

Philippine European Union (EU) Commercial Relation

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I. Political and Economic Relations



Europe's dialogue with ASEAN began in the late 1970s, and was formalised with the signature of an [EC-ASEAN co-operation agreement in 1980](#).

The EU is a major trade and investment partner of the Philippines, with two-way trade amounting to billions per year. European companies have also been significant investors in the Philippines over the long-term, whether in the banking, industrial or service sectors.





The EU-Philippine relationship has deepened further especially with the recent [EU-Philippines' partnership cooperation agreement](#) that was signed 11 July 2012 by High Representative of the European Union for Foreign Affairs and Security Policy Catherine Ashton and Philippine Foreign Secretary Albert Del Rosario in Phnom Penh, Cambodia. This illustrates the importance the EU attaches to its relations with the Philippines.



II. Trade History Between the Philippines and the European Countries

- Trade relations begun when Spain colonized the Philippines in 1521.
- Trade expanded further when Spain sold the Philippines to the United States in December 1898.
- Early trading countries come from Europe notably from the UK, Netherlands, Germany.
- The European Union with its members, collectively contribute more than one third of worldwide trade.



Doing business in the Philippines

**Makati in Metro Manila
represents its Major
business center.**

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Map of the Philippines showing its regional & worldwide location



III. The Philippines, a brief profile

- **Geography** - The Philippines is located in Southeast Asia, around 800 kilometers from the Asia mainland. It is one of the largest archipelagos in the world, with over 7,100 islands and a total land area of approximately 300,000 square kilometers.
- **Population** - The population of the Philippines in 2015 is estimated to reach 101.6 million, almost 60% of which are aged below 29 years old.
- **Language** - Filipino is constitutionally designated as the national language of the Philippines and, along with English, as one of two official languages.
- **Currency** - Philippine Peso (PHP); PHP1 = 100 centavos. The average exchange rate is approximately Php44.40 to USD1.



The Philippines, a brief profile

- **Time** - 8 hours ahead of Greenwich Mean Time (GMT)
- **Political structure** - The Philippines has a presidential system of government, the president being limited to a single six-year term. Congress is modeled on the United States system and comprises two directly elected bodies: the Senate and the House of Representatives. The judicial power is vested in the Supreme Court which can rule on the constitutionality of government actions.
- **Foreign Trade** - The Philippines has opened its economy to foreign markets and established a network of free trade agreements with several countries. Its main merchandise exports are electronic products (primarily semiconductors), woodcraft and furniture, metal components, and apparel and clothing accessories. On the other hand, its main imports are electronic products, mineral fuels and lubricants, transport equipment, and industrial machinery and equipment. The country's major trading partners are Japan, People's Republic of China, the United States, European Union and Singapore.



IV. Laws Governing Foreign Investment

- a. **Foreign Investment Act - policy of the state to attract, and welcome productive investments.**
- b. **Rights and Guarantees under its Constitution to protect foreign investors.**
- c. **In general, foreign nationals can invest up to 100% of equity in Philippine companies subject only to the limitations provided by the Constitution and other laws.**
- d. **Non-Philippine nationals may own 100% in a domestic enterprise classified as a pioneer industry or as a manufacturer that exports 60% of its output subject to a higher capital requirement.**
- e. **Non-Philippine nationals are not allowed to invest or have limited investment in certain industries mentioned in the negative list.**



