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Philippines

Sugar

Annual

2007

Approved by:
Emiko Purdy
U.S. Embassy

Prepared by:
Pia Abuel-Ang

Report Highlights:
Philippine raw sugar output is projected to reach 2.24 million metric tons (MMT) in crop year 2006/07, or about 5 percent higher than the previous year, mainly due to increased planting area and stable prices. Raw sugar production is forecast to expand slightly to 2.30 MMT in CY 2007/08 due to the projected expansion of new sugarcane areas to supply feedstock for the new ethanol plants that will begin their operations next year.

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

Production

According to the Philippine Sugar Regulatory Administration (SRA), total Philippine raw sugar output is projected to reach 2.24 million metric tons (MMT) in crop year 2006/07, about 5 percent higher than the previous year's level, mainly due to increased planting area and good prices. Raw sugar production is forecast to expand slightly to 2.30 MMT in CY 2007/08 due to the projected expansion of new sugarcane areas to supply feedstock for the new ethanol plants that will begin their operations next year. In January 2007, the Philippines passed the Bio-fuels Act, which mandates the use of 5-10 blend of ethanol with all gasoline sold domestically starting in 2009.

Total area devoted to sugarcane production in CY 2006/07 was 391,500 hectares, up from 377,000 hectares planted in the previous crop year. The projected increase in sugarcane areas for 2007/08 is mainly due to stable domestic sugar prices and the forthcoming demand for feedstock by upcoming ethanol plants and distilleries in the Philippines.

RAW SUGAR PRODUCTION BY MONTH, AREA PLANTED AND YIELD PER HECTARE (IN MT)	
MONTH	**2005/06**
September	21,086
October	134,511
November	198,103
December	303,295
January	396,110
February	359,078
March	338,127
April	282,935
May	77,204
June	25,301
July	1,957
August	368
TOTAL PRODUCTION	2,138,175
TOTAL AREA PLANTED	377,182
YIELD/HECTARE	113.37

Source: Sugar Regulatory Administration

The island of Negros still continues to account for majority (58%) 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 2005/06		
Mill District	**MT**	**Percent**
Luzon	310,977	15%
Negros	1,233,535	58%
Panay	122,166	6%
Eastern Visayas	90,898	4%
Mindanao	380,499	18%
Total	2,138,075	100%

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 the 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 has dropped to about P1,500 compared to the previous year of P1,700. For CY 2005/06, average millsite price per 50-kg bag of "A" raw sugar was P1,069.23 for the U.S. market due in part to the appreciation of the Philippine peso, and P1,124.92 for "B" raw sugar for the domestic market. Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

RAW AND REFINED SUGAR PRICES				
CY 2005/06	**Raw Sugar**		**Refined Sugar**	
	Wholesale Price (Pesos[1]/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)
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	1,349.41	32.01	1,711.43	38.63
April	1,352.59	31.10	1,711.43	38.01
May	1,351.40	31.01	1,703.02	37.89
June	1,393.36	31.75	1,737.23	38.73
July	1,424.97	32.08	1,750.99	38.50
August	1,395.36	32.11	1,741.11	38.50
Average	1,254.81	28.93	1,677.38	35.64
CY 2006/07				
September	1,342.36	32.39	1,716.16	38.73
October	1,250.32	32.30	1,572.26	38.58
November	1,127.05	31.90	1,477.30	38.48
December	1,109.18	31.29	1,510.51	37.63
January	1,189.81	30.53	1,604.84	36.33
February	1,198.22	30.60	1,564.01	36.37
March	1,206.66	30.56	1,570.00	36.30

Source: Sugar Regulatory Administration

In CY 2006/07, domestic sugar prices have remained relatively stable, although lower than extraordinary high prices enjoyed last year. The bumper crop experienced in many of the main sugar producing countries, such as Brazil, Thailand, as well as the Philippines, also exerted some downward pressure on domestic sugar prices.

