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Philippines

Sugar

Annual

2001

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Report Highlights:
The forecast for the 2001/02 crop year is set at the same level as the current crop year at 1.65 MMT. Negros, the primary sugar producing region, received heavy rains which inhibited the harvest this season. The Philippines has stalled on its WTO commitment by setting import tariffs in 2001 at the same level for the previous year. The Philippines has been selected by the U.N. International Sugar Organization to receive support for a sugar cane germplasm bank.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Manila [RP1], RP

Executive Summary
The Post forecasts production for 2001/02 at the same level as the current crop year at 1.65 MMT. It doesn't appear that there will be any prospects for a significant change in the level of sugar produced by the industry until shortcomings are addressed in irrigation and low productivity on the majority of the small farm holdings. The industry's outlook for the upcoming season depends primarily on weather conditions which have not been very favorable in the last several years.

For 2000/01, the sugar industry has been pleased to see favorable weather conditions in the Eastern Visayas and Mindanao, however this region usually produces around 20 percent of total production. The primary producing region, Negros Oriental where between 40 and 50 percent of total production originates, experienced frequent rains prior to harvest which will dampen overall prospects for 2000/01. For this reason, the Post will maintain its current estimate of 1.65 MMT although the Sugar Regulatory Administration (SRA) and the industry are still hoping to reach the production level of 1.7 million metric tons.

Imports for 2001/02 are expected to be 400,000 metric tons due to continued lack of inputs or increased irrigation. Enhanced weather conditions could raise production to 1.7 MMT. This level of imports will be needed to cover the shortfall and to replenish inventories. This import level for next season also takes smuggling into account. The required amount of imports may be partially offset by approximately 50,000 MT if, as in the past year, the Philippines opts to surrender some of its planned exports under the U.S. raw sugar quota for 2000/01. Currently, 1.7 MMT appears to be the optimum output for the Philippines, a level which will still require imports within the range of 250,000 to 300,000 MT unless there is a significant change in growing conditions.

The Philippines Sugar Research Institute Foundation, Inc. (Philsurin) has been selected as the lead in assembling sugar cane germplasm in Southeast Asia. The project, funded through the United Nations Common Fund for Commodities will seek to increase productivity through the adoption of high-yielding, pest-resistant, and ecologically-adapted cultivars.

PSD Table						
Country	Philippines					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Beginning Stocks	454	454	460	330	338	252
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1,620	1,620	1,650	1,650	0	1,650
TOTAL Sugar Production	1,620	1,620	1,650	1,650	0	1,650
Raw Imports	280	50	200	200	0	200
Refined Imp.(Raw Val)	120	230	100	100	0	200
TOTAL Imports	400	280	300	300	0	400
TOTAL SUPPLY	2,474	2,354	2,410	2,280	338	2,302
Raw Exports	94	94	142	88	0	142
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	94	94	142	88	0	142
Human Dom. Consumption	1,920	1,930	1,930	1,940	0	1,930
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1,920	1,930	1,930	1,940	0	1,930
Ending Stocks	460	330	338	252	0	230
TOTAL DISTRIBUTION	2,474	2,354	2,410	2,280	0	2,302

PSD Table						
Country	Philippines					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Area Planted	370	371	370	365	0	370
Area Harvested	360	357	360	360	0	360
Production	21,100	21,000	21,100	21,000	0	21,100
TOTAL SUPPLY	21,100	21,000	21,100	21,000	0	21,100
Utilization for Sugar	21,100	21,000	21,100	21,000	0	21,100
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	21,100	21,000	21,100	21,000	0	21,100

Export Trade Matrix			
Country	Philippines		
Commodity	Centrifugal Sugar		
Time period	Jan/Dec	Units:	MT
Exports for:	2000		2001
U.S.	94,444	U.S.	87,958
Others		Others	
Total for Others	0		0
Others not Listed			
Grand Total	94,444		87,958

