Republic of the Philippines
House of Representatives
Quezon City

EIGHTEENTH CONGRESS
Third Regular Session

COMMITTEE REPORT NO. 1224

Submitted by the Committee on Economic Affairs, Committee on Trade and Industry, Committee on Appropriations, and Committee on Ways and Means on

Re: House Bill No. 10217

Recommending its approval in substitution of House Bill No. 3898.

Sponsors: Representatives Sharon S. Garin, John Reynald M. Tiangco, Eric Go Yap, Joey Sarte Salceda, and Deogracias Victor "DV" B. Savellano

Mr. Speaker:

The Committee on Economic Affairs, Committee on Trade and Industry, Committee on Appropriations, and Committee on Ways and Means, to which was referred House Bill No. 3898, introduced by Representative Deogracias Victor "DV" B. Savellano, entitled:

"AN ACT ESTABLISHING THE SPECIAL ECONOMIC ZONE AND FREEPORT IN THE PROVINCE OF ILOCOS SUR, CREATING FOR THE PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC ZONE AND FREEPORT AUTHORITY, AND APPROPRIATING FUNDS THEREFOR",

have considered the same and recommend the approval of House Bill No. 10217 entitled:

"AN ACT ESTABLISHING A SPECIAL ECONOMIC ZONE IN A PORTION OF THE SALOMAGUE COVE AND IN THE MUNICIPALITIES OF SAN JUAN AND CABUGAO, PROVINCE OF ILOCOS SUR, CREATING FOR THE PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC ZONE AUTHORITY, AND APPROPRIATING FUNDS THEREFOR"

Respectfully submitted,

JOHN REYNALD M. TIANGCO  
Chairperson  
Committee on Trade and Industry

SHARON S. GARIN  
Chairperson  
Committee on Economic Affairs

ERIC GO YAP  
Chairperson  
Committee on Appropriations

JOEY SARTE SALCEDA  
Chairperson  
Committee on Ways and Means

THE HONORABLE SPEAKER  
HOUSE OF REPRESENTATIVES  
Quezon City
AN ACT
ESTABLISHING A SPECIAL ECONOMIC ZONE IN A PORTION OF THE
SALOMAGUE COVE AND IN THE MUNICIPALITIES OF SAN JUAN AND CABUGAO,
PROVINCE OF ILOCOS SUR, CREATING FOR THE PURPOSE THE ILOCOS SUR
SPECIAL ECONOMIC ZONE AUTHORITY, AND APPROPRIATING FUNDS
THEREFOR

Be it enacted by the Senate and the House of Representatives of the Philippines in the Congress assembled:

CHAPTER 1
GENERAL PROVISIONS

SECTION 1. Short Title. - This Act shall be known as the "Ilocos Sur Special
Economic Zone Act."

SEC. 2. Declaration of Policy. - It is declared the policy of the State to encourage,
promote, and accelerate the sound and balanced industrial, economic, and social
development of the country. The establishment of special economic zones shall attract
legitimate and productive foreign investments in strategic locations in the country. It shall generate employment, enhance productivity, and increase individual and family incomes, thereby enhancing the quality of life of the Filipino people.

CHAPTER II
CREATION OF THE ECONOMIC ZONE

SEC. 3. Creation of the Ilocos Sur Special Economic Zone. - In accordance with the foregoing declared policy and subject to the concurrence of the concerned local government units (LGUs) of Ilocos Sur, there is hereby established a special economic zone, hereinafter referred to as the Ilocos Sur Special Economic Zone or Ilocos Sur Ecozone. The Ilocos Sur Ecozone shall cover a particular area located in the Municipalities of San Juan and Cabugao, Province of Ilocos Sur, the specific metes and bounds of which shall be more particularly defined in a presidential proclamation that shall be issued for this purpose: Provided, That the lands embraced therein shall be contiguous to one another.

SEC. 4. Creation of the Ilocos Sur Special Economic Zone Authority. - There is hereby created a body corporate to be known as the Ilocos Sur Special Economic Zone Authority, hereinafter referred to as the ISSEZA, which shall manage and operate the Ilocos Sur Ecozone, in accordance with the provisions of this Act. The corporate life of the ISSEZA shall expire in fifty (50) years, counted from the first year after the effectivity of this Act, unless otherwise extended by Congress. It shall be organized within one hundred eighty (180) days after the effectivity of this Act.

