


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

SECRETARY

7 JUL 1982

SENATE

RECEIVED BY: 

S. No. 1982

Introduced by Senator JUAN MIGUEL F. ZUBIRI

EXPLANATORY NOTE

This Bill seeks to establish the Special Economic Zone and Freeport in the Municipalities of San Juan and Cabugao, all in the Province of Ilocos Sur.

The Municipalities of San Juan and Cabugao have in the past years, attracted businesses and investors in the region, and have the potential to become the province's economic hub. Strategically located and endowed with natural resources, the area is accessible to local and international market and to modern air and sea transport facilities. More importantly, the labor force in the area is composed of highly skilled, efficient workers desirous of opportunities to fully maximize their talent and expertise. Considering these factors, the Municipalities of San Juan and Cabugao are an ideal location to put up a decentralized and self-reliant industrial, commercial, trading and financial investment center and Freeport.


As envisioned, the Salomague Freeport shall be operated as a separate customs territory that will basically provide incentives to ensure the free flow and movement of goods and commodities within the Freeport area and their exportation therefrom. Likewise, it shall provide tax-based incentives for business activities and concerns locating and operating within the Freeport premises, not to mention other non-tax benefits like liberal exchange policies and the grant of permanent resident status to investors.

This economic zone will definitely be a big help to the government's efforts to reduce poverty and depravity by creating more jobs and promoting development. Establishing a Special Economic Zone and Freeport Authority in the area will undoubtedly incite more economic activity and spur fiscal autonomy for the province of Ilocos Sur. It cannot be denied after all, that in the world of market investment and the community of investors, a country must really look beyond the traditional way of doing things, that it must innovate to invent opportunities where and by it can give the investors the maximum value for their investments.

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


JUAN MIGUEL F. ZUBIRI

SENATE

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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

*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 and Freeport Act of 2007”.

3 **SEC. 2. Declaration of Policy.** – It is hereby declared the policy of the
4 State 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 the rural areas, increase productivity and individual and
7 family income, and thereby improve the level and quality of living conditions through the
8 establishment, among others, of special economic zones and freeports in suitable and
9 strategic locations in the country and through measures that will attract legitimate and
10 productive foreign investments.

11 **SEC. 3. Creation of the Ilocos Sur Special Economic Zone and**
12 **Freeport.** – In pursuit of the foregoing declared policy and subject to the concurrence of
13 the concerned local government units (LGUs) of Ilocos Sur affected by the zone, there
14 is hereby established a special economic zone and freeport in the Province of Ilocos
15 Sur to be known as the Ilocos Sur Special Economic Zone and Freeport, hereinafter
16 referred to as the Ilocos Sur ECOZONE. The Ilocos Sur ECOZONE shall cover the
17 entire Salomague Cove and the area embraced by the barangays of Dardarat,
18 Solotsolot, Surngit and Refaro in the Municipality of San Juan as well as Dardarat, Pila,
19 Sagayaden, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod
20 and Baclig in the Municipality of Cabugao. The specific metes and bounds of the Ilocos

1 Sur Ecozone shall be more particularly defined in a presidential proclamation that shall
2 be issued for this purpose.

3 **SEC. 4. Governing Principles.** – The Ilocos Sur ECOZONE shall be
4 managed and operated by the Ilocos Sur Special Economic Zone and Freeport
5 Authority, hereinafter referred to as the ISSEZFA, created under Section 10 of this Act,
6 under the following principles:

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

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

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

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

25 (e) The Ilocos Sur ECOZONE shall be managed and operated as a separate
26 customs territory, thereby ensuring the free flow or movement of goods and capital
27 within, into and out of the Ilocos Sur ECOZONE and shall likewise provide incentives
28 such as tax and duty-free importations of raw materials and capital equipment to
29 registered enterprises located therein. However, exportation or removal of goods from
30 the territory of the Ilocos Sur ECOZONE to the other parts of the Philippine territory
31 shall be subject to customs duties and taxes under the Tariff and Customs Code of the
32 Philippines, as amended, and the National Internal Revenue Code (NIRC) of 1997, as
33 amended;

34 (f) The areas comprising the Ilocos Sur ECOZONE may be expanded or
35 reduced when necessary. For this purpose, the ISSEZFA, in consultation with the
36 LGUs, shall have the power to acquire either by purchase, negotiation or condemnation
37 proceedings, any private land within or adjacent to the Ilocos Sur ECOZONE for the
38 following purposes: (1) consolidation of lands for Ilocos Sur Ecozone development; (2)

1 acquisition of right-of-way to the Ilocos Sur ECOZONE; and (3) the protection of
2 watershed areas and natural assets valuable to the prosperity of the Ilocos Sur
3 ECOZONE.

