Manila pitches FTA to EU as platform for Asian expansion

THE PHILIPPINES is touting itself as a potential "platform" for broadening European trade in the Indo-Pacific in free trade feelers sent to the European Union (EU).

Trade Secretary Alfredo E. Pascual made the pitch during a meeting with European Commission Vice-President and Trade Commissioner Valdis Dombrovskis on June 26 in Brussels, during which he pressed for the resumption of talks on a free trade agreement (FTA).

Mr. Pascual described a free trade agreement with the Philippines as a "strategic platform for economic engagement for the EU in the Indo-Pacific," which would result in a "more permanent mechanism" for furthering the Philippines-EU economic relationship.

The meeting was part of the Department of Trade and Industry's (DTI) three-week European Investment Roadshow, running from June 18 to July 6.

"To maintain strong economic relations with the EU, it is important that a PH-EU FTA is in place before the Philippines eventually loses its Generalised Scheme of Preferences Plus (GSP+) status due to continued economic growth," Mr. Pascual said.

"With the country's positive trajectory towards reaching upper-middle income status, it is high time for the Philippines and the EU to resume FTA negotiations," he added.

The last round of negotiations for the Philippines – EU FTA took place in 2017 after talks officially began in 2016.

Aside from the FTA, Mr. Pascual said the reauthorization of GSP+ status is vital, adding that the finalization of the new GSP scheme will result in more certainty for Filipino exporters and EU importers.

The current GSP+ regulation is set to expire by the end of 2023.

"The continuation of EU GSP+ is beneficial both for the Philippines and the EU in driving inclusive growth and sustainable development," Mr. Pascual said.

In response, Mr. Dombrovskis said the Philippines should await the result of the EU's ongoing trialogue deliberations regarding the finalization of the new GSP scheme regulation.

In September 2021, the European Commission published a proposal for a new EU-GSP scheme from 2024 to 2034.

GSP+ is an incentive arrangement that grants the Philippines zero-tariff treatment on 6,274 products or 66% of all EU tariff lines. Some of the top Philippine GSP+ exports are crude coconut oil, vacuum cleaners, prepared or preserved tuna, and electro-thermic hair dressing apparatus.

In 2022, the Philippines exported €2.93 billion worth of products to the EU under the GSP+, equivalent to a 77% utilization rate.

The DTI said in a separate statement that Mr. Pascual also met with European Investment Bank (EIB) Vice-President Kris Peeters in Brussels on the possibility of financing Philippine projects.

According to the DTI, the EIB has expressed interest in the Mindanao Agro Enterprise Development Project, which seeks to improve competitiveness and develop the food value chain for the main southern island.

It added that the EIB is also interested in financing projects related to digital connectivity, public transport, green economy, renewable energy, agriculture, and health.

"As the largest multilateral financial institution globally, owned by EU member states, the EIB... prioritizes projects related to climate change mitigation and adaptation, social and economic infrastructure development, and support for small and medium enterprises (SMEs) at the local level," the DTI said.

The DTI said that Mr. Pascual also met with a Belgian delegation consisting of officials from Walloon Export and Foreign Investment Agency, Belgian Foreign Trade Agency, and Flanders Investment and Trade on June 26.

According to the DTI, Belgian companies in the Philippines are engaged in manufacturing, services, energy, and logistics.

"Trade between Belgium and the Philippines has shown a significant increase, primarily in the exports of Belgium to the country of its machinery, pharmaceutical products, chemicals, and vehicles," the DTI said.

In 2022, the EU was the Philippines' fifth largest trading partner with trade valued at €15.23 billion. It was the sixth largest export market at €7.96 billion, and sixth leading source of imports at €7.14 billion. — **Revin Mikhael D. Ochave**

PHILIPPINE STAR/MICHAEL VARCAS

Consultant for EDSA Busway study targeted for hiring by Q3

THE Department of Transportation (DoTr) said it hopes to sign a consulting contract by the third quarter for a feasibility study on rehabilitating the bus system along Epifanio delos Santos Avenue (EDSA).

"*Dapat matapos na 'yan kaagad. Mabilis na 'yan, pagpipilian na lang, siguro bago matapos ang* third quarter (This needs to be done soon. It's a simple matter of selecting a contractor, maybe by the third quarter)," Transport Secretary Jaime J. Bautista told reporters on Monday.

On May 26, the DoTr and Public-Private Partnership (PPP) Center received a total of four submissions from consulting firms for two projects.

According to the PPP Center, the proposals include the technical and financial proposals for project preparation for the Manila Bay-Pasig River-Laguna Lake Ferry Project and the NCR EDSA Busway Project.

Once awarded, the consulting services for these projects include the preparation of pre-feasibility, feasibility, and assistance to the DoTr in securing government approvals.

"*Tinutulungan kami ng* PPP Center *sa* feasibility study *nito* (We are receiving help from the PPP Center on the feasibility study)," Mr. Bautista said.

