

2015-11-015



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF CUSTOMS**

AOCG Memo No. 047-2015

**MEMORANDUM**

**TO: All District and Port Collectors  
All Chiefs, Formal Entry Division**

**DATE: 23 November 2015**

**SUBJECT: Tariff Commission Bulletin featuring Trade Remedy Cases, Tariff  
Classification, ASEAN – China Free Trade Area, ASEAN – Korea Free Trade  
Area and Automotive Parts & Components Manufacturing**

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Attached herewith is the letter dated 06 November 2015 of Mr. Edgardo B. Abon, Chairman, Tariff Commission, providing the Bureau with a copy of the issues of their Tariff Commission Bulletin featuring:

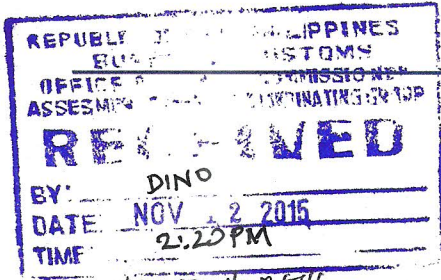
1. Trade Remedy Cases ( September – October 2014)
2. Tariff Classification (November – December 2014)
3. ASEAN – China Free Trade Area & ASEAN – Korea Trade Area (January – February 2015)
4. Automotive Parts & Components Manufacturing (May – June 2015)

For your information and guide.

**AGATON TEODORO O. UVERO**  
Deputy Commissioner  
Assessment and Operations Coordinating Group



REPUBLIC OF THE PHILIPPINES  
TARIFF COMMISSION

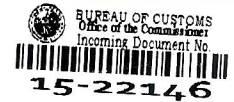


6 November 2015



#2015-11-2546

**HONORABLE ALBERTO D. LINA**  
Commissioner  
Bureau of Customs  
Port Area, Manila



**Dear Commissioner Lina:**

The Commission is pleased to furnish you copy of the issues of our TC Bulletin featuring:

1. Trade Remedy Cases (September – October 2014)
2. Tariff Classification (November – December 2014)
3. ASEAN – China Free Trade Area & ASEAN – Korea Free Trade Area (January – February 2015)
4. Automotive Parts & Components Manufacturing (May – June 2015)

We hope that these publications will serve as useful reference materials to your Office and staff.

Very truly yours,

  
**EDGARDO B. ABON**  
Chairman

Attachment: a/s

# TRADE REMEDY CASES AT A GLANCE

## I. Introduction

Trade remedies consist of anti-dumping, countervailing and safeguard measures.

These remedies are triggered in response to different situations and circumstances which may be causing material injury to a domestic industry.

This paper will discuss the trade remedy cases investigated by the Philippines against imports of other countries and cases investigated by other countries against imports from the Philippines.

## II. WTO Legislation

### (a) Anti-dumping Action

Article VI of GATT 1994, "WTO Anti-Dumping Agreement", allows countries to take action against imports from countries allegedly exporting at dumped prices. Anti-dumping action is undertaken in response to an application from industry concerning injurious dumped imports.

An exporting company is said to be "dumping" when it exports its product at a price lower than its normal value<sup>1</sup>. When dumping causes or threatens to cause material injury to a domestic industry, remedial action may be taken.

### (b) Subsidies and Countervailing Action

"Agreement on Subsidies and Countervailing Measures" disciplines the use of subsidies, which are generally permissible under GATT 1994 and the WTO Agreements.

<sup>1</sup>The price at which the product is sold in the domestic market of the exporting country.

The Subsidies Agreement also regulates the actions countries can take to counter the trade effects of subsidies. A country may remedy the trade effects of a subsidy multilaterally through dispute-settlement procedures and thereby seek the withdrawal of the subsidy or the removal of its adverse effects. Alternatively, a country may unilaterally launch its own investigation (known as a countervailing duty investigation) whereby an additional duty ("countervailing duty") may be imposed on subsidized imports to offset the injury to domestic producers. Where industry faces material injury from subsidised imports, industry may lodge an application for the initiation of a countervailing investigation.

### (c) Safeguard Action

Article XIX of GATT 1994, "Agreement on Safeguards" establishes rules for safeguard measures. Emergency "safeguard" action may be taken where a surge of imports causes or threatens to cause, serious material injury to a domestic industry. It allows a country to respond to unexpected and unforeseen increased imports which have caused serious material injury. Imports must be recent enough, sudden enough, sharp enough and significant enough.

Where the reasons for injury are not limited to increased imports, these other factors must be distinguished. That is, the impact of other factors cannot be attributed to the impact of increased imports.

Safeguard action may involve the restriction of imports of a product temporarily to help the domestic industry adjust. Safeguard measures are applied on a global basis and may take the form of tariffs, tariff rate quotas, or quantitative restrictions (import quotas). These measures must be temporary, product-specific and they must be applied to all imports irrespective of the source.

### III. Philippine Legislation

Investigation of cases on the above-cited trade remedy measures are governed by the following trade remedy laws, rules and regulations:

**Table 1: Trade Remedy Laws, Rules and Regulations**

Trade Remedy Measures	Date	
	Signed	Effective
<b>Anti-Dumping Measures:</b>		
<ul style="list-style-type: none"> <li>Republic Act No. 8752, otherwise known as the Anti-Dumping Act of 1999"</li> </ul>	12 August 1999	04 September 1999
<ul style="list-style-type: none"> <li>Implementing Rules and Regulations Governing the Imposition of an Anti-Dumping Duty under Republic Act 8752, embodied in the Joint Administrative Order No. 01 (2000)</li> </ul>	03 July 2000	10 July 2000
<b>Subsidies and Countervailing Measures:</b>		
<ul style="list-style-type: none"> <li>Republic Act No. 8751, otherwise known as the "Countervailing Duty Act of 1999"</li> </ul>	07 August 1999	31 August 1999
<ul style="list-style-type: none"> <li>Implementing Rules and Regulations Governing the Imposition of Countervailing Duty under RA 8751, embodied in "Joint Administrative Order No. 02 (2000)</li> </ul>	18 September 2000	25 September 2000
<b>Safeguard Measures:</b>		
<ul style="list-style-type: none"> <li>Republic Act No. 8800, otherwise known as the "Safeguard Measures Act"</li> </ul>	19 July 2000	09 August 2000
<ul style="list-style-type: none"> <li>Implementing Rules and Regulations embodied in Joint Administrative Order No. 03 (2000)</li> </ul>	04 October 2000	11 October 2000

### IV. Trade Remedy Cases Investigated and Decided by the Philippines

- Anti-Dumping Investigation

**Table 2: Anti-Dumping Cases Investigated and Decided by the Philippines:**

2004 –2015 (January to March)

No	Year	Article Investigated		Type of Investigation	Decision	Current Status
		Description	AHTN			
1	2005	Clear Float Glass from Indonesia*	7005.29.20 7005.29.90	Expiry Review	Imposition of the measure extended	Imposition of the measure had already expired on 07 December 2011
2	2006	Sodium Tripolyphosphates from the Peoples' Republic of China (PROC)**	2835.31.00	Expiry Review	-do-	-do-
3	2010	Mosquito Coils from Indonesia	3808.50.12 3808.91.20	Original	Negative Determination	No imposition of anti-dumping duty
4	2014	Wheat Flour from the Republic of Turkey	1101.00.10	Original	Positive Determination	With current imposition of anti-dumping duty

Source: Tariff Commission website

\*Positive determination in the original investigation in 1999

\*\*Positive determination in the original investigation and 1<sup>st</sup> expiry review in 1998 and 2003

From 2004 to present, four (4) anti-dumping cases (both original investigation and expiry review) were investigated and decided by the Philippine investigating authorities (i.e. DTI/DA and Tariff Commission). To date, only wheat flour imports from the Republic of Turkey are currently being imposed an anti-dumping duty.

- Subsidies and Countervailing Investigation

No petition was filed on subsidies and countervailing cases since RA 8751 took effect in 1999.

- Safeguard Investigation

**Table 3: Safeguard Cases Investigated and Decided by the Philippines:**

**2004-2015 (January to March)**

No.	Year	Article Investigated		Type of Investigation	Decision	Current Status
		Description	AHTN			
1	2004	Ceramic floor and wall tiles*	6907.90.00	Request for : 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	
			6908.90.00			
	2007			2 <sup>nd</sup> extension (final) of the imposition of the measure	Imposition of the measure was extended for another four (4) years	Imposition of the measure had already expired on 14 January 2012
2	2006	Tinted Float Glass**	7005.21.20	Request for : 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	
			7005.21.90			
		Clear Float Glass**	7005.29.20	Request for : 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	
			7005.29.90			
		Figured Glass**	7003.12.20 7003.12.90 7003.19.20 7003.19.90	Request for : 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	Imposition of the measure was suspended due to the petitioner's (AGPH) decision to temporarily stop production of figured glass for the domestic market and shift to the production of Ultra Clear Figures Glass for exports to take advantage of big demand in international market.

No.	Year	Article Investigated		Type of Investigation	Decision	Current Status
		Description	AHTN			
	2009	Tinted Float Glass	7005.21.20	2 <sup>nd</sup> extension (final) of the imposition of the measure	Imposition of the measure was extended for another four (4) years	Imposition of the measure had already expired on 16 October 2013
			7005.21.90			
		Clear Float Glass	7005.29.20			
			7005.29.90			
3	2006	Sodium Tripolyphosphates from the Peoples' Republic of China (PROC)	2835.31.00	Original	Dismissed for lack of public interest	No imposition of safeguard duty
4	2009	Steel Angle Bar	7216.21.00	Original	Imposition of the measure for three (3) years	
			7216.50.10			
	2012			Request for : 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	
	2015			2 <sup>nd</sup> extension (final) of the imposition of the measure	Imposition of the measure was extended for another four (4) years	No decision from DTI yet whether to extend the imposition of the measures or not
5	2010	Testliner Board	4805.24.00	Original	Imposition of the measure for three (3) years	
			4805.25.10			
			4805.25.90			
	2013			Request for 1 <sup>st</sup> extension of the imposition of the measure	Imposition of the measure was extended for another three (3) years	With current imposition of safeguard duty
6	2014	Newsprint	4801.00.10	Original	Imposition of the measure for three (3) years	Submitted to DTI Secretary for issuance of DTI Order
			4801.00.90			

Source: Tariff Commission website

\*Positive determination in the original investigation in 2002

\*\*Positive determination in the original investigation in 2003

Trade defense cases<sup>2</sup> on anti-dumping gathered from DTI totalled seventeen (17), majority of which were terminated (Table 4). While there are three (3) cases that are under formal investigation, four (4) products are currently being imposed an anti-dumping duty (Table 6).

- Safeguard Investigation

**Table 7: Terminated Safeguard Cases**

No.	Article At Issue	Country	Remarks
1	Cigarette lighters	Indonesia	Case terminated on 19 January 2006. No causal link
2	Bicycles	Canada	On 29 May 2006, the Government of Canada decided not to impose the SG measure
3	Aluminum Foil Food Container/ Aluminum Tray and Plain Lid	Indonesia	Case terminated on 14 June 2010. No causal link
4	Activated Carbon	Russia	SG duty was removed on 07 September 2014

Source: DTI-BIS

It can be gleaned from Table 7 that the safeguard cases filed against Philippine exports were terminated from 2006 to 2014. To date, DTI has no information about safeguard cases against the Philippine exports subject to formal investigation.

## VI. Impact of the formation of FTAs

The proliferation of the various Free Trade Agreements (FTAs) reduced/eliminated tariffs imposed on imported products have impacted on trade remedies

- Anti-Dumping Investigation

A study conducted on the "Analysis of Anti-dumping use in Free Trade Agreements"<sup>3</sup> which examined the effects of FTAs on anti-dumping activities based on comprehensive empirical analysis found that there is clearly an inverse relationship between an FTA and anti-dumping activities. This finding represents the user's tendency to trigger less anti-dumping filings against FTA membership, regardless of facing more imports from FTA partners. The paper also captured dynamic FTA effects based on a series of distribution of time dummies. Estimation results from the dynamic model show that the FTA enactment year clearly has significant effect, suggesting substantial reduction of anti-dumping investigations in that year (2009).

