HOUSE OF REPRESENTATIVES
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SEVENTEENTH CONGRESS)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

HOUSE OF REPRESENTATIVES

Introduced by Representative Maximo B. Rodriguez, Jr.

House Bill No. 1689

EXPLANATORY NOTE

The motor vehicle manufacturing industry has extensive downstream linkages, mainly with basic and critical heavy industries (e.g. iron and steel, chemicals, rubber); and upstream linkages with tertiary industries such as transport services and distribution of goods. Thus, a progressive motor vehicle manufacturing industry is considered a key driver of industrialization and economic development.

In developed countries like the United States, Japan and Germany, the vehicle manufacturing industry forms the core of its industrial strength. The importance of the industry was even more highlighted during the 2008 Global Financial Crisis, when these developed economies quickly took to action and implemented measures in support of the vehicle manufacturing industry. The emerging economies Brazil, Russia, India and China also put high priority on developing a domestic vehicle manufacturing industry.

In ASEAN, member-states with manufacturing capabilities such as the Philippines, Thailand, Malaysia and Indonesia continuously develops and implements strategic development programs/ policies for motor vehicle manufacturing as a key strategy for industrialization.

The Philippines first implemented its motor vehicle development program in 1973. Among others, the program was aimed at developing a local vehicle manufacturing industry that would effectively encourage the development of vehicle parts manufacturing and auto-supporting industries. The government envisioned the industry as a major source of manufacturing value-added, and therefore has potentially high economic contributions.

Since the implementation of the Motor Vehicle Development Program (MVDP), substantial investments estimated at Php100 billion were put in place in manufacturing operations, about 75,000 jobs were generated and the annual export revenues from locally-produced parts reached over US$3 Billion in 2010. At the same time, technology transfer has significantly contributed to the improvement of production process and product quality; and automotive skills development programs have raised the levels of Filipino workmanship and capabilities. It is clear that the motor vehicle manufacturing industry plays an important role in socio-economic development.

However, the Philippines was not able to develop the competitive capacities of its motor vehicle manufacturing industry. The small domestic market base did not support economic scale in manufacturing operations.[1/] Moreover, policy inconsistencies and the weak regulatory framework have eroded the market base for new vehicles and consequently, the parts manufacturing industry.

As a result, investments have been limited and the parts manufacturing and auto-supporting industries were not fully-developed.[2/] Majority of parts manufacturers are classified as small and medium enterprises (SME), with limited market access opportunities. In fact, about 90% of the total export revenues from vehicle parts and components are generated by Multi-National Companies (MNCs), which account for less than 10% of local parts manufacturers.

[1/] 2009 Domestic Market Volume: Thailand – 548K; Indonesia – 486K; Philippines – 132K

[2/] Comparative number of parts suppliers: Thailand – 1,800; Indonesia – 564; Philippines - 256

In contrast, other ASEAN automotive industries benefited from a large domestic market base and generally consistent automotive policies, and therefore, a more attractive investment destination for vehicle manufacturing. In comparison to our ASEAN neighbors, the Philippines lagged in terms of cost-competitiveness. Structural inefficiencies and the increasing pressure from trade liberalization continue to put tremendous pressure on the domestic vehicle manufacturing industry. In 2010, it was estimated that the cost of locally manufactured vehicle is higher by 15% in comparison to vehicles produced in other ASEAN production bases.

The vehicle manufacturing industry offers exceptional growth opportunities. A study conducted by the University of Asia and the Pacific showed that the motor vehicle manufacturing is a key industry in the Philippine economy, with one of the highest output, household income and employment multiplier effects. The study estimated that an additional Php100 billion investments in motor vehicle manufacturing would result to Php357 Billion additional output, Php27.2 Billion household income and 169,000 jobs. Such is the potential contribution of vehicle manufacturing because it creates production complementarities among many industries in the economy.[3/]

A study conducted by Deloitte Touche Tohmatsu also reached the same conclusions, i.e. the development of a world-class vehicle manufacturing industry will substantially increase real gross domestic product, real aggregate investments, real exports and real wages leading to increase in employment.[4/]

However, these potential economic benefits may only be reaped by improving the competitiveness of the domestic vehicle manufacturing industry. The continued viability of the industry will primarily depend on the effectiveness and sustainability of the policy and business environment, an important government role highlighted in a study conducted by the Philippine Institute for Development Studies.[5/]

Considering the foregoing, the immediate passage of this proposed measure is earnestly sought.

