

Agri-food in the Philippines

By Larive International & Argosy advisors

- *Trends & developments*
- *Business opportunities for foreign companies*

October 2018

ARGOSY



Introduction

The Philippines

The Philippines is an emerging market with relatively strong macroeconomic fundamentals, vast domestic consumer market (103 MN inhabitants) and steady economic growth (6-7% YoY). Its middle-class is growing rapidly and the demand for safe, higher quality and more convenient/luxury food products is rising fast. However, the relatively undeveloped Filipino agri-food sector is not yet able to supply this domestic demand. In general, the Philippines agriculture sector has been neglected and has grown much slower than the overall economy. There are significant challenges with regards to production, agro-logistics and climate change adaption and/or mitigation, amongst others.

Larive International

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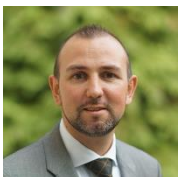
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Report

Larive-Argosy has assessed the agricultural-related developments in the Philippines and to link these with opportunities that would offer foreign companies and knowledge institutions a competitive/niche position. The results will enable the foreign investors to promote specific agro-food trade and investment opportunities in the Philippines more efficiently and thereby contribute to sustainable development and growth.

The study has been completed through, desk research, qualitative research (interviews with relevant companies, institutions, experts, business associations and multilateral organizations located both in the Netherlands and the Philippines) and field research. This research has been conducted in the period of July – November 2017.

For questions about this report, please contact the Larive International. You will find the contact details on the last page of this document.



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Executive summary

The Philippines had a GDP growth rate of 6.8% in 2016 and is expected to reach 6.9% and 7.0% in 2017 and 2018 respectively. The growth of the economy has resulted in an expanding middle class with increasing disposable income. With more spending power, Filipino consumers request more higher quality, convenience and value added food and household products. As a result, there is a need to improve the capabilities and capacities of the Philippine agri-food value chains, to ensure that the demands of the market will be met.

Filipino consumers are becoming more health conscious resulting in a growing demand for higher quality food products with lesser preservatives and additives (organic). New products such as 'Better For You' packaged food and superfoods (i.e. food items that did not undergo processing) have recently been introduced in the market. The shift in preferences for healthier and more nutritious food brings about the need for safer and more sustainable produced food products.

The contribution of the agriculture sector to the Philippine GDP has continued to decline. In 2016, the sector has employed 27% of the working population but has contributed only 10% of the total GDP. Due to the low income received by workers in the sector, migration from rural to urban areas is increasing as the industrial and services sector provide decent opportunities and sources of income. However, the current government administration is focusing on the revitalizing the Philippine agriculture industry. Government agencies are reviewing existing laws, policies and regulations as well as developing initiatives and roadmaps to improve the productivity and sustainability of the industry. These programs are expected to make the Philippine agricultural products globally more competitive and are intended to make the Philippines a self-sufficient food country in next 3-5 years.

Alternative sources of inputs, better controlled farming environments, more advanced processing machines and equipment, improved cold storage and post-harvest facilities, and food safety are the major needs of the Philippine agri-food industry. These can be offered in the Philippine market by allowing foreign companies to directly sell their products and services or create joint venture agreements with local companies. These joint venture companies may offer value-added products and processes, establish new processing plants/facilities, improve supply of packaging materials and processes, and/or provide warehousing and storage facilities.

The Philippine agri-food sector offer opportunities for foreign companies and knowledge institutions in virtually all segments. Within the Philippines agri-food landscape, the following food chains can benefit most from involvement of innovations and/or expertise:

- Dairy;
- Poultry and livestock;
- Fisheries and aquaculture;
- Horticulture.

