Philippine Government Programs for the Automotive Manufacturing Industry*

I. INTRODUCTION

Though relatively small compared to other industries in the economy, the automotive manufacturing industry generates demand for the production of other industries, thus, making it a significant contributor to the country's economic output and employment.

The automotive manufacturing industry has two groups, namely, the automotive assembly and the manufacture of parts and components. The government introduced several national car programs because of the economic contribution and potential of the Philippine automotive manufacturing industry. These programs provide time-bound and output-based fiscal support to accelerate sound development, stimulate industry demand, attract new and strategic investments, and develop the country as a regional automotive manufacturing hub.

This paper presents the performance of the automotive manufacturing industry, past and current government programs, and pending legislation to support the same. This paper also discusses the policy interventions implemented by select member countries of the Association of Southeast Asian Nations (ASEAN) to support their local automotive manufacturing industry, which may serve as input to the country's policymakers in introducing reforms in its current national car programs and in crafting the necessary policies to support the industry.

II. PERFORMANCE OF THE PHILIPPINE AUTOMOTIVE MANUFACTURING INDUSTRY

Compared with its neighboring countries, the Philippines lags in motor vehicle production, which may be attributed to the low number of industry players in the country. Based on the preliminary results of the 2019 Annual Survey of Philippine Business and Industry– Manufacturing Sector by the Philippine Statistics Authority (PSA), there were only 41 establishments in the country engaged in the manufacture of motor vehicles, and 106 establishments engaged in the manufacture of motor vehicle parts and accessories.

* Prepared by Atty. Donald Jay E. Moralejo, Supervising Tax Specialist, Special Research & Technical Services Branch, reviewed by Eva Marie N. Pelayo, Economist IV, Fiscal Incentives Branch. Reviewed and approved by Roselyn C. Domo, Chief Tax Specialist, Fiscal Incentives Branch.

The NTRC Tax Research Journal is the official publication of the National Tax Research Center. The views and opinions expressed are those of the NTRC and do not necessarily reflect the views and opinions of the Department of Finance, its bureaus and government corporations under its supervision.

From 2012 to 2021, or for the last 10 years, motor vehicle production in the Philippines only averaged 92,632 units, the lowest among Thailand, Indonesia, Malaysia, and Vietnam. On the other hand, the average sales of motor vehicles in the Philippines for the same period was 286,663. Similar to other industries, the automotive industry was hit by the Coronavirus Disease 2019 or COVID-19 pandemic, thus, posting a notable decline in motor vehicle production and sales of 29.23% and 39.50% in 2020, respectively. Nevertheless, the industry is slowly regaining momentum with 24.59% and 19.97% growth in its recent annual production and sales, respectively. (See Tables 1 and 2.)

Table 1

Motor Vehicle Production of Selected ASEAN Member Countries, Calendar Years, CY 2012-2021

Year	Thailand	Indonesia	Malaysia	Vietnam	Philippines
2012	2,453,717	1,065,557	569,620	73,673	75,413
2013	2,457,057	1,208,211	601,407	93,630	79,169
2014	1,880,007	1,298,523	596,418	121,084	88,845
2015	1,913,002	1,098,780	614,664	171,753	98,768
2016	1,944,417	1,177,389	545,253	236,161	116,868
2017	1,988,823	1,216,615	499,639	195,937	141,252
2018	2,167,694	1,343,714	564,971	200,436	79,763
2019	2,013,710	1,286,848	571,632	176,203	95,094
2020	1,427,074	690,150	485,186	165,568	67,297
2021	1,685,705	1,121,967	481,651	163,271	83,846
Average	1,993,121	1,150,775	553,044	159,772	92,632

Note. Taken from the ASEAN Automotive Federation Statistics, 2012-2021.

Table 2

Motor Vehicle Sales of Selected ASEAN Member Countries, CY 2012-2021

Year	Thailand	Indonesia	Malaysia	Vietnam	Philippines
2012	1,436,335	1,116,212	627,753	80,453	156,654
2013	1,330,672	1,229,901	655,793	98,649	181,738
2014	881,832	1,208,019	666,465	133,588	234,747
2015	799,632	1,013,291	666,677	209,267	288,609
2016	768,788	1,061,735	580,124	270,820	359,572
2017	871,650	1,079,534	576,625	250,619	425,673
2018	1,041,739	1,151,291	598,714	288,683	357,410
2019	1,007,552	1,030,126	604,281	322,322	369,941
2020	792,146	532,027	522,573	296,634	223,793
2021	754,254	887,202	508,911	304,149	268,488
Average	968,460	1,030,934	600,792	225,518	286,663

Note. Taken from the ASEAN Automotive Federation Statistics, 2012-2021.

The Philippines has to rely on the importation of completely built-up (CBU)[1] motor vehicle units to supplement its local production.

Meanwhile, among the automotive companies in the Philippines, in terms of sales, Toyota still dominates the Philippine automotive industry, with a market share of 43.88%, selling 129,101 units in 2021. Mitsubishi placed second with a market share of 13.06% with 28,436 units sold in the same year. On the other hand, a new player in the Philippine automotive industry, Geely (a Chinese multinational automotive company), reported a significant growth of 182.85% in its sales, while Nissan and Hyundai recorded a decline in sales of 9.88% and 44.57%, respectively. (See Table 3.)

