



HOUSE OF REPRESENTATIVES

H. No. 5563

BY REPRESENTATIVES SINGSON (R.) AND DURANO, PER COMMITTEE REPORT
No. 1540

AN ACT ESTABLISHING THE SPECIAL ECONOMIC ZONE AND
FREEPORT IN THE PROVINCE OF ILOCOS SUR, CREATING
FOR THIS PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC
ZONE AND FREEPORT AUTHORITY, APPROPRIATING FUNDS
THEREFOR AND FOR OTHER PURPOSES

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

- 1 SECTION 1. *Short Title.* -- This Act shall be known as the "Ilocos Sur
2 Special Economic Zone and Freeport Act of 2008".
- 3 SEC. 2. *Declaration of Policy.* -- It is hereby declared the policy of the
4 State to actively encourage, promote, induce and accelerate the sound and
5 balanced industrial, economic and social development of the country in order
6 to provide jobs to the people especially those in the rural areas, increase
7 productivity and individual and family income, and thereby improve the level
8 and quality of living conditions through the establishment, among others, of
9 special economic zones and freeports in suitable and strategic locations in the
10 country and through measures that will attract legitimate and productive
11 foreign investments.

1 SEC. 3. *Creation of the Ilocos Sur Special Economic Zone and*
2 *Freeport.* – In pursuit of the foregoing declared policy and subject to the
3 concurrence of the concerned local government units (LGUs) of Ilocos Sur
4 affected by the zone, there is hereby established a special economic zone and
5 freeport in the Province of Ilocos Sur to be known as the Ilocos Sur Special
6 Economic Zone and Freeport, hereinafter referred to as the Ilocos Sur
7 Ecozone. The Ilocos Sur Ecozone shall cover the entire Salomague Cove and
8 the area embraced by the barangays of Dardarat, Solotsolot, Surngit and
9 Refaro in the Municipality of San Juan as well as Dardarat, Pila, Sagayaden,
10 Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and
11 Baclig in the Municipality of Cabugao. The specific metes and bounds of the
12 Ilocos Sur Ecozone shall be more particularly defined in a presidential
13 proclamation that shall be issued for this purpose.

14 SEC. 4. *Governing Principles.* – The Ilocos Sur Ecozone shall be
15 managed and operated by the Ilocos Sur Special Economic Zone and Freeport
16 Authority, hereinafter referred to as the ISSEZFA, created under Section 10 of
17 this Act, under the following principles:

18 (a) Within the framework and limitations of the Constitution and
19 applicable provisions of the Local Government Code, the Ilocos Sur Ecozone
20 shall be developed into and operated as a decentralized, self-reliant and
21 self-sustaining industrial, commercial/trading, agro-industrial, tourist, banking,
22 financial and investment center with suitable residential areas;

23 (b) The Ilocos Sur Ecozone shall be provided with transportation,
24 telecommunications and other facilities needed to attract legitimate and
25 productive investments, generate linkage industries and employment
26 opportunities for the people of the Province of Ilocos Sur and its neighboring
27 towns and cities;

1 (c) The Ilocos Sur Ecozone may establish mutually beneficial
2 economic relations with other entities or enterprises within the country or,
3 subject to the administrative guidance of the Department of Foreign Affairs
4 (DFA), the Philippine Economic Zone Authority (PEZA) and/or the
5 Department of Trade and Industry (DTI), with foreign entities or enterprises;

6 (d) Foreign citizens and companies owned by non-Filipinos in
7 whatever proportion may set up enterprises in the Ilocos Sur Ecozone, either
8 by themselves or in joint venture with Filipinos in any sector of industry,
9 international trade and commerce within the Ilocos Sur Ecozone;

10 (e) The Ilocos Sur Ecozone shall be managed and operated as a
11 separate customs territory, thereby ensuring the free flow or movement of
12 goods and capital within, into and out of the Ilocos Sur Ecozone, and shall
13 likewise provide incentives such as tax- and duty-free importations of raw
14 materials and capital equipment to registered enterprises located therein.
15 However, exportation or removal of goods from the territory of the Ilocos Sur
16 Ecozone to the other parts of the Philippine territory shall be subject to
17 customs duties and taxes under the Tariff and Customs Code of the
18 Philippines, as amended, and the National Internal Revenue Code (NIRC) of
19 1997, as amended;

20 (f) The areas comprising the Ilocos Sur Ecozone may be expanded or
21 reduced when necessary. For this purpose, the ISSEZFA, in consultation with
22 the LGUs, shall have the power to acquire either by purchase, negotiation or
23 condemnation proceedings, any private land within or adjacent to the Ilocos
24 Sur Ecozone for the following purposes: (1) consolidation of lands for Ilocos
25 Sur Ecozone development; (2) acquisition of right-of-way to the Ilocos Sur
26 Ecozone; and (3) the protection of watershed areas and natural assets valuable
27 to the prosperity of the Ilocos Sur Ecozone;

1 (g) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be
2 made available for immediate retail sale in the domestic market, subject to the
3 payment of corresponding taxes on raw materials and other regulations that
4 may be formulated by the ISSEZFA, together with the PEZA, the Bureau of
5 Customs (BoC) and the DTI in accordance with the NIRC of 1997, as
6 amended, and the Tariff and Customs Code of the Philippines, as amended.
7 However, in order to protect domestic industries, a Negative List of industries
8 shall be drawn up and regularly updated by the PEZA. Enterprises engaged in
9 industries included in such Negative List shall not be allowed to sell their
10 products locally; and

11 (h) The defense of the Ilocos Sur Ecozone and the security of its
12 perimeter fence shall be the responsibility of the national government in
13 coordination with the Ilocos Sur Ecozone and the LGUs. For this purpose, a
14 special defense team shall be organized to define its power, duties and
15 responsibilities.

