



HOUSE OF REPRESENTATIVES

H. No. 5303

BY REPRESENTATIVES ZAMORA (M.), PUENTEVELLA, MARCOLETA, CUA (J.),
MIRANDA, NICOLAS, SUSANO, NOGRALES AND ESCUDERO, PER
COMMITTEE REPORT NO. 1582

AN ACT STRENGTHENING CONSUMER PROTECTION IN THE
PURCHASE OF BRAND NEW MOTOR VEHICLES AND FOR
OTHER PURPOSES

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

1 SECTION 1. *Short Title.* – This Act shall be known as “The Brand New
2 Motor Vehicle Consumer Protection Act of 2006” or “Philippine Lemon Law”.

3 SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the
4 State to promote the harmonious relationship among the producers, consumers
5 and other players in the automobile business. While the State recognizes the
6 indispensable role of private enterprise in our economy, it must provide the
7 necessary safety measures for the protection and enforcement of the rights of
8 the consumers, as well as of the investors, in order to ensure a self-sustaining
9 industry.

10 SEC. 3. *Definition.* – For purposes of this Act, the term:

11 (a) “Brand new motor vehicle” refers to a vehicle constructed entirely

1 from new parts that has never been sold or registered with the Department of
2 Transportation and Communications or an appropriate agency or authority and
3 operated on the highway of the Philippines, or in a foreign state or country.

4 (b) "Consumer" refers to any person, natural or juridical, who is a
5 purchaser, either by cash or credit of a brand new motor vehicle.

6 (c) "Dealer/retailer or manufacturer's agent or authorized dealer" refers
7 to any person or entity who holds a dealer agreement with the manufacturer for
8 the sale of brand new motor vehicles to the public.

9 (d) "Distributor" refers to any person or entity other than a
10 manufacturer who sells brand new motor vehicles to their duly authorized
11 dealers or retailers.

12 (e) "Lemon rights period" refers to the period ending one year after the
13 date of the original delivery of a brand new motor vehicle to a consumer or the
14 first twenty thousand (20,000) kilometers of operation after such delivery,
15 whichever comes first. This shall be the period during which the consumer can
16 report any nonconformity to the manufacturer and pursue any right provided
17 for under this Act.

18 (f) "Life threatening defect" refers to, but is not limited to, any
19 nonconformity in the steering system or braking system which creates greater
20 possibility of causing death to the passengers of a brand new motor vehicle or
21 to any third party.

22 (g) "Manufacturer" refers to any person or group of persons, natural or
23 juridical, who produces, assembles, fabricates, or otherwise manufactures a
24 motor vehicle by combining body frame or chassis, engine, drive train,
25 suspension and other automotive parts.

26 (h) "Motor vehicle" refers to any self-propelled four-wheeled road
27 vehicle designed to carry passengers and powered by internal combustion
28 engine which includes sedans, coupes, station wagons, convertibles, pick-ups,

1 vans, sport utility vehicles (SUVs) and Asian utility vehicles (AUVs) but
2 excepting motorcycles, delivery trucks, dump trucks, buses, road rollers,
3 trolley cars, street sweepers, sprinklers, lawn mowers and heavy equipment
4 such as, but not limited to, bulldozers, payloaders, graders, forklifts, amphibian
5 trucks, cranes, and vehicles which run only on rails or tracks, and tractors,
6 trailers and traction engines of all kinds used exclusively for agricultural
7 purposes. Trailers having any number of wheels, when propelled or intended
8 by attachment to a motor vehicle, shall be classified as separate motor vehicle
9 with no power rating.

10 (i) "Nonconformity" refers to any condition that substantially impairs
11 the use or safety of a brand new motor vehicle which prevents it from
12 conforming to the manufacturer's or distributor's express warranty, but
13 excluding conditions resulting from accident, abuse, neglect, or unauthorized
14 modification or alteration of the brand new motor vehicle.

15 (j) "Purchase price" refers to the invoice price or the amount of money
16 which the dealer or retailer actually received for the vehicle in consideration of
17 the sale of a brand new motor vehicle.

18 (k) "Warranty" refers to the written assurance, so labeled, of the
19 manufacturer of a brand new automobile, including any term or condition
20 precedent to the enforcement of obligations under the warranty.

