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US Wines Remain Strong in Booming Philippine Market

Report Categories:

Wine

Market Development Reports

Product Brief

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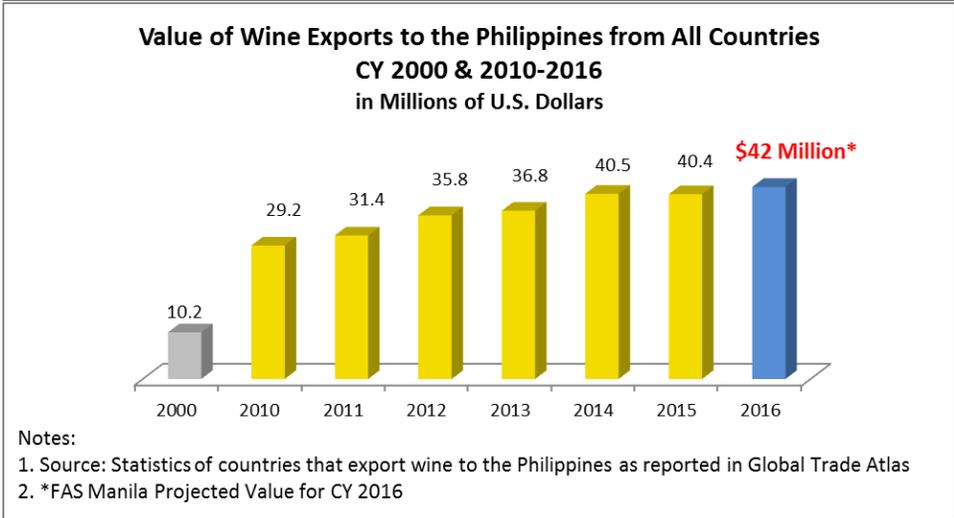
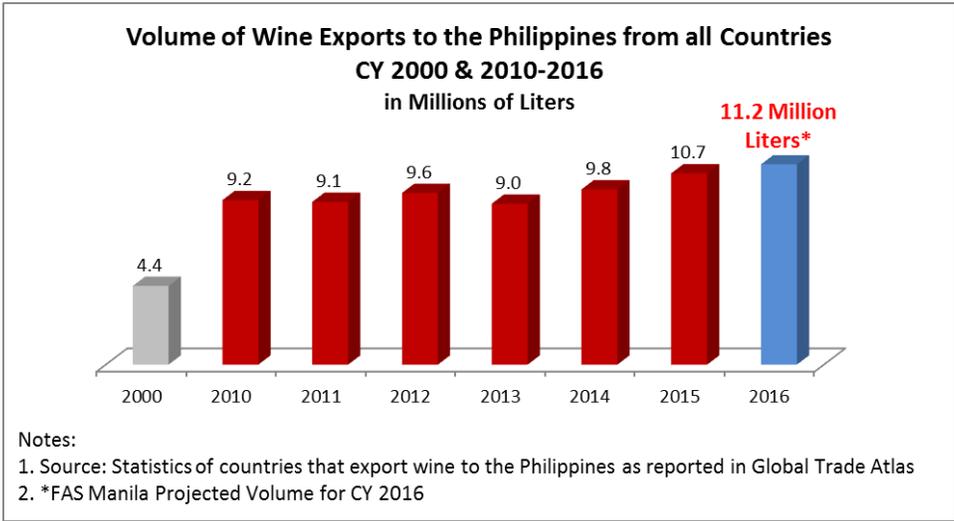
Maria Ramona C. Singian

Report Highlights:

The U.S. has long been the leading supplier of wines to the Philippines and, since 2009, the Philippines has been the largest U.S. wine market in Southeast Asia in terms of volume. In 2015, U.S. wine exports to the Philippines reached 3.3 million liters, and \$9.8 million, up 35 and 23 percent respectively over the previous year. FAS Manila estimates 2016 exports will reach a record 3.7 million liters, and \$11 million. Prospects for growth are exceptionally bright despite tariffs and taxes that inflate the final price by roughly 25 percent, the strong U.S. dollar, distribution challenges, and intense competition due to regional free-trade agreements. The country's continued economic growth, wine's increasing popularity, the widespread trust and acceptance of U.S. products, a young population, and wine comprising less than one percent of current alcohol consumption create an extraordinary profile that makes the Philippines one of the most exciting wine markets in the world.