SEC. 5. Governing Principles. - The ISSEZA shall manage and operate the Ilocos Sur Ecozone, under the following principles:

a) Within the framework and limitations of the Constitution and applicable provisions of Republic Act No. 7160, or the Local Government Code, as amended, the Ilocos Sur Ecozone shall be developed into and operated as a decentralized, self-reliant and self-sustaining industrial, commercial, trading, agro-industrial, tourist, banking, financial, and investment center with suitable residential areas;

b) The Ilocos Sur Ecozone shall be equipped with transportation, telecommunications, and other facilities needed to attract legitimate and productive investments, generate linkage industries and employment opportunities for the people of the Municipalities
of San Juan and Cabugao and those in neighboring towns and cities;

c) The Ilocos Sur Ecozone may establish mutually beneficial economic relations with other entities or enterprises within the country or, subject to the administrative guidance of the Department of Foreign Affairs, the Philippine Economic Zone Authority (PEZA), and the Department of Trade and Industry (DTI), with foreign entities or enterprises;

d) Foreign citizens and companies owned by non-Filipinos in whatever proportion may set up enterprises in the Ilocos Sur Ecozone, either by themselves or in a joint venture with Filipinos in any sector of industry, international trade and commerce within the Ilocos Sur Ecozone;

e) The Ilocos Sur Ecozone shall be managed and operated as a separate customs territory thereby ensuring the free flow or movement of goods and capital within, into and out of its territory, and shall likewise provide incentives subject to Title XIII of the National Internal Revenue Code, as amended. However, exportation or removal of goods from the territory of the Ilocos Sur Ecozone to the other parts of the Philippine territory shall be subject to customs duties and taxes under Republic Act No. 10863, otherwise known as the “Customs Modernization and Tariff Act” and other relevant tax laws of the Philippines;

f) The areas comprising the Ilocos Sur Ecozone may be expanded or reduced when necessary through a presidential proclamation issued for the said purpose. For this purpose, the ISSEZA, in consultation with the LGUs, shall have the power to acquire either by purchase, negotiation or condemnation proceedings, any private land within or adjacent to the Ilocos Sur Ecozone for the following purposes: (1) consolidation of lands for zone development; (2) acquisition of right of way to the Ilocos Sur Ecozone; and (3) the protection of watershed areas and natural assets valuable to the prosperity of the Ilocos Sur Ecozone;

g) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be made available for immediate retail sale in the domestic market, subject to the payment of corresponding taxes on raw materials and other regulations that may be formulated by the ISSEZA together with the PEZA, the Bureau of Customs, the Bureau of Internal Revenue, and the DTI. However, in order to protect domestic industries, a Negative List of industries shall be drawn up and regularly updated by the PEZA.
Enterprises engaged in industries included in such Negative List shall not be allowed to sell their products locally; and

h) The defense of the Ilocos Sur Ecozone and the security of its perimeter fence shall be the responsibility of the national government in coordination with the ISSEZA and the concerned LGUs.

SEC. 6. Development Goals of the Ilocos Sur Ecozone. - The ISSEZA shall determine the development goals of the Ilocos Sur Ecozone within the framework of national development plans, policies, and goals. The Chairperson-Administrator shall, upon approval by the Board of the ISSEZA, submit the Ilocos Sur Ecozone plans, programs, and projects to the Regional Development Council for inclusion in the regional development plan.

SEC. 7. Capitalization. - The ISSEZA shall have an authorized capital stock of two billion (2,000,000,000) no par shares with a minimum issue of Ten pesos (Php10.00) each, the majority shares of which shall be subscribed and paid for by the national government and the LGUs embracing the Ilocos Sur Ecozone. The Board of Directors of the ISSEZA may, with the written concurrence of the Secretary of Finance, sell shares representing not more than forty per centum (40%) of the capital stock of the ISSEZA to the general public under such policy as the Board and the Secretary of Finance may determine. The national government and the LGUs shall in no case own less than sixty per centum (60%) of the total issued and outstanding capital of the ISSEZA.

