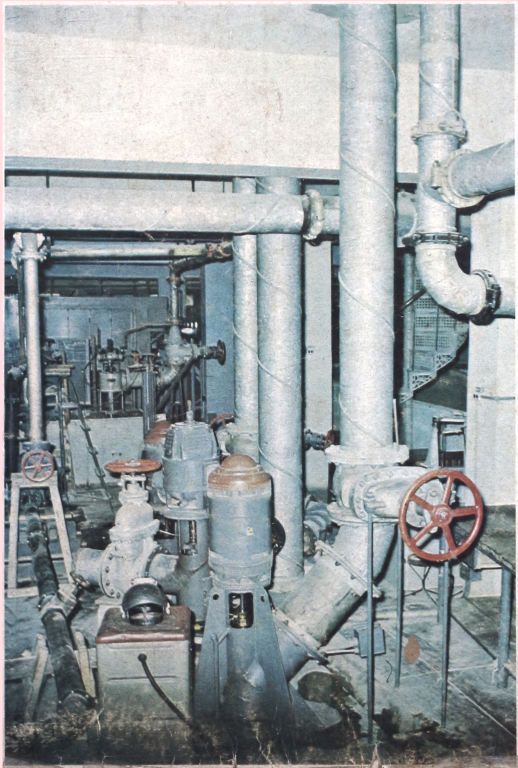
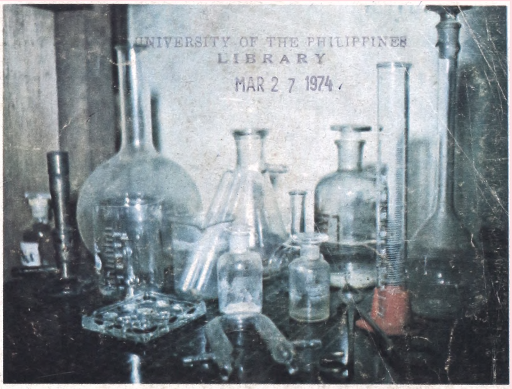


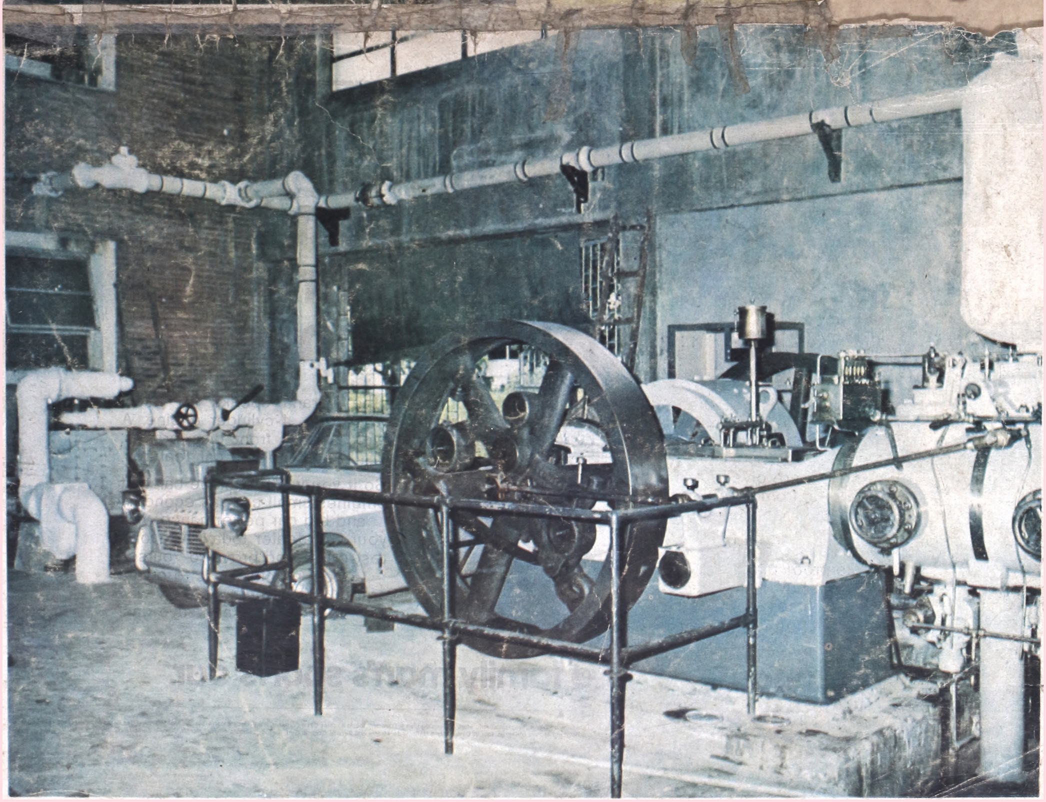




Business Day

SPECIAL REPORT

# BOARD OF INVESTMENTS

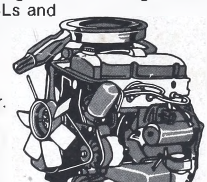



**Famed rallyist Dodo Ayuyao and well-known drivers Jun Almario and Rene Palma prove in Manila-Dagupan economy run:**

# The Torana 1900 combines small car gas economy and big car performance!

To prove that the Torana 1900 is a unique car concept that combines small car gas economy and big car performance, we gave it an economy test-drive. Two Torana SLs and a Torana S were given a gruelling economy run from Manila to Dagupan by three well-known drivers. Result: fuel consumption averaged as much as 14.5 kms/liter. Concrete proof that the Torana is your best buy in these fuel-scarce times.

When it comes to big car performance, the Torana speaks for itself. With its rugged 102 hp, 4-cylinder engine. A big trunk. Power-assisted front disc brakes. And other big car features.



So if you want a unique car that combines small car gas economy and big car performance, visit your GM dealer today. Ask for a test-drive. And prove to yourself how practical it is to own a Torana 1900 — the great new way to drive — and save gas!

## Torana 1900. The family man's sports car.

GM dealers: Car Masters, Inc., U.N. Avenue, Manila • Northern Motors, Inc., Buendia Avenue, Makati • Automart Corp., Quezon Blvd. Ext., Quezon City • Pangasinan Auto Mart, Inc. in Dagupan • Transpec, Inc. in Angeles City • Fomacar, Inc. in Cabanatuan • Young's Motor Sales in San Pablo • Legaspi Motors in Legaspi • Cebu Southern Motors, Inc. in Cebu, Cagayan de Oro • Southern Motors of Bacolod, Inc. in Bacolod, Iloilo • Southern Motors of Davao, Inc., in Davao City • Nationwide Motors and Service Corp. in Gen. Santos, Cotabato • Anvel Motors Corp. in Zamboanga City

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# What is the Board of Investments?

The Board of Investments, being the first government agency with both planning and implementing functions, is charged with the task of accelerating the economic development of the country by restructuring its industrial pattern. This is sought to be achieved by implementing three investment laws, namely: R.A. 5186 or the Investment Incentives Act, R.A. 6135 or the Export Incentives Act and R.A. 5455 or the Foreign Business Regulation Act. These acts were designed to improve the pace of industrialization, and aim to raise the living standards of the people through increased economic opportunities and a more equitable distribution of the benefits of development.

### Programs

Thus, BOI formulates plans and programs shaped along a number of policies that reflect its desire to institute and maintain balance in the country's industrial pattern. Through a package of incentives, it encourages projects that will effect dispersal of industries among the rural areas, generate employment opportunities, promote labor-intensive manufactured goods for export, develop small and medium-scale industries and increase the utilization of indigenous raw materials. These policies are calculated to bring about long-run benefits to the economy in the form of foreign exchange savings or earnings, increased export opportunities, progressive increases in domestic content, fuller utilization of existing facilities and development and improvement of management methods, technical know-how and marketing strategies.

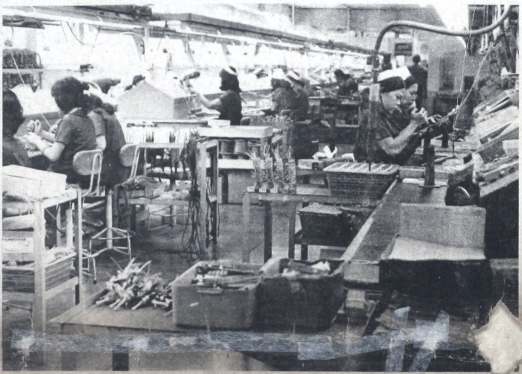
### Incentives

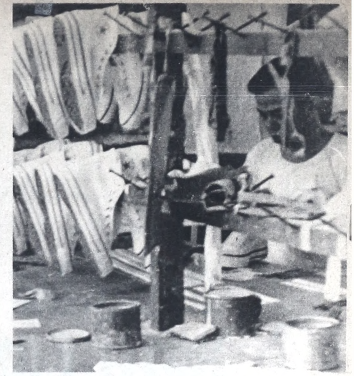
The Investment Incentives Act grants incentives to firms which undertake projects in declared preferred areas of investment. The Investment Priorities Plan (IPP) which is prepared annually by the Board, lists the preferred areas of economic activity considered essential to the development of the economy. Projects with high linkage effects are developed or expanded to lessen the gaps in the industrial structure. The law expressly welcomes and encourages foreign capital to establish pioneer enterprises which would utilize substantial amounts of domestic raw materials in joint venture with Filipino capital, whenever available.

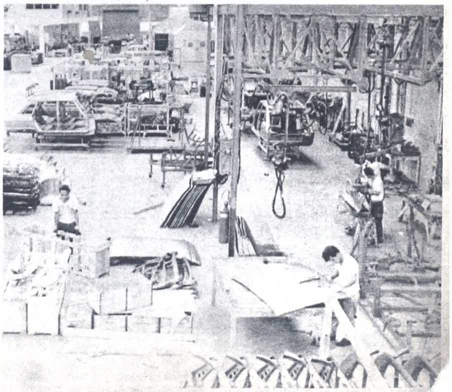
### Exports

The Export Incentives Act encourages the utilization of excess manufacturing capacities for export, particularly those that are labor-intensive. It also grants incentives to export trading houses which collect and export the products of fragmented and dispersed existing capacities. Similarly, service exporters like cargo transport, legal consultancy and motion pictures as well as facilities that cater primarily to foreign tourists are given support by the Board. Exportable products that are entitled to incentives are listed in the Annual Export Priorities Plan prepared by the Board.

The third law, Foreign Business Regulation Act, covers the entry of foreign investments in the areas of business activity not listed in either the Investment Priorities Plan or the Export Priorities Plan. Through this, the BOI is able to channel foreign investments away from areas which are already adequately exploited by Filipino nationals into areas which will contribute to the sound and balanced development of the economy.







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## Economies of Scale

# THE CASE FOR ASEAN REGIONAL COOPERATION

By MIGUEL Z. PATOLOT

**Estimates of production and apparent consumption of certain manufactures, 1967**

*US $ millions at 1967 prices*

| | Gross value of production | Exports | Domestic sales (1) — (2) | Imports of manufactures: finished goods | intermediate products | Total sales of finished products (3) + (4) | Import shares in total sales (%) (4) + (5) / (6) |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| *Textiles* | | | | | | | |
| Indonesia | 119·7 | 0·5 | 119·2 | 88·1 | 10·8 | 207·3 | 47·8 |
| Malaysia | 16·7 | 4·8 | 11·9 | 38·2 | 4·9 | 50·1 | 86·1 |
| Philippines | 195·3 | 4·4 | 190·9 | 27·0 | 10·2 | 217·9 | 17·1 |
| Singapore | 2·7 | 4·3 | −1·6 | 76·7 | 15·3 | 75·1 | 122·5 |
| Thailand | 151·2 | 5·1 | 146·1 | 75·0 | 13·6 | 221·1 | 40·3 |
| ASEAN | 485·6 | 19·1 | 466·5 | 305·0 | 54·8 | 771·5 | 46·6 |
| *Chemicals and chemical products* | | | | | | | |
| Indonesia | 69·3 | 36·5 | 32·8 | 24·9 | 30·7 | 57·7 | 96·4 |
| Malaysia | 126·8 | 59·3 | 67·5 | 47·6 | 28·9 | 115·1 | 66·5 |
| Philippines | 395·9 | 64·0 | 331·9 | 65·5 | 57·5 | 397·4 | 31·0 |
| Singapore | 38·1 | 19·0 | 19·1 | 47·7 | 16·3 | 66·8 | 95·8 |
| Thailand | 104·7 | 1·2 | 103·5 | 77·6 | 44·2 | 181·1 | 67·3 |
| ASEAN | 734·8 | 180·0 | 554·8 | 263·3 | 177·6 | 818·1 | 53·9 |
| *Machinery, except electrical* | | | | | | | |
| Indonesia | 8·3 | — | 8·3 | 76·0 | — | 84·3 | 90·2 |
| Malaysia | 12·6 | 1·4 | 11·2 | 73·3 | — | 84·5 | 86·7 |
| Philippines | 22·8 | 0·1 | 22·7 | 262·7 | — | 285·4 | 92·0 |
| [illegible] | 11·9 | 1·0 | 10·9 | 47·0 | — | 57·9 | 81·2 |
| [illegible] | [illegible] | [illegible] | 21·0 | [illegible] | — | 188·2 | 88·8 |
| [illegible] | 76·7 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| *Electrical machinery and [illegible] and supplies* | | | | | | | |
| Indonesia | 3·5 | 0·4 | 3·1 | 46·9 | — | 50·0 | 93·8 |
| Malaysia | 13·7 | 2·8 | 10·9 | 48·8 | — | 59·7 | 81·7 |
| Philippines | 78·0 | — | 78·0 | 59·3 | — | 137·3 | 43·2 |
| Singapore | 14·3 | 5·7 | 8·6 | 58·0 | — | 66·6 | 87·1 |
| Thailand | 19·9 | 0·4 | 19·5 | 69·6 | — | 89·1 | 78·1 |
| ASEAN | 129·4 | 9·3 | 120·1 | 282·6 | — | 402·7 | 70·2 |
| *Transport equipment* | | | | | | | |
| Indonesia[a] | 22·0 | 0·5 | 21·5 | 55·2 | 8·5 | 76·7 | 83·1 |
| Malaysia | 25·0 | 0·2 | 24·8 | 47·1 | 21·9 | 71·9 | 96·0 |
| Philippines | 108·9 | 0·6 | 108·3 | 128·4 | 34·5 | 236·7 | 68·8 |
| Singapore | 31·4 | 12·0 | 19·4 | 17·4 | 15·6 | 36·8 | 89·7 |
| Thailand | 120·8 | 0·1 | 120·7 | 119·8 | 21·6 | 240·5 | 58·8 |
| ASEAN | 308·1 | 13·4 | 294·7 | 367·9 | 102·1 | 662·6 | 70·9 |



The Progressive Car Manufacturing Program is only one of the basic approaches towards the realization of an ASEAN industrial complementation program.

Other regional oriented projects being developed by the Board under a local content formula are: appliances and apparatus, including telecommunications, rubber products, pharmaceuticals, electric power generating and distributing equipment, chemicals and petrochemicals, agricultural machinery, building materials, processed foodstuffs and dry cell batteries.

The Board is currently working on a Progressive Truck Manufacturing Program and a Progressive Electronic Manufacturing Program. Last year, the Board also launched the Progressive Motorcycle Manufacturing Program.

All these three programs have their respective regional linkages. The Board is working on the assumption that each of the other countries will contribute their share in setting up facilities for the complete manufacture of trucks, motorcycles, and elec-[illegible]

### Economic sense

"It makes economic sense to establish within the region various industrial plants which would be economically sized and internationally competitive," BOI Chairman Vicente T. Paterno said.

If each of these plants were to serve the market requirements of two or more countries of the region, production costs could be reasonably in line with international prices, in contrast to a plant which, even if serving the requirements of the largest of the individual markets, would have internationally uncompetitive costs of production, Paterno pointed out.

"There are enough items mentioned in the United Nations report (on the areas for economic cooperation among the ASEAN countries) to form a regional shopping list of package deal projects," the BOI chairman said.

These are: fertilizers, both nitrogenous and phosphatic; carbon black; caprolactam; DMT; ethylene glycol; soda ash; sheet glass, newsprint; sealed refrigeration compressors; steel; small engines; and typewriters.

### Soda ash plant

To underline the benefits that may be derived from this regionally cooperative form of industrialization, Paterno described how a regionally based soda ash plant can be worked out in order that Southeast Asia can be self-sufficient in glass items:

"The raw materials for soda ash manufacture are principally salt and limestone. All of the Southeast Asian countries have salt making capabilities and limestone is found in every one of the countries. The process of making soda ash is classic, [illegible] was already essentia[illegible] described in the textbooks of my elementary chemistry classes, which I attended in the late 1930's.

"Since the raw materials are or could be available in every one of the countries in Southeast Asia, and the process of manufacture is standard, why does no soda ash plant exist in the region?

"The answer is found in the comparison of consumption in each of

(Continued on page 6)

**ECONOMIES OF CAPITAL COST, RESULTING FROM REGIONAL PROJECTS**

| | US$ Million at 1970 prices | | |
|---|---|---|---|
| | Capital cost of regional project to 1980 | Capital cost — Capital cost of cost group of national plants with same capacity in in 1980 | Capital cost of regional project as percentage of cost of group of national projects with equal capacity % |
| Nitrogenous fertilizers | 220.0 | 245.2 | 89.6 |
| Phosphatic fertilizers | 22.9 | 30.0 | 76.3 |
| Carbon black | 10.2 | 19.3 | 52.9 |
| Caprolactam | 36.3 | 53.2 | 68.2 |
| D.M.T. | 40.9 | 64.0 | 64.2 |
| Ethyelne gyl | | | |
| Ethylene glycol | 14.6 | 21.1 | 69.2 |
| Soda ash | 39.0 | 70.3 | 52.7 |
| Sheet glass (a) | 11.7 | 20.8 | 56.2 |
| Newsprint (b) | 142.7 | 200.2 | 71.3 |
| Sealed Compressors | 11.0 | 12.8 | 85.9 |
| Small engines | 13.9 | 21.9 | 63.5 |
| Samll engines | 13.9 | 21.9 | [illegible] |
| Typewriters | 22.0 | 34.8 | 63.2 |
| Steel | 135.4 | 170.6 | 80.0 |
| Total | 720.6 | 964.2 | 74.7 |

# Complementation more economical

(Continued from page 4)
the countries, compared with the annual output of a plant of minimum efficient size, as given in the UN study. The largest consumption of soda ash of any ASEAN country in 1970 was 44,000 tons and in 1980 would be 104,000 tons, whereas a plant of minimum efficient size was estimated at 360,000 tons per year. On the other hand, total ASEAN consumption of soda ash in 1970 was 116,000 tons, estimated to rise to 310,000 tons by 1980, so that by 1982 total ASEAN consumption would more than absorb the full output of an economic sized plant in the region.

"Such a regional plant would be able to produce soda ash under 1970 conditions at an estimated price providing an acceptable rate of return of capital of $50 per ton compared to a world price then of $56.50, CIF ASEAN port (also at 1970 freight rates). Delivered price to the other countries of the region would be higher to the extent of the freight cost from the plant to the other countries. Such a regional plant would have a capital cost of $39 million, compared with an aggregate cost of $70 million if each of the countries were to build plants sized to the consumption of their individual markets. Each of the country plants would have a unit cost of production substantially higher than that of the regional plant. The UN study estimates that the average unit cost of production in the country plants would be 65 per cent higher than the unit cost of production in the regional plant.

