PHILIPPINES

Trade and Investment Incentives Applicable to Machinery, Electronics and Auto parts

I. TRADE AND INVESTMENT INCENTIVE SCHEMES

2009 Investment Priorities Plan (IPP)

On May 7, 2009, Philippines' President Arroyo approved the 2009 Investment Priorities Plan (IPP), an annual list of industries, sectors and economic activities that the government grants eligibility for certain incentives on an annual basis, often contingent on export performance and Filipino ownership. The industries or sectors listed in the IPP are eligible for government investment funding, pre-approved tax breaks and fiscal incentives for the respective year. The government developed the 2009 IPP with the dual objective of generating investment and creating and preserving employment to help overcome the negative impacts of the global economic recession. The 2009 IPP contains three main categories, and certain products under HS Chapters 84 (machinery), 85 (electronics) and 87 (autos/auto parts) are eligible for IPP incentives. The IPP's completion date, initially set for the end of March 2009 by the Board of Investments (BOI), was extended because the government aimed to ensure that all existing organizations and projects that have the potential to retain workers and promote job savings qualify for the IPP. The delay also offered many sectors including those sectors falling under HS Chapters 84, 85 and 87, the opportunity to bid for a place on the list.

The 2009 IPP contains the following general categories:

Preferred Activities List

For the first time, the preferred activities list of the IPP covers not only the six investment areas recommended by relevant agencies and the private sector *i.e.,* agriculture/agribusiness and fishery, infrastructure, tourism, research and development, engineered products, and strategic activities, but also firms that save or generate jobs amid the global economic slow down. As a result, the 2009 preferred activities list is categorized under two groupings: (i) the Contingency list and; (ii) the Regular list.

The Contingency List is a temporary addition to the IPP responding to the effects of the global economic recession. The temporary items on this list will be de-listed after an official declaration by the National Economic and Development Authority (NEDA), as the crisis abates. The list offers ITH incentives to: (i) micro, small and medium enterprises (MSME) new projects as defined under R.A. 9501; and (ii) industries, sectors or projects, affected by the economic crisis that have retained investment within Singapore, and retained their employees or even increased employee recruitment, despite the impact of the economic crisis. Exemptions will not be granted to products under HS Chapters 84, 85 and 87 that are produced by non-Philippine nationals engaged in small and medium-sized domestic market enterprises that are not qualified under the Foreign Investment Act (R.A. 7042) as amended by R.A. 8170 or; those existing power and infrastructural projects that the government already grants ITH.

Although most products falling under HS Chapters 84, 85, and 87 are categorized under the Regular list and not the Contingency list, the Contingency list applies to all existing projects and/or activities affected by the current global economic crisis. Therefore, once the Contingency list is removed from the IPP as the economic recession wanes, automobile, electronic or machinery industries and products that fall under the Contingency list will cease to benefit from the ITH incentives.

The Regular List maintains the industries included in the 2008 IPP plan (*please see table below*). The list includes all the six main sectors of importance to the economy: agriculture/agribusiness and fishery, infrastructure, tourism, research and development, engineered products, and strategic activities. Under the Regular list agriculture/agribusiness will not cover agricultural machinery, or parts, but will cover production and processing of agricultural and fishery products (including their by-products and wastes), biofuels, feeds and organic fertilizers, as well as biotechnological products and

services. The engineered products cover HS Chapters 84, 85 and 87 as it includes shipbuilding, manufacture of machinery and equipment, including their parts and components, manufacture of other transport equipment (air, water and land) including their parts and components, manufacture of basic iron and steel products, manufacture of energy efficient lighting (EEL) such as compact fluorescent lights (CFL) and energy efficient version of linear fluorescent lamps (*i.e.,* slim tube T8 triposphor), high intensity discharge (HID) lamps, ballasts (low loss electromagnetic and electronic), and energy efficient luminaires that are compliant with internationally acceptable standards. Other restrictions apply, for instance, only Machinery and equipment projects that cost at least USD 20 million may be granted pioneer status but with non-pioneer incentives.
For iron and steel products, the Regular list covers the manufacture of refined iron ore, *e.g.,* pig iron, hot briquetted iron (HBI), direct reduction iron (DRI) and primary steel products. Flat hot-/cold-rolled products integrated with basic iron and steel production may qualify for registration. Modernization must result in at least five percent reduction in energy usage. For automobile and its parts and components, the Regular list covers the assembly and manufacture of automobiles under the Motor Vehicle Development Program (MVDP). This also covers the manufacture of parts and components of motor vehicles. To qualify, manufacturers of automobiles must: (i) be registered under the MVDP and invest in the production of major parts and components of the automobiles; and (ii) comply with the minimum investment requirement (for new investors) and have a minimum additional investment of USD 5 million for passenger and commercial automobiles, and USD 2 million for motorcycles. Projects falling under HS Chapters 84, 85 and 87 can also qualify as a strategic activity if production activities consist of a minimum project investment cost of USD 300 million and generate at least 1000 new jobs this year.

