PROVIDING FOR A COMPREHENSIVE AUTOMOTIVE RESURGENCE STRATEGY PROGRAM

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WHEREAS, Articles II and XII of the 1987 Constitution of the Philippines recognize the indispensable role of the private sector in encouraging private enterprise, providing incentives to needed investments, and promoting industrialization and full employment;

WHEREAS, Articles 2 and 7 of Executive Order (EO) No. 226 (s. 1987) or the "Omnibus Investments Code of 1987," as amended, declare that the State shall encourage private Filipino and foreign investments in industry which shall provide significant employment opportunities, provide a foundation for the future development of the economy, and meet the tests of international competitiveness and empower the Board of Investments (BOI) to formulate and implement rationalization programs for certain industries to address impediments to economic growth, and formulate guidelines for progressive manufacturing programs;

WHEREAS, EO Nos. 156 (s. 2002) and 887-A (s. 2010) provide for a comprehensive industrial policy and directions for the Motor Vehicle Development Program to accelerate the sound development of the Philippine Motor Vehicle Industry, recognizing the need to attain competitiveness in the ASEAN region in particular;

WHEREAS, there is a need to augment and enhance policy and directions of existing motor vehicle development programs towards ensuring a resurgent automotive industry that supports innovation, technology transfer, environmental protection, and Small and Medium Enterprises (SMEs) development;

WHEREAS, there is a need to enable the country's automotive industry to seize market opportunities opened by the ASEAN Economic Community and deepen its participation in the regional supply chain; and

WHEREAS, the improvement of the automotive industry will boost manufacturing capability of the overall industrial sector, spur growth of SMEs and create more jobs in the country.

NOW, THEREFORE I, BENIGNO S. AQUINO III, President of the Republic of the Philippines, by virtue of the powers vested in me by law, do hereby order:

SECTION 1. Comprehensive Automotive Resurgence Strategy Program. The Comprehensive Automotive Resurgence Strategy Program, herein referred to as the "CARS Program," is hereby adopted and implemented in order to attract new investments, stimulate demand and effectively implement industry regulations that will revitalize the Philippine automotive industry, and develop the country as a regional automotive manufacturing hub.

The thrust of this Program is to provide time-bound, and output or performance-based fiscal support to attract strategic investments in the manufacturing of motor vehicles and parts thereof. Other non-fiscal measures already provided by existing laws, rules and regulations, shall continue to be systematically implemented by the relevant government agencies.

SECTION 2. Coverage. The CARS Program shall be limited to the manufacture of three (3) Models of four-wheeled motor vehicles, and shall cover the following activities:

- Production of the enrolled Models;

- Manufacture of Body Shell Assembly and Large Plastic Assemblies of the Model;

- Manufacture of Common Parts and Strategic Parts not currently produced in the country at Original Equipment Manufacturer (OEM) standards of the Model/s; and

- Shared Testing Facility for vehicles and/or parts.

SECTION 3. Definition of Terms. As used herein, the following shall mean:

- Body Shell Assembly shall consist of the full set of metal components that goes from the body shop to the paint shop for one vehicle.

- Common Parts refer to automotive vehicle parts not currently produced in the Philippines at OEM standards that the registered Participating Car Makers (PCMs) agree to source from one parts supplier, such as, but not limited to, automotive glass and automotive seat fabric.

- Full Model Change refers to the major design change in the external body shell bumpers, including grills and lamps and interior of a vehicle. Full Model Change typically happens every four to six years for passenger cars and light commercial vehicles.

- Large Plastic Parts shall refer to all major plastic parts of bumpers, instrument panels, center consoles and door trims.

- Logistics Efficiency Index shall refer to the measure of cost efficiency of the logistics involved in the supply of motor vehicle parts and components for the enrolled Model.

- Model refers to a nameplate that is not currently manufactured in the country. However, a full model change of a nameplate that is currently manufactured in the country shall be considered a Model under this CARS Program.

- Model Life refers to the years upon which there are no major changes in the over-all design and appearance of a Model.

- Nameplate refers to the name used by the car maker in marketing a model, including its variants, in the Philippines.

- Parts refer to the Body Shell Assembly and Large Plastic Parts Assemblies of the Model, as well as the Common and Strategic Parts.

- Planned total production volume refers to the model life production volume up to a maximum of six (6) years as submitted by the applicant.

- Segment Weighted Average Price refer to the weighted average Net Manufacturer’s Price for the vehicle segment of an enrolled Model less the estimated manufacturer’s net profit of five percent (5%).

- Standard Production Support refers to the quotient of sixty percent of the Model Life Budget over the difference between the planned Model Life production volume and one hundred thousand. Model Life in this case shall not exceed six (6) years.

- Strategic Parts refer to automotive vehicle parts specific to an enrolled Model not currently produced in the Philippines at OEM standards such as, but not limited to, struts and shock absorbers, plastic fuel tanks, head

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lamps, rear combination lamps, steering assembly, and aluminum radiators.