<sup>2</sup>Cases investigated by other countries against exports of the Philippines

<sup>3</sup>Seoul National University; Center for International Commerce and Strategy, December 23, 2010; *Journal of World Trade*, April 2011

- Safeguard Investigation

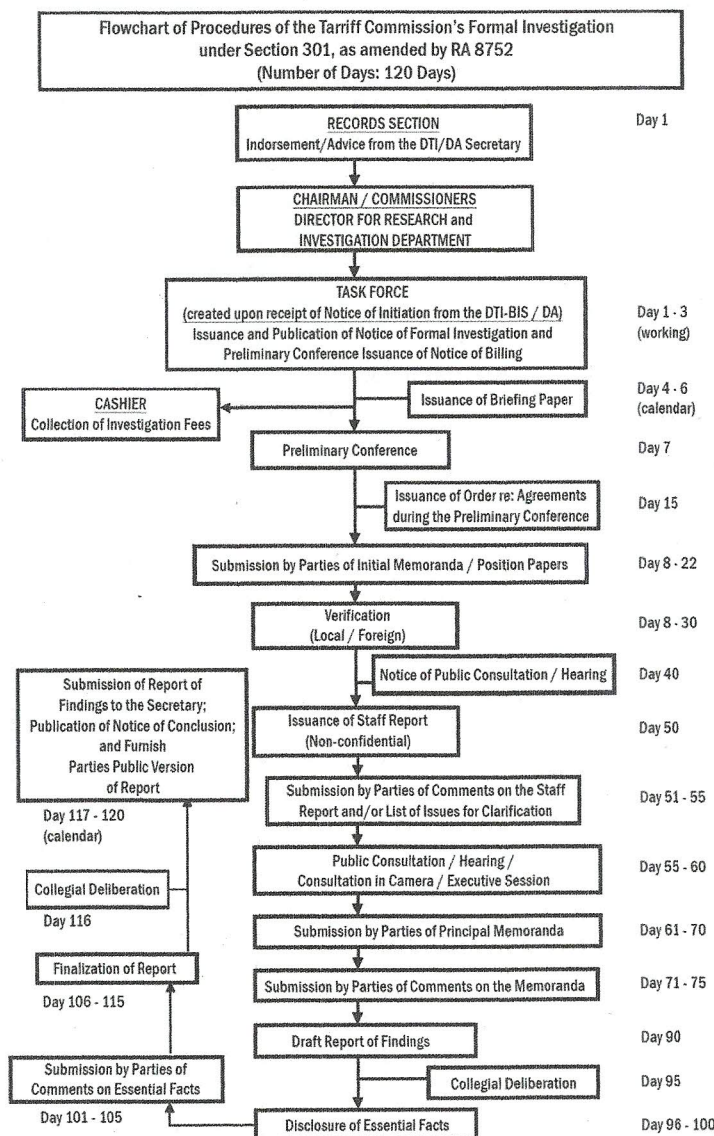
Based on information from the Philippine Mission to the WTO, there has been an increasing trend in the use of trade remedy measures, especially in the developing countries.

Apart from the Philippines, other ASEAN countries that exercise its right to utilize safeguard actions were Indonesia, Malaysia and Thailand.

Of the total thirty-six (36) safeguard actions being reviewed by the Committee on Safeguards of the WTO as reported in its 27-31 October 2014 meetings, about five (5) safeguard cases were lodged by Indonesia, and 1 each from Malaysia and Thailand.

## VII. Trade Remedy Investigation Procedures:

- Anti-Dumping Investigation



On the other hand, safeguard cases investigated and decided during the same period are greater in number. The increase in the number of cases filed can also be attributed to the implementation of the various Free Trade Agreements (FTAs) which reduced or eliminated tariffs on most products.

To date, safeguard duty is levied on imported testliner board. For steel angle bar, investigation on the request for maximum extension for the imposition of safeguard duty has terminated already and no decision yet from DTI whether to extend the imposition or not. Also, investigation on newsprint safeguard case had been concluded on 23 February 2015 and DTI Order imposing definitive safeguard duty was issued on 05 May 2015 and shall take effect upon the issuance of the relevant Memorandum Order by the Bureau of Customs or 15 days after the publication of the Order in two (2) newspapers of general circulation, whichever comes earlier.

#### V. Trade Remedy Cases Filed Against the Philippines/ Trade Defense Cases

**Table 4: Terminated Anti-Dumping Cases**

No.	Article At Issue	Country
1	Open Mesh Fabrics of Glass Fibres	Germany
2	Newsprint	Malaysia
3	Certain Oil Country Tubular Goods (OCTG)	United States
4	Copper Clad Laminates	India
5	Stainless Steel and Fasteners and Parts	European Union
6	Integrated Electronic Compact Fluorescent Lamp (CFL-i)	European Union
7	Portland Cement & Clinker	Chinese Taipei
8	Hot Rolled Steel	India
9	Woven fabrics of synthetic filament yarn (for clothing)	Turkey

Source: DTI-BIS

#### • Anti-Dumping Investigation

**Table 5 : Philippine Products Under Investigation**

No.	Article At Issue	AHTN	Country	Remarks
1	Tennis Balls	9506.61.00	Argentina	Currently under formal investigation
2	Processing Machines or injection moulding machines	8477.10.00	India	-do-

No.	Article At Issue	AHTN	Country	Remarks
3	Tube and Pipe Fittings (other than cast fittings, flanges and threaded fittings) or iron or steel (not including stainless steel), with a greatest external diameter not exceeding 609.6 mm, of a kind used for butt-welding or other purposes	Various	European Union	Initiation of expiry review was on 03 September 2014. Publication of the imposition of the definitive measures or termination of the proceedings will be issued on 02 September 2015

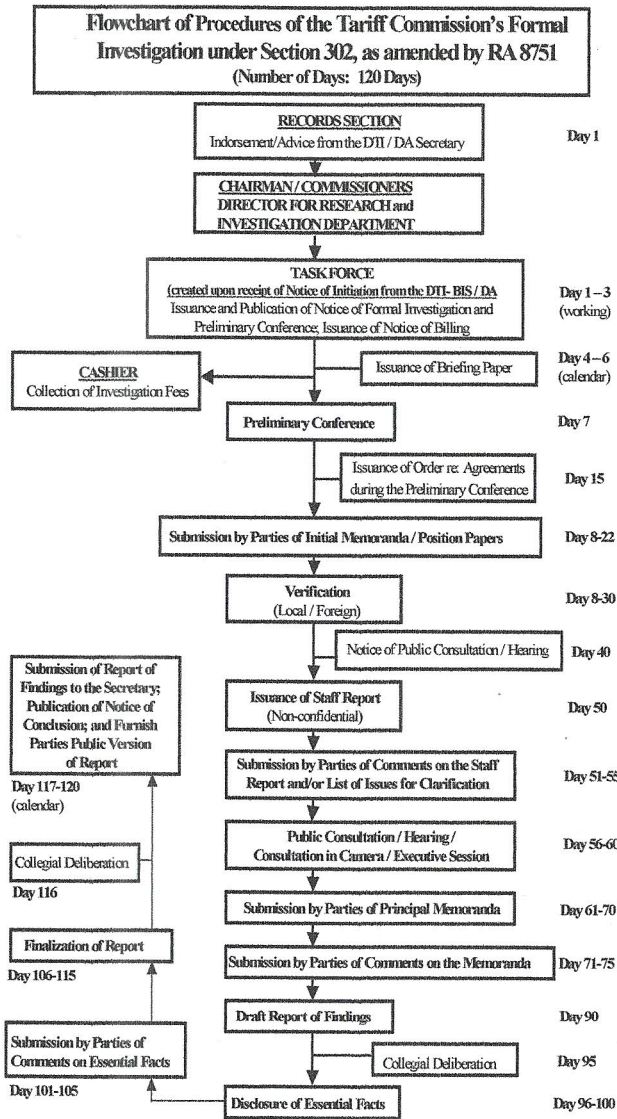
Source: DTI-BIS

**Table 6: Philippine Products With Imposition of an Anti-Dumping Duty**

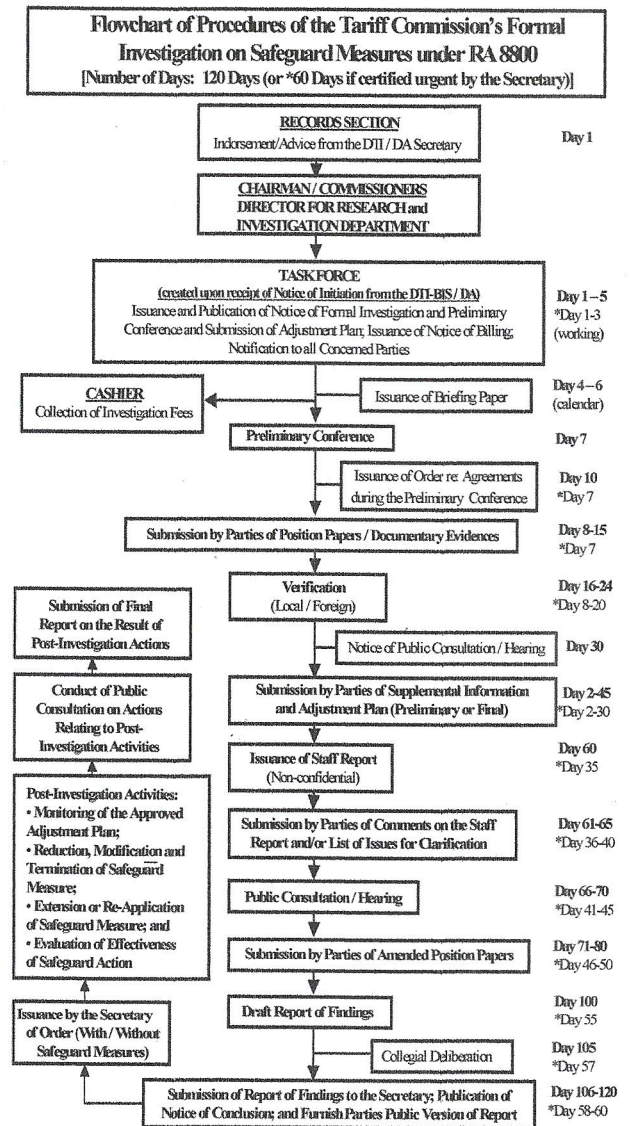
No.	Article At Issue	AHTN	Country	Remarks
1	Pineapples (consumer prepared or preserved in containers exceeding one litre and food services and industrial (FSI) Pineapple (consumer)	2008.20.00/26/28	Australia	Anti-dumping duty imposed on Philippine exporters effective 10 October 2011 for a period of five (5) years
	Pineapple (FSI)	2008.20.00/27/28		AD duty imposed effective 13 November 2011 for a period of five (5) years
2	Stainless Steel Butt – Weld Pipe Fittings (under 14 inches in outside diameter (based on nominal pipe size), whether finished or unfinished)	7307.23	United States	AD duty imposed for five (5) years effective 20 July 2012
3	Cavendish Bananas	0803.00.90	Indonesia	AD duty imposed for five (5) years effective 17 November 2011
4	Wall type split air conditioners and their indoor/outdoor units	8415.10.90 8415.81 8415.82	Turkey	AD duty imposed for five (5) years effective 07 March 2013 until 2017

Source: DTI-BIS

• Countervailing Investigation



• Safeguard Investigation





## TARIFF CLASSIFICATION

### Introduction

Tariff classification is the process of identifying the category/code in Section 104 of the Tariff and Customs Code of the Philippines (TCCP) to which a product belongs. Classification of products under the TCCP is a crucial exercise which determines the proper duty that should be collected for specific products. Indefinite classification of goods can impact on government revenue, cost of doing business, facilitation of release of goods and eventually inequitable cost to consumer.

### Legislation

The TCCP is embodied in PD 1464 dated 11 June 1978. It covers provisions regarding importation of products. Sec.104 of the TCCP provides for the product nomenclature and schedule of import duties that are to be imposed on products. It used to be patterned on the Customs Cooperation Council Nomenclature (CCCN).