Import Trade Matrix			
Country	Philippines		
Commodity	Centrifugal Sugar		
Time period	Jan/Dec	Units:	MT
Imports for:	1999		2000
U.S.	13	U.S.	87
Others		Others	
Australia	125,536	Australia	42,521
Brazil	100,126	Brazil	
Vietnam		Vietnam	19,795
Hongkong	1,143	Hongkong	43
Korea Rep.	24,718	Korea Rep.	49,755
Malysia	1,229	Malysia	6,167
Singapore	4,188	Singapore	693
Thailand	122,965	Thailand	40,629
U.K.	3,056	U.K.	3,793
U.A.E.	1,590	U.A.E.	2,315
Total for Others	384,551		165,712
Others not Listed	5,834		187
Grand Total	390,398		165,986

Prices Table			
Country	Philippines		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	kg
Year	2000	2001	% Change
Jan	23.65	25.99	9.89%
Feb	23.50	26.20	11.49%
Mar	23.60	26.79	13.52%
Apr	23.57		
May	23.59		
Jun	23.75		
Jul	23.89		
Aug	27.27		
Sep	27.22		
Oct	26.51		
Nov	26.27		
Dec	26.12		
Exchange Rate	50	Local currency/US $	

Production

The outlook for 2001/02 is expected to remain at this year's estimated production level of 1.65 million metric tons. Of course, this continues to depend much on prevailing weather conditions. Crop year 2001/02, shows no significant increase in area which is projected to be 370,000 hectares. The area for the current season is revised downward to 365,000 hectares based on current SRA estimates with all but the Visayas and Mindanao left to be completed. Yields of sugar cane per hectare should stay at approximately 59 to 60 MT per hectare. For 2001/02, a possible encouragement for increased area planted are prospects for world prices remaining at levels near domestic prices. This situation currently makes smuggling less likely. Domestic prices have been quite firm at 880 to 990 pesos per Lkg. Landed cost for imports are above 900 pesos per 50Lkg.

The previous forecast for 2000/01 remains at 1.65 million metric tons. Although there were no La Nina weather patterns in August last year, instances of heavy rains were confirmed in the country's largest growing region, Negros. This caused a reduction in the amount of cane brought from the fields. The lack of profitability carried over from the last three seasons will have prevented farmers from utilizing inputs that could have improved yields. Prospects for yields are primarily dependent on prevailing weather conditions with little more than 20 percent of total sugar area under irrigation. However, prospects for slightly improved output may occur due to overall purity levels exceeding 1.67 Lkg (unit for 50 kg. bags of sugar per ton of cane).

The production level for 1999/00 remains at 1.62 MMT, based on Sugar Regulatory Administration (SRA) season ending records. In the beginning of 1999/00, the SRA had originally projected a production level of 1.8 MMT. However, production was down substantially in Negros, the largest sugar producing region, normally representing 40 to 50 percent of all production in the Philippines. SRA states that purity was about 1.67 Lkg or 50 kg bags per ton of cane.

Predominant practices such as ratooning with plants from the previous season that are possibly contaminated with disease leads to reduced performance of subsequent planting materials. In the last three seasons, the SRA has determined this to be one of the chief reasons for low yields for sugar cane. The ongoing peace and order disturbances in western Mindanao are still said not to be a factor in production.

So far the industry has not received anydirect assistance expected from the Competitive Enhancement Fund (collected from tariffs under the tariff rate quotas). It is still not known when the funds collected from fees on the 1999/00 season's imports will be made available. The SRA has a draft Executive Order under review but it has not been presented to the President yet. The Order outlines how each milling district in the Philippines will use the funds when they are released to the Sugar Regulatory Administration. With midterm elections coming up in May, it is not likely this issue will get any attention before July of 2001 when Congress may complete budget proceedings and, perhaps not in time to have an impact on next season's prospects.

It is not possible for the sugar industry to have an accurate estimate of hectares planted since there are no nationwide surveys. A tally of cane brought to the mills is inconclusive since cane is often brought to mills from outside its immediate growing region. The outlook for sugar in the Philippines is for farmers not to substantially increase hectares planted.

