

TWENTIETH CONGRESS)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

HOUSE OF REPRESENTATIVES



*Introduced by Representative Rufus B. Rodriguez and
Representative Maximo B. Rodriguez, Jr.*

House Bill No. **1807**

EXPLANATORY NOTE

This bill was approved by the House of Representatives during the 19th Congress.

The motor vehicle manufacturing industry has extensive downstream linkages, mainly with basic and critical heavy industries (e.g. iron and steel, chemicals, rubber); and upstream linkages with tertiary industries such as transport services and distribution of goods. Thus, a progressive motor vehicle manufacturing industry is considered a key driver of industrialization and economic development.

In developed countries like the United States, Japan and Germany, the vehicle manufacturing industry forms the core of its industrial strength. The importance of the industry was even more highlighted during the 2008 Global Financial Crisis, when these developed economies quickly took to action and implemented measures in support of the vehicle manufacturing industry. The emerging economies Brazil, Russia, India and China also put high priority on developing a domestic vehicle manufacturing industry.

In ASEAN, member-states with manufacturing capabilities such as the Philippines, Thailand, Malaysia and Indonesia continuously develops and implements strategic development programs/ policies for motor vehicle manufacturing as a key strategy for industrialization.

The Philippines first implemented its motor vehicle development program in 1973. Among others, the program was aimed at developing a local vehicle manufacturing industry that would effectively encourage the development of vehicle parts manufacturing and auto-supporting industries. The government envisioned the industry as a major source of manufacturing value-added, and therefore has potentially high economic contributions.

Since the implementation of the Motor Vehicle Development Program (MVDP), substantial investments estimated at Php100 billion were put in place in manufacturing operations, about 75,000 jobs were generated and the annual export revenues from locally-produced parts reached over US\$3 Billion in 2010. At the same time, technology transfer has significantly contributed to the improvement of production process and product quality; and automotive skills development programs have raised the levels of Filipino workmanship and capabilities. It is clear that the motor vehicle manufacturing industry plays an important role in socio-economic development.

However, the Philippines was not able to develop the competitive capacities of its motor vehicle manufacturing industry. The small domestic market base did not support economic scale in manufacturing operations.^{1/} Moreover, policy inconsistencies and the weak regulatory framework have eroded the market base for new vehicles and consequently, the parts manufacturing industry.

As a result, investments have been limited and the parts manufacturing and auto-supporting industries were not fully-developed.^{2/} Majority of parts manufacturers are classified as small and medium enterprises (SME), with limited market access opportunities. In fact, about 90% of the total export revenues from vehicle parts and components are generated by

^{1/} 2009 Domestic Market Volume: Thailand – 548K; Indonesia – 486K; Philippines – 132K

^{2/} Comparative number of parts suppliers: Thailand – 1,800; Indonesia – 564; Philippines – 256

Multi-National Companies (MNCs), which account for less than 10% of local parts manufacturers.

In contrast, other ASEAN automotive industries benefited from a large domestic market base and generally consistent automotive policies, and therefore, a more attractive investment destination for vehicle manufacturing. In comparison to our ASEAN neighbors, the Philippines lagged in terms of cost-competitiveness. Structural inefficiencies and the increasing pressure from trade liberalization continue to put tremendous pressure on the domestic vehicle manufacturing industry. In 2010, it was estimated that the cost of locally manufactured vehicle is higher by 15% in comparison to vehicles produced in other ASEAN production bases.

The vehicle manufacturing industry offers exceptional growth opportunities. A study conducted by the University of Asia and the Pacific showed that the motor vehicle manufacturing is a key industry in the Philippine economy, with one of the highest output, household income and employment multiplier effects. The study estimated that an additional Php100 billion investments in motor vehicle manufacturing would result to Php357 Billion additional output, Php27.2 Billion household income and 169,000 jobs. Such is the potential contribution of vehicle manufacturing because it creates production complementarities among many industries in the economy.^{3/}

A study conducted by Deloitte Touche Tohmatsu also reached the same conclusions, i.e. the development of a world-class vehicle manufacturing industry will substantially increase real gross domestic product, real aggregate investments, real exports and real wages leading to increase in employment.^{4/}

However, these potential economic benefits may only be reaped by improving the competitiveness of the domestic vehicle manufacturing industry. The continued viability of the industry will primarily depend on the effectiveness and sustainability of the policy and business environment, an important government role highlighted in a study conducted by the Philippine Institute for Development Studies.^{5/}

Considering the foregoing, the immediate passage of this proposed measure is earnestly sought.


RUFUS B. RODRIGUEZ


MAXIMO B. RODRIGUEZ, JR.

