



FOOD AND BEVERAGES SECTOR BRIEF

PHILIPPINES



Country Overview












The Philippines is an archipelago consisting of more than 7,000 islands and islets in the Pacific Ocean, naturally linked by nautical passages to Malaysia, Indonesia, and Taiwan. The country's population is about to reach 110 million, with the National Capital Region (Metro Manila), reputed to be the most densely populated city in the world with around 15 million inhabitants. The Philippines, due to its special history, differs from most of the ASEAN countries culturally. It is the second-most-populous Asian country with English as an official language, and one of only two dominantly Roman Catholic countries in Asia. These Anglo-European characteristics can be traced in everyday life and business practices as well. (www.britannica.com)

The Philippines is one of the most dynamic economies in the ASEAN region. Its recent success is fuelled by a large and young population, a competitive workforce, a growing and consuming middle class, and the dynamic tourism industry and service sector. In the last decade, the average annual GDP growth reached 6.4% per annum and the country leaped into the upper-middle-income range in 2019. In recent years, the Philippine economy has made progress in delivering inclusive growth, evidenced by a decline in poverty rates and its Gini coefficient. Unemployment has reached historically low rates and underemployment rates, while still high, continue to improve significantly. Although a large share of Filipino workers transitioned out of agriculture, most of them end up in low-end service jobs. Measures to generate good jobs and better wages, therefore, are essential to achieve prosperity. (World Bank)

The country had a good economic outlook for 2020 with strong government spending and improved manufacturing performance fuelling the GDP. However, this growth was significantly disrupted by the COVID-19 pandemic and, to some extent, by the two big natural disasters: the eruption of Taal Volcano in Batangas Province and landing of Typhoon Kammuri locally known as Tisoy, that hit the country shortly before the COVID-19 pandemic. Almost all sectors have been severely affected by the COVID-19 lockdowns, the airline and tourism being among the most impacted industries. The country's trade and overseas remittances, which significantly contribute to the GDP, have declined due to the pandemic. However, the Philippines is slowly recovering as it gradually restarts and reopens its economy.



RECENT ECONOMIC INDICATORS FOR THE PHILIPPINES:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Consumption (annual variation, %)	 Unemployment (%)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2015	102	2,881	6.1	6.3	6.3	0.7	-12.2	58.8	71.1
2016	103	2,953	6.9	7.1	5.5	2.2	-26.7	57.4	84.1
2017	105	2,989	6.7	5.9	5.7	2.9	-27.4	68.7	96.1
2018	107	3,104	6.2	5.6	5.3	5.1	-43.5	69.3	113

Sector Overview



General characteristics of the sector

The Philippines' processed food and beverage sector is concurrently developing with the growing production of raw materials and high-value ingredients. The industry's gross value-added (GVA) output amounted to US\$ 32.5 billion IN 2018, which was a 7.6% increase from 2017.

About 90% of the food and beverage sector output is domestically consumed. However, with the increasing quality and efficiency of manufacturing, export potential of the sector may open new market opportunities, especially in the ASEAN region. The country's strategic location and trade policies can help industry players explore and venture into exporting.

The development of the food manufacturing industry is supported by a growing consumer base. Although the GDP per capita is slightly above US\$ 3,000, a fifth of the population i.e., more than 20 million people, earn over US\$ 12,500 per annum. This urban middle class is very young, more than 50% are younger than 24 years of age, and has western tastes and preferences. Their consumption will be the engine of further growth in the food and beverage sector.

The government's trade policy is supporting the food manufacturing businesses. Many of these ventures are operating in Special Economic Zones, or ecozones, where operating companies can enjoy the benefits of the duty-free entry of agricultural raw materials and ingredients. More information about these zones can be found through the Philippine Economic Zone Authority (PEZA).

Most important segments of food manufacturing

The largest food manufacturing companies in the Philippines are Nestlé Philippines (gross revenue US\$ 2.422 billion), San Miguel Brewery (gross revenue US\$ 1.957 billion), snack producer Universal Robina Corp (gross revenue US\$ 1.608 billion), Coca-Cola FEMSA Philippines (gross revenue US\$ 1.170 billion), and a noodle manufacturer Monde Nissin (gross revenue US\$ 850 million).

The segments of confectionery and snacks, processed fish and seafood, cereals and bread, meat and meat products, and beer and spirits have the highest revenue in food manufacturing.

Confectionery

The revenue for the confectionery and snacks segment was expected to reach US\$ 7.1 billion in 2020, and industry experts estimated a further 9.1% annual growth by 2025. The annual average per capita revenue of the sector amounted to US\$ 64.73 in 2020, while the average per capita consumption of these treats stood at 12.1 kg.

