EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

AUTOMOTIVE ADVOCACY PAPER 2019

ABOUT ECCP

The **European Chamber of Commerce of the Philippines** (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.

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Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.

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ADVOCACY PAPER 2019

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METHODOLOGY

The 2019 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2018 Advocacy Papers were examined under the following criteria:

Completed/Substantial Progress: Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

Some Progress: Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

No Progress/Retrogression: Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

MESSAGE FROM ECCP PRESIDENT

2019 has truly been a year of opportunities for the European-Philippine business community. This year, we welcome the implementation of the landmark Ease of Doing Business Act as well as the 18th Congress, with its list of legislative economic priorities. We also acknowledge the enactment of laws on Universal Health Care, Tax Amnesty, Energy Efficiency and Conservation, amongst other measures. Steady macroeconomic fundamentals as well as the administration's plans and pronouncements concerning economic reforms also open opportunities for further trade and investments. Furthermore, the ECCP aims to build upon the achievements of the past years in making the Philippine business environment friendlier for European companies and ensuring that these businesses can make the most of these exciting developments.

To further build on such success, several matters need to be addressed in order to fully realize the potential of the European-Philippine economic ties and the Philippine economic growth. It becomes increasingly important for the Philippines to improve global market integration, enhance its competitiveness as a Foreign Direct Investment (FDI) destination, and accelerate infrastructure development in order to achieve much needed sustainable and inclusive growth.

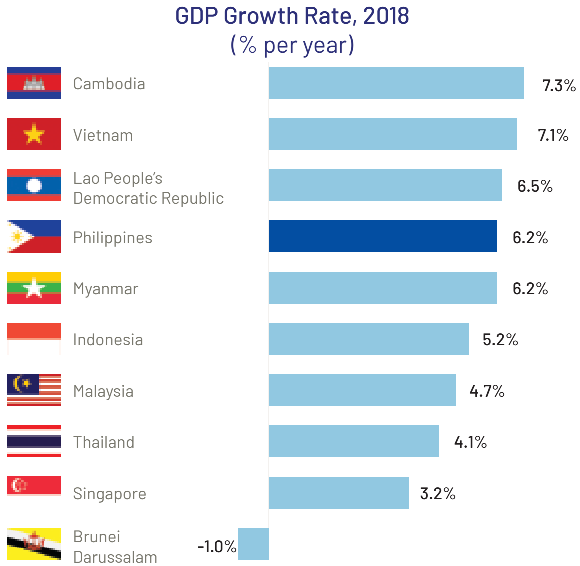
It is in this context that we are pleased to present the 2019 ECCP Advocacy Papers. The ECCP Advocacy Papers include suggested reforms on priority sectors identified by the Chamber and its members. As an advocate of economic liberalization and sustainable economic growth, the ECCP stands ready to support the Philippines in making these much needed changes for the mutual benefit of Europe and the Philippines.

Mr. Nabil Francis
ECCP President

WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines strives to maintain its robust economic performance amidst several challenges. Though the GDP posted a decelerated growth of 6.2% in 2018, it is still considered as one of the fastest-growing countries in the Association of Southeast Asian Nations (ASEAN). With a 10-year average annual GDP growth of 5.4%,[1] the Organisation for Economic Co-operation and Development (OECD) recognizes the Philippines as one of the countries, along with Vietnam, who are expected to lead the ASEAN-5 in terms of economic growth.[2]



Source: Asian Development Bank. *Asian Development Outlook 2019*

The GDP was mainly driven by manufacturing, trade and repair of motor vehicles, motorcycles, personal and household goods, and construction. Services accounted for the biggest share with 57.8%, followed by Industry with 34.1%, and Agriculture, Hunting, Forestry and Fishing (AHFF) with 8.1%.[3] The steady flow of remittances from Overseas Filipino Workers (OFWs), the ambitious *Build Build Build* Program, and resilience of the business and knowledge outsourcing industry are anticipated to keep the momentum going in the upcoming years.[4] The GDP Per Capita posted a decelerated growth of 0.5% from 2017, placing the Philippines 5th in rank amongst the ASEAN.[5]

1 World Economic Forum. (2018) *The Global Competitiveness Report*. Retrieved 15 September 2019 from www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

2 OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. Retrieved 14 September 2019 from dx.doi.org/9789264286184-en.

3 Philippine Statistics Authority. (2019). *Gross Domestic Product of the Philippines Highlights for 2018*. Accessed 14 September 2019 from psa.gov.ph/regional-accounts/grdp/highlights.

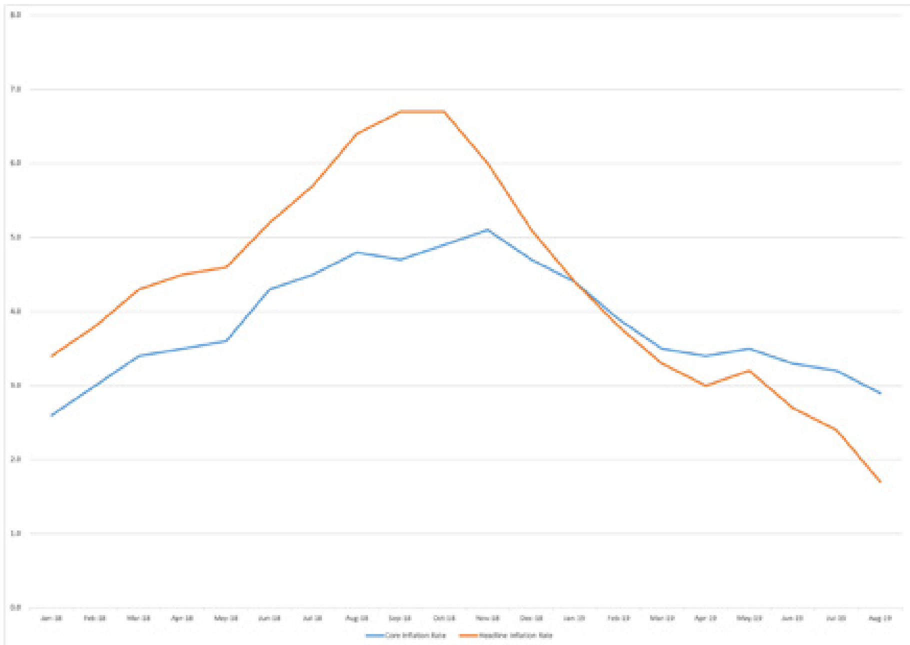
4 OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*.

