



HOUSE OF REPRESENTATIVES

H. No. 5051

BY REPRESENTATIVE BATERINA, PER COMMITTEE REPORT NO. 1331

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

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

1 SECTION 1. *Short Title.* – This Act shall be known as the “Ilocos Sur
2 Special Economic Zone and Freeport Act of 2006”.

3 SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the
4 State to actively encourage, promote, induce and accelerate the sound and
5 balanced industrial, economic and social development of the country in order
6 to provide jobs to the people especially those in the rural areas, increase
7 productivity and individual and family income, and thereby improve the level
8 and quality of living conditions through the establishment, among others, of
9 special economic zones and freeports in suitable and strategic locations in the
10 country and through measures that will attract legitimate and productive
11 foreign investments.

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

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

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

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

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

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

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

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

27 (g) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be
28 made available for immediate retail sale in the domestic market, subject to the

1 payment of corresponding taxes on raw materials and other regulations that
2 may be formulated by the ISSEZA, together with the PEZA, the Bureau of
3 Customs (BoC) and the DTI in accordance with the NIRC of 1997, as
4 amended, and the Tariff and Customs Code of the Philippines, as amended.
5 However, in order to protect domestic industries, a Negative List of industries
6 shall be drawn up and regularly updated by the PEZA. Enterprises engaged in
7 industries included in such Negative List shall not be allowed to sell their
8 products locally.

9 (h) The defense of the Ilocos Sur Ecozone and the security of its
10 perimeter fence shall be the responsibility of the national government (NG) in
11 coordination with the Ilocos Sur Ecozone and the LGUs.

12 SEC. 5. *Incentives to Registered Enterprises.* – The ISSEZA may
13 administer the following incentives to the registered enterprises located therein
14 to the extent of the activity/project:

15 (A) Income Tax Holiday (ITH) – Registered enterprises shall be
16 entitled to an income tax holiday from the start of their commercial operations
17 to the extent of their activity under the following categories:

18 (1) Category A – Registered domestic enterprises located in highly
19 developed areas, as determined by the Board of Investments (BOI), shall be
20 entitled to a four-year income tax holiday.

21 (2) Category B – Registered domestic enterprises on the following shall
22 be entitled to a six-year income tax holiday:

23 (i) Located in less developed areas as defined by the BOI; or

24 (ii) Producing/rendering new products/services or having strong
25 backward or forward linkages.

26 (3) Category C – Registered export enterprises shall be entitled to a
27 six-year income tax holiday; *Provided, however,* That if the export enterprise
28 complies with the following:

- 1 (i) Large capital investments or sizeable employment generation; or
- 2 (ii) Use high level of technology; or
- 3 (iii) Located outside Metro Manila, it shall be entitled to an eight-year
- 4 ITH.

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

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

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

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

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

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

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

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

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

19 (1) Three percent (3%) to the national government; and

20 (2) Two percent (2%) shall be remitted by the business establishments
21 to the treasurer’s office of the municipalities where the enterprise is located;

22 All persons and service establishments in the Ilocos Sur Ecozone shall
23 be subject to national and local taxes under the NIRC of 1997, as amended,
24 and the Local Government Code.

25 (D) Accelerated Depreciation – Accelerated depreciation of plant,
26 machinery and equipment that are reasonably needed and actually used for the
27 production and transport of goods and services may be allowed using a rate not
28 exceeding twice the rate which would have been used had the annual allowance

1 been computed in accordance with the rules and regulations prescribed by the
2 Secretary of Finance and the provisions of the NIRC of 1997, as amended.

3 (E) Capital Equipment Incentives – (1) Importations of capital
4 equipment, spare parts, tools and dye, or those required for pollution
5 abatement and control, cleaner production and waste reduction including
6 consignment thereof by registered enterprises upon the effectivity of this law
7 shall be exempted to the extent of one hundred percent (100%) of the taxes and
8 customs duties: *Provided*, That the importation thereof shall be used
9 exclusively by the registered enterprise in its registered activity: *Provided*,
10 *further*, That the importation of machinery and equipment and accompanying
11 parts shall comply with the following conditions:

12 (a) These are not manufactured domestically in sufficient quantity, of
13 comparable quality and at reasonable prices;

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

20 (c) Approval of the ISSEZA was obtained by the registered enterprise
21 for the importation of such machinery, equipment and spare parts.

