

HOUSE OF REPRESENTATIVES  
Quezon City, Metro Manila

SEVENTEENTH CONGRESS  
First Regular Session

House Bill No. 905



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Introduced by **HON. DEOGRACIAS VICTOR "DV" B. SAVELLANO**

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### EXPLANATORY NOTE

In the world market of investments and to the community of investors, a country must look beyond the traditional way of doing things. It must innovate to create opportunities where and by which it can give investors the maximum value of their investment.

This bill seeks to achieve this by establishing the Salomague Freeport which shall cover the entire Salomague Cove and some barangays in the Municipality of San Juan and Cabugao, in the Province of Ilocos Sur. The concept and objective is to develop the Freeport area into a self-sustaining industrial, commercial and investment center that will put in place a wide-reaching employment and investment generation mechanism, all to strengthen the trading and foreign exchange position of the country. On the whole, it is looking at effectively complementing and announced aggressive export-oriented thrust of the country, thus enhancing the country's global competitiveness.

As envisioned, the Salomague Freeport shall be operated as a separate customs territory that will basically provide incentives to ensure the free flow and movement of goods and commodities within the Freeport area and their exportation therefrom. Likewise it shall provide tax based incentives for business activities and concerns locating and operating within the Freeport premises, not to mention other non-tax benefits like liberal exchange policies and the grant of permanent resident status to investors.


This bill does away with an authority of office to run the Freeport but directly tasks a governing body composed of the elected chief executives of the localities involved and the private sector to do the job. It is felt that with the flexibility already defined in the bill, creating the Freeport already as a body corporate, to

institutionalize another office or authority for purpose of running the Freeport would be necessary.

The competitive markets around are now moving fast already leaving the country behind. The performance of South Korea, Hong Kong, Taiwan and Singapore had always been a source of envy despite limited resources they have compared to the abundance of our country enjoys. And now Thailand, Malaysia and Indonesia are surging ahead, outpacing even other western countries. Particularly because the proposed Freeport offers an environment that can match the capabilities and resources of a comparable area anywhere in the country, this Bill may help the country, at least, to keep pace with, not necessarily, to get ahead of the pack.

There are physical geographical and natural attributes the Salomague Area that can make the creation of Freeport ideal therein. Salomague cove is a natural harbor and haven for international ships during inclement weather. There is a channel that hugs the semicircular shorelines that is appropriate for marine traffic. Not to be forgotten is that, it is probably the only port closest to Hong Kong, Japan and Taiwan. It is large that it can sit dozens of vessels at any one time. It can close to an international airport in Laoag City, Ilocos Norte and a local airport in Vigan Ilocos Sur.

In light of the foregoing, approval of the Bill is earnestly sought.



**Deogracias Victor "DV" B. Savellano**  
Representative  
1<sup>st</sup> District, Ilocos Sur

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**AN ACT**  
**ESTABLISHING THE SPECIAL ECONOMIC ZONE AND FREEPORT**  
**IN THE PROVINCE OF ILOCOS SUR, CREATING FOR THIS PURPOSE THE**  
**ILOCOS SUR SPECIAL ECONOMIC ZONE AND FREEPORT AUTHORITY,**  
**APPROPRIATING FUNDS THEREFORE AND FOR OTHER PURPOSES**

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

1       **SECTION 1. *Short Title.*** – This Act shall be known as the "Ilocos Sur Special  
2       Economic Zone and Freeport Act of 2016".

3       **SEC.2. *Declaration of Policy.*** – It is hereby declared the policy of the State to  
4       actively encourage, promote, induce and accelerate the sound and balance industrial,  
5       economic and social development of the country in order to provide jobs to the people  
6       especially those in the rural areas, increase productivity and individual family income,  
7       and thereby improve the level and quality of living conditions through the  
8       establishment, among others, of Special Economic Zones and Freeport in suitable and  
9       strategic locations in the country and through measures that will attract legitimate and  
10      productive foreign investments.

