SMC Global Power offers Ilijan capacity to Meralco

SMC Global Power Holdings Corp., the power arm of San Miguel Corp. (SMC) has offered the capacity of its Ilijan natural gas to Manila Electric Co. (Meralco).

In a statement on Sunday, SMC President Ramon S. Ang said the offer covers the full 1,200 megawatts (MW) capacity of the Ilijan plant, which accounts for about 10-12% of Luzon's dependable capacity.

Mr. Ang said SMC Global Power's offer will only cost Meralco "a minimal P1.00/kwh (kilowatt-hour) in capital recovery fee or half of its capital cost on the facility."

He said that SMC Global Power's South Premiere Power Corp. (SPPC), the administrator of the power plant in Ilijan, Batangas is currently in discussions with Meralco over the offer.

In June, SMC purchased the remaining banked gas of Philippine National Oil Co. (PNOC), paying $1.2 billion for 70.26 petajoules (PJ).

SMC said this will support the projected fuel requirements of SPPC's Ilijan power plant until February 2024. However, PNOC has yet to deliver the banked gas.

"SMC Global is also willing to work with Meralco in using its 70 PJ banked gas acquired from PNOC at a cost much lower than the prevailing cost of coal power generation," Mr. Ang added.

Aside from its Malampaya allocation, Mr. Ang also proposed to source fuel for the Ilijan facility from liquid fuel which Meralco will pay for.

Energy Secretary Raphael P.M. Lotilla has warned of the possibility of red and yellow alerts in 2023 if the output of Ilijan is not made available. Ilijan's natural-gas supply agreement expired in June.

"We will continue to look for ways to help make sure consumers will still have some protection from the effects of skyrocketing global fuel prices. This is one of the best and most direct ways we can show solidarity with our people in this time of crisis," Mr. Ang said. — **Ashley Erika O. Jose**

Mindanao railway attracting interest from 'other countries'

By Arjay L. Balinbin
Senior Reporter

MORE COUNTRIES have expressed interest in building the Mindanao railway project, according to the Department of Transportation (DoTr).

"There are other countries who have expressed interest in the project in general," Undersecretary for Planning and Project Development Timothy John R. Batan told *BusinessWorld* in an interview recently.

The 1,544-kilometer railway will connect Davao City, General Santos, Cagayan de Oro, Iligan, Cotabato, Zamboanga, Butuan, Surigao City, and Malaybalay.

The first phase, from Tagum to Digos, which is expected to be financed by the Chinese government, is in the "advanced phase," according to Mr. Batan, with the Philippine government hoping to conclude financial negotiations with Beijing "soon."

The Department of Finance and China are currently in the "discussion phase" on the loan, Secretary Jaime J. Bautista told One News PH's *The Chiefs* recently.

One of the major issues encountered by the previous administration, he said, is the interest rate offered by Beijing.

"*Medyo nataasan 'yung gobyerno natin. Gusto nila* 3% (China is asking for 3%, which our government finds a bit high), and right now, I think, China is open to lowering the interest rate," Mr. Bautista said.

In a statement on Oct. 14, the DoTr said that US Ambassador to the Philippines MaryKay Loss Carlson had conveyed an offer of assistance to the department for various transport infrastructure projects, including the Mindanao railway.

"Ambassador Carlson discussed with Secretary Bautista the possible technical assistance for the implementation and development of the Mindanao Railway Project," the department noted.

"The assistance, which will be coursed through the US Trade and Development Agency (USTDA) and the US Agency for International Development (USAID), will encompass the early-stage project preparation and development of a public-private partnership (PPP) structure, to facilitate increased private sector investment and participation," it added.

The government awarded the P3.08-billion project management consultancy contract of the Mindanao Railway Project Phase 1 to a Chinese consortium composed of China Railway Design Corp. and Guangzhou Wanan Construction Supervision Co., Ltd.

The DoTr said the project management consultant will assist in the preparation and management of the overall project implementation program, including land acquisition activities, coordination with government agencies, the review of the project's detailed design, and supervision of construction, among others.

The first phase covers a 100-kilometer railway that will connect Tagum in Davao del Norte, Davao City, and Digos in Davao del Sur, traversing eight stations. It is expected to accommodate 122,000 passengers per day and cut travel time between Tagum and Digos from three hours to one.

Semirara sees 'difficult' year for power in 2023, relief from LNG imports to depend on price

ISIDRO A. CONSUNJI, chairman and executive officer of Semirara Mining and Power Corp., said in a briefing on Friday that he expects power prices to continue rising next year, with any relief to be provided gas imports, which will start arriving in significant volumes in 2024, to depend on how high gas prices will be.

"In my opinion, next year will be difficult, I think 2024 will be okay because of the entry of LNG (liquefied natural gas) but the issue is the price," Mr. Consunji said.

