Hanjin shipyard collapse leaves FIRB wary on future incentive grants

THE Fiscal Incentives Review Board (FIRB) said it will have to evaluate grants of incentives more thoroughly in the wake of the 2019 collapse of Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil), the operator of a shipyard in Subic Bay.

"This is the reason why we must impose stringent evaluation and impact analysis before the grant of tax incentives," Finance Assistant Secretary and FIRB Secretariat Head Juvy C. Danofarata said.

"Given the failure of this shipyard in Subic, jobs were lost and productivity in the area declined. The project cost the government so much money in foregone revenue that could have been granted to performing and more deserving business enterprises."

The DoF said that in 2015, HHIC-Phil received tax incentives totaling P370 million. It had first sought tax perks from the Subic Bay Metropolitan Authority and the Board of Investments in 2006 and 2009, respectively.

HHIC-Phil is a subsidiary of South Korean shipbuilder Hanjin Heavy Industries & Construction Co., Ltd.

"During the company's existence, it was granted seven years of income tax holiday (ITH) and a special corporate income tax (SCIT) rate of 5% on gross income earned (GIE) upon the expiration of its ITH," the DoF said.

It was also granted additional tax and duty-free import privileges on raw materials and equipment.

"HHIC-Phil also received power subsidies for its operations at the Subic Bay Freeport Zone amounting to P5.17 billion from 2009 to 2018," the DoF said.

However, HHIC-Phil failed to maintain an employment of an estimated 20,000 workers, and abandoned a $2-billion Mindanao shipyard in 2008, which was supposed to generate 30,000 jobs.

Hanjin Shipyard, formerly owned by HHIC-Phil, was acquired by US private equity firm Cerberus Capital Management for $300 million.

When HHIC-Phil filed for corporate rehabilitation in 2019 with an Olongapo court, it left $412 million in outstanding loans with BDO Unibank, Inc., Metropolitan Bank & Trust Co., Land Bank of the Philippines, Bank of the Philippine Islands, and Rizal Commercial Banking Corp.

HHIC-Phil owed Korean lenders another $900 million. — **Tobias Jared Tomas**

Finance dep't sees deficit falling without sacrificing infrastructure

THE Department of Finance (DoF) said infrastructure spending need not be "sacrificed" in the process of reducing the budget deficit, which is expected to contract even with no new taxes and shrink even faster if the government can find additional funding of P250 billion a year.

In an economic bulletin on Tuesday, DoF Chief Economist Gil S. Beltran said the way forward will involve "shoring up revenue and cutting non-priority expenditure... without sacrificing infrastructure spending."

He said that assuming no new taxes, the deficit is expected to hit the equivalent of 4.1% of gross domestic product (GDP) by 2025, down from the 2021 deficit-to-GDP ratio of 8.6%. Raising an additional P250 billion a year would bring the ratio down to 3.2% by 2025, just under the pre-pandemic level of 3.4%.

"It is therefore important to restore fiscal health and build up reserves when the economic weather is fine so as to have the capacity to respond again should shocks materialize," Mr. Beltran added. "This is akin to having an insurance (policy) that covers for contingencies. Not having one is a fool's game and fiscal heartaches hit the hardest when it's too late."

Separately, Manulife Philippines Head of Equities Mark A. Canizares said in a statement on Tuesday that it considers infrastructure and mining to be critical for the incoming administration.

The statement, which referenced Manulife Investment Management's outlook for the market in the context of the impending change of government, declared the Philippines to be on a recovery path from the pandemic, after the economy posted 8.3% growth during the first quarter.

"Infrastructure-related sectors are likely to benefit from the priorities of the incoming administration," Mr. Canizares said. "We expect a continuation of the decentralization of infrastructure investment."

Mr. Canizares noted that under the Duterte administration, Mindanao was a main recipient of infrastructure projects, including the Davao City Bypass Construction and Coastal Road projects, the loans for which were obtained at the height of the pandemic in 2020.

"Mining is another sector that could be in focus. Marcos has previously said that he wants better laws and regulations on mining for the industry to contribute more to the economy," he added.

He said his view on the utility sector is more subdued, given Mr. Marcos' comments on lowering energy costs.

Aside from continuing with the Build, Build, Build program, Mr. Marcos also earlier signaled his plans to reduce the price of rice to P20 per kilo and reopen the Bataan Nuclear Power Plant.