[1] US$1 = P47.95 as of April 11, 2007

Consumption

Despite the lower-than-expected agricultural output, Philippine GDP growth in 2006 reached 5.4 percent, up from the revised 5 percent GDP growth experienced the previous year. The expansion was attributed to double-digit export growth and strong consumption fueled by record-level overseas remittances. For 2007, projected GDP growth has been raised to 6.1-6.7 percent from 5.7-6.5 percent due to an expected surge in investments. Official GNP growth projection for the year, on the other hand, was raised to 6.2-7.1 percent from the original target of 6.0-6.9 percent. Projected inflation rate for this year was recently pared down to 3.5-4.0 percent from 4.3-4.8 percent by the Bangko Sentral ng Pilipinas (BSP) due to lower oil prices and a strong Peso. The official GRP inflation target for 2007 is 4-5 percent. The positive adjustments in projected growth and inflation rates reflect the increased optimism by investors over the growth prospects of the country's economy after an improvement in its fiscal situation. The country's budget deficit in 2006 reportedly shrank to P62.2 billion ($1.26 billion) or roughly one percent of GDP, the lowest since 1998 when the gap was at P53 billion ($1.08 billion).

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). Total domestic sugar consumption for CY 2006/07 is estimated at about 2.0 MMT, up slightly from last year's consumption figures of 1.95 MMT.

MOLASSES PRICES	
CY 2005/06	**Average Price (Pesos/MT)**
September	4,682.52
October	4,865.90
November	4,724.73
December	4,638.95
January	4,998.46
February	5,372.20
March	5,313.50
April	4,829.00
May	4,556.94
June	4,770.27
July	4,953.13
August	5,007.29
Average	*4,892.74*
CY 2006/07	
September	4,821.10
October	4,606.41
November	4,401.14
December	4,108.06
January	4,123.77
February	4,133.39
March	3,889.32

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 normally 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).

Policy

In January 2007, President Gloria Macapagal-Arroyo signed into law Republic Act 9367 (RA 9367), which mandates the use of bio-fuels in the country. The bio-fuels law mandates the use of gasoline with a blend of 5 percent bio-ethanol within two years. The mix would be increased to 10 percent within four years with the approval of the National Bio-fuels Board to be created under the law. Meanwhile, for diesel-powered vehicles, a 1 percent bio-diesel blend should be sold within three months and subsequently increased to 2 percent within two years.

In March 2007, the Philippine Department of Energy (DOE) initially announced that the implementation of the bio-diesel component of RA9367 may be delayed. According to the DOE, while the supply of feedstock is not a problem, oil companies are asking for a one-year delay to provide them ample time to prepare the appropriate infrastructure to handle the storage and retail operations of bio-fuel products. The Independent Philippine Petroleum Companies Association, however, reportedly believes there is no need for a delay as it may send investors a wrong signal. Subsequently, the DOE declared that implementation of the Bio-Fuels Act of 2006 on May 6, 2007 will proceed as scheduled after a series of consultations with the affected sectors. No delays in the implementation of ethanol component have been mentioned.

To meet the ethanol requirement of the Bio-fuels Law, an additional 2.3 MMT of sugarcane will be needed beginning in CY 2008/09 to produce the estimated 160 million liters of ethanol needed for the 5 percent blend mandate. According to a Philippine Ethanol Alliance Study, an additional 21,200 hectares of new land would have to be developed for sugarcane in order to meet the demand for ethanol in the first year alone.

According to the SRA, production of ethanol in the country will probably take off starting next year. The SRA Administrator said that one of the first ethanol plants to be constructed, San Carlos Bioenergy, Inc. in Negros Occidental may start operations by next year. The San Carlos plant is a project of British firm Bronzeoak Ltd. through its local arm, Bronzeoak Philippines.