I. Overview of the Philippine Wine Market

Wine exports to the Philippines picked up dramatically in the late 1990's when New World wine producing regions began shipping full-containers of value-priced wines with labels that were straightforward and less intimidating. At the same time, upscale hotels, restaurants and retail outlets proliferated throughout the country, while importers improved their distribution capacity and invested in brand-building efforts. These developments led to more visibility for wines and spurred consumer interest.



From 2000 to 2015, the volume of total wine exports to the Philippines more than doubled to 10.7 million liters (1.1 million cases), while the value quadrupled to \$40.4 million.

2016 Forecast

Traders forecast a 4-5 percent growth in 2016. Despite tariffs and taxes that inflate the final price by roughly 25 percent and distribution challenges, the country's continued economic growth, wine's increasing popularity, a young population (40 percent of the country's 100 million people under 20 years old), and wine comprising less than one percent of the estimated 2.5 billion liters* of alcoholic drinks consumed annually create an extraordinary profile that makes the Philippines one of the most exciting wine markets in the world.

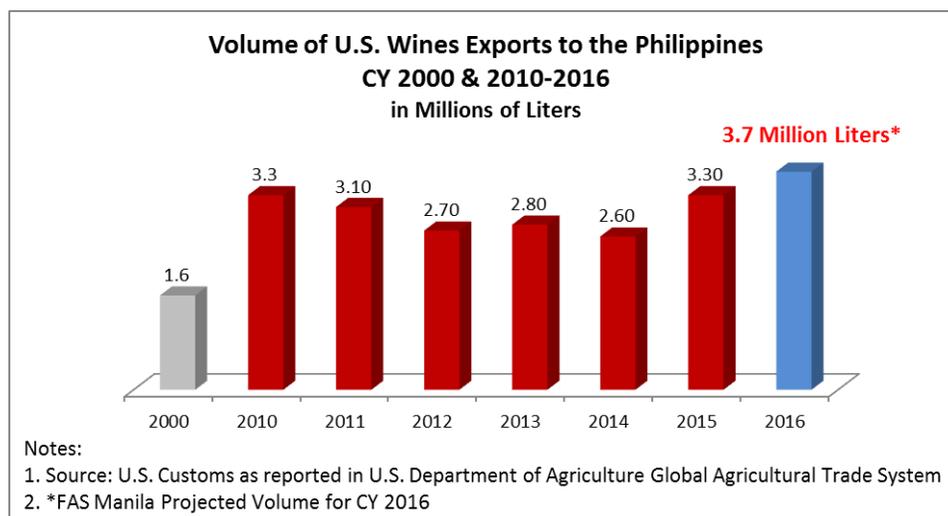
Notes:

1. *Derived from interviews with trade associations and retailers; however, wine sales comprise a significantly larger percentage of total alcohol sales in upper end hotels, supermarkets, and other outlets.
2. One case (12 bottles x 750 ml per bottle) = 9 liters

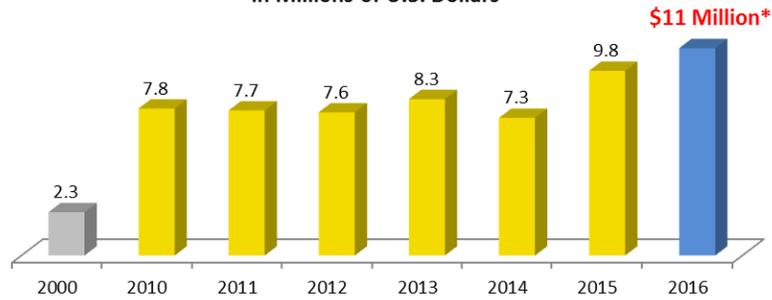
II. U.S. Wine Exports to the Philippines

Leading Supplier of Wines

The U.S. has long been the leading supplier of wines to the Philippines, surpassing France in 2000. While the volume doubled from 2000 to 2015, the value quadrupled. In 2015, the U.S. held a 31 percent market share by volume, and a 25 percent market share by value. Due to the strong presence of U.S. brands and the promising growth, FAS Manila forecasts U.S. wine exports will reach a record 3.7 million liters (411,111 cases), and \$11 million by the end of the year.