Table of content

The Philippines – Facts & figures	4
Dairy	6
• Trends & developments	7
• Business opportunities for foreign companies	8
Poultry & livestock	9
• Trends & developments	10
• Business opportunities for foreign companies	11
Fisheries & aquaculture	12
• Trends & developments	13
• Business opportunities for foreign companies	14
Horticulture	15
• Trends & developments	16
• Business opportunities for foreign companies	17

The Philippines – Facts & figures

103
Population (MN)



Capital:
Manila 12.8 MN inhabitants

2,899
Nominal GDP per head (US\$)
123th place



305
Nominal GDP (US\$ BN)
33th place global ranking

Currency:
Philippine Peso



5.7
Foreign Direct Investment (US\$ BN)

103th
Ease of doing business (global ranking)

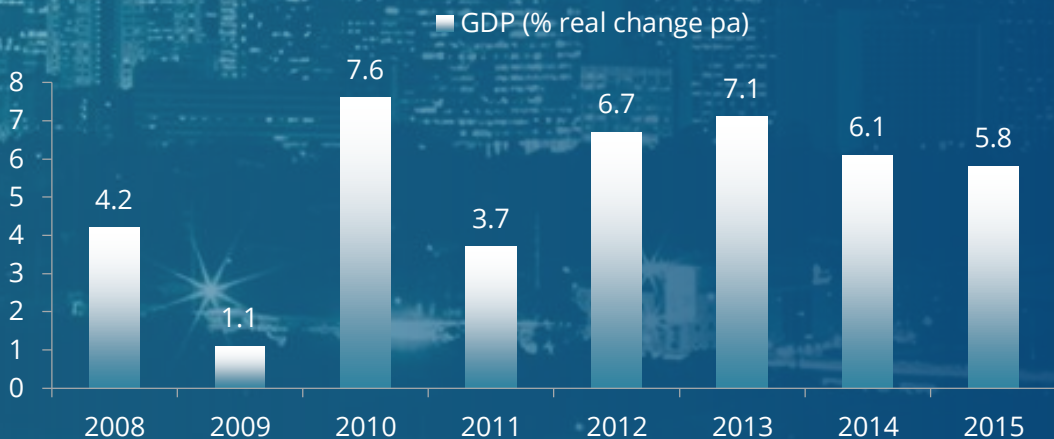
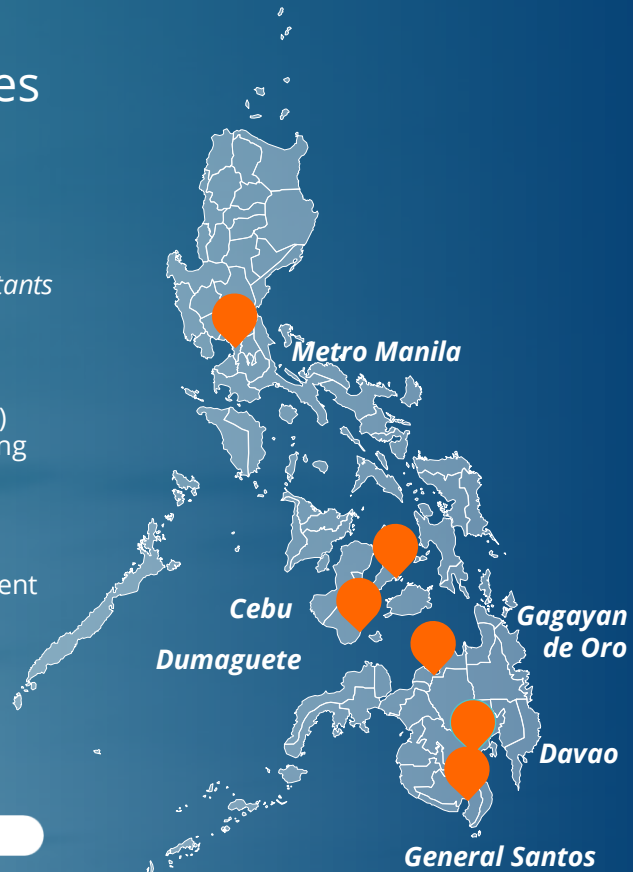


47th
Competitiveness (global ranking)

Official Languages:
Tagalog (Filipino) and English



63%
Freedom of corruption
70th place (global ranking)



Source: ADB, Economist Intelligence Unit (2016)

Dairy

- *Trends & developments*
- *Business opportunities*



Trends & developments in Dairy

Filipinos are increasingly getting acquainted with dairy products, amongst others due to the development of modern retail and travelling abroad.