4 (g) Goods manufactured by an Ilocos Sur ECOZONE enterprise shall be made
5 available for immediate retail sale in the domestic market, subject to the payment of
6 corresponding taxes on raw materials and other regulations that may be formulated by
7 the ISSEZFA, together with the PEZA, the Bureau of Customs (BoC) and the DTI in
8 accordance with the NIRC of 1997, as amended, and the Tariff and Customs Code of
9 the Philippines, as amended. However, in order to protect domestic industries, a
10 Negative List of industries shall be drawn up and regularly updated by the PEZA.
11 Enterprises engaged in industries included in such Negative List shall not be allowed to
12 sell their products locally, and

13 (h) The defense of the Ilocos Sur ECOZONE and the security of its perimeter
14 fence shall be the responsibility of the national government (NG) in coordination with the
15 Ilocos Sur ECOZONE and the LGUs. For this purpose, a special defense team shall be
16 organized to define its power, duties and responsibilities.

17 **SEC. 5. Incentives to Registered Enterprises.** – The ISSEZFA shall
18 provide the following incentives to the registered enterprises located therein to the
19 extent of the activity/project:

20 (a) *Income Tax Holiday (ITH)* – Registered enterprises shall be entitled to an
21 income tax holiday from the start of their commercial operations to the extent of their
22 activity under the following categories:

23 (1) Category A – Registered domestic enterprises located in highly developed
24 areas, as determined by the Board of Investments (BOI), shall be entitled to
25 a four-year income tax holiday.

26 (2) Category B – Registered domestic enterprises on the following shall be
27 entitled to a six-year income tax holiday:

28 (i) Located in less developed areas as defined by the BOI; or

29 (ii) Producing/rendering new products/services or having strong backward
30 or forward linkages.

31 (3) Category C – Registered export enterprises shall be entitled to a six-year
32 income tax holiday: *Provided, finally,* That if the export enterprise complies
33 with the following:

34 (i) Large capital investments or sizeable employment generation; or

35 (ii) Use high level of technology; or

36 (iii) Located outside Metro Manila, it shall be entitled to an eight-year ITH.

37 Registered enterprises embarking on new investments that are listed in the
38 current Investment Priorities Plan (IPP) shall be entitled to incentives provided herein

1 pertaining to the new investments and subject to such terms and conditions as the BOI
2 may determine.

3 Additional investments in the project shall be entitled to the ITH corresponding
4 to such investments as may be determined by the BOI. Additional ITH may be granted
5 for as long as the investment is made on the same project: *Provided*, That the project is
6 listed in the IPP at the same time the additional investment in the project is made:
7 *Provided, further*, That the entitlement period for additional investments shall not exceed
8 three times the period provided under this subsection: *Provided, however*, That the total
9 ITH period for an export enterprise availing of an eight-year ITH shall not exceed twenty
10 (20) years. Any unused incentives shall therefore be deemed forfeited if not used
11 during the incentive period.

12 Enterprises registered with the ISSEZFA are required to share in the special
13 development fund of the BOI for investment promotion projects of the government
14 equivalent to one percent (1%) of the ITH granted for every application.

15 The Bureau of Internal Revenue (BIR) shall require a registered enterprise
16 availing of the ITH or the net operating loss carryover (NOLCO) to secure a certificate of
17 eligibility from the ISSEZFA before submitting its income tax return (ITR) with the
18 ISSEZFA for validation.

19 Failure to secure certification and/or to file the ITH or the NOLCO availment for
20 validation by the ISSEZFA within forty-five (45) days from the last day of statutory filing
21 date for ITR shall cause the forfeiture of the availment for the taxable period.

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

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

31 (c) *Imposition of a Tax Rate of Five Percent (5%) on Gross Income Earned*
32 *(GIE)* – Except for real property tax on land, no local and national taxes, as prescribed
33 under Republic Act No. 8424, also known as “the National Internal Revenue Code of
34 1997, As Amended”, such as the income tax, the excise tax and the franchise taxes
35 shall be imposed on business establishments operating within the Ilocos Sur
36 ECOZONE. In lieu thereof, five percent (5%) of the gross income earned by all the
37 business enterprises with the ISSEZFA and remitted as follows:

38 (1) *Two per centum (2%)* to the National Government;

1 (2) Two *per centum* (2%) to the province of Ilocos Sur;

2 (3) One-half *per centum* (½%) to be shared by the municipalities affected by the
3 declaration of the ISSEZFA in proportion to their income from business
4 activities of the zone; and

5 (4) One-half *per centum* (½%) to the ISSEZFA

6 All persons and service establishments in the Ilocos Sur ECOZONE that are
7 not covered by Section 5 hereof shall be subject to national and local taxes under the
8 NIRC of 1997, as amended, and the Local Government Code.

