

# MANUFACTURING ADVOCACY PAPER 2018



EU - PHILIPPINES  
BUSINESS NETWORK

## ABOUT EPBN



### OUTREACH



### SUPPORT SERVICES



### ADVOCACY

The EU-Philippines Business Network (EPBN) established in January 2014, is a project co-funded by the European Union and implemented by a consortium of European business organizations based in the Philippines. Led by the European Chamber of Commerce of the Philippines (ECCP), partner chambers include the Belgian-Filipino Business Club, British Chamber of Commerce Philippines, French Chamber of Commerce of the Philippines, German-Philippine Chamber of Commerce and Industry, Italian Chamber of Commerce of the Philippines, Nordic Chamber of the Philippines, and Spanish Chamber of Commerce of the Philippines.

The overarching objective of EPBN is to support European companies, especially small-medium enterprises, to increase exports to and investments in the Philippines by facilitating market access and ensuring a level playing field for all companies.

Adopting a threefold approach of outreach, support services and advocacy, EPBN provides a strong support system at every stage of entry to the Philippine market for European businesses. In delivering these services, EPBN cooperates closely with its partner organizations in other Association of South East Asian Nation (ASEAN) countries to provide information on ASEAN as a market, promoting the Philippines as a gateway to the region.



# MANUFACTURING ADVOCACY PAPER 2018

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Positions expressed in the advocacy papers are the result of the activities of the 14 Sector Committees working under the EU-Philippines Business Network.

## METHODOLOGY

The 2018 edition of the EPBN Advocacy Papers features issues and recommendations formed after extensive discussions between members of the EPBN sector committees, dialogues and meetings with representatives from the Philippine Government, the EU Delegation to the Philippines and other EU national chambers and embassies. The EPBN has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several executive and regulating agencies of the government.

Further, the recommendations stated in each paper were created based on the discussions during the quarterly sector committee meetings, most of which were conducted with a representative from a concerned government agency based on the issues to be discussed. In close cooperation with the sector committee leaders and members, the EPBN secretariat thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with EU business interests and priorities. Once the secretariat has finalized the first draft of each sector paper, it was then circulated to the Committee members, Market Access Team Meeting for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2017 EPBN Advocacy Papers were examined under the following criteria:

**Completed/Substantial Progress:** Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

**Some Progress:** Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

**No Progress/Retrogression:** Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolve to an even bigger bottleneck for EU businesses in the former year.

## ABOUT THE THEME



### **EU AND THE PHILIPPINES: Jointly Pursuing Competitiveness for Inclusive Growth**

Since its launch in January 2014, the EU-Philippines Business Network (EPBN) has strived to create an attractive investment and trade environment for EU businesses in the Philippines.

This 2018, we look at how the current administration's initiatives and programs in line with its Socioeconomic Agenda and priorities have substantially progressed – Build, Build, Build Program, tax reform, ease of doing business, labor protection furthered through the Executive Order on Contractualization, sustainable development and climate adaptation, and universal healthcare, among many others. In addition, the Philippines' economy is maintaining steady growth, the EU continues to be one of the top trading partner of the Philippines, and the EU-Philippines Partnership Cooperation Agreement has been put into force – a major milestone for the EU-Philippine relations.

With this, the EU-Philippines Business Network (EPBN) is organizing the EU-Philippines Business Summit 2018 with the theme "EU and the Philippines: Jointly Pursuing Competitiveness for Inclusive Growth" on 18 October 2018, at Solaire Resort Hotel, Paranaque. During the Summit, EPBN will hand over the 4th edition of the EPBN Advocacy Papers which contains a wish list of reforms towards a competitive, fair and more inclusive economic environment. We sincerely hope that the EU-Philippine economic ties will be deepened further. Rest assured that European business community will remain as the Philippine government's partner in achieving competitiveness and inclusive growth.

## MESSAGE FROM THE AMBASSADOR

H.E. Franz Jessen  
Head of Delegation,  
Delegation of the European Union of the Philippines



The EU sees trade and investment as part of the answer to challenges faced in the country in terms of inclusive and pro-poor growth. Indeed, the EU and its industries have a positive agenda that is values-based and comes with an open dialogue to ensure nobody is left behind in strengthening its trade relations. It also recognizes the importance of opening new markets that contributes to growth on both ends. This is why the EU has even in times of economic turmoil led global efforts to fight protectionism, and promoted open trade and investment at home and abroad.