At current, Filipino's consume approximately 1.8 MMT of dairy products per year, which is about 15.2 kg/head/year. **About 99% of all dairy products in the Philippines is being imported** with a total value of US\$ 700 MN:

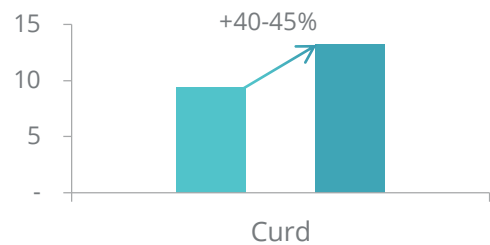
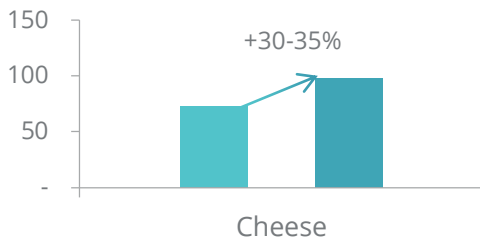
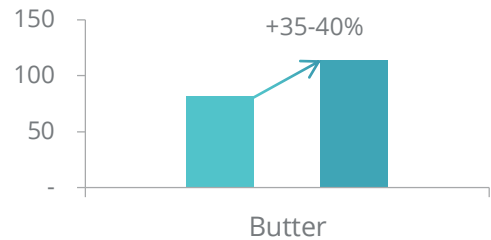
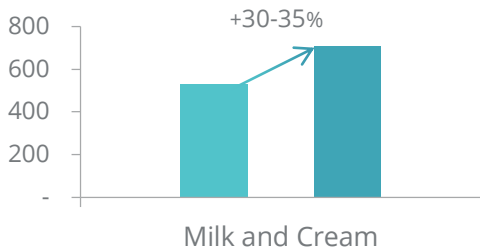


“Main suppliers are New Zealand, the USA, Australia and Germany.”

A strong increase in the consumption of dairy products in the coming years is foreseen. In 2025, Filipino consumers will consume an estimated 17.4 kg/head/year, reaching a total consumption volume of approximately 2.5 MMT (almost 35% growth in 10 years time).

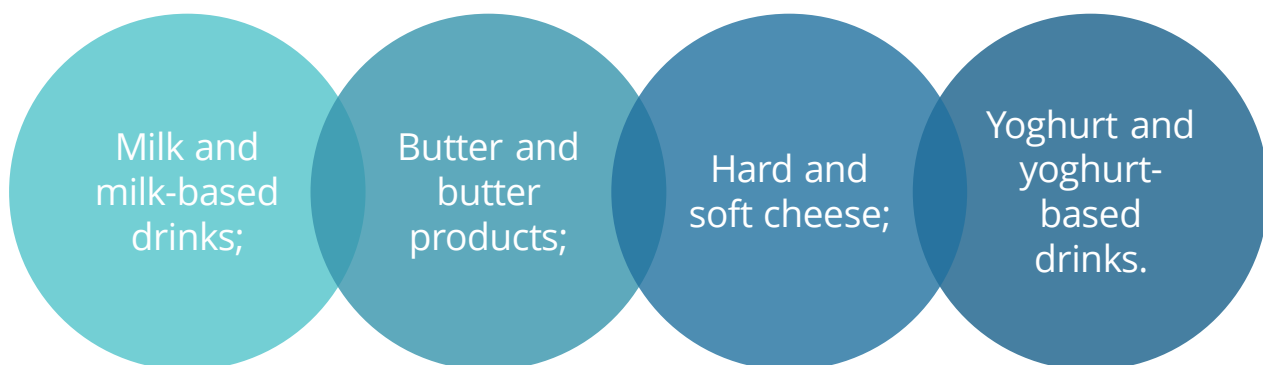
Strongest growth is foreseen in the consumption of milk and milk-based drinks (+US\$ 200 MN), butter and butter products (+US\$ 40 MN), hard and soft cheese (+30 MN), yoghurt and yoghurt-based drinks and infant and medical nutrition. Consumption of other dairy products such as coffee creamers and condensed milk are expected to remain constant in terms of growth.

