



Airport projects worth nearly P1 trillion seen completed next year

THE Transportation department said on Monday that at least nine airport projects — both new builds and upgrades — are due to be completed next year, with a combined value of nearly P1 trillion.

The nine construction and upgrade projects are Tuguegarao Airport, San Vicente Airport, Tacloban Airport, Bacolod-Silay Airport, Catbalogan Airport, Davao International Airport, M'Lang Airport, Sanga-Sanga Airport, and Ozamis Airport.

"Completion is expected in 2023," Transportation Secretary Jaime J. Bautista said during the Economic Journalists Association of the Philippines' Economic Forum 2022.

Mr. Bautista said in his speech that the Antique airport is also set to be completed next year.

He said a further 10 airport projects are being looked at for

upgrades and expansion via public-private partnership (PPP).

These airports are Bohol-Panglao International Airport, Laguindingan International Airport, Bicol International Airport, Iloilo International Airport, and Puerto Princesa International Airport; Davao International Airport, Bacolod-Silay International Airport, Kalibo International Airport, Busuanga Airport, and Siargao Airport.

The government is also studying upgrades to the Ninoy Aquino International Airport via PPP.

"*Dati na merong* unsolicited proposal from a consortium *peronag*-backout *silá* (There was an unsolicited proposal from a consortium, which backed out)," he said.

"I hope we can again entertain unsolicited proposals," he added. — **Arjay L. Balinbin**

Chicken production up 6.9% year on year in second quarter

CHICKEN production in the second quarter rose 6.9% year on year to 463.12 thousand metric tons (MT), according to the Philippine Statistics Authority (PSA).

Central Luzon was the top producer of chicken during the quarter, accounting for 157.90 thousand MT or 34.1% of the national total. Calabarzon produced 86.19 thousand MT,

Northern Mindanao 40.53 thousand MT, Western Visayas 30.69 thousand MT, and Central Visayas 26.38 thousand MT.

Reporting year-on-year gains in production were 12 regions, the PSA said.

As of Oct. 10, the average price of a kilogram of chicken was P190. — **Luisa Maria Jacinta C. Jocoson**

Feasibility study ordered for EDSA busway privatization

THE Transportation department said on Monday that the government will conduct a feasibility study to evaluate a privatization proposal put forward by the business community for the bus system plying Epifanio de los Santos Avenue (EDSA).

"We have requested the Public-Private Partnership (PPP) Center to set aside funds for the feasibility study," Transportation Secretary Jaime J. Bautista said on the sidelines of the Economic Journalists Association of the Philippines' Economic Forum 2022.

At the forum, Mr. Bautista said the department has also received from Swedish Ambassador to the Philippines Annika Thunborg an offer of Swedish government help to study improvements to the busway project.

"Of course, we gratefully accepted her offer," Mr. Bautista said.

On Oct. 6, 28 private groups urged the government to privatize the busway to relieve commuters of their difficulties.

"It is high time that the government and the private sector join hands to provide the critical components that are needed to complete the busway system — and finally put an end to the daily scenario in which thousands of commuters wait in long queues in overcrowded stations while enduring unnecessary pains and hardships," the groups said in a joint statement.

Among the groups that called for the busway's privatization were American Chamber of Commerce of the Philippines, Chinese Filipino Business Club, Filipino CEO Circle, Financial Executives Institute of

the Philippines, and Management Association of the Philippines.

"Our commuters and our country deserve a busway system that is at par with comparable systems in other countries. We note that the Jakarta Busway has the longest system in the world and the Guangzhou System is recognized as the gold standard," they said.

Separately, Mr. Bautista said the department expects to finalize negotiations for a Chinese loan funding the Calamba-Bicol, Clark-Subic, and Mindanao railway projects by early next year.

"We really want to make it as early as possible *para magawa kaagad* (to hasten construction)," he said, adding that the expected timeline for a deal is the first quarter of 2023.

