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*First American Chamber  
of Commerce Abroad*

*Technical Report*

# **INVESTMENT CLIMATE IMPROVEMENT PROJECT (ICIP) Final Report for March 2006-February 2007**

**Appendices 43-56: Economic Law & Policy-related Statements**

**by John D. Forbes and Richard Umali**

**Prepared for**

**The American Chamber of Commerce  
of the Philippines**

**Submitted for review to**

**USAID/Philippines OEDG**

**May 2007**



**Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE)  
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# Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-00-03-00020-00 Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

The American Chamber of Commerce in the Philippines (AmCham) submitted an unsolicited proposal to EMERGE on January 25, 2006, for a grant to set up a mechanism to identify and communicate to the Philippine Government activities that will generate additional investments and jobs in the country. It was called the Investment Climate Improvement Project (ICIP), and the key actors were Mr. Robert M. Sears, AmCham Executive Director, Mr. John D. Forbes, AmCham Legislative Committee Chairman, and Mr. Robert W. Blume, AmCham Desk Officer at the Philippine Board of Investments (BOI). Mr. Richard Umali was added to the team as a Project Assistant. EMERGE subsequently hired Mr. Arlan Z. I. Brucal to help AmCham edit this and draft other summary reports.

Because of their cumulative size, most of the appendices to this report are published in separate volumes:

Appendix 7: Workshop on Anti-Red Tape & Corruption, August 23, 2006;  
Appendix 9: Workshop on Foreign Direct Investment, October 5, 2006;  
Appendix 10: Workshop on Infrastructure, February 2, 2007;  
Appendices 16-42: Economic Law & Policy-related Letters;  
Appendices 43-56: Economic Law & Policy-related Statements; and  
Selected Press Clippings

The economic law and policy-related statements contained in these appendices were written and endorsed by the Joint Foreign Chambers of the Philippines (JFC) and/or AmCham.

The views expressed and opinions contained in this publication are those of the authors and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.



**THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.**

(Website: <http://www.amchamphilippines.com>)

**AmCham Statement on Recent Political Events**

**The American business community deeply regrets the current recurrence of political instability in the Philippines and urges an early and peaceful resolution within the rule of law, with full respect for civil rights.**

**Political stability accompanied by vigorous economic reforms are essential requisites for a strong business environment. We urge all Filipinos to find peaceful ways to resolve their political differences and to move forward to implementing solutions to the urgent challenges of national economic development.**

**The foreign investment community hopes that the State of National Emergency be lifted as soon as possible.**

**February 28, 2006**



**THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.**

(Website: <http://www.amchamphilippines.com>)

**STATEMENT ON THE POPULATION GROWTH RATE**

The latest data from the National Statistics Office that the annual population growth rate of the Philippines is falling is good news indeed. With four babies born every minute, the growth rate in recent years has been at a rate that would double the population from 85 million to 170 million in roughly three decades.

Government at the highest level needs to demonstrate stronger leadership to assist Filipino women with unmet need to plan the size of their families better in accordance with their religious beliefs.

The Foreign Chamber of Commerce issued the attached statement on the population crisis in November 2004. We are pleased to see the latest reports that the population growth rate is falling. Continued and even greater efforts need to be made by the public and private sectors to reduce the growth rate further.

5/11/06



## THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.

(Website: <http://www.amchamphilippines.com>)

### STATEMENT ON THE BIOFUELS BILL

The American Chamber of Commerce of the Philippines supports the proposed Biofuels Act of 2006 as an important measure intended to stimulate the development of alternative and domestically produced fuels for transportation in the country.

AmCham commends the Philippine Government's policy to increase energy self-sufficiency. Biofuels, as an additive to petroleum products, can be beneficial to consumers and producers, especially in the context of diversifying supply.

Biofuels and other renewable energy technologies reduce reliance on oil and imported fuel, thus saving on foreign exchange.

The production of biofuels can potentially help the agriculture sector, particularly growers of coconut and sugarcane, thereby developing the domestic economy. Increased employment will be achieved, particularly in the provinces, if farm production is expanded for biofuels. However, the use of crops for fuel should not have a mandated economic advantage over the use of crops for food. The market should determine the best use of crops without distortions or advantages of one use over another. Importation of agricultural products for food or fuel use should be permitted to ensure there is equilibrium in the marketplace.

The establishment of biofuel manufacturing plants will create jobs for Filipinos. The fiscal incentives provided in the proposed legislation, which include duty exemption of machineries and equipment to be used for biofuel manufacturing and tax exemption of biofuels, are important to attract potential investment into this new industry in the Philippines. Along this line, we would like to highlight the importance of also providing incentives to vehicle manufacturers to encourage investments in manufacture of alternative fuel vehicles that are specifically designed to run on both conventional gasoline and bio-fuel blends, with the end objective of providing more affordable alternative fueled vehicles to the consumer. Without the vehicles, there is no sustainable alternative fuel demand. There are several bills now filed in Congress that seek to provide this complementary and consumer friendly-incentive such as in the form of excise tax reductions.

