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Philippines

Exporter Guide

2014 Annual

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Report Highlights:

The U.S. continues to be the Philippines' number one supplier of agricultural products, and the Philippines is its 9th largest market in the world. In 2013, export sales increased six percent to a record \$2.5 billion. Despite congestion at the port of Manila and other distribution challenges, sales are up 15 percent from January to October 2014 and are expected to reach \$2.9 billion by the end of the year. The top ten U.S. exports by value through October 2014 were wheat, soybean meal, dairy products, red meats, poultry meat, prepared food, processed fruit & vegetables, sugar, sweeteners & beverage bases, snack foods, and fresh fruit. Competition has greatly intensified and new challenges have emerged for U.S. exporters due to bilateral and regional free-trade agreements. Good sales opportunities abound because of the robust Philippine economy, steady growth in the country's retail, foodservice and food processing sectors, and consumer familiarity with American brands. U.S. exports of consumer oriented food & beverage products remain particularly strong and are the best prospects for future growth.

Post:

Manila

I. MARKET OVERVIEW

The bilateral relationship between the U.S. and the Philippines is unique because of the depth of historical and cultural ties between the two countries. Around four million Filipino-Americans constitute a major immigrant group in the U.S., while 250,000 U.S. citizens reside in the Philippines.

The Philippine government structure is similar to that of the U.S. The country has had five presidential transitions since the removal of President Ferdinand Marcos in 1986. The current president, Benigno Aquino III, was elected in 2010 on an anti-corruption and good-governance platform. A broad range of reports indicate the anti-corruption campaign of the Aquino Administration (2010-2016) has contributed to investor confidence and has enhanced the overall business environment. According to published opinion polls, the Aquino Administration enjoys popular support and has maintained high approval ratings.

In the third quarter of 2014, the Philippine economy slowed to its weakest pace in more than five years to 5.3 percent; however, it remains one of the best-performing economies in Asia. The Aquino administration is confident the Philippines will reach its 2014 economic growth target of 6.5-7.5 percent. The economic expansion is broad-based with almost all sectors posting higher year-on-year growth rates led by the service sector. The World Bank projected remittances to the Philippines will hit \$28 billion in 2014, up 11 percent from the previous year, making the country the third-largest recipient of money in the world sent by overseas workers. The country's business process outsourcing (BPO) sector expects profits to reach \$18 billion in 2014, up 20 percent from the previous year. While the Philippine Peso remains resilient, it is expected to weaken in the first quarter of 2015, and trade in the range of PhP45.00 to a dollar as the U.S. economy strengthens.

The more than 7,000 islands that comprise the Philippines are classified under three major island groups: Luzon, Visayas and Mindanao. The land area of the combined islands of the Philippines is about the same size as Arizona with roughly 107.6 million inhabitants.

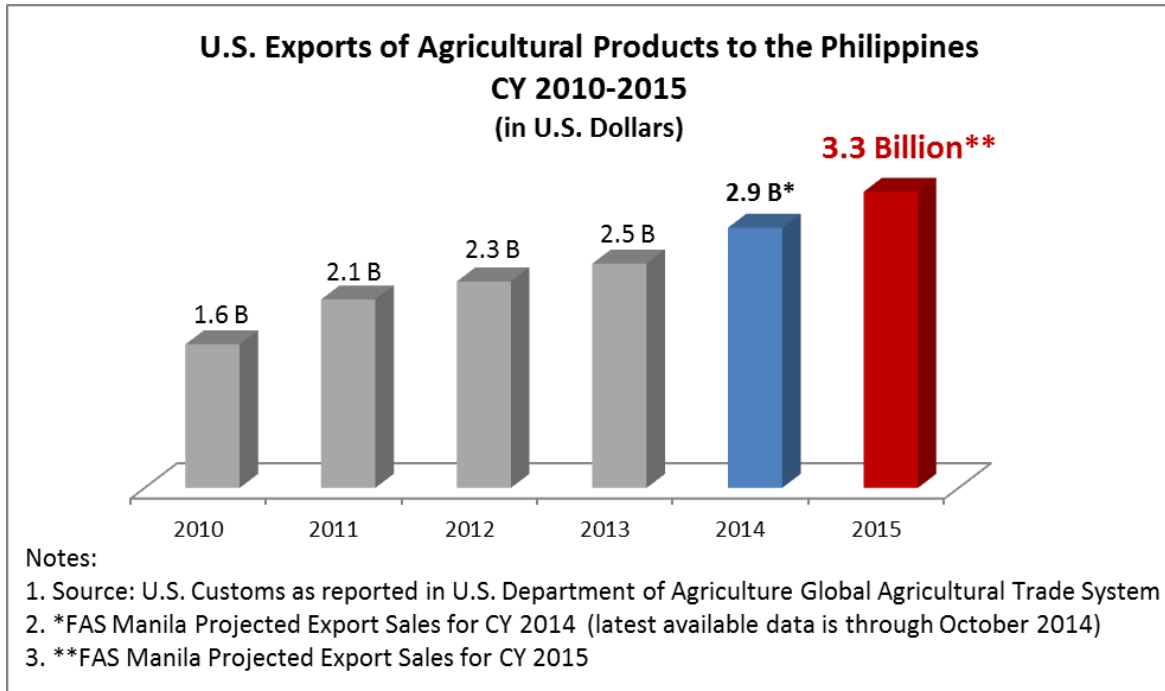
The country remains characterized by broad income disparity. In 2012 (latest available data), Filipino families earned an average annual income of \$5,222. Families in the richest decile earned an average annual income of \$15,888. On the other hand, families in the poorest decile, earned an average annual income of \$1,533. The income of families in the richest decile is 10 times that of the poorest decile. At the same time, the number of consumers entering the middle class has been increasing. According to the International Monetary Fund, Philippine GDP per capita in 2014 based on purchasing power parity is estimated at \$6,985.

