

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 4/11/2017

GAIN Report Number: RP1705

Philippines

Sugar Annual

Situation and Outlook

Approved By:

Jeffrey Albanese

Prepared By:

Pia A. Ang

Report Highlights:

Market Year (MY) 2016/17 raw sugar production may increase to 2.25 million metric tons (MMT) from 2.135 MMT in MY 2015/16 with a return to more normal weather conditions after a prolonged period of drought and a slight increase in sugarcane area planted. Industry expects demand for sugar and sugar substitutes to continue rising due to a rapidly developing food processing industry and a growing population. However, Sugar Regulatory Administration (SRA) data shows that domestic sugar withdrawals for MY2016/17 have slowed down as beverage manufacturers have been purchasing less local sugar and increasing use of lower-priced sugar substitutes like high-fructose corn syrup (HFCS), which have pushed down wholesale sugar prices. Post estimates that raw sugar exports for MY 2016/17 will be about 140,000 MT, most of which will go to the United States.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:

According to SRA data, raw sugar production in Market Year (MY) 2015/16 (December/November) reached 2.135 MMT, down slightly from 2.148 MMT the previous year. The drop in production was mainly due to the dry weather conditions experienced in the first half of 2016, which resulted in a delayed start of the milling season, particularly in Mindanao. Traditionally, peak sugar milling season is in November and December. However, the below table illustrates a shift towards January and February as the peak.

MONTHLY RAW SUGAR PRODUCTION (Metric Tons)			
	2014/15	2015/16	2016/17*
December	281,589	305,998	254,142
January	334,084	487,342	345,500
February	401,959	414,241	391,748
March	445,518	310,197	
April	198,830	192,698	
May	63,238	94,792	
June	4,484	19,506	
July	316	791	
August	7,319	2,854	
September	51,372	20,856	
October	116,333	127,204	
November	242,748	158,404	
TOTAL	2,147,790	2,134,883	

Source: Sugar Regulatory Administration

*December 2016 to March 2017 only.

Note: In 2013, USDA revised the official Marketing Year from September/August to December/November

Post forecasts MY 2016/17 raw sugar output to reach 2.25 MMT as experts foresee a return to traditional production levels with a return to more normal weather conditions after a period of prolonged drought. Industry contacts report increasing difficulty in finding farm labor to harvest the cane which may affect the actual amount of cane harvested. MY 2017/18 raw sugar production is expected to increase only slightly to 2.30 MMT, as a result of the tightening labor supply.

Crop Year (CY) 2016/17 (September-August) sugarcane production area increased to 419,000 thousand hectares (from 412 thousand hectares the previous year), with cane production reaching 23.50 MMT.

RAW SUGAR & SUGARCANE PRODUCTION, AREA PLANTED Crop Year September/August			
	2014/15	2015/16	2016/17*
RAW SUGAR PRODUCTION (MT)	2,323,817	2,238,872	2,250,000
SUGARCANE MILLED (MT)	23,383,519	23,254,083	23,500,000
TOTAL AREA PLANTED (HAS)	416,893	411,502	419,207

Source: Philippine Sugar Regulatory Administration- 2014/15; 2015/16 final; and 2016/17 preliminary SRA and Post estimates

The island of Negros continues to account for 57 percent of domestic sugar production; followed by Luzon with 14 percent; Mindanao, 19 percent; Panay, 6 percent; and Eastern Visayas, 4 percent. Roughly 90 percent of total Philippine production comes primarily from four major sugar planter federations and three major miller associations. There are about 24 sugar mills, running at about 60% capacity and 11 sugar refiners at about 73 percent capacity utilization.

According to SRA, there are about 65,000 sugarcane farmers in the country and increasing due to the Comprehensive Agrarian Reform Program. Of these, 80 percent have landholdings less than five hectares in size and less than 1 percent have farms greater than 100 hectares. Being a plantation crop, farms 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.

According to SRA, the sugar industry contributes about P87 billion to the national economy, with more than 700,000 workers and 5 million of their dependents.

In MY 2015/16, the average millsite price of “A” raw sugar for the U.S. market was P1,100/50-kg bag. No “D” raw sugar for the world market was allocated for that year. The national average mill site price for “B” raw sugar for the domestic market was P1,773/50-kg bag. The average composite price for all three was P1,761/bag.

