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Report Highlights:

Sugar production in crop year 2005/06 is projected to drop to 2.02 MMT from 2.15 MMT the previous year, mainly as a result of excessive rainfall in many of the main sugar producing areas in the country. Consumption of sugar in CY 2005/06 is expected to contract slightly due to a slowdown in the economy and a sharp increase in sugar prices. As a result of rising sugar prices, which is expected to continue into the near future, output is projected to rebound to about 2.20 MMT in the next crop year.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Executive Summary

Sugar production in crop year 2005/06 is projected to drop to 2.02 MMT from 2.24 MMT the previous year, mainly as a result of excessive rainfall in many of the main sugar producing areas in the country. Consumption of sugar in CY 2005/06 is seen to contract slightly due to slowdown in the economy and a sharp increase in sugar prices. As a result of rising sugar prices, which is expected to continue in the near future, output is projected to rebound to about 2.20 MMT in the next crop year.

Production

According to the Philippine Sugar Regulatory Administration (SRA), total Philippine CY 2005/06 raw sugar output is projected to reach 2.02 million metric tons (MMT), lower than the 2.10 MMT projected by Post last year mainly as a result of the lower sucrose content of the cane caused by excessive rainfall in many of the main sugarcane producing areas. Continuing labor problems in several large milling districts in the main island of Luzon also contributed to the decline in production. SRA forecasts production in CY 2006/07 to expand to 2.20 MMT due to expected high prices for the next several years.

In CY 2004/05 year, the island of Negros continued to account for most (57%) of the total sugar production in the country. Luzon produced 15 percent; Mindanao, 18 percent; Panay, 6 percent; and Eastern Visayas, 4 percent.

PRODUCTION PER MILL DISTRICT CY 2004/05		
Mill District	MT	Percent
Luzon	322,954	15%
Negros	1,222,047	57%
Panay	133,787	6%
Eastern Visayas	86,227	4%
Mindanao	385,731	18%
Total	2,150,746	100%

Source: Sugar Regulatory Administration

Total area devoted to sugarcane production was 378,000 hectares in CY 2005/06 down from 391,000 hectares planted the previous crop year. The decline in production area in 2005/06 is partly a result of the shift from sugarcane to other fruit crops like bananas and pineapples, particularly in Mindanao. However, there are reports that farmers in some areas have begun to shift from corn back to sugarcane due to favorable prices.

RAW SUGAR PRODUCTION BY MONTH, AREA PLANTED AND YIELD PER HECTARE (IN MT)		
MONTH	2004/05	2005/06
September	9,845	21,086
October	150,605	134,511
November	237,766	198,103
December	299,717	303,295
January	397,931	396,110
February	369,699	359,139
March	309,321	173,492
April	268,751	-
May	93,176	-

June	10,927	-
July	-	-
August	3,008	-
TOTAL PRODUCTION	2,150,746	1,585,736 ¹
TOTAL AREA PLANTED	391,712	378,000
YIELD/HECTARE	109.81	-

Source: Sugar Regulatory Administration

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 total domestic sugar production. Planters and millers not affiliated with the major federations produce the remaining 10 percent.

According to industry sources, each metric ton of sugarcane is estimated at P1,700. For CY 2004/05, average millsite price of raw sugar per 50-kg bag was P866.58 for "A" sugar, P809.67 for "B". Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

RAW AND REFINED SUGAR PRICES, Crop Year 2004-06				
CY 2004/05	Raw Sugar		Refined Sugar	
	Wholesale Price (Pesos ² /per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)
September	832.00	22.03	1,153.65	26.54
October	846.49	22.01	1,156.47	26.50
November	814.79	22.04	1,168.92	26.58
December	802.00	22.12	1,182.33	26.83
January	810.43	21.77	1,197.93	26.73
February	856.93	22.06	1,228.03	26.64
March	894.58	22.16	1,296.19	26.98
April	913.72	23.14	1,314.47	29.09
May	967.57	23.30	1,324.26	29.27
June	996.67	23.03	1,355.42	29.17
July	1,030.42	23.87	1,387.62	30.25
August	1,001.14	23.88	1,343.86	30.64
<i>Average</i>	897.23	22.62	1259.10	27.94
CY 2005/06				
September	999.11	24.01	1,380.95	30.63
October	1,056.43	24.18	1,406.74	30.63
November	1,021.00	24.77	1,386.30	31.26
December	1,060.39	25.02	1,438.72	31.38
January	1,298.88	27.18	1,743.47	34.49
February	1,354.86	31.97	1,817.14	39.51
March	1,366.26	31.86	1,708.99	39.30

