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BUSINESS GROUPS REITERATE PLEA FOR SUPPORT FOR GRAND-FATHERING AND CONTINUITY FOR EXPORTERS AND CONFIRM PRE-COVID TWO MILLION JOBS OF PEZA, CLARK, SUBIC, AND ROHQ EXPORT FIRMS AND NEED TO PROTECT THESE INVESTMENTS AND THEIR JOBS

Twelve business groups reiterated their call for Congress and the President to approve proposals to support export industries and to protect jobs of employees. This call for support is being made right before the Senate is expected to complete the period of interpellation and proceed to introduction of amendments to the CREATE bill.

Particularly, the business groups again called on the Senate to consider the following amendments to the current version of the CREATE bill: (1) the **grandfathering of incentives** proposed by some Senators that will ensure retention of competitiveness of the industries engaged in export activities such as manufacturing, business process outsourcing, and shared services; (2) expressly providing that currently operating Registered Business Enterprises (RBEs) will be **allowed to avail of incentives for their existing and expansion export activities**; and (3) **acceleration of the reduction in Corporate Income Tax (CIT)** until it reaches 20% in 2025 instead of 2027.

The preservation of incentives for exporters was extensively discussed in plenary by Senate President Pro Tempore Ralph Recto, a former chair of the SWMC and NEDA director general; by Senator Sonny Angara, likewise a former chair of the SWMC; by former SBMA chair Senator Richard Gordon, who built a vibrant freeport literally from ashes; and Senate Minority Leader Frank Drilon, who served in the cabinet of former President Fidel Ramos when he signed the laws creating the highly-successful PEZA and Clark and Subic special economic zones. Also, Senator Risa Hontiveros questioned whether the bill would support regional competitiveness of the Philippines for firms shifting supply chain investments out of China.

The groups' appeal is anchored on the past, present, and expected future **contributions of 3,000 to 3,500 firms engaged in export of manufactured goods, IT & business process services, and aviation engineering support which comprise nearly 80% of total Philippine exports by value**. The business groups also confirmed **that the total number of people their incentivized RBEs directly employed in their sectors was close to two million in late 2019 prior to the onset of the COVID-19 pandemic.**

In September 2019, four industry associations (CONWEP, IBPAP, PAMURI, and SEIPI) projected that 121,000 direct jobs and a significant multiple of that number in indirect jobs would be lost in the first year if the House-passed version of the CITIRA bill became law. The group appreciates the hard work SWMC chairperson Pia Cayetano has put into the CREATE bill in order to mitigate such initially grim job loss projections.

However, risk remains for these jobs a year later in the last quarter of 2020 and going forward, as the Philippines has the 19th highest confirmed cases of COVID-19 in the world and the virus remains a serious global health challenge. Additionally, risk for exports is high, under uncertain global economic conditions, to the jobs of 1.3 million workers in the IT-BPO sector, 380,000[1] workers in the semiconductor sector, 255,000 workers in the wearables sector, and 25,000 workers at ROHQs. As pointed out by Senator Recto, these workers are employed by global efficiency-seeking companies that will move elsewhere should staying in the Philippines no longer be competitive. The groups' supported amendments would eliminate such risk from CREATE.

The firms exporting wearables (garments, leather goods, and footwear) and their 280,000 base workers are the most vulnerable to the new tax rules of CREATE and the COVID-19 pandemic recession. This was initially explained in a detailed position paper to DOF, DTI, and the SWMC in October 2019 that 112,000 jobs would be lost in the first 12 to 18 months after CITIRA implementation. By May 2020, CONWEP reported that 25,418 jobs of CONWEP members were being furloughed.

Although CREATE will give these firms a 9-year transition period before raising their CIT rate, grandfathering will provide them the confidence to remain in the Philippines long-term. Global demand for fashion products has collapsed by a huge 45%. Stringent lockdown measures during March-May 2020 disrupted production and raised costs for these labor-intensive "footloose" firms located in the Philippines. Many buyers transferred their materials and production to Cambodia, Myanmar, and Vietnam. We pray that CREATE will not add another nail in the coffin for an industry whose annual exports were valued at $1 billion in 2019 with 280,000 direct and more than one million indirect jobs.

Another industry where present employment levels may be at risk from CREATE are RBEs in electronics export manufacturing. While CREATE provides a longer transition of 9 years, the subsequent post-transition tax is much higher than what the government has long allowed. This is a key argument of Senator Recto in his concern for 150,000 existing jobs in Batangas. SEIPI has explained that existing firms require continuing new investments to avoid technological obselence of their capital intensive production. SEIPI estimates the industry could lose 40,000 jobs per year begining at the end of the present decade. Thus grandfathering also involves less risk for this "effiicency-seeking" industry and will provide their investors confidence to remain long-term.

[1] Accompanied by 2,660,000 indirect jobs based on multiplier computed by a UA&P study

The groups repeat their appeal to ensure that amendments to CREATE will clarify that **existing RBEs can register their expansion or renew their incentives** to send a clear message to existing foreign investors that their continued stay in the Philippines will be mutually beneficial. In this regard, the groups appreciate the statement of chairperson Senator Cayetano that an amendment to this effect will be introduced.

Regarding the CIT, it was reiterated that amendments hopefully will allow **the CIT rate reduction to reach 20% in 2025, two years sooner than 2027,** with a 1% annual reduction in 2021, 2022, 2023. 2024, and 2025. This proposal should bring the Philippines closer to the ASEAN average sooner and provide substantial further relief to the country's pandemic-stressed corporations.

The group thanks the entire Senate for tirelessly going through the deliberations and investing valuable time and effort to this very critical piece of legislation. All the stakeholder companies have in one way or another faced immense challenges give the current pandemic and ensuing global economic situation but have nevertheless continued to support the country by providing much needed jobs and maintaining their export activities as much as foreign market demand and country competitiveness allows. There is a consistent desire to retain their business interests in the Philippines as well as expand, resources permitting. **We believe that the above amendments are crucial to ensure that the Philippines can compete for more foreign investment in future years and preserve and increase job opportunities for Filipinos.**

AMCHAM PHILIPPINES

ANZCHAM Philippines

PAMURI

PHILEA

SEIPI

US-ASEAN BUSINESS COUNCIL, INC.

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American Chamber of Commerce of the Philippines
Australian-New Zealand Commerce of the Philippines
Canadian Chamber of Commerce of the Philippines
Confederation of Wearable Exporters of the Philippines
European Chamber of Commerce of the Philippines
Information Technology and Business Process Association of the Philippines
Japanese Chamber of Commerce & Industry of the Philippines
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Philippine Association of Multinational Companies Regional Headquarters, Inc.
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