"I believe that if this study were to be conducted under 1973 conditions, the economics of the regional plants would be even more attractive. Costs of manufacture of soda ash are even higher now in the industrial countries due in part to the much tighter standards being imposed on pollution and the consequently higher costs of manufacturing due to pollution control. Freights have also risen very substantially from the developed countries to Southeast Asia."

### UN view

The BOI argument supports the UN view that Southeast Asia should, through various cooperative agreements, attempt to be self-sufficient in major import items which it is in the best position to produce.

The bulk of manufactures required by Southeast Asia continue to be imported and paid for in primary products. For chemicals and chemical products alone, the Philippine dependence on imports of these items is as much as 60 per cent.

Spiralling prices of semi-manufactures and capital equipments have recently created pressure on the ASEAN countries to produce more for exports. So far, the foreign exchange earnings of Malaysia, the Philippines, Thailand, Singapore and Indonesia continue to depend on a relatively small number of commodities.

For instance, a UN survey noted that Indonesia, Malaysia and Thailand each depend for substantially more than half their export income on their three largest exports. The level of imports that can be financed will depend upon the extent of success in developing new sources of export earnings in the form of other primary products, of semi-manufactures and of finished manufacturers.

### More awareness

This situation has created further awareness of the necessity for embarking on an industrial complementation plan that will lessen the impact of world prices on the already high inflation rate in the region.

Chairman Paterno said that complementarity agreements are also another avenue for regional industrialization.

"By complementarity, we mean the exchange of industrial products or components thereof among the different countries of the region, generally in the same industry sector," he said.

Paterno said that an example of complementarity can be found in the automotive industry. "Proposals have been presented to Malaysia Philippines and Thailand for the manufacture of various components of automotive rear axles in each of the countries," he added.

These components would be exchanged among the countries and the complete rear axles would be assembled from these components in each of the countries. "Thus the component manufactured in each country would be produced in a volume equal to the demand for rear axles in all the three countries, and each component manufacturing facility would enjoy advantages of scale greater than if sized for the individual market alone," he said.

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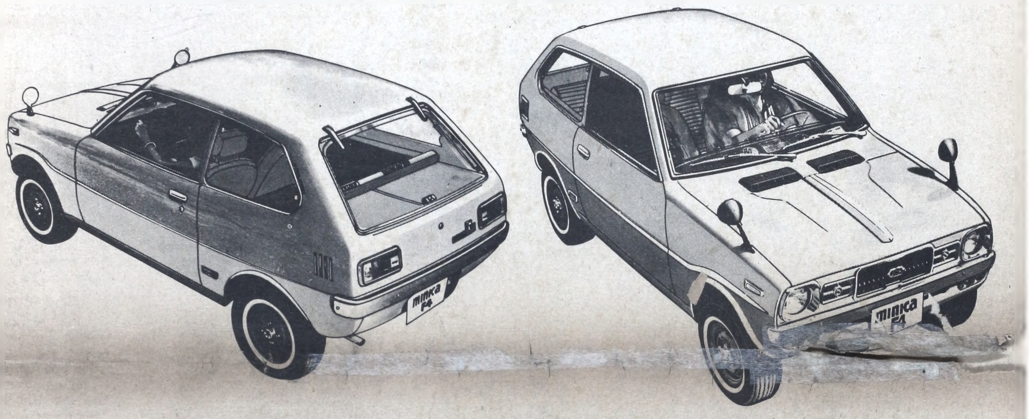
# minica F4

## A LITTLE MORE SPORTY IN THE REAR. A LITTLE MORE RUGGED IN THE ENGINE.

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**Practical 4-cycle engine.**
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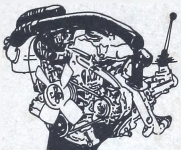
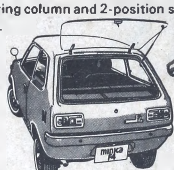
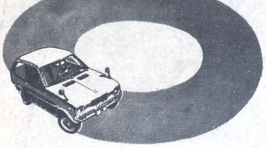


**Practical sporty styling.**
Steal the show with the sporty swing-away back and sporty body. Feel extra-safe with the collapsible steering column and 2-position safety door.



**Practical gas consumption.**
Get 15-20 kms. to a liter. Perhaps even more. Minica F4's 4-cycle engine stretches your mileage. Without emptying your pocket.

**Practical turning radius.**
Try a tight turn. Buzz thru traffic. Park in leftover spaces. Easy does it with a 3.8 meter turning radius.



**Practical interior features.**
Pamper your back with the overstuffed foam padded seats. Set your sights on easy-to-read instrument dials.

**Practical size.**
Fit in a family of five. Relax in Minica F4's surprising roominess. Fold down the rear seat and presto! Van-sized cargo room.

**Practical suspension system.**
Ride the rough roads in comfort. Minica F4's tough suspension system takes the ump out of the bumps. Just like any compact or big car.

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# New guidelines for project studies issued

The Board of Investments issued last week new guidelines for the preparation of project feasibility studies by applicants applying for tax incentives registration either under the Investment Incentives Act or the Export Incentives Act.

Following recent administrative decisions, the Board is also doing away with the project study requirement for existing and expansion projects to facilitate processing of these applications. Instead a project report is required.

**Simplification**

The new guidelines are intended to simplify the project details required by the Board. The new format contains simplified cost, income, and operating statements.

However, a proponent is still required to make a detailed account of the technical, product and market aspects of the projects.

As amended, the new project guidelines are as [illegible]

[illegible]

1. Give a brief summary of major market, technical and financial characteristics of the project and conclusions regarding its feasibility.
2. Outline the timetable and present position of the project.
3. Specify proposed management for the project, including type of business organization, organization chart and functions of each unit, use of professional firms or consultants, etc.
4. Outline the agreements proposed or entered into with other parties which affect the operations of the project (e.g. technical assistance, foreign loans, patents, contracts of sales, etc.). Terms and conditions should be specified.

**Product and market aspects**

1. Describe products to be produced, indicating specifications relating to their physical, chemical and/or agronomic properties, whichever applicable. Specify by-products resulting from the operations.
2. Present estimates of the annual volume and value of domestic and overseas sales of each product for the first ten years of the project's life. If total capital expenditures is below P1 million, and the project has a short gestation period, projections for only 5 years are required where 10 years projections are asked for. Specify the export markets, where applicable. Outline the assumptions underlying the projections.
3. Give the proposed selling prices of each product in both the local and overseas markets. Show basis for determining prices and extent of possible variations.
4. Outline the proposed marketing arrangement for the products, i.e. channels of distribution, selling organization, etc. Indicate especially trade names to be use, long-term contracts, guaranteed markets, importers contacted in overseas markets and the status of these customers, affiliations with other companies or bodies for marketing purposes (local and overseas), terms of sales and sales schedule showing inventory levels.

**Technical aspects**

1. Describe the processes and/or production methods, showing detailed flow chart. Specify maintenance and other support facilities proposed, and quality control and requirements for the processes adopted.
2. Specify major machinery and equipment requirements. Indicate:
   a. Number, specifications, rated capacities and life of major pieces of equipment, whether new or second-hand, allocated to categories according to major use (e.g. production maintenance, waste disposal, etc.). Outline function to be performed by each major unit.
   b. Quotations from suppliers, machinery guarantees, delivery and payment terms and other arrangements. Indicate also supplier, country or port of origin, taxes, duties, installation costs and allowances for minor equipment, etc. State why imported equipment and not locally produced equipment is used for each item, where applicable.
   c. Is equipment to be exclusively used for the production of the products specified? If not, specify to what extent equipment will be used for other purposes.
3. Enclose plans and drawings of major structures, physical layout of site and plant and machinery layout, indicating also provisions for expansion. Enclose cost quotations for land and major structures (including contingencies land improvements and additional infrastructure) and allowances for minor structures.
4. Specify rated annual and daily capacity of plant at a specified number of shifts per day and number of operating days per year. Give also the expected attainable annual production volume of each product for the first ten years of the project's life.
5. Show volume and value of material inputs per unit output (and the respective wastage factors, if applicable) for each product to be separating imports, locally purchased imports (e.g. from dealers) and locally produced inputs. Also:
   a. For locally produced material inputs and locally purchased imports, give delivered price at factory, or transfer price if produced by applicant.
   b. For imported material inputs, give current CIF price, tariff, sales tax, other charges and delivered price at factory.
   c. Give details of prospective sources of major inputs, consignment arrangements, supply contracts etc.
6. Specify special requirements and costs for electricity, water and other utilities.
7. Detail total labor requirements from start of operations until normal production capacity is attained. Also:

(Continued on page 10)

# New guidelines for project studies issued

(Continued from page 8)

a. Indicate number of workers according to skill, sex, and whether full time/part time/seasonal, at normal production capacity.

b. Specify wage rates, salaries, fringe benefits, etc. assumed.

c. Justify foreign personnel involved, if any.

d. Set out details of special training programs, including costs.

**Financial aspects**

1. Specify sources selected or proposed for short-term financing, long-term financing, and suppliers credits, and their respective uses. Also indicate (if possible):

a. Amount and terms of financing from each source selected, indicating currency, security, repayment period, interest and other features.

b. Status of financing from each source relating to actual releases already made, applications already approved, applications pending and applications still to be made. For equity financing, indicate subscriptions made.

2. Prepare two sets of the following statements, one set assuming no BOI incentives and one set assuming BOI incentives, for each of the first ten years of the project's life. For projects with capital expenditures below P1 million and of a short gestation period (and thus projecting for only five years), use alternative profitability evaluations - these are to be specified. Such proponents may wish however, to extend the cash flow period to ten years to enable discounting measures to be used; this is advised.

a. Cost of sales and operating expenditure statements (see also Item E. 7)

b. Profit and Loss (or Income) Statement

c. Cash Flow Statement

d. Balance Sheet Statement

3. The following financial evaluations are to be derived on the basis of the information contained in these statements, both with BOI incentives and without BOI incentives.

a. Profitability evaluation, calculating discounted rate of return on total investment, discounted rate of return on capital stock and net present value.

b. Profitability ratios, calculating gross operating profit ratio (net operating proit as a ratio of sales) and net profit after tax ratio for each year and average over the projected operating period.

c. Solvency ratios, calculating debt to equity ratio and debt service coverage for each year.

d. Break-even analysis, calculating break-even price and capacity.

**Enclosures to be attached to study**

1. Bio-data on principal officers.
2. Certified copies of all export and domestic sales contracts.
3. Certified copies of all parents, technical and management agreements foreign loan contracts and all other agreements proposed or entered into with other parties.
4. Copies of quotations for machinery, structures, inputs, etc.
5. Clearances from proper authorities for waste disposal and emission control.
6. Relevant background data compiled for the project study.
7. For applicants under R.A. 6135:
   a) Computation for tax credit on raw materials and supplies.
   b) Computation of standard raw material usages.

# BULK OF EQUITY FOR BOI-LISTED PROJECTS INVESTED IN MINING

**SUBSCRIBED CAPITAL OF PROJECTS BY THE BOI, UNDER R.A. 5186 WITH FOREIGN EQUITY CLASSIFIED BY FIRM AND NATIONALITY OF INVESTORS**
**January 1971 – December 1973**
**(In thousand pesos)**

| | Date of Approval | Total | Filipino | FOREIGN SUBSCRIBED CAPITAL Total | U.S. Resident | U.S. Non-Resident | SPANISH Resident | SPANISH Non-Resident | CHINESE Resident | CHINESE Non-Resident | BRITISH Resident | BRITISH Non-Resident | JAPANESE Resident | JAPANESE Non-Resident | Others Nor Resident |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GRAND TOTAL | | 871,249 | 534,620 | 336,629 | 202,101 | 854 | 37,088 | – | 11,388 | – | 2,674 | 2,250 | – | 31,614 | 31,408 |
| AGRICULTURE | | 161,405 | 113,405 | 48,000 | 21,733 | – | 16,516 | – | 6,186 | – | – | – | | – | 3,445 |
| Tree farming | | 300 | 180 | 120 | – | – | – | – | – | – | – | – | – | – | – |
| Provident Tree Farms, Inc. | 10/71 | 300 | 180 | 120 | – | – | – | – | – | – | – | – | – | – | – |
| Livestock and poultry | | 161,105 | 113,225 | 47,880 | 21,733 | – | 16,516 | – | 6,186 | – | – | – | – | – | 3,445 |
| San Miguel Corp. | 11/71 | 161,105 | 113,225 | 47,88 | 21,733 | – | 16,516 | – | 6,186 | – | – | – | – | – | 3,445 |
| MINING | | 355,857 | 237,663 | 118,194 | 71,635 | 854 | 201 | – | 2,140 | – | 130 | – | | 11,715 | 25,267 |
| Iron ore | | 67,211 | 47,504 | 19,707 | 5,060 | 854 | – | – | 472 | – | 111 | – | – | 6,958 | – |
| Inco Mining Corp. | 3/72 | 6,644 | 6,406 | 238 | – | – | – | – | – | – | – | – | – | 238 | – |
| Phil. Iron Mines, Inc. | 6/72 | 41,878 | 27,136 | 14,742 | 4,516 | 854 | – | – | – | – | – | – | – | 3,120 | – |
| Anglo-Phil. Mining Co. | 12/72 | 14,689 | 13,562 | 1,127 | 544 | – | – | – | 472 | – | 111 | – | – | – | – |
| Pellet Corp. of the Phil. | 7/72 | 4,000 | 400 | 3,600 | – | – | – | – | – | – | – | – | – | 3,600 | – |
| Copper ore | | 217,200 | 137,011 | 80,189 | 56,518 | – | 201 | – | 1,668 | – | 19 | – | – | 4,757 | 17,026 |
| Consolidated Mines, Inc | 9/73 | 26,296 | 22,352 | 3,944 | 3,944 | – | 301 | – | | – | | – | – | – | – |
| Baguio Gold Mining Co., Inc | 4/72 | 13,313 | 11,449 | 1,864 | – | – | | – | – | – | – | – | – | – | 1,864 |
| Apex Exploratio[illegible] | 5/73 | 3,015 | 2,593 | 422 | 172 | – | 201 | – | – | – | 19 | – | – | – | 30 |
| [illegible] Corp. | [illegible] | 10,114 | 8,427 | 1,687 | – | – | – | – | – | – | | – | – | – | 1,687 |
| P[illegible] Mining Corp. | 12/72 | 61,721[1] | 45,248 | 16,473 | 3,518 | – | – | – | 1,668 | – | – | – | – | | 11,287 |
| Atlas Consolidated Mining Corp. | 12/73 | 102,741 | 46,942 | 55,799 | 48,884 | | | | | | | | | 4,757 | 2,158 |
| Nickel ore | | 71,446 | 53,148 | 18,298 | 10,057 | – | – | – | – | – | – | – | – | – | 8,241 |
| Marinduque Mining & Ind. Corp. | 1/71 | 71,446 | 53,148 | 18,298 | 10,057 | – | – | – | – | – | – | – | – | – | 8,241 |
| MANUFACTURING | | 353,987 | 183,552 | 170,435 | 108,733 | – | 20,371 | – | 3,062 | – | 2,544 | 2,250 | – | 19,899 | 2,696 |
| Food | | 24,354 | 19,361 | 4,993 | 2,582 | – | – | – | – | – | 2,411 | – | – | – | – |
| Republic Flour Mills, Inc. | 3/71 | 24,354 | 19,361 | 4,993 | 2,582 | – | – | – | – | – | 2,411 | – | – | – | – |
| Wood products | | 206,430 | 82,609 | 123,821 | 101,207 | – | 20,371 | – | 1,301 | – | 133 | – | – | – | 809 |
| Nasipit Lumber Co., Inc. | 8/71 | 11,888 | 11,531 | 357 | 207 | | – | – | – | – | 108 | – | – | – | 42 |
| Insular Lumber, Inc. | 12/71 | 10,500 | 2 | 10,498 | 10,498 | – | – | – | – | – | – | – | – | – | – |
| Mahogany Products, Inc. | 2/71 | 1,808 | 191 | 1,617 | 1,592 | – | – | – | – | – | 25 | – | – | – | – |
| Picop | 9/73 | 182,234 | 70,885 | 111,349 | 88,910 | – | 20,371 | – | 1,301 | – | – | – | – | – | 767 |
| Rubber products | | 800 | 560 | 240 | – | – | – | – | 240 | – | – | – | – | – | – |
| Phil. Belt Corp. | 5/72 | 800 | 560 | 240 | – | – | – | – | 240 | – | – | – | – | – | – |
| Vegetable oil | | 7,500 | 5,250 | 2,250 | – | – | – | – | – | – | – | 2,250 | – | – | – |
| Iligan Bay Mfg. Corp. | 9/73 | 7,500 | 5,250 | 2,250 | – | – | – | – | – | – | – | 2,250 | – | – | – |
| Chemicals & Chemical products | | 75,045 | 52,328 | 22,717 | – | – | – | – | 925 | – | – | – | 15,203 | 1,500 | 5,089 |
| Filipinas Synthetic Fiber Corp. | 5/72 | 33,008 | 19,805 | 13,203 | – | – | – | – | – | – | – | – | 13,203 | – | – |
| Phil. Petrochemical Products Inc. | 6/72 | 7,115 | 5,616 | 1,500 | – | – | – | – | – | – | – | – | – | | 1,500 |
| Indo Phil. Textile Mills, Inc. | 11/73 | 8,222 | 4,933 | 3,289 | – | – | – | – | – | – | – | – | – | – | – |
| Grand Imperial Textile Mills Inc. | 6/73 | 3,700 | 2,775 | 925 | – | – | – | – | 925 | – | – | – | – | – | – |
| Phil. Cellophane Mfg., Inc. | 3/73 | 18,000 | 16,200 | 1,800 | – | – | – | – | – | – | – | – | – | – | – |
| Arrow Parts Mfg. Corp. | 11/73 | 5,000 | 3,000 | 2,000 | – | – | – | – | – | – | – | – | 2,000 | – | – |
| Non-metallic mineral products | | 6,370 | 5,863 | 507 | – | – | – | – | 427 | – | – | – | – | – | 80 |
| Pacific Enamel Mfg. Corp. | 3/73 | 5,900 | 5,487 | 413 | – | – | – | – | 413 | – | – | – | – | – | – |
| Visayan Glass Corp. | 7/23 | 470 | 376 | 94 | – | – | – | – | 14 | – | – | – | – | – | 80 |
| Metal products | | 12,000 | 7,200 | 4,800 | – | – | – | – | – | – | – | – | – | – | – |
| Hooven Phil., Inc. | 3/71 | 12,000 | 7,200 | 4,800 | – | – | – | – | – | – | – | – | – | – | – |
| Machinery except electricl machinery | | 2,250 | 1,350 | 900 | – | – | – | – | – | – | – | – | – | – | – |
| Radiowealth-Kirloskar Corp. | 4/72 | 2,250 | 1,350 | 900 | | | | | | | | | | | |
| Electrical products | | 18,918 | 8,807 | 10,111 | 4,944 | – | – | – | 169 | – | – | – | – | 4,600 | 307 |
| Ever Electrical Corp. | 2/73 | 1,300 | 1,014 | 286 | – | – | – | – | 169 | – | – | – | – | – | 26 |
| Engineering Equipment, Inc. | 6/72 | 5,618 | 393 | 5,225 | 4,944 | | | | | | | | | | 281 |
| Delta Electric Motor Corp. | 4/71 | 12,000 | 7,400 | 4,600 | – | – | – | – | – | – | – | – | – | 4,600 | – |
| Transport Equipment | | 320 | 224 | 96 | – | – | – | – | – | – | – | – | – | 96 | – |
| Delsa Mfg. Corp. | 12/72 | 320 | 224 | 96 | – | – | – | – | – | – | – | – | – | 96 | – |

A significant amount of capital for Board of Investments-registered projects under the Investments Priorities Plan went into mining activities.

