



December 10, 2007



Her Excellency Gloria Macapagal Arroyo
President
Republic of the Philippines
Malacanang Palace
Manila

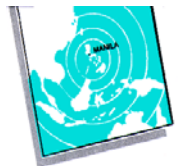


Dear Madame President:

We write with reference to our July 12 letter recommending priority approval of 12 proposed laws on our list of National Competitiveness Investment Climate Legislation. We are pleased to note that 6 of the measures we recommended are on the list of priority measures approved by the LEDAC on August 7, 2007.



Seven of the 12 laws we recommended in our July 12 letter, which were close to passage in the 13th Congress, are not controversial and therefore could be quickly approved. Most were certified as urgent during the last Congress.



We have met with Senate President Villar on August 23 and House Speaker de Venecia and several key committee chairpersons on September 23 to encourage early passage of these bills.

Now that the Congress has been in session for three months, we would like to encourage the forthcoming December 11 LEDAC meeting to agree on early target dates for enactment of these measures. We respectfully urge this be done as soon as possible to improve our country's competitiveness.



Following the SONA, Senior Deputy Executive Secretary Joaquin C. Lagonera asked us to convey our views on which bills in the 14th Congress we endorse. This letter responds to that request. We hope this information will be useful to you and our legislators.



We endorse seven "Ready-to-Go" measures as follows:



1. Credit Information System (CIS) Act. We support **HB 0118** and **SB 1881** (Rep. Angara and Sen. Angara). This important reform will improve SME access to credit while reducing the cost of bank lending, improving lenders' performance and promoting financial discipline among borrowers. A CIS will improve the rank of the Philippines in the "Getting Credit" indicator of the World Bank "Doing Business" report and in the "Financial Market Sophistication" pillar of the WEF "Global Competitiveness Report."



2. Customs Broker Act Amendment. While the five proposed bills differ little from each other, we prefer **HB 0762** (Rep. Cua) which amends Section 29 of RA 9280 by removing the prohibition on corporate practice of customs brokerage. Many large exporters, especially in the electronic sector, engage in in-house brokerage to save money and time. It also introduces a capitalization requirement. We propose the word “in-house” be added wherever “customs brokerage” is defined in HB 0762. By facilitating the movement of goods in and out of the country, these amendments will increase our country rating in the “Trading Across Borders” indicator of the World Bank “Doing Business” report, the “Goods Market Efficiency” pillar of the WEF “Global Competitiveness Report,” and the “Government Efficiency” factor of the IMD “World Competitiveness Yearbook.”

3. Land Administration Reform Act (LARA). We support **HB 2122** (Rep. Rodriguez). Over 50 percent of national wealth is tied to land; land is the principal collateral for bank loans and a main source of local government revenue. The current land titling system situation is costly and time-consuming. Administrative reform to integrate different agencies will address the current inefficient practice of land titling and lead to increased investment, reduced corruption and a stronger banking system. This reform will also increase land-based investment. LARA will improve our ranking in the “Registering Property” indicator of the World Bank “Doing Business” report.

4. National Tourism Policy. We continue to support the bill of Sen. Gordon re-introduced as **SB 0088**, with the exception of the provision to provide an income tax incentive of three percent on gross receipts for approved tourism projects. We believe this to be overly generous and inconsistent with the policy of limiting and rationalizing fiscal incentives. We support a five percent tax instead, identical to the fiscal incentive available under the PEZA Act.

5. Personal Equity Retirement Act (PERA). **SB 1882 (Sen. Angara)**, passed 2nd reading in the Senate on November 21, and **HB 94 (Rep. Angara)** encourage millions of Filipinos, both here and working abroad, to save for retirement and will make more financial resources available to build the domestic capital market. We support early approval of these bills, provided that the effectivity on the tax provisions be set for 2009 so as not to deter the government from meeting its revenue target.

6. Renewable Energy Act. Over a dozen bills on this issue have been introduced. We support **SB 1303** (Sen. Zubiri), which came close to passing in the last Congress and could be passed very quickly in the 14th Congress. With petroleum prices rising, the country must place increasing emphasis on developing indigenous, renewable sources of energy.

7. Simplified Net Income Tax Reform Act. We support **HB 1809** (Rep. Singson) to increase the inclusion of self-employed and professionals in income tax collection, while reducing the paperwork they must provide through the “Simplified Net Income Taxation Scheme (SNITS). However, the proposal passed by the House in the 13th Congress to raise to over P100,000 the income level of wage earners exempted from income tax is not included in HB 1809. We have supported an income tax exemption for low income wage earners in the past and believe this also should be legislated in the current Congress. Enactment of the SNITS Act may improve our score in the “Government Efficiency” factor of the IMD World Competitiveness Yearbook.”

We also endorse ten “Next-to-Go” legislative measures as follows:

1. BOT Law Amendments. We have submitted proposed amendments to reflect global best practices to Speaker de Venecia and Senate President Villar. The tremendous potential of BOT for badly-needed infrastructure has been neglected for the last decade. This legislation represents the first amendments to the basic law in a decade. Amendments to the BOT Law will make private participation in public infrastructure projects more attractive and could increase our rating in the “Infrastructure” factor of the IMD “World Competitiveness Yearbook” and the “Infrastructure” pillar of the WEF “Global Competitiveness Report.”

2. Fiscal Incentives Rationalization. We support **HB 2530** (Rep. Cua) with amendments submitted to the HWMC by the Joint Foreign Chambers. After a decade of fruitless effort on this issue, the time to pass reform legislation is the current Congress. We support an end to awarding “redundant” fiscal incentives to new investment projects which deprive the government of revenue needed to improve physical and social infrastructure. At the same time, there is a need to restructure implementing agencies by separating industrial policy from the Board of Investment, which should be strengthened as a promotion agency. Income tax holidays should be retained to stimulate growth in highly-targeted investment areas, such as export goods and services, where the country competes globally, for critical infrastructure projects and for extremely strategic investment projects.

