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MEMORANDUM ORDER NO. 160

APPROVING THE GUIDELINES ON THE MOTORCYCLE DEVELOPMENT PROGRAM (MDP) REPLACING THE PROGRESSIVE MOTORCYCLE MANUFACTURING PROGRAM (PMMP).

Pursuant to the provisions of Executive Order NO. 226, otherwise known as the Omnibus Investments Code of 1987, and as recommended by the Board of Investments, the attached Guidelines on the Motorcycle Development Program (MDP) Replacing the Progressive Motorcycle Manufacturing Program (PMMP), are hereby approved.

This Memorandum Order shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette or in a newspaper of general circulation.

Ernesto B. Aquino

February 29, 1988



REPUBLIC OF THE PHILIPPINES
BOARD OF INVESTMENTS

INDUSTRY & INVESTMENTS BUILDING
385 GIL J. PUYAT AVE.
(FORMERLY BUENOSA AVE. EXT.)
MAKATI, METRO MANILA, PHILIPPINES

CABLE ADDRESS: INVESTBOARD
TELEX (742) 45535 BOI PM
14590 BOI PS

TELS. 318-18-31
P.O. BOX 678 MAKATI

MOTORCYCLE DEVELOPMENT PROGRAM (MDP)
REPLACING THE PROGRESSIVE MOTORCYCLE MANUFACTURING PROGRAM (PMMP)

WHEREAS, there is an immediate need to revitalize the motorcycle manufacturing industry;

WHEREAS, the motorcycle manufacturing industry plays a vital role in the stimulation of the economy by providing the means for the transport of goods, services and people;

WHEREAS, there is a need to promote the growth and development of our motorcycle industry with emphasis on the local capability to produce motorcycles for public transport and private use;

WHEREAS, a horizontal integration approach shall be preferred to a vertical integration for the industry.

The following major guidelines to rationalize the motorcycle manufacturing industry shall henceforth be promulgated:

I. OBJECTIVES

The following are the objectives of the MDP:

1. Development of a viable motorcycle parts manufacturing industry;
2. Technology transfer and development;
3. Employment generation;
4. Reasonable domestic prices of motorcycles;
5. Foreign exchange savings and earnings.

II. DEFINITION OF TERMS

MOTORCYCLES - these are two-and three-wheeled motor vehicles powered by an internal combustion engine.

LOCAL PARTS - these are defined as those locally manufactured components and parts that are of OEM-approved quality, of reasonable price, and of a maximum cost penalty of 15%. Cost penalty shall mean the percentage by which selling prices of locally-sourced parts are greater than the landed cost of their imported counterparts.

LOCAL CONTENT RATE OF PARTS - it is the percentage of net local content over selling price or manufacturing cost if the parts are produced in-house. Net local content corresponds to the selling price or manufacturing cost less depreciation of imported capital equipment directly utilized in the production thereof and CIF value of imported raw materials, components and supplies used in the production of the product.

C K D - (completely-knocked-down) parts/components for assembly purposes that are imported in disassembled condition. The CKD pack, however, may include not only parts and components but also sub-assemblies, e.g. engine assembly.

S K D - (semi-knocked-down) parts/components for assembly purposes that are imported in partially assembled condition. SKDs include semi-assembled motorcycles.

C B U- (completely-built-up) motorcycles imported in completely assembled form and ready for use by the consumers.

III. IMPLEMENTING AGENCY

The Department of Trade and Industry (DTI), through the Board of Investments (BOI), will be the agency responsible for carrying out the effective implementation of this Program.

IV. PARTICIPANTS

4.1. Only existing BOI-registered participants of the Progressive Motorcycle Manufacturing Program (PMMP) are qualified to participate in this Program under Categories A and B.

Renewal of registration will be issued upon submittal of a 5-year business plan to be filed within 30 days upon approval and publication of these guidelines.

4.2. New participants to the Program may be allowed for Category B only, provided that prospective participants qualify for MDP registration with the BOI and agree to comply with the rules and regulations of these guidelines.

4.3. BOI-approved participants to the MDP shall require the concurrence of the President.

4.4. As a major commitment under the program, each participant, over a period of three (3) years, shall support the manufacture or shall manufacture components and parts whose cumulative value is at least nine percent (9%) of the total net local content requirement under the Program. See Annex A for the implementing rules of this provision.

v. C O V E R A G E

5.1. The MDP shall cover the following vehicle categories:

CATEGORY A - Two-wheeled motorcycles with no limit to engine displacement.

