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GAIN Report

Global Agricultural Information Network

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Philippines

Sugar Annual

Situation and Outlook

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Report Highlights:

Though a minor player in the international sugar market due to its high production costs, the Philippines is a major sugarcane producer and typically one of the largest U.S. sugar quota recipients. Trade and domestic prices are largely governed by the Sugar Regulatory Administration (SRA), a government agency under the Philippine Department of Agriculture. According to SRA data, in Market Year (MY) 2012/13 (December-November), the average millsite price for domestic raw sugar was nearly double the world market price. MY 2012/13 raw sugar production declined slightly (less than one percent from the previous year) to 2.38 MMT, due to cane damage from Typhoon Yolanda which hit the country in November 2013. Without any substantial expansion in sugarcane production area foreseen by SRA, MY 2013/14 raw sugar production is forecast to marginally increase to 2.45 MMT, assuming favorable

weather conditions. SRA anticipates a slightly higher level of production in MY 2014/15 of 2.5 MMT in response to expanding demand. According to the SRA, sugar demand in MY 2012/13 increased slightly to 2.15 MMT (from 2.13 MMT the previous year) as industrial users reacted positively to stable prices. Industry contacts expect consumption to continue rising in MY 2013/14 due to strong economic growth and a rapidly developing food processing industry. Post expects total raw sugar exports for MY 2013/14 will reach 300,000 MT, the majority of which will go to countries other than the United States, due to higher world market prices and no expected increase in the U.S. tariff rate quota.

Production:

Although SRA had initially expected 2012/13 production to reach 2.45 MMT, damage incurred by Typhoon Haiyan (which hit the country in November 2013) resulted in totals for the year only reaching 2.38 MMT (down less than one percent from the previous year).

RAW SUGAR PRODUCTION, CONSUMPTION, TRADE			
Market Year December/November (in Metric Tons)*			
	2010/11	2011/12	2012/13
Production	2,583,329	2,398,917	2,384,906
Withdrawals	1,823,377	2,130,347	2,147,215
Exports	468,231	289,063	262,280

Source: Philippine Sugar Regulatory Administration

*As of April 2013, USDA revised the official Marketing Year from September/August to December/November

Without any expansion in sugarcane production area foreseen by SRA, MY 2013/14 raw sugar production is forecast to reach 2.45 MMT, assuming favorable weather conditions. Based on SRA estimates, Crop Year (CY) 2013/14 (September-August) sugarcane production area dropped slightly to 422 thousand hectares (from 424 thousand hectares the previous year) and cane harvest will likely reach 24.5 MMT. Raw sugar production for CY 2014/15 is projected slightly higher.

MONTHLY RAW SUGAR PRODUCTION (Metric Tons)				
	2010-11	2011-12	2012-13	2013-14
December	313,964	328,134	439,759	420,589
January	416,603	392,033	358,146	334,607
February	396,608	364,213	394,651	401,960
March	350,813	344,790	389,071	
April	308,292	252,634	209,704	
May	245,817	98,457	64,050	
June	78,659	27,934	15,602	
July	36,437	4,170	343	
August	4,907	537	4,497	
September	5,462	73,528	83,353.00	
October	146,002	208,478	185,821.00	
November	279,765	304,009	239,909.00	

TOTAL	2,583,329	2,398,917	2,384,906	1,157,156*
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*December 2013 to February 2014 only

RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED			
Crop Year September/August			
	2011/12	2012/13	2013/14
RAW SUGAR PRODUCTION (MT)	2,240,000	2,465,116	2,356,000
SUGARCANE MILLED (MT)	24,300,000	24,859,000	24,500,000
TOTAL AREA PLANTED (HAS)	422,384	424,132	421,749

Source: Philippine Sugar Regulatory Administration- 2011/12 and 2012/13 finals, and 2013/14 preliminary estimates

The island of Negros continues to account for the majority (57 percent) of domestic sugar production; followed by Luzon with 14 percent; Mindanao, 19 percent; Panay, 6 percent; and Eastern Visayas, 4 percent. Roughly 90 percent of total Philippine production comes primarily from four major sugar planter federations and three major miller associations.

According to SRA, there are about 59,600 sugarcane farmers in the country. Of these, 79 percent have landholdings less than five hectares in size and less than one percent have farms greater than 100 hectares. Being a plantation crop, farms of more than 100 hectares have an average productivity of 7.34 MT/ha, while smaller farms of less than 5 hectares have an average productivity of 5.03 MT/ha.

While there is no formal domestic trade in sugarcane due to the unique “quedan” system (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, as of April 2014, a metric ton of sugarcane sold for about P1,650 (\$37/MT at \$1=P44). In comparison, Thai farmers received between 900 – 940 baht/MT (roughly \$31-32/MT) in 2013.