In 2023, at least two LNG projects are expected to start operations — those of Atlantic Gulf & Pacific Co. and First Gen Corp. subsidiary FGEN LNG Corp.

Mr. Consunji's assessment is roughly in line with the government's.

"We are expecting that by next year, we will see increasing energy prices," Michael O. Sinocruz, director for Energy Policy and Planning at the Department of Energy, said at the BusinessWorld Economic Forum Forecast 2023 last week.

Energy Secretary Raphael P.M. Lotilla has said power supply will be tight during next year's dry season.

In November, Manila Electric Co. announced that its customers should expect higher electricity bills due to the increase in the generation charge.

The generation charge is the direct cost of obtaining energy from power generators. It accounts for over half of a typical consumer's power bill.

"We expect energy prices to rise in lockstep with fossil fuel prices in the market, which are unlikely to come down as the global tug of war for coal and gas supply continues," Avril de Torres, deputy executive director of Center for Energy, Ecology, and Development, said in a message on Saturday.

"I think in view of the projects that we see coming online (as Malampaya's gas reserves deplete)... I think frankly, the country is in a difficult position. Hopefully we are able to get more progress in the few years," Miguel de Jesus, executive director and head for commercial operations of ACEN Corp. said during the BusinessWorld Forum.

The Malampaya gas field currently supplies 20% of the Philippines' total power requirements and 27% of the Luzon grid's supply. The concession agreement for operating the gas field is expected to expire by 2024 while its gas reserves started dwindling this year.

Ms. De Torres said high electricity prices will continue for as long as the Philippines relies on fossil fuels and resorts to passing through fuel costs to consumers.

"The only real solution is to tap renewable energy, the largest single source of power we have," Ms. De Torres said.

James A. Villaroman, chief renewable energy officer of Aboitiz Power Corp., told *BusinessWorld* in a recent interview that the entry of renewables has helped to reduce power costs. — **Ashley Erika O. Jose**

Foreign chambers want hybrid vehicle imports included in zero-tariff scheme

IMPORTS of hybrid electric vehicles (EVs) should be accorded zero-tariff entry alongside full EVs, foreign business chambers said.

The zero-tariff policy proposed by the National Economic and Development Authority (NEDA) covers EVs only.

Bradley Norman, Australian-New Zealand Chamber of Commerce Philippines vice-president, said in a briefing last week that including hybrid EVs in the zero-tariff policy will help ease the transition away from vehicles driven by internal combustion.

"It will certainly be great if it (zero-tariff) can be applied to the hybrids as well because they seem to be the bridge between fossil-fueled motor vehicles to EVs," Mr. Norman said.

On Nov. 24, the NEDA Board endorsed a draft executive order (EO) lowering the most-favored-nation tariff to zero on completely built-up EVs for five years. The EVs covered by the proposed EO include cars, buses, mini-buses, vans, trucks, motorcycles, tricycles, scooters, and bicycles.

The current tariffs for EVs range from 5% to 30%.

Korean Chamber of Commerce Philippines President Hyun Chong Um said that removing the tariffs for imported EVs would help early adopters and create momentum for a shift away from fossil fuel-powered vehicles.

"For the Philippines, just removing the tariffs... will greatly benefit not only the environment, but also prepare for the next stage of the automotive industry," he said.

"Hybrid EV or a combination (of both hybrid and full EV) will be a good start in changing from the combustion engine to electric cars," he added.

Lars Wittig, European Chamber of Commerce of the Philippines president, also called for the EO to cover all potential import source countries.

He said the Philippines will be the first country in Association of Southeast Asian Nations (ASEAN) to allow zero import duties on imported EVs once the EO is signed.

"We applaud the (Philippine) government for these initiatives. But we would also like it to include hybrid cars and not only from within Asia or ASEAN, but also from Europe," Mr. Wittig said.

American Chamber of Commerce of the Philippines Executive Director Ebb Hinchliffe said that his organization is pushing for domestic EV production.

"We would also like to see (EVs) being produced here, not just imported. Until we have the ability to manufacture these EVs in-country, for sure we should be have zero tariffs," Mr. Hinchliffe said.

"We just cannot continue to pollute the skies. We saw how blue the skies were during the pandemic when all the vehicles were off the road," he added. — **Revin Mikhael D. Ochave**

OPINION

Brace for impact: The future of taxation

SUITS THE C-SUITE
MARGAUX A. ADVINCULA *and* **DONNA FRANCES YLADE-TORRES**

In a span of three months, we have published a series of articles based on carefully curated topics from the first-ever SGV Tax Symposium held on Aug. 7. These articles covered pivotal areas and emerging developments in taxation significantly affecting the business landscape in the Philippines.