CATEGORY B - Three-wheeled vehicles with unitize chassis and no limit to engine displacement

5.2 Importation of CKDs or components and parts for Categories A and B shall be subject to BOI prior approval with reference to Article XI.

5.3. Importation of CBU or SKD motorcycles shall be allowed for a maximum of ten (10) prototype units of each final model/variant for the participant/s engineering and market evaluation and testing, subject to prior BOI clearance with reference to Article XI.

5.4. Importation of CBU motorcycle for special applications may be allowed on a case-to-case basis subject to prior BOI clearance with reference to Article XI.

5.5. Only registered participants are allowed to import CKDs for the said motorcycle categories.

VI. M O D E L S A N D V A R I A N T S

All motorcycle models that shall be registered under the Program are required to undergo tests for purposes of meeting the safety and product standard requirements of the motorcycle industry. The BOI, in coordination with the Bureau of Product Standards (BPS), Metals Industry Research and Development Council (MIRDC), and institutions involved in protecting the interests of the consumers, shall ensure that a system for implementing this rule is established. The BOI, at its option, may require the appropriate motorcycle tests to be conducted periodically in acceptable test laboratories both here and abroad. Expenses for the testing shall be for the account of the participants.

VII. L O C A L C O N T E N T

7.1. Registered participants shall comply with a minimum local content that shall be prescribed for a given period for each motorcycle category as shown below:

	Year 1	Year 2	Year 3
Motorcycle Categories	<u>1988</u>	<u>1989</u>	<u>1990</u>
Category A	44.02	51.28	54.95
Category B	38.20	44.02	46.64

7.2. The vehicle local content for each model shall be the summation of the product of the local content rate of each part and the percentage of the same part to the full CKD price of the vehicle.

7.3. All local content computations shall be on a weighted average based on the local content of all applicable models/variants.

7.4. The minimum local content percentage shall be fixed by the BOI for the first three (3) program years. Local content percentages for the succeeding years, i.e. starting from the fourth program year, shall be determined by the BOI in consultation with the participants and component parts manufacturers, annually during the second program year and every year thereafter.

7.5. Participants are free to select components that shall be manufactured by them or sourced from local parts manufacturers, except those parts/components which qualify for mandatory deletion.

7.6. The BOI shall decide which locally manufactured parts/components, either major or minor, are to be mandatorily deleted, after due consultation with the program participants and component parts manufacturers.

7.7. Increased used of local parts/components over and above the prescribed local content percentages shall be encouraged by an incentive scheme whereby a participant receives additional foreign exchange credit amounting to the foreign exchange equivalent of the value-added of the local parts/components, excluding cost penalties.

7.8 A premium on local content percentages which will be determined by the BOI, shall be given to those high technology items which are manufactured locally, and which have attained the minimum local content rate set hereforth.

7.9. Program participants are required to provide technical assistance to local parts manufacturers in order to achieve local content.

7.10. Parts/components imported from and manufactured by ASEAN countries may be given local content credits based on a formula to be developed in coordination with ASEAN member countries on a regional or a bilateral basis.

VIII. CKD AND CBU PRICES

8.1 The full factory cost, excluding all taxes, commercial expenses, and profit, of a locally-assembled motorcycle must be lower than the landed cost, assuming a 10% tariff rate differential between the CKD and CBU, excluding advance sales tax of the equivalent CBU model.

8.2. Cost savings resulting from tariff and/or tax rate reduction, shall be passed on fully to the consumers. Price reduction shall be reviewed by the BOI to ensure compliance.

8.3. Participants shall maintain reasonable motorcycle prices, taking into account prevailing CBU prices. For the purpose of determining reasonable prices, the BOI may review CKD and CBU prices.

IX. FOREIGN EXCHANGE REQUIREMENTS

9.1. Participants shall earn 25% of their foreign exchange requirements through generation of export earnings, subject to the rules and regulations implementing the crediting of export proceeds.

9.2. Export of motorcycle units and components will be given higher foreign exchange credits than exports of non-traditional or non-automotive products if still allowed.

9.3. Foreign exchange credits for exports of non-automotive products will progressively be phased-out during the first five (5) program years.