Export Activities

Export activities the government includes under the IPP include similar items as last year, *e.g.* the manufacture of export products, export services, and activities in support of exporters. For production of export products and services, there is an export requirement of 50 percent for Filipino-owned or at least 70 percent for foreign owned companies. This covers activities supporting export producers such as manufacture of parts and components, product testing and inspection and repair and maintenance.

Category	Investment Priority Activities
Preferred Activities	**Contingency List:** MSMEs, Companies affected by the downturn which retain and preserve jobs during the crisis
	Regular List: Agriculture/Agribusiness and Fishery, Infrastructure, Tourism, Research and Development, Engineered Products, and Strategic Activities
Mandatory Inclusions	Tree Plantation under P.D 705, Exploration, Mining, Quarrying and Processing of Minerals, Printing, Publication and Content Development, Refining and Marketing of Petroleum Products, Solid Waste Management, Clean Water Act under R.A 9275, and Rehabilitation of Disabled Persons under R.A 7277
Export Activities	Production and Manufacture of Exports, Export Services, and Activities in Support of Exporters
ARMM	Activities for exporters, agricultural food processing, basic industries such as pharmaceuticals, textiles, processing of minerals, infrastructure and services, engineering industries, and tourism

Source: Board of Investments, Philippines, 2009

Mandatory Inclusions List

The 2009 IPP also offers tax incentives to activities under the mandatory list (detailed in the table above). These activities are required by existed laws such as the Clean Water Act, the Downstream Oil Industry Deregulation Act and the Renewable Energy Act, and Philippines Mining Act, to be listed in the IPP. HS Chapters 84, 85 and 87 will only apply if …

ARMM List

The ARMM list covers export activities, support activities for exporters, agricultural food processing, basic industries such as pharmaceuticals, textiles, processing of minerals, infrastructure and services, engineering industries, and tourism. The infrastructure and services, and engineering industry segments of the list consist mostly of services related to HS Chapter 84, and 85 such as electrical distribution, metal working, molding, electroplating, forging, and machining. HS Chapter 85, and 87 fall under the engineering industries segment of the ARMM list, which includes engineering products, motor vehicle parts and assembly, automobile parts, modern offset printing, electronics and telecommunication products.

Sectors and activities not included in the 2009 IPP are as follows:

- Banks and financial institutions;
- Retailing business and all services except those qualified under the regular list;
- All services except those qualified under the Regular List;
- Small-scale mining as defined under Presidential Decree 1899 and R.A. 7076;
- Restricted/regulated activities for reasons of security, defense and risk to health and morals;
- Power companies and infrastructure projects with sovereign guarantee or granted tax holidays;
- Activities of non-Philippine nationals engaged in small-and-medium-sized domestic market enterprises that are not qualified under the Foreign Investment Act as amended by R.A. 8170;
- Non-agricultural basic consumer goods; and
- Personal care products

Outlook

The BoI is considering relaxing the IPP qualifying rules to accommodate ailing firms, export requirement and expansion projects. BOI officials will draw up the next IPP list in 2010, basing the list on the health of the economy, impact of the economic crisis, and effect of the current IPP plan.

Investment Incentives for Local SMEs

Tax incentives

Direct tax. All investors are offered direct income tax exemptions on business operations. These include: (a) exemption from advance payment of customs duties and taxes; (b) duty free importation of machinery and equipment, raw material inputs and packages; (c) tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally; and (d) a tax credit of 25 percent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs.

Indirect tax. All investors including those under HS Chapters 84, 85 and 87 are offered certain indirect tax incentives provided they invest in preferred areas of investment found in the Investment Priorities Plan (IPP) (as mentioned above). These include: (a) exemption from wharfage dues and export tax, duty import and fees; (b) additional deduction for labor expense (ADLE); (c) additional deduction for necessary and major infrastructure works (mining and forestry-related projects are not exempt). Excise tax on exported goods produced or manufactured locally can be credited or refunded upon submission of the proof of actual exportation and upon receipt of the corresponding foreign exchange payment.