3. Freedom of Access to Information. Filed by Reps. Tañada and De Guzman, **HB 2059** seeks to provide a clear, uniform and speedy procedure for access to information of public interest in the possession of any government agency. It sets administrative, criminal and civil liability for violation of the right to information and provides proscription against excessive costs of access to information. Enactment of this measure should improve our ranking under the “Institutions” pillar of the WEF “Global Competitiveness Report” and the “Government Efficiency” factor of the IMD “World Competitiveness Yearbook.”

4. New Labor Code. The current Labor Code is over three decades old and needs to be in tune with our times. House Labor Committee chairman

Gunigundo has introduced **HB 2112** and started a thorough review of the Labor Code. Our associations and chambers will cooperate with the Congressional Labor Committees to meet the challenge of modernizing our Labor Code in order to improve our competitiveness. Amendments that improve labor policies and regulation should help raise our ranking in the “Government Efficiency” factor of the IMD “World Competitiveness Yearbook,” the “Labor Market Efficiency” pillar of the WEF “Global Competitiveness” Report and the “Employing Workers” indicator of the World Bank “Doing Business” report.

5. Local Government Code Amendment (re investment). We recommend that Section 193 of Republic Act 7160, the Local Government Code of 1991, be amended to prevent situations where local governments tax or otherwise take actions that restrict business activity which have been granted incentives and permits by the Philippine Government in accordance with national laws. Language for an amendment has been submitted to Speaker de Venecia and Senate President Villar.

6. Magna Carta for SME Amendments (Foreclosure Provision). We are concerned that the mandatory lending to MSMEs (increased to ten percent) interferes with free operation of the market, has not achieved its intended policy objective of increasing credit and adds to the cost of lending. The Senate has passed SB 1646 which contains this provision. We are proposing to the House an amendment which would increase credit for SME by amending Section 47 of the General Banking Law of 2000 which concerns foreclosures of real estate mortgages. Foreign banks are currently not providing credit to many SMEs because of limits on their foreclosure rights. The amendment will allow fair and equitable auction processes and disposition rights to enable foreign banks to effectively secure loans with real estate properties. The result will be more credit for a broader segment of the economy.

7. Pre-Need Code. HB 159 (Rep. Angara) and **SB 64** (Sen. Angara) propose to establish a new regulatory framework for the operation of pre-need companies and to protect plan holders. These measures seek to address the growing problems of the pre-need industry such as the trust fund deficiencies encountered by prominent pre-need companies. The proposed Pre-Need Code mandates the Insurance Commission, not the SEC, to exercise supervision of pre-need firms.

8. Financial Sector Taxes Rationalization. A comprehensive study initiated by the Capital Market Development Council (CMDC) delving on tax administration reforms toward administrative simplicity, fairness or equity and economic neutrality or efficiency in the financial sector has been completed in July 2007. This is meant to rationalize taxation to level the playing field with regard to applicable tax among the different players, thereby promoting capital market development. CMDC is developing draft legislation.

9. Foreign Investment Restrictions Rationalization Act. The JFC is developing draft legislation.

10. Foreign Professional Partners in Development Act. The JFC is developing draft legislation.

Other Legislation on the LEDAC Common Legislative Agenda

We would like to take this occasion to comment on several other legislative measures on the LEDAC Common Legislative Agenda for the 14th Congress (based on the August 7, 2007 LEDAC meeting).

1. Amendments to the EPIRA Law to allow more access and competition.

We strongly question the need to amend the 70% threshold provision of the law which must be met before open access can commence. HB 3124 as approved by the House Committee on Energy would lower the threshold to 50%. The argument in favor of the amendment is that it would allow open access sooner. The arguments against are that (1) PSALM expects to attain 50% genco privatization in the very near future (possibly this month) and to reach the 70% threshold in 2008 and (2) allowing NPC to control 50% of its gencos leaves too large a percentage of installed capacity in the hands of the public sector, when the original intention of the law was full privatization. We urge the government to maintain current policy at a time when its power privatization program has become highly successful and the 70% threshold is likely to be met in 2008. Investors prefer policy consistency.

2. Creation of the Civil Aviation Authority. We support HB 3156 (which has passed the House on second reading) to comply better with international aviation standards.

3. Affordable Quality Medicines. We support initiatives to improve access to high quality and affordable medicines. However, we are concerned that current bills pending before the Philippine Senate and the House of Representatives may compromise the safety of Filipino patients; amendments to the intellectual property laws may be inconsistent with Philippine obligations to international agreements (such as TRIPS) and price control provisions will negatively project the Philippines to the international investment community. Uncontrolled parallel importation without an effective and well-funded regulatory agency may result in the proliferation of fake medicines and will present a vigilance nightmare for regulators to the detriment of Filipino patients. Uncontrolled parallel importation will also undermine the efforts to make the Philippines a destination for medical tourism. Additionally, constructive ideas have been developed to address the limited access of a substantial segment of Philippine society to healthcare and medicines. We are ready to discuss these proposals.

Sincerely,



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of the Philippines, Inc.



RICHARD BARCLAY
President
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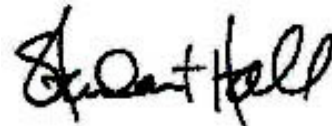
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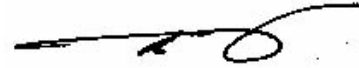
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