

ECCP ADVOCACY PAPERS 2021

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AUTOMOTIVE ADVOCACY PAPER 2021



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.



AUTOMOTIVE ADVOCACY PAPER 2021



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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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We would also like to acknowledge the support of our committee members.

METHODOLOGY

The 2021 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 2019 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 THE ECCP PRESIDENT

On behalf of the European Chamber of Commerce of the Philippines (ECCP), I am pleased to present the 2021 ECCP Advocacy Papers. This year's edition features an overview of the current business regulatory landscape in the Philippines as well as industry-specific challenges of the 22 sector committees of the Chamber. More importantly, the paper puts forward constructive policy recommendations for strengthening European-Philippine economic relations and opening up a new decade of growth opportunities as the theme of this year's Summit suggests.

Indeed, the past year has been a period unlike any other with the ongoing health crisis testing the resilience of most organizations and redefining the way we do business. Our advocacy work has also stepped up in organizing virtual discussions and actively engaging key stakeholders including policymakers to raise awareness on issues that matter the most to our members as well as push for reforms that will support our community during this period of uncertainty.

Understandably, the past 20 months have seen a shift of policy priorities from the Philippine government by focusing more on pandemic response and providing social safety nets to the affected and vulnerable. Nevertheless, we have witnessed promising developments on the economic front that will help restore business confidence and boost the country's position as a competitive destination for trade and investments including those from Europe. Among these include the signing of the landmark Corporate Recovery and Tax Incentives for Enterprises Act, the Financial Institutions Strategic Transfer Act, and the inking of the world's largest trade bloc known as the Regional Comprehensive Economic Partnership, of which the Philippines is a party. In addition, the Philippines' improved ranking of 90th in 2020 from 124th in 2019 of the World Bank's Doing Business report demonstrates the global community's relative trust in the country's business environment.

We at the Chamber strive to make the most of these exciting developments in the years to come. The 2021 ECCP Advocacy Papers is our contribution to addressing some of the remaining challenges to helpfully realize the potential of our bilateral ties and economic prospects. I would like to thank our Committee leaders, member companies, and the team behind our flagship publication. Moreover, the European business community continues to stand at the forefront of these crucial issues, which when addressed, will further support our shared goals towards inclusive and sustainable recovery. As such, we remain committed to working with the Philippines in navigating this new decade of growth opportunities.

Mr. Lars Wittig
ECCP President



MESSAGE FROM THE EU AMBASSADOR

I congratulate the European Chamber of Commerce of the Philippines (ECCP) for the 2021 edition of their Advocacy Papers.

These papers offer useful food for thought and action at a crucial time.

At present, the global economy is poised to show its most robust post-recession recovery. In the EU, recovery is underway following a massive vaccination campaign and an ambitious recovery plan decided collectively by EU leaders in 2020. In the EU, today, more than 70% of adults are vaccinated, resulting in improved business and consumer confidence.

Vaccination is the way to pull through collectively from a health crisis of this proportion. It should not stop there. At present, the EU is first and most urgent priority is to speed up global vaccination to ensure that access to vaccines becomes equitable worldwide.

While the European Union has focused on tempering the spread of the virus and its impact on lives and the economy, the EU has remained crucial in the global effort to strengthen the multilateral trading system, fight protectionism and ensure that global trade remains unhampered.

This strategy has reaped fruits. It is anticipated that 19 EU Member States will revert to pre-pandemic growth levels in 2021 and the remainder will follow in 2022. In the last quarter, growth in the Euro area outpaced both the US and China.

Next Generation EU and the seven years multi-annual budget will invest in both short-term recovery and long-term prosperity. It will support innovative policies and will set Europe on a path to a sustainable resilient recovery. One-third of this €1800 billion budget will finance the European Green Deal, which will be the EU's lifeline out of the COVID 19 crisis. This Green Deal will transform the EU into a modern, resource-efficient competitive economy.

The EU and the Philippines have established a relationship characterized by a shared goal of peace and prosperity for our peoples. In terms of commercial relations, we have seen steady growth in the bilateral trade in goods between the EU and the Philippines over the last years. However, EU-PH trade today is far from its full potential. Likewise, the Philippines needs to attract a greater portion of EU investments in ASEAN.

Let us continue to work together to achieve a sustainable and resilient recovery for our economies. I welcome these advocacy papers as a useful contribution in our pursuit of creating a level playing field and opportunities for industries and sectors to be able to participate; provide more choices to our consumers, and promote a sustainable approach to trade.

H.E. Luc Véron
Ambassador
Delegation of the European Union to the Philippines



MESSAGE FROM THE PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES

My warmest greetings to the **European Chamber of Commerce of the Philippines (ECCP)** as it organizes the **2021 European-Philippine Business Summit**.

This event is an opportune time to explore and pursue various programs and strategies that will enable the business community to overcome the adverse effects of the COVID-19 pandemic on our economy.

The government is one with you in this goal as it has shown in its commitment to advance free trade and to restore confidence in the Philippine economy through our landmark Tax Reform Law and the ratification of the Regional Comprehensive Economic Partnership, of which the Philippines is a party.

I hope that you will remain steadfast in promoting and attracting trade and investments to the country, especially from Europe. Together, let us revitalize our industries and boost our productivity under the new normal.

May you have a successful summit.

Rodrigo Roa Duterte

President of The Republic of the Philippines



MESSAGE FROM THE DEPARTMENT OF TRADE AND INDUSTRY

The presence of the European Chamber of Commerce in the Philippines (ECCP) in the country is a testament to the relationship between our economies evident in the current levels of trade and investments. In 2020, Europe ranked as the Philippines' 5th trading partner, with total bilateral trade amounting to US\$13.06 billion. And as we secure the collective development of both our nations, the Department of Trade and Industry (DTI) continues to rely on the steadfast efforts of ECCP in facilitating market access and in creating a level playing field for both European and Filipino companies

Together with the holding of the **2021 European-Philippine Business Summit (EPBS)**, the launch of the **2021 ECCP Advocacy Papers** not only reflects the continued partnership of both nations that has flourished and strengthened throughout the years, but is also the fruit of the hard work and commitment of the men and women behind the successes of your organization.

Despite the challenges of the pandemic, the Philippines remains a conducive place to do business and is still considered an emerging economy for investment. This can be attributed to our strong economic fundamentals and is a result of landmark policies and programs of the Duterte administration to create an enabling business environment in the country.

Among these initiatives is the consistent pursuit of game-changing reforms such as the **Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act** and the **Financial Institutions Strategic Transfer (FIST) Act**, which are expected to bring in more investments and ensure the stability of our financial system to accelerate the country's quick and sustainable economic recovery. The Philippines is also part of the **Regional Comprehensive Economic Partnership (RCEP) Agreement**, which is intended to strengthen regional economic integration and increase economic resiliency through enhancing market access for goods, services, and investment. All of these, together with the review of other economic restrictions, have the common goal of attracting more investments that will create more jobs in the country.

As the Philippine economic situation continues to improve, this year's theme, **Amidst the Crisis: A New Decade of Growth Opportunities**, sets the tone for our continued partnership. We are counting on the private sector to harness the potential of our revitalization as we embark on pursuits that will ensure the inclusive and sustainable development of our nations. Ultimately, our goal is to make your investments in the country as profitable as possible, which will secure the development of our economies, provide better opportunities for employment, and empower our citizens to become productive members of society as we take on the greater effort of nation-building to create a better quality of life for all Filipinos.

Congratulations and *mabuhay po kayo!*

Hon. Ramon Lopez

Secretary
Department of Trade And Industry



MESSAGE FROM THE HOUSE OF REPRESENTATIVES

Our warmest felicitations to the European Chamber of Commerce of the Philippines, ECCP President Lars Wittig, ECCP Vice Presidents Amal Makhoulfi and Kavita Hans, distinguished officers and members, on the launching of the 2021 edition of ECCP Advocacy Papers.

