



Republic of the Philippines
House of Representatives
Quezon City



EIGHTEENTH CONGRESS

First Regular Session

House Bill No. 200

Introduced by Representative Jose Enrique S. Garcia III

EXPLANATORY NOTE

The Special Defense Economic Zone (SpeDEZ) is a necessary and timely undertaking that synergizes the private sector's and government's efforts to have a globally competitive arms industry. With rapidly changing economic and security conditions in the region, the need to find ways to strengthen the country's domestic defense industry is imperative. The SpeDEZ aims to help realize this goal.

A first in the country and in South East Asia, the SpeDEZ will serve as an independent authority geared towards the research, development, production, and distribution of products for military and defense.

It will not only bolster our country's innate capability in the field of arms research, development, and manufacturing, but also significantly contribute to the country's economic productivity.

The passage of this bill is earnestly sought.

REP. JOSE ENRIQUE S. GARCIA III
2nd District, Bataan

1 In case of death, resignation or removal for cause, the replacement shall serve only the
2 unused portion of the term.

3 All members of the Board shall be Filipino citizens and no person shall be appointed by
4 the President of the Philippines as a member of the Board unless he is of good moral
5 character and proven probity and integrity. Except for the representatives of the DND,
6 GA and workers, members of the Board are required to be degree holders in any of the
7 following fields: economics, business, public administration, law, management, military
8 science, or their equivalent, and with at least ten (10) years relevant working experience
9 preferably in the field of management or public administration.

10 The members of the Board shall each receive *per diem* at rates to be determined by the
11 Department of Budget and Management (DBM) in accordance with existing rules and
12 regulations; *Provided*, That the total *per diem* collected each month shall not exceed the
13 equivalent *per diem* for four (4) meetings.

14 **SEC. 8. Administrator of the SpeDEZA** – The SpeDEZA shall have an Administrator
15 with a rank of Department Undersecretary who shall be appointed by the President of the
16 Philippines. The Administrator shall be at least Forty (40) years of Age, of proven probity and
17 integrity, and a degree holder in any of the following fields: economics, business, public
18 administration, law, management or their equivalent, with at least ten (10) years relevant
19 working experience preferably in the field of business, management, or public administration.

20 **SEC. 9. Powers and Duties of the Administrator.** - The Administrator shall have the
21 following powers and duties:

- 22 a) To direct and manage the affairs of the SpeDEZA in accordance with the policies
23 of the Board;
- 24 b) To establish the internal organization of the SpeDEZA under such conditions that
25 the Board may prescribe;
- 26 c) To submit an annual budget and necessary supplemental budget to the Board for
27 its approval;
- 28 d) To submit within thirty (30) days after the close of each fiscal year an annual report
29 to the Board and such other reports as may be required;
- 30 e) To submit to the Board for its approval policies, systems, procedures, rules and
31 regulations that are essential to the operation of the SpeDEZA;

- 1 f) To create a mechanism for coordination with relevant agencies for the promotion
2 of industrial peace, the protection of the environment, and the advancement of the
3 quality of life in the SpeDEZ;
- 4 g) To preside at the meetings of the Board of the SpeDEZA in the absence of the
5 Chairman;
- 6 h) To directly administer and supervise the operations and day-to-day business
7 activities of the SpeDEZA;
- 8 i) To execute, on behalf of the SpeDEZA, all contracts, agreements and other
9 instruments affecting its interests and duly approved by the Board; and
- 10 j) To perform such other duties as may be assigned to him by the Board or which are
11 necessary or incidental to his office.

12 **SEC. 10. *Principal Office of the SpeDEZA.*** - The SpeDEZA shall maintain its principal
13 office in Camp Gen. Antonio Luna, Municipality of Limay, Province of Bataan, but it may
14 establish liaison offices within the Philippines as may be necessary for the proper conduct of its
15 business.

16 **SEC. 11. *Organization and Personnel.*** – The Board of the SpeDEZA shall provide for
17 an organizational structure and appoint employees, subject to the civil service law. Upon the
18 recommendation of the Chairman and Administrator and with the approval of the Secretary of
19 the DBM, the Board shall appoint and fix the remuneration and other emoluments of its officers
20 and employees in accordance with existing laws on compensation and position
21 classification; *Provided*, That the Chairman and Administrator shall exercise administrative
22 supervision on its employees.

