

REPUBLIC OF THE PHILIPPINES
HOUSE OF REPRESENTATIVES
Quezon City

Seventeenth Congress
Second Regular Session

HOUSE BILL NO. **7444**



Introduced by **REPRESENTATIVE AMADO T. ESPINO, JR.**

EXPLANATORY NOTE

This bill aims to promote an independent foreign policy and economic development by limiting the country's dependence on allies and foreign support for its defense requirements. Thus, there is a need to develop the Philippine defense industry to strengthen the defense capability, reduce foreign exchange outflow, generate local employment and enhance technology transfer for defense materiel.

One of the thrusts of the present administration is to push for the Self Reliant Defense Posture (SRDP) Program and strengthen the local defense industry of the country. In relation thereto, this representation proposes a bill entitled: *"An Act Providing for the Development of a National Defense Industry Through The Strengthening And Revitalizing Of The Self Reliant Defense Posture (SRDP) Program, Incentivizing In-Country Enterprises and Creating the Office of the Undersecretary for Defense Technology Research And Industry Development under the Department of National Defense, and Providing Funds Therefor."* or for brevity **"Philippine Defense Industry Development Act (PDIDA)"**.

The proposed PDIDA bill aims to revitalize the SRDP Program, which was conceptualized and implemented in 1974 through the enactment of Presidential Decree 415, otherwise known as the SRDP law. The program envisioned to attain local production capability for war materiel while conserving foreign exchange and, in the process, spurs industrial and economic growth. The underlying concept of the program is the development of a local defense industry that can support the materiel requirements of the AFP.

The following are the salient provisions of the PDIDA bill:

a. To promote and stimulate the local defense industry, in-country enterprises are entitled to avail the incentives under the Omnibus Investment Code (Executive Order No. 226). The industry players may also avail of credit and other financial products extended by government financial institutions and enjoy exemption from customs duties and national internal revenue taxes payable on the importation of raw materials and critical components;

b. Acquisition of defense materiel from foreign suppliers must provide for condition of technology transfer;

c. DND and its bureaus shall be authorized to enter into multi-year contracts and other multi-year contractual arrangements in the acquisition of defense materiel with in-country enterprises;

d. In-country enterprises participating in the acquisition and co-production of materiel by the DND and its bureaus shall be exempt from the Single Largest Completed Contract requirement;

e. The government shall promote the export of locally-made defense materiel and the in-country enterprises to other countries; and

f. Creation of the Office of the Undersecretary for Defense Technology Research and Industry Development charged with the responsibility of:

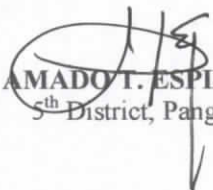
1) Advising and assisting the SND in formulating and implementing DND objectives and policies on matters of defense technology research and industry development;

2) Administering accreditation and classification of in-country enterprises;

3) Conducting research and development, technology transfer, co-production; and

4) Facilitating defense industry marketing and promotion, public-private partnerships, domestic and foreign collaborations.

In view of the foregoing, immediate passing of this bill is earnestly sought.


AMADO T. ESPINO, JR.
5th District, Pangasinan

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HOUSE BILL NO. **7444**

Introduced by **REPRESENTATIVE AMADO T. ESPINO, JR.**

**AN ACT PROVIDING FOR THE DEVELOPMENT OF ANATIONAL DEFENSE
INDUSTRY THROUGH THE STRENGTHENING AND REVITALIZING OF THE
SELF RELIANT DEFENSE POSTURE (SRDP) PROGRAM, INCENTIVIZING IN-
COUNTRY ENTERPRISES CREATING THE OFFICE OF THE UNDERSECRETARY
FOR DEFENSE TECHNOLOGY RESEARCH AND INDUSTRY DEVELOPMENT
UNDER THE DEPARTMENT OF NATIONAL DEFENSE AND PROVIDING FUNDS
THEREFOR**

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 “Philippine Defense Industry Development Act of 2018” or the PDIDA for brevity.

