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Date:
GAIN Report Number:

Philippines

Sugar Annual

Philippine Sugar Situation and Outlook

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Report Highlights:
Philippine sugar production is projected to reach 2.3 MMT this year, up significantly from the initial forecast of 1.88 MMT. Domestic sugar production will likely remain at the same level in 2011/12. There is no growth in sugar consumption expected this year due some shift to sugar substitutes, according to the domestic industry. Local sugar prices have softened from record highs reached in December/ January due to significantly higher sugar production achieved. The Philippine Department of Agriculture's Sugar Regulatory Authority announced that the Philippines will be able to meet the latest increase of 60,000 MT in U.S. sugar tariff rate quota allocations and that there is no need to import any sugar this crop year.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

According to the latest production estimates released by the Philippine Sugar Regulatory Administration (SRA), Crop Year 2010/11 (September/August) raw sugar production is projected to reach 2.3 MMT up significantly from an initial forecast of 1.88 MMT earlier this year. The increase was due to a price driven expansion in area planted coupled with favorable weather conditions. The SRA estimates, sugarcane production in 2010/11 will reach 22.7 MMT. Domestic sugar production in 2011/12 will likely remain at the same level.

Sugarcane production in 2009/10 went down by as much as 11 percent due to a prolonged dry spell, particularly in the Luzon provinces of Tarlac, Nueva Ecija and Batangas. There were also reports of a shortage in planting materials (e.g., cane setts or settlings) last year. Erratic weather conditions, i.e., two successive years of La Niña followed by several months of El Niño, contributed to the downtrend in sugar production over the last three years, from a high of 2.46 MMT in 2007/08 to 1.97 MMT last year).

RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED September/August 2008-11			
	2008/09	**2009/10**	**2010/11**
RAW SUGAR PRODUCTION (MT)	**2,100,048**	**1,970,000**	**2,000,000**
SUGARCANE MILLED (MT)	21,611,068	19,227,028	22,700,00
TOTAL AREA PLANTED (HAS)	392,567	385,622	390,000

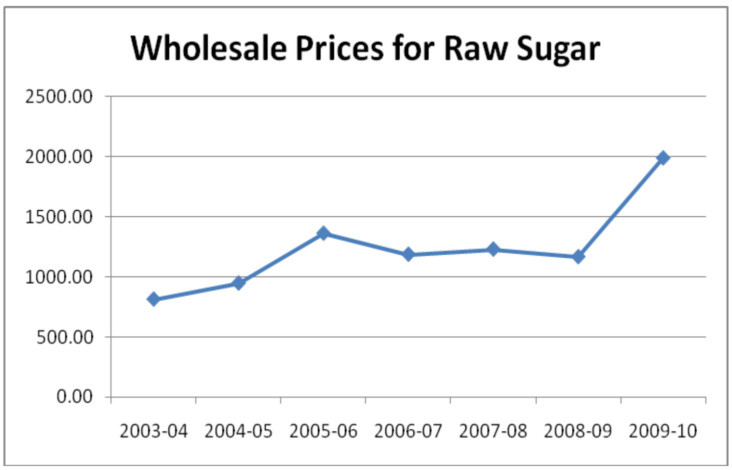
Source: Philippine Sugar Regulatory Administration
2008/09 and 2009/10-final and 2010/11-preliminary estimates

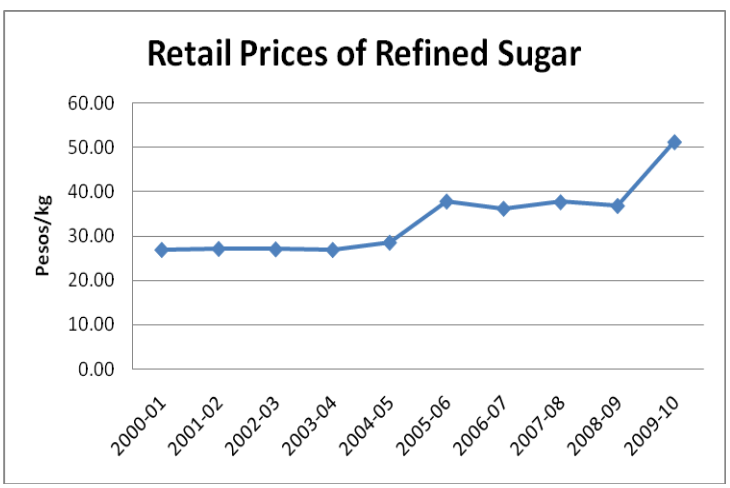
The island of Negros still continues to account for a majority (57%) of total domestic sugar production. Luzon produced 14 percent; Mindanao, 19 percent; Panay, 6 percent; and Eastern Visayas, 4 percent. Total domestic sugar production comes primarily from four major sugar planter federations and three 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 SRA, there are about 59,600 sugarcane farmers in the country. Of these 79 percent have landholdings less than 5 hectares in size; less than one percent have farms greater than 100 hectares. Sugarcane being a plantation crop and as a result of size efficiencies, farm holdings of more than 100 hectares have an average productivity of 7.34 MT/ha, while smaller farms of less than 5 hectares have an average productivity of 5.03 MT/ha. Philippine land reform policies have prevented consolidation of farm sizes and thus prevented many farms from achieving greater efficiencies.