22 Approval of the ISSEZA must be secured before any sale, transfer or
23 disposition of the imported capital equipment, machinery or spare parts is
24 made: *Provided*, That if such sale, transfer or disposition is made within the
25 first five years from the date of importation, any of the following conditions
26 must be present:

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

1 (ii) If made to another enterprise, upon payment of the taxes and duties
2 on the net book value of the capital equipment to be sold;

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

5 (iv) For reasons of proven technical obsolescence.

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

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

25 The registered export-oriented enterprise shall be granted a tax credit
26 equivalent to the amount of duties that would have been waived on the
27 machinery, capital equipment, and raw materials, supplies, parts and semi-
28 finished products used in the fabrication of machinery and capital equipment,

1 had these items been imported, upon its submission to the Department of
2 Finance (DOF) of the bill of materials evidencing the transaction value of such
3 and other pertinent documents, for verification and proper endorsement.

4 The registered export enterprise availing of the incentive provided under
5 the immediately preceding two paragraphs shall be subject to the following:

6 (a) that said capital equipment, machinery and spare parts will be used
7 exclusively by the registered enterprise in its registered activity; (b) that the
8 capital equipment or machinery where the raw materials, supplies, parts and
9 semi-finished products were used would have qualified for tax and duty-free
10 importation; and (c) that the approval of the ISSEZA is obtained by the
11 registered enterprise. If the registered enterprise sells, transfers or disposes of
12 these machineries, capital equipment and spare parts, the provision in the
13 preceding paragraphs for such disposition shall apply.

14 This incentive shall be deemed waived if application for tax credit under
15 this subsection was not filed within one year from the date of delivery.

16 (F) The importation of source documents by information technology-
17 registered enterprises shall be eligible for tax and duty free importation.

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

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

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

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

17 This incentive shall be deemed waived if application for tax credit under
18 this subsection is not filed within one year from the date of delivery.

19 (I) Exemption From Wharfage Dues – The provisions of law to the
20 contrary notwithstanding, exports by a registered enterprise shall be exempted
21 from wharfage dues.

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

1 (K) (1) Tax Treatment of Merchandise in the Ilocos Sur Ecozone --

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

11 (b) Merchandise purchased by a registered Ilocos Sur Ecozone
12 enterprise, from the customs territory and subsequently brought into the export
13 processing zone, shall be considered as export sales and exportation thereof
14 shall be entitled to the benefits allowed by law for such transaction.

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

20 (d) Merchandise sent from the Ilocos Sur Ecozone to the customs
21 territory shall, whether or not combined with or made part of other articles
22 while in the zone, be subject to rules and regulations governing imported
23 merchandise. The duties and taxes shall be based on the value of said
24 imported materials (except when the final product is exempt).

25 (e) Domestic merchandise on which all internal revenue taxes have
26 been paid, if subject thereto, and foreign merchandise previously imported on
27 which has been paid, or which have been admitted free of duty and tax, may be

1 taken into the Ilocos Sur Ecozone from the customs territory of the Philippines
2 and be brought back thereto free of quotas, duty or tax.

3 (f) Subject to such regulations respecting identity and safeguarding of
4 revenue as the ISSEZA may deem necessary, when the identity of an article
5 entered into the export processing zone under the immediately preceding
6 paragraph has been lost, such article when removed from the zone and taken to
7 the customs territory shall be treated as foreign merchandise entering the
8 country for the first time, under the provisions of the Tariff and Customs Code
9 of the Philippines, as amended.

10 (g) Articles produced or manufactured in the Ilocos Sur Ecozone and
11 exported therefrom shall, on subsequent importation into the customs territory,
12 be subject to the import laws applicable to like articles manufactured in a
13 foreign country.