They say that the darkest nights produce the brightest stars. We convene today at a time of great uncertainty brought about by a global pandemic. As Speaker of the House of Representatives of the Philippines, I would like to express my deep appreciation to the European Chamber of Commerce in the Philippines and the ECCP Advocacy Committees in producing the 2021 ECCP Advocacy Papers, covering the most significant areas in development policy, from agriculture, the environment and water, to education, health care, and human capital, and of recent import, defense and disaster response, and renewable and energy efficiency. These papers are vital inputs to policy formulation, can serve to enhance Philippine development road maps, and be our springboard for continued discussion and engagement between the ECCP and our government in forging sustainable means of collaboration.



On the part of the House of Representatives, we intend to move towards a more resilient, more inclusive, and more sustainable post-pandemic economy with reforms which seek the following: one, to liberalize foreign investments into the country; two, to promote greater competition in key industries; three, to enhance governance in key infrastructure agencies; and four, to remove restrictions on foreign equity, thereby making economic policies more attuned to the realities in both local and international landscapes.

The opportunity to build a better economy is before us and should indeed, be seized. Through cooperation and collaboration, let us together bring into fulfillment a decade of renewal and growth.

Thank you.

Lord Allan Jay Q. Velasco
House Speaker District Representative Marinduque



WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines prides itself in its dynamic and robust economy, transforming into one of the region's top economic performers and attracting companies to invest and expand their operations. In the last decade, the country was able to sustain an average annual growth of 6.4% between 2010-2019 from an average of 4.5% between 2000-2009.¹ Among its neighboring countries in the Association of Southeast Asian Nations (ASEAN), the Philippines was ranked 4th in terms of Gross Domestic Product (GDP) growth rate with 6.1% in 2019 (Table 1).

Table 1. ASEAN GDP Year-on-Year Growth Rates, 2019 and 2020 (% per year)

Country	2019	2019 ranking	2020	2020 ranking
Brunei Darussalam	3.9	8th	1.2	3rd
Cambodia	7.1	1st	-3.1	6th
Indonesia	5.0	5th	-2.1	5th
Lao People's Dem. Rep.	4.7	6th	-0.5	4th
Malaysia	4.3	7th	-5.6	8th
Myanmar	6.8	3rd	3.3	1st
Philippines	6.1	4th	-9.6	10th
Singapore	1.3	10th	-5.4	7th
Thailand	2.3	9th	-6.1	9th
Vietnam	7.0	2nd	2.9	2nd

Asian Development Bank. *Asian Development Outlook 2021*²

However, the onset of the unprecedented COVID-19 pandemic has resulted in a drastic decline of economic activity around the world. In the Philippines, like in many other countries, the government had to implement huge fiscal support programs and impose strict quarantine measures to mitigate the spread of the virus, which in return restricted economic activity. Specifically in the Philippines, the recessionary impacts of the pandemic contracted the GDP growth rate by 9.6% for the year 2020 (Table 1). The Philippine Statistics Authority (PSA), which has been collecting annual data since 1947, records this decline as the first annual contraction since the Asian Financial Crisis seen in 1998. It also surpassed the prior record of 7.0% contraction in 1984.³

The annual preliminary figures from the PSA show that the unemployment rate rose to 10.3% in 2020, accounting for 4.5 million unemployed Filipinos in the labor force, which is significantly higher compared to the previous year's 5.1% rate. Likewise, the country's employment rate dropped from 94.9% in 2019 to 89.7% in 2020, with the Services sector accounting for 56.9% share, followed by the Agriculture sector with 24.8%, and the Industry sector with 18.3%.⁴

Currently, unemployment rate for July 2021 is estimated at 6.9%, the lowest recorded rate since in April 2020. The country also recorded a significant increase in terms of employment rate at 93.1% for the same month.⁵

On the other hand, headline inflation rose further to 3.5% in December 2020, from 3.3% in November 2020, primarily due to the increase in the inflation of heavily-weighted food and non-alcoholic beverages at 4.8% during the month. Additionally, annual increments were higher in terms of health (2.6%); transport (8.3%); and restaurant and miscellaneous goods and services (2.5%).⁶ The Bangko Sentral ng Pilipinas (BSP) posted a slight increase in the average headline inflation for 2020 at 2.6%, but remained well within the government's target range of 2-4% for the year.⁷ Subsequently, the PSA recorded a 4.9% headline inflation rate for August 2021, from 4.0% of the previous month, which is the highest inflation recorded since January 2019. The uptrend was mainly brought about by the higher annual increment in the index of the heavily-weighted food and non-alcoholic beverages at 6.5% during the month, from 4.9% in July 2021.⁸

In the 2021 World Competitiveness Ranking compiled by the Institute for Management Development (IMD), the Philippines ranked 52nd out of 64 countries, slipping down seven spots from the previous ranking. Specifically, the report noted the country's rankings dropping in three of the factors with Economic Performance falling 13 places to 57th; Government Efficiency slipping three spots to 45th; and Business Efficiency dropping from 33rd to 37th. Meanwhile, the Infrastructure category retained its ranking at 59th.⁹

In terms of the country's Foreign Direct Investments (FDI), the BSP officially recorded USD 6.5 billion net inflows for 2020, which is a 24.6% contraction from the USD 8.7 billion net inflows in 2019. The contraction was primarily driven by the fluctuation of supply chains and business outlooks that had affected investor decisions. Majority of the equity capital placement came from Japan, the Netherlands, United States of America (USA) and Singapore wherein these capital were channeled to manufacturing, real estate and the financial and insurance industries.¹⁰

On the other hand, total FDI net inflows from January to June 2021 registered at USD 4.3 billion. Specifically, the top source country is Singapore with USD 519.88 million, followed by Japan with USD 259.85 million and USA with USD 69.87 million. Investments were channeled mainly to manufacturing, financial and insurance, and electricity, gas, steam, and air-conditioning industries.¹¹



1 World Bank. (07 April 2021). Philippines: Overview. Retrieved from <https://www.worldbank.org/en/country/philippines/overview>
 2 Asian Development Bank. (April 2021). Asian Development Outlook 2021. Retrieved from <https://data.adb.org/dataset/gdp-growth-asia-and-pacific-asian-development-outlook>
 3 Nikkei Asia. (28 January 2021). Philippines GDP shrinks 9.5% in 2020, worst since 1947. Retrieved from <https://asia.nikkei.com/Economy/Philippines-GDP-shrinks-9.5-in-2020-worst-since-1947>
 4 Philippine Statistics Authority. (08 March 2021). 2020 Annual Preliminary Estimates of Labor Force Survey. Retrieved from <https://psa.gov.ph/content/2020-annual-preliminary-estimates-labor-force-survey-lfs>

5 Philippine Statistics Authority. (07 September 2021). Unemployment Rate in July 2021 is Estimated at 6.9 percent. Retrieved from <https://psa.gov.ph/content/unemployment-rate-july-2021-estimated-69-percent>
 6 Philippine Statistics Authority. (05 January 2021). Summary Inflation Report Consumer Price Index (2012=100): December 2020. Retrieved from <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-december-2020>
 7 Bangko Sentral ng Pilipinas. (2020). BSP Inflation Rate Report. Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/Inflation%20Report.aspx>
 8 Philippine Statistics Authority. (07 September 2021). Summary Inflation Report Consumer Price Index (2012=100): August 2021. Retrieved from <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2021>
 9 IMD World Competitiveness Center. (2021). World Competitiveness Ranking. Retrieved from <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/>
 10 Bangko Sentral ng Pilipinas. (10 March 2021). FDI Registers US\$509 Million Net Inflows in December 2020; Full-Year Level Reaches US\$6.5 Billion. Retrieved from <https://iro.ph/article/details.php?articleid=3547&catid=4>
 11 Bangko Sentral ng Pilipinas. (10 September 2021). FDI Net Inflows Up by 60.4 Percent YoY in June 2021; H1 2021 Level Reaches US\$4.3 Billion. Retrieved from <https://iro.ph/article/details.php?articleid=3547&catid=4>

At the European level, FDI net inflows registered at USD 38.42 million with Germany accounting for USD 29.02 million, followed by the United Kingdom (USD 4.52 million), Sweden (USD 3.88 million), France (USD 1.99 million), and Luxembourg (USD 1.66 million).¹²