1           **SEC. 3. *Creation of the Ilocos Sur Special Economic Zone and Freeport.***

2       – In pursuit of the foregoing declared policy and subject to the concurrence of the  
3       concerned local government units (LGUs) of the Ilocos Sur affected by the zone, there  
4       is established a Special Economic Zone and Freeport in the Province of Ilocos Sur to be  
5       known as the Ilocos Sur Special Economic Zone and Freeport, hereinafter referred to as  
6       the Ilocos Sur ECOZONE. It shall cover the entire Salomague Cove and the area  
7       embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in the  
8       Municipality of San Juan as well as Dardarat, Pila, Sagayaden, Sabang, Namruangan,  
9       Salapasap, Daclapan, Pug-Os, Turod, and Baclig in the Municipality of Cabugao. The  
10      specific metes and bounds of the Ilocos Sur Special Economic Zone and Freeport shall  
11      be more particularly defined in a presidential proclamation that shall be issued for this  
12      purpose.

13           **SEC. 4. *Governing Principles.*** – The Ilocos Sur ECOZONE shall be managed  
14      and operated by the Ilocos Sur Special Economic Zone and Freeport Authority,  
15      hereinafter referred to as the ISSEZA, to be created under Section 6 of this Act, under  
16      the following principles:

17           (a) Within the framework and limitations of the Constitution and applicable  
18           provisions of the Local Government Code, the Ilocos Sur ECOZONE shall be  
19           developed into and operated as a decentralized, self-reliant and self-  
20           sustaining industrial, commercial/trading, agro-industrial, tourist, banking,  
21           financial and investment center with suitable residential areas.

22           (b) The Ilocos Sur ECOZONE shall be provided with transportation,  
23           telecommunications and other facilities needed to attract legitimate and  
24           productive investments, generate linkage industries and employment  
25           opportunities for the people of the Province of Ilocos Sur and its neighboring  
26           town and cities.

1 (c) The Ilocos Sur ECOZONE may establish mutually beneficial economic relation  
2 with the other entities or enterprises within the country or, subject to the  
3 administrative guidance of the Department of Foreign Affairs (DFA), the  
4 Philippine Economic Zone Authority (PEZA) and/or the Department of Trade  
5 and Industry (DTI), with foreign entities or enterprises.

6 (d) Foreign citizens and companies owned by non-Filipinos in whatever  
7 proportion may set up enterprises in the Ilocos Sur ECOZONE, either by  
8 themselves or in joint venture with Filipinos in any sector of industry,  
9 international trade and commerce within the Ilocos Sur ECOZONE.

10 (e) The Ilocos Sur ECOZONE shall be managed and operated as a separate  
11 customs territory, thereby ensuring the free flow or movement of goods and  
12 capital within, into and exported out of the Ilocos Sur ECOZONE, as well as  
13 provide incentives such as tax- and duty-free importations of raw materials  
14 and capital equipment. However, exportation or removal of goods from the  
15 territory of the Ilocos Sur ECOZONE to the other parts of the Philippine  
16 territory shall be subject to the customs duties and taxes under the Tariff and  
17 Customs Code of the Philippines, as amended, and the National Internal  
18 Revenue Code (NIRC) of 1997, as amended.

19 (f) The areas comprising the Ilocos Sur ECOZONE may be expanded or reduced  
20 when necessary. For this purpose, the ISSEZA, in consultation with the LGUs,  
21 shall have the power to acquire either by purchase, negotiation or  
22 condemnation proceedings, any private land within or adjacent to the Ilocos  
23 Sur ECOZONE for the following purposes:

24 (1) consolidation of lands for Ilocos Sur ECOZONE development;

25 (2) acquisition of right-of-way to the Ilocos Sur ECOZONE; and

(3) the protection of watershed areas and natural assets valuable to the prosperity of the Ilocos Sur ECOZONE.

(g) Goods manufactured by an Ilocos Sur ECOZONE enterprise shall be made available for immediate retail sale in the domestic market, subject to the payment of corresponding taxes on raw materials and other regulations that may be formulated by the ISSEZA, together with the PEZA, the Bureau of Customs (BoC) and the DTI in accordance with the National Internal Revenue of 1997, as amended, and the Tariff and Custom Code of the Philippines, as amended. However, in order to protect domestic industry, there shall be Negative List of Industries that will be drawn up and regularly updated by the PEZA. Enterprises engaged in industries included in such Negative List shall not be allowed to sell their products locally.