9 (d) *Accelerated Depreciation* – Accelerated depreciation of plant, machinery
10 and equipment that are reasonably needed and actually used for the production and
11 transport of goods and services may be allowed using a rate not exceeding twice the
12 rate which would have been used had the annual allowance been computed in
13 accordance with the rules and regulations prescribed by the Secretary of Finance and
14 the provisions of the NIRC of 1997, as amended.

15 (e) *Capital Equipment Incentives* – (1) Importations of capital equipment, spare
16 parts, tools and dye, or those required for pollution abatement and control, cleaner
17 production and waste reduction including consignment thereof by registered enterprises
18 upon the effectivity of this law shall be exempted to the extent of one hundred percent
19 (100%) of the taxes and customs duties: *Provided*, That the importation thereof shall be
20 used exclusively by the registered enterprise in its registered activity within the Ilocos
21 Sur ECOZONE. *Provided, further*, That the importation of machinery and equipment
22 and accompanying parts shall comply with the following conditions:

23 (1) These are not manufactured domestically in sufficient quantity, of
24 comparable quality and at reasonable prices;

25 (2) These are reasonably needed and will be used exclusively by the
26 registered enterprise in the manufacture of its products, unless prior
27 approval of the ISSEZFA is secured for the part-time utilization of said
28 equipment in a non-registered activity to maximize usage thereof or the
29 proportionate taxes and duties are paid on a specific equipment and
30 machinery being permanently used for non-registered activities; and

31 (3) Approval of the ISSEZFA was obtained by the registered enterprise for the
32 importation of such machinery, equipment and spare parts.

33 Approval of the ISSEZFA must be secured before any sale, transfer or
34 disposition of the imported capital equipment, machinery or spare parts is made:
35 *Provided*, That if such sale, transfer or disposition is made within the first five years from
36 the date of importation, any of the following conditions must be present:

37 (i) If made to another enterprise enjoying tax and duty exemption on imported
38 capital equipment;

- 1 (ii) If made to another enterprise not covered by part (i), upon payment of the
2 taxes and duties on the net book value of the capital equipment to be sold;
3 (iii) Exportation of the capital equipment, machinery, spare parts or source
4 documents or those required for pollution abatement and control; and
5 (iv) For reasons of proven technical obsolescence

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 (ii), the
8 registered firm shall not pay the taxes and duties waived on such items: *Provided,*
9 *further,* That if the registered enterprise sells, transfers or disposes the aforementioned
10 imported items without prior approval within five years from the date of importation, the
11 registered enterprise and the vendee, transferee or assignee shall be solidarily liable to
12 pay twice the amount of the tax and duty exemption given it: *Provided, finally,* That
13 even if the sale, transfer or disposition of the capital equipment, machinery or spare
14 parts is approved after five years from the date of importation, the registered enterprise
15 is still liable to pay the taxes and duties based on the net book value of the capital
16 equipment, machinery or spare parts if it has violated any of its registration terms and
17 conditions. Otherwise, it shall no longer be subject to the payment of the taxes and
18 duties waived thereon.

19 The purchase of machinery and capital equipment and raw materials, supplies,
20 parts and semi-finished products 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, and raw materials, supplies, parts and semi-finished products used
26 in the fabrication of machinery and capital equipment, had these items been imported,
27 upon its submission to the Department of Finance (DOF) of the bill of materials
28 evidencing the transaction value of such and other pertinent documents, for verification
29 and proper endorsement.

30 The registered export enterprise availing of the incentive provided under the
31 immediately preceding two paragraphs shall be subject to the following: (i) that said
32 capital equipment, machinery and spare parts will be used exclusively by the registered
33 enterprise in its registered activity; (ii) that the capital equipment or machinery where the
34 raw materials, supplies, parts and semi-finished products were used would have
35 qualified for tax and duty-free importation; and (iii) that the approval of the ISSEZFA is
36 obtained by the registered enterprise. If the registered enterprise sells, transfers or
37 disposes of these machineries, capital equipment and spare parts, the provision in the
38 preceding paragraphs for such 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 the date of delivery.

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

5 (g) *Raw Material Incentives* – Every registered export-oriented enterprise shall
6 enjoy a tax credit equivalent to the internal revenue taxes and customs duties paid on
7 the supplies, raw materials and semi-manufactured products: *Provided*, That the same
8 are not sufficient in quantity, quality or are not competitively priced which are used in the
9 manufacture, processing or production of its export products forming part thereof,
10 exported directly and indirectly by the registered export-oriented enterprise based on
11 the actual taxes and duties paid for such materials/supplies/semi-manufactured
12 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 the 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 registration
17 of commercial operation of the enterprise shall be exempt from all taxes and duties:
18 *Provided*, That such breeding stocks and genetic materials are reasonably needed in
19 the registered activity and approved by the ISSEZFA.