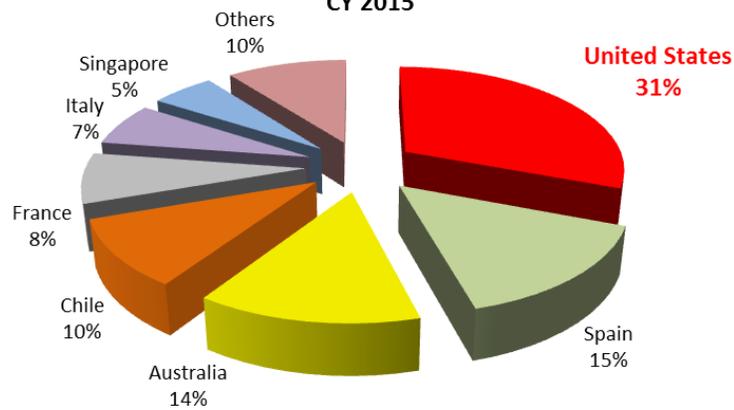
**Value of U.S. Wines Exports to the Philippines
CY 2000 & 2010-2016
in Millions of U.S. Dollars**



Notes:

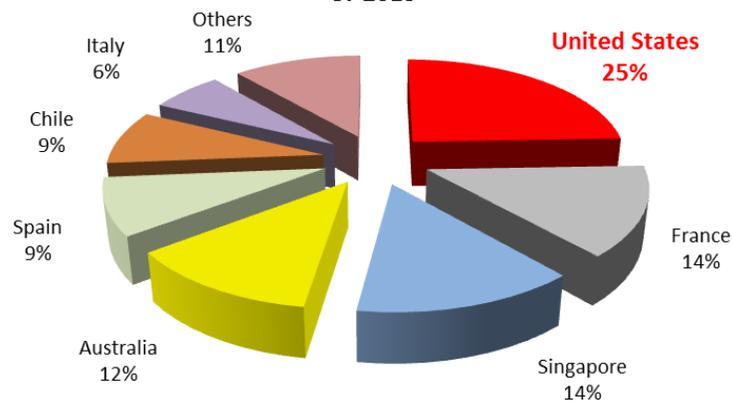
1. Source: U.S. Customs as reported in U.S. Department of Agriculture Global Agricultural Trade System
2. *FAS Manila Projected Value for CY 2016

**Wine Exports to the Philippines
Market Share by Volume
CY 2015**



Source: Statistics of countries that export wine to the Philippines as reported in Global Trade Atlas

**Wine Exports to the Philippines
Market Share by Value
CY 2015**



Source: Statistics of countries that export wine to the Philippines as reported in Global Trade Atlas

Growth Expected Across All Price Ranges

While traders report that 80 percent of “value-priced” wines marketed in the Philippines are from the U.S., growth is taking place across all price ranges. In 2015, the average C.I.F. price of U.S. wines exported to the Philippines was \$2.95 per liter. The trade estimates that a combination of higher prices and increased sales in mid-priced and premium wines will raise the average price by 20 to 30 percent in the coming years. At the same time, brisk sales of entry-level, value-priced U.S. wines are expected to continue as more consumers become interested in wines.

III. Market Facts, Trends and Opportunities

Largest Market in Southeast Asia for U.S. Wines

The Philippines has been the largest market for U.S. wines in Southeast Asia by volume since 2009, surpassing even major transshipment destinations in the region such as Vietnam and Singapore. The likelihood of growth in wine consumption is underscored by the country’s young, fast-growing and highly urbanized population, and the presence of 10-15 million potential customers with sufficient income to purchase wine occasionally. FAS Manila predicts the Philippines will remain the largest market in Southeast Asia for U.S. wines in the foreseeable future, and is poised to be one of most exciting wine markets in the world.

