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Required Report - public distribution

Date: 12/3/2015

GAIN Report Number:

Philippines

Exporter Guide

2015 Annual

Approved By:

Ralph Bean

Prepared By:

Maria Ramona C. Singian

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 2014, export sales increased nine percent to a record \$2.73 billion. The top five U.S. exports by value in 2014 were wheat; soybeans & soybean meal; dairy products; red meats; and poultry meat & products. A sharp decline in commodity prices and the strong U.S. dollar contributed to a 15 percent drop in export sales from January to September in 2015. Traders expect exports to rebound in the last quarter of 2015. Competition has intensified and new challenges have emerged for U.S. exporters due to bilateral and regional free-trade agreements. Consumer oriented food & beverage products remain the best prospects for future export growth. 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.

Post: Manila

I. MARKET OVERVIEW

The bilateral relationship between the United States and the Philippines is unique because of the depth of historical and human ties. Both countries share a profound commitment to democracy, broad economic ties and a treaty defense alliance. Around 1.8 million Filipino-Americans constitute a major immigrant group in the United States, while more than 250,000 U.S. citizens reside in the Philippines. The U.S. Embassy in Manila is one of the largest overseas posts in the world, which reflects this important relationship. While the Philippine government structure is similar to that of the United States, Philippine political life is more freewheeling and oligarchic, and centered on the personal charisma of individual political leaders.

The current president, Benigno Aquino III was elected in May 2010 on an anti-corruption and good-governance platform. The government has since launched cases against numerous current and former high-level officials, including the former president and the Supreme Court Chief Justice. While not having had any significant effect on trade or agricultural policy per se, there is widespread belief that the anti-corruption campaign has enhanced the overall business environment, boosted investor confidence, and record stock prices.

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.

Significant infrastructure challenges persist in the Philippines, including high power costs (among the highest in the world), inadequate post-harvest facilities, and inefficient distribution networks (making it more expensive to ship goods from Manila to nearby islands than from the U.S. to Manila). Rampant corruption also presents additional challenges.

According to the Philippine National Statistical Coordination Board, after growing by a healthy 7.2 percent in 2013, the Philippine GDP slowed to 6.1 percent in 2014. The industrial sector emerged as the main growth driver expanding 7.5 percent, followed by services at 6 percent, and agriculture at 1.9 percent.