5 Asian Development Bank. (n.d.) *Economic indicators for the Philippines*. Retrieved 16 September 2019 from adb.org/countries/philippines/economy.

The inflation rate for 2018 steadily rose throughout the year. The headline inflation rate increased from 2.9% in 2017 to 5.2% in 2018. Inflation peaked at 6.7% in the third quarter of 2018, and only decreased during the last two months of the said year. The drastic increase in prices was primarily attributed to the tight domestic supply, impact of natural calamities, and the rising global crude oil rates.[6]

The average core inflation rate reached 4.1% in 2018 – a 2.5% increase from 2017, that could be linked to the impact of fiscal expansion as well as the pass-through effect of a weaker peso.[7] The full year average inflation was brought up to 5.2%, which is above the National Government's announced target range for 2018.[8] However, as of August 2019, the headline inflation rate decelerated to 1.7%, the lowest rate achieved since October 2016 which was at 1.8%. The deceleration was brought about by the slower annual increase in prices of food and non-alcoholic beverages.[9]

Philippines: Inflation Rate, January 2018 – August 2019



Source: PSA and BSP

6 World Bank. (2019) *Philippines Economic Update April 2019: Safeguarding Stability, Investing in the Filipino*. Retrieved 16 September 2019 from documents.worldbank.org/curated/en/442801553879554971/pdf/Philippines-Economic-Update-Safeguarding-Stability-Investing-in-the-Filipino.pdf

7 Ibid.

8 Bangko Sentral ng Pilipinas. (2018) *Inflation Report Q4 2018*. Retrieved 15 September 2019 from bsp.gov.ph/downloads/Publications/2018/IR4qtr_2018.pdf.

9 Philippine Statistics Authority. (2019). *Summary Inflation Report Consumer Price Index (2012=100): August 2019*. Accessed 27 September 2019 from psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2019.

The country's credit rating over the past year proves itself to be stable according to Moody's Investor Service.[10] The table below shows ratings from various agencies throughout the year:

2018 Philippine Credit Ratings		
Date	Agency	Rating
26 April	S&P	BBB Positive
20 July	Moody's	Baa2 Stable
19 December	Fitch	BBB

Source: Standard and Poor's, Moody's, Fitch.

The demographics for 2018 puts the country's economy at a prime advantage. A population of 106.60 million,[11] with a median age of 23.7,[12] adds a young, dynamic and competitive workforce to the country's competitive advantages including its strategic business location in the region and a pursuit for developing infrastructure for global growth,[13] among others.

A 2018 Philippine Statistics Authority (PSA) Survey records the employment rate at 94.7%. Categorically, the Services sector had the biggest share with 56.6%, followed by the Agriculture sector with 24.3%, and the Industry sector with 19.1%.[14] This leaves the unemployment rate at 5.3% and the underemployment rate with 16.4%. Though the statistics on employment displayed a positive growth of approximately 0.3-0.4% from 2017, high levels of unemployment remain to be a recurring challenge for the Philippines.

For international rankings, the 2018 Global Competitiveness Report ranks the Philippines 56th out of 140 countries, with a score of 52.1.[15] The report highlighted the country's Macroeconomic Stability as its strongest pillar, ranking 43rd with a score of 90. However, Innovation Capability was noted as the country's weakest, ranking 67th with a score of 37.2.[16] As for the World Bank Doing Business 2018 Report, the Philippines was given an overall ranking of 113th out of 190 countries. The country's factor of Getting Electricity is ranked best at 31st, while Starting a Business is ranked the worst at 173rd.[17]

10 Moody's Investors Service. (2018) *Announcement: Moody's: Philippines' credit profile supported by strong growth and progress on reform*. Retrieved 16 September 2019 from moodys.com/research/Moodys-Philippines-credit-profile-supported-by-strong-growth-and-progress—PR_387103.

11 Asian Development Bank. (2018) *Philippines: By the Numbers*. Retrieved 16 September 2019 from data.adb.org/dashboard/philippines-numbers.

12 Central Intelligence Agency. (2018). *The World Factbook: Philippines*. Retrieved 15 September 2019 from cia.gov/library/publications/the-world-factbook/geos/rp.html.

13 Philippine Consulate General. (n.d.) *The Philippines possesses several competitive advantages*. Retrieved 18 September 2019 from vancouverpcg.org/trade-01.html.

14 Philippine Statistics Authority. (2018). *2018 Annual Labor and Employment Status*. Accessed 15 September 2019 from psa.gov.ph/content/2018-annual-labor-and-employment-status.

15 World Economic Forum. (2018) *The Global Competitiveness Report*.

16 Ibid.

17 World Bank. (2018). *Doing Business 2018: Reforming to Create Jobs*. Retrieved 16 September 2019 from doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf.

With regard to Foreign Direct Investments (FDIs), the Bangko Sentral ng Pilipinas officially registered USD 9.8 Billion in net inflows for 2018, down by 4.4% from the USD 10.3 billion record from 2017.[18] Majority of equity capital placements were mainly channeled to manufacturing, financial and insurance activities, and real estate activities with Singapore, Hong Kong, and Japan as the top partners.[19] With the country's relations with the European Union, three member states ranked in the top ten with Netherlands, Luxembourg, and Germany placing 7th, 8th, and 10th, respectively.[20]

Total external trade amounted to USD 182.15 billion in 2018. The top three major trading partners for the year were People's Republic of China, Japan, and the United States of America.[21] The European Union (EU) immediately followed with a 9.6% share in total trade, valued at USD 17.49 billion. Germany ranked the highest as the Philippines' top trading partner in the EU, followed by the Netherlands, and France. Alternatively, the Philippines is the EU's 41st largest trading partner globally, accounting for only 0.4% of the EU's total trade.[22]

Indeed, the Philippines has made notable progress in recent years. However, much work still needs to be done in order to improve the country's global competitiveness. Substantial economic reforms, especially concerning the ease of doing business as well as the creation of a level playing field have yet to be realized to capitalize on the substantive gains of the Philippines. Furthermore, boosting the Philippine manufacturing sector, deepening the ASEAN integration, and enhancing trade facilitation are all imperative to take the Philippine economy to greater heights.

