



PHILIPPINE ECONOMIC ZONE AUTHORITY

11 May 2020

SENATOR PIA S. CAYETANO

Chairperson, Committee of Ways and Means
Senate of the Philippines
Rm. 510-A & 5 (New Wing 5/F) GSIS Building
Financial Center, Diokno Blvd., Pasay City

Subject: **Updated Position of PEZA on SB No. 1357 (CITIRA)**

Dear **Senator Cayetano**:

Prior to the implementation of the Enhanced Community Quarantine (ECQ) in Metro Manila, PEZA formally submitted its official position on Committee Report No. 50 on Senate Bill (SB) No. 1357 also known as the CITIRA bill, to Senator Ralph G. Recto, copy furnished all senators. Under the said letter, we emphasized that the CITIRA in its present form violates the 1987 Constitution particularly the non-impairment clause of contracts and the constitutional provision on One Subject One Title bill.

We also underscored that the draft bill has removed the One-Stop Shop (OSS) strategy which PEZA is known for including the Ease of Doing Business which is part and parcel of the OSS strategy. The claim that CITIRA will create 1.5 million jobs is only a theoretical assumption because there is no actual study presented by the Department of Finance (DOF) to support this claim. While the job creation is only an assumption under CITIRA, PEZA ecozones are already directly employing a total of 1,508,727 workers. However, due to the uncertainty brought by CITIRA, there are already a number of registered enterprises that are reporting lesser number of direct employees. Comparing the reports of our enterprises in 2018 and 2019 based on our Ecozone Monthly Performance Report (EZMPR), a total of **27,861** ecozone employees lost their jobs during that one-year period.

We also suggested that it would be prudent for the Senate to wait and consider the results of the Cost Benefit Analysis (CBA) on incentives by NEDA as required by the TIMTA Law. The said CBA shall answer once and for all whether or not the current fiscal incentives under the PEZA Law is working or not and if there is a need to retain or amend it.

In our separate letter to Senate President Vicente C. Sotto III, we respectfully urged the senate to defer any discussion on the CITIRA and observe status quo because of the triple threats that business enterprises in the Philippines encounter particularly the eruption of Taal Volcano, revocation of the Visiting Forces Agreement (VFA) and the outbreak of COVID-19 pandemic. The latter proves to be the most destructive among the three crippling the world economy.

We recognize that CITIRA seeks to reform the country's fiscal incentive system to ensure that it is performance-based, time-bound, targeted, and transparent. However, the prevailing global and domestic situation does not warrant an overhaul of the current fiscal incentive system of PEZA and that doing so will do more harm than good to our economy especially that companies are struggling with the effects of the ECQ due to the COVID-19 pandemic.

Finally, the current political landscape, particularly the revocation of the Visiting Forces Agreement (VFA) might affect the reduced tariff enjoyed by our country's exports under the Generalized Systems of Preference (GSP) scheme of the US.

Kindly note that a number of registered enterprises especially those located in the ecozones in the CALABRZON have yet to recover from the effects of the Taal Volcano eruption when ECQ was declared by President Duterte. During the ECQ, a number of companies ceased operating while some transferred their operations to factories outside the Philippines. Companies registered with PEZA are currently experiencing huge losses now and they need time to recover lest they cease operations permanently. We believe that the current incentives being offered by PEZA will be very helpful in the business recovery of these companies.

Even before the declaration of the ECQ on March 16, 2020, PEZA's total January to February 2020 approved investments was already down by 5.85% compared to the same period last year. Due to the ECQ, the PEZA Board was unable to meet during the month of March and therefore, no new investment projects were approved and thereby resulting to no additional investments for PEZA for the said month. This resulted to the carry-over of the total PEZA investments figures as of February 2020 for the month of March 2020 resulting in a bigger negative growth of -27.98% in the total PEZA investments for the entire first quarter compared to the same period last year.

PEZA APPROVED INVESTMENTS BY INDUSTRY SECTOR (in Php Million)

INDUSTRY SECTOR	Jan-Mar 2019	Jan-Mar 2020	% Increase/Decrease
Manufacturing	9,102.627	7,741.885	-14.95%
Information Technology	4,012.565	2,326.483	-42.02%
Ecozone Development	8,692.094	6,385.381	-26.54%
Others	1,097.465	42.493	-2,482.69%
TOTAL	22,904.751	16,496.242	-27.98%

The effect of the ECQ on PEZA's first quarter employment and exports figures are still being completed as the deadlines set for these submissions coincided within the ECQ period. We expect however, a huge decrease in PEZA investment, export and employment figures as the ecozones operated only at average 60% capacity during the ECQ. Our export-oriented industries' annual performance will also be greatly affected by the projected decline in global trade at 13%-32% and global economic growth from 3% to 2.4% for 2020.

In view of the foregoing, PEZA respectfully reiterates its position for **STATUS QUO** for at least **five (5) years** on the **powers, functions and authority of PEZA especially the fiscal incentives** that the authority grants to its registered enterprises. This is based on the request of registered enterprises to be able to recover from the COVID-19 crisis and for post-COVID-19 recovery measures where companies will incur additional expenses due to observance of social/physical distancing in the workplace, provision for shuttle services and housing for the workers and other virus prevention measures such as frequent sanitation of the workplace.

In addition, the current fiscal incentives of PEZA will be valuable to comply with the directives of President Duterte under Administrative Order (AO) No. 18 entitled *“Accelerating Rural Progress through Robust Development of Special Economic Zones in the Countryside”* and Executive Order (EO) No. 114 known as *“Institutionalizing the Balik Probinsiya, Bagong Pag-asa Program as a Pillar of Balanced Regional Development, Creating a Council Therefor, and for Other Purposes”*.

Under these presidential orders, PEZA was directed to identify and develop special economic zones in the countryside to serve as economic drivers and stimulus in order to attract foreign investments and generate jobs for our countrymen. The Balik Probinsiya Program of the government will only be successful if the returning residents to the provinces will be gainfully employed. This is possible through the creation and establishment of more economic zones which will develop millions of hectares of idle lands thus, making the provinces attractive to Overseas Filipino Workers (OFWs) and those unemployed in the metropolis.

Kindly note that the incentives of PEZA under R.A. No. 7916 or The Special Economic Zone Act of 1995 are **globally competitive, tried, proven** and **tested**. In addition, the efficiency and best practices of PEZA over the years is recognized by foreign investors and international institutions such as the IFC World Bank. These fiscal incentives will support the economic stimulus being studied by Congress by enhancing the attractiveness of the Philippines as an investment destination and thereby attract companies that are leaving China.

Most specially, the status quo shall also afford stability and confidence among registered enterprises and sustain the reputation of the government that it honors and respects existing contracts and/or agreements. We respectfully reiterate our position that CITIRA should first be implemented for Domestic Enterprises as they will benefit the most from the reduction of the corporate income tax and enjoy for the first time incentives in rationalized manner thus, maximize the MSMEs production, manufacturing export capabilities, complete supply chain, and encourage exporters to minimize import dependence.

Thank you very much for your continued support to PEZA and its valued ecozone enterprises.

Very truly yours,


BGen CHARITO B. PLAZA MNSA, PhD
Director General

CC: All Senators of the 18th Congress