# Cost of Vietnam ASF vaccine estimated at about P600/dose

THE vaccine for African Swine Fever (ASF) developed in Vietnam may cost nearly P600 per dose, according to the Bureau of Animal Industry (BAI), leading the hog industry to call for subsidies to head off higher pork prices at retail.

"What I know is (the ASF vaccine) might cost more or less, around P600," BAI Assistant Director Arlene V. Vytiaco told reporters on the sidelines of the Livestock Philippines 2023 conference on Monday.

Ms. Vytiaco said approval by the Food and Drug Administration (FDA) may mean the vaccine could be rolled out this year, though only to commercial hog farms.

"*Siguro dapat* for commercial farms *muna* (The vaccine is probably best suited for commercial farms initially)" she said. "*Dahil nag-aagawan nga, ang naibigay lang muna ng* Vietnam is 300,000 doses (Because there is great demand, Vietnam can only allocate us 300,000 doses at first) by the last quarter of the year."

Ms. Vytiaco announced early this month that the safety and efficacy trial has been completed, with the vaccine awaiting the issuance of an FDA certificate of product registration.

The manufacturer is ready to eventually supply 600,000 doses, she added.

Ms. Vytiaco expects the vaccine to come in three types of packaging: five doses and 10 doses for backyard hog raisers and 50 doses for commercial farms.

AMBER KIPP-UNSPLASH

"So *buong* 300,000 *na maibibigay, walang* packaging for backyard raisers *kasi lahat ata* 50-60 doses (The initial allocation of 300,000 is not suitable for backyard raisers because the first batches will be 50-60 doses)" she added.

Pork Producers Federation of the Philippines, Inc. National Chairman Nicanor M. Briones said that without vaccine subsidies, the farmgate price of pork may increase P6 per kilogram, liveweight.

"The price of pork may rise by around P9 per kilogram at retail," he told reporters.

Mr. Briones said that the government should declare a state of calamity to facilitate the funding for a vaccine subsidy, particularly for backyard hog raisers.

Agriculture Assistant Secretary Arnel V. de Mesa said: "If the conditions are met to declare a state of calamity, then it can be done."

Mr. De Mesa also said that the department is still conducting surveillance to gauge the extent of the outbreak.

As of June 8, seven regions, 13 provinces, 46 municipalities, and 113 barangays had active ASF cases, according to the BAI. — **Sheldeen Joy Talavera**

# El Niño also expected to affect PHL rice suppliers Vietnam, Thailand

RICE inventories will be under pressure next year because the El Niño dry spell will also hit the Philippines' major rice suppliers, Thailand and Vietnam, a farming industry association said.

"Next year, we will have low stocks going into the lean months… because Thailand and Vietnam will also be hit by (El Niño). The international price may also increase," according to Raul Q. Montemayor, national manager of the Federation of Free Farmers.

Speaking at a virtual forum, Mr. Montemayor said El Niño's impact will be felt by the dry season crop in the first half of 2024, when Philippine rice can count on limited irrigation water.

"Also, the carryover stock from 2023 may be lower than normal," he said.

As of January 1, the Philippine rice inventory was 1.77 million metric tons, down 5.1% from a year earlier, according to the Philippine Statistics Authority.

Mr. Montemayor said the "most intense" El Niño episode took place between 1997 and 1998, which caused a 24% drop in the production of palay (unmilled rice).

He said PAGASA (Philippine Atmospheric, Geophysical and Astronomical Services Administration), the government weather service, is reviewing previous occurrences to gauge the potential impact of El Niño this year.

PAGASA Assistant Weather Services Chief Ana Liza S. Solis said that some areas in the country may experience a 22-50% reduction in rainfall starting October.

"There are 36 provinces with the potential for a dry spell by the end of December, while two provinces have the potential for drought by end of December," she said, citing the agency's initial assessment. — **Sheldeen Joy Talavera**

# Emergency power procurement pricing allowed to vary from approved tariff

THE pricing of emergency power supply agreements (EPSAs) will be allowed to vary from tariff levels approved by power regulators, subject to certain conditions, the National Electrification Administration (NEA) said.

The NEA issued the statement following consultations with the Energy Regulatory Commission (ERC) and the Department of Energy.

