

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Date:

GAIN Report Number:

Philippines

Sugar Annual

Philippine Sugar Situation and Outlook

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Report Highlights:

Philippine sugar production in Crop Year 2011/12 (September/August) is projected to reach 2.24 MMT, down 7 percent from the initial government forecast of 2.4 MMT due to the prolonged wet season. Sugar production is projected to reach 2.4 MMT next crop year, as yields recover and sugarcane areas remain unchanged. Consumption of domestic sugar is expected to increase this year as domestic prices return to normal from record highs in December 2010. The Philippine Sugar Regulatory Administration said that the Philippines can export an additional 100,000 MT of raw sugar to the U.S. in excess of the sugar tariff rate quota allocations of 144,901 MTRV, if the U.S. quota is increased. Non U.S. quota exports to the world may reach 350,000 MT.

Commodities:

Sugar Cane for Centrifugal
Sugar, Centrifugal

Production:

According to the latest production estimates released by the Philippine Sugar Regulatory Administration (SRA), Crop Year (CY) 2011/12 (September/August) raw sugar production is projected to reach 2.24 MMT, down 7 percent from the initial forecast of 2.4 MMT earlier this year. The decline in raw sugar production estimates is reportedly due to the prolonged wet season caused by the La Nina phenomenon, expected to end in April this year. According to experts, excessive rainfall tends to affect cane production and also reduces the amount of sucrose in sugarcane. Despite a seven percent increase in total area planted, SRA estimates that cane harvest in 2011/12 will decline by as much as 10 percent to 24 MMT, from the previous year's record high of 26 MMT. Without any adverse weather problems, domestic raw sugar and cane production will likely reach 2.4 MMT in 2012/13, as yields recover and sugarcane areas remain unchanged.

| RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED | | | |
|---|------------------|------------------|------------------|
| September/August 2009-12 | | | |
| | 2009/10 | 2010/11 | 2011/12 |
| RAW SUGAR PRODUCTION (MT) | 1,970,785 | 2,399,116 | 2,240,000 |
| SUGARCANE MILLED (MT) | 19,227,028 | 25,930,271 | 24,300,000 |
| TOTAL AREA PLANTED (HAS) | 387,519 | 395,381 | 420,752 |

Source: Philippine Sugar Regulatory Administration

2009/10 and 2010/11 are final and 2011/12 is still a preliminary estimate

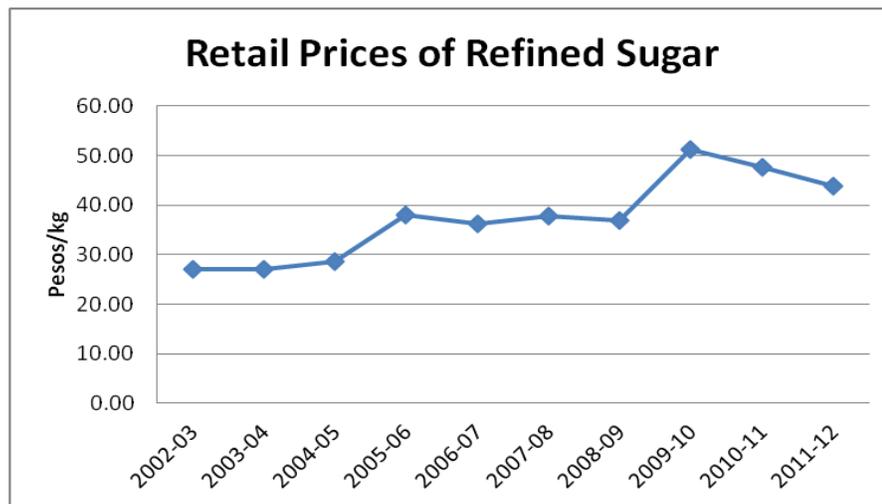
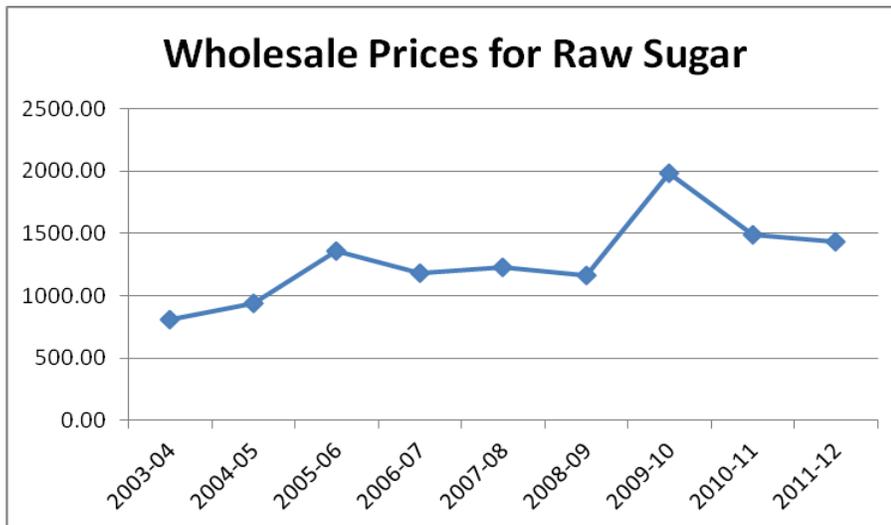
The island of Negros still continues to account for a majority (57%) of total domestic sugar production. Luzon produced 14 percent; Mindanao, 19 percent; Panay, 6 percent; and Eastern Visayas, 4 percent. Total domestic sugar production comes primarily from four major planter federations and three major miller associations. Producers who belong to these organized federations account for 90 percent of the total domestic sugar production.