20 The availment of the incentives by a registered enterprise shall be subject to
21 the following: (i) that said breeding stocks and genetic materials would have been
22 qualified for tax- and duty-free importation under the preceding paragraph; (ii) that the
23 breeding stocks and genetic materials are reasonably needed in the registered activity;
24 (iii) that approval of the ISSEZFA has been obtained by the registered enterprise; and
25 (iv) 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 the 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 minimum
33 corporate income tax (MCIT) of two percent (2%) of the gross income as of the end of
34 the taxable year shall be imposed when the MCIT is greater than the income tax
35 computed under the NIRC of 1997, as amended, for the taxable year: *Provided*,
36 however, That said MCIT shall be imposed only after the enterprise's entitlement period
37 to the income tax-based incentives.

38 (k) (1) *Tax Treatment of Merchandise in the Ilocos Sur ECOZONE* –

- 1 (i) Except as otherwise provided in this Act, foreign and domestic
2 merchandise, raw materials, supplies, articles, equipment,
3 machineries, spare parts and wares of every description, except those
4 prohibited by law, brought into the zone to be sold, stored, broken up,
5 repacked, assembled, installed, sorted, cleaned, graded or otherwise
6 processed, manufactured, mixed with foreign or domestic
7 merchandise, whether directly or indirectly related in such activity, shall
8 not be subject to customs and internal revenue laws and regulations
9 nor to local tax ordinances, any provision of law to the contrary
10 notwithstanding;
- 11 (ii) Merchandise purchased by a registered Ilocos Sur ECOZONE
12 enterprise, from the customs territory and subsequently brought into
13 the export processing zone, shall be considered as export sales and
14 exportation thereof shall be entitled to the benefits allowed by law for
15 such transaction;
- 16 (iii) Domestic merchandise sent from the Ilocos Sur ECOZONE to the
17 customs territory shall, whether or not combined with or made part of
18 other articles likewise of local origin or manufactured in the Philippines
19 while in the export processing zone, be subject to internal revenue
20 laws of the Philippines as domestic goods sold, transferred or disposed
21 of for local consumption;
- 22 (iv) Merchandise sent from the Ilocos Sur ECOZONE to the customs
23 territory shall, whether or not combined with or made part of other
24 articles while in the zone, be subject to rules and regulations governing
25 imported merchandise. The duties and taxes shall be based on the
26 value of said imported materials (except when the final product is
27 exempt);
- 28 (v) Domestic merchandise on which all internal revenue taxes have been
29 paid, if subject thereto, and foreign merchandise previously imported
30 on which has been paid, or which have been admitted free of duty and
31 tax, may be taken into the Ilocos Sur ECOZONE from the customs
32 territory of the Philippines and be brought back thereto free of quotas,
33 duty or tax;
- 34 (vi) Subject to such regulations respecting identity and safeguarding of
35 revenue as the ISSEZFA may deem necessary, when the identity of an
36 article entered into the export processing zone under the immediately
37 preceding paragraph has been lost, such article when removed from
38 the zone and taken to the customs territory shall be treated as foreign

1 merchandise entering the country for the first time, under the
2 provisions of the Tariff and Customs Code of the Philippines, as
3 amended;

4 (vii) Articles produced or manufactured in the Ilocos Sur ECOZONE and
5 exported therefrom shall, on subsequent importation into the customs
6 territory, be subject to the import laws applicable to like articles
7 manufactured in a foreign country;

8 (viii) Unless the contrary is shown, merchandise taken out of the export
9 processing zone shall be considered for tax purposes to have been
10 sent to customs territory.

11 (2) *Tax Treatment of Merchandise in the Ilocos Sur ECOZONE* – The free
12 trade/freeport zone shall be operated and managed as a separate customs territory
13 ensuring free flow or movement of goods within, into and exported out of the free
14 trade/freeport zone. Importations of raw materials and capital equipment are tax- and
15 duty-free. However, exportations or removal of goods from the free trade/freeport
16 zones to the other parts of the Philippine territory shall be subject to customs and
17 internal revenue regulations.

18 (3) *Tax Treatment of Services in the Ilocos Sur ECOZONE* –

19 (i) Sale of service by an entity from the customs territory to a registered
20 ecozone or free trade enterprise, or by a registered ecozone or
21 freeport enterprise to another ecozone or freeport enterprise shall be
22 treated as indirect export and hence, entitled to the benefits allowed by
23 law for such transaction; and

24 (ii) Sale or service by a registered ecozone or freeport enterprise to the
25 customs territory shall be subject to applicable internal revenue laws
26 and regulations.