Financial Incentives

The Government has provided an extensive financial system that specifically caters for SME Programs include:

SME Financing for Organizationally Competent and Excellent Franchise Businesses (SME Force), a franchise development finance facility used as a strategy to develop backward and forward linkages among leading various players in the franchising industry, including franchisors, franchisees and suppliers of franchisor-businesses and SMEs in the market. There are restrictions on expanding and start-up franchisors and their suppliers. Start-up and expanding franchisors must demonstrate at least 2 years of profitable activity to apply for loans. Their suppliers must demonstrate proof of a 2 year track record with the franchisor. Further, service fees such as evaluation, processing and out of town fees apply. Out of town fees apply to those outside the Manila, Cebu and Davao regions. Enterprises must be 60 percent Filipino-owned. Exporters exporting products categorized under HS Chapters 84. 85 and 87 will likely not utilize the SME Force as franchises in the Philippines are traditionally classified into four categories: food (44 percent), retail (29 percent), service (20 percent) and education (4 percent).

Small Enterprise Financing Facility (SEFF), established to fund SMEs of all sectors, under which accredited financial institutions (AFIs) in need of funds for SME financing may approach the Small Business and Finance Corporation (SBGFC) and apply for accreditation as lending conduits (prospective SME borrowers from all sectors may then directly apply with any of the AFIs under the SEFF and the SBGFC finances up to a maximum of 90 percent of the project cost with the AFIs co-financing at least the remaining 10 percent);

Rediscounting Facility for SME loans, a credit window where AFIs may negotiate their eligible SME loans/ credit instruments with SGGFC;

Guarantee Program, a program designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90 percent on the loans of qualified entrepreneurs. The guarantee works as a collateral substitute or as a collateral supplement;

Transactional Direct Financing facility, a stopgap program which immediately addresses the credit needs of SMEs, particularly in the export sector. SBGFC coordinates with a network of industry associations to determine specific problem areas where SBGFC could directly intervene. SBGFC provides direct financing on a per transaction basis. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. A variant of this facility was later launched to assist SMEs with requirements of longer-term maturities up to a year for business expansion and other working capital/fixed asset requirements;

Expansion Program (ISSEP), promotes the construction, expansion or modernization of plant and related services, including land improvements related to these. It finances the acquisition of raw materials, equipment and parts, and environment-related projects on stand alone basis or part of plant construction or expansion. Target sectors are manufacturing like food, textile, wood, industrial machinery, chemicals and non-manufacturing sector like computer software, transport services and communication;

Industrial Guarantee and Loan Fund (IGLF), is available to firms engaged in the manufacture or processing of products on a commercial scale as well as the delivery of services supportive of manufacturing activities. It also provides credit supplementation support through the extension of guarantee schemes to stimulate the flow of credit to SMEs. The facility may be used for the purchase of factory site for new and expansion project, construction of factory building, purchase of equipment and permanent working capital;

Export Assistance Network (EXPONET) - serves as a trade facilitation office that provides real and immediate assistance to existing and potential exporters;

Below are its services:

1. Export Trade Information Dissemination

2. Export Procedures and Documentation

3. Buyer-Supplier Matching

4. Export Financing and Incentives and Raw Material Sourcing

5. Tax and Duty-Free Importation of Raw Materials for Re-export

6. Institutional Linkages

7. Handling of Export Trade complaints

8. Exporters Accrediation

Local Government Units (LGUs), provide fiscal and non-fiscal incentives to SMEs. Preferential treatment in the procurement of raw materials SMEs are entitled to a share of at least ten percent of total procurement value of goods and services to all government offices. Exemption from the coverage of the minimum wage law to all registered SMEs; and

SME Unified Lending Opportunities for National Growth (SULONG), provides SSS members, belonging to the SME category, greater access to short and long-term funds through SSS accredited conduit banks/ participating financial institutions (PFIs) which will re-lend the fund to qualified SSS member-borrowers. To qualify for the loans, companies must be 60 percent Filipino-owned, with an asset-size no more than PHP 100 million, positive income for the preceding year, debt to equity ration of 80:20 after financing or 70:30 if borrower is a franchise (and as demonstrated, does not apply to companies falling under HS Chapters 84, 85 and 87). The SSS targets mostly the housing sector and thus does not apply to the manufacturers of machinery, automobiles (parts and components) and electronics.

