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Report Highlights:

Sugar production for 2002/2003 is expected grow by over five percent and hit the 2.0 million metric ton mark. Increased output is attributed to the expanding use of high yield sugarcane varieties and continuing efforts to modernize the domestic sugar industry. Sugar outlook for 2003/2004 is forecast to reach 2.1 million metric tons despite fears of a fertilizer shortage due to the closure of several major urea fertilizer plants abroad. The Philippines currently imports over ninety percent of its fertilizer requirements.

Includes PSD changes: No
Includes Trade Matrix: No
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Production

CY 2002/2003 raw sugar production is expected to hit 2.0 million metric tons, representing a five percent increase over CY 2001/2002 levels. The mild El Nino weather phenomenon which hit the country in the fourth quarter of 2002 is not expected to affect sugarcane production. The dry spell is expected to be beneficial for sugarcane production as dry weather conditions have been proven to benefit the sugarcane harvest.

Much of the growth in production is attributed to the propagation of high yielding varieties (HYV) of sugarcane. The new HYVs are estimated to produce an average of 109 tons per hectare (tc/ha) or potentially, 1.96 50-kilogram bags of sugar per ton cane (Lkg/tc), allowing sugar centrals to recover 1.96 bags of raw sugar for every ton of sugarcane milled, compared to the previous recovery level of 59 tc/ha and 1.6 Lkg/tc. The new HYV strains developed by the both the Philippine Sugar Research Institute Foundation (PHILSURIN) and the Sugar Regulatory Administration (SRA), now yield an average of 213.65 bags of raw sugar per hectare, more than twice as much as the 94.4 bags per hectare produced using the old varieties.

From 36,000 hectares planted with HYV in 1998 – a tenth of the country's total sugarcane area of 360,000 hectares, the area planted now with the new strains has risen to 126,000 hectares or an increase of 250 percent in the area planted with HYVs or about a third of total sugarcane area. The SRA will continue to aggressively push for the use of HYVs, hopeful that area planted with HYVs will increase from the current 35 percent to 65 percent of all sugarcane area by 2004. The SRA estimates that a 15 percent increase in the area planted with HYVs would translate to an increase in production of roughly 322,000 MT of cane, raw sugar per year. With this increased use of HYVs, sugar production is forecast to reach 2.1 million MT in CY 2003/2004.

Over P600 million (\$12 million) of the Sugar Agricultural Competitiveness Enhancement Fund (ACEF) administered by the DA was infused during the last two years which has been a catalyst in modernizing the sugar sector. Some P231.5 million has been channeled to farm mechanization projects, P113 million in road repair and construction as well as irrigation and drainage improvements, another P168 million for research and development and nearly P57 million for HYVs, among others.

SUGAR AGRICULTURAL COMPETITIVENESS ENHANCEMENT FUND (ACEF)	
Types of Projects Approved	Amount Released (Pesos)
Road Repair & Maintenance	93,540,000
Farm Mechanization	231,544,364
High Yielding Varietals	56,760,149
Soil Fertility	16,727,033
Core Sampling	10,286,000
Irrigation/ Drainage Improvement	19,360,000

Lab Equipment & Training Centers	7,070,000
R&D/ Evaluation & Monitoring	144,671,360
TOTAL	602,934,926

Source: Department of Agriculture

The DA has reported that many stakeholders in the sugar industry have begun to come together to prepare for the impending total liberalization of the Philippine sugar market. Several sugar millers have embarked on plant modernization programs which have enabled them to install boilers, shredders, mill rollers, pollution abatement equipment and other facilities. It is estimated that from 2001 to present, domestic sugar mills have invested over P5 billion (\$10 million) in modernization.

Sugarcane production is mainly concentrated in Western Visayas (58.7 percent of total harvest), followed by Northern Mindanao (8.3 percent), Central Visayas (8.1 percent) and Southern Tagalog (7.8 percent). Production began increasing once again in 2000 after a continued three-year decline in sugarcane production.

SUGARCANE PERFORMANCE	AVERAGE ANNUAL GROWTH RATE (%)	
	1980s (1980-1989)	1990s (1990-1999)
Production (‘000 ton cane)	0.65	3.02
Harvested Area (‘000 hectares)	-5.13	5.82
Average Yield (ton/ha)	6.89	-2.17

Source: Bureau of Agricultural Statistics

However, sugar analysts are wary of an impending urea shortage which may affect sugar production in CY 2003/2004. Urea is the traditional fertilizer grade for sugarcane in Negros and Bukidnon. The impending shortage of imported fertilizers as a result of recent closures of major fertilizer plants in the United States, Venezuela, Russia and the Middle East may negatively impact the rebounding sugar industry. The Philippines currently imports more than 90 percent of its fertilizer requirement.