This is based on the January 1971 to December 1973 BOI data on subscribed capital of projects with foreign equity under the Investment Incentives Act.

The bulk of this mining capital is concentrated on the development and exploitation of copper ore deposits. Not much capital has gone into iron ore development.

According to BOI data, a total of over P871 million have been subscribed in BOI-registered corporations between January 1971 and December 1973 by domestic and foreign investors.

Of this total, P355 million went into mining activities, P353 million into manufacturing and P161 million into agriculture.

Of the P355 million capital in the mining sector, P217 million or 61.12 per cent was the capital subscribed in copper ore companies.

### Copper producers

The BOI lists six companies it has registered as copper ore producers. These are: Consolidated Mines, Inc., Baguio Gold Mining Co., Inc., Apex Exploration, Inc., Western Minolco Corporation, Philex Mining Corporation, and Atlas Consolidated Mining Corporation.

Of these firms, Atlas outranks the rest with a subscribed capital of over P102 million or 47.00 per cent of the total capital subscribed in copper ore companies.

According to BOI data, foreign participation is also significant in the mining sector with foreign nationals subscribing by as much as P118 million in these mining ventures. This is 35.11 per cent of the total P336 million capital subscribed by foreign investors in BOI-registered projects between January 1971 and December 1973.

Again, the bulk of the subscribed capital of P118 million went into the copper ore companies. The BOI data show that the foreign investors have subscribed a total of P80 million in these firms with Atlas gaining a greater share amounting to P55 million.

### Commitments

The Board's continued support for the copper sector is a result of its program to locally smelt and refine copper ores. Because of the long-term commitments of local mining companies to supply copper ore abroad, there is a project-ed deficiency of supply for the proposed copper smelters.

The country's copper output in 1971 was 197,573 metric tons, about 23 per cent higher than in 1970. Production of copper, because of favorable prices, has been growing at an annual average rate of 13 per cent since 1961. In the absence of local processing plants, the entire country's copper ore output is exported.

### Manufacturing

Total subscribed capital in the field of manufacturing is significant. It amounts to a total of P353 million with foreigners contributing P170 million. Prominent under this category is food processing, where a significant amount of venture capital has been invested.

The log phase-out program, on the other hand, has much to do with the increased investment in wood processing facilities.

Between January 1971 and December 1973, some P206 million has been subscribed by investors in Nasipit Lumber Co., Insular Lumber, Mahogany Products and Paper Industries Corporation, four of the wood processing firms with significant foreign equity participation. Of this total subscribed capital, 88.34 per cent or P182 million was subscribed in PICOP.

The foreign participation amounts to P123 million with P111 million going to PICOP's total capital base.

### Chemicals

Chemicals and chemical products is one area that has attracted substantive capital in the last few years. Between January 1971 and December 1973, a total of P75 million has been subscribed in five BOI-registered companies.

Of this amount P33 million went to Filipinas Synthetic Fiber Corporation and P18 million to the Philippine Cellophane Manufacturing, Inc.

The foreign capital participation in this sector totals P22 million while the local equity contribution is over P52 million.

### Agriculture

In the field of agriculture, two firms — Provident Tree Farms, Inc. and San Miguel's livestock and poultry operations -- are listed with significant foreign equity components.

According to the Board data, a total of P161 million in capital has been subscribed in BOI-registered firms of which P48 million is the foreign sector's contribution.

San Miguel, a highly-diversified food company, has a total subscribed capital of P161 million for its livestock and poultry projects. Foreign equity amounts to over P47 million according to BOI statistics.

On the foreign subscribed capital segment, foreign residents are contributing significantly to the subscribed capital of BOI-registered projects.

US residents have put in P202 million; Spanish, P37 million; Chinese, P11 million; British P2.6 million. The bulk of non-resident equity participation comes from the Japanese side, totalling P31.6 million.

/Specified

| Non-Resident | Name of Non-Resident Foreign |
|---|---|
| 17,252 | |
| 120 | |
| 120 | |
| 120 | Swedish Match, Inc. (Swedish) |
| – | |
| – | |
| 6,252 | |
| 6,252 | |
| – | Not available |
| 6,252 | AG & P, Wolff & Co., Kawasaki Steel Ltd. |
| – | |
| – | Kawetsu Mining Co & Kawasaki Steel Ltd. |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | |
| | Not available |
| – | |
| 10,880 | |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | |
| – | John Hotl Co., Ltd |
| – | |
| | Teijin Co. Ltd. Toyo Menka Kaisha Ltd. |
| – | |
| 3,289 | Eastern Spinning Ltd. (India) |
| – | |
| 1,800 | Non available (Swiss) |
| – | Yasaki Co. Ltd. |
| – | |
| – | |
| – | |
| 4,800 | |
| 4,800 | Alcoa Corp. (Australia) |
| 900 | |
| 900 | Kirloskar Bros Ltd. ((India) |
| 91 | |
| 91 | Hol Sut Ioc (Portuguese) |
| – | |
| – | Maidensha Electric Mfg., Co., Ltd. |
| – | |
| – | Sakata Shokai, Ltd. |

# Industrial priorities to be reset this year

This year will see another re-shaping of industrial priorities.

The fuel crisis has influenced much of the new decision of the Board of Investments with respect to economic areas to be included in the Investment Incentives Act and the Export Incentives Act.

In its current discussions, the Board is working out a program that will strive for a balance between domestic sufficiency and the export goals. While productivity is a must objective, the volume of output must be enough to sustain domestic demand first before any excess is shifted to foreign markets.

In addition to existing variables (labor intensity and export contribution), the BOI has added the fuel intensity criterion in evaluating projects and areas proposed for inclusion in either of the two plans. The Board believes that while power is an important element in production, it should be one of the factors when considering economic areas that consume extraordinarily large amounts of fuel.

### Employment

The Board currently believes that the emphasis must be in developing areas that create as much employment as possible with the minimum use of both capital and power.

Foreign investments are likewise being given a greater share of responsibility in developing the export sector. This year, the Board will give more consideration to the establishment of new export facilities that are in a position to sell between 50 and 70 per cent of the plant output abroad.

Like the Investment Priorities Plan, export projects should give a minimum utilization of imported components and will undertake a greater degree of processing of local raw materials. The natural-based industries will be given priority consideration as against import dependent industries.

In the past few weeks, the Board has been conducting detailed hearings on the areas being proposed by the private sector for inclusion in both the Investment Priorities Plan and the Export Priorities Plan. (Both plans are detailed listings of economic areas guaranteed tax incentives by the Board).

### Proposals

Fiberboard, stripped abaca fiber, arrowroot starch, particle board and feed grains are being proposed under the IPP under the agro-industries section. Grape growing, castor bean growing and processing, bamboo shoot growing and processing are proposed under the agro-industries section of the EPP.

Continuous casting mill to produce copper wire rods, gas cock valve, oxygen and acetylene cylinders, automotive parts such as mufflers, radiators, tail pipes, leaf springs, automotive brake drums, motorcycle components (sprocket, chain cable, rim, spokes and nipples), air compressors sizes (1/4 – 15 HP), graphite electrodes, electrical wiring devices and plate mill are also proposed on the metals side of the IPP.

Under the section of the EPP, aircraft rehabilitation and modification facilities are being suggested.

### Chemicals

On the chemical side, soda ash, sheet and glass products are being considered for inclusion in the IPP. Methanol formeldehyde, nicotine, sulphate, and rubber prophylactics are being proposed in the EPP.

There are 17 areas currently listed under chemicals of the Sixth IPP. The Board is now reviewing the situation of these industries with respect to the BOI's new industrial guidelines.

The BOI, however, assures that projects that have been registered will continue to be supported.

As in previous years and as a means to intensify production, the fields of forest development, crop production, food processing, livestock and fishing, mineral and non-mineral product production will further be encouraged by the Board.

### Directions

In addition, the directions spelled out for BOI is to pinpoint areas that would have significant emphasis on the development of rural small and medium-scale industries particularly labor-intensive projects which involve substantial processing of indigenous raw materials.

According to the Board, its sector development programs will be formulated so as to provide an inter-linkage of these industries with the large-scale enterprises through various sub-contracting arrangements. A significant feature in this sub-contracting scheme is the transfer of technological, management and financial assistance from the large-scale to the small-scale projects.

### Guidelines

In the planning process, the Board will also take into serious consideration location of industrial plants in relation to fuel costs. In this regard, the Board has issued broad guidelines on industry locations some of which are as follows:

(1) Firms seeking BOI registration are required to establish new meat processing capacities near sources of hogs or near meat producing areas;

(2) The Board requires that grain processing centrals (rice) should be located in regions with corresponding storage capacities;

(3) Manufacture of cellophane must be located close to the Northern Luzon copper smelter in order to make the cost of sulphuric acid as low as possible and in an area in which it is economically accessible to sites suitable to tree farming;

(4) Agricultural lime production activities should be situated outside Greater Manila in suitable locations and capacities to serve farm needs economically;

(5) The Investment Priorities Plan specifies the condition that the establishment of coconut oil mills be distributed among coconut producing regions in proportion to copra supply;

(6) Applicant export producers of electronic products or goods are required to locate either at the electronics park of the Greater Manila Terminal Food Market or at the Export Processing Zone in Mariveles, Bataan;

(7) Firms wishing to engage in the manufacture of feed yeast must locate in sugar-cane producing regions.

The fuel factor is now part of the rules locating industries under the Board's regional dispersal program.

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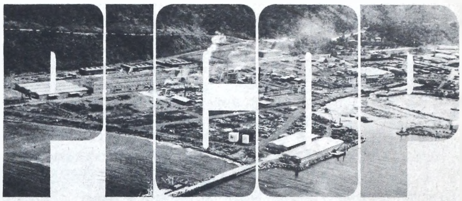


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# Energy crisis turns attention to coal mining

The Board of Investments is giving priority attention this year to applicants intending to develop the country's coal deposits.

Coal mining is a non-pioneer area of investments now under the Sixth Investment Priorities Plan with a measured capacity of 2,400,000 metric tons.

As shown in the Bureau of Mines reports from 1963 to 1972, coal production dropped from 156,535 metric tons to 37,942 metric tons or a decrease of 76 per cent during the past nine years.

The drop in the use of coal is attributed to the increasing dependency of industry on petroleum and its by-products.

### Alternate source

BOI believes that with the growing cost of acquiring oil from abroad, the country can benefit by utilizing coal as another energy source.

Coal is primarily consumed by cement companies, electric power plants and foundries. At one time locomotives, launches, steamships, barges and the Manila Electric Company used coal to produce power.

Aside from thermal plants and cement kilns, other possible users of coals are sugar centrals, carbon reductant manufacturers, grain driers, lumber kiln-driers and tobacco flue-curers.

### Coal users

The BOI based its 2,400,000 demand for coal by 1976 in accordance with the usage of coal by the following firms:

(1) Coal-fired thermal plants of the National Power Corporation: Liloan, Cebu — 132,000 metric tons; Batan Island, Albay, 230,000 metric ons; Sipalay, Negros Occidental, 60,000 metric tons; and Bislig, Surigao, 125,000 metric tons.

2) Atlas Consolidated Mining and Development Corporation (six boilers at the Sangi Power Plant), 252,000 metric tons.

(3) Visayan Electric Company, 72,000 metric tons.

(4) Universal Cement Corporation, 43,000 metric tons.

(5) Apo Cement Corporation, 6,000 metric tons.

(6) Sugar centrals, 1,500,000.

### Less output

Last year, the country produced a total of 39,118 tons of coal, 28.16 per cent less than that produced in 1971. The BOI says, the downward trend of production and consumption for the past 10 years makes it impractical to project demand based on past apparent demand.

However, at the end of December, 1971, the total estimated coal reserves of the Philippines were about 125,230,383 metric tons. According to the Bureau of Mines, the grade or analysis of Philippine coal ranges from 8,390 to 14,650 BTU.

The study of the National Power Corporation states that the quality of coal in the Philippines is suitable for fuel for most industries even without beneficiation. Low-grade Philippine coal is said to be easily blended with higher-grade varieties for maximum utilization.

At the end of 1972, there were 11 reported coal producing mines in the country. Nine of these are in Cebu.

### Observations

The Board noted that despite its vast coal resources, the country continues to be dependent on imported oil for industry's fuel requirements.

A review of the industry by the Board resulted in the following industry observations:

(1) Lack of developed market.

According to the Board, there is a great potential for coal although potential users prefer to use oil and other fuels because of the unsteady supply of coal and its comparatively high price.

(2) Poor mining conditions.

The existing coal mines are small and operation is intermittent. According to the BOI, mining methods used are crude. Due to the lack of facilities, mining is suspended during the rainy season.

(3) Lack of trained technical men.

There is noted a continuous lack of coal mining engineers like expert coal drillers and experienced mine foremen.

(4) Lack of capital.

The BOI said that capital has not been easy to attract because the coal mining business has been considered an expensive and risky business.

(5) Lack of cheap means of transport.

According to the Board, the lack of transportation and shipping facilities and the high cost involved in the movement of coal from the mines to the consumers present additional problems.

(Continued on page 18)

**Exhibit I**
**PHILIPPINE COAL DEPOSITS**
**(As of December 31, 1972)**

| Location Owned and/or Operated | Estimated Reserve (MT) | Heating Value (BTU) | Status | Remarks |
|---|---|---|---|---|
| **Albay** | | | | |
| Rapu-Rapu, Batan Is. | 16,693,000 | 8,680-12,300 | Not operating | Explored |
| | 2,000,000 | NA | Prospect | Explored |
| Rapu-Rapu,sBatan Is. (Villanueva Coal Mining Corp.) | 2,585,000 | 8,500-12,300 | Not Operating | Explored |
| **Antique** | | | | |
| Semirara Is., Caluya | 2,277,000 | 8,390-12,410 | Not operating | Explored |
| Semirara Is., Caluya | 9,982,742 (Positive) | NA | NA | NA |
| | 2,349,219 (Probable) | NA | NA | NA |
| Semirara Is., Unong | 4,654,988 (Positive) | NA | Not Operating | Explored |
| | 2,172,722 (Probable) | NA | NA | NA |
| | 3,500,000 | | Prospect | Explored |
| **Catanduanes** | | | | |
| Hitoma, Carmoran | 30,000 | 12,800-13,200 | NA | NA |
| Htoma, Manambag | 581,000 | 13,040-15,010 | Not Operating | Explored |
| | 993,200 Coking | Bit., 13,000-15,000 | Not operating | Explored |
| Panganiban Region | 750,000 | 11,280-14,650 | Not operating | Explored |
| Panganiban, Ermitaño | 180,893 (Proved) | | | |
| | 212,126 (Probable) | | | |
| Payo Region | 410,519 | Medium Volatile 11,000-14,000 | Non-operational | NA |
| **Cebu** | | | | |
| Argao, Dalaguete | 8,515,000 | 12,340-14,490 | Operating | Explored |
| Northern Camansi | 13,671,000 | 13,800 | Operating | Explored |
| Danao City (Aznar Enterprises) | 55,162 | 10,505-11,780 | Operating | Explored |
| Danao City — Campostela, Carmen (Durano & Co.) | 11,979,000 | 10,080-10,250 | Producing | Explored |
| Danao City — Cahumay — humayan (Atty. Ramon Durano) | 18,000 | 10,500 | Operating | Explored |
| Danao City — Barrios of Mantija, Camansi, Kapilyahan (Aznar Mining Dev. Corp.) | 34,600 | 9,400-11,600 | Operating | Explored |
| Naga, Alpaco (Bernardo Ciriaco) | 120,000 | 9,500-10,340 | Operating | Explored |
| Naga, Toledo City (Base Coal Mines) | 184,887 | 9,870 12,290 | Operating & Producing | Explored |
| Toledo City | 38,000 | 11,598 | Operating | Geological |
| Uling | 774,000 | 8,887-12,610 | Operating | Geological |
| Mindoro Oriental Bulalacao | 4,014,000 | 8,390-12,040 | Not-operating | Explored |
| Misamis Oriental Manticao (Ma. Cristina Chem. Industries) | 13,000 | Lignite to Sub-bit, for carbide manufacture | Operating | Explored |
| **Negros Occidental** | | | | |
| Calatrava — Taboso | 3,398,000 | 8,760-12,580 | Not operating | Geological |
| Calatrava — San Carlos | 32,000 | NA | Not operating | Explored |
| Calatrava — Bagonbon | 146,704 (Positive) | Sub-bit. Coal | Not Operating | Explored |
| | 372,851 (Probable) | NA | NA | NA |
| Calatrava — Macasiloc | 8,000 | 8,500-10,000 | NA | NA |
| **Quezon** | | | | |
| Polillo Is., Burdeous | 2,295,000 | 10,060-12,790 | Not operating | Geological |
| Polillo Is., Burdeous (Commonwealth Ceramic Corp.) | 12,165 | Sub-bit., Hi-Heating Value | Not operation | NA |
| Polillo Is., Burdeous | 430,000 | 11,000-13,000 | NA | NA |
| **Sorsogon** | | | | |
| Gatbo | 112,000 | 10,269 | Not operating | Geological |
| **Surigao del Sur** | | | | |
| Bislig-Lingag | 4,582,000 | 11,010-14,260 | Operating | Geological |
| **Zamboanga del Sur** | | | | |
| Nalangas (CETOC) | 16,805,000 | 12,270-13,900 | Operating | Explored |
| Nalangas, Butong-Deplahan | 6,221,805 | NA | Prospect | NA |
| Kabasalan, Siay (Gov't. Reservation) | 1,500,000 | High Volat. To Low Volat. Bit., 11,123-13,680 | | |
| **Leyte** | | | | |
| Villaba, Balete San Vicente (Luzon Stevedoring Co.,) | 525,000 | 3 — 6% bitumen | NA | NA |
| Total | 125,230,383 MT | | | |

SOURCE : BUREAU OF MINES.

# COAL MINING

(Continued from page 16)

The Board believes that a plant with an annual capacity of 56,100 tons is of economical size. With BOI incentives, total cost of this plant is around P1.5 million with P790,822 going into the purchase of "machineries and equipment.

Revenues at P65.00 per metric tons can reach P3,650,400 per annum. Net profit after tax is estimated at P439,086.

According to the Bureau of Mines, Rapu-Rapu, Batan Island in Albay has a total estimated coal reserve of 18,693,000 metric tons; Northern Camansi, Cebu, 13,671,000 metric tons, and Carmen, Danao City, 11,979,000 metric tons.

Other rich deposits of coal are found in Antique, Catanduanes, Nalangas, Zamboanga del Sur (16,805,000 metric tons), and Negros Occidental. Many of these coal mines, although explored, are not operating.