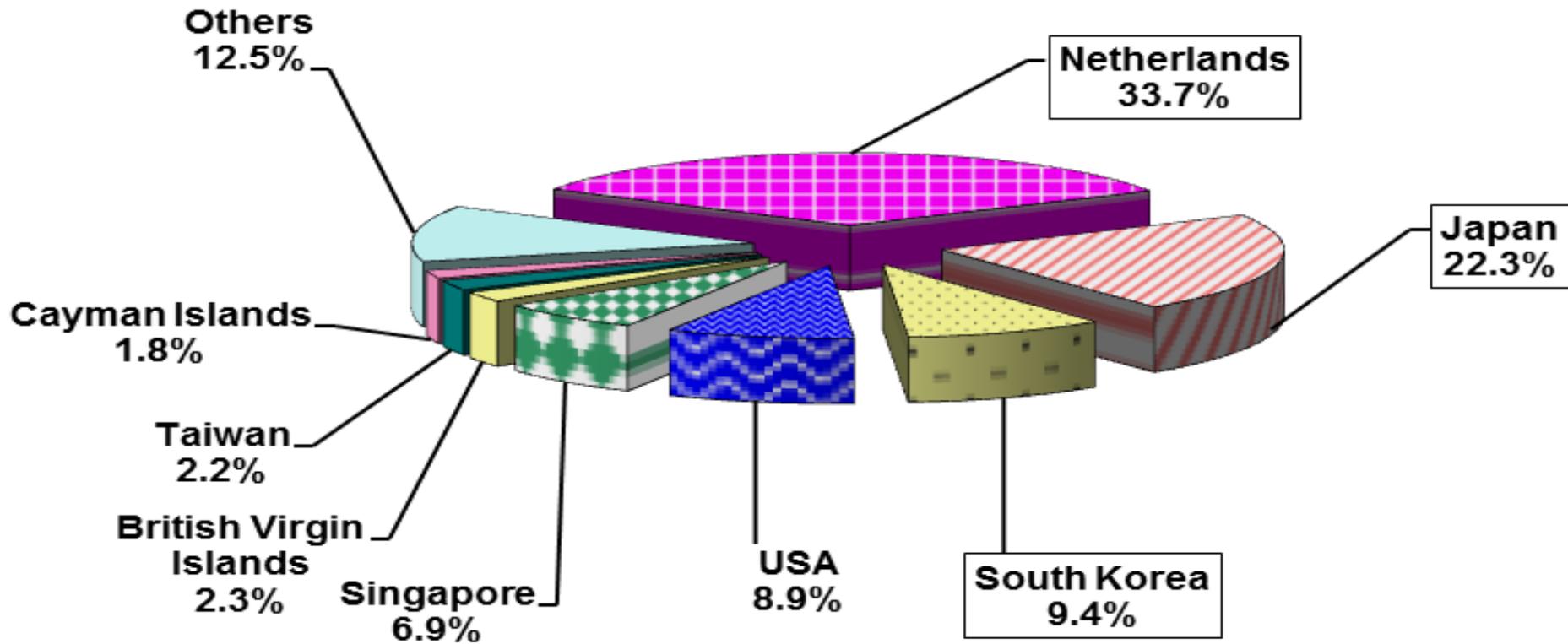
V. Total Approved Foreign Investment Annual 2015

For the full year 2015, the Netherlands representing the EU countries, topped the list of investing countries, committing PhP 82.7 billion or 33.7 percent of the total FI applications. This is followed by Japan, accounting for PhP 54.7 billion or 22.3 percent, and South Korea, cutting in PhP 23.2 billion or 9.4 percent share. Investments from the Netherlands are mainly intended to fund projects in Manufacturing and Electricity, Gas, Steam, and Air Conditioning Supply. Investments from Japan would be in Manufacturing while pledges from South Korea are mostly intended to finance projects in Accommodation and Food Service Activities. Investment pledges from the three countries registered increases at 152.3 percent for Netherlands, 53.4 percent for Japan and 457.5 percent for South Korea

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Total Approved Foreign Investment Annual 2015



VI. Setting Up and Operating a Business

Various alternative vehicles for investment normally used to suit the needs of the investor:

- A. Sole Proprietorship
- B. Partnerships
- C. Corporations
- D. Branch officers
- E. Representative office
- F. Regional Headquarters
- G. Economic Zone Authority (PEZA)



VII. Facts about Philippine Zone Economic Authority (PEZA)

The Philippine Economic Zone Authority (PEZA) is the favorite vehicle used by investors mainly due to the incentives granted like reduced tax rate and the duty free importation of raw material and machineries, and several other incentives.