While there is no formal trade in sugarcane due to the unique “quedan” system (a quedan is a warehouse receipt attesting to the presence of the sugar in a facility, see Marketing Section) in the Philippines, industry sources report that in April 2011 a metric ton of sugarcane sold for about P2,350. In CY 2009/10, the average mill site price per 50-kg bag of “A” raw sugar was P1,281.31 for the U.S. market; P1,587.80 for "B" raw sugar for the domestic market; P1,420.73 for “C” sugar; P1,130.79 for “D” sugar; the average composite price was P1,554.25.

Domestic sugar prices began rising significantly in mid-2010 to a record high of P3,084.31/ 50 kg bag for wholesale refined sugar in December. According to SRA, the spike of domestic sugar prices was fueled by the escalation of world market prices and a delay in the start of milling season. Prices have retreated steadily in the first four months of 2011, though retail prices remained steady due to the lifting of the government imposed Suggested Retail Price program for refined sugar (see Policy Section). Industry sources expect prices to remain soft for the remainder of 2011 through next year, though stay above 2010 levels with global fuel and ethanol prices projected to remain strong.





Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

RAW AND REFINED SUGAR PRICES				
	Raw Sugar		Refined Sugar	
	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/ per Kg.)
CY 2009/10				
September	1,331.50	30.35	1,742.28	37.61
October	1,411.20	30.48	1,847.32	38.16
November	1,444.22	30.90	1,932.86	39.15
December	1,541.51	33.67	2,095.47	43.82
January	1,871.45	37.84	2,393.73	46.65
February	1,973.80	43.87	2,492.44	52.84
March	1,805.00	44.42	2,193.34	52.80
April	1,825.34	44.13	2,227.08	52.06
May	1,801.75	43.92	2,236.46	51.34
June	2,055.37	44.09	2,534.82	51.26
July	2,217.44	46.25	2,614.30	52.18
August	2,375.42	50.26	2,721.63	54.33
Average	1,807.46	40.03	2,239.07	47.70
CY 2010/11				
September	2,332.08	51.18	2,603.67	55.17
October	2,490.43	51.91	2,756.94	54.70
November	2,533.92	54.32	2,940.74	57.52
December	2,571.81	57.43	3,084.31	62.84
January	2,500.67	58.69	3,039.21	65.01
February	2,375.57	59.07	2,870.08	65.54
March	2,095.68	56.93	2,583.94	63.53
April	1,978.70	55.23	2,503.68	61.93
May	1,818.79	53.26	2,315.29	60.04
June	1,590.63	51.29	2,060.00	58.23

Source: Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates from 2008-11 follows:

Exchange Rate	**2008**	**2009**	**2010**	**2011**
US$=PhP	44.47	47.64	45.11	43.24

Source: Bangko Sentral ng Pilipinas
Note: 2011 exchange rate as of June 8, 2011

Monthly Molasses Prices at millsite for CY2009/10 through 2010/11 follows:

MOLASSES PRICES (Pesos/MT)	
CY 2009/10	
September	6,106.88
October	6,479.59
November	6,027.32
December	6,075.09
January	7,116.27
February	7,378.36
March	7,723.11
April	8,257.23
May	8,716.50
June	8,790.00
July	-
August	-
AVERAGE	7,274.21
CY 2010/11	
September	8,773.75
October	9,059.61
November	9,169.23
December	7,522.23
January	6,799.42
February	6,552.68
March	5,411.88
February	6,552.68
March	5,411.88
April	4,363.28
May	2,875.25

Source: Sugar Regulatory Administration

Consumption:

According to a 2008 study by the University of Asia and the Pacific, the users of sugar are local consumers and the export market. Local consumers consist of industrial users, which account for 50 percent of domestic consumption; household users, 32 percent; and institutions (e.g., restaurants, bakeshops, hospital etc.), 18 percent. The export market is almost exclusively the United States, which generally pays a premium price (i.e., higher than the world market price). Exports to countries other than the United States are priced lower that domestic sugar and generally only resorted to during years of surplus production.