"ECs (electric cooperatives) can also negotiate a higher or lower tariffs than the ERC-approved tariffs for each technology available in the area against the EPSA rate, provided that the ERC is satisfied the rate will benefit consumers," the NEA said, citing an advisory released earlier by the ERC.

Earlier this month, the ERC issued show-cause orders against some DUs for entering EPSAs priced higher than the tariffs approved by the ERC.

In its advisory, the ERC said that EPSAs must be immediately filed with the Commission upon signing of the agreement, and that ECs can only enter into EPSAs after a declaration of force majeure.

"The latest lowest approved generation tariff for the same technology in comparable areas as posted in the ERC website will be the applicable rate which can be passed through to consumers while the EPSA is still pending approval," the NEA said.

ERC Chairperson and Chief Executive Officer Monalisa C. Dimalanta said that if no similar technology is available, the ECs must refer to surrounding regions with the same specific technology.

NEA Administrator Antonio Mariano C. Almeda said that the ERC must also look into the possible cases of over-contracting and must "intervene as the Regulator may possibly act within its authority for the possible reduction of power supply through amendment or cancellation of the subject agreement with the concerned power supplier." — **Ashley Erika O. Jose**

# Response to retail liberalization mainly expansions, not new entrants

FOREIGN retailers have responded to the amended Retail Trade Liberalization Act by expanding their current operations in the Philippines, with no new investors entering the market, the Philippine Retailers Association (PRA) said.

The PRA was citing remarks made on Monday by its chairman, Paul A. Santos, to Retail Asia, an industry monitor.

"The current floor amount for investing in the retail market will (not attract) the big foreign retailers that the law presumably wanted to invite into the country," Mr. Santos said.

Mr. Santos said the PRA has instead witnessed the expansion of foreign retailers already on the ground, rather than new entrants.

"What we're seeing would be existing foreign retailers already doing business in the Philippines expanding their presence. (Many of these had) been planned long before, but postponed," he added.

Mr. Santos said the lowered minimum investment levels required of foreign retailers seeking to enter the Philippine market was better targeted at small- and mid-sized potential investors.

"It would make the Philippines now attractive to small- and medium-scale foreign retailers who may want to do business in the Philippines competing with Philippine small- and medium-scale enterprises," Mr. Santos said.

Republic Act (RA) No. 11595, signed by former President Rodrigo R. Duterte in December 2021, amended RA 8762 or the Retail Trade Liberalization Act.

The amendments reduced the minimum paid-up capital for foreign retailers to $446,000 or P25 million from $2.5 million previously.

The amendments also require foreign retailers to invest a minimum of P10 million per store if they seek to open more than one physical location.

According to Mr. Santos, foreign retailers are more concerned about incentives and the economic environment rather than capitalization requirements.

In May, Mr. Santos said the PRA has yet to receive reports of new retailers entering the Philippines that were "specifically attracted" by the amended law.

"Attracting businesses to the Philippines takes more than (just) lowering your barriers to entry. What motivates foreign businesses to do business in the Philippines is the potential to earn a profit in this market," Mr. Santos said. — **Revin Mikhael D. Ochave**

OPINION

# Factors affecting arm's length price or profit

LET'S TALK TAX
MAINE SANCHEZ-JIMENEZ

The main objective of a benchmarking analysis in a Transfer Pricing Documentation (TPD) is to determine the arm's length range of price or return. As discussed in our previous article "Capitalizing the 4Cs of a TP benchmarking analysis," arm's length range is the arm's length range of price, mark-up or profit obtained from third-party independent companies or transactions which are reasonably comparable to the related party controlled transaction.

In this article, we will discuss the major factors that affect the determination of the arm's length price, mark-up or profit.

### CHARACTERISTICS OF PRODUCT OR SERVICE

The specific characteristics of the product or service is one of the factors that have significant impact on the arm's length price. Under Revenue Regulations (RR) No. 2-2013, characteristics of products or services that need to be assessed include the following:

a. For transfer of goods — physical features, the quality and reliability, and the availability and volume of supply of the goods;

b. For provision of service — nature and extent of the services;

c. For intangible property — the form of transaction, the type of intangible, the duration and degree of protection, and the anticipated benefits from the use of property.