Philippine Market Profile
Population:
• 100 Million (July 2015 est.), annual growth rate of 1.81%
• 40% below 20 years old
• 49% living in urban areas
Source: CIA World Fact Book
Potential Customers: 10-15 million and growing

the

Wine Events and Education

In an effort to demystify wine and make it more accessible to many, marketers conduct a mix of wine tastings and educational programs. FAS Manila joins the trade in hosting regular events to expose hotels, restaurants, retailers, culinary professionals and consumers to high-value U.S. food and beverage products, including wines. At wine events, it is common to pair wine with Filipino and other mainstream cuisines to encourage more wine consumption at home. The popularity of wine is also boosted by the growing number of culinary organizations and private groups of wine connoisseurs whose regular wine and food gatherings often appear in the press.

Growing Health-Awareness

Importers have capitalized on the growing health-awareness among Filipino consumers by emphasizing the reported health benefits of moderate wine consumption through flyers, wine tags and advertorials. The industry is reporting the beginnings of a shift in consumer preference from beer and spirits to wine. While the Philippines produces almost no wine, it is a major producer of relatively inexpensive beer and spirits.

Taste, Varietal and Labeling Preferences

- Although the Philippine climate is tropical, traders estimate about 55 percent of wines sold in the market are red. Aside from its perceived health benefits, importers report that consumers who have shifted from hard liquor prefer red wines because of its robust and oaky taste profile. Despite the general preference for reds, FAS Manila projects strong growth in both red and white wines.



- All common U.S. wine varieties have found acceptance in the Philippine market.
 - Reds: Pinot Noir, Merlot, Cabernet Sauvignon, Shiraz and Zinfandel
 - Whites: Chardonnay, Sauvignon Blanc, Pinot Grigio, Chenin Blanc, Riesling and Gewürztraminer
 - Rosés: White Zinfandel and White Merlot

There is room for other varieties to gain acceptance and popularity as Filipino consumers are always willing to try something new.



- While Filipinos generally have a sweet palate, the trade reports the market for drier wines is expanding rapidly as tastes mature.
- Hotels and restaurants report that consumers find New World “sparkling wines” as acceptable as Champagne.

- According to retailers, consumers generally prefer wines with varietal labels. Some Old World wineries have started shipping wines with varietal labels to gain wider acceptance in the Philippine market. That said, other labels have found success with nothing more than “red” or “white.”

Ready Market for U.S. Wines

Advantages

- Filipinos have a high awareness & strong preference for U.S. food and beverage products.
- Travel agents report visits to wineries in California are extremely popular.
- More and more U.S. wines are earning international recognition and awards.

Opportunities

- Wine comprises only one percent of total alcohol consumption.
- The young population and growing income is adding about 1 million potential customers per year.
- While most wine importers already have a broad portfolio of wineries, there are seasoned importers of various food and beverage products that would like to venture into the wine business. In addition, new importers are being drawn into the growing market.
- Importers report interest in sourcing wines from all over the U.S.
- Some wine aficionados who passionately collect wines have ventured into the wine importation business as a serious hobby. High-end wines are pre-sold to a network of wine consumers even before shipments arrive.
- The Philippines is a market where wines and other products are subject to trends. For example, wine importers report the sudden and unprecedented popularity of White Zinfandels.
- Traders report an untapped potential for medium and premium wines, as well as boxed wines, dessert wines, and private label wines.
- Wine is becoming increasingly popular among many Filipino consumers, along with a strong interest to learn more about pairing wines with local and foreign cuisines.

