

PROCESSED FOODS AND BEVERAGE S INDUSTRY

(As of February 2018)

Background

The industry is composed of the following sub-sectors¹:

1. Processed Foods
 - Processing and preserving of meat
 - Processing and preserving of fish, crustaceans and mollusks
 - Processing and preserving of fruits and vegetables
 - Manufacture of vegetable and animal fats and oils
 - Manufacture of dairy products
 - Manufacture of grain mill products, starches and starch products
 - Manufacture of other food products
2. Manufacture of beverages

Industry Status²

The processed foods and beverages industry 37% of the total manufacturing gross value added (GVA) in 2017 – the largest contributor to GVA compared to other manufacturing sub-sectors of the country. While the sector's share to manufacturing GVA is observed to decline through the years from 42% in 2012 (which may be deemed as a sign of manufacturing diversification in the country), amount of GVA contributed by the sector steadily increased from PhP 592 billion in 2012 to PhP 766 billion in 2017 (in constant 2000 prices terms).

The sector's contribution to total Gross Domestic Product (GDP) remained at 9% per year from 2012 to 2017, on the average.

Based on latest (2015) PSA data, the sector employs 207,558 workers spread over almost 1,458 food/beverage manufacturing establishments with more than 20 direct employees per establishment. This represents around 19% of total people employed in the manufacturing sector.

The sector is linked with the raw material supplier which is basically the agriculture/fisheries sector, logistics, packaging, cold storage and trading companies, among others.

¹ Source: 2009 Philippine Standard Industrial Classification

² Data source: PSA's National Accounts (2012-2017) and latest (2015) Annual Survey of Philippine Business and Industry accessed on 26 February 2017.

Production

No official data on actual production of processed foods and beverages industries. For purposes of monitoring trends, the sector's Volume of Production Index (VoPI) and Value of Production Index (VaPI) is analyzed instead.

Using VoPI as a proxy for production volume, processed foods industry grew by 5.38% per year while beverage industry grew by 5.01% per year, between 2012-2017, on the average.

Using VaPI as a proxy for production value, processed foods industry grew by 5.89% per year while beverage industry grew by 8.35% per year, on the average.

Consistent with the global experience, local production volume and value for processed foods and production volume for beverages declined in 2015 but slowly recovered in 2016. This reflective of the slowdown in the agriculture/fishery production in 2015.

Trade³

Processed foods and beverages export of the Philippines in 2017 reached US\$ 1.62 billion while imports for the same year amounted to US\$ 4.27 billion.

The Philippines has been a net importer of processed foods and beverages products. From 2012 to 2017, on the average, import exceeds export by US\$ 1.92 billion annually.

From 2012 to 2017, processed foods and beverages import value outgrew export value. For said period, exports grew by an average rate of 2.65% per annum while imports grew by 9.96% per annum.

Exports:

Top 10 processed foods exports in 2017 include the following:

1. Prepared/preserved pineapple – 17%
2. Desiccated coconut – 16%
3. Centrifugal sugar - 9%
4. Coconut water – 5%

³ DTI-EMB and Trademap trade databases requested and accessed on 26 February 2018

5. Banana chips/crackers – 5%
6. Pineapple juice – 4%
7. Malt extract – 3%
8. Dried Mango – 3%
9. Other cereal preparations (crisp savoury food products) – 2%
10. Banana ketchup – 2%

Total exports value of these products amounted to US\$ 1.07 billion or 67% of the total processed foods export in 2017.

Top 10 markets for the aforementioned major processed food exports include the following:

1. USA – 52%
2. Japan – 4%
3. Canada – 4%
4. Australia – 3%
5. South Korea - 3%
6. United Kingdom - 3%
7. China - 3%
8. The Netherlands - 3%
9. Hong Kong - 3%
10. Germany – 2%

These markets absorbed 81% of the aforementioned major processed food exports.

On the other hand, top 5 beverage exports in 2017 include the following:

1. Lemonade – 31%
2. Brandy – 20%
3. Beer – 19%
4. Spirits/liquors (<46% vol. alcoholic strength) – 7%
5. Sparkling mineral/aerated water – 6%

Total exports value of these beverage products amounted to US\$ 17.72 million or 83% of the total processed foods export.