The amount necessary to subscribe and pay for the shares of the national government to the capital stock of the ISSEZA shall be included in the General Appropriations Act. For the LGUs concerned, the funds shall be taken from their internal revenue allotment and other local funds.

SEC. 8. Principal Office of the ISSEZA. - The ISSEZA shall maintain its principal office in the Municipality of Cabugao, Province of Ilocos Sur, but it may establish liaison offices within the Philippines as may be necessary for the proper conduct of its business.

SEC. 9. Powers and Functions of the ISSEZA. - The ISSEZA shall have the following powers and functions:

a) To operate, administer, manage, and develop the Ilocos Sur Ecozone according to
the principles and provisions set forth in this Act;

b) To register, regulate, and supervise the enterprises in the Ilocos Sur Ecozone in an efficient and decentralized manner, subject to existing laws;

c) To coordinate with LGUs and exercise general supervision over the development plans, activities, and operations of the Ilocos Sur Ecozone;

d) To regulate and undertake the establishment, construction, operation, and maintenance of public utilities, other services, and infrastructure in the Ilocos Sur Ecozone such as light and power, shipping, barging, stevedoring, cargo handling, hauling, warehousing, storage of cargo, port services or concessions, piers, wharves, bulkheads, bulk terminals, mooring areas, storage areas, roads, telecommunications, transport, bridges, terminals, conveyors, water supply and storage, sewerage, drainage, airport operations in coordination with the Civil Aviation Authority of the Philippines, and such other services or concessions or infrastructure necessary or incidental to the accomplishment of the objectives of this Act;

e) To construct, acquire, own, lease, operate, and maintain on its own or through contracts, franchise, licenses, bulk purchase from the private sector or permits under any of the schemes allowed in Republic Act No. 6957, otherwise known as the “Build-Operate-Transfer Law”, as amended, or joint venture, adequate facilities and infrastructure required or needed for the operation and development of the Ilocos Sur Ecozone, in coordination with appropriate national and local government authorities and in conformity with applicable laws thereon;

f) To approve plans, programs, and projects of the Ilocos Sur Ecozone to be submitted to the Regional Development Council for inclusion in the regional development plan;

g) To operate on its own, either directly or through licenses to others, tourism-related activities, including games, amusements, recreational and sports facilities, subject to the approval and supervision of the Philippine Amusement and Gaming Corporation;

h) To raise or borrow, within the limitation provided by law, and subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), as the case may be, adequate and necessary funds from local or foreign sources, to finance its
projects and programs under this Act and for this purpose, to issue bonds, promissory notes, and other forms of securities, and to secure the same by a guarantee, pledge, mortgage, deed of trust or an assignment of all or part of its property or assets;

i) To protect, preserve, maintain, and develop the forests, beaches, corals and coral reefs, and maintain ecological balance within the Ilocos Sur Ecozone. Notwithstanding the power of the ISSEZA to create rules for such purpose, the rules and regulations of the Department of Environment and Natural Resources and other government agencies involved in the above functions shall be implemented by the ISSEZA;

j) To create, operate or contract to operate such functional units or offices of the ISSEZA as it may deem necessary;

k) To adopt, alter, and use a corporate seal; contract, lease, buy, acquire, own or otherwise dispose of personal or real property of whatever nature; sue and be sued; and otherwise carry out its functions and duties as provided for in this Act;

l) To issue certificates of origin for products manufactured or processed in the Ilocos Sur Ecozone in accordance with prevailing rules of origin and the pertinent regulations of the PEZA, the DTI, and the Department of Finance (DOF);

m) To establish one-stop shops for the issuance of all necessary permits, clearances, licenses, and other similar certifications to conduct such activities intended to improve the ease of doing business within the Ilocos Sur Ecozone, in coordination with government agencies having jurisdiction over activities therein: Provided, That all government agencies are directed to provide and extend utmost and full cooperation to the ISSEZA in the establishment of such one-stop shops;

n) To ensure that the area covered by the Ilocos Sur Ecozone is secure at all times: Provided, That the Armed Forces of the Philippines (AFP) or the Philippine National Police (PNP) shall not interfere in the internal affairs of the ISSEZA except to provide the necessary security and defense, or law enforcement assistance, as the case may be: Provided, finally, That expenses of the AFP or the PNP in the Ilocos Sur Ecozone shall be borne by the national government;
To exercise such powers as may be essential, necessary or incidental to the powers
given to it by this Act, as well as those that shall enable it to carry out, implement
and accomplish the purposes, objectives, and policies set forth in this Act; and

