

LETTER OF INSTRUCTIONS NO. 926, September 03, 1979

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TO:

Central Bank of the Philippines
Board of Investments
Bureau of Customs
Philippine Coconut Authority
Philippine National Bank
Development Bank of the Philippines
National Investment & Development Corporation
Other Government Agencies/Instrumentalities

and Government-Owned/Controlled Financial
Institutions Concerned

Subject:

Rationalization of the Coconut Oil Milling Industry

WHEREAS, it is the declared policy of the State to promote the rapid integrated development and growth of the coconut and other palm oils industry in all its aspects and to ensure that the coconut farmers become direct participants in, and beneficiaries of, such growth and development;

WHEREAS, the coconut industry is one of the major earners of foreign exchange for the country and, therefore, its continued survival, growth and development is vital to the national economy;

WHEREAS, a major sector of the coconut industry, the coconut oil milling industry, is presently in a state of financial distress brought about, among others, by:

a)

The overcapacity of the existing coconut oil mills;

b)

The cutthroat competition for copra;

c)

The inefficient and uneconomic flow of copra supply from island to island without regard to the respective locations of the coconut oil mills;

d)

The resultant poor competitive position of Philippine copra, coconut oil and their byproducts in the international market for fats and oils;

WHEREAS, the state of financial distress of the coconut oil milling industry is of such serious nature that most, if not all, of the persons or entities engaged in the business of coconut oil milling will be rendered insolvent to the ultimate prejudice of the coconut farmers, in particular, and of the country, as a whole;

WHEREAS, extensive studies indicate that the most feasible and practicable solution to the problems confronting the coconut oil milling industry is for the coconut farmers and the oil millers to pool their resources and coordinate their copra selling and buying, oil milling and marketing efforts, and thereby realize optimum benefits resulting from economies of scale;

WHEREAS, the appropriate vehicle to implement such a cooperative endeavor is a private domestic corporation jointly owned or controlled by the coconut farmers and the oil millers;

WHEREAS, the coconut farmers, through the Philippine Coconut Producers Federation (COCOFED), and entities owning/controlling a substantial portion of the country's entire copra milling capacity have signified their willingness and determination to join in such cooperative endeavor, with a private domestic corporation as the vehicle therefor;

WHEREAS, it is to the national interest that the Government provide concrete assistance and support to the cooperative endeavor;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President/Prime Minister of the Philippines, by virtue of the powers vested in me by the Constitution and by law, do hereby declare, direct and order that:

SECTION 1. Declaration of National Policy - It is hereby declared to be the policy of the State to rationalized the coconut oil milling industry and insure its survival, viability and stability and thereby assure the consuming countries of an adequate and continuous supply, at fair and reasonable prices, of copra, coconut oil and their by-products; that this policy can be expeditiously and efficiently realized by the pooling of the resources and the coordination of the copra buying and selling, oil milling and marketing efforts of both the coconut farmers and the oil millers in order that the optimum benefits resulting from economies of scale may be realized; and that the most appropriate vehicle for such pooling and coordination is a joint venture company between the coconut farmers and the oil millers.

SECTION 2. Organization of the Cooperative Endeavor - The bank acquired for the benefit of the coconut farmers pursuant to the provisions of P.D. 755 in its capacity as the investment arm of the coconut farmers thru the Coconut Industry Investment Fund (CIIF) created by P.D. 1468, is hereby directed to invest, on behalf of the coconut farmers, such portion of the CIIF as may be necessary in a private corporation which shall serve as the instrument to pool and coordinate the resources of the coconut farmers and the oil millers in the buying, milling and marketing of copra and its by-products under the following guidelines:

a)

The coconut farmers shall own or control at least fifty percent (50%) of the outstanding voting capital stock of the private corporation thru the CIIF and/or corporations owned or controlled by the coconut farmers thru the CIIF;

b)

The private corporation authorized to be organized and the bank acquired for the benefit of the coconut farmers shall determine which of the domestic coconut mills are in a position to better promote and successfully pursue the objectives of the cooperative endeavor ("Participating Mills") and shall enter into appropriate contracts with such domestic coconut mills for their participation either as an operating mill and/or affiliate or subsidiary under such terms and conditions as said corporation and bank may deem beneficial and necessary to carry out the intent and purpose of the contemplated cooperative endeavor; and

c)

The private corporation authorized to be organized and the Participating Mills shall be entitled to Government support and assistance upon certification by the bank acquired for the benefit of the coconut farmers that the said private corporation owns or controls, either directly or indirectly, or under such contractual arrangements as it may deem necessary and beneficial, coconut mills with an aggregate capacity of at least 6,000 metric tons per day of copra.

