

[MEMORANDUM ORDER NO. 346, February 26, 1996]

AMENDING THE GUIDELINES ON THE CAR DEVELOPMENT PROGRAM (CDP), THE COMMERCIAL VEHICLE DEVELOPMENT PROGRAM (CVDP), AND THE MOTORCYCLE DEVELOPMENT PROGRAM (MDP)

WHEREAS, on December 1, 1987, Memorandum Order No. 136 was issued promulgating the Guidelines on the Car Development Program (CDP);

WHEREAS, on February 9, 1988, Memorandum Order No. 157 was issued promulgating the Guidelines on the Commercial Vehicle Development Program (CVDP);

WHEREAS, on February 29, 1988, Memorandum Order No. 160 was issued promulgating the Guidelines on the Motorcycle Development Program (MDP);

WHEREAS, Section 14 of M.O. 136 (s. of 1987), Section 14 of M.O. 157 (s. of 1988), and Section 14 of M.O. 160 (s. of 1988) provide that the Board of Investments, after consultation with the industry, may recommend to the President amendments to the Guidelines on the CDP, CVDP, and MDP, taking into account the attainment of program objectives, economic conditions, and local manufacturing capabilities;

WHEREAS, there is a need to increase exports of automotive parts and components in order to develop a viable automotive parts manufacturing industry, which is the common and primordial objective of the CDP, CVDP, and the MDP;

WHEREAS, there is a need to support accelerated rural development by providing suitable means for the transport of goods, services and passengers;

WHEREAS, there is a need to encourage and assist the development of the non-formal automotive industry in areas of safety, roadworthiness, and compliance with emission standards:

NOW, THEREFORE, I, FIDEL V. RAMOS, President of the Philippines, do hereby promulgate the following amendments to the Guidelines on the Car Development Program (CDP); the Commercial Vehicle Development Program (CVDP); and the Motorcycle Development Program (MDP),

Chapter I

The Car Development Program

SECTION 1. *Objectives.* —

1.1 The development of a viable automotive parts manufacturing industry shall remain as the primary objective of the Program, economies of scale of which can be achieved by increased exports.

1.2 The capability of the assemblers to offer more reasonably-priced passenger cars to the middle-income group shall be given more weight.

SECTION 2. *Definition of Terms.* —

2.1 The definition of SKDs and CKDs appearing in M.O. 136 (s. of 1987) are hereby modified as follows:

2.1.1 SKDs are semi-knocked down parts and components for assembly purposes that are imported in partially-assembled condition. SKDs include semi-assembled vehicles and cars without tires and batteries, and when authorized by the Board of Investments for importation in such a state, shall be considered as SKDs and shall be treated for tariff purposes as CKDs.

2.1.2 CKDs are completely knocked-down parts and components for assembly purposes that are imported in disassembled condition. The CKD pack, however, may include not only parts and components but also sub-assemblies and assemblies, e.g., engine, transmission axle assemblies, chassis and body assemblies.

2.2 KD parts are parts forming part of the CKD pack that may have been left out of the CKD importation. They may also be warranty parts (replacement of defective parts) or part of the CKD minus the components that are to be locally sourced.

SECTION 3. *Implementing Agency.* — The Department of Trade and Industry (DTI), through the Board of Investments (BOI), will continue to be the agency responsible for carrying out the effective implementation of this Program. The BOI may, however, after consultation with concerned parties, form, designate, or deputize another body, committee, or company to perform some of the tasks involved in effectively pursuing some of the functions, or monitoring certain aspects of the Program in accordance with existing Government rules and regulations.

SECTION 4. *Participants.* —

4.1 Aside from applications for participation in Category III of the CDP [M.O. 68 (s. of 1992)], applications for participation in Categories I and II, which categories were previously closed, shall be accepted by BOI from Filipino-owned and foreign-owned companies organized under Philippine laws provided that the applicant will be able to obtain a technical licensing agreement with the foreign CKD supplier; that it will assemble established quality passenger cars; that it will provide adequate parts and support services; and, provided further, that the participant qualifies under the CDP rules and regulations. The BOI shall decide on the accepted applications within sixty (60) working days from date of official application thereof.

4.2 A new participant in the CDP is one who is neither a participant in CDP Categories I, II or III on the date of approval of these supplemental guidelines. The new participant in the CDP shall possess the following qualifications:

4.2.1 Capability to invest and/or bring in investments equivalent to US\$10 million in the manufacture of motor vehicle parts and components for the exports and domestic markets.

4.2.2 Ability to establish a new assembly facility or utilize an existing assembly facility which is either idle or in operation.

4.2.3 Capability to post a performance bond or bank guaranty to ensure the fulfillment of the commitments that it shall make on the establishment of a major automotive parts manufacturing facility in accordance with its participation in the Program. Such bond or guaranty shall be proportionally reduced upon presentation of proof of investments in plant build-up, excluding land.

SECTION 5. *Coverage.* —

5.1 The CDP shall have the following categories, based on engine displacement:

Category I — With engine displacement of 1,200 cc or below and with a reasonable price ceiling as determined by the Board. A car with a larger engine displacement may be allowed, PROVIDED, that its selling price shall be in accordance with the price ceilings established for the category.

Category II — Above 1200 cc but below 2190 cc

Category III — 2190 cc and above (Note: Equivalent diesel engine displacement will be allowed.)