Domestic sugar consumption has been traditionally measured by monitoring sugar withdrawals from the mills, which are the main holders of stocks. According to SRA data, total domestic sugar withdrawal was 1.95 MMT last year. Domestic sugar withdrawals for CY 2010/11 will likely roughly remain at the same levels. Philippine sugar producers have reported some shift in usage from cane sugar to other sweeteners (i.e., high fructose corn syrup, premixes, etc.) by some industrial users. As a result, the local sugar industry has petitioned the Bureau of Customs to classify premixes as sugar. The industry claims that a majority of the premixes coming into the country from Thailand are 99.3 percent sugar with additional flavorings.

DOMESTIC RAW SUGAR WITHDRAWALS 2008-11 (in MT)			
MONTH	**2008/09**	**2009/10**	**2010/11**
September	69,703	80,328	35,608
October	83,258	121,813	69,881
November	142,452	194,540	86,266
December	112,293	178,355	124,984
January	148,737	263,482	167,546
February	186,364	180,819	205,651
March	236,164	205,329	210,924
April	159,439	210,948	202,628
May	251,557	222,822	155,508
June	221,045	123,106	
July	137,107	86,414	
August	138,347	59,978	
Adjustments		15,509	
TOTAL	**1,886,446**	**1,943,443**	

Source: Philippine Sugar Regulatory Administration

Trade:

The Philippines is committed to export a total of 202,160 metric tons raw value (MTRV) of raw sugar to the United States this current crop year under the U.S. sugar tariff-rate-quota program. This includes the additional 60,000 MTRV additional quota announced in April 2011 by the U.S. Trade Representative. The Philippines previously announced that it will not be exporting sugar to any market this year other than the United States. However, as a result of surplus sugar production achieved this year, the SRA said in June 2011, that it is now studying the possibility of exporting to the world market.

According to SRA, the Philippines is not expected to import any sugar for the remainder of the crop year due to a projected increase in sugar production. Industry sources, however, report that smuggling of refined sugar, estimated at about 150-300 TMT, have somewhat contributed to the sluggish consumption/withdrawal levels of sugar in the market.

Majority of Philippine sugar imports, sourced mainly from Thailand, have been under the Philippine Government's Tax Export Subsidy (TES) Program, which authorizes trading companies to bring in duty free the allocated volume of sugar.

In December 2009, Executive Order No. 850 was signed lowering the Common Effective Preferential Tariff Rates for ASEAN (Association of Southeast Asian Nation) member countries to 0-5 percent. Executive Order No. 851 was also signed in December 2009 implementing the tariff reductions under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) tariff reduction program. AANZFTA tariffs for sugar were reduced to between 0-5 percent in January 2010.

In the WTO, the Philippines committed to a final 10th-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. MFN tariffs have not changed since 2005. Tariff rates follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2011	
			M F N	C E P T [1]
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:		
	1701.99	-- 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

Source: Philippine Tariff & Customs Code

Executive Order No. 850 (2009) for AFTA-CEPT Tariff Rates

[1] ASEAN Common Effective Preferential Tariff

Executive Order No.892 was issued on June 17, 2010 modifying the import duty on sugar products in order to provide special consideration for sugar under the Common Effective Preferential Tariff program of the ASEAN Free Trade Agreement (AFTA). As a result, tariff reductions for sugar under AFTA to be implemented starting in 2010 have been delayed for another 5 years.

PHILIPPINES COMMITMENT ON SUGAR PRODUCTS THROUGH THE INVOCATION OF THE PROTOCOL TO PROVIDE SPECIAL CONSIDERATION FOR RICE AND SUGAR UNDER THE COMMON EFFECTIVE PREFERENTIAL TARIFF SCHEME FOR THE ASEAN FREE TRADE AREA (CEPT-AFTA)/ASEAN TRADE IN GOODS AGREEMENT (ATIGA)

