

THE AFP SELF-RELIANT DEFENSE POSTURE (SRDP)  
PROGRAM: LEADING THE NATION  
TOWARDS A NEW DIRECTION

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Independence has long eluded the Philippines. Historians may argue that the Philippines has attained independence from the different conquerors that exploited its people and the wealth of the country. Other historians may claim that the Filipinos have, in fact, gained freedom recently after the famed 1986 February Revolution. The concept of independence or freedom may not have been fully understood if people view the whole scenario as such.

Independence for a country may be viewed as having the freedom to do what one thinks is right just as long as it takes into consideration the common good. It can be viewed in the light of having to be on one's own without foreign countries intervening in the formulation of its policies or in the conduct of negotiations. It can be gleaned as the capability to be not overly dependent on foreign suppliers in terms of its needs, thereby limiting the control of foreigners in every aspect in the life of the citizenry.

Independence to the fullest degree, if seen in terms of being on one's own, has not yet been attained by any country. Ideally, that should be the case but practically speaking, it would be impossible. Countries would still have to rely on other nations for their needs which they cannot produce or which they think they cannot produce. The pessimist view often leads to over-dependence. Over-dependence on other countries would give the exporting country the opportunity to control the importing country. This would have an adverse effect on the integrity of the importing country like the Philippines. An image of a weak and dependent country would be formed because socially, economically and militarily speaking, the said country does not have a solid foundation and it cannot stand on its own. Other countries would look down on the nation's capabilities thereby affecting its trade and social relations with other countries.

Corollary to this would be the possibility of experiencing friction with other nations and this would result to a crisis. As experienced several years ago, crises in the country discouraged businessmen from investing thereby creating a great imbalance in our national economy. These international conflicts will have adverse effects on the Philippines peace and order situation.

Sensing the effects of overdependence, it is not claimed that being totally self-reliant is the best solution. Dependence on other nations can be minimized and this proved to be feasible through the results of in-depth studies that have been done. The concept of self-reliance is applicable in any national aspect or concern. An example is the Armed Forces of the Philippines (AFP), which has taken initial steps in a self-reliance program.

Defense has always been a national necessity. Countries have devised ways to prevent, if not, to counter possible attacks on their peaceful way of existence. Attacks may come in the form of foreign intrusions by land, sea or air. It may also come in the form of internal attacks such as insurgency. A vivid example of this is what people usually read in the newspapers as attacks made by the insurgents on the military and civilians, as well.

In trying to counter these attacks, a country does not have to totally rely on the supplied armaments of other countries. Realizing this, a branch of the AFP was tasked to do something about the planning, development and implementation of the self-reliance concept. It is hoped that through this Office, the formulated plans will establish a self-reliant defense capability. This Office came to be known as the Office of the Deputy Chief of Staff for Materiel Development, (DCS MAD) OJ9 (Office of the Joint Chief of Staff).

## I. HISTORY OF OJ9

Section 1 of General Order No. 187 dated November 14, 1972 provided for the activation of the Materiel Development Planning and Programming Office as a Special Staff of the GHQ (See Annex 1). The first Chief of the newly-created office was Col. Feliberto B. Cavosora of the Philippine Army.

On the following year on September 4, its name was changed from OJ8 to OJ9, the Office of the Acting Deputy Chief of Staff

for Materiel Development (See Annex 2). In the following years the building blocks or foundation of the said Office were laid down.

It was finally on May 16, 1980 that the functions and organization of the said office were put into effect. OJ9 had ten branches namely the Administrative branch, Budget and Fiscal, Plans and Programs, Ammo and Chemical Warfare, Weapons, QM and Engineering, Communication-Electronics, Airforce and Navy.

However, the idea about self-reliance or self-sufficiency in the National Defense is not new. The basic policy governing the self-reliance program can be found in Commonwealth Act No. 138, otherwise known as the Flag Law, which requires preference for locally manufactured items in the procurement of supplies even if they cost up to fifteen percent higher than importing the said items (See Annex 3). As early as 1948, the AFP has embarked into the long path of self-sufficiency especially when the Research and Development Center was organized to study the local manufacture of ammunition.

These studies resulted to the enactment of Republic Act No. 1884, dated 1957, which provided for the creation of the Arsenal (See Annex 4). The Arsenal was created for the purpose of manufacturing ammunition for small arms of the AFP.

In line with the renewed effort of redirecting defense planning from seeming reliance, if not outright independence on allies and other outside support, the Self-Reliant Defense Posture (SRDP) Program was born.

## II. RATIONALE OF SRDP

The country experiences the ill effects of foreign intervention, thereby increasing its need for an independent foreign policy. This policy would then protect the nation's own interests and at the same time protect itself from the control of foreign nations.

In relation to this, the main thrusts that led to the need for a self-reliant defense capability is to develop a capability for charting an independent self-respecting foreign policy and economic development. This is hoped to be achieved by limiting the nation's dependence on allies and outside support for the defense requirements. This self-reliant defense capability relies primarily on dev-

eloping in-country manufacturing capabilities and utilizing to the fullest its natural resources as the source of the country's defense needs in the SRDP Program.

It must be obvious that, without this capability, the country's defense efforts would be anchored on what these foreign nations would be willing to supply. It is tantamount to saying that the Filipinos are letting themselves to be controlled by foreign suppliers. If such is the case, a country cannot be truly independent if it is dependent on another country for its national defense.

Other nations have initiated projects of their own versions of SRDP and results showed that they have been successful in their undertakings. Sweden is one of the countries which ventured into the scheme. Its items, especially aircraft, have earned a reputation and they are now attempting to move on to the manufacture of civilian aircraft. Brazil is slowly carving its name in the growing missile industry. Other countries like Argentina, India, Israel, Pakistan, South Africa and Taiwan are into the manufacture of nuclear weapons. Small countries have now slowly ventured into fields that were formerly dominated by superpower countries.

Research has played a major role in regard to the concept of self-reliance and self-sufficiency. Studies have been conducted to determine the feasibility of the concept and its application to solve the problem of coming up with an independent foreign policy. Supported by the data gathered and the achievements of the Arsenal, the Government then thought of embarking on a self-reliance program, thus, the formulation of the SRDP Program.

### III. LEGAL BASIS OF SRDP

Presidential Decree No. 415, dated March 19, 1974, serves as the legal basis of the SRDP (See Annex 5). The said decree was later amended by P.D. No. 1081 dated February 1, 1977 (See Annex 6). This new amendment authorized the Minister of National Defense to enter into defense contracts with private Filipino corporations to implement projects under the SRDP Program. The implementation of the proposed program was thru its Deputy Chief of Staff for Materiel Development, J8 who is the Program Administrator. With such amendment, any company, private or government-owned, may participate in the SRDP provided that the company possesses the technological and financial capabili-

ties to undertake the project and is properly granted security clearance.

Some government policies have also served as implementation guidelines of the program. The ultimate basis of this program is the 1987 Constitution, specifically Article II, Section 19 (State Policies) which declares that the State shall develop a self-reliant and independent national economy effectively controlled by the Filipinos themselves.

Article XIV, Section 10 of the 1987 Constitution primarily recognizes that science and technology are essential for national development and progress (See Annex 7). In accordance with this, the State shall give priority to research and development, inventions, innovations and their utilization; and to science and technology education, training and services. It shall support indigenous, appropriate, and self-reliant scientific and technological capabilities and their application to the country's productive systems and national life.

Article XIV, Section 12 also supports the SRDP by way of its declaration that the State shall regulate the transfer and promote the adaptation of technology from all sources for the national benefit (See Annex 7). It shall encourage the widest participation of private groups, local governments and community-based organization of science and technology.

Likewise, one of these supportive laws is Article 39 of the Omnibus Investments Code of 1987 (See Annex 8). This provides that once an entity is involved in the SRDP Program, it qualifies for registration in the Board of Investments and therefore it can avail of the incentives provided for pioneer industries.

#### IV. OBJECTIVES

The program aims to formulate a unilateral defense capability by developing and maintaining an in-country capability to manufacture selected defense materiel. Towards the achievement of this goal, specific objectives have been formulated. One of these is the gradual elimination of dependence on foreign suppliers for basic defense requirements of the nation through the creation of viable defense industries in the country. Local content in the manufacture of the defense items will be maximized. Considering the Fili-

pino ingenuity, it is hoped that more effective combat weapons and equipment will be developed.