The EU economy grew at its fastest rate in 10 years in 2017 at 2.4%. For the first time since 2007, all EU member states saw their economies expand. Robust growth is facilitating further reduction in government deficit now at less than 1% of GDP as well as debt levels and an improvement in labour market conditions with unemployment rate of 7.6% falling to almost the pre-crisis level. More important to our trading partners is the fact that our trade continues to grow strongly resulting to an 8% growth in EU imports and exports of goods to the world.

This shows that the EU economy is competitive, yet open and it will remain so and continue to benefit Philippines' development agenda. Philippines total trade with the EU increased by 16% in 2017 due to the remarkable 32% growth of PH exports to the EU market partly thanks to the increasing utilisation of the GSP+ preferences. Strong growth is particularly seen in sectors benefiting from GSP+ trade preferences, such as agri-food products. On top of this, sizable portion of all newly reported approved investments in the Philippines were sourced from the EU – contributing to the creation of more quality jobs.

The economic expansion in Europe is set to continue at a solid pace in 2018 and next, supporting further job creation. However, the EU also recognizes risks on the horizon. That is why the EU is working hard to make its economy even more resilient through many useful and necessary reforms – necessary to further improve productivity and investment as well as to ensure a more inclusive growth model.

I look forward continuing to work together to the benefit of effective value chains and supply chains so that the Philippines can take advantage of its position in the region and of its competitive skills and people. I warmly welcome this advocacy book as a good basis of our continued collaboration in our pursuit of enhancing and strengthening EU-Philippine trade and commercial relations.



# MESSAGE FROM THE STEERING COMMITTEE CHAIRMAN

Mr. Guenter Taus  
EPBN Steering Committee Chairman



The EU-Philippines Business Network (EPBN) is pleased to present to you the 4<sup>th</sup> edition of its Advocacy papers with the theme, “EU and the Philippines: Jointly Pursuing Competitiveness.” Pursuing competitiveness and sustainable growth has been at the front and center of our agenda.

The European business community has always looked towards close cooperation with the Philippine Government to achieve mutually beneficial goals, which strengthen the country’s investment and trade environment in support of increased competitiveness and long term, sustainable and inclusive growth.

Several positive reforms in 2018 were the Ease of Doing Business Act, the Build Build Build Program, the implementation of Universal Healthcare and the issuance of Memorandum Order No. 16, which eases restrictions on certain investment areas.

Despite these improvements, there are still several key barriers stifling EU-Philippine trade and investment. In particular, we look forward to passage of the Amendments to the Public Services Act of 1936 into law. These Amendments result in an open market coupled with stronger regulations which in turn will increase the quality of public services while lowering costs.

Moreover, we advocate for the reassessment of the licensing requirements from the Philippine Contractors Accreditation Board. A level playing field in infrastructure paves the path for the realization of the “Golden Age of Infrastructure” envisioned by President Duterte.

Finally, we strongly urge the government to consider the massive economic growth and job creation that fiscal incentives under the Philippine Export Zone Authority have brought about. An ambitious corporate income tax reduction in addition to other incentives will aid the Philippine in competing with other countries in the region.

These amendments would be a game-changer for the Philippines and they assist in EU investments contributing to Philippine development. It is in this context that the EPBN presents its recommendations towards a competitive, fair and more inclusive economic environment for the benefit of the Philippines and the EU.





## MESSAGE

I extend my warmest congratulations to the Officers and Members of the EU-Philippines Business Network for the publication of the 4<sup>th</sup> Edition of its Advocacy Papers.

The Philippine Economic Zone Authority (PEZA) is ever thankful of the support of the EU-Philippine Business Network in its efforts to encourage more investments from Europe. PEZA values its strong partnership with the EU-PBN and will continue to collaborate with EU-PBN to further reach out to European businesses and inform them of the many opportunities that are open to them if they choose to locate their export manufacturing operation in the Philippines and in PEZA.

PEZA takes pride in the achievement of the 415 (and counting) EU enterprises that are registered with PEZA, who, in their investments and reinvestments in the country have hugely benefitted the Filipino people through creation of employment, export generation, and technology transfer. Through the assistance of EU-PBN, we hope to see more and more EU enterprises gain interest in establishing relations with PEZA in the future.

I trust that the EU-Philippine Business Network will continue to be in the forefront to significantly contribute to our country's growth and development.

Mabuhay!

A handwritten signature in blue ink, appearing to read 'Charito B. Plaza', written over a horizontal line.