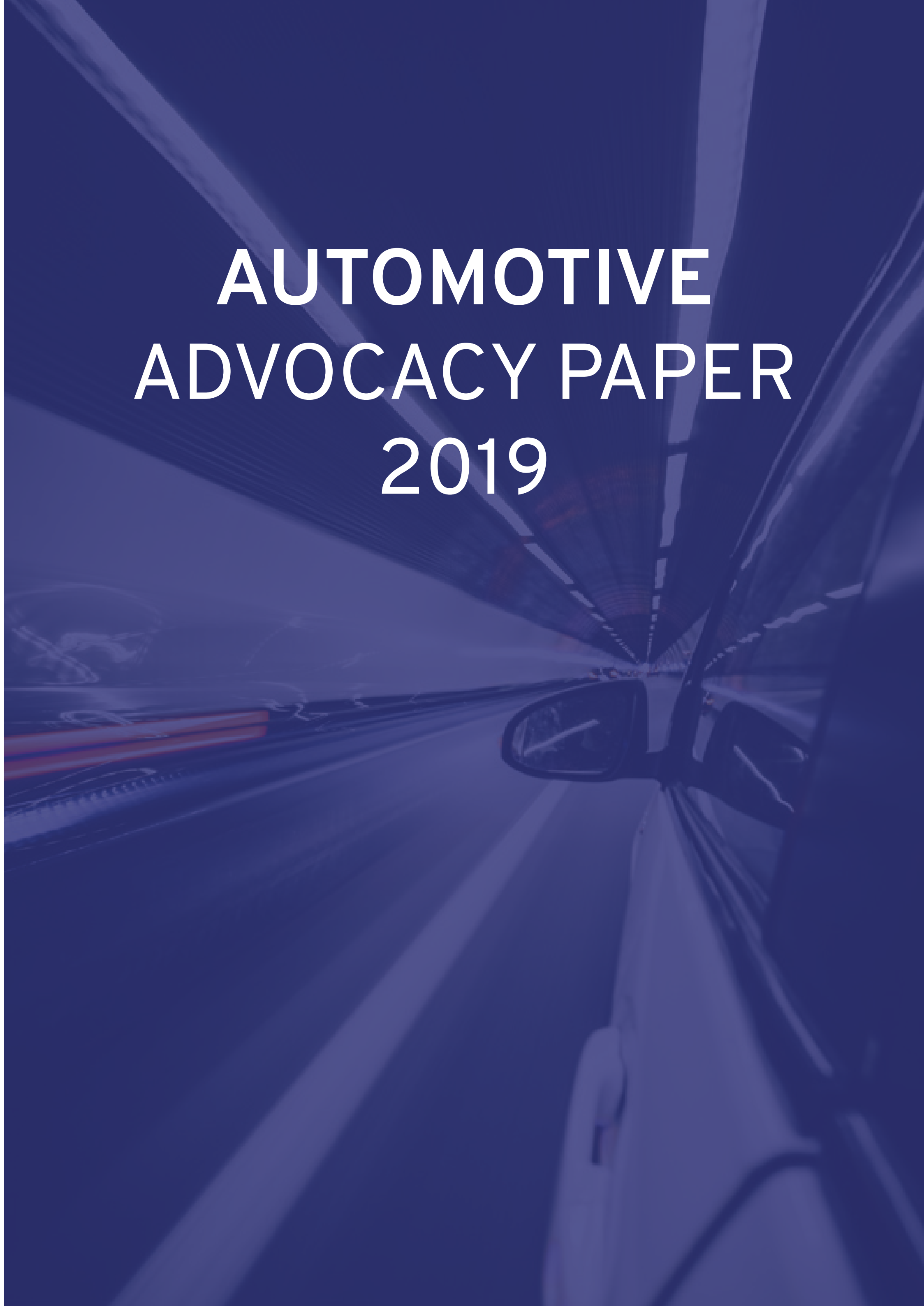
18 Bangko Sentral ng Pilipinas. (2019). *FDI Registers US$677 million in December 2018; Full-Year Reaches US$9.8 Billion in 2018.* Retrieved 14 September 2019 from bsp.gov.ph/publications/media.asp?id=4967&yr=2019.

19 Ibid.

20 Department of Trade and Industry. (2018) *NET FOREIGN DIRECT INVESTMENTS REPORT*. Retrieved 16 September 2019 from dti.gov.ph/resources/statistics/net-foreign-direct-investments-fdi#graph.

21 Philippine Statistics Authority. (2019). *Highlights of the 2018 Annual Report on International Merchandise Trade Statistics of the Philippines (Preliminary).* Accessed 15 September 2019 from psa.gov.ph/content/highlights-2018-annual-report-international-merchandise-trade-statistics-philippines.

22 European Commission. (2019). *Countries and Regions: The Philippines*. Retrieved 16 September 2019 from ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/.



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INTRODUCTION

Southeast Asia is fast becoming a global automotive powerhouse: Thailand continues to enjoy the recognition as the "Detroit of the East"; Vietnam recently introduced its first homegrown car brand; and Indonesia is vying to become the regional production hub for electric vehicles. Against this backdrop of vigorous competition, the Philippine automotive industry has considerable potential in becoming a fast-revving market in the coming years. However, the local industry's growth is challenged by a number of factors and regulations including the recent tax adjustments and record-high commodity prices, among others.