In this last article of the 1st SGV Tax Symposium publication series, we are putting a spotlight on the proposed digital transformation in tax administration so that readers can better brace for the impact of the future of taxation in the Philippines.

PROPOSED DIGITAL TRANSFORMATION IN TAX ADMINISTRATION

Digital agility was never more pivotal than during the pandemic. Globally, businesses are finding themselves on the frontlines of rapid digital transformation.

Following suit, tax regulators are harnessing digital tools to automate tax invoicing and reporting, simplifying tax policies and compliance for a more seamless taxpayer experience, and automatically integrating taxation processes into taxpayer systems for accelerated tax revenue collection.

Regulators are likewise leveraging information from digital analytics tools and data shared by global tax administrations to extract errors and inconsistencies, enabling them to automate checks and audit selection processes. The digitalization of multi-jurisdiction reports filed by companies further enables regulators to access, assess and compare tax loopholes, trends and risks, thus enhancing the efficiency of tax revenue programs.

In the Philippines, the Department of Finance (DoF) is adopting a Medium-Term Fiscal Framework (MTFF) as the government's economic blueprint to enhance the efficiency of the tax system. The Bureau of Internal Revenue, in particular, has been improving its online filing and payment systems, introducing mandatory e-invoicing in pilot programs and deploying an automated tax registration system for selected taxpayers (i.e., Online Registration and Update System).

The MTFF is further accelerating priority tax measures to catch up with the digital economy, such as the imposition of VAT on digital service providers and reinforced tax collections from online content creators, which are expected to bring significant additional tax revenue. With efficient tax administration through digitization, the DoF is optimistic that the economy will continue to bounce back to its pre-pandemic high-growth trajectory.

FUTURE OF TAX AS A DOUBLE-EDGED SWORD

The future of tax can be a double-edged sword. With the digital revolution already transforming tax administration around the world and rapidly becoming sophisticated and agile, it cannot be ignored that it will also deliver sharp, costly and taxing changes in the way we navigate the tax ecosystem.

Critical to businesses is whether they have the right technology, infrastructure and upskilled talent who are fast enough and prepared to ensure that their tax functions are ahead of the regulators, and that they are digitally ready for an advanced level of scrutiny. Without a future-ready tax function, companies may be exposed to new tax risks.

Therefore, with the ascendance of technology, the tax function can no longer remain a mere support system in business organizations. The tax function must transform into a key business and strategic partner of operating units. In essence, the value of the tax function to companies has never been as important as it is now.

An important assessment that needs to be made in a future-proof tax function is the choice of automation tool such as robotics and artificial intelligence (AI). These solutions can be fast, systematized and less prone to errors, but they can fall short in areas where human insight, experience and judgment are required.

Without a doubt, rapid technological change can also play a massive part in identifying shadow economies and curbing any informal activities and interactions among the players, which in turn, will create opportunities for regulators to recover missed tax revenue arising from under-reporting of sources of income or non-registration of businesses. However, with the sudden growth of various business models (e.g., e-commerce, e-banking, e-education, e-health), and the proliferation of shadow economies, it will be no surprise if regulators eventually utilize these digital platforms as extended agents to carry out the tax administration processes within their jurisdictions.

However, it is also important for regulators to understand the need to strike a balance between increasing government coffers through greater tax collection efficiency and sustaining local entrepreneurship by strengthening taxpayer morale while also increasing taxpayer confidence in a progressive tax system.

PRIORITY SOLUTIONS

Organizations should continuously reassess their operating model and functions to identify gaps in data, technology and people, as well as to meet the heightened level of tax and regulatory compliance brought about by the pivotal shift towards the future of taxation in the Philippines.

To achieve this, companies can prioritize the following solutions to brace for the impact against the future of taxation:

1. Meet compliance obligations by upgrading the tax function, either by investing in advanced digital technology for accurate tax reporting, or outsourcing it to expert tax advisers who can leverage high-end technology solutions that may otherwise be too costly for companies to acquire on their own;
2. Reshape human resource functions through a well-designed global mobility program with comprehensive employment, tax and immigration solutions ahead of any modern workforce disruption;
3. Prepare a well-developed transfer pricing framework that is globally cohesive and aligned with contemporary international tax rules governing cross-border transactions;
4. Provide internal tax teams with adequate support from tax advisers who have relevant expertise in dealing with multi-jurisdictional tax controversies; and
5. Revisit indirect tax compliance and customs reviews focusing on disruption to globalization and digital trade.

With the rapid use of technology to make tax administration more advanced, efficient, seamless and integral to the natural systems of businesses, it is imperative for companies to stay at the forefront of these changes. Those that do not keep up could find themselves left behind and exposed to new tax and reputational risk.

Indeed, the future of taxation in the Philippines has begun. Whether it is viewed as positive or negative, it is here to stay. The question to companies now is — are you ready?

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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