Since the use of biofuels is relatively new in the country, both the safety of consumers, and the security of automobile manufacturers and blended fuel manufacturer,/blender/distributor/retailer should be protected by the national government. Thus, it is recommended that in implementing the provisions of the any bio-fuels blend, the following be considered:

- A reasonable transition period for implementation of a reasonable and practical blend to resolve the issue of non-compatibility of older model vehicles

- A flexible interpretation of the biofuels provision through the availability of blended fuel at all stations (and not necessarily at all pumps) at the early stage of the implementation.
- Ensure strict compliance with standards all the way to the pumps, or from production, blending, distribution and at retail points.

As such, should there be damage to the vehicle or any of its parts resulting from the use of biofuels outside of the aforementioned considerations, the oil company or the retailer of biofuels and the automotive manufacturer should have no liability on account of their compliance with the law.

5/25/06



**THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.**

(Website: <http://www.amchamphilippines.com>)

**STATEMENT ON LEGISLATED WAGE HIKE**

The American Chamber of Commerce does not believe that a legislated wage increase is appropriate at this time in the Philippines. The minimum wage here is already non-competitive with most of our Asian neighbors.

We believe that any wage increases should be based on productivity and on a company's ability to pay.

A mandated wage increase, we believe, will result in loss of jobs and the Philippines becoming even more non-competitive in the region.

June 7, 2006



## THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.

(Website: <http://www.amchamphilippines.com>)

*First American Chamber  
of Commerce in Asia*

### AMCHAM STATEMENT ON BILLS TO LEGISLATE MINIMUM WAGE

The American Chamber of Commerce does not favor legislating wages in the Philippines and predicts that House Bill No. 345 or similar legislation will severely harm the economy if they become law.

The AmCham supports the existing mechanism for considering changes in the minimum wage by Regional Tripartite Wage and Productivity Boards which meet each year. They take into account the needs and concerns of business, government and labor as well as variations in local conditions in the country. Following this process, minimum wages were raised in 2006 to levels (above US\$6.00) now among the highest in ASEAN.

The proposed legislation in Congress will drastically reduce the competitiveness of the Philippines, causing many companies (especially SMEs and exporters) operating on low profit margins to close and resulting in the loss of over one million jobs, according to a NEDA estimate. It would accelerate the demise of the shrinking garment manufacturing industry. More cheap imports from countries where wages are low will flood into the Philippines.

It appears that Congress overlooks the reality that the Philippine economy does not operate independently of other economies. It is hard to understand why they favor a law that will benefit the country's competitors and cause hard-working Filipino voters to lose their jobs.

Instead, there are many important economic reforms in both houses of Congress which will not pass without strong leadership to drive them through in the few remaining weeks before Congress adjourns for the 2007 elections.

We urge Congress to pass in the time remaining the bills on anti-red tape, anti-terrorism, Clark SEZ, the credit information bureau, lending companies regulation, PERA, pre-need plan code, renewable energy and VOIP.

And, of course, we encourage Congress to pass the annual budget.

January 16, 2007



*First American Chamber  
of Commerce in Asia*

## THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.

(Website: <http://www.amchamphilippines.com>)

### AMCHAM STATEMENT ON NATIONAL POLICY FOR TOURISM

The American Chamber of Commerce of the Philippines urges Congress to expedite passage of Senate Bill 2138, creating a National Policy for Tourism to boost tourism and attract more investment in the industry.

The bill seeks to encourage investment in new resorts, hotels and other tourism enterprises through income tax holidays and efficient governance to create world-class establishments in the Philippines, making the country a premiere destination in Asia.

The American Chamber supports the early enactment of this measure as it will add to the future economic growth of the Philippines and create employment opportunities for large numbers of Filipinos.

February 6, 2007

## The Foreign Chambers of the Philippines

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American Chamber of Commerce of the Phils., Inc. ♦ Australian-New Zealand Chamber of Commerce (Phils.), Inc.  
 Canadian Chamber of Commerce of the Phils., Inc. ♦ European Chamber of Commerce of the Phils., Inc.  
 Japanese Chamber of Commerce & Industry of the Phils., Inc. ♦ Korean Chamber of Commerce of the Phils., Inc.  
 Philippine Association of Multinational Companies Regional Headquarters, Inc.

### CORRECTIVE LEGISLATION FOR CLARK INVESTORS STALLED IN CONGRESS



How long does it take to correct a legislative mistake? Will foreign investors close and leave the Philippines before corrective legislation is passed? Hopefully not, but there is a risk, and that risk must be avoided by passing the needed legislation as soon as possible.



Following is a chronicle of the issue.

**July 29, 2005.** The Philippine Supreme Court ruled that RA 7227 or the “Bases Conversion and Development Act of 1992” did not explicitly provide incentives for the Clark Economic Zone, as it did for the Subic Special Economic and Freeport Zone.



