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Report Name: Food Processing Ingredients

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Report Highlights:

The rapidly expanding processed food and beverage sector in the Philippines presents robust opportunities for U.S. exporters of agricultural raw materials and high-value ingredients. The industry's gross value-added output reached \$35.8 billion in 2019, up 39 percent over the past five years. That being said, the immediate focus of food manufacturers and the Philippine economy more broadly is handling the outbreak of COVID-19. The Philippine government has implemented an enhanced community quarantine throughout the island of Luzon, affecting half the country's population and many of its food manufacturers. The Philippine Chamber of Food Manufacturers has acknowledged that there could be gaps in operations as the country adjusts to movement restrictions and that the top food suppliers have up to a month's worth of current stocks.

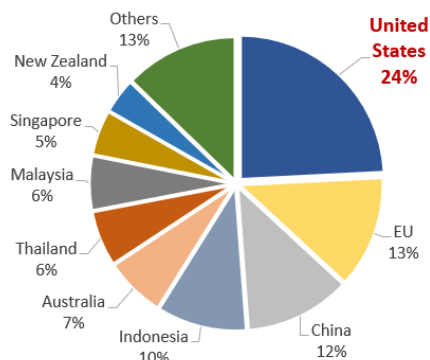
Market Fact Sheet: Philippines

Executive Summary

The Philippines is an emerging market with a service-based economy set to become an upper-middle economy in 2022, backed by what economists describe as being in a demographic sweet spot. With a population of 109 million in a combined landmass the size of Arizona, opportunities for suppliers of agricultural raw materials and high-value ingredients are already significant and continue to offer strong potential for growth into the future.

Imports of U.S. Agricultural Products

The United States is the Philippines' largest supplier of agricultural products. In 2019, the Philippines ranked as the ninth largest market in the world for U.S. agricultural products. Export sales amounted to \$2.9 billion in 2019, slightly lower than the previous year. Despite high prices and stiff competition, traders report strong preference for U.S. products.



Food Processing Sector

The Philippine food processing sector's gross value-added output amounted to \$35.8 billion in 2019, six percent higher than the previous year. Roughly 90 percent of the country's processed food products are consumed domestically.

Retail Food Sector

Retail food sector sales in 2019 is estimated at \$49 billion with an annual growth rate of 5-6 percent. Modern retail accounts for half of total sales. The proliferation of modern convenience stores are supported by the business process outsourcing (BPO) industry that operates around the clock.

Food Service Sector

Primarily driven by the expansion of shopping malls and commercial centers nationwide, sales generated by the food service sector in 2019 are estimated at \$15 billion with an annual growth rate of 8-10 percent. Western and western-style chains have deep penetration across the urban areas of the Philippines. Dining out continues to be an important aspect of Filipino family bonding and celebrations.

Philippines: Quick Facts CY 2019

Population Highlights

- Population: 109 million (July 2020 est.), 1.6% annual growth
- Urban population: 2% annual growth, set to overtake rural population in 2028 (currently 47% urbanized)
- 96% literacy rate; 76% speak English

Gross Domestic Product (GDP)

GDP: \$356 billion GDP per capita: \$3,104
 GDP growth rate: 5.9% GDP per capita PPP: \$9,470

Agricultural & Related Trade

Exports: \$7.4 billion Imports: \$13.5 billion

Imports of Consumer-Oriented Products: \$6.4 billion

- Food preparations
- Beef
- Dairy products
- Coffee
- Pork
- Candy & confectionery
- Apples
- Poultry
- Sauces, condiments & seasonings
- Frozen potatoes

Top Fast Food Chains

- [Jollibee](#)
- [McDonald's](#)
- [Mang Inasal](#)
- [Chowking](#)
- [Shakey's](#)
- [KFC](#)

Top 5 Supermarkets

- [SM Markets](#)
- [Puregold Price Club](#)
- [Robinsons Supermarket](#)
- [Rustan's Supermarket](#)
- [Metro Supermarket](#)

Top 5 Convenience Stores

- [7-Eleven](#)
- [Mercury Drug](#)
- [Ministop](#)
- [Alfamart](#)
- [All Day](#)