## TABLES OF NATIONALIZATION LAWS AND THEIR REQUIREMENTS

| LEGAL PROVISIONS | SUBJECT MATTER | REQUIREMENTS: NATURAL PERSONS | REQUIREMENTS: JURIDICAL PERSONS |
|---|---|---|---|
| **BANKING** | | | |
| 1. Rep. Act. No. 337 as amended by P.D. No. 71 (General Banking Act) | Regulating the establishment and operation of banking institutions. | | Seventy* per cent of voting stock of the institution must be owned by Filipino citizens, except new banks established by consolidation of branches or agencies of foreign banks in the Phils. Two-thirds of the members of the board of directors must be Filipino citizens. |
| 2. Rep. Act No. 4093 as amended by P.D. 119 (Private Development Bankers' Act) | Regulating the establishment of private development banks. | | Seventy* per cent of voting stock of the institution must be owned by Filipino citizens, except new banks established by consolidation of branches or agencies of foreign banks in the Phils. Two-thirds of the members of the board of directors must be Filipino citizens. |
| 3. Rep. Act No. 720 as amended by RA Nos. 1097; 5939 and P.D. 122 (Rural Banks' Act) | Regulating the establishment and operation of rural banks. | | Capital stock must be 100% owned and held by Filipino citizens. All members of the board of directors must be Filipino citizens. |
| 4. Rep. Act No. 3779 as amended by RA 4378, Sec. 4 (b) | Capital structure of savings and loan association | | Sixty per cent of the capital stock must be owned by citizens of the Philippines. |
| 5. Rep. Act No. 4860 Sec. 3, as amended by RA 6142 | Re-lending by gov't. financial institutions to private sector of foreign loans obtained by these institutions. | Limited to Filipino citizens. | At least 70% of the outstanding and paid-up capital of corporation or partnership must be held by Filipinos until loan is fully paid. |
| **CIVIL AERONAUTICS** | | | |
| 1. Sec. 5. Art. XIV, Const. of the Phil. | Grant of franchise, certificate, or any other form of authorization for the operation of a public utility. | Grantee must be Filipino citizen. | Grantee must have at least 60 per cent Filipino capital. |
| 2. Republic Act No. 776 | Issuance of permit to engage in domestic air commerce and/or air transportation. | Grantee must be Filipino citizen. | Grantee must have at least 60% Filipino capital. |
| **COCONUT INDUSTRY** | | | |
| Rep. Act No. 1369 | Granting of loans to finance establishment of coconut centrals and mills. | Grantee must be Filipino citizen. | Grantee must be a corporation or association with majority Filipino capital. |
| **COOPERATIVES** | | | |
| 1. Com. Act No. 565; RA 2023 | Organization of cooperative associations. | A cooperative association maybe formed by 15 or more persons who are citizens of the Phil. or the U.S. or of both, residing in the P.I. | Any corporation or association with at least 61 per cent Filipino or American capital may organize a cooperative association. |
| **FINANCING COMPANIES** | | | |
| Rep. Act 5980 | Regulating the establishment and operation of financing companies. | | 60 % of the capital stock should be owned by citizens of the Philippines and must have a paid-up capital of at least P500,000; 2/3 of the members of the board of directors of the corp. must be Filipino citizens; if the managing partners must be Filipino. |
| **FISHING AND OTHER* AQUATIC RIGHTS** | | | |
| 1. Sec. 20, Public Act No. 4003 (Fisheries Act) | Issuance of license to operate vessels to catch fish in territorial waters of the Philippines: transfer or assignment of right. | Licensee must be citizen of the Phil. or the United States or of any other country granting similar right to Filipino citizens: transferee or assignee must have qualifications as licensee. | Licensee must have at least 61 per cent Filipino or American capital; transferee or assignee must have qualifications as licensee. |
| 2. Sec. 22, Public Act No. 4003, as amended by CA No. 471 | Issuance of license as fisherman to work on vessel engaged in commercial fishing. | Licensee must be citizen of the Phil. or the U.S. or of any other country granting similar right to Filipino citizens. | Not applicable. |
| 3. Secs. 24 and 32, Public Act No. 4003 | Issuance of license to take marine mollusca; transfer or assignment of right. | Licensee must be citizen or the Phil. or the U.S. or of any other country granting similar right to Filipino citizens, transferee or assignee must have qualifications as licensee. | Licensee must have at least 61 per cent Filipino or American capital; transferee or assignee of stock must have qualifications as licensee. |
| 4. Sec. 25, Public Act No. 4003 as amended by CA No. 471. | Issuance of license for operation of pearling or shell-collecting boat; transfer of assignment of right. | Same as provided for in Sec. 24, Public Act. No. 4003, *supra*. | Same as provided for in Sec. 24, Public Act No. 4003, *supra*. |
| 5. Sec. 27, Public Act No. 4003, as amended by CA No. 471. | Issuance of shell-driver's license to take marine mollusca or shell thereof. | *ibid.* | *ibid* |
| 6. Secs. 39 & 44 Public Act No. 4003 | Granting of concession to fish for, collect or gather sponges in territorial waters of the Philippines: transfer or assignment of right; issuance of special permit. | *ibid.* | *ibid* |

| | | | |
|---|---|---|---|
| 7. Secs. 52 & 55, Public Act No. 4003 | Issuance of license to take hawksbill turtle; transfer or assignment of right; issuance of special permit. | *ibid.* | *ibid* |
| 8. Sec. 63, Public Act No. 4003, as amended by C.A. 471. | Issuance of fishpond and fishery permit or lease agreement within forest lands. | Same as provided for in Sec. 1, Public Act No. 3674, *supra.* | Same as provided for in Sec. 1, Public Act No. 3674, *supra.* |
| 9. Sec. 67, Public Act No. 4003, as amended by C.A. 471. | Granting of exclusive privilege by municipal councils to erect fish corrals, or operate fishponds, or take or catch "bangus" fry, or fry or other species for propagation; transfer or assignment of right. | Grantee must be Filipino citizen. | Grantee must have at least 61 per cent Filipino capital. |
| 10. Sec. 74, Public Act No. 4003 | Authorizing the sale of any land or portion thereof, owned by reserved for or occupied by any fishery farm, experimental station or fishery project for exchange thereof with any site or private ownership. | Sale or exchange limited to Filipino and American citizens. | Sale or exchange limited to corporations or associations with at least 61 per cent Filipino or American capital. |
| **GEOTHERMAL ENERGY** | | | |
| Rep. Act No. 5092 | Granting of permits and/or leases for exploration, tapping and utilization of geothermal energy, natural gas and methane gas. | Leasee or permittee must be citizen of the Phil. | Leasee or permittee must have at least 60 per cent Filipino capital. |
| **GOVERNMENT CONTRACTS** | | | |
| 1. Public Act 4239 | Awarding of contracts for the construction of public works. | Awardee must be citizen of the Phil. or the U.S. or of any other country granting similar rights to Filipino or American citizens. | Awardee must have at least 70 per cent Filipino or American capital. |
| 2. Rep. Act No. 5183, Sec. 4 | Awarding of contracts for the supply to, or procurement by, any government-owned or controlled corporation of materials, equipment, goods and commodities. | Limited to Filipino citizens. | Sixty per cent of the capital stock must be owned by Filipino citizens. |
| 3. Com. Act No. 138 (Flag Law) | Regulating the purchase of equipment and supplies for government offices and entities; giving preference to articles produced in the Philippines or in the U.S. | Preference in award of bids given to Filipino or American citizens. | Preference in awards of bids given to corps. or commercial companies with at least 75 per cent Filipino or American capital. |
| 4. Com. Act No. 541 | Preference in awarding of contracts for the construction or repairs of public works, and building and structure for national defense. | Preference given to Filipino or American citizens in award of bids for construction or repair of public works if lowest domestic bid is not in excess of 15 per cent of lowest foreign bid; no foreign bid allowed for construction or repair of building or structures for national defense. | Preference given to corps. or commercial cos. with at least 75 per cent Filipino or American capital in award of bids for construction or repair of public works if lowest domestic bid is not in excess of 15 per cent of lowest foreign bid; no foreign bid allowed for construction or repair of bldgs. or structure for national defense. |
| **GOVERNMENT OBLIGATIONS** | | | |
| Rep. Act No. 504 (Back Pay Law) as amended by RA No. [illegible] | Application of backpay certificates to payment of obligations. | Certificates can be applied in payment to Filipino citizens only. | Certificates can be applied in payment only to corps. or associations with at least 60 per cent Filipino capital. |
| **INVESTMENT COMPANIES** | | | |
| Rep. Act No. 2629 Sec. 15 | Regulation of investment companies. | | All directors must be citizens of the Philippines. |
| **INVESTMENT HOUSES** | | | |
| P.D. 129 (The Investment Houses Law) | Regulation of investment houses | | Majority of voting stock must be owned by Filipinos. Majority of members of the Board must be Filipino citizen |
| **MARKET STALLS** | | | |
| Rep. Act No. 37 | Preference in the lease of market stalls. | Filipino citizens given preference. | No Provision. |
| **MINERALS AND MINERAL LANDS/ NATURAL RESOURCES** | | | |
| 1. Sec. 9, Art., XIV, Const. of the Phil. | Disposition, exploitation, development exploration, or utilization of any of the natural resources of the Phil. | Filipino citizens | At least 60% of the capital stock must be owned by Filipino citizens. |
| 2. Public Act No. 2719 (Coal Land Act), as amended by RA No. 740 | Lease of unreserved and unappropriated coal-bearing lands. | Leasee must be Filipino citizen. | Leasee must have at least 60% Filipino capital. |
| 3. Com. Act No. 137 (Mining Act), as amended by CA No. 309, and RA NOs. 225 & [illegible] | Disposition, exploitation development or utilization of minerals and mineral lands of the public domain. | Limited to Filipino citizens. | Limited to corporations or associations with at least 60% Filipino capital. |
| 4. Rep. Act No. 387 (Petroleum Act of 1949( | Exploration, development, exploitation, or utilization of petroleum resources; assignment or transfer right thereto; preference in employment concessions. | Concessionaire or transferee ,must be Filipino citizen. | Concessionaire or transferee must have at least 60% Filipino capital. |
| **OTHER PUBLIC SERVICE** | | | |
| 1. Sec. 5, Art. XIV, Const. of the Phil. | *supra.* | *supra.* | *supra.* |
| 2. Sec. 7(1), Art. XV, Const. of the Phil. | Ownership and operation of Mass media. | Limited to Filipino citizens. | Must be wholly-owned and manged by Filipino citizens. Governing body of any entiry engaged in commercial telecommunications shall be controlled by citizens of the Phil. |
| 3. Sec. 8(7) Article XV, Const. of the Phil. | Operation of educational institutions other than those established by religious orders, mission boards and charitable organizations | Limited to Filipino citizens | 60% of its capital must be owned by such citizens. Control and administration must be limited to citizens of the Philippines. |
| 4. Com. Act No. 146 (Public Service Act) as amended by CA No. 454 and RA Nos. 178, 275 and 1270. | Issuance of certificates of public convenience and necessity. | Grantee must be Filipino or American citizen. | Grantee must have at least 50 per cent Filipino or American capital. |

*(Continued on page 20)*

# BOI defines rules on ownership ratio

The accompanying table of nationalization laws has been prepared by the Board of Investments as a basic guideline for foreign investors who are not aware of the existing regulations concerning ownership of Philippine companies and industrial properties.

Recent foreign investment liberalization measures are intended to support the intentions of the Investment Incentives Act and the Export Incentives Act. Both Acts provide for special treatment of foreign capital in prescribed areas of investment for a specified period of time.

**New rules**

Some of these new regulations are as follows:

(1) Pioneer areas

One of the conditions in allowing foreign-owned or controlled firms in pioneer areas of investment is that the foreign enterprise obligates itself to accept Filipino investments subsequently and that within 20 years (extendable for another 20 years only in certain areas), it is 60 per cent controlled by Filipinos. The recent amendment requires attainment of filipino control within 30 years or within 40 years, if the enterprise is engaged primarily (at least 70 per cent) in the exportation of registered products, which period is extendible for another 10 years by BOI.

(2) Complementation arrangements

In addition to the Constitutional provision limiting to 60 per cent Filipino-owned firms, the exploitation of natural resources and engaging in public utilities, there are other statutes requiring ownership by Filipino stockholders of all or the major portion of the equity in certain trades, etc. The BOI, subject to the approval of the National Economic Development Authority, is now empowered to suspend such requiremnt (except in areas covered by the Constitutional prohibition) in big multinational projects pursuant to international complementation arrangements for the manufacture of a particular product on a regional basis.

Under this amendment, foreign investors may consider the Philippines as the base for serving the Southeast Asian market in cases of complementation schemes without being subjected to the various statutes limiting ownership of the majority of the stockholdings to Filipinos in case the particular activity is subject to such limitation.

**Export firms**

(3) Foreign export firms.

Foreign-owned or controlled firm engaged or proposing to engage in the production of "export products" intended primarily for foreign markers are now qualified to apply for registration with BOI and avail of incentives, the principal ones being:

a. Tax credit on imported materials and supplies equivalent to the amount of duties and compensating taxes paid;

b. Tax exemption on inported capital equipment or tax credit on taxes that would otherwise be paid if the domestic capital equipment was imported, for new capacity designated as intrisically export-oriented or for additional capacity deemed necessary to meet export orders;

c. Deduction for taxable income of undistributed profits used for expansion reinvestment;

d. Carry-over of net operating loss as a deduction from taxable income;

e. Accelerated depreciation;

f. Additional deduction from taxable income of an amount equivalent to 50 per cent of training expenses incurred;

g. Exemption from all internal revenue taxes except income taxesif the project is a pioneer undertaking;

h. Exemption from export tax, impost or fee.

(4) Tourism incentives

A new addition to the Export Incentives Act is the grant of incentives to tourism ventures. Among beneficiaries of such incentives would be foreign-owned or controlled service exporters engaged in the business of primarily catering to foreign tourists and travelers. Incentives available to such service exporters for the first 5 years from registration are:

a. Reduced income tax, i.e., the enterprise may deduct from its taxable income an amount equivalent to 50 per cent of its total export fees during the year in which the incentive is claimed; and

b. Tax and duty-free importation of capital equipment directly and actually needed by such service exporter.

*(Continued from page 19)*

| | | | |
|---|---|---|---|
| **PRIVATE LANDS** | | | |
| 1. Sec. 9, Art. XIV, Const. of the Phil. | *supra.* | *supra.* supra. | *supra.* |
| 2. Sec. 14 Art. XIV, Const. of the Phil. (See also CA No. 310). | Transfer or assignment of private agricultural lands. | Transferee or assignee must be individuals qualified to acquire or hold lands of the public domain except in cases of hereditary succession. | Transferee or assignee-corporation or association must be qualified to acquire and hold lands of public domain. |
| 3. Republic Act No. 133, as amended by RA 4381 | Mortgage of private real property. | Mortgagee may be any person but only Filipino citizens can bid for such property if foreclosed. | Mortgagee may be any corporation or association but only those with 60% Filipino capital can bid for such property if forelcosed. |
| 4. Republic Act No. 267 as amended by RA No. 498 | Authorizing cities, municipalities and provinces to purchase and/or expropriate home sites and landed estates for resale. | Sale limited to Filipino citizens. | No provision |
| **PUBLIC LANDS/ NATURAL RESOURCES** | | | |
| 1. Secs. 8, 9 & 11 of Art. XIV, Const. of the Phil. | All lands of the public domain, water, minerals and other natural resources belong to the State. Disposition, exploration, development, exploitation and utilization of natural resources of the Philippines. | Limited to citizens of the Phil. | Limited to corps. or associations at least 60% of the capital of which is owned by Filipino citizens. No private corp. or association may hold alienable lands of the public domain except by those not to exceed 1,000 hectares. |
| 2. Com. Act No. 141 (Public Land Act), as amended by CA Nos. 292; 456 and RA Nos. 107; ;293; 436; 1172; 1240; 1242 and 1273. | Application for homestead, sale, lease, free patents judicial confirmation of imperfect or incomplete titles to public lands. | Applicant must be Filipino citizen. | Applicant must have at least 60% Filipino capital. |
| 3. Republic Act No. 274 | Subdivision and sale of lands within military reservation. | Sale limited to Filipino citizens. | Sale limited to corporations or associations with at least 60% Filipino capital. |
| 4. Republic Act No. 293 | Sale of marshly lands and lands bordering on shores or banks of navigable rivers or lakes. | Sale limited to Filipino leasees thereof. | Sale limited to corporations or associations with at least 60% Filipino capital. |
| 5. Republic Act No. 477 | Lease and sale of lands transferred to the Republic of the Philippines under the Philippine Property Act No. 8; and all public lands and improvements and thereon transferred from the Bureau of Lands to NAFCO. | Lease or sale limited to Filipino citizens. | Lease or sale limited to corporations or associations with at least 60% Filipino capital. |
| 6. Republic Act No. 730 | Sale of public lands for residential purposes; transfer or resale thereof. | Sale and transfer limited to Filipino citizens. | No provision. |
| 7. Republic Act No. 782 | Issuance of free patent for disposable agricultural lands. | Issued only to natural born citizens of the Phil. | No provision. |

# Regional dispersal beneficial to labor

The regional dispersal of industries program of the Board of Investments has so far benefitted Southern Tagalog Northeastern Mindanao. The rest of Philippine provinces or regions have not attracted enough industries to enable them to sustain the high migratory flow of labor.

The Southern Tagalog area (Batangas, Cavite, Laguna, Oriental Mindoro, Palawan, Quezon, Rizal) attracted a total of P548.5 million investment between July, 1968 and December, 1972. This was 22.85 per cent of the P2.4 billion committed to implement Board-registered projects during this period.

From January to December, 1973, BOI data show that a total of P141.0 million have already been committed to Southern Tagalog projects. The province of Batangas, out of this total, has a share of P47.8 million, Rizal, P53.6 million and Laguna, P32.2 million.

### Bigger share

Investment commitment from July 1968 to December, 1972 is even bigger in Northeastern

Mindanao. Of the P2.4 billion total investment project cost, Northeastern Mindanao (Agusan, Bukidnon, Lanao del Norte, Lanao del Sur, Misamis Oriental, Surigao del Norte, and Surigao del Sur) got a significant P1.5 billion investment share or 62.5 per cent of P2.4 billion.

While Southern Luzon is considered attractive for agro-based industries, Northeastern Mindanao is favored as a site for wood processing facilities because of its high timber output. Surigao del Norte alone has attracted as much as P1.0 billion in investment between July, 1968 and December, 1972. Lanao del Norte accounts for over ₱229 million private investment in the area.

However, the same situation does not hold true for other regions or provinces. Despite growing control on the part of the Board to regulate the siting of manufacturing facilities, marketing and raw material considerations play an important part in project locations.

Cagayan Valley (Cagayan and Isabela) attracted P2.7 million only in investments; Eastern Visayas (Leyte and Samar) drew P8.4 million; Western Mindanao (Zamboanga del Sur and Sulu), ₱15.1 million.