Source: Sugar Regulatory Administration

¹ Based on March 12, 2006 SRA Reports

² US\$1=P51.21 as of March 24

The wholesale price of raw sugar has been steadily increasing and reached P1,366/50-kg bag in March 2006 from P894.58/50-kg bag the previous year. While the decline in total production may have contributed in part to high sugar prices, rising world sugar prices, the increase in U.S. sugar quota as well increased fertilizer and other input costs also added upward pressure to local prices. Moreover, speculative action of some sugar traders is also suspected to have further contributed to the rise in prices.

Consumption

The GRP recently announced that GDP grew 5.1 percent in 2005, slower than its projected target of 5.3 to 6.3 percent. The slower growth has been attributed to weaker farm output and slow export demand. Philippine GNP, however, rose by 5.7 percent last year, buoyed by remittances from overseas workers, although still lower than the 6.2 percent GNP growth in 2004. Surprisingly, the significant increase in overseas remittances (which have fueled personal consumption in recent years) did not boost personal consumption to expected levels. The weak growth in consumption spending has been attributed by many analysts to the prevailing political uncertainty in the country. Average inflation was in the 7.7 to 7.9 percent range in 2005, and is projected at 8.0 to 8.5 percent this year. This year's GDP growth target is between 5.7 to 6.3 percent, lower than the previous GRP estimate of 6.3 to 7.3 percent. Some private analysts, however, predict a flat 2006 Philippine GDP growth rate compared to the previous year's level. Rising consumer and oil prices, as well as the imposition of new and additional taxes, are expected to produce shifts in the food consumption pattern of the average Filipino.

Sugar consumption for CY 2005/06 is projected to drop slightly to 1.95 MMT from 2.0 MMT the previous year. The projected slowdown in the economy and low purchasing power of Filipinos contributed to this weak demand for sugar and sugar containing products. According to industry sources, the growing use of an artificial sweetener-sucrose blend by some domestic beverage companies in their soft drinks may also be contributing to the sluggish industrial demand for sugar.

The growing availability of low-priced imported food and beverage products in the market may also be affecting industrial demand for sugar. Industry sources suspect that although total demand for sugar has been stagnant, total per capita consumption of sugar and sugar-containing products may have in fact increased (see Marketing Section).

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).

The SRA believes that a pending bill in Congress mandating the use of ethanol in the production of automobile fuel, given the current high world price of oil, will stimulate the Philippine sugar industry. In fact, rising domestic and world prices for molasses, a raw material in ethanol production, is an indication of the growing demand for ethanol and bio-based fuels (See Policy Section).

MOLASSES PRICES, Crop Year 2004-06	
CY 2004/05	Average Price (Pesos/MT)
September	2,719.66
October	2,777.25

November	2,592.13
December	2,988.68
January	3,127.67
February	3,898.79
March	4,063.64
April	4,346.00
May	4,475.14
June	4,470.17
July	4,206.71
August	4,367.66
<i>Average</i>	3,669.46
CY 2005/06	
September	4,682.52
October	4,865.90
November	4,724.73
December	4,638.95
January	4,998.46
February	5,372.17

Source: Sugar Regulatory Administration

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*:

- "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

(Source: Action Plan for the Philippine Sugar Industry 2000, Philippine Department of Agriculture)

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 less than 10 percent of total domestic output. The rest of the output is subsequently classified as B sugar.

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 major traders accumulate the *quedans* and subsequently sell them in volume to either wholesalers, distributors, or processors. The processors use the sugar as input for 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 stores (mom-and-pop stores).