Traditional Retail: More than 42,000 public markets and 1.3 million micro retail stores nationwide

Sources: [Euromonitor](#), [Global Agricultural Trade System](#), [International Monetary Fund](#), [The World Factbook](#), [Trade](#)

Strengths	Weaknesses
Consumers regard U.S. raw materials and ingredients as safe, reliable, and of good quality	The relatively high cost of shipping from the U.S. west coast to Manila or Cebu compared to regional suppliers
Opportunities	Challenges
Twenty percent of the population (22 million people) have enough income to purchase locally processed food products containing high-value raw materials and ingredients	Influx of processed food products from competitors that are party to bilateral and regional FTAs (ASEAN, New Zealand, Australia, China, Japan, etc.)

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I. MARKET SUMMARY

The Philippines' rapidly expanding food and beverage processing industry presents robust opportunities for U.S. exporters of agricultural raw materials and high-value ingredients. In 2019, the industry's gross value-added output increased six percent over the previous year to \$35.8 billion and grew 39 percent¹ over the past five years (2014–2019). While



most of the roughly 500 food and beverage processors registered under the Philippine Food and Drug Administration are micro- to medium-sized businesses, food and beverage processors

are also among the largest corporations in the country².

Top 20 Food and Beverage Processors in the Philippines Based on Gross Revenue in Millions of Dollars			
2018 Rank	Company	Gross Revenue	Main Products
13	Nestlé Philippines, Inc.	2,424	food products, not elsewhere categorized
14	San Miguel Brewery, Inc.	2,366	malt liquors and malt
19	Universal Robina Corp.	1,754	snack products such as curls, wheat crunchies and similar products
24	Coca-Cola Beverages Philippines, Inc.	1,482	softdrinks except drinks flavored with fruit juices, syrups or other materials
46	Monde Nissin Corp.	969	macaroni and noodles
73	Pepsi-Cola Products Philippines, Inc.	675	softdrinks except drinks flavored with fruit juices, syrups or other materials
87	Century Pacific Food, Inc.	587	fish and other marine products
102	Emperador Distillers, Inc.	514	spirits
109	Ginebra San Miguel, Inc.	495	spirits
118	Purefoods-Hormel Co., Inc.	442	meat and meat products
133	Pilmico Foods Corp.	403	flour (except cassava flour)
135	Alaska Milk Corp.	394	powdered milk (except for infants) and condensed or evaporated milk
147	Foodsphere, Inc.	373	meat and meat products
164	Mondelez Philippines, Inc.	328	butter, cheese and curd
174	Tanduay Distillers, Inc.	313	spirits
192	Cargill Oil Mills Philippines, Inc.	288	refined coconut and other vegetable oil (including corn oil) and margarine
213	Zenith Foods Corp. (Jollibee Foods Commissary)	269	food products, not elsewhere categorized
250	Philippine Foremost Milling Corp.	231	flour (except cassava flour)
258	Unilever RFM Ice Cream, Inc.	223	ice cream and sherbet, ice drop, ice candy and other flavored ices
263	Magnolia, Inc.	219	butter, cheese and curd

Source: BusinessWorld's Top 1000 Corporations in the Philippines, 2019 edition
 Exchange rate: USD1.00 = PHP50.00

COVID-19 Update

Amidst the COVID pandemic, enhanced community quarantine has been in force since March 17, 2020 in Luzon, the Philippines' largest island and home to more than half of the country's population. The Philippine Chamber of Food Manufacturers Inc. (PCFMI), which includes the nation's top food suppliers such as Monde Nissin Corporation, Nestle Philippines Inc., Universal Robina Corporation, and San Miguel Corp., believes there could be gaps in their operation and supply in the

¹ National Accounts of the Philippines, Philippine Statistics Authority. "Table 32A – Gross Value Added in Manufacturing by Industry Group."