**September 1, 2005.** The Solicitor General filed a motion for reconsideration.

**September 5, 2005.** The seven members of the Foreign Chambers of the Philippines wrote President Gloria Macapagal-Arroyo requesting that remedial legislation be certified as urgent through the LEDAC.



**September 14, 2005.** Two large American locators at Clark in a meeting of the US-ASEAN Council with President Macapagal-Arroyo at the Plaza Hotel in New York raised their concerns. Attending the meeting was House Speaker Jose de Venecia, who gave assurance corrective legislation would be passed within a month.

**September 19 and 30, 2005.** Senate Committee on Government Corporations and Public Enterprises jointly with Committee on Ways and Means held hearings on corrective legislation.



**September 2005 onwards.** Joint resolutions expressing Congressional support for incentives for Clark locators accumulate signatures in Senate and House.



**October 12, 2005.** US-ASEAN Business Council President Matthew Daley wrote to Finance Secretary Margarito Teves to express concern over the “very negative implications for the investment climate” of the Supreme Court decision and stating “we cannot underestimate the importance of a speedy and fair resolution of this situation.” This letter has gone unanswered.



**October 26, 2005.** AmCham wrote Speaker de Venecia urging passage of corrective legislation, because resolutions would not have the force of legislation.

**November 7, 2005.** In a meeting with foreign and domestic and business associations at the InterContinental Hotel in Makati President Macapagal-Arroyo instructed DTI Secretary Peter Favila to extend PEZA incentives to investors at Clark as an interim step pending passage of corrective legislation.

**December 6, 2005.** House Ways and Means Committee reported out House Bills 4900 and 4901 which correct the situation cited in the Supreme Court decision by extending fiscal incentives to Clark SEZ investors on the same basis as investors at the Subic SEZ and granting a tax amnesty to existing locators.

**February 3, 2006.** President Macapagal-Arroyo certified HB 4900 and 4901 as urgent.

**February 9, 2006.** AmCham wrote Speaker de Venecia noting the presidential certification and stating appreciation for “immediate action on these bills.”

**March 2, 2006.** The Foreign Chambers of Commerce in a meeting with Executive Secretary Eduardo Ermita, attended by DTI Secretary Favila, DOF Secretary Teves and others, urged passage of corrective legislation. Secretary Favila noted that a draft proclamation was on the desk of the president for signature.

**March 10, 2006.** President Macapagal-Arroyo signed Proclamation 1035 extending PEZA incentives to locators at Clark.

**March 30, 2006.** AmCham wrote letter to Speaker de Venecia expressing appreciation for his assurance HB 4900 and 4901 will be passed before the Easter Recess.

**April 6, 2006.** House goes into recess. Bills not passed.

**May 15, 2006.** House scheduled to resume its session.

In addition to the above, the administrator of the Clark SEZ and Clark Investors and Locators Association have often expressed their concerns to the media, in Congressional hearings and otherwise about the need to correct the legislative deficiency ruled on by the Supreme Court.

There is much talk these days about amending the Constitution to liberalize restrictions on foreign investment. While this is an important reform, we urge that the concerns of existing investors, such as those who currently employ thousands of Filipinos at Clark, also need urgent attention.

We strongly recommend that the House of Representatives pass HB 4900 and 4901 as soon as it resumes session, that the Senate do the same soon after and that third reading (final passage) be finished before the next recess begins on June 10, 2006.

Otherwise, nearly a year will have passed since the Supreme Court decision without passage of corrective legislation and what would happen should the Supreme Court makes it July 2005 ruling final. Then the risk to existing investors would become real and could lead to closures, loss of jobs and would have a very negative impact on the country's investment image at a time when foreign investment is rising.



**RICK M. SANTOS**

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**EMILIO VICENS**

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**SHINSUKE IKE**

President

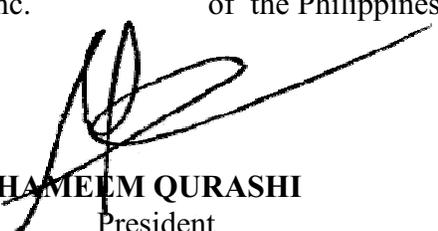
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May 8, 2006

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**JOINT FOREIGN CHAMBERS STATEMENT ON MINING**

The Joint Foreign Chambers (JFC) applauds the Government’s response to support the development of the mining industry.



Globally, mining is a major business, bringing wealth to countries as diverse as Australia, Canada, Brazil and South Africa. Over the past four years US\$6.7 billion has been poured into investment. Here in the Philippines can be part of this success story and given the richness of its resources, a major player. Mining can be a major job creator and a developer of communities in some of the poorest areas of the country. It can also pay the government royalties that can be used for programs that enhance the country’s economic and social development.



Responsible mining, which we support, takes care of both the environment and the local community, particularly the indigenous people.