In 1988, Sec. 104 to the TCCP was transposed from the CCCN to the Harmonized Commodity Description and Coding System (HS) which was developed by the World Customs Organization (WCO). Revisions to the HS is revised by the WCO every 4 to 6 years. In 2004, the ASEAN Member states (AMS) implemented the 1<sup>st</sup> ASEAN Harmonized Tariff Nomenclature (AHTN) based on the 2002 version of the HS.

Sec. 104 of the TCCP specifically states that the rates of duty provided or subsequently fixed pursuant to Section 401 shall be subject to periodic investigation by the Tariff Commission and may be revised by the President upon recommendation of the National Economic and Development Authority.

### Development of the AHTN

The ASEAN Harmonized Tariff Nomenclature (AHTN) is an 8-digit commodity nomenclature that is based on the Harmonized System (HS) of the WCO. It was conceptualized by the ASEAN Member States (AMS) in order to have a common tariff nomenclature to facilitate trade within the region and to be used as base for preferential tariff purposes in AFTA and other free trade areas; and as base for the collection of trade statistics. Following were the activities undertaken in developing the AHTN.

Dates	Milestone/s
1981	Trial Harmonization of the Tariff Nomenclature done by the Philippine Tariff Commission
1983	Signing of the ASEAN Customs Code of Conduct by the ASEAN Directors General of Customs (DGs). The Code of Conduct contains the commitment to facilitate Intra-ASEAN trade
1987	1st Meeting of the ASEAN Finance Ministers. Provide a legal framework for Customs Cooperation in ASEAN
Late 80's to early 90's	Technical Working Group on Customs Matters (TWGCM) Meeting to establish the Principles of Harmonization
1995-1997	3 <sup>rd</sup> to 11 <sup>th</sup> Meeting of the Experts Group on Tariff Nomenclature to create the AHTN
1996-1997	Task Force Meetings for the Simplification of the AHTN
1998	Establishment of the Experts Committee on Customs Matter (ECCM) to oversee and support the activities covered under the Policy Implementation and Work Programme (PIWP)
1999	Implementation of PIWP covering 15 areas of cooperation which include Tariff Nomenclature and Tariff Classification
2000-2001	AHTN Workshops
07 August 2003	Signing of the AHTN Protocol by the Finance Ministers
20 Dec. 2003	Signing of the "Understanding on the Criteria for Classification by the ASEAN DGs
11 March 2004	Issuance of Customs Memorandum Order No. 6-2004 to implement the AHTN

Since 2004, the AHTN is reviewed every four (4) to six (6) years, adopting the amendments proposed by the WCO and the proposed implementation dates. Currently, the AHTN 2012 is being reviewed to adopt the HS 2017 amendments. It is to be implemented by 01 January 2017.

### Section 1313-a

Section 1313-a of the TCCP gives mandate for the Tariff Commission to issue classification ruling for specific products, which are binding upon the Bureau of Customs. The said provision states:

*“As to classification.* – When an article imported or intended to be imported is not specifically classified in this Code, the interested party, importer or foreign exporter may submit to the Tariff Commission a sample together with a full description of its component materials and uses, and request it in writing to indicate the heading under which the article is or shall be dutiable, and the Tariff Commission shall comply with such requests within thirty days from receipt thereof if it is satisfied that the application is made in good faith, in which case classification of the article in question upon the particular importation involved shall be made according to the heading indicated by the Tariff Commission: Provided, however, that such rulings of the Tariff Commission on commodity classification, shall be binding upon the Bureau of Customs, unless the Secretary shall rule otherwise.”

### **Importance of Proper Classification**

#### **A. On Government Revenue**

Improper or indefinite classification of goods can result to revenue loss. If goods are declared at a classification with lower duty than the proper classification, immediately government loses revenue. If goods were cleared at higher duty, the importer will do all it can to refund the excess duty. Then, if found correct, government refunds the amount by way of tax credit.

#### **B. On Trade Facilitation**

Trade facilitation is a process of expediting movement, release and clearance of goods. Correct tariff classification will lessen dispute between customs and importer thus facilitating release of goods.

#### **C. On FTA Negotiations**

The objective of free trade agreement (FTA) between two or more countries is to allow greater liberalization in the flow of traded goods between or among parties generally done by offering the other party/ies preferential rates. Goods which are to be subjected to this lower rates are identified as well as those goods which are to be “protected”. The identification of these goods is done using the Harmonized System codes.

#### **D. On Rules of Origin**

Integral to any FTA is the component on the Rules of Origin. The preferential duties accorded to goods is not automatic; certain origin requirements must be met prior to availment of the lower rates.

The origin criterion is generally determined on a per tariff line basis (or Product Specific Rule) as different goods in the HS have different methods of production.

#### **E. On Statistics**

Proper classification of a certain product is very important in collecting data and trade statistics. Correct classification of goods helps to ensure that:

- The correct amount of duty and VAT will be paid.
- Know if duty is suspended on any of goods.
- Know if any preferential duty rates can be applied.
- Know whether there is a need to obtain an import or export license - for plant and animal products on health and conservation grounds or for firearms and hazardous materials.
- Know whether excise, anti-dumping or safeguard duties apply.
- Avoid paying interest on back-payments for incorrect classification.
- Avoid seizure of goods or delays to their movement.

The Philippines currently uses the AHTN as the basis for the Philippine Standard Commodity Classification (PSCC). It is more disaggregated than the AHTN to reflect national products of which the trade statistics is important both for the government and the private sector.

Having the correct classification, trade statistics collected will be more accurate. Trade statistics are used for trade negotiations, business planning and as a tool for investigation in any trade remedy cases. Statistics are used as an instrument for numerous public and private sector decision making. Also, trade statistics measure the value and quantity of goods traded between the Member States. Accurate trade statistics will:

- Enable authorities to prepare for multilateral and bilateral negotiations within the framework of the common commercial policy;
- Enable authorities to evaluate the progress of the single market and the integration of country economies;
- Constitute an essential source of information for balance of payments statistics, national accounts and economic studies, and
- Help companies to conduct market research and define their commercial strategy.

## Rules of Classification

Classification under the TCCP is governed by the General Rules for the Interpretation of the HS (GIR) indicated under Sec 103. It is provided for the uniform application and interpretation of the HS/AHTN. There are six (6) rules, which should be used in hierarchical order, such that Rule 1 takes precedence. If Rule 1 is not applicable, it is only then that the succeeding rules are considered, also in hierarchical order.

Rule 1 states that classification of products shall be based on the terms of the tariff headings and the relevant Section and Chapter Notes. “

Rule 2(a) states that goods imported unassembled or disassembled, incomplete or unfinished are to be classified in the same heading as that of the assembled, complete and finished article provided that it has the essential character of the complete, finished or assembled product.

Rule 2(b) states that mixtures and component articles can be classified in the headings where each component are classified. Hence, the product can be classified in more than one heading. In cases such as this, the classification shall be governed by Rule 3.

Rule 3(a) states that classification shall be in the heading which most specifically describe the product.

Rule 3(b) states that classification shall be in the heading of the material or component which gives the product its essential character.

Rule 3(c) states that classification shall be in the heading which occurs last in numerical order.

Rule 4 states that when goods are not classifiable by application of the above rules it should be classified in the heading of the product that is most akin.

Rule 5(a) states that cases and containers normally presented with a product and specially shaped or fitted to contain a specific article or set of articles and suitable for long-term use, shall be classified in the same tariff heading when the product it contains is classified.

Rule 5(b) clarifies that Rule 5(a) does not apply to packing materials and containers that are clearly suitable for repetitive use.

Rule 6 provides that the classification of products in a tariff subheading shall be based on the terms of said subheading and any related Subheading Notes.

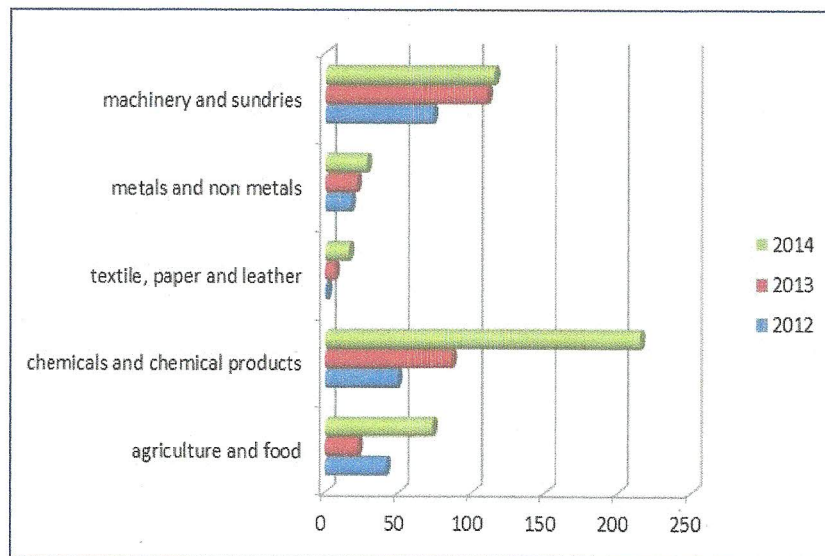
## TC's Assistance to Other Government Agencies

The Commission give assistance to other Government Institutions specially in the matter of classification under the TCCP, by way of:

- As provided in Section 506 of the TCCP, the Commission give assistance to the President and Congress by providing trade data and comments essential with the drafting of new house and senate bills relevant to trade relations and implementations.
- Assist the Bureau of Customs (BOC) with the issuance of Tariff Classification Ruling bearing the classification of product under consideration with MFN and Preferential rates of duty.
- Support the Department of Finance (DOF) and Bureau of Customs (BOC) restructuring program by signing a Memorandum of Agreement (MOU) last 17 December 2013. Under the MOU, the Tariff Commission experts will be detailed to the BOC, to help the agency classify dutiable imports as it tries to plug revenue leakages and improve its collection.
- Collaborate with the Department of Industry (DTI) in conducting seminars and forums to increase awareness of local businesses to take advantage of the opportunities available in Free Trade Areas (FTAs).
- Assist the Department of Justice (DOJ) - Office of Competition in advocacy program/s of Competition Policy and Law.
- As a member of Committee on Tariff and Related Matters (CTRM) the Commission collaborates with other agency-member of CTRM and advises the President and the NEDA Board on Tariff and related matters and on the, effects on the country of various international developments; coordinate agency positions and recommend national positions for international economic negotiations; and recommend to the President a continuous rationalization program for the country's tariff structure.

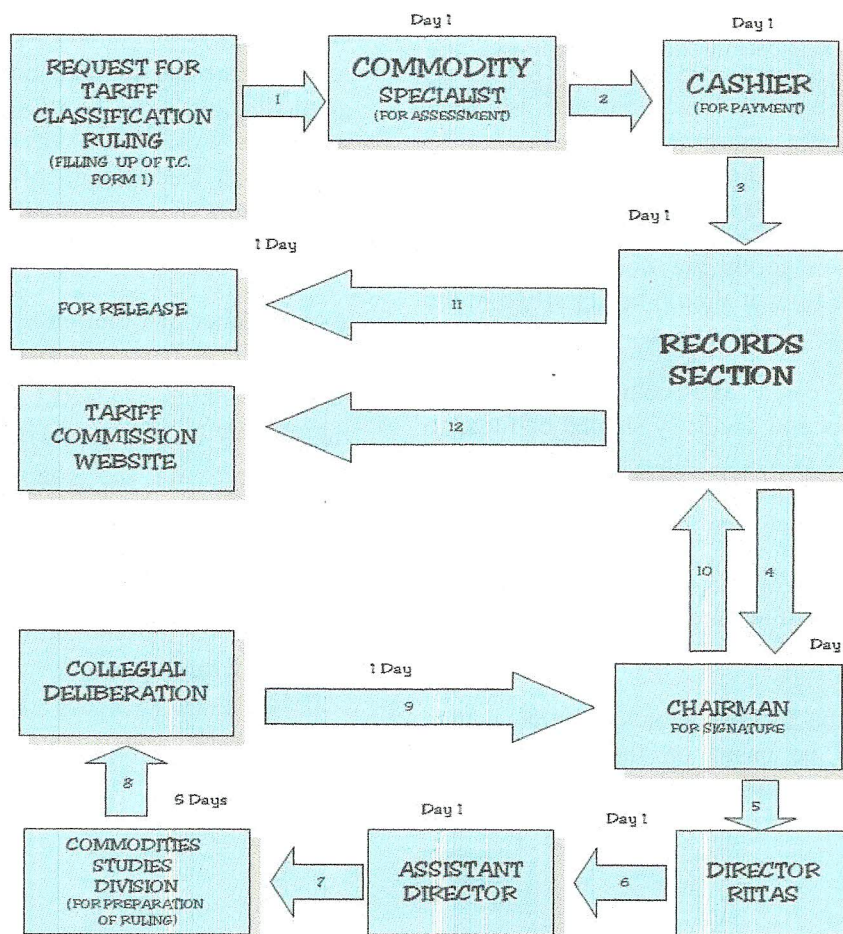
### Statistics of TCC Rulings issued

In the last three years, the Commission has issued increasing number of rulings, which is distributed in the different sectors as follows:



The list of rulings issued are listed at the Tariff Commission website ([www.tariffcommission.gov.ph](http://www.tariffcommission.gov.ph)).