14 (h) Unless the contrary is shown, merchandise taken out of the export
15 processing zone shall be considered for tax purposes to have been sent to
16 customs territory.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 SEC. 7. *Administration, Implementation and Monitoring of Incentives.*
22 – The ISSEZA shall be responsible for the administration and implementation
23 of the incentives granted to its respective registered enterprises: *Provided,*
24 That any incentive administration policy adopted by the BOI for registered
25 enterprises shall be uniformly applied by the ISSEZA.

26 The following are the duties and responsibilities of the ISSEZA in the
27 administration of incentives:

1 (a) To adopt consistent procedures of administering incentives in
2 accordance with the guidelines established by the BOI;

3 (b) To adopt and implement systems and procedures affecting trade
4 and customs policies in accordance with the requirements established by the
5 DOF and the BOI;

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

11 (d) To perform all other duties and responsibilities as may be required
12 by the President.

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

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

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

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

1 extended with regard to industries deemed indispensable to national
2 development.

3 The industries exempted from this provision shall be recommended by
4 the BOI, with the concurrence of the secretaries of the Department of Finance
5 and of Trade and Industry.

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

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

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

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

22 (b) To recommend to the President the issuance of a proclamation to
23 fix and delimit the site of the Ilocos Sur Ecozone;

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

26 (d) To coordinate with LGUs and exercise general supervision over the
27 development plans, activities and operations of the Ilocos Sur Ecozone;

1 (e) To regulate and undertake the establishment, operation and
2 maintenance of utilities, other services and infrastructure in the Ilocos Sur
3 Ecozone such as, but not limited to, heat, light and power, water supply,
4 telecommunications, transport, toll roads and bridges, port services, etc. and to
5 fix just, reasonable and competitive rates, fares, charges and prices thereof;

6 (f) To construct, acquire, own, lease, operate and maintain on its own
7 or through contracts, franchise, licenses, bulk purchase from the private sector
8 or permits under any of the schemes allowed in Republic Act No. 6957 (the
9 Build-Operate-Transfer Law, as amended), or joint venture, adequate facilities
10 and infrastructure required or needed for the operation and development of the
11 Ilocos Sur Ecozone, in coordination with appropriate national and local
12 government authorities and in conformity with applicable laws thereon;

13 (g) To operate on its own, either directly or through a license to other
14 tourism-related activities, including games, amusements, recreational and
15 sports facilities;

16 (h) Subject to the approval of the President and the Monetary Board of
17 the Bangko Sentral ng Pilipinas (BSP) upon the recommendation of the DOF,
18 to raise or borrow adequate and necessary funds from local or foreign sources
19 to finance its projects and programs under this Act and for that purpose, to
20 issue bonds, promissory notes and other forms of securities, and to secure the
21 same by a guarantee, pledge, mortgage, deed of trust or an assignment of all or
22 part of its property or assets;

23 (i) To provide security for the Ilocos Sur Ecozone in coordination with
24 the national and local governments. Military forces sent by the NG for the
25 purpose of defense shall not interfere in the internal affairs of the Ilocos Sur
26 Ecozone and expenditures for these military forces shall be borne by the NG.
27 For this purpose, the ISSEZA may establish and maintain its security forces
28 and firefighting capability or hire others to provide the same;

1 (j) To protect, preserve, maintain and develop the virgin forests,
2 beaches, coral and coral reefs, and maintain ecological balance within the
3 Ilocos Sur Ecozone;

4 (k) To create, operate and/or contract to operate such functional units
5 or offices of the ISSEZA as it may deem necessary;

6 (l) To adopt, alter and use a corporate seal; make contracts, leases,
7 own or otherwise dispose of personal or real property; sue and be sued; and
8 otherwise carry out its functions and duties as provided for in this Act;

9 (m) To issue certificates of origin for products manufactured or
10 processed in the Ilocos Sur Ecozone in accordance with prevailing rules of
11 origin, and the pertinent regulations of the PEZA, the DTI and/or the DOF;

12 (n) To issue working visas renewable every two years to foreign
13 executives and foreign technicians with highly specialized skills which no
14 Filipino possesses, as certified by the Department of Labor and Employment;

15 (o) To report to the Bureau of Immigration the names of the foreigners
16 who have been granted permanent resident status and working visas within
17 thirty (30) days after issuance of such grant;

18 (p) To exercise such powers as may be essential, necessary or
19 incidental to the powers granted to it hereunder, as well as those that shall
20 enable it to carry out, implement and accomplish the purposes, objectives and
21 policies of this Act; and

22 (q) To issue rules and regulations consistent with the provisions of this
23 Act as may be necessary to accomplish and implement the purposes, objectives
24 and policies provided herein.

