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Report Name: Connecting Port to Plate amid Evolving Food Preferences

Country: Philippines

Post: Manila

Report Category: SP1 - Expand International Marketing Opportunities, Food Processing Ingredients, Food Service - Hotel Restaurant Institutional, Retail Foods

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Report Highlights:

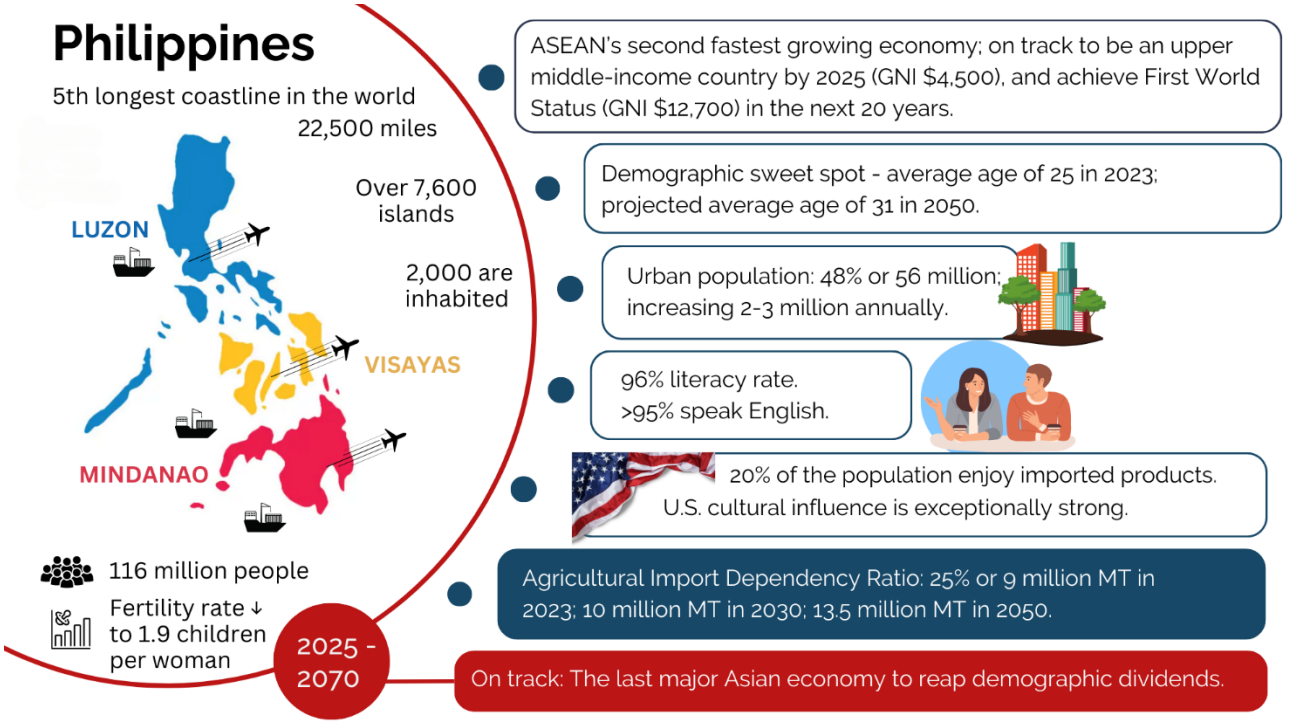
The Philippines is expected to experience economic growth between 2025 and 2070, due to a shift in its demographics, necessitating a robust and efficient food distribution system. This report provides an overview of the distribution process of imported food and agricultural products from Philippine ports to consumers' plates, highlighting evolving food preferences.