"Key to the success of these programs is the passage of revenue-enhancing measures that can expand the contribution of fiscal spending to economic growth. This will allay fears of a blowup in the country's fiscal balances and a runaway increase in debt levels which hounded the later years of the first Marcos presidency."

Mr. Canizares also warned that the economic recovery remains fragile, with consumer spending at risk of slowing down due to the continued increase in prices.

Headline inflation in May was 5.4%, accelerating from the 4.9% posted in April. The May result was within the central bank's 5-5.8% target range.

Inflation was driven mainly by rising costs of food, non-alcoholic beverages, and fuel. — **Tobias Jared Tomas**

P20/kg rice to require budget of 'at least' P400 billion

THE Marcos campaign pledge to bring down the price of rice to P20 per kilogram (/kg) is achievable with "full support" from the government, including a budget of about P400 billion to upgrade production, a party-list legislator said on Tuesday.

Magsasaka Party-list Representative Argel Joseph T. Cabatbat added that legislators need to "have faith in Filipino farmers by giving them all the support they need to revitalize rice planting activities."

President-elect Ferdinand R. Marcos, Jr. campaigned on a promise of P20 rice, though he later called that an "aspirational" target.

"We should not doubt the capability of farmers to produce cheap and quality rice. With enough support, appropriate policy changes, the removal of middlemen or brokers, and the right managers in the Department of Agriculture who are pro-farmer, P20 per kilo of rice is possible," Mr. Cabatbat said in a statement.

He said such an effort will cost at least P400 billion to fund basic support services and infrastructure.

Increased funding will bring down the cost of production and marketing, he added.

Mr. Cabatbat said he wants to make use of the Agrarian Reform department's "megafarm" concept and use as a model the Provincial Food Council of Nueva Ecija's program to increase farmer yields and profits.

Mr. Cabatbat also called for a review of the Rice Tariffication Law, which liberalized rice imports.

"We depend too much on other countries for our food. We are not aware that it is killing the agricultural sector and the economy because we are dependent," he said.

Agriculture Secretary William D. Dar has said he expects the next administration to raise spending on the agriculture sector and raise his department's budgets accordingly. — **Alyssa Nicole O. Tan**

Frasco's DoT to highlight domestic tourism, food, marketable crafts

THE incoming Tourism Secretary said she plans to develop domestic tourism in order not to be left vulnerable to disruptions in international travel, while playing up untapped strengths in food and crafts and continuing to promote areas of outstanding beauty, in a so-called "multi-dimensional" approach to promoting the Philippines as a destination.

Tourism Secretary-designate Maria Esperanza Christina G. Frasco said in a television interview on Tuesday that such an approach would "capitalize not only on the beauty of our natural resources, but also on the wealth of talent of our people as well as their products, including food, clothing, and other items that could be marketable as well both to local and foreign tourists."

"What the pandemic has also taught us, (in the wake of) restrictions on travel from abroad, is that it is very important to capitalize on domestic tourism and not be solely dependent on foreign tourism alone. The effort should be comprehensive to include both domestic tourism and foreign tourism. Especially now with the further relaxation of the requirements for entry into the Philippines," she added.

Ms. Frasco said investment in tourism infrastructure is needed to improve the access to various destinations.

She called for "investing heavily in infrastructure to improve connectivity and access to our tourist sites. So, that means coordination closely with relevant government agencies for the improvement of roads, bridges, access to seaports, airports, as well as modes of public transportation," Ms. Frasco said.

Ms. Frasco said she plans to make use of digitalization and online platforms to boost underpromoted destinations.

"Providing our lesser-known destinations with access through digitalization and through the introduction of online platforms is also very important," Ms. Frasco said.

"What the pandemic has taught us is that you can actually continue to market your products... by way of mobile applications, through online platforms notwithstanding the restrictions of physical contact," she added.

Ms. Frasco said she considers Mindanao to be capable of becoming a major driver of growth, adding that the south has not been given "equal opportunity" in terms of tourism development.

"Mindanao in general is a very, very beautiful part of our country that is endowed with natural beauty. However, due to challenges (like law and order) in certain areas, the potential of the region, perhaps, has not been fully harnessed," Ms. Frasco said.

On May 30, Rose Beatrix Cruz-Angeles, the press secretary nominee of President-elect Ferdinand R. Marcos, Jr., announced that Ms. Frasco will be appointed to head the Tourism department.