16 SEC. 5. *Incentives to Registered Enterprises.* – The ISSEZFA shall
17 provide the following incentives to the registered enterprises located therein to
18 the extent of the activity/project:

19 (a) Income Tax Holiday (ITH) – Registered enterprises shall be
20 entitled to an ITH from the start of their commercial operations to the extent of
21 their activity under the following categories:

22 (1) Category A – Registered domestic enterprises producing/rendering
23 new products/services or having strong backward or forward linkages shall be
24 entitled to a six (6)-year ITH.

25 (2) Category B – Registered export enterprises shall be entitled to a six
26 (6)-year ITH: *Provided, That* the export enterprise complies with the
27 following:

- 1 (i) Large capital investments or sizeable employment generation; or
2 (ii) Uses high level of technology, it shall be entitled to an eight (8)-
3 year ITH.

4 Registered enterprises embarking on new investments that are listed in
5 the current Investment Priorities Plan (IPP) shall be entitled to incentives
6 provided herein pertaining to the new investments and subject to such terms
7 and conditions as the Board of Investments (BOI) may determine.

8 Additional investments in the project shall be entitled to the ITH
9 corresponding to such investments as may be determined by the BOI.
10 Additional ITH may be granted for as long as the investment is made on the
11 same project: *Provided*, That the project is listed in the IPP at the same time
12 the additional investment in the project is made: *Provided, further*, That the
13 entitlement period for additional investments shall not exceed three (3) times
14 the period provided under this subsection: *Provided, however*, That the total
15 ITH period for an export enterprise availing of an eight (8)-year ITH shall not
16 exceed twenty (20) years. Any unused incentives shall therefore be deemed
17 forfeited if not used during the incentive period.

18 Enterprises registered with the ISSEZFA are required to share in the
19 special development fund of the BOI for investment promotion projects of the
20 government equivalent to one percent (1%) of the ITH granted for every
21 application.

22 The Bureau of Internal Revenue (BIR) shall require a registered
23 enterprise availing of the ITH or the net operating loss carryover (NOLCO) to
24 secure a certificate of eligibility from the ISSEZFA before submitting its
25 income tax return (ITR) with the ISSEZFA for validation.

26 Failure to secure certification and/or to file the ITH or the NOLCO
27 availment for validation by the ISSEZFA within forty-five (45) days from the

1 last day of statutory filing date for ITR shall cause the forfeiture of the
2 availment for the taxable period.

3 (b) Net Operating Loss Carryover (NOLCO) – The net operating loss
4 of the business or enterprise during the first three (3) years from the start of
5 commercial operations which have not been previously offset as a deduction
6 from the gross income shall be carried over as a deduction from the gross
7 income for the next five (5) consecutive years immediately following the year
8 of such loss: *Provided, however*, That operating loss resulting from availment
9 of incentives provided in this Code shall not be entitled to the NOLCO.

10 Registered enterprises availing of the ITH as herein provided shall not
11 be entitled to avail of the NOLCO.

12 (c) Imposition of a Tax Rate of Five Percent (5%) on Gross Income
13 Earned (GIE) – Except for real property tax on land, no local and national
14 taxes, as prescribed under Republic Act No. 8424, also known as “the National
15 Internal Revenue Code of 1997, As Amended”, such as the income tax, the
16 excise tax and the franchise taxes shall be imposed on business establishments
17 operating within the Ilocos Sur Ecozone. In lieu thereof, there shall be
18 imposed a tax of five percent (5%) of the gross income earned by all the
19 business enterprises within the ISSEZFA and remitted as follows:

20 (1) *Two per centum* (2%) to the national government;

21 (2) *Two per centum* (2%) to the Province of Ilocos Sur;

22 (3) *One-half per centum* (1/2%) to be shared by the municipalities
23 affected by the declaration of the ISSEZFA in proportion to their income from
24 business activities of the zone; and

25 (4) *One-half per centum* (1/2%) to the ISSEZFA.

26 All persons and service establishments in the Ilocos Sur Ecozone that
27 are not covered by Section 5 hereof shall be subject to national and local taxes
28 under the NIRC of 1997, as amended, and the Local Government Code.

1 (d) Accelerated Depreciation – Accelerated depreciation of plant,
2 machinery and equipment that are reasonably needed and actually used for the
3 production and transport of goods and services may be allowed using a rate not
4 exceeding twice the rate which would have been used had the annual allowance
5 been computed in accordance with the rules and regulations prescribed by the
6 Secretary of Finance and the provisions of the NIRC of 1997, as amended.