Notes:

1. Exchange rate: PhP45.00 to \$1.00
2. Philippine population is estimated at 107.6 million as of July 2014 (The World Factbook)

Agricultural Trade Environment

The Philippines is a key market in Southeast Asia and the 9th largest market in the world for exports of U.S. agricultural products through October 2014 (latest available data). Post estimates total agricultural product export sales to the Philippines will reach \$2.9 billion by the end of 2014, up 15 percent from the previous year. All indicators point towards continued growth. Export sales are forecast to reach \$3.3 billion in 2015.



The top ten U.S. agricultural exports by value through October 2014 were wheat at \$564 million, soybean meal at \$454 million, dairy products at \$387 million*, red meats at \$152 million, poultry meat & products (excluding eggs) at \$80 million, prepared food at \$75 million*, processed fruit & vegetables at \$72 million*, sugar, sweeteners & beverage bases at \$63 million*, snack foods at \$45 million*, and fresh fruit at \$44 million.

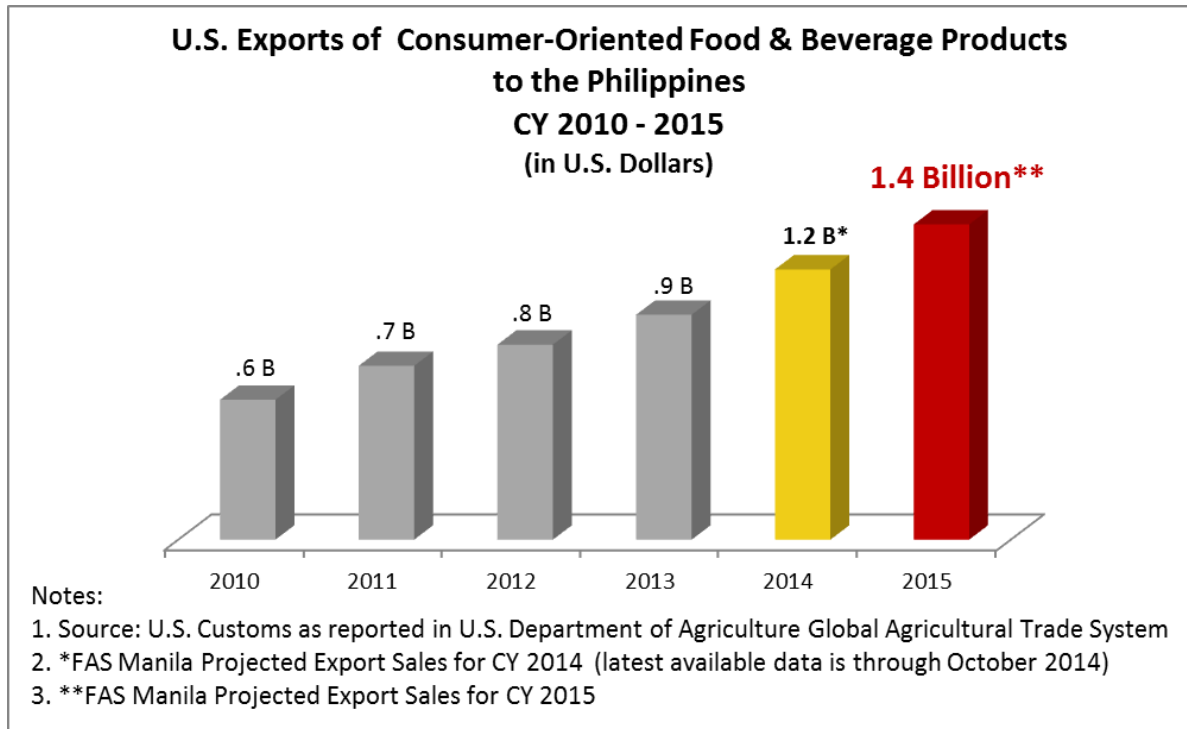
Historical data of U.S. agricultural product exports can be accessed online through the FAS homepage at www.fas.usda.gov.