Consumption USD MN ■ 2015 ■ 2025



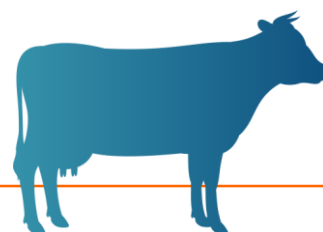
Business opportunities in Dairy

Opportunities for export of consumer products :



The Philippines dairy industry is at current a small-holder based sector. The Philippine Department of Agriculture has the ambition to **develop the domestic dairy production with 10% a year** (reducing the country's reliance on imports).

It is however highly unlikely that domestic production increase is able to meet the growing local demand. The Netherlands has a global leading position in the dairy sector and could add significant value in developing the domestic dairy sector.



Business opportunities for foreign companies

Opportunities for export & investments related to local production capacity:

- Suppliers of dairy cattle (breeds which have proven high production in tropical climates).
- Local production of high quality and cost competitive cattle feed (since feed represents approximately 60% of production costs).
- Introduction of cattle feed with less antibiotics and beneficial additives, in order to strengthen the health resistance and improve food safety.
- Animal health monitoring and disease control services.
- Suppliers of herd farming systems (feeding, milking, manure/waste processing) and processing equipment, such as cooling tanks and cold chain solutions for remote areas.
- Cold chain distribution services.
- Consultancy and training.



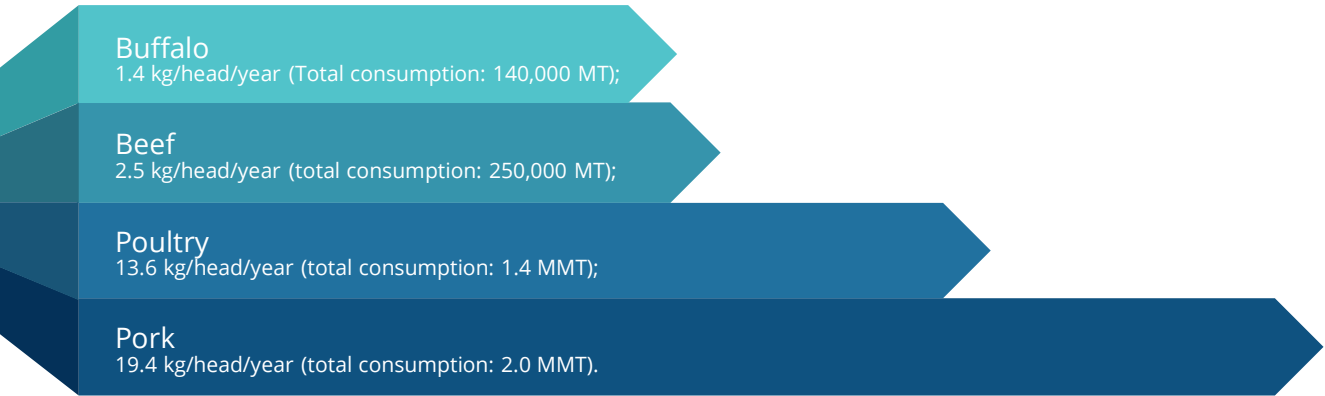
Livestock & Poultry

- *Trends & developments*
- *Business opportunities*



Trends & developments in Poultry & Livestock (1/2)