MAXIMO B. RODRIGUEZ, JR

[3/] Terosa C., 2010. "Economic Impact of the Philippine Automotive Manufacturing Industry: Production Linkages & Multiplier Effects". University of Asia and the Pacific, Philippines.

[4/] Stanford J., 2009. "Five Minutes to Midnight: The Future of Philippine Automotive Industry". Deloitte Touche Tohmatsu, Australia.

[5/] Aldaba R., 2008. "Globalization and the Need for Strategic Government-Industry Cooperation in the Philippine Automotive Industry". Philippine Institute for Development Studies, Philippines.

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AN ACT
TO STRENGTHEN THE COMPETITIVENESS OF THE PHILIPPINE MOTOR VEHICLE MANUFACTURING INDUSTRY

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

ARTICLE I
TITLE AND DECLARATION OF POLICIES

SECTION 1. ***Title***. - This act shall be known as "The Philippine Motor Vehicle Manufacturing Industry Act".

SECTION 2. ***Declaration of Policy.*** - The national economy shall be developed by promoting industrialization through competitive industries and by encouraging private enterprise. Recognizing that the Philippine Motor Vehicle Manufacturing Industry forms the core of the country's industrial strength, and its vital role in economic development and nation-building, the following are the declared policies of the State:

(a) The State shall develop a comprehensive policy that will accelerate the sound development of the Philippine Motor Vehicle Manufacturing Industry thereby contributing to industrial capital formation and employment generation;

(b) The State shall ensure a balanced transition to open trade at minimal risk to the Philippine Motor Vehicle Manufacturing Industry by fully developing its competitive capacities and promoting greater participation in a globalized economy through increased export;

(c) The State shall promote the maximum scale integration of vehicle manufacturing and the manufacture of its parts and components;

(d) The State shall encourage technology transfer and advances and promote automotive skills development as means to drive the competitiveness of the Philippine Motor Vehicle Manufacturing Industry;

(e) The State shall integrate motor vehicle manufacturing into the overall transport policies to optimize the growth of the Philippine Motor Vehicle Manufacturing Industry and ensure sustainable transportation development.

SECTION 3. ***Definition of Terms***. - For purposes of this Act, the following terms are defined as follows:

(a) "Board of Investments (BOI)" refers to an attached agency of the Department of Trade and Industry created under Republic Act No. 5186.

(b) "Department of Trade and Industry (DTI)" refers to the government agency created pursuant to Executive Order No. 133.

(c) "Investments Priorities Plan (IPP)" refers to the overall plan prepared by the BOI in accordance with the provisions of Executive Order No. 226 otherwise known as the Omnibus Investment Code of 1987, as amended.

(d) "Motor Vehicle Manufacturing Industry" encompasses enterprises that are engaged in the manufacture of motor vehicles and its parts and accessories.

(e) "Manufacture of Motor Vehicles" refers to the activities classified under Section D, Division 34, Group 341 of the United Nations (UN) International Standard Industrial Classification of All Economic Activities (ISIC) Revision (Rev.) 3, which includes the manufacture of passenger cars, commercial vehicles, buses, trolley-buses and coaches, motor vehicle engines, chassis fitted with engines and other motor vehicles.

This also refers to the activities classified under Section D, Division 35, Group 359, Class 3591 of UN ISIC Rev. 3, which includes the manufacture of motorcycles (including mopeds) and cycles fitted with an auxiliary engine, whether or not with attached side-car, and "delivery" or "sporting" motorcycles

(f) "Manufacture of Parts and Accessories of Motor Vehicles" refers to the activities classified under Section D, Division 34, Group 343 of the UN ISIC Rev. 3, which includes the manufacture of parts and accessories for motor vehicles including their bodies and engines: brakes, gear boxes, axles, road wheels, suspension shock absorbers, radiators, silencers, exhaust pipes, clutches, steering wheels, steering columns and steering boxes and other parts and accessories not elsewhere classified.

This also refers to the manufacture of bodies (coachwork) for motor vehicles, engines for motorcycles, side-cars, and parts and accessories of motorcycles.

(g) "Medium-Term Philippine Development Plan (MTPDP)" refers to the master plan for economic development implemented by the National Economic Development Authority (NEDA), which identifies growth sectors for the next six (6) years and defines the programs, policies, strategies and action plans to attain economic development goals.

(h) "Philippine Export Development Plan (PEDP)" refers to the rolling three-year export development plan prepared by the DTI, which defines the country's annual and medium-term export thrusts, strategies, programs and projects jointly implemented by the government, export and concerned sectors.