**Limited flow**

When compared to the volume of investments committed to both Southern Tagalog and Northeastern Mindanao, the capital flow to these following regions continues to be small: Ilocos (Mountain Province, La Union, Pangasinan), ₱54.7 million; Central Luzon (Bataan, Bulacan, Zambales), ₱56.3 million; Bicol (Albay, Camarines Norte, Camarines Sur, Masbate), P50.7 million; Western Visayas (Capiz, Negros Occidental, Iloilo), P39.5 million; Central Visayas (Cebu, Negros Oriental), P31.6 million; and Southern Mindanao (Cotabato, Davao), P65.8 million.

At the end of December, 1972, there were a total of 102 plants sited or being sited by BOI-registered proponents in Central Luzon. Of this total, 78 manufacturing facilities are in Rizal.

Between January to December 1973, an additional 22 plants are to be sited in Central Luzon out of a total of 51 plants approved. Of the 22, 17 are to be located in Rizal.

Between July, 1968

(Continued on page 22)

| | | | |
|---|---|---|---|
| 6. Com. Act No. 452, as amended by RA 1252 | Granting of leases and permits for pasture lands. | Lessee or permittee must be citizens of the Phil. | Lessee or permittee must at least 60% Filipino capital. |
| **RETAIL TRADE** | | | |
| 1. Rep. Act No. 1180 (Retail Trade Nationalization Law.) | Regulation of retail trade business. | Privilege granted only to Filipino citizens effective May 15, 1954. Aliens engaged in the retail business prior to May 15, 1954 may continue to do so until death or voluntary retirement of license or forfeiture of his license. | Privilege grantee only to organizations with 100% Filipino capital. Alien organizations engaged in the retail business prior to May 15, 1954, may continue to do so until the expiration of their term but not beyond June 19, 1964. |
| 2. Rep. Act No. 1292 | Granting and underwriting of credit facilities for the operation of retail business. | Grantee must be Filipino citizen who is a bona-fide retailer. | No provision. |
| **RICE & CORN** | | | |
| 1. R.A. No. 3018, as amended by P.D. 194 | Regulation of the rice and corn industry. | Filipino citizens | 100% Filipino-owned corporations. However, aliens can engage in this business upon authority from NGA with a Filipinization requirement of 60% within a period to be determined by the NGA. |
| 2. Rep. Act No. 3452, as amended by Rep. Act No. 4643, Sec. 1 | Introducing a system of payment against warehouse receipt or quedan. | | Only Filipino banks may be designated by the Rice and Corn Administration in which money for the payment of palays, rice and corn may be deposited. |
| **SHIPPING** | | | |
| 1. Sec. 5, Art. XIV, Const of the Phil. | *supra.* | *supra.* | *supra.* |
| 2. Sec. 1172, Ch. 30 (Customs Law), Public Act No. 271, (Rev. Adm. Code); Sec. 806, RA 1937 | Issuance of certificate of Philippine register to vessels of domestic ownership for coastwise trade. Note: This function has been transferred to the Philippine Coastguard under RA 1573. | Grantee must be Filipino or American citizen residing in the Phil. | Grantee must have at least 75 per cent Filipino or American capital. The president and managing directors must be citizens of the Philippines. |
| 3. Sec. 1176 1/4 *loc cit.* | Issuance of license for yachts exclusively for pleasure. | Licensee must be Filipino or American citizens. | No provision. |
| 4. Sec. 1202 *loc cit.* | Limiting number of foreign personnel on board vessels engaged in coastwise trade. | Officers and crew must be Filipino or American citizens. | Not applicable. |

(Continued on page 22)

(Continued from page 21)

| | | | |
|---|---|---|---|
| 5. Sec. 1212 *loc cit.* | Issuance of bay and river license. | Owner of vessel must be Filipino or American citizen. | Owner of vessel must have at least 70 per cent Filipino or American capital. |
| 6. Com. Act No. 606 (Charter Party Law) as amended by RA No. 913 | Sale, lease, charter or transfer of vessels and shipping facilities owned in whole or in part by a citizen of the Philippines or by a corporation organized under Philippine laws. | Vendee, lessee or transferee must be citizen of the Philippines or United States or of any other country not at war with the Philippines. | Vendee, lessee, or transferee must have at least 75 per cent Filipino or American capital. |
| 7. Sec. 2, RA No. 1187 (Philippine Overseas Shipping Act), as amended by RA Nos. 4146; 5963 | Exemption from payment of taxes on income derived from overseas shipping business and construction of boats for overseas service. | Owner, operator or constructor must be Filipino citizen. | Owner, operator or constructor must have at least 60% per cent Filipino capital.<br>Grantee must have at least 60 % per cent Filipino capital. |
| 8. Sec. 3, *loc cit.* | Grant of loans to finance construction, purchase acquisition and operation of oceangoing vessels. | Grantee must be Filipino citizen. | Vendee must have at least 60% per cent Filipino capital. |
| 9. Sec. 7, *Loc cit.* | Sale of vessels mortgaged to the Government. | Vendee must be Filipino citizen. | The vessels must be owned by citizens of the Philippines or corporations or associations at least 5% of the capital stock is owned by Filipinos. |
| 10. Sec. 806 as amended, of the Tariff and Customs Code of the Phil. | Registration of vessels to be used in coast-wise trade* | | supra. |
| **TIMBERLAND AND FOREST PRODUCTS** | | | |
| 1. Secs. 9 & 11, Art. XIV, Const of the Phil. | supra. | supra. | |
| 2. Public Act No. 2590 | Issuance of permit to hunt and collect protected wild life. | Permittee may be any person but see Opinion of the Sec. of Justice, dated April 20, 1948 restricting issuance of permit to Filipino citizens. | No provision. |

* The Monetary Board with approval of the Pres. may reduce the required ownership to 60%.

* Pres. Decree No. 43 (Nov. 9, 1972) provides for 60% Filipino equity in a busine-; relating to the fishing industry. Although there is no express repeal of the following provisions, it seems a reasonable presumption that the 61% is now reduced to 60%.

[illegible] engaged in coast-wise trade per decision of the Supreme Court in the case of Commissioner of Customs Vs. Borres, et. al.,.G.R. No. L-12587, November 28, 1959.

# Regional dispersal beneficial to labor

(Continued from page 21)

and December, 1973, Northeastern Mindanao would have sited 37 plants, of which 10 are in Misamis Oriental. The small number of plants to be located in this area is compensated by the value of the machineries to be installed here. Investment in machinery and equipment of proponents in this area is expected to total $246.4 million at the end of December, 1972.

### Employment generation

The number of persons to be employed in Southern Tagalog and Northeastern Mindanao will naturally be greater than other areas in the country. According to BOI data, there would have been some 48,468 persons to be directly benefitted by BOI projects at the end of 1973. Out of this total, 19,976 persons or 41.2 per cent will be absorbed by Central Luzon while 10,001 or 20.6 per cent of the total will be employed in Northeastern Mindanao plants. Some 14,478 will be employed in Rizal Province alone and 3,201 in Surigao del Norte.

At the end of December, 1972, only six plants were located in the Ilocos area benefitting only 1,483 persons. Cagayan Valley has only two BOI registered plants creating job employment for only 527 persons. While there are 12 plants sited in Central Visayas, 10 of these are in Cebu. Despite this number, these plants should only be absorbing 1,522 persons.

In payroll terms, more people are being benefitted in Southern Tagalog and Northeastern Mindanao. The projects in Southern Tagalog would have created an annual payroll of P66.5 million by the end of 1973. Northeastern Mindanao's payroll based on projects located here total P52.3 million.

**Payroll**

In Southern Tagalog alone, Rizal province tops the payroll list with P36.4 million annually. Surigao del Norte in Northeastern Mindanao comes second with an annual payroll of P22.0 million.

Between July, 1968 and December, 1972, the dollar portion committed to implement these priority projects cost over $600 million of which $594 million consist of purchases of machinery and equipment. Latest figures show that between January and December, 1973, $69.1 million are fresh addition to the dollar segment as a result of registration and approval of new projects. Of this, $68.2 million were to go into purchases of capital equipment.

By region Northeastern Mindanao will get most of these equipment valued at over P246 million. Southern Tagalog comes close with $243 million.

By province, Rizal outranks the rest with more than $101 million worth of equipment or 41.56 per cent of the total investments in machineries.

### INVESTMENT GENERATION OF BOI-REGISTERED PROJECTS BY REGION

**July 1968 — December 1973**

| Region | TOTAL INVESTMENT | | | | INVESTMENT IN MACHINERY & EQUIPMENT | | | |
|---|---|---|---|---|---|---|---|---|
| | July 1968 — December 1972 | | January — December 1973 | | July 1968 — December 1972 | | January — December 1973 | |
| | Peso Portion (P000) | Dollar Portion ($000) | Peso Portion (P000) | Dollar Portion ($000) | Peso Portion (P000) | Dollar Portion ($000) | Peso Portion (P000) | Dollar Portion ($000) |
| TOTAL | 2,403,473 | 600,770 | 328,294 | 69,120 | 112,661 | 594,482 | 17,682 | 68,907 |
| Region I: Ilocos | 54,747 | 17,686 | 93,832 | 13,953 | 6,558 | 17,686 | – | 13,953 |
| Mountain Province | 48,876 | 13,786 | 25,594 | 3,807 | 6,558 | 13,786 | – | 3,807 |
| La Union | 5,871 | 1,151 | 68,238 | 10,146 | – | 1,151 | – | 10,146 |
| Pangasinan | – | 2,749 | – | – | – | 2,749 | – | – |
| Region II: Cagayan Valley | 2,726 | 3,173 | – | – | 689 | 3,173 | – | – |
| Cagayan | 892 | 1,367 | – | – | 523 | 1,367 | | |
| Isabela | 1,834 | 1,806 | – | – | 166 | 1,806 | | |
| Region III: Central Luzon | 56,338 | 27,389 | – | – | 5,500 | 27,362 | – | – |
| Bataan | 18,397 | 3,663 | – | – | 555 | 3,663 | – | – |
| Bulacan | 33,915 | 22,408 | – | – | 3,416 | 22,381 | – | – |
| Zambales | 4,026 | 1,318 | – | – | 1,530 | 1,318 | – | – |
| Region IV: Southern Tagalog | 548,503 | 245,466 | 141,098 | 33,895 | 40,283 | 243,159 | 4,599 | 33,895 |
| Batangas | 115,906 | 80,206 | 47,817 | 7,430 | – | 80,206 | 300 | 7,430 |
| Cavite | 53,964 | 20,266 | – | – | 49 | 20,266 | – | – |
| Laguna | 45,638 | 27,963 | 32,271 | 11,114 | 874 | 27,963 | 582 | 11,114 |
| Or. Mindoro | 12,329 | 1,348 | – | – | 223 | 1,348 | – | – |
| Palawan | 4,284 | 1,510 | – | – | 1,385 | 1,510 | – | – |
| Quezon | 32,047 | 9,982 | 7,398 | 1,410 | 7,867 | 9,982 | 221 | 1,410 |
| Rizal | 284,335 | 104,191 | 53,612 | 13,941 | 29,885 | 101,884 | 3,496 | 13,941 |
| Region V: Bicol | 50,704 | 9,071 | – | – | 1,500 | 9,071 | – | – |
| Albay | 6,354 | 326 | – | – | 11,500 | 326 | – | – |
| Camarines Norte | 2,707 | 2,158 | – | – | – | 2,158 | – | – |
| Camarines Sur | 41,348 | 6,500 | – | – | – | 6,500 | – | – |
| Masbate | 295 | 87 | – | – | – | 87 | – | – |
| Region VI: Western Visayas | 39,559 | 11,123 | 2,461 | 446 | 160 | 11,123 | 3,479 | 446 |
| Capiz | 902 | 166 | – | – | 50 | 166 | – | – |
| Negros Occ. | 20,256 | 4,352 | 2,461 | 446 | 110 | 4,352 | 3,479 | 446 |
| Iloilo | 18,401 | 6,605 | – | – | – | 6,605 | – | – |
| Region VII: Central Visayas | 31,602 | 18,213 | 16,391 | 1,780 | 16,018 | 18,213 | 495 | 1,780 |
| Cebu | 23,625 | 6,511 | 16,391 | 1,780 | 8,041 | 6,511 | 495 | 1,780 |
| Negros Oriental | 7,977 | 11,702 | – | – | 7,977 | 11,702 | – | – |
| Region VIII: Eastern Visayas | 8,441 | 3,083 | 10,259 | 3,174 | 1,840 | 3,083 | 1,724 | 3,174 |
| Leyte | 5,594 | 1,326 | 1,736 | 849 | 1,840 | 1,326 | 1,250 | 849 |
| Samar | 2,847 | 1,757 | 8,523 | 2,325 | – | 1,757 | 474 | 2,325 |
| Region IX: Western Mindanao | 15,188 | 1,820 | 1,267 | 338 | 9,895 | 1,820 | | 338 |
| Zamboanga del Sur | 2,856 | 1,820 | 1,267 | 338 | 63 | 1,820 | | 338 |
| Sulu | 12,332 | – | – | – | 9,832 | – | – | – |
| Region X: Northeastern Mindanao | 1,529,798 | 250,401 | 30,772 | 8,235 | 16,114 | 246,447 | 3,57 | 8,022 |
| Agusan | 10,604 | 7,212 | 4,704 | 3,193 | 774 | 7,212 | – | 3,193 |
| Bukidnon | 71,686 | 59,192 | – | – | – | 59,192 | – | – |
| Lanao del Norte | 229,955 | 73,033 | 26,068 | 5,042 | 8,357 | 73,033 | 3,570 | 4,829 |
| Lanao del Sur | 1,080 | 157 | – | – | 180 | 157 | – | – |
| Misamis Oriental | 22,198 | 2,743 | – | – | 4,905 | 2,743 | – | – |
| Surigao del Norte | 1,092,041 | 62,545 | – | – | 442 | 58,591 | – | – |
| Surigao del Sur | 102,234 | 45,519 | – | – | 1,456 | 45,519 | – | – |
| Region XI: Southern Mindanao | 65,867 | 13,345 | 32,214 | 7,299 | 14,104 | 13,345 | 3,775 | 7,299 |
| Cotabato | 40,599 | 8,646 | 14,110 | 2,442 | 10,986 | 8,646 | 930 | 2,442 |
| Davao | 25,268 | 4,699 | 18,104 | 4,857 | 3,118 | 4,699 | 2,845 | 4,857 |

## SIGNIFICANT AMENDMENTS IN THE RULES AND REGULATIONS IMPLEMENTING THE INTENT AND PROVISIONS OF R.A. 6186

I. Rule I, Definitions and Basic Guidelines

A. Section 1(p) "Tax Credits" (page 3)

| *Old Rule –* | *New Rule –* |
|---|---|
| Credits against internal revenue taxes only | Credits against internal revenue taxes and customs duties |

B. Section 1(r) "Start of Operations" (page 3)

| *Old Rule –* | *New Rule –* |
|---|---|
| when the enterprise begins its production for commercial purposes | when the enterprise begins production of the *registered product* for commercial purposes |

C. Section 1(x) "Direct Labor Wage Cost" (page 3)

*New Rule –*
compensation (i.e., salaries, wages, payments, such as bonuses, living allowances which are part of the employee's taxable earnings), *for labor directly used in the production process including services of the foreman. It excludes labor for maintenance of production machinery and equipment.*

D. Section (1y) "Local Raw Materials" (page 4)

*New Rule –*
indigenous raw materials and semi-finished products, (i.e., with local content equal to or greater than 50% of manufacturing cost), *directly and actually used in the manufacture/processing of the registered product that is completely finished and forming part thereof; excludes* packaging and containers necessary to put the product in exportable form.

E. Section (1z) "Total Export Revenue" (page 4) (New)
sum of all export sales of the registered product that is completely finished and exported by the registered enterprise

F. "Liberalized Areas" (page 4) (New)
*non pioneer areas* which measured capacity, *after 3 years* of listing in the plans *have not yet been filled by Philippine nationals*

II. Rule II, Qualifications of Applicants (page 4)

| *Old Rule (Rule III) –* | *New Rule –* |
|---|---|
| U.S. owned/controlled corporations entitled to registration under same conditions prescribed for Philippine owned/controlled corporations; the former cannot avail of tax incentives under the Act | U.S. owned/controlled corporations, to be entitled for registration, shall submit *proof of reciprocity; continued registration after July 3, 1974 shall be subject to the resolutory effects of the Laurel-Langley Agreement* |

III. Rule III, *Section 3 Supporting Documents*

A. Section 3(a), Copies of the Project Study (page 5)

| *Old Rule –* (Rule IV, Sec. 3(a) | *New Rule –* |
|---|---|
| applicant firm shall submit 10 copies to the Board | applicant firm shall submit 4 copies to the Board |

B. Section 3(h) "IF Applicant is a Proposed Corporation"(Page 6) (New)
In lieu of the requirements in (e), (f), (g) hereinabove, applicant shall *submit proof of financial capacity by majority stockholders entitled to vote.*

C. Section 3(l) "Submission of Contracts" (page 6) (New)
such as joint venture agreements, licensing patents, trademarks and technological assistance agreements, existing or proposed.

D. Section 5, "Incomplete Papers" (page 6)

| *Old Rule –* | *New Rule –* |
|---|---|
| applicant shall submit deficiencies within 30 calendar days from receipt of notice by the Board | *within 30 days after filing of applications, the Board notifies the applicant of* the deficiencies and the latter has 30 days from receipt of notice to comply; *date of compliance shall be date of official acceptance* |

E. Section 6, "Publication of Appliaction" (page 6) (New)
*once in a newspaper of general circulation at applicant's expense,* after the Board has given due course for final evaluation of the application.