Foreign exchange credits shall account in the foreign exchange requirement, as follows:

YEAR	FOREIGN EXCHANGE CREDIT (%)	
	AUTOMOTIVE	NON-AUTOMOTIVE (BOI Approved Exports)
-----	-----	-----
1988	encouraged	100
1989	20	80
1990	40	60
1991	60	40
1992	80	20
1993	100	0

Foreign exchange credits for non-automotive exports will only be given to the extent of automotive products exports to be reckoned at the end of each year.

9.4 In coordination with Central Bank, foreign exchange allocation may be arranged by the BOI and extended to program participants as the need arises.

X. GOVERNMENT PURCHASES OF MOTORCYCLES

The government, its agencies, corporations and other instrumentalities, shall patronize the locally manufactured motorcycle and shall give priority to the MDP participants in the purchase of their vehicle requirements as well as in the participation in international tenders, whenever feasible.

XI. PROGRAM REVIEW COMMITTEE

11.1. A MDP Review Committee shall be formed to serve as a consultative body to react to the needs of the motorcycle manufacturing industry in carrying out the objectives of this program. It shall be composed of representatives from the program participants, component parts manufacturers and the BOI, with the Undersecretary of Industry and Investments or his representative acting as Chairman.

11.2. The Committee's recommendations shall be referred to the Board of Investments for approval and confirmation.

11.3. The Committee in accordance with Article V shall formulate criteria for approving importations described in said Article. These criteria will be recommended to the Board for approval.

11.4. Importations of used motorcycle component parts for reconditioning and assembly shall be allowed for a period of three (3) years subject to review every year.

XII. P E N A L T I E S

Any violation or non-compliance of these guidelines and existing laws and regulations, such as misdeclaration, technical smuggling and others, shall be the cause for the imposition of any of the following penalties:

- a) Suspension of privileges and/or government incentives, if any;
- b) Non-issuance of release certificates for CKD and/or spare parts importations; and
- c) Suspension or cancellation of certificate of registration.

XIII. TERMS AND CONDITIONS FOR CONTINUED REGISTRATION

13.1 Reporting Requirements

A) For the proper implementation and monitoring of the MDP, the following reports shall be submitted periodically by the registered participants:

1. Quarterly production and sales (itemized by models/variants)
2. Quarterly local content attainment by part for each model
3. Quarterly schedule of manufacturing cost per model
4. Quarterly export earnings
5. Audited Annual Financial Statements

B) Participants shall submit an itemized price list of components in the CKD full pack on a FOB basis at the start of every program year, new model introduction, or when changes occur in the overseas suppliers FOB CKD prices.

C) Any new motorcycle model introduction shall have to be supported by the following documents:

1. FOB CKD Full Pack price and itemized price list
2. Projected production and sales volume
3. Projected local content attainment
4. Complete vehicle specifications and brochures
5. Corresponding CBU prices at FOB level

13.2. The BOI reserves the right to cancel the Certificate of Registration if the registered participant does not meet at least 25% of its production commitments over a one (1) year period starting January 1, 1988, and if in BOI's determination, the public is thereby prejudiced.

13.3. Participants shall allow the duly authorized representatives of the BOI to inspect and examine its assembly/manufacturing facilities, pertinent book of accounts, records, and documents to ascertain compliance with the terms and conditions of their registration.

13.4. The BOI may impose such other terms and conditions to ensure the attainment of the objectives of the Program.

XIV. A M E N D M E N T S

The BOI, after consultation with the industry, may recommend to the President amendments to these guidelines, taking into account the attainment of the program objectives, economic conditions and local manufacturing capabilities.

XV. E F F E C T I V I T Y

The guidelines which supersede the 1975 PMMP Guidelines, shall take effect fifteen (15) days after publication.