23 The officers and employees of the SpeDEZA, including all members of the Board, shall
24 not engage directly or indirectly in partisan activities nor take part in any election, except to vote.

25 No officer or employee of the SpeDEZA, subject to civil service laws and regulations,
26 shall be removed or suspended except for cause, as provided by law.

27 **SEC. 12. *Special Labor Center.*** - A Special Labor Center shall be established within
28 the SpeDEZ. This Center shall endeavor and be responsible to pro-actively play a vital role in
29 studying and amicably settling professional, labor relations issues and disputes, interpretation
30 of employment service contracts, and monitoring work, work place, hygiene and safety
31 standards within the SpeDEZ, particularly of the duly registered entities and enterprises. The

1 Special Labor Center shall comprise of a labor office, an industrial health and safety office, an
2 inspection/investigative and disputes office, and an enforcement office.

3 In order to support the economic and employment generation thrusts of the LGUs, the
4 SpeDEZA shall implement policies and programs that will serve to prioritize for employment in
5 the SpeDEZ, workers who are residents of stakeholder LGUs. Registered enterprises shall, as
6 far as practicable, source all its labor needs from the stakeholder LGUs of the SpeDEZ, subject
7 to existing laws and regulations; *Provided*, That "stakeholder LGUs" for the purpose of this Act
8 shall refer to all local governments which (1) derive a share in the five percent (5%) final tax
9 imposition within the SpeDEZ, (2) host expansion areas of the SpeDEZ in accordance with
10 Section 5(g) or Section 6(f) of this Act, and/or (3) host registered enterprises of the SpeDEZ
11 pursuant to section 6(g) of this act;

12 The SpeDEZA and, as far as practicable, the locators and registered enterprises of the
13 SpeDEZ, shall prioritize for employment qualified former personnel of the GA who have been
14 terminated or removed from the service due to modernization of the GA.

15 **SEC. 13. *Investors Visa.*** - Any foreign national who invests an amount of two hundred
16 thousand US dollars (US\$200,000.00), either in cash and/or equipment, in a registered
17 enterprise shall be entitled to an investor's visa: *Provided*, That the foreign national has the
18 following qualifications:

- 19 a) Must be at least eighteen (18) years of age;
- 20 b) Must not have been convicted by final judgment of a crime involving moral turpitude;
- 21 c) Must not be afflicted with any loathsome, dangerous or contagious disease;
- 22 d) Must not have been institutionalized for any mental disorder or disability; and
- 23 e) Must establish by verifiable and credible evidence his financial capability and
24 capacity.

25 As a holder of investor's visa, an alien shall be entitled to reside in the Philippines while
26 his investment subsists. For this purpose, the alien should submit an annual report, in the form
27 duly prescribed for the purpose, to prove that he has maintained his investment in the country.
28 Should said alien withdraw his investments from the Philippines, then the investor's visa issued
29 to said alien shall automatically expire and /or be withdrawn.

30 The authority to issue visas and work permits shall remain with the Bureau of
31 Immigration (BI) and the Department of Labor and Employment (DOLE), respectively; *Provided*,
32 That the BI and the DOLE shall implement measures to expedite the processing of such visas

1 and permits for workers in the SpeDEZ and coordinate with the SpeDEZA for the purpose of
2 improving ease of doing business.

3 **SEC.14. Fiscal Incentives.** - Registered enterprises of the SpeDEZ may be entitled to
4 the existing pertinent fiscal incentives as provided for under Republic Act No. 7916, as amended
5 by Republic Act No. 8748, also known as the Special Economic Zone Act of 1995, or those
6 provided under Executive Order No. 226, as amended, otherwise known as the Omnibus
7 Investment Code of 1987; and/or those that may be further granted as the need and necessity
8 arises by the appropriate government department, agency or office; *Provided*, That in the
9 administration, implementation and monitoring of incentives, the SpeDEZA may impose its own
10 conditions not otherwise prohibited by this Act; *Provided further*, That the SpeDEZA shall not
11 be limited to the conditions provided under Republic Act No. 7916, Republic Act No. 8748 or
12 any other related issuance, rule or regulation.