Table 3

Top 10 Automotive Companies in the Philippines in Terms of Car Sales, CYs 2020 and 2021

Year	2020	% Share	2021	% Market Share	Growth in units sold	Growth (%)
Toyota	99,545	40.11	129,101	43.93	29,556	29.69
Mitsubishi	37,366	15.06	37,548	12.78	182	0.49
Ford	14,775	5.95	20,005	6.81	5,230	35.39
Nissan	21,751	8.76	19,603	6.67	(2,148)	(9.88)
Suzuki	15,515	6.25	19,393	6.60	3,878	24.99
Isuzu	11,240	4.53	14,424	4.90	3,184	28.33
Honda	11,711	4.72	12,680	4.31	969	8.27
Hyundai	16,346	6.59	9,061	3.08	(7,285)	(44.57)
MG	3,432	1.38	6,343	2.16	2,911	84.82
Geely	2,158	0.87	6,104	2.07	3,946	182.85
Others	14,331	5.75	19,076	6.46	4,745	33.11
Total	248,171	100	294,223	100		

Note. Adopted from Autoindustriya 2021 Philippine Auto Sales Report[2]. Other automotive companies include Kia, Foton, Hino, Mazda, Hyundai, Fuso, BMW, Chevrolet, Subaru, Chrysler, Lexus, Mercedes-Benz, Volkswagen, Land Rover, Mahindra, Peugeot, Mini Cooper, Kaicene, Tata Motors, Ssangyong, JAC, Volvo, Baic, Man, Aston Martin, Ferrari, and McLaren.

Although the Philippines relies heavily on importing CBU motor vehicle units, it is also fair to mention that there is a high global demand for the country's production of automotive electronics and electric wiring harnesses for motor vehicles. (See Table 4.) In fact, the Philippines is the fourth largest exporter of wiring harnesses in the world (De Guzman, 2021). Further, electrical wiring harnesses for motor vehicles are among the top 10 exported products of the country and account for 3.16% of the total exported products, on average, from 2012 to

[1] Completely-built up unit refers to vehicles imported from other countries that are already fully assembled.

[2] Co, B. (2022, January 31). 2021 Philippine Auto Sales Report. AutoIndustriya.com. Retrieved May 24, 2022, from https://www.autoindustriya.com/features/2021-philippine-auto-sales-at-294-223-units-up-18-56.html

2021. While the value of exports of automotive electronics declined by 56.01% since 2012, electrical wiring harnesses increased by 60.63% after a decade.

Table 4

Value of Export of Automotive Electronics and Electrical Wiring Harness for Motor Vehicles CY 2012 – 2021, (in million US dollars)

Year	Automotive electronics	Electrical wiring harness for motor vehicles
2012	217.76	1,446.29
2013	545.01	1,731.05
2014	120.68	2,102.28
2015	112.16	2,091.04
2016	150.27	1,998.82
2017	94.77	2,051.16
2018	138.24	2,086.36
2019	163.81	2,346.67
2020	167.91	1,910.78
2021	95.80	2,323.19
Average	180.64	2,008.76

Note. Gathered from the Philippine Statistics Authority.

In terms of taxes paid, the automotive manufacturing industry significantly contributed to the government's revenue collections. Under the Philippine Standard Industrial Classification (PSIC) of 1994, the three major sub-sectors of the industry, namely: the manufacture of motor vehicles (PSIC 3410); the manufacture of bodies for motor vehicles and trailers (PSIC 3420); and the manufacture of parts, accessories for motor vehicles (PSIC 3430), paid a total of P144.35 billion of taxes[3], or an average of P18.04 billion annually, from 2012 to 2019. (See Table 5.) Of the said amount of taxes paid, 75.64% or P109.18 billion were collected from the manufacture of motor vehicles (PSIC 3410), 23.09% or P33.33 billion came from the manufacture of parts and accessories for motor vehicles (PSIC 3430), and 1.28% or P1.84 billion came from the manufacture of bodies for motor vehicles and trailers (PSIC 3420).

[3] Taxes paid include corporate income tax, capital gains tax, withholding taxes, excise tax, value-added tax, other percentage taxes, documentary stamp tax, and other taxes.

Table 5

Taxes Paid by the Automotive Manufacturing Industry, CY 2012 – 2019 (in million pesos)

Year	Manufacture of motor vehicles	Manufacture of bodies for motor vehicles, trailers	Manufacture of parts and accessories for motor vehicles	Total
2012	6,884	121	3,661	10,666
2013	9,521	166	3,509	13,196
2014	10,748	143	3,653	14,544
2015	14,061	233	3,865	18,159
2016	15,464	267	4,493	20,224
2017	17,571	284	5,106	22,960
2018	17,318	387	4,669	22,374
2019	17,613	240	4,372	22,225
Total	109,180	1,840	33,328	144,349
Average	13,648	230	4,166	18,044
% Share to total	75.64	1.28	23.09	100.00

Notes. Gathered from the Bureau of Internal Revenue.
Data for CYs 2020 and 2021 are not yet available.