## V. PRIORITIES OF SRDP PROGRAM

Faced with a seemingly endless task, implementors of the SRDP Program divided its objectives into three time ranges: the short range, medium range and long range. The purpose is to select and act upon the most pressing defense need of the AFP.

Part of the short range plan is to produce on the soonest time possible individual unit and small equipment, spare parts of high value equipment, and sighting devices. The production of individual small arms ammunition would be the main target in this range. This would serve as a gauge in determining the nation's capability in harnessing its resources.

In the medium range time span, it aims to manufacture combat vehicles, two half-ton trucks and larger vehicles. Part of this range would also include the manufacture of aircraft weapons, anti-armor weapons and small seacraft. The medium range plan will serve as a basis in knowing how far the nation can go in self-reliance program by venturing in the manufacture of land, sea or air combat vehicles.

The long range plan would include the setting up of basic industries involved in the manufacture of brass, explosives and plastics. Included also under this is the manufacture of medium size ships, counter-insurgency aircraft and missiles. The short and the medium range plans would lay the foundation for the achievement of the long range plan.

Topping the list of priorities in the SRDP Program are those that are badly needed for internal defense or counter-insurgency. Insurgency is one of the pressing problems that the country faces at present. In trying to overcome this problem sufficient means must be generated and this is what the SRDP Program is trying to provide. The main thrust is to be self-sufficient in basic requirements to enable the soldier to move, shoot, communicate and endure in battle. With the help of the program, necessary items are being produced. Some of these items are small arms and ammunitions, tactical communications equipment, basic land vehicles and small seacraft, quartermaster (QM) items and parts and components for the repair or improvement of high value equipment.

Yearly, the National Budget allots a certain bulk of amount in support of the institutions that strengthen the national defense. Millions of pesos are spent yearly for the maintenance and procurement of new armaments and vehicles necessary in safeguarding the nation against those who pose as threats to peace and order.

## VI. GUIDELINES FOR IMPLEMENTATION

For uniformity and to be more systematic, SRDP Program came up with a set of general guidelines for the implementation of its projects. For economy and to facilitate the approval of contracts, SRDP Program shall produce sufficient prototypes to enable a thorough test and evaluation of the product before bulk procurement is made by the AFP. This would test the effectivity of the finished product.

The use of local components or indigenous materials is encouraged. The Philippines has been known to have abundant resources that are waiting to be tapped and be placed into good use. Its natural resources can be very good sources of raw materials that are considerably priced lower than in other countries.

Private industries are encouraged to participate in SRDP projects. This is to give equal opportunity for everyone to take part in SRDP's forthcoming programs. Realizing the magnitude of some of SRDP's projects, it also encourages joint ventures and co-production with the government. Co-production by government and private companies is resorted to in case the item is initially not economically viable but is necessary militarily to manufacture within the perimeters of the country. A joint venture and co-production scheme with marketing tie-up with foreign manufacturers or direct import of technology is also encouraged.

To further encourage private firms to participate in the manufacture of SRDP items, especially those items which are not manufactured locally, the AFP offers assistance. This assistance comes in various forms like assistance in the conduct of a feasibility study, research to improve the product, development of the manufacturing, and awarding of multi-year contract to maintain the technology gained.

Financially, the AFP offers assistance in the form of substantial downpayment to minimize the financing costs and speedy payment

of deliveries. For pioneering industries, the AFP offers assistance in the availment of government incentives.

To maximize the potentials of the country's resources, the use of local materials is preferred. Private firms with no locations yet are given the option to set-up a plant in the SRDP Complex in Fort Bonifacio, Metro Manila. If the product produced is proven to be successful, the AFP extends assistance in widening its market to include other countries. Exportation of SRDP products will be easier with speedy processing of export clearance.<sup>1</sup>

## VII. CONCEPT BEHIND EVERY PRODUCT

An SRDP Project starts as an idea in response to a military need. The Office of the Deputy Chief of Staff of Materiel Development, J9 acts as the collector and evaluator of all project ideas.

In the development of an SRDP product, there are several stages before an item is deemed suitable for the use by the AFP. Before a project is started, an intensive literature study is conducted. This literature research will include the collection of data on previous studies on similar subject to crystallize the user definitives, to help design concepts and long range AFP requirement for the item and to identify similar items already available.

After the literature research, design of prototypes shall be prepared to meet the user's definitives. In general, prototyping is undertaken by interested proponents in coordination with the military establishment. Capable manufacturers are invited to participate in prototyping. In case of imported items, the foreign manufacturer is asked to submit a proposal for technology transfer and project estimates. A decision is made after serious study. Based on the prototype costing, the project is then included in the SRDP program, and sent to higher authorities for approval.

After the prototype development, engineering tests are conducted on the prototypes to fully prove the design concept, performance, reliability and the strength of the prototype. Modifications to improve the item are undertaken as necessary to comply with the user definitions.

After this, a limited quantity is ordered for the service or field test in actual field environment. Selected field units test the items to determine its ease of operation, durability and acceptability to the users. These units render reports on the item's acceptability.

Further modifications are undertaken to incorporate improvements and the process is repeated until the item is found acceptable.

Upon satisfactorily completing the development process and upon the acceptance of the AFP of the proposed product, the technical specifications are prepared or upgraded. The offices involved in collaboration with the AFP SRDP Negotiation Committee, negotiate a multi-year contract with the manufacturer for local mass production of the item, subject to approval by higher authorities.<sup>2</sup>

### VIII. MANAGEMENT OF SRDP PROGRAM

The President has jurisdiction on all programs or projects while the responsibility of implementation is delegated to the Secretary of National Defense in behalf of the Philippine Government. He is authorized to enter into project contracts with capable civilian manufacturers.

The AFP Chief of Staff carries out the management of the programs initiated by the head of the DCS MAD, J9 who acts as program director and project administrator. Assisting the Chief of Staff is a special advisory body known as the AFP Weapons System Board (WSB). This body recommends new weapons and equipment needed by the AFP.

SRDP Projects are implemented through the Project Management System. Each project is treated comprehensively. The responsibility for planning, directing and controlling of all the activities involved is assigned to a Project Manager who is designated by the Chief of Staff as recommended by the DCS MAD, J9. The Project Manager is given vast authority and responsibility to bring out the successful completion of the project. He may coordinate directly with any office or unit in the AFP and private firms and corporations for that matter. However, changes in the price and delivery schedules and other matters dealing with the Office of the President, Office of the Secretary of National Defense and other national agencies and with the Chief of Staff shall be coursed through the DCS MAD.<sup>3</sup>

The units in the AFP which are designated as test evaluation, acceptance and quality assurance agencies are the AFP Research and Development Center (RDC), the Air Force Research and Development Center (AFRDC), and the Navy Research and Development Center (NRDC). These agencies are in charge of the qua-

lity control aspect of the different programs of the Office. The DCS MAD, J9 exercises functional supervision over the AFP RDC and coordinates with the major services and with AFPRDC/NRDC on matters pertaining to its projects (See Annex 9).

#### IX. CONTROLLING SRDP PROJECTS

Upon the approval of the SRDP Project by the President, the Project Manager prepares the project master plan. This plan embodies all aspects of the project in terms of time, cost, management and technical performance. The project master plan aims to identify all phases and tasks of the project from development, production, operation, maintenance and termination. It also serves as a single controlling document which integrates all essential events and time schedules. It seeks to identify responsibilities and tasks required from each participating organization or contractor. Aside from these, it provides uniform guidance for work planning and scheduling, utilization of funds and other resources, and coordinating related efforts. The project master plan seeks to provide comprehensive planning reference for use in preparing supporting and subsidiary plans and requirements; provide a frame work for measuring performance against the plan; and to serve as a master file for project history, plans, changes, accomplishment, and reports.<sup>4</sup>

#### X. SRDP PROGRAM VIS-A-VIS THE AFP LOGISTICS PROGRAM

Upon the proposition of the SRDP Program, several questions were raised and among these is how different would be the SRDP from the AFP Logistics Program?