Fiscal Incentives to PEZA-Registered Enterprises

Companies that are registered under the PEZA and that are located in a PEZA zone, which includes the Clark Special Economic Zone Authority (CSEZ) and the Subic Special Economic and Freeport Zone (SSEFZ), Subic Bay Metropolitan Authority (SBMA) among others, are entitled to various tax incentives and other advantages. There are several economic zone categories, including retirement, medical, and tourism zones, among others. Those that apply to HS Chapters 84, 85 and 87 are the manufacturing, the manufacturing developer, economic zone logistics zone. PEZA requires all PEZA-registered companies in each zone to be export-oriented, exporting 100 percent of their production. However, in some cases PEZA may approve on a case by case basis, the sale of up to 30 percent of production in the domestic market.

PEZA grants the following incentives: (a) corporate income tax exemption from four to eight years; (b) exemption from duties and taxes on imported capital equipment, spare parts, materials and supplies; (c) exemption from national and local taxes; (d) tax credit from import substitution; (e) tax credit on domestic capital equipment; (f) tax-free and duty-free importation of breeding stocks and genetic materials; (g) tax credit on domestic breeding stocks and genetic materials; exemption from Value-Added Tax for certain exporting industries. Full foreign ownership of a PEZA enterprise is allowed provided they are not engaged in activities that appear on the Foreign Investment Negative List. This list does not apply to manufacturers of products falling under the HS Chapters 84, 85 and 87 unless they supply materials, goods and commodities to government-owned and controlled corporations, at 40 percent rate of foreign equity. PEZA incentives are granted on a case by case basis. Applicants must supply an application for providing information on capital structure, nationality of investors and a feasibility report in accordance with a PEZA prescribed format. Applicants should then expect a fast turn around once the application is submitted.

Economic Zone Export Manufacturing Enterprise

There are 66 economic zones within the Manufacturing Economic Zone. These companies are entitled to 100 percent ITH on corporate income tax, with four years ITH for Non-pioneer Project and six years ITH for Pioneer Project ITH. ITH extension is granted for a period of no more than eight years; after which a special 5 percent tax on gross income (sales less direct costs) shall be paid in lieu of all national and local taxes. Companies are also granted exemption from duties and taxes on imported capital equipment, spare parts, supplies, raw materials. Companies are further granted exemption from wharfage dues and export taxes, local government imposts, licenses and fees; permanent resident status for foreign investors and immediate family members; employment of foreign nationals; and simplified import and export procedures. PEZA requires the average net foreign exchange earnings for the first three years of a project's operation to be at least USD 500,000 with the capital-equipment to labor ratio of no more than exceed USD 10,000 to 1 for the year immediately proceeding the ITH extension year. PEZA require the use of 50 percent indigenous material for the manufacture of the final product.

Manufacturing Economic Zone Developer / Operator

Manufacturing developers are granted a special 5 percent tax on gross income and exemption from all national and local taxes, except real property tax on land owned by the Economic Zone Developer; they are exempt from VAT on local purchases; and from expanded withholding tax.

Economic Zone Logistics Services Enterprise

PEZA grants companies within this zone exemption from duties and taxes on raw materials, semi-finished goods for re-sale, packaging, cutting, altering for subsequent sale to PEZA-registered Export Manufacturing Enterprises, for direct export or for consignment to PEZA-registered export enterprise. They are also exempt from VAT on locally-sourced raw materials.

Fiscal Incentives to BOI-Registered Enterprises

The BOI requires companies to operate in a business activity which recognized as a preferred area of investment under the IPP. Businesses that fall outside the IPP incentives list can apply to register at the BOI if: at least 50 percent of production and service is export-oriented for Filipino-owned enterprises, and at least 70 percent foreign-owned enterprises. BOI-registered companies are exempt from duties on spare parts, exempt from wharfage dues, export taxes, imposts, fees, tax credits and additional deductions from taxable income.

Similar to the PEZA, companies registered with the BOI are eligible for ITH ranging from three to eight years. Companies that do not export a 100 percent of their production are obliged to have 60 percent Filipino ownership within a period of 30 years from time of registration with the BOI. Foreign ownership of corporations in non-pioneer projects is limited to 40 percent except if the company exports more than 70 percent of its production.

Applying for BOI requires submission of a notarized application indicating the type of projects, how the activity relates to those listed in the Investment Priorities Plan, the production capacity geared to export, the capital structure of the enterprise, and the nationality of its investors. In addition, the company must submit a feasibility report, containing five-year projected financial statements.