The Calamba to Bicol project is a 380-kilometer railway from Banlic, Calamba, Laguna, to Daraga, Albay,

while the Subic-Clark railway is a 71.13-kilometer railway consisting of a 64.19-kilometer main line connecting Subic Bay Freeport Zone and Clark Freeport Zone and a 6.94-kilometer link to the Subic Bay Port's New Container Terminal.

The Mindanao railway project phase 1 runs from the Tagum Station and depot in Davao del Norte to Digos City, Davao del Sur. It will have stations in Carmen, Panabo, Santa Cruz, and three in Davao City, including a sub-depot.

"What we can do for now is award the contract packages," Mr. Bautista said.

The government recently canceled its loan applications for the three projects because the Chinese government was "unresponsive," Transportation Undersecretary Cesar B. Chavez said in July. — **Arjay L. Balinbin**

OPINION

Fundamentals of entity characterization in TPD

How much do you know about your family member, friend, colleague, or significant other? Is your characterization of a person reflective of his or her real character? Does your characterization of a person affect how you deal with the person?

These same questions apply in business, particularly in the context of transfer pricing. Your knowledge of the nature of a particular business determines the entity characterization. And in turn, the entity characterization influences the direction and tone of transfer pricing documentation (TPD).

Let's talk about the fundamentals of entity characterization according to Revenue Audit Memorandum Order (RAMO) No. 1-2019.

WHAT IS ENTITY CHARACTERIZATION?

According to last month's article, "How FAR are you in transfer pricing documentation?," one of the key components of a transfer pricing analysis is the functions, assets, and risks (FAR) analysis, wherein the functions performed, assets deployed, and risks assumed by the related parties involved in the controlled transactions are analyzed.

The result of the FAR analysis becomes the foundation of entity characterization, which sums up the overarching relationship of each function, asset, and risk analysis of the entity and sets the direction in having a meaningful comparison of the price or level of income of the entity in a controlled transaction against the price or level of return from a similar independent transaction.

Entity characterization, in a nutshell, answers the question, "What type of entity is the company to the extent of how the economic risks and profits are distributed in a controlled transaction in the industry in which the company operates?"

HOW IS ENTITY CHARACTERIZATION DETERMINED?

The first step of entity characterization is completing the FAR analysis. By establishing the FAR of a company, including the structure and organization, and the extent of control or influence, of its transacting related parties, the entity characterization can be determined, following the Organisation for Economic Co-operation and Development (OECD) transfer pricing guidelines.

The evaluation of a controlled transaction for entity characterization should be based not only on the terms of the agreement but more importantly, on the actual conduct of the controlled transaction between and among transacting related parties. Essentially, substance over form bears material weight in entity characterization.

WHAT ARE EXAMPLES OF ENTITY CHARACTERIZATION?

Some of the commonly used entity characterizations based on the nature of the business activities are listed below.

Manufacturing: full-fledged, contract and toll manufacturer

Full-fledged manufacturers perform all the

manufacturing functions, such as research and development (R&D), product planning, raw materials sourcing, manufacturing process, quality control, distribution and logistics, and after sale functions, and bear their associated risks.

Contract manufacturers, on the other hand, perform limited manufacturing functions and produce the product for their principal generally based on pre-agreed quantities and pre-agreed schedules which the principal guarantees to purchase and

generally shoulder limited risks. Toll manufacturers, in contrast to contract manufacturers, perform very limited manufacturing functions for the principal without taking title to the raw materials or finished products and bear limited risks.

Distributor: full-fledged and limited-risk distributor, and commission agent

Full-fledged distributors perform all the sales and distribution functions from marketing to inventory management and bear their associated risks. Limited-risk distributors perform buy and sell functions with limited risks. Commission agents perform as sale representatives, receive commission based on sales and do not take ownership of the products, and bear limited risks.

Service provider: entrepreneurial or full-fledged service provider, and risk mitigated or routine service provider

Entrepreneurial or full-fledged service providers perform all the service functions, from research and development and conceptualization of service to provision of service and warranty, and bear their associated risks. Risk mitigated or routine service providers perform routine support service as dictated by their principal and bear limited risks.