III. GOVERNMENT PROGRAMS FOR THE PHILIPPINE AUTOMOTIVE MANUFACTURING INDUSTRY

The Board of Investments (BOI) is empowered under Executive Order (EO) No. 226, s. 1987[4] to formulate and implement rationalization programs for certain industries in the country. Given the significance of the automotive manufacturing industry, the BOI institutionalized the Progressive Car Manufacturing Program (PCMP), Progressive Truck Manufacturing Program (PTMP), and Progressive Motorcycle Manufacturing Program (PMMP) to provide a comprehensive industrial policy and development direction to the Philippine automotive industry. Specifically, these programs aim to (1) realize a measure of dollar savings for the country through domestic manufacture of automotive parts; (2) create manufacturing activities for various existing small to medium-sized enterprises for the domestic manufacture of automotive components and, in the process, upgrade the engineering and production skills and provide new technological know-how to the domestic manufacturing industry; and (3) generate new exports for manufactured products[5].

In support of these programs, former President Ferdinand E. Marcos directed all departments, bureaus, offices, and agencies of the government, including government-owned

[4] Entitled, "The Omnibus Investments Code", (July 16, 1987).

[5] Executive Order No. 906, s. 1983, entitled, "Directing the Review of the Progressive Car Manufacturing Program (PCMP)", (August 4, 1983).

and/or -controlled corporations, to purchase their car requirements from the following list of vehicle models participating in the PCMP[6]:

Table 6

List of Registered Car Models under the PCMP

Company	Registered car model under PCMP
1) Chrysler-Mitsubishi	Minica Car Minica Van Dodge Colt (4 door) Dodge Colt (2 door)
2) Delta Motors Corporation	Corona Sedan RT 81 LKS Corona Sedan RT 87 LVK
3) DMG, Inc.	Volkswagen 1300 Sakbayan 817
4) Ford	Cortina 1300 cc Cortina 1600 cc Escort 1100 cc Escort 1300 cc
5) GM-Yutivo-Francisco	Torana 1900

In 1983, the BOI was directed to review and revise the programs for the automotive industry to attain an economic balance considering technology development, increased domestic manufacturing activities, foreign exchange savings, and reasonable consumer prices. As a result of the review, the BOI instituted in 1987, the Car Development Program[7] (CDP), Commercial Vehicle Development Program[8] (CVDP), and Motorcycle Development Program[9] (MDP), collectively known as the Motor Vehicle Development Program (MVDP), to replace the PCMP, PTMP, and PMMP. Thereafter, Presidential Memorandum Order (PMO) No. 346,

[6] Memorandum Circular No. 651, entitled, "Providing a List of Vehicle Models Authorized for Assembly by Firms Participating Under the Progressive Car Manufacturing Program for Guidance of All Concerned", (July 25, 1973).

[7] Institutionalized through the issuance of PMO No. 136 s. 1987 entitled "Approving and Promulgating the Guidelines on the Car Development Program Replacing the Progressive Car Manufacturing Program", (December 1, 1987).

[8] Institutionalized through the issuance of PMO No. 157 s. 1988 entitled "Approving the Guidelines on the Commercial Vehicle Development Program Replacing the Progressive Truck Manufacturing Program", (February 9, 1988).

[9] Institutionalized through the issuance of PMO No. 160, s. 1988 entitled, "Approving the Guidelines on the Motorcycle Development Program Replacing the Progressive Motorcycle Manufacturing Program", (February 29, 1988).

s. 1996[10] and PMO 473, s. 1998[11] were issued to approve and promulgate the revised CDP, CVDP, and MDP guidelines.

With the continuing trade liberalization and the rapidly changing competitive environment in the ASEAN Region, the MVDP was recalibrated with the issuance of EO 156, s. 2002[12] and EO 877-A, s. 2010.[13] The recalibrated MVDP covers the manufacture and assembly of passenger cars, commercial vehicles, motorcycles, and other vehicle assemblies. Participants of the MVDP are entitled to the following:

a. Availment of tariff rates for knocked-down parts and components for assembly under the MVDP tariff lines of the Philippine Customs Code;

b. Listing of motor vehicle assembly and/or manufacture of parts and components manufactured in the annual Investments Priorities Plan (IPP) for five years; and

c. Other privileges and benefits as may be allowed.

The MVDP is still effective and implemented alongside another government program supporting the automotive manufacturing industry – the Comprehensive Automotive Resurgence Strategy (CARS) Program.

IV. INSTITUTIONALIZATION OF THE CARS PROGRAM

Officially launched in 2015 through EO 182, s. 2015,[14] the CARS Program was expected to generate P27 billion in investments, create 200,000 employment, manufacture 600,000 motor vehicles, and contribute P300 billion to the domestic economy. Accordingly, the program was estimated to generate government revenues of P408 billion in import duties, value-added tax (VAT), excise tax, income tax, and withholding taxes. Further, the implementation of the CARS Program is expected to benefit the chemicals, metal working, tool and die, plastics, electronics, rubber, glass, and textile sectors due to its strong backward linkages.[15] The BOI is the lead implementing and coordinating agency of the CARS Program.

---

[10] Entitled, "Amending the Guidelines on the Card Development Program (CDP), the Commercial Vehicle Development Program (CVDP), and the Motorcycle Development Program (MDP)", (February 26, 1996).

[11] Entitled, "Providing Amendments to MO 346 "Amending the Guidelines on the Car Development Program, the Commercial Vehicle Development Program, and the Motorcycle Development Program", (April 8, 1998).

[12] Entitled, "Providing for a Comprehensive Industrial Policy and Directions for the Motor Vehicle Development Program and Its Implementing Guidelines", (December 12, 2002).