The SRDP Program comprises a portion of the overall AFP Logistics Program. As such, SRDP is one of the sources, and a very important one, in the procurement of the logistics requirements of the AFP. In the formulation of the annual AFP Capability Development Plan, the SRDP contributes its share in the successful accomplishment of the logistics objectives.<sup>5</sup>

#### XI. SRDP PROJECTS

For the past thirteen years of its implementation, the SRDP Program has attained some level of success in terms of accomplishing its objective—that is, to manufacture items with the use of locally produced materials.

Some of the finished projects include the manufacture of armaments like M16 Assault Rifle, 60mm Mortar Tube, 81mm Mortar Tube and gun barrels; ammunitions like 5.56mm ammunition, Hand grenade MKII, and 81mm Mortar Ammunition; vehicles like jiffy jeeps, mini-cruisers, hovercraft, speed boats, marcelo boats, PCF, LCVP and whale boat; communication equipment such as tactical radio sets and others (See Annex 10).

At present, there are ten on-going projects for the manufacture of rifles, grenades, mortar ammo, mortar fuse, pyrotechnics, plastic magazine and others (See Annex 11). A total of nineteen projects are expected to be launched in the coming years of its implementation.

## XII. RESEARCH AND DEVELOPMENT ACTIVITIES

Research has always played a major role in the said project. Constant research is being undertaken. All activities under the SRDP Program are supported by thorough research. Three research bodies are presently involved in the projects.

### *The AFP RDC Activities*

Test and evaluation of seven hundred forty-six items were conducted by AFP Research and Development Center for this year under the chemical, quartermaster (QM), ordnance, communication-electronics, engineer and medical R&D groups. The Center is currently conducting the following R&D projects in-house: extraction of nitrocellulose from wood pulp; improvement of plastic component of QM items signal flare, diesel fuel from coconut oil, ammo belt, survival food, improvement of jungle pack, combat boots, ammo vest, water purifier, poncho with liner, smoke screen, electric generator, electronic markmanship recorder, water dolly and others.

### *PN Research and Development Activities*

The Philippine Navy (PN) Research and Development Activities are centered on mobility/engineering-system, marine pollution control, shipboard machinery/spare parts rebuilding, rehabilitation of seacrafts, and products test and evaluation.

### *PAF Research and Development Activities*

The Philippine Air Force (PAF) RDC joint cooperation with private industries and other research agencies completed re-

search and development products that are equally comparable in quality but lower in cost, with the foreign equivalent products. The PAF Research and development is geared towards the local fabrication of aircraft spare parts, life support and equipment, air munition and special projects.

### XIII. SRDP 5-YEAR PLAN AND PROGRAM

The SRDP Program production and funding has been programmed for a period of five years from 1988 to 1993. The said five-year plan covers the implementation of the contracts of the on-going projects and the launching of sixteen new projects. This is in answer to the AFP requirements falling under the classifications of armaments, communication, mobility, and survival. Over the years, the SRDP contracts have been consistently extended, primarily, due to the inadequacy of funds to support the on-going contracts. On the average, seventy-five percent of the budget appropriations for the SRDP Program were released annually since the time of its creation (See Annex 12).

In view of this situation, the SRDP Program may still have to face more years of trying to make do of what it has. It would be surprising to note that despite its major limitations, the SRDP Program managed to come up with modest accomplishments thereby reaching some of its objectives. It can also be argued that had there been sufficient funding, SRDP would have made far greater achievements with regards to the self-reliance capability within the nation's defense requirements.

### XIV. PROBLEMS ENCOUNTERED

The SRDP Program is primarily viewed by others as a business enterprise and overlooking its political necessity inasmuch as it involves private contractors and is concerned with the competition with imported equivalents. Unfortunately, the SRDP Program is caught in a quagmire of existing bureaucratic procedures which also ail other agencies or programs. This bureaucratic set up, more often than not, tends to result in lengthy delays in the accomplishment of a task. For example, processing of vouchers which simply requires verification, usually takes about two months to be finished. Processing of papers which requires judgment or decisions take a much longer time.

As per agreement, payment to the contractors must be made within a short time upon completion of the delivery requirements

through the bank guarantee deposit mode of payment. Unfortunately, this scheme lasted only up to 1979. The payment to the SRDP contractors has to go through a lengthy mode of payment which often takes about three to four months. This is brought about by the many intervening offices involved in the payments. The AFP is working to restore the bank guarantee deposit mode of payment to address this problem.

This does not jibe well with the business environment that the program is hoping to create wherein reactions to supply, demand, cost increases of materials, equipment and supplies and re-order points must be fast to reduce cost. The element of time in the business community proves to be a very expensive element and has a strong influence in the viability of the SRDP Program, likewise.

The allocation of budget for the Program has been one of the major obstructions in its implementation. Budget requirements of the Program are computed on the basis of the contracted annual volume. More often than not, the actual releases of funds is lower than the required amounts. As a result of this, the volume of deliveries has to be reduced thereby affecting the viability of the project. The SRDP Program occupies low priority in budget allocation for it takes a year before a project can be launched and deliver its products, while operational needs are immediately required thereby gaining the priority over SRDP. The AFP is improving its long range planning to address this problem.

Detailed price analysis in the processing of requests for price adjustments has also affected the Program. This is in the evaluation of price escalations and their tendency to lower the prices below that of the prices of the imported ones. It is also not surprising that the evaluations for escalations extend to an average period of one year. As a matter of fact, many SRDP items are priced lower than imported ones. Because of this, the contractor does not have much room for expansion. The Department of National Defense has instituted an "over-stop" negotiation procedure to substantially shorten negotiation time.

Aside from these problems, rapid turnover of personnel and other concerned officers monitoring the SRDP affects the Program. This program which is set on a long term basis, is very sensitive to changes. Misinterpretation, misconception, and missing out im-

portant details tend to be the most common problems encountered by new officials. This is so because of the initial lack of background information by new officials on the said projects. Also, as new officials take over, another mode of requirement determination is implemented thus, resulting to the changing guidelines in the determination of AFP requirements.

Lukewarm reception from the public and military, as well, is still the unconscious preference for imported items over local ones. Despite the government's effort to boost its campaign in buying Filipino-made products, the prevailing atmosphere towards locally-made items remains unchanged. It is also for this reason that SRDP Projects are considered low priorities among the other sectors of the military. Some sectors view SRDP items with suspicion in terms of its quality as against the imported items which do not pass through rigid test and evaluation in determining its quality. Perhaps the media can play its role in trying to increase public awareness on the existence of the Program. Media facilities must be maximized to be able to gain greater support for the projects being undertaken. Also, a strict quality control program has been put in place to monitor and constantly improve the performance of SRDP products.

#### XV. ASSESSMENT

Based on the attainment of its objectives, the following assessments can be conjured:

With regard to the objective on gradual elimination of the country's dependence on basic suppliers for Basic Defense Requirements of the country, it can be said that SRDP was able to achieve this goal in so far as the basic requirements of the AFP are met. Specifically, these basic requirements would include small arms, ammunition, mobility and tactical communications. There were already thirty-five items manufactured locally as prototypes or in mass. Currently, there are ten on-going SRDP projects. The completed projects and the on-going projects produce items that are viable for in-country production. There are other basic items that are not yet produced in the country and these are planes, tanks, armored personnel carriers, heavy cargo and engineering vehicles. Items classified under these are considered high value systems of limited volume and their manufacture for in-country production can only be decided on the basis of extreme need for these items.

This will depend on the Government's willingness and capability to subsidize the manufacture of these items for the sake of self reliance.

In so far as the items manufactured in-country under the SRDP Program is concerned, it has contributed an average of ninety-seven percent in filling up the AFP small arms/ammunition requirements, forty-four percent in communications and forty-four percent also in mobility requirements.

In this case, it should be noted that what the program has accomplished is only a small part in terms of filling in the total needs of the AFP. The SRDP has been quite efficient in producing the basic weapons. On its own, it will not be sufficient. Considering the Program's capability, in the event that imports and defense assistance are withdrawn under an escalated warfare, the AFP can only wage a guerrilla type of warfare and shall be obviously lacking of adequate high caliber fire, and armored air and naval support. With such, it is recognized that total independence from foreign suppliers is not achieved but through the SRDP Program. However, a modest defense capability remains.