Domestic “B” sugar prices have dropped from a high of P1,849 in April 2016 to P1,360 in March 2017. Sugar producers blame the influx of HFCS and other sugar substitutes which they claim have displaced the use of sugar particularly in beverage and soft drinks manufacturing.

Philippine Millsite Prices (Pesos)				
MY 2015/16	"A" US Quota	"B" Domestic	"D" World	Composite Price
December	-	1,821	-	1,821
January	-	1,846	-	1,846
February	-	1,828	-	1,828
March	-	1,844	-	1,844
April	-	1,849	-	1,849
May	-	1,799	-	1,799
June	-	1,718	-	1,718
July	-	1,645	-	1,645
August	-	1,805	-	1,805
September	976	1,785	-	1,720
October	1,083	1,653	-	1,607
November	1,240	1,680	-	1,645
Average	1,100	1,773		1,761
MY 2016/17				
December	1,253	1,546	-	1,523
January	1,258	1,538	-	1,517
February	1,319	1,470	-	1,461
March	1,345	1,360		1,358

Source: Philippine Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates follows:

Exchange Rate	2015	2016	March 2017
US\$=PhP	45.50	47.49	50.27

Source: Bangko Sentral ng Pilipinas

Monthly Molasses Prices at millsite have also declined:

MOLASSES PRICES (Pesos/MT)

MY 2015/16	
December	8,484
January	9,631
February	9,128
March	8,232
April	8,796
May	9,166
June	9,182
July	9,164
August	9,020
September	9,900
October	10,153
November	10,189
MY 2016/17	
December	9,428
January	9,079
February	8,658
March	7,974

Source: Sugar Regulatory Administration

Consumption:

In the Philippines, consumption is typically measured by monitoring sugar withdrawals from the mills by traders and industrial users (as mills are the main holders of the country's stocks).

According to the SRA, MY 2015/16 withdrawals remained relatively flat at 2.140 MMT. Consumption is expected to rise through MY 2017/18, although at a slower rate due to a displacement of local sugar with other lower-priced sugar substitutes, specifically HFCS, which is being used by soft drink manufacturers. Higher local sugar prices have contributed to this shift from cane sugar to HFCS.

Consumption of cane sugar should rise to 2.20 MMT in MY 2016/17, if anticipated restrictions on the importation of HFCS are implemented or if prices of domestic sugar drop to lower levels. The Philippine Department of Agriculture (DA) and beverage manufacturers have agreed on a phase-in period for the new HFCS guidelines for the release of imported HFCS in to the market. The SRA has also announced the reclassification of domestic "B" sugar as world "D" sugar to be purchased at lower

world market prices (See Policy Section). Demand for sugar and/or sugar substitutes are expected to continue rising due to an expanding food processing and beverage manufacturing sector and a growing population.

DOMESTIC RAW SUGAR WITHDRAWALS (in Metric Tons)			
MONTH	2014/15	2015/16	2016/17
December	178,726	142,395	254,142
January	194,133	268,522	345,500
February	194,721	288,358	391,748
March	330,341	219,244	
April	343,668	167,077	
May	223,619	225,027	
June	194,450	190,784	
July	66,970	210,836	
August	86,135	108,476	
September	83,765	79,753	
October	99,589	121,623	
November	155,903	121,505	
TOTAL	2,152,020	2,143,600	

Source: Philippine Sugar Regulatory Administration

About 80 percent of all sugar produced in the Philippines is consumed locally. Roughly 50 percent of domestic consumption is accounted for by industrial users, 32 percent by households and the remaining 18 percent by institutions (e.g., restaurants, bakeshops, and hospitals).

The largest Philippine sugar export market is the United States, as prices under the U.S. tariff rate quota system are normally higher than world market prices.

Wholesale prices of raw and refined sugar in Metro Manila have dropped since 2015/16, but retail prices of raw and refined sugar have remained relatively stable, and have not made a corresponding downward adjustment.

