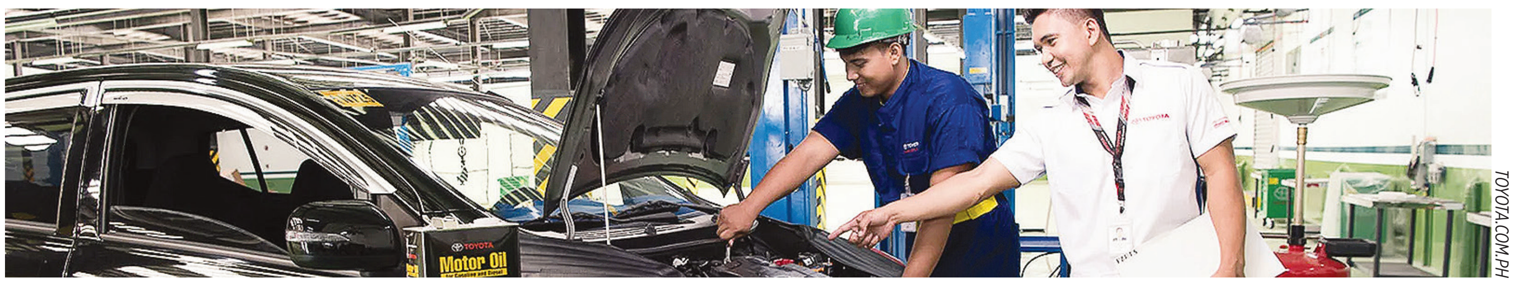
EV sales growth seen driven by new entrants

By Justine Irish D. Tabile
Reporter



TOYOTA.COM.PH

ELECTRIC VEHICLE (EV) sales are expected to grow next year with new entrants attracted by expanded fiscal incentives and the development of the charging network, Toyota Motor Philippines Corp. (TMP) said.

"With the sustained effect of expanded fiscal incentives for hybrid and plug-in hybrid models, the entry of new market players, and continuous public-private collaboration on EV charging infrastructure, TMP expects that EV sales volume will continue to increase," TMP told *BusinessWorld*.

"Demand will be driven by strong competition in this segment of the automotive market," it added.

For 2024, TMP expects to double its EV sales to 18,000 units. As of November, TMP had sold 12,553 Toyota and Lexus EVs, accounting for 7% of the company's total sales.

"We can attribute this growth to the accessibility of Toyota hybrid EV (HEV) models as well as the expansion of zero import duty exemption to Toyota and Lexus HEV models under Executive Order 12," it said.

"With total industry sales expected to hit the 470,000 mark, EV sales will account for almost 4%, a slight increase from last year in terms of share," it added.

Despite increasing sales, TMP said that high upfront costs, limited charging infrastructure, and the need for greater consumer awareness about EV benefits and reliability are limiting EVs' appeal in the Philippine market.

"Addressing these requires a multifaceted approach involving government incentives, industry collaboration, and public education campaigns," it said.

"At Toyota, we are continuously expanding our line-up of electrified vehicles, including HEVs and battery EVs. We want to provide customers with the choices that best fit their conditions," it added.

TMP, in its 78-hectare Philippine Economic Zone Authority-registered facility in Santa Rosa, Laguna, has the capacity to produce three models: Vios, Innova, and Tamaraw.

Asked if they plan to integrate EV manufacturing in the facility, it said, "It is one of the company's aspirations."

"To that end, TMP contributes to the continuous development of the entire manufacturing industry, including automotive parts and component manufacturers," it said.

"EV manufacturing would require a whole-of-industry approach and strong support from the government to boost localization capabilities and raise the regional competitiveness level of the Philippines," it added.

In 2024, the company expects its auto parts export sales to hit $1.21 billion, rising to $1.28 billion in 2025.