The main subsegments are sugar, including hard-boiled sweets, jellies, mints, lollipops, caramels, etc., chocolate, fine bakery wares, and other confectionery, such as snacks, chewing gum, branded ice creams, etc. The drivers of the manufacturing industry are:

- Product innovation: confectionery is a very innovative segment as people are always looking for new flavours, combinations, energy boosts; the direction of recent innovation is towards better quality raw-materials and healthier products.
- Retail market expansion - confectionery products can be found in all types of retail channels, and the stores themselves act as global marketing tools; they happily assist in building an impressive premium image and increase brand exposure as these marketing strategies can also improve the shop's image.
- Growth in demand for sugar-free, organic, and low-calorie products; consumers in the Philippines have become more conscious about sugar intake and are shifting toward products that offer high nutritional value, leading to an increase in demand for sugar-free, organic and low-calorie products.

Processed fish and seafood

The processed fish and seafood segment includes all types of canned, dried and smoked fish, and seafood products, excluding fish and seafood-based, and ready-to-eat meals which are included in the convenience food segment). In 2019, the total revenue generated by this segment amounted to US\$ 2.143 billion, a 11.7% growth from 2018. According to industry experts, this growth is expected to slow down to an annual average of 5%, until 2025. The average per capita consumption for this segment stood at 2.5 kg in 2020.

Bread and cereal products

This segment generates an annual revenue of US\$ 26.4 billion, with an expected annual growth of 4.9% until 2025. Combining all bread and cereal-based products, the annual per capita consumption is over 200 kg. Most of raw materials are imported, but local production is developing.

Instant noodles are a very important product in this segment. The Philippines ranks 8th in the world with its total of 3.850 million servings of noodles which are consumed every year. Both local production and imports are significant sources of instant noodles. Almost all retail outlets sell these instant noodles.

Meat and meat products

Fresh meat and processed meat products are included in this segment, except for ready-to-eat meals. This product group shows a stable, but not outstanding growth in the past few years, and is expected to grow by 5% for the next half a decade.

The meat segment generates annual revenue of about US\$ 13.4 billion, which accounts for \$122.29 per capita in the Philippines. The total annual consumption is 20.5 kg per capita, of which 3.7 kg is processed meat, and the rest are fresh products.

Alcoholic drinks

This market segment is quite strong due to the increasing local demand and a growing tourism industry. The total revenue generated by the alcoholic drink market was to US\$ 8.9 billion in 2020, after a solid 6.6% growth from 2018. More than 2/3 of this revenue is generated by spirits, though its growth rate is lower than that of the beer segment. Market presence and consumption of wine are not relevant, as the average annual per capita intake is 0.1 litres, which is less than a glass.

Beer is mainly produced by two large breweries, San Miguel Corporation and Asia Brewery. These large producers are now being joined by a small, but growing number of micro-breweries opening up across the nation, forming one of the best investment opportunities in the food and beverage sector.

Ingredients and flavours

According to Ken Research, the Philippines' food ingredients market was predicted to have reached US\$ 1.4 billion in 2020. The main products of this segment are functional food ingredients, sugar substitutes, flavours, specialty starches, preservatives, acidulants, and enzymes. The two main drivers for the robust growth of the subsector are:

- Demand for packaging and longer shelf-life products pushes manufacturers to add more preservatives and other additives.
- Consumers' choice towards carbonated, caffeinated drinks and flavoured soft drinks requires more intensive flavours, driving up the demand for enhancers.

Food service industry

The Philippine's food retail sector is evolving, and achieved a record of US\$ 47.4 billion in revenue in 2018. Rising incomes, a growing urban population, and a strong preference for imported brands drive the largest retail chains to improve their outlets, source new products, and increase their warehousing capacities. The traditional "sari-sari" (or mom & pop) stores still dominate the country's food retail market, but modern super- and hypermarkets are rising in Metro Manila, Cebu, and the larger provincial cities. In the provinces, traditional markets are still the centres of retail, posing as both a challenge and an opportunity for modern retail companies to explore.

The Philippines is known for its abundance of fast-food restaurants. From 2014 to 2020, the revenue of the fast-food segment grew from US\$ 4.1 billion to US\$ 5.6 billion, while the revenue of full-service restaurants stagnated at around US\$ 2.7 billion. In comparison with the retail sector, 100% foreign ownership is allowed in the food and beverage franchise. Many foreign-franchised fast-food outlets and chain restaurants are heavily present in almost all shopping malls in the country.

