

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary - Public

Date: 4/10/2019

GAIN Report Number: RP1905

Philippines

Post: Manila

Prospects for U.S. Brewing Ingredients and Beer

Report Categories:

Beer

Market Development Reports

Product Brief

Approved By:

Ralph Bean

Prepared By:

Maria Ramona C. Singian

Report Highlights:

The robust local beer manufacturing industry presents strong opportunities for U.S. exporters of brewing ingredients. Beer is the most widely consumed alcoholic beverage in the Philippines, accounting for 78 percent of total alcohol consumption or 2.1 billion liters annually. Export prospects in the region are especially strong because of the country's membership in various free trade agreements and strategic location. While imported beer accounts for less than one percent of total consumption, traders are optimistic the country's resilient economy and young and growing population will drive sales of imported craft beer in the coming years.

Market Fact Sheet: Philippines

Executive Summary

Philippine Market Overview

Food and beverage consumption in the Philippines is buoyed by a strong and growing consumer base. The country's population is young (over 50 percent under the age of 24) and highly urbanized. Although annual GDP per capita is only \$3,000, 20 percent of the population (20 million people) earn an average of \$12,500¹ annually. Some analysts describe the Philippines as a consumption 'sweet spot' despite broad income disparity.

Agricultural Trade Environment

The United States remains the Philippines' largest supplier of agricultural products, and the Philippines constitutes the eleventh largest global export market for U.S. agriculture. Sales increased 14 percent over the previous year to a record \$2.9 billion in 2018. Traders are optimistic that export sales in 2019 will increase ten percent to \$3.2 billion.

Prospects for Brewing Ingredients and Beer

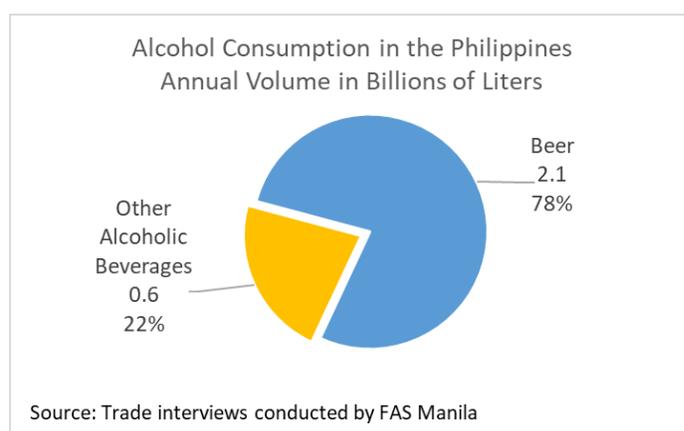
The robust domestic beer industry presents strong opportunities for U.S. exporters to supply brewing ingredients. Beer is the most widely consumed alcoholic beverage in the Philippines accounting for 78 percent (equivalent to 2.1 billion liters) of total alcohol consumption.

Fast Facts Philippine Market

- Young and growing population: 105 million, annual growth rate of 1.6 percent, 52 percent below 24 years old
- Urbanized: 47 percent live in urban areas
- High literacy: 96 percent of the 70 million Filipinos that are 15 years old and above can read and write
- Strong preference for U.S. food and beverage products
- Growing demand for "healthy," organic, gourmet and convenience foods
- Steady growth in retail, food service and food processing sectors

Potential Customers: At least 20 million people earn \$12,500 annually

Source: CIA World Factbook and Philippine Statistics Authority



Beyond the local market are the lucrative East and Southeast Asian markets with a combined population of 2.2 billion people. Local beer manufacturers are able to compete in these markets because of the Philippines' membership in various free trade agreements and strategic location in the region.

The prospects are also strong for imported beer. While imported beer accounts for only one percent of consumption², a small but growing number of beer enthusiasts, who are

on the lookout for a variety of beer styles, are driving demand.

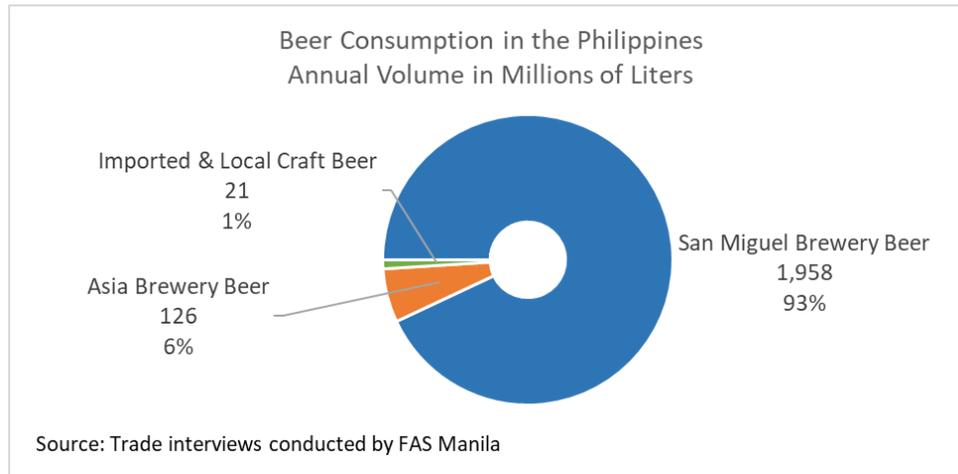
¹ Philippine Statistics Authority, 2015 Family Income and Expenditure Survey (most recent data available).

