

**An In-depth Study on the Hotel and Restaurant
Industry In the Philippines**

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Table of Contents

	page
List of Tables	ii
List of Appendices	iii
Executive Summary	v
Introduction	1
1. The industry	3
1.1 Definition	4
1.2 Contribution to the Economy	5
1.3 Structure	5
1.4 Seasonality of Demand	25
1.5 External Support Systems	26
2. Forward Linkage/Market	28
3. Backward Linkage/Suppliers	35
4. Laws Hindering/Facilitating	40
5. Market Potential/Foreign Market Demand and Competition	47
5.1 Entering Foreign Markets	47
5.2 Extent of Services Rendered Abroad	47
5.3 Foreign Market Demand and Competition	49
6. Supply Capability	59
6.1 Services Offered	59
6.2 Areas of Specialization	60
6.3 Expertise/Technical Competence of Manpower	61
7. Industry Training Needs	63
7.1 Quality and Quantity of Training	63
8. Opportunities and Threats	65
8.1 Opportunities	65
8.2 Threats	69
9. Action Plan Enhancing Competitiveness	
9.1 Recommendations	72
9.2 Performance Monitoring Scheme	78
10. Directory	79
Bibliography	294
Appendices	106

List of Tables

		Page
Table 1	Hotel and Restaurant Industry Definition Based on the PSIC	4
Table 2	The Hotel and Restaurant Industry's Contribution to the Philippine Economy	5
Table 3	Hotel and Restaurant Industry Structure	6
Table 4	Hotel and Restaurant Industry Breakdown	6
Table 5	Regional Distribution of Hotel and Restaurant Establishments	7
Table 6	DOT Accredited Hotels Average Number of Rooms, 1995-1999	9
Table 7	DOT Accredited Hotels Average Occupancy Rates, 1995-1999	9
Table 8	Description of Selected Philippine Hotels	12
Table 9	Top 38 Hotels & Other Lodging Facilities Profile (in million PhP)	17
Table 10	Top 38 Hotels & Other Lodging Facilities Profile	17
Table 11	Top Hotels & Other Lodging Facilities	18
Table 12	Top DOT Accredited De Luxe Hotels Based on Occupancy Rates (in %)	18
Table 13	Top DOT Accredited First Class Hotels Based on Occupancy Rates (in %)	19
Table 14	Top DOT Accredited Standard Hotels Based on Occupancy Rates (in %)	19
Table 15	Top DOT Accredited Economy Hotels Based on Occupancy Rates (in %)	20
Table 16	Top 181 Restaurants Profile (in million PhP)	23
Table 17	Top 181 Restaurants Profile	23
Table 18	Top Ten Fastfood Restaurants	24
Table 19	Top Ten Fine Dining and Specialty Restaurants	25
Table 20	Weekly Seasonality	26
Table 21	No. of Visitor Arrivals & Amount of Visitor Receipts, 1994-1999	29
Table 22	Visitor Arrivals & Amount of Receipts, January to June 1999-2000	29
Table 23	Visitor Arrivals by Country of Origin, 1 st Semester 1999-2000	30
Table 24	Average Foreign Visitor Daily Expenditure on Major Items (US\$)	31
Table 25	Hotel and Other Lodging Facilities Sub-sector Forward Linkage	32
Table 26	Philippine Income Segments, 1991-1997	33
Table 27	Food Share to Total Family Expenditure, 1985-1997	33
Table 28	Restaurant Sub-sector Forward Linkage	34

Table 29	Hotel and Other Lodging Facilities Sub-sector Backward Linkage	35
Table 30	Hotel and Restaurant Equipment Market Size (in million US\$)	36
Table 31	Restaurant Sub-sector Backward Linkage	39
Table 32	Domestic Capacity Before and After E.O. 219	40
Table 33	Roundtrip Ticket Prices Before and After E.O 219	41
Table 34	Deployment of Filipino Hotel & Restaurant Industry Professionals, 1996-2000	48
Table 35	1998 Tourism Destinations in the World (in '000)	49
Table 36	1999 Visitor Arrivals to Asia from Within Asia-Pacific	51
Table 37	1999 Visitor Arrivals to Asia from Europe	51
Table 38	Foreign Visitors' Ratings of Facilities/Services	52
Table 39	Expected Hotel Investments in China, 1998-2000	52
Table 40	Expected Hotel Investments in Indonesia, 1998-2000	53
Table 41	Expected Hotel Investment in India, 1998-2000	53
Table 42	Expected Hotel Investment in Malaysia, 1998-2000	53
Table 43	Expected Hotel Investment in Australia, 1998-2000	53
Table 44	Expected Hotel Investments in Philippines, 1998-2000	54
Table 45	Restaurant Industry Sales Performance in Major World Markets	54
Table 46	Restaurant Industry Performance in Major World Markets (in %)	55
Table 47	Number of Restaurant Outlets in Major World Markets, 1993-1997	55
Table 48	No. of Restaurant Outlets in Major World Markets Growth Rate (%)	56
Table 49	Restaurant Sales in Major World Markets	57

List of Appendices

		Page
Appendix A	SWOT Analysis	166
Appendix B	Amending Part IX of The Integrated Reorganization Plan By Renaming the Department of Trade and Tourism as The Department of Tourism, and Creating the Department of Tourism With a Philippine Tourist Authority Attached to It In Lieu of Philippine Tourist Commission	170
Appendix C	Department of Tourism Programs and Projects	179
Appendix D	Industry Associations	193
Appendix E	Trade Unions	208
Appendix F	Investment Priorities Plan and Implementing Guidelines	210
Appendix G	College of St. Benilde Hotel and Science in Hotel, Restaurant, and Institution Management Curriculum and The Hotel and Tourism Institute of the Philippines (HTIP)	281
Appendix H	The Asian Institute of Tourism	289
Appendix I	Hotel and Restaurant Administration/Travel and Tourism OJT Program Profile	292
Appendix J	Tourism Industry GDP, Visitors' Exports and Employment in Selected Countries, 2000	294
Appendix K	International Tourism Receipts by Region (US\$ billion)	295
Appendix L	Network Economy and Tourism Industry	296
Appendix M	Technology utilized as a Competitive Method	298
Appendix N	Changing Roles and Relationship in the Electronic Market Space	299
Appendix O	Cost and Benefit Analysis for Developing Internet Presence for Small and Medium-sized Tourism Enterprises	300
Appendix P	Obstacles to the Introduction of electronic Data Interchange (EDI)	301

Executive Summary

In the Philippines, tourism is one of the major industries that the WTTC noted as positioned at the epicenter of global travel and tourism growth and development. In 1997, tourism contributed 8.7% of the country's GDP, generating 2.3 million jobs (or one in every nine nationwide), and accounting for some 10.5% of Philippine investments.

According to the Department of Tourism, international arrivals in 1999 stood at 2.17 million, a slight increase from the previous year's total of 2.15 million visitors. Despite the economic crisis suffered by its Asian markets, the Philippines' foreign exchange receipts from tourism went up by 5.83% from \$2.41 billion in 1998 to \$2.55 billion in 1999. Moreover, the Philippines enjoyed the highest repeat visitors in Asia at 54.22 percent, indicating that the tourism sector can survive external threats and competition in the region.

As tourism serves as the main market for hotel and restaurant services, increase in visitor traffic over the past ten years resulted in a corresponding boom in the hotel and restaurant industry. During the last decade, the hotel and restaurant industry has flourished even as it struggled to cope with difficult challenges. New hotels mushroomed in the capital while older hotels have done their best to spruce-up both their interiors and upgrade services. Likewise, the growth of the restaurant sub-sector, the number of players and the variety of services offered, has been notable during the period.

Invariably linked, increasing world tourism is expected to offer both opportunities and trials for the world's hotel and restaurant industry. It is in this context that this paper presents information meant to:

1. define the coverage and structure of hotel and restaurant industry
2. identify the industry's forward linkages (market)
3. identify the hotel and restaurant industry's backward linkages (suppliers)
4. identify the laws affecting the trade in hotel and restaurant services
5. determine the industry's market potential/foreign market demand
6. determine the industry's supply capability
7. identify the sector's training needs
8. identify the industry's strengths, weaknesses, opportunities and threats
9. recommend policies that will enhance the industry's competitiveness

The Industry

The study adopts the definition of the Philippine Standard Industrial Classification in identifying establishments as belonging to the sector. According to the PSIC, the industry is disaggregated into two sub-sectors: hotel and restaurant.

The hotel sub-sector includes the various lodging units of different sizes and standards located both in urban and rural communities.

The restaurant sub-sector, on the other hand, includes places that serve food and drinks, be it self-service or full-service. This covers a range of services including fine dining specialty restaurants, fast food outlets, canteens, and food courts. In terms of its contribution to the national economy, the hotel and restaurant industry accounted for 1.35% of Philippines' 1998 gross domestic product (PHP12 billion in GVA compared to the Philippine's PHP889 billion GDP during the period) and 1.28% of its national product (PHP12 billion in GVA compared to the PHP931 billion GNP). Moreover, the hotel and restaurant industry employed about 1% (282,142) of the country's 31,278,000 labor force during the same period.

Meanwhile, the National Statistics Office (NSO) in 1994, classified 46,930 firms as belonging to the hotel and restaurant industry, employing a total of 221,954 people. At the time, each peso investment in labor contributed PHP4.40 to the industry's total output while each peso investment yielded a PHP1.27 contribution to the same.

Hotel

In general, hotels offer two major types of services: (a) accommodation and (b) dining services. Based on the quality and extent of services provided, location, bedroom, front office/reception, food and beverage, general facilities (service and staff), and special facilities (i.e., business center, limousine services and airport transfers), hotels are further classified as Deluxe, First Class, Standard, and Economy. Hotel guests can expect a room with private bath, telephone, radio, and television, in addition to such customer services such as laundry, valet, cleaning and pressing. Aside from the services mentioned, hotels have other facilities: function rooms, ballrooms, health spas, coffee shops, dining rooms, cocktail lounges or night clubs, gift shops or newsstand-tobacco counters, and business centers for social occasions, health buffs, and business conferences.

Customers of the industry include the domestic household, foreign visitors and institutional buyers. Research shows that the domestic household's selection of hotels and other lodging facilities are affected mainly by three factors: 1) competitive pricing; 2) availability of services and facilities for children; and 3) type and extent of free services (i.e., free local calls, continental breakfast, etc.). Meanwhile, notwithstanding the currency and economic turmoil in Asia, the Philippine tourism industry posted a 2.17 billion arrivals in 1999. In the past five years, visitor arrivals have been growing at an annual average of 9%, contributing more than US\$2.3 billion per year to the country's foreign exchange earnings. Hotels are the most popular source of accommodation for more than 50% of foreign visitors.

Indeed, more than 40% of a foreign visitor's average daily expenditure is accounted for by accommodations. While food and beverage consumption for about 23%.

Institutional buyers often patronize the restaurant services offered by the hotel sub-sector in promoting their products, training their employees, and holding company gatherings. The wholesale and retail (19.6%), non-ferrous smelting and refining plants (18%), public administration and defense (17.4%), and finance (11.6%) industries are among the hotel sub-sector's biggest clients, accounting for more than 66% of the latter's total output.

In response to the growing demand for hotel accommodations, the last five years witnessed the steady expansion of every segment of the hotel industry. On the average, the total number of hotel rooms has grown from 11,742 in 1995 to 13,090 in 1999, an average of 2.3%. Standard hotels experienced the largest growth at an annual average of 17.1%, from 1,671 rooms in 1995 to 3,100 in 1999. Followed by first class hotels, with an average of 9.6% annually, from 1,798 rooms in 1995 to 2,559 rooms in 1999.