Note: *Denote Highest Export Levels Since at Least CY 1970

Export Growth of Consumer Oriented Food & Beverage Products (a Sub-Sector of Total Agricultural Products)

The Philippines continues to be the largest U.S. food & beverage (f&b) export market in Southeast Asia and one of the fastest growing markets in the world. Export sales of U.S. f&b products to the Philippines are expected to reach a record \$1.2 billion by the end of 2014, up 20 percent from the previous year. Due to the robust Philippine economy, steady growth in the country's retail, foodservice and food processing sectors, and consumer familiarity with American brands, export sales are forecast

to reach \$1.4 billion in 2015.



The top U.S. f&b exports through October 2014 were dairy products, red meats, poultry meat, prepared food, and processed fruit & vegetables. A detailed report entitled, “Philippines-A Billion Dollar Market for US Food and Beverage Exports” is available through the FAS homepage at www.fas.usda.gov.

II. REGULATORY SYSTEMS & IMPORT REQUIREMENTS

For detailed information regarding standards and regulations for importing food and agricultural products into the Philippines, please refer to the report entitled, “Philippines: Food and Agricultural Import Regulations and Standards – Narrative” available through the FAS homepage at www.fas.usda.gov.

III. TARIFFS & DUTIES

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

The Philippine government also imposes a tariff rate quota (TRQ) known as Minimum Access Volume (MAV) on several agricultural products including corn, coffee/coffee extracts, potatoes, pork and poultry. Since 2005, the Philippine government has maintained MAV levels at its WTO Uruguay

Round commitments despite a continued rise in market demand for MAV products. The high in-quota tariffs, which range from 30-50 percent, significantly inhibit U.S. exports of MAV products to the Philippines. Sugar has the highest in-quota tariff at 50 percent, followed by potatoes and poultry at 40 percent, rice and corn at 35 percent, and pork and coffee at 30 percent. Since 2002, the Philippines has invoked a price-based special safeguard (SSG) on imports of chicken meat, essentially doubling the MAV rate of protection for out-of-quota imports.

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

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

The amended Tariff and Customs Code of the Philippines can be viewed online at:
http://www.tariffcommission.gov.ph/eo_61.htm

IV. EXPORTER BUSINESS TIPS

- Filipino businessmen value trust and personal relations. U.S. exporters are encouraged to maintain close contact with their Philippine importers. Regular market visits are favored by Philippine importers and regarded as a show of support.
- Some Philippine importers maintain buying offices in the U.S. and consolidate their shipments through third-party consolidators on the West Coast.
- Exclusive distributorship agreements are preferred by Philippine importers. U.S. exporters can work with one or several importers provided the market coverage of each importer is properly identified.
- Only a few retail supermarkets have the capacity to import directly.
- Philippine food regulations and standards generally follow the U.S. Food and Drug Administration. All food products must be registered with the Philippine Food and Drug Administration. Imported products may be registered only by a Filipino entity. Products from the U.S. do not require special labeling and may be sold in the Philippines in the same commercial packaging.
- U.S. exporters are advised to require payment of goods via letter of credit especially for initial transactions. Credit terms may be extended to the importer after conducting a thorough background and credit investigation, and after payment habits have been established.