RAW AND REFINED SUGAR PRICES				
	Raw Sugar		Refined Sugar	
	Wholesale Price	Retail Price	Wholesale Price	Retail Price

MY 2015/16	(Pesos/per 50 Kg. Bag)	(Pesos/per Kg.)	(Pesos/per 50 Kg. Bag)	(Pesos/per Kg.)
December	1,950	49.00	2,500	55.00
January	2,020	47.00	2,580	55.00
February	2,040	50.00	2,600	56.00
March	2,020	50.00	2,580	56.00
April	2,020	50.00	2,580	56.00
May	2,020	50.00	2,580	56.00
June	2,000	50.00	2,400	56.00
July	2,000	50.00	2,400	56.00
August	1,950	48.50	2,300	56.00
September	1,950	49.00	2,400	56.00
October	1,950	49.00	2,350	56.00
November	1,900	49.00	2,300	56.00
MY 2016/17				
December	1,850	49.00	2,300	56.00
January	1,700	49.00	2,300	56.00
February	1,700	48.00	2,225	56.00
March	1,700	48.00	2,100	56.00

Source: Philippine Sugar Regulatory Administration

Trade:

Despite domestic prices being well above world prices most years, the Philippines typically exports sugar as a way to support local producers (see Policy Section). Actual total raw sugar exports for MY 2015/16 reached 168,000, mainly to the United States. Fiscal Year (FY) 2016/17 Tariff Rate Quota (TRQ) to the United States is set at 142,160 MT Raw Value (136,201 MT Commercial Weight).

Raw and refined sugar imports for MY 2015/16 reached 230,000 MT, mainly due to an export replacement program, which allowed traders to import 125 percent of the volume of sugar it exported to the United States. MY 2016/17 sugar imports are expected to decrease significantly to about 100,000 MT due to increased production and an ample domestic supply of sugar due to slow withdrawals.

The Philippines had long maintained high tariffs on raw and refined sugar imports. Executive Order No. 892 reduced tariffs in the ASEAN Free Trade Area (AFTA) from 38 percent in 2010 to the current 5 percent which started in 2015 (see table below). This reduction in AFTA tariffs is expected to lower Philippine sugar production and trade, as other ASEAN producers, particularly Thailand, have lower production costs. Despite the drop in AFTA duties, there are still multiple administrative barriers that are in place to restrict imports.

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)				
			2011	2012	2013	2014	2015+
17.01		Cane or beet sugar and chemically pure sucrose, in solid form.					

		- Raw sugar not containing added flavoring or coloring matter:					
	1701.11.00	-- Cane sugar:					
	1701.11.00A	--- In-Quota	38	28	18	10	5
	1701.11.00B	--- Out-Quota	38	28	18	10	5
	1701.12.00	-- Beet sugar:					
	1701.12.00A	--- In-Quota	38	28	18	10	5
	1701.12.00B	--- Out-Quota	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	28	18	10	5
	1701.99.11B	----- Containing over 65% by dry weight of sugar, Out-Quota	38	28	18	10	5
	1701.99.11C	----- Other, In-Quota	38	28	18	10	5
	1701.99.11D	----- Other, Out-Quota	38	28	18	10	5
	1701.99.19	---- Other:					
	1701.99.19A	----- Containing over 65% by dry weight of sugar, In-Quota	38	28	18	10	5
	1701.99.19B	----- Containing over 65% by dry weight of sugar, Out-Quota	38	28	18	10	5
	1701.99.19C	----- Other, In-Quota	38	28	18	10	5
	1701.99.19D	----- Other, Out-Quota	38	28	18	10	5
	1701.99.90	--- Other:					
	1701.99.90A	---- In-Quota	38	28	18	10	5
	1701.99.90B	---- Out-Quota	38	28	18	10	5

Source: Executive Order 892 (2010)

For non-AFTA countries, under the Uruguay Round of the World Trade Organization (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 50 percent. All importation in excess of the MAV is subject to a tariff rate of 65 percent. The tariff on sugar is among the highest of all agricultural commodities (which essentially blocks all imports under this agreement). These Most Favored Nation (MFN) tariffs have not changed since 2005. Tariff rates follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	M F N
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
		--- Out-of-quota	65
	1701.12	-- Beet sugar	
		--- In-quota	50
		--- Out-of-quota	50
		- Other:	
	1701.99	-- Other:	
		--- Refined sugar	
	1701.99.11	---- White	
		---- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.19	---- Other	
		----- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.90	---- Other	
		----- In-quota	50
		----- Out-of-quota	65