Hotel entry barriers, which include economies of scale, infrastructure, and product differentiation, are significant particularly for those who will venture in deluxe or first class operations.

Economies of scale force a new entrant to come in at relatively large scale and risk strong reaction from existing firms. Consequently, requiring substantial start-up costs. As only a small percentage of the country's potential business and tourist areas have developed communication, sewerage and disposal systems, and roads and, the lack of infrastructure is likewise an industry entry barrier. Finally, product differentiation exists in the industry. Established firms have brand identification and customer loyalties, which stem from past advertising and customer service.

Despite relatively high barriers to entry, however, the number of hotels has increased by more than 11% percent in the last five years. Optimism about the domestic economy, the lack of viable accommodations alternative, abundance of competent potential hotel workers and professionals, and the relative ease in procuring required inputs encourage entry into the industry. Opportunities for hoteliers also arise from the country's strategic location. The Philippines is situated in the center of Asia, home of the fastest-growing economies in the world. Moreover, government, industry association and trade union cooperation provides the industry with a strong support system.

While there are already quite a number of players in the market, the hotel industry can be characterized by still a rigid competitive structure. Product differentiation prevents any hotel from monopolizing the market.

According to the Top 7000 Corporations, the fifty-two (52) top hotels and other lodging facilities posted a modest increase of 7% in combined gross revenue from PHP12.4 billion in 1998 to PHP13.2 billion in 1999. Combined net income in for top hotels and other lodging facilities, likewise, went up 19.2% during the same period, from PHP709 million in 1998 to PHP845 million the following year. Profitability also increased, 9.1%, from 0.044 in 1998 to 0.048 in 1999.

The top ten hotels accounted for 61.4% of the sub-sector's gross revenue in 1999. Among the three hotels and other lodging facilities with the highest 1999 gross revenues are Edsa Shangri-la Hotel and Resort, Inc., PHP1.3 billion (9.7% revenue share), Manila Peninsula, PHP1.1 billion (8.1% revenue share) and New World International Development Philippines, PHP983 million (7.4% revenue share).

Based on occupancy rates, however, the Mandarin Oriental, the Makati Shangrila and the Manila Diamond Hotel topped the DOT accredited de luxe hotels category for the period January to April 2000 with occupancy rates of 81.5%, 77.1% and 77.1%, respectively. Traders Hotel, Holiday Inn Manila, and Manila Midtown Hotel, on the other hand, led the seven DOT accredited first class hotels during the same period with occupancy rates of 67.75%, 66.27%, and 66.25%, respectively. Among the 40 DOT accredited standard hotels, the Sulo Hotel, the Century Imperial Suites, and the City States Tower Hotel registered the highest occupancy rates at 74.71%, 69.54%, and 68%, respectively. Finally, among the fifteen DOT accredited economy hotels occupancy rates ranged from 76-20% from January to April 2000 with Jade Vine Executive Inn, El Cielito Tourist Inn, and Swagman Hotel leading at 76.02%, 52.22%, and 51.75%, respectively.

In general, the hotel sub-sector's strength lies in the following: the ability to innovate, a pool of competent potential workers/professionals, and technology development. Pressure on hotel prices, on the other hand, comes from the drive "for value for money". Increased operating efficiency obtained through the computerization has helped to reduce costly waste in the supply chain. However, higher labor, raw materials, and utility costs continue to push operating costs up.

Finally, in the macro level, economic and political factors affect the performance of the tourism industry. In the past two years, for example, declining disposable income resulting from the Asian currency crisis and political instability resulted in a 3% contraction in tourist arrivals in 1998 and a 1% increase in 1999.

Restaurants

Participants in the restaurant sub-sector provide food and drinks, be it self-service or full-service. The sub-sector caters to both household and institutional buyers. The Philippine household market is segmented into five income groups (A, B, C, D and E). Based on the preliminary results of the 1997 Family Income and Expenditure Survey (FIES), the middle income bracket has expanded from the 1994 level from 28% of the total number of families in the economy to 30%.

The FIES data indicate that families have experienced improvements in their income in 1997 from 1994, which indicates an increase in the local population's buying power. Furthermore, FIES data show that spending on food consumed outside the home has been increasing from 3.1% in 1985 to 4.7% in 1997. With total family expenditures increasing more than four times during the period, this translated to more than PHP66.8 billion spent on restaurant services in 1997. Research bore out that top five quality characteristics that influence the Filipinos choice of restaurants and fastfood outlets, ranked according to importance, are flavor and taste, value for money/nutrient content, presentation and packaging, variety, and systematic ordering and selling.

Meanwhile, institutional buyers employ the services of the restaurant industry for occasions such as seminars, workshops, meetings, company celebrations, and marketing and promotional activities. Among the hotel and restaurant industry's main institutional markets are the wholesale and retail trade (30.4%), air transport (23%), and the other recreational and cultural services sectors (5.7%).

To date, there are about 45,220 restaurant establishments in the domestic economy catering to the dining requirements of a constantly expanding market. An estimated 80%, or more than 36,000, of these establishments are classified under the fast food sub-sector.

Low barriers to entry characterize the industry. Capital investments particularly for franchises can range anywhere from PHP500,000 to PHP10,000,000. Training, marketing and distribution channels are arranged by the franchisor. Likewise, as the franchisor provides the new entrant fully developed management and production systems, prior knowledge and experience are not required of franchisees. These characteristics of franchising, particularly of food establishments, make the business very attractive for new entrepreneurs.

The proliferation of one-stop shopping malls that offer various recreational facilities and amenities, likewise, eases the entry of potential restaurant and fast food players. These malls spare the restaurant industry from spending extensive business development studies for their outlets; mall magnates Henry Sy and John Gokongwei Jr. have established formidable track records in building malls.

The industry in which the restaurant and fast food firms operate has increasing consumer demand for every improving product. The growth is proven by the rapid expansion of food outlets in key areas in Metro Manila and the provinces. The popularity of fast food establishments came in the 1980's, and over the last years, the industry has consistently posted double-digit growth rates.

Competition is fierce in the restaurant industry, particularly the fast food sub-sector. The market is large but consumers are price conscious and exhibit brand loyalty. With a wide range of restaurants and fast food establishments to choose from, pricing schemes and marketing strategies determine market shares. Market strategies of industry players, therefore, aim to achieve two primary objectives: 1) hammer in "value-for-money" concepts; and 2) create brand consciousness and loyalty.

Market shares in the restaurants are won or lost in pricing. Industry players offer regularly offer price cuts and discounts to lure in new customers. Moreover, major players invest heavily in advertising to create brand consciousness and loyalty. Marketing strategies include raffle draws, free gift items and specially prized meal combinations, discounted toys and school items for every certain minimum food purchase. Celebrity endorsements are used in the hopes that the market will identify with the endorser.

Likewise, intense competition urges players to come up with new products to capture bigger market shares. Restaurateurs have to be keen at finding the latest food and wine concoctions here and abroad and adapting them to local taste. Targeting the Filipino's tastebuds, several fastfood chains that usually serve only western food have introduced items that appeal to the local market's palate.

Raising quality standards and improving service have also been focal points of competition, particularly in the fast food sub-sector. Players give incentives and compensations to motivate employees to be efficient on their jobs and thus help maintain the fast food outlet's high standards of quality service and cleanliness. Also, a major importance in a fast food and restaurant is courteous and friendly personnel. Not surprisingly, a speedy service is among the more salient attributes people would highly expect from a fast food/restaurant.

Finally, to keep their share of the market, food chains find it necessary to extend their service coverage by setting up other branches. Industry players who have outlets that are visible in Metro Manila and in other key urban cities are ones who are most likely to take in more profits. Malls, university areas, and other places where there is heavy pedestrian traffic

are the usual places where fast food and restaurants are highly patronized.

Restaurant and fast food industry players balance their marketing concerns with the rising operation costs particularly that of imported food ingredients. Profit margin erosion is usually remedied by either increasing prices of final product/service or cut corners in production or the delivery of service. Either solution may result in a shrinking customer base.

Thus, no one restaurant or fastfood chain completely dominate the sub-sector. In 1999, the 278 top restaurants in the Philippines posted a total of PHP33.7 billion in gross revenues, 8.6% higher than the 1998 PHP31 billion. Net income for the same firms climbed slightly from PHP811.9 million in 1998 to PHP815 million. Asset and equity investment in likewise increased during the period by 24.3% and 23%, respectively.

Profitability for the top 278 firms, however, fell 16% from 1998's 0.12 to 1999's 0.10 as the industry required more capital, 0.63 unit in 1999 from 0.55 in 1998, to produce one extra unit of output.

In the fast food segment, Jollibee remains at the top with an estimated 29.4% share of the restaurant sub-sector's gross revenue in 1999 and about 50% market share of the local hamburger-segment patrons.

Meanwhile, the local fine dining and specialty restaurants segment accounted for less than 20% of the restaurant sub-sector's 1999 gross revenue. Although top ten restaurant chains account for more than 50% of the local fine dining segment market, the biggest player Perf Restaurants, Inc. ranked 9th, with a 1.6% of the total restaurant sub-sector's gross revenue.

In general, the restaurant industry's strength lies primarily in technology development. Technology transfer, franchising, allows interested parties to operate a franchise without prior experience or training. Domestic and international food chains and franchises facilitate transfer of technology in the local restaurant sub-sector. They provide training of potential employees and employ strict quality control systems. Raw materials are likewise provided by the franchisor.

Finally, there is no real threat of external substitutes to the services provided by the restaurant industry. Indeed, it is competition between the sub-sectors of the industry that determines market share.

Laws Hindering/Facilitating

Laws that hinder or facilitate the hotel and restaurant industry include Executive Order 219, which established the domestic and international civil

aviation liberalization policy, the Investment Priorities Plan (IPP) 2000, Intellectual Property Rights, and the Labor Code provisions on the employment of foreign nationals.

Provisions of EO 219 opened the domestic airline industry market to competition, which resulted in the expansion of airline seat capacity, reduced airfare and the elimination of the so-called “missionary routes”. Combined, EO 219 led to a significant increase in tourism, thus expanding on of the hotel and restaurant industry’s main market.

The IPP 2000 offers fiscal incentives to investors in, among others, the tourism industry (i.e., tourist accommodation facilities, which refer to hotel, apartelle, tourist inns, pension house, and resorts, tourism estates, tourist buses, and restoration of historical and cultural sites/properties).

All franchise agreements with foreign franchisors are registered with Intellectual Property Rights office as well as licensing, technical assistance and services, technology transfer and distribution agreements.

Foreign franchisors in the Philippines, similar to other industries, are subject to the restrictions on ownership, 40%. The laws on technology transfer, however, guarantee franchisors in the Philippines royalties of 5% and a maximum allowable term of technology transfer arrangements of ten years.

Finally, foreign national employment in the hotel and restaurant industry is subject to the tripartite agreement signed in 1992 by the Department of Tourism, Department of Labor and Employment and the Bureau of Immigration. The agreement addresses the following issues regarding the employment of foreign nationals in the hotel and restaurant industry: positions open to foreign nationals, procedures in the issuance of visa/permits, and disciplinary/penal provisions.

Foreign Market Demand

Franchising allows local hotel and restaurant establishments to enter foreign markets. Transfer of technology, franchising, however, is subject to the unique laws of the market the hotel and restaurant firms intend to penetrate. These laws, which are as varied as the countries that implement them, commonly address issues such as royalties, repatriation of profits, employment of foreign nationals, property ownership, taxes, and the like.

International deployment of hotel and restaurant workers and professionals, on the other hand, are subject to laws pertaining to the practice of their profession. Indeed, most countries have policies preventing foreign professionals from practicing their profession in the domestic market. In the last five years, hotel and restaurant related workers and professional deployment averaged more than six thousand seven hundred forty per year. An estimated

75% of all hotel and restaurant professionals deployed during the period were cooks, waiters, bartenders and other related workers.