BOI- PEZA Export Requirement

On May 28, 2009, the BoI and the PEZA announced that they will officially relax international tax holiday requirements, on account of the difficulty that firms are facing in complying with these requirements given the current economic slowdown. In April 2009, the BoI approved Resolution No. 12-17, which postpones compliance with the export requirement and the income tax holiday period. Prior to the Resolution, to qualify for the ITH, BoI-registered Philippine firms were required to export at least 50 percent of their goods or services, while BoI-registered foreign firms were required to export at least 70 percent of their goods and services. PEZA postpones the use of the ITH for PEZA-registered firms that have suspended their operations due to the economic downturn.

The BoI's Resolution is valid for two years, from January 2008 to December 2009, and is subject to the BoI's review. The suspension period for the PEZA ran from October 2008 to September 2009 and is currently under review.

Comparison of Philippines' Tax Incentives with Malaysia and Thailand

	Philippines	Malaysia	Thailand
Statutory Corporate Tax Rate	Originally 35% but for 2009 it is already down to 30%	28%	30%
Corporate Tax Provisions High Technology	PEZA 5%	Pioneer status: 5 to 10 years from production start date (30% capacity) varying rules of compliance	Zone based: - Zone I: (Bangkok area): 3 years exempt if 80% export - Zone 2: 3 years exempt and expandable to 7 years - Zone 3: 8 years exempt and 50% reduction after exemption period - Priority projects: 8 years regardless of location
Tax Holidays	BOI & PEZA: 6 years for newly registered pioneer firms, 4 years non-pioneer and 3 years for expanding firms: BOI: 6 years for P/NP on LDA's, 3 years modernization projects Special cases another 3 years but not exceeding 8 years Up to 3 years loss carry forward Tax credit for income taxes paid to a foreign country if no deduction claimed and for duties and taxes paid for inputs for export products	Investment Tax Allowance: 60 to 100% of qualifying capital expenditure – Reinvestment Allowance for 15 year period – Accelerated Capital Allowance for 3 years after RA eligibility – Export incentives Double deduction incentives for approved training expenditure Industrial adjustment allowances may be granted up to 100% of capital expenditure Tax exempt dividends out of exempt income	3 to 8 years from the commencement of operations: - 3 years in IE of Zone I - 3 to 5 years in Zone II - 8 years in Zone III - 5 years loss carry forward
Import Duties and VAT exemptions	Exemption from taxes and duties on imported supplies and spare parts	Duty free import of raw materials and spare parts	Exemptions and reduced import duty and VAT rates on inputs on exports

<u>Other Incentives</u>

<u>Philippines Adopts Renewable Energy Framework</u>

The Renewable Energy Act of 2008, also known as the Republic Act 9513, declares the importance of the State in accelerating the exploration and development of renewable energy resources, increasing the utilization of renewable energy, and establishing the necessary infrastructure and mechanisms to develop the Philippine renewable energy market. The Act also provides that all proceeds from the sale of carbon emission credits shall be exempt from any and all taxes. The Act also provides additional fiscal incentives, which include: (a) an income tax holiday for the first seven years of commercial operations; (b) duty-free importation of machinery, equipment and materials for a period of ten years from accreditation; (c) special, lower rates of taxation on civil works, equipment, machinery and other improvements used for renewable energy facilities; (d) the carry-over of net operating losses incurred during the first three years of operations for the next seven years; (e) after the lapse of the seven-year income tax holiday, the imposition of a reduced corporate income tax rate of ten percent of net taxable income (as opposed to the normal 30 percent income tax rate); (f) option to apply an accelerated depreciation rate for plant, machinery and equipment; and (g) the imposition of a zero percent value-added tax rate on the sale of fuel or power generated from renewable sources of energy.

This Act could crowd-out manufacturers involved in the distribution of traditional electric power generation, but will not affect manufacturers of electric components, since a number of these components such as generators, turbines, air coolers, transformers, heat exchanges, electrical grid, taps, cocks, valves are also used to manufacture renewable energy generators. To be entitled to the fiscal incentives, developers must be certified by the Department of Energy and register with the Board of Investments. The Department of Energy has issued several sets of regulations aimed at implementing the provisions of the Act. Nonetheless, the infrastructure of the Philippine renewable energy market is a burgeoning market, and the implementing details need to be threshed out by the relevant government agencies in consultation with other stakeholders. The National Renewable Energy Board is expected to release an incentive package for investors in the Philippines' renewable energy sector.