### Section 1313-a Flowchart



## ACFTA and AKFTA

### Introduction

The ASEAN-China Free Trade Area (ACFTA), a trade agreement among the ten (10) ASEAN Member States (AMSs) and China, contains the commitment to establish the ACFTA by 2010 for ASEAN 6 and China and by 2015 for the newer AMSs was signed on 29 November 2004 and entered into force on 01 January 2005.

On the other hand, the agreement among the 10 AMSs and Korea known as the ASEAN-Korea Free Trade Area (AKFTA) entered into force on 01 July 2006. Both the ACFTA and AKFTA provide for special and differential treatment to newer AMSs to compensate for different levels of economic development and to enable them to fully participate and take advantage of the agreement.

### Coverage and Legislation

Except for products under the General Exclusion (GE) and HSLE (only for AKFTA), tariff liberalization under both ACFTA and AKFTA covers all products from Chapters 1 to 97, of which 90% of the total tariff lines or those in the Normal Track (NT) will be duty-free while the remaining tariff lines under the Sensitive Track (ST) are subject to reduction/further liberalization. The tariff liberalization

program/modality under ACFTA and AKFTA with the corresponding implementing executive orders issued is summarized in Table 1.

### Reciprocity Principle

A special feature in ACFTA and AKFTA, known as the "reciprocity principle," applies to the tariff lines placed by a party in Sensitive Track. Paragraph 6 (ACFTA) and Paragraph 7 (AKFTA) of Annex 2 of the Agreement on Trade in Goods, respectively, provides that the following conditions must be met in determining the applicable preferential rate:

- 1) The tariff line is placed by the importing country in NT while the same tariff line is placed in ST of the exporting party;
- 2) The ST rate of the exporting party must be at 10% or below to enjoy reciprocity;
- 3) The reciprocal tariff rate to be applied shall be whichever is higher between the ST tariff rate of the exporting party and the NT tariff rate of the importing party; and
- 4) The applicable tariff rate shall in no case exceed the applied MFN rate of the importing party.

Executive Orders 618 S. 2007 (ACFTA) and 638 S. 2007 (AKFTA) implemented the reciprocity rule and listed the ST products of AMSs, China, and Korea.

**Table 1. ACFTA and AKFTA Tariff Liberalization Program and Implementing Executive Orders**

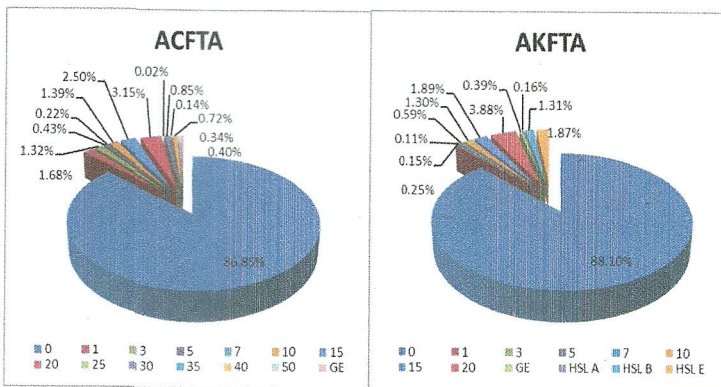
CATEGORY	IMPLEMENTING EXECUTIVE ORDER/S (EOs)		REMARKS
	ACFTA	AKFTA	
Early Harvest Programme (EHP)	485 (S. 2005)	---	Only in ACFTA: <ul style="list-style-type: none"> <li>• Covers Chapters 1 to 8;</li> <li>• Applied MFN tariff rates lower than 5%; between 5% and 15%; and higher than 15% were eliminated in 2004, 2005, and 2006, respectively</li> </ul>
Normal Track (NT)	487 (S. 2006); 613 (S. 2007); and 814 (S. 2009)	639 (S. 2007) and 812 (S. 2009)	ACFTA and AKFTA: <ul style="list-style-type: none"> <li>• 90% of total tariff lines eliminated by 2010 with flexibility until 2012</li> </ul>
<b>Sensitive Track (ST): Remaining 10% of the total tariff lines</b>			
Sensitive List (SL)	72 (S. 2012)	74 (S. 2012)	ACFTA: tariff reduction to not more than 20% in 2012 and 0%-5% by 2018 AKFTA: tariff reduction to not more than 20% in 2012 and to 0%-5% by 2016
Highly Sensitive List (HSL)	71 (S. 2012)	73 (S. 2012)	ACFTA: tariff reduction to 50% by 2015 AKFTA: <ul style="list-style-type: none"> <li>• HSL A: Reduction to not more than 50% by 2016</li> <li>• HSL B: Reduction by not less than 20% by 2016</li> <li>• HSL C: Reduction by not less than 50% by 2016</li> <li>• HSL D: Tariff lines subject to tariff rate quotas</li> <li>• HSL E: Tariff lines exempted from concessions (maximum of 40 tariff lines) –not covered by EO 73</li> </ul>
General Exclusion (GE)	---	---	Covers 39 tariff lines (pharmaceutical goods; residual products and wastes; and arms and ammunitions)

## Tariff Regime

The current tariff schedule under ACFTA that covers 9,849 tariff lines in AHTN 2012 has 13 distinct tariff levels ranging from zero to 50%. 8,554 tariff lines or almost 87% of the total number of tariff lines are levied zero duty, of which, 79 tariff lines were transferred from ST to NT. The end rates of 303 tariff lines under HSL are reduced to 50%.

On the other hand, Philippine tariff schedule under AKFTA comprises 9,908 tariff lines in AHTN 2012, with tariffs ranging from zero to 20%. All tariff lines under the NT equivalent to 88% or 8,729 tariff lines are already at zero including the 47 tariff lines transferred from SL/HSL A/ HSL B. Among the 39 tariff lines in the General Exclusion (GE) List for both FTAs are pharmaceutical goods; residual products and wastes; and arms and ammunitions. Under AKFTA, there are 185 tariff lines under HSLE (Figure 1).

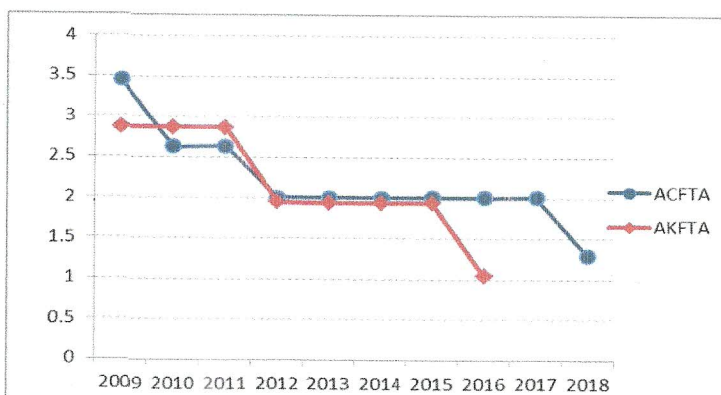
**Figure 1. Distribution of PH Tariff Rates under CFTA and AKFTA in 2015**



Source: PH Tariff Reduction Schedules in AHTN 2012

Figure 2 shows the downward trend of annual tariff averages from 2009 to 2016 for AKFTA and up to 2018 for ACFTA. Consistent with the commitments under ACFTA, tariff averages decreased with the elimination of duties on certain products in the NT in 2010 and the reduction of those in SL in 2012 and by 2018. On the other hand, the fall in tariff averages under AKFTA from 2.87% in 2009 to 1.04% in 2016 resulted from the further liberalization of SL products recorded in 2012 and 2016.

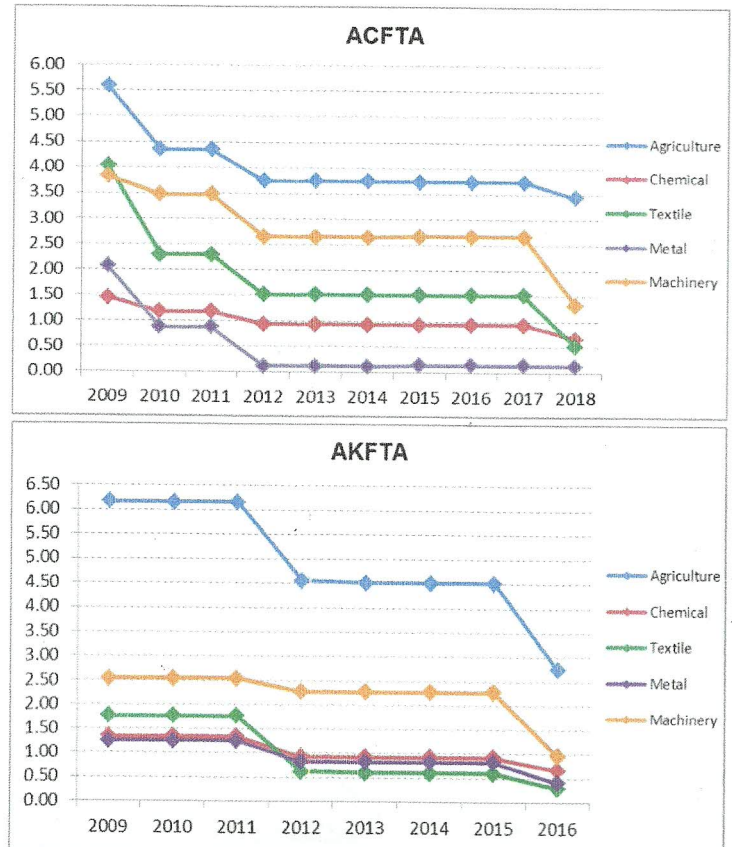
**Figure 2. Annual Tariff Averages of the Philippines under ACFTA and AKFTA: 2009 to 2016/8**



Source: PH Tariff Reduction Schedules in AHTN 2007 and 2012

Sectoral tariff averages range from 0.12% to 6.17%. ACFTA and AKFTA tariff rates on agricultural products are the highest, while textiles and metals have the lowest tariff averages (Figure 3).