Filipino hotel and restaurant workers and professionals are known for their competence, trainability, and ease in adapting to different environments and are, therefore, in demand in the international market. Most hotel and restaurant related workers and professionals during the five-year period were deployed to United Arab Emirates, Saudi Arabia, Kuwait, Papua New Guinea, Singapore Malaysia, and the United States.

Industry Training Needs

A primary source of hotel and restaurant professionals' training are the various schools and universities that offer courses in hotel and restaurant management. A pioneer, in this area is the Asian Institute of Tourism, which established in 1976. Besides providing high quality education and training to students who will be the industry's future managers, entrepreneurs and technical experts, the Institute also conducts research as well as offer professional and technical programs training for the hospitality industry

AIT's lead was followed by other educational institutions. Examples of schools offering such formal education include De La Salle University (Dasmariñas and the College of St. Benilde), the University of the Philippines, and University of Santo Tomas, and the Hotel and Tourism Institute of the Philippines Foundation, Inc., to name a few. Such courses involve basic aspects of hotel operations including the front office, food and beverage, house keeping, and room service, culinary skills, customer care, marketing, accounting, as well as European language skills.

Aside from the formal training potential hotel and restaurant workers and professionals receive from the academe, hotel establishments conduct on-the-job training, apprenticeship, management training, and career development seminars. A selected few are deployed to training schools managed by the hotels themselves (i.e., Dusit). Technical Education Skills Development Authority (TESDA) also offers training and certification for certain hotel and restaurant industry entry-level positions.

Despite progress made in training hotel and restaurant workers and professionals, resulting in quality personnel, as a continuously evolving industry, a more intensive management training that combine theoretical as well as practical exposure to planning, organizing, staffing, communication, and coping in organizations. Moreover, training programs that strengthen technical skills particularly computer operations, especially with the increasing utilization of information technology in the industry (i.e., reservations, accounting systems, and point-of-sale-system for restaurants) would complement latest "software and hardware" employment.

Recommendations

The following recommendations are presented in the context of the country's commitment to enhance the competitiveness of the hotel and restaurant industry. The intent is to enable the sector to compete more effectively in the local and domestic markets and to enhance the marketability of the country's hotel and restaurant industry's manpower in the international market. The determinants of a subsector's competitiveness would depend on: 1) the level of expertise/competence of local professionals/businesses, 2) the degree of openness of foreign markets and their demand for local expertise, and 3) the degree of openness of the local regulatory framework (i.e. absence or presence of reciprocity provisions).

Among the recommendations to enhance the hotel and restaurant industry's competitiveness include, but are not limited to, the promotion of sustainable tourism, improvement of the legal/regulatory environment (particularly those that pertain to the GATS Philippines commitments), offering systems incentives to promote investment into the hotel and restaurant industry, human resource development (i.e., training and continuing education), and strengthening industry linkages.

In the area of sustainable development, it is recommended that programs should incorporate the following principles:

1. Natural sites should be protected and strict provisions added to prevent pollution and to control the use of energy and natural resources;
2. Existing cultural practices in such areas which are helpful to safeguarding the sites should be upheld;
 - Eco-tourism should be promoted.
1. Extension of subsidies and loans for the development of tourist facilities.
2. Diversification of transportation, destinations and types of tourism for balanced tourism development.

Said policies would promote tourism and its allied industries, including the hotel and restaurant industry, by expanding their primary market, domestic and international tourists.

Recognizing the contributions of foreign professionals in the hotel and restaurant industry, legal/regulatory environment recommendations include, among other things, the liberalization of foreign nationals' practice of their profession in the country. The review of the country's bilateral agreements on reciprocal recognition of professionals that may have inconsistencies with the

general obligations of GATS is likewise recommended so as to benefit the thousands of hotel and restaurant professionals who are deployed abroad annually.

Systems incentives recommendations, including the granting of tax exemptions for renovations, are designed to attract more investments into the sector as well as to lower the costs for existing players.

In order to enhance the sector's inherent comparative advantage in human resources, it is recommended that the capability of educational institutions be strengthened to satisfy industry's need for professionals, particularly in areas where there is a lack of supply. This includes the strengthening of the basic education system to enable elementary & secondary schools to equip students the basic skills, primarily the 4Rs (reading, writing, arithmetic, and right conduct); the promotion of continuing education to enhance the skills of professionals and technical workers to make them more competitive abroad and less vulnerable to displacement by foreigners who enter the local market. More important is to encourage the training and certification (i.e., from the Technical Education and Skills Development Agency) of basic entry-level positions in the hotel and restaurant industry.

Developing industry network and linkages is likewise included in the recommendation. Developing and strengthening linkage among industry players will assure industry players a stronger voice when dealing with government regarding the formulation of national policies concerning their respective industries. This will also open up opportunities in terms of pooling of resources, exchange of information, and the conduct of training for members. Industry associations should also take an active role in the process of negotiating mutual recognition agreements (MRAs) because they are the one who are most familiar with their members' needs, capabilities, and preparedness to face liberalization.

Developing and strengthening linkage between industry and academe could be done through on-the-job training (OJT) or apprenticeship agreements that would enhance the skills of college students through hands-on training and exposure to the actual workplace. The parties could also come up with consultancy arrangements that would enable firms to benefit from the research capabilities of the faculty of schools, and that would enable academe to tap the expertise of professionals in their academic programs. Finally, industry and academe could institutionalize systems for the continuing education of company personnel either through graduate studies or through in-house training / customized programs that could be provided by schools to the firms.

Developing linkages between industry and intermediate industries (i.e., booking and travel agents) can expand the industry's market. Travel agents and meeting planners, for example, can and do influence a substantial number of bookings. Building these relationship with intermediaries begin with giving the

them access to more precise information on the hotel's brand promises to ensure a correct and satisfactory transaction, as well as providing promotions and incentives and making timely commission payments.

Meanwhile, in the area of financing, banks should be encouraged to create special financing schemes to help small- and medium- scale hotel and restaurant firms gain access to more capital needed for investment in advanced technology, and to help them bridge working capital requirements; to provide funds for training and development of local manpower, particularly for small- and medium-scale firms; and to simplify requirements for availing of loans to encourage firms, particularly the smaller players, to take advantage of financing schemes.

In terms of the application of information technology in the hotel and restaurant industry, players can explore the following options: 1) adopt: on-screen informational and promotional guide listing the hotel's outlets and services, through the in-room television hotel guests may view their folios, receive messages, book reservations at hotel restaurants, participate in guest satisfaction surveys, and conduct express checkouts; 2) use in hotel and restaurant marketing, advertising and promotion via the internet (i.e., websites); 3) access market trends (i.e., tourism, culinary, business services, etc.) on the web; 4) use in training (i.e., computer-based training); and 5) use in waste management systems.

Depending on the perspective, monitoring the hotel and restaurant industry's performance can be done by several institutions. Designated government agencies, for example, set policies and guidelines pertaining to customer physical safety and satisfaction (i.e., in terms of accommodations and health and sanitary standards). They also guard against fraud and, ideally, promote truth in advertising and transparency in product information (i.e., the Department of Trade and Industry approves all types of marketing schemes pertaining to promotions such as raffles, price discounts, etc.). Moreover, public institutions also monitor entry and exit of players in the industry and specific performance indicators (i.e., measured occupancy rates, financial highlights, deployment of workers and professionals, etc.).

Meanwhile, industry associations, the Hotel and Restaurant Association of the Philippines in particular, take on the role of undertaking programs and projects that will upgrade and professionalize the industry, promoting unity and mutual cooperation among industry members, encouraging and fostering high ethical standards, and representing the sector's interest matters of government regulatory policies/laws/rules affecting the industry.

Finally, trade unions safeguard the rights and welfare of industry workers and professionals. They work closely with government and industry participants in improving working conditions and employee performance (i.e., recommending additional training and or certification) and in defending employee rights.

Hotel and Restaurant Industry

But you, children of space, you restless in rest, you shall not be trapped nor tamed. Your house shall be not an anchor but a mast. For that which is boundless in you abides in the mansion of the sky, whose door is the morning mist, and whose windows are the songs and the silences of night.

*The Prophet
Kahlil Gibran*

Introduction

The tourism industry is a major contributor to the world economy. According to the estimates of the World Tourism Organization (WTO), international tourism alone generated \$1.4 trillion in receipts (4.1 per cent of World GDP) in 2000. Estimates of the World Travel and Tourism Council (WTTC), on the other hand, put the impact of tourism on the economy at a much higher level because it includes domestic tourism. As reported by the WTTC, tourism grossed US\$566 billion in world visitor exports and created employment for 73.1 million persons in the year 2000.

The Caribbean is the most tourism-oriented region in the world. It is estimated that in 2000, tourism employed 3.1 million people either directly or indirectly, thus accounting for 13.4 percent of total employment. Direct employment in the tourism characteristic industries alone amounted to 5 percent of total employment. Visitor expenditures contributed an estimated US\$17 billion, or 18.4 percent, to export revenues. Countries whose international tourism receipts exceeded 5 percent of GDP or 10 per cent of export revenues are considered to be "tourism countries" for the purposes of the World Trade Organization. Tourism-related portions of GDP estimated by the WTTC for a number of countries are shown in Annex J. Annex K, on the other hand, shows international receipts by region.

Indeed, global travel is expected to grow rapidly for at least the next 20 years. Worldwide arrivals were expected to expand from 613 million in 1997 to an estimated 700 million in 2000, 1 billion by 2010 and 1.6 billion by 2020.

Improving balance of trade means more business for European tourist destinations. Europe will remain the strongest magnet for tourism, with arrivals growth holding between 3% and 4%.

Extreme strength of the US economy is expected to stimulate demand for tourism and hospitality services among American business and vacation travelers.

Low Asian currency values will continue to promote travel to the Far East, for so long as they last.

The Philippines, according to the WTTC, is positioned at the epicenter of global travel and tourism growth and development. In 1997, tourism contributed 8.7% of the country's GDP, generating 2.3 million jobs (or one in every nine nationwide), and accounting for some 10.5% of Philippine investments. The trade surplus from tourism for the same period was estimated at PHP22 billion, driven mainly by visitor spending. The WTTC expects tourism to contribute 10.9% of the country's GDP by 2007, and to generate as much as 1.4 million more jobs between 1998 and 2007.

According to the Department of Tourism, international arrivals in 1999 stood at 2.17 million, a slight increase from the previous year's total of 2.15 million visitors. Despite the economic crisis suffered by its Asian markets, the Philippines' foreign exchange receipts from tourism went up by 5.83% from \$2.41 billion in 1998 to \$2.55 billion in 1999. Moreover, the Philippines enjoyed the highest repeat visitors in Asia at 54.22 percent, indicating that the tourism sector can survive external threats and competition in the region.

In terms of market share, the USA continued to supply the biggest volume of arrivals at 21.36 percent, followed by Japan and Hong Kong, which accounted for 17.85 percent and 7.38 percent of the total traffic, respectively. Other high yielding markets include Taiwan (6.62%), Korea (6.13%), UK (4.1%), Australia (3.58%), and Canada (2.99%).

As tourism serves as the main market for hotel and restaurant services, increase in visitor traffic over the past ten years resulted in a corresponding boom in the hotel and restaurant industry. During the last decade, the hotel and restaurant industry has flourished even as it struggled to cope with difficult challenges. New hotels mushroomed in the capital while older hotels did their best to spruce-up both their interiors and upgrade services. Likewise, the growth of the restaurant sub-sector, the number of players and the variety of services offered had been notable during the same period.

