

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 1/10/2013

GAIN Report Number:

Philippines Exporter Guide 2012 Annual

Approved By:

William G. Verzani

Prepared By:

Maria Ramona C. Singian

Report Highlights:

The Philippines is the 9th largest market in the world for U.S. agricultural products with 2012 export sales estimated at \$2.3 billion, up ten percent from the previous year. All indications are for continued strong growth in 2013, currently forecast to reach \$2.5 billion. The top ten 2012 U.S. exports (in order of value) were wheat, soybean meal, dairy products, red meats (fresh/ chilled/ frozen), poultry meat, feeds and fodders, snack foods, processed fruits and vegetables, fresh fruit, and red meats (prepared/ preserved).

The U.S. continues to be the Philippines' number one supplier of agricultural products. However, competition has greatly intensified and new challenges have emerged for U.S. exporters due to recent bilateral and regional free-trade agreements. Good sales opportunities still 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 and beverage products remain particularly strong and are the best prospects for future growth.

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 United States, while 250,000 U.S. citizens reside in the Philippines.

The Philippine government structure is similar to that of the United States. 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 that 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 consistently high approval ratings.

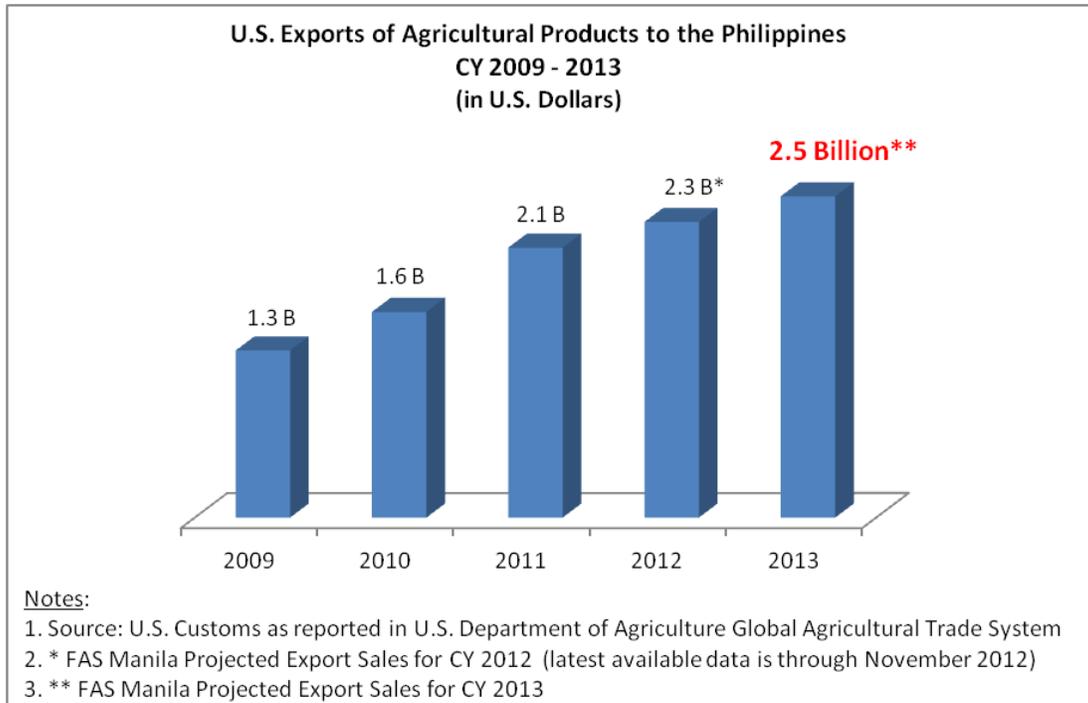
The Philippines posted the fastest economic growth within the ASEAN region through the third quarter of 2012. The Aquino administration is aiming for a higher GDP growth of six to seven percent from the original five to six percent growth targeted for 2012. The economic expansion is broad-based with almost all sectors posting higher year-on-year growth rates. The Philippines has the largest service sector in Southeast Asia. The World Bank projected remittances to the Philippines will hit \$24 billion in 2012, up 20 percent from the previous year, making the country the world's third-largest recipient of money sent by overseas workers. The country's business process outsourcing (BPO) sector expects profits to reach \$14 billion in 2012, up 28 percent from the previous year. The Philippine Peso strengthened from an average exchange rate of PhP43.27/US\$1.00 in 2011 to PhP42.18 in 2012.