For the Board of Investments:



JOSE S. CONCEPCION, JR.
Chairman

RULES OF APPLICATION FOR REGISTRATION
IN THE MOTORCYCLE DEVELOPMENT PROGRAM (MDP)

I. R U L E S

- A. Application for registration is a requirement for qualification in the MDP. The application shall contain the following documents:
1. Details on Current Operations
 - i. Company Profile
 - Ownership Structure
 - Latest Audited Financial Statement
 - ii. Production Capacity and Assembly Manufacturing Facilities including dealer network of parts and service
 - iii. Employment
 - iv. Local Content Attainment
 - v. Others
 2. Business Plans for the next Five Years/Commitments
 - Vehicle Categories applied for
 - Vehicle Production Program per category
 - Horizontal and Vertical Integration/Local Content Program
 - Cost Analysis of Suggested Retail Price based on Comparative CKD vs. CBU Prices
 - Capital Investments Plan/Projected Financial Performance
 - Technical Support/Technology Transfer Plan including yearly budgets
 - Retail Sales/Spare Parts/Service Network
 - Employment generation/Human Resource Development Program including yearly budgets
 - Vehicle Test Plans/Budgets
 - Export Program
 - Foreign exchange self-sufficiency plan
 - Automotive Products Exports Plan
 - ASEAN Complementation
 3. Write-up on the following:
 - Market acceptability of vehicle product lines
 - Internationally known vehicle product lines
 - Technical assistance and working relationship with local parts manufacturers

The 9% requirement that must be attained at the end of the 3rd program year is therefore computed as follows:

Motorcycle Categories	Net Local Content	BOI Requirement
A	29.02 x 0.09	= 2.61
B	23.20 x 0.09	= 2.09

For a participant registered under only one (1) category, the BOI requirement for that category applies to him. However, for a participant registered in more than one (1) category, he has the option to choose in which category he would support a parts manufacturing project.

For the Board of Investments:



JOSE S. CONCEPCION, JR.
Chairman

IMPLEMENTING RULES OF ARTICLE 4.3 OF THE
MOTORCYCLE DEVELOPMENT PROGRAM (MDP) GUIDELINES

1. A major commitment shall mean a participant is required under the MDP guidelines to comply with the provisions of Article 4.3, which is a prerequisite to issuance of a Certificate of Registration.
2. Supporting the manufacture of components and parts shall mean any of the following schemes:

2.1 Equity investment, either minor or major stockholdings, in new or existing automotive parts manufacturing company. The BOI shall allow consortia/partnerships to be established under this scheme. In case where there are more than one (1) participant holding equity investment in a parts manufacturing company, the credit for developing the project, i.e. in terms of the point system discussed below, shall be distributed according to their equity shares.

Existing automotive parts manufacturing companies shall refer to the active firms of the Consolidated Automotive Parts Producers Association (CAPPA) as well as other firms in the automotive parts manufacturing business. Inactive companies shall be treated as new firms once they are made operational under the above-mentioned schemes.

- 2.2. Investments in the form of in-house parts manufacturing projects.
- 2.3 Cost sharing schemes with existing automotive parts manufacturing companies in terms of tooling and other relevant costs needed to produce the automotive components and parts. Cost sharing schemes may also be allowed in cases of in-house parts manufacturing by program participants.
3. NET LOCAL CONTENT shall refer to the product of the "POINTS" and the "LOCAL CONTENT RATE OF PARTS". In equation form, this is as follows:

$$\text{Net Local Content} = \text{Points} \times \text{Local Content Rate of Parts}$$

POINTS shall refer to the percentage of the FOB CKD price of the part to the CKD Full Pack Price of the vehicle model.

LOCAL CONTENT RATE OF PART is as defined in Article II of the guidelines.

II. P R O C E D U R E S

A. Submission of Proposals

The Automotive Industry Division, Metals and Engineering Department, BOI, shall accept three (3) sets of the proposals/applications for registration in the Motorcycle Development Program (MDP) from 8:00 a.m. to 5:00 p.m. on April 15, 1988. All applications submitted after said date shall automatically be disqualified.

B. Evaluation of Proposals

1. The 30-day evaluation period shall be completed on May 27, 1988.

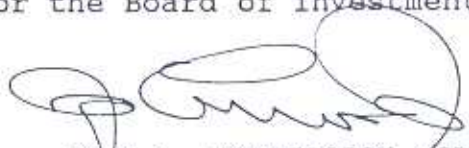
2. The BOI Evaluation Committee shall be composed of representatives from the following offices:

- Office of the Secretary, Department of Trade and Industry
- Office of the Managing Head, Industry and Investments Group
- Automotive Industry Division, Metals and Engineering Department.

3. The Office of the Legal Department shall assist the Evaluation Committee in matters related to the legal aspects of evaluation and final qualification.

4. Official announcement of Registered MDP Participants shall follow after the evaluation period.

For the Board of Investments:



JOSE S. CONCEPCION, JR.
Chairman