

SENATE

COMMITTEE REPORT NO. 281

Submitted jointly by the Committees on Economic Affairs; Local Government;  
Ways and Means and Finance on FEB 07 2007

Re: Senate Bill 2609, prepared by the Committees

Recommending its approval in substitution of Senate Bill No. 2240, taking into  
consideration House Bill No. 5051

Sponsor: Senator MAR Roxas

MR. PRESIDENT:

The Committees on Economic Affairs; Local Government; Ways and Means and  
Finance, to which were referred Senate Bill No. 2240, introduced by Senator Roxas,  
entitled:

“AN ACT  
ESTABLISHING THE SPECIAL ECONOMIC ZONE AND  
FREEPORT IN THE PROVINCE OF ILOCOS SUR, CREATING  
FOR THIS PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC  
ZONE AND FREEPORT AUTHORITY, APPROPRIATING FUNDS  
THEREFOR AND FOR OTHER PURPOSES”

and House Bill No. 5051, introduced by Representative Baterina, entitled:

“AN ACT  
ESTABLISHING THE SPECIAL ECONOMIC ZONE AND  
FREEPORT IN THE PROVINCE OF ILOCOS SUR, CREATING  
FOR THIS PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC  
ZONE AND FREEPORT AUTHORITY, APPROPRIATING FUNDS  
THEREFOR AND FOR OTHER PURPOSES”


have considered the same and have the honor to report it back to the Senate with the  
recommendation that the attached bill, S.B. No. 2609, prepared by the Committees,  
entitled:


“AN ACT  
ESTABLISHING THE ILOCOS SUR SPECIAL ECONOMIC ZONE  
IN THE PROVINCE OF ILOCOS SUR, CREATING FOR THE  
PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC ZONE  
AUTHORITY, APPROPRIATING FUNDS THEREFOR AND FOR  
OTHER PURPOSES”

be approved in substitution of Senate Bill No. 2240, taking into consideration House Bill No. 5051 with Senators Roxas, Lim, Recto and Drilon as authors thereof.

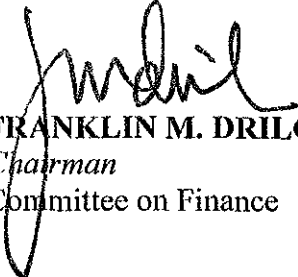
*Joseph*

Respectfully submitted:


  
**ALFREDO S. LIM** <sup>(3,4)</sup>  
Chairman  
Committee on Local Government

  
**MAR ROXAS** <sup>(3,4)</sup>  
Chairman  
Committee on Economic Affairs

**RALPH G. RECTO** <sup>(2,4)</sup>  
Chairman  
Committee on Ways and Means

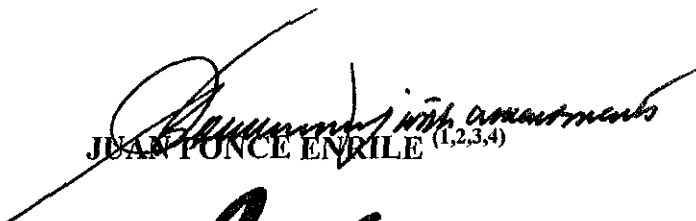
  
**FRANKLIN M. DRILON** <sup>(2,3)</sup>  
Chairman  
Committee on Finance

**VICE-CHAIRMEN:**

  
**RODOLFO G. BIAZON** <sup>(2,3,4)</sup>  
Vice-Chairman  
Committee on Economic Affairs

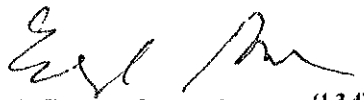
**JOKER P. ARROYO** <sup>(1,4)</sup>  
Vice-Chairman  
Committee on Ways and Means

**MEMBERS:**

  
**JUAN FONCE ENRILE** <sup>(1,2,3,4)</sup>

**RICHARD J. GORDON** <sup>(1,2,3,4)</sup>

  
**RAMON "LONG" REVILLA, JR.** <sup>(1,2,3,4)</sup>


  
**EDGARDO ANGARA** <sup>(1,3,4)</sup>  
*with reservation / find in the bill*

**M.A. MADRIGAL** <sup>(1,2,4)</sup>

  
**SERGIO OSMEÑA III** <sup>(1,2,3,4)</sup>

<sup>1</sup> Member, Committee on Economic Affairs  
<sup>2</sup> Member, Committee on Local Government  
<sup>3</sup> Member, Committee on Ways and Means  
<sup>4</sup> Member, Committee on Finance

*Compañera*  
"Compañera" PIA S. CAYETANO <sup>(2,3)</sup>

*will interpellate*  
  
JINGGOY EJERCITO ESTRADA <sup>(2,3)</sup>

*may amend*  
  
MANUEL "LITO" M. LAPID <sup>(2,4)</sup>

*Ramon Magsaysay Jr.*  
  
RAMON B. MAGSAYSAY JR. <sup>(2,3,4)</sup>

PANFILO M. LACSON <sup>(2,3,4)</sup>


MIRIAM DEFENSOR SANTIAGO <sup>(4)</sup>

*Luisa P. Ejercito Estrada*  
LUISA "LOI" P. EJERCITO ESTRADA <sup>(4)</sup>

Ex-Officio Members:

*Juan M. Flavier*  
JUAN M. FLAVIER  
*Pro-Tempore*

FRANCIS N. PANGILINAN  
*Majority Leader*

*may amend*  
  
AQUILINO Q. PIMENTEL, JR.  
*Minority Leader*

HON. MANNY VILLAR  
*Senate President*  
Senate of the Philippines  
Pasay City

- 
- <sup>1</sup> Member, Committee on Economic Affairs
  - <sup>2</sup> Member, Committee on Local Government
  - <sup>3</sup> Member, Committee on Ways and Means
  - <sup>4</sup> Member, Committee on Finance

SENATE *Jwg*

S. B. No. 2609

(In substitution of Senate Bill No. 2240, taking into consideration  
House Bill No. 5051)

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Prepared by the Committees on Economic Affairs; Local Government; Ways and  
Means; and Finance with Senators Roxas, Lim, Recto and Drilon as authors thereof.