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)					
				Starting 01 January				
			2010	2011	2012	2013	2014	2015
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
17.01		**Cane or beet sugar and chemically pure sucrose, in solid form.**						
		Raw sugar not containing added flavouring or colouring matter:						
	1701.11.00	- - Cane sugar:						
	1701.11.00A	- - - In-Quota	38	38	28	18	10	5
	1701.11.00B	- - - Out-Quota	38	38	28	18	10	5
	1701.12.00	- - Beet sugar:						
	1701.12.00A	- - - In-Quota	38	38	28	18	10	5
	1701.12.00B	- - - Out-Quota	38	38	28	18	10	5
	1701.99	- - Other:						
		- - - Refined sugar:						
	1701.99.11	- - - - White:						
	1701.99.11A	Containing over 65% by dry weight of sugar, In-Quota	38	38	28	18	10	5
	1701.99.11B	Containing over 65% by dry weight of sugar, Out-Quota	38	38	28	18	10	5
	1701.99.11C	- - - - - Other, In-Quota	38	38	28	18	10	5
	1701.99.11D	- - - - - Other, Out-Quota	38	38	28	18	10	5
	1701.99.19	- - - - Other:						
	1701.99.19A	Containing over 65% by dry weight of sugar, In-Quota	38	38	28	18	10	5
	1701.99.19B	Containing over 65% by dry weight of sugar, Out-Quota	38	38	28	18	10	5
	1701.99.19C	- - - - - Other, In-Quota	38	38	28	18	10	5
	1701.99.19D	- - - - - Other, Out-Quota	38	38	28	18	10	5
	1701.99.90	- - - Other:						
	1701.99.90A	- - - - In-Quota	38	38	28	18	10	5
	1701.99.90B	- - - - Out-Quota	38	38	28	18	10	5

Source: Executive Order 892 (2010)

Policy:

Suggested Reference Price: On December 1, 2010, the National Price Coordinating Council lifted the suggested reference price (SRP) of sugar. This developed after retailers, citing their own purchase price of P65, threatened to pull out their sugar from the shelves if the P56.00 per kilo of refined sugar were enforced.

Sugar Orders: During the start of each crop year, the SRA issues Sugar Order No. 1 (SO No. 1) which establishes the production and marketing policies for sugar. On September 2010, SO No.1 (2008) was issued which estimated initial raw sugar production to reach 1.88 MMT, about 93 percent was earmarked for the domestic market and 7 percent for export to the U.S. market. The SRA Sugar Orders may be obtained from:

http://www.sra.gov.ph/policy_so.html

Bio-fuels Law: 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 blend of 5% bio-ethanol starting in 2009, increasing to 10% by 2011, with the approval of the National Biofuels Board. Similarly, the law requires a 2% bio-diesel blend since 2009. According to a Philippine Ethanol Alliance Study, an additional 2.3 MMT of sugarcane and 21,200 hectares of new land will be needed to produce the estimated 160 million liters of ethanol needed to meet the 5 percent blend mandate for ethanol in the first year alone. Unlike biodiesel, which already has an ample domestic supply, ethanol is still being imported by oil companies from Brazil, Thailand and India. (see FAS Manila Biofuels Report, GAIN RP2011,)

Marketing:

Most sugar in the Philippines is produced and marketed under the long established "quedan" system. The marketing system in the Philippine sugar industry is already established. In this sharing arrangement, the sugarcane planter allocates 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 mill issues warehouse receipt, called a *quedan*, to the farmer representing his share of the sugar. The warehouse receipt attests to the physical presence of the sugar in the storage facility. 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 DA)
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 classified as B sugar.

Because it is a negotiable instrument and the bearer may use it to withdraw his stocks at any time, 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 wholesalers, distributors, or processors. The processors use the sugar as an input for food and beverage 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 (mom-and-pop) stores.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Philippines	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Sep 2009		Market Year Begin: Sep 2010		Market Year Begin: Sep 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	322	322	394	394	392	492
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,000	2,000	2,200	2,300	2,100	2,300
Total Sugar Production	2,000	2,000	2,200	2,300	2,100	2,300
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	250	250	0	0	0	0
Total Imports	250	250	0	0	0	0
Total Supply	2,572	2,572	2,594	2,694	2,492	2,792
Raw Exports	178	178	202	202	142	142
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	178	178	202	202	142	142
Human Dom. Consumption	2,000	2,000	2,000	2,000	2,000	2,000
Other Disappearance	0	0	0	0	0	0
Total Use	2,000	2,000	2,000	2,000	2,000	2,000
Ending Stocks	394	394	392	492	350	650
Total Distribution	2,572	2,572	2,594	2,694	2,492	2,792
1000 MT						

Sugar Cane for Centrifugal Philippines	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Sep 2009		Market Year Begin: Sep 2010		Market Year Begin: Sep 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	404	395	404	395		395
Area Harvested	400	390	400	390		390
Production	19,500	19,500	20,500	22,500		22,500
Total Supply	19,500	19,500	20,500	22,500		22,500
Utilization for Sugar	19,500	19,500	20,500	22,500		22,500
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	19,500	19,500	20,500	22,500		22,500
1000 HA, 1000 MT						