September 27, 2024

The Honorable Cristina A. Roque
Secretary
Department of Trade and Industry
Republic of the Philippines
361 Sen. Gil J. Puyat Ave.
1200 Makati City, Philippines

Dear Secretary Roque:

We write on behalf of global industries engaged in trade and investment with the Philippines, to share with you the importance of a permanent moratorium on customs duties on electronic transactions, especially for MSMEs in the Philippines.

We appreciate the government of the Philippines' support for the Joint Statement Initiative on E-Commerce. We consider great progress has been made with the inclusion of important digital trade facilitation provisions and that this agreement will be helpful for the growth of digital services globally. We also are very encouraged by the critical mass of support achieved for a permanent prohibition on customs duties on electronic transmissions. We recognize there is still more work to be done to ensure that the benefits of the WTO e-commerce moratorium endure.

There is abundant recent research on the value of digital services to developing economies and MSMEs (a summary of this research is enclosed). This extensive research documents the benefits of digital services imports, as well as exports for small business, and the importance of avoiding barriers to cross-border data flows.

We appreciate that the digital economy is a priority for the Philippines – and that the government has made great strides in efforts to promote digitalization, including with the Philippines Development Plan, the central bank's Digital Payments Transformation Roadmap, and the e-Government Master Plan, to name just a few initiatives. The benefits of these efforts are already bearing fruit, with the digital economy contributing 9.4 percent to GDP in 2022, an increase of 11 percent from the previous year, and the sector employing about 6 million people or 13 percent of total employment. Digital exports now represent 28 percent of the Philippines' total exports of goods and services, up from 10 percent in 1995.

The Philippines is an important and fast-growing import and export hub for digital services. The Philippines accounts for about 15% of the global Information Technology and Business Process Management (IT-BPM) market. According to the IT and Business Process Association of the Philippines (IBPAP), the local IT-BPM industry generated USD35.5 billion in 2023, up nine percent in 2022, making it the largest source of foreign exchange inflow into the country.

Amid existing strong growth of the digital sector and especially, the IT-BPM industry, the government has an opportunity to integrate the Philippines more deeply into global value chains by committing to a lasting ban on customs duties on electronic transmissions in the JSI. As Manila has sought to develop the IT-BPM sector, the government has already introduced favorable policies such as tariff reductions for capital equipment. It could provide an even more commercially significant benefit by committing not to impose duties on imported digital services.

The research we highlight in our attachment shows that for the Philippines, if the moratorium ceased to exist and tariffs were applied on digital services imports, imports could potentially fall by around 7% (impacting the propensity for value-added digital services exports). OECD estimates suggest that a potential duty on electronic transmissions would likely generate less than 0.05 percent of government revenue and potentially come at the expense of sectors which rely heavily on imported services. Likewise, other barriers to cross-border data flows could adversely affect the country's IT-BPM sector given the data-intensive nature of the services it offers.[1]

UNCTAD showed in 2020 that business-to-business (B2B) intermediate digital trade far exceeds business-to-consumer (B2C) activity. The latest global measures continue to confirm the overwhelming importance, for digital services, of B2B trade in global value chains, with digital services imports contributing directly to value-added digital service exports, such as in the IT-BPM and Knowledge Process Outsourcing (KPO) sectors. During the recent WTO Public Forum and associated webinars, it was reported by the WTO Secretariat that business, technical and professional services account globally for 41 percent of intermediate B2B activity in digital services. These are precisely the areas of current Philippine competitiveness.

Customs duties on electronic transmissions would also increase the cost of basic digital services for consumers in the Philippines. Potential countermeasures by other countries could further exacerbate these costs.

In summary, the global and local studies suggest that customs duties on inbound data transfers, software, and digital tools would fuel inflation, raising the costs of digital inputs for Philippines MSMEs, depressing their consumption and reducing their global competitiveness. The damage to small businesses would reduce economic growth and, in turn, tax collection.

There are better, more efficient and higher revenue-producing tax alternatives to imposing duties on digital imports, such as VATs and GSTs, that follow established international tax norms and are non-discriminatory, applying to both domestic and imported services. We welcome ongoing consultation with the government on implementing regulations for digital services VATs as policymakers continue to pursue this method of taxation. A study from the International Monetary Fund estimates that at the global level, a VAT on electronic transmissions would yield about 150 percent more potential revenue than tariffs.[2] Many other countries have implemented such taxation frameworks; however, no country has sought to implement a customs framework that would impact electronic transmissions except Indonesia. In Indonesia's case, the Customs Authority has yet to determine how it would implement customs duties and is experiencing difficulty implementing the existing electronic transmissions reporting requirements.

We think it would be valuable for the WTO e-commerce work program to host programs on technical capacity building, to help WTO members implement VATs or GSTs and draw on the experience of members that have successfully managed this (such as Australia). We understand such technical assistance may also potentially be forthcoming under the JSI Agreement on E-Commerce and would encourage the Philippines to seek access to any such support. The ACP group's communication in December 2023 called for multilateral bodies such as the WTO or OECD to do more work on VATs and GSTs, including through information sharing about their implementation in WTO member countries. If there are other areas that the WTO e-commerce work program could explore that would benefit Philippines MSMEs, we would be interested in your recommendations.

We also encourage the government of the Philippines to continue pursuing a permanent moratorium in the ASEAN Digital Economy Framework Agreement negotiations, which would strengthen the protection of the moratorium's benefits for Philippine MSMEs and complement efforts at the WTO.

We greatly appreciate your consideration of these perspectives. Please do not hesitate to reach out if you have any questions or concerns that we can address.

Sincerely,

ACT | The App Association
Asia Internet Coalition
Asia Pacific Services Coalition
Australian Services Roundtable
BSA | The Software Alliance
BusinessNZ
Coalition of Services Industries
Computer & Communications Industry Association
European Services Forum
Global Data Alliance
Information Technology Industry Council
Japan Services Network
TheCityUK
Technology Trade Regulation Alliance (TTRA)
U.S. Chamber of Commerce

cc: The Honorable Manuel Teehankee, Permanent Representative of the Philippines to the WTO

---

[1] https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps2046.pdf

[2] International Monetary Fund, *Fiscal Revenue Mobilization and Digitally Traded Products: Taxing at the Border or Behind It?* IMF Not 2023/005 (2023), at: https://www.imf.org/-/media/Files/Publications/IMF-Notes/2023/English/INSEA2023005.ashx (The "maximal revenue potential of VAT on trade in digitized goods, based on a static analysis, is about 150 percent higher than that of tariffs."); *See also,* OECD, Understanding the Potential Scope, Definition and Impact of the WTO E-Commerce Moratorium, OECD Trade Policy Paper, October 2023 n°27, at: https://www.oecd-ilibrary.org/docserver/59ceace9-en.pdf?expires=1706908986&id=id&accname=guest&checksum=8B3A20905D6F151CDADBEF5B049415BF ("Standard VAT/GST taxes applied on digital services imports would offset in most countries the fiscal revenue effects of the Moratorium.").