To issue rules and regulations consistent with the provisions of this Act as may be
necessary to accomplish and implement the purposes, objectives, and policies
provided herein.

SEC. 10. Board of Directors of the ISSEZA. - The powers of the ISSEZA shall
be vested in and exercised by a Board of Directors, hereinafter referred to as the Board,
which shall be composed of the following:

a) A Chairperson, who shall at the same time be the administrator of the ISSEZA;
b) A Vice-Chairperson who shall be elected from among the members of the Board of
Directors;
c) Members consisting of:
   1) The Governor of the Province of Ilocos Sur or a duly-authorized representative
      from the Provincial Government of Ilocos Sur;
   2) One (1) of the mayors of the municipalities covered by the ecozone;
   3) One (1) representative from the investors’ group; and
   4) One (1) representative from among the workers in the Ilocos Sur Ecozone.

The Governor or the Governor’s duly authorized representative and the mayors of
the municipalities within the ecozone shall serve as ex officio members of the Board,
whose terms in the Board shall correspond to their terms as elected officials.

The Chairperson-Administrator and the members of the Board, except for the
representatives of the investors and workers groups and the ex officio members, shall be
appointed by the President of the Philippines to serve for a term of six (6) years, unless
sooner separated from service due to death, voluntary resignation or removal for cause.
In case of death, resignation or removal for cause, their replacements shall serve only the
unexpired portion of the respective terms. No person shall be appointed as a member of
the Board unless the person is a Filipino citizen, of good moral character, of proven probity
and integrity, and a degree holder in any of the following fields: economics, business,
public administration, law, management or their equivalent, and with at least ten (10) years
relevant working experience, preferably in the field of management or public
administration.
The members of the Board, except the *ex officio* members, shall each receive *per diem* allowance at rates to be determined by the Department of Budget and Management in accordance with existing rules and regulations: *Provided, however, That the total per diem allowance collected each month shall not exceed the equivalent of four (4) meetings unless and until the President of the Philippines has fixed a higher rate for the *per diem* allowance for the members of the Board, such allowance shall not be more than Ten thousand pesos (Php10,000.00) for every Board meeting.

**SEC. 11. Organization and Personnel.** – The Board of Directors of the ISSEZA shall provide for its organization and staff. The Board shall appoint and fix the remuneration and other emoluments of its officers and employees in accordance with existing laws on compensation and position classification. The Board shall have exclusive and final authority to promote, transfer, assign, reassign, or remove officers of the ISSEZA, any provision of existing law to the contrary notwithstanding. The Chairperson-Administrator shall execute the decisions of the Board.

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

No officer or employee of the ISSEZA, shall be removed or suspended except for cause, as provided by civil service rules and regulations.

**SEC. 12. Powers and Duties of the Chairperson-Administrator.** – The Chairperson-Administrator shall have the following powers and duties:

a) To direct and manage the affairs of the ISSEZA in accordance with the policies of the Board;

b) To establish the internal organization of the ISSEZA under such conditions that the Board may prescribe;

c) To submit an annual budget and necessary supplemental budget to the Board for its approval;
d) To submit within thirty (30) days after the close of each fiscal year an annual report to the Board and such other reports as may be required;

e) To submit to the Board for its approval, policies, systems, procedures, rules, and regulations that are essential to the operation of the Ilocos Sur Ecozone;

f) To recommend to the Board the remuneration and other emoluments of its officers and employees in accordance with existing laws on compensation and position classification;

g) To create a mechanism in coordination with relevant agencies for the promotion of industrial peace, the protection of the environment, and the advancement of the quality of life in the Ilocos Sur Ecozone; and

h) To perform such other duties as may be assigned by the Board or which are necessary or incidental to the office.