NEW CONFECTIONERY PRODUCTS: According to Euromonitor, overall confectionery product sales in 2005 showed steady volume growth of almost 3 percent. Confectionery product lines in the Philippines in 2005 were dominated by new products from other Asian countries, namely China, Malaysia and Thailand. Most of these products are relatively cheap because of their poor quality and close expiration dates due to transport delays and long-period stocking. Although most of these products are not likely to remain in the Philippines for long, a few of them have already managed to carve a niche for themselves already.

The emergence of new confectionery products does not necessarily lead to an increase in mass consumption. Although sales of confectionery have been growing because of these new products, they have not been growing as fast as expected. This is mainly due to the economic strain faced by majority of Filipino consumers, which has led to the prioritizing of their spending on necessary food items, such as bread, rice, noodles, and other daily essential items. Volume growth in 2005 improved somewhat as cheaper products became more widely available at low-priced outlets.

NEW ETHANOL PLANTS: According to media reports, Bronzeoak Philippines will begin construction of the Philippines' second ethanol plant by June 2006 in Bukidnon. The plant at an estimated cost of P1.5 billion is expected to have a production capacity of 150,000 liters a day. The plant will need to tap 8,000 hectares of sugarcane plantation to sustain its production with majority of the sugar-cane requirement to be sourced from the towns of Dancagan, Kitaotao, Kadingilan and Damulog.

The Bukidnon's facility will be the second ethanol plant of Bronzeoak in the Philippines. It will have a majority stake in the 100,000-liter daily plant in Negros Occidental to be operated by the San Carlos Biotechnology Corp. San Carlos is a joint venture of Bronzeoak and the National Development Corp. Unlike the first plant, the Bukidnon plant will not be a cogeneration plant and will not produce its own electricity need. With 1,500 tons of sugar cane per day, this plant is expected to be able to produce 25 million liters of bio-ethanol fuel yearly capable of generating nine megawatts of power.

Trade

In response to a continuing tight sugar market largely as a result of disastrous weather condition in the United States, the raw cane sugar TRQ allocation for the Philippines was increased twice from initial quota of 156,975 MTRV to 224,012 MTRV. The GRP has repeatedly expressed its desire to fill the U.S. TRQ for 2006, although some industry sources have reservation about the country's capacity to ship the entire volume. Other than to the United States, the Philippines will not be exporting sugar to any other countries this year.

In CY 2005/06, the Philippine SRA will allow sugar exporters to import 50,000 MT of refined sugar duty-free starting in June 2006. The importation of refined sugar will be coursed through the Philippine International Trading Corporation (PITC). According to the SRA, the refined sugar imports would be used as an incentive for exporters to fill the U.S. quota for raw sugar. The SRA will base each exporter's import allocation on their historical share in the U.S. quota export program. However, the current high price of imported sugar may limit the effectiveness of the program to bring down the domestic sugar prices. The landed cost of imported refined sugar at \$428/ton, which translates to around P1,530/50-kg bag, only slightly below the current wholesale price of P1,600/50-kg bag.

No imports are forecast for CY 2006/07 due to a projected increase in sugar production for next year as well as a return of U.S. sugar TRQ volume to the usual level. In the WTO, the Philippines committed to a final 10-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. Tariff rates for 2006 follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2006	
			M	F N C E P T ³
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:		
	1701.91	--Containing added flavoring or coloring matter:		
		--- In-quota	50	5
		--- Out-of-quota	50	5
		--- Other, In-quota	1	0
		--- Other, Out-of-quota	1	0
	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

³ ASEAN Common Effective Preferential Tariff

		----- Out-of-quota	65	38
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 anhydrous lactose, calculated on the dry matter	1	0
	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 containing in the dry state less than 20% by weight of fructose	3	0
	1702.40 00	- Glucose or glucose syrup, containing in the dry state at least 20% but less than 50% by weight of fructose, excluding invert Sugar	3	0
	1702.50 00	- Chemically pure fructose	3	0
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state more than 50% by weight of fructose, excluding invert sugar	7	3
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup blends containing in the dry state 50% by weight of fructose	3	0
17.03		Molasses resulting from the extraction of refining sugar		
	1703.10 00	- Cane molasses	10	3
	1703.90 00	- Other	7	3
17.04		Sugar confectionery (including white chocolate), not containing cocoa		
	1704.10 00	- Chewing gum, whether or not sugar-coated	15	5
		- Other:		
	1704.90 10	--- White Chocolate	10	5
	1704.90 90	--- Other	15	5