² Trade interviews conducted by FAS Manila.

I. Local Manufacturing and Importation

Large Local Manufacturers

There are two large local beer manufacturers in the Philippines. San Miguel Brewery dominates the market with 93 percent volume share, followed by Asia Brewery with six percent volume share. Local craft beer and imported beer account for one percent of consumption.



San Miguel Brewery is jointly owned by San Miguel Corporation and Kirin Holdings Co. Ltd. It is the tenth largest brewer in Asia in terms of volume, with a strong presence in China, Indonesia, Thailand, and Vietnam. Since 1890, San Miguel Brewery has been developing an array of beer products to cater to the market's ever-changing tastes. Today, the company carries a portfolio of ten popular beer brands: San Mig Light, Red Horse Beer, Cerveza Negra, Gold Eagle Beer, San Miguel Strong Ice, San Miguel Super Dry, San Miguel Premium All-Malt Beer, San Miguel Flavored Beer, San Mig Zero, and its flagship brand, San Miguel Pale Pilsen.

Asia Brewery was established by Lucio Tan³ in 1982 with the inauguration of its brewery and the launch of its first brand, Beer Hausen Pale Pilsen, followed by Max Premium beer, Manila Beer, and Beer Pale Pilsen (now, Beer Na Beer). The company currently brews Colt 45 beer under license and distributes Asahi Super Dry beer. It was previously a licensee brewer of Carlsberg, Budweiser, Lone Star, Coors Original, and Coors Light beers; however, the brands did not gain traction in the market. In 2016, an agreement with Heineken International established AB Heineken Philippines, Inc. as the brewer and distributor of Heineken beer and Tiger Beer. In 2017, Asia Brewery launched Brew Kettle, a Belgian witbier-style, to veer from the typical lager and cater to a small but increasing segment of the market that is adventurous and quality-driven.

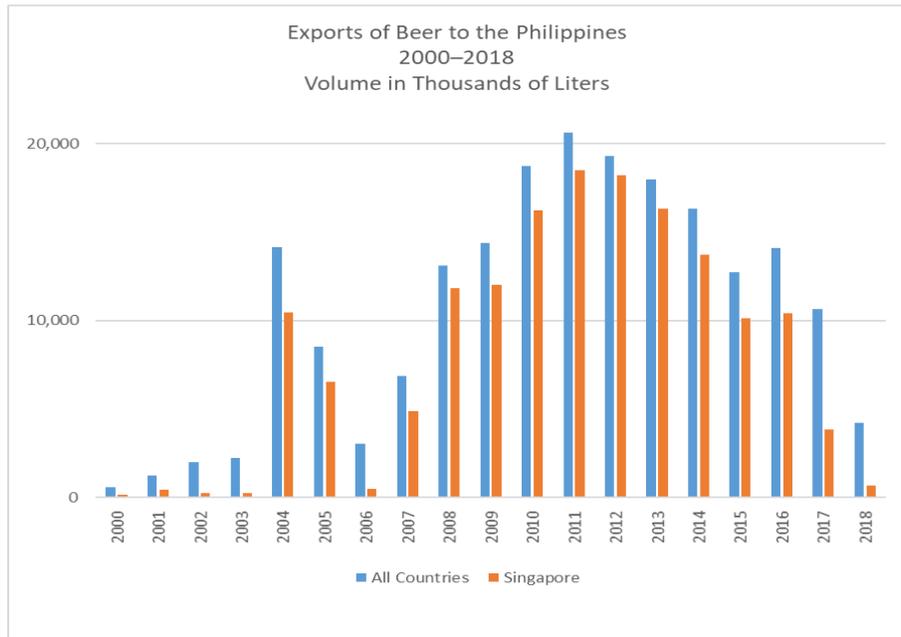
Importation of Brewing Ingredients

The Philippines' burgeoning beer manufacturing industry presents strong opportunities for U.S. exporters of brewing ingredients. Commercial production of hops and barley in the Philippines is non-existent. The Philippines sources hops and hop extract primarily from the United States, while barley and malt are sourced mainly from Australia.