27 (l) Registered export-oriented enterprise shall have access to the utilization of
28 the bonded warehousing system in accordance with the rules and regulations of the
29 BoC.

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

1 Foreign nationals under employment contract within the purview of this
2 incentive, their spouses and unmarried children under twenty-one (21) years of age,
3 who are not excluded by Section 29 of Commonwealth Act No. 613, as amended, shall
4 be permitted to enter and reside in the Philippines during the period of employment of
5 such foreign nationals. They shall be issued a multiple-entry visa, valid for a period of
6 three years, and shall be allowed to enter and leave the Philippines without further
7 documentary requirements other than valid passports or other travel documents in the
8 nature of passports. The validity of the multiple-entry visa shall be extendible yearly.

9 The foreign nationals admitted herein, as well as their respective spouses and
10 dependents, shall be exempt from: (i) obtaining alien certificate of registration and
11 emigration clearance certificates; and (ii) securing the alien employment permit (AEP)
12 and all types of clearances, permits, licenses or their equivalents required by any
13 government department or agency.

14 **SEC. 6. Incentive to Investors.** – Any foreign national covered under
15 subsection (m) of Section 5 of this Act, who invests an amount of One Hundred Fifty
16 Thousand US Dollars (US\$150,000.00), either in cash and/or equipment, in a registered
17 enterprise shall be entitled to an investor's visa: *Provided, That,*

18 (a) He is at least eighteen (18) years of age;

19 (b) He has not been convicted of a crime involving moral turpitude;

20 (c) He is not afflicted with any loathsome, dangerous or contagious disease;

21 and

22 (d) He has not been institutionalized for any mental disorder or disability:

23 *Provided, further,* That in securing the investor's visa, the alien-applicant shall
24 be entitled to the same privileges provided for under Section 5(M), last paragraph.

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

30 **SEC. 7. Administration, Implementation and Monitoring of Incentives.**

31 The ISSEZFA shall be responsible for the administration and implementation of the
32 incentives granted to its respective registered enterprises: *Provided, That* any incentive
33 administration policy adopted by the BOI for incentives common to all registered
34 enterprises shall be uniformly applied by the ISSEZFA.

35 The following are the duties and responsibilities of the ISSEZFA in the
36 administration of incentives:

37 (a) Adopt consistent procedures of administering incentives in accordance with
38 the guidelines established by the BOI and to amend the same when necessary;

1 (b) Adopt and implement systems and procedures affecting trade and customs
2 policies in accordance with the requirements established by the DOF and the BOI and
3 to amend the same when necessary;

4 (c) Submit data and information to the DOF and the BOI as required by any of
5 these agencies to ascertain consistency of investment policies and incentives, including
6 their implementation as provided in (a) and to ensure proper implementation of systems
7 and procedures affecting trade and customs policies as provided in (b); and

8 (d) Perform all other duties and responsibilities as may be required by the
9 President.

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

14 **SEC. 8. Extension of Period of Availment.** – The availment period of the
15 incentives provided herein may be extended by the ISSEZFA in the event that the
16 registered enterprise suffers operational *force majeure* or any event equivalent thereto,
17 impairing its viability.

18 **SEC. 9. Duration of Incentives.** – Enterprises registered with the ISSEZFA
19 may 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 of
22 twenty (20) years from the date of registration or the start of commercial operation,
23 whichever is applicable, except that it could be extended with regard to industries
24 deemed indispensable to national development as determined by ISSEZFA.

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

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

36 **SEC. 11. Principal Office of the ISSEZFA.** – The ISSEZFA shall maintain
37 its principal office in the Municipality of Cabugao, Province of Ilocos Sur, but it may

1 establish branches within the Philippines as may be necessary for the proper conduct of
2 its business.

3 **SEC. 12. Powers and Functions of the ISSEZFA.** – The ISSEZFA shall
4 have the following functions:

5 (a) Operate, administer, manage and develop the Ilocos Sur ECOZONE
6 according to the principles and provisions set forth in this Act;

7 (b) Recommend to the President the issuance of a proclamation to fix and
8 delimit the site of the Ilocos Sur ECOZONE;

9 (c) Register, regulate and supervise the enterprises in the Ilocos Sur
10 ECOZONE in an efficient and decentralized manner, subject to existing laws;

11 (d) Coordinate with LGUs and exercise general supervision over the
12 development plans, activities and operations of the Ilocos Sur ECOZONE;