SECTION 4. Functions of the BOI. The BOI, as the lead implementing and coordinating agency of the CARS Program, shall perform the following:

- Act upon the recommendation/s of the Inter-Agency Committee on Automotive Industry Development established under Section 5 of this Executive Order;

- Oversee the implementation of the CARS Program;

- Submit the annual report on the performance of the CARS Program to the Office of the President (OP);

- Coordinate automotive industry development efforts of all concerned agencies and instrumentalities of the government; and

- Perform such other acts as may be necessary or incidental to the exercise of its function and powers and the discharge of its duties under this Order.

SECTION 5. Inter-agency Committee on Automotive Industry Development. An Inter-agency Committee on Automotive Industry Development, herein referred to as “the Inter-agency Committee,” is hereby created to administer and implement the CARS Program.

The Department of Trade and Industry-BOl representative shall act as Chairperson of the Interagency Committee, with members from the following:

- Department of Finance (DOF);

- Department of Transportation and Communication;

- Department of Science and Technology;

- National Economic and Development Authority;

- Technical Education and Skills Development Authority;

- The Co-Chairman of the Industry Development Council; and

- The Co-Chairman of the National Competitiveness Council.

The BOI shall also act as the Secretariat of the Inter-Agency Committee.

SECTION 6. Functions of the Inter-Agency Committee. The Inter-agency

Committee shall perform the following functions:

- Evaluate applications for enrollment of Models under the CARS Program;

- Evaluate applications for registration of PCMs, including its makers and/or service providers of Body Shells, Large Plastics Parts, Common Parts and Strategic Parts under the CARS Program;

- Recommend to the BOI the issuance of the Certificate of Registration for the PCMs including its makers and/or service providers and impose terms and conditions;

- Evaluate eligibility and availment of the fiscal support under the CARS Program;

- Monitor overall CARS performance and audit compliance of the CARS Program;

- Prepare annual report on the performance of the CARS Program, to be submitted to the OP, through the BOI;

- Recommend to BOI the withdrawal/forfeiture of the fiscal support in the event that the registered Participant fails to comply with the terms and conditions of its registration;

- Undertake studies and research including review of existing government regulations, as needed, to make policy recommendations in enhancing the effectivity of the CARS and other related Programs, as well as, in improving the overall performance of the automotive industry; and

- Perform such other functions as may be necessary.

SECTION 7. Criteria for Enrollment of a Model. The criteria for the enrollment of a Model shall be based on, but not limited to, the following:

- Track record and Model competitiveness;

- New investments in Body Shell Assembly and Large Plastic Parts Assemblies;

- Planned volume, as may be determined by BOI, but in no case lower than two hundred thousand (200,000) vehicles over the Model Life up to a maximum of 6 years;

- Economic impact of the investment plan for the Model, including impact on the parts manufacturing industry and linkages, jobs generation, and overall consumer welfare;

- Overall competitive environment and long-term industry development; and

- Compliance with fuel efficiency and emission level standards as may be determined by BOI, which in no case shall be lower than the standards under the Clean Air Act.

SECTION 8. Eligibility and Qualifications of Participants. The participating Car Makers, Parts Makers and Shared Testing Facility Proponent must meet the following qualifications, and such other criteria as may be required by BOI:

Minimum Qualifications for Car Makers

- An internationally-recognized Car Maker/brand owner and/or its authorized in country licensed manufacturer acting jointly with an internationally- recognized carmaker/brand owner;

- Proven global track record; and

- Existing multinational operations.

Minimum Qualifications for Parts Makers

- Endorsed by the PCM to manufacture parts of its enrolled Model;

- EM automotive Parts Maker and/or its authorized in-country licensed manufacturer acting jointly with an internationally-recognized carmaker/brand owner;

- Proven track record; and

- A member of good standing of the Philippine Parts Maker Association.

Minimum Qualifications for the Shared Testing Facility Proponent

- Collectively endorsed by the PCMs; and

- Proven track record.

SECTION 9. Application and Selection Process. The BOI shall establish the application and selection process for Model enrollment and the qualifying program for Participants, imposing such terms and conditions as it may deem necessary to promote the objectives of the CARS Program.

The BOI shall prescribe an application period during which a PCM can apply for the enrollment of only one (1) Model. However, if the three (3) Models are not fully subscribed within the said period, the BOI can set a new application period for enrollment of additional Model(s), in which case, more than one (1) Model may be granted to a PCM.

Upon approval, the BOI shall issue a Certificate of Registration to the PCM which shall post a performance bond in an amount to be determined by the BOI. The registered PCM shall be deemed a member under the Motor Vehicle Development Program.

SECTION 10. Fiscal Support. The registered Participants may be entitled to two (2) kinds of fiscal support during the enrolled Model Life, up to a maximum of six (6) years, namely: (1) Fixed Investment Support (FIS); and (2) Production Volume Incentive (PVI); Provided, that the Participants satisfy the following qualifications:

Criteria to be Eligible to FIS

- New investments in the manufacture of Parts and/or establishment of Shared Testing Facility;

- Delivery of Parts to the PCM within the prescribed period as stipulated by the BOI;

- Introduction of the enrolled Model to the market using the Parts manufactured under this CARS Program;

- Consistently meeting the criteria for enrollment of PCMs; and

- Attainment of other conditions that the BOI has imposed at the time of registration.