25 SEC. 13. *Exemptions from Donor's Tax.* – All donations made by any
26 person or entity in favor of the ISSEZA shall be exempt from the payment of
27 the donor's tax and the same shall be considered as deductible from the gross
28 income of the donor, pursuant to the NIRC of 1997, as amended.

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

8 SEC. 15. *Remittance of Earnings.* – In the case of foreign investments,
9 a registered enterprise in the ISSEZA shall have the right to remit earnings
10 from the investment in the currency in which the investment was originally
11 made and at the exchange rate prevailing at the time of remittance, subject to
12 the provisions of Section 74 of Republic Act No. 265, as amended.

13 SEC. 16. *Board of Directors of the ISSEZA.* – The powers of the
14 ISSEZA shall be vested in and exercised by a board of directors, hereinafter
15 referred to as the Board, which shall be composed of the following:

16 (a) The chairman who shall, at the same time, be the administrator of
17 the ISSEZA;

18 (b) A vice chairman who shall come from among the members of the
19 Board;

20 (c) *Members consisting of:*

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

22 (2) The congressional representative of the district covering the site of
23 the Ilocos Sur Ecozone;

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

25 (4) One representative from the domestic investors;

26 (5) One representative from the foreign investors; and

27 (6) Two representatives from labor from among the workers in the
28 Ilocos Sur Ecozone.

1 The governor, the congressional representative and the mayors of the
2 municipalities of Cabugao and San Juan shall serve as *ex officio* members of
3 the Board, whose terms in the Board correspond to their term as elected
4 officials.

5 The chairman and the members of the Board, except the *ex officio*
6 members, shall be appointed by the President of the Philippines to serve for a
7 term of six years unless sooner removed for cause or dies or resigns
8 voluntarily. In case of death, resignation or removal for cause, the replacement
9 shall serve only the unexpired portion of the term.

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

17 The members of the Board shall each receive *per diem* at rates to be
18 determined by the Department of Budget and Management (DBM) in
19 accordance with existing rules and regulations: *Provided, however,* That the
20 total *per diem* collected each month shall not exceed the equivalent *per diem*
21 for four meetings. Unless and until the President of the Philippines has fixed a
22 higher *per diem* for the members of the Board, such *per diem* shall not be more
23 than Ten thousand pesos (P10,000.00) for every Board meeting.

24 SEC. 17. *Powers and Duties of the Chairman-Administrator.* – The
25 chairman-administrator shall have the following powers and duties:

26 (a) To direct and manage the affairs of the ISSEZA in accordance with
27 the policies of the Board;

1 (b) To establish the internal organization of the ISSEZA under such
2 conditions that the Board may prescribe;

3 (c) To submit an annual budget and necessary supplemental budget to
4 the Board for its approval;

5 (d) To submit within thirty (30) days after the close of each fiscal year
6 an annual report to the Board and such other reports as may be required;

7 (e) To submit to the Board for its approval policies, systems,
8 procedures, rules and regulations that are essential to the operation of the
9 Ilocos Sur Ecozone;

10 (f) To create a mechanism in coordination with relevant agencies for
11 the promotion of industrial peace, the protection of the environment and the
12 advancement of the quality of life in the Ilocos Sur Ecozone; and

13 (g) To perform such other duties as may be assigned to him by the
14 Board or which are necessary or incidental to his office.