IV. Rule IV, Board Action (page 7)

A. Section 3, "Notice of Approval and Publication

| *Od Rule –* (Rule VI, Sec. 1(c) | *New Rule –* |
|---|---|
| applicant had only 20 days to accept the registration terms and conditions | applicant now have 30 days to accept the terms and conditions |
| The Board shall publicly announce approved applications | Notice of approval shall be published in a newspaper at applicant's expense |

V. Rule V, Certificate of Registration (page 7)

A. Section 1 "Conditions Precedent for Issuance of Certificate"

| *Old Rule –* | *New Rule –* |
|---|---|
| 1. Payment of registration fee | 1. same |
| 2. compliance with the requirement of Sec. 22(b) on the issuance of two types of voting shares | 2. now it is a post-registration condition |
| 3. sworn statement on all information and data submitted | 3. same |
| 4. resolution of applicant's Board of Directors accepting the terms and conditions | 4. same |
| | 5. compliance with *pre-registration requirements* |
| | 6. *sworn certificate* that applicant is *not in arrears* in the payment of obligations – |
| | 7. proof of publication of filing and approval |

VI. Rule VI "Incentives to Investors" (page 8)

| *Old Rule –* | *New Rule –* |
|---|---|
| No provision | can be availed of only *for investments made after registration* |

A. Section 2(b) Capital Gains Tax Exemption (ownership and holding period) (Page 8)

5-year ownership and holding period, *counted from date of actual payment for new issues;*

*ends on date of actual sale or disposition* regardless of date of entry in corporate books

VII. Additional Incentives to Philippine Nationals Investing in a Pioneer Enterprise (page 9)

A. Section 2(b), Investment for Tax Allowance Purposes

| *Old Rule –* | *New Rule –* |
|---|---|
| may be voting or non-voting stocks of one or more pioneer enterprise | shall be *new issues*, voting or non-voting |

VIII. Incentives to Registered Enterprises (page 10)

A. Section 1 Who can avail

| *Old Rule* (Rule IX, Sec. 1) | *New Rule –* |
|---|---|
| No provision | *U.S. owned/controlled corporations* registered in non-pioneer, non-liberalized areas *cannot avail of tax incentives;*<br>*Tax credits and accelerated depreciation* for this purpose *are not tax incentives* |

B. Section 3 Accelerated Depreciation (page 10)

| *Old Rule –* | *New Rule –* |
|---|---|
| may refer to fixed assets acquired before *but not yet fully depreciated* on date of registration | *acceleration refers only to the undepreciated cost of the fixed assets* |

C. Section 4, Net Operating Loss Carry-Over (page 10)

| *Old Rule –* | *New Rule –* |
|---|---|
| the 10-year period prescribed therein shall be from date the enterprise commenced operation *even before its BOI registration* | the 10-year period prescribed therein shall be from date the enterprise *commenced commercial operation of the registered activity irrespective of date of registration* |

D. Section 5 Tax Credit for Withholding Tax on Interest (page 10)

*Old Rule –*
the *loan agreement* and documents evidencing the registration of the foreign loan with the Board and Central Bank shall be *sufficient basis* for the *BIR to issue tax credit certificates*

*New Rule –*
The *BOI shall issue* tax credit certificates upon proof that:

1. the *enterprise assumes liability for payment* of tax due from lender-remittee;
2. *no tax credit is enjoyed by the lender-remittee* and for this purpose the following *requirements* shall apply:
   a. where lender-remittee's country has a law provid- for tax credit —
      (1) the enterprise must present a duly authenticated ruling *that lender-remittee is disqualified due to its legal personality,* or
      (2) the enterprise must present a duly authenticated certification of an independent auditor that *lender-remittee has no taxable income;*
   b. Where lender-remittee's country has no income tax law a duly authenticated certification of such fact must be submitted

E. Section 6 Deduction for Labor Training (page 11) (new)

Requirements:

1. *submission of a labor training program* approved by the appropriate agency or the BOI;
2. *prior Board approval* for availment of such deduction;
3. *submission to the Board of a quarterly or semi-annual report of the training program*

IX. Rule IX Importation of Capital Equipment

A. Section 3, Spare Parts (page 12)

| *Old Rule (Appendix A, Sec. 3)* | *New Rule –* |
|---|---|
| restricted to one set for the specific machinery or equipment authorized to be imported | same as the old rule, *but in general, the cost shall not exceed 10% of the cost equipment where they will be used.* |

B. Section 4, Conditions for Importation of Capital Equipment (page 12)

*Old Rule*
prior Board approval — *before purchase order is made*

*New Rule –*
In addition to those mentioned in the old rule, the following conditions are imposed:

1. *Exclusive use or partial use* (if registered activity does not fully utilize it but must not become the principal mode of utilization)
2. *International bidding or canvassing* (to ensure reasonable prices) *except:*
   a. total importation less than U.S.$1,000,000;
   b. there is only one manufacturer;
   c. Importation is caused by the enterprise's expansion and equipment shall be acquired from the same supplier of the existing equipment;
   d. the Board has other means in determining the price

C. Section 5, Validity of Authority to Import (page 13) (new)
C/A valid for one year from date of issuance

D. Section 8, Post Approval Conditions (page 14) new)
*submission of official import documents* which shall be used by the Board as *basis for the issuance of a certificate of release* from customs custody

E. Section II, Prior Approval of Sale or Disposition of Equipment (page 15)

*Old Rule –* (Appendix A, Sec. 13)
the enterprise shall *notify* the Board of the disposition or transfer within 10 days from date thereof, if said transfer or disposition is within five years *from release by customs*

*New Rule –*
*Prior Board approval* is necessary if transfer or disposition is within five years from *date of acquisition* in order to exempt the transferor from *the penalty of paying twice* the amount of taxes waived

If without Board prior approval, it shall *notify* the Board of such disposition and suffer the penalty

valid grounds for Board approval of the transfer:
(a) sale to another registered enterprise;
(b) proven technological obsolescence;
(c) replacement to improve and/or expand registered operations

**Rule X. Purchase of Domestic Capital Equipment (page 15)**

| *Old Rule* | *New Rule* |
|---|---|
| 1. Domestic manufacturer one whose product carries a "value added" at least equal to a certain percentage of the unit cost of production | 1. Domestic manufacturer — one whose product carries a "value added" *and local content*" at least equal to a prescribed percentage *of the manufacturing cost.* |
| "value added" — defined as including indigenous raw materials, direct labor, factory overhead expenses, and depreciation but excludes profit of the domestic manufacturer; value added must be at least 20% of production cost. | value added — *difference between manufacturing cost* (which includes raw materials, labor depreciation and factory overhead) *and the value of raw material purchases; value added must be at least 20% of manufacturing cost* (may be progressively increased by the Board as warranted by technological advances and other factors). |
| | "local content" means the difference between the manufacturing cost (includes raw materials, labor, factory overhead but *excludes depreciation*) and the cost of raw material importations; local content for equipment and spare parts where tariff is 20% or less, local content shall be at least 20% of manufacturing cost (may be progressively increased by the Board); where tariff duties are higher than 20% — higher local content shall be prescribed by the Board; for computing local content, a component part is considered locally manufactured even with the use of imported raw material — if "local content" thereof is equal to or greater than 50% of manufacturing cost. |

**Rule XI. Employment of Foreign Nationals**

No Changes

**Rule XII. Expansion Reinvestment Allowance (page 18)**

| *Old Rule* | *New Rule* |
|---|---|
| 1. No provision because it is expressly provided by law. | 1. Prior Board approval — for both expansion project and the act of reinvestment but approval and registration of a project shall not be deemed approval of an expansion plan made in the project study. |
| 2. No express provision | 2. Expansion must result in an increase in production capacity or any forward or backward integration approved by the Board; Thus mere "modernization" not deemed an expansion. |
| 3. No provision | 3. Epxansion; when deemed affected — a) where letter of credit for importation of capital equipment, machinery and spare parts is opened — on date the letter of credit is opened; b) where no letters of credit are opened — on date letter of guarantee or instrument of payment is executed; c) for equipment previously authorized by the Board under Sec. 7(a), i.e. Tax Exemption on Importation of Capital Equipment, and Sec. 7(e), i.e. Tax Credit on Domestic Capital Equipment, and Sec. 7(e), i.e. Tax Credit on Domestic Capital Equipment, or for civil works — upon actual installation of capital equipment or completion of civil works. |
| 4. No provision on the source of undistributed profits | 4. Earned surplus may come from registered operations or not |
| 5. Date of Reinvestment — deemed to have been made on the date the issue of stock dividends has been duly approved by the stockholders | 5. Date of Reinvestment — reckoned as follows: a) date of approval by stockholders of declaration of stock dividends, if no future date of issue has been specified; b) the specified, future date of issue unless irrevocable transfer of a fixed amount of undistributed profit or earned surplus to capital account has been duly recorded in the books of registered enterprise prior to the actual issue in which case, the date of reinvestment shall be such date of irrevocable book transfer; or c) where stock dividends have been declared subject to approval of a pending increase in the authorized capital stock, reinvestment date shall be the date of effectivity of approval by the SEC of such increase. |

6. *Reduction of Capital Stock (page 19)*

| | |
|---|---|
| Reduction of capital stock takes place | Reduction of capital stock — same rule except that |
| a) when there is a formal decrease of subscribed capital stock; | a) the decrease of subscribed capital stock must be *in accordance with the provisions of Sec. 17 of the Corporation Law;* |
| b) when registered enterprise does any other act producing said effect, such as purchase of its outstanding stocks or *the grant of advances* to officers and/or stockholders of enterprise. | b) the grant of advances to officers and/or stockholders must be considered *excessive.* |

Contents of Application to Reinvest (page 19)

| | |
|---|---|
| a) amount of profit or surplus to be reinvested | a) statement of its total accumulated surplus indicating whether from registered or non-registered operations; |
| b) specific purpose for reinvestment; | b) the amount proposed to be reinvested; |
| c) other relevant information. | c) the purpose for reinvestment; |
| | d) the total cost of the project including the proposed expansion. |

*(Continued on page 26)*

## SIGNIFICANT AMENDMENTS IN THE RULES AND REGULATIONS IMPLEMENTING THE INTENT AND PROVISIONS OF R.A. 5186

*(Continued from page 25)*

e) the capital risk invoved;
f) availability or non-availability of technology, domestic capital equipment and indigenous raw materials;
g) the export potentials;
h) incremental labor involved;
i) cost of anti-pollution measures as required by the National Pollution Control Commission.

**Appropriate percentage of tax decution (page 19) (New)**

Appropriate percentage of tax deduction for each industry — to be determined by the Board.

**Rule XIII. Additional Incentives to Pioneer Enterprise**

| *Old Rule* | *New Rule* |
|---|---|
| 1. available to all pioneer industries | 1. available to all *registered* pioneer enterprises. |
| 2. no provision in the rules because the law already provides | 2. Exemption from payment of all NIRC taxes except income taxes on a graduated scale counted from the date of registration of the pioneer enterprises; however, the old schedule (before Presidential Decree No. 92) will apply to enterprises registered prior to the 5th IPP. The duration of higher tax exemption for enterprises whose project cost exceeds P100 million at the time it applies for extension may be extended but the total period of exemption shall not exceed 20 years. |

**Conditions for importations under Sec. 8(a) (page 21)**

| | |
|---|---|
| a) Previous authority from the Board upon showing that:<br>1) Items to be imported are reasonably needed by the importer in its registered operations;<br>2) the products, at the time of importation are not manufactured domestically in reasonable quantity and quality at reasonable prices. | a) *For machineries, equipment, and component parts* — prior Board approval must be obtained by enterprise *before ordering equipment or opening letters of credit:* |
| b) The Board may require publication of the proposed importation at the expense of the applicant. | b) *For supplies, spare parts and raw materials — purchase order may be made or letters of credit opened after filing application for importation with the Board;*<br>c) they are not manufactured domestically in reasonable quantity and quality at reasonable prices;<br>d) they are reasonably and actually needed and *will be used exclusively* by the registered enterprise in the manufacture of its products *except where the Board authorized part-time utilization of such machineries and equipment for non-registered operations of the enterprise.* |

**Indirect tax liability excluded (page 21)**

| | |
|---|---|
| 4. No provision | 4. Tax exemption privilege covers only direct tax liabilities and excludes taxes transferred or passed on to registered enterprises either by business practice or mere contractual arrangement. |

**Rule XIV. Special Export Incentives for Registered Enterprises:**

A. Special Tax Credit (page 21)

| | |
|---|---|
| 1. Applicable only to direct exports | 1. Applicable to *direct* and *indirect* exports thru other producers or export traders |
| 2. Export product must be a completely finished product | 2. No longer required because the export product may be an input of another export product |
| 3. Coverage — means internal revenue taxes only | 3. "Special tax credit" — equivalent to sales, compensating and specific taxes and duties actually paid on the supplies, raw materials and semi-manufactured products (whether imported or locally purchased) by the registered enterprise for the manufacture, processing or production of its export products. |
| 4. No provision | 4. Time for filing application — within one (1) year from the date of actual exportation of final export product. |

B. Reduced Income Tax (New) (Page 22)

| | |
|---|---|
| 1. No provision in the old law because at the time, there were two other export incentives — double deduction of shipping costs and promotional expenses, which are now repealed | 1. Applicable only against taxable income derived from *registered export operations* of the enterprise |
| | 2. Available only for *exports* by a registered enteprise of its *completely finished products* for a period of five (5) years from date of registration unless suspended or cancelled by the Board under the last paragraph of Section 9 (b) of the Act. |

**RULE XV. Cancellation of Registration or Suspension of Incentive Benefits (New) (Page 22)**

1. Grounds for cancellation of registration — (a) failure to maintain qualifications ofr registration under the Act; (b) willful or grossly negligent violation of the Act, (c) of these rules and Regulations, (d) of the general and specific terms and conditions of registration for (e) of any law for the protection of labor or of the consuming public.
2. Grounds for suspension of one or more incentives — same as grounds for cancellation of registration depending on the gravity of offense committed.
3. Hearing committee — composed of at least two (2) Board members and the Director of Industry group concenred.
4. Decision; Right of Appeal — Decision of the Board shall be based on findings and recommenadtions of Hearing Committee which is appealable within fifteen (15) days from receipt of decision after which it shall become final.

**RULE XVA. Public Participation (New) (Page 23)**

a) Section 1. A registered enterprise, *within one (1) year from registration* shall *offer to the public* (including alien investors) 10% of its *total subscribed capital stock* (voting or non-voting) *and any increase* thereof, *unless exempt.*

the *1st three (3) months* of offering shall be limited to *Filipinos; period* of offering shall be *six (6) months from date of publication.*

b) Section 2. *enterprises where the Board may defer compliance:*
a) those registered under Schedule E of the 2nd and 3rd IPP;
b) pioneer enterprises;
c) those corporations availing of the national treatment under the Laurel-Langley Agreement;
d) others who by reason of their peculiar circumstances are not deemed ready to comply.

c) Section 3. *those deemed to have substantially complied:*
a) publicly held corporations (i.e. those listed in the stock exchanges);
b) corporations wholly owned or at least 70% controlled by publicly-held corporations;
c) *stocks held by a substantial number of rank and file employees* of registered enterprises, not related within the 3rd civil degree of consanguinity or affinity with majority stockholders;
d) *stocks held by employee's trust funds, retirement or pension funds* approved by the Board. Trustee should be a Philippine *national; 60% of* the fund must accrue to the *benefit of Philippine nationals.*

d) Section 4. *Shares to be offered* (page 24)

*Common (voting) or preferred* convertible to voting within five (5) years at the option of the stockholder;

on non-callable basis but may be *redeemable not earlier than five (5) years* from date of issue;

shares need *not be new or original* but secondary shares or treasury stocks are not entitled to capital gains tax exemption under Sec. 5(b) or tax allowance under Sec. 6(a) of the Act.

e) Section 5. *Price and terms of Public offering*

Consideration of the firm's future and historical earnings frequency of stock and cash dividends in determining price offering;

for preferred shares, the Board reserves the right to set minimum dividend returns but in no case less than 12% per annum and or require that such shares b be participating;

subscription should be within the reach of small investors.

f) Section 6. *Procedural Requirements:*

*submission of a prospectus* within six (6) months from registration indicating the following:

a) pertinent data about the enterprise;
b) description of shares to be issued;
c) terms of offering and mode of payment;
d) highlights of operations and financial position for the past five (5) years;
e) management profile;
f) current ratio and other financial relationships;
g) earnings per share;
h) debt equity ratio;
i) statement of BOI incentives available;
j) statement of SEC registration and exemption of sale fo securities.

publication in a newspaper of general circulation and announcement to be posted in the GSIS, SSS and banks.

If offering is limited to trust funds or employees, in lieu of a prospectus, submission of *terms of offering* and posting of notice in the office and factory premises shall be sufficient.

# Earnings of BOI-registered firms from exports last year totalled $13.1M, well above the 1972 level

Cement topped all commodities in the non-traditional export list between January to September last year.

Exports reached a total of $13.1 million or $9.6 million more than what was exported during a comparable period in 1972.

Sales of textile yarns and fabrics also hit a record high last year. Board of Investments-registered textile firms recorded sales of $11.0 million from January to September last year.

This is $8.6 million more than what was sold during a similar period in 1972, or a 374.34 per cent increase.

Sales of garments were also extraordinarily high last year. During the period, sales reached a total of $12.1 million, $6.0 million more than what was recorded in 1972.

Last year saw the exports of the new Philippine-made items like electronic components, ceramics products, fish and seafood preparations, aluminum, laminated safety glass, pulp of straw and abaca and sugar confectioneries.

### Going up

Electronic companies registered with the Board exported a total of $2.4 million during the first three quarters last year. This is a $1.8 million increase from the $589,000 sales figure in 1972 or 310.02 per cent increase.

Exports of ceramics products also showed an upward movement last year. Ceramic-registered firms made a combined sales of $2.7 million, $1.6 million more than in 1972 or a 155.53 per cent increase.

Although laminated safety glass had limited export sales, it made its breakthrough in commercial sales. Exports reached a total of $1.4 million, $870,000 more than in 1972.

Sugar confectioneries and snack items are a growing export segment based on the BOI performance report.

Export of these items reached a total of $1.6 million in the three quarters of 1973, or higher by $651,000 over the 1972 total.

### Better sales

Sales of pulp of straw and abaca improved significantly between January and September 1973. Total sales reached $522,00 or $454,000 more than what was sold in 1972 during a similar period.

BOI-registered footwear companies hit the million-dollar mark last year. Sales reached a

(Continued on page 28)

**NUMBER OF BOI-REGISTERED FIRMS**

| Under R.A. 6135 | As of Sept. 30, 1973 | As of Dec. 31, 1973 | More (Less) |
|---|---|---|---|
| 1. Export Producers | | | |
| a) List A | 168 | 99 | 69 1/ |
| b) List B | 22 | 9 | 13 |
| c) Mandatory Inclusions | 6 | 3 | 3 |
| | 196 | 111 | 85 |
| 2. Export Traders | 9 | 5 | 4 |
| 3. Service Exporters | 15 | 12 | 3 |
| | 220 | 128 | 92 |
| **Under R.A. 5186** | | | |
| Schedule E | 34 | 48 | (14) 2/ |
| TOTAL | 254 | 176 | 78 |

1/ One registration certificate cancelled

2/ Two cancelled, seven transferred to R.A. 6135

**EXPORT LOSS LEADERS**
**OTHER MANUFACTURERS 1/**
**Registered Export Producers**
**January to September, 1972–1973**
**(FOB In Thousand U.S. Dollars)**

| | Jan.–Sept. | | (Decrease) | |
|---|---|---|---|---|
| | 1973 | 1972 | Amount | Per Cent |
| Tinplates | 0 | 621 | ( 621) | (100.00) |
| Soil Pipes & Fittings | 207 | 669 | ( 462) | ( 69.06) |
| Beer Malt & Liquor | 770 | 863 | ( 93) | ( 10.78) |
| Medicinal & Pharmaceutical Products | 507 | 584 | ( 77) | ( 13.18) |
| Charcoal | 338 | 377 | ( 39) | ( 10.34) |
| Rugs & Carpets | 77 | 80 | ( 3) | ( 3.75) |
| Sub-Total Loss Leaders | 1899 | 3194 | (1295) | 40.54) |
| Net Others | 66462 | 27434 | 39028 | 142.26 |
| TOTAL | 68361 | 30628 | 37733 | 123.20 |

1/ Excludes Bananas.

# Cement topped non-traditional exports

(Continued from page 27)
total of $10 million or $393,000 more than what was sold in 1972 for a 55.82 per cent improvement.

High sales of rubber shoes was another significant development last year.

The BOI data show that BOI-registered export producers made a total sales of $75.6 million in the first three quarters of last year. This is $38.8 million more than what was sold in 1972 or a 105.26 per cent increase.

While there was an overall improvement in export sales, six major commodity groupings did not show sales improvements.