According to SRA, there are about 59,600 sugarcane farmers in the country. Of these, 79 percent have landholdings less than 5 hectares in size; less than one percent have farms greater than 100 hectares. Due to economies of scale, large farm holdings (more than 100 hectares) have an average productivity of 7.34 MT/ha, while smaller farms (less than 5 hectares) have an average productivity of 5.03 MT/ha. Philippine land reform policies prevent consolidation of farms and thus do not allow small scale operations from achieving greater efficiencies.

While there is no formal trade in sugarcane due to the unique "quedan" system (a quedan is a warehouse receipt attesting to the presence of a certain amount of farmer-owned sugar in a facility, see Marketing Section) in the Philippines, industry sources report that in April 2012 a metric ton of sugarcane sold for about P2,600 (US\$61/MT at \$1=42.86). In CY 2010/11, the average mill site price per 50-kg bag of

“A” raw sugar was P1,388 for the U.S. market; P1,900 for "B" raw sugar for the domestic market and the average composite price was P1,864.

The escalation of world market prices and a delay in the start of the 2010/11 milling season drove prices for a 50-kg bag of sugar to a record high of P3,084. After that, domestic prices retreated steadily for the remainder of CY 2010/011 to P41.66/kg in August. Sugar prices have remained relatively stable in CY2011/12, with a slight drop in November-January. Industry sources expect prices to increase slightly for the remainder of CY 2011/12, as the milling season comes to a close. Additionally, some analysts believe that continuing high world fuel and ethanol prices may also push sugar prices higher.



Source: Philippine Sugar Regulatory Administration

Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

| RAW AND REFINED SUGAR PRICES | | | | |
|-------------------------------------|--|-------------------------------------|--|-------------------------------------|
| | 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.) |
| CY 2010/11 | | | | |
| September | 2,332.08 | 51.18 | 2,603.67 | 55.17 |
| October | 2,490.43 | 51.91 | 2,756.94 | 54.70 |
| November | 2,533.92 | 54.32 | 2,940.74 | 57.52 |
| December | 2,571.81 | 57.43 | 3,084.31 | 62.84 |
| January | 2,500.67 | 58.69 | 3,039.21 | 65.01 |
| February | 2,375.57 | 59.07 | 2,870.08 | 65.54 |
| March | 2,095.68 | 57.37 | 2,583.94 | 63.26 |
| April | 1,978.70 | 55.01 | 2,503.68 | 61.68 |
| May | 1,818.79 | 53.24 | 2,315.29 | 60.04 |
| June | 1,561.83 | 49.92 | 2,045.71 | 57.15 |
| July | 1,443.96 | 44.97 | 1,910.60 | 51.17 |
| August | 1,457.45 | 41.66 | 1,888.32 | 48.32 |
| Average | 1,486.43 | 40.94 | 1,914.29 | 47.52 |
| CY 2011/12 | | | | |
| September | 1,457.72 | 40.45 | 1,919.02 | 47.10 |
| October | 1,435.68 | 40.34 | 1,864.51 | 46.76 |
| November | 1,393.33 | 38.95 | 1,722.96 | 45.41 |
| December | 1,397.61 | 38.35 | 1,814.29 | 44.51 |
| January | 1,390.57 | 37.76 | 1,838.16 | 43.92 |
| February | 1,422.35 | 36.72 | 1,851.85 | 43.31 |
| March | 1,518.15 | 36.49 | 1,980.06 | 43.50 |