The total external trade of the country in terms of goods was recorded at USD 155.03 billion in the year 2020, which is lower by 15.1% compared to the USD 182.52 billion recorded during 2019. Among the major trading partners are the People’s Republic of China, Japan, and the USA.¹³ The European Union (EU) followed as the fourth largest trading partner, accounting for 8.4% of the country’s total trade in 2020. Meanwhile, as for the Philippines’ bilateral trade with the EU member countries, Germany ranked as the top trading partner.¹⁴ Likewise, in 2019, Germany ranked as the highest trading partner with a total trade of USD 5.55 billion or 31.5 percent of EU’s total trade, followed by the Netherlands, France, the United Kingdom, and Italy.¹⁵

Over the past years, the Philippines was able to maintain its credit ranking at ‘BBB’ with a stable outlook from various agencies. However, the recent negative outlook from Fitch reflects the increasing risks to the credit profile from the impact of the pandemic and its aftermath.¹⁶ The table below shows the latest ratings from various agencies:

Table 2. Philippine Credit Ratings

Date	Agency	Rating
July 2020	Moody’s	Baa2 Stable
May 2021	Standard & Poor	BBB Positive
July 2021	Fitch	BBB Negative

Source: Moody’s, Standard and Poor, Fitch

Without a doubt, the adverse impacts of the global crisis hampered the country’s long-term notable gains. However, recent reports also show a promising growth forecast for the country as global recovery sustains its momentum. Particularly, the country posted a strong rebound in the second quarter of 2021 with a GDP growth of 11.8% compared to the -16.9% rate of the same period last year. Categorically, the main contributors are manufacturing (22.3%); construction (25.7%); and wholesale and retail trade; repair of motor vehicles and motorcycles (5.4%). Among the major economic sectors, Industry and Services posted positive growths of 20.8% and 9.6%, respectively.¹⁷ GDP growth is also expected to increase at 4.5% in 2021 and 5.5% in 2022; while inflation rates are forecasted at 4.1% in 2021 and 3.5% in 2022.¹⁸ However, the country continues to be vulnerable given the emergence of new variants of the virus and hiccups on the vaccine rollout. With this, substantial reforms on key economic policies, ease of doing business, investment on digital infrastructure, and strengthening the public health system have a pivotal role for the country to address the adverse impacts caused by the pandemic as well as boost economic recovery and competitiveness.

Billion. Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemID=5926>

¹² Bangko Sentral ng Pilipinas. (n.d.) Net Foreign Investment Flows. Retrieved from <https://www.bsp.gov.ph/statistics/external/Table%2010.pdf>

¹³ Philippine Statistics Authority. (August 2021). 2020 Foreign Trade Statistics of the Philippines. Retrieved from https://psa.gov.ph/sites/default/files/2020%20FTS%20Publication_signed-compressed.pdf

¹⁴ European Commission. (2021). Countries and Regions: The Philippines. Retrieved from <https://ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/>

¹⁵ Philippine Statistics Authority. (28 April 2020). Highlights of the 2019 Annual Report on International Merchandise Trade Statistics of the Philippines. Retrieved from <https://psa.gov.ph/content/highlights-2019-annual-report-international-merchandise-trade-statistics-philippines>

¹⁶ FitchRatings. (12 July 2021). Fitch Revises Philippines’ Outlook to Negative; Affirms at ‘BBB’. Retrieved from <https://www.fitchratings.com/research/sovereigns/fitch-revises-philippines-outlook-to-negative-affirms-at-bbb-12-07-2021>

¹⁷ Philippine Statistics Authority. (10 August 2021). GDP posted double digit growth of 11.8 percent in the second quarter of 2021, the highest since fourth quarter of 1988. Retrieved from <https://psa.gov.ph/national-accounts>

¹⁸ Asian Development Bank. (n.d.). Economic indicators for the Philippines. Retrieved from <https://www.adb.org/countries/philippines/economy>

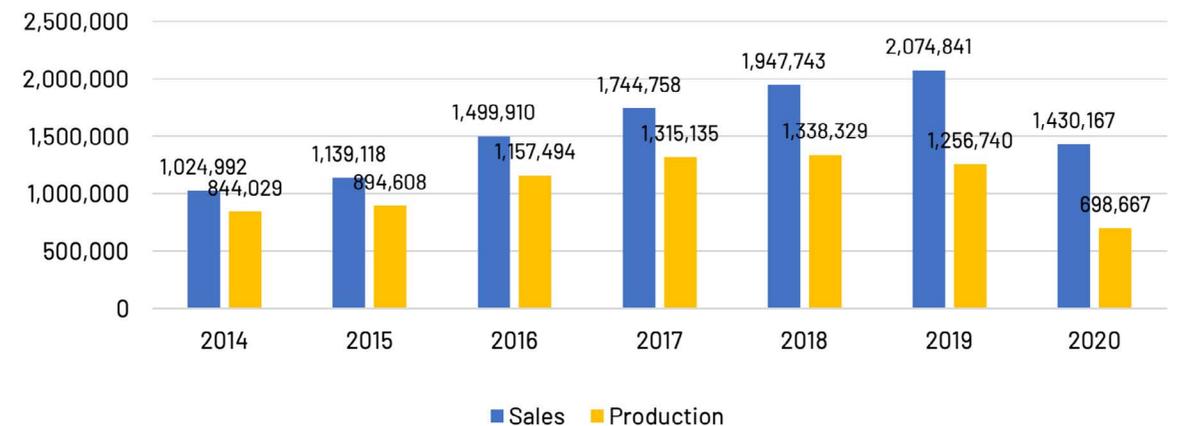


AUTOMOTIVE ADVOCACY PAPER 2021

INTRODUCTION

The Philippine automotive industry continues to hold a huge potential to become a significant driver of economic growth due to its extensive upstream and downstream linkages where economic gains can flow. For years, the local industry has specialized in three key markets: motor vehicles, motor vehicle parts, and component manufacturing. As these activities are labor-intensive, they serve as promising niches for developing countries, including the Philippines, which can utilize their competitively priced labor and develop their export market to attract foreign investments including those from Europe. Historical data points out the strong performance of the Philippine automotive sector in terms of sales and production in recent years (see Chart 1).

Chart 1. Annual automotive sales and production of the Philippines from 2014 to 2020



Note: Includes motor vehicles, motorcycles, and scooters
Source: ASEAN Automotive Federation

However, the domestic sector has yet to fill in the gaps that continue to constrain its growth and development, unlike its regional peers which have already scaled their economies to become automotive powerhouses such as Thailand, Vietnam, and Indonesia. These gaps include the limited participation of the local industry in the global value chain, a comparatively small market for new motor vehicles, and relatively low support for research and development.¹

As with most other sectors, the automotive industry is one of the most heavily affected when the ongoing COVID-19 pandemic derailed economic progress. As a result, the country has managed to sell a total of 248,171 units in 2020 which is 40.26 percent lower than the 416,628 units sold in 2019, according to consolidated reports of the three major automotive industry associations in the country.² Operations of manufacturing plants and car dealerships were also disrupted at the beginning of 2020 due to the Taal Volcano eruption which covered a large part of the Southern Tagalog region including the metropolitan capital in thick ashfall.³ This comes after a year of recovery from the effects of the government's first package of its comprehensive tax reform program which slapped additional excise taxes on automobiles.

¹ Duke University Global Value Chains Center

² Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI), Truck Manufacturers Association, Inc. (TMA), and Association of Vehicle Importers and Distributors, Inc. (AVID)

³ Rosales, E. (February 2020). Car sales down by 11.77% in January on Taal eruption. Retrieved from <https://businessmirror.com.ph/2020/02/20/car-sales-down-by-11-77-in-january-on-taal-eruption/>,

Despite the slowdown, consumer preference in terms of brand selection remained relatively the same with most purchases made on Asian carmakers. Toyota, Mitsubishi Motors, Nissan, Hyundai, and Suzuki are the top five auto brands of choice collectively grabbing 76.89 percent of the total market share in 2020. European brands continue to dominate the luxury and premium segment in the likes of BMW and Mercedes-Benz. Nevertheless, due to existing tariff and non-tariff barriers, European car brands have so far been cornered to a small share of the overall domestic market which is still dominated by their Asian and American counterparts (see Table 1).