In the last 18 months, Foreign Direct Investment into the Philippines has been rising. Last year of the US\$1.8 billion in foreign investment registered with the BOI, US\$140 million was in mining. And this could just be the beginning of substantial inflows and job creation. The JFC fully supports President Gloria Macapagal-Arroyo in her efforts to develop mining. So it is with some concern that recent events have the potential not just to halt mining revitalization but send it into reverse.



On Rapu Rapu Island, two incidents involving spills occurred which the Mining Company, promptly responded to. The company reported the incidents and took remedial steps agreed to with the Mines and Geo-sciences Bureau (MGB). It has complied with all requirements and is now ready to commence operations. We believe it should be allowed to do so; otherwise a negative signal to the international mining industry could result in a serious loss of investor interest.



The recommendations made by the Rapu Rapu Fact Finding Commission headed by Bishop Arturo Bastes of Sorsogon call for the closure of the mine and a review of the country’s mining law. However, both the Government and the mining company concerned acted and responded responsibly. Now it is very important that mining operations be allowed to continue under the guidelines of DENR.



The Philippine mining laws and regulations are comparable to and as strong as those of developed countries such as Australia, Canada and the U.S., as recently confirmed by a comparative study of the mining laws of these developed countries that have benefited from mining within a regulatory environment.

Strengthening the law is not required. The problem in this area as in so many others is enforcement. If mining laws are implemented and enforced, this will more than ensure that mining is done responsibly and with the least environmental damage. The solution to attaining the promise of the benefits of mining is not the law but its full implementation.

We support Government policy on developing a responsible mining industry and urge Government to continue to provide an environment in which local and international business and mining communities can confidently work. If this is done, benefits to the Filipino people cannot be over-emphasized. The mining sector can be a major contributor to future economic growth for the Philippines by providing skilled jobs in rural communities and significant revenue to the Government.



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**MICHAEL TEMPLETON**  
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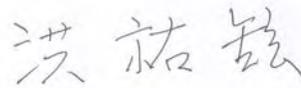
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May 30, 2006



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### Statement on the Proposed Senate Ways and Means Committee Reported Bill On Rationalization of Fiscal Incentives

#### Entitled “The Consolidated Investments and Incentives Code of the Philippines”

The Joint Foreign Chambers have supported the proposed Rationalization of Fiscal Incentives legislation for several years, including (with some exceptions) H. B. No 3295 approved by the House on January 18, 2005. Because there are many incentives contained in many laws and administered by many incentive-awarding bodies, rationalization is a necessary reform.



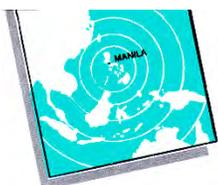
For many years the Department of Finance and the Department of Trade and Industry have disagreed over how fiscal incentives are awarded to new investment projects. Greater consensus within the Executive Branch seems to us an important goal, and we encourage closer coordination. The Government must assure that generous incentives are not granted to projects that will happen without incentives. Equally important, the Government should grant incentives to investment projects which would otherwise go to competing countries which offer more attractive incentives and more favorable business conditions. Also, the Government should have the authority to grant incentives to projects in priority industries in accordance with widely agreed-upon national industrial policy, for example, baseload power plants and other large capital-intensive infrastructure projects, foreign-tourist oriented resort projects and foreign-retiree and medical facilities, export of goods and IT and other services, and projects in less-developed regions.



The Philippine Government should have sufficient authority to be flexible in competition with other countries to attract "strategic" investment projects. Such authority should be as good as current best practice in Asia and include generous fiscal incentives, training deductions, provision of infrastructure and the like, but always given only if needed for the investment project to be realized.



Much attention has recently been given to a report prepared by several economists at the University of the Philippines and Ateneo entitled “The Case of the Missing Tax Revenues.” Known as the Reside Report as its principal author Dr. Renato Reside, its analysis suggests the deteriorating condition of Philippine infrastructure and education has been caused by an excess awarding of fiscal incentives. While we are not in the position to know the extent to which incentives awarded by the BOI and other agencies are properly awarded, we believe the main reasons for the problems of infrastructure and education are the high population growth rate, "leakages" in revenue collection and corruption in government spending. Although our membership includes all large foreign investors in the Philippines, the Joint Foreign Chambers were not consulted by the economists who prepared the Reside Report.

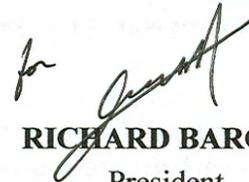


We understand the Senate Ways and Means Committee may soon report out its version of the Fiscal Incentives Rationalization Bill. The foreign chambers have not been invited to hearings nor provided a copy of that bill by the Senate or the Executive. However, copies of the draft report are circulating and have been reported in the press. We have read in the press and been told that the Senate committee proposal will depart significantly from current practice under EO 226 as well as the House-passed bill and will contain major changes in the current composition and practice of awarding fiscal incentives.