13 **SEC. 15. Imposition of a Tax Rate of Five Percent (5%) on Gross Income Earned.** –
14 The provision of existing laws, rules and regulations to the contrary notwithstanding, no taxes,
15 local and national, shall be imposed on business establishments operating within the SpeDEZ
16 including but not limited to all taxes covered in Titles II, III, IV, V, VI, and VII of Republic Act No.
17 8424 otherwise known as the National Internal Revenue Code (NIRC) and all amendments and
18 successors thereto, and all taxes covered under titles I and II of Book II of Republic Act No.
19 7160 otherwise known as the Local Government Code and all amendments and successors
20 thereto. In lieu thereof, and subject to Section 16 of this Act, said business establishments shall
21 pay a five percent (5%) final tax on their gross income earned; *Provided*, That the proceeds
22 from such final tax shall be shared by instrumentalities of the government in accordance with
23 the following percentages:

- 24 a) Two *per centum* (2%) to the National Government, particularly to the Armed Forces
25 of the Philippines Modernization Program;
- 26 b) One *per centum* (1%) to the Province of Bataan;
- 27 c) One *per centum* (1%) to the host city/municipality; and
- 28 d) One *per centum* (1%) to the SpeDEZA: *Provided*, That any surplus in the operating,
29 administrative and development expenses shall be remitted to the Armed Forces
30 of the Philippines Modernization Program if such surplus is left unutilized for a
31 period exceeding five (5) years.

32 For enterprises registered with the SpeDEZA but located in the territory of another
33 investment promotion agency pursuant to a mutually beneficial economic defense relation

1 established with such promotion agency in accordance with Section 5(c) of this act, the one per
2 centum (1%) share from the five per centum (5%) final tax on gross income earned shall be
3 equally divided between the SpeDEZA and the investment promotion agency concerned.

4 The SpeDEZA shall have the authority to grant income tax holiday and net operating
5 loss carry over subject to Section 16 of this Act and conditions as it may have imposed pursuant
6 to Section 13 of this Act.

7 SpeDEZ enterprises deemed as priority investments, as may be determined by the
8 SpeDEZA, with the exception of those included in the negative list drawn up as provided for in
9 Section 5(i) of this Act, may generate up to one hundred percent (100%) of their income from
10 sources within the customs territory but without loss of eligibility to avail of the incentives in this
11 act, subject to Section 5(f) of this act.

12 **SEC. 16. Administration, Implementation and Monitoring of Incentives.** - For the
13 proper administration, implementation and monitoring of tax incentives provided under this law,
14 the following are herein mandated:

15 (a) The SpeDEZA shall be responsible for the administration, management,
16 enforcement and implementation of the incentives granted to registered enterprises;
17 *Provided*, That the SpeDEZA shall, among others, adopt and implement systems and
18 procedures affecting defense/military trade and the appropriate customs policies;
19 *Provided further*, That the BOC shall set up and establish a customs controlled area
20 outside the gate of the SpeDEZ or other registered enterprises of the SpeDEZ operating
21 outside its territory to facilitate payment of taxes on goods entering the Philippine
22 customs territory; *Provided finally*, That notwithstanding the limitations in this Act, the
23 SpeDEZA and BOC may coordinate and jointly implement measures on border
24 protection; and

25 (b) In the interest of enhancing transparency in the management and accounting of tax
26 incentives in the SpeDEZ, the SpeDEZA shall comply with the provisions of Republic
27 Act No. 10708, otherwise known as "The Tax Incentives Management and
28 Transparency Act (TIMTA)" and its implementing rules and regulations.

29 **SEC.17. Duration of Incentives.** - Fiscal incentives under this Act shall be terminated
30 after a cumulative period of twenty (20) years from date of registration or start of commercial
31 operation, whichever is applicable, *Provided*, That such 20-year period may be extended with
32 regard to industries deemed indispensable to national development and interest. The industries
33 exempted from this provision shall be determined by the SpeDEZA, in consultation with other

1 government agencies. There shall be no limit to the enjoyment of the ITH and NOLCO except
2 for the sequential availment under Section 17 of this Act and the 20-year period as provided in
3 this section.

4 **SEC. 18. *Sequential Availment of Incentives.*** - Registered enterprises may enjoy the
5 income tax holiday (ITH) granted by the SpeDEZA prior to the availment of the five percent
6 (5%) final tax on gross income earned incentive; *Provided*, That in the event a registered
7 enterprise elects to avail of the final tax incentive, such registered enterprise shall be barred
8 from availing the ITH incentive.