This outlook and beyond for sugar in the Philippines also hinges greatly on what lies ahead for the remaining plantation lands due to be redistributed to peasant farmers at 0.5 hectares each. The Department of Agrarian Reform's mandate has arrived at the last 1.1 million hectares which in part encompasses a great deal of the prime sugar area in Negros Oriental. Land owners in Negros are hoping for a reprieve in the form of some other arrangement to settle the matter of these remaining lands. What happens to these lands will have a decisive impact on productivity. For the plantations that were already redistributed to small farmers, these lots are now the least productive lands in the Philippines. The majority of the smaller sugar farmers amount to 67 percent of all farmers and now occupy 17.45 percent of total area producing 14.32 percent of output. Larger farms of 50 hectares and above are occupied by only 5 percent of all farmers on nearly 40 percent of the total sugar area contributing 43 percent of total sugar output in the Philippines.

Biotechnology. The Philippines has been selected as the lead in developing a germplasm bank for sugar cane in Southeast Asia. This project could lead the way toward mapping the genome of the sugar cane. The project, "Sugarcane Variety Improvement in Southeast Asia and the Pacific for Enhanced and Sustainable Productivity", will receive funding from the International Sugar Organization through the United Nations Common Fund for Commodities. The project will seek to assemble the germplasm from among the producing regions of Southeast Asia. The project will be responsible for setting up a germplasm exchange, performing biotechnology research for breeding new varieties and arranging a technical training component. The project hopes to use today's techniques in biotechnology to advance new pest and disease resistant varieties that will be adaptable in an environment consisting of small farm holders in Southeast Asia. It is not known at this time whether the developing climate in the Philippines with the incoming Government may or may not hinder the potentials from the germplasm exchange and possible need for field testing in the future.

Consumption

The outlook for consumption in 2001/02 is set at 1.93 MMT. However, consumption for 2000/01 was increased from 1.93 to 1.94 MMT and that for 1999/00 was increased slightly to 1.93 MMT from 1.92 MMT. Adjustments are based on industry consumption estimates and affirmations about lower inventories ending 1999/00. These figures still reflect some growth in consumption despite the recent problems in the Philippines.

The economy slowed substantially during the political crisis that began toward the end of 2000 and carried over into the new year with the removal of President Estrada in January. However, while the peso declined sharply in the fourth quarter, the economy still ended the year with 3.9 percent growth along with 3.4 percent in agriculture. Since agriculture still employs nearly 40 percent of all labor and contributes 20 percent to Gross Domestic Product, agricultural output is still an important indicator for the well being of the overall economy. Although, the economy is still being negatively impacted by a renewed weakness among Southeast Asian currencies, the Philippines has showed a tendency to avoid any real economic crisis as long as the agricultural sector maintains signs of growth.

Trade Policy

For 2001/02, the Philippines will continue to require additional imports beyond the MAV quota to satisfy domestic consumption. Total required imports are projected to be 400,000 MT in order to meet an expected slight increase in consumption and replenish inventories. The decisions for imports for the rest of 2000/01 are just being seriously considered. Care will be taken not to upset the current price level for milled sugar. Imports for 2000/01 are set at 300,000 MT. Of this amount, 100,000 MT was smuggled sugar seized by the GOP and resold through the National Food Authority (NFA), the state trading entity in the Philippines. This amount could have been larger except for two reasons. One is that by August 2000, the economy was already showing signs of slowing down, the peso was already depreciating below 45 peso/$ from 37 peso/$ earlier in the year. The other is that the Sugar Regulatory Administration was very sensitive towards upsetting domestic prices. For 1999/00 imports amounted to 280,000 MT.