7 (e) Capital Equipment Incentives – Importations of capital equipment,
8 spare parts, tools and dye, or those required for pollution abatement and
9 control, cleaner production and waste reduction including consignment thereof
10 by registered enterprises upon the effectivity of this Act shall be exempted to
11 the extent of one hundred percent (100%) of the taxes and customs duties:
12 *Provided*, That the importation thereof shall be used exclusively by the
13 registered enterprise in its registered activity within the Ilocos Sur Ecozone:
14 *Provided, further*, That the importation of machinery and equipment and
15 accompanying parts shall comply with the following conditions:

16 (1) These are not manufactured domestically in sufficient quantity, of
17 comparable quality and at reasonable prices;

18 (2) These are reasonably needed and will be used exclusively by the
19 registered enterprise in the manufacture of its products, unless prior approval
20 of the ISSEZFA is secured for the part-time utilization of said equipment in a
21 nonregistered activity to maximize usage thereof or the proportionate taxes and
22 duties are paid on a specific equipment and machinery being permanently used
23 for nonregistered activities; and

24 (3) Approval of the ISSEZFA was obtained by the registered enterprise
25 for the importation of such machinery, equipment and spare parts.

26 Approval of the ISSEZFA must be secured before any sale, transfer or
27 disposition of the imported capital equipment, machinery or spare parts is
28 made: *Provided*, That if such sale, transfer or disposition is made within the

1 first five (5) years from the date of importation, any of the following conditions
2 must be present:

3 (i) If made to another enterprise enjoying tax and duty exemption on
4 imported capital equipment;

5 (ii) If made to another enterprise not covered by subparagraph (i)
6 hereof, upon payment of the taxes and duties on the net book value of the
7 capital equipment to be sold;

8 (iii) Exportation of the capital equipment, machinery, spare parts or
9 source documents or those required for pollution abatement and control; and

10 (iv) For reasons of proven technical obsolescence.

11 When the aforementioned sale, transfer or disposition is made under any
12 of the conditions provided for in the foregoing paragraphs other than
13 subparagraph (ii), the registered firm shall not pay the taxes and duties waived
14 on such items: *Provided, further,* That if the registered enterprise sells,
15 transfers or disposes the aforementioned imported items without prior approval
16 within five (5) years from the date of importation, the registered enterprise and
17 the vendee, transferee or assignee shall be solidarily liable to pay twice the
18 amount of the tax and duty exemption given it: *Provided, finally,* That even if
19 the sale, transfer or disposition of the capital equipment, machinery or spare
20 parts is approved after five (5) years from the date of importation, the
21 registered enterprise is still liable to pay the taxes and duties based on the net
22 book value of the capital equipment, machinery or spare parts if it has violated
23 any of its registration terms and conditions. Otherwise, it shall no longer be
24 subject to the payment of the taxes and duties waived thereon.

25 The purchase of machinery, capital equipment, raw materials, supplies,
26 parts and semi-finished products used in the fabrication of machinery and
27 capital equipment by a registered export-oriented enterprise from a domestic
28 manufacturer shall be subject to zero percent (0%) value-added tax.

1 The registered export-oriented enterprise shall be granted a tax credit
2 equivalent to the amount of duties that would have been waived on the
3 machinery, capital equipment, raw materials, supplies, parts and semi-finished
4 products used in the fabrication of machinery and capital equipment, had these
5 items been imported, upon its submission to the Department of Finance (DOF)
6 of the bill of materials evidencing the transaction value of such and other
7 pertinent documents, for verification and proper endorsement.

8 The registered export enterprise availing of the incentive provided under
9 the immediately preceding two (2) paragraphs shall be subject to the following:

10 (i) that said capital equipment, machinery and spare parts will be used
11 exclusively by the registered enterprise in its registered activity; (ii) that the
12 capital equipment or machinery where the raw materials, supplies, parts and
13 semi-finished products were used would have qualified for tax- and duty-free
14 importation; and (iii) that the approval of the ISSEZFA is obtained by the
15 registered enterprise. If the registered enterprise sells, transfers or disposes of
16 these machineries, capital equipment and spare parts, the provision in the
17 preceding paragraphs for such disposition shall apply.

18 This incentive shall be deemed waived if application for tax credit under
19 this subsection was not filed within one (1) year from the date of delivery.

20 (f) The importation of source documents by information technology-
21 registered enterprises shall be eligible for tax- and duty-free importation.

22 (g) Raw Materials Incentives – Every registered export-oriented
23 enterprise shall enjoy a tax credit equivalent to the internal revenue taxes and
24 customs duties paid on the supplies, raw materials and semi-manufactured
25 products: *Provided*, That the same are not sufficient in quantity, quality or are
26 not competitively priced which are used in the manufacture, processing or
27 production of its export products forming part thereof, exported directly and
28 indirectly by the registered export-oriented enterprise based on the actual taxes

1 and duties paid for such materials/supplies/semi-manufactured products by the
2 registered enterprise.

3 This incentive shall be deemed waived if application for tax credit under
4 this subsection was not filed within one (1) year from the date of exportation of
5 the final product.

6 (h) Incentives on Breeding Stocks and Genetic Materials – Importation
7 of breeding stocks and genetic materials within ten (10) years from the date of
8 registration of commercial operations of the enterprise shall be exempt from all
9 taxes and duties: *Provided*, That such breeding stocks and genetic materials
10 are reasonably needed in the registered activity and approved by the ISSEZFA.