Possible Limiting Factors

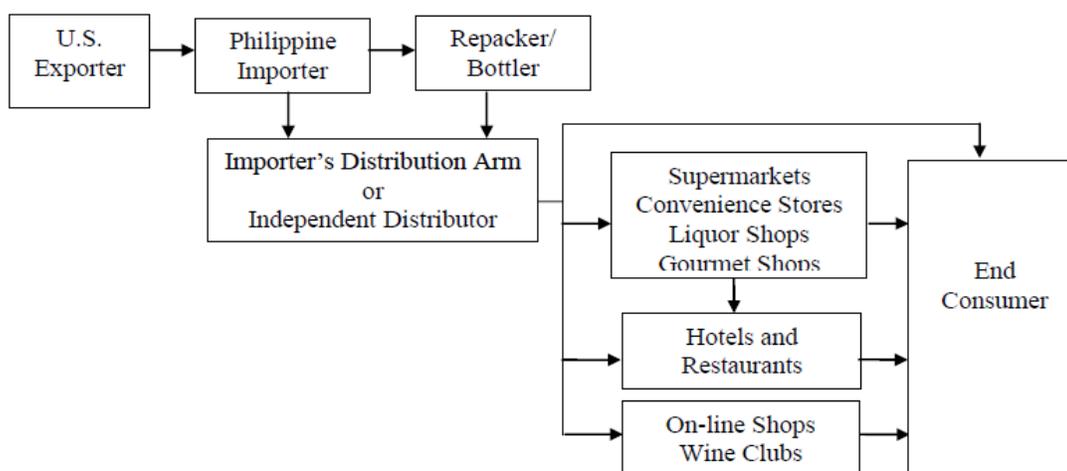
- While income is growing, wine is still considered a luxury product by most Filipino consumers. Locally produced beer and spirits enjoy a strong price advantage.
- Cold chain facilities are limited in some parts of the Philippines, as is knowledge of proper storage conditions for wine.
- Tariffs and taxes inflate the final price by roughly 25 percent.
- Shelving fees in supermarkets can be high.
- Supermarkets and foodservice establishments typically require marketing support funds.

IV. General Business Practices

- Philippine importers value trust and personal relations. They like to maintain close contact with their principals and appreciate regular market visits.
- Exclusive distributorship agreements are preferred.
- U.S. exporters may want to use secure payment facilities (i.e., letters 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.
- Most trade customers require importers/distributors to extend credit terms varying from 30-90 days.
 - A majority of supermarkets sell wines on consignment. Importers collect payment 30 days after the wine is sold. Supermarkets that purchase wines outright require a credit term of 60 to 90 days.
 - Most hotels and restaurants require a credit term of up to 60 days.
- Some Philippine importers maintain buying offices in the U.S. and prefer to consolidate their shipments on the West Coast.

V. Distribution and Marketing

- There are more than 20 wine importers in the Philippines. Some already represent well-known wineries from California, the Pacific Northwest and other regions around the world, while others are on the look-out for big brands to represent.
- Most of the importers are based in Metro Manila and manage their own distribution, though others appoint independent distributors to cover key provincial areas. The trade estimates 70 percent of total wine sales take place in Metro Manila.
- Importers distribute wines to supermarkets, convenience stores, liquor/gourmet shops, hotels, restaurants and directly to consumers. There are some importers that operate their own liquor/gourmet shop, on-line shop and wine club.



- There is only one Philippine company that blends and bottles wines locally.
- Most hotels and restaurants request a “marketing support fund” before agreeing to list new wines.

According to the trade, the fund typically ranges from \$1,000 to \$3,000 and is often used to defray the cost of promotional materials and wine events. The importer/distributor incorporates the marketing support fund into the wholesale price. In return, the establishment will promote the wine extensively (e.g., as the “Wine of the Month”). During promotions, top establishments sell 30-45 cases for reds and 15-30 cases for whites. Preferred pricing is offered by the importer/ distributor to establishments that do not require a marketing support fund.

- Distributors encourage the wait staff of establishments to actively suggest wines by offering incentives. A common monetary incentive is commonly referred to as a “cork incentive” that ranges from \$0.60 to \$1.00 for every bottle of wine sold. Other distributors offer small giveaways such as caps, shirts and pens to more premium prizes such as cellular phones, small appliances, watches and all-expense-paid educational trips to wineries. Incentives are woven into innovative mechanics including the accumulation of points in exchange for rewards.
- Most supermarkets charge a one-time shelving fee of about \$110.00 per stock-keeping unit (SKU) + a year-round marketing support fund that ranges between \$1,000 to \$3,000 per annum.