Table 1. Total units, market share, and year-to-year growth rate of European car brands in the Philippines in 2020 and 2019

Brand	2020		2019		Growth	
	Units	Market share	Units	Market share	Units	Market share
MG Cars	3,432	1.38%	5,085	1.22%	-1,653	-32.51%
BMW	611	0.25%	920	0.22%	-309	-33.59%
Mercedes-Benz (Cars)	579	0.23%	885	0.21%	-306	-34.58%
Volkswagen	177	0.07%	550	0.13%	-373	-67.82%
Jaguar Land Rover	174	0.07%	168	0.04%	6	3.57%
Peugeot	137	0.06%	179	0.04%	-42	-23.46%
Mini	130	0.05%	130	0.03%	-	-
MAN	76	0.03%	85	0.02%	-9	-10.59%
Volvo	60	0.02%	123	0.03%	-63	-51.22%
Mercedes-Benz (Trucks)	41	0.02%	59	0.01%	-18	-30.51%
IVECO	12	0.00%	83	0.02%	-8	-85.54%
Aston Martin	2	0.00%	8	0.00%	-6	-75.00%

Source: Consolidated reports from the Chamber of Automotive Manufacturers of the Philippines, Inc., Truck Manufacturers Association, Inc., and Association of Vehicle Importers and Distributors, Inc.

The automotive sector also makes a significant contribution to job creation as it has a multiplier effect. As such, the industry is a wellspring of direct and indirect employment for 13.8 million Europeans⁴ and 1.68 million Filipinos.⁵ Yet the market remains far from saturated and thus leaves a massive and unlocked potential to increase bilateral trade and investments between Europe and the Philippines. In this regard, the ECCP prepares this paper containing policy recommendations to further ease trade in the sector, strengthen industrial development programs, promote a greener automotive industry, and advance road safety in the country.

⁴ European Commission. (n.d.). Automotive Industry | Internal Market, Industry, Entrepreneurship and SMEs. Retrieved from https://ec.europa.eu/growth/sectors/automotive_en,

⁵ The Philippine Automotive Industry. Presentation of Board of Investments Governor Napoleon Concepcion at the ECCP Automotive Committee Meeting last 12 March 2019.

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

- **European Free Trade Association (EFTA)-Philippines Free Trade Agreement (FTA):** A trade deal between the Philippines and EFTA entered into force for its remaining party, Iceland, in January 2020.⁶ Most tariffs will be eliminated within seven years and export duties are prohibited on both sides. While the preferential trade arrangement mostly covers agricultural commodities and foodstuff, it also includes motor vehicles and automotive parts. This is the second bilateral FTA of the Philippines after Japan.
- **European Union (EU) – Philippines Trade Relations:** In December 2020, EU Executive Vice President Valdis Dombrovskis and Philippine Trade Secretary Ramon Lopez met and discussed trade and investment matters between the EU and the Philippines. A Subcommittee on Trade, Investment and Economic Cooperation under the EU-Philippines Partnership and Cooperation Agreement (EU-PH PCA) was convened in January 2021. A bilateral dialogue on various trade related agenda were discussed including market access, EU GSP+ implementation and the perspective for the EU-PH FTA.
- Last January 2020, the government issued the **implementing rules and regulations** of the **National Transport Policy** three years after the blueprint's original issuance, with the end-goal of creating a "safe, secure, reliable, efficient, integrated, intermodal, affordable, cost-effective, environmentally sustainable, and people-oriented national transport system that ensures improved quality of life of the people". Among other key provisions, the policy seeks to prioritize the movement of people instead of vehicles as well as provide the basis for offering alternative means of mobility.⁷
- **Electric Vehicles and Charging Stations Act:** Several bills were filed in both Houses of Congress seeking to create a national policy and framework to encourage the uptake of e-vehicles in the public and private sectors. The Senate version was approved on third and final reading last June 2021 while a technical working group was formed at the lower house to consolidate similar bills. The European Chamber of Commerce of the Philippines (ECCP), together with its partners at the Joint Foreign Chambers of the Philippines, calls for the passage of this measure. On a separate note, trade officials are eyeing to develop e-vehicle manufacturing as a potential competitive advantage for the country following the signing of the Regional Comprehensive Economic Partnership trade pact last 2020.⁸
- **Philippine Motor Vehicle Manufacturing Industry Act:** Last May 2021, a House technical working group approved a proposed bill seeking to craft a comprehensive policy to accelerate the development of the domestic automotive manufacturing industry to contribute to capital formation, technology transfer, technical skills development, and employment generation. The bill also provides fiscal and non-fiscal incentives in the form of income tax holidays, training expense deductions, and the opportunity to carry over net operating losses, among others.
- **Motorcycles-for-Hire Act:** In response to the growing niche of technology- and app-based transport network vehicle service (TNVS) primarily using two-wheeled vehicles, lawmakers have introduced bills amending the Land Transportation and Traffic Code to allow and regulate motorcycles-for-hire

⁶ The member-states of the European Free Trade Association are Iceland, Liechtenstein, Norway, and Switzerland.

⁷ National Economic and Development Authority. (2020). The National Transport Policy and its Implementing Rules and Regulations. Retrieved from <https://neda.gov.ph/the-national-transport-policy-and-its-implementing-rules-and-regulations/>

⁸ Ibañez, J. (February 2021). DTI sees possible e-vehicle niche for PHL within RCEP. Retrieved from <https://www.bworldonline.com/dti-sees-possible-e-vehicle-niche-for-phl-within-rcep/>

and motorcycle ride-sharing services in the country. The upper house issued a Committee Report last February 2020 while House counterparts are pending at the Committee level.

- **Road Safety Education Act:** Numerous bills were also filed in Congress proposing the mandatory integration of basic road safety and comprehensive driver's education in the enhanced basic education curriculum with the rationale of honing well-rounded and responsible citizens at a young age. All bills are pending in their respective Committees in both houses.
- **Alternative Modes of Transportation Act:** Two House bills were filed seeking to create a regulatory framework governing the operations of the emerging ridesharing industry in the country. Among others, the measure seeks to clarify the responsibilities of TNVS support companies with their drivers and passengers. The respective House Committee in charge has yet to act on the bills.
- **Sustainable Transportation System Act:** The proposed legislation seeks to address immediate traffic and transport challenges by establishing an integrated and efficient transport system. Authors of the bills said they aim to stimulate the health consciousness of the riding public through a culture of walking, cycling, and other low-emission modes of transport. The bills in question are pending at the Committee level.
- **Bicycle-Friendly Communities Act:** In addition, legislators in the lower house filed bills that aim to create bicycle lanes across major road networks across the country and formulate an educational program to increase awareness on bike safety and road sharing. In the Senate, two similar iterations further propose to establish a network of pop-up cycle lanes and emergency pathways. The Senate passed on third reading its substitute version last February 2021 and transmitted it to the lower house for deliberations.
- **National Road Safety Unit Act:** The lone bill filed in the House of Representatives aims to create the National Road Safety Unit (NRSU) as an attached agency to the transportation department to ensure the implementation of the Philippine Road Safety Action Plan. According to its explanatory note, the legislation attempts to address the need for a more focused, mandated, and adequately managed road safety unit dedicated to the effective implementation of the action plan. The Committee has yet to take substantial action in this measure.
- **Dashboard Camera Act:** There are four House bills filed, pending at the Committee level, requiring the installation of dashboard cameras and other recording devices to deter traffic violations and promote responsible driving. House Bill (HB) No. 4475 is the most comprehensive in coverage, HB 1595 contains heftier fines, HB 3341 only pertains to public utility vehicles including TNVS, while HB 3411 only covers government-owned cars. There is no similar measure tabled in the Senate.
- **Heavy Vehicle Preventive Maintenance Act:** Another lone bill filed in the lower house and pending at the Committee level mandates buses, trucks, and other heavy vehicles to undergo preventive maintenance with their respective companies and monthly inspections with the Land Transportation Office (LTO) to prevent accidents due to mechanical malfunction and to ensure road safety.
- Trade officials imposed **provisional safeguard measures** on imported motor vehicles in December 2020 following a petition made by a labor group citing "significant injury" of imported motor vehicles to the domestic industry.⁹ The ECCP, along with local carmakers, importers, industry associations, and European diplomatic missions to the Philippines, submitted their respective position papers pointing out gaps in the rationale behind the trade action as well as calling for its withdrawal. The Tariff Commission is investigating the petition whether to extend the effectivity of the safeguard