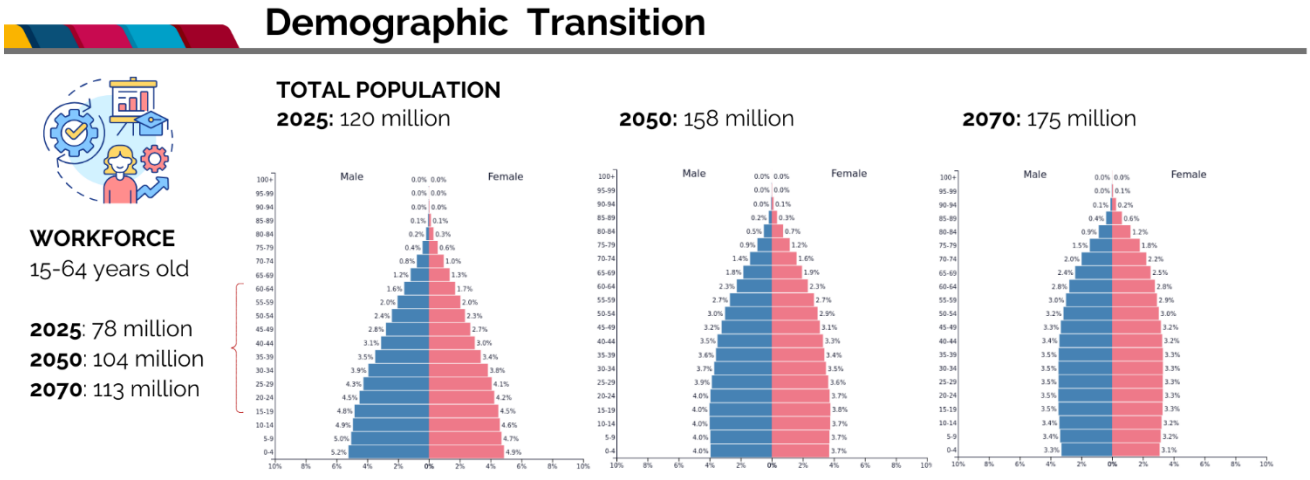
THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Introduction

The Philippine archipelago comprises three major island groups: Luzon, Visayas, and Mindanao, with more than 2,000 of its islands inhabited by 116 million people. More than half of the population resides in Luzon (56 percent), while the remaining population is divided between Visayas (20 percent) and Mindanao (24 percent). The country's coastline is irregular, with numerous islets, bays, gulfs, and straits. The coastal areas are densely populated, with 60 percent of the population and major urban centers located along them. The Philippines' shores are renowned for their stunning beauty, attracting an average of six million tourists annually.

Figure 1. Fast Facts on the Philippine Market





Sources: Philippine Statistics Authority, The World Factbook, and UN World Population Prospects.

The Philippine Market for U.S. Agricultural Exports

The Philippines is expected to maintain its position as the seventh largest market for U.S. agricultural exports and the top market in Southeast Asia in 2023. Last year, the Philippines received more than 215,000 shipping containers of U.S. agricultural exports worth $3.6 billion, including bulk and intermediate products, such as wheat, soybeans, and soybean meal, and a wide variety of high-value consumer-oriented products, including dairy, poultry, red meat, food preparations, and processed vegetables.

Anticipating Demographic Dividends

The Philippines is positioned to be the last major Asian economy to capitalize on demographic dividends between 2025 and 2070. In 2022, the country's fertility rate declined to 1.9 children per woman, approaching Thailand's rate of 1.5. This decline is projected to result in a decrease in the dependent population (14 years old or younger) and an increase in the working-age population (15 to 64 years old). This demographic shift has the potential to promote robust economic growth and enhance living standards.

The Philippine government has formulated a comprehensive set of measures in its Philippine Development Plan 2023-2028 to spearhead profound economic and social transformation and to effectively guide the country through the demographic transition. If these measures are not implemented effectively, the country may face a delay in reaping the benefits of the demographic transition, potentially until at least 2050, or even miss out on them altogether, as cautioned by the Philippine National Economic Development Authority[1].

Build, Better, More

The government has also made significant investments in the development of infrastructure. The previous administration's "Build, Build, Build" program completed 12 big-ticket flagship infrastructure projects worth $1.27 billion, including seaports, airports, roads, and railways. The Marcos administration's "Build, Better, More" program has committed $157 billion in funding to critical infrastructure in the public transport, power, health, information technology, water resources, and agriculture sectors.

The government and private sector have developed two industry roadmaps to strengthen the country's food distribution system. These roadmaps, the E-Commerce Philippines 2022 Roadmap and the Cold Chain Industry Roadmap 2020–2025, aim to propel the country to regional technological leadership and ensure food safety and security, respectively. Additionally, the Philippine Department of Agriculture with support from the Asian Development Bank is developing the Philippine Food Chain Logistics Masterplan 2023-2033, which aims to revolutionize the country's food distribution system.