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*Jmr*  
AN ACT

**ESTABLISHING THE ILOCOS SUR SPECIAL ECONOMIC ZONE IN THE  
PROVINCE OF ILOCOS SUR, CREATING FOR THE PURPOSE THE  
ILOCOS SUR SPECIAL ECONOMIC ZONE AUTHORITY,  
APPROPRIATING FUNDS THEREFOR 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 “Ilocos Sur Special  
2 Economic Zone Act of 2007.”

3           **Sec. 2. *Declaration of Policy.*** – It is hereby declared the policy of the State  
4 to actively encourage, promote, induce, and accelerate the sound and balanced  
5 industrial, economic and social development of the country in order to provide jobs to  
6 the people, especially those in rural areas, increase their productivity and their  
7 individual and family income, and thereby improve the level and quality of their  
8 living conditions through the establishment, among others, of special economic zones  
9 in suitable and strategic locations in the country and through measures that shall  
10 effectively attract legitimate and productive foreign investments.

11           **Sec. 3. *Creation of the Ilocos Sur Special Economic Zone.*** – In pursuit of  
12 the foregoing declared policy and subject to the concurrence of the concerned local  
13 government units of Ilocos Sur affected by the zone, there is hereby established a  
14 Special Economic Zone in the Province of Ilocos Sur, hereinafter referred to as the  
15 Ilocos Sur Ecozone. The Ilocos Sur Ecozone shall cover the entire Salomague Cove  
16 and the area embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in  
17 the Municipality of San Juan as well as Dardarat, Pila, Sagayaden, Salomague,  
18 Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and Baclig in the  
19 Municipality of Cabugao. The specific metes and bounds of the Ilocos Sur Ecozone  
20 shall be more particularly defined in a proclamation to be issued by the President of  
21 the Philippines, upon the recommendation of the Philippine Economic Zone Authority  
22 (PEZA), provided that the lands embraced therein shall be public lands.

1           **Sec. 4. Governing Principles.** – The Ilocos Sur Special Economic Zone shall  
2 be managed and operated by the Ilocos Sur Special Economic Zone Authority, herein  
3 referred to as the ISSEZA, created under Section 10 of this Act, under the following  
4 principles:

5           (a) Within the framework and limitations of the Constitution and  
6 applicable provisions of the Local Government Code, the Ilocos Sur Ecozone shall be  
7 developed into and operated as a decentralized, self-reliant and self-sustaining  
8 industrial, commercial/trading, agro-industrial, tourist, banking, financial and  
9 investment center with suitable residential areas.

10           (b) The Ilocos Sur Ecozone shall be provided with transportation,  
11 telecommunications and other facilities needed to attract legitimate and productive  
12 investments, generate linkage industries and employment opportunities for the people  
13 of the Province of Ilocos Sur and its neighboring towns and cities.

14           (c) The Ilocos Sur Ecozone may establish mutually beneficial economic  
15 relations with other entities or enterprises within the country or, subject to the  
16 administrative guidance of the Department of Foreign Affairs (DFA), the Philippine  
17 Economic Zone Authority (PEZA) and/or the Department of Trade and Industry  
18 (DTI), with foreign entities or enterprises.

19           (d) Foreign citizens and companies owned by non-Filipinos in whatever  
20 proportion may set up enterprises in the Ilocos Sur Ecozone, either by themselves or  
21 in joint venture with Filipinos in any sector of industry, international trade and  
22 commerce within the Ilocos Sur Ecozone.

23           (e) The areas comprising the Ilocos Sur Ecozone may be expanded or  
24 reduced when necessary. For this purpose, the ISSEZA, in consultation with the local  
25 government units, shall have the power to acquire either by purchase, negotiation or  
26 condemnation proceedings, any private land within or adjacent to the Ilocos Sur  
27 Ecozone for the following purposes: (1) consolidation of lands for Ilocos Sur  
28 Ecozone development; (2) acquisition of right of way to the Ilocos Sur Ecozone; and  
29 (3) the protection of watershed areas and natural assets valuable to the prosperity of  
30 the Ilocos Sur Ecozone.

31           (f) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be  
32 made available for immediate retail sale in the domestic market, subject to the  
33 payment of corresponding taxes on raw materials and other regulations that may be  
34 formulated by the ISSEZA, together with the PEZA, the Bureau of Customs and the  
35 DTI. However, in order to protect domestic industries, a Negative List of industries  
36 shall be drawn up and regularly updated by PEZA. Enterprises engaged in industries  
37 included in such Negative List shall not be allowed to sell their products locally.

1 (g) The national government shall maintain its ability to coordinate with  
2 the Ilocos Sur Ecozone and the local government units.