9 Department of Trade and Industry. (January 2020). DTI Order on the Preliminary Determination of the Safeguard Measures Case on the Importation of Motor Vehicles from Various Countries. Retrieved from <https://www.dti.gov.ph/archives/advisories-archives/prelim-safeguard-measures-motor-vehicles/>

duties, but a preliminary report shows that the imposition of safeguard duties has no merit.¹⁰

- **Department Administrative Order No. 21-04:** Issued by the Department of Trade and Industry and states the dismissal of the proposal to impose general safeguard measures on importation of motor vehicles.¹¹ It is upon receiving the **report of the Tariff Commission** that indicates that domestic producers meet the industry requirement and are also directly competitive with imported CBU passenger cars and light vehicles. Moreover, there has been no increase in imports of CBU passenger cars and CBU light commercial vehicles which means that the determination of serious injury or threat has not been seen of value to be considered. The Tariff Commission has also recommended not to impose these safeguard measures on the products due to their findings. However, this order will only take effect after a memorandum has been issued by Customs.¹²
- Last February 2021, following calls for suspension from some lawmakers and the riding public, the president ordered the deferment of the implementation of the recently enacted **Child Safety in Motor Vehicles Act** which no longer allows children aged 12 years old and below to take the front seat and requires the use of child restraint systems.¹³ Cambodia, Lao PDR, and Singapore are the only other countries in Southeast Asia to have implemented a national child-restraint law.
- Likewise, President Duterte halted in the same period the privatization of the **Motor Vehicle Inspection System (MVIS)** heeding public clamor and for calls from members of Congress for its suspension over transparency concerns and alleged excessive fees being charged by private motor vehicle inspection centers (PMVICs). Regulators subsequently clarified that undergoing PMVICs is no longer mandatory for vehicle registration, but motorists are still required to take a visual inspection and emission test.¹⁴
- At a webinar organized by the ECCP Automotive Committee last October 2020, the Department of Trade and Industry pointed out that the automotive sector is being considered for inclusion in the proposed **Strategic Investments Priorities Plan** under the Corporate Recovery and Tax Incentives for Enterprises Act. The specific activities mentioned include manufacturing of auto electronics, advanced driver-assistance systems components, electric motor powertrains, charging facilities, and e-vehicles, to name a few.¹⁵
- In 2020, member-states of the Association of Southeast Asian Nations (ASEAN) reached a landmark accord on the **ASEAN Mutual Recognition Arrangement on Type Approval for Automotive Products** that will now allow cars tested and certified by the production country to enter other member-states without having to undergo another round of testing.¹⁶ Automotive industry groups across the region welcomed the agreement that will ease cross-border regulations and streamline compliance requirements for a vital industry.

ADVOCACY RECOMMENDATIONS

1. Facilitate ease of trade in the automotive sector

10 Tariff Commission. (July 2021). Final Report: Formal Investigation on the Imposition of Safeguard Measure against Importations of Motor Vehicles (passenger cars and light commercial vehicles) from Various Countries. Retrieved from <https://drive.google.com/file/d/1vNcNc5cPUHghvJMG9TY28egwA5vE0S0/view>

11 DTI. (August 2021). Administrative Order No. 21-04. Retrieved from <https://www.dti.gov.ph/advisories/application-gsm-import-motor-vehicles-from-various-countries/>

12 Tariff Commission. (July 2021). Final Report: Formal Investigation on the Imposition of Safeguard Measure against Importations of Motor Vehicles (passenger cars and light commercial vehicles) from Various Countries.

13 Aning, J. (February 2021). Duterte suspends child car seat law. Retrieved from <https://newsinfo.inquirer.net/1394924/duterte-suspends-child-car-seat-law>

14 Luna, F. (February 2021). Private vehicle inspectors to lower fees; Palace says MVIS no longer mandatory. Retrieved from <https://www.philstar.com/headlines/2021/02/11/2077055/private-vehicle-inspectors-lower-fees-palace-says-mvis-no-longer-mandatory>

15 Automotive Industrial Policy Updates: CARS Program, Motor Vehicle Development Program and EV. Presentation of Department of Trade and Industry Undersecretary for Competitiveness and Innovation Group Rafaelita Aldaba at the webinar on "Automotive Investment Policy Update: Briefing on E-vehicles and Motor Vehicle Manufacturing in the Philippines" last 28 October 2021.

16 ASEAN. (2021). ASEAN Mutual Recognition Arrangement on Type Approval for Automotive Products. Retrieved from <http://agreement.asean.org/media/download/20210205131820.pdf>

Eliminate import tariff duties for European automotive brands in preferential trade arrangements

The ECCP strongly supports including provisions eliminating import tariff rates for automotive vehicles and automotive parts from the European Union (EU) under the EU-Philippines Free Trade Agreement (FTA) with immediate effect upon its ratification. While a positive trend towards market expansion is observed among industry players, European car brands tend to lose out in the Philippine market in terms of price competitiveness given that their products mostly fall under the high price-tiered segment.

Moreover, European vehicle companies in the Philippines shoulder several taxes and duties including customs, value-added tax, and excise tax, which increases the cost of the vehicles by almost 102 percent of their retail prices; whereas, their Asian counterparts enjoy more competitive and preferential tariff rates due to existing bilateral and multilateral trade agreements, specifically the country's FTAs with Japan and South Korea (through the Association of Southeast Asian Nations (ASEAN)-South Korea FTA).¹⁷

An FTA between the EU and the Philippines will create a level playing field for European companies to thrive in the Philippines and provide consumers with wider options that can compete in terms of high-quality standards on sustainability and safety.

Align domestic import regulations with international benchmarks

Classification of motor vehicles under the Philippine National Standards (PNS) generally conform with international regulations despite the country being a non-signatory to the World Forum for Harmonization of Vehicle Regulations of the United Nations Economic Commission for Europe (UNECE). This makes the Philippines one of the few countries that recognize UNECE Regulations as part of its national policies.¹⁸

However, the Import Commodity Clearance does not recognize international certifications which then requires licensed goods including automotive products and parts by approved manufacturers to undergo another round of testing process and additional paperwork thus creating a non-tariff barrier. In addition, the Bureau of Philippine Standards-Standard Conformity Division, 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.

In line with the government's thrust to facilitate ease of doing business, it is imperative to eliminate trade restrictions on the importation of automotive products and parts including those from Europe. Specifically, we call on greater harmonization of national standards, conformity assessments, and other technical regulations based on international benchmarks namely the UNECE Regulations as well as the Association of Southeast Asian Nations (ASEAN) Mutual Recognition Arrangement on Type Approval for Automotive Products which was recently adopted last January 2021.¹⁹ Moving towards this direction will ease intra-ASEAN trade in the automotive sector and make the country's automotive industry more competitive amidst tightening regional competition.

Rescind the imposition of additional safeguard duties on imported motor vehicles

One of the most recent and evident challenges faced by the local industry is the imposition of provisional

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

18 Land Transportation Office. (2010). Harmonization of Motor Vehicle (MV) Classifications of LTO and LTRFB. Retrieved from https://lto.gov.ph/images/ISSUANCES/Dept_Order/DO_No.2010-32.pdf

19 ASEAN. (2021). ASEAN Mutual Recognition Arrangement on Type Approval for Automotive Products.

safeguard measures by authorities on imported vehicles. Last December 2020, the Department of Trade and Industry (DTI) slapped safeguard duties in the form of a cash bond amounting to PHP70,000 for every imported passenger vehicle and PHP110,000 for every imported unit of light commercial vehicle following a petition made by a national union of metalworkers.²⁰

Local automotive makers and importers have called for the government to withdraw its decision citing adverse impact to the competitiveness of the domestic automotive sector which will result in the price increase of motor vehicles, reduce employment, and dent investor confidence. This is contrary to the intention of the petition which served as the basis of DTI's order and especially at a time of subdued economic landscape brought about by the COVID-19 pandemic. The ECCP joins the industry in its call to rescind the safeguard measure as this will do more harm than good by putting at risk the long-term viability of the automotive value chain including allied industries.