According to the Philippine Statistics Authority, the domestic automotive industry is classified under the category of Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods in government records. Year-on-year record shows that this segment posted a 5.9% growth in 2018 but is lower than the 8.7% recorded the previous year.

Likewise, latest figures from industry groups paint similar headwinds. Consolidated reports from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI), the Truck Manufacturers Association (TMA), and the Association of Vehicle Importers and Distributors (AVID) point to a 15.22% decline in total vehicle sales to 401,803 units sold in 2018 from 473,943 the prior year.[1]

The industry largely attributed the slowdown to the imposition of automobile excise tax[2] under the Tax Reform for Acceleration and Inclusion (TRAIN) Law and record-high inflation at the latter half of 2018 that reached the six-point print beyond the government's target range.[3] Dampening also the industry is the surge of global fuel prices in 2018 and a weak local currency.

Competition across the region in terms of manufacturing output is also high. Motor vehicle sales and production in the Philippines struggled vis-à-vis its Association of Southeast Asian Nation (ASEAN) neighbors in 2018. The domestic sector slid to negative territory (Figure 1) for the first time in seven years where it only supplied 79,763 total units for 2018 compared to the 141,251 total deliveries in 2017.[4]

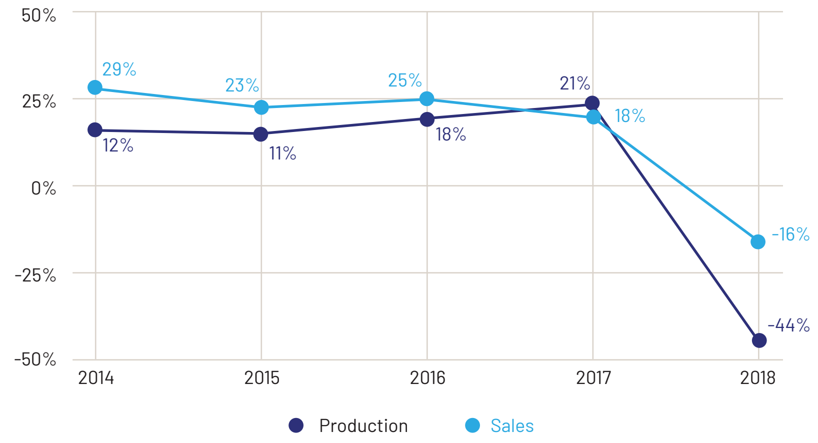
1 Co, B. (26 January 2019). Down 15%: Philippine Auto sales at 401,803 units in 2018. *Autoindustriya.com*. Retrieved from https://www.autoindustriya.com/auto-industry-news/philippine-auto-industry-sells-401-803-units-in-2018-down-15-22.html.

2 Bureau of Internal Revenue. (2018). *Revenue Regulations No. 5-2018*. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202018/RR%20No.%205-2018.pdf.

3 Banko Sentral ng Pilipinas. (2019). *Inflation Rates*. Retrieved from http://www.bsp.gov.ph/statistics/spei_new/tab34_inf.htm.

4 ASEAN Automotive Federation. (2018). *ASEAN Automotive Federation 2018 Statistics*. Retrieved from http://www.asean-autofed.com/files/AAF_Statistics_2018.pdf.

Figure 1. Philippine Motor Vehicle Sales and Production Growth Rate



ASEAN Automotive Federation

Table 1. 2018 ASEAN Motor Vehicle Sales and Production Growth Rate

Country	Sales	Production
Brunei Darussalam	0.2%	-
Indonesia	7%	10%
Malaysia	4%	13%
Myanmar	113%	149%
Philippines	**-16%**	**-44%**
Singapore	-18%	-
Thailand	20%	9%
Vietnam	15%	2%

Note: Cambodia and Laos are not ranked and included in the rankings.

ASEAN Automotive Federation

Despite the contraction in the local automotive market, consumer preference among the top brands of choice remained relatively the same from the preceding years. Toyota still occupies most FIlipinos' garages wielding the largest market share at 37.93%, followed by Mitsubishi (16.45%), Hyundai (8.81%), Nissan (8.70%), and Ford (5.87%), respectively. Rounding up the top ten are Honda (5.80%), Suzuki (4.91%), Isuzu (4.16%), Foton (1.03%), and Chevrolet (1.00%). Meanwhile, two European automobiles dominate the premium line with Mercedes-Benz (0.19%) topping the list and BMW (0.15%) ranking third.[5]

European car manufacturers and their domestic distributors are already present in the Philippine market and are actively courting the expanding middle class with more disposable income. Nevertheless, tariff and non-tariff barriers to trade remain in place which make it difficult for these brands to benefit from economies of scale and compete with their more household Asian and American counterparts (Table 2).

Table 2. Market Share of European Car Brands in the Philippines and Total Units Sold in 2018

Distributor	Total Units Sold	Market Share
Volkswagen	1,363	0.34%
Mercedes-Benz (Cars)	773	0.19%
PGA Cars (Audi, Bentley, Lamborghini, Porsche)	586	0.15%
BMW	508	0.15%
MAN	303	0.08%
Peugeot	244	0.06%
Mini	228	0.06%
CMC (Land Rover, Jaguar)	131	0.03%
Volvo	103	0.03%
Iveco	64	0.02%
Maserati	26	0.01%
Aston Martin	23	0.01%
Mercedes-Benz (Trucks)	20	0.00%
Ferrari	15	0.00%
Lotus	7	0.00%
Rolls Royce	3	0.00%

Consolidated reports from CAMPI, TMA, AVID

5 Co, B. (26 January 2019). Down 15%: Philippine Auto sales at 401,803 units in 2018. Autoindustriya.com. Retrieved from https://www.autoindustriya.com/auto-industry-news/philippine-auto-industry-sells-401-803-units-in-2018-down-15-22.html.