**Figure 3. Sectoral Annual Average PH Tariff Rates under ACFTA and AKFTA: 2009-2016/8**



Source: PH Tariff Reduction Schedules in AHTN 2007 and 2012

## Trade Regime

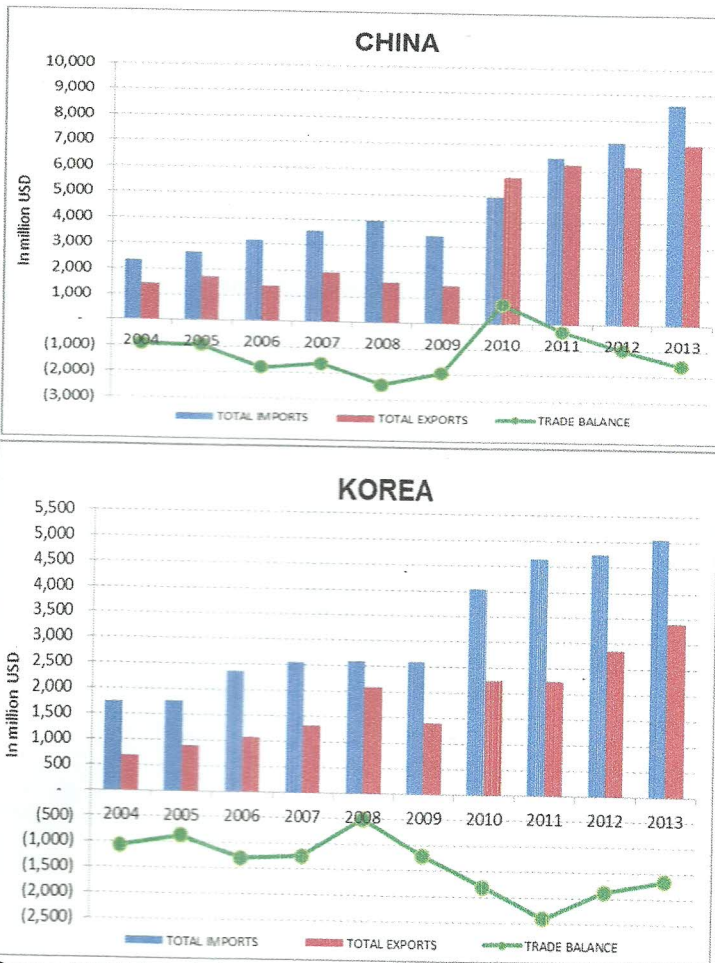
China and Korea are among the major trading partners of the Philippines. In 2013, total trade with China composed the 3<sup>rd</sup> largest share of almost 10%, equivalent to US\$15,622 million of the total trade to the world, followed by Korea with 5% share or US\$8,450 million.

Philippine imports from China and Korea have been generally increasing as a result of the continued tariff reduction on products. It was only in 2009 that a slight decrease was recorded. Imports reached its peak valued at US\$8,597 million (China) and US\$5,050 million (Korea) in 2013.

On the other hand, exports to both countries follow an erratic growth trend. In 2010, Philippine exports remarkably boomed by 287% for China and 61% for Korea from its drop in the preceding years.

Although Philippine exports grew faster than imports at an average growth rate of 36% (China) and 23% (Korea), the balance of trade of both countries was negative in the past decade, apart from the only positive trade balance with China in 2010 (Figure 4).

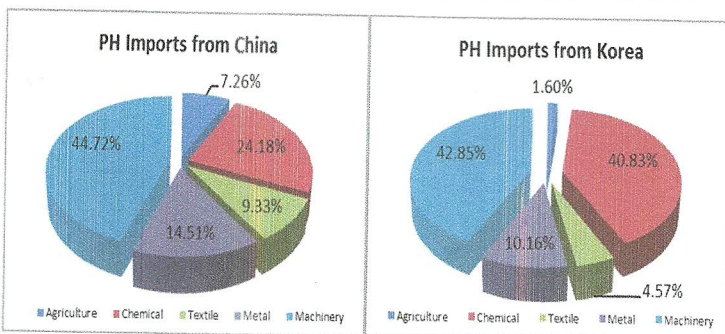
**Figure 4. PH Trade with China and Korea: 2004 to 2013**



Source: RCEP Submission

From 2010 to 2013, most of Philippine imports from China and Korea were products under the Machinery sector, with almost 45% and 43% shares, respectively. The second biggest shares were Chemicals which comprised 24% of total imports from China and 41% of those from Korea. The least shares of 7% (China) and 2% (Korea) were under the Agriculture sector (Figure 5).

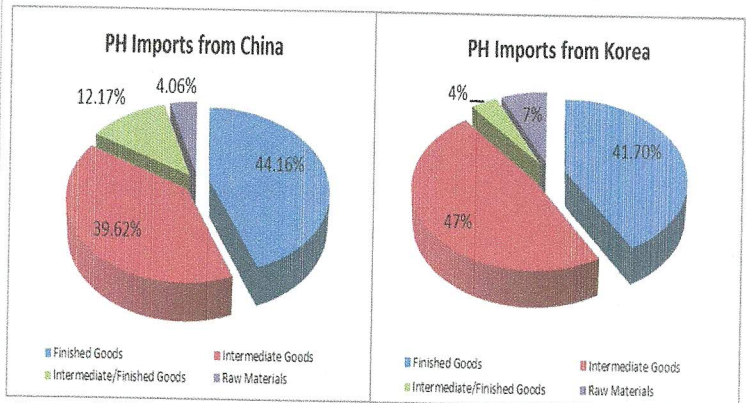
**Figure 5. Distribution of PH Imports from China and Korea on Sectoral Basis from 2010-2013**



Source: RCEP Submission

In terms of degree of processing, Philippine imports from China were dominated by finished goods which accounted for 44%, while intermediate goods were mostly imported from Korea constituting 47% (Figure 6).

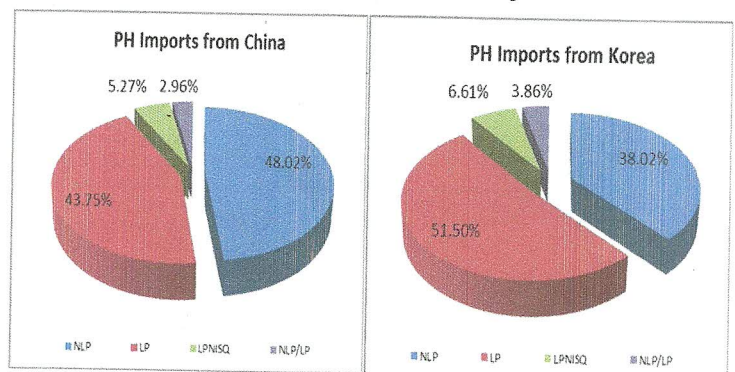
**Figure 6. Distribution of PH Imports from China and Korea by Degree of Processing from 2010-2013**



Source: RCEP Submission

Not Locally Produced (NLP) commodities constituted the largest portion of Philippine imports from China. Locally produced (LP) commodities like those under the Headings 27.10 (Petroleum oils), 85.42 (Electronic integrated circuits), 26.04 (Nickel ores and concentrates), and 85.04 (Electrical transformer) followed, with 44% share of the total imports. On the other hand, LP commodities dominated Philippine imports from Korea, closely followed by NLP commodities. Commodities categorized under NLP/LP lagged with only 4% share (Figure 7).

**Figure 7. Distribution of PH Imports from China and Korea based on Availability from 2010-2013**

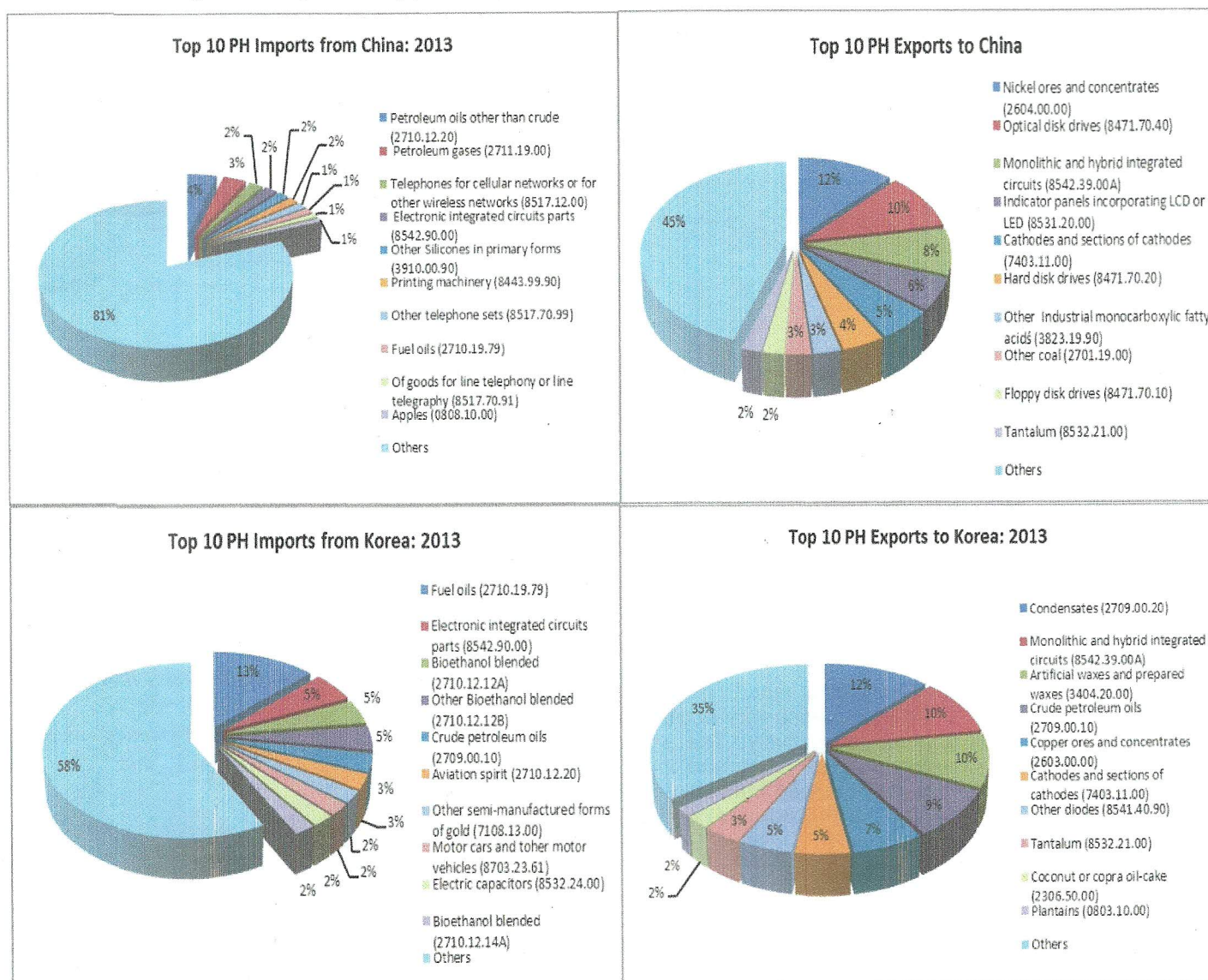


Source: RCEP Submission

In 2013, Philippines imported diverse products from China and Korea as the top 10 imports only constituted a small share to the total imports from both countries. The Philippines top imports from both China and Korea in 2013 are products under Headings 27.10 (Petroleum oils); 85.42 (Electronic integrated circuits); and 85.17 (Telephone sets).

On the other hand, top 10 exports comprised majority of the total Philippine exports to both China and Korea having 55% and 65% shares, respectively. Chemical products such as nickel ores and concentrates (2604.00.00), other coal (2701.19.00), and other industrial monocarboxylic fatty acids (3823.19.90) as well as exports of machineries are among the top exports to China, while apart from chemical and machinery products, Philippine top exports to Korea also include agricultural products like Oil-cake and other solid residues, of coconut or copra (2306.50.00) and plantains (0803.10.00) each having 2% shares (Figure 8).