³ Lucio Tan is ranked as the Philippines' seventh richest man on Forbes' 2018 list.

Commercial and Craft Beer Importation

Since 2004, the volume of commercial and craft beer imported by the Philippines has been erratic. The highest on record was 20,615 kiloliters imported in 2011. Beer coming from Singapore—mostly Heineken beer and Tiger Beer produced by Malayan Breweries—comprise the bulk of Philippine imports since 2004. When AB Heineken Philippines began to brew Heineken beer and Tiger Beer locally in 2018, the volume of imports dropped sixty percent to 4.2 billion liters. Aside from Heineken beer and Tiger Beer, the other imported commercial beer brands that dominate the market are Stella Artois from Belgium, Corona from Mexico, and Singha from Thailand. While the United States ranked number seven among the countries that export beer to the Philippines, traders are optimistic that U.S. commercial and craft beer brands will continue to appeal to the young and adventurous population.



A closer look at the imported craft beer market in the Philippines shows that it is still in its infancy, and there is enormous room for growth. It was only in 2008 that a wide selection of imported craft beer entered the market through Global Beer Exchange, founded by beer advocate Jim Araneta who wanted the local community to experience the range of colors, aromas, and flavors of independent brews. The company operates The Bottle Shop, a pub and retail store that features over a hundred varieties of craft beer curated from California, Oregon, Washington state, and other parts of the world.

Local Microbreweries

Shortly after the influx of imported craft beer, microbreweries began to sprout all over the country. In 2015, they banded together to form the Craft Beer Association of the Philippines (CBAP) primarily to consolidate their orders of brewing ingredients, collectively promote their brands through social media and special events, and encourage home brewers to get on the commercial brewing bandwagon by offering technical seminars. CBAP membership has grown to 60 microbreweries all over the Philippines including Craftpoint Brewing, Pinatubo Craft Beer, Great Islands Craft Brewery in Luzon, Bog's Brewery and Cebu Brewing Company in Visayas, and Fat Pauly's in Mindanao. Roughly 10.4 million



liters of craft beer in more than 200 innovative styles were produced in 2017⁴ ranging from pale ales to dark English-style brown ales. Aware that price is the barrier that limits the curious consumer from venturing beyond local commercial beers, microbrewers are offering high quality beer in different styles at the same price range (below \$1.50).

II. Competition and Prospects in the Region

The Philippines is a party to bilateral and regional free trade agreements. U.S. agricultural exports to the Philippines face higher tariffs than competing products imported from ASEAN-member countries and ASEAN-FTA member countries, such as Australia, China, Japan, New Zealand, and South Korea. However, the Philippines' participation in these free trade agreements provide a valuable path for U.S. brewing ingredients to grow in tandem with Philippine beer exports to markets throughout the region. Preferential tariff rates on all products (with exemptions for a few sensitive commodities such as rice) fell to between zero and five percent.

Prospects for the lucrative East and Southeast Asian markets are especially strong because of the country's strategic location. Products coming from Manila, where the nation's largest ports are located, can reach major ports in the region by sea within six days. The short transit makes the Philippines an ideal staging area for beer and other processed products. For further information, see "Philippines: Food Processing Ingredients" report which can be accessed through the USDA-FAS website at www.fas.usda.gov.



III. Market Trends and Opportunities

Growth Across All Price Ranges

While traders report that 80 percent of beers sold in the Philippines are "value-priced" (below \$1.50), growth is taking place across all price ranges. Brisk sales of mid to premium priced beer (\$1.50 and above) are expected to continue as consumers' palates become more curious and discerning.

Beer Tastings, Education, and Social Media Promotions

Marketers conduct a mix of tastings, educational campaigns, and viral social media promotions. FAS Manila joins the trade in hosting regular events to expose hotels, restaurants, retailers, and consumers to high-value U.S. food and beverage products, including commercial and craft beers. Private groups of enthusiasts boost premium beer consumption by hosting beer and food events, which always attracts mainstream and social media coverage.

⁴ Philippine Craft Beer Community. 2017 Small & Independent Craft Breweries in the Philippines. <https://www.facebook.com/craftbeer.ph/photos/a.137318286599452/474374459560498/?type=3&theater> May 1, 2017, Facebook post.

Health and Wellness Trend

A growing number of consumers are turning to low-calorie and low-alcohol brews as part of a broader health and wellness trend sweeping the food service sector.

Technical Assistance as a Marketing Tool

Exporters of raw materials and ingredients can increase sales by offering product application seminars to microbrewers and hobbyists. Other areas for knowledge transfer include product innovations, automation of the production process, and packaging.