On April 5, the PPP Center and the DoTr signed a Technical Assistance Agreement for the provision of Project Preparation and Transaction Advisory Services for the two projects.

The NCR EDSA Busway Project involves the financing, design, construction, procurement of low-carbon buses, route planning, and operations and maintenance of the busway. — **Justine Irish D. Tabile**

PHL pork imports expected to fall this year as poultry shipments rise

THE Philippines is expected to import less pork this year amid a broader global downtrend in trade, according to the UN Food and Agriculture Organization (FAO).

In a report, the FAO projected the global trade of pork to dip to 11.4 million metric tons (MT) in 2023 from the 11.5 million MT estimated last year.

The FAO said the supply of exportable quantities in producing countries has declined as supply levels rise in East Asia.

"The latest forecasts point to reduced pig meat imports by the US, Japan, Mexico, Vietnam and the Philippines, with likely higher imports by the UK, China, Canada, Uruguay and the Republic of Korea," the FAO said.

The FAO projected Philippine pork imports this year at 489,000 MT, down 2.02%. Philippine pork production is expected to increase 3.62% to 1.26 million MT, upgraded from an earlier estimate of 1.22 million MT.

"Similarly, domestic production recoveries could lead to subdued imports by Vietnam and the Philippines, even though the continuation until 31 December 2023 of the reduced import tariff in the latter may encourage more imports."

Hog production rose 5.1% to 437.99 thousand MT, on a liveweight basis, in the first quarter, according to the Philippine Statistics Authority.

The Bureau of Animal Industry tallied pork imports of 114.8 million kilos, accounting for 43.2% of all meat imports.

The executive order (EO) setting the current tariff rates for imported pork is set to expire by the end of 2023, which would bring about a reversion to the previous tariff rates of 30% within the minimum access volume quota and 40% for shipments in excess of the quota.

At present, the pork tariff rate is 15% for in-quota imports, and 25% for out-of-quota following EOs issued by presidents Rodrigo R. Duterte and Ferdinand R. Marcos, Jr.

Meanwhile, the FAO forecast global poultry meat trade to rise 1% to 16.4 million MT this year, driven by expanded shipments to Asia, Central America, and the Caribbean.

"Significant increases in poultry meat imports are expected for China, Saudi Arabia, Iraq, the European Union and South Africa, as well as in the Philippines, Canada and the Democratic Republic of the Congo, due to growing internal demand amid tight domestic supplies, high prices, more active food services sales and relative affordability," it said.

The FAO did not provide a specific projection for the Philippines.

First-quarter poultry production in the Philippines rose 3.3% to 470.21 thousand MT while imports amounted to 102.7 million kilos. — **Sheldeen Joy Talavera**

Palay average farmgate price up 9.1% in April

THE average farmgate price of palay or unmilled rice rose 9.1% year on year to P18.79 per kilogram in April, according to the Philippine Statistics Authority (PSA).

"All regions continued to record positive annual increments in the average farmgate price of palay in April 2023," the PSA said in its report.

The highest farmgate price of palay was recorded in Northern Mindanao at P20.77. The lowest was the Eastern Visayas price of P16.09.

"The highest year-on-year increase was registered in Northern Mindanao at 14.6%, while the lowest annual increment was noted in Cordillera Administrative Region at 3.7%," the PSA said.

The average farmgate price in the Ilocos Region rose 7.7% year on year to P20.40 per kilo.

The Central Luzon farmgate price during the period grew 11% to P20.02.

The farmgate price rose 8.3% to P19.53 in the Western Visayas.

The farmgate price in the Central Visayas rose 13.5% year on year to P19.52.

On a month-on-month basis, the PSA said that the average farmgate price rose 1.2% from P18.57 in March.

"Month on month, 12 regions recorded higher average farmgate prices, while CAR, Ilocos Region, Cagayan Valley, and Eastern Visayas posted decreases for this month," the PSA said.

Jayson H. Cainglet, executive director of Samahang Industriya ng Agrikultura (SINAG), estimated the current palay farmgate price at between P21 and P24 per kilo.

"As long as imports don't compete with harvest season, the millers are encouraged to buy palay, even some (local government units)," he said. The peak of the harvest is March to May and September to October.

Mr. Cainglet said that SINAG affiliated millers signed a memorandum of agreement with the National Food Authority (NFA) in October, committing to buy palay at a base price of P21 per kilo.

He said with many buying at P21 per kilo, other traders and millers followed suit.

Under Republic Act No. 11203 or the Rice Tariffication Law, the NFA has been stripped of its power to import rice and has been reduced to maintaining an emergency inventory from domestically produced rice.

