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Philippines

Sugar Annual

Situation and Outlook

Approved By:

Ryan Bedford

Prepared By:

Pia A. Ang

Report Highlights:

Market Year (MY) 2019/20 sugar consumption is forecast to increase marginally to 2.3 million metric tons (MMT), following a flat 2018/19 when sugar sweetened beverage consumption slowed due to higher taxes. MY 2018/19 raw sugar production is expected to drop to 2.10 MMT due to a contraction in growing area and unfavorable weather conditions. Raw sugar imports in MY 2018/19 will reach almost 200,000 MT to augment the shortfall in production expected. Exports of “A” sugar to the U.S. market will be about 120,000 MT or roughly 20,000 MT less than what the U.S. quota allocated to the Philippines.

Commodities:

Sugar, Centrifugal
Sugar Cane for Centrifugal

Production:

Philippine raw sugar output in Market Year (MY) 2018/19 (December/November) was adjusted downwards from 2.225 MMT to 2.1 MMT. This is partly due to unfavorable weather conditions in some sugarcane-producing areas resulting in reduced tonnage but with higher yield/purity.

The contraction in sugarcane areas in CY2018/19 as reported by the Sugar Regulatory Administration (SRA) also contributed to the production decline. Farm productivity (measured by the quantity of cane output per unit area) significantly decreased to 58 Tons Cane/Hectare (TC/Ha) in 2017/18 compared to the record 66 TC/Ha from the previous year, while yield improved from 1.75 50-kg bags/TC to 1.89 50-kg bags/TC. Although the milling season for crop year (CY) 2018/19 may end somewhat earlier than expected due to a lack of cane, industry contacts believe that the Philippines will still hit its lower production estimate of 2.08 MMT. Weather conditions, in particular the amount and timing of rainfall, strongly affect sugarcane output since about 80 percent of all sugarcane fields are rain-fed and have no irrigation.

MY 2019/20 raw sugar production is forecast to recover to 2.20 MMT, although current dry conditions caused by El Niño (particularly during the planting stage) may affect sugarcane production next crop year. Sugar producers also remain cautious about the impact of the deregulation of the sugar industry being studied by the government.

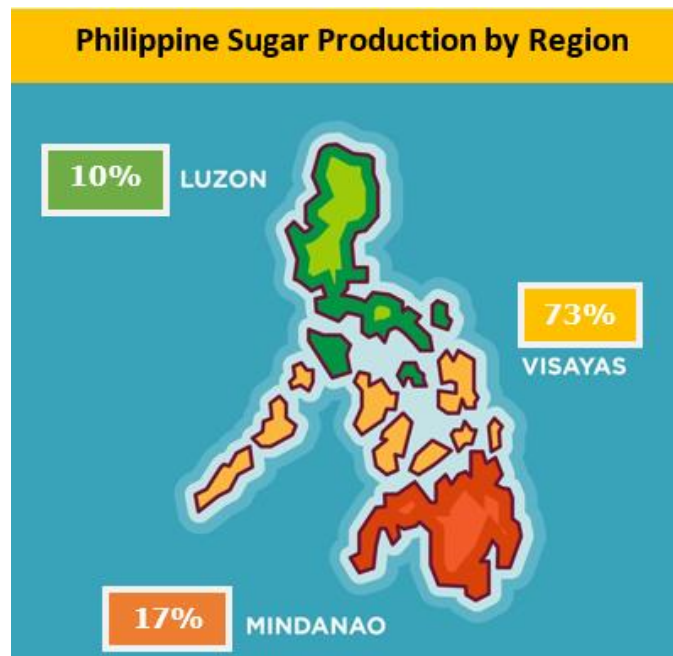
MONTHLY RAW SUGAR PRODUCTION (Metric Tons)			
	2016/17	2017/18	2018/19
December	254,142	303,101	324,958
January	345,500	256,336	222,386
February	391,748	77,292	303,232
March	399,240	316,825	
April	387,838	314,370	
May	248,421	365,901	
June	128,233	148,425	
July	38,262	48,258	
August	661	12,914	
September	11,692	54,775	
October	125,175	125,271	

November	180,585	183,360	
TOTAL	2,511,497	2,206,828	

Source: Sugar Regulatory Administration

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

MY 2018/19 sugarcane production area dropped slightly to 415,000 hectares from 418,000 hectares the previous year. Cane production is also expected to decline to 23 MMT due to poor weather conditions and smaller planting area reported.