11 The availment of the incentives by a registered enterprise shall be
12 subject to the following: (1) that said breeding stocks and genetic materials
13 would have been qualified for tax- and duty-free importation under the
14 preceding paragraph; (2) that the breeding stocks and genetic materials are
15 reasonably needed in the registered activity; (3) that approval of the ISSEZFA
16 has been obtained by the registered enterprise; and (4) that the purchase is
17 made within ten (10) years from the date of registration of commercial
18 operations of the registered enterprise.

19 This incentive shall be deemed waived if application for tax credit under
20 this subsection is not filed within one (1) year from the date of delivery.

21 (i) Deferred Imposition of the Minimum Corporate Income Tax – The
22 minimum corporate income tax (MCIT) of two percent (2%) of the gross
23 income as of the end of the taxable year shall be imposed when the MCIT is
24 greater than the income tax computed under the NIRC of 1997, as amended,
25 for the taxable year: *Provided, however*, That said MCIT shall be imposed
26 only after the enterprise's entitlement period to the income tax-based
27 incentives.

1 (j) Tax Treatment of Merchandise in the Ilocos Sur Ecozone – The free
2 trade/freeport zone shall be operated and managed as a separate customs
3 territory ensuring free flow or movement of goods within, into and exported
4 out of the free trade/freeport zone. Importations of raw materials and capital
5 equipment are tax- and duty-free. However, exportations or removal of goods
6 from the free trade/freeport zones to the other parts of the Philippine territory
7 shall be subject to customs and internal revenue regulations.

8 (i) Except as otherwise provided in this Act, foreign and domestic
9 merchandise, raw materials, supplies, articles, equipment, machineries, spare
10 parts and wares of every description, except those prohibited by law, brought
11 into the zone to be sold, stored, broken up, repacked, assembled, installed,
12 sorted, cleaned, graded or otherwise processed, manufactured, mixed with
13 foreign or domestic merchandise, whether directly or indirectly related in such
14 activity, shall not be subject to customs and internal revenue laws and
15 regulations nor to local tax ordinances, any provision of law to the contrary
16 notwithstanding.

17 (ii) Merchandise purchased by a registered Ilocos Sur Ecozone
18 enterprise, from the customs territory and subsequently brought into the export
19 processing zone, shall be considered as export sales and exportation thereof
20 shall be entitled to the benefits allowed by law for such transaction.

21 (iii) Domestic merchandise sent from the Ilocos Sur Ecozone to the
22 customs territory shall, whether or not combined with or made part of other
23 articles likewise of local origin or manufactured in the Philippines while in the
24 export processing zone, be subject to internal revenue laws of the Philippines
25 as domestic goods sold, transferred or disposed of for local consumption.

26 (iv) Merchandise sent from the Ilocos Sur Ecozone to the customs
27 territory shall, whether or not combined with or made part of other articles
28 while in the zone, be subject to rules and regulations governing imported

1 merchandise. The duties and taxes shall be based on the value of said
2 imported materials (except when the final product is exempt).

3 (v) Domestic merchandise on which all internal revenue taxes have
4 been paid, if subject thereto, and foreign merchandise previously imported on
5 which taxes have been paid, or which have been admitted free of duty and tax,
6 may be taken into the Ilocos Sur Ecozone from the customs territory of the
7 Philippines and be brought back thereto free of quotas, duty or tax.

8 (vi) Subject to such regulations respecting identity and safeguarding of
9 revenue as the ISSEZFA may deem necessary, when the identity of an article
10 entered into the export processing zone under the immediately preceding
11 *paragraph has been lost, such article when removed from the zone and taken to*
12 *the customs territory shall be treated as foreign merchandise entering the*
13 *country for the first time, under the provisions of the Tariff and Customs Code*
14 *of the Philippines, as amended.*

15 (vii) Articles produced or manufactured in the Ilocos Sur Ecozone and
16 exported therefrom shall, on subsequent importation into the customs territory,
17 be subject to the import laws applicable to like articles manufactured in a
18 foreign country.

19 (viii) Unless the contrary is shown, merchandise taken out of the export
20 processing zone shall be considered for tax purposes to have been sent to
21 customs territory.

22 (2) Tax Treatment of Services in the Ilocos Sur Ecozone – (i) Sale of
23 service by an entity from the customs territory to a registered ecozone or free
24 trade enterprise, or by a registered ecozone or freeport enterprise to another
25 ecozone or freeport enterprise shall be treated as indirect export and hence,
26 entitled to the benefits allowed by law for such transaction.

1 (ii) Sale or service by a registered ecozone or freeport enterprise to the
2 customs territory shall be subject to applicable internal revenue laws and
3 regulations.

4 (k) Registered export-oriented enterprise shall have access to the
5 utilization of the bonded warehousing system in accordance with the rules and
6 regulations of the BoC.

7 (l) Employment of Foreign Nationals – Subject to the provisions of
8 *Section 29 of Commonwealth Act No. 613*, as amended, a registered enterprise
9 may employ foreign nationals in supervisory or technical positions for a period
10 not exceeding ten (10) years from its registration: *Provided*, That when the
11 majority of the capital stock of a registered enterprise is owned by foreign
12 investors, the positions of the president, treasurer and general manager or their
13 equivalents may be retained by foreign nationals beyond the period set forth
14 herein and such officer is the owner or a stockholder owning at least ten
15 percent (10%) of the outstanding capital stock of the registered enterprise and
16 he/she remains the owner or maintains his/her stockholdings therein.