3 **Sec. 5. Incentives To Registered Enterprises.** – The Ilocos Sur Special  
4 Economic Zone Authority (ISSEZA) may administer the following incentives to the  
5 registered enterprises located therein to the extent of the activity/project:

6 (A) Income Tax Holiday (ITH) – Registered enterprises shall be entitled to  
7 an income tax holiday from the start of their commercial operations to the extent of  
8 their activity under the following categories:

9 Category A – Registered domestic enterprise located in highly developed  
10 areas, as determined by the Board of Investments (BOI), shall be entitled to a  
11 four-year income tax holiday.

12 Category B – Registered domestic enterprise on the following shall be entitled  
13 to a six-year income tax holiday:

14 (1) Located in less developed areas as defined by the BOI; or

15 (2) Producing/rendering new products/services or having strong  
16 backward or forward linkages

17 Category C – Registered export enterprise shall be entitled to a six- year  
18 income tax holiday: *Provided, however,* That if the export enterprise complies  
19 with the following: (1) large capital investments or sizeable employment  
20 generation, or (2) use high level of technology or (3) located outside Metro-  
21 Manila, it shall be entitled to an eight-year income tax holiday.

22 Registered enterprises embarking on new investments that are listed in the  
23 current Investment Priorities Plan (IPP) shall be entitled to incentives provided herein  
24 pertaining to the new investments and subject to such terms and conditions as the BOI  
25 may determine.

26 For this purpose, a registered enterprise shall be defined as any person, natural  
27 or juridical, licensed to do business in the Philippines and registered with the Ilocos  
28 Sur Special Economic Zone Authority (ISSEZA) to transact business within the  
29 Ilocos Sur Special Economic Zone. A registered export enterprise shall be defined as  
30 any registered enterprise engaged directly or indirectly in the production, manufacture  
31 or trade of products or services which earns at least seventy percent (70%) of its  
32 normal operating revenues from the sale of its products or services abroad for foreign  
33 currency. A registered domestic enterprise, meanwhile, shall be defined as any  
34 registered enterprise not falling under the definition of a registered export enterprise.

35 Additional investments in the project shall be entitled to the income tax  
36 holidays corresponding to such investments as may be determined by the BOI.  
37 Additional income tax holiday may be granted for as long as the investment is made  
38 on the same project: *Provided,* That the project is listed in the IPP at the same time the

1 additional investment in the project is made: *Provided, further,* That the entitlement  
2 period for additional investments shall not exceed three times the period provided  
3 under this subsection: *Provided, however,* That the total ITH period for an export  
4 enterprise availing of an eight year ITH shall not exceed twenty (20) years. Any  
5 unused incentives shall therefore be deemed forfeited if not used during the incentive  
6 period.

7 Enterprises registered with ISSEZA are required to share in the special  
8 development fund of the BOI for investment promotion projects of the government  
9 equivalent to one percent (1%) of the ITH granted for every application.

10 The Bureau of Internal Revenue (BIR) shall require a registered enterprise  
11 availing of ITH or Net Operating Loss Carryover (NOLCO) to secure a certificate of  
12 eligibility from the ISSEZA before submitting its income tax return (ITR) with  
13 ISSEZA for validation.

14 Failure to secure certification and/or to file the ITH or NOLCO availment for  
15 validation by the ISSEZA within forty-five (45) days from the last day of each  
16 statutory filing date for ITR shall cause the forfeiture of the availment for the taxable  
17 period.

18 (B) Net Operating Loss Carryover (NOLCO) – Net operating loss of the  
19 business or enterprise during the first three years from start of commercial operations  
20 which have not been previously offset as deduction from gross income shall be  
21 carried over as a deduction from gross income for the next five consecutive years  
22 immediately following the year of such loss: *Provided however,* That operating loss  
23 resulting from availment of incentives provided in this Act shall not be entitled to  
24 NOLCO.

25 Registered enterprises availing of the ITH as herein provided shall not be  
26 entitled to avail of the NOLCO.

27 (C) Imposition of a tax rate of five percent (5%) on Gross Income Earned  
28 (GIE) - Except for real property tax on land, no local and national taxes as prescribed  
29 under Republic Act No. 8424, also known as “The National Internal Revenue Code of  
30 1997, as Amended” such as income tax, excise tax, and franchise taxes, shall be  
31 imposed on registered enterprises operating within the Ilocos Sur Ecozone. In lieu  
32 thereof, five percent (5%) of the gross income earned shall be paid as follows:

33 (a) Three percent (3%) to the national government;

34 (b) Two percent (2%) shall be remitted by the business establishments to the  
35 treasurer’s office of the municipality or city where the enterprise is  
36 located;

1 All persons and service establishments in the Ilocos Sur Ecozone shall be  
2 subject to national and local taxes under the National Internal Revenue Code of 1997,  
3 as amended, and the Local Government Code.

4 D. Accelerated Depreciation – Accelerated depreciation of plant, machinery  
5 and equipment that are reasonably needed and actually used for the production and  
6 transport of goods and services may be allowed using a rate not exceeding twice the  
7 rate which would have been used had the annual allowance been computed in  
8 accordance with the rules and regulations prescribed by the Secretary of Finance and  
9 the provisions of the National Internal Revenue Code (NIRC) of 1997, as amended.

