USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/12/2004

GAIN Report Number: RP4018

Philippines

Sugar

Annual

2004

Approved by:
David C. Miller
FAS Manila

Prepared by:
Pia Abuel-Ang

Report Highlights:
Sugar production is forecast to remain flat in CY 2003-04 as a result of the decline in millgate prices caused by surplus sugar production recorded last year. Demand for domestically produced sugar by beverage and food manufacturers is expected to improve as domestic spending remains strong. The Philippines will export about 70,000 MT of sugar in 2004, aside from the 142,160 MT intended for the United States, to balance out excess supply of sugar in the domestic market. The Philippine government has also implemented price intervention measures as a relief to the sugar industry.

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

Production

Crop Year 2002-03 raw sugar production reached 2.16 million MT as a result of the successful effort of the Philippine Sugar Regulatory Administration (SRA) to promote the use of high-yield sugarcane varieties and the rehabilitation of sugar milling facilities. Sugar production is forecast to remain unchanged in CY 2003-04 due to a decline in millgate prices this year caused by excess sugar supply from CY 2002-03 sugar production.

According to the SRA, at least 35 percent of the total area under sugarcane production in the country is now planted with high-yielding varieties (HYVs). Most of the sugarcane HYVs are bred by the SRA and the Philippine Sugar Institute Foundation, Inc. (Philsurin). In 2003, 14 new varieties were registered with the National Seed Industry Council (NSIC).

During CY 2003-2004, some sugar farmers, particularly those in Mindanao, are expected to shift from sugarcane production to other field crops as a result of weak prices. Although initial surveys done by the SRA show that area planted to sugarcane is likely to increase slightly from 380,000 hectares in CY 2002-03 to 395,000 hectares this year, total area is expected to decline slightly as some farmers may decide to shift to other crops. The decline in sugar prices during the first quarter of 2004, is expected to further contribute to this decrease in area planted.

Sugarcane is grown in 17 provinces throughout eight regions of the country. More than half (56 percent) is produced in Negros, 22 percent in Eastern Visayas and Mindanao, 17 percent in Luzon and about 5 percent in Panay.

The SRA estimates that there are currently 51,500 sugar cane farms in the Philippines, owned mainly by small landowners. About 86 percent of sugarcane growers have an average farm size of 10 hectares, while only 3 percent grow cane on landholdings of more than 50 hectares.

Consumption

Economists predict that economic growth in the Philippines will remain flat at 4.5 percent this year amid the political uncertainties ahead of national elections in May. Inflation is likely to increase, but should remain within the official target range of 4.0 to 5.0 percent. It is forecast that economic growth will continue to be favorable, in line with the recovery in the global economy.

Total demand for sugar in CY 2003-04 is expected to improve as domestic spending remains strong, sustained by the inflow of foreign remittances of Overseas Filipino Workers (OFWs). Domestic use has increasingly displaced exports as the sugar industry's main source of demand, due to population growth and an improving economy. Domestic demand for sugar is estimated by the SRA to increase by about 3 percent yearly until 2005, when demand is projected to reach 2.2 MMT.

The demand for domestically-produced sugar is expected to increase more as tariff classifications previously used by beverage manufacturers to import refined sugar at a low tariff have been changed by the Philippine government (see Policy Section).

RAW AND REFINED SUGAR PRICES, Crop Year 2002-03				
	Raw Sugar		Refined Sugar	
CY 2002-03	Wholesale Price (Per 50kg. Bag)	Retail Price (Per Kg.)	Wholesale Price (Per 50kg. Bag)	Retail Price (Per Kg.)
September	983.66	22.37	1,220.07	27.16
October	1,002.75	22.54	1,211.03	27.30
November	973.73	23.02	1,208.25	27.37
December	951.86	23.02	1,200.00	27.32
January	915.42	22.95	1,196.55	27.26
February	912.78	22.92	1,214.75	27.14
March	899.46	23.86	1,198.96	27.15
April	892.70	22.84	1,168.32	27.19
May	891.32	22.81	1,182.31	27.18
June	898.45	22.87	1,196.02	27.00
July	903.88	22.82	1,202.37	27.12
August	925.50	22.88	1,229.37	27.30
Average	*929.29*	*22.91*	*1,202.33*	*27.21*
CY 2003-04				
September	927.25	1223.61	22.90	27.26
October	928.60	1241.57	22.91	27.21
November	933.80	1240.64	22.87	27.26
December	839.28	1140.28	22.84	27.30
January	797.25	1145.63	22.84	27.30

Source: Sugar Regulatory Administration

The SRA has reported that during February of CY 2003-04, the millgate price of sugar fell below the P700 level. The price of "B" sugar (see Marketing Section), used for domestic consumption, fell to P685 per 50-kg bag. The production cost of sugar is estimated at an average of P700 per 50-kg bag ($0.12/lb) causing some sugar producers to incur losses. The SRA claims that the glut in sugar production caused mill gate prices to fall during the start of the milling season.