This is just a taste of years to come. Indeed, as the global population continues to grow and change, science and technology will tighten their hold on business and society, and the world will knit itself ever more tightly into a single

market. As foreign visitors depend primarily on the hotel and restaurant industry for their accommodation and dining needs, growing world tourism will offer both opportunities and trials will abound for the world's hotel and restaurant industry. It is in this context that this paper presents information meant to:

1. define the coverage and structure of the hotel and restaurant industry
2. identify the industry's forward linkages (market)
3. identify the hotel and restaurant industry's backward linkages (suppliers)
4. identify the laws affecting the trade in hotel and restaurant services
5. determine the industry's market potential/foreign market demand
6. determine the industry's supply capability
7. identify the sector's training needs
8. identify the industry's strengths, weaknesses, opportunities and threats
9. recommend policies that will enhance the industry's competitiveness

1.0. The Industry

The hotel and restaurant industry is the combination of institutions, supporting human resources, financing mechanisms, information systems, organizational structures that link institutions and resources that cater to the needs of domestic and foreign travelers.

Institutions include government departments and agencies, private providers of lodging and catering services, such as hotels, motels, restaurants, fast food establishments, educational institutions that provide training, and other types of organizations responsible for the promotion of hospitality services.

The local hotel industry is already in its mature stage characterized by overcapacity of available rooms and gradual standardization of prizes across categories of services.

The members of local restaurant and fast food industry, on the other hand, is in its growth stage and has increasing consumer demand for every improving product. The growth is proven by the rapid expansion of food outlets in key areas in Metro Manila and the provinces. The popularity of fast food establishments came in the 1980's, and over the last years, the industry has consistently posted double-digit growth rates.

Supporting human resources include hotel and restaurant managers and assistant managers, housekeeping supervisors, security personnel, chefs, cooks, waiters, bartenders, and other related workers and professionals directly involved in hotel and restaurant services.

Financing mechanisms include equity infusions of local and foreign investors, particularly for international hotel chains and loans from fiduciary institutions.

Information systems include computer networks within and among institutions including electronic mail, printed media such as journals, magazines, and newsletters, telephone systems including voice mail and data transmission, interactive multimedia, and other information media technology that facilitates sharing or exchange of information, summarizes and collates data.

Linking organizational mechanisms are industry associations and trade unions that facilitate communication among organizational units including government agencies.

1.1. Definition

The hotel and restaurant industry definition used in this study follows the Philippine Standard Industrial Classification (refer to Table 1). The industry is disaggregated into two sub-sectors: hotel and restaurant.

The hotel sub-sector includes the various lodging units of different sizes and standards located both in urban and rural communities.

Table 1. Hotel and Restaurant Industry Definition based on the PSIC

PSIC Code	Description
98	Restaurants and Hotels
981	Restaurants, Cafes & Other Eating & Drinking Places
9810	Restaurants, Cafes & Other Eating & Drinking Places
98101	Restaurants and Cafes
98102	Refreshments and Ice Cream Stands, Kiosks & Counters
98103	Day and Night Clubs
98104	Cocktail Lounges and Bars Operation
982	Hotels, Motels & Other Lodging Places
9820	Hotels, Motels & Other Lodging Places
98201	Hotels and Motels
98202	Dormitories
98203	Pension Houses

Source: National Statistics Office

The restaurant sub-sector, on the other hand, includes places that serve food and drinks, be it self-service or full-service. This covers a range of services including fine dining specialty restaurants, fast food outlets, canteens, and food courts. Fine dining and specialty restaurants offer a wide variety of international

cuisines. Meanwhile, so-called fast food restaurants usually operate in chains or as franchises, are heavily advertised, and offer limited menus-typically comprising of hamburgers, hotdogs, fried chicken, or pizza and their complements – likewise originated in the United States. Fast foods have the advantage of speed, convenience, and familiarity to diners who may eat in the restaurant or take their food home. In the Philippines, about 80% of the establishments in restaurant industry belong to the fast food sub-sector.

1.2. Contribution to the Economy

The hotel and restaurant industry's contribution to the Philippine economy grew from 1.29% to the 1994 gross domestic product (GDP) to 1.35% in 1998, a 4.6% increase. In terms of the gross national product, the sector's contribution went up slightly, 1.6%, from 1.26% in 1994 to 1.28% in 1998. The hotel and restaurant industry continued to employ about 1% of the country's labor force (refer to Table 2).

Table 2. The Hotel and Restaurant Industry's Contribution to the Philippine Economy

	1994		1998	
	Value (in million PHP)	% Share to the Economy	Value (in million PHP)	% Share to the Economy
H & R GVA	9,885	-	11,968	-
Philippine GDP	766,368	1.29	888,875	1.35
Philippine GNP	786,136	1.26	931,127	1.28
H & R Employment (pax)	221,954	-	282,142	-
Phil. Employment (pax)	27,483,000	0.81	31,278,000	0.90

Source: National Statistics Office

1.3. Structure

In 1994, according to the National Statistics Office (NSO), there were 46,930 firms belonging to the hotel and restaurant industry, employing a total of 221,954 people. At the time, each peso investment in labor contributed PHP4.40 to the industry's total output while each peso investment in capital yielded a PHP1.27 contribution to the same (refer to Table 3).

Table 3. Hotel and Restaurant Industry Structure

Description	
Number of firms	46,930 firms
Employment	221,954 people
Gross Revenue	PHP14.244 billion
Total Labor Compensation	PHP2.247 billion
Book Value of Assets	PHP7.796 billion
Labor Productivity	PHP4.40/PHP 1 investment in labor
Capital Productivity	PHP1.27/PHP 1 investment in capital

Source: National Statistics Office

As a component of the services sector, the hotel and restaurant industry accounted for 37.4% of the establishments, 46.2% of employment, and 43.6% of gross revenue of the Philippine services sector (refer to Table 4). The restaurant sub-sector dominated the industry, accounting for more than 95% of the establishments, employment, and gross revenue of the sector.

Table 4. Hotel and Restaurant Industry Breakdown

Code	Description	No. of Firms	Total Employment	Gross Revenue (PHP'000)
981	Restaurants, Cafes & Other Eating & Drinking Places	45,220	213,002	PHP 13,602,335
982	Hotels, Motels & Other Lodging Places	1,710	8,952	642,195
	TOTAL	46,930	221,954	PHP 14,244,530

Source: 1994 Census of Establishments, National Statistics Office

In terms of regional distribution, the National Capital Region (NCR) Southern Tagalog, and Southern Mindanao regions, combined, account for the greatest number of hotel and restaurant establishments, 45.9% (refer to Table 5). The three, likewise, employ 51.7% of workers in the hotel and restaurant industry. Finally, NCR, region IV and region XI generate 52.7% of the sector's gross revenue.

In particular, Department of Tourism statistics show that deluxe hotels are concentrated in Manila. Being the main entry point for foreign travelers, the capital is an attractive location for hoteliers. In secondary destinations, only Cebu has deluxe hotels such as Shangri-la Mactan and Plantation Bay (with a total of 359 rooms). However, Cebu is also fast catching up with Metro Manila with the entry of Waterfront, and Marriott Hotel. In other provinces, standard and economy hotels proliferate in cities and tourist destinations.

Most fastfood establishments are, likewise, located in the National Capital Region and in key cities of regions in Central Luzon and Southern Tagalog.

Emerging urban centers outside Luzon, such as Metro Cebu and Metro Davao are becoming the target locations of outlet expansion by major players as well.

Table 5. Regional Distribution of Hotel and Restaurant Establishments

Region	No. of Firms	Total Employment	Gross Revenue (PHP'000)
NCR	10,455	72,981	5,037,391
981 ¹	10,281	71,562	4,808,011
982 ²	174	1,419	229,380
CAR	907	3,997	185,747
981	828	3,574	156,038
982	79	423	29,709
ARMM	671	3,317	66,277
981	668	3,297	65,187
982	3	20	1,090
I	2,922	11,200	798,062
981	2,827	10,747	775,972
982	95	453	22,090
II	1,499	5,191	356,849
981	1,432	4,850	333,029
982	67	341	23,820
III	4,058	15,144	1,256,874
981	3,933	14,432	1,216,051
982	125	712	40,823
IV	6,393	25,088	1,156,212
981	6,096	23,928	1,104,726
982	297	1,160	51,486
V	1,881	9,601	445,757
981	1,793	9,109	405,031
982	88	492	40,726
VI	3,123	13,853	935,162
981	2,999	13,368	907,195
982	124	485	27,967

Source: 1994 Census of Establishments

¹ Pertains to the restaurant sub-sector

² Pertains to the hotel sub-sector

Continuation of Table 5. Regional Distribution of Hotel and Restaurant Establishments

Region	No. of Firms	Total Employment	Gross Revenue (PHP'000)
VII	2,794	11,411	883,257
981 ¹	2,677	10,853	830,013
982 ²	117	558	53,244
VIII	941	4,141	174,468
981	865	3,793	154,923
982	76	348	19,545
IX	2,392	10,806	365,498
981	2,327	10,463	358,557
982	65	343	6,941
X	2,485	9,932	752,884
981	2,333	9,313	709,043
982	125	619	43,841
XI	4,715	16,720	1,307,607
981	4,578	15,920	1,277,423
982	137	800	30,184
XII	1,721	8,572	522,485
981	1,583	7,793	501,136
982	138	779	21,349
Total	46,930	221,954	14,244,530

Source: 1994 Census of Establishments

Hotels. For the period January to December 1999, a total of sixty-two (62) classified hotels, with a total capacity of 13,035 rooms were accredited by the Department of Tourism (DOT) in Metro Manila. These rooms were distributed as follows: de luxe rooms, 7,046; first class rooms, 2,474; standard rooms, 2,969; and economy hotel rooms, 546. These numbers, however, do not constitute the entire universe of hotels in the country as the DOT only accredits hotels that comply with its minimum standards to ensure tourists' safety, comfort, and convenience.

Hotels are the most popular source of accommodation among foreign travelers. In the past five years, more than 50% of foreign tourists used hotels for lodging purposes.

Because of the growing demand for hotel accommodations, the last five years witnessed the steady expansion of every segment of the hotel industry. On the average, the total number of hotel rooms has grown from 11,742 in 1995

¹ Pertains to the restaurant sub-sector

² Pertains to the hotel sub-sector

to 13,090 in 1999, an average of 2.3% (refer to Table 6). Standard hotels experienced the largest growth at an annual average of 17.1%, from 1,671 rooms in 1995 to 3,100 in 1999. First class hotels were a distant second at 8.5% annually, from 1,798 rooms in 1995 to 2,559 in 1999. Deluxe hotels, however, experienced a decline, particularly in 1998, during which the available hotel room (6,771) were less than that of the 1995 level of 7,327. The average number of hotel rooms bounced back in 1999 to 7,056, thus posting a less than 1% average annual decline. Finally, the average number of economy hotel rooms shrank continuously in 1996, 1997 and 1999; from 946 in 1995 economy hotels ended the five-year period with 375 available rooms or a 12% reduction.

Table 6. DOT Accredited Hotels Average Number of Rooms, 1995-1999

Year	Total	Deluxe	First Class	Standard	Economy
1995	11,742	7,327	1,798	1,671	946
1996	12,077	7,189	1,846	2,111	931
1997	12,387	7,382	1,611	2,458	936
1998	13,320	6,771	2,578	2,946	1,025
1999	13,090	7,056	2,559	3,100	375

Source: Department of Tourism

Meanwhile, the average occupancy rates of DOT accredited hotels fluctuated annually from 62% in 1995 to 59% in 1999 (refer to Table 7). The highest posted occupancy rate was that of 1997's at 70%. By classification, deluxe hotels fared well, consistently posting the highest occupancy rates among the four hotel categories, an average of 68.3% over the five-year period. First class hotels were at a distant second at 58.9%. Occupancy rates of standard and economy hotels during the same period averaged 58.8% and 48%, respectively.

