

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Philippines

## Sugar Annual

## Annual

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**Report Highlights:**

According to the latest production estimates released by the Sugar Regulatory Administration, Crop Year 2009/10 raw sugar production is projected to drop to 1.90-1.96 MMT, a drop of over 12 percent from the initial forecast of 2.16-2.18 MMT made last year.

**Commodities:**

Sugar Cane for Centrifugal

Sugar, Centrifugal

**Production:**

According to the latest production estimates released by the Sugar Regulatory Administration (SRA), Crop Year (CY) 2009/10 raw sugar production is projected to drop to 1.90-1.96 MMT, a drop of over 12 percent from the initial forecast of 2.16-2.18 MMT made last year. Reduced fertilizer use, a decline in area planted to sugarcane, as well as the hot and dry weather conditions brought about the El Nino weather phenomenon has affected domestic sugar production this crop year. According to industry experts, the erratic rainfall during the vegetative growth of cane also hurt production. In Mindanao, there are also reports of crop shifting in Bukidnon and Maguindanao, as well as delayed milling in North Cotabato during the fourth quarter of 2009. According to SRA, sugarcane production is estimated at around 19 MMT, a drop from the previous 22 MMT projected.

<b>RAW SUGAR PRODUCTION, AREA PLANTED AND YIELD PER HECTARE (IN MT)</b>			
	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
TOTAL PRODUCTION	<b>2,455,027</b>	<b>2,100,048</b>	<b>1,900,000</b>
SUGARCANE MILLED	26,835,578	21,611,068	19,000,000
TOTAL AREA PLANTED	398,872	392,567	

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 valued at about P2,100-P2,300 (as of April 23, 2010 and based on the current average price of a 50-kg bag of raw sugar). In CY 2008/09, the average mill site price per 50-kg bag of “A” raw sugar was P884 for the U.S. market; P1,034 for “B” raw sugar for the domestic market; P880 for “C” sugar; P742 for “D” sugar; the average composite price was P945.

A noticeable rise in domestic sugar prices can be observed starting in October 2009 to date, due in part to a rise in international sugar prices during the same period. Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

<b>RAW AND REFINED SUGAR PRICES</b>				
<b>CY 2008/09</b>	<b>Raw Sugar</b>		<b>Refined Sugar</b>	
	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	1,190.62	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
April	1,115.00	29.86	1,525.00	36.85
May	1,123.91	29.45	1,534.38	36.47
June	1,200.42	29.45	1,631.66	36.58
July	1,206.67	29.71	1,631.47	36.83
August	1,277.39	29.67	1,705.71	36.80
<i>Average</i>	1,150.76	30.02	1,564.37	37.15
<b>CY 2009/10</b>				
September	1,331.50	30.35	1,742.28	37.61
October	1,411.20	30.48	1,847.32	38.16
November	1,444.22	30.90	1,932.86	39.15
December	1,541.51	33.67	2,095.47	43.82
January	1,871.45	37.84	2,393.73	46.65
February	1,973.80	43.87	2,492.44	52.84
March	1,805.00	44.42	2,193.34	52.80

Source: Sugar Regulatory Administration

Monthly molasses Prices for CY2008/09 through 2009/10 follows:

<b>MOLASSES PRICES (Pesos/MT)</b>	
<b>CY 2008/09</b>	
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	4,151.16
April	4,418.13
May	4,354.21

June	3,868.33
July	NB
August	5,942.50
<b>TOTAL</b>	<b>4,272.53</b>
<b>CY 2009/10</b>	
September	6,106.88
October	6,479.59
November	6,027.32
December	6,075.09
January	7,116.27
February	7,378.36
March	7,723.11

Source: Sugar Regulatory Administration

US Dollar to Philippine Peso Exchange Rates from 2006 to April 17, 2010 follows:

<b>Exchange Rate</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>US\$=PhP</b>	51.31	46.15	44.47	47.64	44.43

#### **Consumption:**

The Philippines avoided most of the effects of the world recession in 2009. Despite two major typhoons in the second half of 2009, Gross Domestic Product (GDP) expanded 0.9 percent last year, within the Philippine government's (GRP) 0.8-1.8 percent growth target. For 2010, GRP economic planners predict a growth range of between 2.6 percent and 3.6 percent, consistent with expectations from the World Bank and Asian Development Bank that Philippine GDP would more than double last year's growth rate. The GRP has announced its intention to continue to inject into the economy stimulus funds, albeit in lesser amounts, possibly until 2012 to ensure the country's full economic recovery. The Philippine Central Bank is also expected to maintain low interest rates through most of 2010 to stimulate the economy

Remittances from Overseas Filipino Workers (OFWs) continued to be the bright spot of the Philippine economy last year with remittances expected to reach a record \$17.1 billion in 2009, up 4 percent from \$16.4 billion in 2008. OFW remittances are expected to grow even stronger (6 percent) in 2010, according to press reports. Remittances from abroad enhance higher consumption, help keep inflation in check and have a stabilizing effect on foreign exchange. Another recent and emerging economic driver that drives consumption up is the local business process outsourcing (BPO) industry that reportedly grew over 20 percent in 2009, and is expected to generate between \$11-13 billion in revenue in 2010 as more companies improve efficiency and cut down costs. The main stimulus for increased consumption this year, however, will be spending for the May 2010 elections. Some economists expect GDP to rise by an estimated half point by increasing consumption and providing jobs as a result of election-spending.

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 which mirrors consumption is estimated at 1.9 MMT for CY 2008/09. Domestic sugar consumption for CY 2009/10 will likely increase slightly to 2.0 MMT due to a predicted increase in consumption brought about by an improvement in the Philippine economy as well as election spending.

<b>DOMESTIC RAW SUGAR WITHDRAWALS 2007-10 (in MT)</b>			
<b>MONTH</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
September	65,693	69,703	80,328
October	97,575	83,258	121,813
November	120,370	142,452	194,540
December	157,166	112,293	178,355
January	181,742	148,737	265,665
February	178,334	186,364	180,880
March	252,586	236,164	
April	218,724	159,439	
May	186,965	251,557	
June	246,693	221,045	
July	171,062	137,107	
August	177,834	138,347	
<b>TOTAL</b>	<b>2,078,468</b>	<b>1,886,446</b>	<b>1,021,581</b>

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 plus an additional 11,706 MTRV as recently announced by the U.S. Trade Representative.

As a result of the projected shortfall in sugar production and to increase buffer stocks this year, the SRA announced a duty-free importation of 150,000 MT of refined sugar. The first tranche of 60,000 MT is expected to arrive in the Philippines no later than May 31, 2010 while the second tranche must arrive no later than July 31, 2010 per guidelines set forth by the National Food Authority.

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.

Executive Order No. 850 was signed in December 2009, lowering the Common Effective Preferential Tariff Rates for ASEAN (Association of Southeast Asian Nation) member countries to between 0-5 percent. Executive Order No. 851 was also signed implementing the tariff reductions under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) tariff reduction program. AANZFTA tariffs for sugar were reduced to between 0-5 percent in January 2010.

Tariff rates for 2010 follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2010	
			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	0
		--- Out-of-quota	65	0
	1701.12	-- Beet sugar		
		--- In-quota	50	0
		--- Out-of-quota	50	0
		- Other:		
	1701.91	--Containing added flavoring or coloring matter:		
		--- In-quota	50	0
		--- Out-of-quota	50	0
		--- Other, In-quota	1	0
		--- Other, Out-of-quota	1	0
	1701.99	-- Other:		
		--- Refined sugar		
	1701.99.11	---- White		
		---- In-quota	50	0
		---- Out-of-quota	65	0
		---- Other, In-quota	1	0
		---- Other, Out-of-quota	1	0
	1701.99.19	---- Other		
		---- In-quota	50	0
		---- Out-of-quota	65	0
		---- Other, In-quota	1	0
		---- Other, Out-of-quota	1	0
	1701.99.90	---- Other		
		---- In-quota	50	0
		---- Out-of-quota	65	0
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	1	0
		anhydrous lactose, calculated on the dry matter		
	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	3	0
		Containing in the dry state less than 20% by weight of fructose		
	1702.40 00	- Glucose or glucose syrup, containing in the dry state at least	3	0
		20% but less than 50% by weight of fructose, excluding invert		
		Sugar		
	1702.50 00	- Chemically pure fructose	3	0
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state	7	0
		more than 50% by weight of fructose, excluding invert sugar		
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup	3	0
		blends containing in the dry state 50% by weight of fructose		
17.03		Molasses resulting from the extraction of refining sugar		
	1703.10 00	- Cane molasses	10	0
	1703.90 00	- Other	7	0
17.04		Sugar confectionery (including white chocolate), not containing cocoa		
	1704.10 00	- Chewing gum, whether or not sugar-coated	15	0
		- Other:		
	1704.90 10	--- White Chocolate	10	0
	1704.90 90	--- Other	15	0

Source: Philippine Tariff & Customs Code

Executive Order No. 850 (2009) 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. On September 2009, SO No.1 (2008) was issued which estimated initial raw sugar production to reach 2.16 MMT, this has since been revised down to 1.9 MMT, 4 percent of which was originally earmarked for export to the U.S. market; 90 percent for the domestic market; 4 percent for reserves and 2 percent for the World Market. SO No 1-B issued in January 2010, abolished the “C” sugar or reserves and reclassified 6 percent of production for export to the U.S. market and 94 percent for the domestic market. The SRA Sugar Orders may be obtained from:

[http://www.sra.gov.ph/policy\\_so.html](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, Thailand and India. 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 Philippine Department of Energy (DOE) emphasized that there is a 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 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 producer, biofuel producer, biofuel blend producer, distributor and seller, under the supervision of the National Biofuels Board (NBB). Full text of the Joint Administrative Order is available from:

[http://www.sra.gov.ph/menu\\_pdf/JAO-08-1.pdf](http://www.sra.gov.ph/menu_pdf/JAO-08-1.pdf)

### **Marketing:**

The marketing system in the Philippine sugar industry is already well established. It starts with the delivery of the cane to the mill where, under the present sharing system, the sugarcane planter agrees to allocate a percentage of the output of his sugar to the mill in payment for the processing of the cane.

As soon as the sugar is processed, the planter is issued a warehouse receipt, called a *quedan*, by the mill representing his share of the sugar. After milling, the sugar is stored in the mill warehouse and the warehouse receipt attests to the physical presence of the sugar in the facility. Because it is a negotiable instrument, the bearer may withdraw the stocks at any time. There are five different types of *quedans*:



Total Exports	225	225	225	160	160	154	142
Human Dom. Consumption	2,100	2,100	2,100	2,150	2,150	2,150	2,150
Other Disappearance	0	0	0	0	0	0	0
Total Use	2,100	2,100	2,100	2,150	2,150	2,150	2,150
Ending Stocks	322	322	322	212	212	168	76
Total Distribution	2,647	2,647	2,647	2,522	2,522	2,472	2,368
TS=TD			0			0	0

Sugar Cane for Centrifugal Philippines	2009 2008/2009			2010 2009/2010		2011 2010/2011	
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data		New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
Area Planted	395	393	393	395	395		395
Area Harvested	393	388	388	390	390		390
Production	24,500	21,600	21,600	22,400	19,500		21,500
Total Supply	24,500	21,600	21,600	22,400	19,500		21,500
Utilization for Sugar	24,500	21,600	21,600	22,400	19,500		21,500
Utilizatr for Alcohol	0	0	0	0	0		0
Total Utilization	24,500	21,600	21,600	22,400	19,500		21,500
TS=TD			0		0		0