Top 5 markets for the aforementioned major beverage exports include the following:

1. Singapore – 23%
2. Malaysia – 12%
3. Vietnam – 11%
4. UAE – 9%
5. South Korea – 7%

These markets absorbed 61% of the aforementioned major beverages exports.

Imports:

Top 10 processed foods/beverages imports in 2017 include the following:

1. Preparations with a basis of extracts, essences or concentrates of coffee or with a basis of coffee – 5%
2. Milk and cream (solid form) – 5%
3. Composite concentrates ingredient – 5%
4. Odoriferous substances and mixtures, used in the food and drink industries – 4%
5. Extracts, essences and concentrates of coffee and preparations with a basis of these extracts/essences – 3%
6. Fats and oils derived from milk, and dehydrated butter and ghee – 3%
7. Potatoes, prepared or preserved – 3%
8. Odoriferous substances and mixtures, used as raw materials in industry (excl. food or drink industries) – 3%
9. Fructose in solid form and fructose syrup – 3%
10. Non-dairy creamer – 2%

These products represent 36% of total processed foods/beverages imports in 2017.

Top 10 sources of the aforementioned major processed foods/beverages imports include the following:

1. Indonesia – 20%
2. Singapore -19%
3. USA – 16%
4. New Zealand – 11%
5. China – 5%
6. Vietnam - 5%
7. Uruguay - 5%
8. Thailand – 3%
9. Germany – 3%
10. Malaysia – 2%

These countries represent 90% of the total imports of the country for the aforementioned products.

Major Industry Players⁴

Processed Fruits and Vegetables:

- Del Monte Philippines, Inc.
- Dole Philippines Inc.
- Maple Leaf Food Royal Greenland Int'l
- Ram Food Products Inc.
- Cenmaco Inc.

*Market share of these companies is estimated at 78.3% of total retail sales value in 2016

Processed Meat and Seafood

- The Purefoods-Hormel Co. Inc.
- CDO Foodsphere Inc.
- Century Pacific Food Inc.
- Pacific Meat Co. Inc.
- A Tung Chingco Trading

* Market share of these companies is estimated at 70% of total retail sales value in 2016

⁴ Source: Euromonitor, 2016

Dairy Products

- Nestle Philippines, Inc.
- Alaska Milk Corp.
- Wyeth Philippines, Inc.
- Mead Johnson Nutrition (Philippines), Inc.
- Unilever RFM Ice Cream, Inc.

Soft Drinks:

- The Coca-Cola Export Corp.
- Pepsi Cola Products Philippines Inc.
- Asia Brewery Inc.
- Kraft Foods (Philippines) Inc.
- Nestle Philippines Inc.

* Market share of these companies is estimated at 53.2% of total retail sales value in 2016

Hot Drinks (Coffee, Tea, etc.)

- Nestle Philippines Inc.
- Universal Robina Corp.
- Mayora Indah TBK Pt.
- Unilever Philippines Inc.
- San Miguel Super Coffee Mix Co.

Market share of these companies is estimated at 94% of total retail sales value in 2016

Locations

Majority of the manufacturing plants of the aforementioned companies are located in Luzon (Manila, Laguna and Cavite areas).

Several fruits and seafood manufacturing plants are located in Mindanao (e.g., plants of Del Monte and Dole in Bukidnon and South Cotabato, respectively) and Visayas. (e.g., plant of Profood in Cebu).

The geomaps of processed meat, carrageenan and processed shrimp manufacturers are indicated in the annexes.

