

**Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City**

**TWENTIETH CONGRESS
Second Regular Session**

HOUSE BILL NO. 10981



Introduced by Representative BELLA VANESSA B. SUANSING

**AN ACT
FURTHER AMENDING REPUBLIC ACT NO. 7898, AS AMENDED BY
REPUBLIC ACT NO. 10349, BY REVITALIZING THE REVISED AFP
MODERNIZATION PROGRAM, AND FOR OTHER PURPOSES**

EXPLANATORY NOTE

Section 6 of Republic Act No. 7898, as amended by Section 2 of Republic Act No. 10349, fixed the period of implementation of the Revised AFP Modernization Program at 15 years from the approval of the amendatory Act on December 11, 2012. The Program will therefore lapse on December 11, 2027. In January 2024, the President approved Re-Horizon 3, the revised acquisition plan for the third and final phase of the Program, carrying a 10-year implementation period and an estimated cost of ₱2 trillion. Acquisitions scheduled under that plan extend to 2034, seven years beyond the date on which the authority to undertake them expires.

Article II, Section 3 of the 1987 Constitution constitutes the Armed Forces of the Philippines as the protector of the people and the State, and charges it with securing the sovereignty of the State and the integrity of the national territory. That mandate is stated without limitation as to period. The 15-year term in Section 6 was a drafting choice made in 2012, when the horizon it set exceeded the horizon of the acquisitions then contemplated. This measure repeals Section 6 and allows the Program to continue as a standing undertaking, subject as it already is to annual appropriation and to congressional review.

The scheduled lapse is also inconsistent with Republic Act No. 12024, the Self-Reliant Defense Posture Revitalization Act, signed on October 8, 2024, which directs the Department of National Defense to develop a domestic defense industry through fiscal incentives and government-backed financing for local manufacturers. Investment of that kind is recovered over production runs measured in years. A supplier deciding whether to establish a line in the Philippines must assess the demand of its principal customer, and the statutory authority of that customer presently ends in 2027. Sustaining the industrial policy adopted in RA 12024 requires sustaining the procurement authority against which it was designed.

The financing mechanism requires attention as well. Under the General Appropriations Act for Fiscal Year 2025, the Program was allotted ₱75 billion, of which ₱35 billion was programmed and ₱40 billion was carried as unprogrammed appropriations, releasable only upon collection of revenue in excess of the fiscal program. Unprogrammed appropriations carry no assured source of funds, and a contract for a multi-year acquisition cannot prudently be executed against them. Major platforms such as frigates, aircraft, and missile systems are procured as single indivisible items whose payment schedules span several fiscal years, and where the appropriation cannot cover the schedule the acquisition is deferred rather than reduced.

Section 3 of this measure addresses that constraint. It authorizes the President and Commander-in-Chief to contract loans, credits, and indebtedness, including supplier's credit and deferred payment arrangements, and to conclude bilateral agreements for other forms of financial assistance, for projects under the Program. The authority is subject to conditions drawn from existing practice in other capital programs: the project plans must first be prepared by the Department of National Defense and approved by the President, and the Secretary of Budget and Management must certify both that funds for the fiscal year in question are appropriated and programmed to service the external debt of the public sector, including the obligation proposed to be contracted, and that the counterpart peso funding requirement has been programmed and will be available as and when needed for the completion of the project.

Section 2 exempts the importation by the AFP of defense equipment under the Program from value-added tax and customs duties. Such duties and taxes are paid out of the Program's own appropriation and returned to the National Treasury, producing no net revenue for the government while reducing the quantity of materiel the appropriation is able to procure. The exemption keeps that amount within the Program, where it can be applied to additional platforms, to the sustainment of assets already in service, and to the readiness of the personnel who operate them.

This measure does not increase the appropriation for the Program, prescribe its acquisition list, or alter the role of Congress in reviewing either. It removes a terminal date, provides a financing instrument suited to the length of the acquisition cycle, and relieves the Program of a tax paid from one government account to another. Decisions on the scale and content of modernization remain with Congress, to be made through the annual budget process rather than settled by the expiry of a provision enacted in 2012.

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


BELLA VANESSA B. SUANSING
2nd District of Sultan Kudarat

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

SECTION 1. Section 6 of Republic Act No. 7898, as amended by Section 2 of Republic Act No. 10349, is hereby repealed.

SECTION 2. *Exemption from VAT and Customs Duties.* – Importation by the AFP of defense equipment under the Revised AFP Modernization Program shall be exempt from value-added tax and customs duties.

SECTION 3. *Contracting Loans, Credits or Indebtedness Including Supplier's Credit, Deferred Payment Arrangements for Revised AFP Modernization Program Projects.* – The President and Commander-in-Chief in behalf of the Republic of the Philippines is hereby authorized to contract such loans, credits or indebtedness including supplier's credit, deferred payment arrangements for Revised AFP Modernization Program upon such terms and conditions as may be agreed upon with any local or foreign source or lender and at terms of payment of not less than ten (10) years and to enter into and conclude bilateral agreements involving other forms of financial assistance such as grants and commodity credit arrangement or indebtedness as may be necessary with Government of foreign countries with whom the Philippines has diplomatic or trade relations or which are members of the United Nations, their agencies, instrumentalities or financial institutions or with reputable international organizations or non-governmental national or international lending institutions or firms extending supplier's credit or deferred payment arrangements: Provided, That such loan, credit or indebtedness shall be incurred only after the plans for such project have been prepared by the Department of National Defense (DND) and approved by the President, and only when the Secretary of Budget and Management has certified that for the fiscal year in question, funds are appropriated and programmed to service the external debt of the public sector, including the loan, credit or indebtedness proposed to be contracted, and that the counterpart peso funding requirements of

the projects for which such loans, credits or indebtedness are being contracted have been programmed and shall be available as and when needed for the completion of the project.

SECTION 4. *Implementing Rules and Regulations.* – The DND shall formulate the rules and regulations necessary to implement the provisions of this Act within thirty (30) days from its effectivity.

SECTION 5. *Separability Clause.* – If any provision or part of this Act is declared unconstitutional or invalid, the remaining parts or provisions not affected shall remain in full force and effect.

SECTION 6. *Repealing Clause.* – All laws, executive orders, rules and regulations or parts thereof which are inconsistent with the provisions of this Act are hereby amended or repealed accordingly.

SECTION 7. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,