5.2 The BOI may re-classify participating models under Category I with engine displacement greater than 1200 cc to Category II of the CDP provided that a replacement model with engine displacement of 1200 cc or below is registered under Category I in its place. The latter will then be governed by the terms and conditions of the participant's original registration under Category I. Similarly, assemblers with car models with engine displacement of 2190 and above now registered under Category II may have the option to retain their registration under Category II or transfer the same to Category III of the CDP, continued participation of which will be covered by the provisions of M.O. 68 (s. of 1992).

5.3 New participants in Category I, II and III of the Car Development Program (CDP) intending to sell their units only to the domestic market may no longer be granted privilege to import semi-knocked down units (SKDs) while their assembly facilities are being set up. On the other hand, new participants in the Program which will export at least fifty percent (50%) of their CBU car production (70% in the case of foreign companies) may be authorized to import SKD units for the local market portion of their operations as incentive for setting up in the Philippines their CBU production platform for their car exports in the region. The BOI may initially grant the SKD privilege for a period of six (6) months and extend the same for another six (6) months after the proponent has shown proof that it is pursuing its CKD assembly operations in accordance with the project timetable.

5.4 Anticipating the advent of electric (battery-operated) cars, and other non-conventional-energy type of cars, the CDP shall cover the same. The BOI shall, at the appropriate time, formulate guidelines for the participation of such cars in the

CDP.

5.5 Importation of brand-new completely built-up (CBU) passenger cars shall now be allowed in line with Executive Order No. 264, S. 95 and Monetary Board Circular No. 92, S. 95. The Monetary Board shall issue a Memorandum to Authorize Agent Banks defining "new" and the processes involved.

SECTION 6. *Models and Variants.* — There shall be no limitation in the number of models and variants provided that the same are registered with the BOI.

SECTION 7. *Local Content.* —

7.1 Participants in the Program, except those in Category III, shall no longer be required to comply with a vehicle local content higher than forty percent (40%) to qualify/remain in the CDP.

However, the BOI may grant a foreign exchange award amounting to fifty percent (50%) of foreign exchange earned during the previous year, to a participant in Categories I and II who has attained a weighted local content average of at least 50% of all its participating models and variants. The BOI shall issue guidelines for the grant of the foreign exchange award to qualified participants, which shall become executory fifteen (15) days after publication.

7.2 In order to pursue the primary objective of the Program, which is the development of a viable local automotive parts manufacturing industry, and to assist assemblers in achieving the required local content requirement, the BOI may adopt policies that will encourage continuing purchase by automotive assemblers and the unhampered supply by the autoparts manufacturers of automotive parts and components at competitive prices and quality.

7.3 For purposes of determination and/or audit of the local content attainment of an assembler for any particular model/variant, the BOI may, in consultation with concerned parties, designate or deputize the Technical Review Committee to undertake the work unless circumstances warrant the formation/designation/deputization of another body, committee or company for the purpose. The BOI shall prepare the Terms of Reference for the work to be undertaken by the said body.

7.4 The BOI may no longer use a mandatory deletion list in pursuing the Program's objectives.

7.5 The local content requirement under the program shall be terminated by the year 2000 based on the Agreement on Trade-Related Aspects of Investment Measures under the General Agreement on Tariff and Trade (GATT).

SECTION 8. *Joint-Venture Projects.* — The BOI, in recognition of the technology transfer that results from joint ventures, may grant a foreign exchange concession to new joint-venture car assembly operations which shall be set up under the amended guidelines amounting to ten percent (10%) of the net foreign exchange earnings (NFEE) required during the first two (2) years of operation of such new joint-venture companies, provided that the local equity thereof shall be at least thirty percent (30%). Similarly, new or existing participants who shall promote joint

ventures between their parts vendors and local autoparts manufacturers shall be granted additional foreign exchange concessions amounting to ten percent (10%) of the net foreign exchange earnings (NFEE) of the parts manufacturing joint-venture during its first two (2) years of operation, provided that the local equity thereof shall be at least thirty percent (30%).

SECTION 9. *CKD and CBU Prices.* — The BOI shall continue to monitor the retail prices of participating models and variants. For the purpose of determining reasonable prices, the BOI may review the price composition of certain models and ask the assemblers for necessary documentation.

SECTION 10. *Foreign Exchange Requirements.* —

10.1 Participants in Categories I, II and III will still be required to earn foreign exchange credits through the export of automotive products to be able to import CKDs. The net foreign exchange earnings shall be recorded in the ledger without bonus.

10.2 The foreign exchange ratio (as a percentage of CKD import value) for Category I participants will be similar to CVDP Categories I and II, i.e.:

1995	— 5.0%
1996	— 5.0%
1997	— 7.5%
1998	— 7.5%
1999	— 15.0%
2000	— 15.0%

10.3 The foreign exchange ratio (as a percentage of CKD import value) for Category II participants will be as follows:

1995	— 40%
1996	— 45%
1997	— 45%
1998	— 50%
1999	— 50%
2000	— 55%

10.4 Participants in Category III, as well as AUV participants, will be required to earn seventy-five percent (75%) of their foreign exchange requirements for the importation of CKDs.

10.5 For purposes of determining and/or auditing the net foreign exchange of exports promoted by an assembler during any particular period and other related technical matters, the BOI may, in consultation with concerned parties, designate or deputize the Technical Review Committee to undertake the work unless circumstances warrant the formation/ designation/deputization of another body, committee or company for the purpose. The BOI shall prepare the Terms of Reference for such net foreign exchange determination, review and/or verification.

10.6 In view of the foreign exchange liberalization, Sec. 9.4 of M.O. 136 (s. of 1987) is hereby deemed superseded/revoked.