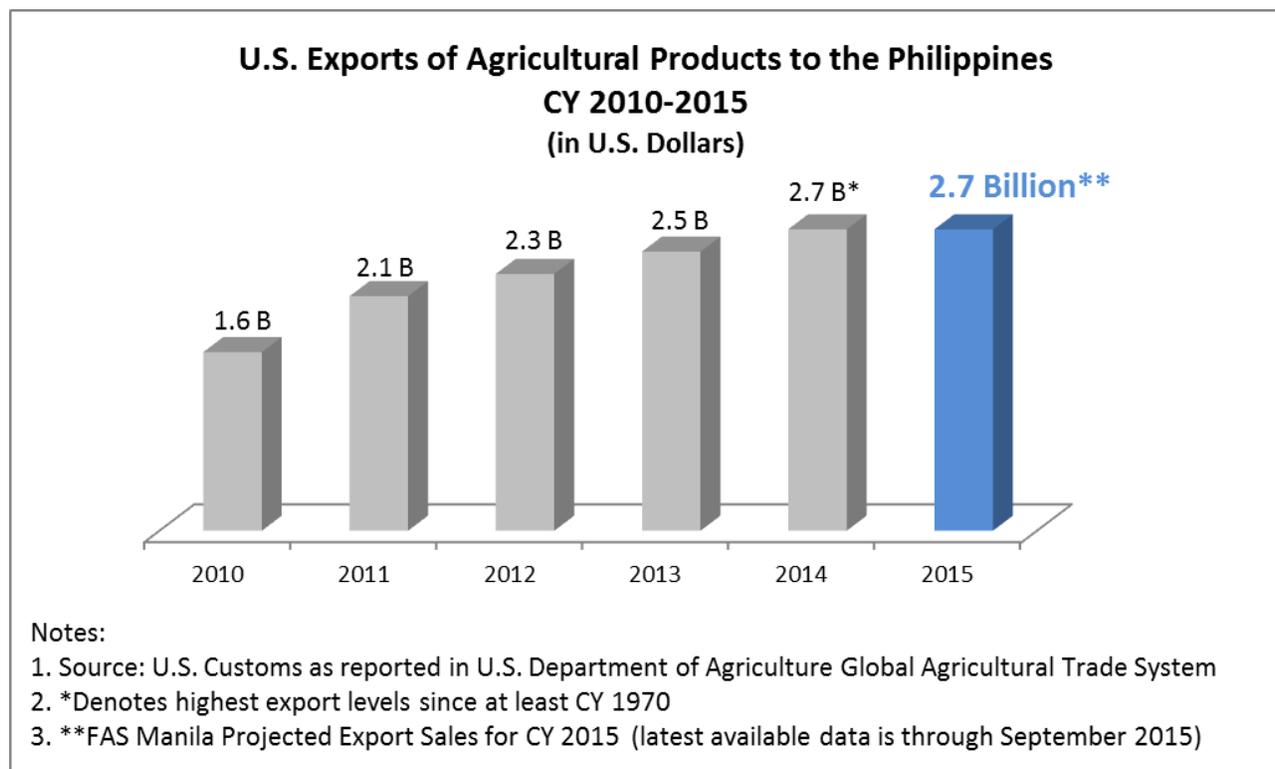
The Government of the Philippines (GPH) remains optimistic about 2015 projecting 7-8 percent GDP growth; however, the International Monetary Fund projects a slower growth rate of 6 percent. According to the Central Bank of the Philippines, or *Bangko Sentral ng Pilipinas* (BSP), average inflation in 2014 was 4.1 percent. Inflation has been within target in the last six years and is expected to remain in the 2-4 percent range through at least 2018.

Despite a growing middle class, the country is characterized by broad income disparity among its 100 million inhabitants. In 2011, the 40 richest Filipino families on the Forbes list cornered 76 percent of the country's GDP growth, while the incidence of poverty affects 25 percent of the population, one of the highest in the region. Per capita GDP in 2014 is estimated at \$2,765. The aforementioned numbers are exclusive of the underground economy, which the Washington DC-based research group Global Financial Integrity (GFI) reports accounts for roughly 35 percent of GDP.

Agricultural Trade Environment

The Philippines is a key market in Southeast Asia and the 9th largest globally for U.S. agricultural products. In 2014, U.S. agricultural exports to the Philippines increased nine percent to a record \$2.73 billion. The top ten U.S. exports by value in 2014 were wheat (\$697.6 million); soybeans & soybean meal (\$641.6 million); dairy products (\$422.3 million*); red meats (\$172.3 million*); poultry meat & products (\$92.8 million*); prepared food (\$88.5 million*); sugar, sweeteners & beverage bases (\$72.1 million*); processed vegetables (\$70.7 million*); fresh fruit (\$62.6 million*); and other intermediate products (\$62.6 million). Historical data of U.S. agricultural product exports can be accessed online through the FAS homepage at www.fas.usda.gov.

Despite the sharp decline in commodity prices and the strong U.S. dollar contributing to a 15 percent drop in export sales from January to September, traders expect sales to rebound in the last quarter of 2015 and reach the same level as last year.



