

**Republic of the Philippines
House of Representatives
Quezon City, Metro Manila**

**Thirteenth Congress
First Regular Session**

HOUSE BILL NO. 3007



Introduced by Honorable Danilo E. Suarez

EXPLANATORY NOTE

The issuance of Executive Order No. 46 on 29 September 1986 paved the way for the establishment of Duty Free Philippines. Said order granted the Philippine Tourism Authority the exclusive right to establish, operate and maintain duty-free shops in the country. These shops were supposed to serve as "effective showcases of Philippine culture, craftsmanship, and industry" and effective and efficient vehicles for the generation of foreign exchange and revenues for the government.

Since then, Duty Free Philippines has become a source of funds of the national government. In 1996 alone, Duty Free Philippines has remitted Php 929M to the government contributing over 60% to the nation's tourism infrastructure project. It also has been remitting funds to the National Treasury, the Department of Trade and Industry, the Citizen's Drug Watch Movement and the Department of Tourism's Trust Liability Account.

When the American military forces left Subic and Clark, the two former military bases had to be converted into other productive uses. The eruption of Mount Pinatubo increased the need. In response to this, the Philippine Congress enacted RA 7227 or the "Bases Conversion and Development Act of 1992". This law was intended to accelerate the sound and balanced conversion into alternative productive uses of Subic and Clark military reservations and their extensions to help create employment and livelihood opportunities to displaced base workers. Under the act, Subic became a special economic zone and free port where movement of goods and capital could freely move within, into and exported out of the zone, while Clark was envisioned as a special economic zone similar to the export processing zones already existing in the Philippines. Business establishments were allowed to import duty-free raw materials, capital and equipment.

In time, the number of duty free shops in Subic and Clark grew to the point of being detrimental to local manufacturers and retailers. For instance, the influx of imported cigars and cigarettes and distilled spirits in the domestic market is reportedly comprised of brands, which were imported tax and duty free by duty free shops. By such a scheme, imported cigars and cigarettes and distilled spirits are being brought into the local market without the payment of the basic customs duties and taxes, thereby depriving the government of much-needed revenues.

Indeed, local manufacturers are largely threatened by the proliferation of imported brands of cigars and cigarettes and distilled spirits in the local market as imported products tend to directly compete with locally manufactured ones. A cut in the market share of locally produced cigars and cigarettes and distilled spirits may slowdown domestic production and consequently reduce manufacturers demand for local tobacco leaf products and raw materials.

Consequently, low demand for locally-produced tobacco leaf and raw materials will ultimately impact on local farmers whose primary source is tobacco leaf and sugar cane production. This we cannot afford as the Philippine economy is currently in intense financial crisis and needs a revenue collection upsurge to be able to achieve its target priority programs and deliver better services to the people.

This bill thus seeks to prevent and correct the over-importation of tax and duty-free cigars and cigarettes and distilled spirit by naming the Duty Free Philippines of the Department of Tourism as the sole importer of these tax and duty-free products. Under this proposed set-up, all privately owned duty free shops operating in Clark and Subic Economic Zones shall purchase from Duty Free Philippines these particular products to sell to legitimate buyers based on the limits as provided by law. As a safeguard, the Department of Finance and the Department of Tourism shall set the maximum allowable importation of tax and duty free cigars and cigarettes and distilled spirits to be sold at Duty Free Philippines and privately-owned duty free shops.

The approval of this bill is earnestly requested.



DANILO E. SUAREZ
Representative
Third District, Quezon

**Republic of the Philippines
House of Representatives
Quezon City, Metro Manila**

**Thirteenth Congress
First Regular Session**

HOUSE BILL NO. 3007

Introduced by Honorable Danilo E. Suarez

**AN ACT
NAMING THE DUTY FREE PHILIPPINES OF THE DEPARTMENT OF
TOURISM AS THE SOLE IMPORTER OF TAX AND DUTY-FREE CIGARS
AND CIGARETTES AND DISTILLED SPIRITS AND FOR OTHER PURPOSES**

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

SECTION 1. *Declaration of Policy.* - It is hereby declared as the policy of the State to protect local manufacturers by curtailing over-importation of tax and duty free cigars and cigarettes and distilled spirits.

SECTION 2. *Duty Free Philippines as sole importer of tax and duty-free cigars and cigarettes and distilled spirits.* - The Duty Free Philippines of the Department of Tourism, created through Executive Order No. 46 (September 4, 1996), is hereby designated as the sole importer of all tax and duty-free cigars and cigarettes and distilled spirits subject to limitations as may be provided by law.

SECTION 3. *Prohibition on existing privately-owned duty free shops.* - All existing privately-owned duty free shops shall not be allowed to import tax and duty-free cigars and cigarettes and distilled spirits. They shall, however, be given preference in the purchase of these products from the Duty Free Philippines subject to limitations as may be provided by law.

SECTION 4. *Implementing Rules and Regulations.* - The secretaries of the Department of Finance and Department of Tourism shall jointly, within fifteen (15) days from the effectivity of this Act, promulgate the rules and regulations to implement and carry out the intent, objectives, purposes and provisions of this Act: Provided, That particular emphasis should be given to the maximum allowable importation of tax and duty-free cigars and cigarettes and distilled spirits to be sold at Duty Free Philippines and privately-owned duty free shops, based on the number of tourists and Filipinos traveling to or returning from foreign destinations under E.O. 97 –A s. 1993 and Overseas Filipino Workers (OFWs) and balikbayans defined under RA 6768 as programmed by the Department of Tourism and the number of expatriates and residents living within their respective free trade zones on a year round basis.

SECTION 5. *Repealing Clause.* - All laws, decrees, ordinances, rules and regulations, executive or administrative orders, and such other presidential issuances which are inconsistent with any of the provisions of this Act are hereby repealed, amended or otherwise modified accordingly.

SECTION 6. *Separability Clause.* - If any provision of this Act is declared unconstitutional or invalid, other parts or provisions hereof not affected thereby shall continue to be in full force and effect.

SECTION 7. *Effectivity.* - This Act shall take effect after fifteen (15) days following its publication in at least two (2) newspapers of general circulation.

Approved,