Source: Philippine Tariff & Customs Code

Policy:

Philippine sugar policy is generally controlled by the SRA, working closely with various influential industry stakeholders. Trade and domestic prices are largely governed by the SRA. During the start of each crop year, the SRA issues a central policy (known as Sugar Order No. 1) on production and marketing of sugar for the country, which allocates how much production goes to the domestic and export markets as well as for reserves. These orders are adjusted as the season progresses. A running history of SRA sugar orders may be obtained from: http://www.sra.gov.ph/policy/#_sugar_order

Sugar Order No. 1-B: SRA has issued several sugar orders which reallocates the distribution of sugar produced. The latest sugar order issued on March 20, allocated 20 percent for the world market and reduced the domestic market allocation from 94 percent to 74 percent. According to SRA, World Market “D” sugar will be made available to sugar based food processors and manufacturers (to be purchased at lower world market prices) in order to stimulate local sugar demand. Sugar allocated for the U.S. market remained unchanged at 6 percent of total raw sugar production.

<http://www.sra.gov.ph/wp-content/uploads/2017/03/2016-2017-SO1-B-AMENDING-SO1-A-S2016-2017.pdf>

Sugar Order No. 3: On February 20, the SRA issued Sugar Order No. 3 (SO No. 3), or the “Guidelines on the Issuance of Clearance for Release of Imported High Fructose Corn Syrup (HFCS) and Chemically Pure Fructose. According to SRA, SO No. 3 was issued due to expanding HFCS imports into the Philippines that have disrupted the domestic market for sugar. Sugar Order No. 3-A was subsequently issued with revised the guidelines, lowering the clearance fees and easing the requirements.

<http://www.sra.gov.ph/wp-content/uploads/2017/03/2016-2017-SO3-A-AMENDMENT-TO-SO3-S2016-2017.pdf>

Sugar Order No. 4: Advance Swapping of Crop Year 2016/17 Domestic Sugar to U.S. Market Sugar. According to SRA, the SO was issued in order to encourage the early shipment of Sugar allocated for export to the U.S. market under the tariff rate quota program and to help ease the pressure of high sugar stock inventory and stabilize domestic prices.

<http://www.sra.gov.ph/wp-content/uploads/2017/03/2016-2017-SO4-ADVANCE-SWAPPING-OF-CY2016-20171.pdf>

Marketing:

Most sugar in the Philippines is produced and marketed under the long established “quedan” system. In this sharing arrangement, the sugarcane planter allocates a percentage of the output (30-35 percent) of his sugar to the mill in payment for the processing of the cane. As soon as the sugar is processed, the mill issues a warehouse receipt, called a *quedan*, to the farmer representing his share of the sugar (65-70 percent). 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

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 initially assigned to planters. The “A” sugar is based on the volume of the quota allocated to the Philippines under the U.S. TRQ system 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 the *quedan* is a negotiable instrument and the bearer may use it to withdraw sugar stocks at any time, there is a thriving secondary market in the sale of these certificates. 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 who withdraw sugar from the mills. 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 Market Begin Year Philippines	2015/2016		2016/2017		2017/2018	
	Dec 2015		Dec 2016		Dec 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	997	997	957	1054	0	1064
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2100	2135	2250	2250	0	2300
Total Sugar Production	2100	2135	2250	2250	0	2300
Raw Imports	0	55	0	0	0	0
Refined Imp.(Raw Val)	200	175	100	100	0	100
Total Imports	200	230	100	100	0	100
Total Supply	3297	3362	3307	3404	0	3464
Raw Exports	140	168	150	140	0	150
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	140	168	150	140	0	150
Human Dom. Consumption	2200	2140	2250	2200	0	2250
Other Disappearance	0	0	0	0	0	0
Total Use	2200	2140	2250	2200	0	2250
Ending Stocks	957	1054	907	1064	0	1064
Total Distribution	3297	3362	3307	3404	0	3464

(1000 MT)

[illegible]