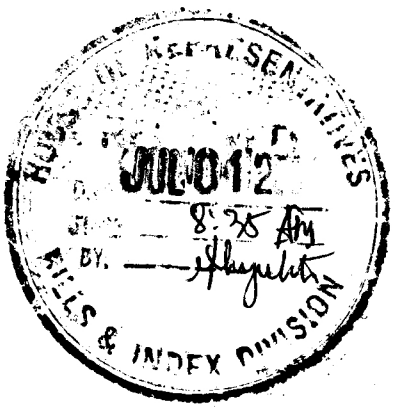
Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City



THIRTEENTH CONGRESS
First Regular Session

House Bill No. 09

Introduced by Rep. **SALACNIB F. BATERINA**

EXPLANATORY NOTE

If there is anything clear in the world market of investments and to the community of investors, it is this: 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 for their investments.

This bill seeks to achieve this by establishing the Salomague Freeport - which shall cover the entire Salomague Cove and the area embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in San Juan as well as Dardarat, Sagayaden and Salomague, all 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 an 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 fee 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 polices and the grant of permanent resident status to investors.

The bill does away with an authority-type 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 the purpose of running the Freeport would be necessary.

The competitive markets around us are 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 the limited resources they have compared to the abundance 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, geographic and natural attributes of the Salomague area that make the creation of a 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 shoreline that is appropriate for marine vessel 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 is also 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.

SALACNIB F. BATERINA

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House Bill No. 09

Introduced by Rep. **SALACNIB F. BATERINA**

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 THEREFOR AND FOR OTHER PURPOSES

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

SECTION 1. *Short Title.* – This Act shall be known as the "Ilocos Sur Special Economic Zone and Freeport Act of 2004."

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

SEC. 3. *Creation of the Ilocos Sur Special Economic Zone and Freeport.* – In pursuit of the foregoing declared policy and subject to the concurrence of the concerned local government units (LGUs) of Ilocos Sur affected by the zone, there is hereby established a Special Economic Zone and Freeport in the Province of Ilocos Sur to be known as the Ilocos Sur Special Economic Zone and Freeport, hereinafter referred to as the Ilocos Sur ECOZONE. It shall cover the

entire Salomague Cove and the area embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in the Municipality of San Juan as well as Dardarat, Pila, Sagayaden, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and Baclig in the Municipality of Cabugao. The specific metes and bounds of the Ilocos Sur Special Economic Zone and Freeport shall be more particularly defined in a presidential proclamation that shall be issued for this purpose.

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

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

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

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

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

(e) The Ilocos Sur ECOZONE shall be managed and operated as a separate customs territory ensuring free flow or movement of goods and capital within,

into and exported out of the Ilocos Sur ECOZONE, as well as provide incentives such as tax and duty-free importations of raw materials and capital equipment. However, exportation or removal of goods from the territory of the Ilocos Sur ECOZONE to the other parts of the Philippine territory shall be subject to customs duties and taxes under the Tariff and Customs Code of the Philippines, as amended, and the National Internal Revenue Code of 1997, as amended.

(f) The areas comprising the Ilocos Sur ECOZONE may be expanded or reduced when necessary. For this purpose, the ISSEZA, in consultation with the LGUs, shall have the power to acquire either by purchase, negotiation or condemnation proceedings, any private lands within or adjacent to the Ilocos Sur ECOZONE for the following purposes: (1) consolidation of lands for Ilocos Sur ECOZONE development; (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 Code of 1997, as amended, and the Tariff and Customs Code of the Philippines, as amended. However, in order to protect the domestic industry, there shall be a negative list of industries that will be drawn up and regularly updated by 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) Resident Status and Visa – Any foreign investor who establishes a business enterprise 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-one (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 any special authorization from the Bureau of Immigration (BI). Working visas renewable every two (2) years shall be issued to foreign executives and foreign technicians with highly specialized skills, which no Filipino possesses, as certified by the Department of Labor and Employment (DOLE).

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

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

(c) Taxation – Except for real property taxes on land owned by developers, no taxes, local and national, shall be imposed on business establishments operating within the Ilocos Sur ECOZONE. In lieu thereof, five percent (5%) of the gross income earned by all business enterprises within the Ilocos Sur ECOZONE shall be paid and remitted as follows:

(1) Three percent (3%) to the national government.

(2) Two percent (2%) which shall be directly remitted by the business establishments to the treasurer's office of the municipalities where the enterprise is located.