VI. Pricing

A. Price Categories

In general, there are three price categories for wine: value-priced or house, mid-priced and premium. Below are the C.I.F. prices, landed costs, and wholesale and retail prices for each category:

Category	C.I.F. Price per case	Landed Cost per case	Wholesale Price Range per case (Price Offered to Trade Customers)	Retail Price Range per case (Price in Major Supermarkets)
Value-priced or House	below \$74 or 3,4670 Pesos	below \$79 or 3,750 Pesos	below \$95 or 4,500 Pesos	below \$115 or 5,400 Pesos
Mid-priced	\$74 - \$153 3,467 - 7,220 Pesos	\$79 - \$160 3,750 - 7,500 Pesos	\$95 - \$191 4,500 - 9,000 Pesos	\$115 - \$229 or 5,400 - 10,800 Pesos
Premium	above \$153 or 7,220 Pesos	above \$160 or 7,500 Pesos	above \$191 or 9,000 Pesos	above \$229 or 10,800 Pesos

Notes:

1. Exchange Rate: \$1=47 Pesos
2. Pricing categories are based on trade interviews

B. Price Structure

One case (12 bottles) of wine with a C.I.F. Price of \$120.00 will usually be priced in supermarkets

at \$215.00 per case (inclusive of duties, taxes, strip stamp fee and mark-ups). The table below shows how prices are computed from C.I.F. Price to the final sale.

C.I.F. Price of one case (12 bottles) Exchange Rate: \$1 = 47 Pesos	\$120 or 5,640 Pesos
Add: Duty, Excise Tax, Value Added Tax and Strip Stamp Fee (refer to the computation provided in Section VII)	\$29 or 1,383 Pesos
Total Landed Cost	\$149 or 7000 Pesos
Total Landed Cost + Importer's Mark-up = Wholesale Price to Trade Customers	Wholesale Price to Trade Customers
Add: Importer's Mark-up: 20% Mark-up Range: between 20-30-%	\$179 or 8,400 Pesos at 20% mark-up
Wholesale Price to Trade Customers + Trade Customer's Mark-up = Retail Price to End Consumer	Retail Price to End Consumer
Add: Trade Customer's Mark-up	
1. Hotels and Restaurants: 100% Mark-up Range: between 100-300%	\$358 or 16,801 Pesos at 100% mark-up
2. Supermarkets* and Deli Shops: 20% Mark-up Range: between 20-40%	\$215 or 10,080 Pesos at 20% mark-up
3. Online Shop or Wine Club: 15% Mark-up Range: between 15-30%	\$206 or 9,660 Pesos at 15% mark-up

VII. Import Duty, Taxes and Strip Stamp Fee

Import duty and taxes are assessed in Philippine pesos and will vary depending on the exchange rate. The total duty, taxes and strip stamp fee for one case (12 bottles) of wine with a CIF price of \$120.00 will amount to \$28.94. The table below is a summary of the computation.

C.I.F. Price Exchange Rate: \$1.00 = 47.00 Pesos	5,640.00 Pesos or \$120.00	per case (12 bottles x 750 ml)
A. Duty: 7% of C.I.F. Price	394.80 Pesos	per case
B. Excise Tax (effective January 1, 2016): 33.74 Pesos per liter x 9 liters 1 case (12 bottles x 750 ml) = 9,000 ml or 9 liters	303.66 Pesos	per case
C. Value Added Tax: 12% of C.I.F. Price	676.80 Pesos	per case
D. Strip Stamp Fee	8.15 Pesos	per case
Sub Total (A+B+C+D):	\$29.43 or 1,383.41 Pesos	per case
Grand Total (C.I.F. Price+A+B+C+D):	\$149.43 or 7,023.41 Pesos	per case

In addition to duty, wine imports are subject to excise tax and “Value-Added Tax” (VAT) levied on the sale of wines. Importers also have to pay a fee to obtain strip stamps which are to be affixed on the primary (bottle) and secondary (case/box) packaging as proof that excise taxes have been paid.

A. Import Duty

The import duty rate for wines is 7 percent of CIF Price.

B. Excise Tax

Republic Act No. 10351 (An Act Restructuring the Excise Tax on Alcohol and Tobacco), also known as "Sin Tax Reform 2012," took effect on January 1, 2013. Under the new tax system, excise tax increased by 70-82 percent for sparkling wines and 36 percent for still wines. Excise taxes on sparkling and still wines were set to increase by four percent effective on January 1, 2014, and every year thereafter. Fortified wines containing more than twenty-five percent (25%) alcohol by volume shall be taxed as distilled spirits.