13 (e) Authorize or undertake, on its own or through others, and regulate the
14 establishment, operation and maintenance of public utilities, services, and infrastructure in
15 the Ilocos Sur Zone such as shipping, barging, stevedoring, cargo handling, hauling,
16 warehousing, storage of cargo, port services or concessions, piers, wharves, bulkheads,
17 bulk terminals, mooring areas, storage areas, roads, bridges, terminals, conveyors, water
18 supply and storage, sewerage, drainage, airport operations in coordination with the Civil
19 Aeronautics Board, and such other services or concessions or infrastructure necessary or
20 incidental to the accomplishment of the objectives of this Act: Provided, however, That the
21 private investors in the Zone shall be given priority in the awarding of contracts,
22 franchises, licenses, or permits for the establishment, operation and maintenance of
23 utilities, services and infrastructure in the Zone;

24 (f) Regulate and undertake the establishment, operation and maintenance of
25 utilities, other services and infrastructure in the Ilocos Sur ECOZONE such as, but
26 not limited to, heat, light and power, water supply, telecommunications, transport, toll
27 roads and bridges, port services, etc. and to fix just, reasonable and competitive
28 rates, fares, charges and prices thereof;

29 (g) Construct, acquire, own, lease, operate and maintain on its own or through
30 contracts, franchise, licenses, bulk purchase from the private sector or permits under
31 any of the schemes allowed in Republic Act No. 6957 (the Build-Operate-Transfer Law,
32 as amended), or joint venture, adequate facilities and infrastructure required or needed
33 for the operation and development of the Ilocos Sur ECOZONE, in coordination with
34 appropriate national and local government authorities and in conformity with applicable
35 laws thereon;

36 (h) Operate on its own, either directly or through a subsidiary entity or licenses
37 to others, tourism-related activities, including games, amusements, recreational and

1 sports facilities, such as horse racing, dog racing, gambling casinos, game of chance,
2 golf courses and others, under priorities and standards set by ISSEZFA;

3 (i) Subject to the approval of the President and the Monetary Board of the
4 Bangko Sentral ng Pilipinas (BSP) upon the recommendation of the DOF, to raise or
5 borrow adequate and necessary funds from local or foreign sources to finance its
6 projects and programs under this Act and for that purpose, to issue bonds, promissory
7 notes and other forms of securities, and to secure the same by a guarantee, pledge,
8 mortgage, deed of trust or an assignment of all or part of its property or assets;

9 (j) Provide security for the Ilocos Sur ECOZONE in coordination with the
10 national and local governments. Military forces sent by the NG for the purpose of
11 defense shall not interfere in the internal affairs of the Ilocos Sur ECOZONE and
12 expenditures for these military forces shall be borne by the NG. For this purpose, the
13 ISSEZFA may establish and maintain its security forces and firefighting capability or hire
14 others to provide the same;

15 (k) Protect, preserve, maintain and develop the virgin forests, beaches, coral
16 and coral reefs, and maintain ecological balance within the Ilocos Sur ECOZONE;

17 (l) Create, operate and/or contract to operate such functional units or offices
18 of the ISSEZFA as it may deem necessary;

19 (m) Adopt, alter and use a corporate seal; contract, lease, buy, acquire, own or
20 otherwise dispose of personal and/or real property of whatever nature sue and be sued;
21 and otherwise carry out its functions and duties as provided for in this Act;

22 (n) Issue certificates of origin for products manufactured or processed in the
23 Ilocos Sur ECOZONE in accordance with prevailing rules of origin, and the pertinent
24 regulations of the PEZA, the DTI and/or the DOF;

25 (o) Issue working visas renewable every three(3) years to foreign executives
26 and foreign technicians with highly specialized skills which no Filipino possesses, as
27 certified by the Department of Labor and Employment;

28 (p) Report to the Bureau of Immigration the names of the foreigners who have
29 been granted permanent resident status and working visas within thirty (30) days after
30 issuance of such grant;

31 (q) Exercise such powers as may be essential, necessary or incidental to the
32 powers granted to it hereunder, as well as those that shall enable it to carry out,
33 implement and accomplish the purposes, objectives and policies of this Act; and

34 (r) Issue rules and regulations consistent with the provisions of this Act as
35 may be necessary to accomplish and implement the purposes, objectives and policies
36 provided herein.

1 **SEC. 13. Tax Exemptions.** – The ISSEZFA is hereby declared exempt from
2 the payment of all taxes, duties, fees, imports, charges, costs, and service fees in any
3 court or administrative proceedings in which it may be a party.

4 The foregoing exemptions may, however, be entirely or partially lifted by the
5 President of the Philippines upon the recommendation of the Secretary of Finance, not
6 earlier than five (5) years from the effectivity of this Act, if the President shall find the
7 ISSEZFA to be self-sustaining and financially capable by then to pay such taxes,
8 customs duties, fees and other charges after providing for debt service requirements of
9 the ISSEZFA and of its projected capital and operating expenditures.