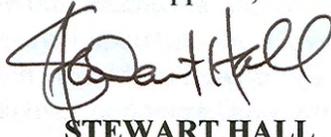
We urge the Government and the Congress to proceed cautiously and only after taking time to fully study the potential impact - positive or negative - of the proposed Senate bill. A number of our members, including several of the largest foreign investors in the Philippines, have expressed concern about proposed changes. Accordingly, the Joint Foreign Chambers would like to have time to poll our members on how proposed changes may effect future investment decisions in the Philippines.



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## STATEMENT ON PHILIPPINE NATIONAL COMPETITIVENESS

### JOINT FOREIGN CHAMBERS OF COMMERCE

OCTOBER 17, 2006



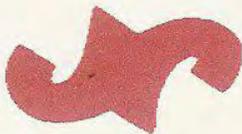
The Joint Foreign Chambers applaud the multiple efforts underway to improve the competitiveness of the Philippines. In the space of only two weeks, an unprecedented series of six large meetings organized by DTI, the JFC, MAP, MBC, PCCI, PHILEXPORT, SEIPI are focusing on the issue of how the Philippines can better compete in the global economy and preparing multiple recommendations and action agenda. (see list below).



In late July, President Gloria Macapagal-Arroyo spoke extensively in her SONA about achieving competitiveness by improving infrastructure, reducing red tape, lowering business costs and keeping food prices affordable to reduce upward pressure on wages.



We salute the public and private sector leaders who have organized these many events on competitiveness and in particular the president who hosted the National Competitiveness Summit at Malacanang. The president also attended the FDI Workshop which estimated that the Philippines has the potential to attract \$34 billion in FDI in 2007-10, if the country implements broad reforms to make it more competitive.



In her speeches at both these events, the president committed the public sector to higher standards of competitive performance in a multitude of areas but especially in education, infrastructure, reducing barriers to investment, maintaining competitive fiscal incentives and the like. In particular, the president stated:

*at the FDI Workshop*



“The economy is on an extended bull run, and we are confident that the people can keep the pace going until we finally achieve economic take-off. The positive outlook across various sectors both here and abroad backed up by our improving economic indicators speak well of the things to come, and we call on our people...to sustain the momentum by



upholding excellence, productivity and unity that will assure their fair share of the benefits of growth.”

“We need to raise our sights and lower barriers to investment.”

“We know that the successful implementation of the solutions to the problems is our nation's biggest challenge.”

“(T)he Philippines will not become less competitive in the fiscal incentives we offer our foreign and domestic investors...I want to assure you that we will not support proposals that have that effect of reducing competitiveness.” *at the National Competitiveness Summit*

“The world is moving at breakneck speed and we must compete or get left behind.”

“We must also pay greater attention to those factors that affect productivity and the cost of doing business which impact on your ability to compete on a level playing field without need of artificial measures like subsidies and protection to cover up for our deficiencies.”

”This Competitiveness Summit is about taking the challenge head on and proving to ourselves, our nation and the world that the Philippines means business.”

“(T)hese actions are not just pipe dreams -- we can make them happen.”

“Each and every recommendation must move forward. No action is too small, no aspiration too big, if it will help catapult us to higher performance.”

“This is the start of a unified national campaign to bring us together around a common goal: to accelerate development, investment and growth.”

“I have signed an executive order creating a Task Force on Philippine Competitiveness composed of representatives of both the public and the private sector...to make sure that our resolutions in this summit will be carried out...”

The Joint Foreign Chambers are partners in Philippine national development and assure the public and private sectors of our total commitment to assist the Philippines to meet the challenge of implementing solutions to the nation's problems. The faster solutions are implemented, the faster the Philippines will be perceived as more competitive, the more domestic and foreign investment will become available to build the globally-competitive Philippine economy and the

more jobs will be created. However, if the country merely continues to muddle through with a “business-as-usual” approach, it will not become more competitive, unemployment and unrest will increase, and the great potential of the Philippines will remain unrealized.

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EVENTS DISCUSSING COMPETITIVENESS

- Oct 4 - Government Infrastructure Forum 2006
- Oct 5 - “How to Attract \$3 Billion in FDI” Workshop of the JFC
- Oct 6 - National Competitiveness Summit
- Oct 11 – MAP CEO Forum “Reversing the Trend, Turning the Bend: Recipes for Competitiveness”
- Oct 17 - SEIPI CEO Forum on Global Competitiveness
- Oct 18-20 –PCCI Philippine Business Conference “Seizing Global Opportunities”



**ROGER J. DALLAS**

President

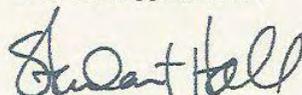
American Chamber of Commerce  
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**RICHARD BARCLAY**

President

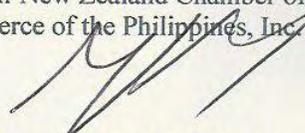
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**STEWART HALL**

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**TERTIUS VERMEULEN**

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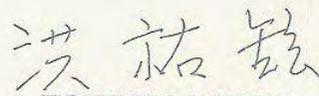
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**SHINSUKE IKE**

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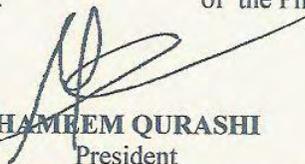
Japanese Chamber of Commerce  
& Industry of the Philippines, Inc.