The Philippines is among the **fastest growing meat consuming nations in the world**, thanks to increasing purchasing power of the Filipinos, the growing share of modern retail and presence of quick serving restaurant chains and the increasing number of tourists. Dominant products (2015) are:

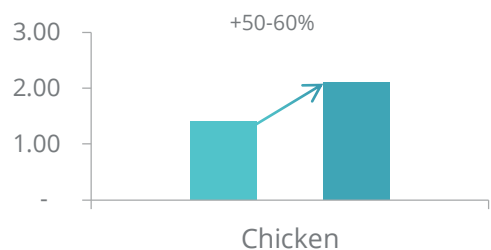
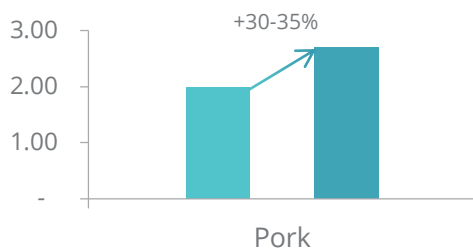


The expectation is that this upward trend will continue within the coming years, resulting in an estimated increase of consumption of pork meat of 35-40% (to 2.7 MMT), **50-60% increase in consumption of poultry meat** (to 2.1 MMT) and a 30-35% growth of beef and buffalo meat (to 330,000 and 185,000 MT respectively) till 2025.

The country's domestic meat production sector is already not able to meet the demand of meat processors and strongly depends on **imports (30-50%)**. Most of the imports are sourced from the United States, Germany and the Netherlands (poultry 24%, pork 5%). As a consequence, the Philippines requires vast capacity expansion in terms of domestic feed mill production, hatcheries, poultry and livestock housing and slaughterhouse. Another expected response within the domestic sector is consolidation, especially among small and mid-sized companies.

Feed milling: There are approximately 545 feed mills operational in the Philippines, a large part being smaller 'home milling farmers'. Total domestic feed production in 2015 was 12.4 MT (representing US\$ 2.4 BN). 67 feed mills had a capacity of > 100 MT per day (8hr shift), producing >60% of all animal feed in the Philippines. **Wheat** and **soybean** for the production of animal feed are most imported from overseas, representing 10% and 8% of all agriculture imports in the Philippines.

Consumption USD MN ■ 2015 ■ 2025



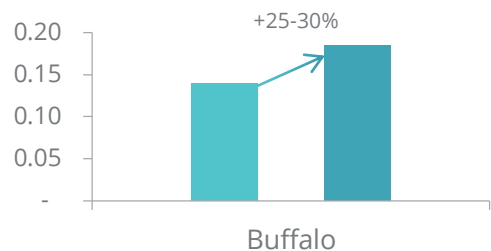
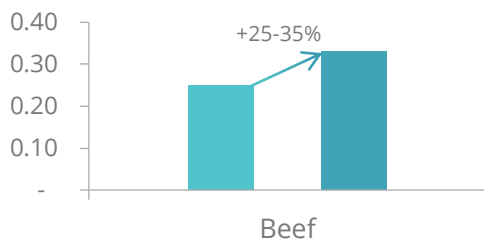
Trends & developments in Poultry & Livestock (2/2)

Pork and poultry farming: In 2015, the Philippines had an inventory of 22 MN pork and 180 MN broilers. The pork industry is dominated by small and medium-sized farmers (~800,000). However, **the poultry industry is more consolidated**; 80% of the chicken meat and eggs are supplied by larger integrated commercial farms, belonging to the integrated groups.

Slaughterhouses and further processing: There are 75 accredited slaughterhouses, of which **only 4 have 'AAA' status**. Changing consumer preferences will trigger new investments by both domestic and foreign companies, notably in the (further) processing segment, as margins are attractive.

Leading domestic players include San Miguel, Universal Robina, Bountry Fresh, Foster Foods, Cargill Philippines, Pilmico, Foremost and La Filipina Uy Congo.