Criteria to be Eligible to PVI

- Manufacture of at least fifty percent (50%) of the assembly by weight in the case of Body Shell Assembly;

- Manufacture of major components of the assemblies in the case of Large Plastic Parts Assemblies;

- Exceeds one hundred thousand (100,000) units in production volume; and

- Attainment of other conditions that the BOI has imposed at the time of registration.

This fiscal support shall be computed based on the Segment Weighted Average Price, Standard Production Support, and Logistics Efficiency Index, as defined in this Executive Order, during the manufacture of the enrolled Models.

SECTION 11. Establishment of the Automotive Development Fund in the General Appropriations Act. The Department of Budget and Management (DBM), in coordination with the BOI, shall propose, through the National Expenditure Program, the inclusion of an Automotive Development Fund (ADF) in the annual General Appropriations Act (GAA), to fund the fiscal support to be granted to registered and eligible Participants.

The total fiscal support for the CARS Program will be given beginning 2016, and shall not exceed Twenty-Seven Billion Pesos (P27 Billion), with each enrolled Model qualified to a fiscal support in an amount not exceeding Nine Billion Pesos (P9 Billion), to be allocated as follows:

- Forty Percent (40%) for FIS, provided that in cases of Parts and Shared Testing Facility, the FIS shall not exceed 40% of the capital expenditure for tooling and equipment to manufacture the parts, including training costs for the initial start-up operation for the use thereof; and

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- Sixty percent (60%) for PVI.

The DBM shall likewise propose that the GAA includes a special provision providing that the use and disbursement of the ADF shall be pursuant to this Executive Order.

SECTION 12. Annual Appropriations. The DBM shall indicate in the annual National Expenditure Program the annual estimated expenditure necessary to support the CARS Program for that year, until the amount of Twenty-Seven Billion Pesos (P27 Billion) is fully utilized and/or the financial obligations to the program Participants are fully paid, subject to DBM policy and guidelines on budget preparation.

SECTION 13. Tax Payment Certificate. The fiscal support for the registered and eligible Participants shall be evidenced by a non-transferrable Tax Payment Certificate (TPC)-as provided by law. This shall be used to defray the tax and duty obligations of the Participants to the National Government, specifically, excise tax, income tax, import duties, and Value Added Tax (VAT).

Towards this end, the BOI, DBM, and DOF shall draft an efficient and effective TPC mechanism.

SECTION 14. No Double Availment of Incentives. Registered Participants shall not be allowed to register their activity under any other program granting incentives.

SECTION 15. Monitoring and Compliance. The production volume, including parts importation volume, among others, deliverables and commitments, shall be subject to periodic audit. Further, parts makers and/or service providers shall be audited to prevent parts trading. Registered Participants shall be audited and strictly monitored.

Failure to meet the following shall cause the cancellation of the Certificate of Registration and/or forfeiture of support, and/or expulsion from the CARS Program:

- Investment in the manufacture of Parts and/or establishment of Shared Testing Facility within two (2) years from the issuance of the Certificate of Registration; and

- Delivery of Parts to the PCM within the prescribed period.

The Board may limit availment of support as it may deem necessary. Further, failure to comply with any of the provisions of this Executive Order, its Implementing Rules and Regulations, and the terms and conditions of the Certificate of Registration shall be subject to cancellation, suspension, forfeiture of support, fines and such other applicable penalties as may be allowed or prescribed by existing and applicable laws, rules and regulations.

SECTION 16. Implementing Rules and Regulations. The BOI, in coordination with the DOF, DBM and other concerned government agencies shall promulgate the rules and regulations to implement the objectives and provisions of this Executive Order.

SECTION 17. Review of EO 156 and EO 877-A. The Inter-agency Committee constituted under this Executive Order is hereby further ordered to review the existing Motor Vehicle Development Program and other relevant incentive schemes in the light of the implementation of the CARS program and recent regional and global economic developments. The review, which should be completed within six (6) months from the issuance of this EO, may, among others, explore the possibility of providing for new entrants intending to eventually participate in the CARS program a set of incentives during a limited transition period.

SECTION 18. Repealing Clause. All executive orders, rules and regulations and other issuances or parts thereof, which are inconsistent with this Executive Order, are hereby revoked, amended, or modified accordingly.

SECTION 19. Separability Clause. If any provision of this Executive Order is declared invalid or

unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

SECTION 20. Effectivity. This Executive Order shall take effect immediately upon its publication in a newspaper of general circulation.

DONE, in the City of Manila, this 29[th] day of May in the year of Our Lord, Two Thousand and Fifteen.

(SGD) BENIGNO S. AQUINO III
By the President:

(SGD) PAQUITO N. OCHOA, JR.
Executive Secretary

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