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

(d) Banking Rules and Regulations – Existing banking laws and rules/regulations of the Bangko Sentral ng Pilipinas (BSP) shall apply to banks and financial institutions to be established in the Ilocos Sur ECOZONE. Among other pertinent regulations, these include those governing foreign exchange

and other current account transactions (trade and non-trade), local and foreign borrowings, foreign investments, establishment and operation of local and foreign banks, foreign currency deposit units, offshore banking units and other financial institutions under the supervision of the BSP.

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

SEC. 6. *Creation of the Ilocos Sur Special Economic Zone and Freeport Authority.* – There is hereby created a body corporate to be known as the Ilocos Sur Special Economic Zone and Freeport Authority, herein referred to as the ISSEZA, which shall manage and operate the Ilocos Sur ECOZONE, in accordance with the provisions of this Act. This corporate franchise shall expire in fifty (50) years counted from the first year after the effectivity of this Act, unless otherwise extended by Congress. It shall be organized within one hundred eighty (180) days after the effectivity of this Act.

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

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

(a) To operate, administer, manage and develop the Ilocos Sur ECOZONE according to the principles and provisions set forth in this Act;

(b) To recommend to the President the issuance of a proclamation to fix and delimit the site of the Ilocos Sur ECOZONE;

(c) To register, regulate and supervise the enterprises in the Ilocos Sur ECOZONE in an efficient and decentralized manner, subject to existing laws;

(d) To coordinate with LGUs and exercise general supervision over the development plans, activities and operations of the Ilocos Sur ECOZONE;

(e) To regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in the Ilocos Sur ECOZONE such as but not limited to heat, light and power, water supply, telecommunications, transport, toll roads and bridges, port services, etc. and to fix just, reasonable and competitive rates, fares, charges and prices thereof;

(f) To construct, acquire, own, lease, operate and maintain on its own or through contracts, franchise, licenses, bulk purchase from the private sector or permits under any of the schemes allowed in Republic Act No. 6957 (the Build-Operate-Transfer Law, as amended), or joint venture, adequate facilities and infrastructure required or needed for the operation and development of the Ilocos Sur ECOZONE, in coordination with appropriate national and local government authorities and in conformity with applicable laws thereon;

(g) To operate on its own, either directly or through a license to other tourism-related activities, including games, amusements, recreational and sports facilities;

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

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

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

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

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

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

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

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

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

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

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

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

(a) The Chairman who shall, at the same time be the Administrator of the ISSEZA;

(b) A Vice Chairman who shall come from among the members of the Board;

(c) Members consisting of:

(1) The Governor of the Province of Ilocos Sur;

(2) The congressional representative of the district covering the site of the Ilocos Sur ECOZONE;

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

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

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

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

The governor, the congressional representative and the mayors of the municipalities of Cabugao and San Juan shall serve as *ex officio* members of the Board, whose terms in the Board correspond to their term as elected officials.

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

Except for the representatives of the business and labor sectors, no person shall be appointed by the President of the Philippines as a member of the Board unless he is a Filipino citizen, of good moral character, of proven probity and integrity, and a degree-holder in any of the following fields: economics, business, public administration, law, management or their equivalent, and with at least ten (10) years relevant working experience preferably in the field of management or public administration.

The members of the Board shall each receive *per diem* at rates to be determined by the Department of Budget and Management (DBM) in accordance with existing rules and regulations: *Provided, however,* That the total *per diem* collected each month shall not exceed the equivalent *per diem* for four (4) meetings. Unless and until the President of the Philippines has

fixed a higher *per diem* for the members of the Board, such *per diem* shall not be more than Ten thousand pesos (P10,000.00) for every Board meeting.

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

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

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

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

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

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

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

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

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

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

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

SEC. 13. *Applicability Clause.* – The provisions of Sections 30 to 42 of Republic Act No. 7916, as amended, on leases of lands and buildings, land conversion, shipping and shipping register, protection of environment, termination of business, registration of business enterprises, one stop shop center, and on industrial harmony in the ECOZONES, shall apply to the ISSEZA.

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

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

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

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

SEC. 17. *Relationship with Local Government Units.* – Except as herein provided, the LGUs comprising the Ilocos Sur ECOZONE shall retain their basic autonomy and identity. The municipalities of Cabugao and San Juan, Ilocos Sur shall operate and function in accordance with the Local Government Code of 1991. In case of any conflict between the ISSEZA and the municipalities of Cabugao and San Juan, Ilocos Sur on matters affecting the Ilocos Sur ECOZONE 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 Ilocos Sur Special Economic Zone and Freeport Authority are intended to establish decentralization of governmental functions and authority and promote an efficient and effective working relationship among the Ilocos Sur ECOZONE, the central government and the LGUs.

SEC. 19. *Auditing.* – The Commission on Audit (COA) 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 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 orders or 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,