10 E. Capital Equipment Incentives - (1) Importations of capital equipment,  
11 spare parts, tools and dye, or those required for pollution abatement and control,  
12 cleaner production and waste reduction including consignment thereof by registered  
13 enterprises upon the effectivity of this law, shall be exempted to the extent of one  
14 hundred percent (100%) of the taxes and customs duties: *Provided*, That the imported  
15 items thereof shall be used exclusively by the registered enterprise in its registered  
16 activity. *Provided, further*, That the importation of machinery and equipment and  
17 accompanying parts shall comply with the following conditions:

18 i. They are not manufactured domestically in sufficient quantity, of  
19 comparable quality and at reasonable prices;

20 ii. They are reasonably needed and will be used exclusively by the  
21 registered enterprise in the manufacture of its products, unless prior approval  
22 of the ISSEZA is secured for the part time utilization of said equipment in a  
23 non-registered activity to maximize usage thereof or the proportionate taxes  
24 and duties are paid on a specific equipment and machinery being permanently  
25 used for non-registered activities; and

26 iii. Approval of the ISSEZA was obtained by the registered enterprise for  
27 the importation of such machinery, equipment and spare parts.

28 Approval of the ISSEZA must be secured before any sale, transfer or  
29 disposition of the imported capital equipment, machinery or spare parts is made:  
30 *Provided*, That if such sale, transfer or disposition is made within the first five years  
31 from date of importation, any of the following conditions must be present:

32 1) The same is made to another enterprise enjoying tax and duty  
33 exemption on imported capital equipment;

34 2) The same is made to another enterprise, upon the payment of any  
35 taxes and duties on the net book value of the capital equipment to  
36 be sold;



- 1           3)           The exportation of the capital equipment, machinery, spare parts or  
2                           source documents or those required for pollution abatement and  
3                           control; or  
4           4)           Proven technical obsolescence of the said equipment, machinery or  
5                           spare parts.

6           When the aforementioned sale, transfer or disposition is made under any of the  
7 conditions provided for in the foregoing paragraphs other than paragraph (2) herein,  
8 the registered firm shall not pay the taxes and duties waived on such items: *Provided,*  
9 *further,* That if the registered enterprises sell, transfer or dispose the aforementioned  
10 imported items without prior approval within five years from the date of importation,  
11 the registered enterprise and the vendee, transferee, or assignee shall be solidarily  
12 liable to pay twice the amount of the tax and duty exemption given it: *Provided,*  
13 *finally,* That even if the sale, transfer or disposition of the capital equipment,  
14 machinery or spare parts is approved after five years from date of importation, the  
15 registered enterprises are still liable to pay the taxes and duties based on the net book  
16 value of the capital equipment, machinery or spare parts if any of the registration  
17 terms and conditions has been violated. Otherwise, they shall no longer be subject to  
18 the payment of the taxes and duties waived thereon.

19           (2)       The purchase of machinery, capital equipment, raw materials, supplies,  
20 parts and semi-finished products to be used in the fabrication of machinery and capital  
21 equipment by a registered export-oriented enterprise from a domestic manufacturer  
22 shall be subject to zero percent (0%) value-added tax.

23           The registered export-oriented enterprise shall be granted a tax credit  
24 equivalent to the amount of duties that would have been waived on the machinery;  
25 capital equipment; raw materials, supplies, parts and semi-finished products used in  
26 the fabrication of machinery and capital equipment, had these items been imported,  
27 upon its submission to the DOF of the bill of materials evidencing the transaction  
28 value of such and other pertinent documents, for verification and proper endorsement.

29           The availment by a registered export enterprise of the incentive stated under  
30 the immediately preceding two paragraphs shall be subject to the following  
31 conditions: (a) That said capital equipment, machinery and spare parts will be used  
32 exclusively by the registered enterprise in its registered activity; (b) That the capital  
33 equipment or machinery where the raw materials, supplies, parts and semi-finished  
34 products were used would have qualified for tax and duty-free importation; and (c)  
35 That the approval of the ISSEZA is obtained by the registered enterprise. If the  
36 registered enterprise sells, transfers or disposes of these machineries, capital  
37 equipment and spare parts, the provision in the preceding paragraphs for such  
38 disposition shall apply.

1           This incentive shall be deemed waived if application for tax credit under this  
2 subsection was not filed within one year from date of delivery

3           F.     The importation of source documents by information technology-  
4 registered enterprises shall be eligible for tax and duty free importation.

5           G.     Raw Materials Incentives - Every registered export-oriented enterprise  
6 shall enjoy a tax credit equivalent to the internal revenue taxes and customs duties  
7 paid on the supplies, raw materials and semi-manufactured products provided the  
8 same are not sufficient in quantity, quality or are not competitively priced in the  
9 Philippines and which are used in the manufacture, processing or production of its  
10 export products forming part thereof, exported directly and indirectly by the registered  
11 export-oriented enterprise, based on the actual taxes and duties paid for such  
12 materials/supplies/semi-manufactured products by the registered enterprise.

13           This incentive shall be deemed waived if application for tax credit under this  
14 subsection was not filed within one year from date of exportation of the final product.

15           H. Incentives on Breeding Stocks and Genetic Materials. - Importation of  
16 breeding stocks and genetic materials within ten (10) years from the date of  
17 registration of commercial operation of the enterprise shall be exempt from all taxes  
18 and duties: *Provided*, That such breeding stocks and genetic materials are reasonably  
19 needed in the registered activity; and approved by the ISSEZA.