17 Foreign nationals under employment contract within the purview of this
18 incentive, their spouses and unmarried children under twenty-one (21) years of
19 age, who are not excluded by Section 29 of Commonwealth Act No. 613, as
20 amended, shall be permitted to enter and reside in the Philippines during the
21 period of employment of such foreign nationals. They shall be issued
22 multiple-entry visas, renewable every two (2) years, and shall be allowed to
23 enter and leave the Philippines without further documentary requirements other
24 than valid passports or other travel documents in the nature of passports.

25 The foreign nationals admitted herein, as well as their respective
26 spouses and dependents, shall be exempt from: (1) obtaining alien certificates
27 of registration and emigration clearance certificates; and (2) securing alien

1 employment permits (AEP) and all types of clearances, permits, licenses or
2 their equivalents required by any government department or agency.

3 SEC. 6. *Incentive to Investors.* – Any foreign national covered under
4 subsection (m) of Section 5 of this Act, who invests an amount of One hundred
5 fifty thousand US Dollars (US\$150,000.00), either in cash and/or equipment,
6 in a registered enterprise shall be entitled to an investor's visa: *Provided, That,*

7 (a) he is at least eighteen (18) years of age;

8 (b) he has not been convicted of a crime involving moral turpitude;

9 (c) he is not afflicted with any loathsome, dangerous or contagious
10 disease; and

11 (d) he has not been institutionalized for any mental disorder or
12 disability: *Provided, further,* That in securing the investor's visa, the alien-
13 applicant shall be entitled to the same privileges provided for under the last
14 paragraph of Section 5(m) herein.

15 As a holder of an investor's visa, an alien shall be entitled to reside in
16 the Philippines while his investment subsists. For this purpose, he shall submit
17 an annual report, in the form duly prescribed for the purpose, to prove that he
18 has maintained his investment in the country. Should said alien withdraw his
19 investments from the Philippines, then the investor's visa issued to him shall
20 automatically expire.

21 SEC. 7. *Administration, Implementation and Monitoring of Incentives.*

22 -- The ISSEZFA shall be responsible for the administration and implementation
23 of the incentives granted to its respective registered enterprises: *Provided,*
24 That any incentive administration policy adopted by the BOI for incentives
25 common to all registered enterprises shall be uniformly applied by the
26 ISSEZFA.

27 The following are the duties and responsibilities of the ISSEZFA in the
28 administration of incentives:

1 (a) Adopt consistent procedures of administering incentives in
2 accordance with the guidelines established by the BOI and to amend the same
3 when necessary;

4 (b) Adopt and implement systems and procedures affecting trade and
5 customs policies in accordance with the requirements established by the DOF
6 and the BOI and to amend the same when necessary;

7 (c) Submit data and information to the DOF and the BOI as required by
8 any of these agencies to ascertain consistency of investment policies and
9 incentives, including their implementation as provided in (a) and to ensure
10 proper implementation of systems and procedures affecting trade and customs
11 policies as provided in (b); and

12 (d) Perform all other duties and responsibilities as may be required by
13 the President of the Philippines.

14 For proper monitoring, the BOI shall create a single database of all
15 incentives provided by all incentives-granting agencies, including the
16 ISSEZFA and all information thereto. Double-entry accounting shall be done
17 by the BOI in recording all incentives granted by the government for
18 transparency purposes.

19 SEC. 8. *Extension of Period of Availment.* – The availment period of
20 the incentives provided herein may be extended by the ISSEZFA in the event
21 that the registered enterprise suffers operational *force majeure* or any event
22 equivalent thereto, impairing its viability.

23 SEC. 9. *Duration of Incentives.* – Enterprises registered with the
24 ISSEZFA may enjoy ITH or NOLCO granted by the latter prior to the
25 availment of the five percent (5%) GIE.

26 Fiscal incentives under this Act shall be terminated after a cumulative
27 period of twenty (20) years from the date of registration or the start of
28 commercial operations, whichever is applicable, except that it could be

1 extended with regard to industries deemed indispensable to national
2 development as determined by the ISSEZFA.

3 The industries exempted from this provision shall be recommended by
4 the BOI, with the concurrence of the secretaries of the DOF and the DTI.

5 SEC. 10. *Creation of the Ilocos Sur Special Economic Zone and*
6 *Freeport Authority.* – There is hereby created a body corporate to be known as
7 the Ilocos Sur Special Economic Zone and Freeport Authority, hereinafter
8 referred to as the ISSEZFA, which shall manage and operate the Ilocos Sur
9 Ecozone in accordance with the provisions of this Act. This corporate
10 franchise shall expire in fifty (50) years counted from the first year after the
11 effectivity of this Act, unless otherwise extended by Congress. It shall be
12 organized within one hundred eighty (180) days after the effectivity of this Act.

13 SEC. 11. *Principal Office of the ISSEZFA.* – The ISSEZFA shall
14 maintain its principal office in the Municipality of Cabugao, Province of Ilocos
15 Sur, but it may establish branches within the Philippines as may be necessary
16 for the proper conduct of its business.