It is crucial to note that the automotive sector is an important source of employment providing jobs for 12 million people in the European Union (EU)[6] and 1.68 million in the Philippines.[7] However, there remains a massive and unlocked potential in the increased bilateral trade between the EU and the Philippines. Latest available figures show that the country accounted for less than one-tenth of 1% of EU's total automotive exports and imports in 2017 while EU accounted for only 2.7% of automotive imports and 7.6% of total exports in the same year.[8]

Increased promotion in automotive and auto parts manufacturing, as well as human resource capacity building can help revitalize and develop the Philippines as a major regional automobile player. Moreover, it will advance the country's economic growth, competitiveness, and investment attraction. This paper brings forward its recommendations on easing trade in the automotive sector, implementing motor vehicle development programs and incentives, promoting measures towards cleaner emissions and roadworthiness, as well as adopting vehicle safety standards and road safety education in the basic curriculum.

6 European Commission. *Automotive industry*. Retrieved from https://ec.europa.eu/growth/sectors/automotive_en.

7 The domestic automotive industry provides 68,000 direct employment out of the total 1.68 million jobs. Presentation of Board of Investments Governor Napoleon Concepcion at the ECCP Automotive Committee Meeting last 12 March 2019.

8 European Commission. (2018). Sustainability Impact Assessment (SIA) in support of Free Trade Agreement (FTA) negotiations between the European Union and the Philippines: Draft Interim Report. Retrieved from http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157584.pdf.

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

The following reforms and developments in the Philippine automotive sector were recently put in place:

- The Department of Transportation (DOTr) launched the **Public Utility Vehicle (PUV) Modernization Program** in June 2017, through **Department Order (DO) No. 2017-011**[9], aiming to enhance commuter experience by improving safety, energy efficiency, roadworthiness, and emission standards of the public transportation system. DO No. 2017-011 serves as an omnibus guidelines on new route planning and introduce reforms on granting PUV franchises. The government targets to complete the fleet modernization scheme by June 2020.[10]
- Last August 2018, the Department of Energy (DOE) issued **Memorandum Order (MO) No. 2018-02-0012**[11] directing all oil companies to provide Euro III diesel oil available for sale to alleviate rising petroleum prices. Industry groups and other government departments voiced environmental concerns and argued that the costs outweigh the intended benefits. In response to calls from stakeholders and the recommendations of the Joint Congressional Oversight Committee on Biofuels to review or cancel the MO, the DOE issued **MO No. 2019-01-0002**[12] in December 2018 repealing its earlier issuance on making Euro II as an option for less expensive diesel oil.
- In line with the implementation of the TRAIN Law, the Bureau of Internal Revenue (BIR) released **Revenue Regulations (RR) No. 2-2018**[13] and **RR No. 5-2018**[14] revising the excise tax rates on petroleum products and adjusting the excise tax on automobiles, respectively.
- Under the proposed Corporate Income Tax and Incentives Reform Act (CITIRA), then-known as the Tax Reform for Attracting Better and High Quality Opportunities or TRABAHO Bill in the 17th Congress, the Board of Investments (BOI) is tasked to formulate the **Strategic Investments Priorities Plan (SIPP)**—a list of priority sectors for both domestic and export markets that will qualify for fiscal and non-fiscal incentives granted by the CITIRA. During the Manufacturing Summit last November 2018, the Department of Trade and Industry (DTI) identified auto and auto parts as one of the 16 priority industries.[15]
- To accommodate the growing number of new vehicle registrations, the DOTr released **DO No. 2018-019**[16] in August 2018 which privatizes the Motor Vehicle Inspection System (MVIS) and sets standards for financial capacity and track record for private motor vehicle inspection centers (PMVICs). Three months later, the Land Transportation Office (LTO) issued Memorandum Circular (MC) No. 2018-2158[17] laying out the guidelines for PMVICs to conduct roadworthiness inspections and charge inspection fees as a prerequisite for vehicle registration. In January 2019, Senate Public Services Committee Chairperson Grace Poe filed **Senate Resolution No. 1003**,[18] calling for an inquiry over the allegedly exorbitant inspection fees and argued that the LTO memo did not undergo thorough public consultations.
- President Rodrigo Duterte signed **Republic Act (RA) No. 11229** or the **Child Safety in Motor Vehicles Act** last March 2019 requiring motor vehicle owners to use child restraint systems when traveling with children. Additionally, the law requires that child restraint systems be in compliance with United Nations (UN) standards.[19]
- As part of the government's efforts to streamline services and fight corruption, the president signed **RA No. 11239** in March 2019 which abolishes the Road Board. Moreover, the Motor Vehicle User's Charge will be remitted to the National Treasury and earmarked for construction of public utilities and services.[20]
- Last July 2019, Senate Energy Committee Chairperson Sherwin Gatchalian filed **Senate Bill (SB) No. 174** or the **Electric Vehicles and Charging Stations Act of 2018**. Among its salient provisions include granting time-bound fiscal incentives for electric-vehicle manufacturers and importers. This measure will also prioritize e-vehicle registration and franchise applications.[21]
- Furthermore, **SB No. 50**[22] and **SB No. 128**[23] were also filed last July 2019 seeking to amend the Land Transportation Code by allowing the use of motorcycles as PUV, thus legalizing the operations of motorcycles-for-hire and motorcycle ride-hailing apps.

9 Department of Transportation. (2017). *Department Order No. 2017-11*. Retrieved from http://ltfrb.gov.ph/wp-content/uploads/2017/11/DO-2017-011.pdf.

10 Valdez, D. (15 July 2019). LTFRB firm on June 2020 deadline to complete jeepney modernization. *BusinessWorld*. Retrieved from https://www.bworldonline.com/ltfrb-firm-on-june-2020-deadline-to-complete-jeepney-modernization/.

11 Department of Energy. (2018). *Department Order No. 2018-08-0012*. Retrieved from https://www.doe.gov.ph/sites/default/files/pdf/issuances/do2018-08-0012.pdf.

12 Department of Energy. (2019). *Department Order No. 2019-01-0002*. Retrieved from https://www.doe.gov.ph/sites/default/files/pdf/issuances/do2019-01-0002.PDF.