SEC. 13. Legal Counsel. - The ISSEZA shall have its own internal legal counsel who shall be under the supervision of the Government Corporate Counsel. When the exigencies of business and operations demand it, the ISSEZA may engage the services of an outside counsel either on a case to case or on a fixed retainer basis.

CHAPTER III
INCENTIVES TO ECOZONE ENTERPRISES AND INVESTORS

SEC. 14. Investors Visa. - Any foreign national who invests an amount of Two hundred thousand US dollars (US$200,000.00) in a registered enterprise, either in cash or equipment, shall be entitled to an investor's visa: Provided, That the foreign national has the following qualifications:

a) Must be at least eighteen (18) years of age;

b) Must not have been convicted by final judgment of a crime involving moral turpitude;

c) Must not be afflicted with any dangerous or contagious disease;

d) Must not have been confined in an institution for any mental disorder or disability; and

e) Must be financially capable as borne out by credible and verifiable evidence.
With an investor’s visa, an alien shall be entitled to reside in the Philippines while the investment subsists. The alien investor shall submit an annual report, in the form duly prescribed for the purpose, to prove that the investment in the country subsists. Should said alien investor withdraw the investments from the Philippines, then the investor's visa issued to said alien shall automatically expire and be withdrawn.

The authority to issue visas and work permits shall remain with the Bureau of Immigration (BI) and the Department of Labor and Employment (DOLE), respectively: 

Provided, That the BI and the DOLE shall implement measures to expedite the processing of such visas and permits for workers in the Ilocos Sur Ecozone and coordinate closely with the ISSEZA to facilitate the conduct of business operations.

SEC. 15. Fiscal Incentives. - Registered enterprises of the Ilocos Sur Ecozone may be entitled to pertinent fiscal incentives granted under Title XIII (Tax Incentives) of the National Internal Revenue Code, as amended.

SEC. 16. Banking Rules and Regulations. – Banks and financial institutions to be established in the Ilocos Sur Ecozone shall be under the supervision of the BSP and subject to existing banking laws, rules and regulations.

SEC. 17. Remittances. - In the case of foreign investments, a duly registered entity or enterprise within the Ilocos Sur Ecozone shall have the right to remit earnings to its investors in the currency in which the investment was originally made and at the exchange rate prevailing at the time of remittance, subject to the provisions of Republic Act No. 7653, otherwise known as the “New Central Bank Act” as amended.

CHAPTER V
NATIONAL GOVERNMENT AND OTHER ENTITIES

SEC. 18. Supervision and Control. - For purposes of policy direction and coordination, the ISSEZA shall be under the direct control and supervision of the Office of the President of the Philippines.

SEC. 19. Relationship with Local Government Units. – Except as herein provided, the LGUs comprising the Ilocos Sur Ecozone shall retain their basic autonomy and identity. The Municipalities of San Juan and Cabugao, Province of Ilocos Sur, shall
operate and function in accordance with the framework of the Constitution, the Local

In case of any conflict among the ISSEZA, the LGUs and the national government
on matters affecting the Ilocos Sur Ecozone, other than national defense and security
matters, the decision of the ISSEZA shall prevail.

SEC. 20. Audit. - The Commission on Audit shall appoint a full-time auditor for the
ISSEZA and may assign such number of personnel as may be necessary to assist the
auditor in the performance of the auditor's functions.

CHAPTER V
MISCELLANEOUS

SEC. 21. Interpretation and Construction. - The powers, authorities and
functions that are vested in the ISSEZA are intended to establish national self-sufficiency
and self-reliance in the advancement of and protection of the national integrity,
enhancement of national security, decentralization of governmental functions and
authority, and promotion of an efficient and effective working relationship among the
ISSEZA, the national government and the LGUs. Any interpretation of this Act shall
consider such intentions. In the event of conflict of interpretation and provided the
intentions cannot be harmonized, the provisions of this Act shall be construed in favor of
an interpretation that shall protect national security.