20           The availment of the incentives by the registered enterprise shall be subject to  
21 the following: (a) that said breeding stocks and genetic materials would have been  
22 qualified for tax and duty-free importation under the preceding paragraph; (b) that the  
23 breeding stocks and genetic materials are reasonably needed in the registered activity;  
24 (c) that approval of the ISSEZA has been obtained by the registered enterprise; and  
25 (d) that the purchase is made within ten (10) years from the date of registration of  
26 commercial operation of the registered enterprise.

27           This incentive shall be deemed waived if application for tax credit under this  
28 subsection is not filed within one year from date of delivery.

29           I. Exemption from Wharfage Dues. - The provisions of law to the contrary  
30 notwithstanding, exports by a registered enterprise shall be exempted from wharfage  
31 dues.

32           J. Deferred Imposition of the Minimum Corporate Income Tax. - The  
33 Minimum Corporate Income Tax (MCIT) of two percent (2%) of the gross income as  
34 of the end of the taxable year shall be imposed when the MCIT is greater than the  
35 income tax computed under the NIRC of 1997, as amended, for the taxable year:  
36 *Provided, however*, That said MCIT shall be imposed only after the enterprise's  
37 entitlement period to the income tax-based incentives has expired

38           K. Tax Treatment of Merchandise in the Ilocos Sur Ecozone. -

- 1 a. Domestic merchandise sent from the Ilocos Sur Ecozone to areas  
2 outside the said Ecozone shall, whether or not combined with or made  
3 part of other articles likewise of local origin or manufactured in the  
4 Philippines while in the export processing zone, be subject to internal  
5 revenue laws of the Philippines as domestic goods sold, transferred or  
6 disposed of for local consumption.
- 7 b. Merchandise sent from the Ilocos Sur Ecozone to areas outside the said  
8 Ecozone shall, whether or not combined with or made part of other  
9 articles while in the zone, be subject to rules and regulations governing  
10 imported merchandise. The duties and taxes shall be based on the  
11 value of said imported materials (except when the final product is  
12 exempt).
- 13 c. Articles produced or manufactured in the Ilocos Sur Ecozone and  
14 exported therefrom shall, on subsequent importation into the customs  
15 territory, be subject to the import laws applicable to like articles  
16 manufactured in a foreign country.
- 17 d. Unless the contrary is shown, merchandise taken out of the Ilocos Sur  
18 Ecozone shall be considered for tax purposes to have been sent to  
19 customs territory.

20 L. Tax Treatment of Raw Materials and Capital Equipment in the Ilocos  
21 Sur Ecozone. - Importations of raw materials and capital equipment shall be treated as  
22 in the Omnibus Investments Code. Registered export oriented enterprise shall have  
23 access to the utilization of the bonded warehousing system in accordance with the  
24 rules and regulations of the Bureau of Customs.

25 M. Employment of Foreign Nationals. - Subject to the provisions of  
26 Section 29 of Commonwealth Act No. 613, as amended, a registered enterprise may  
27 employ foreign nationals in supervisory or technical positions for a period not  
28 exceeding ten (10) years from its registration: *Provided*, That when the majority of  
29 the capital stock of a registered enterprise is owned by foreign investors, the positions  
30 of the president, treasurer and general manager or their equivalents may be retained  
31 by foreign nationals beyond the period set forth herein and such officer is the owner  
32 or a stockholder owning at least ten percent (10%) of the outstanding capital stock of  
33 the registered enterprise and he remains the owner or maintains his stockholdings  
34 therein.

35 Foreign nationals under employment contract within the purview of this  
36 incentive, their spouses and unmarried children under twenty-one (21) years of age,  
37 who are not excluded by Section 29 of Commonwealth Act No. 613, as amended,  
38 shall be permitted to enter and reside in the Philippines during the period of

1 employment of such foreign nationals. They shall be entitled to a multiple entry visa,  
2 valid for a period of three years, and shall be allowed to enter and leave the  
3 Philippines without further documentary requirements other than valid passports or  
4 other travel documents in the nature of passports. The validity of the multiple entry  
5 visa shall be extendible yearly.

6 The said foreign nationals admitted under this provision, as well as their  
7 respective spouses and dependents shall be exempt from: (a) obtaining alien  
8 certificate of registration and immigration clearance certificates; and (b) securing the  
9 Alien Employment Permit (AEP) and all types of clearances, permits, licenses or their  
10 equivalents required by any government department or agency.

11 **Sec. 6. Incentive to Investors.**— Any foreign national covered under  
12 Subsection (M) of Section 5 of this Act, who invests an amount of US \$ 150,000.00,  
13 either in cash and/or equipment, in a registered enterprise shall be entitled to an  
14 investor’s visa: *Provided, That,*

- 15 (1) He is at least eighteen (18) years of age;
- 16 (2) He has not been convicted of a crime involving moral turpitude;
- 17 (3) He is not afflicted with any loathsome, dangerous or contagious disease;
- 18 and
- 19 (4) He has not been institutionalized for any mental disorder or disability.

20 *Provided, further,* That in securing the investor’s visa, the alien-applicant shall be  
21 entitled to the same privileges provided for under paragraph (M), Section 5 hereof.

22 As a holder of investor’s visa, an alien shall be entitled to reside in the  
23 Philippines while his investment subsists. For this purpose, he should submit an  
24 annual report, in the form duly prescribed for the purpose, to prove that he has  
25 maintained his investment in the country. Should said alien withdraw his investments  
26 from the Philippines, then the investor’s visa issued to him shall automatically expire.