- There are no distribution hubs. It is key to identify importers that can distribute to the three major cities (Manila, Cebu and Davao). Most importers distribute on their own while some appoint distributors.
- General Pricing Structure

From Landed Cost (CIF + Duties & Taxes)

- Add 30 percent to arrive at the wholesale price for food service customers
- Add 20-40 percent to arrive at the price for retail supermarkets
- Supermarkets add a 6-15 percent mark-up to arrive at the price sold to end-consumers

For food manufacturing, importers usually act as indentors and earn a 2-5 percent mark-up for importing and releasing the products.

- Credit Terms
 - For retail, products are mostly on a consignment basis. Importers collect payment after 30 days. For products purchased outright, retailers demand 60-90 days credit terms from importers.
 - Hotels and restaurants request for 30-60 days credit.
 - Food processors request for 30 days credit.
- Retailers demand high slotting fees (about \$120 per stock keeping unit or SKU) + year-round marketing support (\$1,000-\$2,000 per annum). U.S. exporters should, as much as possible, support marketing and promotional efforts.
- Filipino consumers generally prefer smaller packaging sizes.
- Due to insufficient cold chain infrastructure in the Philippines, products should be packed to withstand extreme heat and humidity.
- The high cost of inter-island shipping makes imported products more expensive in areas outside Manila.
- The release of imported goods from Philippine Customs sometimes poses a challenge.

V. MARKET SECTOR STRUCTURE & TRENDS

General Market Profile

- Large population: estimated at 107.6 million as of July 2014 (The World Factbook)
- Income: 10-15 million “real customers”
- Urban population: 49%
- High literacy: 90% of the 67 million Filipinos between the age of 10 to 64 years old are functionally literate (can read, write, compute and comprehend)
- High awareness & preference for U.S. f&b products
- Growing demand for “healthy”, organic, gourmet and convenience foods
- Steady growth in retail, foodservice and food processing industries

Food Retail Sector

The Philippine food retail sector continues to modernize and expand, fostering steady sales of a wide range of U.S. f&b products. Supermarket chains are opening large, Western-style stores in Metro Manila, Cebu, Davao and other key provincial cities including Bacolod, Cagayan de Oro and Iloilo. This expansion is being driven by continued strong economic growth, which has led to a boom in consumer spending. Markets continue to be dominated by national chains, due to investment regulations that limit ownership by foreign investors. Rapid growth in retail sales are creating new opportunities for imported food & beverage products, with many U.S. brands already widely recognized by Philippine consumers.

The proliferation of modern convenience stores such as 7-Eleven, Mini-Stop and Mighty Mart are partly due to the bullish BPO sector that operates around the clock. Products that can be classified as “convenient,” sweet and savory snack food products, meal-replacements and ready-to-drink beverages are in strong demand.

Food Service Sector

The Philippine foodservice sector continues to grow driven by the robust economy, the growing disposable income among the upper and middle class, the proliferation of retail shopping centers and hotels, the steady influx of tourists, the rapid growth of the BPO sector, and the increase in number of women joining the workforce have resulted in increased food service sales. Dining out continues to be an important aspect of Filipino family bonding and celebration.

Restaurants in five-star hotels and upscale malls, fast-food chains, cafes and Western-style diners require high-quality f&b products such as meats, poultry, seafood, dairy products, processed fruits & vegetables, fruit juices, dried fruits, nuts, wines and craft beers. Restaurant operators are keen on introducing new and exciting menu offerings to attract customers.

Food Processing Sector

The Philippines’ rapidly expanding production of processed food and beverage (f&b) products present robust opportunities for U.S. exporters of agricultural raw materials and high value ingredients. Quadrupling in recent years to over \$27 billion, f&b processing comprised 50 percent of the Philippines’ total manufactured output in 2013. Roughly 90 percent of the Philippine f&b processing industry’s output is consumed domestically, with excellent growth prospects stemming from the country’s resilient economy and strong consumer base. In addition, as quality and efficiency continue

to improve, the Philippines will be in a position to exploit export opportunities due to its strategic location and membership in various free trade agreements. The Philippine f&b processing industry's growing use of U.S. agricultural ingredients provides a valuable path for U.S. and Philippine exports to grow in tandem. About 65 percent of U.S. agricultural exports to the Philippines flow through the f&b processing industry. Wheat, dairy, red meats, red meats, and poultry meat comprise the bulk of sales, but other items such as dried fruits and nuts play a vital and increasingly important role.