Economic benefits have been derived through the implementation of the SRDP Program. Most items manufactured locally are found to be about thirty-five percent cheaper than the imported items (See Annex 14). In relation to this, the nation was able to save \$106.457 million in foreign exchange through import substitution and local value added cost. Also, the foreign exchange earned through the export of SRDP products have already reached a high level of \$36.669 million since 1974. Local manufacturers have attained a high sense of local content utilization averaging at about seventy-five percent. Furthermore, the SRDP Program has provided employment to some two thousand Filipinos. The Program has also developed the country's export potentials in terms of defense items and has also contributed in the advancement of domestic technology.<sup>6</sup>

Quality-wise, locally-manufactured SRDP items are at par with the imported models. An example for this is the M16 rifle which was manufactured under the said Program. It was learned through thorough testing that locally-produced M16 have similar quality standard with that of the imported ones. Other items which were locally-developed through reverse engineering follows US or European stan-

dards. Of course, there have been quality control problems at the early stage of some of the projects, but these can be viewed as part of the normal pains in the growth of the Program and are eventually corrected.

Initial steps have been taken and many lessons have been learned. Problems or hindrances have to be looked into. Support, be it from the civilian or military sector, seems to be not adequate for the full-blast implementation of the project. Increasing public awareness may be one of the steps to be taken to remedy its problem.

However, the real objective of this Program must not be forgotten and must be ingrained in the minds of the people. The SRDP Program is only a tip of the iceberg, whereby the ultimate objective of all these efforts and future similar undertakings is the capability to pursue an independent foreign policy. Initial steps have been taken and hopefully this will lead the nation towards a new and better perspective.

## NOTES

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<sup>1</sup> AFP CGSC [Command General Staff College] Briefing, Sept. 1, 1988.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

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## ANNEX 1

"I. *Activation.* — a. Effective as of 23 March 1972 the Materiel Development Planning and Programming Office AFP TD/A 200-IS dated 1 July 1962 is activated as Special Staff Office of General Headquarters, Armed Forces of the Philippines.

"b. Personnel and equipment will be within the authorized ceiling of General Headquarters for Fiscal Year 1973."

## ANNEX 2

## EXCERPT FROM GENERAL ORDER NUMBER 1

## GENERAL HEADQUARTERS

## ARMED FORCES OF THE PHILIPPINES

Camp General Emilio Aguinaldo

Quezon City

"II. *Change.* 1. The numerical designation of the Office of the Deputy of Staff for Materiel Development (OLCS MAD J8) is changed from J8 to J9 effective as of 1 January 1988."

## ANNEX 3

## COMMONWEALTH ACT NO. 138

AN ACT TO GIVE NATIVE PRODUCTS AND DOMESTIC ENTITIES THE PREFERENCE IN THE PURCHASE OF ARTICLES FOR THE GOVERNMENT.

Be it enacted by the National Assembly of the Philippines:

Section 1. The Purchase and Equipment Division of the Government of the Philippines and other officers and employees of the municipal and provincial governments and the Government of the Philippines and of chartered cities, boards, commissions, bureaus, departments, offices, agencies, branches, and bodies of any description, including government-owned companies, authorized to requisition, purchase, or contract or make disbursements for articles, materials, and supplies for public use, public buildings, or public works, shall give preference to materials and supplies produced, made, and manufactured in the Philippines or in the United States, and to domestic entities, subject to the conditions herein below specified.

Sec. 2. For the purposes of this Act, the terms hereunder are hereby defined as follows:

(a) The term 'United States' includes the United States of America, the District of Columbia, and any state or territory of the North American Union;

(b) The term 'domestic entity' means any citizens of the Philippines or of the United States habitually established in business and engaged in the manufacture or sale of the merchandise covered by his bid, or any corporate body or commercial company duly organized and registered under the laws of the Philippines of whose capital 75 *per centum* is owned by citizens of the Philippines or of the United States, or both;

(c) The term 'domestic bidder' means any person or entity offering unmanufactured articles, materials, or supplies of the growth, production, or manufacture, as the case may be, of the Philippines or of the United States;

(d) The term 'foreign bid' means any offer of articles, materials, or supplies not of the growth or production of the Philippines or of the United States, or of manufactured articles, materials, or supplies not manufactured or to be manufactured in the Philippines or in the United States, substantially from articles, materials, or supplies of the growth, production, or of the Philippines or of the United States.

Sec. 3. Only unmanufactured articles, materials or supplies of the growth or production of the Philippines or of the United

States, and only such manufactured articles, materials and supplies as have been manufactured in the Philippines or in the United States, shall be purchased for public use and in the case of bidding subject to the following conditions:

(a) When the lowest foreign bid, including customs duties, does not exceed two pesos, the award shall be made to the lowest domestic bidder; provided his bid is not more than one hundred per centum in excess of the foreign bid;

(b) When the lowest foreign bid, including customs duties exceeds twenty pesos but does not exceed two hundred pesos, the award shall be made to the lowest domestic bidder, provided his bid is not more than twenty-five *per centum* in excess of the lowest foreign bid;

(c) When the lowest foreign bid, including customs duties, exceeds twenty pesos but does not exceed two hundred pesos, the award shall be made to the lowest domestic bidder, provided his bid is not more than twenty five *per centum* in excess of the lowest foreign bid;

(d) When the lowest foreign bid, including customs duties, exceeds two hundred pesos but does not exceed two thousand pesos, the award shall be made to the lowest domestic bidder, provided his bid is not more than twenty *per centum* in excess of the lowest foreign bid.

(e) When the lowest foreign bid, including customs duties, exceeds two thousand pesos, the award shall be made to the lowest domestic bidder, provided his bid is not more than fifteen *per centum* in excess of the lowest foreign bid;

Sec. 4. Whenever several bidders, shall participate in the bidding for supplying articles, materials, and equipment for any of the dependencies mentioned in section one of this Act for public use, public buildings, or public works, the award shall be made to the domestic entity making the lowest bid, provided it is not more than fifteen *per centum* in excess of the lowest bid made by a bidder other than a domestic entity, as the term domestic entity is defined in section two of this Act.

Sec. 5. This Act shall take effect on its approval.  
Approved Nov. 7, 1936.

## ANNEX 4

**AN ACT TO ESTABLISH A GOVERNMENT ARSENAL, PROVIDE FOR ITS OPERATION AND FOR OTHER PURPOSES.**  
Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

Section 1. Declaration of Policy — The Government hereby declares it its policy to achieve within a reasonable time self-sufficiency in small arms, mortars, and other weapons, ammunition for these weapons, and other ammunitions for the use of the military establishments.

Sec. 2. Designations of Agency, Creation of the Office of the Undersecretary of Defense and Munitions.—

a. In addition to the function and duties vested in him by existing laws, the Secretary of National Defense will exercise supervision and control over the government arsenal and is hereby authorized to establish, operate and maintain such an arsenal, as well as accessory plants for the continued and efficient operation of this arsenal, for the design, research, development, of production techniques, manufacture and repair of small arms, mortars and other weapons, ammunition for these weapons, and other munitions.

b. There is created in the Department of National Defense an Office of the Undersecretary of Defense for Munitions will be charged with the responsibility of making continuous study of and to advise the Secretary of National Defense on all matters pertaining to the design, development, manufacture, procurement, stockpiling and allocation of small arms, mortars and other weapons, ammunitions for these weapons, and other munitions; to recommend policies, rules and regulations to the Secretary of National Defense for the efficient operation, maintenance and security of the government arsenal; and to devise ways and means for the efficient mobilization of civilian industry to augment the production of the government arsenal in an emergency.

The Undersecretary of Defense for Munitions shall be appointed by the President of the Philippines with the consent of the Commission on Appointments and shall receive an annual compensation of nine thousand pesos.

c. Subject to the approval of the Secretary of National Defense, the Office of the Undersecretary of Defense for Munitions

will have such number of military and civilian personnel as the Undersecretary of Defense for Munitions may deem necessary by detail, whenever possible, from the Armed Forces of the Philippines.

d. No person shall be appointed Undersecretary of Defense for Munitions unless he be a natural born citizen of the Philippines, a person with technical education and with at least five (5) years experience in MUNITION.

Sec. 3. The small arms ammunition plant and all other plants to be established should be located and constructed at such places suitable and consistent with the safety of communities adjacent to such plants and with the requirement of security and the principles of modern warfare.