**Figure 8. Top 10 Philippine Imports from and Exports to China and Korea in 2013**



Source: RCEP Submission



## Tariffs and Trade in the Region

**Table 2. Average MFN, ACFTA, and AKFTA Tariff Rates per ASEAN Member State (AMS)**

ASEAN MEMBER STATE	YEAR	AVE. MFN TARIFF RATE (%)	YEAR	AVE. ACFTA TARIFF RATE (%)	YEAR	AVE. AKFTA TARIFF RATE (%)
BRUNEI	2013	1.73	2015	0	2015	0.22
CAMBODIA	2013	7.94	2012	6.05	2012*	6.34
INDONESIA	2012	7.05	2012	2.06	2012	1.17
LAO PDR	2008	10.97	2014	5.56	2015*	5.3
MALAYSIA	2013	5.58	2015*	1.11	2012*	1.26
MYANMAR	2012	5.58	2015*	0.89	2012	3.69
SINGAPORE	2013	0	2015	0	2015	0
THAILAND	2013	13.05	2015	2.66	2015	1.26
VIETNAM	2012	10.46	2015*	1.45	2012*	7.06

Note: Average preferential tariff rates exclude Specific duties; \*AHTN 2007 Code; Source: WTO-IDB; RCEP

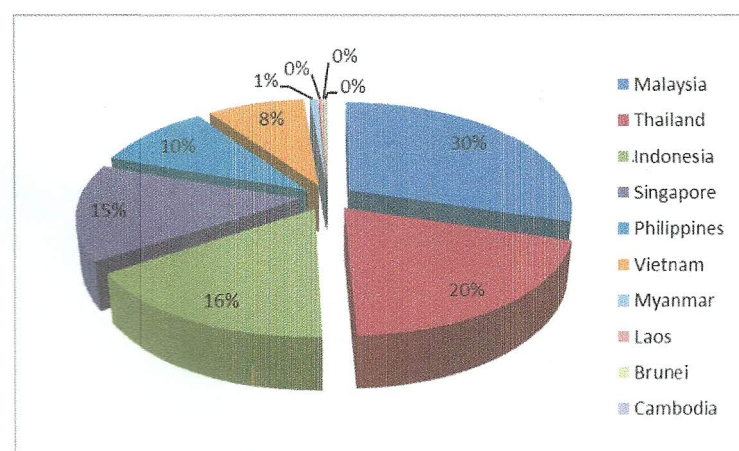
As an economic bloc, ASEAN led the list of world trading partners of China with total imports valued at US\$196 billion in 2012. Imports from Malaysia comprised 30% or US\$58 billion followed by Thailand, Indonesia, and Singapore, while the Philippines ranked 5<sup>th</sup> with only 10% share or US\$20 billion (Figure 9).

China's top imports from ASEAN are products under Headings 85.42 (Electronic integrated circuits), 84.73 (Parts and accessories suitable for use solely or principally with the machines of headings 84.69 to 84.72), 85.25 (transmission apparatus for radio-broadcasting or television), 27.01 (Coal), 84.71 (Automatic data processing machines and units thereof), and 15.11 (palm oil and its fractions).

Korea's import from ASEAN in 2012 has a total value of US\$52 billion. ASEAN is Korea's third biggest import source preceded by China and Japan. Among the ASEAN Member States (AMSs), Korea's imports are mostly from Indonesia with total imports amounting to US\$15.7 billion, followed by Malaysia and Singapore, each having 19% shares. Korea's import from the Philippines is valued at US\$3 billion or 6% of the total imports from ASEAN (Figure 10).

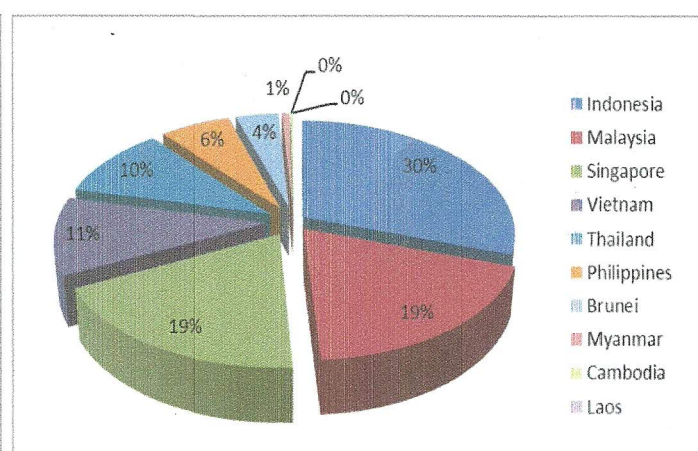
Products under Headings 27.11 (Petroleum gases and other gaseous hydrocarbons), 27.01 (Coal), 27.09 (Petroleum oils and oils obtained from bituminous minerals, crude), and 85.42 (Electronic integrated circuits) are among the top products imported by Korea from the region.

**Figure 9. China's Sources of Imports from ASEAN in 2012**



Source: WTO-IDB

**Figure 10. Korea Sources of Imports from ASEAN in 2012**



Source: WTO-IDB



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Tariff Commission <http://www.tariffcommission.gov.ph>

Philippine Tariff Finder <http://finder.tariffcommission.gov.ph>

## Industry Briefer: Automotive Parts & Components Manufacturing

### I. Industry Overview

#### Industry characterization/Product coverage<sup>1</sup>

The country's automotive parts and components manufacturing industry is one of the two major sectors of the wider Philippine automotive industry—with the other being the automotive assembly.

It is comprised of the following subsectors: metalworking (47 percent); plastics, seats, and trims (18 percent); rubber (15 percent); chemicals (7 percent), and allied industries (13 percent).

The metal subsector consists of large parts producers and vehicle assemblers such as Honda (Honda Parts Manufacturing), Toyota (Toyota Auto Parts), and Mitsubishi (Asian Transmission Corp), whose key products include engine and transmission assemblies. These large firms coexist with relatively small parts firms that produce mostly metal-based components (e.g. clutch pedals and battery trays) and small-type bracket and clips. The subsector also encompasses companies that manufacture aluminum wheels, radiators, leafspring, stamped parts, steering wheels and columns, mufflers and exhaust pipes, among others.

Meanwhile, the plastics subsector is made up of companies that manufacture fiber-reinforced plastic components and small plastic injected parts that primarily cater to the replacement market. On the other hand, the rubber subsector consists of firms that produce tires, other rubber parts (e.g. glass runs, weather strips, and side moldings) and other molded rubber products (e.g. bumper bounds, steering gear, tube/boot, oil seals, pedal pads, and plugs).



A motor vehicle is composed of a throng of parts and components: from tires to wiring harness, to assembled/unassembled gear boxes, and the list goes on. *Photo credit: Auto Industriya*

There are about 256 firms that comprise the Philippine domestic auto parts industry. These companies manufacture around 330 different parts and accessories/components such as:

- ✓ Electrical system: wiring harnesses, relays, lamps, batteries
- ✓ Suspension: aluminum wheels, steel rims, leaf and coil springs
- ✓ Rubber and plastic components: small plastic parts, fan belts, rubber hoses
- ✓ Mechanical parts: transmission
- ✓ Interior: seats, carpets
- ✓ Pressed components: pedals, seat frames, seat adjusters, radiators, mufflers, oil and air filters
- ✓ Cast and forged components: brake drums, brake disks, gear blanks

#### Industry Association

Motor Vehicle Parts Manufacturers Association of the Philippines, Inc. (MVPMAP) is the lead association of the Philippine auto parts sector that was organized in October 1996 (PACCI, 2013).

According to the Philippine Automotive Competitiveness Council, Inc. (PACCI), MVPMAP envisages to "help create a globally competitive parts manufacturing sector that can respond positively to the needs not only of the local vehicle manufacturers but also to the global requirements for parts and components." In doing so, the association lends a hand to member companies in building up capability and technology in order to be more competitive.

Out of the approximately 256 auto parts and components manufacturing firms in the Philippines, around 128 are MVPMAP-members. Non-MVPMAP members are mostly suppliers originating from Japan that assemblers brought into the country.<sup>2</sup>

<sup>1</sup>Aldaba (2007); Quimba & Rosellon (2011); Institute for Labor Studies & International Labour Organization (ILS & ILO, 2013)

<sup>2</sup>Ibid; MVPMAP



## II. Matrix of Tariff Information (continuation)

B. MOTOR VEHICLES PARTS AND COMPONENTS									
2012 AHTH Code	Subject Article	2015 Rate of Duty (% Ad Valorem)							
		MFN	ATIGA	PJEP	AJCEPA	ACFTA	AKFTA	AANZFTA	AFTA
3909.50.00	Polyurethane	3/5/7	0	0	0	0	0/7	0	2/3/4
4009.31.91	Fuel hose, heater hose and water hose	10 <sup>f</sup>	0	0	10	10	10	5	6
4011.10.00/20.10/ 20.90/ 69.00	Tires	3	0	0	0	0	0	0	2
54.07/60.02	Woven and knitted fabric	1/5/7/10	0	0	0	0	0	0	1/2/3/4/6/EL
7007.11.10/ 7007.21.10	Safety Glass	10	0	0/3	0/3	0	0	0/10	6
7009.10.00/ 91.00/ 92.00	Glass Mirrors	10	0	0/4	0/4	10/15	0/10/15	0/15	6/13.39
8407.31-34	Gasoline Engines	1 <sup>a</sup> /3/10/10 <sup>a, f</sup>	0	0	0	0	0	0	1/EL
8408.20	Diesel Engines	1 <sup>a</sup> /3/10	0	0	0	0	0	0	1/2/4
8413.30.12/21/92	Fuel and Water Pumps	15 <sup>h</sup>	0	0	15	0	HSL E	0	EL
8415.20.10/90	Air conditioning units of a kind used in motor vehicles	10	0	0	3/10/30	10	10	0	EL
8415.90	Parts of air conditioning units	5/5 <sup>a</sup> /10	0	0/3	0/3	0	0	0	3/4/6
8421.23.21	Oil filters	3	0	0	0	0	0	0	EL
8421.31.20	Air filters	10 <sup>a, f</sup>	0	0/3	0/3	0	0	0	EL
8483.10.25/26/27	Transmission Shaft and Cranks	1	0	0	0	0	0	0	1/EL
8484.10.00/ 90.00	Gaskets	7	0	0/2	0/2	0	0	0	4
8507.10.92-99/8507.20.91-99	Battery	15	0	0/4	0/4	0	HSL E	0	10
8511.10.20	Spark Plugs	3	0	0	0	0	0	0	2
8511.90.20	Contact Point	3	0	0	0	0	0	0	2
8512.20.20	Unassembled Lighting/ Signalling Equipment	3	0	0	0	3	HSL E	0	2.68
8512.20.99	Lighting or Visual Signalling Equipment	10	0	0/3	3/10/20	10	0/HSL E	5	7/8.93/17.86
8512.30.20	Unassembled Sound Signalling Equipment	3	0	0	0	3	0	0	2.68
8517.70.99	Car Radio Antenna	0	0	0	0	0	0	0	0
8536.10.13/93	Fuses	20 <sup>h</sup>	0	0	0	0	0	0	13
8536.41	Relays	1	0	0	0	0	0	0	1
8536.61-69	lamp holders, plugs and sockets	0/1/5/7	0	0/2	0/2	0	0/HSL A	0	0/1/2/4
8539.10.10	Sealed Beam Lamp	3	0	0	0	0	0	0	2
8539.21.30/ 29.20	Tungsten Halogen and Other Filament Lamps	1	0	0	0	0	0	0	1
8544.30.12/14	Wiring Harness	30 <sup>h</sup>	0	0	30	20	HSL E	0	EL
8544.30.91/99	Electrical Conductors	10	0	0/3	0/3	10	0	0	EL
8546.90.00	Insulators	1	0	0	0	0	0	0	1
8708.10.90	Bumpers and parts	10	0	0	0	10	HSL E	0	4
8708.21.00	Safety Seat Belts	10	0	0	10/30	10	HSL E	0/5	EL
8708.29.12A/ 12B/14B	Door Trim Assy	15 <sup>m</sup> /15 <sup>g</sup>	0	0	15	15	15	0/2	13.39/EL
8708.30.10	Brake & Servo-brakes; parts	10/10 <sup>a</sup> /20 <sup>m</sup>	0	0	0/10/20	10/20	10/20/HSL E	0/5	EL
8708.40.11/13/19	Unassembled Gear boxes	3	0	0	0	3	HSL E	0	2
8708.40.26-29	Assembled Gear boxes	10	0	0	10/30	10	HSL E	0/5	7/26.79/8.93
8708.50.11/13/19	Driving/Non-driving Axles, unassembled	3	0	0	0	3	3/HSL E	0	EL
8708.50.26-29	Driving/Non-driving Axles, assembled	10/10 <sup>a</sup>	0	0	0	10	10/HSL E	0	EL
8708.70.16/17B	Hub-caps	15 <sup>g</sup>	0	0	15	15	HSL E	0	13.39
8708.70.22/ 29A/32/39A	Road Wheels	15 <sup>g</sup>	0	0	15	15	HSL E	0	4/13.39
8708.80.16/19	Shock Absorbers/ Suspension Systems	10	0	0	10/20	10	HSL E	0	EL
8708.80.92/99	Parts of Shock Absorbers/ Suspension Systems	1	0	0	0	1	1	0	1
8708.91.16/17B/ 92A/92B/ 99A/99B	Radiators; Parts	3/20 <sup>m</sup> /30 <sup>m</sup>	0	0	0/3/20/30	3/20	3/HSL E	0/5	2.68/17.86/26.79
8708.92.20/40B	Silencers and Exhaust Pipes; Parts	10/ 10 <sup>a</sup> /15 <sup>m</sup>	0	0	15	15	15/HSL E	0/5	EL
8708.93.60/ 70/90	Clutches and Parts	10	0	0	0	10	HSL E	0/5	EL
8708.94	Steering wheels, columns and boxes; parts	1/10/10 <sup>a</sup>	0	0	1/10/20	1/10	10/HSL E	0	EL
8708.99.21A/21B/ 23A/23B/ 23C/23D	Fuel Tanks; parts	15 <sup>h</sup> /15 <sup>g</sup> /20 <sup>l</sup> 5/20 <sup>g</sup> /30 <sup>h</sup> /30 <sup>g</sup>	0	0	15/20/30	1/10/15/20	15/20	0	10/13.39/ 17.86/ 20/26.79
8708.99.30	Accelerator, brake or clutch pedals	10/10 <sup>a</sup> /20 <sup>m</sup>	0	0	20	20	20	0/5	EL
8708.99.40-70B	Other Parts	1/10/15 <sup>m</sup> /20 <sup>m</sup>	0	0	0/10/15/20	1/10/15/20	1/10/15/20/ HSL E	0/5	1/8.93/ 13.39/17.86
9029.20.10/20	Speedometers/ Tachometers	1/10	0	0	0/1/15	0/1	1/10	0	1/9/EL
9401.20.10	Seats	30 <sup>h</sup>	0	0	30	20	HSL E	8	26.79