For example, an entity manufacturing recreational vehicles (e.g., travel trailers) with more features will demand a higher price than another entity manufacturing regular commercial vehicles. Another example would be an entity providing unique services or highly technical ones such as engineering design; healthcare will usually charge a higher price than another entity providing general and routine services like back-office support, administrative support and customer service.

### FUNCTIONS PERFORMED, ASSETS EMPLOYED, AND RISKS BORNE

The price of the product or service or level of profit of the entity is directly correlated to the functions performed, assets used and risks assumed.

As a rule, if the entity performs more functions (e.g., procurement, research and development, production, logistics, sales, marketing, client generation, and after-sale services), uses more assets (e.g., land, buildings, equipment and machineries, intangible assets, employees and technology), and bears higher risks (e.g., market risk, foreign exchange risk, product liability risk, credit risk, liquidation risk, general business risk), then the price of the product or service or the level of profit of the entity is higher as well.

For example, a product with a warranty is expected to have a higher price or earn a higher return compared to a similar product without a warranty. The difference in selling price or profit is due to the additional function performed and risk borne in providing a warranty for the product.

Likewise, a branded product is expected to have a higher price or earn a higher return compared to similar product without the branding. The difference in the selling price or profit is due to the additional asset (in this case, trademark or research and development) employed in enhancing the value of the product. A perfect example of this is the price of branded medicines which are more expensive than generic ones.

Moreover, the price or profit is also affected by contractual terms and conditions such as payment terms, delivery terms, and discounts. An example is the selling price for buyers who purchase in greater quantity is typically lower than the selling price for buyers who buy smaller quantities because of the volume discounts. On payment terms, businesses normally give discounts to those who pay early.

Furthermore, price or profit differs whether the transaction is conducted under normal business or under special business conditions. The price of goods is set at regular prices under normal business conditions while it is discounted during year-end sales, clearance sales, holiday sales, or liquidation sales.

Hence, the analysis of functions, assets and risks (FAR) is important in determining the appropriate price or profit level as discussed in our previous article "How FAR are you in transfer pricing documentation?"

In addition, the result of the FAR analysis becomes the foundation of entity characterization which, in turn, affects the level of profit. To know more about how the level of profit is affected by entity characterization, you may revisit our previous article "Fundamentals of entity characterization in TPD."

### MARKET FACTORS

Supply and demand, competition, and economic conditions greatly influence the price of the product or service. For example, most products or services with high demand and low supply will yield a higher price compared to products or services with low demand and high supply. For instance, the shortage of pork due to African Swine Fever (ASF) drove up the price of this commodity.

Generally, fewer competitors in a market could lead to higher prices of products and services because companies in such a market have little incentive to lower product or service prices since consumers have few alternatives.

Economic conditions such as the inflation rate also affect the pricing of products and services. Another example is the economic conditions during the COVID-19 pandemic, during which various businesses suffered losses or reported reduced levels of profit.

### GEOGRAPHIC LOCATION

The prices of products and services may vary depending on the geographic location. The pricing is affected by variations in costs to produce the product or perform the services, cost of shipping, and local market size and conditions, among others.

Lower costs and expenses incurred in producing the products or performing the services will lead entities to decrease the price. As an example, an entity manufacturing a product may incur lower costs to produce the same product in the Philippines due to cheaper labor as compared to another entity manufacturing a similar product in a country with a higher labor cost.

### REGULATORY FACTORS

Government policies and regulations may affect the pricing of products or services. In general, government affects the market prices in the form of price controls, interest rates, foreign exchange, subsidies, etc.

### BUSINESS STRATEGY

Pricing is also affected by the entity's business strategy with regards to operations, innovation and product development, and its product portfolio or approach to diversification, among others.

For instance, an entity in a startup phase may incur higher costs (e.g., preoperating and organization costs, marketing and promotional expenses) and return a lower level of profit. Moreover, an entity that is planning to increase its market share may undercut the price charged by a comparable company in the same market.

### TAKEAWAY

Characteristics of the product or service, FAR analysis, market factors, geographic location, regulatory factors and business strategy are some of the major factors that affect the price or profit. In preparing the benchmarking analysis, these factors are important to consider in order to judge whether any adjustments should be made to account for the differences.

Stay tuned for our next transfer pricing article.

*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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