Sec. 4. Appropriations—For the purposes provided for in this Act, there is hereby authorized to be appropriated and made available from funds in the National Treasury not otherwise appropriated the sum of five million six hundred forty-five thousand one hundred ninety-three pesos (₱5,645,193.00) to implement initially the provisions of this Act for a period of THREE fiscal years; *Provided, however*, That of the said amount of five million six hundred forty-five thousand one hundred ninety-three pesos (₱5,645,193) not more than two hundred thousand pesos (₱200,000) shall be spent for overhead expenses, nor more than three million three hundred fifty-seven thousand pesos (₱3,357,000.00) for fixed assets nor more than two million eighty-seven thousand seven hundred forty-five pesos (₱2,087,745.00) for working capital.

Sec. 5. This Act shall take effect upon its approval.

Approved, June 22, 1957.

#### ANNEX 5

#### M A L A C A Ñ A N G

Manila

#### PRESIDENTIAL DECREE NO. 415

AUTHORIZING THE SECRETARY OF NATIONAL DEFENSE  
TO ENTER INTO DEFENSE CONTRACTS TO IMPLEMENT  
PROJECTS UNDER THE SELF-RELIANT DEFENSE PRO-  
GRAMS AND FOR OTHER PURPOSES

WHEREAS, it is the objective of the state to achieve a self-reliant defense posture;

WHEREAS, the achievement of this goal requires the immediate prosecution of national defense projects for the acquisition of military material;

WHEREAS, the implementation of projects under the SELF-RELIANT DEFENSE POSTURE PROGRAM will generate labor, spur industrial and commercial activities, and conserve foreign exchange resources;

WHEREAS, the majority of these projects will require financing from foreign sources;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Republic of the Philippines, by virtue of the powers vested in me by the Constitution as Commander-in-Chief of all the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, as amended do hereby order and decree as follows:

SECTION 1. The Secretary of National Defense, in behalf of the Government of the Republic of the Philippines, is hereby authorized to enter into contracts, under such terms and conditions as may be agreed upon, with any natural or juridical person, with or without public bidding, for the manufacture or procurement of supplies, equipment, or components thereof, facilities, utilities and appurtenances thereto which are necessary for the manufacture servicing, or operation of such supplies, equipment or components thereof needed for national defense and covered by the Self-Reliant Defense Program approved by the President of the Philippines, any provision of law, including Section Six Hundred and Seven of the Administrative Code, Commonwealth Act Numbered Five Hundred Forty-One, Act Numbered Four Thousand Two Hundred Thirty-Nine, Republic Act Numbered Five Thousand Two Hundred Eighty-three and other related laws to the contrary notwithstanding.

SECTION 2. Foreign and local prime contractors engaged or proposing to engage in the manufacture and/or fabrication of defense material for the Government be registered and avail of the incentives under Republic Act Numbered Five Thousand One Hundred Eighty-six as amended, with respect to defense industries covered by the Program and listed under a supplemental annual investment priority plan, upon recommendation of the Ministry of National Defense and the National Economic and Development

Authority. In the interest of national security, publication of the above supplemental list shall be dispensed with the Board of Investments which shall adopt a special procedure in the processing of application for registration by defense contractors under this Program.

SECTION 3. For the purpose of this Decree and any provision of law to the contrary notwithstanding, the President of the Philippines is hereby authorized in behalf of the Republic of the Philippines, to contract such loans, credits or indebtedness including supplier's credit, deferred payment arrangements upon such terms and conditions as maybe agreed upon with any local or foreign source or lender not exceeding Three Hundred Million United States dollars, or its equivalent in other foreign currencies at the exchange rate prevailing at the time of the contracting of the loans, credits or indebtedness, supplier's credits and deferred payment arrangements and at terms of payment of not less than ten years and to enter into and conclude bilateral agreements involving other forms of official assistance such as grants and commodity credit arrangements or indebtedness as may be necessary with Government of foreign countries with whom the Philippines has diplomatic or trade relations or which are members of the United Nations, their agencies, instrumentalities or financial institutions or with reputable international organizations or non-governmental, national or international lending institutions or firms extending supplier's credit or deferred payment arrangement. Provided, further, That such loans, credits or indebtedness shall be incurred only when the Commissioner of Budget has certified that for the fiscal year in question, funds are appropriated and programmed to meet the servicing of the external debt of the public sector, including the loan, credit or indebtedness proposed to be contracted, and the counterpart peso funding requirements of the projects for which such loans, credits or indebtedness are being contracted have been programmed and shall be available as and when needed for the completion of the project: Provided, finally, That in contracting any loan, credit or indebtedness under this Act, the President of the Philippines, when necessary may agree to waive or modify the application of any law granting preferences or imposing restrictions on international public bidding.

SECTION 4. The President may authorize the lending of the proceeds of such loans, credits or indebtedness to the Development

Bank of the Philippines, which shall administer said proceeds in accordance with the agreement with the foreign creditor, for re-lending, subject to terms and conditions which the President may impose, to the principal contractor or sub-contractor, to meet the direct and indirect foreign exchange requirements, including the peso costs or projects authorized under this Decree: Provided, That the Development Bank of the Philippines shall pay the Republic of the Philippines at least the principal, interest and changes on such loans, credits or indebtedness turned over to it.

The Development Bank of the Philippines, with the approval of the President of the Philippines, may also guarantee such loans, credits or indebtedness secured by a principal contractor or sub-contractor directly from local or foreign sources to cover all or part of the cost of performance of contracts herein referred to.

SECTION 5. Any provisions of law to the contrary notwithstanding and in order to enable the Republic of the Philippines to pay the principal, interest, taxes and normal banking charges on the loans, credits or indebtedness, all revenues realized from the projects financed by such loans, credits or indebtedness shall be turned over in full, after deducting actual and necessary expenses for operation and maintenance of said projects, to the National Treasury by the Ministry of National Defense, which is hereby appropriated for the purpose as when they shall become due. In cases where the revenue realized are insufficient to cover the principal, interests and other charges, such portion of the budgetary savings may be necessary to cover the balance of deficiency shall be set aside by the Ministry of National Defense exclusively for this purpose: Provided, That if there still remain a deficiency, the necessary amount is hereby appropriated out of the funds in the National Treasury, to cover the payment of principal and interest of such loans, credits or indebtedness as and when they shall become due: Provided, further, That the Monetary Board of the Central Bank shall take provisions out of current foreign exchange receipts for the foreign exchange requirements to service the external debts.

SECTION 6. Upon recommendations of the Secretary of Finance in consultation with the National Economic and Development Authority and approval of the President of the Philippines, loans, agreements as well as contracts, unless otherwise falling under Section 2 of this Act, involving the availment of or utilization

of the proceeds of loans, credits or indebtedness obtained under the provisions of this Act, may provide for the exemption from taxes, charges or other levies, loans, credit or indebtedness incurred pursuant to this Decree, the payment of the principal, interests and other charges thereon, which are secured from Government of foreign countries or from lending institutions of organizations owned or controlled by said foreign governments, shall be exempted from the payment of all taxes, fees, and other charges.

SECTION 7. The amount of at least One Hundred Million Pesos is hereby appropriated yearly under the SRDP Program budget by the AFP, to carry out the provisions and purposes of this Decree. The Budget Commission is hereby authorized to release the amount to the Department of National Defense upon request thereof.

SECTION 8. All provisions of existing laws, orders, and regulations contrary to, or inconsistent with this Decree are hereby repealed or modified accordingly.

Done in the City of Manila this 19th day of March in the year of our Lord nineteen hundred and seventy four.

#### ANNEX 6

#### MALACAÑANG PALACE Manila

#### PRESIDENTIAL DECREE NO. 1081

AMENDING PRESIDENTIAL DECREE NO. 415 DATED MARCH 19, 1974, ENTITLED, "AUTHORIZING THE SECRETARY OF NATIONAL DEFENSE TO ENTER INTO DEFENSE CONTRACTS TO IMPLEMENT PROJECTS UNDER THE SELF-RELIANT DEFENSE PROGRAMS AND FOR OTHER PURPOSES."

