

# The Foreign Chambers of the Philippines



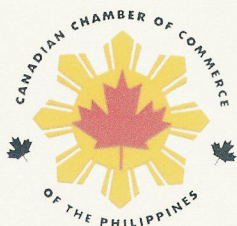
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Philippine Association of Multinational Companies Regional Headquarters, Inc.

## Statement on the Proposed Senate Ways and Means Committee Reported Bill On Rationalization of Fiscal Incentives

### Entitled "The Consolidated Investments and Incentives Code of the Philippines"



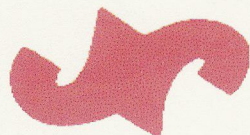
The Joint Foreign Chambers have supported the proposed Rationalization of Fiscal Incentives legislation for several years, including (with some exceptions) H. B. No 3295 approved by the House on January 18, 2005. Because there are many incentives contained in many laws and administered by many incentive-awarding bodies, rationalization is a necessary reform.



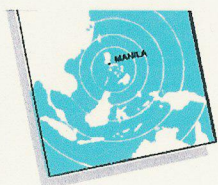
For many years the Department of Finance and the Department of Trade and Industry have disagreed over how fiscal incentives are awarded to new investment projects. Greater consensus within the Executive Branch seems to us an important goal, and we encourage closer coordination. The Government must assure that generous incentives are not granted to projects that will happen without incentives. Equally important, the Government should grant incentives to investment projects which would otherwise go to competing countries which offer more attractive incentives and more favorable business conditions. Also, the Government should have the authority to grant incentives to projects in priority industries in accordance with widely agreed-upon national industrial policy, for example, baseload power plants and other large capital-intensive infrastructure projects, foreign-tourist oriented resort projects and foreign-retiree and medical facilities, export of goods and IT and other services, and projects in less-developed regions.



The Philippine Government should have sufficient authority to be flexible in competition with other countries to attract "strategic" investment projects. Such authority should be as good as current best practice in Asia and include generous fiscal incentives, training deductions, provision of infrastructure and the like, but always given only if needed for the investment project to be realized.

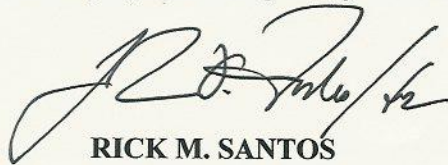


Much attention has recently been given to a report prepared by several economists at the University of the Philippines and Ateneo entitled "The Case of the Missing Tax Revenues." Known as the Reside Report as its principal author Dr. Renato Reside, its analysis suggests the deteriorating condition of Philippine infrastructure and education has been caused by an excess awarding of fiscal incentives. While we are not in the position to know the extent to which incentives awarded by the BOI and other agencies properly awarded, we believe the main reasons for the problems of infrastructure and education are the high population growth rate, "leakages" in revenue collection and corruption in government spending. Although our membership includes all large foreign investors in the Philippines, the Joint Foreign Chambers were not consulted by the economists who prepared the Reside Report.



We understand the Senate Ways and Means Committee may soon report out its version of the Fiscal Incentives Rationalization Bill. The foreign chambers have not been invited to hearings nor provided a copy of that bill by the Senate or the Executive. However, copies of the draft report are circulating and have been reported in the press. We have read in the press and been told that the Senate committee proposal will depart significantly from current practice under EO 226 as well as the House-passed bill and will contain major changes in the current composition and practice of awarding fiscal incentives.

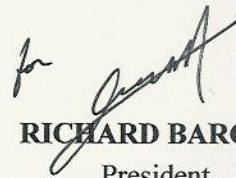
We urge the Government and the Congress to proceed cautiously and only after taking time to fully study the potential impact - positive or negative - of the proposed Senate bill. A number of our members, including several of the largest foreign investors in the Philippines, have expressed concern about proposed changes. Accordingly, the Joint Foreign Chambers would like to have time to poll our members on how proposed changes may effect future investment decisions in the Philippines.



**RICK M. SANTOS**

President

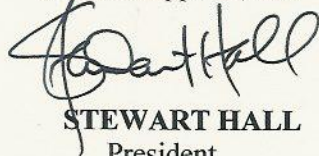
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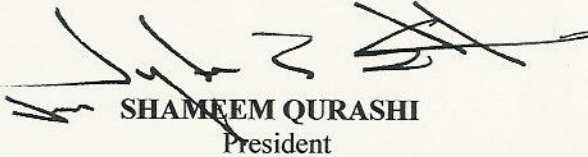
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