(h) The defense of the Ilocos Sur ECOZONE and the security of its perimeter fence shall be the responsibility of the national government (NG) in coordination with the Ilocos Sur ECOZONE and the LGUs.

**SEC. 5. *Incentives.*** – Investors and business enterprises within the Ilocos Sur ECOZONE shall be entitled to the following incentives:

(a) Residents Status and Visa – Any foreign investor who establishes a business enterprises within the Ilocos Sur ECOZONE and who maintains capital investment of not less than One Hundred Fifty Thousand United States Dollars (US\$150,000.00) shall be granted, along with his or her spouse, dependents, and unmarried children below twenty (21) years of age, permanent resident status within the Ilocos Sur ECOZONE and freedom of ingress and egress to and from the Ilocos Sur ECOZONE without any need of and special authorization from the Bureau of Immigration (BI). Working visas renewable every two (2) years

1 shall be issued to foreign executives and foreign technicians with highly  
2 specialized skills, which no Filipino possesses, as certified by the Department of  
3 Labor and Employment (DOLE).

4 The foregoing is without prejudice to a foreigner acquiring permanent resident  
5 status in the Philippines in accordance with the applicable immigration, retirement and  
6 other related laws.

7 (b) Fiscal incentives – Business establishment operating within the Ilocos Sur  
8 ECOZONE shall be entitled to the existing fiscal incentives as provided for under  
9 Republic Act No. 7916, otherwise known as the "Special Economic Zone Act of  
10 1995," as amended, or those provided under book VI of Executive Order no. 226,  
11 as amended, otherwise known as the Omnibus Investment Code of 1987.

12 (c) Taxation – Except real property tax on land owned by developer, no taxes,  
13 local and national, shall be imposed on business establishment operating within  
14 the Ilocos Sur ECOZONE shall be paid and remitted as follows:

15 (1) Two per centum (3%) to the NG;

16 (2) Two per centum (2%) which shall be directly remitted by the  
17 business establishments to the treasurer's office of the  
18 municipalities where the enterprises is located.

19 All persons and service establishments in the Ilocos Sur ECOZONE shall be  
20 subject to the national and local taxes under the National Internal Revenue Code of  
21 1997, as amended, and the Local Government Code of 1991, as amended.



1 (d) Banking Rules and Regulations. – Existing banking laws and rules/regulations  
2 of the Bangko Sentral ng Pilipinas (BSP) shall apply to banks and financial  
3 institutions to be established in the Ilocos Sur ECOZONE. Among other pertinent  
4 regulations, these include those governing foreign exchange and other current  
5 account transactions (trade and nontrade), local and foreign borrowings, foreign  
6 investments, establishment and operation of local and foreign banks, foreign  
7 currency, deposit units, offshore banking units and other financial institutions  
8 under the supervision of the BSP.

9 (e) Profit Remittance – Without prior BSP approval, after tax profits and other  
10 earnings of foreign investments in the enterprises in the Ilocos Sur ECOZONE  
11 may be remitted outward in the equivalent foreign exchange through any of the  
12 banks licensed by the BSP in the Ilocos Sur ECOZONE: *Provided, however,* That  
13 such foreign investments in said enterprises have been previously registered with  
14 the BSP.

15 **SEC. 6. *Creation of the Ilocos Sur Special Economic Zone and Freeport***

16 ***Authority.*** – There is hereby created a body corporate to be known as the Ilocos Sur  
17 Special Economic Zone and Freeport Authority, herein referred to as the ISSEZA, which  
18 shall manage and operate the Ilocos Sur ECOZONE in accordance with the provisions of  
19 this Act. This corporate franchise shall expire in fifty (50) years counted from the first  
20 year after the effectivity of this Act, unless otherwise extended by Congress. It shall be  
21 organized within one hundred eighty (180) days after the effectivity of this Act.

22 **SEC. 7. *Principal Office.*** – The ISSEZA shall maintain its principal office at  
23 Cabugao, Province of Ilocos Sur, but it may establish branches within the Philippines as  
24 may be necessary for the proper conduct of its business.