Table 7. DOT Accredited Hotels Average Occupancy Rates, 1995-1999

Year	Total	Deluxe	First Class	Standard	Economy
1995	62.15	66.92	51.97	60.18	48.01
1996	70.03	75.28	65.55	65.37	48.90
1997	69.13	72.99	69.87	61.82	56.72
1998	56.92	60.35	54.64	53.25	50.54
1999	59.20	65.89	52.44	53.24	36.07

Source: Department of Tourism

In terms of length of stay, however, guests stay longer in standard hotels than in the higher-rated establishments. Standard hotel guests stay an average of 3.03 nights compared to the 2.66 nights and 2.13 nights average stay in deluxe and first class hotels, respectively.

Hotel entry barriers, which include economies of scale, infrastructure, and product differentiation, are significant particularly for those who will venture in deluxe or first class operations.

Economies of scale force a new entrant to come in at relatively large scale and risk strong reaction from existing firms. Consequently, requiring substantial start-up costs. To date, with the appreciation of land and high construction costs, this could range from PHP1.2 billion to PHP3 billion, depending on the number of rooms and floors and amenities. Even just to build apartelles and standard hotel would require investments of about PHP25 million to PHP55 million. Moreover, an entrant would need high start-up costs from advertising, image building to offset leverage of existing prominent hotels. Training and development costs, necessary for quality hospitality services, are also considerable.

Infrastructure is also another barrier to entry in the case of the Philippines. Communication systems, sewerage and disposal systems, roads and highways are vital to the business. Presently, only a small percentage of the country's potential business and tourist areas has been developed.

Finally, product differentiation exists in the industry. Established firms have brand identification and customer loyalties, which stem from past advertising and customer service.

Hotel chains constitute a classic application of brand strategy. Brands are a quick way for hotels and hotel chains to identify and differentiate themselves in the minds of the customers. A brand symbolizes the essence of the customer's perceptions of hotel chains, its products, and services. The favorable or unfavorable attitudes and perceptions formed by brand influence a customer's hotel preference.

Despite relatively high barriers to entry, however, there are 76 hotels with 13,320 rooms in Metro Manila alone. Deluxe hotels number 16 (6,767 rooms); first class hotels, 8 (2,577 rooms); standard hotels, 33 (2,947 rooms); and 19 economy hotels (1,024 rooms). The number of rooms increased by more than 11% percent in the last five years. Optimism about the domestic economy, the lack of viable accommodations alternative, abundance of competent potential hotel workers and professionals, and the relative ease in procuring required inputs encourage entry into the industry.

Opportunities for hoteliers also arise from the country's strategic location. The Philippines is situated in the center of Asia, home of the fastest-growing economies in the world. The archipelago lies southeast of Hong Kong, northeast of Singapore and almost directly north of Kota Kinabalu in Malaysia and Bali, Indonesia. Owing to its accessibility and strategic location, the Philippines is a natural mecca of commerce.

Moreover, government, industry association and trade union cooperation provides the industry with a strong support system. The Philippine government actively promotes the country through its numerous tourism programs. It actively lobbies for the opportunity to host international events. The Miss Universe Pageant and World Expo, for instance, encourage tourists to visit the Philippine Islands.

Government effort is complemented by the strong support of industry associations and trade unions (i.e., Hotel and Restaurant Association of the Philippines and the National Union of Workers in the Hotel Restaurant & Allied Industries), which enable the hotel industry, among other things, to undertake programs and projects that upgrade and professionalize the sector and to influence government regulatory policies/laws/rules affecting the industry.

Indeed, Manila has plenty of first class hotels. Many like the Westin Philippine Plaza and Century Park Sheraton offer reductions of 40% in the low season from June to September. Others, like the Manila Midtown Hotel, may cut their price by 50% for a stay of four weeks. The elegant Manila Hotel can be ranked with the Raffles in Singapore, Oriental in Bangkok and Peninsula in Hong Kong as among the oldest and most reputable hotels in Southeast Asia. Table 8 lists selected Philippine Hotels from the small- to large-scale establishments.

Table 8. Description of Selected Philippine Hotels

Small-scale Hotels	Description
First Hotel Ongpin Street Binondo Manila	Small hotel with fairly clean, air-conditioned rooms and bath for PHP460/580 for singles/doubles. TV is PHP60 extra.
Merchants Hotel 711 San Bernardo Street Santa Cruz Manila	Provides reasonable rooms with aircon and bath for PHP550/660, and there's a restaurant and disco.
Peace Lodge Hotel 1285 Soler Street Binondo Manila	Air-conditioned rooms with bath cost from PHP580 to PHP800. The more expensive rooms have TVs and there's a restaurant.
Malate Pensionne 1771 Adriatico Street Malate	Many travelers have praised the Malate Pensionne for its helpful staff and pleasant rooms. A dorm bed costs PHP130 with fan and PHP150 with air-con. Rooms cost PHP350 and PHP395 with fan, PHP580 with fan and bath, PHP800 and PHP880 with air-con and bath, and PHP990 with air-con, TV, kitchen and bath. Lockers can be rented and luggage left without charge

	for up to one week. Thereafter it costs PHP5/day per piece. Airport service costs PHP120.
Premier Hotel Corner T. Mapua & Tetuan Sts. Santa Cruz Manila	Has fairly comfortable rooms with air-con and bath for PHP770/890
Lai-Lai Chinatown Hotel Corner Gandara and Ongpin Sts. Santa Cruz	Offers comfortable rooms with TV, air-con and bath at PHP940/1,050. Suites are PHP1,880. There is also a restaurant and coffee shop.
True Home 2139 Adriatico Street Malate	Tastefully furnished rooms with fan and bath are PHP580, and with TV, air-con and bath from PHP1,000 to PHP1,300. All rooms have a different décor, and there is a swimming pool.

Source: Philippine, Lonely Planet, 1997

Continuation of Table 8. Description of Selected Philippine Hotels

Small-scale Hotels	Description
Hotel Roma 1407 Santa Monica Street Ermita	Offers clean rooms with fan and bath for PHP600, and comfortable rooms with aircon and bath from PHP825 to PHP1,045.
Hotel Soriente 595 A. Flores Street Ermita	Has well-kept rooms with air-con and bath for PHP795.
10.Royal Palm Hotel 1227 Mabini Street Ermita	Well-maintained, comfortable rooms cost PHP1,100 to PHP1,750, and come with fridge, TV, aircon, bath, and a complementary breakfast.
11.Rothman Inn Hotel 1633-36 Adriatico Street Malate	Has rooms with aircon, bath, and TV for PHP1,000/1,200; the more expensive rooms have fridges.
12.Kanumayan Tourist Inn 2317 Leon Guinto Street Malate	The most comfortable rooms cost PHP1,000 to PHP1,500 with aircon and bath. There is a swimming pool.
13.Swagman Hotel 411 A. Flores Street Ermita	Rooms with fridge, TV, aircon and bath start at PHP1,300. There's a 24-hour restaurant, airport service, and its own bus leaves three times a day for Angeles.
14.The Garden Plaza	Has comfortable, spacious rooms with

1030 Belen Street Paco	TV, aircon and bath from PHP1,550 to PHP1,900. Suites are from PHP2,900 to PHP5,500. The more expensive rooms have refrigerators and cooking facilities.
15.New Solanie Hotel 1811 Leon Guinto Street Malate	Airconditioned rooms with bath cost PHP1,300 to PHP1,600. They all have TV's, and the more expensive ones have refrigerators and cooking facilities. There is a coffee shop.
16.Las Palmas Hotel 1616 Mabini Street Malate	It's an old favorite with pleasant, recently redecorated rooms with aircon, bath, fridge and TV from PHP1,600. There's also a swimming pool.
17.City Garden Hotel 1158 Mabini Street Malate	Immaculate rooms with TV, fridge, aircon and bath cost PHP1,350 to PHP2,000.

Source: Philippine, Lonely Planet, 1997

Continuation of Table 8. Description of Selected Philippine Hotels

Medium-scale Hotels	Description
18.Centrepoint Hotel 1430 Mabini Street Malate	Has a newspaper stand with international papers and a popular restaurant in the lobby. The hotel is a departure point for tour buses to various locations around Manila, including Puerto Galera. The rooms, which all have TV, aircon, and bath, cost PHP1,760 and PHP2,100. The more expensive ones have refrigerators.
19.Century Citadel Inn Makati 5007 Burgos Street Makati	Rooms with TV, fridge, small kitchen, aircon and bath start at PHP1,700. The hotel also has a swimming pool.
20.Hotel Royla Co-Co 2120 Mabini Street Malate	An attractive place offering furnished rooms with TV, aircon and bath from PHP1,300 to PHP2,500. The more expensive rooms have a fridge and jacuzzi.
21.Palm Plaza Hotel Corner Pedro Gil & Adriatico Sts. Malate	Has spotlessly, clean and comfortable rooms with TV, fridge, aircon and bath from PHP2,100/2,400. It has a pool. Weekly and monthly room rates are available.
22.Aloha Hotel	Has cozy rooms with aircon and bath for

2150 Roxas Boulevard Malate	PHP1,400. Suites with terraces overlooking the bay cost PHP2,500.
23.Park Hotel 1032-34 Belen Street Paco	Has rooms with aircon and bath from PHP1,200/2,100, and suite with jacuzzis for PHP3,415. Rooms are quiet and comfortable, and have a TV and fridge. This place has a pleasant restaurant, a swimming pool and a handy airport service.
24.Ambassador Hotel 2021 Mabini Street Malate	Big hotel with quite good rooms with aircon and bath for PHP1,850/2,150 and suites for PHP3,900. It has a nightclub and a swimming pool.

Source: Philippine, Lonely Planet, 1997

Continuation of Table 8. Description of Selected Philippine Hotels

Medium-scale Hotels	Description
25.Hotel La Corona 1166 MH del Pilar Street Ermita	Has well-maintained rooms with TV, fridge, aircon and bath from PHP1,600/1,900, including breakfast. Suites with a jacuzzi cost from PHP3,500.
26.Admiral Hotel 2138 Roxas Boulevard Malate	Has rooms with aircon and bath from PHP2,600/2,700. Suites are available for about PHP5,800. The rooms are comfortable and come with a fridge and TV. There is also a swimming pool.
27.Sunette Tower Durban Street Makati	Has comfortable rooms with TV, fridge, small kitchen, aircon and bath for PHP1,700 to PHP2,900.
28.Hotel Danarra and Resort 121 Mother Ignacia Avenue Diliman Quezon City	Offers good rooms with aircon and bath from PHP1,400 to PHP2,300. The hotel also has a swimming pool.
29.Sulo Hotel Matalino Road Diliman Quezon City	Has comfortable rooms with aircon and bath from PHP2,100/2,460, and suites from PHP4,000. It has a swimming pool.
Large-scale Hotels	Description
30.Bayview Park Roxas Boulevard Malate	Has singles/doubles with aircon and bath for US\$120/145, suites from US\$240.
31.Century Park Sheraton Vito Cruz Malate	Rooms costs from US\$210/240 and suites from US\$380.
32.Holiday Inn Manila Pavilion	Has singles/doubles from US\$90 and

United Nations Avenue Ermita	suites from US\$285.
33.Hotel Sofitel Grand Boulevard Manila Roxas Boulevard Malate	Has rooms from US\$140/200.
34.Manila Diamond Hotel Corner Roxas Boulevard and J. Quintos Streets Malate	Has rooms from US\$180/200 and suites from US\$500.
35.Manila Hotel Rizal Park Ermita	Has rooms from US\$236/235, suites from US\$353 and a penthouse suite for US\$2,350.