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 102 million inhabitants.

The country remains characterized by broad income disparity. In 2009 (most recent data available), approximately 85,000 families belonging to the 'top 1 percent' earned what 5.5 million families belonging to the 'bottom 30-percent' collectively earned. At the same time there is a growing middle and upper class. According to the International Monetary Fund, Philippine Per Capita GDP (PPP) is at \$4,100 (2011 estimate).

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 November 2012 (latest available data). Post estimates total agricultural product export sales to the Philippines will reach \$2.3 billion by the end of 2012, up 10 percent from the previous year. All indications are for continued strong growth in 2013, currently forecast to reach \$2.5 billion.

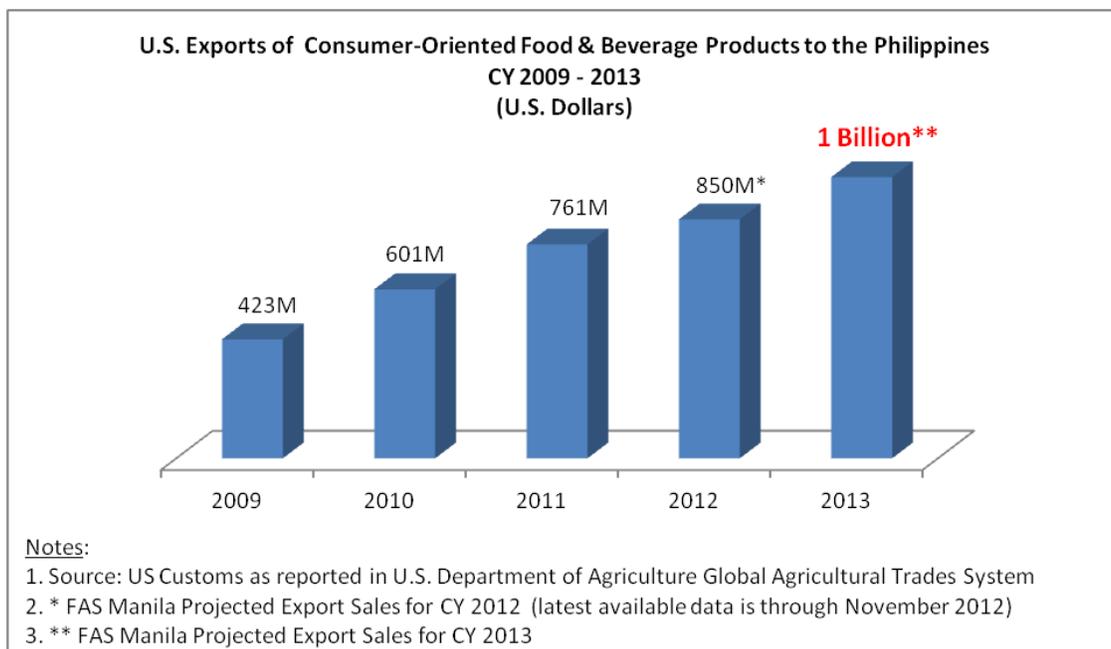


The top ten U.S. agricultural exports by value through November 2012 were wheat at \$590 million, soybean meal at a record \$535 million, dairy products at a record \$290 million, red meats (fresh/ chilled/ frozen) at \$97 million, poultry meat at a record \$80 million, feeds and fodders at \$77 million, snack foods at a record \$66 million, processed fruits and vegetables at a record \$65 million, fresh fruit at a record \$49 million, and red meats (prepared/ preserved) at a record \$30 million.