² BusinessWorld's Top 1000 Corporations in the Philippines, 2018 edition.

coming weeks. In a statement released to the press, PCFMI said, “At the moment we can assure at least a few weeks to a month’s supply. Succeeding supplies heavily depend on how current issues are handled. We did not anticipate this situation so incoming of materials in the



next coming weeks can be an issue³,” signaling potential shortages. In a press briefing, Trade and Industry Secretary Ramon Lopez had asked food manufacturers to shut down operations if they already have one to two months’ worth of inventory, to ensure maximum social distancing and to curb the spread of the virus.⁴

Strong Prospects for U.S. Agricultural Products

About 65 percent of U.S. agricultural products exported to the Philippines flow through the food and beverage processing industry, including wheat. The United States holds a 97 percent share of wheat exported to the Philippines that is milled for food use, half of which is utilized by the local baking industry. While wheat and other products such as meat, dairy, and poultry products comprise the bulk of sales, functional ingredients such as protein isolates, powdered eggs, processed fruit and vegetables, and tree nuts play an important role. Philippine

consumers have a generally favorable view of U.S. products, which local food and beverage processors exploit by highlighting U.S. ingredients on product labels.

Penetrating the East and Southeast Asian Markets

China, Japan, and South Korea in East Asia have a combined population of about 1.7 billion people, while Southeast Asia's 11 countries— Brunei, Burma, Cambodia, East Timor, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam—have a combined population of about 655.6 million people.⁵ Currently, only 10 percent of the Philippines processed food products are exported. The prospect of penetrating the lucrative East and Southeast Asian markets is especially strong because of the country’s strategic location. The nation’s capital, Manila, is situated within a four-hour trip by air to major ports in the region (six days for cargo vessels). The short transit time makes it an ideal staging area, especially for frozen and chilled products. The volume of Philippine food exports is expected to rise as quality and competitiveness continue to improve. This presents a valuable path ahead for U.S. agricultural raw materials and food ingredients to grow in tandem with Philippine exports.

Aside from trade liberalization, trade of processed food and beverage products in the region

³ Ocampo, K. (2020, March 21). DA appeals to local executives: Let food workers go to work. *Inquirer.net*, Retrieved from www.business.inquirer.net

⁴ Canivel, R. (2020, March 19) DTI tells food factories: Produce goods to last 2 months then pause to lessen workers out in streets. *Inquirer.net*, Retrieved from www.business.inquirer.net

⁵ [United Nations Department of Economic and Social Affairs](http://www.un.org), *Population Division (most recent data available)*.

will be driven by: 1) strong economic growth and rising incomes; 2) urbanization; 3) demand for greater product variety, quality, convenience, and safety; and 4) the proliferation of larger and more sophisticated retail and foodservice formats.

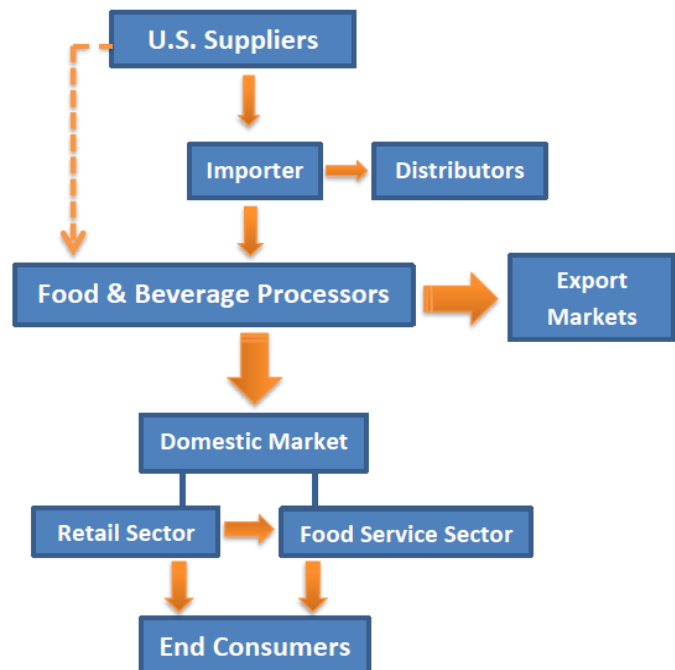
Advantages and Challenges

The following summarizes the market “advantages” (U.S. supplier strengths and Philippine market opportunities) and “challenges” (U.S. supplier weaknesses and competitive threats):