Due to raw materials problems, there were no tinplates exports last year. While a total of $621,000 worth tinplates were exported in 1972. there was a zero

**COMPARATIVE FOREIGN EXCHANGE EARNINGS**
Registered Service Exporters
January to September, 1972 and 1973
(In Thousand US Dollars)

| | No. of Reporting Firms | Jan.-Sept. 1973 | 1972 | More (Less) Amount | Per Cent |
|---|---|---|---|---|---|
| Professional & Technical Services | 10 | 811 | 292 | 519 | 177.74 |
| Transport & Cargo Handling | 1 | 4886 | 6619 | (1733) | (26.18) |
| Motion Pictures | 2 | 149 | 42 | 107 | 254.76 |
| Advertisements | 2 | 21 | 22 | (1) | (4.55) |
| TOTAL | 15 | 5867 | 6975 | (1108) | (15.89) |

**JAPANESE TEXTILE IMPORTS FROM THE PHILIPPINES**

| Items | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|
| Ramie | 433,402 (1,203,991) | 468,275 (1,300,868) | 470,149 (1,306,073) | 507;147 (1,408,554) | 220,784 (613,338) |
| Ramie noils and waste (including pulled or garnetted rags and yarn waste) | 4,104 (11,401) | 1,339 (3,720) | 1,486 (4,128) | 6,608 (18,357) | 7,829 (21,749) |
| Manila hemp (including tow) | 1,496,272 (4,156,644) | 1,281,489 (3,559,976) | 1,387,154 (3,853,514) | 1,663,039 (4,619,922) | 1,256,259 (3,489,888) |
| Manila hemp waste (including pulled or garnetted rags and yarn waste) | 161,278 (449,697) | 97,383 (270,530) | 85,883 (238,583) | 106,955 (297,121) | 98,665 (274,091) |
| Coir | 22,537 (62,608) | 9,218 (25,608) | 3,386 (9,406) | 14,442 (40,120) | 30,344 (84,296) |
| Sisal fibers | – | 1,710 (4,750) | – | – | – |
| Cardage, cables, ropes, twines and manufactures thereof | 994 (2,761) | 1,861 (5,170) | 3,071 (8,531) | 39,463 (81,848) | 10,338 (28,719) |
| Table linen | 110 (444) | – | – | – | 1,140 (3,167) |
| Articles of plaiting materials | 935 (2,597) | 2,514 (6,984) | – | 6,629 (18,415) | 1,135 (3,153) |
| Woven fabrics of flax or ramie | 567 (1,575) | – | 450 (1,250) | 4,700 (13,057) | 554 (1,539) |
| Vegetable textile fibres, n.e.s. | – | – | 1,440 (4,084) | 427 (1,186) | – |
| Cardage, cables, ropes, etc. of Manila fibres | – | 2,150 (5,873) | 2,150 (5,973) | 142 (394) | – |
| Nets and netting | – | 838 (2,328) | 23,368 (64,916) | 21,238 (58,999) | – |
| Linens | – | 569 (1,581) | 143 (397) | 821 (2,281) | – |
| Textile fibres | – | – | 1,926 (5,350) | 83,316 (231,452) | 21,599 (60,002) |
| Outer garments for men and boys | – | – | 747 (2,075) | 752 (2,089) | 27,615 (76,714) |
| Outer garments for women, girls and infants | – | – | 4,313 (11,982) | 48,381 (134,402) | 29,647 (82,359) |
| Handkerchiefs | – | – | 124 (344) | 1,235 (3,431) | – |
| Undergarments | – | – | 2,443 (6,787) | 1,852 (5,154) | 237 (658) |
| Knitted or crocheted outer garments | – | – | 1,791 (4,975) | 12,010 (33,617) | 6,429 (17,860) |
| Spun yarn of synthetic fibres | – | – | – | 8,405 (23,349) | 109,400 (303,913) |
| Cotton fabrics woven (not including narrow and special fabrics) | – | – | – | 33,989 (94,421) | 9,052 (25,146) |
| Embroidery | – | – | – | 2,610 (7,251) | 888 (2,467) |
| Hat bodies | – | – | – | 829 (2,303) | – |
| Articles of textile fibres for furnishing | – | – | – | 925 (2,570) | 762 (2,117) |
| Carpets, carpeting, rugs, etc. | – | – | – | 153 (1,814) | 320 (889) |
| Stockings and socks | – | – | – | 97,670 (274,105) | 5,326 (14,796) |
| Fabrics woven, of synthetic fibres, not including narrow fabrics | – | – | – | – | 375 (1,042) |
| Total imports | 2,120,849 (5,891,719) | 1,864,832 (5,180,503) | 1,990,949 (5,530,856) | 2,656,537 (7,379,860) | 1,838,698 (5,107,903) |

Source: Japan Exports & Imports

record in 1973.

Exports of soil pipes and fittings did not improve last year. First three quarter sales were only $207,000 compared to a high of $669,000 sales in 1972.

Sales of beer malt and liquor were also not encouraging in 1973. The Board data show that sales only reached $770,000 compared to the 1972 sales of $863,000 or a $93,000 deficit.

**No improvement**

Although firms like United Laboratories made a serious marketing campaign in Southeast Asia, sales of medicinal and pharmaceutical products did not improve either.

The first three quarter sales amounted to only $507,000 or $77,000 short of the $584,000 recorded in 1972.

Charcoal, an anti-pollution material, did not seem to sell very well as earlier projected. Sales only reached $338,000 compared to $377,000, in 1972.

**Banana sales**

As in previous years, foreign exchange earnings from banana exports continued to grow.

Sales in the first three quarters reached a total of $7.3 million or $1.0 million more than that sold in 1972.

The banana industry, compared to other sectors, has been developing at a more rapid pace.

Its share in the Japanese market alone has grown from less than one per cent in 1968 to 32 per cent in 1972. In 1972, banana exports alone amounted to $24.3 million and ranked eighth place among the Philippine top exports products. Area planted to bananas as of June 30, 1973, already reached 18,000 hectares.

At present, there are 22 bananas growers with technical and marketing tie-ups with Japan. Exports of bananas continue to be limited to Japan.

**Export firms**

As of December, 1973, there were a total of 176 firms registered with export capacities. Two segments, the textile yarns and the garments producers, constitute a significant number of these export firms.

There are over 27 garment companies registered with the Board and some 24 textile yarns producers.

In 1972, the Board initiated a rationalization scheme for both the textile and the garments industry. During the first semester of 1973, exports of textile yarns, fabrics and garments totalled $13.5 million, three times the 1972 figure of $4.3 million.

Firms registered under the Export Incentives Act as of June 30, 1973 employ a total of 35,113 individuals and pay salaries amounting to P68 million per year. The chemical industries provide the largest number of employment with 15,997 followed by agro-industries (8,036) and mining and mineral processing industries (6,579).



**BOI-REGISTERED EXPORT PRODUCERS**
**LEAD EXPORT ITEMS**
**NON-TRADITIONAL MANUFACTURES 1/**
**January to September, 1972 and 1973**
**(FOB In Thousand U.S. Dollars)**

| | Jan.-Sept. 1973 | Jan.-Sept. 1972 | Increase Amount | Increase Per Cent |
|---|---|---|---|---|
| Cement | 13,151 | 3,544 | 9,607 | 271.08 |
| Textile Yarns & Fabrics | 11,019 | 2,323 | 8,696 | 374.34 |
| Garments | 12,173 | 6,164 | 6,009 | 97.49 |
| Handicrafts | 4,507 | 2,551 | 1,956 | 76.68 |
| Electron Components | 2,415 | 589 | 1,826 | 310.02 |
| Ceramic Products | 2,701 | 1,057 | 1,644 | 155.53 |
| Fish & Seafood Preparations | 3,214 | 1,882 | 1,332 | 70.78 |
| Cordage | 3,091 | 2,168 | 923 | 42.57 |
| Aluminum | 1,573 | 678 | 895 | 132.01 |
| Laminated Safety Glass | 1,432 | 562 | 870 | 154.80 |
| Sugar Confectioneries Coffee and Other Snack Items | 1,659 | 1,008 | 651 | 64.58 |
| Explosives & Misc. Chem. Materials | 1,522 | 946 | 576 | 60.89 |
| Furniture & Fixtures | 1,204 | 648 | 556 | 85.80 |
| Pulp of Straw and Abaca | 522 | 68 | 454 | 667.65 |
| Footwear | 1,097 | 704 | 393 | 55.82 |
| Sub-Total Lead Items | 61,280 | 24,892 | 36,388 | 146.18 |
| Net Others | 7,081 | 5,736 | 1,345 | 23.45 |
| TOTAL | 68,361 | 30,628 | 37,733 | 123.20 |

1/ Excludes Bananas.

**COMPARATIVE EXPORT PERFORMANCE OF**
**BOI-REGISTERED PRODUCERS**
**January to September, 1972 and 1973**
**(FOB In Thousand U.S. Dollars)**

| | 1973 | 1972 | Amount | Per Cent | Non of Reporting Firms |
|---|---|---|---|---|---|
| Cement | 13,151 | 3,54+ | 9,607 | 271.08 | 14 |
| Garments | 12,173 | 6,164 | 6,009 | 97.49 | 27 |
| Textile Yarns & Fabrics | 10,995 | 2,323 | 8,672 | 373.31 | 24 |
| Handicrafts | 4,507 | 2,551 | 1,956 | 76.68 | 22 |
| Fish & Seafood Preparations | 3,214 | 1,882 | 1,332 | 70.78 | 10 |
| Cordage | 3,091 | 2,168 | 923 | 42.57 | 4 |
| Ceramic Products | 2,701 | 1,057 | 1,644 | 155.53 | 3 |
| Electronic Components | 2,415 | 589 | 1,826 | 310.02 | 8 |
| Sugar Confectioneries Coffee and other Snack Items | 1,659 | 1,008 | 651 | 64.58 | 4 |
| Aluminum Products | 1,573 | 678 | 895 | 132.01 | 1 |
| Explosives & Misc. Chemical Mat. | 1,522 | 946 | 576 | 60.89 | 6 |
| Laminated Safety Glass | 1,432 | 562 | 870 | 154.80 | 3 |
| Furniture & Fixtres | 1,204 | 648 | 556 | 85.80 | 10 |
| Footwear | 1,097 | 704 | 393 | 55.82 | 6 |
| Beer Malt & Liquor | 770 | 863 | (93) | 10.78) | 4 |
| Wood Manufactures | 665 | 462 | 203 | 43.94 | 6 |
| Pulp of Straw & Abaca | 522 | 68 | 454 | 667.65 | 1 |
| Medicinal & Pharma0 ceuticalsProducts | 507 | 584 | 77) | 13.18) | 4 |
| Paints & Lacquers | 430 | 219 | 211 | 96.35 | 2 |
| Other Electrical Apparatus and Appl. | 369 | 198 | 171 | 86.36 | 7 |
| Charcoal | 338 | 377 | ( 39) | ( 10.34) | 2 |
| Crumb Rubber | 292 | 149 | 143 | 95.97 | 3 |
| Soil Pipe & Fittings | 207 | 669 | ( 462) | (69.06) | 2 |
| Synthetic Wigs | 205 | 44 | 161 | 365.91 | 1 |
| Rugs & Carpets | 77 | 80 | ( 3) | ( 3.75) | 2 |
| Tinplates | 0 | 621 | ( 621) | (100.00) | 3 |
| Others | 3,221 | 1,470 | 1,751 | 119.12 | 40 |
| Total Other Manufactures | 68,337 | 30,628 | 37,709 | 123.12 | 221 |
| Bananas | 7,306 | 6,225 | 1,081 - | 17.37 | 6 |
| TOTAL | 75,643 | 36,853 | 38,790 | 105.26 | 227 |

# ASEAN cooperation needed in credit finance and insurance

*(Reprinted from UN report on "Economic Cooperation for ASEAN")*

This report envisages the expansion of the export trade of the ASEAN countries both to the outside world and to each other.

The principal problems that are likely to arise fall into four broad groups:

(i) the provision of short term export credit;

(ii) the provision of medium term export credit;

(iii) the problems of export credit insurance and reinsurance;

(iv) the problems of increasing the availability of the necessary credit information.

**Short term export credit**

Most of the existing exports from ASEAN member countries are settled within 120 days and nearly all within 180 days. Exporters' demands for credits vary considerably from country to country. Exporters rely for pre- and post-shipment export credit on commercial banks which are in some cases assisted by preferential central bank rediscount facilities.

In Indonesia financial support for exports has been restricted and confined to pre-shipment credit; in the short run exporters must do business on a cash basis and this has proved an obstacle to the development of new non-traditional exports, particularly of light manufactures. As the balance of payments position improves, it is hoped to extend deferred payments to foreign customers. It is sometimes possible to finance exports by obtaining foreign exchange credits from foreign banks on terms related to interest rates abroad. But in general, interest rates for exporters (these are slightly higher than those for producers) were of the order of 2-1/4 per cent a month early in 1971 and there were cases of exporters of non-traditional products paying 4 to 6 per cent a month during the period of inflation. Bank Indonesia re-finances export credits on preferential terms.

Malaysian exporters have had far less difficulty in obtaining credit, and the commercial banks have ample funds for both pre-shipment and post shipment financing; the latter is concentrated on primary exports. Commercial banks usually hold trade bills to maturity or discount them abroad. Interest rates have been around 9 per cent per annum in recent years.

In the Philippines export-oriented industries have been exempted from some of the restrictions imposed for balance of payments reasons. But in 1970–71 exporters were encountering difficulties in obtaining adequate export credit. Interest rates reached about 12 to 14 per cent. The commercial banks can rediscount with the Central Bank which offers special facilities for exports.

Singapore exporters have access to ample pre- and post-shipment credit. With increasing exports of light manufactures, foreign competition has made necessary an increased concession of short-term deferred payment terms to foreign buyers, usually with maturities of up to 120 days. Commercial banks either hold the export bills or discount them abroad. The Monetary Authority of Singapore does not at present offer preferential rediscount facilities on such bills.

Thai exporters of agricultural products do not normally have difficulty in obtaining finance for production and if necessary for extension of credit to foreign buyers. Exporters of non-traditional products, such as light manufactures, may find financial obstacles to the development of an export, particularly if they need first to establish a good credit rating and prove their export capacity.

**Medium term credit export**

The need for medium term export credit is likely to grow as ASEAN countries begin to diversify industrial production into those branches of industry that produce capital goods and durables that are usually sold on longer credit terms.

Medium term export credit is ordinarily for 180 days to five years. Hitherto there has been relatively little demand for it from ASEAN exporters. The Asian Development Bank is at present studying the problem and the role that it might play in its provision.

**Export credit insurance**

The same factors which will lead to growth of demand for both short and medium term export credit will also call for export credit insurance. If trade in manufactures is rapidly increasing, both with the extra-ASEAN world and in the intra-ASEAN markets, there will be more traders engaging in trade with customers whose credit worthiness is less familiar than that of the houses through which the traditional trade in primary products has been conducted. The risks involved are both to the traders themselves and to the banks from whom they are seeking credit.

The risks fall into two main categories:

a) risks arising from the possible insolvency of the buyer, his defaulting on a payment or his refusal to accept the goods shipped;

b) 'political' risks arising from such factors as war, disturbances in the buyer's country, cancellation or non-renewal of an export license, delay or failure in the country of the buyer in providing foreign exchange to cover imports, unforeseen or additional charges resulting from diversion or interruption of the shipment of goods.

The principal problems that arise with any new credit insurance agency are these:

a) Will the potential volume of exports, particularly of manufactures and semi-manufactures, provide a sufficient premium income to make an agency economic?

b) Can the experienced and highly qualified staff be found to operate the agency?

c) Is adequate credit information available?

Though trade developments may require credit information and credit insurance regarding a multiplicity of new countries and new traders, possibly with high commercial and political risks, the bulk of the business is concerned with the import markets of well-known developed countries.

The problems of sufficient premium income to justify the setting up of an agency raise again a 'chicken and egg' issue. Premium income is at present inadequate because the trade is small. The trade is small because the credit risks cannot be insured.

An estimate of the probable premium income for an ASEAN system, on the basis of US$20 to $30 millions of exports declared for cover annually, would be approximately US$100,000 to $150,000. If, as is almost certainly the case, the agency would require to have an office in each national capital, this income could not make it self-supporting without government assistance.

There is however, a more fundamental difficulty in setting up a multi-national agency. The political risks of conflict between the individual countries which are joining to set up the agency and between which, as trade partners, much of the trade to be insured is flowing. The means of dealing with this problem would need to be solved. At a minimum it would need to be established that no political or exchange transfer losses could be accepted from participants in the system — that each country would be liable for any risks resulting from its own policies.

These represent difficult but not insoluble problems. It is recommended that the ASEAN governments set up a joint committee to examine the possibility of an ASEAN export credit insurance agency. The committee should consider this proposal in the light of any proposal for a wider regional scheme that may emanate from the ECAFE study of the problem.

**Export credit reinsurance**

As in the case of ordinary insurance, an export credit insurance agency may find a need to reinsure certain commercial export risks which it cannot itself absorb. It is a serious difficulty of any small agency that it is likely to have difficulty finding adequate reinsurance cover at moderate cost and may find itself forced to cede more than it would wish of the risks insured in order to obtain reinsurance cover. In the circumstances, international reinsurance cannot be regarded as a potential means of support for a new credit insurance institution.

**Credit information**

No credit insurance system can work without credit information. Improvement of credit information facilities in the ASEAN region can not only facilitate intra-ASEAN trade but could also lend to sales of credit information to exporters and credit reporting institutions in the rest of the world.

It is recommended, therefore, that reporting services be established in those ASEAN countries in which they are lacking and improved in all countries where they exist, as a necessary step towards closer cooperation in trade credit and credit insurance. Since the services can be most effectively provided by the private sector, it is important that from the first representatives of the banks and business communities be involved in any measures to improve these services.

# MONETARY AND FISCAL POLICIES AFFECTING FOREIGN INVESTMENTS

Prepared by OFELIA V. BULAONG and EVA POLICAR-BAUTISTA
*Board of Investments*

The new order has brought about changes in both monetary and fiscal policies affecting foreign investments.

These changes cover the broad areas of foreign borrowings, foreign investments, and invisible transactions.

A compilation of these new rules have been prepared by the Board of Investments as a guide to those desiring to do business in the Philippines particularly in BOI joint-venture areas.

The more pertinent fiscal and monetary regulations affecting foreign investments as they affect BOI-registered companies are as follows:

## FOREIGN BORROWINGS

A. *Prior Central Bank Approval Required for New Borrowings:* All foreign borrowings (in cash or in kind) contracted after February 21, 1970 shall be subject to prior approval by the Central Bank. Such borrowings shall be governed by regulations promulgated by the Monetary Board.

B *Minimum Term for Approval:* The following minimum terms for foreign borrowings have been laid down by the Monetary Board:

1. *Interest Rate*

a *For Private Sector Borrowings* — not more than 2 per cent over the prime rate of the lending country.

b. *For Government Borrowings Under Republic Act (R.A.) 6142* — not more than those imposed or charged by the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), or other reputable international organization or non-governmental national or international lending institutions.

c. *For Other Government Borrowings* — borrowings by government agencies, corporations and instrumentalities under the authority of their respective charters shall, in general, carry an interest rate of not more than 2 per cent over the prime rate of the lending country.