<sup>a</sup> - Zero duty under the Agriculture and Fisheries Modernization Act, subject to submission of Certificate of Eligibility or Certificate of Accreditation issued by the DA-Regional Field Units, BFAR, DTI's regional and provincial offices, or the BOI.

<sup>f</sup> - 7% when imported with certification from the BOI.

<sup>g</sup> - 5% when imported with certification from the BOI.

<sup>h</sup> - 15% when imported with certification from the BOI.

<sup>j</sup> - Duty free when imported with certification from the DOE that articles will be used for the Natural Gas Vehicle Program for Public Transport.

<sup>k</sup> - 1% when imported with certification from the BOI.

<sup>m</sup> - 10% when imported with certification from the BOI.

<sup>g</sup> - 3% when imported with certification from the BOI.

EL - Exclusion List

HSL A - Tariff lines in the Highly Sensitive List subject to 50% tariff rate capping

HSL E - Tariff lines in the Highly Sensitive List exempted from tariff concession

### Economic Significance (Continuation)

- Executive Order 182 [Comprehensive Automotive Resurgence Strategy (CARS) Program]<sup>5</sup> - signed on 29 May 2015, the program intends to "attract new investments, stimulate demand and effectively implement industry regulations that will revitalize the Philippine automotive industry, and develop the country as a regional automotive manufacturing hub". It offers a time-bound and output/performance-based fiscal incentives to attract strategic investments in both the auto assembly sector and the auto parts industry.

The program shall be limited to the production of three models of four-wheeled motor vehicles subject to a set of criteria (e.g. economic impact of the investment plan for the model, among others). Provided that they are able to satisfy the requirements set forth in the EO, selected participants to the CARS Program will be given two kinds

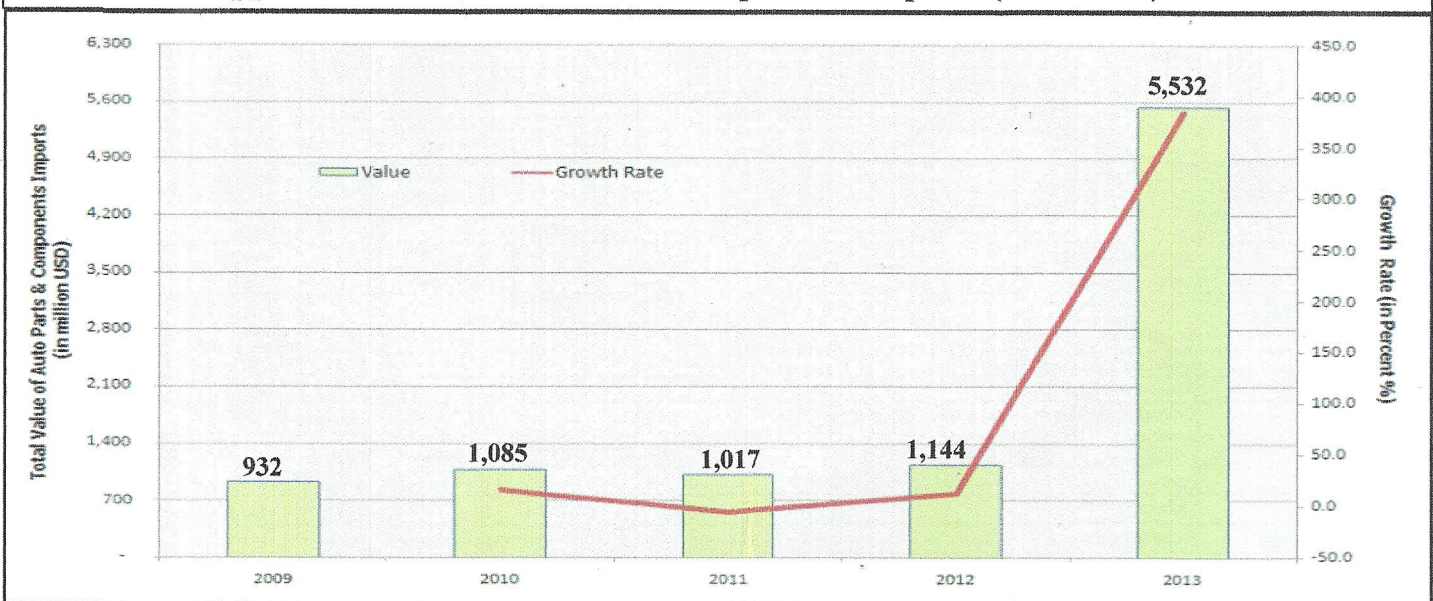
of fiscal incentive, which may be availed up to a maximum of six years, namely: (a.) Fixed Investment Support (FIS) and (b) Production Volume Incentive (PVI).

The total budget allocation for the program is P27 billion, with each enrolled automobile model qualified to a fiscal support of not more than P9 billion. Allocation is as follows: (a.) FIS – 40% (with provision on cases of Parts and Shared Testing Facility) and (b.) PVI – 60%.

With its implementation, the CARS Program is expected to draw more than P27 billion worth of investments in the automotive parts manufacturing sector, produce 200,000-600,000 vehicle units, create around 200,000 direct and indirect employment, and generate a total economic activity approximately valued at P300 billion over the six-year existence of the program. According to the DTI, the resulting contribution to the country's GDP is projected to be at roughly 1.7%.

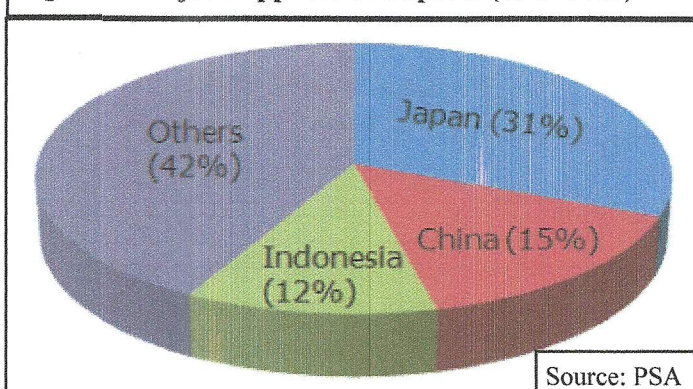
### III-A. Imports Data

**Figure 1. Philippine Motor Vehicle Parts & Components Imports (2009-2013)**



Source: Philippine Statistics Authority (PSA)

**Figure 3. Major Suppliers of Imports (2009-2013)**



Source: PSA

From 2009-2013, the value of the Philippines' motor vehicle parts and components imports hovered at 1.94 billion USD, on the average. Throughout the five-year period, CIF value of the country's automotive parts and components imports had an average annual growth rate of 102%.

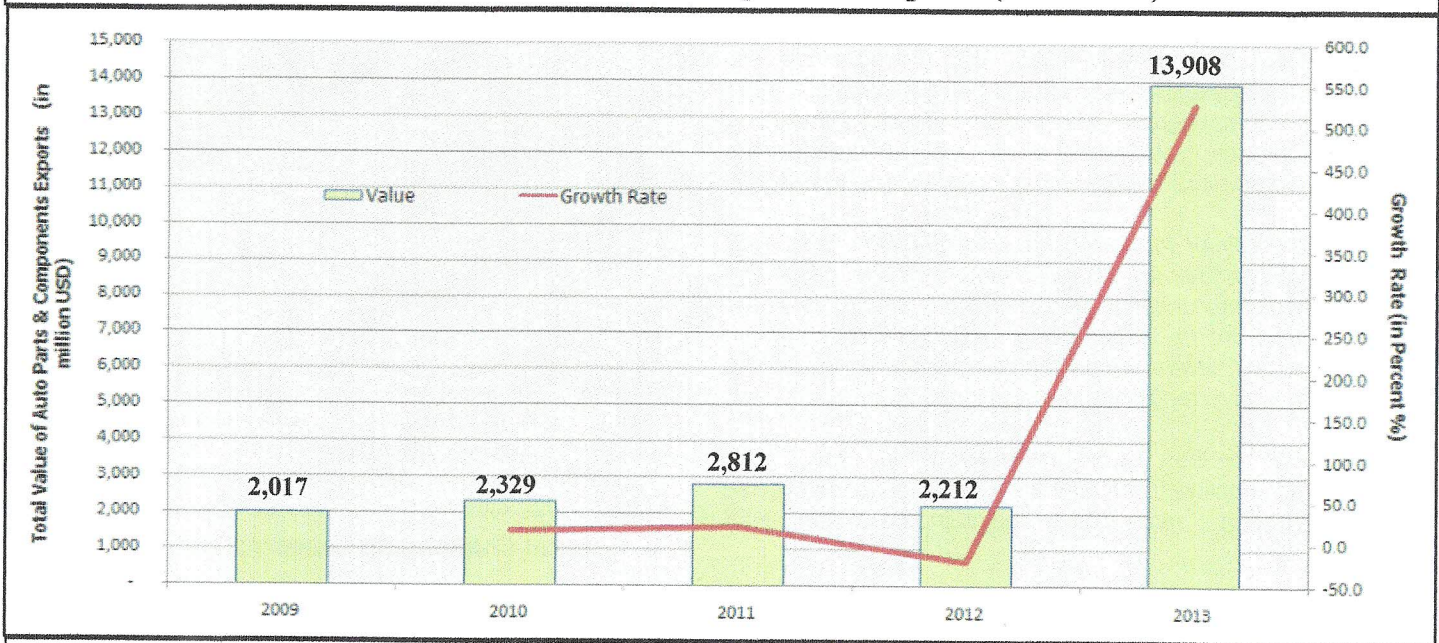
With 19% share to total imports value (2009-2013), car radio antenna stands as the foremost imported auto part/component. Tires and other parts complete the top three imported motor vehicle parts and components with a combined 14% share to total.

Imports from Japan, China, and Indonesia comprise more than half of the total value of Philippine motor vehicle parts and components imports from 2009-2013. Collectively, they account for 58% of the total imports.