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[1] National Economic & Development Authority. (2018, December 19). Reaping Demographic Dividend. https://neda.gov.ph/neda-reaping-demographic-dividend-to-spur-growth/

The Philippines' logistics performance has improved, with the country ranking 43rd in the World Bank's Logistics Performance Index (LPI) in 2023, the country's highest ranking since 2007. However, according to a study conducted by the Organization for Economic Co-operation and Development (OECD), the Philippines has a high logistics-cost-to-sales ratio of 27 percent compared to other Southeast Asian countries such as Indonesia (21 percent), Vietnam (16 percent), and Thailand (11 percent).

Driven by the rise of e-commerce and urbanization, the logistics industry is expected to grow eight percent annually and become a $30 billion market in 2030, based on OECD's projection. The e-commerce industry is poised for exponential growth, with the potential to reach $285 billion by 2030, equivalent to 26 percent of the country's GDP, according to the Philippine Department of Trade and Industry.

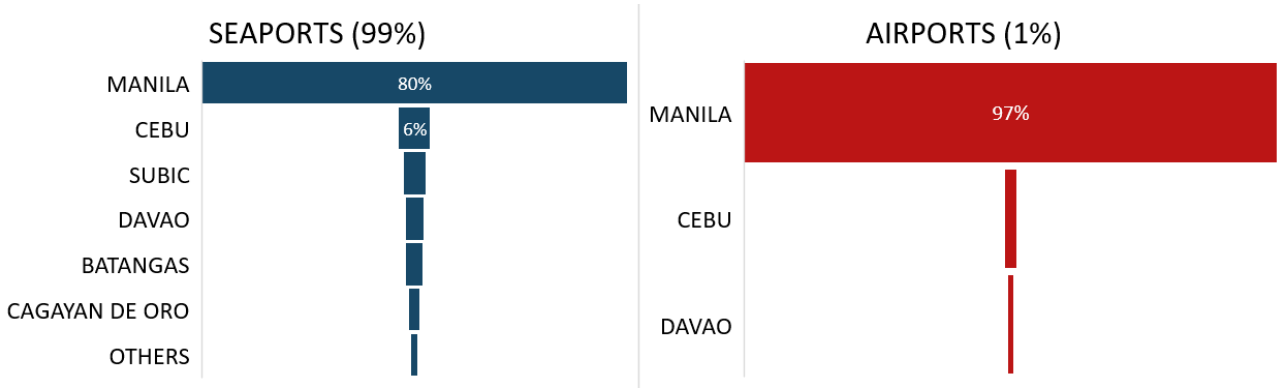
In line with this overall growth, the Cold Chain Association of the Philippines projects a robust 24 percent increase in cold storage capacity, reaching 682,000 pallet positions by 2023. This momentum is expected to continue, with an 18 percent increase projected for 2024. This will add 150,000 pallet positions, allowing the industry to handle one million metric tons (MT) of products – twice the amount compared to 2019 levels. Should this trend hold, the industry is anticipated to handle 2.6 million MT of products by 2030.

Food Distribution System

Arrival at International Ports

The Philippines has an extensive network of seaports, including 23 major ports and more than 100 minor ports. More than 350 shipping firms are registered with the Philippine Maritime Industry Authority. The country also has eight international airports, 40 principal airports for regular domestic flights, and another 40 smaller airports. These ports are regulated by the Philippine Ports Authority (PPA) and Civil Aviation Authority of the Philippines, both attached to the Department of Transportation.

Figure 2. Imported Agricultural Products Received at Philippine Ports



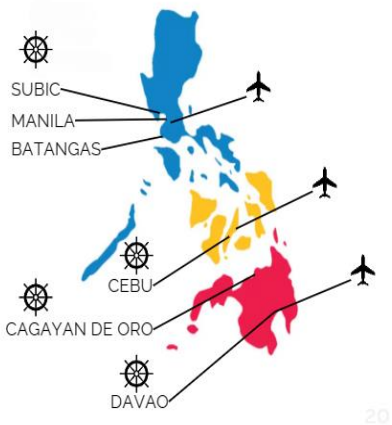
Source: FAS Manila interviews.

To avoid the extra cost of inter-island shipping, most importers prefer direct shipments from the United States to their designated locations within the Philippines.

The trade estimated that more than 300,000 consignments of imported food and agricultural products arrived in the Philippines in 2022, with 99 percent via sea. Most of these products were received at six of the country's major seaports and three of its international airports.