Source: Philippine, Lonely Planet, 1997

Continuation of Table 8. Description of Selected Philippine Hotels

Large-scale Hotels	Description
36.Manila Midtown Hotel Pedro Gil Ermita	Has rooms from US\$130/140. Suites start at US\$200.
37.Westin Philippine Plaza Cultural Center Complex Malate	Has rooms from US\$185/220 and suites from US\$390.
38.Hotel Intercontinental Ayala Avenue	Has rooms from US\$270 and suites from US\$500.
39.Mandarin Oriental Makati Avenue Makati	Has rooms from US\$230/270 and suites from US\$360.
40.Hotel Nikko Manila Fourth Quadrant Makati Commercial Center Makati	Has rooms from US\$200/280 and suites from US\$300.
41.Peninsula Manila Corner of Makati & Ayala Avenues Makati	Has rooms from US\$200/210 and suites from US\$400.
42.New World Hotel Corner Esperanza St. & Makati Ave. Makati	Has rooms from US\$165.
43.Shangri-la Hotel Manila Corner Makati & Ayala Avenues Makati	Has rooms from US\$260/280 and suites from US\$435.
44.Traders Hotel 3001 Roxas Boulevard Pasay City	Has rooms from US\$140/160 and suites from US\$115.
45.Heritage Hotel Roxas Boulevard Pasay City	Has rooms from 180/200 and suites from US\$380.

Source: Philippine, Lonely Planet, 1997

As illustrated in Table 8, hotel accommodations can range from PHP460 per room per night to PHP10,000 (US\$200) per room per night. Location, amenities, and the quality and range of services offered allow hoteliers from small- to large-scale establishments to vary room prices.

While there are already quite a number of players in the market, the hotel industry can be characterized by still a rigid competitive structure. Hotels sell more or less the same service but differ in quality and style. The better and wider the service, the higher the rates.

No single hotel, however, monopolizes the market or has power over the rates of rooms or of other services that are offered. Further differentiation is reflected on the variety of restaurants and coffee shops that they have and on other amenities that they offer – each catering to a specific need of clients.

Table 9. Top 52 Hotels & Other Lodging Facilities Profile (in million PHP)

	1999	1998	% Change
Gross Revenue	13,254	12,362	7.22
Net Income	845	709	19.18
Total Assets	32,533	29,776	9.26
Equity	17,433	16,101	8.27

Source: Top 7000 Corporations, 2000 – 2001
Next 5000 Corporations, 2000 - 2001

According to the Top 7000 Corporations and the Next 5000 Corporations, the fifty-two (52) top hotels and other lodging facilities posted an increase of more than 7% in combined gross revenue from PHP12.4 billion in 1998 to PHP13.2 billion in 1999. Combined net income for top hotels and other lodging facilities, likewise, went up during the same period, from PHP709 million in 1998 to PHP845 million the following year (refer to Table 9). Profitability also rose by more than 12%, from 0.057 in 1998 to 0.064 in 1999 (refer to Table 10).

Table 10. Top 52 Hotels & Other Lodging Facilities Profile

	1999	1998	% Change
Index of Profitability	0.064	0.057	12.28
Capital Output Ratio	1.32	1.30	1.5

Source: Top 7000 Corporations, 2000-2001
Next 5000 Corporations, 2000-2001

The top ten hotels accounted for 61.8% of the sub-sector's gross revenue in 1999 (refer to Table 11). Among the three hotels and other lodging facilities

with the highest 1999 gross revenues are Edsa Shangri-la Hotel and Resort, Inc., PHP1.9 billion (9.7% revenue share), Manila Peninsula, PHP1.07 billion (8% revenue share) and New World International Development Philippines PHP983 million (7% revenue share).

Table 11. Top Ten Hotels & Other Lodging Facilities

Company	Gross Revenue (in million PHP)		Market Share (in %)	Rank
	1999	1998		
Edsa Shangri-la Hotel & Resort, Inc.	1,291	1,233	9.74	1
Manila Peninsula Hotel, Inc.	1,070	1,068	8.07	2
New World Int'l. Dev.'t Phils.	983	1,168	7.42	3
Mactan Shangri-la Hotel & Resort	909	816	6.86	4
Manila Mandarin Hotel, Inc.	856	890	6.46	5
Philippine Plaza Holdings, Inc.	813	781	6.13	6
Enjoy Hotels, Inc.	644	719	4.86	7
Grand Plaza Hotel Corp.	556	606	4.19	9
Philippine Diamond Hotel & Resort	522	318	3.94	9
Manila Midtown Hotels & Land Corp.	490	573	3.70	10
Total Top Ten	8,134	8,172	61.38	
Top 52 Total	13,254	12,362	100.0	

Source: Top 7000 Corporations, 2000-2001
Next 5000 Corporations, 2000-2001

Based on occupancy rates, the Mandarin Oriental, the Makati Shangrila and the Manila Diamond Hotel topped the DOT accredited de luxe hotels category for the period January to April 2000 with occupancy rates of 81.5%, 77.1% and 77.1%, respectively (refer to Table 12).

Table 12. Top DOT Accredited De Luxe Hotels Based on Occupancy Rates (in %)

De Luxe Hotels	Jan. – Apr. 2000	Jan. – Apr. 1999	Growth Rate (%)
Mandarin Oriental Manila	81.50	80.78	0.89
Makati Shangrila Manila	77.10	78.20	-1.41
Manila Diamond Hotel	77.10	78.20	-1.41
EDSA Shangrila Hotel	74.74	66.23	12.85
New World Renaissance Hotel	74.35	69.64	6.76
Dusit Hotel Nikko	73.63	63.95	15.14
Hotel Intercontinental Manila	73.59	81.82	-10.06
The Pan Pacific Manila	72.87	69.55	4.77
The Westin Philippine Plaza	71.60	68.68	4.25
Century Park	68.23	61.45	11.03

*Total of 15 De Luxe Hotels

*Average Jan.-April 2000 of 67.87%

Source: Department of Tourism

Traders Hotel, Holiday Inn Manila, and Manila Midtown Hotel, on the other hand, led the seven DOT accredited first class hotels during the same period with occupancy rates of 67.75%, 66.27%, and 66.25%, respectively (refer to Table 13).

Table 13. Top DOT Accredited First Class Hotels Based on Occupancy Rates (in %),

First Class Hotels	Jan. – Apr. 2000	Jan. – Apr. 1999	Growth Rate (%)
Traders Hotel Manila	67.75	69.75	-2.87
Holiday Inn Manila	66.27	63.47	4.41
Manila Midtown Hotel	66.25	70.00	-5.36
Bayview Park Hotel	54.52	49.85	9.37
Philippine Village Hotel	37.71	34.71	8.64
Grand Boulevard Hotel	28.28	41.06	-31.13
Great Eastern Hotel	27.54	50.93	-45.93

*Total of 7 First Class Hotels

*Average Jan.-April 2000 of 53.70%

Source: Department of Tourism

Among the 40 DOT accredited standard hotels, the Sulo Hotel, the Century Imperial Suites, and the City States Tower Hotel registered the highest occupancy rates at 74.71%, 69.54%, and 68%, respectively (refer to Table 14).

Table 14. Top DOT Accredited Standard Hotels Based on Occupancy Rates (in %)

Standard Hotels	Jan. – Apr. 2000	Jan. – Apr. 1999	Growth Rate (%)
The Sulo Hotel	74.71	80.26	-6.92
Century Imperial Palace Suites	69.54	65.44	6.27
City States Tower Hotel	68.00	-	-
Primetown Century tower Makati	67.22	76.70	-12.36
Hotel Las Palmas	67.16	66.56	0.90
Herald Suites	66.74	83.28	-19.86
Orchid Garden Suites	66.38	67.75	-2.02
Palm Plaza Hotel	65.50	58.47	12.02
Atrium Suites	64.46	-	-
Hotel Rembrandt	60.99	51.63	18.13

*Total of 40 Standard Hotels

*Average Jan.-April 2000 of 50.75%

Source: Department of Tourism

Finally, among the 15 DOT accredited economy hotels occupancy rates ranged from 76-20% from January to April 2000 with Jade Vine Executive Inn, El

Cielito Tourist Inn, and Swagman Hotel leading at 76.02%, 52.22%, and 51.75%, respectively (refer to Table 15).

Table 15. Top DOT Accredited Economy Hotels Based on Occupancy Rates (in %)

Economy Hotels	2000	1999	Growth Rate (%)
Jade Vine Executive Inn	76.02	84.92	-10.48
El Cielito Tourist Inn	52.22	62.16	-15.99
Swagman Hotel	51.75	56.25	-8.00
Manila Tourist Inn	32.75	39.75	-17.61
Park Hotel	28.50	31.13	-8.45
Anito Hotel – Pasay	20.50	19.25	6.49
Hotel Carlston	20.00	38.75	-18.39

*Total of 15 Economy Hotels

*Average Jan.-April 2000 of 35.57%

Source: Department of Tourism

In general, the hotel sub-sector's strength lies in the following: the ability to innovate, a pool of competent potential workers/professionals, and technology development. Developing services to better meet the needs of its clients allows hoteliers to maintain, if not expand, its market. Anticipating the potential requirements of a traveling businessman, for example, makes a hotel more attractive. Hotel Intercon capitalized on its ideal location and deliberately put in place amenities and facilities to suit the changing needs of the business traveler. Some of these eventually became the standard followed by other hotels here and abroad.

Pan Pacific Hotel, on the other hand, decided to revive the "butler" tradition. Every guest is provided with a butler who can be counted upon to do and anticipate a guests bidding.

Filipinos are among the best-educated and most easily trainable people in Asia. They are capable of performing even the most complicated task with world-class competence.

Filipino hotel employees are reputed to possess the following characteristics, which give local hotels an advantage over their regional competitors: they are resourceful, easy to train, and can speak English.

Friendly by nature, Filipinos have a special way of making strangers feel welcome. Hospitality in the Philippines is both a tradition and an art. Moreover, among Asians, Filipinos are the most fluent in written and spoken English. Since English is the world's universal business language, tourists and business

travelers alike are always pleasantly surprised at the absence of any language barrier in their dealings with Filipino hotel and restaurant workers.

Moreover, Filipinos native skills and talent are further complemented with the hotel industry's in-house training programs. Moreover, employee performance is monitored and regularly evaluated using set working standards and performance criteria.

Finally, most local hotels are quick to respond to changes in technology. To date, most have computerized bookings, reservations, room service, and accounting systems.

Pressure on hotel prices comes from the drive "for value for money". Increased operating efficiency obtained through the computerization has helped to reduce costly waste in the supply chain. However, higher labor, raw materials, and utility costs continue to push operating costs up.

Finally, in the macro level, economic and political factors affect the performance of the tourism industry. In the past two years, for example, declining disposable income resulting from the Asian currency crisis and political instability resulted in a 3% contraction in tourist arrivals in 1998 and a 1% increase in 1999.

Restaurants There are about 45,220 restaurant establishments in the domestic economy and about 80% of them belong to the fast food sub-sector. Food franchising is extremely popular. There are 1,057 franchised quick serve restaurants, 14 casual dining and theme restaurants, and 507 coffee shops, bakeries, and confectioneries.

U.S. firms have a very strong presence in the Philippine food franchising industry. As of 1998, in addition to McDonald's and Shakey's, other U.S. franchisees present in the market and their corresponding number of outlets are A&W (14); Burger King (10); Church's Fried Chicken (27); Domino's (17); Kenny Roger's Roasters (19); KFC (73); Pizza Hut (80); Sbarro (6); Subways (5); Wendy's (43); Bennigan's (1); California Pizza Kitchen (1); Hard Rock Cafe (1); Tony Roma's (1); Thai Barbecue (1); Outback (1); TGIF (4); Italianni's (2); Henry J. Bean (2); Baskin-Robbins (12); Dairy Queen (17); Dunkin' Donuts (424); Haagen-Daz (2); Mrs. Fields (12); Orange Julius (20); Starbucks (7); and TCBY (3).