**HONG WOO-HYUN**

President

Korean Chamber of Commerce  
of the Philippines, Inc.



**SHAMBEM QURASHI**

President

Philippine Association of Multinational Companies  
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STATEMENT ON POLITICALLY-MOTIVATED KILLINGS

The Joint Foreign Chambers welcome the establishment of the Melo Commission by President Gloria Macapagal Arroyo to investigate the unsolved killings of civilian political activists, ministers and journalists in the Philippines.



Such violence has no place in a modern democratic state. For the sake of justice and to deter continued killings, these murders should be investigated thoroughly and those found responsible punished under the law.

It is a responsibility of government to protect citizens within its available resources.

We urge the Melo Commission to hasten the investigation and to take actions and propose reforms to bring an end to a serious blemish on the country's international image, which could impact negatively on future foreign investment and foreign economic assistance.



*Roger Dallas*

ROGER J. DALLAS

President

American Chamber of Commerce of the Philippines, Inc.

*Richard Barclay*

RICHARD BARCLAY

President

Australian-New Zealand Chamber of Commerce of the Philippines, Inc.



*Stewart Hall*

STEWART HALL

President

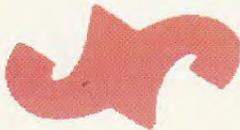
Canadian Chamber of Commerce of the Philippines, Inc.

*Erik Moeller Nielsen*

ERIK MOELLER NIELSEN

Vice President

European Chamber of Commerce of the Philippines, Inc.



*Shinsuke Ike*

SHINSUKE IKE

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Japanese Chamber of Commerce & Industry of the Philippines, Inc.

*Hong Woo-hyun*

HONG WOO-HYUN

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*Shamlem Qurashi*

SHAMLEM QURASHI

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Philippine Association of Multinational Companies Regional Headquarters, Inc.



November 9, 2006

American Chamber of Commerce of the Phils., Inc. ♦ Australian-New Zealand Chamber of Commerce (Phils.), Inc.  
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### JFC APPLAUD 75% INCREASE IN NET FDI INFLOW; WITH MORE REFORMS THE PHILIPPINES CAN ATTRACT US\$9 BILLION A YEAR



The JFC welcomes the report of the Bangko Sentral ng Pilipinas that net Foreign Direct Investment (FDI) inflow into the Philippines reached \$1.96 billion January to October 2006, an increase of 75% over the same period in 2005.

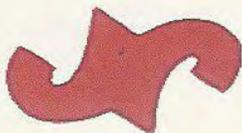


The recovery of FDI in the country, is extremely encouraging and reflects the strong economic growth of the world's major economies and the record flow of FDI into Asia as well as ASEAN. Singapore, Thailand and Vietnam received unprecedented amounts of FDI in 2006. Complete data for 2006 will not be available for several months, but it appears the Philippines is receiving about 5% of total FDI in ASEAN which approached \$40 billion last year. (The PRC again received over \$60 billion, the highest in Asia).



Investors have begun to recognize and reward the positive economic news coming from the Philippines, including a decreasing public sector deficit, improving government revenues, steady GDP growth, low inflation, a strengthening peso and planned spending on infrastructure and education.

An estimated US\$9 billion in foreign direct investments (FDI) could possibly flow into the Philippine economy every year over the next four years if the country's investment climate, labor quality and physical infrastructure continue to improve.



This is according to a workshop held on October 4, 2006 by the Joint Foreign Chambers of Commerce of the Philippines to determine how the Philippines can attract \$3 billion in FDI each year. The workshop gathered about 400 foreign and local business and academic experts to draw up sector-specific FDI projections with corresponding recommendations to the government on how these can be met.



These investments, if realized, would generate over 2.9 million direct and indirect jobs annually from 2007-2010. The workshop results and recommendations were presented to Trade and Industry Secretary Peter B. Favila who gave them to President Gloria Macapagal-Arroyo. They were incorporated into the Action Agenda of the National Competitiveness Summit on October 5, 2006.



The FDI Workshop participants agreed that the \$3 billion target is within reach of the country. “The money is out there; we only have to go and get it ahead of the Thais, Indonesians, Malaysians, and Vietnamese,” said former President Fidel Ramos, who delivered the keynote address during the workshop.

World Bank Country Director Joachim von Amsberg has described the country as at a pivotal moment. After recovering from the brink of a fiscal crisis two years ago, the Philippines can either be complacent and muddle through, or sustain the momentum to take off and achieve real improvements in the economy and, consequently, quality of life.

In her address to the Workshop, President Arroyo said that the country is on an extended bull run. “I am confident that this will continue until we achieve take off,” she said.