[13] Entitled, "The Comprehensive Motor Vehicle Development Program", (June 3, 2010).

[14] Entitled, "Providing for a Comprehensive Automotive Resurgence Strategy Program", (May 29, 2015).

[15] Board of Investments. (2020, February). *Revolutionizing Philippine Industries, Attracting the Highest Strategic Investments*. https://boi.gov.ph/ufaqs/annual-report-2018/

A. Thrust of the CARS Program

The CARS Program was adopted to attract new investments, stimulate demand, effectively implement industry regulations to revitalize the Philippine automotive industry, and develop the country as a regional automotive manufacturing hub. It was also meant to augment and enhance policy and directions of existing motor vehicle development programs towards ensuring a resurgent automotive industry that supports innovation, technology transfer, environmental protection, and small and medium enterprises development. Further, the Program is perceived to support the country's automotive industry in seizing market opportunities the ASEAN Economic Community opened and deepening its participation in the regional supply chain.

B. Scope of the CARS Program

The participants of the CARS Program are limited to the manufacture of three models of four-wheeled motor vehicles and will cover the following activities: (a) production of the enrolled models; (b) manufacture of body shell assembly and large plastic assemblies of the model; (c) manufacture of common parts and strategic parts not currently produced in the country at original equipment manufacturer (OEM) standards of the model/s; and (d) shared testing facility for vehicles and/or parts.

EO 182, s. 2015 prescribes the minimum qualifications that must be met by the car makers, parts makers, and shared testing facility proponents to qualify for the CARS Program. For participating car makers (PCM), the minimum qualifications are as follows: (a) it must be an internationally-recognized car maker/brand owner and/or its authorized in-country licensed manufacturer acting jointly with an internationally-recognized carmaker/brand owner; (b) with a proven global track record; and (c) have existing multinational operations. On the other hand, a parts maker must meet the following: (a) it must be endorsed by the PCM to manufacture parts of its enrolled model; (b) the OEM automotive parts maker and/or its authorized in-country licensed manufacturer is acting jointly with internationally-recognized car maker/brand owner; (c) with a proven track record; and (d) a member of good standing of the Philippine Parts Maker Association. For shared testing facility proponents, it must be collectively endorsed by the PCMs and have a proven track record.

C. Fiscal Support for Registered Participants Under the CARS Program

One of the unique features of EO 182, s. 2015 is the substantial government support for the program. Section 10 thereof provides registered participants with the following fiscal support for a maximum period of six years: (a) Fixed Investment Support (FIS); and (b) Production Volume Incentive (PVI). The FIS is meant for investors who will manufacture parts, establish a shared testing facility, deliver parts within a prescribed period set by the BOI, and introduce an enrolled model to the market using the parts manufactured under the program. The PVI, on the other hand, sets the production volume for parts and vehicles.[16]

The FIS covers capital expenditure (CapEx) for tooling and equipment and training costs for the initial start-up operation. The CapEx to be given the FIS shall be used primarily to support the production of the enrolled models. The FIS allocation is as follows:

a. For manufacturing of body shell assembly and large plastic parts, a minimum of 12.5% and a maximum of 30% of the model life budget (MLB);

b. For common parts and shared testing facility, a maximum of 5% of the MLB; and

c. For manufacturing of strategic parts, a minimum of 5% and a maximum of 22.5% of the MLB.

The FIS entitlements for any project in the above categories shall in no case exceed 40% of the total CapEx in the investment project.

The PVI, on the other hand, will be granted based on production volume and logistics efficiency. The following criteria should be observed to be eligible for PVI:

a. Manufacture of at least 50% of the assembly by weight in the case of body shell assembly;

b. Manufacture of major components of the assemblies in the case of large plastic parts assemblies;

c. Exceed 100,000 units in production volume; and

d. Attainment of other conditions imposed by the BOI at the time of registration.

The aforementioned forms of fiscal support for registered and eligible participants shall be evidenced by a non-transferable Tax Payment Certificate (TPC) under the participant's name. The PCM has to request the Department of Trade and Industry (DTI)-BOI to issue the TPC based on statutory deadlines for the payment of tax and/or duty. The request shall include details of the PCM's FIS and PVI entitlements, as well as the liabilities to which the TPC shall be applied. TPCs are valid for 30 days, counted from the date of issue, and can only be used once. While they can partially or wholly defray the excise tax, income tax, import duties, and VAT payable to the national government, the TPCs do not cover any type of withholding taxes. Thereafter, the Bureau of the Treasury (BTr) will recognize and record the TPC transactions as revenue collections of the Bureau of Internal Revenue or the Bureau of Customs. Corollary, the TPC transactions will also be recorded by the BTr as an expense.

[16] Pillas et al. (June 2, 2015). *Two incentive schemes available under CARS.* Retrieved on June 23, 2022, from: http://www.businessmirror.com.ph/two-incentive-schemes-available-under-cars/

Section 11 of EO 182, s. 2015 also mandates the Department of Budget and Management (DBM), in coordination with the BOI, to establish an Automotive Development Fund (ADF) in the annual General Appropriations Act (GAA) to fund the fiscal support granted to registered and eligible participants of the CARS Program. The fiscal support for the participants will be charged to the ADF. Under the same EO, the fiscal support for the CARS Program will be given beginning in 2016, but the total amount of fiscal support should not exceed P27 billion during the six-year life and shall be allocated as follows:

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

b. Sixty percent for PVI.