Source: Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates from 2009-12 follows:

| Exchange Rate | 2009 | 2010 | 2011 | March 2012 |
|----------------------|-------------|-------------|-------------|-------------------|
| US\$=PhP | 47.64 | 45.11 | 43.31 | 42.86 |

Source: Bangko Sentral ng Pilipinas

Note: Average exchange rate for March 2012

Monthly Molasses Prices at millsite for CY2010/11 through 2011/12 follows:

| MOLASSES PRICES (Pesos/MT) | |
|-----------------------------------|----------|
| CY 2010/11 | |
| September | 8,773.75 |
| October | 9,059.61 |
| November | 9,169.23 |
| December | 7,522.23 |
| January | 6,799.42 |
| February | 6,552.68 |
| March | 5,411.88 |
| April | 4,527.50 |
| May | 3,022.67 |
| June | 2,818.99 |
| July | 2,406.50 |
| August | 2,605.00 |
| AVERAGE | 5,722.46 |
| CY 2011/12 | |
| September | 2,600.00 |
| October | 2,746.00 |
| November | 3,013.00 |
| December | 3,471.00 |
| January | 3,545.00 |
| February | 4,250.00 |
| March | 4,558.00 |

Source: Sugar Regulatory Administration

Consumption:

Demand is composed of consumption plus exports. In the Philippines, consumption has been traditionally measured by monitoring sugar withdrawals from the mills by traders and industrial users, as mills are the main holders of the country's stocks. Although withdrawals of local sugar dropped by 12 percent to 1.72 MMT in Crop Year 2010/11, consumption remained the same as record high prices reportedly drove some industrial users to imported alternative sweeteners (i.e. HFCS and pre-mixes). Sugar withdrawals for CY 2011/12 are expected to return to the usual level of nearly 2.0 MMT, as domestic sugar prices normalize.

About 70 percent of all sugar produced is consumed locally while the rest is exported to the United States and other countries. Roughly half of domestic consumption is by industrial users, 32 percent by households and the remaining 18 percent by institutions (e.g., restaurants, bakeshops, hospitals, etc.). The export market is almost exclusively the United States, which generally pays a premium price. Sugar exported under the U.S. tariff rate quota is generally priced higher than the world market. Exports outside the quota are usually priced lower than domestic sugar and generally only resorted to during years of surplus production.

| DOMESTIC RAW SUGAR WITHDRAWALS 2009-12 (in MT) | | | |
|---|------------------|------------------|----------------|
| MONTH | 2009/10 | 2010/11 | 2011/12 |
| September | 80,328 | 35,608 | 61,458 |
| October | 121,813 | 69,881 | 111,533 |
| November | 194,540 | 86,266 | 125,636 |
| December | 178,355 | 124,984 | 159,643 |
| January | 263,482 | 167,546 | 217,870 |
| February | 180,819 | 205,651 | 214,197 |
| March | 205,329 | 210,924 | 105,128* |
| April | 210,948 | 202,628 | |
| May | 222,822 | 178,174 | |
| June | 123,106 | 178,397 | |
| July | 86,414 | 144,750 | |
| August | 59,978 | 111,696 | |
| Adjustments | 15,509 | | |
| TOTAL | 1,943,443 | 1,716,505 | |

Source: Philippine Sugar Regulatory Administration

*Partial Report, as of March 11

Trade:

The Philippines is committed to export a total of 144,901 metric tons raw value (MTRV) of sugar to the United States in Crop Year 2011/12 under the U.S. sugar tariff-rate-quota program. The Philippines also announced it is ready to export up to an additional 100,000 MTRV to the United States, if the quota is increased. Apart from in-quota shipments to the U.S. market, the Philippines will export between 320-350 thousand MT of sugar to the world market. According to SRA, the Philippines is not expected to import any sugar for the remainder of the crop year due to adequate sugar production.

