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Report Name: Sugar MAV Importation and the Philippine WTO Obligation

Country: Philippines

Post: Manila

Report Category: Agriculture in the News, Sugar, Country/Regional FTA's, Trade Policy Incident Report, Trade Policy Monitoring, WTO Notifications

Prepared By: Florence Mojica-Sevilla

Approved By: Mark Hanzel

Report Highlights:

This report is being issued to correct and replace Report Number RP2023-0002. The text above Table 2 has been edited so that the data cited aligns with the data in the table. On December 22, 2022, the Department of Agriculture (DA) issued Memorandum Order 77 (MO 77) for the department to take action to stabilize sugar prices and evaluate the importation of 65,050 metric tons (MT) of refined sugar through the Minimum Access Volume (MAV) mechanism. Under the WTO, the Philippines agreed to a 50 percent tariff for import volumes up to MAV and 65 percent in excess of MAV. If the Philippines were to honor its commitments under the WTO and ASEAN, retail prices for imported sugar would be lower than current domestic prices by $128/MT (WTO) or $480/MT (ASEAN).

On December 22, 2022, the Department of Agriculture (DA) issued Memorandum Order 77 (MO 77) directing the immediate convening of the Minimum Access Volume (MAV) Advisory Council for the DA to take action to stabilize sugar prices. The DA MO 77 noted the 38 percent annual inflation increment for sugars, confectionery, and desserts and the President's concern regarding the very high inflation rate. The MAV Advisory Council is directed to evaluate the importation of 64,050 metric tons (MT) of refined sugar through the MAV mechanism to stabilize prices.

Background

Through its membership in the World Trade Organization, the Philippines bound itself to the implementation of a tariff-rate quota on sugar, wherein Most Favored Nation (MFN) trading partners are entitled to export 64,050 MT each year at an in-quota tariff of 50 percent. In addition, MFN trading partners are entitled to export unlimited volumes outside the MAV at an over-quota rate of 65 percent. MAV is made available through the issuance of a MAV Import Clearance (MAVIC). Importers who attain a MAVIC are entitled to customs-clear sugar at the in-quota rate.

The Philippines last made sugar available through the MAV system in 2002. On May 10, 2002, SRA issued SO 4, the rules and regulations on 56,933 MT imported raw sugar under the MAV for year 2002. A few months later, on July 5, 2002, SRA issued SO 7 or out-MAV importation of 50,000 MT at 65 percent tariff. This was the last and only year wherein the sugar MAV was used.

Additionally, through its preferential trade agreement with Association of Southeast Asian Nations (ASEAN), the Philippines agreed to allow sugar to enter at 5 percent duty. The Philippines may raise the 5 percent tariff to the MFN levels when imports from ASEAN sources to the concession of sugar reach a trigger level. In effect, the ASEAN concession shall be suspended when an import surge threatens domestic producers. Imports that enter under preferential trade agreements such as ASEAN do not count toward fulfillment of the Philippines' MFN obligation.

While global suppliers Australia and India also have preferential trade agreements with the Philippines, no preferential rates were agreed upon for sugar, and as such any sugar exports from those countries would enter through the MFN tariff-rate quota (TRQ).

In addition to the TRQ mechanism, importers of raw and refined sugar must secure an import clearance issued by the Sugar Regulatory Administration (SRA). Nowadays, the requirements for the issuance of the import clearance are already imbedded in the Sugar Order as identified in the recent SO 2 issued on September 13, 2022. Sugar Orders specify what kind of sugar is allowed to enter (raw or refined), the volume that is allowed to enter, the time period within which it is allowed to enter, who is eligible to import, and where it is allowed to be sold through the *quedan* system.

In the *quedan* system, sugar receiving an "A" *quedan* is only allowed to be exported to the United States, "B" *quedans* are only allowed to be sold domestically, "C" *quedans* are classified as reserved, which may subsequently be converted to either A or B as the need arises, and "D" *queadans* are only allowed to be exported to countries other than the United States.

If the Philippines were to honor its commitments under the WTO and ASEAN, retail sugar prices are estimated to decline by $480/MT from ASEAN and $128/MT, at 50 percent tariff or break-even at 65 percent tariff, if outside ASEAN.

Table 1. Sample Computation of Imported Refined Sugar under MFN and ASEAN

Particular	**In PhP**	**in US$**				
Exchange Rate	56.00	1.00				
Price Per MT	39,200.00	700.00				
Price per 50-kilogram bag	1,960.00	35.00				
	ASEAN (5%)		**MFN (50%)**		**MFN (65%)**	
PER 50-KILOGRAM BAG	**In PhP**	**In $**	**in PhP**	**In $**	**in PhP**	**In $**
Landed Cost	1,960.00	35.00	1,960.00	35.00	1,960.00	35.00
Tariff	98.00	1.75	980.00	17.50	1,274.00	22.75
Other Charges (Bank, etc)	2.45	0.04	2.45	0.04	2.45	0.04
Subtotal	2,060.45	36.79	2,942.45	52.54	3,236.45	57.79
VAT (12%)	247.25	4.42	353.09	6.31	388.37	6.94
Customs Fees, etc	80.00	1.43	80.00	1.43	80.00	1.43
SRA Clearance and fees	36.00	0.64	36.00	0.64	36.00	0.64
Warehousing, Transport & Handling	350.00	6.25	350.00	6.25	350.00	6.25
Estimated Cost	2,773.70	49.53	3,761.54	67.17	4,090.82	73.05
Traders Cost and Margin	380.00	6.79	380.00	6.79	380.00	6.79
Derived Wholesale Price Manila	3,153.70	56.32	4,141.54	73.96	4,470.82	79.84
Prevailing Wholesale Price Manila*	4,500.00	80.36	4,500.00	80.36	4,500.00	80.36
Price Difference (Local vs Imported)	1,346.30	24.04	358.46	6.40	29.18	0.52
Price Difference in S/MT		480.82		128.02		0.03

Note: * As of December 2022, SRA price monitoring.

In the past, the Philippines also designed special exceptions to take advantage of its economic opportunity to export to the United States. In 2021, the SRA issued Sugar Order Number 3 (SO 3) or the "A" sugar export replenishment program. Under this program, exporters of "A" sugar were granted the right to import the same volume at a ratio of 1:1 for raw sugar and 1:0.925 for refined sugar. The sugar replenishment program is done to replenish the volume of sugar exported to the United States and restore domestic supply of sugar with higher valued refined sugar. Using the same assumptions, the Philippines could have earned an estimated PhP 2.4 billion or U.S. $43.2 million from the sugar replenishment program.

Table 2. Sample Computation of Potential Earnings/Saving from the Sugar Replenishment Program

Particular	In PhP	In $
US Quota (FY 2023)		
In metric tons	145,235	145,235
In 50-kilogram bag (LKG)	2,904,700	2,904,700
Estimated export price	3,750	67
Export Value	10,892,625,000	194,511,161
Sugar Replenishment Program		
Equivalent refined sugar (LKG)	2,686,848	2,686,848
Derived wholesale price Manila from ASEAN	3,154	56
Import Value	8,473,510,961	151,312,696
Net Economic Value of U.S. TRQ	2,419,114,039	43,198,465

Attachments:

No Attachments.