2. *Minimum Repayment Terms*

a. *For Private Sector Borrowings*

$250,000 or less — 5 years, payable in equal annual installments to commence one year after shipment or drawdown date.

Over $250,000; $500,000 — 8 years, payable in equal annual installments.

Over $500,000 — 12 years, payable in equal annual installments.

Applications exceeding $500,000 with *at least 8 years* terms inclusive of a 3-year grace period on repayments shall, however, be allowed for *export industries.*

(1) Minimum repayment terms for Central Bank — certified export oriented industries and industries registered by BOI under the Export Incentives Act:

| Amount of Application | Repayment Period |
|---|---|
| Up to $50,000 | 3 years |
| Over $50,000-$150,000 | 4 years |
| Over $150,000 to $250,000 | 5 years |

(2) Minimum repayment terms for foreign borrowings of BOI-approved pioneer industries and enterprises engaged primarily in the manufacture/production of export products:

| Amount of Application | Repayment Period |
|---|---|
| Up to $25,000 | 3 years |
| Over $25,000 to $100,000 | 4 years |
| Over $100,000 to $250,000 | 5 years |

b. *For Government Borrowings* — Under R.A. 6142 — 10 years or longer.

c. *For Other Government Borrowings* — shall, in general, adhere to the minim repayment terms required for private sector borrowings.

C. *Computation of the Grace Period and Maturity Period:* The grace period is generally determined from the date of shipment in the case of suppliers' credit and the inward remittance date in the case of cash loans. In cases where the date of shipment or inward remittance may fall prior to the Central Bank approval of the foreign credit, then the grace period shall commence from the date of such approval. period of loans shall also be reckoned from the same dates.

D. *Unallowable Foreign Borrowings:*

1. Applications to avail of foreign credits shall not be given due course in the following cases:

a. Where the proposed project expands the capacity of overcrowded industries; or

b. Where the accounts of the applicant firm and/or its principal officers and stockholders with government financial institutions are in arrears.

2. Applications for availment of medium and long-term credits that require the execution of promissory notes with shorter maturity periods which shall be subject to periodic renewals under certain conditions shall not be given due course.

3. Authorized agent banks shall not incur additional foreign obligations except those arising from normal international trade transactions.

E. *Prescription of Central Bank Approvals* — Starting on November 17, 1970, Central Bank approvals for proposed availments of foreign credits shall have a prescription period of 90 days, subject to extension for another 90 days upon submission of proofs that negotiations are in progress and are given a reasonable chance of success.

F. *Inward Remittance of Cash Loans* — Proceeds of cash loans shall be sold by the recipients to authorized agents (such as commercial banks) of the Central Bank within 3 business days following receipts of the foreign exchange from such cash loans. Such proceeds shall be in currencies prescribed to form part of the international reserve.

G. *Amortization of Loans in Accordance with Loan Contracts* — Amortization of foreign loans shall be in accordance with the terms of the covering loan contracts approved by the Central Bank. The foreign exchange needed to meet such amortizations shall be purchased from authorized agent banks of the Central Bank.

H. *No Voluntary Prepayments on Loan Allowed* — To ensure that debt-service projections of the Central Bank comply with the requirements of R.A. 6142, prepayments of foreign borrowings are not generally allowed.

I. *Service Commitment Guarantee and Other Incidental Fees* — Such charges are approved on a case-to-case basis provided the amount or rate of the fee or charge is reasonable.

J. *Registration of Loan Agreements* — The Central Bank shall require as a condition to the approval of all applications, including those previously approved, the registration of the covering loan and credit agreements within 2 weeks after the date of their execution.

Only Central Bank-registered foreign obligations shall be serviced by authorized agent banks.

K. *Registration of Availments on Foreign Credits* — Availments on foreign loans are required to be registered with the Central Bank.

L. *Preferred Borrowers* — In evaluating the desirability of new borrowings, preference shall be given to foreign borrowings of the following:

1. Export-oriented industries, certified as such by the Central Bank, which may be any of the following:

a. Firms belonging to industries the major portion of whose output is destined for export — i.e., sectors recognized to be engaged in the actual production for export of indigenous agricultural, forest (except logging), mineral, and marine products;

b. Firms engaged in the processing or manufacture of finished products, chiefly for exportation, or with an export potential as evidenced by a record of exportation or export contracts, in which at least 70 per cent of total raw materials used consist of indigenous raw materials, provided at least 50 per cent of the total production is destined for export;

c. Firms engaged in the processing or manufacture of finished products in which the actual or potential net foreign exchange earnings (total foreign exchange earned out of the exportation of the product less total foreign exchange required to produce the finished product and to service the operations of the firm) of each individual firm a year shall not be less than $20,000.

2. Board of Investments (BOI)-approved industries;

3. Non-export oriented industries not utilizing domestic credit resources;

4. Firms utilizing relatively labor-intensive methods; and

5. Firms implementing geographical dispersion (i.e., location outside Metropolitan Manila).

M. *Stand-by L/Cs Covering Foreign Credit Lines of Domestic Entities Other Than Commercial Banks* — The following are the regulations on the treatment and/or servicing of stand-by letters of credit (L/Cs) covering foreign credit lines of domestic entities other than commercial banks.

1. Opening of stand-by letters of credit to cover credit lines shall be *considered as new foreign borrowings* and shall be subject to prior Central approval.

2. Stand-by letters of credit to cover credit lines which provide for availments or utilizations to be repayable and/or renewable on periodic basis shorter than the stated maturity periods including stand-by letters of credit providing for yearly confirmation and containing an acceleration clause, shall not be given due course. Deferred and stand-by letters of credit covering Cental Bank-approved loans contracts with fixed amortization schedules, which, under accepted international banking procedures, may be subject to yearly confirmation are not included.

3. Renewal of utilized balances of credit lines covered by stand-by letters of credit opened and to the extent of the amount availed of under the credit line prior to the effectivity of Circular 315 (December 1, 1970) may be given due course in accordance with the original terms and to the extent of the stated maturity of the credit line.

4. Unutilized balances against credit lines covered by stand-by letters or credit opened prior to the effectivity of Circular 315 shall be deemed automatically cancelled and the covering stand-by letter of credit amended accordingly.

N. *Withholding Tax on Interest on Foreign Loans* — Interest payments on foreign loans are subject to a 15 per cent withholding tax.

O. *Financing of Bulk Rice Processing and Storage Facilities* — The following policy guidelines on the financing of bulk rice processing and storage projects were approved. by the Monetary Board.

1. No government agency or any financial institution, either government or private, shall negotiate or secure loans or credits for bulk rice processing and sotorage facilities;

2. Opening of letters of credit or the importation of bulk processing and storage equipment which can be supplied under the IBRD program, or the negotiation or conclusion of purchase contracts, therefor, shall not be given due course; and

3. All requests for financing of bulk rice processing and storage projects and those projects for conventional warehousing and milling with a storage capacity of 40,000 cavans and above shall be referred to the Grain Processing Unit of the DBP for evaluation and possible inclusion under the IBRD program.

P. *Debt-Equity Ratio Requirement* — Generally, firms availing of foreign credit shall maintain a debt-equity ratio of at least 75:25 for the duration of the credit.

Q. *Rate of Exchange Applicable to Loan Repayments* — Repayments of principal and interest on foreign loans approved by the Central Bank shall be serviced at the rate of exchange prevailing at the time of the remittance of such repayments.

**Export deduction privilege**

A. *Who May Avail of the Privilege* — Only export-oriented industries may avail of the export deduction privilege to cover repayment of new foreign borrowings.

B. *Requirements for the Grant of the Privilege* — Export-oriented industries may subject to Central Bank approval, negotiate for the procurement of machinery, equipment, raw materials and supplies from abroad through an export-deduction arrangement, provided that:

1. Such items are not available locally;

2. The foreign obligation conforms to existing regulations governing foreign borrowings;

3. The machinery, equipment, raw materials or supplies to be imported shall be for the exclusive use of the applicant for the production, processing or manufacture of the export product;

4. The total amount of the deductions during any given quarter *shall not* exceed the total amortizations, including interest, falling due during said quarter in accordance with the terms of the pertinent contract approved by the Central Bank plus the value of raw materials and supplies needed for normal operations. All reports of foreign sales covering shipment with deduction features shall be referred to the Export Department, Central Bank for prior approval.The exporter shall also submit regular and periodic reports of his shipments and payments in a form precribed by the Central Bank.

C. *Inward Remittance Required* — All export proceeds including the deductible amounts, should first be inward-remitted. (In cases where the shipment from which the deduction is to be made is proximate to the scheduled amortization of an approved obligation to which said deduction is to be applied, specific exception may be allowed on a case-to-case basis).

D. *Allowable Rates of Deduction* — In the procurement of machinery as replacement for *fully depreciated equipment*, the rate of deduction shall not exceed 15 per cent of the FOB value of each export shipment.

For the procurement of machinery, equipment, raw materials and supplies for a *new project*, the rate of deduction shall not exceed 50 per cent of the FOB value of each export shipment from the new project.

For the procurement of machinery, equipment, raw materials and supplies for a *new project*, the rate of deduction shall not exceed 50 per cent of the FOB value of each export shipment from the new project expression.

The phrases "shall not exceed 50 per cent" or "shall not exceed 15 per cent of export shipments" constitute the maximum ceilings of deductible amounts from any shipment, and such amounts should be further delimited by the total amortization falling due within one year of the foreign loan to which such deductions are applicable.

### FOREIGN INVESTMENTS

A. *Prior Central Bank Approval Required* — No new inward foreign investments (in cash or in kind) made after February 21, 1970 shall be made without prior Central Bank approval. Such investments shall be subject to regulations promulgated by the Monetary Board.

B. *Preferred Investment Areas* — In evaluating the desirability of new investments, preference shall be given to:

1. Export-oriented industries;
2. BOI-approved industries;
3. Non-export oriented industries not utilizing domestic credit resources;
4. Firms using relatively labor-intensive methods;
5. Firms implementing geographic dispersion (i.e., location outside Metropolitan Manila).

C. *Prohibited Fields of Investments* — Applications for new foreign investments in fields certified by the BOI to have excess capacity shall not be given due course.

Application for new foreign investments in fields certified by the BOI to have excess capacity shall not be given due course.

D. *Investments in Firms Engaged in Oil Exploration and Drilling* — Philippine firms engaged in oil exploration and oil drilling shall raise all the foreign exchange resources needed to meet the foreign exchange costs of their projects through sale of their firms' shares of stock abroad and/or through other means of participation of foreign partners and associates in the venture. Clearance from CB-MEDIAD is necessary for all applications for purchase of forex and/or L/C openings.

E. *Investments in Firms Engaged in Oil Refining* — Any new foreign exchange application to be acted upon for the first time needs prior clearance of the Oil Industry Commission.

F. *Investments in Philippine* Domestic *Securities* — Philippine domestic securities refer to shares of stock of domestic corporations listed in duly authorized Philippine stock exchanges as well as bond issue of the National Government also listed in such exchange. Such investments, in foreign currency, may be made by non-residents through inward remittance and by depositors under the Philippine Currency Deposits System by withdrawal from the foreign currency account.

G. *Central Bank Valuation of Investment Prior to Registration* — As a matter of policy, foreign investments in the form of capital equipment and supplies with a value of more than $100,000 shall, upon arrival of the capital equipment and supplies, and prior to the registration of the foreign investments, be subject to valuation by Central Bank-designated experts, at the expense of the applicant concerned.

H. *Rate of Exchange on Remittance of Profits, Dividends and Repatriation of Investments* — Transfer or remittance of profits and dividends abroad by non-residents on their investments in the Philippines and repatriation of such foreign investments shall e serviced at the rate of exchange prevailing at the time of remittance.

#### Investments repatriation

Application for the registration and repatriation of foreign investments shall be considered in accordance with the following guidelines:

A. *Foreign investments existing as of March 15, 1973 and duly registered with the Central Bank of the Philippines* —

*1. Investments in CB-certified export oriented industries* may be repatriated in full or in annual installments to the extent of the applicant's share in net foreign exchange earnings of the firm for the preceding year. By "net foreign exchange earnings" is meant the total foreign exchange earnings from export of the product less total foreign exchange required to finance production of export sales, operation and servicing of the applicant's firm prorated to his share in the total investment.

*2. Investments in BOI-registered enterprises* —

a. Investments in BOI-registered enterprises engaged in production of import-substitute and/or export-items, but not qualified as CB-certified export-oriented industries, may be repatriated in accordance with any of the following alternatives, whichever is less on annual basis:

* to the extent of the total net foreign-exchange earnings starting one (1) year after liquidation of investment; or

* in 3 equal annual installments starting one (1) year after liquidation of investment.

b. Investments in BOI-registered enterprises *not engaged in production of import substitute items*, may be repatriated in four (4) equal annual installments starting one (1) year after liquidation of investments.

3. Investments in other industries (e.g., industries not falling under Nos. 1 and 2 above)

a. Investments in industries which did not utilize domestic credit resources may be repatriated on the same basis as BOI-registered industries not engaged in production of import-substituting items (No. 25 above)

b. Investments in all other industries may be repatriated in accordance with the following schedules:

$250,000 or less — (5) equal annual installments after liquidation of the investments

Over $250,000 to $500,000 — Seven (7) equal annual installments after liquidation of the investments

Over $500,000 — Nine (9) equal annual installments after liquidation of the investments.

4. During the interim period between the sale of the investments and actual repatriation, the proceeds of cash sale may, while awaiting the scheduled repatriation, be invested by the foreign investors in the following:

a. Foreign currency deposits under Central Bank Circular 343;
b. Government securities; and/or
c. Shares of stocks in BOI-registered or CB-certified export-oriented industries.

B. *Foreign cash investments made after March 15, 1973* —

1. Foreign cash investments made in (a) CB-certified export oriented industries, or in (b) BOI-registered enterprises and in (c) Central Bank-approved Philippine securities listed in the local stock exchanges shall be registered with the Central Bank through the commercial bank in which the inward remittance of the cash investment was effected. The request for registration shall be made in a form prescribed for the purpose and shall be coursed

through any local bank through which the foreign cash investments were inwardly remitted or deposited either under Central Bank Circular Nos. 304 or 342 or through ordinary commercial channels.

2. Upon verification of complaince with the qualifying requirements in No. II-1 above, the foreign cash investment above may be swapped without forward cover for pesos with the Central Bank by the local bank concerned for a minimum period of three (3) months and a maximum of three (3) years, subject to renewal at the option of the foreign investors

3. Repatriation of the foreign cash investments referred to herein less losses, if any, may be made at any time by the foreign investors, subject to the terms and conditions of the swap arrangement between the handling bank and the Central Bank.

4. Foreign cash investments in other industries, e.g., in industries outside of those that are CB-certified export oriented or are BOI-registered, and in non-listed Philippine securities, and foreign investments made in kind instead of cash, in any industry, shall continue to be governed by existing Central Bank regulations.

C. *Repatriation of Foreign Investment Capital of Oil Companies* — Any application for repatriation of capital for oil companies need prior clearance of the Oil Industry Commission.

*Remittance of Profits and Dividends or Investments as of March 15, 1973 and those made Thereafter* —

The transfer or remittance of profits and dividends abroad by non-residents corresponding to the non-resident's share in the net profits on foreign investments realized, after taxes, during the year for which the remittance of the earnings is being made, shall be subject to the following rules:

1, Remittances of profits before the end of the fiscal/calendar year are not allowed. In aother words, no interim profits are allowed to be remitted.

2. Remittances of profits and dividends accruing to non-residents out of net profits realized beginnings January 1, 1973 shall, net of taxes, be allowed in full at the prevailing exchange rate.

3. Remittances of unremittable profits/dividends on account of the 25 per cent limitation shall with prior Central Bank clearnce be allowed after withholding tax, provided, however, that such remittances shall not be financed by *domestic borrowings.*

Domestic borrowings shall be limited to borrowings from any banking, financial or credit institution. The schedule of remittance must be drawn up in conformity with the following minimum remittance periods:

| Aggregate Amount Per Firm | Minimum Remittance Period |
|---|---|
| 100,000 and less | 2 months |
| Over $100,000 to $250,000 | 4 months |
| Over $250,000 to $500,000 | 8 months |
| Over $500,000 to $750.000 | 12 months |
| Over $750,000 to $1,000,000 | 16 months |
| Over $1,000,000 to $1,500,000 | 20 months |
| Over $1,500,000 | 24 months |

4. Capital gains, profits and dividends, net of taxes, if any, realized by foreign investments made in Central Bank-approved Philippine securities listed in the local stock exchange shall be remittable in full at the prevailing rate of exchange.

A. *Remittance for existing obligations registered with CB prior to November 26, 1969* — Resident companies which have existing foreign obligations registered with CB prior to November 26, 1969 may remit interest abroad.

B. *Remittance for existing obligation not registered with CB prior to November 26, 1969* — Approval and registration with CB is necessary.

### INVISIBLE TRANSACTIONS

A. *What Constitutes Invisible* — The term refers to forex transactions, arrangements or business arrangements or business operations which are generally non-trade in nature. Non-trade arrangements involve or require rendition of services by private resident persons, firms, associations or corporations with private non-resident person, firms associations or corporations situated abroad.

B. *Mode of Payment* — Payment may be in pesos or any foreign currency acceptable to Central Bank.

C. *Reports to CB required on forex earnings, acquisition or receipts* — The following resident persons, firms, or corporations shall render a quarterly report to the foreign Exchange Department of the CB not later than 15 days after the end of each calendar quarter on forex earnings, acquisition or receipts sold to authorized agent banks:

1. Agents or branch offices of foreign shipping and airline companies;
2. Shipbuilders, ship-repairers, or ship chandlers providing supplies to a rendering services to foreign owned or operated vessels.
3. Shipping or airline firms, agencies or persons, providing or supplying crew members to foreign owned or operated vessels or aircrafts;
4. Indentors, commission agents, or Philippine representatives of foreign firms;
5. Insurance companies or insurance agencies engaged in foreign insurance and reinsurance business, or engaged in insurance business abroad through overseas branch offices or agencies;
6. Construction firms, engineering firms, architectural firms, and labor contractors undertaking jobs at U.S. military, naval or air bases, or other United States establishments in the Philippines, or undertaking jobs abroad.
7. Oil companies engaged in selling aviation gasoline bunker oil and/or other oil products to aircrafts of foreign airline companies or vessels of foreign shipping companies;
8. Recipients of foreign exchange representing payment of royalties, firm, television, and other rentals;
9. Receipts of foreign exchange from non-residents pursuant to other contracts of services.

A. *Remittance by Oil Companies* — Prior clearance is needed from the Oil Industry Commission.

B. *Royalties and Rentals on Patents, Trade and Copyrights* — Remittance or royalties or rentals on patents trademarks and copyrights may be allowed net of the withholding tax up to 50 per cent of the royalties or rentals incurred during the year for which the remittance is being made, provided, that no royalty remittance should exceed 5 per cent of the wholesale price of the commodity which is manufactured locally under a royalty contract.

C. *Technical Service Fee* — Remittance of technical service fees are allowed to the extent provided for in the technical service agreement.

D. *Remittances of Film Earnings & Rentals* — Remittance of the producers' shares of earnings made on movie films and rentals on television films imported without exchange payments may be allowed up to 50 per cent of the producers' shares of earnings or of TV film rentals during the year for which the remittance is being made.



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