Tariff rates for sugar under the ASEAN Free Trade Agreement (AFTA) and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) were originally scheduled to be reduced to 0 - 5 percent by 2010. This reduction could have significantly increased sugar imports from Thailand and Australia due to lower cost of production. However, Executive Order No.892, issued in June 2010, provided special consideration for sugar and allowed tariff reductions to be delayed until 2015. The AFTA and AANZFTA tariff rates on sugar were reduced from 38 percent to 28 percent this year, and will be further reduced to 18 percent in 2013. The rate is expected to go down to 10 percent in 2014 and finally to five percent in 2015.

**PHILIPPINES COMMITMENT ON SUGAR PRODUCTS THROUGH THE INVOCATION OF THE PROTOCOL TO
PROVIDE SPECIAL CONSIDERATION FOR RICE AND SUGAR UNDER THE
COMMON EFFECTIVE PREFERENTIAL TARIFF SCHEME FOR THE
ASEAN FREE TRADE AREA (CEPT-AFTA)/ASEAN TRADE IN GOODS AGREEMENT (ATIGA)**

| Hdg. No. | AHTN Code 2007 | DESCRIPTION | Available CEPT Rates of Duty (%) | | | | | |
|--------------|-------------------|---|----------------------------------|---------------------|------|------|------|------|
| | | | 2010 | Starting 01 January | | | | |
| | | | | 2011 | 2012 | 2013 | 2014 | 2015 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 17.01 | | Cane or beet sugar and chemically pure sucrose, in solid form. | | | | | | |
| | | Raw sugar not containing added flavouring or colouring matter: | | | | | | |
| | 1701.11.00 | -- Cane sugar: | | | | | | |
| | 1701.11.00A | --- In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.11.00B | --- Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.12.00 | -- Beet sugar: | | | | | | |
| | 1701.12.00A | --- In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.12.00B | --- Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99 | -- Other: | | | | | | |
| | | --- Refined sugar: | | | | | | |
| | 1701.99.11 | ---- White: | | | | | | |
| | 1701.99.11A | Containing over 65% by dry weight of sugar, In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.11B | Containing over 65% by dry weight of sugar, Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.11C | ----- Other, In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.11D | ----- Other, Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.19 | ---- Other: | | | | | | |
| | 1701.99.19A | Containing over 65% by dry weight of sugar, In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.19B | Containing over 65% by dry weight of sugar, Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.19C | ----- Other, In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.19D | ----- Other, Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.90 | --- Other: | | | | | | |
| | 1701.99.90A | ---- In-Quota | 38 | 38 | 28 | 18 | 10 | 5 |
| | 1701.99.90B | ---- Out-Quota | 38 | 38 | 28 | 18 | 10 | 5 |

Source: Executive Order 892 (2010)

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. The tariff on sugar is among the highest of all agricultural commodities in the Philippines and essentially blocks all imports. MFN tariffs have not changed since 2005. Tariff rates follow:

| HEADING | ASEAN HARMONIZED TARIFF CODE | DESCRIPTION | 2012 | |
|---------|------------------------------|---|------|----------|
| | | | MF N | CEPT [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: | | |
| | 1701.99 | -- 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 |

Source: Philippine Tariff & Customs Code

Executive Order No. 850 (2009) for AFTA-CEPT Tariff Rates

^[1] ASEAN Common Effective Preferential Tariff

Policy:

Sugar Industry Roadmap: The Philippine Department of Agriculture aims to make the country's sugar industry globally competitive in time for the full implementation of AFTA. Programs such as the Sugar Industry Roadmap will promote block farming or the operational consolidation of small farms to take advantage of plantation scale production.

Sugar Orders: During the start of each crop year, the SRA issues a central policy on production and marketing of sugar for the country, which basically allocates how much of production goes to the domestic and export market as well as for reserves. In September 2011, SRA allocated 72 percent of sugar production for the domestic market, 20 percent for the world market and 8 percent for export to the U.S. market. The SRA Sugar Orders may be obtained from:

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

Bio-fuels Law: The Government of the Philippines' ambitious plan for increased ethanol use has not met its original goal. In 2007, Republic Act 9367 (RA 9367) was signed into law which mandates the use of bio-fuels in the country. The bio-fuels law mandates that gasoline and diesel be blended with bio-fuel at 5-10 percent and 2 percent, respectively. According to analysts, only 15-20 percent of the required 420 million liters of ethanol (at 10 percent blend) is locally produced. Only 3 ethanol plants are currently operating with another plant set to operate by mid-year. Unlike biodiesel, which already has ample domestic supply, most ethanol is still imported by oil companies from Brazil, Thailand and India to meet the mandate.

