INTERNATIONAL TRADE ADMINISTRATION

2016 Top Markets Report Renewable Fuels
Country Case Study

Philippines

Imported ethanol is expected to satisfy at least one quarter of the domestic demand in the Philippines for the next several years even though domestic production capacity is catching up. As fuel consumption continues to increase overall due to economic expansion, it will be a challenge for the Philippine Government to spur enough investment to cover its ambitious policy goals for ethanol. Exporters should focus on strengthening their relationships with Philippine buyers. Building on their recent success, U.S. ethanol producers will be well positioned in the long term if the Philippine Government's blend mandate is increased as proposed.

Ethanol Rank	Wood Pellet Rank
7	N/A

Following the implementation of a 10 percent blending mandate in 2011, U.S. ethanol exports to the Philippines have skyrocketed from 12 million liters in 2012 to 276 million liters in 2015. Strategic export promotion activities within the next two years can help ensure that this temporary phenomenon becomes a steady flow of trade. However, the ranking has been revised downward in the face of reports that significant domestic capacity has finally reached production stage.

Although the Biofuels Act of 2007 gave priority to locally produced ethanol, the Philippines has had little choice but to rely on imports until domestic capacity catches up. Despite facing higher tariffs compared to regional competitors, U.S. ethanol comprised 95 percent of total denatured ethanol imports in 2015. Moreover, when Thailand increased its own blending mandate to 20 percent, fuel ethanol from Thailand was used for its domestic supply instead of being exported to the Philippines. This created an opening for U.S. producers at an opportune time, as they were adjusting to the decrease in exports to the EU due to antidumping duties.

The potential competition for market share with other regional ethanol producers remains, but economic and historic ties between the United States and the Philippines could help tip the balance. The affordable price of U.S. ethanol has also been an advantage, particularly given the 10 percent tariff rate plus a 1 percent duty imposed if ethanol is used for fuel-blending under the Philippine Fuel Ethanol Program. It should be noted that Philippine tariffs for ethanol were eliminated in 2016 for ASEAN partners through various trade agreements, and Most Favored Nation tariffs for WTO-member countries, including the United States, were also lowered to zero in 2016, down from 10 percent the previous year.

Market Overview

The Philippines was the first country in Southeast Asia to enact biofuels legislation. The blend mandate was gradually increased in accordance with the

Biofuels Act of 2007, ending with a 10 percent ethanol requirement in August 2011, which remains the current mandate. However, meeting this target with domestically produced ethanol has been a challenge due to the inadequate capacity of existing sugarcane distilleries, low productivity and high production costs.

The fact that oil companies are still currently importing the bulk of their ethanol to comply with the Philippine Government's requirement has angered some who would like the Philippines to be less dependent on imported fuel.[i] With new facilities starting production in 2016 of around 100 million new liters of ethanol, total installed capacity is expected to reach 322 million liters, which is more than half of demand from the blending mandate.[ii]

Fuel use is predicted to increase as the population and economy continue to expand.[iii] As gasoline demand increases, the amount of ethanol required to meet the E10 blend mandate will also grow. The Philippines Department of Energy also has indicated that it would like to increase the blend rate even further, to 20 percent by 2020. At least 15 additional plants with a 30 million liter capacity each would be needed to meet this requirement.[iv] This proposed policy may also increase imports again, at least temporarily. However, without a feasible roadmap in place, a discussion of higher blends can only be viewed as aspirational.

Challenges and Barriers

While U.S. exporters have enjoyed undeniable success in the Philippines in 2013 through 2015, given the preference for domestic ethanol, there is no guarantee that exports will continue at the same high levels. The number of domestic producers is growing, and there is still competition from regional sources. Rather than taking advantage of ad-hoc opportunities, it is important for exporters to nurture long term relationships with buyers.

U.S. exporters should also keep in mind that congestion in Manila ports slows the movement of goods and adds extra costs. As long as U.S. ethanol remains competitively priced, this should not be a major issue.

Opportunities for U.S. Companies

In the short term, ITA expects a gradual decline in U.S. exports to the Philippines in 2016-2017. However, to prepare for the potential opportunities in the medium and long term -- if the Government of the Philippines follows through on its plan to increase the blend rate, it will have to accept the reality of imports – producers and exporters should continue to monitor the market and develop business relationships, positioning themselves to provide a steady, affordable supply.

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[i] Ibid.

[ii] Sapp, Meghan. (2015, December 29). Philippines ethanol production capacity to reach 80% of E10 in 2016. *Biofuels Digest*. http://www.biofuelsdigest.com/bdigest/2015/12/29/philippines-ethanol-production-capacity-to-reach-80-of-e10-in-2016/ .

[iii] Foreign Agricultural Service. (2016, August 16). *Philippines Biofuels Annual.* Retrieved from http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Biofuels%20Annual_Manila_Philippines_8-16-2016.pdf

[iv] Ibid.