The Subic, Manila, and Batangas seaports are situated in Luzon. The remaining three major seaports are in Cebu (Visayas), and Cagayan de Oro and Davao (Mindanao). The Manila seaport receives the highest number of shipments and is divided into three sections: Manila North Harbor, Manila South Harbor, and the Manila International Container Terminal (MICT) located in between. According to the PPA, MICT is the third-largest terminal in Southeast Asia.

Figure 3. Entry Points of Imported Food and Agricultural Products



Source: FAS Manila interviews.

The three international airports are Ninoy Aquino International Airport (originally known as Manila International Airport), Mactan-Cebu International Airport, and Davao International Airport.

Import Regulations and Standards

Only accredited and registered individuals or businesses may import food and agricultural products into the Philippines. Importers must obtain accreditation from the relevant regulatory government agencies, namely the Bureau of Plant Industry, Bureau of Animal Industry, Bureau of Fisheries and Aquatic Resources, and the Food and Drug Administration. Importers must also ensure that food and agricultural products entering the Philippines comply with health and phytosanitary regulations. For specific information, see the GAIN report entitled "Philippines: Food and Agricultural Import Regulations and Standards (FAIRS)."

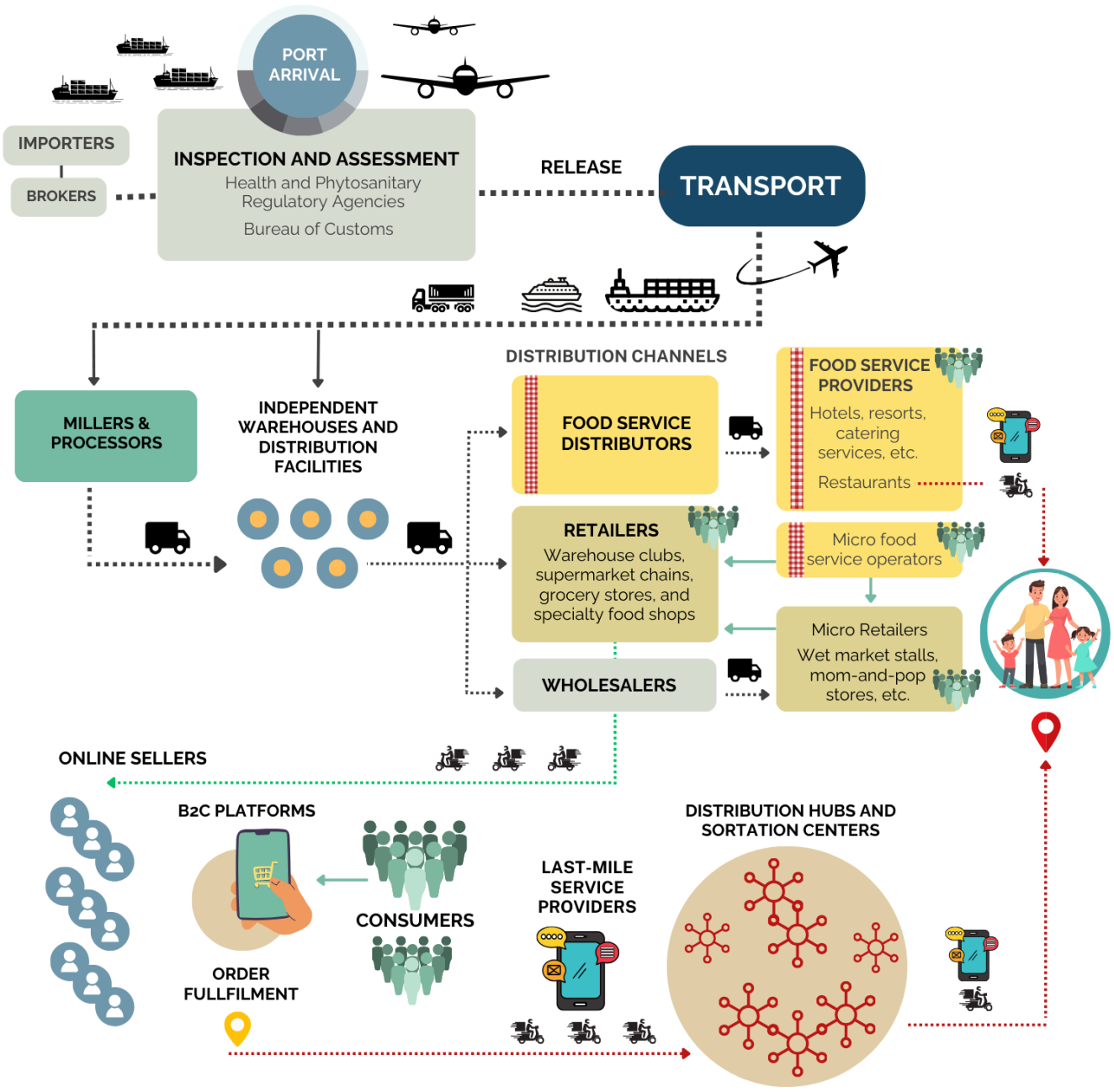
Port Inspection and Assessment

Each of the regulatory agencies deploy personnel to conduct inspections at the port to ensure compliance with health and phytosanitary regulations. The Bureau of Customs (BOC) conducts further inspection to assess duties, taxes, and fees owed. For detailed information, see the BOC Import Clearance Overview.

Most importers engage the services of brokers to expedite the release of goods. Despite the implementation of electronic systems to streamline the clearance process and enhance transparency, the process still takes a considerable amount of time. According to the BOC's Time Release Study, import processing typically takes eight to 10 days from the ship's arrival to the time the goods leave the port.

Notably, this duration is significantly longer than in neighboring countries like Malaysia, Thailand, and Vietnam, where the process is completed in half the time or less.[2]

Figure 4. Distribution of Imported Food and Agricultural Products



Source: FAS Manila interviews.

[2] World Bank. (2020, October 27). Philippines' customs procedures to be modernized with World Bank support. https://www.worldbank.org/en/news/press-release/2020/10/27/philippines-customs-procedures-to-be-modernized-with-world-bank-support.

Transport

Upon completion of customs procedures, imported food and agricultural products are transported to warehouses and distribution facilities nationwide using various modes of transportation, including barges, ferries, planes, cargo trucks, and refrigerated vans.