13 Bureau of Internal Revenue. (2018). *Revenue Regulations No. 2-2018*. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202018/RR%20No.%202-2018/RR%20No.%202-2018.pdf

14 Bureau of Internal Revenue. (2018). *Revenue Regulations No. 5-2018*. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202018/RR%20No.%205-2018.pdf.

15 (1) electrical & electronics, (2) IT-BPM, creative, (3) agri-business, (4) innovation, R&D, (5) auto & auto parts, (6) chemicals, (7) parts, components, inclusive business, (8) social services, (9) aerospace parts & MRO, (10) shipbuilding, ship repair, (11) efficiency seeking of competing in highly contestable markets, (12) climate change, (13) tool & die, iron & steel, (14) furniture, garments, textile, (15) sectors in transition, (16) transport, logistics, construction

16 Department of Transportation. (2018). Department Order No. 2018-019. Retrieved from https://drive.google.com/file/d/1utPPzpKeRX792Qdah13H6JFBm0lyWCLt/view.

17 Land Transportation Office. (2018). *Memorandum Circular No. 2018-2158*. Retrieved from http://www.lto.gov.ph/images/ISSUANCES/Memo_Circular/MC_2018-2158.pdf.

18 *Senate Bill No. 1003*. Retrieved from https://www.senate.gov.ph/lisdata/2944526113!.pdf.

19 Official Gazette. (2019). *Republic Act No. 11229*. Retrieved from https://www.officialgazette.gov.ph/downloads/2019/02feb/20190222-RA-11229-RRD.pdf.

20 Official Gazette. (2019). *Republic Act No. 11239*. Retrieved from https://www.officialgazette.gov.ph/downloads/2019/03mar/20190308-RA-11239-RRD.pdf.

21 Senate Bill No. 174. Retrieved from https://www.senate.gov.ph/lisdata/3045127292!.pdf.

22 Senate Bill No. 50. Retrieved from https://www.senate.gov.ph/lisdata/3026627099!.pdf.

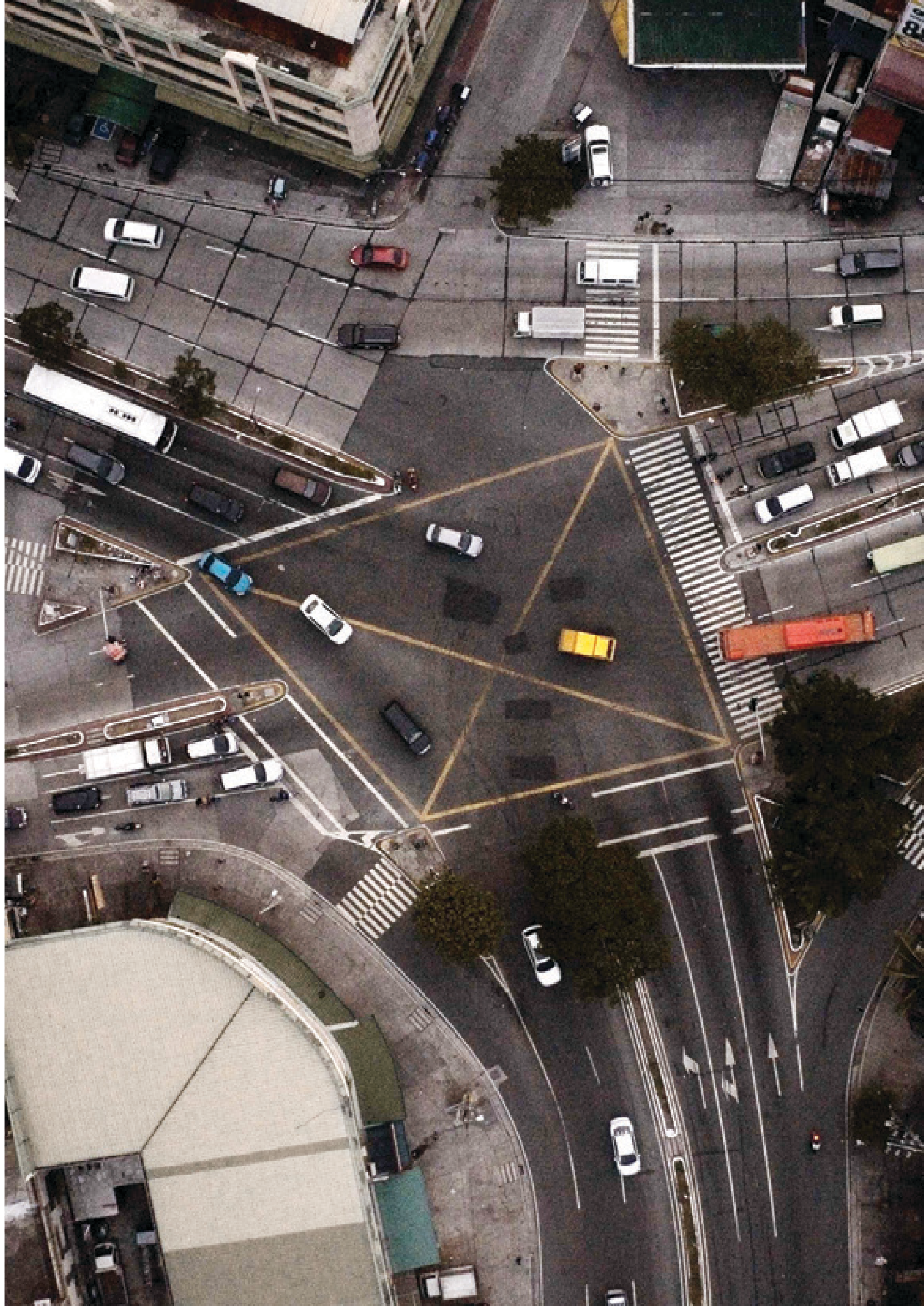
23 Senate Bill No. 128. Retrieved from https://www.senate.gov.ph/lisdata/3037927227!.pdf.