Source: Philippine Tariff & Customs Code, 2004
Executive Order No. 484 (2005) for AFTA-CEPT Tariff Rates

Policy

ENVIRONMENTAL POLICIES: According to SRA, the local sugar-milling sector is likely to experience further consolidation in the wake of tougher environmental laws (i.e., Clean Air Act) being enforced. More consolidations in the sugar milling business are expected to take place. The uncompetitive ones are likely to fold-up, especially those who do not have enough resources to comply with the new laws.

The new environmental laws require huge investments by sugar millers. An average mill will require a minimum investment of about P1 billion to replace smokestacks and boilers with new equipment that are considered more environmental-friendly and meets the new acceptable air particulates emissions and water effluents. According to industry players, consolidation is inevitable.

The sugar-milling sector has gone through major consolidations in the last 20 years, and more are likely to follow. The industry contracted over the years, from 43 sugar mills in 1984 to just 29 sugar mills today, as a result of sharp fluctuations in global prices of sugar.

NFA: In March 2006, the SRA began issuing a separate classification of B2 sugar production at 0.5 percent of weekly production or a total of 100,000 50-kg bags for National Food Authority's (NFA) procurement, in an effort to provide lower priced sugar to the market. NFA will buy the sugar at a fixed price of P950/bag. NFA will sell the refined sugar through its rolling store at a price below retail price of P30/kg. The peak of production is in March/April, and inventory will reach a high of more than 600,000 MT from an average of 458,359 MT.

ETHANOL BILL PASSED: In November 2005, the House of Representatives' Committee on Energy approved a bill that encourages production and distribution of bio-ethanol. House Bill 4629 proposes blending of commercial motor fuels with 5 percent ethanol within two years after the passage of the law and increasing the ethanol proportion to 10 percent by the fourth year. The proposed law will also give incentives such as a duty of 1 percent on all imported materials, machinery, and equipment for ethanol production and a tax rate of not more than prevailing rate for unleaded gasoline. Investors will enjoy these for 10 years from the enactment of the proposed law. A similar bill is still pending in the Senate Committee on Energy.

According to a study on the use of bio-ethanol as an alternative fuel, the Philippines is far from being self-sufficient in indigenous energy resources. According to the study, the country's demand for imported petroleum products is large at 106.5 million barrels fuel oil equivalent (MBFOE) or 39 percent of the total primary energy supply mix. This volume translates to around US\$3.8 billion of currency outflow annually.

The study further indicates there are domestic sources of renewable energy such as substrate crops (i.e., sugar, cassava, corn, sweet sorghum) for the production of ethanol. The study cites that among these crops sugar is the most versatile because it offers a number of substrates for ethanol production.

ESTIMATE OF ETHANOL REQUIREMENT BASED ON PROPOSED MANDATORY BLEND								
Crop Year	Projected National Gasoline Demand (M Liter) *			93 RON		95 RON		Total
	93RON	95RON	Total	5%	10%	5%	10%	
2007-2008	1,359.50	1,853.86	3,213.36	67.975		92.69		160.67
2008-2009	1,431.91	1,952.60	3,384.51	71.595		97.63		169.23
2009-2010	1,552.06	2,054.20	3,606.26	77.603		102.71		180.31
2010-2011	1,633.15	2,161.53	3,794.68		163.32		216.15	379.47
2011-2012	1,766.89	2,271.71	4,038.60		176.69		227.17	403.86
2012-2013	1,855.37	2,385.48	4,240.85		185.54		238.55	424.08
2013-2014	2,002.83	2,503.53	4,506.36		200.28		250.35	450.64
2014-2015	2,101.28	2,626.60	4,727.88		210.13		262.66	472.79

2015-2016	2,267.63	2,757.93	5,025.56		226.76		275.79	502.56
2016-2017	2,380.67	2,895.41	5,276.08		238.07		289.54	527.61
* From Philippine Energy Plan (PEP); Distribution is based on 26%, 29% & 45% distribution of 81RON, 93RON and 95RON.								