SECTION 1 of Presidential Decree No. 415 dated March 19, 1974, is hereby amended to read as follows:

"Section 1. The Secretary of National Defense in behalf of the Government of the Republic of the Philippines, is hereby authorized to enter into contracts, under such terms and conditions as may be agreed upon, with any natural or juridical person, with or without public bidding, for the manufacture or procurement of supplies, equipment for components thereof, facilities, utilities and appurtenances thereto which are necessary for the manufacture,

servicing, or operating of such supplies; equipment or components thereof needed for national defense and covered by the Self-Reliant Defense Program approved by the President of the Philippines Provided that accrued interests of Bank Guaranteed Deposits made with PVB and PNB (or any authorized banking institution) in favor of the SRDP Defense contractors covering the amount stipulated in above mentioned contracts automatically be reverted to SRDP funds for utilization within the program, Provided that the Program of Expenditure shall be submitted to and approved by the Secretary of National Defense; Provided further that these accounts have been properly accounted for and reported to the Budget Commission and Commission on Audit; any provision of law, including Section Six Hundred and Seven of the Revised Administrative Code, Commonwealth Act Numbered Five Hundred Forty-one, Act Numbered Four Thousand Two Hundred Thirty-nine, Republic Act Numbered Five Thousand One Hundred Eighty-three and other related laws to the contrary notwithstanding."

This Decree shall take effect immediately.

Done in the City of Manila this 1st day of February in the year of Our Lord nineteen hundred and seventy-seven.

ANNEX 7  
THE 1987 CONSTITUTION  
(ART. XIV)

SCIENCE AND TECHNOLOGY

SEC. 10. Science and technology are essential for national development and progress. The State shall give priority to research and development, invention, innovation, and their utilization; and to science and technology education, training and services. It shall support indigenous, appropriate, and self-reliant scientific and technological capabilities, and their application to the country's productive systems and national life.

SEC. 11. The Congress may provide for incentives, including tax deductions, to encourage private participation in program of basic and applied scientific research. Scholarships, grants-in-aid, or other forms of incentives shall be provided to deserving science students, researchers, scientists, inventors, technologists, and specially gifted citizens.

SEC. 12. The state shall promote the transfer and promote the adaptation of technology from all sources for the national benefit. It shall encourage the widest participation of private groups, local governments, and community-based organizations in the generation and utilization of science and technology.

SEC. 13. The State shall protect and secure the exclusive rights of scientists, inventors, artists, and other gifted citizens to their intellectual property and creations; particularly when beneficial to the people, for such period as may be provided by law.

## ANNEX 8

Excerpts from BOI Code of 1987

### TITLE III—INCENTIVES TO REGISTERED ENTERPRISES

ART. 39. *Incentives to Registered Enterprises* — All registered enterprises shall be granted the following incentives to the extent engaged in a preferred area of investment:

(a) *Income Tax Holiday*—

(1) For six (6) years from commercial operation for pioneer firms and four (4) years for non-pioneer firms, new registered firms shall be fully exempt from income taxes levied by the National Government. Subject to such guidelines as may be prescribed by the Board, the income tax exemption will be extended for another year in each of the following cases:

- i. the projects meet the prescribed ratio of capital equipment to number of workers set by the Board;
- ii. utilization of indigenous raw materials at rates set by the Board;
- iii. the net foreign exchange savings or earnings amount to at least US\$500,000.00 annually during the first three (3) years of operation.

The preceding paragraph notwithstanding, no registered pioneer firm may avail of this incentive for a period exceeding eight (8) years.

(2) For a period of three (3) years from commercial operation, registered expanding firms shall be entitled to an exemption from income taxes levied by the National Government proportionate to their expansion under such terms and conditions as the Board

may determine; *Provided, however,* That during the period within which this incentive is availed of by the expanding firm it shall not be entitled to additional deduction for incremental labor expense.

(3) The provision of Article 7 (14) notwithstanding, registered firms shall not be entitled to any extension of this incentive.

(b) *Additional Deduction for Labor Expense.* — For the first five (5) years from registration, a registered enterprise shall be allowed an additional deduction from the taxable income of fifty percent (50%) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers if the project meets the prescribed ratio of capital equipment to number of workers set by the Board: *Provided,* That this additional deduction shall be doubled if the activity is located in less developed areas as defined in Art. 40.

(c) *Tax and Duty Exemption on Imported Capital Equipment.* Within five (5) years from the effectivity of this Code, importations of machinery and equipment accompanying spare parts of new and expanding registered enterprises shall be exempt to the extent of one hundred percent (100%) of the customs duties and national internal revenue tax payable thereon; *Provided,* That the importation of machinery and equipment and accompanying spare parts shall comply with the following conditions:

(1) They are not manufactured domestically in sufficient quantity; of comparable quality and at reasonable prices;

(2) They are reasonably needed and will be used exclusively by the registered enterprise in the manufacture of its products, unless prior approval of the Board is secured for the part-time utilization of said equipment in a non-registered activity to maximize usage thereof or the proportionate taxes and duties are paid on the specific equipment and machinery being permanently used for non-registered activities; and

(3) The approval of the Board was obtained by the registered enterprise for the importation of such machinery, equipment and spare parts.

In granting the approval of the importations under this paragraph, the Board may require international canvassing but if the total cost of the capital equipment or industrial plant exceeds US

\$5,000,000, the Board shall apply or adopt the provisions of Presidential Decree Numbered 1764 on International Competitive Bidding.

If the registered enterprise sells, transfers or disposes of these machinery, equipment and spare parts without prior approval of the Board within five (5) years from date of acquisition, the registered enterprise and the vendee, transferee, or assignee shall be solidarily liable to pay twice the amount of the tax exemption given it.

The Board shall allow and approve the sale, transfer or disposition of the said items within the said period of five (5) years if made:

- (aa) to another registered enterprise or registered domestic producer enjoying similar incentives;
- (bb) for reasons of proven technical obsolescence; or
- (cc) for purposes of replacement to improve and/or expand the operations of the registered enterprise.

(d) *Tax Credit on Domestic Capital Equipment.*—A Tax credit equivalent to one hundred percent (100%) of the value of the national internal revenue taxes and customs duties that would have been waived on the machinery, equipment and spare parts, had these items been imported shall be given to the new and expanding registered enterprise which purchases machinery, equipment and spare parts from a domestic manufacturer: *Provided*, That (1) That the said equipment, machinery and spare parts are reasonably needed and will be used exclusively by the registered enterprise in the manufacture of its products, unless prior approval of the Board is secured for the part-time utilization of said equipment in a non-registered activity to maximize usage thereof; (2) that the equipment would have qualified for tax and duty-free importation under paragraph (c) hereof; (c) that the approval of the Board was obtained by the registered enterprise; and (4) that the purchase is made within five (5) years from the date of effectivity of the Code. If the registered enterprise sells, transfers or disposes of these machinery, equipment and spare parts, the provisions in the preceding paragraph for such disposition shall apply.

(e) *Exemption from Contractor's Tax.* — The registered enterprise shall be exempt from the payment of contractor's tax, whether national or local.

(f) *Simplification of Customs Procedures.*— Customs procedures for the importation of equipment, spare parts, raw materials and supplies, and exports of processed products by registered enterprises shall be simplified by the Bureau of Customs.

(g) *Unrestricted Use of Consigned Equipment.*— Provisions of existing laws notwithstanding, machinery, equipment and spare parts consigned to any registered enterprise shall not be subject to restrictions as to period of use of such machinery, equipment and spare parts: *Provided*, that the appropriate re-export bond is posted unless importation is otherwise covered under subsections (c) and (m) of this Article: *Provided, further*, that such consigned equipment shall be for the exclusive use of the registered enterprise.

If such equipment is sold, transferred or otherwise disposed of by the registered enterprise the related provision of Article 39 (c) (3) shall apply. Outward remittance of foreign exchange covering the proceeds of such sales, transfer or disposition shall be allowed only upon prior Central Bank approval.

(h) *Employment of Foreign Nationals.*— Subject to the provisions of Section 29 of Commonwealth Act Number 613, as amended, a registered enterprise may employ foreign nationals in supervisory, technical or advisory positions for a period not exceeding five (5) years from its registration, extendible for limited periods at the discretion of the Board: *Provided, however*, That when the majority of the capital stock of a registered enterprise is owned by foreign investors, the positions of president, treasurer and general manager or their equivalents may be retained by foreign nationals beyond the period set forth herein.