In the five months to May, the Philippines has imported 1.62 million metric tons of rice, up 7.69% from a year earlier. — **Sheldeen Joy Talavera**

OPINION

VAT refund for tourists

TAXWISE OR OTHERWISE
MARION D. CASTAÑEDA

After the Director-General of the World Health Organization declared an end to COVID-19 as a global health emergency, many of us grew eager to return to life as we knew it before COVID-19. Tourism was one of the hardest-hit industries during the height of the COVID-19 pandemic due to the mobility and international travel restrictions that were aimed at reducing the spread of the virus. Now, although many of us remain cautious and continue to wear face masks despite the lifting of most mask mandates, "revenge travel" — to make up for lost time — is a high personal priority for many.

While there are broader factors that will boost tourism (airport capacity and infrastructure, to name two), one proposal aims to improve our attractiveness as a travel destination from a tax perspective. Under House Bill (HB) No. 7292, non-resident tourists would be allowed to obtain a value-added tax (VAT) refund on their purchases of goods worth at least P3,000. The bill was approved by the House of Representatives on third and final reading, and the President himself has signaled his backing for the proposal in principle.

INTERNATIONAL PERSPECTIVE

The concept of recouping VAT or similar consumption taxes on foreign tourists' purchases is not new. In fact, according to the House Ways and Means Committee Chairman, we are one of the last few Asian destinations that do not have a tourist VAT refund system. To better understand this proposal, let's take a brief look at some of our neighbors.

In Indonesia, Malaysia, Singapore, Thailand, and Vietnam, the general procedures can be outlined as follows: 1) obtain and keep the tax invoices for eligible purchases; 2) show travel documents together with the invoices and the goods purchased (and not consumed) to the refund counter at the airport; and 3) claim the tax refund, most commonly in cash (local currency). Naturally, each jurisdiction has its own set of procedures and rules regarding controls (some have specific "tax-free" shops), purchase or tax amount thresholds, the number of days between when the purchase was made and when the refund is claimed, and even the actual refund mechanism (some allow refunds via credit card reverse charge). Nevertheless, the overarching procedures appear quite similar.

Outside of ASEAN, Taiwan seems to have similar procedures as outlined above, albeit with an option to use an "E-VAT Refund Machine" instead of proceeding to a refund counter. Interestingly, Japan has a drastically different approach: either a) pay for the purchase with consumption tax already deducted upon presentation of a passport, or b) obtain a refund by visiting the designated tax exemption bulk deduction counter (in-store, not at the airport) and presenting the purchased goods, receipt, and passport.

CURRENT PHILIPPINE VAT RULES

The purchase of goods within the Philippines is generally subject to 12% VAT. As an indirect tax, VAT is passed on to and shouldered by the buyer. As a tax on the "value added," the ultimate consumer or end-user primarily bears the cost of VAT. This burden is especially felt by individual buyers, who are typically not VAT-registered and do not have the benefit of claiming input VAT credits on their purchases.

The proposal for VAT refunds on tourist purchases would add Section 112-A to the Tax Code, the salient portions of which read as follows:

"SEC. 112-A. TOURIST VAT REFUND. — A tourist shall be eligible for a value-added tax (VAT) refund on goods purchased from accredited retailers in the Philippines if such goods are taken out of the country within sixty (60) days from the date of purchase, and the value of goods purchased per transaction amounts to at least three thousand pesos (P3,000.00) ...

For purposes of this section, a 'tourist' shall refer to a foreign passport holder, who is a non-resident individual not engaged in trade or business in the Philippines."

The proposal seems simple enough. Tourists who are foreign nationals and not residents of the Philippines can refund the 12% VAT imposed on goods that they purchase within 60 days before they leave the country. The bill authorizes the Secretary of Finance to promulgate the rules and regulations for the law's implementation. It appears that the legislators prefer giving leeway to the executive branch as to the exact mechanics of the VAT refund process.

POINTS FOR CONSIDERATION

According to the Presidential Communication Office, the VAT refund program for foreign tourists is targeted for implementation by 2024 and is billed as an effort to boost tourist arrivals. The counterpart Senate bill still faces hearings at the Senate Committee on Ways and Means at this writing. Nevertheless, here are a few salient points to consider about the pending measure:

1) Administration: With the ultimate goal of boosting tourist spending in mind (thus helping retailers generate more sales and growing our economy), the government should ensure that rules or requirements are simple to comply with for retailers.

2) Convenience: From the foreign tourists' perspective, a tedious process for obtaining a VAT refund will discourage them from applying in the first place, in turn discouraging them from spending. It bears highlighting that, at 12%, we have the highest VAT rate in ASEAN.

3) Safeguards: As a refund program, this measure will likely entail funds to be programmed into the government's annual budget. As with any government-funded measure, policies for transparency and governance must be strictly enforced.

As we welcome foreign visitors, we can, in addition to showing them a great time at our beaches and other destinations, perhaps they will also buy more "*pasalubong*" for their loved ones back home — VAT-free, if this proposal becomes law.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

MARION D. CASTAÑEDA is a senior manager at the Tax Services department of Isla Lipana & Co., the Philippine member firm of the PwC network.
+63 (2)8845-2728
marion.castaneda@pwc.com