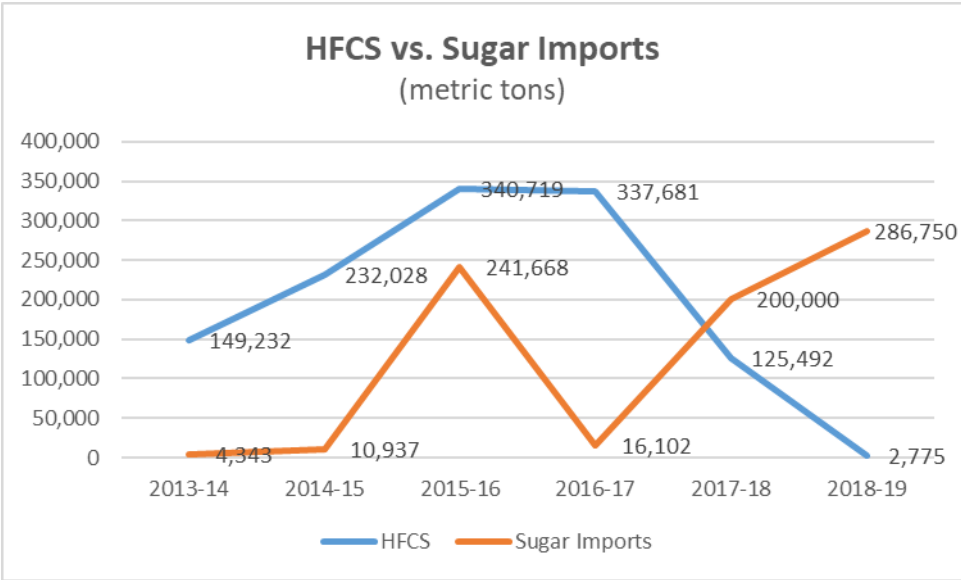
The Visayas accounts for 73 percent of domestic sugar production, with Negros Island alone contributing 64 percent of total output. This is followed by Mindanao at 17 percent and Luzon at 10 percent. Luzon’s share is down from 15 percent the previous year due to land conversion and a shift in crops planted. Roughly 90 percent of total Philippine production comes from four sugar planter federations and three miller associations. There are 27 sugar mills and 8 sugar refiners in the country. There are 7 mills in Luzon, 12 in Negros Island, 3 in Panay, 2 in Eastern Visayas, and 4 in Mindanao.

The sugarcane industry is also an important player in the production of bioethanol. There are currently 12 operating bioethanol distilleries and 6 power-generating plants. The Biofuels Act of 2006 (RA 9367) expanded the mandate of the Sugar Regulatory Administration (SRA) to develop and implement policies supporting the Philippine Biofuels Program and ensure increased productivity and sustainable supply of biofuels feedstock. For more information, see the [2018 Philippines Biofuels Report](#).

According to SRA, there are about 65,000 sugarcane farmers in the country and this number is increasing due to the Comprehensive Agrarian Reform Program. 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. The sugar industry contributes about P87 billion (\$1.74 billion, \$1=P50) to the national economy, with more than 700,000 workers and 5 million of their dependents.

In MY 2018/19, the average mill site price of “A” raw sugar for the U.S. market was P1,163/50-kg bag, down five percent from P1,230/50-kg bag the previous period. The average mill site price for “B” raw sugar for the domestic market was P1,630/50-kg bag, up 17 percent from P1,394/50-kg bag. The average price for “D” raw sugar for the world market was P661/50-kg bag, declining from P740/50-kg bag. The average composite price for all three was P1,590/50-kg bag, increasing from P1,176/50-kg bag the previous period.

Domestic “B” sugar prices fell from a high of P2,003/50-kg bag in July 2018, averaging P1,630 per 50k bag as more imports of lower priced sugar boosted supply. Low domestic sugar production and growing demand for refined sugar have led to sugar imports displacing imported high fructose corn syrup (HFCS). See the Policy section for more details.