- Meanwhile, the Department of Finance (DOF), Bureau of Customs (BOC), and BIR issued **Joint Circular No. 01-2019**[24] on July 2019 prescribing the implementing rules and regulations of the government's **fuel marking program** to deter oil smuggling. As mandated by the TRAIN Law, fuel marking is required on all petroleum products that are refined, manufactured, or imported into the Philippines that are subject to the payment of duties and taxes. The government is expecting to collect PHP 5 billion in additional revenues annually.[25]
- The government is also set to issue the procedural guidelines of the **National Motor Vehicle Inspection and Maintenance Program (NMVIMP)** through a Joint Administrative Order (JAO). The JAO will delineate the functions of the DOTr, DTI, and the Department of Environment and Natural Resources (DENR) such as updating existing rules and regulations on the accreditation of service and repair shops, leading advocacy campaigns on regular motor vehicle maintenance, certifying public and private MVICs, and training inspectors and technicians, among others.[26]

24 Department of Finance, Bureau of Internal Revenue, Bureau of Customs. (2019). *Joint Circular No. 1-2019*. Retrieved from http://customs.gov.ph/wp-content/uploads/2019/07/Joint_Circular_No_001-2019.pdf.

25 Almonte, L. (6 July 2019). PH fuel marking program implementing rules issued. *PortCalls Asia*. Retrieved from https://www.portcalls.com/ph-fuel-marking-program-implementing-rules-issued/.

26 Rosales, E. (30 July 2019). Government set to issue rules on motor vehicle emissions. *BusinessMirror*. Retrieved from https://businessmirror.com.ph/2019/07/30/government-set-to-issue-rules-on-motor-vehicle-emissions/.



ADVOCACY RECOMMENDATIONS

1. Facilitate and improve ease of trade in the automotive sector

Include the elimination of import tariff rates for EU brands in the EU-Philippines Free Trade Agreement (FTA)

The overall growth in vehicle sales increases the opportunity of automotive companies to expand their market in the country. While this may be the general trend in the industry, European automotive companies tend to lose out, especially in terms of price competitiveness given that their products mostly fall under the high price-tiered sector. Compared to the FTA of the Philippines with Japan and South Korea (through the ASEAN-Korea FTA) that have preferential tariffs on automotive vehicles, European vehicle companies shoulder several taxes and duties including customs, value-added tax, and excise, which increases the cost of the vehicles by almost 102% of their retail prices.[27]

With this, the European Chamber of Commerce of the Philippines (ECCP) highly recommends the inclusion of provisions for the elimination of import tariffs with immediate effect for European vehicles under the EU-Philippines FTA. This will place the country at a level playing field with other high-demand markets like Japan and Singapore whose trade agreements with the EU stipulate the elimination of import tariffs on motor vehicles and parts. Consequently, an FTA will provide better opportunities for European companies to further grow their niche market to a much wider consumer base and provide buyers with varied selection of products.

Facilitation of the importation of vehicle products

While the Philippines is not a signatory to any agreements of the United Nations Economic Commission for Europe (UNECE) World Forum for Harmonization of Vehicle Regulations, all classification of motor vehicles consistent with the Philippine National Standards (PNS) conform with the UNECE Regulations as the Philippines is one of the few countries that use the UNECE Regulations as part of its national legislation.[28]

However, the Import Commodity Clearance does not recognize international certifications. This non-tariff barrier adds a layer of complexity on and lengthens importing processes, making the domestic automotive industry less attractive in terms of trade. In addition, the Bureau of Philippine Standards-Standard Conformity Division (BPS-SCD), which prepares implementing policies and guidelines for every approved standard, is challenged with revising the technical regulations to certify and implement each automotive-related PNS.

To this effect, the ECCP looks forward to the recognition of international certifications in the importation of vehicle products in the Philippines as it will ease intra-ASEAN trade and conform to the government's aspirations to improve its delivery of government services by reducing unnecessary regulatory hurdles.

27 EU-Philippines Business Network. (2017). *EU-Philippines Business Network Advocacy Papers The EU and the Philippines: Partners for Progress and Prosperity*.

28 Department of Transportation. (2010). *Department Order No. 2010-32*. Retrieved from http://www.lto.gov.ph/issuances/department-order/file/571-department-order-no-2010-32-harmonization-of-motor-vehicle-mv-classifications-of-lto-and-ltfrb.html.

2. Review existing motor vehicle development programs and institute incentives for players in the sector

The Comprehensive Automotive Resurgence Strategy (CARS) program under Executive Order No. 182, s. 2015[29] was a welcome development to attract more investments by providing and non-fiscal incentives to automotive manufacturers that will meet the program's key performance indicators. Specifically, it will be limited to the manufacture of three models of four-wheeled motor vehicles with a volume no lower than 200,000 over the model life production of six years.

Although two slots were already secured by Toyota Vios and Mitsubishi Mirage, the government was forced to reallocate the remaining PHP 9 billion budget for the third slot of the program to its PUV modernization program. This is due to the lack of a third qualified automaker and after other interested participants have asked to lower the production volume targets. The realigned budget will now fund the proposed shared assembly site of modern jeepneys.[30]

Nonetheless, the government will extend fiscal and non-fiscal incentives to high-performing industries listed at the proposed SIPP under the CITIRA which can promote long-term economic growth and development across the country.

On this note, we recommend that the automotive sector as a whole be included in the SIPP given its potential in technology and knowledge transfer, spurring infrastructure demand, generating employment, and creating other positive spillover benefits across the entire value chain. This will help leverage the Philippines' competitiveness in ASEAN and increase its potential to be a regional automotive manufacturing hub.

3. Further promotion and use of measures towards cleaner emissions and improved roadworthiness testing

Full and efficient implementation of the MVIS

The MVIS was intended to help address looming environmental, health, and safety concerns, through measuring roadworthiness of and conducting emission tests on both new and used vehicles in the country. It was also designed as a public-private partnership (PPP) project implemented by the DOTr, in which the business sector will extend assistance especially in terms of financing, development, and operations. Currently, the government has launched PMVICs to augment the growing number of vehicles in the country.