Growth Prospects⁵

Sub-sector	2016 Est. Sales Revenue (PhP million)	Growth Forecast (2016-2021)
Processed Fruits and Vegetables	9,072	2.6% CAGR
Processed Meat and Seafood	56,436	3.0% CAGR
Dairy Products	715*	6.27%/year**
Soft Drinks	351,418	7.4% CAGR
Hot Drinks	74,143	10.4% CAGR

⁵ Sources: Euromonitor and National Dairy Authority, 2016

CAGR = compounded annual growth rate

*Based on total value of dairy production in 2016

**Based on growth of the value of dairy production from 2012-2016

Major Industry Challenges

- Insufficient raw material primarily due to low productivity
- High cost of inputs (e.g., sugar)
- Expensive compliance with standards, certification, licensing, permits and accreditation requirements
- Inadequate processing facilities complying with international standards
- Lack of diversity in export markets
- Limited access to low-cost financing
- Weak R&D

PH Advantages

- Favorable agro-climatic condition making it a premiere location for the commercial agribusiness production, particularly of commodities which can be viably produced given our geolocation (e.g., coffee, cacao, coconut, tropical fruits and vegetables, etc.).
- Abundant bodies of water with rich coastal and marine resources enabling the country to be a world leader in fisheries production (e.g., oceanic tuna, seaweed, aquaculture, etc.).
- Large local consumer base with extended markets such as ASEAN and EU, affording the country of preferential market access.
- Comprehensive government support provided by different government agencies from production, processing, research and development (R&D), extension to marketing.
- Enabling laws for credit access, farming mechanization and modernization and food safety (RA 10000 or the Agri-Agra Reform Credit Act of 2009, RA 9367 or Agriculture and Fisheries Modernization Act of 1997, RA 10601 or Agriculture and Fisheries Mechanization Act of 2013 and RA 10611 or the Food Safety Act of 2013, respectively).
- Existence of local product standards aligned with international product standards, product certification systems for Halal and Kosher, codes for Good Agriculture and Aquaculture Practice (GAP, GAqP) and Good Manufacturing Practice (GMP).

Agricultural/fishery production and/or processing may avail of the following incentives, if qualified and registered with the DTI-Board of Investments:

- Income Tax Holiday (ITH)
 - Six (6) years for projects with pioneer status and for projects located in a Less Developed Area (LDA)
 - Four (4) years for new projects with non-pioneer status
 - Three (3) years for expansion/modernization projects

- Duty exemption on imported capital equipment, spare parts and accessories
- Exemption from wharfage dues and any export tax, duty, impost and fees
- Tax exemption on breeding stocks and genetic materials
- Tax credits on imported raw materials
- Tax and duty-free importation of consigned equipment
- Additional deduction for labor expense
- Employment of foreign nationals
- Simplification of customs procedures
- Access to bonded manufacturing warehouse

Investment Opportunities

Processed Meat

- Production of manufacturing-grade meat
- Establishment of AAA meat handling facilities (slaughterhouse, poultry dressing plant and meat cutting plant)
- Cold chain (storage, warehousing and transport)
- Establishment of government-accredited testing laboratories
- Product development – R&D on development of higher value-added processed meat products; development of other regional delicacies and utilization of organically-grown livestock/poultry products

Carrageenan

- Development of new and revival of idle seaweed farms
- Establishment of additional seaweed nurseries
- Establishment of reference laboratories
- Modernization/upgrading of processing plants
- R&D investments in new carrageenan applications, e.g., seaweed-based 3D printing filament
- Equipment: All-weather dryers, portable MC analyzers and atomic absorption spectrometers (testers)

Processed Shrimp

- Production of raw shrimp
- Establishment/operation of new government-accredited hatcheries
- Establishment of ice plants producing slurry ice
- Shrimp processing accredited by international export markets

Condiments/Sauces

- Production of raw materials (herbs and spices such as onion, garlic, chili, pepper, etc.)
- Condiments production for export
- Upgrading of processing facilities
- Manufacture of packaging materials and equipment

Dried Mango

- Mango plantation
- Production of mango seed oil
- Modernization/ Rehabilitation of existing dried mango processing plant

Cacao Tablea

- Nursery establishment to produce certified planting materials
- R&D on cacao variety improvement
- Production of cacao (raw; integrated with fermentation facility since market provides premium price on fermented, fine-flavored certified beans); intercropping of cacao also possible with support from the government (e.g., PCA)
- Cacao processing (e.g., chocolate bars, tablea/choco drinks, confectioneries, etc.)