Historical data of U.S. agricultural product exports can be accessed on-line through the FAS homepage at www.fas.usda.gov. Choose 'Data' and then 'Global Agricultural Trade System.'

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 and 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 \$850 million by the end of 2012, up 12 percent from the previous year. Due to Philippine consumer familiarity with American brands, the robust Philippine economy, and steady growth in the country's retail, foodservice and food processing sectors, export sales are forecast to reach \$1 billion in 2013.



Top U.S. f&b exports in 2012 were dairy products, red meats, poultry meat, snack foods, and processed fruits & vegetables. Detailed reports entitled **“Philippines - A Top Market for U.S. Foods and Beverages in 2011 with Excellent Prospects for 2012”** and **“2012 Mid-Year Update - Record F&B Exports Likely as Robust Growth Continues”** are available through the FAS homepage at www.fas.usda.gov. Choose ‘Data’ then ‘[Global Agricultural Information Network \(GAIN\)](#)’ under ‘Current and Archived FAS Reports.’

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”** also available on-line 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 the 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 rice,

poultry, and potatoes at 40 percent, corn at 35 percent, and pork and coffee at 30 percent. Since 2002, the Philippines has also 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 that 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 for ASEAN trading partners.

The amended Tariff and Customs Code of the Philippines can be viewed online at:
http://www.tariffcommission.gov.ph/EO_574_annexes.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 United States 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 United States 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 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 on an outright basis, retailers demand 60-90 days credit terms from importers.
- The foodservice industry, hotels and restaurants request for 30-60 days credit.
- The food manufacturing industry requests 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: 102 Million (July 2012 est.)
- 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

Retail Sector

The Philippine 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 such as Bacolod, Cagayan de Oro and Iloilo.

At least some of the recent improvements in the retail sector can be attributed to the passage of the Retail Trade Liberalization Law in 2000, which allows foreign retailers to operate independently in the Philippines. In response to liberalization, local supermarket chains undertook positive changes to modernize their stores, stream-line operations and broaden their line of imported products. The retail sector is dominated by companies such as Metro Gaisano, Robinson's Supermarket, Rustans/ Shopwise Supercenters, SM Supermarket and S&R.

The proliferation of modern convenience stores such as 7-Eleven, Mini-Stop and Mighty Mart are at least 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 particularly strong demand for this industry.

Food Service Sector

The Philippine foodservice sector continues to expand due to the growing disposable income among the upper to middle class, the proliferation of malls and shopping centers, the growing influx of tourists, rapid growth of the BPO sector, and the increase number of women joining the workforce. Dining-out expenditure doubled in the past 10 years and accounts for 15 percent of total family expenditures.

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

There are over 11,000 food and beverage processing companies in the Philippines producing a wide variety of products that rely heavily on imported ingredients such as: meat and poultry products, fish and marine products, dairy products, processed fruits and vegetables, seasonings, and fats and oils. The small to medium size industries are mostly family-owned. Unlike other countries in the region where multinationals dominate the food processing industry, local companies such as San Miguel, RFM Corporation and Universal Robina Corporation hold a large share of the Philippine food processing sector.

VI. ACTIVE U.S. COOPERATORS IN THE MARKET

USA Poultry and Egg Export Council

#15-04 Liat Towers, 541 Orchard Road

Singapore 238881

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>

U.S. Meat Export Federation

627A Alijunied Road
04-04 Biztech Centre
Singapore 389842
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>

AgriSource Co., Ltd.