SECTION 2.*Declaration of State Policy.*— The State declares the development of the National Defense Industry as an indispensable element of national defense. Towards this end, the State shall recognize the following:

- a. The vital role of the Industry in nation-building and that with respect to government acquisition and incentives, the Industry is a class on its own that must be prioritized;
- b. The necessity of an independent and Self-Reliant Defense Posture (SRDP) program to effectively mobilize resources for defense, security, and state-survival as a matter of national strategy, specifically during war and other national emergencies;
- c. The important role of science and technology, academic research and development institutions, and technology transfer for developing effective defense capabilities to respond and accomplish defense missions and to drive modernization;
- d. The national strategy continuum from the National Security Strategy, National Defense Strategy and National Military Strategy shall provide the foundations for the development, research and local manufacturing of defense capabilities;
- e. The consistency in implementing the Filipino First Policy in the enhancement of national defense capability;
- f. The indispensability of the active participation of the private sector and their collaborative partnerships with the government in strengthening the country’s defense capability; and

- 1 g. The capability of the Philippines in ensuring the adequacy and accessibility of high
2 quality, affordable and globally competitive defense articles, implements, equipment,
3 machinery, systems and solutions, and in giving priority to stimulating and
4 maintaining defense technology research, science and technology education, training
5 and services, and defense industry development.
6

7 **SECTION 3. *Definition of Terms.*** – For purpose of this Act, the terms below shall be construed
8 to mean, except when explicitly indicated or where the context clearly indicates otherwise, as
9 follows:
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- 11 a) **Acquisition** shall refer to the management and procurement process dealing with the
12 investment of the country in technologies, programs and products support necessary to
13 support national defense and security.
14
15 b) **AFP** shall refer to the Armed Forces of the Philippines.
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17 c) **BOI** shall refer to the Board of Investments.
18
19 d) **Countertrade** shall refer to international trade by exchange of defense goods and
20 services rather than by currency purchase.
21
22 e) **Critical Components** shall refer to components, subsystems, systems, and related special
23 tooling and test equipment essential to the production, repair, maintenance, or operation
24 of weapon systems or other items of equipment identified as being essential to the
25 execution of any National Defense and National Security strategy.
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27 f) **DND** shall refer to the Department of National Defense.
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29 g) **DOF** shall refer to the Department of Finance.
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31 h) **GPPB** shall refer to the Government Procurement Policy Board.
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33 i) **In-country Enterprises** shall refer to Filipino-owned enterprises engaged in the
34 manufacturing and servicing of defense materiel in the Philippines,
35
36 j) **NDI** shall refer to the National Defense Industry.
37
38 k) **Manufacturing** refers to the process of converting raw materials, components, or parts
39 into finished Materiel.
40
41 l) **Materiel** shall refer to military technology, materials and equipment, including but not
42 limited to arms and ammunition and combat clothing.
43
44 m) **National Defense** refers to the policies, measures and initiatives intended to provide the
45 necessary protection of the State against external and internal threats.
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- 1 n) **National Security** refers to the policies, measures, and initiatives for ensuring a state or
2 condition wherein the people's welfare, well-being, government and its institutions,
3 territorial integrity, sovereignty, and core values are enhanced and protected.
4
5 o) **Plan** shall refer to the Investment Priorities Plan as provided in the Omnibus Investment
6 Code.
7
8 p) **President** shall refer to the President of the Republic of the Philippines.
9
10 q) **Private Sector** refers to the part of the country's economic system that is not under direct
11 government control.
12
13 r) **Raw Materials** refers to the basic material from which Materiel is manufactured.
14
15 s) **SND** shall refer to the Secretary of National Defense.
16
17 t) **Servicing** refers to the process of maintaining, repairing or overhauling Materiel.
18
19 u) **SLCC** shall refer to the Single Largest Completed Contract requirement as provided in
20 the implementing rules and regulations of Republic Act No. 9184.
21
22 v) **SRDP** shall refer to the Self Reliant Defense Posture as provided under pertinent laws.
23

24 **SECTION 4.***The National Defense Industry.*— For the interest of the nation, the National
25 Defense Industry shall be developed in accordance with the following:
26