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Annexes

		In Million PhP (2000 = 100)					
		2012	2013	2014	2015	2016	2017
Gross Value Added (GVA) of							
• Food manufactures		531,704	554,984	593,577	603,249	652,709	685,360
• Beverage industries		60,303	58,632	73,080	72,375	79,341	80,210
Sub-total:	A	592,007	613,616	666,657	675,624	732,050	765,570
Total GVA in Manufacturing	B	1,395,711	1,538,912	1,666,514	1,760,989	1,884,320	2,045,517
Total GDP	C	6,305,229	6,750,631	7,165,478	7,600,175	8,126,403	8,668,287
Share to Manufacturing GVA	D = A/B	42%	40%	40%	38%	39%	37%
Share to Total GDP		9%	9%	9%	9%	9%	9%

Source: PSA

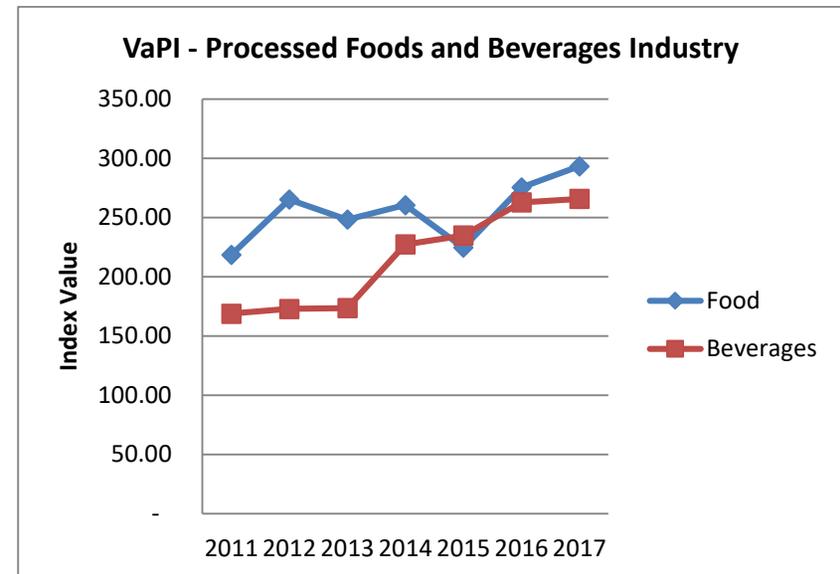
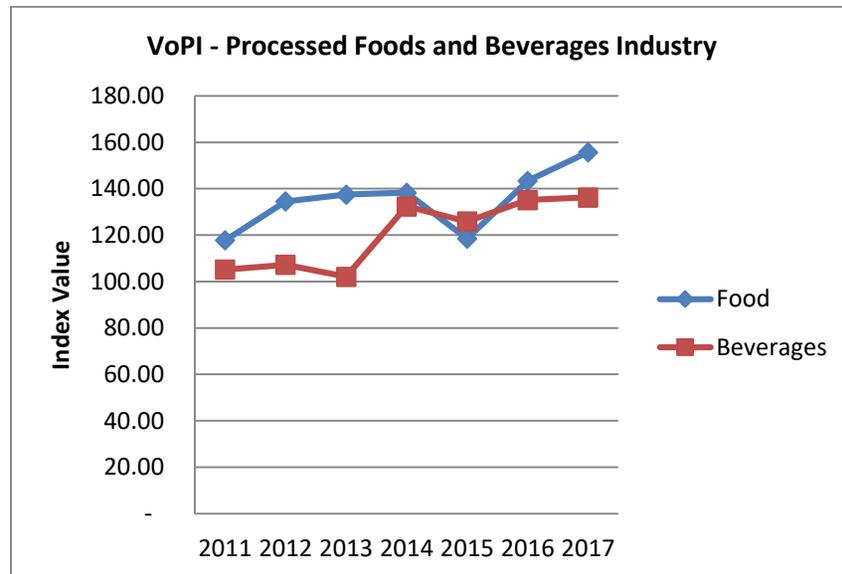
		No. of Establishments		No. of Employment		Value of Output (000 PhP)		Value Added (000 PhP)	
		2014	2015	2014	2015	2014	2015	2014	2015
Food manufactures	A	1,459	1,364	193,819	191,252	842,368,791	852,772,098	174,669,061	179,049,629
Beverage industries	B	97	94	15,256	16,306	182,179,760	195,982,194	86,725,647	100,019,654
Sub-total:	C = A+B	1,556	1,458	209,075	207,558	1,024,548,551	1,048,754,292	261,394,708	279,069,283
Total – All Manufacturing	D	6,653	6,347	1,031,058	1,082,380	4,173,910,469	4,235,762,101	1,078,698,546	1,084,795,432
Share	E = C/D	23%	23%	20%	19%	25%	25%	24%	26%