Low barriers to entry characterize the industry. Capital investments particularly for franchises can range from PHP500,000 to PHP10,000. Training, marketing and distribution channels are arranged by the franchisor. Likewise, as the franchisor provides the new entrant fully developed management and production systems, prior knowledge and experience are not required of

franchisees. These characteristics of franchising, particularly of food establishments, make the business very attractive for new entrepreneurs.

The proliferation of one-stop shopping malls that offer various recreational facilities and amenities, likewise, eases the entry of potential restaurant and fast food players. These malls spare the restaurant industry from spending extensive business development studies for their outlets; mall magnates Henry Sy and John Gokongwei Jr. have established formidable track records in building malls.

The industry in which the restaurant and fast food firms operate has increasing consumer demand for every improving product. The growth is proven by the rapid expansion of food outlets in key areas in Metro Manila and the provinces. The popularity of fast food establishments came in the 1980's, and over the last years, the industry has consistently posted double-digit growth rates.

Competition is fierce in the restaurant industry, particularly the fast food sub-sector. The market is large but consumers are price conscious and exhibit brand loyalty. With a wide range of restaurants and fast food establishments to choose from, pricing schemes and marketing strategies determine market shares. Market strategies of industry players, therefore, aim to achieve two primary objectives: 1) hammer in "value-for-money" concepts; and 2) create brand consciousness and loyalty.

Market shares in the restaurants are won or lost in pricing. Industry players regularly offer price cuts and discounts to lure in new customers. Moreover, major players invest heavily in advertising to create brand consciousness and loyalty. Marketing strategies include raffle draws, free gift items and specially prized meal combinations, discounted toys and school items for every certain minimum food purchase. Celebrity endorsements are used in the hopes that the market will identify with the endorser.

Likewise, intense competition urges players to come up with new products to capture bigger market shares. Restauranters have to be keen at finding the latest food and wine concoctions here and abroad and adapting them to local taste. Targeting the Filipino's tastebuds, several fastfood chains that usually serve only western food have introduced items that appeal to the local market's palate.

Raising quality standards and improving service have also been focal points of competition, particularly in the fast food sub-sector. Players give incentives and compensations to motivate employees to be efficient on their jobs and thus help maintain the fast food outlet's high standards of quality service and cleanliness. Also, a major importance in a fast food and restaurant is courteous and friendly personnel. Not surprisingly, speedy service is among the more salient attributes people would highly expect from a fast food restaurant.

Finally, to keep their share of the market, food chains find it necessary to extend their service coverage by setting up other branches. Industry players who have outlets that are visible in Metro Manila and in other key urban cities are ones who are most likely to take in more profits. Malls, university areas, and other places where there is heavy pedestrian traffic are the usual places where fast food and restaurants are highly patronized.

Restaurant and fast food industry players balance their marketing concerns with the rising operation costs particularly that of imported food ingredients. Profit margin erosion is usually remedied by either increasing prices of final product/service or cut corners in production or the delivery of service. Either solution may result in a shrinking customer base.

Table 16. Top 278 Restaurants Profile (in million PHP)

	1999	1998	% Change
Gross Revenue	33,674	31,000	8.62
Net Income	815	812	0.37
Total Assets	21,346	17,167	24.34
Equity	8,008	6,511	22.99

Source: Top 7000 Corporations, 2000 - 2001
Next 5000 Corporations, 2000 - 2001

In 1999, the 278 top restaurants in the Philippines posted a total of PHP33.7 billion in gross revenues, 8.6% higher than the 1998 PHP31 billion. Net income for the same firms, however, only increased slightly from PHP812 million in 1998 to PHP815 million the following year. Asset and equity investment likewise increased during the period by 32.7% and 52.3%, respectively (refer to Table 16).

Table 17. Top 181 Restaurants Profile

	1999	1998	% Change
Index of Profitability	0.024	0.026	-7.69
Capital Output Ratio	0.102	0.125	-18.4

Source: CBERD

Profitability for the top 181 firms also went down by 7.7% from 1998's 0.026 to 1999's 0.024 despite the industry's requirement of less capital, 0.102 unit in 1999 from 0.125 in 1998, to produce one extra unit of output (refer to Table 17).

Table 18. Top Ten Fastfood Restaurants

Company	Gross Revenue (in million PHP)		Market Share (in %)	Rank
	1999	1998		
Jollibee Food Corp.	9,882	11,639	29.35	1
Greenwich Pizza Corp.	1,785	1,721	5.30	2
Chowking Food Corp.	1,141	1,186	3.39	3
Philippine Pizza, Inc.	901	854	2.68	4
Triple V Food Services, Inc.	548	636	1.62	5
Wenphil, Corp.	525	1,070	1.56	6
Texas Manok A.T.B.P., Inc.	430	409	1.28	7
Golden Donuts Inc.	424	425	1.26	8
Andok's Litson Corp.	163	-	0.48	10
Roman Pizza Phils. Inc.	150	52	0.46	12
Total Top Ten	15,951	17,992	47.4	
Top 278 Total	33,674	31,000	100.0	

Source: Top 7000 Corporations, 2000 – 2001
Next 5000 Corporations, 2000 - 2001

In the fast food segment, Jollibee remains at the top with an estimated 29% share of the restaurant sub-sector's gross revenue in 1999 (refer to Table 18) and about 50% market share of the local hamburger-segment patrons. Friendly service and a well-tailored, value-priced menu enable Jollibee to secure the domestic market. Its product line caters to both sweet and spicy cuisine. Prices are relatively lower as compared to McDonald's, one of its closest rivals, making Jollibee affordable to those who belong to the lower- and middle-income brackets.

McDonald's, a distant second, accounts for about 28% of the local hamburger-segment patrons. McDonald's chains had to overcome the impression of being "too American". Thus, part of its marketing strategy is the "Filipinization" of its product line and service. McDonald's now uses the Filipino language in its stores. Moreover, the chain stores has adapted an expanded product line to include Filipino favorites such as spaghetti, fried chicken, and longganisa breakfast.

The local fine dining and specialty restaurants segment accounted for less than 15% of the restaurant sub-sector's 1999 gross revenue. Although top ten restaurant chains account for about 70% of the local fine dining segment market, the biggest player Perf Restaurants Inc. only ranked 9th, with a 1.6% of the total restaurant sub-sector's gross revenue (refer to Table 19).

Table 19. Top Ten Fine Dining and Specialty Restaurants

Company	Gross Revenue (in million PHP)		Market Share (in %)	Rank
	1999	1998		
Perf Restaurants Inc.	552	231	1.58	9
Max's Restaurants	450	435	1.34	11
Macroasia-Eurest Catering Services	378	114	1.12	14
Rustan's Coffee Corp.	348	-	1.03	15
Bistro Americano Corp.	272	-	0.81	17
Via Mare Catering Services Inc.	139	151	0.41	27
Hard Rock Café, Inc.	136	152	0.40	28
AM-Phil Food Concepts, Inc.	128	86	0.38	30
La Dulcinea Restaurant Inc.	109	103	0.32	34
Café Elusee Inc.	106	90	0.32	32
Total Top Ten	2,066	1,365	6.14	
Top 278 Total	33,674	31,000	100.0	

Source: Top 7000 Corporations, 1999-2000

In general, the restaurant industry's strength lies primarily in technology development. Technology transfer and franchising, allow interested parties to operate a franchise without prior experience or training. Domestic and international food chains and franchises facilitate transfer of technology in the local restaurant sub-sector. They provide training of potential employees and employ strict quality control systems. Raw materials are likewise provided by the franchisor.

Finally, there is no real threat of external substitutes to the services provided by the restaurant industry. Indeed, it is competition between the sub-sectors of the industry that determines market share.

1.4 Seasonality of Demand

Hotel. Demand for the hotel sub-sector's services, particularly that of accommodations, peak in the months of November, December and January. Foreign visitor arrivals are at its highest in the last and first months of the year, accounting, on the average, for 18% of the total. Peak season for balikbayan arrivals, on the other hand, is during the months of November and December, accounting for 36% of the total.

Restaurant. The restaurant industry is less cyclical than fast food chains. It lies in the fact that a relatively small percentage, probably less than 15% of the eating-out market, is accounted for by relatively high-priced meals. This sector is considered as a luxury segment of the eating out market. In contrast, eating out at fast food is adjunct either to shopping or employment and not really recreational.

Table 20. Weekly Seasonality

Day	Percent Share
Sunday	35.0%
Monday	11.0%
Tuesday	8.0%
Wednesday	8.0%
Thursday	8.0%
Friday	11.0%
Saturday	19.0%

Source: Synfast, 1996

For most part, majority of the industry's revenues is spread evenly over the fiscal year. However, the month of December is observed to have a significantly higher sales which can be attributed to the Christmas shopping and celebration of Christmas parties and dinner in big restaurants.

In terms of weekly seasonality (refer to Table 20), height of business activity for a fast food chain would be weekends including the days (Friday and Monday) close to this time of the week. Data indicate that it is probable that more people eat out after going to Mass with Sunday representing the peak-day of the week when customer visit fast food outlets. Each working day (Monday to Friday) of the week is certain to attract a tenth of fast food customers.

1.5. External Support Systems

The presence of external support systems can enhance an industry's competitive advantage. Factor conditions (i.e., cost of capital, labor and raw materials), for example, are affected through subsidies, policies toward the capital markets, policies toward education, and the like. External support systems can also help stimulate local demand conditions, establish local product standards or regulations and programs that mandate or influence buyers' needs. The local hotel and restaurant industry external support systems include government agencies, industry associations and trade unions.

Government agencies and various consultative bodies, which includes but is not limited to the Department of Tourism, Department of Trade and Industry,

Department of Labor and Employment, and the Hotel and Restaurant Tripartite Consultative Body, Inc., work together to promote the tourism and hotel and restaurant industries through specifically designed laws, policies and programs that promote industry growth and industrial peace, safeguard labor rights, provide training and seminars, and ensure consumer safety.

Programs specifically designed to attract more tourists and therefore expand the hotel and restaurant industry's market, for example, is the DOT's Tourism Master Plan.

The Tourism Master Plan (TMP) is the framework and guide of the Department of Tourism for the sustained development and expansion of the tourism industry of the Philippines. Completed in 1991, it serves as the blueprint for tourism development in the country until the year 2010. The Plan was prepared by the Hoff and Overgaard on behalf of the World Tourism Organization (WTO), United Nations Development Program (UNDP) and the DOT. Its aim is to position the Philippines as a leading tourist destination in Asia. Its specific objectives are:

1. To increase the contribution of tourism economic growth at a national and regional level;
2. To enhance and contribute to social cohesion and cultural preservation at the local level;
3. To develop tourism on an environmentally sustainable basis; and
4. To develop a diversity of destinations, attractions and markets.

To achieve these objectives, the TMP identifies the following primary strategies for tourism development:

1. To establish three main destination clusters in Luzon, Visayas and Mindanao with Luzon to be positioned as a multi-faceted destination; Visayas as a resort and cultural heritage destination; and Mindanao as an exotic wilderness destination. Each cluster will have its own international airport and diverse satellite destinations.
2. To adopt a combination of niche and mass marketing approaches to target a wider base of the market; and
3. To develop international and domestic tourism.

For the Luzon development cluster, the TMP has identified the northern portion of Palawan, including Puerto Princesa, as a priority tourism development area.