27 **Sec. 7. Administration, Implementation and Monitoring of Incentives.** -  
28 The ISSEZA shall be responsible for the administration and implementation of the  
29 incentives granted to its respective registered enterprises: *Provided, That* any  
30 incentive administration policy adopted by the BOI for registered enterprises shall be  
31 uniformly applied by ISSEZA.

32 The following are the duties and responsibilities of the ISSEZA in the  
33 administration of incentives:

- 34 (A) To adopt consistent procedures of administering incentives in  
35 accordance with the guidelines established by the BOI;
- 36 (B) To adopt and implement systems and procedures affecting trade and  
37 customs policies in accordance with the requirements established by the  
38 Department of Finance (DOF) and the BOI;

1 (C) To submit information on registered enterprises to the DOF and the BOI  
2 as required by any of these agencies to ascertain consistency of  
3 investment policies and incentives, including their implementation as  
4 provided in paragraph (a) herein, and to ensure proper implementation of  
5 systems and procedures affecting trade and customs policies as provided  
6 in paragraph (b) herein; and

7 (D) To perform all other duties and responsibilities as may be required by  
8 the President of the Philippines.

9 For proper monitoring, the BOI shall create a single database of all incentives  
10 provided by all incentives granting agencies, including ISSEZA, and all information  
11 thereto. Double entry accounting shall be done by the BOI in recording all incentives  
12 granted by the government for transparency purposes.

13 **Sec. 8. *Extension of Period of Availment.*** – The availment period of the  
14 incentives provided herein may be extended by ISSEZA, in the event that the  
15 registered enterprise suffers *operational force majeure* or any event equivalent thereto,  
16 impairing its viability, provided that the availment period shall not exceed the  
17 duration of the said *force majeure* or equivalent event.

18 **Sec. 9. *Duration of Incentives.*** – Enterprises registered with ISSEZA may  
19 enjoy ITH or NOLCO granted by the latter prior to the availment of the five percent  
20 (5%) GIE.

21 Fiscal incentives under this Act shall be terminated after a cumulative period  
22 of twenty (20) years from date of registration or start of commercial operation,  
23 whichever is applicable, except that it could be extended with regard to industries  
24 deemed indispensable to national development.

25 The industries exempted from this provision shall be recommended by BOI,  
26 with the concurrence of the Secretaries of the Department of Finance and Trade and  
27 Industry.

28 **Sec. 10. *Creation of the Ilocos Sur Special Economic Zone Authority.*** –  
29 There is hereby created a body corporate to be known as the Ilocos Sur Special  
30 Economic Zone Authority, hereinafter referred to as the ISSEZA, which shall manage  
31 and operate, in accordance with the provisions of this Act, the Ilocos Sur Special  
32 Economic Zone. This corporate franchise shall expire in fifty (50) years counted from  
33 the first day of the fifth (5<sup>th</sup>) calendar year after the effectivity of this Act, unless  
34 otherwise extended by Congress. It shall be organized within one hundred eighty  
35 (180) days after the effectivity of this Act.

36 **Sec. 11. *Principal Office of ISSEZA.*** – The Ilocos Sur Special Economic  
37 Zone Authority shall maintain its principal office in the Municipality of Cabugao,

1 Province of Ilocos Sur, but it may establish branches within the Philippines as may be  
2 necessary for the proper conduct of its business.

3 **SEC. 12. Powers and Functions of the Ilocos Sur Special Economic Zone**

4 **Authority.** – The Ilocos Sur Special Economic Zone Authority shall have the  
5 following powers and functions:

- 6 (a) To operate, administer, manage and develop the Ilocos Sur Ecozone  
7 according to the principles and provisions set forth in this Act;
- 8 (b) To register, regulate and supervise the enterprises in the Ilocos Sur  
9 Ecozone in an efficient and decentralized manner, subject to existing laws;
- 10 (c) To coordinate with local government units and exercise general  
11 supervision over the development plans, activities and operations of the  
12 Ilocos Sur Ecozone;
- 13 (d) To regulate and undertake the establishment, operation and maintenance  
14 of utilities, other services and infrastructure in the Ilocos Sur Ecozone  
15 such as but not limited to heat, light and power, water supply,  
16 telecommunications, transport, toll roads and bridges, port services, etc.  
17 and to fix just, reasonable and competitive rates, fares, charges and prices  
18 thereof;
- 19 (e) To construct, acquire, own, lease, operate and maintain on its own or  
20 through contracts, franchise, licenses, bulk purchase from the private  
21 sector or permits under any of the schemes allowed in Republic Act No.  
22 6957 (the Build-Operate-Transfer Law, as amended by RA 7718), or joint  
23 venture, adequate facilities and infrastructure required or needed for the  
24 operation and development of the Ilocos Sur Ecozone, in coordination  
25 with appropriate national and local government authorities and in  
26 conformity with applicable laws thereon;
- 27 (f) To operate on its own, either directly or through a license to other  
28 tourism-related activities, including games, amusements, recreational and  
29 sports facilities;
- 30 (g) Subject to the approval of the President and the Monetary Board of the  
31 Bangko Sentral ng Pilipinas upon the recommendation of the Department  
32 of Finance, to raise or borrow adequate and necessary funds from local or  
33 foreign sources to finance its projects and programs under this Act, and  
34 for that purpose to issue bonds, promissory notes, and other forms of  
35 securities, and to secure the same by a guarantee, pledge, mortgage, deed  
36 of trust, or an assignment of all or part of its property or assets;