Source: Philippine Ethanol Alliance Study On the Use of Bio-ethanol As An Alternative Fuel

It also notes that beginning 2007, the sugar industry will have some surplus cane production, as a result of recent developments in the sugar sector, such as increasing use of high yielding varieties (HYV) developed by the SRA and PHILSURIN, as well as improvements in cane growing technologies and the modernization of sugar mills. The surplus is expected to increase to a volume of 11.4 M MT by 2017.

Sugarcane Production and Area Requirement due to Fuel Ethanol					
Crop Year	Estimated Volume of Fuel Ethanol Requirement (M liters)	Equivalent Sugarcane			Equivalent Area Needed / (Surplus) for EtOH Production (Ha)
		Requirement for Ethanol (M MT)	Cane Surplus (M MT)	Cane Surplus / (Deficit) Due to Fuel Ethanol (M MT)	
2007-08	160.67	2.263	0.832	(1.431)	21,227.50
2008-09	169.23	2.383	2.608	0.225	(3,236.26)
2009-10	180.31	2.540	3.950	1.410	(19,751.44)
2010-11	379.47	5.345	5.548	0.203	(2,767.11)
2011-12	403.86	5.688	6.506	0.818	(10,804.55)
2012-13	424.08	5.973	7.472	1.499	(19,238.36)
2013-14	450.64	6.347	8.444	2.097	(26,144.47)
2014-15	472.79	6.659	9.421	2.762	(33,522.02)
2015-16	502.56	7.078	10.403	3.325	(39,251.14)
2016-17	527.61	7.431	11.387	3.956	(45,438.78)

Source: Philippine Ethanol Alliance Study on the Use of Bio-Ethanol As An Alternative Fuel

Moreover, the domestic industry anticipates a significant surplus of sugarcane should the U.S. sugar quota program end in 2010. This surplus is expected to increase annually by 700,000 metric tons, if the projected increase in production is sustained. The study therefore concludes that the production of ethanol for motor fuel will require a maximum of additional 21,300 hectares of sugarcane plantation in the first year of the program.

If passed into law, the national bio-ethanol program will require the annual production of some 500 million liters of bio-ethanol. To achieve this the country will need at least 20 plants to produce the fuel all over the country. Each plant will require an investment of about P1.5 billion (\$30 million) to produce an estimated 20 million liters.

PSD Table						
Country	Philippines					
Commodity	Sugar, Centrifugal					(1000 MT)
	Revised	20 05	Estimate	2006	Forecast	2007
	Old	New	Old	New	Old	[New
Market Year Begin		09/2004		09/2005		09/2006
Beginning Stocks	405	405	239	239	173	135
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2150	2150	2100	2020	0	2200
TOTAL Sugar Production	2150	2150	2100	2020	0	2200
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	50	0	0
TOTAL Imports	0	0	0	50	0	0
TOTAL SUPPLY	2555	2555	2339	2309	173	2335
Raw Exports	306	306	156	224	0	156
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	306	306	156	224	0	156
Human Dom. Consumption	2010	2010	2010	1950	0	2000
Other Disappearance	0	0	0	0	0	0
Total Disappearance	2010	2010	2010	1950	0	2000
Ending Stocks	239	239	173	135	0	179
TOTAL DISTRIBUTION	2555	2555	2339	2309	0	2335

PSD Table						
Country	Philippines					
Commodity	Sugar Cane for Centrifugal					(1000 HA) (1000 MT)
	Revised	20 05	Estimate	2006	2007	Forecast
	Old	New	Old	New	Old	New
Market Year Begin		09/2004		09/2005		09/2006
Area Planted	380	380	370	370	0	380
Area Harvested	375	375	365	365	0	375
Production	22600	22600	22000	22000	0	22600
TOTAL SUPPLY	22600	22600	22000	22000	0	22600
Utilization for Sugar	22600	22600	22000	22000	0	22600
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	22600	22600	22000	22000	0	22600