WHY IS ENTITY CHARACTERIZATION IMPORTANT?

By determining the accurate characteristics of the entity's business, the expected level of price or return by the entity can be known and the selection of reliable comparable can be made.

One cannot compare the price or level of return that a full-fledged manufacturer earns with that of a contract or toll manufacturer. By its very nature, entity characterization is the glue that binds the connection of the benchmarking analysis of the price or return in the entity's TPD.

For example, a contract or toll manufacturer is expected to maintain a consistent level of profitability because it only carries out production as ordered by a related party and does not perform other functions such as operational strategy setting, product R&D, and sales. Should such a manufacturer suffer losses, it must prove that the losses are not a result of its transactions with a related party but rather a result of justifiable commercial reasons.

WHAT IS THE IMPACT OF ENTITY CHARACTERIZATION IN A TRANSFER PRICING AUDIT?

Typically, a transfer pricing audit evaluates three key

items: the characteristics of a company with respect to the controlled transaction, the selection of the transfer pricing method, and the application of the arm's length principle.

The Bureau of Internal Revenue (BIR) can re-characterize a controlled transaction when the economic substance of a controlled transaction differs from its form or when the arrangements made in relation to the controlled transaction, when viewed in their totality, differ from those which would have been adopted by independent parties behaving in a commercially rational manner.

As emphasized in RAMO No. 1-2019, the need to re-characterize a transaction is based on the rationale that the character of the transaction is derived from the relationship between the parties and is not determined by normal independent conditions. As such, there is potential risk that the controlled transaction may have been structured by the company to avoid or minimize tax.

The perceived potential risk is based on the following perspectives: (a) that the related parties can enter into a variety of contracts and agreements compared to independent parties given that the normal conflict of interest, which exists between independent parties, is often non-existent; (b) that the related parties agree on a specific nature of certain transactions that are rarely or not encountered between independent parties; and (c) that the contracts under a controlled transaction are easily altered, suspended, extended, or terminated according to the overall strategies of the group of related parties to the point that such alterations can be made retroactively.

CAN ENTITY CHARACTERIZATION MAKE OR BREAK YOUR TPD?

Yes. Entity characterization is not just a formality in the TPD. It drives the selection of the transfer pricing method, the identification of comparable companies, and the results of benchmarking analysis.

In view of the BIR's authority to re-characterize an entity's controlled transaction under certain circumstances, potentially disputing the appropriateness of the comparable companies and the benchmarking results of the TPD, it is in the company's best interest to take prudent actions in accurately evaluating its characterization. After all, an incorrect assertion on entity characterization could lead to significant implications during a transfer pricing audit.

Stay tuned for our next article as we continue taking you through the other components of the TPD!

Let's Talk TP is an offshoot of Let's Talk Tax, a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

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Price cap set for red onion at P170/kilo in Metro Manila

THE Department of Agriculture (DA) said it set a suggested retail price (SRP) of P170/kilogram for red onion sold in wet markets in the National Capital Region.

"We had a stakeholders' meeting with our onion farmers, traders, retailers, and we came to the conclusion to create an SRP. We have had this approved. This will be the price of local red onions in the markets," Agriculture Undersecretary Kristine Y. Evangelista told reporters on Monday.

As of Oct. 10, the monitored price of domestically produced red onion in wet markets has risen to as much as P200 to P220 per kilo.

"We saw through our price monitoring team (that) prices were rising. Based on our cost structure, it should be much lower... our agri-commodities should reach the right price for our consumers," Ms. Evangelista said.