25 **SEC. 8. *Powers and Function of the Ilocos Sur Special Economic Zone***  
26 ***and Freeport Authority.*** – The ISSEZA shall have the following functions:



- 1 (a) To operate, administer, manage, and develop the Ilocos Sur ECOZONE  
2 according to the principles and provisions set forth in this Act;
- 3 (b) To recommended to the President of the Philippines the issuance of a  
4 proclamation to fix and delimit the site of the Ilocos Sur ECOZONE;
- 5 (c) To register, regulate and supervise the enterprises in the Ilocos Sur  
6 ECOZONE in an efficient and decentralized manner, subject to existing laws;
- 7 (d) To coordinate with LGUs and exercise general supervision over the  
8 development plans, activities and operations of the Ilocos Sur ECOZONE;
- 9 (e) To regulate and undertake the establishment, operation and maintenance of  
10 utilities, other services and infrastructure in the Ilocos Sur ECOZONE such as,  
11 but not limited to, heat, light and power, water supply, telecommunications,  
12 transport, toll roads, bridges, port services, etc. and fix just, reasonable and  
13 competitive rates, fares, charges and prices thereof;
- 14 (f) To construct, acquire, own, lease, operate and maintain on its own or  
15 through contracts, franchise, licenses, bulk purchases from the private sector  
16 or permits under any of the schemes allowed in Republic Act No. 6957 (the  
17 Build-Operate-Transfer Law, as amended), or joint ventures, adequate  
18 facilities and infrastructure required or needed for the operation and  
19 development of the Ilocos Sur ECOZONE, in coordination with the appropriate  
20 national and local government authorities in conformity with applicable laws  
21 thereon;
- 22 (g) To operate on its own, either directly or through a license to other tourism-  
23 related activities, including games, amusements, recreational, and sports  
24 facilities;

1 (h) Subject to the approval of the President of the Philippines and the Monetary  
2 Board of the BSP, upon the recommendation of the Department of Finance  
3 (DOF), to raise or borrow adequate and necessary funds from local or foreign  
4 sources to finance its project and programs under this Act, and for that  
5 purpose to issue bonds, promissory notes and other forms of securities, and  
6 to secure the same by a guarantee, pledge, mortgage, deed of trust or an  
7 assignment of all or part of its property or assets;

8 (i) To provide security for the Ilocos Sur ECOZONE in coordination with the  
9 national and local governments. Military forces sent by the NG for the  
10 purpose of defense shall not interfere in the internal affairs of the Ilocos Sur  
11 ECOZONE and expenditures for these military forces shall be borne by the  
12 NG. For this purpose, the ISSEZA may establish and maintain its security  
13 forces and firefighting capability or hire others to provide the same;

14 (j) To protect, preserve, maintain, and develop the virgin forest, beaches, coral  
15 and coral reefs, and maintain ecological balance within the Ilocos Sur  
16 ECOZONE;

17 (k) To create, operate, and/or contract to operate such functional units or offices  
18 of the ISSEZA as it may deem necessary;

19 (l) To adopt, alter and use a corporate seal; make contract, leases, own or  
20 otherwise dispose of personal or real property; sue and be sued; and  
21 otherwise carry out its functions and duties as provided for in this Act;

22 (m) To issue certificates of origin for products manufactured or processed in the  
23 Ilocos Sur ECOZONE in accordance with prevailing rules of origin, and the  
24 pertinent regulations of the PEZA, the DTI and/or the DOF;

1 (n) To issue working visas renewable every two (2) years to foreign executives  
2 and foreign technicians with highly specialized skills which no Filipino  
3 possesses, as certified by the DOLE;

4 (o) To report to the BI the names of the foreigners who have been granted  
5 permanent resident status and working visas within thirty (30) days after the  
6 issuance of such grant;

7 (p) To exercise such powers as may be essential, necessary or incidental to the  
8 powers granted to it hereunder; as well as those that shall enable it to carry  
9 out, implement and accomplish the purposes, objectives and policies of this  
10 Act; and

11 (q) To issue rules and regulations consistent with the provisions of this Act as  
12 may be necessary to accomplish and implement the purposes, objectives and  
13 policies provided herein.