Shallow waters pose a significant challenge to inter-island shipping in the Philippines, limiting vessel size and draft for safe navigation. Barges and ferries are the primary modes of inter-island transportation. Barges are used for transporting bulk cargo. They are towed by tugboats and can carry large volumes of freight. Ferries provide passenger and vehicle transportation between major islands. They range from small, high-speed catamarans to large RORO (roll-on/roll-off) vessels that can accommodate trucks and vans.

Transporting products weighing up to 12 MT using a 10-wheeler van with a capacity of 32 pallets costs an average of $2,000 from Manila to Cebu. This includes trucking service, RORO fees, and port terminal fees. Shipping the same cargo from Manila to Davao costs an average of $2,500.

In comparison, shipping a 20-foot container filled with 10 pallets of products weighing 24 MT costs an average of $2,800 from the West Coast to Manila. Transporting the same cargo by weight from Manila to Cebu costs $4,000, while to Davao it costs $5,000.

Table 1. Shipping Rates: Manila to Cebu/Davao and West Coast to Manila

Shipping Method	Cost	Weight Capacity (MT)	Volume Capacity (Pallets)	Cost per MT	Cost per Pallet
10-wheeler wing van (Manila to Cebu)	$2,000	12	32	$167	$62
10-wheeler wing van (Manila to Davao)	$2,500	12	32	$208	$78
20-foot container (West Coast to Manila)	$2,800	24	10	$117	$280

Source: Cost estimates provided by freight logistics companies.

Inter-island shipping is complemented by domestic aviation freight and road networks, but the limited capacity of smaller airports and inadequate roads in remote areas pose challenges.

The Philippines' once-extensive rail network, boasting 680 miles, now stands at a mere 330 miles, of which only 80 are operational. Promising government initiatives spanning over 500 miles could revive rail cargo transport, reversing the decline caused by World War II, natural disasters, and inadequate investment.

Warehousing and Distribution

A significant portion of imported bulk and intermediate agricultural products is transported directly to millers and food processors for processing. After processing, the products are transported to distribution facilities. On the other hand, imported consumer-oriented food and beverage products are transported directly to warehouses and distribution facilities for temporary storage before being distributed through various channels.

Importers of consumer-oriented products often operate independently, establishing primary distribution facilities in Metro Manila with satellite offices in Cebu and Davao. They extend their reach through a network of sub-distributors in other key cities. Identifying importers with established nationwide coverage is crucial for optimal distribution.