- 27 a. The dependence of the country on foreign support for defense requirements shall be
28 limited in accordance with this Act and/or the policies approved by the President;
29
30 b. To develop the defense capability of the country, the State shall rely primarily on and
31 give preference to developing In-Country Enterprises, allocating substantial resources
32 and manpower to defense research, utilizing to the fullest the country's natural resources
33 as the source of the country's defense needs, and providing relevant technical and
34 financial assistance to the private sector;
35
36 c. To develop and enhance the national defense capability of the country, the State shall
37 primarily rely on defense articles that are being produced, manufactured or developed by
38 in-country enterprises. The State shall only use materiel from foreign sources when such
39 materiel cannot be locally produced, manufactured or otherwise competitive to
40 international standard; Provided that, importation from such foreign sources shall be for
41 the ultimate objective of acquiring technology for the production of such unavailable
42 materiel;
43
44 d. In order to reduce foreign exchange outflow, generate local employment opportunities
45 and enhance technology transfer to the Philippines, the SND shall, as far as practicable
46 incorporate special foreign exchange reduction schemes and countertrade, in-country

1 manufacture co-production, or other innovative arrangements or combinations thereof in
2 all contracts and agreements for the manufacturing and servicing of materiel; and
3

- 4 e. The SRDP Program shall be implemented in accordance with the provisions of this Act.
5

6 **SECTION 5. *Incentives.***— (A) Any provision of law to the contrary notwithstanding, in-
7 country enterprises engaged or proposing to engage in the manufacture and servicing of materiel
8 for the Government may be registered and may avail of the incentives under and subject to the
9 conditions in Executive Order No. 226 otherwise known as the Omnibus Investments Code;
10 Provided that, notwithstanding Article 27 thereof, manufacturing and servicing of materiel shall
11 be included in the Investment Priorities Plan every year by operation of law after the effectivity
12 of this Act until otherwise removed by the BOI or the President; Provided further that, the
13 removal of the manufacturing and servicing of materiel from the Plan subsequent to the
14 effectivity of this Act shall not be interpreted as a bar or restriction on the BOI from later
15 including the manufacturing and servicing of materiel in the Plan. In the interest of National
16 Security, the BOI together with DND shall adopt a special procedure in the processing of
17 applications for registration by enterprises in the National Defense Industry and offering goods
18 or services to the government under the SRDP.
19

20 (B) Government financial institutions are highly encouraged to support the National
21 Defense Industry by formulating and extending financial products that would benefit its hastened
22 development.
23

24 (C) In addition to the incentives provided in E.O. 226, in-country enterprises engaged in
25 the manufacture and servicing of materiel registered with the BOI as endorsed by DND shall
26 enjoy exemption from customs duties and national internal revenue taxes payable on the
27 importation of raw materials and critical components by registered enterprises for the purpose of
28 producing materiel.
29

30 **SECTION 6. *Rationalization of Defense Acquisition.*** — The rationalization of Defense
31 Acquisition shall contribute to the development of the National Defense Industry.
32

33 **SECTION 7. *Multi-Year Contracts and Other Contractual Arrangements.*** — For the
34 purpose of acquisition of materiel, notwithstanding existing laws to the contrary, and subject to
35 Section 13 of this Act, the DND and its bureaus shall be authorized to enter into multi-year
36 contracts and other multi-year contractual arrangements; Provided that, Congress shall, upon
37 issuance of a multi-year obligation authority by the DBM, make the corresponding appropriation
38 for the ensuing fiscal years;
39

40 **SECTION 8. *Countertrade.*** — As far as practicable and applicable, Countertrade for
41 defense-related acquisition shall be significant, meaningful and must be of benefit to the
42 National Defense Industry. DTI is mandated to identify or develop, in consultation with DND and
43 other concerned offices, a list of goods/services or industries which may be subject of a
44 countertrade.
45

1 **SECTION 9.***Exemption from Single Largest Completed Contract.*– In-country
2 enterprises participating in the acquisition and co-production of materiel by the DND and its
3 bureaus shall be exempt from the SLCC requirement upon effectivity of this Act. For this
4 purpose, there should be accreditation from the Office of the Undersecretary for Defense
5 Technology Research and Industry Development.
6

7 **SECTION 10.***Promotion and Marketing Support.* – The Government shall promote the
8 export of locally-made defense materiel and the in-country enterprises to other countries, and is
9 encouraged to provide financial marketing support for the purpose of such promotion.
10

11 **SECTION 11.***The Government Arsenal.* -The GA being a bureau of the DND and the
12 only government agency mandated to provide for the weapons, ammunition and other munition
13 requirements of the AFP, PNP and other law enforcement agencies should not be treated similar
14 to the privately owned local or National Defense Industries. Hence, RA 1884, EO 292 and EO
15 303, as pertains to the operation of the GA, should not be repealed, modified nor supplemented,
16 in whole or in part by this Act.
17