Though the industry has shown signs of recovery in the last two years, a long-term downturn in production may still be experienced due to a number of factors including loss of sugarcane area primarily through urbanization. The Comprehensive Agrarian Reform Program (CARP) of the government has been cited as a cause of the general decline

in farm production unit efficiency. Under the CARP, sugar plantations in excess of 25 hectares have been redistributed to workers and beneficiaries. As a result, the average size of sugarcane farms has gone down from 14 hectares in the 1970s to nine hectares in the early 1990s, a size that has made most sugar farms uneconomic. Latest figures from SRA show that 80% of the country's 41,000 sugarcane farmers have landholdings of 10 hectares or less. These conditions have led to a decline both in yield and area harvested as small-scale farmers convert to more economically viable crops.

The industry continues to suffer from high production cost compared to other countries. High costs result from a combination of factors such as low cane yield and low sugar recovery. Numerous studies have cited the following factors as the cause of the malaise of the sugar industry: limited use of high yielding varieties; poor irrigation; lack of tractors and mechanization; poor agronomic and harvesting practices; inadequate and poor credit facilities that discourage investments in production.

Consumption

Domestic sugar consumption for 2002/2003 is forecast at 1.98 MMT, up slightly from the previous year's level. The growth in sugar consumption is driven mostly by the large Philippine population, estimated to be growing at an annual rate of 2.3 percent. The domestic economy grew 4.6 percent last year, surpassing government's GDP 2002 forecast of 4.0 to 4.5 percent. Last year's GDP growth rate was also the fastest recorded since the 1997 Asian financial crisis. In 1997, the domestic economy grew 5.2%.

However, government analysts predict that the domestic economy will not grow as expected this year - currently set at 4.2 to 5.2 percent - because of spiraling crude prices. The rising crude prices is expected to negatively impact the growth of the domestic economy. Economists have warned of a slowdown due to rising energy costs and subsequent cost of production. Even the GOP's inflation rate forecast of 4.5 to 5.5 percent this year is vulnerable to oil price spikes.

Economists see GDP growth slowing to 3.9 percent during in 2003, below the official forecast of 4.2 to 5.2 percent, however, some analysts believe that a recession is unlikely due to expected good farm production and better domestic spending. Consumption is the dominant driving component of Philippine GDP. Sugar consumption for 2003/2004 is expected to reach 2.0 million MT.

Trade

The SRA has announced that the Philippines may no longer import additional sugar except the minimum access volume (MAV) of 59,780 MT for CY 2002/2003. However, Post estimates that actual imports for CY 2002/2003 may reach 80,000 MT with supply of sugar tightening exerting upward pressure on prices beginning in April after the peak sugar milling season. Sugar imported under the MAV program carries a tariff of 35 percent while imports out of MAV are levied a 65 percent tariff.

The government is optimistic that it may be able to reduce sugar imports for CY2003/2004 to about 40,000 MT and eventually aims for self-sufficiency by 2004 as domestic sugar outlook continues to improve with the growing use of new sugarcane varieties and modernization efforts. The volume of sugar that may be imported under the lower tariff MAV is 62,627 MT for 2004.

The Philippines sources most of its sugar requirements from Thailand, Australia and Brazil. In 2002, the Philippines imported nearly 30 percent of its raw sugar requirements from relatively new supplier, Brazil; Australia supplied about 20 percent; while Thailand supplied about 16 percent of total sugar imports.

Average millgate price of raw sugar recorded an improvement of nearly 10 percent in 2002/2001, sustaining the 7.5 percent growth in millgate price registered in 2001/2000. The prices of domestic sugar are expected to improve moderately as the price of sugar in the world market continues to appreciate.

Prices Table			
Country	Philippines		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	kilogram
Year	2002	2003	% Change
Jan	22.54	22.95	1.82%
Feb	22.37	22.92	2.46%
Mar	22.28	22.87	2.65%
Apr	22.24		
May	22.22		
Jun	22.21		
Jul	22.25		
Aug	22.25		
Sep	22.37		
Oct	22.54		
Nov	23.02		
Dec	23.02		
Exchange Rate	53.37	Local currency/US \$	

Source: Sugar Regulatory Administration, Retail Price of Raw Sugar

The users of sugar are local consumers and the export market. Local consumers consists of household users which account for 57 percent of domestic consumption; industrial users, 39 percent and institutional users (i.e., restaurants, bakeshops, hospitals etc.) 4.6 percent. The export market is mainly the United States.

The Philippines continues to supply 142,000 metric tons of sugar to the United States worth about \$62.6 million, representing 13 percent of the total US sugar import quota. With the US quota agreement, local millers and farmers have benefitted from the higher sugar price offered by the quota arrangement, which ranged from \$0.18 to \$0.20 per

pound, as against world market price of between \$0.07 to \$0.08 per pound. The major market for raw sugar is still the United States, with the US sugar quota representing the country's entire raw sugar exports.