Further, EO 182, s. 2015 also provides that the fiscal support for each enrolled model qualified under the CARS Program shall not exceed P9 billion. Section 14 of the said issuance likewise restricts registered participants of the CARS Program from registering their activity under any other program granting incentives.

D. Developments of the CARS Program

Since the issuance of EO 182, s. 2015, a total of P1.6 billion and P77.67 million budgets were proposed through the National Expenditure Program (NEP) and appropriated in the annual GAA for the CARS program. The said amounts, totaling P1.77 billion, account only for 6.55% of the fiscal support, amounting to P27 billion under EO 182, s. 2015. (See Table 7.)

Table 7

Budget Allocation for the CARS Program Under the NEP and GAA, CY 2016-2022 (in pesos)

Year	Under NEP	Under GAA	Total
2016	10,755,000	-	10,755,000
2017	9,937,000	9,937,000	19,874,000
2018	1,635,957,000	33,957,000	1,669,914,000
2019	9,048,000	9,048,000	18,096,000
2020	8,186,000	8,186,000	16,372,000
2021	8,273,000	8,273,000	16,546,000
2022	8,273,000	8,273,000	16,546,000
Total	1,690,429,000	77,674,000	1,768,103,000

Note. Taken from the DBM.

Presently, two companies, namely, Toyota Motor Philippines Corporation and Mitsubishi Motors Philippines Corporation, are registered as PCM under the CARS Program. Mitsubishi is committed to producing 200,000 units of the Mirage/Mirage G4 model, while Toyota applied for the production of 230,000 units of the all-new Vios model.[17] As of December 2021, Mitsubishi manufactured 55,330 units or 28% of the total number of units it committed. On the other hand, Toyota manufactured 107,652 units, or 47% of its total commitment. The activities of these PCMs have resulted in employment generation of 108,096 and foreign exchange (forex) savings of USD 837 million. The government has also generated revenue in the form of taxes, amounting to PhP8.07 billion. In terms of incentives eligibility, the FIS due to the participants under the CARS Program amounted to PhP3.0 billion, of which, PhP1.40 billion is due to Mitsubishi, and PhP1.60 billion to Toyota. Comparing these figures with the projected production, revenue, and investment, it can be said that the CARS Program has not yet met its targets. (See Table 8.)

Table 8

Status of Enrolled Models as of December 2021

Particulars	Enrolled model		Total
	Mitsubishi Mirage	Toyota Vios	
Investments	PhP3.91 billion	PhP5.35 billion	PhP9.26 billion
Date of registration	June 10, 2016	June 27, 2016	-
Start of production	February 2018	July 2018	-
Committed production	200,000	230,000	430,000
Production	55,330	107,652	162,982
Employment generation	35,560	72,536	108,096
Forex savings	USD277 million	USD560 million	USD837 million
Government revenue	PhP3.55 billion	PhP4.52 billion	PhP8.07 billion
Incentives eligible	PhP1.40 billion	PhP1.60 billion	PhP3.00 billion

Note. Taken from the BOI.

Mitsubishi and Toyota have until 2023 to meet their production commitments. However, acknowledging the ravaging effects of the pandemic-induced lockdowns, the DTI is eyeing the extension of the CARS Program for three years.[18]

[17] Department of Budget and Management (n.d.), CARS Program Briefer.

[18] Philippine Star. (December 31, 2021). *Decision on CARS extension likely out in Q1*. Retrieved from: https://www.philstar.com/business/2021/12/31/2150962/decision-cars-extension-likely-out-q1

E. Pending Bill for Motor Vehicle Development Program

Relatedly, a pending bill before the House of Representatives provides a policy program for the motor vehicle industry. The Unnumbered House Bill (UHB),[19] in substitution for HB 1833 (Annex A), aims to develop a comprehensive policy that will accelerate the sound development of the Philippine motor vehicle manufacturing industry, thereby contributing to industrial capital formation, technology transfer, technical skills development, and employment generation.

The bill proposes to declare the Philippine motor vehicle manufacturing industry, which includes the (1) manufacture of motor vehicles (PSIC 2910); (2) manufacture of motor vehicles (PSIC 2920); (3) manufacture of motorcycles (PSIC 3091); and (4) manufacture of parts and accessories of motor vehicles (PSIC 2930), as a priority investment sector that will regularly form part of the country's IPP. As such, all entities duly accredited by the DTI through the BOI shall be entitled to all the incentives provided under Republic Act (RA) No. 11534[20], otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act", which includes the following:

a. Income tax holiday (ITH) for four to seven years;

b. Special corporate income tax of 5% on gross income earned, in lieu of all national and local taxes for 10 years for export enterprises only;

c. Enhanced deductions for 10 years for export enterprises and five years for domestic market enterprises;

d. Customs duty exemption on importation of capital equipment, raw materials, spare parts, or accessories; and

e. VAT exemption on importation and VAT zero-rating on local purchases of goods and services for export enterprises only.