Philippine Mill Site Prices (Pesos)				
MY 2018/19	"A" US Quota	"B" Domestic	"D" World	Composite Price
December	1,180	1,301	761	1,235
January	1,153	1,391	664	1,313
February	1,139	1,386	635	1,364
March	1,113	1,518	620	1,485
April	1,135	1,652	624	1,619
May	1,147	1,796	-	1,757
June	1,162	1,994	-	1,944
July	1,155	2,003	-	1,953
August	-	-	-	-
September	1,171	1,697	-	1,694
October	1,173	1,628		1,606
November	1,264	1,563	-	1,524
Average	1,163	1,630	661	1,590
MY 2019/20				
December	1,264	1,563	-	1,548
January	1,273	1,522	-	1,509
February	1,263	1,534	-	1,521
March	1,173	1,470	-	1,164

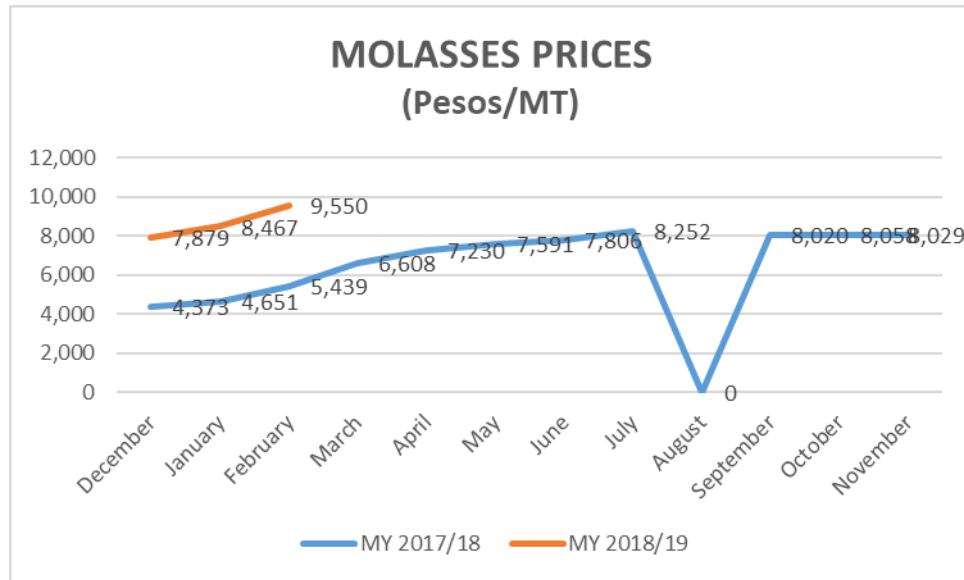
Source: Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates:

Exchange Rate	2017	2018	March 6, 2019
US\$=PhP	47.49	52.72	52.03

Source: Bangko Sentral ng Pilipinas

Molasses prices at mill site started to rise in late 2017, indicating strong demand from the growing number of bioethanol plants.



Source: Sugar Regulatory Administration

Consumption:

In the Philippines, consumption is traditionally measured by sugar withdrawals from the mills by traders and industrial users, as mills are the main holders of the country’s stocks. According to SRA data, MY 2018/19 withdrawals of locally produced sugar dropped to 1.913 MMT from 2.152 MMT the previous year, mainly due to low supplies caused by the drop in domestic production and the availability of cheaper imported sugar. However, total sugar consumption (locally produced plus imported sugar) is estimated at 2.25 MMT, as imported sugar fills in the decline in local production and a drop in high fructose corn syrup (HFCS) imports.

CROP YEAR	RAW SUGAR, MT		REFINED SUGAR, MT		HFCS IMPORTS	SUGAR IMPORTATION, MT	
	Production	Domestic Consumption	Production	Domestic Consumption		CBW / Food Processors	Domestic Consumption
2013-2014	2,461,808	2,202,443	1,034,386	1,115,936	149,232	67,137	4,343
2014-2015	2,323,817	2,240,682	1,076,382	1,008,300	232,028	62,218	10,937
2015-2016	2,238,872	2,163,170	957,332	878,915	340,719	62,606	241,668
2016-2017	2,500,509	2,116,528	962,610	963,983	337,681	54,343	16,102
2017-2018	2,083,641	2,098,353	926,677	1,091,040	125,492	55,240	200,000
2018-2019 As of March 10	1,570,510	945,712	524,848.35	621,292	2,775 As of Jan 20	1,196 As of Jan 20	286,750 As of March 10

Source: Sugar Regulatory Administration; Crop Year September/August

Demand for sugar is forecast to remain flat in MY 2018/19 at 2.25 MMT, due to a slowdown in soft drink purchases reported from the higher taxes on sugar-sweetened beverages and a growing consciousness of Filipino consumers of their sugar intake. MY 2019/20 sugar demand is expected to increase marginally to 2.30 MMT, as the domestic food processing and beverage sectors continue to expand and consumers adjust to the increased sugar taxes.