15 SEC. 18. *Organization and Personnel.* – The Board of Directors of the
16 ISSEZA shall provide for an organization and staff of its officers and
17 employees. Upon recommendation of the chairman-administrator, the Board
18 shall appoint and fix the remuneration and other emoluments of its officers and
19 employees in accordance with existing laws on compensation and position
20 classification: *Provided,* That the Board shall have exclusive and final
21 authority to promote, transfer, assign or reassign officers of the ISSEZA, any
22 provision of existing law to the contrary notwithstanding: *Provided, further,*
23 That the chairman-administrator may carry out removal of such officers and
24 employees.

25 The officers and employees of the ISSEZA, including all members of
26 the Board, shall not engage directly or indirectly in partisan activities nor take
27 part in any election, except to vote.

1 No officer or employee of the ISSEZA, subject to civil service laws and
2 regulations, shall be removed or suspended except for cause, as provided by
3 law.

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

9 SEC. 20. *Capitalization.* – The ISSEZA shall have an authorized
10 capital stock of two billion (2,000,000,000) no par shares with a minimum
11 issue of Ten pesos (P10.00) each, the majority shares of which shall be
12 subscribed and paid for by the NG and the LGUs embracing the Ilocos Sur
13 Ecozone. The Board of Directors of the ISSEZA may, with the written
14 concurrence of the Secretary of Finance, sell shares, representing not more
15 than forty *per centum* (40%) of the capital stock of the ISSEZA to the general
16 public under such policy as the Board and the Secretary of Finance may
17 determine. The NG and the LGUs shall, in no case, own less than sixty *per*
18 *centum* (60%) of the total issued and outstanding capital of the ISSEZA.

19 The amount necessary to subscribe and pay for the shares of the NG to
20 the capital stock of the ISSEZA shall be included in the annual General
21 Appropriations Act. For LGUs, the funds shall be taken from their internal
22 revenue allotment and other local funds.

23 SEC. 21. *Supervision and Coordination of Development Plans.* – For
24 purposes of policy direction and coordination, the Ilocos Sur Ecozone shall be
25 under the direct control and supervision of the Office of the President.

26 SEC. 22. *Relationship with the Regional Development Council.* – The
27 ISSEZA shall determine the development goals for the Ilocos Sur Ecozone
28 within the framework of national development plans, policies and goals. The

1 administrator shall, upon approval by the Board, submit the Ilocos Sur
2 Ecozone plans, programs and projects to the Regional Development Council
3 for inclusion and inputs to the overall regional development plan.

4 SEC. 23. *Relationship with LGUs.* – Except as herein provided, the
5 LGUs comprising the Ilocos Sur Ecozone shall retain their basic autonomy and
6 identity. The municipalities of Cabugao and San Juan, Ilocos Sur shall operate
7 and function in accordance with the Local Government Code of 1991. In case
8 of any conflict among the ISSEZA and the municipalities of Cabugao and San
9 Juan, Ilocos Sur on matters affecting the Ilocos Sur Ecozone other than defense
10 and security matters, the decision of the ISSEZA shall prevail.

11 SEC. 24. *Interpretation/Construction.* – The powers, authorities and
12 functions that are vested in the ISSEZA are intended to decentralize
13 governmental functions and authority and promote an efficient and effective
14 working relationship among the Ilocos Sur Ecozone, the NG and the LGUs.

15 SEC. 25. *Auditing.* – The Commission on Audit shall appoint a
16 representative who shall be a full-time auditor of the ISSEZA and assign such
17 number of personnel as may be necessary to assist said representative in the
18 performance of his/her duties. The salaries and emoluments of the assigned
19 auditor and personnel shall be in accordance with pertinent laws, rules and
20 regulations.

21 SEC. 26. *Separability Clause.* – If any provision of this Act shall be
22 held unconstitutional or invalid, the other provisions not otherwise affected
23 shall remain in full force and effect.

24 SEC. 27. *Repealing Clause.* – All laws, executive orders or issuances,
25 or any part thereof which are inconsistent herewith are hereby repealed or
26 amended accordingly.

1 SEC. 28. *Effectivity Clause.* – This Act shall take effect upon its
2 publication in at least one newspaper of general circulation.

Approved,

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