More recently, Japan, Thailand, South Korea, Indonesia, and the European Union have also raised concerns at an April 2021 meeting of the World Trade Organization over the measure. It questioned the validity of the petition as it was made by a labor union instead of the affected domestic industry and claimed that the application fails to demonstrate the existence of alleged unforeseen development.²¹

In this context, the ECCP reiterates the policy recommendations enclosed in a position paper submitted to DTI last March 2020 calling for the government to pursue a more proactive approach by strengthening its manufacturing policies through a revised motor vehicle development program and incentivize automotive investments by including the sector to the proposed Strategic Investments Priorities Plan (SIPP) instead of restricting importation through the imposition of safeguard duties. On this note, the ECCP welcomes the report of the Tariff Commission and the later decision of the Department of Trade and Industry on the dismissal of the proposal to impose general safeguard measures.

The ECCP believes that the focus on strengthening the automotive manufacturing sector will support the development of the domestic automotive industry by facilitating technology and knowledge transfer, spurring infrastructure demand, generating domestic employment, and creating other spillover benefits across the entire industrial ecosystem.²²

2. Review existing motor vehicle development programs and institute incentives for industry players

The latest motor vehicle development program in the country is the Comprehensive Automotive Resurgence Strategy (CARS) program adopted in May 2015.²³ Implemented by the Board of Investments (BOI), the CARS program is designed to provide time-bound and output- or performance-based subsidy and fiscal support mechanisms to up to three vehicle models to attract foreign investments in the domestic automotive manufacturing sector. Specifically, the parameters of the program require each participant to allocate PHP9 billion in investments to produce a volume no lower than 200,000 for six years. Only two assemblers are participating under the program with Toyota Motor Philippines Corp. and Mitsubishi Motor Philippines Corp. and their enrolled models Toyota Vios and Mitsubishi Mirage, respectively.

However, with the absence of a third qualified player and the non-participation of any European carmaker, the government was forced to reallocate the budget for the third slot of the program to its public utility vehicle (PUV) modernization program which will fund the proposed shared assembly site

20 DTI. (January 2020). DTI Order on the Preliminary Determination of the Safeguard Measures Case on the Importation of Motor Vehicles from Various Countries.

21 Desiderio, L. (April 2021). WTO airs concerns on Philippines duties on vehicle imports. Retrieved from <https://www.philstar.com/business/2021/04/28/2094179/wto-airs-concerns-philippines-duties-vehicle-imports>

22 European Chamber of Commerce of the Philippines. (March 2020). ECCP Position on SGM Case No. SG01-2020 or the Initiation of a Preliminary Investigation on the Application for Safeguard Measures on the Importation of Motor Vehicles from Various Countries.

23 Official Gazette. (May 2015). Executive Order No. 182 - Providing for a Comprehensive Automotive Resurgence Strategy Program. Retrieved from <https://www.officialgazette.gov.ph/downloads/2015/05may/20150529-EO-182-BSA.pdf>

of modern jeepneys. More recently and in light of the adverse effects of the current COVID-19 pandemic to several industries including the automotive sector, BOI is considering extending the original six-year target production timeline for the two participating assemblers to nine years to continue availing of the fiscal and non-fiscal incentives.²⁴

On the legislative front, lawmakers have filed bills on a proposed Philippine Motor Vehicle Manufacturing Industry Act as well as an Electric Vehicles and Charging Stations Act, among others, to provide fiscal and non-fiscal incentives to local and foreign industry players that will support the growth and development of a domestic automotive production sector and e-vehicles market.

Complementary to the e-vehicles bill, the DTI is also pursuing a proposed PHP83 billion Electric Vehicle Incentive Strategy to support the industry in the form of production assistance and consumer subsidy. This includes a PHP30 billion fiscal and non-fiscal incentives package to manufacturers of PUVs, trucks and passenger cars, battery, auto electronics, and charging stations as well as a PHP53 billion fiscal support scheme for buyers of e-vehicles.

The ECCP appreciates the measures taken by the government to support the sector and stands ready to work with stakeholders to ensure the sector's sustainable growth and development. More specifically, we strongly recommend the inclusion of the automotive sector in the proposed SIPP under the Corporate Recovery and Tax Incentives for Enterprises Act to further attract investments including those from Europe, and further integrate the country's market to regional and global automotive value chains. Likewise, we support the enactment of a national policy framework on e-vehicles through an enabling law. Such measures will encourage the adoption of sustainable transportation technology, reduce carbon footprint, establish the necessary infrastructure network, and save lives.

3. Further promote and improve emission and roadworthiness testing standards

Develop effective and efficient implementation of the motor vehicle inspection system

The concept of a motor vehicle inspection system in the Philippines traced its roots in the 1980s when the government in partnership with the Japan International Cooperation Agency conducted a study on the establishment of inspection centers in the country. It became mandatory for vehicles to undergo such testing as part of vehicle registration when the Philippine Clean Air Act of 1999 was passed and subsequent regulations by the Land Transportation Office (LTO) added other requirements to guarantee the roadworthiness of vehicles. Over the years, the government rolled out various programs such as the Private Emission Testing Centers in 2001 and the Motor Vehicle Inspection System (MVIS) in 2014 to ensure the compliance of the country's land transportation system to safety and emission standards.

In 2018, the Department of Transportation authorized the privatization of the MVIS to augment limited state resources and cater to the growing car-owning population by tapping the private sector to establish private motor vehicle inspection centers (PMVICs) to offer similar inspection services.²⁵ However, the government suspended the program in early 2021 following public clamor and calls from lawmakers over transparency concerns and reportedly excessive fees being charged by PMVICs.²⁶ While regulators clarified that undergoing PMVICs is no longer mandatory for vehicle registration, motorists are still required to take visual inspection and emission test. Transport authorities also lowered the inspection

²⁴ Ibañez, J. (March 2021). CARS program could be extended by three years - BusinessWorld. Retrieved from <https://www.bworldonline.com/cars-program-could-be-extended-by-three-years/>

²⁵ Department of Transportation. (August 2018). DO 2018-019 - An Order Privatizing the Motor Vehicle Inspection System (MVIS) through Authorization. Retrieved from <https://drive.google.com/file/d/1utPPzpKeRX792Qdah13H6JFBm0lyWCLt/view>

²⁶ Marasigan, J. & de la Cruz, J.M. (February 2021). Vehicle inspection centers cut fees during pandemic. Retrieved from <https://businessmirror.com.ph/2021/02/12/vehicle-inspection-centers-cut-fees-during-pandemic/>

fees for PMVICs.²⁷

The ECCP lauds the initiatives taken by the government to provide a systematic, reliable, and effective testing mechanism of land-based vehicles that will guarantee a transportation system compliant with safety and emission standards. We also recognize the limited capacity of the government to ensure the efficient and effective delivery of this service to motorists and. As such, we remain committed to public-private sector cooperation that will facilitate the full implementation of the MVIS program and the promotion of global best practices on modern, safe, and sustainable vehicle registration standards.

Strengthen implementation and enforcement framework of the Euro 4 emission standards

The current emission regime across all industries in the Philippines follows the Euro 4 emission standards which were implemented in 2016 in compliance with existing environmental laws such as the Philippine Clean Air Act of 1999. The shift is at par with counterparts in the region (see Table 2) as well as sets a more stringent set of parameters with current regulations from the Department of Energy and the Department of Environment and Natural Resources requiring new cars with Euro 4-compliant engines sold in the Philippines to meet United Nations (UN) regulations on pollutant emissions of vehicles according to their engine fuel requirements before the issuance of a certificate of conformity. This certificate is a requirement for the initial registration of vehicles with the LTO.