The fragmented approach to distribution, characterized by the lack of centralized hubs, creates inefficiencies. Most delivery trucks operate at half capacity, servicing only three to four key accounts per day. This also leads to congestion at receiving locations, with establishments receiving deliveries from 10 to 15 different companies simultaneously, causing delays. To cover warehousing, distribution expenses, and profit, importers apply a flat 20 to 40 percent markup to the landed cost of a product. This flat markup disregards the fact that distribution costs are size-dependent. Consequently, higher-value products disproportionately subsidize the distribution cost of lower-value products of similar size, ultimately inflating food prices for consumers.

Distribution Channels

The primary distribution channels are food service distributors, retailers, and wholesalers, each playing a crucial role in ensuring their reach to consumers.

- Food service distributors supply restaurants, hotels, resorts, catering services, and other institutional accounts.
- Retailers, including warehouse clubs, supermarket chains, grocery stores, and specialty food shops, predominantly cater to consumers.
- Wholesalers purchase food products in bulk quantities, divide them into smaller units, and distribute them to micro-retailers, including wet market stalls, mom-and-pop stores, and online sellers.
- Micro food service operators, like neighborhood eateries and food stalls, source their needs primarily from warehouse clubs, supermarket chains, and wet market stalls.

E-commerce and Last-mile Delivery Model

A growing number of restaurants are relying on the e-commerce expertise of last-mile delivery service providers like Grab and Food Panda to ensure timely and efficient delivery of their products to consumers.

Similarly, online retailers partner with e-commerce platforms like Lazada and Shopee. These platforms leverage robust electronic systems, an intricate network of distribution hubs and sorting centers, and a coordinated fleet of pick-up and last-mile delivery personnel to fulfill orders.

Adopting this robust e-commerce model, along with its intricate network of distribution hubs, sorting centers, and last-mile delivery infrastructure, for a broader range of imported consumer-oriented food and beverage products holds the potential to streamline distribution, expand market reach, and reduce costs.

Rise in Urbanization and Food Preferences

Driven by rising incomes associated with the demographic transition, the Philippines' urban population stands at 48 percent, representing 56 million people. With a projected 2.8 percent annual growth rate, it is expected to increase by 2-3 million annually until 2030. If this trend continues, the annual increase is projected to reach 3-7 million between 2030 and 2045. By then, nearly 90 percent of the population is expected to reside in urban areas.

Figure 5. Best Product Prospects

Source: FAS Manila interviews.

Best Product Prospects: A Plate Full of Opportunities
Soybean meal and wheat have long been the United States' top agricultural exports to the Philippines, accounting for nearly half of exports in 2022. While these commodities are expected to maintain their dominance for years to come, the Philippines' rapidly growing urban population presents a plate full of opportunities for U.S. exporters of consumer-oriented food and beverage products.

Urban residents tend to dine out or order food more frequently, creating a significant demand for poultry and red meats, dairy products, vegetables, and seafood products. This demand extends to processed and convenience foods, which often dominate urban pantries. However, as urban dwellers become more health-conscious due to increased access to information, there is a growing trend towards healthier eating. This trend manifests in a rising demand for immunity-boosting foods like fruits and vegetables, as well as free-from options catering to specific dietary needs and preferences. A particularly lucrative niche market exists for specialty varieties of fresh fruits that are air-shipped to ensure optimal freshness and quality. This trend extends to pet food as well, with pet owners increasingly seeking high-quality, nutritious options for their furry and finned companions.

Assistance and Further Information

USDA-FAS Manila can assist U.S. exporters in identifying potential importers in the Philippines.

Contact: USDA Foreign Agricultural Service
U.S. Embassy in Manila, Philippines
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The following GAIN reports can be accessed through the USDA-FAS Manila webpage:

- Philippines: Exporter Guide
- Philippines: Food Processing Ingredients
- Philippines: Food Service - Hotel Restaurant Institutional
- Philippines: Retail Foods
- Market Briefs published in 2021–2023: Baking Ingredients, Brewing Ingredients and Beer, B2C Cross-border E-commerce, Deli Shops, Distilled Spirits, Fresh Fruits, Halal Products, Pet Food, Pulses, Non-Alcoholic Beverages, Plant-based Food Products, Processed Vegetables, Seafood Products, Shelf-Stable and Frozen Ready Meals, and Wines

Attachments:

No Attachments.