Pineapple exports to grow 16% in 2024 — FAO

PINEAPPLE exports from the Philippines are expected to grow 15.8% to 692,365 tons this year due to favorable growing conditions, the Food and Agriculture Organization (FAO) of the United Nations said.

According to the FAO's Major Tropical Fruits Market Review, global exports of pineapples are expected to grow 4% to 3.3 million tons in 2024.

"(This is) determined largely by higher supplies from Costa Rica and the Philippines, the world's leading exporters, with market shares of around 65% and 21%, respectively," the FAO said.

According to the FAO, preliminary trade data as of August show a 3% year-on-year increase in pineapple shipments to China, the leading recipient of pineapples from the Philippines.

China is the third-leading global importer of pineapples. Despite having the capacity to produce around 2 million tons of pineapples annually, the FAO said that changing consumer preferences, such as growing demand for premium pineapples, drove China's growth in imports.

According to the FAO, the MD2 variety of pineapples from the Philippines is highly sought after in China.

"Further key import markets for pineapples from the Philippines remained Japan and the Republic of Korea over the first eight months of 2024, at quantity shares of some 33% and 16%, respectively," it said.

"Shipments of Filipino pineapples to both destinations expanded substantially from the previous year, by a reported 28% to Japan and 37% to Korea," it added.

According to the FAO, the average export unit value of shipments from the Philippines to world markets stood at $617 per ton during the first eight months, a year-on-year increase of 5%.

Meanwhile, pineapple shipments from Costa Rica are expected to rise 3% to 2.1 million tons. These mostly go to the US and European Union.

"The average export unit value of shipments from Costa Rica to world markets stood at $564 per ton over the first eight months of 2024, a year-on-year increase of 3%," according to the report.

The report, however, estimates a 9.84% decline in Philippine mango, mangosteen, and guava exports to 13,141 tons and a 24.5% dip in papaya exports to 7,545 tons.

The FAO estimates global exports of major tropical fruits to grow 2% to $11 billion this year, with global exports of mango, mangosteen, and guava expected to grow 3% to 2.5 million tons and exports of pineapple to increase by 4% to 3.3 million tons.

Meanwhile, global exports of avocado and papaya are expected to rise 2% and 1%, respectively. — **Justine Irish D. Tabile**

Tariffs saved on banana exports to South Korea estimated at $189M

THE PHILIPPINES is expected to book savings worth $189 million on banana exports over five years as the Philippines-South Korea free trade agreement (FTA) comes into force, the Department of Trade and Industry (DTI) said.

Export Marketing Bureau Director Bianca Pearl R. Sykimte said that the FTA will immediately reduce tariffs for Philippine banana exports by 6 percentage points this year.

"And that will be 12 percentage points by Jan. 1, 2025. Because when we implement FTAs, year 1 will always be the date of entry into force, and year 2 will always be Jan. 1," she told reporters in an online briefing last week.

"If we base it on Korea's $210-million imports of bananas from us, approximately, we have $12.6 million in tariff savings per year because of the tariff reduction. By year 2, we will have over $25 million in tariff savings," she added.

Trade Undersecretary Ceferino S. Rodolfo said that the FTA will reduce the Philippines' tariff disadvantage against South Korea's other FTA partners.

"For example, Vietnam. By next year, Vietnam will have 0% duty on its bananas shipped to Korea. For us, that is 30% without the FTA," Mr. Rodolfo said.

In 2012, the Philippines used to account for 98.2% of South Korea's banana imports. However, this fell to 69.1% last year after other countries secured lower tariffs through FTAs.

The DTI reported that Costa Rica, Honduras, Peru, and Vietnam enjoy zero duty on their banana exports to South Korea, while Australia and Panama are charged 6% and 8% tariffs on their banana exports.

Under the pre-FTA regime bananas from the Philippines and Cambodia are subject to a 30% tariff.

"Since it became zero-duty for some of our competitors, like Vietnam, Costa Rica, and Peru, they were able to gain significant market share in the Korean market. So, we lost about 29% of the market," Ms. Sykimte said.