Foreign nationals under employment contract within the purview of this incentive, their spouses and unmarried children under twenty-one (21) years of age, who are not excluded by Section 29 of Commonwealth Act Numbered 613, as amended, shall be permitted to enter and reside in the Philippines during the period of employment of such foreign nationals.

A registered enterprise shall train Filipinos as understudies of foreign nationals in administrative, supervisory and technical skills and shall submit annual reports on such training to the Board.

(i) *Exemption on Breeding Stocks and Genetic Materials.*— The importation of breeding stocks and genetic materials within

ten (10) years from the date of registration or commercial operation of the enterprise shall be exempt from all taxes and duties: *Provided*, That such breeding stocks and genetic materials are (1) not locally available and/or obtainable locally in comparable quality and at reasonable prices; (2) reasonably needed in the registered activity; and (3) approved by the Board.

(j) *Tax Credit on Domestic Breeding Stocks and Genetic Materials.* — A tax credit equivalent to one hundred percent (100%) of the value of national internal revenue taxes and customs duties that would have been waived on the breeding stocks and genetic materials had these items been imported shall be given to the registered enterprise which purchases breeding stocks and genetic materials from a domestic producer: *Provided*, (1) That said breeding stocks and genetic materials would have qualified for tax and duty-free importation under the preceding paragraph; (2) that the breeding stocks and genetic materials are reasonably needed in the registered activities; (3) that approval of the Board has been obtained by the registered enterprise; and (4) that the purchase is made within ten (10) years from date of registration or commercial operation of the registered enterprise.

(k) *Tax Credit for Taxes and Duties on Raw Materials.* — Every registered enterprise shall enjoy a tax credit equivalent to the National Internal Revenue taxes and Customs duties paid on the supplies, raw materials, and semi-manufactured products used in the manufacture, processing or production of its export products and forming part thereof; exported directly or indirectly by the registered enterprise: *Provided, however*, That the taxes on the supplies, raw materials, and semi-manufactured products domestically purchased are indicated as a separate item in the sales invoice.

Nothing herein shall be construed as to preclude the Board from setting a fix percentage of export sales as the approximate tax credit for taxes and duties of raw materials based on an average or standard usage for such materials in the industry.

(l) *Access to Bonded Manufacturing/Trading Warehouse System.* — Registered export-oriented enterprises shall have access to the utilization of the bonded warehousing system in all areas required by the project subject to such guidelines as may be issued by the Board upon prior consultation with the Bureau of Customs.

(m) *Exemptions from Taxes and Duties on Imported Spare Parts.* — Importation of required supplies and spare parts for con-

signed equipment or those imported tax and duty-free by a registered enterprise with a bonded manufacturing warehouse shall be exempt from customs duties and national internal revenue taxes payable thereon: *Provided, however*, That at least seventy percent (70%) of production is exported; *Provided, further*, That such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; *Provided, finally*, That all such spare parts and supplies shall be used only in the bonded manufacturing warehouse of the registered enterprise under such requirements as the Bureau of Customs may impose.

(n) *Exemption from Wharfage Dues and any Export Tax, Duty, Impost and Fee.* — The provisions of law to the contrary notwithstanding, exports by a registered enterprise of its non-traditional export products shall be exempted from any wharfage dues, and any export tax, duty, impost and fee.

#### TITLE IV — INCENTIVES TO LESS-DEVELOPED-AREA REGISTERED ENTERPRISE

Art. 40. A registered enterprise regardless of nationality located in a less-developed-area included in the list by the Board of Investments after consultation with the National Economic and Development Authority and other appropriate government agencies, taking into consideration the following criteria: low per capita gross domestic product; low level of investments; high rate of unemployment and/or underemployment and low level of infrastructure development including its accessibility to developed urban centers, shall be entitled to the following incentives in addition to those provided in the preceding article:

(a) *Pioneer Incentives.* — An enterprise in a less-developed area registered with the book under Book I of this Code, whether proposed, or an expansion of an existing venture, shall be entitled to the incentives provided for a pioneer registered enterprise under its law of registration.

(b) *Incentives for Necessary and Major Infrastructure and Public Facilities.* — Registered enterprises establishing their production, processing or manufacturing plants in an area that the Board designates as necessary for the proper dispersal of industry or in an area which the Board finds deficient in infrastructure, public utilities, and other facilities, such as irrigation, drainage or

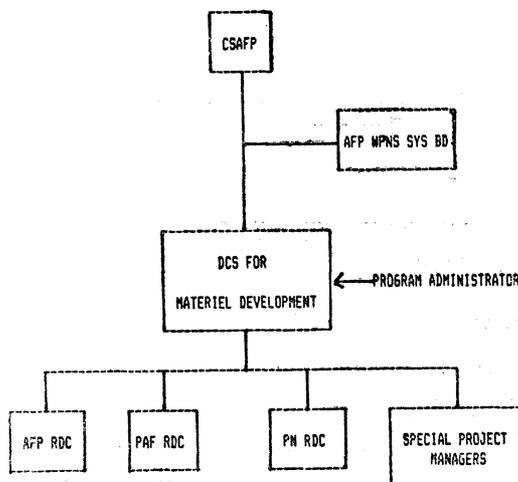
other similar waterworks infrastructure may deduct from taxable income an amount equivalent to one hundred percent (100%) of necessary and major infrastructure works it may have undertaken with the prior approval of the Board in consultation with other government agencies concerned; *Provided*, That the title to all such infrastructure works shall upon completion, be transferred to the Philippine Government; *Provided, further*, That any amount not deducted for a particular year may be carried over for the deduction for subsequent years not exceeding ten (10) years from commercial operation.

#### TITLE V — GENERAL PROVISIONS

Art. 41. *Power of the President to Rationalize Incentives.*—The President may, upon recommendation of the Board and in the interest of national development, rationalize the incentive scheme here provided; extend the period of availment of incentives or increase rates of tax exemption of any project whose viability or profitability require such modification.

Art. 42. *Refund and Penalties.*— In case of cancellation of the certificate granted under this Code, the Board may, in appropriate cases, require the refund of incentives availed of and impose corresponding fines and penalties.

#### ANNEX 9 AFP SRDP ORGANIZATIONAL CHART



Art. 43. *Benefits of Multiple Area Enterprises.* — When a registered enterprise engages in activities or endeavors that have not been declared preferred areas of investments, the benefits and incentives accruing in this Code to registered enterprises and investors therein shall be limited to the portion of the activities of such registered enterprise as is a preferred area of investment.

## ANNEX 10

## COMPLETED SRDP PROJECTS

After thirteen years of implementation, the following 35 items have been manufactured locally under SRDP:

| <i>Projects</i>               | <i>First Year<br/>Manufactured</i> |
|-------------------------------|------------------------------------|
| <b>Armament</b>               |                                    |
| M16 Assault Rifle .....       | 1982                               |
| 60MM Mortar Tube .....        | 1977                               |
| 81MM Mortar Tube .....        | 1974                               |
| Gun Barrels .....             | 1983                               |
| <b>Ammunition</b>             |                                    |
| 5.56MM Ammunition .....       | 1983                               |
| Hand Grenade MK11 .....       | 1978                               |
| 81MM Mortar Ammo .....        | 1984                               |
| <b>Mobility</b>               |                                    |
| Jiffy Jeeps .....             | 1974                               |
| 1/4 Ton Mini-Cruiser .....    | 1974                               |
| <b>Communications</b>         |                                    |
| URC-601 VHF/FM Handheld ..... | 1985                               |
| URC-187 SSB .....             | 1985                               |
| <b>Other Projects</b>         |                                    |
| M4 Sight Mortar .....         | 1981                               |
| Steel Helmet .....            | 1981                               |
| M16 Magazine .....            | 1981                               |
| M16 Bayonet .....             | 1981                               |
| Jungle Bolo .....             | 1983                               |

## PAF Projects

|                                   |      |
|-----------------------------------|------|
| PAF Glider .....                  | 1975 |
| PAF Trainer Aircraft XT-001 ..... | 1975 |
| PAF Hovercraft .....              | 1976 |
| 25-Lbs. Practice Bomb .....       | 1985 |