21 (l) "Warranty rights period" refers to the period provided for under the
22 contract of sale when the manufacturer would guarantee the materials used,
23 workmanship and fitness of a brand new motor vehicle for ordinary use or
24 reasonable intended purposes. The warranty rights period is usually longer
25 than the lemon law rights period.

26 SEC. 4. *Coverage.* – This Act shall cover brand new motor vehicles
27 with nonconformity reported by the consumer within twelve (12) months from
28 date of original delivery to the consumer or twenty thousand (20,000)

1 kilometers of operation after such delivery, whichever comes first. The
2 following causes of nonconformity shall be excluded:

3 (a) noncompliance by the consumer of his obligations under the
4 warranty;

5 (b) modifications not authorized by the manufacturer or distributor;

6 (c) abuse or neglect of the brand new motor vehicle; and

7 (d) damage to the vehicle due to an accident.

8 SEC. 5. *Notice of Nonconformity.* – Before availing of any remedy
9 under this Act, the consumer shall notify in writing the nonconformity and life
10 threatening defects of the motor vehicle to the manufacturer or distributor or to
11 its authorized dealer or retailer within twelve (12) months from the date of
12 original delivery to the consumer or twenty thousand (20,000) kilometers of
13 operation after such delivery, whichever comes first.

14 The warranty booklet issued by the manufacturer or distributor shall
15 clearly state the responsibility of the consumer under this section. It shall
16 likewise provide the manner and form of such notice to constitute a valid and
17 legal notice to the manufacturer or distributor.

18 SEC. 6. *Repair of Nonconformity.* – It shall be the duty of the
19 manufacturer or distributor or its authorized dealer or retailer, upon receipt of
20 the motor vehicle and notice of nonconformity required under Section 5
21 hereof, to repair the vehicle, free of charge, until it conforms to the express
22 warranty of the manufacturer or distributor. The manufacturer or distributor
23 shall likewise provide the consumer with a service unit vehicle while the
24 vehicle is under repair.

25 SEC. 7. *Reasonable Number of Repair Attempts.* – It shall be presumed
26 that a reasonable number of repair attempts have been undertaken to make the
27 vehicle conform to the applicable warranty if, during the period of twelve (12)
28 months from the date of original delivery of the motor vehicle to the consumer

1 or twenty thousand (20,000) kilometers of operation after such delivery,
2 whichever comes first, any of the following occurs:

3 (a) the same nonconformity has been subject to repair at least four
4 times and the same nonconformity continues to exist; or

5 (b) the motor vehicle is out of service due to repair for a maximum
6 cumulative period of forty-five (45) working days from the date the
7 nonconformity was reported and the vehicle was delivered for repairs, unless
8 such repairs cannot be performed due to conditions beyond the control of the
9 manufacturer or distributor, its agents or authorized dealers, including war,
10 invasion, strike, fire, flood or other natural disaster.

11 SEC. 8. *Final Notice and Final Repair Attempt.* – The consumer must
12 file a final notice to the manufacturer or distributor, by registered mail or
13 personal service, within twenty (20) working days after the 3rd repair attempt
14 failed to rectify the nonconformity.

15 The requirement under this section and the form and manner of
16 notifying the manufacturer or distributor shall be clearly stated in the warranty
17 booklet in order to constitute a valid legal notice.

18 SEC. 9. *Remedies.* – If the manufacturer or distributor, or its authorized
19 dealers or retailers cannot put the motor vehicle to order, in conformity with
20 any applicable warranty, by repairing or correcting any defect or condition
21 which significantly impairs its use or safety after a reasonable number of repair
22 attempts have been made, the manufacturer or distributor shall:

23 (a) replace the motor vehicle with a similar or comparable motor
24 vehicle; or

25 (b) accept the return of the motor vehicle and pay the consumer the
26 repurchase price as determined in Section 11 hereof.

27 SEC. 10. *Expiration of the Lemon Rights Period.* – The expiration of
28 the lemon law rights period shall not preclude the consumer from pursuing

1 remedies under this Act: *Provided*, That the notice of nonconformity has been
2 filed within the one-year lemon rights period.

3 SEC. 11. *Determination of repurchase price.* – The manufacturer or
4 distributor shall pay the repurchase price that is determined by deducting
5 reasonable allowance for use from the purchase price.

6 “Reasonable allowance for use or repurchase price” shall mean twenty
7 percent (20%) per annum deduction from the purchase price, or the product of
8 the distance traveled in kilometers and the purchase price divided by one
9 hundred thousand (100,000), whichever is higher.