Consumption USD MN ■ 2015 ■ 2025



Business opportunities for foreign companies

The Netherlands has a strong position in the international egg and poultry meat trade, being the world's largest exporter of eggs for consumption and egg products and the third largest exporter of chicken meat.

Opportunities for export of consumer products :

- Poultry, pork and beef meat (frozen, fresh and further processed).
- Eggs and egg products.

Fisheries & aquaculture

- *Trends & developments*
- *Business opportunities*

Trends & developments in Fisheries & aquaculture

The Philippines is the world's second largest archipelagic State (>7,100 islands), with a vast Exclusive Economic Zone of 2,200,000 km². Thanks to its location in the coral triangle with some of the most productive fishing grounds in the world, the **Philippines is among the major fish producing countries in the world.**

The total production of fishery and fish products reached almost 4.7 MT in 2015, of which almost half (nearly 2.3 MMT) was landed by the fishery sector and 2.35 MMT by the aquaculture sector. However, with a production volume of 1.5 MMT, seaweed represents the majority of the countries aquaculture output. As such, the aquaculture production of fish species is still relatively small and underdeveloped compared to the industries in other countries in Asia-Pacific such as in China, Vietnam, Indonesia and Thailand.

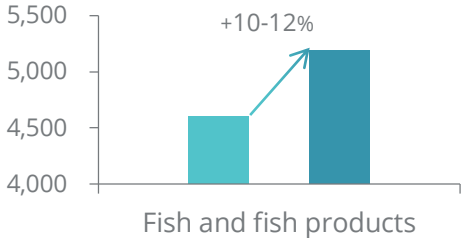
The Philippines is a considerable exporter of **tuna** and **seaweeds**. In 2015, exports of fishery and fish products generated > US\$ 900 MN.

Filipinos eat on average **40.3 kg/head/year** fish and fish products, which is among the highest in Asia-Pacific. Fish and fish products consumption represent about 50% of the animal protein intake. Sardines, mackeral and milkfish are among the most commonly consumed species.

The shrimp farming sector was hit significantly in recent years due to disease outbreaks (white spot disease, early mortality syndrom). However, production is increasing again. Export of shrimp is dominated by a handful of large Filipino owned companies that farm, process and export their produce themselves. By controlling the supply chain, these companies are able to ensure traceability and quality standards needed to export to the EU.

Leading domestic players include Century Pacific Food, Ligo, A. Tung Chingo, Mega Global and Frabelle Fishing.

Consumption USD MN ■ 2015 ■ 2025



“The Philippine government has the ambition to further develop its aquaculture sector, as the country faces depleting fishery resources, degrading fishery habitats and post-harvest losses.”

“Filipinos eat on average 40.3 kg /head/year of fish and fish products, which is among the highest in Asia-Pacific”



Business opportunities for foreign companies

Opportunities for imports of consumer products :

Exports from the Philippines to the EU have been relatively low compared to other countries such as Indonesia and Thailand. Recently, the Philippines has gained GSP+ status, which makes the country's export products more competitive. Most interesting products for foreign importers are **tuna, shrimp/prawns and seaweed**.

The Philippine government has the ambition to further develop its aquaculture sector, as the country faces depleting fishery resources, degrading fishery habitats and post-harvest losses. Notably the revival of the tilapia culture is among the top priorities, next to milkfish and shrimp. As the government does not allow the construction of new fishponds in coastal mangrove areas (thereby the limiting growth of the pond-based aquaculture sector), the sector requires more improved, efficient and sustainable production systems. This results in opportunities for foreign companies which can leverage their expertise and best practices proven in other emerging countries with tropical climate conditions.

Opportunities for export & investments related to local production capacity

- Introduce modern fish farming systems (efficient water and feed usage, such as **recirculation systems** - RAS), especially to supply the urban area with higher quality and sustainable farming of fresh/brackish fish as well as shrimp/prawns
- Local production of high quality and cost competitive **fish feed** and premixes.
- Modern breeding, hatchery and nursery technologies for fresh/brackish fish and shrimp/prawns.
- Solutions to prevent/reduce fish disease pressure at farm level (increased bio-security) for fresh and brackish water species (such as shrimp).
- Processing equipment: Growth of the local **export-oriented processing sector** (canneries) offer opportunities for suppliers of fish processing, packaging and cold storage equipment suppliers and production of dried seaweed.
- Consultancy and training.