17 SEC. 12. *Powers and Functions of the ISSEZFA.* – The ISSEZFA shall
18 have the following functions:

19 (a) Operate, administer, manage and develop the Ilocos Sur Ecozone
20 according to the principles and provisions set forth in this Act;

21 (b) Recommend to the President of the Philippines the issuance of a
22 proclamation to fix and delimit the site of the Ilocos Sur Ecozone;

23 (c) Register, regulate and supervise the enterprises in the Ilocos Sur
24 Ecozone in an efficient and decentralized manner, subject to existing laws;

25 (d) *Coordinate with LGUs and exercise general supervision over the*
26 *development plans, activities and operations of the Ilocos Sur Ecozone;*

27 (e) Authorize or undertake, on its own or through others, and regulate
28 the establishment, operation and maintenance of public utilities, services and

1 infrastructure in the Ilocos Sur Ecozone such as shipping, barging, stevedoring,
2 cargo handling, hauling, warehousing, storage of cargo, port services or
3 concessions, piers, wharves, bulkheads, bulk terminals, mooring areas, storage
4 areas, roads, bridges, terminals, conveyors, water supply and storage, sewerage,
5 drainage, airport operations in coordination with the Civil Aeronautics Board,
6 and such other services or concessions or infrastructure necessary or incidental
7 to the accomplishment of the objectives of this Act: *Provided, however,* That
8 the private investors in the Ilocos Sur Ecozone shall be given priority in the
9 awarding of contracts, franchises, licenses, permits for the establishment,
10 operation and maintenance of utilities, services and infrastructure in the Ilocos
11 Sur Ecozone;

12 (f) Regulate and undertake the establishment, operation and
13 maintenance of utilities, other services and infrastructure in the Ilocos Sur
14 Ecozone such as, but not limited to, heat, light and power, water supply,
15 telecommunications, transport, toll roads and bridges, port services, etc. and to
16 fix just, reasonable and competitive rates, fares, charges and prices thereof;

17 (g) Construct, acquire, own, lease, operate and maintain, on its own or
18 through contracts, franchises, licenses, bulk purchases from the private sector or
19 permits under any of the schemes allowed in Republic Act No. 6957 (the Build-
20 Operate-Transfer Law, as amended), or joint ventures, adequate facilities and
21 infrastructure required or needed for the operation and development of the
22 Ilocos Sur Ecozone, in coordination with appropriate national and local
23 government authorities and in conformity with applicable laws thereon;

24 (h) Operate on its own, either directly or accredit/license other entities,
25 recreational and sports facilities, other tourism-related activities and, subject to
26 a grant of franchise by Congress, gaming activities such as horse racing, dog
27 racing, gambling casinos, internet and inter-active gaming and other games of

1 chance: *Provided*, That registered locator enterprises shall not operate gaming
2 activities unless granted a franchise by Congress;

3 (i) Subject to the approval of the President of the Philippines and the
4 Monetary Board of the Bangko Sentral ng Pilipinas (BSP), upon the
5 recommendation of the DOF, to raise or borrow adequate and necessary funds
6 from local or foreign sources to finance its projects and programs under this
7 Act and, for that purpose, to issue bonds, promissory notes and other forms of
8 securities, and to secure the same by a guarantee, pledge, mortgage, deed of
9 trust or an assignment of all or part of its property or assets;

10 (j) Provide security for the Ilocos Sur Ecozone in coordination with the
11 national and local governments. Military forces sent by the national government
12 for the purpose of defense shall not interfere in the internal affairs of the Ilocos
13 Sur Ecozone and expenditures for these military forces shall be borne by the
14 national government. For this purpose, the ISSEZFA may establish and
15 maintain its security forces and firefighting capability or hire others to provide
16 the same;

17 (k) Protect, preserve, maintain and develop the virgin forests, beaches,
18 coral and coral reefs, and maintain ecological balance within the Ilocos Sur
19 Ecozone;

20 (l) Create, operate and/or contract to operate such functional units or
21 offices of the ISSEZFA as it may deem necessary;

22 (m) Adopt, alter and use a corporate seal; contract, lease, buy, acquire,
23 own or otherwise dispose of personal and/or real property of whatever nature;
24 sue and be sued; and otherwise carry out its functions and duties as provided for
25 in this Act;

26 (n) Issue certificates of origin for products manufactured or processed
27 in the Ilocos Sur Ecozone in accordance with prevailing rules of origin, and the
28 pertinent regulations of the PEZA, the DTI and/or the DOF;

1 (o) Issue working visas renewable every three (3) years to foreign
2 executives and foreign technicians with highly specialized skills which no
3 Filipino possesses, as certified by the Department of Labor and Employment
4 (DOLE);

5 (p) Report to the Bureau of Immigration (BI) the names of the
6 foreigners who have been granted permanent resident status and working visas
7 within thirty (30) days after the issuance of such grant;

8 (q) Exercise such powers as may be essential, necessary or incidental to
9 the powers granted to it hereunder, as well as those that shall enable it to carry
10 out, implement and accomplish the purposes, objectives and policies of this
11 Act; and

12 (r) Issue rules and regulations consistent with the provisions of this Act
13 as may be necessary to accomplish and implement the purposes, objectives and
14 policies provided herein.

15 SEC. 13. *Tax Exemptions.* – The ISSEZFA is hereby declared exempt
16 from the payment of all taxes, duties, fees, imports, charges, costs and service
17 fees in any court or administrative proceedings in which it may be a party.