Table 2. Timeline of current and adoption of Euro emission standards for road vehicles in select countries in Asia-Pacific

Country	2021	2022	2023	2024	2025
Brunei Darussalam			Euro 4		
China			Euro 6		
Indonesia			Euro 4		
Lao PDR			Euro 2		
Japan			Euro 6		
Malaysia		Euro 4			Euro 5
Philippines			Euro 4		
Singapore			Euro 6		
South Korea			Euro 6		
Thailand		Euro 4		Euro 6	
Vietnam	Euro 4			Euro 5	

Source: Clean Air Asia

While the ECCP welcomes these measures as a positive development to significantly reduce toxic vehicle emissions that pose serious health and environmental concerns, we note that its strict observance remains a key concern. Despite the requirement for all existing car models with engines with lower Euro emission standards to switch to the current Euro 4 setting in 2018, it has been noted that some vehicles particularly older ones and motorcycles still use Euro 3-compliant engines. Moreover, there have been

²⁷ Ibid.

reports of testing centers that do not adopt new standards for car renewals. Some estimates also show that it could take about 15 years to replace all vehicles currently in use that are not compliant with Euro 4 emission standards.

More recently, the DTI has continuously deferred the implementation of a department order initially set to take effect in 2019 prohibiting the entry of truck engines and auto parts that do not meet Euro 4 emission standards citing shortage of skilled technicians and limited training on Euro emission standards. Its most recent deferment cites the public health emergency arising from the COVID-19 pandemic.²⁸

To promote better and increased compliance of the sector and the wider public with global best practices on vehicle emission control, the ECCP highly recommends the strengthened implementation and enforcement of the Euro 4 emission standards. Specifically, we acknowledge the urgent need to align testing facilities including privately-run centers to Euro 4 emission standards as well as incentivize the use of equipment upgrades such as clean exhaust devices on vehicles. Taking this direction will put the country on the right track should it decide official preparations for the gradual introduction of higher emission standards.

4. Institutionalize mechanisms to improve vehicle and road safety

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

According to the European Commission, around 90 percent of all traffic accidents are caused by human mistakes, therefore effective measures to prevent accidents or mitigate their impact should address this risk factor.²⁹ Active vehicle safety technologies play a crucial role as these systems support the driver by taking over control of the vehicle in case of critical situations that would place the passengers or the vehicle in danger. Around the world, it has been shown that such 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.^{30,31} Consequently, a large number of countries such as Australia and those in Europe have introduced regulations that make these features compulsory for four-wheeled and in some cases for powered two-wheeled vehicles. Closer to home, Malaysia became the first country in Southeast Asia to mandate the use of ESC on all new vehicles in 2018. 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 legislation around the world (see Table 3).³²

Table 3. Priority UN vehicle safety standards and associated existing technologies

UN regulations	Associated technologies
UN regulations 14, 16, and 129: seatbelt, seatbelt anchorages, and child restraints	Occupant restraints
UN regulation 78: motorcycle anti-lock brakes; helps maintain control during emergency braking	Motorcycle anti-lock brakes
UN regulations 94 and 95: frontal impact protection and side impact protection; crashworthiness in crash tests at specific speeds	Occupant restraints, airbags (frontal and side), side structure and padding, and side door beams
UN regulation 127: pedestrian front protection; vehicle front-end modifications to reduce severity of pedestrian injuries	Vehicle front-end design
UN regulation 140: electronic stability control; prevents skidding and loss of control, requires anti-lock brakes	Electronic stability control
Source: UN	

The European business community acknowledges and commends the concerted efforts of many car manufacturers to equip such features in their model line-ups. With this in mind, we call on the government to take another step forward by adopting compulsory vehicle safety features most notably ESC for passenger cars of vehicle category M1 and ABS for powered two-wheelers over 125 cubic centimeters sold and used in the country to promote road safety and facilitate innovation in transport and mobility solutions.

Incorporate road safety education in basic education curriculum

As more vehicles ply the country's thoroughfares, the risk of road accidents increases putting motorists, passengers, and pedestrians more vulnerable to serious injuries or, worse, death. The World Health Organization reports that road traffic injuries are the leading cause of death for children and young adults aged 5 to 29 years old worldwide.³³ Meanwhile, vehicular accidents account for an estimated 2.6 percent loss in the gross domestic product of the Philippines every year.³⁴ The grim situation only warrants the need for policymakers to formally instill proper education on road safety to its younger population.

Across the globe, road safety education is incorporated within the formal education systems in varying levels of several countries including European economies as part of their respective national traffic safety policies (see Figure 1).³⁵ Whereas these countries have made road safety education part of the compulsory years of schooling, the Philippines has no similar mandatory modules in its national education system and often relies on short and voluntary trainings and courses offered by the private sector and advocacy groups. The absence of a national directive also left a patchwork of regional LTO offices promoting road safety education campaigns only in their area of operations.

Figure 1. Levels of education at which traffic safety and mobility education is given in Europe

28 DTI. (May 2021). DTI defers implementation of specific provision of DAO 18-04. Retrieved from <https://www.dti.gov.ph/archives/specific-provision-of-dao-18-04/>

29 European Commission. (n.d.) Intelligent transport systems: Road. Retrieved from https://ec.europa.eu/transport/themes/its/road_it.

30 Bhalla, Kavi et al. (2020). Effects of vehicle safety design on road traffic deaths, injuries, and public health burden in the Latin American region: a modelling study. *The Lancet Global Health*, Volume 8, Issue 6, 819-828. Retrieved from <https://pubmed.ncbi.nlm.nih.gov/32446347/>.

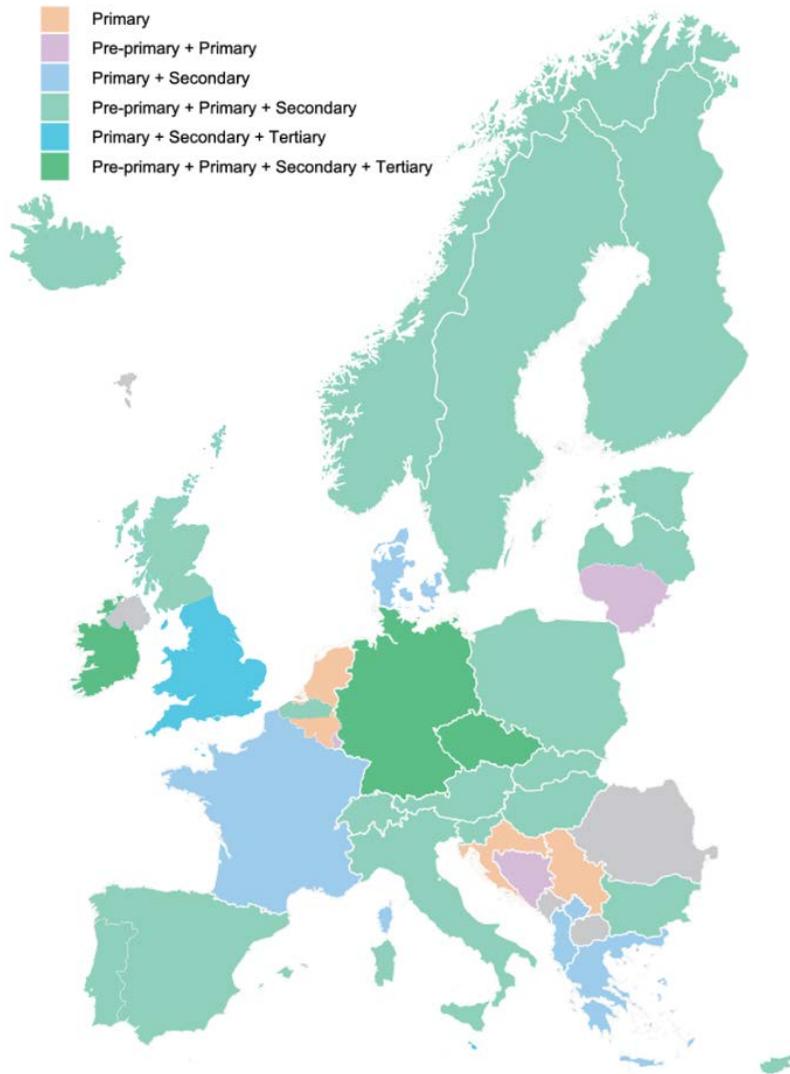
31 Reuters Graphics. (2019). Real-world benefits of car safety technology. Retrieved from <https://graphics.reuters.com/AUTO-SELFDIVING-INSURANCE/0100B0BP0PH/index.html>

32 World Health Organization. (2018). Global status report on road safety 2018. Retrieved from <http://apps.who.int/iris/bitstream/handle/10665/277370/WHO-NMH-NVI-18.20-eng.pdf?ua=1>

33 Ibid.

34 Global Road Safety Partnership. (n.d.). Philippines | GRSP. Retrieved from <https://www.grsproadsafety.org/programmes/countries/philippines/>.