Aside from bananas, she said that there will also be gains in other industries such as machinery, transport equipment, and garments.

The DTI estimates that the Philippines' $9 million worth of machinery and transport equipment exports will be subject to tariff elimination in five to 10 years, while its $9-million exports of garments will be subject to tariff elimination in three years.

Asked if the tariff savings will affect prices of goods from Korea, Ms. Sykimte said: "It would depend on the business model involved — if they pass the savings on to the supply chain to charge the consumer less," she said.

Mr. Rodolfo said that the level of competition in the Philippine consumer market will also be a factor on whether the tariff savings will be reflected in the prices of goods.

"In the first place, the tariff for all of the products where the Philippines gave concessions is already low, as they are also covered under the ASEAN-Korea FTA and the Regional Comprehensive Economic Partnership," he said.

"I think most of them have 5% duty. So, if they get lower tariffs, it will only have a minimal impact. If there will be tariff savings, I think they will pass it on to the consumers," he added. — **Justine Irish D. Tabile**

Bid invite issued for Mindoro cruise ship port

THE Philippine Ports Authority (PPA) has issued a bid invitation to construct a P706.05-million cruise ship port in Puerto Galera, Oriental Mindoro.

In a bid notice, the PPA said the winning contractor is required to build the project at the Poblacion site in Puerto Galera within 780 days.

Interested parties will have until Feb. 5, 2025 to submit bids, the port regulator said. Eligible to bid are those that have a track record of building similar projects.

Any bids received in excess of the approved budget for the contract and bids submitted late will be rejected, the PPA said.

The winning bidder for the project will also be tasked with constructing the backup area and rock causeway, a reinforced concrete pier, and trestle, according to the PPA.

The PPA previously announced plans to enhance its port facilities, including the development of dedicated ports to bolster cruise tourism.

In the next four years, the PPA has set aside about P16 billion to fund its infrastructure projects, including 14 flagship projects due to be completed during the period.

The PPA has said that it is hoping to increase passenger traffic by about 5% by year's end. The passenger total was 73.63 million in 2023.

The PPA reported that passenger traffic rose 10.3% to 60.47 million in the nine months to September.

The PPA's website lists the Ports of Currimao in Ilocos Norte, Salomague in Ilocos Sur, Manila, Bohol, and El Nido in Palawan as currently equipped to accommodate cruise vessels. — **Ashley Erika O. Jose**

OPINION

Navigating transfer pricing in 2024: Key insights and developments

LET'S TALK TAX
NIKKOLAI F. CANCERAN

Today marks the last day of 2024. As we bid farewell to 2024, let me wrap up the key topics and insights discussed in our monthly Let's Talk TP articles throughout the year. From the implications of BEPS Pillar 2 to the intricacies of intercompany financial transactions, we explore the critical issues surrounding transfer pricing.

BEPS PILLAR 2 AND THE TAXATION OF PHL ENTITIES OF MNES

Early this year, we released an article about the Base Erosion and Profit Shifting (BEPS) Pillar 2 framework. The framework has evolved to address global tax challenges, particularly with the rise of digitalization. BEPS 2.0 focuses on ensuring profits are taxed where economic activities occur. Pillar 2, which includes the global anti-base erosion (GloBE) rules and the subject-to-tax rule (STTR), aims to impose a global minimum tax rate.

Under the GloBE rules, the Organisation for Economic Co-operation and Development (OECD) has recommended that the income inclusion rule (IIR) and qualified domestic minimum top-up tax (QDMTT) become effective in 2024, while the undertaxed profits rule (UTPR) becomes effective in 2025. Meanwhile, STTR, being a treaty-based rule, can only be implemented through bilateral negotiations and amendments to individual tax treaties or as part of a multilateral convention.