Incentives Granted to PEZA:

- Income tax holiday of four years for a non-pioneer project and six years for a pioneer project, or three years for an expansion project
- 5% special tax on gross income and exemption from all national and local taxes upon expiry of the income tax holiday
- Tax and duty free importation of raw materials, capital equipment, machinery and spare parts
- Tax credit on import substitution



Incentives Granted to PEZA

- **Exemption from wharfage dues and export tax, impost or fees**
- **Value-added tax (VAT) zero-rating of local purchases of goods and services**
- **Tax credits for exporters using local materials as inputs as provided by the Export Development Act of 1994**
- **Additional deduction for incremental labor and training expenses**
- **Simplified import-export procedures**
- **Employment of non-resident foreign nationals in supervisory, technical or advisory positions**



EU Companies Registered with PEZA

- Due to the grant of liberal incentives and favourable treatment given to PEZA registered companies majority or 18 out of the 28 EU companies have PEZA investments distributed as follows:

1. Austrian	7	10. German	39
2. Belgian	11	11. Irish	5
3. British	126	12. Italian	8
4. Cypriot	1	13. Luxembourger	5
5. Czech	2	14. Maltese	1
6. Danish	6	15. Polish	3
7. Dutch	97	16. Slovakian	1
8. Finn	3	17. Spanish	3
9. French	22	18. Swedish	5

- 40 Non-EU Companies in PEZA**

1. Guernsey	1	4. Norwegian	6
2. Liechtensteiner	2	5. Russian	2
3. Macedonian	1	6. Swiss	28



VIII. Other Laws Affecting Investments

a. TAXATION

a.1 Taxable income and rates

- Philippine (domestic) corporations and foreign resident corporations are taxed at 30% of taxable income from all sources. They are entitled to claim for deductions.
- Non-resident foreign corporations are taxed at 30% on gross income from Philippine sources.
- Other rates apply to specific types of businesses. For example, offshore banking are taxed at 10% based on gross billings.



a.2 Tax in Real Property Transfers

Tax Rate on Real Estate Transactions

The ownership of private lands is generally reserved to Filipino Citizens under the Constitution. However, foreign nationals and companies may indirectly own private lands under the following arrangements:

- Foreign nationals and foreign companies may indirectly own private lands by taking a minority interest up to 40% equity in a domestic corporation.
- Foreigners may also own Condominium units as defined in the Condominium Act. A Condominium is defined as an interest in real property consisting of separate interest in a unit in a residential, industrial or commercial building and an undivided interest in common, directly or indirectly, in the land on which it is located and in other common areas of the building.
- Foreign nationals and companies may also lease land for a term of 25 years renewable for another 25 years.
- Foreign nationals and companies that locate in government designated areas and industrial zones can have a maximum lease agreement of 50 years renewable for another 25 years.



Taxes on Real Estate Transfers

The sale of real estate that is considered a capital asset (which is not used in trade or business) will only attract a capital gains tax equivalent to 6% of the purchase price or the zonal value of the property, whichever is higher. Where the real estate is an ordinary asset, the income of the seller or property owner is recognized as subject to ordinary income. The sale of real estate considered as an ordinary asset is also subject to value added tax equivalent to 12% of the purchase price. The execution of the document evidencing the absolute sale of the real estate will attract a documentary stamp tax equivalent to approximately 1.5% of the purchase price. Local governments also impose a local transfer tax equivalent to approximately 0.5% of the purchase price on the sale and transfer of the property. The registration and issuance of a new title in the name of a transferee of the real estate is subject to registration fees amounting to approximately 0.25% of the purchase price.



a.3 Double Taxation Relief

Tax Treaties

The Philippines has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest and royalties. It is based on OECD models.

