Price hikes coming if margins erode further — pharma industry

PHARMACEUTICAL manufacturers said they will have no option but to raise prices once their usual margins are halved, but for the moment they are absorbing the higher production costs.

Higinio P. Porte, Jr., Philippine Pharmaceutical Manufacturers Association (PPMA) president, said: "We hope to maintain certain margins. We cannot... be on the losing end. If we are only getting half of the standard margin, we will need to raise prices."

Mr. Porte, speaking on the sidelines of a briefing in Makati City last week, said surging production costs are mainly due to the weak peso.

"The cost of the raw materials and packaging materials increased by as much as 20% but we have to absorb that because we cannot just increase the price of medicine. It would be harder for consumers to afford the medicine. We are absorbing it for the meantime, hoping that this will normalize eventually," Mr. Porte said.

The peso closed at P57.23 against the dollar on Friday, strengthening from the Thursday level of P58.19. The peso is coming off a record low of P59 in October.

According to Mr. Porte, key imports include active pharmaceutical ingredients, which are "all imported. The only materials that are sourced locally include sugar, alcohol, and herbal pharmaceutical material like *lagundi*."

"We typically import our materials from India, China, and Europe," he added.

Mr. Porte added that the Marcos administration should promote the export of domestically manufactured herbal drug products.

"One low-hanging fruit is to tap local requirements and export herbal drug products that only the Philippines can produce. It needs to be competitive globally in terms of safety and efficacy; that is why testing is required. The clinical testing takes five to seven years and a huge amount of investment. We are currently working with the Department of Science and Technology (DoST) to (develop) 10 herbal medicines," Mr. Porte said.

PPMA's members include Pascual Laboratories, Inc., Hizon Laboratories, Inc., Lejal Laboratories, Inc., Lloyd Laboratories, Inc., Interphil Laboratories, and Premier Creative Packaging, Inc. — **Revin Mikhael D. Ochave**

TOWFIQU BARBHUIYA-UNSPLASH

Digital services tax measure to target large foreign companies

THE planned tax measure for digital service providers will target mainly large foreign companies, a senior legislator said, calling it a means of leveling the playing field for domestic media companies.

"The biggest competitor of traditional media now is YouTube, Facebook and TikTok but the country doesn't get a single centavo. DZWB, DZRH, you (media companies) pay the government income tax and VAT (value-added tax) so that's not fair and yet these companies take away market from our (legacy) companies," Senator Sherwin T. Gatchalian, who chairs the Senate's ways and means committee, said at the Pandesal Forum on Sunday.

"So, just to put things on equal footing, the government plans to tax digital services, but (only) the big ones. We're not talking about the small ones... we're not going to do anything (to the smaller companies), it's only the big foreign companies," he added.

Her called the current system "unfair" as domestic retailers are required to pay 25% in income tax and 12% VAT "but digital services, because they are new, don't pay anything."

President Ferdinand R. Marcos, Jr. signaled the administration's intent to impose VAT on digital service providers in his first State of the Nation Address, estimating proceeds of around P11.7 billion from such a tax if implemented in 2023.

Mr. Gatchalian said that this was one of the many options to increase government revenue, citing as well enhanced tax administration for micro, small and medium enterprises (MSMEs).

"We're keeping it simple," he said. "We expect more MSMEs to pay their taxes on time."

He said the debt-to-GDP ratio, which according to data from the Bureau of the Treasury (BTr) jumped to 63.7% in the third quarter, can be brought down to 40-50% in the next five years with more foreign investment.

Former Speaker of the Indonesian Regional Representative Council Irman Gusman, speaking at the forum, discussed possible cooperation with the Philippines on coal, geothermal energy, tourism, and agriculture.

He said more can be done to develop trade between the Philippines and Indonesia.

Mr. Gatchalian noted that inflation, which surged to near 14 year-high in October to 7.7% from 6.9% in September and 4% in October 2021, was mainly driven by power and food prices.

To address this, the Philippines can discuss partnerships with Indonesia that will provide access to discounted coal, reliable supply, he said, noting that this will lower the cost of electricity.

Since both the Philippines and Indonesia are big food producers, he added that trade can also be maximized to offset rising food prices.

"It really happens because food is susceptible to climate and if we have typhoons, we can see prices of food go up and we recently experienced a few typhoons," he said. "We can tap our Indonesian partners for cheap produce, cheap food supply so we can bring down inflation."

Mr. Gatchalian also noted potential for further collaboration with Indonesia on renewable energy, especially in geothermal energy. "The Philippines is quite active in the renewable energy sector. We are pushing very hard to increase our renewable energy use both from solar and wind, and also from hydropower plants."