MOLASSES PRICES, Crop Year 2002-03	
CY 2002-03	Average Price (per MT)
September	2,868.66
October	2,916.93
November	3,000.84
December	3,019.17
January	2,971.38
February	2,949.09
March	2,857.69
April	2,745.14
May	2,784.99
June	2,800.36
July	2,817.92
August	2,831.44
Average	*2,880.30*

CY 2003-04	
September	27.26
October	27.21
November	27.26
December	27.30
January	27.30

Source: Sugar Regulatory Administration

Trade

The Philippine Department of Agriculture (DA) has announced that it will not be importing any raw sugar in 2004 due to an ample supply forecast for the year. This will be the second year that the Philippines has achieved sugar self-sufficiency.

The FY 2004 U.S. sugar tariff-rate quota allocation for the Philippines was announced in August 2003 at 142,160 MT raw value. As of March 2004, half that amount has been exported to the United States.

The Philippines has been studying the possibility of exporting its surplus sugar to countries other than the United States, even at a loss. According to the SRA, a total of 70,000 MT will be exported to other countries in 2004. About 40,000 MT of sugar has already been exported to the Republic of Korea. Due to high production cost, the export of sugar to countries other than the United States is mainly a temporary measure to manage the sugar supply in the country.

After a comprehensive tariff review, the Office of the Philippine President issued Executive Order No. 264 (EO 264) on December 30, 2003, adjusting upwards the Most Favored Nation (MFN) tariff rates for various products, including sugar and sugar containing products for 2004 and 2005. According to the Philippine government, the tariff increases are temporary and intended to provide relief from import competition (See Policy Section). Out-of-quota rates for sugar and sugar-products had been scheduled to be reduced to 50 percent in January 2004. However, Executive Order No. 164 (EO 164) issued last year, froze sugar tariffs at 2002 levels of 65 percent.

HEADING	H.S. CODE	DESCRIPTION	RATE OF DUTY (%) 01 January	
			2004	2005
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:		
	1701.11 10	--- In-quota	50	50
	1701.11 20	--- Out-of-quota	65	65
	1701.12	-- Beet sugar		
	1701.12 10	--- In-quota	50	50
	1701.12 20	--- Out-of-quota	50	50
		- Other:		
	1701.91	--Containing added flavoring or coloring matter:		
	1701.91 10	--- In-quota	50	50
	1701.91 20	--- Out-of-quota	50	50

	1701.99	-- Other		
	1701.99 10	--- In-quota	50	50
	1701.99 20	--- Out-of-quota	65	65
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	1	1
		anhydrous lactose, calculated on the dry matter		
	1702.19 00	-- Other	3	3
	1702.20 00	- Maple sugar and maple syrup	7	7
	1702.30 00	- Glucose and glucose syrup, not containing fructose or	3	3
		Containing in the dry state less than 20% by weight of fructose		
	1702.40 00	- Glucose or glucose syrup, containing in the dry state at least	3	3
		20% but less than 50% by weight of fructose, excluding invert		
		Sugar		
	1702.50 00	- Chemically pure fructose	3	3
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state	7	7
		more than 50% by weight of fructose, excluding invert sugar		
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup	3	3
		blends containing in the dry state 50% by weight of fructose		
17.03		Molasses resulting from the extraction of refining sugar		
	1703.10 00	- Cane molasses	10	10
	1703.90 00	- Other	7	7
17.04		Sugar confectionery (including white chocolate), not		
		containing cocoa		
	1704.10 00	- Chewing gum, whether or not sugar-coated	15	15
		- Other:		
	1704.90 10	--- White Chocolate	10	10
	1704.90 90	--- Other	15	15

Source: Executive Order No. 264, December 30, 2003

Stocks

CY 2004 beginning stock levels were at an all time high due to strong sugar production recorded last year. CY 2004 ending stock levels are expected to decrease as the country has already begun to export sugar to Asian countries such as the Republic of Korea.

Policy

In March 2004, the President of the Philippines, through Executive Order No 293 (EO 293), ordered the National Food Authority (NFA) to buy from sugar producers at least 70,000 metric tons (MT) of sugar at a floor price of P700 per 50-kilogram bag. Sugar prices are expected to stabilize with the implementation of EO 293 which took effect on March 1, 2004.

Under EO 293, sugar producers retain the option of whether or not to sell to NFA. The price offered by NFA can be considered as the floor price, giving the producer an alternative market for his *quedans* or warehouse receipts (see Marketing Section). Domestic sugar prices fell to a low of P638 during the first week of February. The NFA's intervention is expected to last until the end of April. The SRA believes the price intervention should be enough to siphon off excess sugar, and raise sugar prices again.

On March 4, 2004, the President of the Philippines issued Executive Order No. 295 (EO 295) which reclassified some sugar products from H.S. 2106.90.10 and 2106.90.50 to 1701.91.00 and 1701.99.00, respectively. Under the new headings, the applied tariffs for these products increased from 0-10 percent to 48-65 percent. According to the SRA, EO 295 was designed to effectively change existing tariff classifications used by domestic beverage manufacturers to bring in raw materials at low tariff rates.