DOMESTIC RAW SUGAR WITHDRAWALS

(in Metric Tons)			
MONTH	2016/17	2017/18	2018/19
December	125,688	162,793	187,713
January	195,720	153,946	93,732
February	193,320	32,049	210,312
March	236,687	164,371	45,223
April	287,449	212,698	
May	192,025	295,885	
June	212,758	256,387	
July	201,961	191,729	
August	147,681	169,047	
September	87,442	66,209	
October	140,699	109,415	
November	130,575	98,265	
TOTAL	2,152,005	1,912,794	

Source: Sugar Regulatory Administration

Almost 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, bakeries, 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 but lower than domestic prices.

Wholesale prices of raw and refined sugar in Metro Manila have come down from a high in July 2018.

RAW AND REFINED SUGAR PRICES				
MY 2018/19	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.)
December	1,450.24	47.26	1,977.38	55.07
January	1,507.71	47.22	2,032.09	55.03
February	1,526.43	47.10	2,040.00	55.07
March	1,655.00	47.27	2,200.00	55.17
April	1,811.75	47.53	2,320.00	55.43
May	1,916.25	47.66	2,423.00	55.95
June	2,138.86	50.88	2,854.86	59.43
July	2,165.14	54.95	2,907.43	64.91
August	1,983.33	56.24	2,633.33	66.63
September	1,958.33	56.33	2,569.76	66.56
October	1,895.93	56.17	2,473.52	66.26
November	1,766.67	56.19	2,238.57	66.24
MY 2018/19				
December	1,761.00	55.65	2,213.00	65.41
January	1,762.81	53.35	2,243.54	62.60
February	1,732.86	52.41	2,230.71	60.33
March	1,716.67	52.26	2,231.00	59.72

Source: 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). Fiscal Year 2018/19 Raw Sugar Tariff Rate Quota (TRQ) to the United States is set at 142,160 MTRV (136,201 MT Commercial Weight). The Philippines is expected to only export about 120,000 MT, short of the total TRQ to the United States due to insufficient local supply. No exports to the World Market were allocated for this year.

As per Sugar Order No. 2 (2018), SRA has authorized the importation of 150,000 MT of raw and refined sugar in CY 2018/19 to augment the supply of sugar. Post sees forecasts raw and refined sugar imports may reach 200,000 MT in MY 2018/19. MY 2019/20 imports (raw and refined) are forecast to be about the same 200,000 MT, on the basis that sugar production will return to a more regular level.

Post raised imports for MY 2017/18 to 488,000 MT, reflecting final SRA trade data. The increased refined sugar imports replaced HFCS as the primary means of augmenting domestic sugar production.

Monthly Sugar Imports Market Year 2017/18		
	Refined	Raw
December	883.17	
January	704.15	
February	331.32	
March	561.62	
April	504.92	
May	548.80	
June	559.36	
July	28,019.40	1,000.00
August	123,004.90	48,971.19
September	2,047.11	
October	191,860.85	9,475.00
November	63,303.60	16,100.00
TOTAL	412,329.20	75,546.19

Source: Sugar Regulatory Administration

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

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)				
			2010/11	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-ASEAN countries, under the Uruguay Round of the World Trade Organization (WTO), the Philippines committed to a final tenth-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, essentially blocking all imports under this agreement. The Most Favored Nation (MFN) tariffs have not changed since 2016. Tariff rates follow:

HEADING	ASEAN HARMONIZED	DESCRIPTION	MFN
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	TARIFF CODE		
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 and Customs Code

Stocks:

Stock balances of raw and refined sugar in MY 2018/19 increased due to growing refined sugar imports and a slowdown in withdrawals of domestic sugar in the mills. The larger stocks are also attributed to greater output due to improved cane purity. According to SRA, mills are reporting that their warehouses are full and that most are looking for additional storage space and repurposing of other buildings to hold the unsold sugar.