Moreover, Zambo Norte Bio-Energy Corporation has also signed a contract with Beijing-based China CAMC Engineering Co. Ltd. (CAMC) for an integrated sugar mill and ethanol plant in Zamboanga del Norte. The contract provides for the design, engineering, supply of various machinery, plant and farm equipment and the construction of an integrated manufacturing complex, consisting of a sugar mill, a six-megawatt power plant and a plant capable of producing 45 million liters of ethanol annually.

SRA also disclosed in an interview that there are seven foreign investors that have signified interest in building ethanol plants in the country - three from Japan, two from China, and one from the United States and India. Japan-based Marubeni Corp. is said to be eyeing Batangas as a possible site of an ethanol plant, while Toyota Group and Japan Gas Company are said to be exploring suitable sites in Pampanga and Bicol, respectively. Two groups based in China, Guang Xi Yongkai Sugar Company Ltd. and Nanning Yong-kai Industry Group, visited the province of Negros Occidental for potential sites for ethanol refineries. US-based Far East Biofuels LLC, on the other hand, is said to be eyeing a P1-billion integrated ethanol plant in Pampanga, while India-based Jain Irrigation Systems, Inc. is considering a partnership with the National Forest Corp. and National Development Co. for an ethanol plant.

Trade

No imports are forecast for CY 2006/07 due to more than adequate sugar production projected for the current crop year as well as a return of U.S. sugar TRQ volume to the usual lower levels. 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 2007 follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2007	
			MFN	CEPT[2]
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
		----- 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:		

[2] ASEAN Common Effective Preferential Tariff

	1702.11 00	-- Containing by weight 99% or more lactose, expressed as	1	0
		anhydrous lactose, calculated on the dry matter		
	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	3	0
		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	0
		20% but less than 50% by weight of fructose, excluding invert		
		Sugar		
	1702.50 00	- Chemically pure fructose	3	0
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state	7	3
		more than 50% by weight of fructose, excluding invert sugar		
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup	3	0
		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	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

Due to high domestic sugar production this crop year, the Philippines will likely export an estimated 100,000 MT to the world market, likely to Japan and South Korea, in order to avoid an oversupply in the country that may dampen local prices.

PSD Table									
Country	Philippines								
Commodity	Sugar, Centrifugal						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007
Beginning Stocks	239	239	239	253	253	253	265	265	222
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	2138	2138	2138	2242	2242	2242	0	0	2300
Total Sugar Production	2138	2138	2138	2242	2242	2242	0	0	2300
Raw Imports	0	0	0	0	0	0	0	0	0
Refined Imp.(Raw Val)	50	50	50	0	0	0	0	0	0
Total Imports	50	50	50	0	0	0	0	0	0
Total Supply	**2427**	**2427**	**2427**	**2495**	**2495**	**2495**	**265**	**265**	**2522**
Raw Exports	224	224	224	230	230	273	0	0	250
Refined Exp.(Raw Val)	0	0	0	0	0	0	0	0	0
Total Exports	224	224	224	230	230	273	0	0	250
Human Dom. Consumption	1950	1950	1950	2000	2000	2000	0	0	2000
Other Disappearance	0	0	0	0	0	0	0	0	30
Total Use	1950	1950	1950	2000	2000	2000	0	0	2030
Ending Stocks	253	253	253	265	265	222	0	0	242
Total Distribution	**2427**	**2427**	**2427**	**2495**	**2495**	**2495**	**0**	**0**	**2522**

PSD Table									
Country	Philippines								
Commodity	Sugar Cane for Centrifugal						(1000 HA)(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		09/2006	09/2006		09/2007	09/2007		09/2008	09/2008
Area Planted	370	0	377	380	0	391	0	0	395
Area Harvested	365	0	372	375	0	386	0	0	390
Production	22000	0	22000	22600	0	24000	0	0	24300
Total Supply	**22000**	**0**	**22000**	**22600**	**0**	**24000**	**0**	**0**	**24300**
Utilization for Sugar	22000	0	22000	22600	0	24000	0	0	24300
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	**22000**	**0**	**22000**	**22600**	**0**	**24000**	**0**	**0**	**24300**