

****Title:**** Injunction on Tax and Duty-Free Privileges in Philippine Economic Zones: Coconut Oil Refiners Association, Inc., et al. vs. Hon. Ruben Torres, et al.

****Facts:****

The case originates from a clash between the government's initiative to promote economic development in the former U.S. military bases in the Philippines - specifically, the Subic Bay Metropolitan Authority (SBMA) and the Clark Development Corporation (CDC) - and various local industry groups. The government, acting through executive issuances and board resolutions, extended tax and duty-free privileges to businesses operating within the designated special economic zones (SEZs) of Subic and Clark with the intent of transforming these areas into self-sustaining, industrial, commercial, financial, and investment centers.

Petitioners, representing local industry groups, challenged several executive issuances — specifically, Section 5 of Executive Order No. 80, Executive Order No. 97-A, and Section 4 of BCDA Board Resolution No. 93-05-034 — arguing that they were unconstitutional on three grounds: they constituted executive lawmaking, violated the equal protection clause and the prohibition against unfair competition, and were in contravention of Republic Act No. 7227 (the Bases Conversion and Development Act of 1992), which governs the conversion of military reservations into alternative productive uses.

These issued legal frameworks allowed the operation of tax and duty-free shops within the special economic zones, a privilege which petitioners claimed caused unfair competition to businesses outside the zones, violated the principle of equal protection under the law, and encroached upon the legislative authority by essentially creating new laws through executive action.

****Issues:****

1. Whether the assailed executive orders and board resolution constitute an exercise of executive lawmaking.
2. Whether the challenged issuances violate the equal protection clause and the prohibition against unfair competition and combinations in restraint of trade.
3. Whether the assailed issuances are contrary to Republic Act No. 7227 and the Constitution.
4. The legality of allowing tax and duty-free importations beyond raw materials, capital, and equipment, and the subsequent retail of such imported consumer goods within the special

economic zones.

****Court's Decision:****

The Supreme Court ruled partially in favor of the petitioners. It declared Section 5 of Executive Order No. 80 and Section 4 of BCDA Board Resolution No. 93-05-034 null and void for having no legal basis under Republic Act No. 7227 and for constituting an exercise of executive legislation regarding the Clark Special Economic Zone (CSEZ). However, it upheld the validity of the other portions of Executive Order No. 97-A, except for paragraphs 1.2 and 1.3 that allowed tax and duty-free removal of goods beyond the limits prescribed under Republic Act No. 7227.

****Doctrine Established:****

1. ****Executive Lawmaking:**** Executive orders cannot extend tax exemptions or privileges not expressly granted by statute, as this constitutes executive legislation and violates the principle of separation of powers.
2. ****Equal Protection Clause:**** There is no violation of equal protection in granting fiscal and non-fiscal incentives within Special Economic Zones (SEZs) as long as there is substantial distinction between businesses inside and outside SEZs.
3. ****Unfair Competition and Restraint of Trade:**** The provision of tax incentives to attract investors to special economic zones, by itself, does not constitute unfair competition or restraint of trade prohibited by the Constitution.

****Class Notes:****

- ****Substantial Distinctions for Tax Incentives:**** For a classification to justify different treatment, such as tax incentives within SEZs, it must rest on substantial distinctions that make real differences between those falling within and outside the class.
- ****Scope of Tax Exemptions:**** Tax exemptions or privileges cannot be extended by executive issuances beyond what the enabling statute expressly provides.
- ****Executive Legislation:**** The executive branch cannot enact, amend, or repeal laws, a power reserved exclusively for the legislature. Executive orders or resolutions that extend beyond the scope of administrative implementation into areas of substantive lawmaking are invalid.
- ****Equal Protection in Economic Policies:**** Economic policies that differentiate between categories of businesses must be founded on substantial distinctions and geared towards a legitimate governmental objective.

****Historical Context:****

The case delves into the constitutional boundaries of executive power in economic policy implementation, especially in unique economic areas like special economic zones. The decision emphasizes the judiciary's role in safeguarding the principle of separation of powers, ensuring that legislative prerogatives, such as the granting of tax incentives, remain within the legislature's purview. The ruling also highlights the balance between promoting economic development through special economic zones and adhering to constitutional safeguards against executive overreach and ensuring fair competition.