As the ECCP lauds the initiative, we look forward to the government's cooperation with the private sector to effectively materialize the MVIS. The European business community remains committed to assisting the Philippine government in the implementation of such measures that ensure compliance with safety and environmental standards in line with global best practices and promote modern, safe, and sustainable mobility and transport.

29 Official Gazette. (2015). *Executive Order No. 182, s. 2015*. Retrieved from https://www.officialgazette.gov.ph/2015/05/29/executive-order-no-182-s-2015/.

30 Tipan, E. (29 June 2017). BOI swaps third CARS player with PUV modernization program. *Autoindustriya.com*. Retrieved from https://www.autoindustriya.com/auto-industry-news/boi-swaps-third-cars-player-with-puv-modernization-program.html.

Improve implementation and enforcement framework of the Euro 4 emission standards

In 2016, the Philippines institutionalized Euro 4 emission standards across all industries to comply with the provisions of the Philippine Clean Air Act of 1999 and catch up with the rest of the world that are transitioning to more advanced and stricter emission standards. For the local automotive sector, the measure was implemented to significantly reduce toxic vehicle emissions that pose serious health and environmental problems.

While the implementation of such measures reflects the intent of the government to observe and comply with internationally-accepted and -recognized standards, its strict observance at the national level remains to be one of the key concerns.

To attain the objectives of the said measure, the ECCP highly recommends the effective implementation and enforcement of the Euro 4 emission standards. Specifically, there is a need to align testing facilities to Euro 4 standards and incentivize the use of exhaust devices on vehicles.

4. Institutionalize mechanisms to improve vehicle and road safety

Adopt compulsory vehicle safety standards for passenger cars and two-wheelers

It is estimated that around 90% of all traffic accidents are caused by human mistake, therefore effective measures to prevent accidents or mitigate their impact should address this risk factor.[31] Active vehicle safety technologies play a key role since these systems support the driver and in critical situations take over control of the vehicle.

Around the world, it has been shown that technologies like Electronic Stability Control (ESC) and Anti-Lock Braking Systems (ABS) contribute to substantial reductions in the number of road deaths and serious injuries. Consequently, a large number of countries in both the developed and developing world have introduced regulations that make these features compulsory for four-wheeled and in some cases for powered two-wheeled vehicles. In line with that, the UN included both ESC for cars and ABS for motorcycles in their eight priority vehicle safety standards that serve as an indicator to assess the quality of road safety legislations around the world.[32]

The ECCP, therefore, recommends that the government adopts compulsory vehicle safety features most notably ESC for passenger cars of vehicle category M1 and ABS for powered two-wheelers over 125 cubic centimeters.

Incorporate road safety education in basic education curriculum

As more vehicles ply the thoroughfares across the country, the risk of road accidents increases putting pedestrians and other people behind the wheel more vulnerable. The World Health Organization reports that road traffic injuries are the leading cause of death for children and young adults aged 5-29 years[33] while vehicular accidents account for an estimated 2.6% loss in the country's gross domestic product annually.[34] This only warrants the need to formally instill proper education to the younger population.

31 European Commission. *Intelligent transport systems: Road*. Retrieved from https://ec.europa.eu/transport/themes/its/road_it.

32 World Health Organization. (2018). *Global Status Report on Road Safety 2018*.

33 Ibid.

34 Global Road Safety Partnership. *Philippines*. Retrieved from https://www.grsproadsafety.org/programmes/countries/philippines/.

Across the globe, road safety education is incorporated within the formal education systems of several countries, including most European governments, as part of their respective national traffic safety policies.[35] Additionally, whereas these countries have made road safety education part of the compulsory years of schooling, the Philippines has no similar mandatory modules in its education system and often rely on short and voluntary trainings and courses.

To address this issue, the ECCP recommends the integration of road safety education in the K to 12 Basic Education Curriculum (K12) as a proactive government policy to ensure that practical knowledge on road traffic safety and other relevant information are disseminated to the younger demographic. This will help shape them as responsible drivers, commuters, and pedestrians in the future and achieve the objectives of the Philippine Road Safety Action Plan 2017-2022 to prevent further mishaps on the road, among others.[36]

35 European Commission. *European Road Safety Observatory: Country profiles*. Retrieved from https://ec.europa.eu/transport/road_safety/specialist/erso/country-overviews_en.

36 World Health Organization. (2011). *Philippine Road Safety Action Plan (PRSAP) 2011-2020*. Retrieved from https://www.who.int/roadsafety/decade_of_action/plan/plan_philippines.pdf.

ASSESSMENT OF 2018 RECOMMENDATIONS

ISSUE	RECOMMENDATIONS	COMPLETED / SUBSTANTIAL PROGRESS	SOME PROGRESS	NO PROGRESS / RETROGRESSION
Facilitate and improve ease of trade in the automotive sector	Include the elimination of import tariff rates for EU brands in the EU-Philippines FTA			The second and most recent negotiation round happened last February 2017.
	Facilitation of the importation of vehicle products			The BPS-SCD, which prepares implementing guidelines for approved PNS is challenged with the revision of technical regulations to implement PNS on automotive products.
Review existing motor vehicle development programs and institute incentives for players in the sector	Review existing motor vehicle development programs and institute incentives for players in the sector		Auto and auto parts have been initially listed as one of the sectors under the SIPP of the CITIRA.	
Further promotion and use of measures towards cleaner emissions and improved roadworthiness testing	Implement the motor vehicle inspection system as a PPP project		On 10 August 2018, the DOTr issued DO No. 2018-019 providing for the privatization of the MVIS.	
	Improve implementation and enforcement framework of the Euro 4 emission standards		DOE repealed DO No. 2018-02-0012 which directed the downstream oil industry to offer Euro 2 compliant diesel as fuel option after backlash from the industry itself over environmental concerns. DOTr, DTI, and DENR are currently drafting a JAO on the procedural guidelines of the NMVIMP.	

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