^{3/} Terosa C., 2010. "Economic Impact of the Philippine Automotive Manufacturing Industry: Production Linkages & Multiplier Effects". University of Asia and the Pacific, Philippines.

^{4/} Stanford J., 2009. "Five Minutes to Midnight: The Future of Philippine Automotive Industry". Deloitte Touche Tohmatsu, Australia.

^{5/} Aldaba R., 2008. "Globalization and the Need for Strategic Government-Industry Cooperation in the Philippine Automotive Industry". Philippine Institute for Development Studies, Philippines.

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AN ACT
STRENGTHENING THE COMPETITIVENESS OF THE PHILIPPINE MOTOR VEHICLE
MANUFACTURING INDUSTRY

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

ARTICLE I
GENERAL PROVISIONS

SECTION 1. *Title.* - This Act shall be known as "*The Philippine Motor Vehicle Manufacturing Industry Act*".

SEC. 2. *Declaration of Policy.* - The State shall develop the national economy by promoting industrialization through competitive industries and by encouraging the participation of private enterprise.

Recognizing that the Philippine Motor Vehicle Manufacturing Industry forms the core of the country's industrial strength and plays a vital role in economic development and nation-building, the following are the declared policies of the State:

- (a) The State shall develop a comprehensive policy that shall accelerate the sound development of the Philippine Motor Vehicle Manufacturing Industry thereby contributing to industrial capital formation, technology transfer, technical skills development, and employment generation;
- (b) The State shall ensure a balanced transition to open trade by fully developing the competitive capacities of the Philippine Motor Vehicle Manufacturing Industry and promoting greater participation in global value chains;
- (c) The State shall promote the maximum scale integration of vehicle manufacturing and the manufacture of its parts and components; and
- (d) The State shall integrate motor vehicle manufacturing into the overall transport sector policy to encourage objective market conditions for locally-produced vehicles in the expansion and upgrading of the country's vehicle fleet.

SEC. 3. *Scope.* - This Act shall apply to the range of activities in the Motor Vehicle Manufacturing Industry as defined under Section 4(e).

SEC. 4. *Definition of Terms.* - As used in this Act, the following terms are defined as follows:

- (a) *Board of Investments (BOI)* refers to an attached agency of the Department of Trade and Industry created under Republic Act No. 5186, otherwise known as the "Investment Incentives Act";

- (b) *Department of Trade and Industry (DTI)* refers to the government agency created pursuant to Executive Order No. 133, series of 1987, "Reorganizing the Department of Trade and Industry, its Attached Agencies, and for Other Purposes";
- (c) *Fiscal Incentives Review Board (FIRB)* refers to the Government Agency reconstituted under Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), which administers the grant of tax incentives to registered business enterprises;
- (d) *Motor Vehicle Manufacturing Industry* refers to enterprises that are engaged in the manufacture of brand new motor vehicles, bodies (coachwork) for motor vehicles, and parts, components, accessories and systems of motor vehicles;
- (e) *National Transport Policy* refers to the long-term development framework for the transportation sector formulated by the National Economic and Development Authority (NEDA), which shall be used by stakeholders as guidance in transport development, management, operations and use;
- (f) *Philippine Development Plan (PDP)* refers to the master plan for economic development implemented by the NEDA, which identifies priority sectors with the greatest potentials to contribute to realizing the PDP goals for the next six (6) years and defines the programs, policies, strategies and action plans to attain economic development goals;
- (g) *Philippine Export Development Plan (PEDP)* refers to the export development plan prepared by the DTI, which defines the country's annual and medium-term export thrusts, strategies, programs and projects jointly implemented by the government, export and concerned sectors; and
- (h) *Strategic Investments Priorities Plan (SIPP)* refers to the overall plan formulated by the BOI, in coordination with the FIRB, Investment Promotion Agencies, and other government agencies pursuant to the guidelines set forth in the CREATE Law.

ARTICLE II ORGANIZATION, INSTITUTIONAL SUPPORT, AND STRATEGIES

SEC. 5. Lead Agency. - The DTI through the BOI shall be the lead agency mandated to implement the provisions and attain the objectives of this Act.

In order to strengthen its capacity to implement this Act, the DTI is hereby authorized to create the Motor Vehicle Industry Development Office (MVIDO) in the BOI, which shall be headed by a Director. The Secretary of the DTI shall determine the organizational structure and staffing pattern of the motor vehicle industry development office, in accordance with the revised compensation and position classification system subject to the evaluation and approval of the Department of Budget and Management and in compliance with the civil service laws, rules and regulations, and other pertinent laws.

