouraged increased imports of food service products both in terms of volume and variety. Frozen French fries are the single most important product for this sector from the United States. There is a growing demand for frozen poultry products, sauces and condiments, fresh and processed fruits/vegetables, among others.

- The number of full service restaurants is also growing. Nearly all the growth in recent years is in fashionable shopping/dining areas in Metro Manila. With their focus on quality, these restaurants bring in significant amounts of a wide variety of imports—specifically meats, wine, and condiments. Full service restaurants are a good way to introduce high-quality ingredients to the Philippines. Competition in this segment is keen and restaurant operators are interested in new and exciting menu ideas to attract customers.

- Advertising and promotions play a major role in capturing market share in the food service sector. Eat-all-you-can or buffet offerings and promotions including discounted set meals and premiums like toys effectively provide customers with a sense of obtaining "value for their money" in a fiercely competitive market.

<u>Food Processing Sector:</u>

Food and beverage comprises 40 percent of total manufacturing output, the largest in its category per the recent data available by the Philippine Department of Trade and Industry. A small number of large locally-owned companies - such as San Miguel, RFM, and Universal Robina - and multinationals - led by Nestle and Del Monte - dominate the market. The challenges Philippine manufacturers continue to face remain the same: high electricity and increasing labor/production costs, inconsistent local supply of ingredients, outdated equipment and facilities, gaps in the cold chain and sometimes cheaper finished products from neighboring ASEAN countries. When available, local supplies are often hampered by inefficient post-harvest and storage facilities and costly farm-to-market transport. This often drives prices higher than the world market. The large corporations face these challenges by investing in new technology; buying out smaller competitors; keep margins low to remain competitive; and develop new products with intensive advertising/marketing support. Others, who cannot commit, focus on niche marketing or just maintain their current output.

These challenges in the local supply situation means manufacturers must continue to look overseas for many inputs. Major imported food ingredients include: wheat, dairy products such as milk and cheese powders and whey; processed fruits and vegetables; dried fruits and nuts; and beef and beef products. Expensive specialty ingredients, such as exotic dried fruits and nuts; processed egg products; many grains; and organic ingredients are still small niche items due to persistent and pervasive price sensitivity in the Philippine food and beverage market.

Rising demand for processed foods and beverages is driven by a large population of 84 million that is growing 2.3 percent annually; a food culture that emphasizes frequent snacking; a large workforce participation by women and resulting need for convenience foods. With more than two-thirds of the population under the age of 30, the Philippines is a youth-oriented food market. This fuels demand for new and trendy products, attractive packaging, and sweetened foods and beverages.

Section IV. Best Market Prospects

Tree fruits	Juices
Pet Food	Natural and Health Foods
Fresh Produce	Seafood
Beef	Wine
Poultry Products	Cheese
Tree nuts	Dried Fruits
Food Ingredients	Food Processing Ingredients

SECTION V. Key Contacts and Further Information

Please contact the following for any questions and for further information:

Agricultural Trade Office-Manila
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U.S. Department of Agriculture
Embassy of the United States of America
25/F Ayala Life-FGU Building
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(Philippine representative of Washington Apple Commission and the California Table Grape Commission)
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Lieu Marketing Associates Pte Ltd
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(ASEAN Representative for US Dairy Export Council)
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US Meat Export Federation
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Rm 311, Mariwasa Building
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Quezon City, Philippines
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Fax: (632) 456-3855
Contact: Mr. Jose Albert, President

Meat Importers and Traders Association

91-95 Panay Ave.
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Fax: (632)372-3253
Contact: Mr. Jess Cham, President

Hotel and Restaurant Association of the Philippines
Suite 200 Hotel Intramuros de Manila
Plaza San Luis Complex corner
Cabildo Urdaneta St . Intramuros
Manila, Philippines
Tel: (632) 527-5113
Fax: (632) 527-9927
Contact: Mr. Larry J. Cruz

Philippine Food Processors and Exporters Organization
Room 304, JS Contractor Building
423 Magallanes St., Intramuros
Manila, Philippines
Tel: (632) 527-5810 to 11
Contact: Mr. Jesus T. Tanchangco, Sr., President

Philippine Association of Meat Processors, Inc.
Suite 204, Sunrise Condominium
Ortigas Avenue, Greenhills
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Fax: (632) 721-2385
Contact: Mr. Felix O. Tiukinhoy, President