Sugar-containing products from the ASEAN region which are given special treatment under the AFTA-CEPT (ASEAN Free Trade Association-Common Effective Preferential Tariff) will be levied a lower rate of 48 percent, as authorized by Executive Order 295. The MFN rate will be 50 percent for in-quota imports and 65 percent of out-of-quota imports. The new tariff rates covering sugar-containing products follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2004	
			MFN	CEPT
17.01		Cane or beet sugar and chemically pure sucrose, in solid form		
		- Raw sugar not containing added flavoring or coloring matter		
	1701.11			
	To	--- X X X		
	1701.12			
		- 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	48
		----- Out-of-quota	65	48
		----- Other, In-quota	1	0
		----- Other, Out-of-quota	1	0
	1701.99.19	---- Other		

		----- In-quota	50	48
		----- Out-of-quota	65	48
		----- Other, In-quota	1	0
		----- Other, Out-of-quota	1	0
	1701.99.90	---- Other		
		----- In-quota	50	48
		----- Out-of-quota	65	48

Revenue Regulation RR 4-2004 was recently issued by the Philippine Department of Finance (DOF), revising some rules for the payment of Value Added Tax (VAT) on the sale of refined sugar. After complaints from the sugar industry, the DOF agreed to relax certain provisions of the initial Revenue Regulation 2-2004, which was issued early this year to tighten the collection of the 10 percent VAT from sugar traders.

Under the newly-signed tax regulation, when withdrawing refined sugar from sugar mills, cooperatives are no longer required to produce proof that their customers have made the advance VAT payments for the produce. Under the original RR 2-2004, sugar cooperatives were required to withhold and remit to the tax bureau the VAT payments on sugar purchases by traders that were in excess of the home consumption amount of two 50 kg. bags per year.

Upon strong lobbying by the cooperatives, the Bureau of Internal Revenue (BIR), under RR 4-2004, agreed to cancel the additional requirement for cooperatives. With the new regulation, cooperatives are now only required to show proof of ownership of the milled sugar through a BIR authorization letter. The new regulation, however, continues to require sugar refiners to present proof of advance VAT payments on milled sugar

The earlier agreement between Thailand and the Philippines for the purchase of 200 TMT of Thai rice in exchange for Thailand's support for the move to increase Philippine bound tariff rates for sugar (see GAIN RP3013) has been indefinitely postponed.

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 with the mill in payment for the processing of the cane.

As soon as the sugar is processed, the planter is issued a warehouse receipt by the mill representing his share of the sugar. After milling, the sugar is stored in the mill warehouse. This warehouse receipt is called *quedan* and attests to the physical presence of the sugar in the warehouse. 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;

C Sugar classified as reserve. It may, subsequently, be converted either to A or B as the need arises;

D Sugar allocated for the world market.

(Source: Action Plan for the Philippine Sugar Industry)

The SRA determines the proportion of sugar that goes into the 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 the output of domestic producers. The rest of the output is subsequently classified as B sugar.

There is a thriving secondary market in the trade for *quedans. A*fter getting their *quedans*, the planters usually sell these 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 the consumers through supermarkets, wet markets and sari-sari stores (mom-and-pop stores).

PSD Table						
Country	**Philippines**					
Commodity	**Centrifugal Sugar**				(1000 HA)(1000 MT)	
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	[New]
Market Year Begin		09/2001		09/2002		09/2003
Beginning Stocks	322	322	239	239	277	277
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1900	1900	2160	2160	2240	2160
TOTAL Sugar Production	1900	1900	2160	2160	2240	2160
Raw Imports	11	11	0	0	0	0
Refined Imp.(Raw Val)	98	98	0	0	0	0
TOTAL Imports	109	109	0	0	0	0
TOTAL SUPPLY	2331	2331	2399	2399	2517	2437
Raw Exports	142	142	142	142	142	202
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	142	142	142	142	142	202
Human Dom. Consumption	1950	1950	1980	1980	2010	2010
Other Disappearance	0	0	0	0	0	0
Total Disappearance	1950	1950	1980	1980	2010	2010
Ending Stocks	239	239	277	277	365	225
TOTAL DISTRIBUTION	2331	2331	2399	2399	2517	2437

PSD Table						
Country	Philippines					
Commodity	Sugar Cane for Centrifugal			(1000 HA) (1000 MT)		
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		09/2001		09/2002		09/2003
Area Planted	385	385	390	390	395	385
Area Harvested	380	380	385	385	390	380
Production	24962	24962	25835	25835	26100	25300
TOTAL SUPPLY	24962	24962	25835	25835	26100	25300
Utilization for Sugar	24962	24962	25835	25835	26100	25300
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	24962	24962	25835	25835	26100	25300