Advantages	Challenges
The economy, as a whole, is growing faster than agricultural productivity, creating increased demand for imported ingredients.	Most U.S. companies are unwilling to supply raw materials and ingredients in small volumes
Rising number of foreign brands is boosting the quality of locally produced products.	The Philippines is a price-sensitive market
A general perception that U.S. grading systems are transparent and consistent	Processed foods are seen as inferior to fresh foods by most consumers
Some local food processors and importers of food ingredients already have long-standing relationships with U.S. suppliers	Inadequate processing, storage, and transportation infrastructure and facilities
Real steps being taken to improve the regulatory environment, such as the Ease of Doing Business Act.	Insufficient public funds allocated to promote exports of locally produced products made from imported high-value ingredients

II. ROAD MAP FOR MARKET ENTRY

A majority of the large food and beverage processors in the Philippines import full-container loads of agricultural raw materials and ingredients directly, while smaller companies including “mom-and-pop” processors purchase from importers and distributors. Most of the importers are based in Metro Manila and manage their own distribution; others appoint independent distributors to cover the country’s key provincial areas. The most common entry strategy for new-to-market U.S. exporters is to offer products to large processors and importers.



Technical Assistance as a Marketing Tool

Some exporters have been able to successfully penetrate the Philippine market by providing Philippine food and beverage processors technical assistance on the applications of raw materials and ingredients. This is especially true for more “advanced” ingredients such as protein isolates, and less familiar ingredients such as dehydrated potatoes and pea flour. Other areas for knowledge transfer include product development and innovation, automation of the production process, product preservation, and packaging.

Special Economic Zones

U.S. exporters of agricultural raw materials and ingredients can partner with food and beverage processors and operate within the Philippine special economic zones or “ecozones” regulated by the Philippine Economic Zone Authority (PEZA). Ecozone operators receive incentives, including duty-free entry of agricultural raw materials and ingredients used for re-export. Enterprises located inside the zones are required to export 100 percent of their production. In some cases, PEZA may approve the sale of up to 30 percent of production in the domestic market. Full foreign ownership of a PEZA enterprise is allowed, provided they are not engaged in activities that appear on the [Foreign Investment Negative List](#). More information on the Philippine special economic zones is posted on the [PEZA website](#).

III. COMPETITION

The Philippines provides preferential access to its market through several bilateral and regional trade agreements, including those with ASEAN member countries, the European Free Trade Association, Australia, China, India, Japan, New Zealand, and South Korea. While U.S. products often face some disadvantages, the Philippines also generally maintains applied MFN rates applicable below its WTO bound rates. For more information on Philippine trade agreements, visit the Philippine Department of Trade and Industry website: <https://www.dti.gov.ph/>. The tariff rates on specific goods are posted on the Philippine Tariff Commission’s website and can be accessed via <http://finder.tariffcommission.gov.ph/>.

IV. BEST PRODUCT PROSPECTS

Based on interviews with Philippine food and beverage processors, the top prospects for U.S. agricultural raw materials and ingredients include poultry cuts, mechanically deboned meat, trimmings and beef offal, milk and whey powder, and cheese and other dairy products. Imported agricultural raw materials can be combined with locally available products such as tropical fruits and vegetables, cacao, sugar,

TOP PRODUCT PROSPECTS
poultry cuts including chicken feet
mechanically deboned meat
trimmings and beef offal
milk and whey powder
cheese and other dairy products
fresh fruits and vegetables
frozen and concentrated fruit and vegetable juices
dried and dehydrated fruits, vegetables and nuts
grape must
specialty flours (e.g., soy, pea and potato)
condiments, pastes and sauces
seafood products (e.g., salmon heads and bellies, squid and crab claws)
sweeteners and beverage bases
grains and cereals
protein isolates and concentrates
extracts and flavorings
fats and edible oils

and seafood to come up with innovative product offerings.

V. Relevant Reports

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

- Exporter Guide
- Food and Agricultural Import Regulations and Standards
- Philippines: Retail Foods
- Philippines: Food Service – Hotel, Restaurant & Institutional

To access current data on U.S. agricultural exports, choose “Data & Analysis.”

VI. 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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Attachments:

No Attachments