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

- Philippine Food Retail-A Growing Opportunity for U.S. F&B
- Philippines: 2014 HRI Food Service Sector
- Booming Philippine Food Processing Industry Provides Opportunities for U.S. Ingredients

VI. ACTIVE U.S. COOPERATORS IN THE MARKET

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

Represented in the Philippines by Synergy Asia Marketing Services, Inc.

Unit 602-C, Summit Office Tower

530 Shaw Boulevard, Mandaluyong City

Metro Manila, Philippines

Tel: (63) 2534 8534, 534 8223

Fax: (63) 2534 8234

Contact: Ms. Reji Retugal and Ms. Evelyn Mercurio

Email: reji_r.synergyasia@hotmail.com ; evmercurio@synergyasia.biz

Cotton Council International

Represented in the Philippines by Strategic Edge, Inc.

5/F Emmanuel House, 115 Aguirre St.,

Legaspi Village, Makati City

Metro Manila, Philippines

Tel: (63) 2892 0247, 2892 0250

Fax: (63) 2892 0223

Contact: Ms. Ana Marie Gonzalez Marques, Managing Partner

Email: anamag@seinc.com.ph

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

Represented in Southeast Asia by Lieu Marketing Associates Pte Ltd

48 Toh Guan Road East

#02-129 Enterprise Hub

Singapore

Tel: (65) 6515 6113

Fax: (65) 6278 4372

Contact: Mr. Richard Lieu and Ms. Siew Keat Chuah

Email: richelieu@lieumktg.com.sg ; siewkeatc@lieumktg.com.sg

USA Poultry and Egg Export Council

#15-04 Liat Towers, 541 Orchard Road

Singapore

Tel: (65) 6737 1726

Fax: (65) 6737 1727

Contact: Ms. Margaret Say, Regional Director

Email: usapeec_sing@pacific.net.sg, msay@usapeec.org.sg

Website: <http://www.usapeec.org>

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

Represented in Southeast Asia by AgriSource Co., Ltd.

Ambassador's Court, 4th Floor, No. 416

76/1 Soi Lang Suan, Ploenchit Road

Bangkok, Thailand

Tel: (66) 2251 8655/6, (66) 2251 8669 & 8772

Fax: (66) 2251 0390

Contact: Ms. Jenny Lumain, Philippine Representative

Dr. Dee Richmond, Southeast Asia Representative

Email: jenlumain@gmail.com, dee@agrisource.co.th, agsource@loxinfo.co.th

U.S. Dairy Export Council

80 Raffles Place, #36-01 UOB Plaza 1,

Singapore

Tel: (65) 6334 7030

Fax: (65) 6248 4531

Contact: Mac Macatangay, Philippine Representative

Ms. Dalilah Ghazalay, Regional Director, SEA Marketing & Operations

Mr. Tony Emms, Regional Director, SEA Strategy & Market Access

E-mail: mac.macatangay.ct@dairyconnect.biz, tony@dairyconnect.biz, dali@dairyconnect.biz

Website: www.usdec.org

U.S. Grains Council

Suite 3B-7-3A

Block 3B, Level 7

Plaza Sentral

Jalan Stesen Sentral 5

Kuala Lumpur, Malaysia
Tel: (60) 32273 6826
Fax: (60) 32273 2052
Contact: Mr. Adrian Morales, Technical Director - Philippines
Mr. Adel Yusupov, Regional Director
Email: adiemorales@gmail.com; usgckl@usgc.com.my
Website: www.grains.org

U.S. Meat Export Federation

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

U.S. Soybean Export Council

Represented in the Philippines by Ted M. Cortes Consultancy Svcs.
Unit 10-1, One Global Place
25th Street corner 5th Avenue
Bonifacio Global City, Taguig
Metro Manila, Philippines
Tel: (63) 2224 4106
Fax: (63) 2224 4107
Contact: Mr. Teodoro M. Cortes, Philippine Representative
Email: ted@cortesconsulting.net
URL: <http://ussec.org>

U.S. Wheat Associates

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

VII. FURTHER INFORMATION AND ASSISTANCE

USDA-FAS at the U.S. Embassy in Manila is ready to help exporters of U.S. agricultural products achieve their objectives in the Philippines. For further information or assistance, please contact:

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