IV. Market Structure and Entry Strategy

Importation and Distribution

- More than ten importers carry a portfolio of beers and other alcoholic beverage products.
- The local microbrewers rely on another set of importers to consolidate and bring in the raw materials and ingredients they need.
- The large local brewers are conglomerates. Some of the beer they manufacture are under license. They import full-containers of raw materials and ingredients directly or appoint agents to facilitate importation. They have aggressive export arms to tap foreign markets.
- To extend their reach nationwide, importers and local brewers work with independent distributors.



Penetrating Trade Customers

- Most supermarkets charge a one-time shelving fee of \$110 per stock-keeping unit (SKU) and on a per store basis. For example, if a distributor would like to penetrate a chain of 500 stores, the shelving fee would cost \$55,000. On the other hand, convenience stores charge only \$4 per SKU. To penetrate 2,000 convenience stores, the shelving fee will amount to \$8,000.
- It is common for supermarkets and convenience stores to ask for marketing support funds annually. The amount ranges between \$1,000 to \$3,000 for a single brand or a portfolio of beer products.

- Top hotels, restaurants and bars also ask for marketing support funds before agreeing to list new beer products. In return, the establishments promote the brands extensively. Establishments that do not require a marketing support fund usually ask for preferred pricing. Some are open to short and long term exclusive agreements.
- To encourage the staff of establishments to sell more products, some distributors offer small incentives, such as caps, shirts, and pens to more premium prizes, such as cellular phones and watches.
- Some importers manage the liquor section of supermarkets, and operate their own liquor, gourmet, and on-line shops.

V. Tariffs and Taxes

Tariffs and taxes are calculated based on the complete shipping value (total cost of goods, freight, and insurance).

Tariff Rates

The tariff rates for the main brewing ingredients and beer as a finished product are provided below. The Most Favored Nation tariff rates, ranging from 1 to 15 percent, apply to products imported from the United States, while the zero percent preferential tariff rate applies to products imported from ASEAN-member countries and ASEAN-FTA member countries, such as Australia, New Zealand, China, Japan, and South Korea.

Harmonized System Code	Description	Most Favored Nation Tariff Rate	ASEAN and ASEAN-FTA Preferential Tariff Rate
1003	Barley	7%	0%
1107	Malt	1%	0%
1210	Hop cones	1%	0%
130213	Hop extract	1%	0%
190110	Malt extract	7%	0%
210220	Brewer's yeast	3%	0%
2203	Beer, finished product	15%	0%

Value-Added Tax

Beers imported into the Philippines are subject to Value-Added Tax (VAT) at a uniform rate of 12 percent of the shipping value. VAT is an indirect tax levied on the importation, sale, barter, or exchange of goods in the Philippines, which may be passed on to the end-buyer.

Excise Tax

Republic Act No. 1035, also known as "Sin Tax Reform 2012," took effect on January 1, 2013 and introduced a two-tiered tax system on beer and other fermented liquor sold in retail outlets and large food service establishments. The excise tax on lower-priced beers increased up to 63 percent (depending on the net retail price) while the excise tax on higher-priced beers, mostly imported, increased two percent. Based on a fixed schedule, the excise tax increased each year and graduated to a uniform specific tax of PhP23.50 (\$0.45) regardless of price effective on January 1, 2017.

Excise Tax Based on Republic Act No. 10351

	Effective on January 1, 2017, a uniform specific tax on beer and other fermented liquor per liter of volume was applied regardless of retail price	Effective on January 1, 2018, excise tax increased four percent, and will increase four percent every year thereafter	Effective on January 1, 2019	Effective on January 1, 2020
Beer and Other Fermented Liquor				
Sold in retail outlets and large food service establishments	PhP23.50 (\$0.45)	PhP24.38 (\$0.46)	PhP25.35 (\$0.48)	PhP26.36 (\$0.50)
Brewed and sold at microbreweries or small establishments such as pubs and restaurants	PhP32.76 (\$0.63)	PhP33.76 (\$0.64)	PhP34.76 (\$0.66)	PhP35.76 (\$0.68)

Note: Excise taxes are assessed in Philippine peso. The current exchange rate is PhP52.00 = \$1.00.

If brewed and sold at microbreweries or small establishments such as pubs and restaurants, a uniform specific tax of PhP32.76 (\$0.63) regardless of the net retail price was applied effective on January 1, 2017. Effective on January 1, 2018, the excise tax increased four percent, and will increase four percent every year thereafter.

VI. 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
- Philippines: Food Processing Ingredients

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

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
Website: www.fas.usda.gov
Email: AgManila@fas.usda.gov