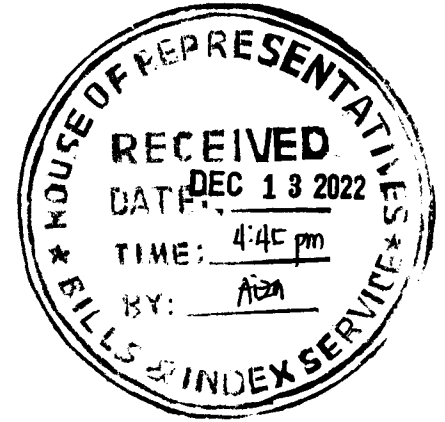




Republic of the Philippines
House of Representatives
Quezon City, Metro Manila



Nineteenth Congress
First Regular Session

HOUSE BILL NO. 6667

Introduced by Representative Arnan C. Panaligan

EXPLANATORY NOTE

This bill seeks to provide for the development of a National Defense Industry and grant incentives to enterprises engaged in the defense industry.

The establishment of a domestic defense industry is a vital strategic move that will enable the Philippines to effectively pursue the long delayed modernization of the Armed Forces of the Philippines and acquire a credible defense posture for the country. This will likewise enable the Philippines to assert a truly independent foreign policy. By having our own domestic defense industry, we can lessen our reliance on foreign sources for our military's requirements. It bears stressing that our diplomatic initiatives are best pursued if other nations, whether friend or would be foe, know that our words are backed up by a credible defense capability.

A robust domestic defense industry will also underpin our country's industrialization strategy. The manufacture of armaments and other defense materiel will generate employment opportunities to thousands of Filipinos. The armaments that we produce can also be exported and thus earn revenues for the country. Thus, the establishment of a National Defense Strategy will serve a dual purpose: modernize our Armed Forces into a credible fighting force and advance the industrialization of the country.

Under this bill, the Secretary of National Defense is mandated to formulate plans and programs geared towards the development of a national defense industry to further enhance national security against internal and external threats and consistent with the purposes of the self-reliant defense posture program of the Department of National Defense.

This proposed measure will also allow foreign nationals to own sixty-percent (60%) ownership of a defense enterprise and grant incentives to all defense enterprises to encourage the development of the defense industry in the country. A robust defense industry will also be an impetus to develop the steel,

semiconductor, information and communications technology and other allied industries.

The present administration has expressed its support for the development of a self-reliant defense program which can be best achieved by setting up a local capability to produce, service, assemble and develop defense equipment weapons, materiel, and systems which have greater strategic impact on national security and economic interests.

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


ARNAN C. PANALIGAN



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

Nineteenth Congress
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HOUSE BILL NO. 6667

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AN ACT

**PROVIDING FOR THE DEVELOPMENT OF A NATIONAL DEFENSE
INDUSTRY AND GRANTING INCENTIVES TO ENTERPRISES
ENGAGED IN DEFENSE INDUSTRY IN ORDER TO ENHANCE A SELF-
RELIANT DEFENSE POSTURE FOR THE PHILIPPINES**

*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 “*National Defense
Industry Act.*”

SEC. 2. *Declaration of State Policy.* – It is the policy of the State to secure
and defend the national sovereignty and territorial integrity of the Philippines by
ensuring a strong, credible and effective national defense. Towards this end, the
State shall develop and promote a national defense industry that is responsive to
the needs and requirements of a modern and capable Armed Forces of the
Philippines and the other armed services of the country. The State considers the
defense industry as a strategic industry that has a vital contribution in enhancing
national security and in promoting national industrialization. The State also
recognizes the indispensable role of the private sector in the establishment of a

1 national defense industry and shall encourage private enterprises by providing
2 incentives to needed investments. The State also recognizes the role of foreign
3 defense enterprises, particularly from allied countries and shall allow them to
4 participate and invest in the development of the national defense industry subject
5 to certain limitations as may be provided by law.

6 SEC. 3. ***National Defense Industry.*** – The Secretary of Defense shall, in
7 coordination with the Secretary of the National Economic Development Authority
8 and the Secretary of the Department of Trade and Industry, formulate plans and
9 programs that aim to develop a national defense industry strategy, which is
10 responsive to the requirements of internal and external national security and
11 consistent with the purposes of the self-reliant defense posture program of the
12 Department of National Defense. In developing the national defense industry, the
13 following principles shall be observed:

14 (a) Local and foreign enterprises with substantial production in the country shall
15 be given preference in the purchase of materiel;

16 (b) Investments in defense research and development shall be encouraged;

17 (c) Innovations shall be actively pursued in developing defense technology and
18 systems;

19 (d) Relevant technical and financial support to private enterprises engaged in
20 defense industry shall be provided;

21 (e) Import materiel with the objective of acquiring the technology for the local
22 production of such materiel; and

23 (f) The importation and purchase of the necessary armament and materiel shall
24 include in the purchase agreement a technology transfer clause.

1 SEC. 4. ***Defense Enterprises.*** – A defense enterprise may be a sole
2 proprietorship, partnership or corporation that are registered in accordance with
3 existing laws, rules and regulations on the registration of businesses.

4 Filipino citizens are authorized to own one hundred percent (100%) of a
5 defense enterprise-while foreign nationals may own sixty percent (60%). A sole
6 proprietorship defense enterprise is reserved to Filipino citizens.