Policy

The Philippines announced plans to import 200,000 metric tons of rice from Thailand in exchange for delays in tariff reduction on sugar imports under the ASEAN Free Trade Agreement-Common Effective Preferential Tariff Program (AFTA-CEPT). Under the AFTA-CEPT, sugar tariffs coming from ASEAN member countries were to be lowered from 65 to 5 percent beginning January 1, 2003. (See GAIN #RP3013).

The Philippines is said to be currently working out a deal with Thailand to determine the exact volume of sugar that may be imported from Thailand this year as part of the concession package that Manila is suppose to grant Bangkok for the retention of Philippine sugar tariffs. Media reports claim that the Philippines has committed to source a third of its minimum access volume for sugar in 2003 which is 59,780 MT from Thailand.

For several years now, sugarcane planters and millers have been pressing for a modification of the final-bound tariff for sugar from 50 percent to 80 percent. Renegotiations of bound rates on sugar tariff lines are claimed to be justified by local producers to shield the market from an anticipated rise in imports.

Last December 2002, the Bureau of Internal Revenue issued Revenue Regulation No. 27-2002 which prohibits proprietors and operators of sugar mills and refineries from withdrawing refined sugar from their premises without advanced Value Added Tax (VAT) payments made by the owners or sellers and a proof of payment. The amount of advance payments shall be determined by applying the VAT rate of 10 percent on the applicable base price per 50-kilogram bag of refined sugar. The base price for the different types of refined sugar shall be: refined sugar/standard sugar/premium sugar, P850; plantation white, P800; blanco directo, P800; washed sugar, P780 pesos. If owned by others, the base price of the sugar shall be P760, P740, P740, and P730, respectively. The government is expected to generate P 500million (\$10 million) in additional revenue from the new regulation on advanced value-added tax payments on refined sugar.

Marketing

Locally produced sugar comes primarily from four major sugar planters' federations and three major millers' associations. These organized federations account for 90% of total domestic sugar production. On the other hand, planters and millers not affiliated with major federations contribute about 10 percent of total production. There are 35 sugar mills in the country. Victorias Milling Company, with rated capacity of 15,000 ton-cane/ day (TCD) is the largest; the company is now under receivership. Busco Sugar Milling Company, Central Azucarera de la Carlota, and Binalbagan-Isabela Sugar Company are the three largest mills with a capacity of 10,000 TCD each. Central Azucarera de Don Pedro and Central Azucarera de Tarlac have 8,000 TCD and 7,000 TCD, respectively. Altogether, these companies contributed about 43% of the total raw sugar production.

There are 17 sugar refineries, the leaders are: Victorias Milling Company, Central Azucarera de Don Pedro, Bukidnon Sugar Refinery, Luisita Sugar Refinery, Cam-Lam/ South Pacific, and Lopez Sugar Corporation. These companies

altogether accounted for around 74% of the total refined sugar production.

The DA has announced its plan to boost production of organically grown muscovado sugar by introducing a "lease-to-own" (LTO) equipment acquisition program in the industry. Muscovado sugar holds a highly attractive market in Japan and Europe following the craze by some consumers there for chemical-free farm goods. Muscovado sugar, a brown sugar deemed a specialty product containing natural nutrients that are stripped off the refined sugar, has a market in developed countries such as Japan.

Liquor firm, Tanduay Holdings, Inc., recently won a bid to provide Victorias Milling Co., Inc., the largest sugar mill in the country, P300 million (\$6 million) in fresh equity. The P300 million loan is convertible into equity after the third year and represents a 16-percent stake in the sugar mill. Upon the conversion of the loan to equity, it is reported that the Tanduay group will then control 26 percent of the company. The P300-million loan will be used for capital expenditure, mainly to rehabilitate and modernize the company's mills.

PSD Table						
Country	Philippines					
Commodity	Centrifugal Sugar				(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		09/2001		09/2002		09/2003
Beginning Stocks	322	322	239	239	227	197
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1900	1900	2000	2000	0	2100
TOTAL Sugar Production	1900	1900	2000	2000	0	2100
Raw Imports	11	11	12	12	0	10
Refined Imp.(Raw Val)	98	98	68	68	0	30
TOTAL Imports	109	109	80	80	0	40
TOTAL SUPPLY	2331	2331	2319	2319	227	2337
Raw Exports	142	142	142	142	0	142
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	142	142	142	142	0	142
Human Dom. Consumption	1950	1950	1950	1980	0	2010
Other Disappearance	0	0	0	0	0	0
Total Disappearance	1950	1950	1950	1980	0	2010
Ending Stocks	239	239	227	197	0	185
TOTAL DISTRIBUTION	2331	2331	2319	2319	0	2337

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