"P200 per kilogram is too expensive. Our stakeholders agreed that P170 is the right price for lo-

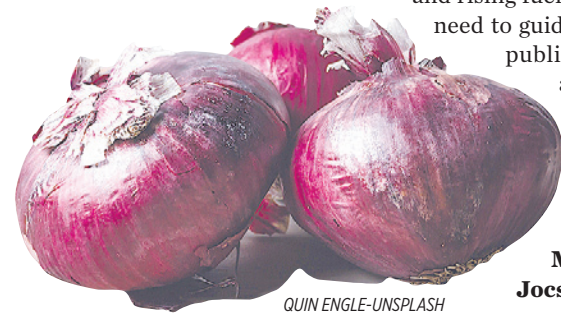
cal red onion... we made sure this price is fair for everyone, even farmers," she added.

Ms. Evangelista said domestic production is adequate. "That's one of the things we looked at before recommending the SRP. We check the supply and sufficiency of our commodities. We have enough supply for local red onion," she said.

"Based on historical data, when the holiday season comes closer, commodity prices go higher... with a clear supply situation, we can have prices that are stable until the holidays," she added.

According to an administrative circular issued by the DA, the SRP was imposed in response to the effects of rising fuel prices in the wake of the Russia-Ukraine war as well as the continuing influence of the pandemic on commodity prices.

"In order not to aggravate the current difficulties of the Filipino people affected by the pandemic and rising fuel prices, there is a need to guide the consuming public on the reasonable prices of basic necessities in the market," according to the order. — **Luisa Maria Jacinta C. Jocoson**



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| <p>HUAWEI TECHNOLOGIES PHILS. INC 53rd Floor PBCOM TOWER, AYALA AVE., COR. Y.A. RUFINO ST., SALCEDO VILLAGE, MAKATI CITY Email: ph_recruitment@huawei.com SUBJECT: APPLICATION FROM NEWSPAPER ADVERTISEMENT</p> | |
| <p>Product Manager Telecommunications Solution</p> <p>Job Description</p> <ul style="list-style-type: none"> In charge of key account relationships managing MCR and Solution commercial registration process Seeking Operator's telecommunication network requirement, then basic on requirement making the match solution Dealing the new production solution go to market in Operator's network, support customer build future-oriented networks and the business e-flow of Pre-sales, ensure all processes moving on under Headquarter policy Manage local team members' career capability, support them to develop good pre-sales in the Transport domain Communicate with local customers about daily sales progress and new product launch and promotion plans Provide feedback on product experience from local consumers in real time and assist the HQ product department in planning next-generation products | <p>Qualifications:</p> <ul style="list-style-type: none"> With at least 3 years work experience as Product Manager Telecommunications Solution With Bachelor's Degree in Electrical Information Engineering Having expertise in handling the fault management in the core network and emergency recovery network Applicants must have the ability to analyze the transport market situation, and competition capability Have skills in network design tools and prepare solutions and can handle problem flexible solving quickly and efficiently Highly proficient in Chinese and English language |
| <p>HUAWEI TECHNOLOGIES PHILS. INC 53rd Floor PBCOM TOWER, AYALA AVE., COR. Y.A. RUFINO ST., SALCEDO VILLAGE, MAKATI CITY Email: ph_recruitment@huawei.com SUBJECT: APPLICATION FROM NEWSPAPER ADVERTISEMENT</p> | |
| <p>GO-TO-MARKET MANAGER</p> <p>Job Description</p> <ul style="list-style-type: none"> Manages the operation of convergent products such as PCs and tablets and the sales of convergent products in the life cycle Responsible for streamlining marketing and retail channels and other departments to develop new product go-to-market strategies Develop the local sales strategy and new product launch strategy according to the product strategy of the HQ Communicate with local customers about daily sales progress and new product launch and promotion plans Provide feedback on product experience from local consumers in real time and assist the HQ product department in planning next-generation products | <p>Qualifications:</p> <ul style="list-style-type: none"> With Bachelor's Degree in Electrical Information Engineering With at least 2 years working experience as Go-To Market Manager Have good organization and coordination ability, be able to master office software, logical thinking ability outstanding Can communicate daily PC sales cooperation with local Intel and Microsoft teams Highly proficient in Chinese and English language |

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