10 SEC. 12. *Creation of Arbitration Council.* – There is hereby created
11 an Arbitration Council which shall exercise exclusive and original jurisdiction
12 over disputes arising from the provisions of this Act. The Council shall be
13 composed of one provincial director from the Department of Trade and
14 Industry (DTI) and one provincial director from the Department of
15 Transportation and Communications (DOTC) or district officer from the Land
16 Transportation Office (LTO), as co-chairpersons; two representatives from the
17 consumer groups, two representatives from the automobile industry and two
18 private sector experts, with authority and technical competence in the
19 automotive industry.

20 The Arbitration Council shall have a secretariat office at the Department
21 of Trade and Industry to take care of its administrative functions. The staff
22 complement, their compensation and emoluments, and other necessary
23 expenses of the Council and its staff shall be determined by the Secretary of
24 Trade and Industry.

25 The amount necessary to carry out the provisions of this section shall be
26 included in the budget of the DTI and the DOTC.

1 SEC. 13. *Dispute Resolution.* – All disputes arising from the
2 provisions of this Act shall be settled in accordance with the following dispute
3 resolution mechanisms:

4 (a) The principle of negotiation or conciliation towards amicable
5 settlement between the manufacturer or distributor and consumer shall be
6 strictly observed;

7 (b) Upon failure of the settlement negotiation between the
8 manufacturer or distributor and consumer, the parties and any disinterested
9 *third person shall execute a certificate attesting to such failure;*

10 (c) Upon failure of the parties to settle their dispute, the parties may
11 file a complaint with the Arbitration Council which shall have exclusive and
12 original jurisdiction over disputes arising from the provisions of this Act;

13 (d) Appeal to regular courts shall be allowed only on purely questions
14 of law or grave abuse of discretion; and

15 (e) In all cases, the manufacturer or distributor shall not be precluded
16 from offering easier remedial terms to the consumer to reach amicable
17 settlement at any stage of the dispute mechanism.

18 All disputes that have been submitted for amicable settlement shall be
19 settled not later than six months from the date of filing.

20 SEC. 14. *Exhaustion of Administrative Remedies.* – No action can be
21 filed in court unless the parties have exhausted all remedies, administrative or
22 otherwise, as provided under this Act.

23 SEC. 15. *Disclosure on Resale.* – If the returned vehicle is made
24 available for resale, the manufacturer shall, prior to sale, disclose in writing in
25 a clear and conspicuous manner to the dealer the following:

26 (a) that the motor vehicle was returned to the manufacturer, distributor,
27 factory or branch;

28 (b) the nature of the defect which caused the return; and

1 (c) the condition of the motor vehicle at the time of the transfer from
2 the manufacturer to the dealer shall be the responsibility of the dealer that
3 received the disclosure. The dealer shall give notice of the disclosure to any
4 prospective purchaser prior to the sale, and to transfer the disclosure, or a copy
5 thereof to the next purchaser. A dealer's responsibility under this section shall
6 cease upon the sale of the affected motor vehicle to the first purchaser.

7 SEC. 16. *Penalty.* – The manufacturer, distributor or dealer adjudged
8 to have violated the provisions requiring disclosure as mentioned in the
9 preceding section shall be liable to pay a minimum amount of One hundred
10 thousand pesos (P100,000.00) as damages to the aggrieved party without
11 prejudice to any civil or criminal liability they and/or the responsible officer
12 may incur under existing laws.

13 SEC. 17. *Implementing Rules and Regulations.* – The Secretary of
14 Trade and Industry, in consultation with the Secretary of Transportation and
15 Communications, shall issue the implementing rules and regulations within
16 sixty (60) days from the date of effectivity of this Act.

17 SEC. 18. *Separability Clause.* – If, for any reason, any part or
18 provision of this Act is declared invalid, such declaration shall not affect the
19 other provisions of this Act.

20 SEC. 19. *Repealing Clause.* – All laws, decrees, orders, rules and
21 regulations, issuances or parts thereof which are inconsistent with any of the
22 provisions of this Act are hereby repealed, amended or modified accordingly.

23 SEC. 20. *Effectivity.* – This Act shall take effect fifteen (15) days after
24 its complete publication in at least two newspapers of general circulation.

Approved,