The six sectors represented in the workshop – energy, health care and tourism, infrastructure, information and technology, manufacturing, and mining – came up with parallel recommendations to make the country more attractive to foreign investors.

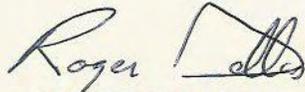
Foremost among them is the need to improve governance, such as by addressing red tape, ensuring the transparency of the bidding process, respecting the sanctity of contracts and consistently enforcing laws.

The country also needs to be more foreigner-friendly, beginning with the removal of restrictions on foreign investment and the liberalization of the practice of professions. Certain laws, such as the Build-Operate-Transfer law, need to be amended as well.

The many good existing laws, on the other hand, such as those on protecting intellectual property rights, against corruption and smuggling, and the Mining Act, need to be properly implemented and enforced.

At the same time, human resources and physical infrastructure need considerable improvement. A stronger and more effective education system, improved English proficiency, and better skills training are needed to make our workforce more competitive, while land, air, and sea transportation all need extensive modernization.

The rising tide of trans-border capital flows is fueling economic growth in ASEAN, including the Philippines. The JFC hopes that with recent reforms intended to improve the fiscal situation, infrastructure, education and national competitiveness, the country will see the benefits of these and future reforms leading to more FDI, higher economic growth and better jobs for more Filipinos.



**ROGER J. DALLAS**

President

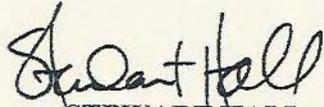
American Chamber of Commerce  
of the Philippines, Inc.



**RICHARD BARCLAY**

President

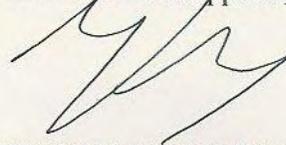
Australian-New Zealand Chamber of  
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**STEWART HALL**

President

Canadian Chamber of Commerce  
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**TERTIUS VERMEULEN**

President

European Chamber of Commerce  
of the Philippines, Inc.



**SHINSUKE IKE**

President

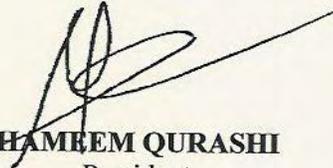
Japanese Chamber of Commerce  
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**HONG WOO-HYUN**

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**SHAMEEM QURASHI**

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January 19, 2007

American Chamber of Commerce of the Phils., Inc. ♦ Australian-New Zealand Chamber of Commerce (Phils.), Inc.  
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**JFC STATEMENT  
 ON CLARK BILLS UNDER CONSIDERATION  
 BY THE CONGRESSIONAL BICAMERAL COMMITTEE**



We urge Congress to complete work on two bills that will improve the investment climate for Clark and other special economic zones at the former US military bases. We support HB 5064 for the reasons stated below.

**Background**

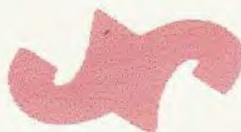


The bills are intended to correct a problem identified in a July 29, 2005 decision of the Supreme Court which ruled that specific legislation was needed to grant tax privileges to investors locating at the Clark, John Hay, Morong and Poro Point special economic zones. The Supreme Court ruled that the several executive proclamations granting these SEZs investment incentives parallel with those given for Subic under the Bases Conversion and Development Act of 1992 (RA 7227) were not a sufficient tax authority.



To correct what would otherwise be unfair treatment of existing investors who located in good faith at these zones and to encourage future investment, the Congress considered two remedial bills which President Gloria Macapagal-Arroyo certified as urgent on February 3, 2006. (On March 10, 2006, the President signed Proclamation 1035 extending PEZA incentives to locators at Clark.)

On May 31, 2006 the House approved HB 4900 and HB 5064.



HB 5064 brings Clark and SEZs at the other former bases under the BCDA Act and authorizes incentives under the Special Economic Zone Act of 1995 (RA 7916) including income tax holidays.

HB 4900 removes any tax liability for locators at these zones created as a result of the Supreme Court decision.



**Same Incentives for All Special Economic Zones**

The Joint Foreign Chambers supports HB 5064, which will extend the same incentives for investors at Clark, Subic and the other former military bases which are now being granted to investors at all export zones under the PEZA. HB 5064 will equalize incentives at all special economic zones and simplify the investment



location decision for foreign investors in the future. With this bill, the same incentives may be granted uniformly at all SEZs in the Philippines.

**Income Tax Holidays Important**

The bill passed in the Senate (SB 2260) does not allow for income tax holidays at Clark, Subic and the other former military base SEZs. It thus creates an unfortunate disparity that will hinder future investment at these five SEZs and potentially favor other SEZs which may enjoy more attractive incentives.

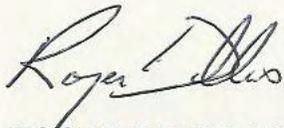
We know of no government in ASEAN which offers foreign investment income tax holidays to investors locating at some but not all of the country's SEZs.