18 The foregoing exemptions may, however, be entirely or partially lifted
19 by the President of the Philippines upon the recommendation of the Secretary
20 of Finance, not earlier than five (5) years from the effectivity of this Act, if the
21 President shall find the ISSEZFA to be self-sustaining and financially capable
22 by then to pay such taxes, customs duties, fees and other charges after
23 providing for debt service requirements of the ISSEZFA and of its projected
24 capital and operating expenditures.

25 Furthermore, all donations made by any person or entity in favor of the
26 ISSEZFA shall be exempt from the payment of the donor's tax and the same
27 shall be considered as deductible from the gross income of the donor, pursuant
28 to the NIRC of 1997, as amended.

1 SEC. 14. *Authority of the Bureau of Customs (BoC) to Examine the*
2 *Entry and Exit of Imported Articles in the ISSEZFA.* – The BoC, in
3 coordination with the appropriate government agencies such as, but not limited
4 to, the Departments of Trade and Industry, Agriculture, Transportation and
5 Communications, and Health shall have the authority to examine the entry and
6 exit of imported articles in the ISSEZFA for the purpose of determining:
7 (a) the quantity and description of subject imported articles; and
8 (b) compliance with the sanitary and agricultural requirements.

9 SEC. 15. *Banking Rules and Regulations.* – Existing banking laws and
10 rules/regulations of the BSP shall apply to banks and financial institutions to
11 be established in the Ilocos Sur Ecozone, such as those governing foreign
12 exchange and other current account transactions (trade and nontrade), local and
13 foreign borrowings, foreign investments, establishment and operation of local
14 and foreign banks, foreign currency deposit units, offshore banking units and
15 other financial institutions under the supervision of the BSP.

16 SEC. 16. *Remittance of Earnings.* – In the case of foreign investments,
17 a registered enterprise in the ISSEZFA shall have the right to remit earnings
18 from the investment in the currency in which the investment was originally
19 made and at the exchange rate prevailing at the time of remittance, subject to
20 the provisions of Section 74 of Republic Act No. 265, as amended.

21 SEC. 17. *Board of Directors of the ISSEZFA.* – The powers of the
22 ISSEZFA shall be vested in and exercised by a board of directors, hereinafter
23 referred to as the Board, which shall be composed of the following:

- 24 (a) The chairperson who shall, at the same time, be the administrator of
25 the ISSEZFA;
- 26 (b) A vice chairperson who shall come from among the members of the
27 Board;

1 (c) Members consisting of:

2 (1) The governor of the Province of Ilocos Sur;

3 (2) The congressional representative of the district covering the site of
4 the Ilocos Sur Ecozone;

5 (3) The mayors of the municipalities of Cabugao and San Juan;

6 (4) *One (1) representative from the domestic investors;*

7 (5) *One (1) representative from the foreign investors; and*

8 (6) *Two (2) representatives from labor from among the workers in the*
9 *Ilocos Sur Ecozone.*

10 The governor, the congressional representative and the mayors of the
11 municipalities of Cabugao and San Juan shall serve as *ex officio* members of
12 the Board, whose terms in the Board correspond to their term as elected
13 officials.

14 The chairperson and the members of the Board, except the *ex officio*
15 members, shall be appointed by the President of the Philippines to serve for a
16 term of six (6) years unless sooner removed for cause or dies or resigns
17 voluntarily. In case of death, resignation or removal for cause, the replacement
18 shall serve only the unexpired portion of the term.

19 Except for the representatives of the business and labor sectors, no
20 person shall be appointed by the President of the Philippines as a member of
21 the Board *unless he is a Filipino citizen, of good moral character, of proven*
22 *probity and integrity, and a degree holder in any of the following fields:*
23 *economics, business, public administration, law, management or their*
24 *equivalent, and with at least ten (10) years relevant working experience*
25 *preferably in the field of management or public administration.*

26 The members of the Board shall each receive *per diem* at rates to be
27 determined by the Department of Budget and Management (DBM) in
28 accordance with existing rules and regulations: *Provided, however,* That the

1 total *per diem* collected each month shall not exceed the equivalent *per diem*
2 for four (4) meetings. Unless and until the President of the Philippines has
3 fixed a higher *per diem* for the members of the Board, such *per diem* shall not
4 be more than Ten thousand pesos (P10,000.00) for every board meeting.

5 SEC. 18. *Powers and Duties of the Chairperson-Administrator.* – The
6 chairperson-administrator shall have the following powers and duties:

7 (a) Direct and manage the affairs of the ISSEZFA *in accordance with*
8 the policies of the Board;

9 (b) Establish the internal organization of the ISSEZFA under such
10 conditions that the Board may prescribe;

11 (c) Submit an annual budget and necessary supplemental budget to the
12 Board for its approval;

13 (d) Submit *within thirty (30) days after the close of each fiscal year an*
14 annual report to the Board and such other reports as may be required;

15 (e) Submit to the Board for its approval policies, systems, procedures,
16 rules and regulations that are essential to the operation of the Ilocos Sur
17 Ecozone;

18 (f) Create a mechanism in coordination with relevant agencies for the
19 promotion of industrial peace, the protection of the environment and the
20 advancement of the quality of life; and

21 (g) Perform such other duties as may be assigned to him/her by the
22 Board or which are necessary or incidental to his/her office.