The table below shows the excise tax rates for sparkling and still wines when the new tax system took effect on January 1, 2013, and the current excise tax rates effective on January 1, 2016.

Wines	Excise Tax Rates	
	Effective January 1, 2013	Effective January 1, 2016
Sparkling wine/champagne regardless of proof, if the net retail price per bottle is:		
- 500.00 Pesos or less	250.00 Pesos per 750 ml	281.21 Pesos (\$5.98) per 750 ml
- More than 500.00 Pesos	700.00 Pesos per 750 ml	787.40 Pesos (\$16.75) per 750 ml
Still wine containing 14% alcohol by volume or less	30.00 Pesos per liter	33.74 (\$0.71) Pesos per liter
Still wine containing more than 14% alcohol by volume but not more than 25% alcohol by volume	60.00 Pesos per liter	67.49 Pesos (\$1.43) per liter
Fortified wine containing more than 25% alcohol by volume	Taxed as distilled spirits	Taxed as distilled spirits
Notes:		
1. The exchange rate used is \$1.00=47.00 Pesos		
2. The net retail price excludes Value-Added Tax (VAT)		

Please refer to a report entitled, “Sin Tax Reform Ushers in Higher Wine and Beer Prices in 2013,” published on the USDA/FAS GAIN System for more detailed information on the new tax system. The USDA/FAS GAIN System can be accessed through the FAS homepage at www.fas.usda.gov. Choose ‘Data’ then ‘Global Agricultural Information Network (GAIN)’ under ‘Current and Archived FAS Reports.’

C. Value-Added Tax

Wines imported into the Philippines are subject to VAT at the uniform rate of 12 percent of the C.I.F Price. VAT is an indirect tax levied on the importation, sale, barter or exchange of goods in the Philippines, which may be passed on to the end-buyer.

D. Stamp Fee

The Philippine Bureau of Internal Revenue requires strip stamps to be affixed on the primary packaging (bottle) and secondary packaging (case/box) as proof that excise taxes have been paid. The fee is 8.15 Pesos for one case/box containing 12 bottles, computed as follows:

1. Primary Packaging: 12 bottles x 0.616 Pesos per bottle
= 7.39 Pesos for 12 bottles
2. Secondary Packaging: 1 box x P0.756 per case/box
= 0.756 Pesos for 1 case/box

Total: 8.148 Pesos or 8.15 Pesos for one case/box containing 12 bottles

VIII. Importation Requirements

A Philippine importer needs to secure a License to Operate (LTO) from the Philippine Food and Drug Administration (FDA) prior to the importation of wines. A checklist of requirements is posted on the Philippine FDA website and can be accessed through the following link:

<http://www.fda.gov.ph/attachments/article/71149/Annex%20to%20Food%20AO%20-%20Annex%20A%20to%20H.pdf>

Based on the checklist, there are certain documents an importer needs to obtain from each wine supplier, as follows:

- One of the following documents from each supplier—
 - Foreign Agency Agreement/Certificate of Distributorship/Appointment Letter or legal contract between a manufacturer and a foreign individual or company, whereby the former appoints the latter to act as an agent
 - Proforma Invoice
- One of the following documents issued by the government regulatory agency or health authority of the country of origin—
 - Certificate of Registration of Manufacturer and its conformity with good manufacturing practices from a regulatory/health authority or its equivalent
 - Certificate of Free Sale issued by the government regulatory agency or health authority of the country of origin stating that the product applied for registration are freely sold in the country of origin and fit for human consumption

Notes:

1. All certification issued by a private organization should be attested by a recognized business association or chamber of commerce.

2. U.S. exporters can obtain a Certificate of Free Sale from the U.S. Food and Drug Administration. Below are links to the relevant web pages:

- Guidance on FDA Export Certificates:
<http://www.fda.gov/RegulatoryInformation/Guidances/ucm125789.htm#iv>
- E-Application System for Certificates of Free Sale:
<http://www.fda.gov/Food/NewsEvents/ConstituentUpdates/ucm307264.htm>

3. The original Certificate of Free Sale is required when the importer applies for product registration. Refer to Section IX – Product Registration Requirements.