APPENDIX I. STATISTICS

A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries ($mil)/U.S. Market Share (%) [1/]	$2,966 / 21%
Consumer Food Imports From All Countries ($mil)/U.S. Market Share (%) [1/]	$1062 / 11%
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share (%) [1/]	$59 /9%
Total Population (Millions)/Annual Growth Rate (%)[2/]	87.8 / 1.9%
Urban Population (Millions)/Annual Growth Rate (%)	37.0/ 2.5%
Number of Major Metropolitan Areas [3/]	16
Size of the Middle Class (Millions)/Growth Rate (%) [4/]	76.0/ 6.7%
Per Capita Gross Domestic Product (U.S. Dollars)	$5,000
Unemployment Rate (%)[5/]	11.7%
Per Capita Food Expenditures (U.S. Dollars)	$390
Percent of Female Population Employed [6/]	50.9%
Exchange Rate (US$ = local currency)	US$1=PhP54.50

Footnotes

1/ Use FAS' web-enabled UNTrade database (HS 6-digit option; Import Market Share BICO 3-Year format).
2/ May 2004 estimates
3/Population in excess of 1,000,000
4/ Middle class includes those earning above the poverty threshold of Pesos 12,000 ($300) but does not include 5 percent of the population, which are considered upper income class.
5/ December 2004 estimates
6/ Percent against total number of women (15 years old or above)

TABLE B. Consumer Food & Edible Fishery Product Imports

Philippines Imports (In Millions of Dollars)	Imports from the World 2001	2002	2003	Imports from the U.S. 2001	2002	2003	U.S Market Share 2001	2002	2003
CONSUMER-ORIENTED AGRICULTURAL TOTAL	1103	973	1062	143	107	113	13	11	11
Snack Foods (Excl. Nuts)	46	42	45	8	4	3	18	9	6
Breakfast Cereals & Pancake Mix	3	3	4	1	1	1	35	25	24
Red Meats, Fresh/Chilled/Frozen	110	99	113	2	1	2	2	1	2
Red Meats, Prepared/Preserved	15	24	12	3	4	2	20	16	16
Poultry Meat	10	8	11	5	3	5	51	43	49
Dairy Products (Excl. Cheese)	421	326	382	30	18	23	7	5	6
Cheese	37	30	31	2	2	1	5	6	5
Eggs & Products	4	4	3	1	1	1	20	15	25
Fresh Fruit	30	18	23	4	1	4	12	8	16
Fresh Vegetables	7	6	8	1	1	1	6	0	2
Processed Fruit & Vegetables	62	59	56	25	17	17	41	30	31
Fruit & Vegetable Juices	8	7	7	2	2	2	31	32	22
Tree Nuts	1	2	2	1	1	1	25	18	19
Wine & Beer	10	12	11	3	3	2	29	26	14
Nursery Products & Cut Flowers	1	1	1	1	1	1	5	5	1
Pet Foods (Dog & Cat Food)	8	17	11	5	5	6	61	29	56
Other Consumer-Oriented Products	332	318	344	51	45	45	15	14	13
FISH & SEAFOOD PRODUCTS	45	57	59	8	4	6	17	7	9
Salmon	1	1	2	1	1	1	4	4	6
Surimi	2	1	1	1	1	1	3	4	4
Crustaceans	1	3	2	1	1	1	13	6	0
Groundfish & Flatfish	5	3	3	1	1	1	27	3	4
Molluscs	7	6	4	6	3	1	75	49	4
Other Fishery Products	27	43	48	1	1	5	2	2	11
AGRICULTURAL PRODUCTS TOTAL	2,653	2,614	2,679	803	631	574	30	24	21
AGRICULTURAL, FISH & FORESTRY TOTAL	2,896	2,856	2,966	845	655	610	29	23	21

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C. Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Reporting: Philippines - Top 15 Ranking

CONSUMER-ORIENTED AGRICULTURAL TOTAL - 400

($1,000)	2001	2002	2003
New Zealand	169443	142663	210309
Australia	240573	211660	141488
United States	142753	106718	113355
Thailand	80896	96985	109955
China (Peoples Rep	58641	59646	57654
India	51094	46826	53994
Netherlands	44084	25552	47074
Singapore	50240	50533	46827
Indonesia	21519	23550	34618
Malaysia	18867	22733	32773
Ireland	39694	30551	27797
France	14791	17773	25403
Brazil	7462	20429	25383
Canada	22569	14448	20119
Germany	33422	16771	19337
Other	107078	86600	95595
World	1103177	973478	1061712

FISH & SEAFOOD PRODUCTS - 700

	2001	2002	2003
Indonesia	4674	3424	18321
Taiwan (Estimated)	5629	4281	6351
United States	7772	3926	5513
China (Peoples Rep	2080	5987	3817
Singapore	916	1137	3363
Papua New Guinea	343	2184	2440
Japan	2018	4279	2219
Micronesia, Federat	0	600	1851
Marshal Islands	2154	2379	1826
Mexico	1497	2102	1769
Solomon Islands	0	0	1710
Mauritania	0	4335	1544
Chile	32	393	1463
New Zealand	3371	1400	1078
Norway	561	723	1014
Other	13466	19682	4739
World	44525	56835	59037

Source: United Nations Statistics Division