Section 300 of the National Internal Revenue Code (NIRC) of 1997, as amended by RA 11534, however, provides that all sectors, industries, projects, or activities that may be included in the Strategic Investment Priority Plan (SIPP) shall undergo an evaluation process to determine the suitability and potential of the industry or sector in promoting long-term growth and sustainable development and the national interest. It further provides that in no case shall a sector, industry, project, or activity be included in the SIPP unless a formal evaluation process or report supports it. Thus, any recommendation to have the industry in the SIPP to be eligible for incentives must be accompanied by the said evaluation process or report. The SIPP is also subject to periodic review and amendment every three years from its issuance to assess whether the projects or activities included therein are still deemed a priority.

---

[19] Entitled, "An Act to Strengthen the Competitiveness of the Philippine Motor Vehicle Manufacturing Industry". Introduced by Representative Rufus B. Rodriguez, et al., First Regular Session, Eighteenth Congress.

[20] Entitled, "An Act Reforming the Corporate Income Tax and Incentives System, Amending for the Purpose Sections 20, 22, 25, 27, 28, 29, 34, 40, 57, 109, 116, 204 and 290 of the National Internal Revenue Code of 1997, as Amended, and Creating Therein New Title XIII, and for Other Purposes", (March 26, 2021).

Further, the proposed inclusion of the motor vehicle manufacturing industry in the SIPP does not guarantee an automatic grant of incentives. Under the CREATE Act and its implementing rules and regulations, business enterprises engaged in activities listed in the SIPP may apply for registration with any of the existing Investment Promotion Agencies in the country. The application shall be subject to evaluation and cost-benefit analysis to determine the impact of these investments and the tax incentives to be granted thereon on the Philippine economy.

Former President Rodrigo Roa Duterte issued Memorandum Order No. 61, s. 2022[21] on May 24, 2022, which contains the priority investment sectors and activities eligible to be granted incentives under the CREATE Act. Under the said issuance, the activities listed in the 2020 IPP[22], as amended by Memorandum Circular No. 2021-005, which included the manufacture of export products, among others, shall fall under Tier I activities and are therefore eligible or qualified to be granted the incentives provided to the said Tier under the CREATE Act. However, such entitlement is subject to certain criteria and conditions prescribed by the BOI.

Nevertheless, the DTI supports the aforementioned proposed bill to accelerate industrialization and advance competitive industries by developing a comprehensive motor vehicle manufacturing industry policy. Further, under Section 302 of the NIRC of 1997, as amended by RA 11534, the BOI is given the authority, at any time, to include additional areas in the SIPP, subject to publication requirements and the criteria for investment priority determination.

V. FISCAL POLICY AND INTERVENTION OF SELECT ASEAN MEMBER COUNTRIES

Considering that the automotive industry has always been regarded as a vital industry and a major economic contributor, apart from the Philippines, several ASEAN member countries such as Indonesia, Malaysia, Thailand, and Vietnam have introduced policies, mainly through the grant of fiscal incentives, to support and strengthen their automotive manufacturing industry. (See Table 9.)

[21] Entitled, “Approving the 2022 Strategic Investment Priority Plan”, (May 24, 2022).

[22] Presidential Memorandum Order No. 50 entitled, “Approving the 2020 Investment Priority Plan”, (November 18, 2020).

Table 9

Comparative Matrix of Incentives Granted by Select ASEAN Member Countries to the Automotive Industry

Country	Income tax holiday	Corporate income tax reduction	Import duty exemption	Enhanced deduction
Indonesia	Yes	Yes	No	Yes
Malaysia	Yes	Yes	No	No
Thailand	Yes	No	Yes	No
Vietnam	Yes	Yes	Yes	No

Indonesia[23]

Currently, qualified automotive manufacturers in Indonesia are entitled to corporate income tax (CIT) exemption for five to 20 years, depending on the amount of investment capital. Thereafter, they can be given a 50% CIT reduction for the succeeding two years. Other automotive industry players not qualified for CIT exemption may avail of a tax allowance at 30% of the investment capital for 6 years or 5% per year starting at the time of commercial operation. Research and development expenses are deductible from gross income at 300% of the total cost, while training, learning, and apprenticeship expenses are deductible at 200%.

Malaysia[24]

In Malaysia, enterprises that plan to undertake the following activities may be granted CIT exemption or CIT reduction for a period of five to 10 years by the Malaysian Investment Development Authority:

1. Assembly of energy-efficient vehicles (EEVs)[25];
2. Manufacture of critical components/systems for EEVs or non-EEVs such as transmission, engines, airbag, handling, control, and brake mechanism; and
3. Manufacture of components for hybrid and electric vehicles such as electric motors, electric batteries, and battery management systems.

[23] Ministry of Industry, Republic of Indonesia. (July 24, 2019). "Government Policy on Future Automotive Technology". Retrieved from: https://www.gaikindo.or.id/wp-content/uploads/2019/07/01.-Dirjen-Ilmate_-Sesi-Siang-GOVERNMENT-POLICY-ON-FUTURE-AUTOMOTIVE-TECHNOLOGY-GIIAS-Conference-240719.pdf

[24] Malaysian Investment Development Authority. (n.d). Incentives for New Investments. Retrieved on May 26, 2022, from: https://www.mida.gov.my/wp-content/uploads/2020/07/Chapter-2-Incentives-for-New-Investments.pdf

[25] Are vehicles that meet a set of define specification in terms of carbon emission level (g/km) and fuel consumption (l/100km) and include fuel efficient vehicles, hybrid, EV and alternatively fuelled vehicles e.g., LPG, Biodiesel, Ethanol, Hydrogen and Fuel Cell (Source: https://www.miti.gov.my/index.php/glossary/term/309)

Thailand[26]

Thailand is the leading ASEAN country in terms of automotive production. One of the key factors for this is the Thai government's fiscal and non-fiscal support for its automotive industry. Qualified automotive enterprises in Thailand are entitled to the following tax and non-tax incentives:

1. CIT exemption for up to eight years;
2. Import duty exemption on machinery and raw materials used in manufacturing export products;
3. Permit to bring skilled workers and experts to work in investment promoted activities;
4. Permit to own land; and
5. Permit to take out or remit money in foreign currency.