ARTICLE II
ORGANIZATION, INSTITUTIONAL SUPPORT AND STRATEGIES

SECTION 4. ***Lead Agency***. - The DTI through the BOI shall be the lead agency mandated to implement the provisions and attain objectives of this Act.

SECTION 5. ***National Motor Vehicle Manufacturing Development Plan***. – The President of the Republic of the Philippines shall approve a rolling three-year National Motor Vehicle Manufacturing Development Plan, hereinafter referred to as the "Plan", prepared by the BOI and formulated in consultation with concerned stakeholders, and which shall be validated and updated annually.

The Plan, which shall be integrated into the PEDP and the MTPDP, shall define the Industry's annual and medium-term manufacturing and export targets, and programs and strategies to support manufacturing and export thrusts. The Plan shall also identify priority development products, which shall be characterized by high manufacturing value-added and with high potential for economic efficiency, as the primary focus of incentives.

SECTION 6. ***Motor Vehicle Manufacturing Development Council***. – For the purpose of coordinating the formulation and implementation of policy reforms to support the Plan, the Motor Vehicle Manufacturing Development Council, hereinafter referred to as the "Council", shall be created to act as the central policy coordinating body and national advisory committee.

SECTION 7. ***Composition of the Council***. - The Council shall be composed of the following:

(a) Undersecretary for Industry and Investments of the Department of Trade and Industry as Chairman;
(b) Deputy Director General of the National Economic Development Authority;
(c) Undersecretary of the Department of Finance;
(d) Undersecretary of the Department of Environment and Natural Resources;
(e) Undersecretary of the Department of Energy;
(f) Undersecretary of the Department of Transportation and Communication;
(g) Undersecretary of the Department of Labor and Employment;
(h) Four (4) representatives from the private sector, one of whom shall be appointed as Vice Chairman

Other heads of executive agencies, private organizations or individuals can be called upon by the Council to attend any Council meeting and to assist the Council to resolve issues and problems that concern their respective offices.

Likewise, such heads of executive agencies, private organizations or individuals shall respond to the queries of the Council within two (2) weeks from the time such queries are received.

SECTION 8. ***Duties of the Council***. - The Council shall function solely as a central policy coordinating body and national advisory committee, and shall have the following duties:

(a) The Council shall advise the DTI Secretary on the implementation of the Plan and provide a means of ensuring regular contact between the Government and the motor vehicle manufacturing industry.

(b) The Council shall provide a forum for discussing and proposing solutions to motor vehicle manufacturing industry-related problems, and emerging industry issues.

(c) The Council shall recommend ways to ensure that the Philippines becomes a more attractive investment destination for motor vehicle manufacturing in the ASEAN region, and that the Government timely responds to the challenges facing the industry.

SECTION 9. ***Appointment of Private Sector Representatives***. – Upon the effectivity of this Act, the President of the Republic of the Philippines shall appoint four (4) private sector representatives to the Council who shall serve for a term of two (2) years.

SECTION 10. ***Meetings of the Council***. - The Council shall meet once a month, provided, That the Chairman may convene the Council anytime whenever he deems it necessary.

SECTION 11. ***Operation of the Council***. - The Council shall immediately function one (1) month after the effectivity of this Act.

ARTICLE III
INVESTMENTS INCENTIVES

SECTION 12. ***Incentives for Manufacturers of Motor Vehicles***. - Enterprises engaged in the manufacture of motor vehicles duly registered with the BOI as participant under the Motor Vehicle Development Program (MVDP), shall be entitled to the following incentives:

(a) Income Tax Holiday. – For five (5) years from commercial operations, the enterprise shall be exempt from income taxes levied by the National Government, *Provided*, That investment in new basic model or full model change shall be treated as a new investment and shall therefore be entitled to a fresh package of incentives.

(b) Net Operating Loss Carry-Over. - A net operating loss incurred during the first three (3) years of operations shall be carried over as a deduction from taxable income for the seven (7) consecutive taxable years immediately following the year of such loss, Provided, however, That the net operating loss shall be computed in accordance with the provisions of the National Internal Revenue Code and its implementing Revenue Regulations, any provision of this Act to the contrary notwithstanding, except that income not taxable either in whole or in part under this or other laws shall be included in gross income.