SECTION 3. Prohibitions - No government agency or instrumentality shall hereafter authorize, approve or grant any permit or license to establish, import and/or operate any coconut oil mill in addition to those new in operation in the country. In the event that there is a need to establish a new coconut oil mill, or to expand the capacity of an existing mill, or to relocate an existing mill, or to upgrade the efficiencies of an existing mill in order to fully and economically exploit the available copra in a particular locality or region and/or prevent the uneconomical and wasteful flow of the supply of copra from one island to another, the private corporation authorized to be organized shall have the priority to establish and operate such new mill, or to expand the capacity, upgrade the efficiency or relocate the mills owned or controlled by it or by any mill certified by it as a Participating Mill.

SECTION 4. Financial Borrowings - All financial borrowings of the private corporation authorized to be organized as well as of any Participating Mill to finance their respective capital expenditures including purchase of spare parts and inventories shall be expeditiously and promptly approved, and such borrowings are hereby declared exempt from the restrictions/limitations; on single borrower's limitations; and on loans to corporations with interlocking directors, officers, stockholders, related interests and subsidiaries and affiliates, it being understood that such lendings are in effect made to the coconut industry as a whole and not to any particular individual or entity.

SECTION 5. Rediscounting - Negotiable instruments issued by the private corporation authorized to be organized or, by a Participating Mill, as the case may be, to finance its inventories shall be eligible for rediscounting with the Central Bank at the most preferred rates, and such rediscounting facilities shall be available to them promptly to minimize carrying costs for their inventories.

SECTION 6. Foreign Exchange Allocation - Upon certification by the bank acquired for the benefit of the coconut farmers under P.D. 755 that it has acquired thru the CIIF the interests of a foreign investor in corporations involved in the coconut industry and that such corporations shall participate in the cooperative endeavor herein contemplated and that furthermore, such acquisition of the interests of such foreign investor will result in the reduction in the outflow of foreign exchange in the form of dividends, profits and like remittances arising from the exploitation of the coconut industry by foreign investors, the repatriation of the investment of the said foreign investor shall be immediately approved and the required foreign exchange therefor be made available to effect the immediate repatriation thereof in order to assure foreign investors of the policy of the Government to honor, and abide by, its guarantee and commitment as declared in Republic Act Nos. 5186 and 6135 and other laws that authorized and registered foreign investments will be allowed to be repatriated.

SECTION 7. Financial assistance - All government-owned or controlled financial institutions, including, but not limited to, the Philippine National Bank, the Development Bank of the Philippines and the National Investment and Development Corporation, which have outstanding defaulted loans in favor of any Participating Mill certified to as such by the private corporation authorized to be organized shall extend the maturity of such loan(s), at preferential interest rates, for such period(s) and under such terms and conditions as may be necessary and appropriate under the circumstances, including, but not limited to, the waiver of surcharges, attorney's fees, penalties and similar charges, as would assure the viability and stability of the private corporation authorized to be organized.

SECTION 8. Coordinating Agency - The Philippine Coconut Authority acting thru its Chairman is hereby directed and ordered:

a)

To act as the coordinating agency and insure that the Government assistance and support herein ordered to be given to the cooperative endeavor of the coconut farmers and the oil millers are fully extended and promptly complied with; and

b)

To study and recommend, for approval of the President, additional feasible measures which would further insure the survival, development, growth and success of the coconut oil milling industry, which measures may include, but not limited to, the channeling of all exports of copra and/or coconut oil and their byproducts through the private corporation authorized to be organized.

Done in the City of Manila this 3rd day of September, in the Year of Our Lord, Nineteen Hundred and Seventy-Nine.

(Sgd.) FERDINAND E. MARCOS

President of the Philippines

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