Regulations



The World Economic Forum (WEF) ranked the Philippines in 64th place in 2019 in the global competitiveness ranking, eight places lower than in the previous year. The research behind the ranking shows that the Philippines has much to do regarding trade regulations to improve its companies' chances on the global market.

Nevertheless, the Philippines is making full use of the benefits and functions derived from its multilateral, bilateral, and regional engagements in crafting and implementing impactful trade policies and strategies.

Registration for importers

To register as an importer, businesses first need an Import Clearance Certificate from the Bureau of Internal Revenue. Importers then register with the Bureau of Customs (BOC) and set up an account with the Client Profile Registration System (CPRS). The Import Clearance Certificate is valid for three years while the Customs Client Profile Accreditation must be updated annually. The CPRS accreditation costs PHP 1000 (ca. US\$ 20) and typically takes 15 working days to process.

Registration for exporters

First-time exporters need to register with the above-mentioned CPRS, which can be done through the Board of Investments, Philippine Economic Zone Authority (PEZA), Export Marketing Bureau (EMB), or the Philippines Exporters Confederation, Inc. (PHILEXPORT). For certain goods, export clearances are needed, including, for example coffee exporters require this from the EMB. Exporters using Special Economic Zones (SEZ) will have to check for any additional procedures.

Tariffs

The Philippines has 11 tariff schedules. The Most Favoured Nation (MFN) refers to Philippine tariff rates that apply to imports from all sources. Other schedules are regulated by the different trade agreements, under ASEAN and bilaterally between the Philippines and a few nations.

The Philippines Customs applies a value-added tax (VAT) for imported goods at 12%, with exceptions for goods worth less than US\$ 200.

The easiest way to find the applicable regulation and tariff rate for certain goods is the Tariff Commission's The Philippine Tariff Finder.

The Tariff Commission is a government agency, supervised by the National Economic and Development Authority. The Commission performs both governmental and quasi-judicial functions, which includes adjudication of cases on the application of trade remedies against imports, studying the impact of tariff policies, administering the Philippine tariff schedules and nomenclatures, issuing advance rulings on the tariff classification of imported goods, etc.



Non-Tariff Measures

As the global trend is to have tariffs reduced, other regulatory measures on trade are thriving. These measures collectively known as non-tariff measures, can be imposed on both imports and exports. Agricultural goods are the most affected by NTMs usually, and the Philippines is no exception.

The non-tariff measures are classified by regulation and a good overview can be found on the World Bank website.

Certain non-tariff measures of the Philippines can be found on the Philippine National Trade Repository.

Typical non-tariff measures are pre-shipment inspections and other prior formalities, price control, technical trade barriers. The Department of Agriculture and the Department of Environment and Natural Resources implement the most measures, and 100% of animal product and nearly all plant products are subject to at least a few NTMs.



Unlike other ASEAN countries, where religion (Malaysia, Indonesia), or historical traditions (Thailand, Lao PDR) influence food and beverage choices, in the Philippines a large proportion of the population is Catholic with no stringent food limitations. Filipinos are generally very open to international cuisines and new tastes.

Promotion and networking

There are some well-established business associations in the Philippines that can serve as a base for market entry or investment. It is always worthwhile to find reliable partners in these organisations, who will provide useful information on foreign direct investment regulations, public procurement opportunities, and local market outlook, as having no access to this knowledge resource poses a big hindrance to newcomers' success.

Trade promotion organisations

The trade promotion agency of the Philippines is the Center for International Trade Expositions and Missions (CITEM), which is under the Department of Trade and Industry.

CITEM organises strategic trade promotion activities, including joint or national participation on trade fairs, conducting business missions, regular market data targeting exporters, sourcing, and coordinating technical and merchandise consultancies. Their core message is that the Philippines is an exporting nation, a reliable source of products and services.

Meanwhile, the gateway to local exporters is PHILEXPORT, the umbrella organisation of Philippine exporters. PHILEXPORT, mandated under the Export Development Act to develop and implement export-support and development programmes, has over 4,000 members nationwide, mostly micro, small, and medium enterprises (MSMEs) including those in the agriculture sector. More information, can be found on www.philexport.ph.

Chambers of commerce

The Philippine Chamber of Commerce and Industry (PCCI) was founded in 1886 by a group of Spanish businessmen, and the three largest Spanish companies in Manila. The PCCI aims to help ease doing business in the Philippines through its advocacy and other programmes and services. The Chamber has a prominent role in business development, with a very strong network and activities internationally. The PCCI is an umbrella for business councils and represents Philippine business interests on the ASEAN level as well. Information on the Chamber can be found on www.philippinechamber.com.