Vietnam[27]

Under the National Investment Law of Vietnam, qualified investment projects in the automotive industry are entitled to CIT exemption, CIT reduction, and tax reduction, depending on the project's location. As a preferred activity, qualified automotive enterprises are also entitled to duty exemption for the importation of fixed assets such as machines, equipment, and spare parts.

Project	Reduced tax rate	Tax exemption	Tax reduction
New investment projects in geographic areas with especially harsh socio-economic conditions, Economic Zones, and High-Tech Zones	10% for 15 years	4 years	50% for the next 9 years
New investment projects in geographic areas with harsh socio-economic conditions	17% for 10 years from 2016	2 years	50% for the next 4 years

[26] Rastogi, Vasundhara. (May 10, 2018). *Thailand's Automotive Industry: Opportunities and Incentives*. Retrieved on May 26, 2022, from: https://www.aseanbriefing.com/news/thailands-automotive-industry-opportunities-incentives/

[27] Baker Mckenzie. (November 2020). *Tax, Customs and Regulatory Aspects of Vietnam's Automobile Industry*. Retrieved on May 26, 2022, from: https://www.bakermckenzie.com/-/media/files/insight/publications/2020/12/baker-mckenzie-handbook--tax-customs--regulatory-aspects-of-vietnams-automobile-industry.pdf

VI. CONCLUSION

The automotive industry is one of the key drivers of the Philippine economy. The manufacturing of cars, including their parts, involves metals, chemicals, plastic, glass, steel, and other subsectors of the manufacturing industry. Given these linkages, the promotion of the automotive industry entails the corresponding expansion of these allied-supporting industries.

As discussed, the Philippine automotive industry is challenged by the low volume of production. Hence, the institutionalization of national policies for the industry, such as the MVDP and CARS Program, is commendable as it aims to propel the Philippine automotive industry to new heights. The proposed inclusion of the automotive manufacturing industry in the SIPP will make it eligible for fiscal incentives under the CREATE Act, putting the Philippines on par with select ASEAN countries that also grant fiscal incentives to their respective local automotive manufacturing industries. Further, it will improve the country's competitiveness, re-establish a strong domestic market base, and consequently expand its automobile export activities, reducing reliance on other countries.

ANNEX A

Fiscal Incentives Provisions of the Unnumbered House Bill re: Philippine Motor Vehicle Manufacturing Industry Act

xxx

ARTICLE III

INCENTIVES

SEC. 13 ***Fiscal Incentives*** **–** The Philippine Motor Vehicle Manufacturing Industry is hereby declared a priority investment sector that will regularly form part of the country's Investment Priority Plan (IPP), unless declared otherwise by law. As such, all entities duly accredited by the Department of Trade and Industry through the Board of Investment under this Act shall be entitled to all the incentives provided under Republic Act No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises Act

SEC. 14. ***Industry Development Programs*** – The Department of Trade and Industry, through the Board of Investment, shall formulate and implement programs that provide time—bound, targeted, performance-based, and transparent fiscal and non-fiscal support to new growth areas or specific motor vehicle manufacturing activities that have high potential economic gains in terms of employment generation, technology transfer and local value-added. Such programs shall be endorsed by the Council and approved by the President: *Provided,* That fiscal support granted under this Section shall be non-taxable, non-negotiable, and applicable up to its full amount; *Provided further,* That the budget for fiscal support shall be indicated in the annual National Expenditure Program and deemed automatically appropriated.

In addition, the Department of Trade and Industry through the Board of Investment and in coordination with the relevant government agency, shall formulate and implement programs to support the development of motor vehicle manufacturing supporting industries.

xxx

REFERENCES

Aldaba, Rafaelita M. (November 2007). Assessing the Competitiveness of the Philippine Auto Parts Industry. Retrieved from: https://dirp3.pids.gov.ph/ris/dps/pidsdps0714.pdf

Aldaba, Rafaelita M. (August 2008). Globalization and the Need for Strategic Government-Industry Cooperation in the Philippine Automotive Industry. Retrieved from: https://pidswebs.pids.gov.ph/ris/dps/pidsdps0821.pdf

ASEAN Automotive Federation. (n.d.). ASEAN Automotive Federation Statistics. Retrieved from: https://www.asean-autofed.com/statistics.html

Autoindustriya.com. (n.d). 2021 Philippine Auto Sales Report. Retrieved on May 5, 2022, from: https://www.autoindustriya.com/features/2021-philippine-auto-sales-at-294-223-units-up-18-56.html

