

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date:

GAIN Report Number:

Philippines

Sugar Annual

Situation and Outlook

Approved By:

Philip A. Shull

Prepared By:

Pia A. Ang

Report Highlights:

The Philippines is a major sugar producer and typically the third largest recipient of U.S. sugar quota, but a minor player in the international sugar market due to its high production costs. According to Philippine government's statistics, Market Year 2011/12 raw sugar production declined 7 percent to 2.4 MMT, due to the prolonged wet season and shifts in the USDA Marketing Year. MY 2012/13 raw sugar production is expected to recover with a return to normal weather. Raw sugar production for MY 2013/14 may hit 2.5 MMT, as sugarcane production areas expand to supply the growing ethanol demand. Sugar demand in MY 2011/12 increased to 2.13 MMT from 1.82 MMT as industrial users reacted positively to attractive and stable prices. Consumption is expected to increase again in MY 2012/13 due to strong economic growth and the many festivities and other food events related to the upcoming national elections in mid-2013. Post forecasts total raw sugar exports for MY 2012/13 will be 250,000 MT, the majority of which will go to markets other than the U.S. Slow shipments and abundant

U.S supplies make it unlikely the Philippines will fill the FY 2012/13 U.S. tariff rate quota of 144,901 MT. While official imports for MY 2012/13 are expected to remain at zero, the industry widely cites “undocumented” annual imports of 150,000-200,000 MT primarily from Thailand. Exports of sugar from ASEAN partners are expected to increase significantly starting in 2015 when tariffs drop from 18 percent in 2012/13 to 5 percent.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

According to data from the Philippine Sugar Regulatory Administration (SRA), MY 2011/12 (December/November) raw sugar production reached 2.4 MMT, down 7 percent from 2010/11 due mainly to the prolonged wet season which ended in April 2012. The change to the USDA Marketing Year from September/August to December/ November also contributed to the reduction. MY 2012/13 raw sugar production is expected to remain at 2.4 MMT as sugarcane area remains at 425 thousand hectares and cane harvest will likely reach 26 MMT this year. Raw sugar production for MY 2013/14 is projected to reach 2.5 MMT, as production of sugarcane for ethanol continues to increase with more ethanol plants operating.

RAW SUGAR PRODUCTION, CONSUMPTION, TRADE				
Market Year December/November (in Metric Tons)*				
	2008/09	2009/10	2010/11	2011/12
Production	2,152,039	1,741,341	2,583,329	2,398,917
Withdrawals	1,857,740	1,702,909	1,823,377	2,130,347
Exports	240,058	125,534	468,231	279,923

Source: Philippine Sugar Regulatory Administration

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

On a Philippine Crop Year (September/August) basis, raw sugar production is seen to reach 2.36 MMT in CY 2012/13. SRA projects 2013/14 raw sugar production to increase to 2.4 MMT.

RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED			
Crop Year September/August 2010-13			
	2010/11	2011/12	2012/13
RAW SUGAR PRODUCTION (MT)	2,399,116	2,240,000	2,360,000
SUGARCANE MILLED (MT)	25,930,271	24,300,000	25,000,000
TOTAL AREA PLANTED (HAS)	395,381	420,752	423,492

Source: Philippine Sugar Regulatory Administration

2010/11 and 2011/12-final and 2012/13-preliminary estimates

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 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.

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. 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. Many agronomists assert that Philippine land reform policies have prevented consolidation of farm sizes and thus prevented many farms from achieving greater efficiencies.

While there is no formal domestic 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 2013 a metric ton of sugarcane sold for about P2,200 (\$55/MT at \$1=P40). In comparison, Thai farmers received 1,154 baht/ton (\$34/MT) in 2012.

Sugar prices have remained relatively stable in MY 2011/12. Industry sources expect prices to remain stable for the remainder of MY 2012/13 due to adequate 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 2011/12				
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	36.50	1,981.01	43.73
April	1,621.96	37.37	2,060.94	45.04
May	1,621.96	38.99	2,062.77	46.34
June	1,785.24	39.84	2,258.54	47.44
July	1,787.57	42.86	2,286.51	50.82
August	1,782.11	43.30	2,291.37	51.49
September	1,755.00	42.33	2,237.83	50.11
October	1,674.54	42.09	2,070.79	50.55
November	1,501.75	42.65	1,972.29	49.95
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

Source: Philippine Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates from 2010-13 follows:

Exchange Rate	2010	2011	2012	March 2013
US\$=PhP	45.11	43.31	42.23	40.70

Source: Bangko Sentral ng Pilipinas

Note: Average exchange rate for March 2013

Monthly Molasses Prices at millsite for MY2011/12 through 2012/13 follows:

MOLASSES PRICES (Pesos/MT)	
MY 2011/12	
December	3,471
January	3,545
February	4,250
March	4,558
April	4,835
May	5,122
June	5,861
July	6,322
August	6,255
September	5,665
October	4,556
November	5,393
MY 2012/13	
December	5,647
January	5,814
February	5,497
March	5,598

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. Sugar demand in MY 2011/12 increased to 2.13 MMT from 1.82 MMT as demand for local sugar by industrial users rose due to attractive and stable local sugar prices. Consumption is expected to increase further in MY 2012/13 due to the upcoming national elections in mid-2013 (traditionally in the Philippines, there is an uptick in demand for food items due to festivities and other events put on by national campaigns and elections) as well increasing demand by the food processing industry due to a rapidly growing economy and rising population. Demand for sugarcane for ethanol production is also expected rise as more ethanol plants become operational. Ethanol still consumes only less than 10 percent of domestic sugar.

DOMESTIC RAW SUGAR WITHDRAWALS (in MT)

MONTH	2009/10	2010/11	2011/12	2012/13
December	178,355	124,984	159,643	229,174
January	263,482	167,546	217,870	185,514
February	180,819	205,651	214,197	215,486
March	205,329	210,924	204,341	154,538*
April	210,948	202,628	243,650	
May	222,822	178,174	159,065	
June	123,106	178,397	190,185	
July	86,414	144,750	172,863	
August	59,978	111,696	169,425	
September	15,509	61,458	103,750	
October	69,881	111,533	127,423	
November	86,266	125,636	167,935	
TOTAL	1,702,909	1,823,377	2,130,347	

Source: Philippine Sugar Regulatory Administration

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, hospital etc.).

The export market is almost exclusively to the United States, which generally pays a premium price. Sugar exported under the tariff rate quota is generally priced higher than world market prices. Exports outside the quota are generally only resorted to during years of surplus production and usually priced lower than domestic sugar.

In MY 2011/12, the average mill site price of "A" raw sugar for the U.S. market was P1,141/50-kg bag. National average mill site price for "B" raw sugar for the domestic market was P1,455/50-kg bag. The average composite price was P1,364/bag.

PERIOD MY 2011/12	"A" US Quota	"B" Domestic	"D" World	Composite Price	MOLASSE S
December	1,295.64	1,245.01	1,093.55	1,218.76	3,470.54
January	1,275.19	1,273.04	1,120.17	1,242.64	3,544.53
February	1,233.24	1,291.03	1,139.38	1,256.07	4,249.93
March	1,299.74	1,394.02	1,185.46	1,344.77	4,558.48
April	1,281.25	1,484.32	1,163.64	1,403.94	4,834.93
May	1,170.93	1,509.55	1,094.64	1,399.48	5,121.59
June	1,191.95	1,676.25	1,103.24	1,522.90	5,860.83
July	1,100.00	1,691.67	1,100.00	1,526.00	6,321.67
August	1,185.00	1,677.00	1,085.00	1,519.24	6,255.00
September	999.85	1,538.12	953.43	1,437.52	5,665.38
October	877.96	1,374.11	875.11	1,284.58	6,370.20
November	779.75	1,307.02	788.21	1,212.79	5,380.38

Average	1,140.87	1,455.09	1,058.48	1,364.06	5,136.12
----------------	----------	----------	----------	----------	----------

Source: Philippine Sugar Regulatory Administration

*Partial Report, as of March 10, 2013

Trade:

Despite domestic prices being well above world prices most years, the Philippines typically exports 100-250,000 tons of sugar as a way to support local producers (see policy section). Post forecasts total raw sugar exports for MY 2012/13 will be 250,000 MT, the majority of which will go to markets other than the United States. These export markets include Japan, South Korea, Singapore, Canada, Samoa, Tonga and Malaysia. FY 2012/13 exports to the United States under the tariff rate quota (TRQ) program are set at 144,901 MT Raw Value (138,827 MT Commercial Weight). However, Post believes that the TRQ will not likely be filled this year due to ample U.S. supplies. No announcement of additional U.S. quota this year is expected.

No official imports are expected for MY 2012/13 due to adequate sugar production for the current year. Industry contacts and newspaper reports point out smuggling of sugar (and other agricultural products), trade estimates unofficial volume of between 150,000-200,000 MT annually, 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 reduced 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 significantly impact Philippine sugar production and trade, as other ASEAN producers, particularly Thailand enjoy lower production costs.

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 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 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 which essentially blocks all imports. 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 Philippine DA's Sugar Regulatory Administration, 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 market as well as for reserves. These "orders" are adjusted as the season progresses. In September 2012, SRA estimated raw sugar production would reach 2.356 MMT, of which 82 percent was earmarked for the domestic market, 8 percent for the world market and 10 percent to the U.S. market. A running history of SRA Sugar Orders may be obtained from: http://www.sra.gov.ph/policy_so.html

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 which 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 met the 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 estimated 420 million liters of ethanol (at 10 percent blend) needed is locally produced due to a shortfall in the availability of feedstock and the uncertainty in the implementation of the bio-fuels law. Only 4 ethanol plants are currently operating with another plant set to operate by next year. Unlike biodiesel, which already has an 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 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 percentage of production determined by SRA from the volume of the quota allocated to the Philippines by the U.S. government 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	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Dec 2010		Market Year Begin: Dec 2011		Market Year Begin: Dec 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	394	681	592	881	287	851
Beet Sugar Production	0	-	0	-	0	-
Cane Sugar Production	2,400	2,520	2,240	2400	2,400	2400
Total Sugar Production	2,400	2,520	2,240	2400	2,400	2400
Raw Imports	0	-	0	-	0	-
Refined Imp.(Raw Val)	0	-	0	-	0	-
Total Imports	0	-	0	-	0	-
Total Supply	2,794	3,201	2,832	3,281	2,687	3,251
Raw Exports	202	470	539	280	250	250
Refined Exp.(Raw Val)	0	-	6	-	50	-
Total Exports	202	470	545	280	300	250
Human Dom. Consumption	2,000	1,850	2,000	2,150	2,000	2,200
Other Disappearance	0	-	0	-	0	-
Total Use	2,000	1,850	2,000	2,150	2,000	2,200
Ending Stocks	592	881	287	851	387	801
Total Distribution	2,794	3,201	2,832	3,281	2,687	3,251

1000 MT

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

Total Utilization	25,900	25,900	24,300	24,300	26,000	26,000
1000 HA, 1000 MT						