

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS
First Regular Session

House Bill No. 4422



Introduced by Representative IMEE R. MARCOS

EXPLANATORY NOTE

Globalization opened a world of opportunities as well as challenges for trade and investment. To keep pace with global competition, there is need to enhance foreign investment and promote exports from the country as well as provide a level playing field for domestic enterprises and manufacturers.

This bill seeks to address this need by creating a Special Economic and Freeport Zone in the Laoag-Paoay-Currimao corridor in the province of Ilocos Norte. The Ecozone is conceptualized as a self-sustaining industrial, commercial and investment center that will encourage economic growth and accelerate employment generation in the province.

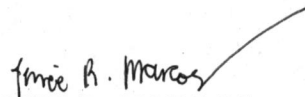
The bill envisions an Ecozone which shall be operated as a separate customs territory that will provide incentives to ensure the free flow and movement of goods and commodities within the area and their exportation therefrom. Likewise, it shall provide tax-based incentives for businesses operating within its premises. In addition, it shall also provide non-tax benefits like liberal exchange policies and grant of permanent resident status to investors.

The bill creates the Ecozone as a body corporate eliminating the necessity of an authority-type of office to run the Ecozone. Instead, a governing body composed of the elected chief executives of the localities involved and the private sector will be responsible for the operation of the Ecozone.

Dubbed as the 'Gateway to the North', Ilocos Norte's close proximity to the major economic hubs in Asia such as China, Hong Kong and Taiwan and China makes the creation of a Special Economic Zone ideal therein. The area embraced by the Laoag-Paoay-Currimao boast of physical attributes attractive to potential investors. The Laoag International Airport caters to both domestic and international flights from Taiwan, Hong Kong and Guangzhou, China. Furthermore, the Currimao Port has been a domestic cargo transshipment facility for both local and international ships for years. Plans to upgrade the port facilities are underway to accommodate not only cargo vessels, but cruise ships as well.

The province derives much of its income from agriculture and, in recent years, tourism. The Ecozone will bring economic diversity and benefits to the province. Employment opportunities generated by the Ecozone will minimize waves of Ilocano migration in search for greener pastures.

In the light of the foregoing, the passage this bill is earnestly sought.


IMEE R. MARCOS
Representative
2nd District, Ilocos Norte

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AN ACT ESTABLISHING THE SPECIAL ECONOMIC ZONE AND FREEPORT IN THE PROVINCE OF ILOCOS NORTE, CREATING FOR THIS PURPOSE THE ILOCOS NORTE 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 Norte Special Economic Zone and Freeport Act of 2004.”

SECTION 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.

SECTION 3. *Creation of the Ilocos Norte 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 Norte affected by the zone, there is hereby established a Special Economic Zone and Freeport in the Province of Ilocos Norte to be known as the Ilocos Norte Special Economic Zone and Freeport,

hereinafter referred to as the Ilocos Norte ECOZONE. It shall cover certain areas in the City of Laoag and municipalities of Paoay and Currimao. The specific metes and bounds of the Ilocos Norte Special Economic Zone and Freeport shall be more particularly defined in a presidential proclamation that shall be issued for this purpose.

SECTION 4. *Governing Principles.* – The Ilocos Norte ECOZONE shall be managed and operated by the Ilocos Norte Special Economic Zone and Freeport Authority, herein referred to as the INSEFZA, 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 Norte 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 Norte 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 Norte and its neighboring towns and cities.

(c) The Ilocos Norte 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 Norte ECOZONE, either by themselves or in joint venture with Filipinos in any sector of industry, international trade and commerce within the Ilocos Norte ECOZONE.

(e) The Ilocos Norte 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 Norte 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 Norte 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 Norte ECOZONE may be expanded or reduced when necessary. For this purpose, the INSEFZA, 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 Norte ECOZONE for the following purposes: (1) consolidation of lands for Ilocos Norte ECOZONE development; (2) acquisition of right-of-way to the Ilocos Norte ECOZONE; and (3) the protection of watershed areas and natural assets valuable to the prosperity of the Ilocos Norte ECOZONE.

(g) Goods manufactured by an Ilocos Norte 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 INSEFZA, 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 Norte ECOZONE and the security of its perimeter fence shall be the responsibility of the national government (NG) in coordination with the Ilocos Norte ECOZONE and the LGUs.