14 **SEC. 9. Exemptions from Donor's Tax.** – All donations made by any person  
15 or entity in favor of the ISSEZA shall be exempt from the payment of the donor's tax  
16 and the same shall be considered as deductible from the gross income of the donor,  
17 pursuant to the NIRC of 1997, as amended.

18 **SEC. 10. Board of Directors of the Ilocos Sur Special Economic Zone**  
19 **and Freeport Authority.** – The powers of the ISSEZA shall be vested in and exercised  
20 by a Board of Directors, hereinafter referred to as the Board, which shall be composed  
21 of the following:

22 (a) The chairman who shall, at the same time, be the administrator the ISSEZA;

1 (b) A vice chairperson who shall come from among the members of the Board;

2 (c) Members consisting of:

3 (1) The Governor of the province of Ilocos Sur;

4 (2) The Congressional Representative of the district covering the site of the  
5 Ilocos Sur ECOZONE;

6 (3) The Mayors of the municipalities of Cabugao and San Juan;

7 (4) One (1) representative from the domestic investors;

8 (5) One (1) representative from the foreign investors; and

9 (6) Two (2) representatives from labor from among the workers in the Ilocos  
10 Sur ECOZONE.

11 The Governor, the Congressional Representative and the Mayors of the  
12 municipalities of Cabugao and San Juan shall serve as *ex officio* members of the Board,  
13 whose terms in the Board correspond to their term as elected officials.

14 The Chairman and the members of the Board, except *ex officio* members, shall  
15 be appointed by the President of the Philippines to serve for a term of six (6) years  
16 unless sooner removed for a cause or dies or resigns voluntarily. In case of death,  
17 resignation or removal for cause, the replacement shall serve only the unexpired portion  
18 of the term.

19 Except for the representative of the business and labor sectors, no person shall  
20 be appointed by the President of the Philippines as a member of the Board unless he is

1 a Filipino citizen, of good moral character, of proven probity and integrity, and a degree  
2 holder in any of the following fields: economics, business, public administration, law,  
3 management or their equivalent, and with at least ten (10) years relevant working  
4 experience preferably in the field of management or public administration.

5 The members of the Board shall each receive *per diem* at rates to be determined  
6 by the Department of Budget and Management (DBM) in accordance with existing rules  
7 and regulations: *Provided, however,* That the total *per diem* collected each month shall  
8 not exceed the equivalent *per diem* for four (4) meetings. Unless and until the President  
9 of the Philippines has fixed a higher *per diem* for the members of the Board, such *per*  
10 *diem* shall not more than Ten Thousand pesos (P10,000.00) for every Board meeting.

11 **SEC. 11. Powers and Duties of the Chairman-Administrator.** – The  
12 Chairman-Administrator shall have the following powers and duties:

13 (a) To direct and manage the affairs of the ISSEZA in accordance with the  
14 policies of the Board;

15 (b) To establish the internal organization of the ISSEZA under such conditions  
16 that the Board may prescribe;

17 (c) To submit an annual budget and necessary supplemental budget to the Board  
18 for its approval;

19 (d) To submit within thirty (30) days after the close of each fiscal year an annual  
20 report to the Board and such other reports as may be required;

21 (e) To submit to the Board for its approval policies, systems, procedures, rules  
22 and regulations that are essential to the operation of the Ilocos Sur  
23 ECOZONE;

1 (f) To create a mechanism in coordination with relevant agencies for the  
2 promotion of industrial peace, the protection of the environment and the  
3 advancement of the quality of life in the Ilocos Sur ECOZONE; and

4 (g) To perform such other duties as may be assigned to him by the Board or  
5 which are necessary or incidental to his office.

6 **SEC. 12. *Personnel.*** – The Board of Directors of the ISSEZA shall provide for  
7 an organization and staff of its officers and employees. Upon recommendation of the  
8 Chairman-Administrator, the Board shall appoint and fix the remuneration and other  
9 emoluments of its officers and employees in accordance with existing laws on  
10 compensation and position classification: *Provided*, That the Board shall have exclusive  
11 and final authority to promote, transfer, assign or reassign officers of the ISSEZA, any  
12 provision of existing law to the contrary notwithstanding: *Provided, further*, That the  
13 Chairman-Administrator may carry out removal of such officers and employees.