Licensing Fee: The application fee for the initial License to Operate is 4,000.00 Pesos or \$85.10 and is valid for one year. The cost of renewal (valid for two 2 years) is 8,000.00 Pesos or \$170.20. Note: The exchange rate used is \$1.00=47.00 Pesos.

IX. Product Registration Requirements

All processed food products including wines offered for retail sale in the Philippines must be registered with the Philippine FDA. Registration of imported products may only be undertaken by a Philippine entity, although some documentation and samples need to be provided by the exporter.

Below is a checklist of the requirements:

- Accomplished integrated application form as prescribed by current Philippine FDA regulations;
- Proof of payment of fees as prescribed by current Philippine FDA regulations;
- Actual wine labels for all packaging sizes
- Pictures of the product from all angles and in different packaging sizes, and from at least two different perspectives allowing visual recognition of the product as the same with the one being registered, as applicable;
- As applicable, documents to substantiate claims such as technical, nutritional, or health studies or reports, market-research studies, Certificate of Analysis, quantitative analysis and computations, scientific report or studies published in peer reviewed scientific journals, etc.

Products have been classified under Category I (low risk) and Category II (medium and high risk) based on the Codex Alimentarius General Standard for Food Additives and the UN Food and Agriculture Organizations Risk Categories. Wine is considered a Category I product.

Additional information on product registration requirements can be found in Annex D of Administrative Order 29. A copy can be accessed through the following link:

<http://www.fda.gov.ph/attachments/article/210019/FDA%20Circular%20No.%202014-029.pdf>

A Certificate of Product Registration (CPR) shall be valid for one (1) year. The processing fee is \$4.25 or 200 Pesos. Subsequent renewal of a CPR shall be valid for a period of five (5) years. The processing fee is \$21.27 or 1,000 Pesos. Note: The exchange rate used is \$1.00=47.00 Pesos.

X. Labeling Requirements

The Philippine FDA requires importers to present the actual wine label when applying for a Certificate of Product Registration. Following are the wine labeling requirements of the Philippines, which are similar to those of the United States:

- The “Principal Display Panel” or PDP of the label shall be that part which is present or shown to the consumer under customary conditions of display for retail trade. The “Information Panel” or IP of the label shall be that part immediately contiguous to the PDP.
- A complete list of ingredients (including additives, flavorings and preservatives used) shall be declared in descending order of proportion on either the PDP or IP.
- The net volume shall be declared using the metric system of measurement also known as the International System of Units (SI) on either the PDP or IP.
- The alcohol content in terms of percentages or proof units shall be indicated on the PDP.
- The language used for all information on the label shall be English, Filipino or any major Philippine dialect, or a combination thereof. Labels wherein the information is declared in other foreign languages must carry the corresponding English translation.

- The name and address of the manufacturer shall be declared on the PDP or IP. The country of origin must be indicated.
- The name and address of the importer or local distributor shall be declared on the PDP or IP. If the name and address of the importer or local distributor cannot be printed on the label, stickers can be used and attached by the importer onto the IP when the wines arrive in the country

Additional information on food labeling contained in FDA AO No. 88-B (1994) may be obtained from www.fda.gov.ph.

No labeling for biotechnology or organic products is currently required by the Philippine government.

XI. Additives Regulations

Additives must comply with the Philippine Food Act and the regulations established by the Philippine FDA. Additives are broadly defined by the Philippine FDA as any substance that becomes a component part or otherwise affects the characteristics of the food or beverage product. As such, they include any substance which has a direct or indirect impact on the food as a result of its use in producing, manufacturing, processing and preparing the product, and in packing, treating, packaging, transporting, and/or holding the product.

The current list of permissible food additives is posted on the Philippine FDA website and can be accessed through the following link: <http://www.fda.gov.ph/attachments/article/19772/BC%202006-016.pdf>

XII. Further Information & Assistance

FAS Manila is ready to help exporters of U.S. wines achieve their objectives in the Philippines. For further information or assistance in exporting wines, 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