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

(a) Resident Status and Visa – Any foreign investor who establishes a business enterprise within the Ilocos Norte 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 Norte ECOZONE and freedom of ingress and egress to and from the Ilocos Norte 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 Norte 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 Norte ECOZONE. In lieu thereof, five percent (5%) of the gross income earned by all business enterprises within the Ilocos Norte ECOZONE shall be paid and remitted as follows:

- (1) Two percent (2%) to the national government.
- (2) One percent (1%) to the province of Ilocos Norte
- (3) One percent (1 %) to be shared by the municipalities affected by the declaration of the Zone in proportion to their income from business activities within the Zone.
- (4) One percent (1%) to the Ilocos Norte Economic Zone and Freeport Authority which shall be created under this Act;

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 Norte 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 Norte ECOZONE may be remitted outward in the equivalent foreign exchange through any of the banks licensed by the BSP in the Ilocos Norte ECOZONE: *Provided, however,* That such foreign investments in said enterprises have been previously registered with the BSP.

SECTION 6. *Creation of the Ilocos Norte Special Economic Zone and Freeport Authority.* – There is hereby created a body corporate to be known as the Ilocos Norte Special Economic Zone and Freeport Authority, herein referred to as the INSEFZA, which shall manage and operate the Ilocos Norte 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.

SECTION 7. *Principal Office.* – The INSEFZA shall maintain its principal office at Laoag City, Province of Ilocos Norte but it may establish branches within the Philippines and abroad as may be necessary for the proper conduct of its business.

SECTION 8. *Powers and Functions of the Ilocos Norte Special Economic Zone and Freeport Authority.* – The INSEFZA shall have the following functions:

(a) To operate, administer, manage and develop the Ilocos Norte 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 Norte ECOZONE;

(c) To register, regulate and supervise the enterprises in the Ilocos Norte 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 Norte ECOZONE;

(e) To regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in the Ilocos Norte 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 Norte 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 Norte ECOZONE in coordination with the national and local governments. Military forces sent by the national government for the purpose of defense shall not interfere in the internal affairs of the Ilocos Norte ECOZONE and expenditures for these military forces shall be borne by the national government. For this purpose, the INSEFZA 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 Norte ECOZONE;

(k) To create, operate and/or contract to operate such functional units or offices of the INSEFZA 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 Norte 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 Bureau of Immigration 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.

SECTION 9. *Exemptions from Donor's Tax.* – All donations made by any person or entity in favor of the INSEFZA 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.

SECTION 10. *Board of Directors of the Ilocos Sur Special Economic Zone and Freeport Authority.* – The powers of the INSEFZA 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 INSEFZA;

(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 Norte;

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

(3) The mayors of the city of Laoag and the municipalities of Currimao and Paoay;

(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 Norte ECOZONE.

The governor, the congressional representative and the mayors of the city of Laoag and the municipalities of Currimaog and Paoay 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.

SECTION 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 INSEFZA in accordance with the policies of the Board;
- (b) To establish the internal organization of the INSEFZA 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 Norte 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 Norte 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.

SECTION 12. *Personnel.* – The Board of Directors of the INSEFZA 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 INSEFZA, 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 INSEFZA, 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 INSEFZA, subject to civil service laws and regulations, shall be removed or suspended except for cause, as provided by law.

SECTION 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 INSEFZA.

SECTION 14. *Capitalization.* – The INSEFZA 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 national government and the LGUs embracing the Ilocos Norte ECOZONE. The Board of Directors of the INSEFZA 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 INSEFZA to the general public under such policy as the Board and the Secretary of Finance may determine. The national government and the LGUs shall in no case own less than sixty percentum (60%) of the total issued and outstanding capital of the INSEFZA.

The amount necessary to subscribe and pay for the shares of the national government to the capital stock of the INSEFZA 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.

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

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

SECTION 17. *Relationship with Local Government Units.* – Except as herein provided, the LGUs comprising the Ilocos Norte ECOZONE shall retain their basic autonomy and identity. The city of Laoag and the municipalities of Currimao and Paoay, Ilocos Norte shall operate and function in accordance with the Local Government Code of 1991. In case of any conflict between the INSEFZA and the city of Laoag and the municipalities of Currimao and Paoay, Ilocos Norte on matters affecting the Ilocos Norte ECOZONE other than defense and security matters, the decision of the INSEFZA shall prevail.

SECTION 18. *Legal Counsel.* – The Ilocos Norte Economic Zone Authority and the corporations in which CEZA owns a majority of the issued capital stock shall have its own internal legal counsel under the supervision of the government corporate

counsel. When the exigencies of its business and operations demand it, the CEZA may engage the services of an outside counsel either on a case basis or on a fixed retainer.

SECTION 19. *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.

SECTION 20. *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.

SECTION 21. *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.

SECTION 22. *Repealing Clause.* – All laws, executive orders or issuances, or any part thereof, which are inconsistent herewith are hereby repealed or amended accordingly.

SECTION 23. *Effectivity Clause.* – This Act shall take effect upon its publication in at least one (1) newspaper of general circulation.

Approved,