Horticulture

- *Trends & developments*
- *Business opportunities*

Trends & developments in Horticulture

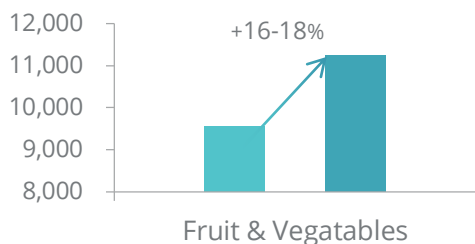
The Philippines has a significant horticulture sector with >13 M hectares planted, 80% was allocated to rice, corn and coconut farming. Major export crops include **coconut, sugar, banana, pineapple and mango**. The country remains a net importer of various crops such as rice, corn, wheat and soy.

In terms of fruits & vegetables, Filipino consumers are strongly **influenced by the US consumption patterns**. The total consumption volume of fruits and vegetables is expected to grow with 18% till 2025, in line with the population growth. Consumption per capita is however expected to remain constant.

The Philippines imports various fruits and vegetables products with a total volume of 1 MMT. Apples represent 27% (> US\$ 300 MN), grapes 6% (>US\$ 130 MN) and pears 4% (US\$ >50 MN) of the volumes. Furthermore, the Philippines imports a sizable volume of onions (36,000 MT). Major suppliers include China, the US and New Zealand.

The increasing share of trade via modern retail sets increasingly higher standards to suppliers of fresh fruits and vegetables. As such, suppliers need to lower the usage of agrochemicals, improve packaging and cold storage and transport.

Consumption USD MN ■ 2015 ■ 2025



The Philippine Department of Agriculture has the ambition to develop domestic vegetable production:

- Low land crops: eggplant, squash, tomato
- High land crops: carrots, cabbage, bell pepper, cauliflower, broccoli
- The Department encourages imports of onions, potatoes and mung bean.

Leading domestic players include SL Agritec, Lamsan, Fresh Fruits Ingredients, Profood Int., Del Monte Philippines, Dole Philippines and TADECO.

Business opportunities for foreign companies



Opportunities for export of consumer products :

- Apple, pears, onions, high-end vegetables (bell peppers, tomatoes)

The Netherlands is a strong player in the horticulture industry, especially with regards to vegetables farmed under protected conditions (greenhouse farming, high quality seeds, crop protection, climate control, cold storage & packaging). Foreign investors can add much value in the Philippine horticulture sector.

Opportunities for export & investments related to local production capacity

- Vegetable seeds and crop protection.
- Efficient and innovative cultivation systems (efficient water and fertilizer usage, such as applied in **greenhouses and hydroponics**).
- Alternative (biological) solutions for pollination and crop protection.
- Equipment and solutions related to climate control.
- Consultancy and training.

Interested in the full report?



1. Executive summary
2. Philippines economic developments
3. Philippine agriculture sector
4. Philippine food sector
5. Food safety in the Philippines
6. Bottlenecks
7. Philippines investment policy and incentives
8. Government programs, initiatives and regulations
9. Philippines: market entry & growth
10. Global programs and initiatives
11. Netherlands programs and initiatives

Annex:

- Philippine agriculture sector stakeholders
- Additional sub sector information: Dairy food chain
- Additional sub sector information: Poultry/Livestock food chain
- Additional sub sector information: Fisheries & Aquaculture food chain
- Additional sub sector information: Horticulture food chain
- Leading Dutch agri-food companies
- Pricing of selected commodities in the Philippines

Contact

Contact persons

Find more at [Larive.com/downloads](https://larive.com/downloads)

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