9 Registered enterprises, if eligible, may register for incentives with other investment
10 promotion agencies; *Provided*, That registered enterprises electing to avail of the incentives of
11 other promotion agencies shall not be able to avail of the incentives of the SpeDEZ until the
12 expiration of the incentives with such other investment promotion agencies.

13 **SEC. 19. *Extension of Period of Availment.*** - In the event that a registered enterprise
14 has suffered cessation or suspension of operations due to force majeure, which has impaired
15 its viability or profitability, the SpeDEZA may extend the period of validity of the incentives
16 extended to such registered enterprise.

17 The SpeDEZA may also extend the period of validity of incentives to a registered
18 enterprise which enter into and fund research and development undertaking, technology
19 sharing, or other similar arrangements with investment promotion agencies, government
20 agencies and instrumentalities, local government units, and educational institutions under such
21 terms and conditions as the SpeDEZA may prescribe.

22 **SEC. 20. *Banking Rules and Regulations.*** – Banks and financial institutions to be
23 established in the SpeDEZ shall be under the supervision of the BSP and shall be subject to
24 existing banking laws, rules and regulations.

25 **SEC. 21. *Remittances.*** - In the case of foreign investments, a duly registered entity or
26 enterprise within the SpeDEZ shall have the right to remit earnings from the investment in the
27 currency in which the investment was originally made and at the exchange rate prevailing at
28 the time of remittance, subject to the provisions of Republic Act No. 7653, otherwise known as
29 "The New Central Bank Act".

30 **SEC. 22. *Multi-Year Contracts and Other Contractual Arrangements*** – To spur the
31 development of SpeDEZ as a self-reliant and self-sustaining defense investment hub where
32 duly qualified and selected locators are provided with guaranteed market access, the DND, the

1 Armed Forces of the Philippines (AFP), the Philippine Coast Guard (PCG), and the Philippine
2 National Police (PNP) are hereby directed to procure their defense equipment and materiel,
3 whenever available and practicable, from defense industries registered with the SpeDEZA. For
4 this purpose, the DND, AFP, PCG, and PNP are authorized to enter into multi-year contracts
5 and other multi-year contractual arrangements with manufacturers/suppliers registered with the
6 SpeDEZA under such terms and conditions to be provided in the rules and regulations
7 implementing this act.

8 In implementing this section, the SpeDEZA, the DND, AFP, PCG, and PNP shall jointly
9 formulate the mechanics for the selection of manufacturers/suppliers to be awarded with multi-
10 year contracts. *Provided*, that registration with the SpeDEZA and location of operation and
11 manufacture of the defense equipment and materiel to be procured in the SpeDEZ shall be a
12 condition precedent for the award of the multi-year contracts.

13 The selection of manufacturers/suppliers eligible for multi-year contracts with the
14 government shall be exempt from the provisions of Republic Act No. 9184 otherwise known as
15 the "Government Procurement Reform Act" and its implementing rules and regulations. The
16 length of the multi-year contracts shall be agreed upon by the contracting parties taking into
17 consideration the period within which the manufacturer/supplier may recoup its investment
18 together with a reasonable rate of return. *Provided*, that the execution of the multi-year contract
19 shall not preclude the manufacturer/supplier concerned from accepting and filling in orders from
20 other clients as long as the fulfillment of its obligations under the multi-year contract are not
21 adversely affected.

22 **SEC. 23. Countertrade** – Whenever applicable and practicable, any of the countertrade
23 arrangements defined in Executive Order No. 120 should be explored in pursuing defense
24 related acquisitions. The SpeDEZA in consultation with the DND, Department of Trade and
25 Industry (DTI), and other concerned offices, shall identify or develop a list of goods/services or
26 industries which may be subject to a countertrade.

27 **SEC. 24. Capitalization.** - The SpeDEZA shall have an authorized capital stock of three
28 billion pesos (P3,000,000,000.00) to be subscribed wholly by the national government.

29 In addition, all lands embraced and covered by the SpeDEZ, including permanent
30 improvements and fixtures, upon proper inventory by the GA or AFP, as the case may be, not
31 otherwise alienated, conveyed or transferred to another government agency and all other
32 assets which the President may transfer to the SpeDEZA as part of the equity contribution of
33 the government.

1 The annual subscription of the national government to the capital stock of the SpeDEZA
2 shall be included in the annual General Appropriations Act.

3 **SEC. 25. *Supervision and Control.*** - For purposes of policy direction and coordination,
4 the A-BASE shall be under the direct control and supervision of the Office of the President of
5 the Philippines.