SEC. 6. National Motor Vehicle Manufacturing Development Plan. - The President of the Republic of the Philippines shall approve a six-year National Motor Vehicle Manufacturing Development Plan, hereinafter referred to as the "Plan", prepared by the BOI in consultation with concerned stakeholders and endorsed by the Motor Vehicle Manufacturing Development Council.

The Plan, which shall be integrated into the PEDP and the PDP, shall define the Industry's annual and medium-term manufacturing and export targets, key industry issues, and programs and strategies to support manufacturing and export thrusts. The Plan shall also identify priority development products and/or niche models, which shall be characterized by high manufacturing value-added and with high potentials for economic efficiency, as the primary focus of incentives. Annual updates shall be done to monitor the results and targets identified in the Plan.

SEC. 7. Motor Vehicle Manufacturing Development Council. - For the purpose of coordinating the formulation and implementation of policy reforms to support the Plan, the Motor Vehicle Manufacturing Development Council, hereinafter referred to as the "Council", shall be created to act as the central planning, coordinating and monitoring body and national advisory committee for the comprehensive and integrated policy on motor vehicle manufacturing industry development.

SEC. 8. Composition of the Council. - The Council shall be composed of the following:

- (a) Secretary of the DTI as Chairperson;
- (b) Vice Chairperson and Managing Head of the BOI and Undersecretary for Industry Development and Trade Policy of the DTI as Co-Vice Chairperson;
- (c) Director General of the National Economic Development Authority;
- (d) Secretary of the Department of Finance;
- (e) Secretary of the Department of Environment and Natural Resources;
- (f) Secretary of the Department of Energy;
- (g) Secretary of the Department of Transportation;
- (h) Secretary of the Department of Science and Technology;
- (i) Secretary of the Department of Public Works and Highways;
- (j) Commissioner of the Commission on Higher Education;
- (k) Commissioner of the Philippine Competition Commission;
- (l) Director General of the Technical Education and Skills Development Authority;
- (m) Four (4) representatives from the private sector, one of whom shall be appointed as Co-Vice Chairperson: *Provided*, That the representatives shall have a proven track record of direct involvement in manufacturing and the development of the motor vehicle industry; and shall be nominated in a process determined by key industry players and/or organizations representing the motor vehicle manufacturing industry; and
- (n) Two (2) representatives from the academe/research community: *Provided*, That the representatives shall each be of recognized competence in fields of: (1) automotive industrial, economic and trade policies; and (2) automotive engineering and technology.

Except for the representatives from the private sector and academe/research community, any member of the Council may designate an alternate with a rank not lower than Undersecretary or its equivalent to represent their respective offices in the Council: *Provided*, That the designated alternate must be fully authorized to decide on behalf of the members.

Upon the effectivity of this Act, the President of the Republic of the Philippines shall appoint the four (4) representatives from the private sector and the two (2) representatives from the academe/research who shall serve for a term of two (2) years. Only citizens of the Philippines shall be members of the Council. In case of vacancy, the appointed successors shall serve only the unexpired portion of the term of his predecessor.

Other heads of executive agencies, private organizations, or individuals may be called upon by the Council to attend any Council meeting and to assist the Council to resolve issues and problems that concern their respective offices.

Likewise, heads of executive agencies, private organizations or individuals shall respond to the queries of the Council within two (2) weeks from the time such queries are received.

SEC. 9. Duties of the Council. - The Council shall function solely as a central planning, coordinating and monitoring body and national advisory committee to the DTI as the lead implementing agency of this Act.

The Council shall have the following duties:

- (a) Advise the DTI Secretary on the implementation of the Plan;
- (b) Periodically review and assess the performance of the Plan and prospects of the industry;
- (c) Provide a forum for discussing and proposing solutions to motor vehicle manufacturing industry-related problems, and emerging industry issues;
- (d) Recommend measures to support the positioning of the Philippines as an alternative production and export hub in the ASEAN region;
- (e) Recommend measures that would hasten the development of innovative technologies, niche products and high-value added manufacturing activities;
- (f) Recommend measures to increase the domestic market performance of the motor vehicle industry;
- (g) Recommend measures to address constraints in the development of the motor vehicle manufacturing industry; and
- (h) Perform such other acts as may be necessary or incidental to the exercise of its functions and discharge of its duties.

SEC. 10. Meetings of the Council. - The Council shall meet at least once every quarter: *Provided*, That the Chairperson may convene the Council anytime whenever it is deemed necessary.

The members of the Council shall not receive any compensation: *Provided*, That appointive members shall be entitled to *per diem* for each meeting actually attended at the rates to be formulated by the Council.

SEC. 11. Operation of the Council. - The Council shall immediately convene and function one (1) month after the effectivity of this Act.

The MVIDO created under Section 5 hereof shall act as the Secretariat for the Council.