Industry sources expect domestic prices to rise slightly in MY 2013/14 due to increasing local demand and tighter supplies. 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.)
MY 2012/13				
December	1,439.00	42.18	1,899.50	49.38
January	1,444.75	41.58	1,902.25	48.84
February	1,510.75	39.69	1,953.00	47.56
March	1,499.17	38.78	1,935.00	47.03
April	1,576.59	38.98	1,976.48	47.11
May	1,620.22	40.65	2,015.00	47.55
June	1,612.88	39.75	2,014.38	47.39
July	1,590.78	40.70	1,997.78	47.73
August	1,579.46	39.40	1,979.75	47.33

September	1,576.59	38.98	1,976.48	47.11
October	1,620.00	38.00	1,950.00	48.00
November	1,700.00	39.00	1,980.00	47.00
MY 2013/14				
December	1,650.00	39.00	2,030.00	47.00
January	1,630.00	39.00	2,020.00	47.00
February	1,600.00	39.00	2,000.00	47.00
March	1,700.00	41.50	2,030.00	49.50

Source: Philippine Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates follows:

Exchange Rate	2011	2012	2013	March 2014
US\$=PhP	43.31	42.23	42.45	44.80

Source: Bangko Sentral ng Pilipinas

Note: Exchange rate on March 31, 2014

Monthly Molasses Prices at millsite follows:

MOLASSES PRICES (Pesos/MT)	
MY 2012/13	
December	5,619
January	5,846
February	5,552
March	5,586
April	6,067
May	6,625
June	6,625
July	6,125
August	5,918
September	5,629
October	6,041
November	6,308
MY 2013/14	
December	6,085
January	6,102
February	5,997
March	5,836

Source: Sugar Regulatory Administration

Consumption:

In the Philippines, consumption is typically measured by monitoring sugar withdrawals from the mills by traders and industrial users (as mills are the main holders of the country's stocks). Sugar consumption in MY 2012/13 increased to 2.15 MMT (from 2.13 the previous year) as industry positively responded to stable domestic prices. Consumption is expected to increase further to 2.2 MMT

in MY 2013/14 and to 2.25 MMT in MY 2014/15 due to expanding food processing demand and a rising population.

DOMESTIC RAW SUGAR WITHDRAWALS			
(in Metric Tons)			
MONTH	2011/12	2012/13	2013/14
December	159,643	229,174	214,155
January	217,870	185,514	213,554
February	214,197	215,486	216,768
March	204,341	250,657	177,842
April	243,650	273,794	
May	159,065	201,383	
June	190,185	195,825	
July	172,863	109,941	
August	169,425	123,630	
September	103,750	103,637	
October	127,423	126,110	
November	167,935	132,064	
TOTAL	2,130,347	2,147,215	

Source: Philippine Sugar Regulatory Administration

About 80 percent of all sugar produced in the Philippines is consumed locally. Roughly half of domestic consumption is accounted for by industrial users, 32 percent by households and the remaining 18 percent by institutions (e.g., restaurants, bakeshops, hospital etc.).

The largest Philippine sugar export market is the United States, as prices under the U.S. tariff rate quota system are normally higher than world market prices. This trend has begun to reverse in the recent years with sugar exported to the world market now fetching a higher price.

In MY 2012/13, the average millsite price of “A” raw sugar for the U.S. market was P713/50-kg bag and P750/50 kg-bag for “D” raw sugar for the world market. The national average mill site price for “B” raw sugar for the domestic market was P1,407/50-kg bag. The average composite price for all three was P1,292/bag.

Philippine Millsite Prices (Pesos)				
MY 2012/13	"A" US Quota	"B" Domestic	"D" World	Composite Price
December	777	1,297	795	1,205
January	792	1,337	774	1,237
February	751	1,363	778	1,255
March	712	1,378	779	1,264
April	675	1,435	752	1,304
May	643	1,435	715	1,298
June	647	1,438	727	1,302

July	636	1,423	644	1,282
August	666	1,416	658	1,280
September	707	1,462	739	1,360
October	784	1,434	823	1,349
November	771	1,465	815	1,373
Average	713	1,407	750	1,292
MY 2013/14				
December	742	1,430	777	1,338
January	752	1,411	747	1,318
February	792	1,457	783	1,383
March	810	1,520	814	1,480

Source: Philippine Sugar Regulatory Administration

Trade:

Despite domestic prices being well above world prices most years, the Philippines typically exports an average of 250,000 tons of sugar per year as a way to support local producers (see Policy Section). Post forecasts total raw sugar exports for MY 2013/14 will reach 300,000 MT, the majority of which will go to markets other than the United States due to higher world market prices and no expected increase in the U.S. tariff rate quota. FY 2013/14 exports to the United States under the tariff rate quota (TRQ) program are set at 142,160 MT Raw Value (136,201 MT Commercial Weight). MY 2014/15 raw sugar exports to all countries (including the United States) are forecast to remain at roughly the same levels.