23 SEC. 19. *Organization and Personnel.* – The Board of Directors of the
24 ISSEZFA shall provide for an organization and staff of its officers and
25 employees. Upon recommendation of the chairperson-administrator, the Board
26 shall appoint and fix the remuneration and other emoluments of its officers and
27 employees *in accordance with existing laws on compensation and position*
28 *classification: Provided, That the Board shall have exclusive and final*

1 authority to promote, transfer, assign or reassign officers of the ISSEZFA, any
2 provision of existing law to the contrary notwithstanding: *Provided, further,*
3 That the chairperson-administrator may carry out removal of such officers and
4 employees.

5 The officers and employees of the ISSEZFA, including all members of
6 the Board, shall not engage, directly or indirectly, in partisan activities nor take
7 part in any election, except to vote.

8 No officer or employee of the ISSEZFA, subject to civil service laws
9 and regulations, shall be removed or suspended except for cause, as provided
10 by law.

11 *SEC. 20. General Manager.* – The Board of Directors of the ISSEZFA
12 shall appoint a full-time professional and competent administrator and chief
13 executive officer for the ISSEZFA whose compensation shall be determined by
14 its Board of Directors and shall be in accordance with the revised
15 compensation and position classification system. The administrator as chief
16 executive officer of the ISSEZFA shall be responsible to the Board and to the
17 President of the Philippines for the efficient management and operation of the
18 ISSEZFA.

19 *SEC. 21. Applicability Clause.* – The provisions of Sections 30 to 41 of
20 Republic Act No. 7916, as amended, on leases of lands and buildings, land
21 conversion, shipping and shipping register, protection of environment,
22 termination of business, registration of business enterprises, one-stop shop
23 center and on industrial harmony in the ecozones shall apply to the ISSEZFA.

24 *SEC. 22. Capitalization.* – The ISSEZFA shall have an authorized
25 capital stock of two billion (2,000,000,000) no-par shares with a minimum
26 issue of Ten pesos (P10.00) each, the majority shares of which shall be
27 subscribed and paid for by the national government and the LGUs embracing
28 the Ilocos Sur Ecozone. The Board of Directors of the ISSEZFA may, with the

1 written concurrence of the Secretary of Finance, sell shares, representing not
2 more than forty *per centum* (40%) of the capital stock of the ISSEZFA to the
3 general public under such policy as the Board and the Secretary of Finance
4 may determine. The national government and the LGUs shall, in no case, own
5 less than sixty *per centum* (60%) of the total issued and outstanding capital of
6 the ISSEZFA.

7 The amount necessary to subscribe and pay for the shares of the national
8 government to the capital stock of the ISSEZFA shall be included in the annual
9 General Appropriations Act. For LGUs, the funds shall be taken from their
10 internal revenue allotment and other local funds.

11 *SEC. 23. Supervision and Coordination of Development Plans.* – For
12 purposes of policy direction and coordination, the Ilocos Sur Ecozone shall be
13 under the direct control and supervision of the Office of the President.

14 *SEC. 24. Relationship with the Regional Development Council.* – The
15 ISSEZFA shall determine the development goals for the Ilocos Sur Ecozone
16 within the framework of national development plans, policies and goals. The
17 administrator shall, upon approval by the Board, submit the Ilocos Sur
18 Ecozone plans, programs and projects to the Regional Development Council
19 for inclusion and inputs to the overall regional development plan.

20 *SEC. 25. Relationship with LGUs.* – Except as herein provided, the
21 LGUs comprising the Ilocos Sur Ecozone shall retain their basic autonomy and
22 identity. The municipalities of Cabugao and San Juan, Province of Ilocos Sur
23 shall operate and function in accordance with the Local Government Code of
24 1991. In case of any conflict among the ISSEZFA and the municipalities of
25 Cabugao and San Juan, Province of Ilocos Sur on matters affecting the Ilocos
26 Sur Ecozone other than defense and security matters, the decision of the
27 ISSEZFA shall prevail.

1 SEC. 26. *Legal Counsel.* – The ISSEZFA shall have its own internal
2 legal counsel under the supervision of the Office of the Government Corporate
3 Counsel (OGCC). When the exigencies of its businesses and operations
4 demand it, the ISSEZFA may engage the services of an outside counsel, either
5 on a case to case or on a fixed retainer basis.

6 SEC. 27. *Interpretation/Construction.* – The powers, authorities and
7 functions that are vested in the ISSEZFA are intended to decentralize
8 governmental functions and authority and promote an efficient and effective
9 working relationship among the Ilocos Sur Ecozone, the national government
10 and the LGUs.

11 SEC. 28. *Auditing.* – The Commission on Audit shall appoint a
12 representative who shall be a full-time auditor of the ISSEZFA and assign such
13 number of personnel as may be necessary to assist said representative in the
14 performance of his/her duties. The salaries and emoluments of the assigned
15 auditor and personnel shall be in accordance with pertinent laws, rules and
16 regulations.

17 SEC. 29. *Separability Clause.* – If any provision of this Act shall be
18 held unconstitutional or invalid, the other provisions not otherwise affected
19 shall remain in full force and effect.

20 SEC. 30. *Repealing Clause.* – All laws, executive orders or issuances or
21 any part thereof which are inconsistent herewith are hereby repealed or
22 amended accordingly.

23 SEC. 31. *Effectivity Clause.* – This Act shall take effect fifteen (15)
24 days after its publication in at least two (2) national newspapers of general
25 circulation.

Approved,