(ASEAN Representative of the **USA Dry Pea & Lentil Council** and the **U.S. Dry Bean Council**)
Ambassador's Court, 4th Floor, No. 416
76/1 Soi Lang Suan, Ploenchit Road
Bangkok 10330, Thailand
Tel: 66-2-251-8655/6, 011-66-2-251-8669 & 8772
Fax: 66-2-251-0390
Contact: Mr. Tim Welsh, ASEAN Representative
Email: agsource@loxinfo.co.th

American Soybean Association

Ted M. Cortes Consultancy Svcs.
14th Flr. Net Cube Centre
3rd Ave. corner 30th St., E-Square Zone
Bonifacio Global City, Taguig, MM
Philippines 1634
Tel: +63 (2) 479-5464
Fax: +63 (2) 634-1949
Contact: Mr. Teodoro M. Cortes, ASA Country Manager
Email: ted@tmccs.net
URL: www.asaimsea.com

U.S. Grains Council

Suite 3B-7-3A
Block 3B, Level 7
Plaza Sentral
Jalan Stesen Sentral 5
50470 Kuala Lumpur
Malaysia
Tel: 60-3-2273-6826
Fax: 60-3-2273-2052
Contact: Mr. Adel Yusupov, Regional Director
Email: usgckl@usgc.com.my
Website: www.grains.org

U.S. Wheat Associates

28/F Ayala-FGU Center
6811 Ayala Avenue
Makati City, Metro Manila 1203
Philippines
Tel: 632-818-4610 ,
Fax: 632-815-4026
Contact: Mr. Joseph Sowers, Country Director
Email: jsowers@uswheat.org / InfoManila@uswheat.org
Website: <http://www.uswheat.org>

Pacrim Associates Ltd.

(Southeast Asia Representative of the **U.S. Dairy Export Council**)
U.S. Dairy Export Council
P.O. Box 1492
Nana Post Office
Bangkok, 10112, Thailand
Tel: (662) 2543768
Fax: (662) 2543769
Contact: Mr. Dan Fitzgerald, Southeast Asian Representative
E-mail: usdec@pacrim.asia
Website: www.usdec.org

Lieu Marketing Associates Pte Ltd

(ASEAN Representative of the **Raisin Administrative Committee, Food Export-Midwest, Food Export-Northeast, and the Western United States Agricultural Trade Association**)
48 Toh Guan Road East
#02-129 Enterprise Hub
Singapore 608586
Tel: (65) 6515 6113
Fax: (65) 6278 4372
Contact: Richard Lieu or Siew Keat Chuah
Email: richelieu@lieumktg.com.sg ; siewkeatc@lieumktg.com.sg

Synergy Asia Marketing Services, Inc.

(Philippine Representative of the **California Table Grape Commission, California Milk Advisory Board, and the U.S. Potato Board**)
Unit 602-C, Summit Office Tower
530 Shaw Boulevard
Mandaluyong City 1501
Metro Manila
Tel: (632) 534-8534; 534-8223
Fax: (632) 534-8234
Contact: Reji Retugal or Evelyn Mercurio
Email: reji_r.synergyasia@hotmail.com ; evmercurio@synergyasia.biz

Strategic Edge, Inc.

(Philippine Representative of the **Cotton Council** International Representative)

5/F Emmanuel House, 115 Aguirre St.,
Legaspi Village, Makati City, 1229 Philippines
Tel: 63 2 892-0247/ 892-0250
Fax: 63 2 892-0223
Contact: Ms. Ana Marie Gonzalez Marques, Managing Partner
Email: anamag@seinc.com.ph

VII. FURTHER INFORMATION AND ASSISTANCE

FAS Manila is ready to help exporters of U.S. food and beverage products achieve their objectives in the Philippines. For further information or assistance in exporting U.S. agricultural products, please contact:

Foreign Agricultural Service
U.S. Department of Agriculture
Embassy of the United States of America
25/F Ayala Life-FGU Building
6811 Ayala Avenue
Makati City 1203
Tel: (632) 894-5363 or 894-5379
Fax: (632) 812-5430
Email: Agmanila@usda.gov