7 For purposes of this Act, defense enterprise refers to an enterprise engaged in
8 the production, assembly, manufacturing, delivery and maintenance of defense
9 equipment such as arms, munitions, weapons systems, electronic surveillance and
10 warfare systems, combat management systems, radar and communications
11 systems, armoured and other military vehicles, naval vessels and aircraft and other
12 materiel as may be determined by the Secretary of the Department of National
13 Defense. A defense enterprise shall also include an entity engaged in research and
14 development of weapons systems and other defense materiel.

15 No defense enterprise may operate without the approval of the Secretary of
16 the Department of National Defense. Each defense enterprise shall submit a
17 biannual report to the Secretary of National Defense that includes, among others,
18 type and quantity of materiel, timeline of production, source of materials and
19 research and development undertakings, if any.

20 SEC. 5. ***Priority.*** – The Secretary of the Department of National Defense
21 shall approve and give priority to defense enterprises that are responsive to the
22 modernization programs of the Armed Forces of the Philippines (AFP) and the
23 Philippine National Police (PNP) and competent to supply the required type and
24 quantities of materiel to develop the capabilities of the AFP and PNP. The

Secretary of the Department of National Defense shall also give priority to defense enterprises that are one hundred percent (100%) owned by Filipinos.

SEC. 6. *Industry Linkages.* – All defense enterprises shall employ services locally and use local materials in manufacturing materiel and may only resort to importation if the needed services or materials are not available locally. The defense enterprises shall coordinate with and purchase services and materials from the local steel, semiconductor, information and technology, and other allied industries.

For this purpose, the Secretary of the Department of National Defense shall identify and include in the national defense strategy the development of all allied industries and facilitate the establishment of linkage between the defense industry and allied industries.

SEC. 7. *Fiscal Incentives.* – Defense enterprises shall be entitled to avail of the following incentives:

a) Fiscal incentives under Title III and Title IV of Executive Order No. 226, Series of 1987, otherwise known as the “*Omnibus Investments Code of 1987*,” Republic Act No. 7916, otherwise known as “*The Special Economic Zone Act of 1995*,” Title XIII of the National Internal Revenue Code and other existing laws on incentives.

b) Defense enterprises are likewise exempt from customs duties and taxes payable on the importation of materials to produce defense and defense related materiel.

c) Notwithstanding any provision of law to the contrary, defense enterprises shall also be exempted from the payment of local business taxes and real property taxes for a period of seven (7) years from the commencement of their operations in

1 the local government unit concerned. Provided, however, that the exemption shall
2 not include the payment of reasonable regulatory fees such as health and sanitation
3 permits and waste management fees.

4 SEC. 8. The fiscal incentives provided in Section 7 hereof shall also be
5 extended without diminution to defense enterprises located outside special
6 economic zones.

7 SEC. 9. The President of the Philippines, upon the recommendation of the
8 Secretary of the Department of Finance after a thorough study of the need for
9 incentives, may grant additional fiscal incentives to defense enterprises with the
10 aim to develop a robust defense industry in the country that is responsive to the
11 national security requirements of the country.

12 SEC. 10. Government financial institutions shall support the defense industry
13 by formulating and extending financial products that would hasten its development
14 and sustainability.

15 SEC. 11. ***Incentives to Research and Development.*** – In addition to the
16 existing tax incentives under the National Internal Revenue Code or other laws,
17 rules and regulations, any defense enterprise engaged in defense related research
18 and development may apply for a subsidy from the government, subject to
19 conditions that the President of the Philippines may impose. The research and
20 development activities may also be conducted and entered into through a
21 partnership agreement between any defense enterprise and the government.

22 SEC. 12. ***Registry and Inventory.*** – The Department of National Defense
23 shall keep a registry of all the defense enterprises in the country, including the
24 enterprises of the allied industries. The registry shall include the data submitted by
25 each defense enterprise as provided under Section 4 of this Act and the updated

1 inventory of all defense infrastructure, equipment, weapon systems and
2 components and supplies.

3 The Chief of Staff of the AFP and the Chief of the PNP shall ensure that such
4 inventory is updated and sufficient to protect the national security.

5 SEC. 13. ***Contracting.*** – Upon the approval of the President of the
6 Philippines, the Secretary of National Defense may directly negotiate with any
7 registered defense enterprise to procure the necessary defense materiel.

8 The Secretary of the Department of National Defense may also negotiate with
9 defense enterprise of another country with which the Philippines has entered into a
10 defense cooperation agreement or otherwise maintains diplomatic relations for the
11 procurement of major defense materiel or defense-related consultancy services,
12 subject to the following conditions:

- 13 (a) Interest of the country is protected and the paramount consideration;
14 (b) Expertise or capability required is not available locally;
15 (c) Defense equipment or materiel or defense related consultancy services
16 to be procured is included in the AFP Modernization program; and
17 (d) The contract includes the transfer of technology, if applicable.

18 SEC. 14. ***Implementing Rules and Regulations.*** – Within ninety (90) days
19 from the approval of this Act, the Secretary of the Department of National Defense
20 shall, in coordination with the Secretaries of the Department of Finance and the
21 Department of the Department of Trade and Industry, promulgate the necessary
22 rules and regulations for the effective implementation of this Act.

23 SEC. 15. ***Separability Clause.*** – If any provision or part of this Act is
24 declared invalid or unconstitutional, the remaining parts or provisions not affected
25 shall remain in force and effect.

1 SEC. 16. ***Repealing Clause.*** – All laws, executive orders, rules and
2 regulations inconsistent with or contrary to the provisions of this Act are amended,
3 modified or repealed accordingly.

4 SEC. 17. ***Effectivity.*** – This Act shall take effect fifteen (15) days after its
5 publication in the *Official Gazette* or in a newspaper of general circulation.

6 Approved,