(c) *Accelerated Depreciation.* - At the option of the taxpayer and in accordance with the procedure established by the Bureau of Internal Revenue, fixed assets may be (1) depreciated to the extent of not more than twice as fast as normal rate of depreciation or depreciated at normal rate of depreciation if expected life is ten years or less; or (2) depreciated over any number of years between five years and expected life if the latter is more than ten (10) years; and the depreciation thereon allowed as a deduction from taxable income: *Provided*, That the taxpayer notifies the Bureau of Internal Revenue at the beginning of the depreciation period which depreciation rate allowed by this section will be used by it.

(d) *Deduction on Training Expenses.* In addition to the allowable ordinary and necessary expenses on training which are fully deductible under the provisions of the National Internal Revenue Code, expenses incurred in training schemes approved by the appropriate agency shall be eligible for deduction during the financial year the expenses were incurred:

(i) Expenses incurred in providing employee training shall be eligible for single deduction; and

(ii) Expenses incurred in providing training to Small and Medium Enterprise (SME) parts manufacturers shall be eligible for double deduction.

(e) *Double Deduction on Research and Development.* – Expenses incurred for research and development activities shall eligible for double deduction from taxable income.

(f) *Tax and Duty Free Importation of Capital Equipment.* – The importation of machinery, equipment and accompanying spare parts imported in the name of the manufacturer as consignee shall be exempt to the extent of one hundred percent (100%) of the duties and taxes payable thereon, *Provided*, That the importation comply with the following conditions:

(i) These are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

(ii) These are reasonably needed and will be used exclusively in the manufacture of motor vehicles; and

(iii) Prior approval of the BOI was obtained for the importation of such machinery, equipment and accompanying spare parts.

Provided further, That such machinery, equipment and accompanying spare parts shall not be sold, transferred or disposed without prior approval of the BOI within five (5) years from date of acquisition, in which case the manufacturer as consignee and the vendee, transferee, or assignee shall be solidarily liable to pay twice the amount of the duty and tax exemption given it.

(g) *Tax and Duty Free Importation of Training Equipment.* – The importation of equipment, tools and implements for in-house training projects and imported in the name of the manufacturer as consignee shall be exempt to the extent of one hundred percent (100%) of the duties and taxes payable thereon, *Provided*, That the importation comply with the following conditions:

(i) These are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

(ii) These are reasonably needed and will be used exclusively for training projects; and

(iii) Prior approval of the BOI was obtained for the importation of such equipment, tools and implements.

Provided further, That such equipment, tools and implements shall not be sold, transferred or disposed without prior approval of the BOI within five (5) years from date of acquisition, in which case the manufacturer as consignee and the vendee, transferee, or assignee shall be solidarily liable to pay twice the amount of the duty and tax exemption given it.

(h) Qualified enterprises availing of incentives provided under this Act and its Implementing Rules and Regulations shall still be eligible to incentives and privileges provided for by other special laws:

(i) Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, *Provided*, That the manufacture of motor vehicles shall regularly form part of the IPP as a preferred area for investments, unless otherwise declared by law;

(ii) Republic Act No. 7844, otherwise known as the Export Development Act of 1994;

(iii) Republic Act No. 7916, otherwise known as the Special Economic Zone Act of 1995, as amended;

(iv) Issuances implementing the Motor Vehicle Development Program.

Provided, That the enterprise shall register under the aforestated laws and that there is no double availment of the same incentives.

SECTION 13. ***Incentives for Manufacturers of Motor Vehicle Parts and Accessories***. - Enterprises engaged in the manufacture of motor vehicle parts and accessories shall be entitled to the following incentives:

(a) Income Tax Holiday. – For five (5) years from commercial operations, the enterprise shall be exempt from income taxes levied by the National Government, *Provided*, That investment in new parts and components shall be treated as a new investment and shall therefore be entitled to a fresh package of incentives.

(b) Net Operating Loss Carry-Over. - A net operating loss incurred during the first three (3) years of operations shall be carried over as a deduction from taxable income for the seven (7) consecutive taxable years immediately following the year of such loss, Provided, however, That the net operating loss shall be computed in accordance with the provisions of the National Internal Revenue Code and its implementing Revenue Regulations, any provision of this Act to the contrary notwithstanding, except that income not taxable either in whole or in part under this or other laws shall be included in gross income.

(c) *Accelerated Depreciation*. - At the option of the taxpayer and in accordance with the procedure established by the Bureau of Internal Revenue, fixed assets may be (1) depreciated to the extent of not more than twice as fast as normal rate of depreciation or depreciated at normal rate of depreciation if expected life is ten years or less; or (2) depreciated over any number of years between five years and expected life if the latter is more than ten (10) years; and the depreciation thereon allowed as a deduction from taxable income: Provided, That the taxpayer notifies the Bureau of Internal Revenue at the beginning of the depreciation period which depreciation rate allowed by this section will be used by it.

