

Joint Foreign Chambers of the Philippines



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EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

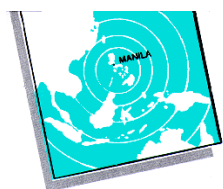
EUROPEAN



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Philippine Association of Multinational Companies Regional Headquarters, Inc.

May 17, 2011

Mr. Alberto Lim
Secretary
Department of Tourism
T.F. Valencia Circle
T.M. Kalaw Street, Rizal Park
Manila

Dear Secretary Lim:

On March 30 the Joint Foreign Chambers hosted the Seven Big Winner Sectors Workshop at the Asian Institute Management Conference Center in Makati to revalidate 283 Seven Big Winner Sectors recommendations in the *Arangkada Philippines 2010* report. Sponsored by the Joint Foreign Chambers, *Arangkada Philippines 2010* presents a path for the Philippines to become a middle-income economy with robust investment levels, high levels of job creation, modern infrastructure, and rising government revenues to pay for enhanced social services.

At the Workshop expert moderators from the private and public sectors led Breakout Sessions with industry and government participants that prioritized near and medium term recommendations for Investment Climate reforms. We would like to share the status of the recommendations identified in the Breakout Session on **Tourism, Medical Travel, and Retirement**, in which Assistant Secretary Benito Bengzon and Director Rolando Canizal generously participated.

Highest Priority Recommendations. The Breakout Session affirmed the following *Arangkada Philippines* reform recommendations to be of the highest priority:

1) Reform of the Airline Tax Regime and Business Environment:

- Remove the burden imposed by the Common Carriers Tax (CCT)¹ and the Gross Philippine Billings Taxes (GPBT)² that make the Philippines the most expensive tourism destination for airline investments through changes in the BIR rules and regulations and legislation.
- Cease payment of overtime fees, transportation and meal allowances for personnel of Customs, Immigration and Quarantine (CIQ) by airlines and

¹ Foreign air carriers are subject to the 3% CCT and 2.5% (some airlines pay 1.5% based on tax treaties) GPBT, levied as a percentage of flown revenues from ticket, cargo and excess baggage carried ex- Philippines up to the final destination regardless of the country of sale and/or issuance, i.e. the revenue associated with a ticket sold in Europe, returning to Europe would be included in the basis for taxation.

² The foreign air carriers pay these taxes regardless of whether they earn or lose in their Philippine operations. Philippine air carriers are not subject to the same practice (as defined above) in international routes where they operate and compete with foreign air carriers. The GPBT has nothing in common with income tax as internationally practiced since it is a fixed percentage which foreign air carriers have to pay irrespective of the financial results of their Philippine operations.

shippers by declaring 24/7 operations at all international airports and seaports through an Executive Order.³

- 2) Reform the procedures and administrative processes on issuance of visas.⁴
 - Introduce visa upon arrival for certain nationalities similar to Thailand's immigration policy.
 - Allow and expedite the grant of visa extension for countries whose citizens are already granted with the 21-day free visa.
 - Introduce long stay visa in order to attract medical travelers and long stayers/retirees.

Completed Recommendations. The Breakout Session singled out as a completed *Arangkada Philippines* reform recommendation:

- 1) Executive Order 28 and 29 regarding aviation policy.

Ongoing Recommendations. The Breakout Session identified the following *Arangkada Philippines* reform recommendations as ongoing:

- 1) Amendment of the National Internal Revenue Code of 1997, as amended to eliminate the burden from the CCT and GPBT.⁵
- 2) Implementation of 24/7 Operations in International Airports and Seaports.⁶
- 3) Tourism Enterprise Zone (TEZ):
 - The guidelines have been approved by the TIEZA Board but are not yet implemented.
 - The guidelines should protect the property rights of investors, facilitate investment procedures in tourism zones, and shield investors from unnecessary intervention by LGUs.
 - It is recommended that the TIEZA prioritize the one-stop shops in each TEZ.
- 4) *Arangkada Philippines* recommendations should be linked with the National Tourism Development Plan.

³ The airlines operating at the NAIA pay about Php 416 million per year for the CIQ overtime. This practice has led to double and multiple billings.

⁴ This will encourage visitors to explore more of what the Philippines has to offer and ultimately contribute to generating jobs and income with their longer stay and higher expenditures.

⁵ Congressman Mandanas filed HB 4302 that seeks to recognize provisions for tax exemptions in international tax treaties and agreements if they exist. Congressman Trenas filed HB 4444 that seeks to rationalize the airline tax regime through an amendment of the Tax Code.

⁶ Draft EO was submitted by the Export Development Council of the Department of Trade and Industry to the Office of the President last July 2010 for signature by the President and implementation by all agencies with operations at international airports and seaports.

- 5) Development of Medical Tourism and Retirement sub-sectors is actively being pursued by the private sector, in cooperation with government. Among these initiatives are:
- Promotion of long stay tourism as entry point for building market confidence in the Philippines.
 - Promotion of transparency of medical tourism packages through unbundling and standardizing of hospital and doctor fees.
 - Increase in capacity and capability of local hospitals through: partnerships with overseas facilities, investments in systems including documentation processes in order to facilitate accreditation and insurance portability.

Recommendations Not Under Way. The Breakout Session categorized the following *Arangkada Philippines* reform recommendations as not yet under way:

- 1) Restrictions on foreigners should be liberalized in designated tourism and retirement zones to allow foreign ownership of land and retail facilities and the practice of profession.
- 2) Allow more foreign dentists, doctors, medical technologists, nursing, optometrists, physical therapists, and teachers to practice their professions.
- 3) Development of infrastructure for retirement: assisted living and integrated retirement facilities.
- 4) Review the Travel tax.

Separately, we will write a letter to Executive Secretary Ochoa to urge approval of the 24/7 Executive Order submitted by the Export Development Council of the Department of Trade Industry in July 2010. Also we will write to Congressman Jerry Treñas expressing our support for House Bill 4444 or Act Rationalizing the Taxes Imposed on International Air Carriers Operating in the Philippines.

The Workshop affirmed that a strong start has been made on the reforms needed to accelerate investment and job creation. A number of recommended reforms have been implemented and a considerable number are under way. Results of the improved Investment Climate should begin manifesting themselves in 2011, and even more in 2012.

But major challenges remain - including unanticipated ones - and the implementation of other important reform recommendations is not yet under way. Be assured that we remain committed to a partnership with the Aquino Administration to achieve the goal of an accelerating economy for the benefit of the Filipino people.

We look forward to another opportunity to discuss these issues with you in the months ahead.

Best Regards,



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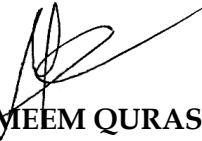
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Cc:

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