ARTICLE III INCENTIVES

SEC. 12. Fiscal Incentives. - The Philippine motor vehicle and motor vehicle component manufacturing industries are hereby declared as priority investment sectors that shall form part of the country's four (4) successive SIPP's registered business enterprises of the Philippines and motor vehicle component industries shall be entitled to pertinent fiscal incentives granted under Title XIII (tax incentives) of the national internal revenue code of 1997, as amended.

SEC. 13. Industry Development Programs. - The DTI, through the BOI, in coordination with the FIRB and other pertinent government agencies, shall recommend an incentive strategy to

the FIRB for approval, similar to Executive Order No. 182, series of 2015, otherwise known as the "Comprehensive Automotive Resurgence Strategy Program."

The incentive strategy shall provide time-bound, targeted, performance-based and transparent fiscal support to integrated vehicle manufacturing and automotive supporting industries. Such programs shall be endorsed by the Council and approved by the President: *Provided*, That fiscal support granted under this Section shall be non-taxable, non-negotiable and applicable up to its full amount: *Provided, further*, That the budget for fiscal support shall be indicated in the annual National Expenditure Program and deemed automatically appropriated.

In addition, the DTI through the BOI and in coordination with the aforementioned government agencies, shall formulate and implement programs to support the development of motor vehicle manufacturing supporting industries.

ARTICLE IV PRIORITIZATION OF DOMESTICALLY MANUFACTURED VEHICLES IN PUBLIC PROCUREMENT

SEC. 14. *Government Procurement of Motor Vehicles.* - Subject to pertinent laws, rules and guidelines on the procurement of motor vehicles, the national government, including government-owned or controlled corporations (GOCCs), and local government units (LGUs) shall prioritize the procurement of domestically manufactured motor vehicles which shall be at least fifty percent (50%) of their existing motor vehicle fleet, unless when no such motor vehicles meeting the required specifications and possessing the capabilities and desired quality of the procuring entity are manufactured or produced in the Philippines.

Likewise, subject to existing laws, rules and guidelines on the lease or rental of vehicles, the national government, including GOCCs and LGUs shall give preference to the lease or rental of motor vehicles from service providers that can provide a motor vehicle fleet of at least fifty percent (50%) domestically manufactured vehicles acquired in the five (5) years preceding the date of procurement, unless no such vehicles meeting the required specifications and possessing the capabilities and desired quality of the procuring entity are manufactured or produced in the Philippines.

ARTICLE V FINAL PROVISIONS

SEC. 15. *Implementing Rules and Regulations.* - Within three (3) months after the effectivity of this Act, the DTI through the BOI shall, in consultation with all the stakeholders concerned, promulgate the Implementing Rules and Regulations of this Act.

SEC. 16. *Oversight Committee.* - There is hereby created a Congressional Oversight Committee, hereinafter referred to as the Philippine Motor Vehicle Manufacturing Industry Congressional Oversight Committee (PMVMI-COC), with representations from the Minority, to be composed of five (5) members from the Senate, which shall include the Chairpersons of the Senate Committees on Trade, Commerce and Entrepreneurship; Public Services; and Appropriations, and five (5) members from the House of Representatives, which shall include the Chairpersons of the House of Representatives Committees on Trade and Industry; Transportation; and Appropriations. The PMVMI-COC shall be jointly chaired by the Chairpersons of the Senate Committee on Trade, Commerce and Entrepreneurship and the House of Representatives Committee on Trade and Industry. It shall meet at least every quarter of the first two (2) years and every semester of the third year after the approval of this Act to review the implementation thereof, and recommend the necessary remedial legislation or executive measures: *Provided*, That the PMVMI-COC shall cease to exist after five (5) years upon the effectivity of this Act.

The Council shall submit the Plan and a report on the implementation of this Act to the PMVI-COC not later than the first day of December every year.

The Secretariat of the PMVMI-COC shall be drawn from the existing personnel of the Senate and House of Representatives Committees comprising the PMVMI-COC.

SEC. 17. Appropriations. - The amount necessary to carry out the initial implementation of this Act shall be charged against the current year's appropriations of the DTI. Thereafter, such amount as may be necessary for the continued implementation of this Act shall be included in the annual General Appropriations Act.

SEC. 18. Repealing Clause. - Any law, presidential decree or issuance, executive order, administrative rule or regulation contrary to or inconsistent with the provisions of this Act is hereby repealed, modified or amended accordingly.

SEC. 19. Separability Clause. - If any provision of this Act is held unconstitutional or invalid, the remainder of the Act or the provisions not otherwise affected shall remain valid and subsisting.

SEC. 20. Effectivity. - This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,