While documented refined sugar imports for MY 2013/14 are expected to reach 40,000 MT, some trade contacts estimate smuggled volume of between 50,000-70,000 MT, mostly from Thailand.

The Philippines has long maintained high tariffs on raw and refined sugar imports, but significant changes are underway. Executive Order No. 892 will reduce tariffs under the ASEAN Free Trade Agreement (AFTA) from 38 percent in 2010 to five percent in 2015 (see table below). This reduction in AFTA tariffs is expected to impact Philippine sugar production and trade, as other ASEAN producers, particularly Thailand, have lower production costs.

Despite the drop in in AFTA duties, there are still multiple administrative barriers that are in place to restrict imports. However, as a result of the tariff reduction and increasing food processing demand, Post forecasts MY 2014/2015 documented (refined) sugar imports will reach 45,000 MT.

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)						
			Starting 01 January						
			2010	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 flavoring or coloring 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)

Under the Uruguay Round of 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 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 (which essentially blocks all imports under this agreement). These Most Favored Nation (MFN) tariffs have not changed since 2005. Tariff rates follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	MFN
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
		--- Out-of-quota	65
	1701.12	-- Beet sugar	

		--- In-quota	50
		--- Out-of-quota	50
		- Other:	
	1701.99	-- Other:	
		--- Refined sugar	
	1701.99.11	---- White	
		---- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.19	---- Other	
		----- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.90	---- Other	
		----- In-quota	50
		----- Out-of-quota	65

Source: Philippine Tariff & Customs Code

Policy:

Philippine sugar policy is generally controlled by the SRA, working closely with various influential industry stakeholders. During the start of each crop year, the SRA issues a central policy (known as Sugar Order No. 1) on production and marketing of sugar for the country, which basically allocates how much of production goes to the domestic and export markets as well as for reserves. These orders are adjusted as the season progresses. A running history of SRA sugar orders may be obtained from: http://www.sra.gov.ph/policy/#_sugar_order

With the full implementation of the AFTA beginning in 2015, the Philippine DA continues to make the strengthening of the Philippine sugar industry a priority through the following key programs:

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 through programs such as the Sugar Industry Roadmap. This program will promote block farming or the operational consolidation of small farms to take advantage of plantation scale production.

Bio-fuels Law: The Government of the Philippines' ambitious plan for increased ethanol use has not yet 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 law requires that gasoline and diesel be blended with bio-fuel at 5-10 percent and 2 percent, respectively. According to analysts, only 20-25 percent of the estimated 420 million liters of ethanol needed for the gasoline mandate (at a 10 percent blend) is currently domestically produced. Unlike biodiesel, which already has an ample domestic supply (coconut oil), most ethanol is imported from the United States, 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 share of the sugar. The warehouse receipt attests 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 *quedan*. With the present volumes of production, only A & B *quedans* are assigned to producers. The “A” sugar is based on the volume of the quota allocated to the Philippines under the U.S. TRQ system and the estimated volume of production for the crop year. This is normally less than 10 percent of total domestic output. The rest of the output is classified as B sugar.

Because the *quedan* is a negotiable instrument and the bearer may use it to withdraw sugar stocks at any time, there is a thriving secondary market in the sale of these certificates. Upon receipt of their *quedans*, planters usually sell them immediately to local traders who in turn sell them to larger traders. The major 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	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Dec 2012		Market Year Begin: Dec 2013		Market Year Begin: Dec 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	932	932	887	942		932
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,450	2,400	2,500	2,450		2,500
Total Sugar Production	2,450	2,400	2,500	2,450		2,500
Raw Imports	0	0	0	0		0

Refined Imp.(Raw Val)	35	35	40	40		45
Total Imports	35	35	40	40		45
Total Supply	3,417	3,367	3,427	3,432		3,477
Raw Exports	330	275	350	300		300
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	330	275	350	300		300
Human Dom. Consumption	2,200	2,150	2,250	2,200		2,250
Other Disappearance	0	0	0	0		0
Total Use	2,200	2,150	2,250	2,200		2,250
Ending Stocks	887	942	827	932		927
Total Distribution	3,417	3,367	3,427	3,432		3,477
1000 MT						

Sugar Cane for Centrifugal Philippines	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Sep 2012		Market Year Begin: Sep 2013		Market Year Begin: Sep 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	426	426	426	426		426
Area Harvested	421	424	421	422		425
Production	24,800	24,800	25,000	25,000		25,000
Total Supply	24,800	24,800	25,000	25,000		25,000
Utilization for Sugar	24,800	24,800	25,000	25,000		25,000
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	24,800	24,800	25,000	25,000		25,000
1000 HA, 1000 MT						

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal