

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date:

GAIN Report Number:

Philippines

Sugar Annual

Situation and Outlook

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Report Highlights:

According to Philippine Sugar Regulatory Administration (SRA) data, MY 2014/15 (Dec/Nov) raw sugar production decreased by 15 percent to 2.15 MMT, mainly due to the extended dry weather conditions caused by the El Nino and a noticeable shift in peak harvesting and milling time from Nov-Dec to Jan-Feb. Experts also foresee a possible delay in the start of harvesting next crop year (Sept/Oct 2016/17) due to an anticipated La Nina episode. Industry contacts expect sugar demand to continue rising in MY 2015/16 due to a rapidly developing food processing industry. Post estimates that total raw sugar exports for MY 2015/16 will be about 150,000 MT, which will go to the United States. Since December 2014, millsite prices for domestic raw sugar have increased by as much as 25 percent while molasses prices have risen by 45 percent, reflecting tightness in supply.

Commodities:

Sugar Cane for Centrifugal
 Sugar, Centrifugal

Production:

According to SRA data, raw sugar production in MY 2014/15 reached 2.15 MMT down 15 percent from 2.54 MMT the previous year, mainly due to the extended dry weather conditions caused by the El Nino and a delay in peak harvest and milling periods, as well a change in data recording caused by the shift in the USDA Market Year from September/August to November/December. Traditionally peak sugar milling season is in November and December. However, due to recent climactic changes, there has been a marked shift in the peak harvest period to January and February, which has resulted in a significant drop in MY 2014/15 production and the 2015/16 forecast of Post.

MONTHLY RAW SUGAR PRODUCTION (Metric Tons)				
	2012-13	2013-14	2014-15	2015-16*
December	439,759	420,589	281,589	305,998
January	358,146	334,607	334,084	487,342
February	394,651	401,960	401,959	414,241
March	389,071	467,884	445,518	310,197
April	209,704	201,754	198,830	
May	64,050	82,124	63,238	
June	15,602	23,862	4,484	
July	343	5,564	316	
August	4,497	14,381	7,319	
September	83,353	101,576	51,372	
October	185,82	158,494	116,333	
November	239,909	326,410	242,748	
TOTAL	2,384,906	2,539,205	2,147,790	

*December 2015 to March 2016 only.

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

Post forecasts MY 2015/16 raw sugar production to decline further to about 2.10 MMT from 2.15 MMT due to the unusual weather conditions (extreme dryness). Experts say that a La Niña (heavy rainfall) situation typically follows an El Niño episode which may result in a delay in the onset of milling production that could result in lower sugar production. Barring any major weather disturbances, experts foresee a return to more normal production levels of about 2.20 MMT in MY 2016/17.

Crop Year (CY) 2014/15 (September-August) sugarcane production area declined to 417 thousand hectares (from 423 thousand hectares the previous year), with cane production reaching 23.4 MMT. The decline in sugarcane area is reportedly due to land conversion from agricultural use to other commercial and industrial purposes. In Negros Occidental, there have been reported shifts from sugarcane farming to solar energy, real estate developments (housing and commercial) due in part to land reform considerations.

RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED			
Crop Year September/August			
	2013/14	2014/15	2015/16*
RAW SUGAR PRODUCTION (MT)	2,461,808	2,323,817	2,150,000
SUGARCANE MILLED (MT)	24,853,339	23,383,519	23,000,000
TOTAL AREA PLANTED (HAS)	423,333	416,893	413,264

Source: Philippine Sugar Regulatory Administration- 2013/14 and 2014/15 final, and 2015/16 preliminary SRA and Port 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. There are about 27 sugar mills, running at about 60% capacity and 14 sugar refiners at about 73 percent capacity utilization.

According to SRA, there are about 65,000 sugarcane farmers in the country and increasing due to the Comprehensive Agrarian Reform Program. Of these, 80 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.

According to SRA, the sugar industry contributes about P87 billion to the national economy in, with more than 700,000 workers and 5 million of their dependents.

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 2016, a metric ton of sugarcane sold for about P2,650 (\$57MT at \$1=P46) plus additional hauling allowances, based on current raw sugar

and molasses prices. In comparison, Thai farmers receive between 808 baht/MT of sugarcane (roughly \$23/MT) in April 2016.

Since December 2014, wholesale and retail prices of raw and refined sugar in Metro Manila have increased significantly, to reflect the tightness in supply.

RAW AND REFINED SUGAR PRICES				
MY 2014/15	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.)
December	1,700	43.50	2,050	51.00
January	1,700	43.50	2,170	51.50
February	1,700	43.50	2,200	51.50
March	1,800	43.50	2,220	51.00
April	1,800	44.00	2,400	51.50
May	1,950	47.00	2,450	52.00
June	1,930	45.75	2,500	52.00
July	1,880	48.25	2,450	54.25
August	1,850	47.00	2,420	55.00
September	1,830	47.00	2,380	55.00
October	1,700	47.00	2,350	54.25
November	1,950	49.00	2,550	55.00
MY 2015/16				
December	1,950	49.00	2,500	55.00
January	2,020	47.00	2,580	55.00
February	2,040	50.00	2,600	56.00
March	2,020	50.00	2,580	56.00

Source: Philippine Sugar Regulatory Administration

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

Exchange Rate	2013	2014	2015	March 2016
US\$=PhP	42.45	44.40	45.50	46.72

Source: Bangko Sentral ng Pilipinas

Note: Exchange rate on March 31, 2016

Monthly Molasses Prices at millsite have also increased significantly by as much as 42 percent since December 2014:

MOLASSES PRICES (Pesos/MT)	
MY 2014/15	
December	6,483
January	7,275
February	8,019
March	7,469
April	7,263
May	7,190
June	6,400
July	-
August	6,481
September	8,484
October	9,631
November	9,128
MY 2015/16	
December	8,232
January	9,166
February	9,182
March	-

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). Based on SRA figures, MY 2014/15 dropped to 2.152 MMT (from 2.268 MMT the previous year) as withdrawals slowed down because of tight sugar supplies and higher prices. Consumption is expected to return to more regular levels of 2.20 MMT in MY 2015/16 and MY 2016/17. Demand for sugar is expected to continue rising due to an expanding food processing sector and a rising population.

DOMESTIC RAW SUGAR WITHDRAWALS (in Metric Tons)			
MONTH	2013/14	2014/15	2015/16
December	214,155	178,726	142,395
January	213,554	194,133	268,522
February	216,768	194,721	288,358
March	310,016	330,341	219,244
April	223,747	343,668	
May	233,190	223,619	
June	201,574	194,450	
July	137,004	66,970	
August	90,624	86,135	
September	91,578	83,765	
October	152,374	99,589	
November	183,967	155,903	
TOTAL	2,268,551	2,152,020	

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.

In MY 2014/15, the average millsite price of "A" raw sugar for the U.S. market was P853/50-kg bag and P782/50 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 P1,636/50-kg bag. The average composite price for all three was P1,606/bag.

Philippine Millsite Prices (Pesos)				
MY 2014/15	"A" US Quota	"B" Domestic	"D" World	Composite Price
December	852	1,481	756	1,413
January	875	1,486	733	1,420
February	850	1,525	808	1,456
March	830	1,585	831	1,528
April	824	1,692	-	1,648
May	889	1,710	-	1,677
June	-	1,690	-	1,690
July	-	-	-	-
August	-	1,696	-	1,696
September	-	1,663	-	1,663
October	-	1,706	-	1,706
November	-	1,767	-	1,767
Average	853	1,636	782	1,606
MY 2015/16				
December	-	1,821	-	1,821
January	-	1,846	-	1,846
February	-	1,828	-	1,828
March	-	1,845	-	1,845

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 2015/16 will only reach 150,000 MTRV with no exports to the world market due to tight domestic supplies.

FY 2015/16 Tariff Rate Quota (TRQ) to the United States is set at 142,160 MT Raw Value (136,201 MT Commercial Weight). An additional allocation of 12,194 MTRV was announced in March 2016, bringing the total TRQ to 154,354 MTRV for this fiscal year.

In order to fulfill with the U.S. sugar quota, in December 2015, the SRA issued Sugar Order No. 4 authorizing an Export Replacement Program which allows traders that will export sugar to the United

States to import 125 percent of the total volume exported to the U.S. under the Tariff Rate Quota. Please refer to <http://www.sra.gov.ph/wp-content/uploads/2015/12/2015-2016-SO-4-FILLING-UP-US-SUGAR-QUOTA-CY-2015-20160001.pdf>. MY 2016/17 exports of raw sugar are expected to increase anticipating a return to normal levels in Philippine sugar production.

While raw and refined sugar imports for MY 2015/16 are expected to reach 200,000 MT, some trade contacts estimate undocumented 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 and beyond (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 AFTA duties, there are still multiple administrative barriers that are in place to restrict imports.

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)					
			Starting 01 January					
			2010	2011	2012	2013	2014	2015
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. Trade and domestic prices are largely governed by the SRA, a government agency under the Philippine Department of Agriculture. 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

Sugarcane Industry Development Act: On March 27, 2015, Republic Act No.10659 or the “Sugarcane Industry Development Act” was signed into law. The Act promotes and supports the competitiveness of the sugarcane industry by providing P2 billion for infrastructure support programs, research and development, socialized credit, grants to block farms and scholarship grants. The enactment of the Sugarcane Industry Development Act comes as the full implementation of the ASEAN Economic Integration goes underway in 2015. Majority of the activities and programs to be funded by the Sugarcane Industry Act are to be implemented after elections in May 2016.

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 (DA) 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. Under the convergence initiative, DA will engage other government agencies to finance and support the industry’s priority

programs. The program also aims to develop a strategically-diversified sugarcane industry that produces raw, refined and specialty sugar (muscovado), ethanol (potable and fuel), other sugar by-products, and power.

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 (30-35 percent) 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 (65-70 percent). 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 Market Begin Year	2014/2015		2015/2016		2016/2017	
	Dec 2014		Dec 2015		Dec 2016	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1032	1032	1017	997	0	947
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2320	2150	2300	2100	0	2200
Total Sugar Production	2320	2150	2300	2100	0	2200
Raw Imports	0	0	100	100	0	0
Refined Imp.(Raw Val)	45	45	50	100	0	100
Total Imports	45	45	150	200	0	100
Total Supply	3397	3227	3467	3297	0	3247
Raw Exports	100	75	150	150	0	150
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	100	75	150	150	0	150
Human Dom. Consumption	2280	2155	2300	2200	0	2200
Other Disappearance	0	0	0	0	0	0
Total Use	2280	2155	2300	2200	0	2200
Ending Stocks	1017	997	1017	947	0	897
Total Distribution	3397	3227	3467	3297	0	3247

(1000 MT)

Sugar Cane for Centrifugal Market Begin Year	2014/2015		2015/2016		2016/2017	
	Sep 2014		Sep 2015		Sep 2016	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	426	416	426	413	0	413
Area Harvested	423	416	423	413	0	0
Production	23500	23500	23500	23500	0	23500
Total Supply	23500	23500	23500	23500	0	23500
Utilization for Sugar	23500	23500	23500	23500	0	23500
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	23500	23500	23500	23500	0	23500

(1000 HA) ,(1000 MT)