Marketing:

Most sugar in the Philippines is produced and marketed under the long established "quedan" system. In this sharing arrangement, the sugarcane planter allocates 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 mill issues a warehouse receipt, called a *quedan*, to the farmer representing his/her share of the sugar. The warehouse receipt serves to attest to the physical presence of the sugar in the storage facility. There are five different types of *quedans*:

- "A" Sugar allocated for the US market in compliance with US quota requirements;
- "B" Sugar for the domestic market;
- "B-1" Sugar for Food Processors/Exporters;
- "C" Sugar classified as reserve, which may subsequently be converted to either A or B as the need arises;
- "D" Sugar allocated for the world market

SRA determines the proportion of sugar that is designated for different types of *quedans*. With the present volumes of production, only A & B *quedans* are assigned to producers. The “A” sugar is based on the percentage of production determined by SRA. The volume of the quota for the Philippines is determined by the U.S. government. This is normally less than 10 percent of total domestic output. The rest of the output is classified as B sugar.

Because it is a negotiable instrument and the bearer may use it to withdraw his stocks at any time, there is a thriving secondary market in the trade for *quedans*. Upon receipt of their *quedans*, planters usually sell them immediately to local traders who in turn sell them to larger traders. The largest traders accumulate the *quedans* and subsequently sell them in volume to wholesalers, distributors, or processors who withdraw sugar from the mills. The processors use the sugar as an input for food and beverage processing while the wholesalers and distributors sell their sugar to major retailers. From the retailers, the sugar eventually reaches consumers through supermarkets, wet markets and sari-sari (mom-and-pop) stores.

Production, Supply and Demand Data Statistics:

| Sugar, Centrifugal Philippines | 2010/2011 | | 2011/2012 | | 2012/2013 | |
|--------------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
| | Market Year Begin: Sep 2010 | | Market Year Begin: Sep 2011 | | Market Year Begin: Sep 2012 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 394 | 394 | 492 | 592 | | 387 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | | 0 |
| Cane Sugar Production | 2,300 | 2,400 | 2,400 | 2,240 | | 2,400 |
| Total Sugar Production | 2,300 | 2,400 | 2,400 | 2,240 | | 2,400 |
| Raw Imports | 0 | 0 | 0 | 0 | | 0 |
| Refined Imp.(Raw Val) | 0 | 0 | 0 | 0 | | 0 |
| Total Imports | 0 | 0 | 0 | 0 | | 0 |
| Total Supply | 2,694 | 2,794 | 2,892 | 2,832 | | 2,787 |
| Raw Exports | 202 | 202 | 395 | 395 | | 250 |
| Refined Exp.(Raw Val) | 0 | 0 | 50 | 50 | | 50 |
| Total Exports | 202 | 202 | 445 | 445 | | 300 |
| Human Dom. Consumption | 2,000 | 2,000 | 2,000 | 2,000 | | 2,000 |
| Other Disappearance | 0 | 0 | 0 | 0 | | 0 |
| Total Use | 2,000 | 2,000 | 2,000 | 2,000 | | 2,000 |
| Ending Stocks | 492 | 592 | 447 | 387 | | 487 |
| Total Distribution | 2,694 | 2,794 | 2,892 | 2,832 | | 2,787 |
| | | | | | | |

1000 MT

| Sugar Cane for Centrifugal Philippines | 2010/2011 | | 2011/2012 | | 2012/2013 | |
|--|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
| | Market Year Begin: Jan 2010 | | Market Year Begin: Jan 2011 | | Market Year Begin: Jan 2012 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted | 404 | 395 | | 420 | | 420 |
| Area Harvested | 400 | 390 | | 415 | | 415 |
| Production | 20,500 | 25,900 | | 24,300 | | 26,000 |
| Total Supply | 20,500 | 25,900 | | 24,300 | | 26,000 |
| Utilization for Sugar | 20,500 | 25,900 | | 24,300 | | 26,000 |
| Utilizatn for Alcohol | 0 | 0 | | 0 | | 0 |
| Total Utilization | 20,500 | 25,900 | | 24,300 | | 26,000 |
| | | | | | | |

1000 HA, 1000 MT