10 Furthermore, all donations made by any person or entity in favor of the
11 ISSEZFA shall be exempt from the payment of the donor's tax and the same shall be
12 considered as deductible from the gross income of the donor, pursuant to the NIRC of
13 1997, as amended.

14 **SEC. 14. Banking Rules and Regulations.** – Existing banking laws and
15 rules/regulations of the BSP shall apply to banks and financial institutions to be
16 established in the Ilocos Sur ECOZONE, such as those governing foreign exchange
17 and other current account transactions (trade and nontrade), local and foreign
18 borrowings, foreign investments, establishment and operation of local and foreign
19 banks, foreign currency deposit units, offshore banking units and other financial
20 institutions under the supervision of the BSP.

21 **SEC. 15. Remittance of Earnings.** – In the case of foreign investments, a
22 registered enterprise in the ISSEZFA shall have the right to remit earnings from the
23 investment in the currency in which the investment was originally made and at the
24 exchange rate prevailing at the time of remittance, subject to the provisions of Section
25 74 of Republic Act No. 265, as amended.

26 **SEC. 16. Board of Directors of the ISSEZFA.** – The powers of the ISSEZA
27 shall be vested in and exercised by a board of directors, hereinafter referred to as the
28 Board, which shall be composed of the following:

29 (a) The chairman who shall, at the same time, be the administrator of the
30 ISSEZFA;

31 (b) A vice chairman who shall come from among the members of the Board;

32 (c) Members consisting of:

33 (1) The governor of the Province of Ilocos Sur;

34 (2) The congressional representative of the district covering the site of the
35 Ilocos Sur ECOZONE;

36 (3) The mayors of the municipalities of Cabugao and San Juan;

37 (4) One representative from the domestic investors;

38 (5) One representative from the foreign investors; and

1 (6) Two representatives from labor from among the workers in the Ilocos
2 Sur ECOZONE.

3 The governor, the congressional representative and the mayors of the
4 municipalities of Cabugao and San Juan shall serve as *ex officio* members of the Board,
5 whose terms in the Board correspond to their term as elected officials.

6 The chairman and the members of the Board, except the *ex officio* members,
7 shall be appointed by the President of the Philippines to serve for a term of six years
8 unless sooner removed for cause or dies or resigns voluntarily. In case of death,
9 resignation or removal for cause, the replacement shall serve only the unexpired
10 portion of the term.

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

17 The members of the Board shall each receive *per diem* at rates to be
18 determined by the Department of Budget and Management (DBM) in accordance with
19 existing rules and regulations: *Provided, however,* That the total *per diem* collected
20 each month shall not exceed the equivalent *per diem* for four meetings. Unless and until
21 the President of the Philippines has fixed a higher *per diem* for the members of the
22 Board, such *per diem* shall not be more than Ten Thousand Pesos (P10,000.00) for
23 every Board meeting.

24 **SEC. 17. Powers and Duties of the Chairman-Administrator.** – The
25 chairman-administrator shall have the following powers and duties:

26 (a) Direct and manage the affairs of the ISSEZFA in accordance with the
27 policies of the Board;

28 (b) Establish the internal organization of the ISSEZFA under such conditions
29 that the Board may prescribe;

30 (c) Submit an annual budget and necessary supplemental budget to the Board
31 for its approval;

32 (d) Submit within thirty (30) days after the close of each fiscal year an annual
33 report to the Board and such other reports as may be required;

34 (e) Submit to the Board for its approval policies, systems, procedures, rules
35 and regulations that are essential to the operation of the Ilocos Sur ECOZONE;

36 (f) Create a mechanism in coordination with relevant agencies for the
37 promotion of industrial peace, the protection of the environment and the advancement
38 of the quality of life in the Ilocos Sur ECOZONE; and

1 (g) Perform such other duties as may be assigned to him by the Board or
2 which are necessary or incidental to his office.

3 **SEC. 18. Organization and Personnel.** – The Board of Directors of the
4 ISSEZFA shall provide for an organization and staff of its officers and employees. Upon
5 recommendation of the chairman-administrator, the Board shall appoint and fix the
6 remuneration and other emoluments of its officers and employees in accordance with
7 existing laws on compensation and position classification: *Provided*, That the Board
8 shall have exclusive and final authority to promote, transfer, assign or reassign officers
9 of the ISSEZFA, any provision of existing law to the contrary notwithstanding: *Provided*,
10 *further*, That the chairman-administrator may carry out removal of such officers and
11 employees.

12 The officers and employees of the ISSEZFA, including all members of the
13 Board, shall not engage directly or indirectly in partisan activities nor take part in any
14 election, except to vote.