Policy:

Philippine sugar policy, trade, and domestic prices are generally controlled by the SRA, working closely with various influential industry stakeholders. 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 here: http://www.sra.gov.ph/policy/#_sugar_order

Sugar Order No. 6: On February 20, 2018, the SRA issued Sugar Order No. 6 (SO No. 6), which amended SO No. 3 or the “Guidelines on the Issuance of Clearance for Release of Imported High Fructose Corn Syrup (HFCS) and Chemically Pure Fructose.” SO No. 6 stated that only imported fructose classified as “B” for the local market or “D” for the world market can be withdrawn by the importer or consignee from the Bureau of Customs or warehouse registered with SRA. This, combined with the higher excise tax on HFCS (see below) had the effect of significantly reducing HFCS imports in favor of imported sugar.

<https://www.sra.gov.ph/wp-content/uploads/2018/03/2017-2018-SO6-AMENDMENT-TO-SO3-2016-2017.pdf>

SO No. 3 was issued on February 17, 2017 due to growing Philippine HFCS imports that were seen to be disrupting the domestic sugar market. Sugar Order No. 3-A was subsequently issued with revised guidelines, lowering the clearance fees and easing the requirements, making it easier for importing companies to comply.

<https://www.sra.gov.ph/wp-content/uploads/2017/02/2016-2017-SO3-GUIDELINES-ON-THE-ISSUANCE-OF-CLEARANCE0001.pdf>

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

Excise Tax on Sweetened Beverages: Drinks with caloric and non-caloric sweeteners are taxed P6 (\$.12, \$1=P50) per liter, while those using high-fructose corn syrup are charged P12 (\$.24) per liter. All milk (whether powdered, ready-to-drink, flavored or fermented) are excluded from the tax, as well as ground and 3-in-1 coffee and 100-percent-natural fruit and vegetable juices, meal replacements, medically indicated drinks, and beverages sweetened with stevia or coco sugar. This new tax reform law, which took effect in January 2018, was the first package of five planned tax reforms that President Rodrigo Duterte signed into law on December 19, 2017.

Sugar Industry Development Act: Republic Act 10659, otherwise known as the Sugarcane Industry Development Act (SIDA), was passed in 2015. The main objective of this law is to promote the competitiveness of the sugarcane industry through mandated programs and appropriations. In 2017, Congress allocated P1.4M (\$28M, \$1=P50) to SIDA through the General Appropriations Act. SIDA has five main components:

- (1) Establish productivity improvement programs;
- (2) Provide the needed infrastructure support;
- (3) Enhance research and development of other products derived from sugar, sugarcane, and their by-products;
- (4) Provide human resource development and extension services; and
- (5) Provide financial assistance to small farmers.

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 U.S. market in compliance with U.S. 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 and 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	2017/2018		2018/2019		2019/2020	
	Dec 2017		Dec 2018		Dec 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Philippines						
Beginning Stocks	1054	1054	954	1342	0	1272
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2100	2200	2225	2100	0	2200
Total Sugar Production	2100	2200	2225	2100	0	2200
Raw Imports	0	76	0	0	0	0
Refined Imp.(Raw Val)	200	412	300	200	0	200
Total Imports	200	488	300	200	0	200
Total Supply	3354	3742	3479	3642	0	3672
Raw Exports	150	150	140	120	0	140
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	150	150	140	120	0	140
Human Dom. Consumption	2250	2250	2250	2250	0	2300
Other Disappearance	0	0	0	0	0	0
Total Use	2250	2250	2250	2250	0	2300
Ending Stocks	954	1342	1089	1272	0	1232
Total Distribution	3354	3742	3479	3642	0	3672
(1000 MT)						

Sugar Cane for Centrifugal	2017/2018	2018/2019	2019/2020
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Market Begin Year	Sep 2016		Sep 2019		Sep 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Philippines						
Area Planted	418	418	420	415	0	415
Area Harvested	418	418	420	415	0	415
Production	24000	24000	24000	23000	0	24000
Total Supply	24000	24000	24000	23000	0	24000
Utilization for Sugar	24000	24000	24000	23000	0	24000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	24000	24000	24000	23000	0	24000
(1000 HA) ,(1000 MT)						