NATIONAL ADMINISTRATIVE REGISTER · DECEMBER 9, 2002

FARM-OUT/SUB-CONTRACTING: VALIDITY PERIODS AND FILING FEES FOR LETTERS OF AUTHORITY (LOAS) AND CONDITIONS FOR TRANSFERS OF GOODS INVOLVED IN THE ARRANGEMENTS

PEZA MEMORANDUM ORDER NO. 2002-003, December 09, 2002

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Letters of Authority: Validity Periods and Filing Fees

Presently, the PEZA Letter of Authority (LOA) for Farm-Out/Sub-Contracting has a validity period of three months, which may be extended for additional three-month periods, up to a maximum of one year. The Filing Fee for the original three-month LOA is P1,200.00; the Filing Fee for each three-month extension is P600.00.

In as much as, in most cases, export-producer enterprises have their three-month original LOAs extended, for their convenience, effective 01 January 2003, PEZA shall issue original LOAs for Farm-Out/Sub-Contracting with validity periods of 3, 6, 9 and 12 months and charge the corresponding Filing Fees of P1,200.00, P1,800.00, P2,400.00 and P3,000.00, respectively.

PEZA shall continue issuing three-month extensions of LOAs and charge a Filing Fee of P600.00 for each extension, provided that the maximum validity period of any LOA, inclusive of its three-month extensions, shall be as follows:

Sub Contractor Enterprise LOA Maximum Validity Period

PEZA registered economic zone enterprise One year

Non-economic zone enterprise operating a Customs Bonded Manufacturing Warehouse (CBMW) One Year

Non-economic zone enterprise without a CBMW Six months

Economic zone contractor enterprises that need to continue Farm-Out/Sub-contracting arrangements with the same sub-contractors shall apply for a new LOA after the maximum validity periods of their existing LOAs.

Machinery and Equipment Lent by Economic Zone Contractors to Sub-Contractors

Machinery and equipment, which an economic zone contractor enterprise temporarily lends to its sub-contractor enterprise, which shall be specified in the LOA, must be used solely for the farm-out/sub-contracting arrangement and should be returned to the economic zone contractor enterprise at the end of the validity period of the LOA. However, in case the economic zone contractor enterprise decides for continue its farm-out/sub-contracting arrangement with the same sub-contractor, as evidenced by its having secured a valid LOA and by the regular transfer of raw materials, parts, components and other goods, as well as processed sub-contracting outputs involved in the sub-contracting arrangement, between the contractor and sub-contractor enterprises, the maximum

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period wherein the sub-contractor may keep and use machinery and equipment lent by the economic zone contractor enterprise shall be as follows:

Sub-Contractor Enterprise

Maximum Period

PEZA-registered economic zone enterprise Indefinite

Non-economic zone enterprise operating a Customs Bonded Manufacturing Warehouse (CBMW) Two years

Non-economic zone enterprise without a CBMW One year

Conditions for Transfer of Goods Involved in and Processed Outputs of Farm-Out/Sub-Contracting Arrangements

Economic zone contractor enterprises shall arrange for PEZA Police Transshipment services to accompany raw materials, parts, components and other goods and machinery and equipment, which it was allowed to import tax and duty-free during their transfer to the sub-contractor enterprises, through the customs territory.

Alternatively, economic zone contractor enterprises may post surety bonds to cover taxes and import duties on raw materials, parts, components and other goods and machinery and equipment, which it was allowed to import tax and duty-free, during the transshipment process/period to the sub-contractor enterprises through the customs territory.

Similarly, economic zone contractor enterprises shall arrange for PEZA Police Transshipment services or shall post surety bonds to cover taxes and import duties on raw materials, parts, components and other goods contained in the processed sub-contracting outputs, as well as machinery and equipment, which it was allowed to import tax and duty-free, during their return-transfer from the sub-contractors to the contractor enterprises through the customs territory.

However, in cases where the sub-contractors are non-economic zone enterprises not operating CBMWS, economic zone contractor enterprises shall post surety bonds to cover taxes and import duties on raw materials, parts, components and other goods and machinery and equipment, which it was allowed to import tax and duty-free, for the whole sub-contracting period (i.e. from the time these were taken out of the economic zones to their return in the economic zones).

This Memorandum Order amends/supercedes EPZA General Circular No. 83-002 (Prescribing Procedures and Guidelines for Farming-Out and/or Sub-contracting Raw Materials in the Customs Territory) dated 18 January 1983, PEZA Memorandum Circular 2000-01 (Administrative Fees and Charges) dated 14 November 2000 and all other EPZA/PEZA orders and circulars governing movement of materials and goods covered by farm-out/sub-contracting arrangement.

For your guidance and strict compliance.

Adopted: 09 Dec. 2002

(SGD.) LILIA B. DE LIMA
Director General

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