## PN Projects

|                              |      |
|------------------------------|------|
| Patrol Craft Fast MK11 ..... | 1974 |
| 120 Ft. OPIC .....           | 1978 |
| 45 Ft. Speedboat .....       | 1978 |
| 46 Ft. PCFS .....            | 1979 |
| Floating Clinic .....        | 1976 |
| 91 Ft. FCF .....             | 1976 |
| 65 Ft. PCF .....             | 1974 |
| PN Hovercraft .....          | 1974 |
| PN LCVP .....                | 1985 |
| PN Whaleboat .....           | 1985 |

## ANNEX 11

*ON-GOING PROJECTS:*

The SRDP Program has ten (10) on-going projects. The projects are as follows:

1. *M16 ASSAULT RIFLE PROJECTS (EXTENSION)*

The basic weapon of the AFP. In 1974, a Filipino company was commissioned by the Republic to manufacture the M16 assault rifles through technology transfer based on a license and a technical assistance agreements between the Philippines and the manufacturer. In the original contract a total volume of 150,000 rifles and spares equivalent to 22,500 rifles were manufactured and delivered. Due to the need of more M16 rifles, an extension contract of 60,000 rifles was awarded to a Filipino manufacturer. Raw materials, production supplies and production equipment are provided by the Government, while this Filipino manufacturer does the manufacturing for the AFP. As of now, there are enough materials for the manufacture of 10,000 rifles. This Filipino manufacturer has delivered 10,203 rifles in CY88. The total contract cost of the project is P240.544M.

2. *ARMALITE RIFLE PROJECT*

A new project which incorporates modifications into the AR18 rifle of armalite that were adopted with the purpose of making

it more convenient to the Filipino soldier. License, technology, equipment and manufacturing devices have been transferred from abroad to the Philippines. Twenty (20) prototypes of the AR 101, AR 102, AR 103 and AR 104 were manufactured in-country and have passed the AFP test and evaluation. To date, AFP has paid \$17.960M out of \$18.50M contract cost. Three thousand five hundred AR Series 100 rifles have been approved for production and the required supplies and materials are being procured to support the production.

### *3. 60 MM MORTAR AMMO PROJECT*

This project was developed by the private sector through reverse engineering without the benefit of foreign technology transfer. It has a maximum range of 950 meters and lethal radius of 5 meters. 5,000 rounds were delivered in CY87. The manufacturer of this item has delivered a total of 300,000 rounds out of 375,000 rounds contract volume or an accomplishment of 80%. Presently, the manufacturer is processing 5,000 pieces of Shell body. Raw materials good for another 10,000 units are available.

### *4. MORTAR FUZE PROJECT*

The mortar fuze is a single action super quick, point detonating, delayed-arming fuze designed for use with 60MM and 81MM mortar ammo. A Filipino Corporation has a total delivery of 325,000 fuze (95.46%) out of a contracted volume of 340,450 fuzes. On 11 September 1987, SND approved the price escalation of mortar fuze from ₱149.06 to ₱223.29 per unit retroactive to 1 January 1985. The CY88 delivery volume of 20,000 units has been completed.

### *5. M79 GRENADE LAUNCHER AMMO PROJECT*

A Filipino manufacturer has delivered 29,860 rounds (1.99%) out of a contract of 1,500,000. The ammo has a maximum range of 400 meters and a lethal radius of 5 meters. Its current unit cost is ₱338.00/round.

### *6. RIFLE GRENADE PROJECT*

A Filipino corporation is the designer and the manufacturer of this ammo. It has a diameter of 40 MM, and a maximum range of 300 meters. It is launched by the M16 rifle using this ammo. The same corporation delivered 5,120 rounds (20%) in CY87, and a total delivery of 335,912 (87.2%) out of contract volume of 385,000 rounds.

### 7. *URC-187 HF/SSB PROJECT*

A single side band HF Transceiver designed for manpack, portable, mobile or fixed, used under severe environmental conditions for long range communications. A Filipino corporation is the manufacturer of this radio set. Actual total delivery is 1,464 sets or 58.56% out of a contract volume of 2,500 sets. Unit price is ₱57,565 unit.

### 8. *URC-773/777 PROJECT*

A VHF/FM transceiver designed for manpack, portable, mobile or fixed use with a range of 15-30 kms. A Filipino corporation has delivered 3,534 or 71% out of the 5,000 contract volume. 100 units of URC-777 prototypes were delivered to the AFP for field testing.

### 9. *PYROTECHNICS PROJECT*

The handled flare was locally developed, and is available in 3 colors, white, red, and green. Its uses include signaling and illumination particularly for night operations. The flare burns for approximately 30 to 40 seconds. The contractor has delivered 80,000 or 40% out of the 200,000 contract volume.

### 10. *M16 PLASTIC MAGAZINE PROJECT*

A Filipino manufacturer has a contract volume of 3,000,000 pieces of 30-round plastic magazine for the M16 rifle. So far, no delivery has been made. The project has been cancelled by SND since 28 May 1987. However, the contractor requested then DND Secretary Rafael Iletto for reconsideration of the contract and at present, the contract is still under negotiation.

For the Calendar Year 1988, the SRDP program is given a budget of ₱250.00M. With this amount, it is envisioned to continue the implementation of on-going SRDP projects with the corresponding specific objectives:

#### *PROJECTS FOR LAUNCHING*

1. 1 1/4 Ton Truck (4 x 4)
2. ARC-775
3. Cluster Bomb
4. PNGCC (Cutter)
5. Radio Set (Handheld)
6. CTG 90MM
7. Claymore Mine
8. Lensatic Compass
9. 81MM Mortar Tube

10. 2 1/2 Ton Truck
11. Armor Vest
12. Cal. 45 Magazine

## ANNEX 12

## YEARLY APPROPRIATIONS FOR SRDP PROGRAM

| <i>Year</i> | <i>Programmed<br/>Amount</i> | <i>Appropriation</i> | <i>Actual<br/>Release</i> | <i>in constant<br/>1987 P</i> |
|-------------|------------------------------|----------------------|---------------------------|-------------------------------|
| FY 1974     | —                            | P 100.000M           | P 35.851M                 | 49.45                         |
| 1975        | —                            | 120.000              | 98.746                    | 127.414                       |
| 1976        | —                            | 150.000              | 118.500                   | 139.412                       |
| 1976 (Ext)  | —                            | 150.000              | 90.312                    | 106.249                       |
| CY 1977     | —                            | 175.000              | 154.500                   | 165.418                       |
| 1978        | —                            | 200.000              | 169.519                   | 169.519                       |
| 1979        | —                            | 250.000              | 219.550                   | 186.825                       |
| SUB-TOTAL   |                              | P1,145.000M          |                           |                               |
| 1980        | P299.675M                    | 299.675              | 230.253                   | 165.769                       |
| 1981        | 375.099                      | 375.099              | 136.762                   | 87.054                        |
| 1982        | 357.026                      | 353.427              | 112.779                   | 65.115                        |
| 1983        | 369.973                      | 183.841              | 282.279                   | 148.178                       |
| 1984        | 372.935                      | 183.835              | 153.497                   | 53.595                        |
| 1985        | 255.808                      | 135.561              | 134.011                   | 38.006                        |
| 1986        | 222.792                      | 147.264              | 138.424                   | 38.960                        |
| 1987        | 332.741                      | 131.000              | 131.000                   | 36.258*                       |
| SUB-TOTAL   |                              | P1,809.702M (70%)    |                           |                               |
| TOTAL       | — P2,586.049M                | P2,954.702M          | P2,205.938M               |                               |

\*—based on Jan.-July CA

## ANNEX 13

SAVINGS ON SRDP PROJECTS  
COMPARATIVE PRICES PER UNIT

|                              |            |            |            |
|------------------------------|------------|------------|------------|
| 1. M16 Assault Rifle         | P 7,235.00 | P11,500.00 | P 4,315.00 |
| 2. AR100 Armalite Rifle      | 8,327.00   | 10,500.00  | 2,163.00   |
| 3. 60MM Mortar Ammo          | 363.13     | 760.00     | 396.87     |
| 4. Mortar Fuze               | 223.29     | 481.95     | 258.66     |
| 5. M79 Grenade Launcher Ammo | 338.00     | 378.00     | 40.00      |
| 6. URC-187                   | 57,565.00  | 74,000.00  | 16,435.00  |
| 7. URC-773                   | 33,130.00  | 60,000.00  | 26,870.00  |