Trade fairs and promotion methods

There are several relevant trade fairs organised for the agricultural sector in the Philippines every year. CITEM organises IFEX Philippines, the country's biggest international trade exhibition on the Philippines', which focuses on Asia's ethnic and specialty food, tropical fruits, vegetables, seafood, beverages, bakery and confectionery products, meat and poultry, Halal-certified products, as well as natural, organic, and healthy food products. It has provided a business-to-business platform for local and international food companies to discover new markets, launch new products, and transact with the world's biggest buyers.

There are also other domestic bazaars and international shows, such as the Feeds Expo Philippines and Aquaculture Philippines at the Manila World Trade Centre. More information on www.livestockphilippines.com.

Agrilink Philippines Expo is held every October, now on its 26th year. Agrilink is also co-organised with Foodlink and Aqualink, and participation is advised for the whole agribusiness value chain, from farm inputs to the retail market.

Two of the most prominent trade fairs within food and beverages are AFEX-ASIAFOOD expo and MAFBEX – Manila International Food and Beverage Expo. However, due to the COVID-19 pandemic most of the large fairs and product shows have been cancelled or delayed, so other ways of promotion are being used such as e-commerce, direct mailing, online product show videos, or promotional product listings at online marketplaces.

Online promotion

The Philippines has one of the youngest demographics in Asia, and the working and employed class is the largest consumer group in the country, spending an average of 4.3 hours on social media every day – the highest figure globally. The COVID-19 pandemic has helped push the evolution of more e-commerce set up by enterprises.

Entering the retail market

The retail sector in the Philippines is not fully liberalised for foreign direct investments. There is a general local to foreign ownership ratio of 6:4 for any deal under US\$ 2.5 million. Partnering with local businesses is the easiest way to enter the Philippine retail market for two main reasons; it makes it easy to comply with the equity rules and local registration, and a local partnership through a joint venture enables the foreign player to obtain invaluable on-the-ground understanding of the local business culture and environment.

Raw material import

Growing and already large food and beverage processors in the Philippines mostly import large amounts of raw materials and ingredients directly. Smaller manufacturers purchase their raw material from importers or distributors. Most of these importers or traders are based in Metro Manila and have their logistics and distribution systems to reach provinces further from the capital. Newcomers on the market, especially within no-commodity ingredients, may offer their products to larger importers at first, as handling direct import is administratively very difficult and costly.

Imported processed food and beverages

There is a small, yet sophisticated consumer class, eager to buy high end, imported luxury items. On the other hand, there remains a mass market of consumers who are highly price-sensitive and fond of looking for daily bargain deals. This reflects the procurement policy of the retailers, by which the larger and more highly positioned retail chains try to source luxury products directly.

Food and beverages e-commerce

The e-commerce market of the Philippine market is gradually developing, and major platform operators such as Lazada and Zalora, which have penetrated different ASEAN markets, offer handy and relatively low-cost options for overseas suppliers to sell their products in the Philippines.

The e-commerce market segment of the food and beverages sector includes online sales of fresh and packaged foods (excluding baby food), delicacies, and beverages. This market segment comprises the sale of fruit, vegetables, pasta, snacks, sweets, refrigerated products, frozen foods, soft drinks, and alcoholic drinks via digital channels. The most significant channel for the online sales of food and beverages is, at present, the online shops of the supermarkets and warehouse stores, or subscription services.

Filipino consumers will typically conduct online research on restaurants before dining out. Dining websites and mobile apps are very popular in the Philippines, especially in Metro Manila and Cebu. LooLoo, Booky, and Zomato are the most popular. These websites show diners' reviews, booking services, and editorials. Food and beverages operators in the Philippines can link up with these sites to provide online booking services to diners.

Recommendations and Trends



The Philippines offers one of the best growth potentials in the food and beverage sector in the ASEAN region, both for manufacturers and traders. However, there are some elements of the economic policy of the country that could lead to a loss of competitiveness in the future:

- With Metro Manila being densely populated and having a metropolitan style, it is easy to neglect that the further one goes away from the region, the more difficult and costly the logistics will be.
- Raw material imports are rising, and local agriculture is still facing many difficulties that should be overcome in order to build-up a healthier trade balance in this sector.
- Larger or luxury retail companies may want to source their products directly from the producers, even farmers, but it is still more convenient to deal with a local distributor or importer.

Halal and Kosher initiatives are also important to add to the ASEAN market. More information can be found on the Department of Trade and Industry's Export Marketing Bureau (DTI EMB) website:

<https://www.dti.gov.ph/negosyo/exports/>