The impact on Philippine entities includes potential changes in tax rates and the need for local adoption of OECD guidelines. As countries begin implementing these rules, Philippine entities must prepare for the potential implications on their tax strategies and compliance requirements. The adoption of these guidelines will require significant adjustments in tax planning and reporting for MNEs operating in the Philippines.

TRANSFER PRICING AND INTER-COMPANY LOANS

Previously, we touched upon the financial transactions between related parties. The key message of the article is to ensure that intercompany financial transactions are at arm's length. The Bureau of Internal Revenue (BIR) and OECD provide guidelines for testing the arm's length nature of interest payments. Key considerations include delineating financial transactions, benchmarking interest rates, and assessing debt capacity to ensure compliance and avoid tax adjustments. The guidelines from the BIR and OECD emphasize the importance of accurately characterizing financial transactions and determining whether they should be treated as debt or equity, which has significant tax implications. Proper documentation and analysis are essential to support the arm's length nature of these transactions and to defend against potential tax authority challenges.

TRANSFER PRICING AND CASH POOLING

Cash pooling, a popular method for efficient cash management among MNEs, involves either the physical or notional pooling of cash balances. Transfer pricing implications include accurately delineating transactions and appropriately remunerating cash pool leaders and members. Setting up an arm's length cash pooling arrangement requires careful analysis of the transaction's characterization, and the functions, risks, and rewards of all parties involved. The OECD guidelines highlight the need for proper documentation and analysis to ensure that cash pooling arrangements are compliant with transfer pricing rules. This includes understanding the economic substance of the transactions and ensuring that the remuneration reflects the functions performed and risks assumed by each participant.

REMEMBERING THE IMPORTANCE OF TRANSFER PRICING

In observance of All Souls' Day in November, we published an article about remembering the importance of transfer pricing. Transfer pricing rules are designed to prevent profit shifting and ensure multinational companies pay their fair share of taxes. These regulations are rooted in the need for fairness and equity.

Compliance involves submitting BIR Form No. 1709 and maintaining detailed transfer pricing documentation (TPD). This includes keeping records of intercompany transactions and performing thorough analyses to justify arm's length pricing. Vigilant documentation is crucial to prepare for scrutiny from tax authorities.

Non-compliance can lead to fines, penalties, and reputational damage. Advance Pricing Arrangements (APAs) provide certainty and clarity, helping businesses navigate complex transfer pricing issues.

TRANSFER PRICING RULES FOR BPO COMPANIES

Our last article delved into Business Process Outsourcing (BPO) companies. The CREATE MORE Act has significantly impacted the IT-BPO sector, introducing lower corporate income tax rates and flexible work-from-home arrangements. BPO companies must ensure their operations align with transfer pricing rules and maintain adequate documentation. Key concepts include the arm's length principle, entity characterization, and the selection of appropriate transfer pricing methodologies (CUP, CPM, TNMM). The article discusses the specific challenges faced by BPO companies and the importance of thorough documentation and analysis to support their transfer pricing positions. BPO entities must carefully analyze their functions, assets, and risks to determine the appropriate transfer pricing method and ensure that their pricing reflects the economic reality of their operations.

TRANSFER PRICING HANDBOOK

In December, we released our transfer pricing handbook, both physical and digital copies, to the public for free. The handbook aims to help taxpayers become aware of the basic concepts of transfer pricing, compliance requirements, and transfer pricing audit guidelines in the Philippines. The handbook is structured in a question-and-answer format for ease of understanding.

TAKEAWAYS

As we conclude 2024, it is evident that transfer pricing remains a dynamic and complex area of taxation. The articles published throughout the year have highlighted the critical need for taxpayers to stay informed and compliant with evolving regulations. By understanding and addressing the various transfer pricing issues discussed, businesses can better navigate the challenges and opportunities in the global tax landscape. As we look forward to 2025, continued vigilance and proactive management of transfer pricing practices will be essential for ensuring fair and transparent transactions.

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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