**BGEN CHARITO B. PLAZA MNSA, PHD**  
Director General

31 July 2018

## WHERE ARE WE NOW?

### THE PHILIPPINES: A MACROECONOMIC OVERVIEW

The Philippines has been recently dubbed as one of the fastest growing economies in Southeast Asia. With a 6.7% GDP growth in 2017, it is among the highest in the region next to China (6.9%) and Vietnam (6.8%).<sup>1</sup> ADB, IMF and the World Bank maintain their bullish forecast on the Philippine economy for 2018 and 2019,<sup>2,3,4</sup> which is largely attributed to its strong economic performance in 2017 and its growth prospects. The current administration's commitment to increase public infrastructure spending as well as rising domestic demand, remittances, and employment are also expected to heavily fuel the economy.

On the local scene, Services remain to cover most of the GDP with 57.46%, followed by Industry at 34.01%, and Agriculture at 8.53%.<sup>5</sup> From a dip in last year's agriculture sector, 2017 has posted a 3.9% growth. Overseas Filipino Workers (OFW) remittances, household consumption, exports of goods and services, and manufacturing posted growth,<sup>6</sup> while unemployment rate increased to 5.7%.<sup>7</sup>

As for investments, the Bangko Sentral ng Pilipinas reports that foreign direct investment net inflows reached USD 10 billion in 2017, showing a 21.4% increase from the previous year.<sup>8</sup> On the other hand, 2017 posted a negative trade balance amounting to USD 27,380 million.<sup>9</sup>

While global competitiveness, as evaluated by the World Economic Forum, improved by a notch in ranking,<sup>10</sup> it is imperative that the Philippines continuously builds on its current successes for competitiveness and inclusive growth.

Indeed, the Philippines has made great strides in various aspects; however, a lot of work still needs to be done. A number of important measures, including **amendments to the Public Services Act, Retail Trade Liberalization Act, and amendments to restrictive economic provisions of the Constitution**, have yet to materialize. Furthermore, boosting the Philippine manufacturing sector, deepening the ASEAN integration, and enhancing customs facilitation are all crucial for the Philippine economy to step up in the global arena.

1 WorldBank. (2018) *Philippines Economic Update: Investing In The Future April 2018*. Retrieved 5 September 2018 from <http://pubdocs.worldbank.org/en/280741523838376587/Philippines-Economic-Update-April-15-2018-final.pdf>.

2 ADB. (2018). *Philippine GDP expected to grow by 6.8% in 2018 and by 6.9% in 2019*. *ADB Report*. Retrieved 5 September 2018 from <http://www.adb.org/countries/philippines/economy>.

3 WorldBank. (2018). *Philippines Growth to Remain Strong Despite Global Uncertainties*. Retrieved 5 September 2018 from <https://www.worldbank.org/en/news/press-release/2018/07/13/philippines-growth-to-remain-strong-despite-global-uncertainty>.

4 Reuters. (2018). *IMF sees the Philippines' GDP growth at 6.7% percent in 2018 and 2019*. Retrieved 5 September 2018 from <https://www.reuters.com/article/us-philippines-economy-imf/imf-sees-philippines-gdp-growth-at-67-percent-in-2018-2019-idUSKBN1KF0A2>.

5 Philippine Statistical Authority. (2018). Retrieved from 3 September 2018 <http://psa.gov.ph/regional-accounts/grdp/highlights>.

6 Ibid.

7 Philippine Statistics Authority. (2017). *2017 Annual Labor and Employment Status*. Retrieved 3 September 2018 from <http://psa.gov.ph/content/2017-annual-labor-and-employment-status>

8 BSP. (2018). *Full-Year 2017 FDI Hit All-Time High of US\$10 Billion*. Bangko Sentral ng Pilipinas. Retrieved 4 September 2018 from <http://www.bsp.gov.ph/publications/media.asp?id=4630>.

9 BSP. (2018). *Selected Economic Indicators*. Retrieved 4 September 2018 from [http://www.bsp.gov.ph/statistics/spei\\_new/tab48\\_sas.htm](http://www.bsp.gov.ph/statistics/spei_new/tab48_sas.htm).

10 National Competitiveness Council. June 2018. *Global Competitiveness Report Card*. Retrieved 20 June 2018.

# MANUFACTURING



## INTRODUCTION

Manufacturing remains to be a key growth driver for the Philippines which constitutes a quarter of the country's GDP in 2018. An annual review by the Bangko Sentral ng Pilipinas (BSP) indicated that the manufacturing industry in the Philippines contributes to more than a quarter of the GDP and accounts for more than half of the country's industrial sector.<sup>1</sup> Meanwhile, in the last quarter of 2017, while the other ASEAN countries have experienced a decline, the Philippine manufacturing sector has exhibited growth with an 8.8% y-o-y increase.

Although the sector has been faring well in the past years especially in Asia, the reality is that the country's industry is mostly composed of assembling, design, and testing centers only. In addition to this, most of the materials used in assembly and manufacturing are imported from other countries. Moreover, a dramatic increase in the steel trade deficit has been observed in the recent years.

