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SUGAR ANNUAL

Annual

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Report Highlights:

Philippine sugar production estimates for CY2008/09 were lowered to 2.050 MMT from the initial 2.250 MMT due to unusually wet and cold weather reportedly experienced in some sugar producing areas. Domestic sugar consumption is expected to remain flat this year due to the projected slowdown in general food consumption. The five percent bioethanol and gasoline blend requirement under the Philippine Biofuels Law takes effect this year.

Executive Summary:

Philippine sugar production estimates for CY2008/09 were lowered to 2.050 MMT from the initial 2.250 MMT due to unusually wet and cold weather reportedly experienced in some sugar producing areas. Domestic sugar consumption is expected to remain flat this year due to the projected slowdown in general food consumption. The five percent bioethanol and gasoline blend requirement under the Philippine Biofuels Law takes effect this year.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:

According to the Philippine Sugar Regulatory Administration (SRA), Philippine raw sugar production reached 2.455 million metric tons (MMT) in FY2007/08, about 10 percent higher than the previous crop year. CY 2008/09 raw sugar production was initially projected to reach 2.250 MMT but was subsequently lowered to 2.050 MMT due in part to the unusually wet/cold weather experienced in major sugar producing regions as well as reduced fertilizer use by sugarcane farmers particularly during the start of the planting season as a result of high fertilizer prices at that time.

RAW SUGAR PRODUCTION, AREA PLANTED AND YIELD PER HECTARE (IN MT)			
	2006/07	2007/08	2008/09
TOTAL PRODUCTION	2,233,453	2,455,027	2,250,00 [1]
SUGARCANE MILLED	23,254,009	26,835,578	23,426,000 [2]
TOTAL AREA PLANTED	388,004	398,872	398,454

Source: Sugar Regulatory Administration

The island of Negros still continues to account for majority (57%) of the total sugar production in the country. Luzon produced 14 percent; Mindanao, 19 percent; Panay, 6 percent; and Eastern Visayas, 4 percent. Total domestic sugar production comes primarily from four major sugar planter federations and three major miller associations. Producers who belong to these organized federations account for 90 percent of the total domestic sugar production. Planters and millers not affiliated with the major federations produce the remaining 10 percent.

While there is no formal trade in sugarcane due to the unique "quedan" system in the Philippines, according to industry sources, a metric ton of sugarcane can roughly be valued at about P1,400 (as of April 13, 2009, based on P1,057/50-kg bag of raw sugar). In CY 2007/08, the average mill site price per 50-kg bag of "A" raw sugar was P601 for the U.S. market; P1,109 for "B" raw sugar for the domestic market; P1,054 for "C" sugar; P540 for "D" sugar; the average composite price was P1,057.

From CY 2007/09 through to this year, domestic sugar prices have remained relatively stable. Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

RAW AND REFINED SUGAR PRICES				
CY 2007/08	Raw Sugar		Refined Sugar	
	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)
September	1,186.07	30.00	1,551.28	35.78
October	1,343.64	31.50	1,736.00	37.50
November	1,213.68	32.35	1,608.41	38.43
December	1,174.27	31.94	1,573.70	37.87
January	1,135.77	31.66	1,545.50	37.67
February	1,125.72	31.19	1,537.50	37.03
March	1,185.16	30.83	1,616.48	37.02
April	1,261.60	31.18	1,704.80	37.55
May	1,261.56	30.97	1,716.95	37.93
June	1,281.18	31.00	1,736.82	38.23
July	1,243.99	30.80	1,719.89	38.30
August	1,236.53	30.71	1,676.05	38.20
<i>Average</i>	1,220.76	31.18	1,643.62	37.63
CY 2008/09				
September	1,190.62	30.45	1,606.19	37.97
October	1,150.16	30.60	1,525.92	37.89
November	1,113.20	30.54	1,507.73	37.71
December	1,065.54	30.28	1,476.79	37.26
January	1,113.10	30.15	1,542.03	37.26
February	1,128.28	30.03	1,546.87	37.12
March	1,124.88	30.09	1,538.69	37.03

Source: Sugar Regulatory Administration

Monthly molasses Prices for CY2007/08 through 2008/09 follows:

MOLASSES PRICES (Pesos/MT)	
CY 2007/08	
September	3,935.36
October	4,175.87
November	4,121.99
December	3,933.96
January	3,932.18
February	4,140.48
March	4,530.44
April	4,078.85
May	4,062.12
June	4,045.12
July	4,184.15

August	4,062.12
<i>Average</i>	<i>4,099.22</i>
CY 2008/09	
September	4,178.00
October	4,217.97
November	4,048.76
December	3,823.02
January	3,956.80
February	4,038.96
March	4,140.68

Source: Sugar Regulatory Administration

US Dollar to Philippine Peso Exchange Rates from 2005 to April 14, 2009 follows:

Exchange Rate (in Pesos)	2005	2006	2007	2008	2009
US\$=PhP	55.09	51.31	46.15	44.47	47.82

[¹] SRA Sugar Order No. 1; September 2008

[²] USDA Manila estimate only

Consumption:

Despite the food and fuel crisis followed by the start of the global recession last year, Philippine GDP growth still managed to grow by 4.6 percent, slower compared to the 7.2 percent expansion in 2007. Remittances from Overseas Filipino Workers (OFWs) continued to be the bright spot of Philippine GDP reaching an estimated \$17 billion last year. Local economists agree that OFW remittances have helped shield the Philippines from effects of the global economic meltdown in 2008. GRP planners predict the ill effects of the global crisis to be more pronounced in 2009 and expect OFW remittances to decline during the year.