Ms. Frasco is currently the spokesperson of Vice-President-elect Sara Z. Duterte-Carpio, and was recently reelected as the mayor of Liloan town in Cebu province. She is also the daughter of Cebu Governor Gwendolyn F. Garcia. — **Revin Mikhael D. Ochave**

Full capacity allowed in Alert Level 1 areas

THE GOVERNMENT has allowed businesses in Alert Level 1 areas to operate at full capacity, including public transport vehicles, though participants in mass gatherings will still need to present proof of full vaccination, the Palace said.

Palace Spokesman Jose Ruperto Martin M. Andanar said in a statement that the decision was arrived at by the Inter-Agency Task Force on Emerging Infectious Diseases and applies to areas under Alert Level 1, the most permissive quarantine setting.

Most of the Philippines, including the capital region, is under Alert Level 1 between June 1 and 15.

The government also relaxed face mask rules for athletic activities in well-ventilated areas, and outdoor sports or exercise in areas where "physical distance can be maintained."

All government work is to be performed onsite under Alert Level 1.

The full capacity rule for public transport does not apply when traveling to areas where the alert level is less permissive. — **Kyle Aristophere T. Atienza**

DBM says 2022 budget release rate tops 88%

THE Department of Budget and Management (DBM) said on Tuesday that it had released P4.46 trillion, or 88.8% of the national budget, to national agencies and local government units as of the end of May.

The DBM said in its Allotment Releases report for May that P562.50 billion remains to be distributed.

The release rate is running ahead of the pace in 2021. That year, the DBM had released P3.74 trillion or nearly 83% of the budget by the end of May 2021.

In May 2022, releases to government agencies and departments amounted to P2.74 trillion, or 95.1% of their allocations.

Special Purpose (SP) funds released by the end of the month amounted to P251.56 billion, or 55% of the SP budget.

SP funds include budget support for local government units, the Contingent Fund, the Miscellaneous Personnel Benefits Fund, and the National Disaster Risk Reduction and Management Fund.

Automatic Appropriation releases amounted to P1.33 trillion, representing 79.4% of the funds allocated to them.

This includes P10 billion for the Rice Competitiveness Enhancement Fund and P1.60 billion in funding for retirement and life insurance premiums of various National Government agencies, the DBM said.

Other automatic appropriations include the internal revenue allotment for local governments, block grants, interest payments, the tax expenditure fund, and customs duties and taxes. — **Tobias Jared Tomas**

Easing land rules for foreigners could boost renewables industry

THE Philippines' plans to develop its renewables industry will require an easing of land ownership restrictions currently in place for foreigners, Bain & Co. and Temasek Holdings Ltd. said in a report.

The "Southeast Asia's Green Economy 2022: Investing behind new realities" report, prepared with the participation of Microsoft Corp., said investment will hinge on foreign companies being able to access land.

"(The government should) eliminate land restrictions for foreign firms to further facilitate foreign investment in renewables," the report said. "It should also develop clear decarbonization targets and establish decarbonization roadmap," it added.

The report backed the establishment of a carbon tax and emissions trading scheme, increasing renewable sourcing requirements, and removing contractual obligations to produce energy from coal.

"(The Philippines has made the) slowest progress among Southeast Asian nations towards a carbon tax. (There are) ongoing discussions over the last few years but no concrete decision and/or implementation plan," the report said.

The report noted that the Philippines is aiming to reduce carbon emissions by 75% by 2030, of which is 72.29% is conditional on the availability of foreign funding.

However, the report said the Philippines has not defined its net-zero target.

As a result, one challenge is that emissions may continue to rise under current policy rather than drop to meet the conditional target.

"Recent implementation of a coal power moratorium (is) encouraging. However, it is essential to also enact a moratorium on current pipeline projects and phase out all coal by 2040," according to the report.

In October 2020, the Energy department stopped approving new coal-fired power plants.

The report also noted improvement in Philippine policy towards electric vehicle (EV) manufacturers, though it cited the absence of incentives to spur consumer demand.

In March, the Trade department announced that it is pushing for the implementation of a zero-tariff regime for imported EVs to encourage adoption.

Bain and Temasek, the Singapore government-controlled investment firm, called the Philippine renewables sector "attractive" due to government support and capacity potential.

Some opportunities include sustainable farming via farmer service platforms that boost production with the use of digitalization; commercial and industrial solar power; onshore and offshore wind; and energy efficiency in the built environment.

They said the downsides include a lack of government advocacy and support for digital agriculture; lengthy and complex procedures for obtaining solar project permits; and the weakness of the regulatory regime. — **Revin Mikhael D. Ochave**