The development of the Domestic/Export Economic Zones (D/EEZs) is essential, most especially in the regions which benefit from the existence of the plans and programs of these D/EEZs. However, this year, a drastic decline on the pledges and investments placed were observed due to the uncertainty and fear caused by TRAIN 2.

Despite the evident developments and initiatives in the sector, multiple industrial concerns still need to be addressed.



<sup>1</sup> Banko Sentral ng Pilipinas. (2017). *2017 Annual Report: Sustaining Growth and Momentum*. Retrieved 26/06/18 from <http://www.bsp.gov.ph/downloads/publications/2017/annrep2017.pdf>

## RECENT REFORMS AND INDUSTRY DEVELOPMENTS

The following recently adopted or considered reforms are relevant to the manufacturing industry:

- With “Scaling Up and Disbursing Opportunities” as its theme, the 2017 Investments Priorities Plan (IPP) aims to transform the manufacturing industry in the Philippines through increased prospects in investments and amplified employment opportunities.<sup>2</sup>
- 137 newly identified sites or 70,475 hectares of public lands were identified as potential D/EEZs. The redevelopment of these sites has been provided for by memoranda of agreement settled between PEZA and several government agencies. Presently, there are 380 ecozones and 4,147 export-oriented enterprises which contribute 3.3 trillion PHP to the entire Philippine economy.<sup>3</sup>
- A decline in investment pledges has been observed starting last year. PEZA Director General Charito Plaza (DG Plaza) attributed this decline to economic uncertainties brought about by the rationalization of fiscal incentives under the Comprehensive Tax Reform Package 2 (CTRP 2), now known as Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO Bill).
- Senate Bill No. 1531 or “Energy Efficiency and Conservation Act of 2018”, a consolidation of Senate Bill No. 30 and Senate Bill No. 525 by Sen. Loren Legarda and Sen. Antonio Trillanes IV respectively, was approved on its third and final reading. While an unnumbered draft substitute bill was approved on August 2017 in the House Committee on Energy consolidating various House bills on Energy Efficiency and Conservation, the bill has yet to go through the legislative process.<sup>4</sup> The passage of the bill is important since the manufacturing sector heavily consumes electricity.

<sup>2</sup> Department Of Finance. (2/2017). *2017 Investments Priorities Plan*. Retrieved 29/05/18 from <https://manila2018.dof.gov.ph/wp-content/uploads/2018/01/3-2017-Philippines-Investment-Priorities-Plan.pdf>

<sup>3</sup> Philippine Mining Development Corporation. (n.d.) *PEZA: PH has 137 new sites for ecozones*. Retrieved 16/04/18. [http://pmdc.gov.ph/site/wp-content/uploads/2018/04/2018-04-16-PEZA-PH-has-137-new-sites-for-ecozones\\_20180416\\_0002.pdf](http://pmdc.gov.ph/site/wp-content/uploads/2018/04/2018-04-16-PEZA-PH-has-137-new-sites-for-ecozones_20180416_0002.pdf)

<sup>4</sup> House of Representatives. (08/14/17). *ECC substitute bill gets green light from house*. Retrieved 11/06/18 from <http://www.congress.gov.ph/press/details.php?pressid=10174>



## EPBN ADVOCACY

To ensure and support the growth of the manufacturing sector, the EPBN outlines the following recommendations:

### 1. EXPANSION OF THE MANUFACTURING RESURGENCE PROGRAM

- **ADOPT MANUFACTURING RESURGENCE PROGRAMS, WITH A FOCUS ON INCENTIVIZING NEW INVESTMENTS THAT GENERATE EMPLOYMENT.**

Successive Philippine governments have had a strong track record of implementing various programs that have helped the country develop economically, particularly with regard to the manufacturing sector. On the sidelines, its 'Build, Build, Build' program continues to produce job opportunities through its implemented projects. However, the existing trade deficit should be addressed by sourcing the materials locally which will not only promote a positive balance of trade but also aid the expansion of the domestic market.

Recognizing the role of the manufacturing sector as a catalyst for economic growth, we strongly support the adoption of manufacturing resurgence programs designed to incentivize new investments and foster employment opportunities. We urge the government to amplify its efforts in attracting new domestic and foreign investors with the aid of programs such as CARS which is expected to lead the country's manufacturing industry towards becoming globally competitive and the core of regional production and supply chains. As the Philippine market continues to expand, the European business community believes that the country may secure its niche in the regional and global markets if incentive programs are sufficiently appropriated.