Source: PSA

ASPI survey covers only establishments with more than 20 direct employees

Volume of Production Index (VoPI) (2000 = 100)							
Sub-sector:	2011	2012	2013	2014	2015	2016	2017
Food	117.80	134.50	137.50	138.30	118.50	143.40	155.70
Beverages	105.20	107.20	102.10	132.40	125.90	135.13	136.26
Value of Production Index (VaPI) (2000 = 100)							
Sub-sector:	2011	2012	2013	2014	2015	2016	2017
Food	218.40	265.20	248.30	260.60	224.60	275.44	293.40
Beverages	168.90	172.90	173.50	227.30	234.80	262.81	265.75

Source: PSA



Philippine Processed Foods and Beverages Export (In US\$ FOB), 2012-2017

Product Group		2012	2013	2014	2015	2016	2017 ^P
Beverages		41,890,822	9,911,973	40,924,050	20,106,904	32,618,232	21,397,263
Processed Foods		1,408,190,613	1,575,414,584	1,758,234,486	1,559,341,134	1,632,612,102	1,597,555,082
Sub-total:	A	1,450,081,435	1,585,326,557	1,799,158,536	1,579,448,038	1,665,230,334	1,618,952,345
Fresh Food	B	832,496,405	1,209,920,332	1,393,497,237	851,552,245	1,023,464,022	895,013,029
Marine/Aqua	C	803,751,050	1,150,094,940	991,385,998	697,106,004	743,542,625	840,519,886
Total Food Export	D=A+B+C	3,086,328,890	3,945,341,829	4,184,041,771	3,128,106,287	3,432,236,981	3,354,485,260
Share	E=A/D	47%	40%	43%	50%	49%	48%