As in 2000/01, the level of imports in 2001/02 may be offset somewhat by plans to respond to the USDA announcement allowing exporters to surrender Certificates of Quota Eligibility (CQE's) in the FY 2001 raw sugar TRQ program. Last year, the Philippines surrendered 47,725 MT. The quantity to be surrendered by the Philippines in 2001/02 will be approximately 54,211 MT. All of this sugar will be reclassified from A sugar for export to B sugar for domestic use. Under the in-quota tariff of the minimum access volume (MAV), the level of allowed imports for 2001/02 will be 56,933 MT and for 2000/01 it is 54,087 MT while that for 1999/00 was 51,240 MT.

Since world prices are at much higher levels than last year, imports will be less controversial. The Philippines' average monthly consumption is approximately 160,000 MT and normally inventories should be maintained at a level equal to two months of consumption but it was not done so for the year ending 1999/00 since there was 100,000 of confiscated smuggled sugar available. This sugar has been held by the National Food Authority nearly throughout the entire following crop year. Although some has recently been released there were earlier failed attempts at selling the sugar back onto the world market. Ending inventories may not equal two months of consumption in the current year either depending on domestic prices. Smuggling should be less of a problem right now as long as world prices remain at or above current levels. The presence of smuggled sugar usually makes it difficult for the National Food Authority to sell formally imported sugar to the domestic market. As a result it is usually done so at a loss to the Government.

On January 19, 2000, the Philippines submitted a WTO notification to negotiate modifications in its sugar tariff concessions on sugar. They want to re-negotiate the current out-quota tariff rate of 65 percent and finish at a higher rate in 2003 and they want to increase the final bound rate now set at 80 percent. So far, the GOP reports that they will go ahead with the increase of the in-quota rate to 80 percent for next year. GOP reports that they have not received any opposition to this move nor have they received any requests for trade concessions in return. The Philippines published its tariff schedule late in December 2000 and for several sensitive commodities like sugar, has not maintained its WTO commitment for a declining tariff rate. Instead, sugar along with others have been straight-lined for 2001. There is no indication what the tariff rate will be for next year. Certainly, no decision will be made until after the elections in May 2001.

The sugar industry also received approval to move sugar to the ASEAN sensitive list of commodities which means instead of reducing tariffs to 0 to 5 percent by January 1, 2002, they will not do so until 2010. Although the sugar industry was one of the primary supporters for passing the GOP's new safeguards bill in 2000, RA 8800, it appears that due to the current world prices they will not immediately apply for protection under the new law. If prices return to levels of 1999 at 6 cents per pound, it is expected that the Philippines will definitely apply for protection under the new safeguards law. The Philippines did allow for quantitative restrictions in their safeguards law. Obviously, this scenario will only make smuggling extremely profitable.

Naturally, the Philippines watches the developments in the United States regarding Mexico's request to be given the entire U.S. raw sugar import quota based on an agreement that was conceived under NAFTA. The Philippines continues to be concerned with how any additional allotment given to Mexico will be administered. The Philippines has the second largest single country allocation after Brazil.

In response to SECTATE 163420, August 2000, the Philippines was required to furnish information regarding its imports of sugar. As required by section 902c of the 1985 Food Security Act, SRA submitted its response to the Agricultural Affairs Office affirming that no sugar is imported from Cuba and that all sugar exported to the U.S. is grown and processed in the Philippines.

The New Administrator. With the arrival of the new President of the Philippines, Gloria Macapagal Arroyo, a new Administrator of SRA was appointed, James Ledesma. Like his predecessor, Mr. Ledesma is a producer and like his predecessor, he will not move forward aggressively on imports to avoid upsetting the current domestic price levels. Ledesma is also from the Negros Oriental region where the large plantations remain and the bulk of the sugar is produced. Ledesma, was the founding chairman behind the private sector-led Philippine Sugar Research Institute (Philsurin), a sugar research and development organization. He was chairman from 1994 to last year. He has an AB Mathematics degree and BS Mechanical Engineering degree from De La Salle University, graduating cum laude. He is also chairman of Confed Panay-Negros chapter and was vice president of Confed national and has represented the sugar industry in several international conferences.