SEC. 22. Applicability Clause. – Insofar as they are consistent with the
provisions of this Act, the provisions of Sections 30 to 41 of Republic Act No. 7916,
otherwise known as "The Special Economic Zone Act of 1995", as amended, shall likewise
apply to the Ilocos Sur Ecozone.

SEC. 23. Implementing Rules and Regulations. - Within sixty (60) days from
effectivity of this Act, the DTI shall, in coordination with the DOF and the National
Economic and Development Authority, formulate rules and regulations for the effective
implementation of the provisions of this Act.

SEC. 24. Separability Clause. - If any provision of this Act shall be held
unconstitutional or invalid, the other provisions not otherwise affected shall remain in full
force and effect.
SEC. 25. **Repealing Clause.** - All laws, executive orders or issuances or any part thereof, which are inconsistent herewith, are hereby repealed or amended accordingly.

SEC. 26. **Effectivity.** - This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,
FACT SHEET

House Bill No. 10217
(In substitution of House Bill No. 3898)

AN ACT ESTABLISHING A SPECIAL ECONOMIC ZONE IN A PORTION OF THE SALOMAGUE COVE AND IN THE MUNICIPALITIES OF SAN JUAN AND CABUGAO, PROVINCE OF ILOCOS SUR, CREATING FOR THE PURPOSE THE ILOCOS SUR SPECIAL ECONOMIC ZONE AUTHORITY, AND APPROPRIATING FUNDS THEREFOR

Introduced by REPRESENTATIVE DEOGRACIAS VICTOR “DV” B. SAVELLANO
Committee Referral: COMMITTEE ON ECONOMIC AFFAIRS (PRIMARY)  
Committee Chairperson: REP. SHARON S. GARIN
Committee Referral: COMMITTEE ON TRADE AND INDUSTRY (SECONDARY)  
Committee Chairperson: REP. JOHN REYNALD M. TIANGCO
Committee Referral: COMMITTEE ON APPROPRIATIONS  
Committee Chairperson: REP. ERIC GO YAP
Committee Referral: COMMITTEE ON WAYS AND MEANS  
Committee Chairperson: REP. JOEY SARTE SALCEDA

OBJECTIVES

• To actively encourage, promote, induce, and accelerate sound and balanced industrial, economic, and social development

• To provide jobs, especially to those in the rural areas, increase their productivity and their individual family income

• To attract legitimate and productive foreign investments

KEY PROVISIONS

• Establishes the special economic zone located in a portion of Salomague Cove and particular areas in the barangays of Dardarat, Solotsolot, Surngit, and Refaro in the Municipality of San Juan as well as Dardarat, Pila, Sagayaden, Sabang, Namruangan, Salapasap, Daclapan, Pug-Os, Turod, and Baclig, all located in the Municipality of Cabugao, Province of Ilocos Sur to be referred to as the Ilocos Sur Ecozone, which shall be managed and operated by the Ilocos Sur Special Economic Zone Authority (ISSEZA)

• Mandates a capitalization of two billion (2,000,000,000) no par shares with a minimum of Ten pesos (Php10.00) per share, the majority shares to be subscribed and paid for by the national government and the local government units embracing the Ilocos Sur Ecozone
• Grants fiscal and non-fiscal incentives to economic zone registered enterprises and investors

• Defines the powers and functions of the ISSEZA in coordination with concerned agencies and local government units

• Mandates the President of the Philippines to appoint the Chairperson and members of the Board, except *ex officio* members and the representatives of the investors and workers group. Except for those serving in an *ex officio* capacity, the members of the Board shall serve a term of six (6) years.

**RELATED LAWS:**

• Republic Act 7916, or the Special Economic Zone Act of 1995, as amended by Republic Act 8748
• National Internal Revenue Code of 1997
• Executive Order 226, or the Omnibus Code of Investments of 1987 as amended
• Republic Act 7653, or the New Central Bank Act as amended
• Republic Act 11534, or the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)
• Republic Act 6957, or the Build-Operate-Transfer Law
• Presidential Decree No. 442, or the Labor Code of the Philippines, as amended
• Republic Act 7160, or the Local Government Code of 1991
• Rules and Regulations implemented by the Department of Environment and Natural Resources (DENR)