<sup>5</sup>Official Gazette of the Republic of the Philippines (EO 182); Calozzo (2015); Buban (2015)

### III-B. Exports Data: Philippines as a net exporter of Automotive Parts & Components

**Figure 1. Philippine Motor Vehicle Parts & Components Exports (2009-2013)**



Source: Philippine Statistics Authority (PSA)

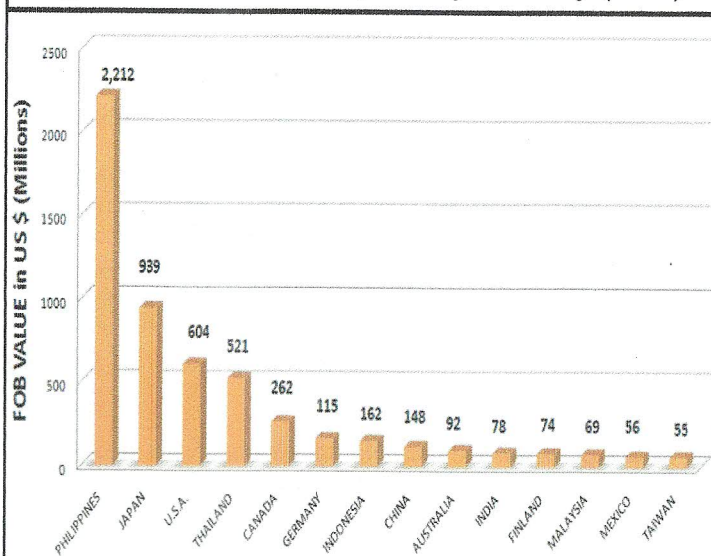
On the average, the country's exports value of auto parts and components stood at 4.7 billion USD from 2009 to 2013. During the five-year period, FOB value of Philippine motor vehicle parts and components exports had an average annual growth rate of 136%.

The bulk of the total exports value (2009-2013) were accounted for by: wiring harness (with 24% share to total), car radio antenna (11% share), and assembled gear boxes (7% share).

Japan remains to be the foremost market destination of Philippine-made auto parts and components (2009-2013), followed by United States of America (USA), and Germany.

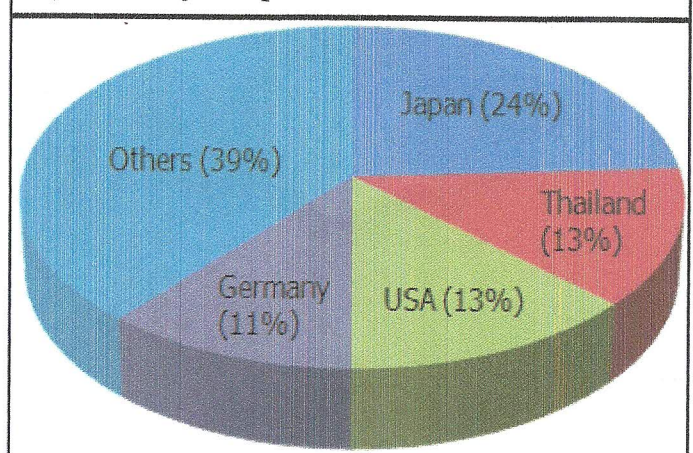
The Philippines is a net exporter of auto parts and components. Our auto parts exports value is leaps and bounds higher than many of its trading partners (see Figure 2). This can be ascribed to our country's distinctive Revealed Comparative Advantage (RCA)<sup>6</sup> in motor vehicle parts, particularly in wiring harness and brake systems. Meanwhile, the export-oriented auto parts manufacturers "stand out" due to the fact that their sales to domestic motor vehicle assemblers comprise only a small portion of their global sales.<sup>7</sup>

**Figure 2. Auto Parts Exports by Country (2012)**



Source: PSA and Export Marketing Bureau (EMB)

**Figure 3. Major Export Markets for RP Auto Parts**



Source: PSA

<sup>6</sup>As computed by World Bank's World Integrated Trade Solutions (WITS). According to Harvard University- Center for International Development, "RCA is an index used to calculate the relative advantage or disadvantage a country has in the export of a certain good."

<sup>7</sup>ADBI (2014); Ofreneo (2015)

#### IV. In Focus: Tariff-Related Issue

##### ✓ Executive Order (EO) 262<sup>8</sup>

Signed on 30 December 2003, EO 262 modified the nomenclature and rates of duty on raw materials, parts and components of motor vehicles including motorcycles, at rates that will encourage the development of the Philippine motor vehicle industry.

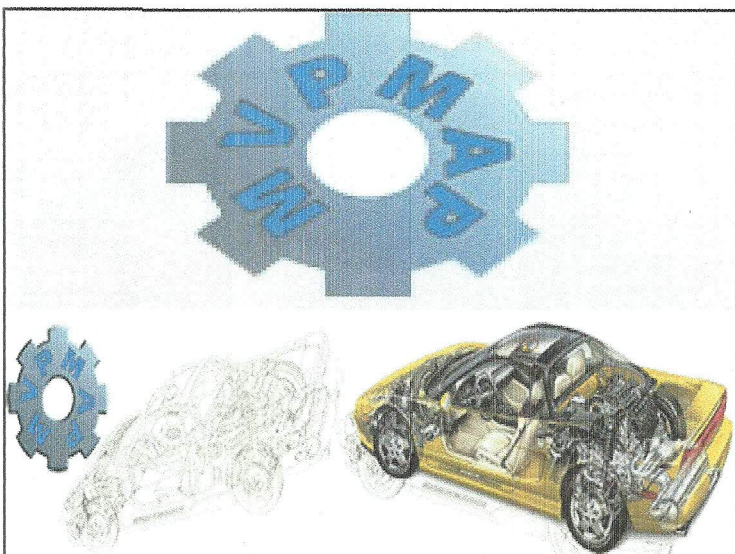
In 2010, MVPMAP requested for a modification of EO 262 to update the list of local motor vehicle parts and components under it since: (i) there are items in the list that are no longer being produced locally and (ii) there are several items that are locally produced but were inadvertently not included in EO 262 list.

MVPMAP's petition was considered in the 2010 Comprehensive Tariff Review (CTR). Consequently, the association requested to maintain the existing MFN

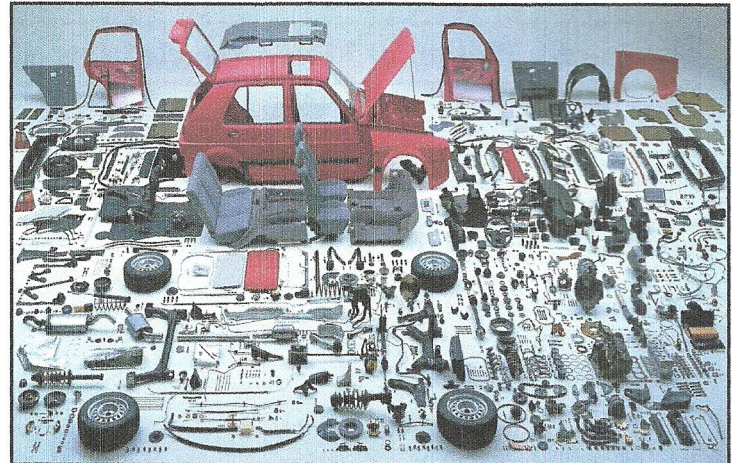
##### ✓ Tariff Distortion in the Industry

There is no tariff distortion in the industry since the primary materials (auto parts and components) have MFN rates which are lower (or at par, e.g. at 15%) than that of the finished product (motor vehicles) which has tariff rates ranging from 15 to 30 percent.

Even if parts and components such as wiring harness and seats have MFN rates of 30% (if imported without BOI certification), many importers in the country are able to import such subject articles with BOI certification (hence, an applicable MFN rate of only 15%) or they are able to avail of preferential tariff rates (from FTA countries) at only 12% rate and below. According to 2013 Bureau of Customs (BOC) data, 477 out of a total of 642 wiring harness import entries (74%) and 373 out of 475 seats import entries (79%) have applicable tariff rates of 15% and below.



MVPMAP pushes for growth and development in the Philippine auto parts and components industry. *Photo credit: MVPMAP*



According to MVPAP, the local auto sector has only around 10-15 percent domestically manufactured parts. The rest of the parts are imported. *Photo credit: Business Korea*

#### V. General Challenges/Concerns

##### ✓ Limited Impact of the "Local Content Requirements" Program in the Auto Parts Sector

In the PIDS paper entitled "Assessing the Competitiveness of the Philippine Auto Parts Industry", Aldaba (2007) cited how the national government adopted local content requirements in the assembly of cars, motorcycles, and trucks in a thrust to develop the local production of auto parts and components. This protected the sector for close to three decades.

The program compelled automotive assemblers to raise their domestic content to 60 percent at the end of 1976 from 10 percent in 1973.

However, as how Aldaba (2007, page 25) pointed out: "at best, the local content program of the government only had a limited impact on the growth and development of the industry." Even after almost 30 years of import substitution revolving around the local content policy, a huge portion of the sector remains underdeveloped.

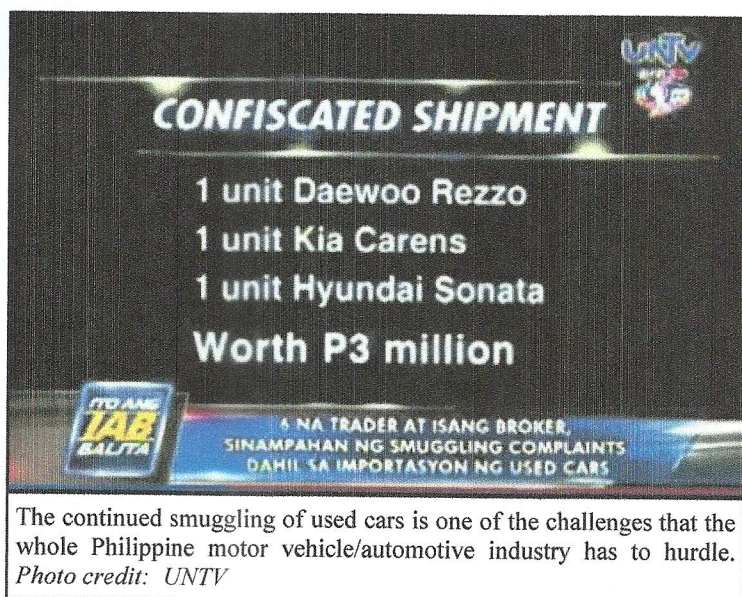
The PIDS Research Fellow noted in the aforesaid paper that the domestic automotive sector has only around 10 to 15 percent locally manufactured parts according to MVPMAP, which entails that local auto assemblers depend on imports for the remaining 85 to 90 percent.

Aldaba (2007) offered some pivotal reasons for the local content policy's failure, such as:

- ✓ The disinclination of multinational firms to outsource parts and components production to local Filipino companies.
- ✓ The dearth of local companies that could meet, in the short run, the standards of contractor-assemblers. Domestic supplier firms, especially during the early stages of the program, were close to nil. Meanwhile, those that were present in the market were unable to meet Japanese assemblers' cost quality-delivery (CQD) requirements.

<sup>8</sup>Tariff Commission Section 401 Report on the Review of Executive Order 262 (16 August 2010)





The continued smuggling of used cars is one of the challenges that the whole Philippine motor vehicle/automotive industry has to hurdle.  
Photo credit: UNTV

#### ✓ Smuggling of Second-hand/Used Vehicles

Aldaba (2013) divulged that smuggling and importation of used cars hamper the growth of our domestic automotive sector. She elucidated on the fact that traders make use of free ports and other special economic zones in bringing in used vehicles to shun paying the proper taxes and duties. Relative to their domestically-manufactured brand new counterparts, these smuggled cars have prices that are 30-50 percent lower—thus, they impose firm competition threat to the local automotive sector.

#### ✓ Weak Cost Competitiveness

Relative to other Asian countries, the cost competitiveness of Philippine automotive parts and components manufacturing firms is weak. This is primarily due to the sector's low productivity brought about by low utilization rate and small scale of production, over and above its heavy dependence on imported raw materials.

#### ✓ Infrastructure Woes

The industry is also weighed down by the country's infrastructure woes—most especially the high cost of power and distribution. These two contribute to the towering production costs in the sector which is already hobbled by a pint-sized domestic market and a feeble supply base.

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