6 **SEC. 26. *Regional Development Council.*** - The SpeDEZA shall determine the
7 development goals for the SpeDEZ within the framework of national development plans,
8 policies and goals. The Chairman and Administrator shall, upon approval by the Board, submit
9 the SpeDEZA plans, programs and projects to the Regional Development Council for inclusion
10 and inputs to the overall regional development plan.

11 **SEC. 27. *Relationship with Local Government Units.*** - Except as herein provided,
12 the Municipality of Limay in the Province of Bataan and such other local government units where
13 registered enterprises of the SpeDEZ conduct business shall operate and function in
14 accordance with the framework of the 1987 Constitution, Local Government Code of 1991, and
15 Republic Act No. 7898, as amended by Republic Act No. 10349, applicable provisions of the
16 Local Government Code, and this Act.

17 In case of any conflict between the SpeDEZA, the LGUs and the national government
18 on matters affecting the SpeDEZA, other than national defense and security matters, the
19 decision of the SpeDEZA shall prevail.

20 **SEC. 28. *Legal Office.*** - The SpeDEZA shall have and maintain its own internal legal
21 office, appropriate in number under the supervision of the Government Corporate Counsel.
22 When the exigencies of its businesses and operations demand, the SpeDEZA may engage the
23 services of an outside counsel either on a case to case or a fixed retainer basis. Such
24 engagement shall not require further approval and concurrence of the Office of the Government
25 Corporate Counsel or the Office of the Solicitor General and the Commission on Audit.

26 **SEC. 29. *Interpretation/Construction.*** - The powers, authorities and functions that are
27 vested in the SpeDEZA are intended to establish national self-sufficiency and self-reliance in
28 the advancement of and protection of the national integrity, enhancement of national security,
29 decentralization of governmental functions and authority, and promote an efficient and effective
30 working relationship between the SpeDEZA, the national government and the LGUs. Any
31 interpretation of this Act shall consider such intentions. In the event of conflict of interpretation
32 and provided the intentions cannot be harmonized, the provisions of this Act shall be construed
33 in favor of an interpretation that would tend to protect national security.

1 **SEC. 30. *Audit.*** - The Commission on Audit shall appoint a full - time auditor in the
2 SpeDEZA or may assign such number of personnel as may be necessary in the performance
3 of its functions.

4 **SEC. 31. *Transitory Provisions.*** The SpeDEZA shall be responsible for the operation,
5 administration, management and development of the SpeDEZ. The SpeDEZA shall effect the
6 transfer herein provided in a manner that will ensure the least disruption of ongoing programs
7 of the GA.

8 **SEC. 32. *Implementing Rules and Regulations.*** – The SpeDEZA, DTI, DOF, DND,
9 and the LGU shall formulate the implementing rules and regulations of this Act within ninety
10 (90) days after its approval. Such rules and regulations shall take effect fifteen (15) days after
11 its publication in a newspaper of general circulation in the Philippines.

12 **SEC. 33. *Applicability Clause.*** – Insofar as these are consistent with the provisions of
13 this Act, the provisions of Sections 30 to 41 of Republic Act No. 7916, otherwise known as "The
14 Special Economic Zone Act of 1995", as amended, shall likewise apply to the SpeDEZ.

15 **SEC. 34. *Separability Clause.*** - If any provision of this Act shall be held unconstitutional
16 or invalid, the other provisions not otherwise affected shall remain in full force and effect.

17 **SEC. 35. *Repealing Clause.*** - All laws, executive orders or issuances or any part
18 thereof, which are inconsistent herewith, are hereby repealed or amended accordingly.

19 **SEC. 36. *Effectivity Clause.*** - This Act shall take effect after fifteen (15) days following
20 its complete publication in the Official Gazette or in two (2) newspapers of general circulation
21 whichever is earlier.

22 **Approved,**

1 **SEC. 30. *Audit.*** - The Commission on Audit shall appoint a full - time auditor in the
2 SpeDEZA or may assign such number of personnel as may be necessary in the performance
3 of its functions.

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6 transfer herein provided in a manner that will ensure the least disruption of ongoing programs
7 of the GA.

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9 and the LGU shall formulate the implementing rules and regulations of this Act within ninety
10 (90) days after its approval. Such rules and regulations shall take effect fifteen (15) days after
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