18 **SECTION 12.***Creation of the Office of the Undersecretary for Defense Technology*
19 *Research and Industry Development*– There shall be created in the DND an Office of the
20 Undersecretary for Defense Technology Research and Industry Development. The Office shall
21 be headed by an Undersecretary, assisted by an Assistant Secretary and supported by at least
22 three (3) directors with the equivalent rank of Director IV.
23 The Office will be charged with the responsibility of:
24

- 25 a) Advising and assisting the SND in formulating and implementing DND objectives and
26 policies on matters of defense technology research and industry development;
- 27 b) Administering accreditation and classification of in-country enterprises;
- 28 c) Conducting research and development, technology transfer, co-production; and
- 29 d) Facilitating defense industry marketing and promotion, public-private partnerships,
30 domestic and foreign collaborations.
31

32 **SECTION 13.***Reporting and Oversight.* – The Secretary shall, not later than the end of
33 the first quarter of the succeeding year, submit to the President and Congressional Oversight
34 Committee copies of the multi-year contracts and other agreements entered into by the DND and
35 its bureaus.
36

37 **SECTION 14.***Cooperation of Government Agencies.* – The DBM, DOF, BOI, GPPB
38 and other government agencies are enjoined to support the provisions of this Act.
39

40 **SECTION 15.***Appropriation.*– Initial funding of One Billion Pesos (P1,000,000,000.00)
41 shall be appropriated to the Department for the purpose of implementing this Act. Subsequent
42 funding shall be included in the General Appropriations Act.
43

44 **SECTION 16.***Repealing Clause.*– Sections 1 and 2 of Presidential Decree No. 415, as
45 amended by Presidential Decree No. 1081 is hereby repealed.
46

1 The following laws, orders and regulations are hereby modified or supplemented, as the
2 case may be, in accordance with this Act:
3

- 4 a) An exception is hereby made to Government Procurement Policy Board Resolution No.
5 06-2003 in relation to its amendment to Section 1 of Presidential Decree No. 415;
- 6 b) An exception is hereby made to Republic Act No. 10667 otherwise known as the
7 Philippine Competition Law in relation to its repeal of Section 4 of Commonwealth Act
8 No. 138;
- 9 c) An exception is hereby made to Republic Act No. 9184 otherwise known as the
10 Government Procurement Reform Act insofar as it covers procurement of materiel;
- 11 d) An exception is hereby made to Republic Act No. 1884 insofar as the exercise of the
12 responsibility of the Office of the Undersecretary of Defense for Munitions in research
13 and development; and,
- 14 e) Section 5 of Republic Act No. 10349 insofar as it amends Section 9 of Republic Act No.
15 7898 is hereby supplemented.
16

17 Apart from the foregoing, all provisions of existing laws, orders, and regulations contrary
18 to or inconsistent with this Act are hereby repealed or modified accordingly.
19

20 **SECTION 17.***Separability Clause.*— If any provision of this Act shall be held
21 unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force
22 and effect.
23

24 **SECTION 18.***Role of the GPPB.*— The GPPB shall continue to fulfill its functions as
25 provided in Republic Act No. 9184 subject however to the provisions of this Act; Provided that,
26 in no case shall the GPPB interpret Republic Act No. 9184 or any subsequent general law on
27 procurement as overriding any of the provisions of this Act. The Secretary shall continue to serve
28 as a member of the GPPB.
29

30 **SECTION 19.***Rule of Interpretation* — Rights and obligations existing on the date of
31 effectivity of this Act and arising out of contracts shall be governed by the original terms and
32 conditions of said contracts or the law in force at the time such rights were vested.
33

34 **SECTION 20.***Implementing Rules and Regulations; Supplementary Regulations.* —
35 Subject to the provisions of this Act, the President thru the Secretary is authorized to implement
36 this Act, formulate and amend, whenever necessary, the implementing rules and regulations and
37 standard forms necessary for the implementation of this Act, and issue supplemental regulations
38 to hasten and facilitate the implementation of this Act.
39

40 **SECTION 21.***Effectivity Clause.*— This Act shall take effect after fifteen (15) days from
41 its publication in the Official Gazette or at least two (2) newspapers of national circulation.
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44 Approved,