Philippine Tax Treaty with Other Countries

Australia	India	Romania
Austria	Indonesia	Russia
Bahrain	Israel	Singapore
Bangladesh	Italy	Spain
Belgium	Japan	Sweden
Brazil	Korea (R.O.K.)	Switzerland
Canada	Kuwait	Thailand
People's Republic of China	Malaysia	United Arab Emirates
Czech Republic	Netherlands	United Kingdom
Denmark	New Zealand	United States
Finland	Nigeria	Vietnam
France	Norway	
Germany	Pakistan	
Hungary	Poland	



B. LABOR

Labor-management relations

The Labor Code contains several provisions which are beneficial to labor. Among others, it provides the guidelines in the organization and membership in labor unions as well as in collective bargaining. Employees, with certain exceptions such as managerial and confidential employees, have the right to self-organization and to form, join or assist labor organizations for purposes of collective bargaining. Strikes are also authorized as long as they comply with the strict requirements under the Labor Code, and workers who organize or participate in illegal strikes may be subject to dismissal. On the other hand, employers have the right to lock out employees under valid grounds.

Employment of foreigners

Although it is the government's policy to prioritize the use of local human resources, it permits the employment of foreign nationals consistent with its policy to attract foreign investors. Visa requirements for certain categories of aliens have been liberalized to allow them to work in the Philippines.



C. IMMIGRATION VISA REQUIREMENTS

- **Work Visas**
 - Foreigners seeking employment, do business and/or invest in the Philippines may apply for authorization to work or other appropriate visa provided for under the Philippine Immigration Act, as amended, or other applicable special laws.
- **Pre-arranged Employment Visa**
 - A foreigner who will be occupying an executive, technical, managerial or highly confidential position in a company for at least one year, not to exceed five years, may apply for a pre-arranged employment visa under Section 9(g) of the Philippine Immigration Act. This type of visa is valid for the duration of the AEP or the employment contract, whichever is shorter.
 - Pending the approval of the application for this type of visa, a foreigner may apply for a Special Work Permit which is normally valid for a period of three months from date of issuance.

Other Types of Visas

- ***Treaty Trader Visa***
- ***Multiple Entry Special Visas***
- ***Special Non-immigrant Visas***
- ***Special Investor's Resident Visa***
- ***Special Resident Retiree's Visa***



Conclusion

Why do business in the Philippines

Recent bright indicators

During the past decades, the Philippines has lagged behind its neighbors in the region. The Asian Financial crisis in 1997 further stunted the economic growth in the region and to a certain extent the Philippines. The government instituted new reforms in its economic policies. As a result, the Philippine GDP has risen from barely over 2% after the Asian crisis to its present day level of 6% GDP. A number of other significant economic developments notably the increase in the remittances of earning from overseas workers (OFW's) and income from outsourcing business. In addition, the government during the incumbency of President Aquino, has waged a war against corruption.



Conclusion

These factors have helped in the economic turn-around which shows resilience of the Philippine economy in facing the challenges and in adapting to new the economic policies. Consequently, it has gained the reputation as **“an emerging economic Tiger”** in Asia. Consider the following favourable economic data:

- Based on a recent OECD Economic outlook growth is expected to grow a higher consumer year-on-year GDP growth at 6.2 between 2015-1019.
- A steady supply of skilled and efficient from well-trained graduates. Annually, around 500,000 fresh young graduates are produced.
- Incidence of labor unrest are minimal. These are fewer reported strikes due to effectiveness of mediation & conciliation proceedings.



Conclusion

- **Business Processing Outsourcing (BPO) business income amounted to US\$12.3 Billion Dollars in 2015 while cash remitted by overseas workers amounted to 25 Billion US dollars in 2015.**
- **GIR (gross reserves) amounted to USD\$80.6 Billion dollars.**
- **Annual inflation rate was 4.6 in 2011, in 2015, 1.4.**
- **Skilled & educated pool of workers who speak English as second language.**
- **Stable monetary policies and a strong Banking system**
- **Consistent upgrade by Standard & Poor. Moody's, Fitch and other international rating companies.**

The above favourable economic indicators bodes well for the Philippines and augurs more business investments growth in the coming years.



Maraming SALAMAT

“ Thank You “