<u>Semiconductor and Electronics Industries in the Philippines Inc. Priority Programs (July 2009 to June 2010)</u>

The Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI) is the leading and largest organization of foreign and local semiconductor and electronics companies in the Philippines. SEIPI has prioritized four major programs as follows, TESDA, Industry Promotion, SEIPI-PEZA Domestic, TESDA Training Program, Industry Promotion Campaign for Domestic and International, Reducing the Cost of Power, and the Security of Tenure Bill.

II. RESTRICTIONS TO UTILIZE THESE PROGRAMS

The Philippines' CIT, at a rate of 35 percent is relatively higher than that of its neighbors, and can still be made more competitive – Cambodia's is at 20 percent, Vietnam's is at 28 percent. The Philippines needs to review the taxes and incentives imposed on the export economic zones locator and make it more attractive if not on par with neighboring countries; and improve on its intellectual property rights to attract investors, particularly those in the electronics industry.

Aside from the PEZA and IPP, smaller investment programs such as the financial schemes and training programs are not easy to access. SMEs may find it easier than other investors to access government loans as they can access them through the following website: http://loans.mixph.com . Overall, information is difficult to obtain because government websites are rarely updated.

III. FTA vs. INVESTMENT INCENTIVE PROGRAMS

In the Philippines, investment incentive programs tend to be oriented toward fiscal policy initiatives.
The IPP list changes annually, the problem with that is that machinery, electronics and automobile industries are not necessarily guaranteed a place on the list in 2010 every year. Industries not included on the IPP list will not quality for tax incentives unless they are registered with the BoI or the PEZA, or unless they can meet specific requirements. Overall, the local SMEs and exporters in the machinery, automobile and electronic industries have different preferences regarding the utilization of the bilateral FTAs.

Looking at the JPEPA, we have found the following concerns:

Chapter 84 – Machinery Industry & Chapter 85 – Electronics Industry

There is no solid proof that investment incentives are more favorable than utilizing the JPEPA or the ASEAN. However, aside from the steel industry, almost all other industries in the Philippines have indicated their unwillingness to eliminate tariffs under an FTA agreement. There are 66 economic zones within the Manufacturing Economic Zone, and it is likely that those companies particularly those producing products under Chapter 84 and 85 (badly hit by the economic recession), will be more inclined to utilize the economic zones above the FTA. Further, investors in the electronics industry are likely to utilize the incentives under the Renewable Energy Act, which although could crowd-out manufacturers involved in the distribution of traditional electric power generation, will not affect manufacturers of electric components, since a number of these components such as generators, turbines, air coolers, transformers, heat exchanges, electrical grid, taps, cocks, valves are also used to manufacture renewable energy generators.

Chapter 87 – Automotive Industry

Despite the JPEPA entering into effect, the Philippines automotive industry has called for a delay in the implementation of its commitments for several automotive parts, with industry groups urging the government to retain tariffs on competing Japanese imports until 2013. The Philippines currently imposes tariffs ranging from 10 to 30 percent on 50 types of automotive parts from Japan, with the current terms of the Agreement require that all sides eliminate tariffs by 2010. On June 10, 2009, a letter signed by the Motor Vehicle Parts Manufacturers Association of the Philippines (MVPMAP) requested that the government resume talks with Japanese officials this year to comply with the deadline for extension of the terms negotiated in the JPEPA. However, an annex to the JPEPA specifically states that the schedule for lifting tariffs on those listed under Executive Order 262 ("the Order") issued on December 12, 2003, can be delayed until January 1, 2013 if negotiations are initiated in 2009. As of November 2009, Philippine automotive manufacturers, called for the implementation of a 10 percent tariff protection on all automotive imports and a subsidy of PHP 10,000 per completely built up (CBU) production to make the local automotive industry competitive under a globally liberalized trading regime. This move if implemented will go against the country's commitments to the ASEAN-Common Effective Preferential Tariff (CEPT) for a zero tariff regional trading area starting January 1, 2010; and to the JPEPA for the abolition of tariff barriers starting next year. In this case, foreign investors may prefer to utilize the economic free zones in the PEZA, as utilizing the FTAs may be more burdensome. Further, investors may seek incentives from the Renewable Energy Act, if they can direct their production strategies toward renewable energy initiatives *e.g.,* the production of electric cars.