35 Mütze, F. & De Dobbeleer, W. (January 2019). The Status of Traffic Safety and Mobility Education in Europe. Retrieved from <https://etesc.eu/wp-content/uploads/ETSC-LEARN-Report-on-the-Status-of-Traffic-Safety-and-Mobility-Education-in-Europe.pdf>

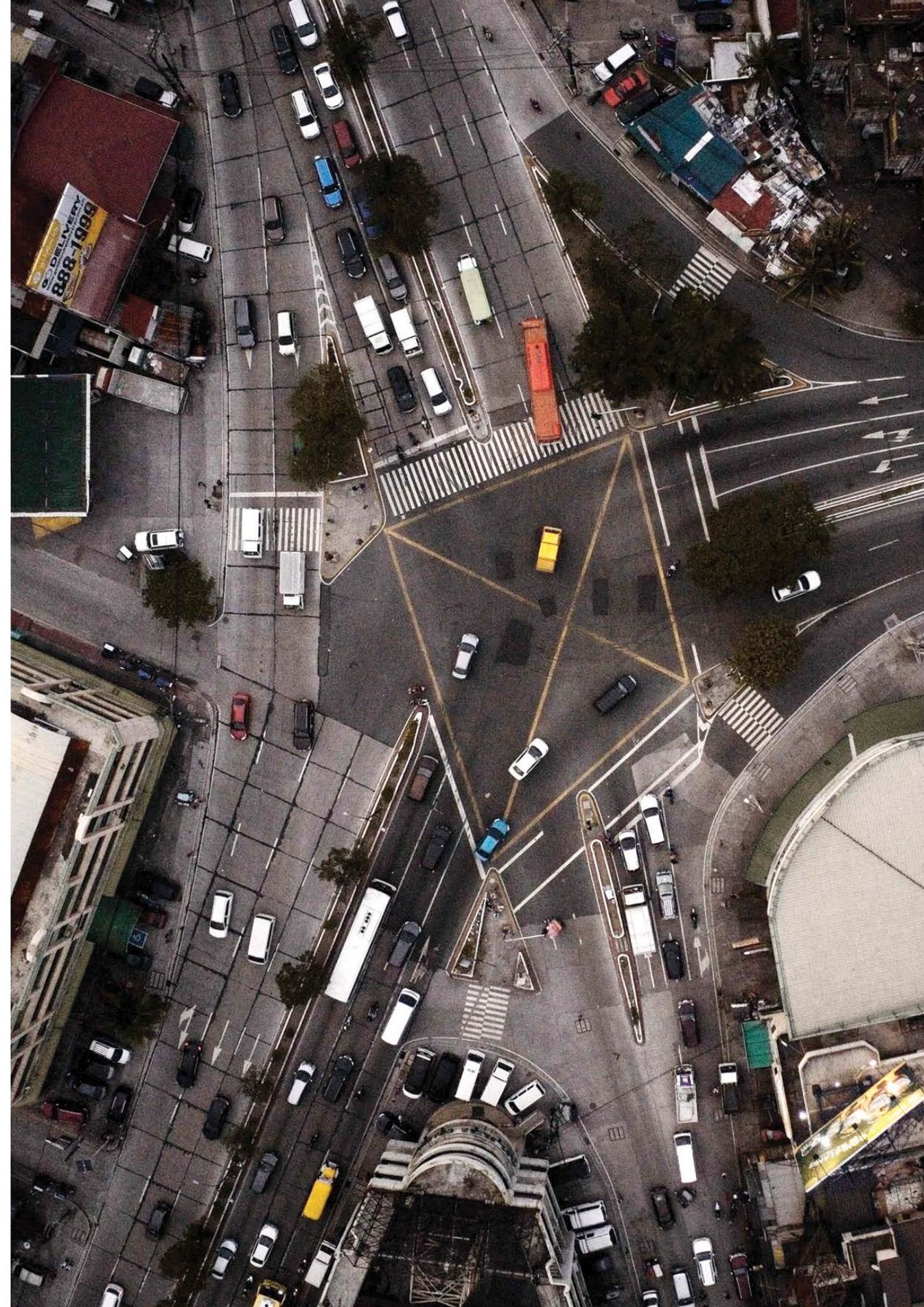


Source: European Transport Safety Council

In July 2019, LTO and the Department of Education launched a pilot program in Quezon City to integrate road safety into the country's K to 12 basic education curriculum (K-12).³⁶ However, there have been no significant developments since then relating to its formal adoption on a countrywide scale. Meanwhile, lawmakers filed bills in Congress on this issue but there has also been no substantial progress as they remain at the Committee level.

Given the current situation, the ECCP advocates for the integration of road safety education in K-12 as a proactive policy toolkit to ensure the dissemination of practical knowledge on road and traffic safety as well as other relevant information to the youth. This knowledge transfer will help shape the younger generation to become more responsible drivers, commuters, and pedestrians thus lessening road casualties and improving a safe mobility environment. Towards this end, we stand ready to work with policymakers, civil society groups, and other stakeholders in achieving this shared responsibility to inculcate traffic norms and road safety rules.

36 Cabrera, R. (2019, July 9). Integration of road safety in K-12 launched. Retrieved from <https://www.philstar.com/headlines/2019/07/10/1933535/integration-road-safety-k-12-launched>



ASSESSMENT OF RECOMMENDATIONS

ISSUE	RECOMMENDATIONS	COMPLETED / SUBSTANTIAL PROGRESS	SOME PROGRESS	NO PROGRESS / RETROGRESSION
Facilitate ease of trade in the automotive sector	Eliminate import tariff duties for European automotive brands in preferential trade arrangements		The EFTA-Philippines FTA entered into force for its remaining party-state, Iceland, last January 2020.	While trade officials between Brussels and Manila have virtually met in 2020, there are not yet any clear details as to the next round of negotiations for the EU-Philippines FTA.
	Align domestic import regulations with international benchmarks		ASEAN countries including the Philippines signed the ASEAN MRA on Type Approval for Automotive Products significantly removing an NTB in automotive trade.	
	Remove the safeguard duties on imported motor vehicles		The June 2021 TC staff report concluded that there is no import surge and dismissed the labor union's claim to legal standing to represent the automotive industry. The Commissioners has yet to consider its final decision whether to extend or dismiss the provisional 200-day period of the safeguard measures.	
Review existing motor vehicle development programs and institute incentives for players in the sector	Strengthen the competitiveness of the automotive industry	The Senate version of the e-vehicles bill was approved on third and final reading last June 2021 while its House counterpart is undergoing review under a TWG.	<p>News reports and recent ECCP engagements with DTI and BOI indicate that the automotive sector is being considered for inclusion as a priority investment activity under the proposed SIPP of CREATE Law.</p> <p>A House TWG approved a motor vehicle manufacturing industry bill last May 2021. However, there is no Senate counterpart filed.</p>	
Further promote and improve emission and roadworthiness testing standards	Develop effective and efficient implementation of the motor vehicle inspection system			The government suspended the PMVIS program following public clamor and Congressional calls over transparency concerns and reportedly excessive inspection fees.
	Strengthen implementation and enforcement framework of the Euro 4 emission standards			DTI deferred for the second time the implementation of DAO No. 18-04 prohibiting the importation of non-Euro 4 standard parts and components for rebuilding purposes due to the subsistence of the national health emergency brought about by the COVID-19 pandemic.
Institutionalize mechanisms to improve vehicle and road safety	Adopt compulsory vehicle safety standards for passenger cars and two-wheelers			There are no current policies nor any official proposals from the government requiring the mandatory installation of vehicle safety features in motor vehicles sold and used in the Philippines.
	Incorporate road safety education in basic education curriculum		Lawmakers on both houses of Congress filed various bills seeking to include road safety education in the current education curriculum. However, all bills are pending at the Committee level.	



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