"I say this because I see a lot of similarities between the Philippines and Indonesia in terms of energy and both countries would want to use its renewable energy as the main source of energy at one point in the future," he said. — **Alyssa Nicole O. Tan**

Aboitiz Power Davao battery storage facility operational this month

ABOITIZ Power Corp. said a 49-megawatt (MW) hybrid battery energy storage system (BESS) facility in Maco, Davao de Oro, will start operations this month.

The facility will support the Mindanao grid, especially during the dry season. The grid, which is largely dependent on hydro power, can tap stored power when hydroelectric capacity falls, an unidentified company spokesman said via e-mail on Saturday.

Another BESS project, a 24-MW facility in the Magat complex in Ramon, Isabela, operated by SN Aboitiz Power Group, is expected to start commercial operations by the first quarter of 2024, the company said.

Aboitiz Power said the Magat BESS facility will also be tapped for grid support.

Power grids tap reserve power, engaged via so-called ancillary services contracts, when baseload power declines.

"They are expected to play an important part in helping balance the Philippine energy grid's reliability and support lower-carbon energy systems," Aboitiz Power said. — **Ashley Erika O. Jose**

Solar estimated to have eliminated $78M in PHL fossil fuel spending

AMERICAN PUBLIC POWER ASSOCIATION-UNSPLASH

SOLAR POWER helped do away with an estimated $78 million in Philippine spending on fossil fuels in the first half of 2022, with the potential to realize more in savings, three think tanks said in a report.

According to a report issued by Ember, the Centre for Research on Energy and Clean Air (CREA) and the Institute for Energy Economics and Financial Analysis, the Philippines, China, India, Japan, South Korea, Vietnam, and Thailand saved a combined $34 billion in fossil fuel spending in the first six months of the year.

"The potential savings from existing solar alone are enormous, and expediting their deployment alongside other clean energy sources such as wind, will be crucial for energy security in the region. While ambitious targets are important, follow through will be the key thing to watch moving forward," CREA's Southeast Asia Analyst Isabella Suarez said in a report.

Solar accounted for only 2% of the power generated in the Philippines in the first six months, according to the report, but solar generation is also expected to grow at 22% each year until 2030 in China, India, the Philippines, Japan and Indonesia. — **Ashley Erika O. Jose**

PHL considered priority market by Spanish companies

THE Philippines is considered a priority market for Spanish companies, according to a Spanish state agency helping that country's companies enter overseas markets.

Maria Peña, ICEX chief executive officer, said on the sidelines of the Philippines-Spain multilateral partnership event in Makati City last week that "the Philippines is one of the priorities for Spanish companies... We are all from big companies, very specialized companies who are coming here to look for business opportunities."

"The Philippines is a very interesting market for us. The reality is we are here trying to reinforce our links with the Philippine economy," she added.

ICEX is an arm of Spain's Ministry of Industry, Trade, and Tourism.

Some of the Spanish companies participating in the event include Acciona Agua, Acciona Construccion SA, Almar Water Servicios España SL, Alsina Formwork Southeast Asia Corp., Arquimea Group SA, Ignis Desarrollo SL, Metropolitano De Tenerife SA, Seta Ph Technology SL, and Tedagua Philippines, Inc.

Ms. Peña said Spanish companies are focusing on sectors where they have competitive advantage and are seeking to establish long-term relationships with local partners.

"If we are talking about transport, water, clean energy, agro-industry, and tourism, we are the perfect partner. The Philippines' priorities are our priorities," Ms. Peña said.

Ms. Peña said that a bilateral free trade agreement (FTA) between the Philippines and Spain can happen only via the European Union (EU).

"The FTA has to be with the EU since we are a member. I think the (FTA) will be a great opportunity for Europe and for the Philippines," she said.

"Free trade is the best way to spread wealth, to create wealth, and to have better opportunities for all of us to create good employment and to reinforce the economic base of both parts. It will be very interesting for all of us," she added. — **Revin Mikhael D. Ochave**

OPINION

What's new with Philippine investment incentives

SUITS THE C-SUITE

CHERYL EDELINE C. ONG and KAREN MAE L. CALAM-IBAÑEZ

2022 has ushered in several changes to the Philippines: a new administration, the winding down of the COVID-19 pandemic, and updates to the country's investment incentive strategy.

Investment incentives are government concessions meant to attract inbound capital. Taking advantage of these incentives is integral to strategic business optimization. From the relaxing of foreign equity restrictions, to the 2022 Strategic Investment Priority Plan, to environmental laws and more, entrepreneurs should be aware of every opportunity to decrease the cost of doing business in the Philippines.

ENCOURAGING FOREIGN EQUITY

Foreigners have been gradually given more freedom to invest. They may enter industries previously exclusive to Filipino citizens, subject to reciprocal treatment. Instead of dreading competition, organizations should use this opportunity to seek more funding for their operations.