- 1 (h) To protect, preserve, maintain and develop the virgin forests, beaches,  
2 coral and coral reefs and maintain ecological balance within the Ilocos Sur  
3 Ecozone;
- 4 (i) To create, operate and/or contract to operate such functional units of  
5 offices of the ISSEZA as it may deem necessary;
- 6 (j) To adopt, alter and use a corporate seal; make contracts, leases, own, or  
7 otherwise dispose of personal or real property; sue and be sued; and  
8 otherwise carry out its functions and duties as provided for in this Act;
- 9 (k) To issue certificates of origin for products manufactured or processed in  
10 the Ilocos Sur Ecozone in accordance with prevailing rules of origin, and  
11 the pertinent regulations of the PEZA, DTI and/or the Department of  
12 Finance (DOF);
- 13 (l) To issue working visas renewable every two (2) years to foreign  
14 executives and foreign technicians with highly specialized skills which no  
15 Filipinos possesses, as certified by the Department of Labor and  
16 Employment;
- 17 (m) To report to the Bureau of Immigration the names of the foreigners who  
18 have been granted permanent resident status and working visas within  
19 thirty (30) days after issuance of such grant;
- 20 (n) To exercise such powers as maybe essential, necessary or incidental to the  
21 powers granted to it hereunder as well as those that shall enable it to carry  
22 out, implement and accomplish the purposes, objectives and policies of  
23 this Act; and
- 24 (o) To issue rules and regulations consistent with the provisions of this Act as  
25 maybe necessary to accomplish and implement the purposes, objectives  
26 and policies provided herein.

27 **Sec. 13. *Banking Rules and Regulations.***— Existing laws and rules/regulations  
28 of the *Bangko Sentral ng Pilipinas* (BSP) shall apply to banks and financial  
29 institutions to be established in the Ilocos Sur Ecozone, such as those governing  
30 foreign exchange and other concurrent account transactions (trade and non-trade),  
31 local and foreign borrowings, foreign investments, establishment and operation of  
32 local and foreign banks, foreign currency deposit units, offshore banking units and  
33 other financial institutions under the supervision of the BSP.

34 **Sec. 14. *Remittance of Earnings.***— In the case of foreign investments, a  
35 registered enterprise in the ISSEZA shall have the right to remit earnings from the  
36 investment in the currency in which the investment was originally made and at the  
37 exchange rate prevailing at the time of remittance, subject to the provisions of Section  
38 74 of Republic Act No. 265, as amended.

1           **Sec. 15. Board of Directors of the Ilocos Sur Special Economic Zone**

2 **Authority.**— The powers of the Ilocos Sur Special Economic Zone Authority shall be  
3 vested in and exercised by a Board of Directors, hereinafter referred to as the Board,  
4 which shall be composed of the following:

- 5           a) The Chairman who shall, at the same time be the administrator of the  
6           ISSEZA;
- 7           b) A Vice-Chairman who shall come from among the members of the Board;
- 8           c) Members consisting of:
- 9                   (1) The Governor of the Province of Ilocos Sur;
- 10                   (2) The Congressional Representative of the district covering the site  
11                   of the Ilocos Sur Ecozone;
- 12                   (3) The mayors of the Municipalities of Cabugao and San Juan,  
13                   Province of Ilocos Sur;
- 14                   (4) One (1) representative from the domestic investors;
- 15                   (5) One (1) representative from the foreign investors; and
- 16                   (6) Two (2) representatives from the workers working in Ilocos Sur  
17                   Ecozone.

18           The Governor, the Congressional representative and the mayors of the  
19 Municipalities of Cabugao and San Juan, Province of Ilocos Sur shall serve as *ex-*  
20 *officio* members of the Board, whose term in the Board corresponds to their term as  
21 elected officials.

22           The Chairman and the members of the Board, except the *ex-officio* members,  
23 shall be appointed by the President of the Philippines to serve for a term of six (6)  
24 years, unless sooner separated from service due to death, voluntary resignation, or  
25 removal for cause. In case of death, resignation or removal for cause, the replacement  
26 shall serve only the unexpired portion of the term.

27           Except for the representatives of the business and labor sectors, no person  
28 shall be appointed by the President of the Philippines as a member of the Board unless  
29 he is a Filipino citizen, of good moral character, of proven probity and integrity, and a  
30 degree-holder in any of the following fields: economics, business, public  
31 administration, law, management or their equivalent, and with at least ten (10) years  
32 relevant working experience preferably in the field of management or public  
33 administration.

34           The Members of the Board shall each receive per diem at rate to be  
35 determined by the Department of Budget and Management in accordance with  
36 existing rules and regulations: *Provided, however,* That the total per diem collected  
37 each month shall not exceed the equivalent *per diem* for four (4) meetings. Unless  
38 and until the President of the Philippines has fixed a higher per diem for the members



1 of the board, such per diem shall not be more than ten thousand pesos (P10,000.00)  
2 for every Board meeting.