(d) *Deduction on Training Expenses*. In addition to the allowable ordinary and necessary expenses on training which are fully deductible under the provisions of the National Internal Revenue Code, expenses incurred in training schemes approved by the appropriate agency shall be eligible for deduction during the financial year the expenses were incurred:

(i) Expenses incurred in providing employee training shall be eligible for single deduction; and

(ii) Expenses incurred in providing training to Small and Medium Enterprise (SME) parts manufacturers shall be eligible for double deduction.

(e) *Double Deduction on Research and Development.* – Expenses incurred for research and development activities shall eligible for double deduction from taxable income.

(f) *Tax and Duty Free Importation of Capital Equipment.* – The importation of machinery, equipment and accompanying spare parts imported in the name of the manufacturer as consignee shall be exempt to the extent of one hundred percent (100%) of the duties and taxes payable thereon, *Provided*, That the importation comply with the following conditions:

(i) These are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

(ii) These are reasonably needed and will be used exclusively in the manufacture of motor vehicle parts and accessories; and

(iii) Prior approval of the BOI was obtained for the importation of such machinery, equipment and accompanying spare parts.

Provided further, That such machinery, equipment and accompanying spare parts shall not be sold, transferred or disposed without prior approval of the BOI within five (5) years from date of acquisition, in which case the manufacturer as consignee and the vendee, transferee, or assignee shall be solidarily liable to pay twice the amount of the duty and tax exemption given it.

(g) *Tax and Duty Free Importation of Training Equipment.* – The importation of equipment, tools and implements for in-house training projects and imported in the name of the manufacturer as consignee shall be exempt to the extent of one hundred percent (100%) of the duties and taxes payable thereon, *Provided*, That the importation comply with the following conditions:

(i) These are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

(ii) These are reasonably needed and will be used exclusively for training projects; and

(iii) Prior approval of the BOI was obtained for the importation of such equipment, tools and implements.

Provided further, That such equipment, tools and implements shall not be sold, transferred or disposed without prior approval of the BOI within five (5) years from date of acquisition, in which case the manufacturer as consignee and the vendee, transferee, or assignee shall be solidarily liable to pay twice the amount of the duty and tax exemption given it.

(h) Qualified enterprises availing of incentives provided under this Act and its Implementing Rules and Regulations shall still be eligible to incentives provided for by other special laws:

(i) Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, *Provided*, That the manufacture of motor vehicle parts and accessories shall regularly form part of the IPP as a preferred area for investments, unless otherwise declared by law;

(ii) Republic Act No. 7844, otherwise known as the Export Development Act of 1994;

(iii) Republic Act No. 7916, otherwise known as the Special Economic Zone Act of 1995, as amended

Provided, That the enterprise shall register under the aforestated laws and that there is no double availment of the same incentives.

ARTICLE IV
OTHER POLICY MEASURES

SECTION 14. ***Rationalization Measures***. – In general, the Government shall formulate and implement rationalization measures in specific areas in need of adjustment, or where existing policies are challenged, rendered inefficient or obsolete by changing business environment with the end view of promoting economies of scale, efficiency and productivity.

Such specific areas include, but are not limited to, the rationalization of the excise tax system for automobiles. To the extent possible under existing laws and international agreements, the excise tax on automobiles shall be restructured in order to promote local vehicle manufacturing capability.

SECTION 15. ***Harmonization Measures***. – The Government shall formulate and implement harmonization measures with the end view of promoting effective regulation and transparency in rules.

ARTICLE V
FINAL PROVISIONS

SECTION 16. ***Implementing Rules and Regulations (IRR)***. - Within three (3) months from effectivity of this Act, the DTI through the BOI shall, in consultation with all the stakeholders concerned, promulgate the IRR of this Act.

SECTION 17. ***Repealing Clause***. - Any law, presidential decree or issuance, executive order, administrative rule or regulation contrary to or inconsistent with the provisions of this Act is hereby repealed, modified or amended accordingly.

SECTION 18. ***Separability Clause***. - If any of the provision of this Act is held unconstitutional or invalid, the remainder of the Act or the provision not otherwise affected shall remain valid and subsisting.

SECTION 19. ***Effectivity Clause***. - This Act shall take effect thirty (30) days after its publication in two (2) newspapers of general circulation.

Approved,