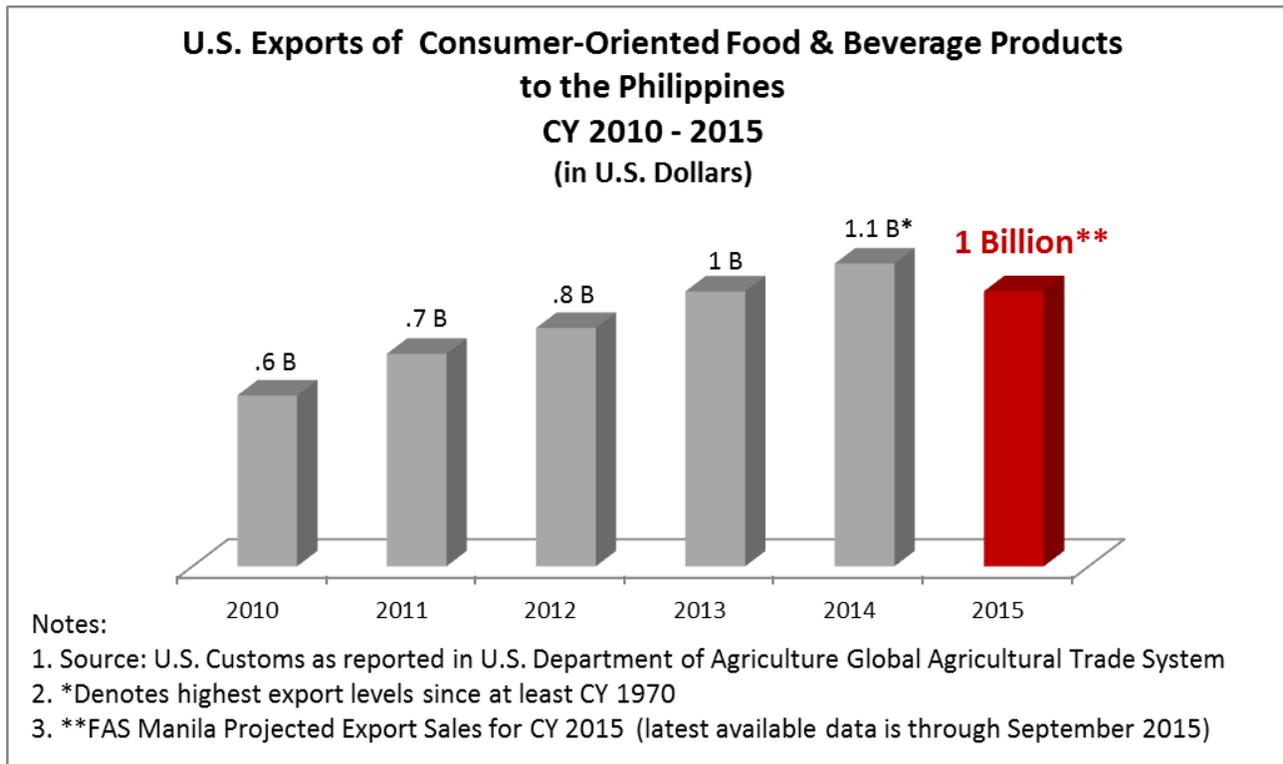
Note: * Denote highest export levels since at least CY 1970.

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 reached a record \$1.1 billion in 2014, up 11.5 percent from the previous year.

Despite the 23 percent drop in export sales of top products including dairy, pork and prepared food from

January through September, traders remain optimistic and expect sales of U.S. f&b products to the Philippines will reach \$1 billion by the end of 2015. U.S. exports of consumer oriented food & beverage products remain the best prospects for future growth due to the robust Philippine economy, steady growth in the country's retail, foodservice and food processing sectors, and consumer familiarity with American brands.



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. 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>

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: The total population of the Philippines was last recorded at 107.6 million people in 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 driven by the continued 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 business process outsourcing (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, growing disposable income among the upper and middle class, proliferation of retail shopping centers and hotels, steady influx of tourists, rapid growth of the BPO sector, and increase in number of women joining the workforce. 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 foods and beverages presents robust opportunities for U.S. exporters of agricultural raw materials and high value ingredients.

In 2014, the f&b processing industry’s gross value added output increased 13 percent over the previous year and reached \$28.4 billion . 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 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
- Prospects for U.S. Ingredients in Flourishing Philippine Food Processing Industry

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