The proposal of certain senators to end all income tax holidays is a provision of SB 2411, the Rationalization of Fiscal Incentives bill, and would apply to the entire country. The future of income tax incentives should be debated in regard to that legislation and should not be contained in the Clark legislation, which has the merit of treating all SEZs equally as well as correcting the legislative infirmity identified in the Supreme Court ruling.

**VAT Issues**

SB 2260 also creates a cumbersome and unnecessary bureaucratic process for export enterprises to pay VAT on their imported raw materials and capital equipment and to have the VAT paid refunded after presentation of proof of export. The bill creates a trust liability account where VAT payments will be deposited and administered by PEZA. Export enterprises exporting 100% of their products will be exempt. We see neither need nor justification for this provision, which again is created only for the Clark, John Hay, Morong and Poro Point SEZs and would not apply at Subic or other SEZs in the country.

The current arrangement in which: (i) exporters located in special economic zones or BOI registered are VAT zero-rated on their export sales; (ii) exporters located in special economic zones or BOI registered are VAT zero-rated on their purchases of goods and services from local suppliers; and (iii) importers and/or local purchasers of goods of exporters located in special economic zones and/or BOI registered shoulder the VAT on their importations and/or purchases of goods, is sensible, follows worldwide practices in respect of VAT and should not be changed for export enterprises located at Clark, Subic and the other three SEZs. This extra red tape will not only discourage investors from locating in these zones, but will also put exporters located in Clark, Subic and the other three SEZs at a disadvantage when compared to the present special economic zones operated by PEZA.



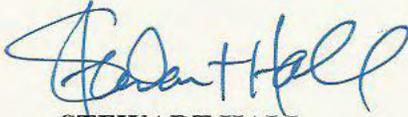
**ROGER J. DALLAS**

President  
American Chamber of Commerce  
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**RICHARD BARCLAY**

President  
Australian-New Zealand Chamber of  
Commerce of the Philippines, Inc.



**STEWART HALL**

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Canadian Chamber of Commerce  
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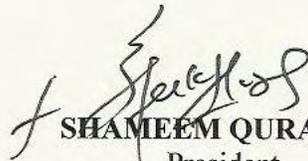
**SHINSUKE IKE**

President  
Japanese Chamber of Commerce  
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**HONG WOO-HYUN**

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**SHAMEEM QURASHI**

President  
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January 23, 2007

American Chamber of Commerce of the Phils., Inc. ♦ Australian-New Zealand Chamber of Commerce (Phils.), Inc.  
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### URGING THE CONGRESS TO PASS ECONOMIC AND OTHER REFORM BILLS BEFORE THE ELECTION RECESS



The Joint Foreign Chambers urges the Philippine Congress to complete final legislative action on several important bills prior to its February adjournment for the 2007 election campaign. These bills are at advanced stages of the legislative process, and many can still be passed in the time available. However, those not passed will need to start again in the 14<sup>th</sup> Congress and are unlikely to be passed for two or more years.



The 12 bills that could be passed include:

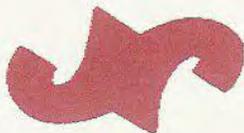
#### A. Bills in Bicameral Conference:

- Clark, John Hay, Morong and Poro Point SEZs and Tax Remediation
- Credit Bureau
- Budget



#### B. Bills Passed by the House but not the Senate:

- Anti-Red Tape
- Anti-Terrorism
- Land Administration Authority
- Renewable Energy
- VOIP



#### C. Bills Passed by the Senate but not the House:

- Lending Company Regulation

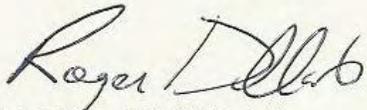


#### D. Bills Ready for Second Reading in both House and Senate

- PERA
- Pre-Need Code



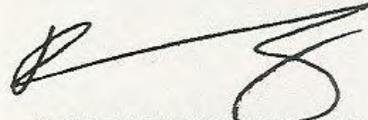
We urge the Congress and the Executive Branch in the next few weeks to direct their energies to the purpose of economic reforms which will improve the country's investment climate. Passage of many of these bills will improve national competitiveness, attract more foreign investment to the Philippines and add to future economic growth and employment opportunities for Filipinos.



**ROGER J. DALLAS**

President

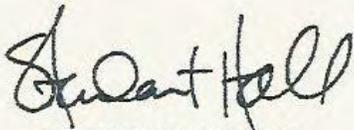
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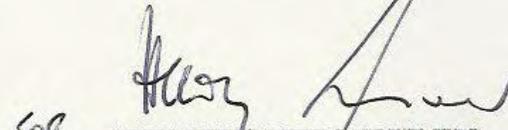
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**STEWART HALL**

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Canadian Chamber of Commerce  
of the Philippines, Inc.

  
for

**TERTIUS VERMEULEN**

President

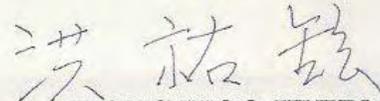
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February 6, 2007