Amendments to the Public Service Act limited the activities that are considered public utilities, namely the distribution of electricity, transmission of electricity, petroleum and petroleum products pipeline transmission systems, water pipeline distribution systems and wastewater pipeline systems, including sewerage pipeline systems, seaports, and public utility vehicles. This effectively removes from the "public utility" classification the domestic shipping, railways and subways, airlines, expressways, tollways, and transport network vehicles services, among others. These can now be fully owned by foreigners.

Telecommunications and other vital services are subject to safeguards for critical structure and the reciprocity rule. On the other hand, the amended Retail Liberalization Act grants foreign enterprises the right to invest in retail trade businesses with a minimum paid-up capital of P25 million. If it owns more than one physical store, the investment per store should be at least P10 million.

If successful, these equity market liberalizations could lead to increased foreign direct investment (FDI). A higher FDI means an improved exchange rate for the peso. Furthermore, investment incentives can also be used to boost job creation as well as job quality. The latter is crucial amid rising underemployment rates.

For example, the amended Foreign Investments Act of 1991 lets foreigners invest in micro and small Domestic Market Enterprises (DMEs) with a minimum paid-up capital of $100,000.00. The DMEs should either involve advanced technology; or be endorsed as startup enablers; or directly employ at least 15 Filipinos, with a majority of its employees being Filipino citizens. This has been amended from the previous requirement of at least 50 direct Filipino employees.

AN OVERVIEW OF THE 2022 SIPP

To effectively implement the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, Memorandum Order No. 61 was issued to approve the 2022 Strategic Investment Priority Plan (SIPP). It grants investment incentives to entities registered as Registered Business Enterprises (RBEs). RBEs are categorized as either Export Enterprises (EEs) if 70% of their output is directly or indirectly exported, or as DMEs if the situation is otherwise.

The regulatory power of investment incentives can be observed in the following aspects of the SIPP and the CREATE Law:

Export Enterprise vs. Domestic Market Enterprise. To address the trade deficit, EEs get additional benefits over DMEs. EEs get VAT incentives and have the option to avail of either a 5% tax on their gross income earned, in lieu of all national and local taxes, or Enhanced Deductions (ED) for 10 years following the end of the income tax holiday (ITH) period. Meanwhile, DMEs have no VAT incentives, and can only avail of the ED for five years after the lapse of the ITH period.

Provincial benefits. The period to enjoy the benefits of the 2022 SIPP depends on both the kind of RBE (whether DME or EE), as well as the location of the registered project or activity. Following the push towards rural development as embodied in the *Balik Probinsya* program, the CREATE Law gives longer ITH periods to RBEs operating outside of the National Capital Region and other metropolitan areas.

Priority activities in the tier system. The administration aims to create a self-sufficient Philippines. Thus, longer benefits are granted to industries such as agriculture to promote food security, healthcare to better withstand future pandemics, power to reduce reliance on imported fuel, and higher tier activities.

PUSHING FOR A GREEN ECONOMY

The right of Filipinos to a balanced and healthful ecology goes hand-in-hand with the need for economic development. Hence, the current administration's socioeconomic agenda includes the pursuit of a green economy. It is willing to compensate sustainable, eco-friendly businesses through investment incentives under the Renewable Energy (RE) Law, as implemented by Revenue Regulations (RR) No. 07-2022.

Under the RE Law, RE developers may avail of a seven-year ITH. Afterward, the developer is to pay 10% corporate tax on taxable income, provided that the resulting savings are passed on to end-users in the form of lower power rates. They may also avail of the incentives under the CREATE Law, e.g., four to seven years of ITH, depending on location and industry tier, followed by five years of Enhanced Deductions. The main consideration in determining which incentive to apply for is the time-bound incentives under CREATE Law which is not applicable under the RE Law.

In addition, the Philippine Green Jobs Act of 2016 promotes the creation of "green jobs," or employment which contributes to environmental preservation. Under RR No. 05-2019, businesses offering green jobs will be granted an additional deduction equal to 50% of the total expenses for skills training and research development. The law also provides that capital equipment that are actually, directly and exclusively used in the promotion of green jobs, may be imported free of taxes, though the government has not yet issued any implementing rules for this provision.

BALANCING INCENTIVES WITH SUSTAINABLE GROWTH

Investment incentives have been introduced by the government in a conscious effort to remain globally competitive. Granting incentives must nonetheless be balanced with sustainable growth.

Every concession comes with an equivalent benefit to ordinary Filipinos, either through employment opportunities or through eco-friendly communities. Companies have just as much to gain from investment incentives as their foreign counterparts and taking advantage of tax and regulatory benefits is integral to any business strategy.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the authors and do not necessarily represent the views of SGV & Co.

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