According to a study by the University of Asia and the Pacific, the users of sugar are local consumers and the export market. Local consumers consist of household users, which account for 57 percent of domestic consumption; industrial users, 39 percent; and institutions (e.g., restaurants, bakeshops, hospital etc.), 4.6 percent. The export market is mainly the United States, which pays a premium price (i.e., higher than the world market price).

Domestic sugar consumption has been traditionally measured by monitoring sugar withdrawals from the mills. According to SRA data, total domestic sugar withdrawals is estimated at 2.078 MMT for CY 2007/08. Domestic sugar consumption for CY 2008/09 will likely remain unchanged due to predicted slowdown in food consumption.

DOMESTIC RAW SUGAR WITHDRAWALS 2006-09 (in MT)			
MONTH	2006/07	2007/08	2008/09
September	36,066	65,693	69,703
October	160,123	97,575	83,258
November	131,245	120,370	142,378
December	198,990	157,166	117,516
January	172,216	181,742	166,267
February	191,792	178,334	188,029
March	221,746	252,586	
April	263,267	218,724	
May	149,559	186,965	
June	120,057	246,693	
July	171,972	171,062	
August	141,610	177,834	
TOTAL	1,958,643	2,078,468	

Source: Sugar Regulatory Administration

Trade:

The Philippines is expected to export 142,160 MTRV of raw sugar to the United States this current crop year under the U.S. sugar tariff-rate-quota program and about 7 percent of domestic production or 150,000 MTRV to the world market, either in the form of sugar or sugar-based food products).

No imports are forecast for CY 2008/09 due to projected adequate sugar production as well as adequate stocks. In the WTO, the Philippines committed to a final 10th-year Minimum Access Volume (MAV) of 64,050 MT of raw sugar, with a tariff rate of up to 50 percent. All importation in excess of the MAV is subject to a tariff rate of 65 percent. Tariff rates for 2009 follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2009	
			M F N	C E P T [1]
17.01		Cane or beet sugar and chemically pure sucrose, in solid form		
		- Raw sugar not containing added flavoring or coloring matter		
	1701.11	-- Cane sugar		
		--- In-quota	50	38
		--- Out-of-quota	65	38
	1701.12	-- Beet sugar		
		--- In-quota	50	38
		--- Out-of-quota	50	38
		- Other:		
	1701.91	--Containing added flavoring or coloring matter:		

		--- In-quota	50	5
		--- Out-of-quota	50	5
		--- Other, In-quota	1	0
		--- Other, Out-of-quota	1	0
	1701.99	-- Other:		
		--- Refined sugar		
	1701.99.11	---- White		
		---- In-quota	50	38
		---- Out-of-quota	65	38
		---- Other, In-quota	1	0
		---- Other, Out-of-quota	1	0
	1701.99.19	---- Other		
		---- In-quota	50	38
		---- Out-of-quota	65	38
		---- Other, In-quota	1	0
		---- Other, Out-of-quota	1	0
	1701.99.90	---- Other		
		---- In-quota	50	38
		---- Out-of-quota	65	38
17.02		Other sugars, including chemically pure lactose, maltose, glucose and fructose in solid form; sugar syrups not containing added flavoring or coloring matter; artificial honey, whether or not mixed with natural honey; caramel		
		- Lactose and lactose syrup:		
	1702.11 00	-- Containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter	1	0
	1702.19 00	-- Other	3	0
	1702.20 00	- Maple sugar and maple syrup	7	0
	1702.30 00	- Glucose and glucose syrup, not containing fructose or containing in the dry state less than 20% by weight of fructose	3	0
	1702.40 00	- Glucose or glucose syrup, containing in the dry state at least 20% but less than 50% by weight of fructose, excluding invert	3	0
		Sugar		
	1702.50 00	- Chemically pure fructose	3	0
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state more than 50% by weight of fructose, excluding invert sugar	7	3
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup blends containing in the dry state 50% by weight of fructose	3	0
17.03		Molasses resulting from the extraction of refining sugar		
	1703.10 00	- Cane molasses	10	3
	1703.90 00	- Other	7	3
17.04		Sugar confectionery (including white chocolate), not containing cocoa		
	1704.10 00	- Chewing gum, whether or not sugar-coated	15	5
		- Other:		
	1704.90 10	--- White Chocolate	10	5
	1704.90 90	--- Other	15	5

Source: Philippine Tariff & Customs Code

Executive Order No. 484 (2005) for AFTA-CEPT Tariff Rates

[1] ASEAN Common Effective Preferential Tariff

Policy:

Sugar Orders: During the start of each crop year, the SRA issues Sugar Order No. 1 (SO No. 1) which establishes the production and marketing policies for sugar. In September 2008, SO No.1 (2008) was issued which estimated initial raw sugar production to reach 2.25 MMT, this has since been revised down, 10 percent of which was earmarked for export to the U.S. market; 68 percent for the domestic market; 15 percent for reserves and 7 percent for the World Market. Due to the large ending stock balance in CY 2007/08, the SRA has actively intervened by reclassifying "D" sugar for export to the world market as "Dr" or world export reserve or "De" for sugar-based food exporters in order to stabilize price levels. Sugar Order No. 1-D, issued in March 2009, eliminated all "Dr" sugar and converted it all to "Dx" for export in order to reduce stock balances. The SRA Sugar Orders may be obtained from:

http://www.sra.gov.ph/policy_so.html

Bio-fuels Law: In January 2007, President Gloria Macapagal-Arroyo signed into law Republic Act 9367 (RA 9367), which mandates the use of bio-fuels in the country. The bio-fuels law mandates the use of gasoline with a blend of five (5) percent bio-ethanol starting in 2009 and to be increased to ten (10) percent by 2011, with the approval of the National Biofuels Board. Within three months of implementation on the law, a one (1) percent bio-diesel blend should be sold and subsequently increased to two (2) percent by 2009.

According to a Philippine Ethanol Alliance Study, an additional 2.3 MMT of sugarcane and 21,200 hectares of new land will be needed to produce the estimated 160 million liters of ethanol needed to meet the 5 percent blend mandate for ethanol in the first year alone.

Unlike biodiesel, which already has an ample domestic supply, ethanol is still being imported by oil companies from Brazil. The National Biofuels Board, however, has the power to delay or even cut the blend requirements if the demand could not be served by the industry. However, the DOE emphasized that there is a biofuels law and it should be followed.

Ethanol Plant: San Carlos Bioenergy Inc. (SCBI), the country's only ethanol facility, began commercial operations in March 2009. The project is projected to supply about 15 percent of the country's current ethanol requirements (based on the 5-percent mandate). The plant has a boilerplate capacity to mill 1,500 tons of sugar cane a day and produce 30 million liters of ethanol annually and about 8 megawatts of renewable power. According to the Department of Energy (DOE), the country needs about 200 million liters of ethanol to fully meet the 5 percent gasoline blend requirement. The country's ethanol program recently took effect and the E10 blend (10-percent ethanol blend) is now available in gasoline stations.

Joint Administrative Order: On December 2008, nearly two years after the Philippine Biofuels Law (RA9397) was enacted, Joint Administrative Order No. 08-1 (JAO) "Guidelines Governing the Biofuel Feedstocks Production and Biofuels and Biofuels Blend Production, Distribution and Sale under RA 9397" was issued. The JAO contains omnibus guidelines to facilitate and promote investments in biofuels and avoid overlapping of regulatory requirements among government agencies and departments of the government. It also provides for the creation of a "One-Stop-Shop" that shall accept, screen and process applications for certifications, licenses, and permits to operate as a biofuel feedstock

Country	Philippines								
Commodity	Sugar, Centrifugal						(1000 MT)		
	2008	Revised		2009	Estimate		2010	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	09/2007	09/2007		09/2008	09/2008	09/2007		09/2009	09/2009
Beginning Stocks	262	262	262	547	547	547			247
Beet Sugar Production	0	0	0	0	0	0			0
Cane Sugar Production	2,455	2,455	2,455	2,200	2,200	2,050			2,250
Total Sugar Production	2,455	2,455	2,455	2,200	2,200	2,050			2,250
Raw Imports	0	0	0	0	0	0			0
Refined Imp.(Raw Val)	0	0	0	0	0	0			0
Total Imports	0	0	0	0	0	0			0
Total Supply	2,717	2,717	2,717	2,747	2,747	2,597			2,497
Raw Exports	240	240	240	320	320	300			140
Refined Exp.(Raw Val)	0	0	0	0	0	0			0
Total Exports	240	240	240	320	320	300			140
Human Dom. Consumption	1,900	1,900	1,900	1,900	1,900	2,050			2,100
Other Disappearance	30	30	30	0	0	0			0
Total Use	1,930	1,930	1,930	1,900	1,900	2,050			2,100
Ending Stocks	547	547	547	527	527	247			257
Total Distribution	2,717	2,717	2,717	2,747	2,747	2,597			2,497

PSD Table									
Country	Philippines								
Commodity	Sugar Cane for Centrifugal						(1000 HA) (1000 MT)		
	2008	Revised		2009	Estimate		2010	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		09/2007	09/2007		09/2008	09/2008		09/2009	09/2009
Area Planted	395	398	398	395	395	398			398
Area Harvested	390	393	393	393	390	393			393
Production	24,300	26,500	26,500	24,500	24,500	26,500			26,500
Total Supply	24,300	26,500	26,500	24,500	24,500	26,500			26,500
Utilization for Sugar	24,300	26,500	26,500	24,500	24,500	26,500			26,500
Utilizatn for Alcohol	0	0		0	0				
Total Utilization	24,300	26,500	26,500	24,500	24,500	26,500			26,500