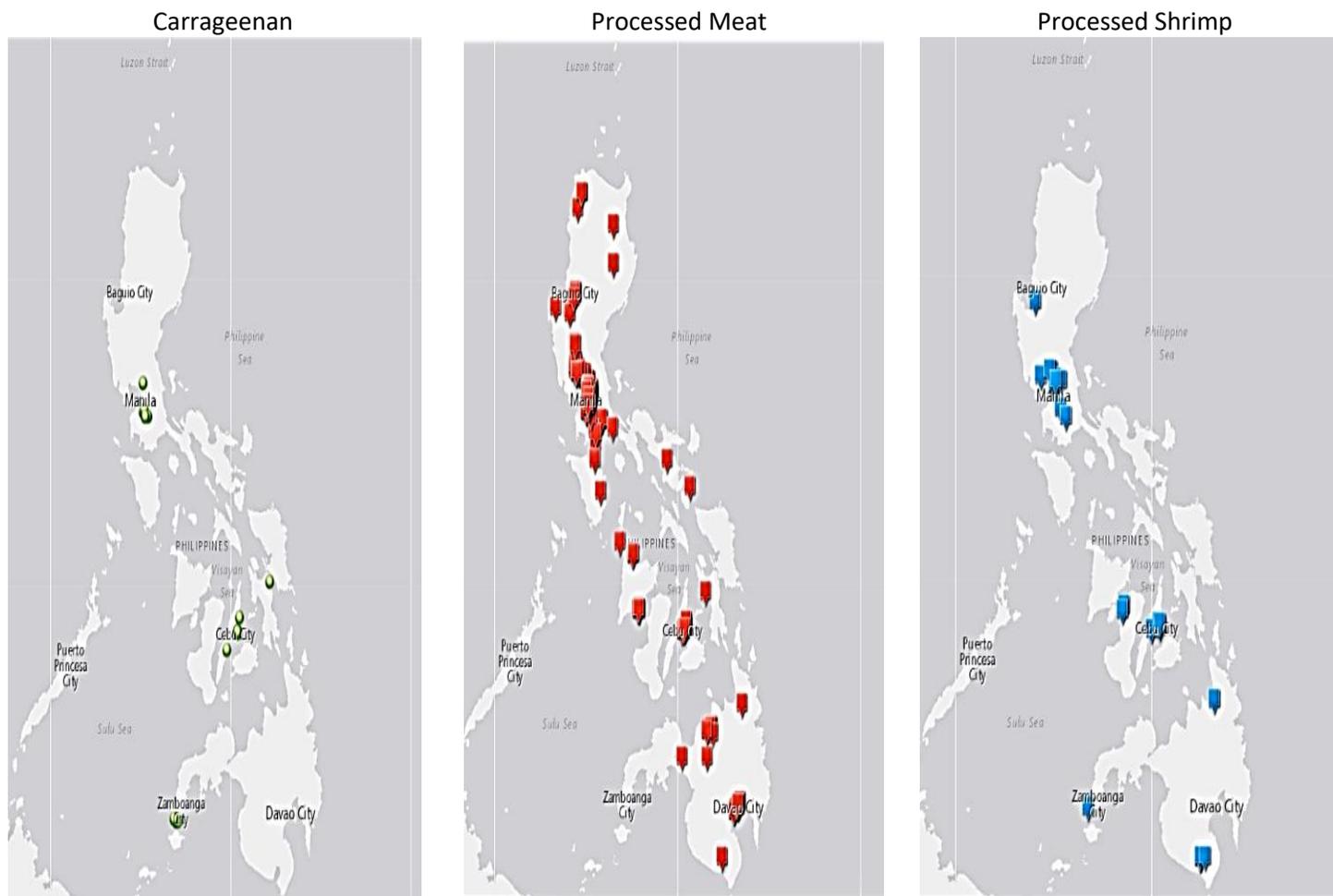
Philippine Processed Foods and Beverages Import (In US\$ FOB), 2012-2017

Product Group		2012	2013	2014	2015	2016	2017 ^P
Beverages		66,664,278	86,872,511	131,169,855	155,317,537	219,556,138	196,722,786
Processed Foods		2,610,041,547	2,812,178,595	3,160,849,032	3,615,835,710	4,092,636,035	4,073,832,730
Sub-total:	F	2,676,705,825	2,899,051,106	3,292,018,887	3,771,153,247	4,312,192,173	4,270,555,516
Fresh Food	G	2,154,626,149	1,894,141,242	2,524,993,280	3,120,064,082	2,896,577,651	2,979,385,616
Marine/Aqua	H	208,788,198	220,741,685	241,617,446	362,856,806	387,017,723	486,990,406
Total Food Import	I=F+G+H	5,040,120,172	5,013,934,033	6,058,629,613	7,254,074,135	7,595,787,547	7,736,931,538
Share	J=F/I	53%	58%	54%	52%	57%	55%
Net Exports (Imports)	K=A-F	(1,226,624,390)	(1,313,724,549)	(1,492,860,351)	(2,191,705,209)	(2,646,961,839)	(2,651,603,171)
		Average Net Export (Import): (1,920,579,918)					

Source: DTI-EMB (2018), P = preliminary

	Export Value Growth (%)	Import Value Growth
2012-2013	9.33	8.31
2013-2014	13.49	13.56
2014-2015	(12.21)	14.55
2015-2016	5.43	14.35
2016-2017P	(2.78)	(0.97)
Average:	2.65	9.96

Geomaps of Carrageenan, Processed Meat and Processed Shrimp Manufacturers



Source: BOI - PMO