3 **Sec. 16. Powers and Duties of the Chairman-Administrator.**— The Chairman-  
4 Administrator shall have the following powers and duties:

- 5 a) To direct and manage the affairs of the ISSEZA in accordance with  
6 the policies of the Board;
- 7 b) To establish the internal organization of the ISSEZA under such  
8 conditions that the Board may prescribe;
- 9 c) To submit an annual budget and necessary supplemental budget to  
10 the Board for its approval;
- 11 d) To submit within thirty (30) days after the close of each fiscal year  
12 an annual report to the Board and such other reports as may be  
13 required;
- 14 e) To submit to the Board for its approval policies, systems,  
15 procedures, rules and regulations that are essential to the operation  
16 of the Ilocos Sur Ecozone;
- 17 f) To create a mechanism in coordination with relevant agencies for  
18 the promotion of industrial peace, the protection of the environment,  
19 and the advancement of the quality of life in the Ilocos Sur Ecozone;  
20 and
- 21 g) To perform such other duties as may be assigned to him by the  
22 Board or which are necessary or incidental to his office.

23 **Sec. 17. Organization and Personnel.** – The Board of Directors of the  
24 ISSEZA shall provide for an organization and staff of its officers and employees.  
25 Upon recommendation of the Chairman-Administrator, the Board shall appoint and  
26 fix the remuneration and other emoluments of its officers and employees in  
27 accordance with existing laws on compensation and position classification: *Provided,*  
28 That the Board shall have exclusive and final authority to promote, transfer, assign or  
29 reassign officers of the ISSEZA, any provision of existing law to the contrary  
30 notwithstanding: *Provided, further,* That the Chairman-Administrator may carry out  
31 removal of such officers and employees.

32 The officers and employees of the ISSEZA, including all Members of the  
33 Board, shall not engage directly or indirectly in partisan activities nor take part in any  
34 election, except to vote.

35 No officer or employee of the ISSEZA, subject to Civil Service laws and  
36 regulations, shall be removed or suspended except for cause, as provided by law.

37 **Sec. 18. Ipso Facto Clause.** – Sections 30-41 of Republic Act 7916, shall  
38 *ipso facto* apply to the Ilocos Sur Special Economic Zone.

1           **Sec. 19. Capitalization.**— The Ilocos Sur Special Economic Zone Authority  
2 shall have an authorized capital stock of One Billion (1,000,000,000) no par shares  
3 with a minimum issue of Ten Pesos (P10.00) each, the majority shares of which shall  
4 be subscribed and paid for by the National Government and the Local Government  
5 Units (LGUs) embracing the Ilocos Sur Special Economic Zone. The Board of  
6 Directors of the ISSEZA may, with the written concurrence of the Secretary of  
7 Finance, sell shares, representing not more than forty per centum (40%) of the capital  
8 stock of the ISSEZA to the general public under such policy as the Board and the  
9 Secretary of Finance may determine. The National Government and the LGUs shall in  
10 no case own less than sixty per centum (60%) of the total issued and outstanding  
11 capital of the Ilocos Sur Special Economic Zone Authority.

12           The amount necessary to subscribe and pay for the shares of the National  
13 Government to the capital stock of the ISSEZA shall be included in the Annual  
14 General Appropriations Act. For LGUs, the funds shall be taken from their internal  
15 revenue allotment and other local funds

16           **Sec. 20. Supervision.** – The Ilocos Sur Special Economic Zone shall be under  
17 the direct control and supervision of the Philippine Economic Zone Authority (PEZA)  
18 for purposes of policy direction and coordination

19           **Sec. 21. Relationship with the Regional Development Council.** – The Ilocos  
20 Sur Special Economic Zone Authority shall determine the development goals for the  
21 Ilocos Sur Ecozone within the framework of national development plans, policies and  
22 goals. The Administrator shall, upon approval by the Board, submit the Ilocos Sur  
23 Ecozone plans, programs and projects to the Regional Development Council for  
24 inclusion and inputs to the overall regional development plan.

25           **Sec. 22. Relationship with Local Government Units.** – Except as herein  
26 provided, the local government units comprising the Ilocos Sur Special Economic  
27 Zone shall retain their basic autonomy and identity. The barangays of Dardarat, Pila,  
28 Sagayaden, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod  
29 and Baclig in the Municipality of Cabugao; and the barangays of Dardarat, Solotsolot,  
30 Surngit and Refaro in the Municipality of San Juan shall operate and function in  
31 accordance with the Local Government Code of 1991. In case of any conflict between  
32 the ISSEZA and the Province of Ilocos Sur on matters affecting the Ilocos Sur  
33 Ecozone other than defense and security matters, the decision of the ISSEZA shall  
34 prevail.

35           **Sec. 23. Interpretation/Construction.** – The powers, authorities and functions  
36 that are vested in the ISSEZA are intended to decentralize governmental functions and  
37 authority and promote an efficient and effective working relationship between the  
38 Ilocos Sur Ecozone, the NG, and the local government units.

1           **Sec. 24. *Auditing.*** – The Commission on Audit shall appoint a representative  
2 who shall be a full time auditor of the ISSEZA and assign such number of personnel  
3 as may be necessary to assist said representative in the performance of his/her duties.  
4 The salaries and emoluments on the assigned auditor and personnel shall be in  
5 accordance with pertinent laws, rules and regulations.

6           **Sec. 25. *Separability Clause.*** – If any provisions of this Act shall be held  
7 unconstitutional or invalid, the other provisions not otherwise affected shall remain in  
8 full force and effect.

9           **Sec. 26. *Repealing Clause.***— All laws, executive orders and issuances, or  
10 any parts thereof, which are inconsistent herewith are hereby repealed or amended  
11 accordingly.

12           **Sec. 27. *Effectivity Clause.*** – This Act shall take effect upon its publication in  
13 at least one (1) newspaper of general circulation.

Approved,