### 2. DEVELOPMENT OF DOMESTIC/EXPORT ECONOMIC ZONES (D/EEZs)

- **PURSUE AND OPERATIONALIZE D/EEZS. EXPAND INCENTIVES FOR INVESTMENT IN ENERGY EFFICIENCY TECHNOLOGIES BY END USERS.**

In recognition of PEZA's efforts and recent developments, we remain committed to supporting the establishment of D/EEZs. Transforming public lands into export or domestic ecozones will aid in generating more economic opportunities as well as increase profitability.

We also applaud DG Plaza for her unwavering commitment towards this end. Collaboration among government agencies is undoubtedly vital in working towards a common goal. The establishment of D/EEZs, accompanied with a competitive incentive scheme, will promote a sound investment environment in the country engaging new investors. While great strides have been made in order to establish new D/EEZs, it is important to follow through and build on the previous successes to help address the un/underemployment in a given area.

Furthermore, we strongly advocate for the retention of fiscal incentives and the prospective application of the rationalization efforts under the TRABAHO Bill. The “wait and see attitude” of potential investors as well as current investors on their expansion plans does not help the establishment of new D/EEZs. Utmost efforts should be exerted to stabilize the country’s investment climate through the issuance of the list of SIPP and the corresponding incentives. With this, the investors can come up with a business plan and the Philippines can market itself as an attractive investment destination.

### **3. REDUCTION OF THE COST OF ELECTRICITY FOR MANUFACTURERS**

- **EXEMPT MANUFACTURERS IN PRIORITY SUB-SECTORS AND AREAS FROM VAT ON ELECTRICITY.**

Given that the country has the highest cost of electricity in the ASEAN region and ranks 7<sup>th</sup> in the world, we recommend exempting manufacturers of high-priority sectors, particularly power-intensive industries which have demonstrated steady growth, from the 12% VAT. This will significantly lessen costs and increase the industry’s productivity. Subsequently, foreign investments will generate more jobs and will create a more competitive and productive manufacturing sector.

- **EXPAND INCENTIVES FOR INVESTMENT IN ENERGY EFFICIENCY TECHNOLOGIES BY END USERS.**

We are pleased with PEZA’s Board Resolution No. 15-239 which encourages the use of energy efficiency instrument/products. Moreover, we also look forward to the enactment of legislation that seeks to institutionalize energy efficiency and conservation and to incentivize the use of energy efficiency technologies, thus reducing not only electricity costs but also greenhouse gas emissions. We are also looking forward to the movement and passage of the consolidated bills on Energy Efficiency and Conservation from the House committee on Energy as well as the “Energy Efficiency and Conservation Act of 2018” from the Senate.



## EPBN INTERVENTIONS

The EPBN has undertaken the following initiatives in its pursuit to maximize the potential of the Philippines as a regional manufacturing hub:

- The EPBN participated in a JFC Meeting with DG Plaza on 8 February where several chambers voiced their views and their member companies' views regarding the uncertainties and the possible removal of incentives in the manufacturing sector anticipating the implementation of the TRABAHO Bill.
- Through his weekly news segment, EPBN Steering Committee Chairman Guenter Taus discussed the importance of boosting the Philippine manufacturing sector and its impact on the economy. Mr. Taus also compared the Philippine standing on various industries vis-à-vis other ASEAN member states and urgently called for the improvement of the industry.
- The EPBN submitted position papers on TRABAHO and the Energy Efficiency & Conservation bill to further its advocacy on the retention of incentives granted to companies under PEZA and the energy sector.





## ASSESSMENT OF RECOMMENDATIONS

Advocacy	Recommendations	Completed / Substantial Progress
<b>Expansion of the Manufacturing Resurgence Program</b>	Adopt Manufacturing Resurgence Programs, with a focus on incentivizing new investments that generate employment.	
<b>Development of Domestic/Export Economic Zones (D/EEZs)</b>	Pursue and Operationalize D/EEZs	137 newly identified sites from public lands were determined to be developed into domestic ecozone sites. Memorandum of agreement (MOA) and memorandum of understanding (MOU) were executed to cover the sites.
<b>Reduction of the Cost of Electricity for Manufacturers</b>	Expand incentives for investment in energy efficiency technologies by end users.	Energy Efficiency and Conservation Act of 2018 or Senate Bill No. 1531 has been approved on the third and final reading.
	Exempt manufacturers in priority sub-sectors and areas from VAT on electricity.	A draft substitute bill of the consolidated Energy Efficiency and Conservation related bills has been approved at the House Committee on Energy.

Some Progress	No Progress	Retgression
<p>By Q4 of 2017, two (2) automotive companies have already committed to participate in the CARS program.</p>		



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