15 No officer or employee of the ISSEZFA, subject to civil service laws and
16 regulations, shall be removed or suspended except for cause, as provided by law.

17 **SEC. 19. General Manager.** – The Board of Directors of the ISSEZFA shall
18 appoint a full-time professional and competent administrator and chief executive officer
19 for the ISSEZFA whose compensation shall be determined by its Board of Directors and
20 shall be in accordance with the revised compensation and position classification
21 system. The administrator as chief executive officer of ISSEZFA shall be responsible to
22 the Board and the President of the Philippines for the efficient management and
23 operation of the ISSEZFA.

24 **SEC. 20. Applicability Clause.** – The provisions of Sections 30 to 41 of
25 Republic Act No. 7916, as amended, on leases of lands and buildings, land conversion,
26 shipping and shipping register, protection of environment, termination of business,
27 registration of business enterprises, one-stop shop center and on industrial harmony in
28 the ecozones shall apply to the ISSEZFA.

29 **SEC. 21. Capitalization.** – The ISSEZFA shall have an authorized capital
30 stock of Two Billion (2,000,000,000) no par shares with a minimum issue of Ten Pesos
31 (P10.00) each, the majority shares of which shall be subscribed and paid for by the NG
32 and the LGUs embracing the Ilocos Sur ECOZONE. The Board of Directors of the
33 ISSEZFA may, with the written concurrence of the Secretary of Finance, sell shares,
34 representing not more than *forty per centum* (40%) of the capital stock of the ISSEZFA
35 to the general public under such policy as the Board and the Secretary of Finance may
36 determine. The NG and the LGUs shall, in no case, own less than *sixty per centum*
37 (60%) of the total issued and outstanding capital of the ISSEZFA.

1 The amount necessary to subscribe and pay for the shares of the NG to the
2 capital stock of the ISSEZFA shall be included in the annual General Appropriations
3 Act. For LGUs, the funds shall be taken from their internal revenue allotment and other
4 local funds.

5 **SEC. 22. *Supervision and Coordination of Development Plans.*** – For
6 purposes of policy direction and coordination, the Ilocos Sur ECOZONE shall be under
7 the direct control and supervision of the Office of the President.

8 **SEC. 23. *Relationship with the Regional Development Council.*** – The
9 ISSEZFA shall determine the development goals for the Ilocos Sur ECOZONE within
10 the framework of national development plans, policies and goals. The administrator
11 shall, upon approval by the Board, submit the Ilocos Sur ECOZONE plans, programs
12 and projects to the Regional Development Council for inclusion and inputs to the overall
13 regional development plan.

14 **SEC. 24. *Relationship with LGUs.*** – Except as herein provided, the LGUs
15 comprising the Ilocos Sur ECOZONE shall retain their basic autonomy and identity.
16 The municipalities of Cabugao and San Juan, Ilocos Sur shall operate and function in
17 accordance with the Local Government Code of 1991. In case of any conflict among
18 the ISSEZFA and the municipalities of Cabugao and San Juan, Ilocos Sur on matters
19 affecting the Ilocos Sur ECOZONE other than defense and security matters, the
20 decision of the ISSEZFA shall prevail.

21 **SEC. 25. *Legal Counsel.*** – The Ilocos Sur Special Economic Zone Authority
22 and the corporations in which ISSEZFA owns a majority of the issued capital stock shall
23 have its own internal legal counsel under the supervision of the government corporate
24 counsel. When the exigencies of its businesses and operations demand it, the ISSEZFA
25 may engage the services of an outside counsel either on a case to case or on a fixed
26 retainer basis.

27 **SEC. 26. *Interpretation/Construction.*** – The powers, authorities and functions
28 that are vested in the ISSEZFA are intended to decentralize governmental functions and
29 authority and promote an efficient and effective working relationship among the Ilocos
30 Sur ECOZONE, the NG and the LGUs.

31 **SEC. 27. *Auditing.*** – The Commission on Audit shall appoint a
32 representative who shall be a full-time auditor of the ISSEZFA and assign such number
33 of personnel as may be necessary to assist said representative in the performance of
34 his/her duties. The salaries and emoluments of the assigned auditor and personnel
35 shall be in accordance with pertinent laws, rules and regulations.

36 **SEC. 28. *Separability Clause.*** – If any provision of this Act shall be held
37 unconstitutional or invalid, the other provisions not otherwise affected shall remain in full
38 force and effect.

1 **SEC. 29. *Repealing Clause.*** – All laws, executive orders or issuances, or
2 any part thereof which are inconsistent herewith are hereby repealed or amended
3 accordingly.

4 **SEC. 30. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days
5 after publication in at least two (2) national newspapers of general circulation.

6 Approved,