Baker Mckenzie. (November 2020). Tax, Customs and Regulatory Aspects of Vietnam's Automobile Industry. Retrieved from: https://www.bakermckenzie.com/-/media/files/insight/publications/ 2020/12/baker-mckenzie-handbook--tax-customs--regulatory-aspects-of-vietnams-automobile-industry.pdf

Board of Investments. (2020, February). 2018 Annual Report Revolutionizing Philippine Industries, Attracting the Highest Strategic Investments. https://boi.gov.ph/ufaqs/annual-report-2018/

De Guzman, M. (2021, May 5). Leading auto wiring harness makers invited to manufacture in PH. Autoindustriya.Com. Retrieved May 25, 2022, from https://www.autoindustriya.com/auto-industry-news/leading-auto-wiring-harness-makers-invited-to-manufacture-in-ph.html

Department of Finance-Department of Budget and Management-Department of Trade and Industry-Board of Investments Joint Administrative Order No. 01-2015. (November 16, 2015). Guidelines for the Tax Payment Certificate Mechanism to Implement the Fiscal Support for the Comprehensive Automotive Resurgence Strategy (CARS) Program under Executive Order No. 182, s. 2015.

Desiderio, L. (2021, September 6). DTI hopeful on 3-year extension of CARS program. Philippine Star. Retrieved May 24, 2022, from https://www.philstar.com/business/2021/09/06/2125079/dti-hopeful-3-year-extension-cars-program

Executive Order No. 156 s. 2002 (December 12, 2002). Providing for a Comprehensive Industrial Policy and Directions for the Motor Vehicle Development Program and its Implementing Guidelines.

Executive Order No. 182 s. 2015 (May 29, 2015). Providing for a Comprehensive Automotive Resurgence Strategy Program.

Executive Order No. 226 s. 1987 (July 29, 1987). The Omnibus Investments Code.

Executive Order No. 877 s. 2010 (June 3, 2010). The Comprehensive Motor Vehicle Development Program.

Executive Order No. 906 s. 1983 (August 4, 1983). Directing the Review of the Progressive Car Manufacturing Program (PCMP).

House Bill No. 1833. Introduced by Representative Rufus B. Rodriguez. An Act to Strengthen the Competitiveness of the Philippine Motor Vehicle Manufacturing Industry.

Malaysian Investment Development Authority. (n.d). Incentives for New Investments. Retrieved on May 26, 2022, from: https://www.mida.gov.my/wp-content/uploads/2020/07/Chapter-2-Incentives-for-New-Investments.pdf

Memorandum Circular No. 651 s. 1973 (July 25, 1973). Providing A List of Vehicle Models Authorized for Assembly by Firms Participating Under the Progressive Car Manufacturing Program for Guidance of All Concerned.

Ministry of Industry, Republic of Indonesia. (July 24, 2019). Government Policy on Future Automotive Technology. Retrieved on May 26, 2022, from: https://www.gaikindo.or.id/wp-content/uploads/2019/07/01.-Dirjen-Ilmate_-Sesi-Siang-GOVERNMENT-POLICY-ON-FUTURE-AUTOMOTIVE-TECHNOLOGY-GIIAS-Conference-240719.pdf

Xinhua News Agency (January 01, 2022). Indonesia's car value-added tax incentive aims to revive local industry. Retrieved on May 26, 2022, from: https://english.news.cn/asiapacific/20220122/a7c8bdf4669948ce97b6a67b0978131f/c.html

Philippine Star. (n.d). Decision on CARS extension likely out in Q1. Retrieved from: https://www.philstar.com/business/2021/12/31/2150962/decision-cars-extension-likely-out-q1

Philippine Statistics Authority. (2014, February 11). Foreign Trade Statistical Tables: 2014 - 2021 |Philippine Statistics Authority. Retrieved May 23, 2022, from https://psa.gov.ph/statistics/foreign-trade/fts-table-id

Philippine Statistics Authority. (2022, May 10). 2019 Annual Survey of Philippine Business and Industry (ASPBI) - Manufacturing Sector: Preliminary Results | Philippine Statistics Authority. Retrieved May 23, 2022, from https://psa.gov.ph/content/2019-annual-survey-philippine-business-and-industry-aspbi-manufacturing-sector-preliminary

Presidential Memorandum Order No. 136 s. 1987 (December 1. 1987). Approving and Promulgating the Guidelines on the Car Development Program Replacing the Progressive Car Manufacturing Program.

Presidential Memorandum Order No. 157 s. 1988 (February 9, 1988). Approving the Guidelines on the Commercial Vehicle Development Program Replacing the Progressive Truck Manufacturing Program.

Presidential Memorandum Order No. 160 s. 1988 (February 29, 1988). Approving the Guidelines on the Motorcycle Development Program Replacing the Progressive Motorcycle Manufacturing Program.

Presidential Memorandum Order No. 346 s. 1996 (February 26, 1996). Amending the Guidelines on the Card Development Program (CDP), the Commercial Vehicle Development Program (CVDP), and the Motorcycle Development Program (MDP).

Presidential Memorandum Order No. 473 s. 1998 (April 8, 1988). Amending the Guidelines on the Car Development Program, the Commercial Vehicle Development Program, and the Motorcycle Development Program.

Rastogi, Vasundhara. (May 10, 2018). Thailand's Automotive Industry: Opportunities and Incentives. Retrieved on May 26, 2022, from: https://www.aseanbriefing.com/news/thailands-automotive-industry-opportunities-incentives/