14 The officers and employees of the ISSEZA, including all members of the Board,  
15 shall not engage, directly or indirectly, in partisan activities, nor take part in any  
16 election, except to vote.

17 No officer or employee of the ISSEZA, subject to civil service laws and  
18 regulations, shall be removed or suspended except for cause, as provided by law.

19 **SEC. 13. *Applicability Clause.*** –The provisions of Sections 30 to 41 of  
20 Republic Act No. 7916, (The Special Economic Zone Act of 1995) as amended, on leases  
21 of lands and buildings, land conversion, shipping and register, protection of  
22 environment, termination of business, registration of business enterprises, one-stop  
23 shop center and on industrial harmony in the ECOZONES shall apply to the ISSEZA.

1       **SEC. 14. Capitalization.** – The ISSEZA shall have an authorized capital stock  
2 of two billion (2,000,000,000) no par shares with a minimum issue of Ten pesos  
3 (P10.00) each, the majority shares of which shall be subscribed and paid for by the NG  
4 and the LGUs embracing the Ilocos Sur ECOZONE. The board of Directors of the ISSEZA  
5 may, with the written concurrence of the Secretary of Finance, sell shares, representing  
6 not more than forty per centum (40%) of the capital stock of the ISSEZA to the general  
7 public under such policy as the Board and the Secretary of Finance may determine. The  
8 NG and the LGUs shall in no case own less than sixty per centum (60%) of the total  
9 issued and outstanding capital of the ISSEZA.

10       The amount necessary to subscribe and pay for the shares of the NG to the  
11 capital stock of the ISSEZA shall be included in the annual General Appropriations Act.  
12 For LGUs, the funds shall be taken from their internal Revenue Allotment and other  
13 local funds.

14       **SEC. 15. Supervision and Coordination of Development Plans.** – For  
15 purposes of policy direction and coordination, the Ilocos Sur ECOZONE shall be under  
16 the direct control and supervision of the Office of the President.

17       **SEC. 16. Relationship with the Regional Development Council.** – The  
18 ISSEZA shall determine the development goals for the Ilocos Sur ECOZONE within the  
19 framework of national development plans, policies and goals. The administrator shall,  
20 upon approval by the Board, submit the Ilocos Sur ECOZONE plans, programs, and  
21 projects to the Regional Development Council for inclusion and inputs to the overall  
22 regional development plan.

23       **SEC. 17. Relationship with Local Government Units (LGUs).** - Except as  
24 herein provided, the LGUs comprising the Ilocos Sur ECOZONE shall retain their basic  
25 autonomy and identity. The municipalities of Cabugao and San Juan, Ilocos Sur shall  
26 operate and function in accordance with the Local Government Code of 1991. In case of



any conflict among the ISSZA and the municipalities of Cabugao and San Juan, Ilocos Sur on matters affecting the Ilocos Sur ECOONE other than defense and security matters, the decision of the ISSEZA shall prevail.

**SEC. 18. *Interpretation / Construction.*** – The powers, authorities and functions that are vested in the ISSEZA are intended to establish decentralization of governmental functions and authority and promote an efficient and effective working relationship among the Ilocos Sur ECOZONE, the NG and the LGUs.

**SEC. 19. *Auditing.*** – The Commission on Audit shall appoint a Representative who shall be a full-time auditor of the ISSEZA and assign such number of personnel as may be necessary to assist said representative in the performance of his/her duties. The salaries and emoluments of the assigned auditor and personnel shall be in accordance with the pertinent laws, rules and regulations.

**SEC. 20. *Separability Clause.*** – If any provision of this Act shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

**SEC. 21. *Repealing Clause.*** – All laws, executive order or issuance or any issuances, or any part thereof, which are inconsistent herewith are hereby repealed or amended accordingly.

**SEC. 22. *Effectivity Clause.*** – This Act shall take effect upon its publication in at least one (1) newspaper of general circulation.

*Approved,*