A copy of the law creating the Department of Tourism is found in Annex B and a description of the DOT's latest projects is described in Annex C.

Industry associations, on the other hand, enable the hotel and restaurant sector, among other things, to undertake programs and projects that upgrade and professionalize the sector (i.e., training and seminars for employees and industry promotion by sponsoring domestic and international exhibits) and to influence government regulatory policies/laws/rules affecting the industry. A description of selected hotel and restaurant industry associations is found in Annex D.

Finally, trade unions in the hotel and restaurant industry, among other things, safeguard the rights and welfare of industry workers and professionals. They work closely with government and industry participants in improving working conditions and employee performance (i.e., recommending additional training and or certification) and in defending employee rights. Annex E gives a brief description of selected hotel and restaurant industry trade unions.

2.0 Forward Linkage/Market

Hotel. The most important buyers of hotel services are the tourists (domestic and foreign), the local consumers who dine in restaurants and institutions who use the function rooms for social and business purposes.

Notwithstanding the currency and economic turmoil in Asia, the Philippine tourism industry posted 2.17 billion arrivals in 1999. The strong performance of the industry is attributed to the government's aggressive promotions in major travel markets and the high frequency of repeat visitors registered by the industry at 53%.

In the past five years, visitor arrivals have been growing at an annual average of 9%, contributing more than US\$2.3 billion per year to the country's foreign exchange earnings (refer to Table 21). The months of January and December account for the greatest number of foreign visitor arrivals with a share of 18%.

Table 21. No. of Visitor Arrivals & Amount of Visitor Receipts, 1994-1999

Year	No. of Visitor Arrivals	Average Daily Expenditure	Total Receipts (in million US\$)
1994	1,573,821	US\$ 124.13	US\$ 2,282.90
1995	1,760,163	133.90	2,453.95
1996	2,049,367	129.89	2,700.57
1997	2,222,523	132.62	2,831.17
1998	2,149,357	120.03	2,412.88
1999	2,170,514	130.72	2,553.66

Source: Department of Tourism

Auguring well for the industry during the period was the consistent monthly increase in arrivals, the highest of which was recorded in December, primarily accredited to the heavy influx of balikbayans eager to celebrate the coming of the new millenium in the Philippines.

Although overseas Filipino arrivals have been on a decline since 1994 from 159,169 to an all time low of 134,541 in 1997, balikbayan homecoming, however, picked up in 1998 to 174,277, posting a 29.5% increase. Thus, pulling the average growth rate for the period to 3.4%. Overseas Filipinos contributed an annual average of US\$212.6 million to the country's foreign exchange earnings over the past six years. The peak season for balikbayan arrivals is the November to December period, accounting for 36% of the total.

Table 22. Visitor Arrivals & Amount of Receipts, January to September 1999-2000

	Jan. – Sept. 2000	Jan. – Sept. 1999	Change (in %)
Visitor Arrivals	1,516,699	1,586,907	-4.42
Visitor Receipts (in million US\$)	1,711.41	1,909.52	-10.37
Length of Stay	2.71	2.88	-5.90
Hotel Occupancy Rate (in %)	58.52	58.89	-0.63

Source: Department of Tourism

Owing to the various political issues, visitor arrivals during the first nine months of the year 2000 fell 4.42%, 1.52 million from January to September as compared to the 1.57 million during the same period of 1999. Visitor receipts and length of stay likewise went down, 10.4% and 5.9%, respectively (refer to Table 22).

Meanwhile, in terms of market segmentation, the first semester 2000 figures show that the US continued to supply the biggest bulk of tourists, an estimated 23% of the inbound traffic followed by Japan at 20%. Other major source markets include Korea (8.3%), Hong Kong (7.3%), the United Kingdom (4%), Taiwan (3.6%), Australia (3.6%), Canada (3%), Germany (2.6%), and Singapore (2.3%). Overseas Filipinos accounted for about 7.3% of total visitor traffic (refer to Table 23). The Philippines enjoyed one of the highest repeat visits in Asia, 52.76% in September 2000.

The primary purpose of foreign visitors to the Philippines in September 2000 is holiday (41.7%), visit friends and family, (24%) and business (22%). An estimated 99% of all foreign visitors during the same period traveled by air with the balance coming in by sea. Majority, about 63%, is male and 35% are female, while the average age of all foreign visitors is 38.9 years old. The data on tourist arrivals also revealed that only an estimated 20% of foreign visitors availed of package tours. Majority, about 63%, made their own travel arrangements.

Finally, on the average, foreign visitors spent US\$113.67 per day in September 2000. The biggest expenditure being accommodations, 39%, and food and beverage 22% (refer to Table 24).

Table 23. Visitor Arrivals by Country of Origin, Jan. – Sept. 1999-2000

Country	1998 GNP/capita (in US\$)	Volume		%age Change
		2000	1999	
USA	29,340	348,639	347,742	0.26
Japan	32,380	304,056	291,168	4.43
Korea	7,970	126,216	90,844	38.94
Hong Kong	23,670	111,025	125,585	-11.59
UK	21,400	61,257	65,720	-6.79
Taiwan	-	55,358	124,087	-55.39
Australia	20,300	54,500	54,883	-0.70
Canada	20,020	44,967	46,330	-2.94
Germany	25,850	40,047	45,079	-11.16
Singapore	30,060	34,438	37,119	-7.22
Malaysia	3,600	33,435	36,135	-7.47
France	24,940	15,797	18,196	-13.18
India	430	14,938	13,829	8.02
Netherlands	24,760	12,477	12,288	1.54
Indonesia	-	12,089	11,723	3.12
Overseas Filipino		110,232	113,807	-3.14
Others/Unspecified		137,228	152,372	-9.94
TOTAL		1,516,699	1,586,907	-4.42

Source: Department of Tourism

Table 24. Average Foreign Visitor Daily Expenditure on Major Items (US\$)

Items	Daily Expenditure (in US\$)	Share (%)
Accommodation	US\$38.91	34.23
Food and Beverage	21.85	19.22
Entertainment & Recreation	21.10	18.56
Shopping	14.08	12.38
Local Transport	2.41	2.12
Guided Tour	0.04	0.03
Miscellaneous	15.29	13.45
Total Daily Expenditure	113.67	100.00

Source: Department of Tourism

Hotels are the most popular source of accommodation among foreign travelers. In the past five years, more than 50% of foreign tourists used hotels for accommodations.

As foreign tourists are not very price sensitive, they are usually after the amenities and service that they need during their hectic travel. Hotels that cater to the tourist market compete mostly in the area of amenities and services.

Local customers, on the other hand, can be further divided into individual and institutional patrons. Individual patrons (i.e., professionals, families, etc.) are price sensitive. Hotels, therefore, compete intensely with each other in terms of packages. During specific seasons of the year, hotels offer weekend and/or holiday packages (generally includes discounted accommodations and meals). These packages are also offered to specific market segments – wedding parties, honeymooners, and balikbayans.

Research shows that the following factors affect the foreign and domestic household consumers' decision in choosing hotels and other lodging facilities: 1) competitive or discounted “pricing”; 2) free services (i.e., local calls, children’s toys & gifts, continental breakfast, etc.); and 3) services tailored to the needs of children (i.e., nightlight, pediatrician on-call services, swimming pool with lifeguard, children’s menu in hotel restaurants and child friendly or safe room).

Institutional patrons include company-sponsored employee training programs, seminars, and workshops. Table 25 shows that among institutional buyers, the wholesale and retail industry is the hospitality sector's largest market, accounting for 19.6% of the latter's total output. Different sub-sectors of the wholesale and retail industry are well-known for conducting marketing and promotional activities in various local hotels (i.e., computer, hardware and software, promotion, large-scale office equipment manufacturers, for example Xerox, etc.). Other important markets include the non-ferrous smelting and refining plants sector (18%), public administration and defense (17.4%), and finance (11.6%) industries.

Table 25. Hotel and Other Lodging Facilities Sub-sector Forward Linkage

Industry	Value (PHP'000)	Share (%)
Wholesale & retail trade	573,604	19.63
Non-ferrous smelting & refining plants	526,026	18.00
Public administration and defense	509,470	17.44
Investment, financing & other non-banking services	340,000	11.64
Banking	280,001	9.58
Drugs and medicines	188,299	6.44
Air transport	94,752	3.24
Public education services	58,731	2.01
Business management & consultancy & market research services	52,263	1.79
Other recreational and cultural services	30,959	1.06

Communication and detection equipment	29,086	1.00
Others	238,475	8.16
TOTAL	2,921,666	100.00

Source: 1994 Input-Output Table, NSO

Nonetheless, despite the above efforts, local hotels are still not able to capture a significant share of the domestic tourist market. The patronage of domestic tourists ensures the survival and profitability of most businesses that are dependent upon tourism primarily because domestic tourists outnumber foreign visitors. In the Philippines, 80% of all tourists are domestic travelers; their total spending, tourists who are at least 18 years old, amounts to about PHP57 billion. Very few hotel operators, however, are able to tap into this market. Price conscious, most domestic travelers depend on family and friends to arrange trips and provide lodging.

Restaurant. The restaurant industry caters to both household and institutional buyers. The Philippine household market is segmented into five income groups (A, B, C, D and E). Based on the preliminary results of the 1997 Family Income and Expenditure Survey (FIES), the middle income bracket has expanded from the 1994 level (see Table 26).

Table 26. Philippine Income Segments, 1991-1997

Income Groups	Total Income (in '000 US\$)	% Share in Number of Families		
		1991	1994	1997
Group E	3,169	49	34	30
Group D	6,865	29	33	34
Group C	15,125	20	28	30
Group AB	45,179	2	5	6

Source: National Statistics Office (NSO)

The table above shows that families have experienced improvements in their income in 1997 from 1994, which indicates an increase in the local population's buying power. Furthermore, FIES data show that spending on food consumed outside the home has been increasing from 3.1% in 1985 to 4.7% in 1997 (refer to Table 27). With total family expenditures increasing more than four times during the period, this translated to more than PHP66.8 billion spent on restaurant services in 1997.

Table 27. Food Share To Total Family Expenditure, 1985-1997

	1985	1988	1991	1994	1997
Total Family					

Expenditure (current price, million PHP)	264,552	342,578	622,616	863,008	1,421,999
Total Food Expenditure (in %)	51.9	50.7	48.5	47.8	43.9
Eating Out (in %)	3.1	3.4	3.8	4.2	4.7

Source: FIES (1985, 1988, 1991, 1994, 1997) NSO

As their workload increased, the change in spending pattern reflects the Filipino families' growing propensity to take advantage of the convenience offered by fast food and restaurants in the area of food preparation. With the growth in income and expenditure over time, however, the spending pattern of Filipino families is slowly shifting from food to non-food consumption. In 1997, for example, the share of food expenditures to total expenditures amounted to 43.9%, 3.9% points lower than the 1994 proportion.

Demographically, Philippine consumer market is a large one, approximately 75 million Filipinos. The profile of the local population consists of 65% youth (ages 0-29), 29% mature (30-59), 6% senior citizens (ages 60 and above).

For the youth, which dominates the local market in terms of numbers, eating out is a regular activity. Key factors that make fast food establishments attractive to this group include the simplicity of food preparation, high quality of food served in a clean, orderly environment, prompt service and relatively inexpensive prices.

Other markets consist of families who make weekend dining an occasion and professionals in urban centers who opt to eat-out during office breaks, especially on pay days.

The pricing of company's goods and services must be competitive due to the generic nature of its products. In turn, fast food establishments respond by introducing new products and special offers. It has embarked on "value meals", a popular marketing strategy which features a combination menu that offers a customer a little of everything at a discounted price. On the other hand, restaurants have followed suit, applying a similar strategy, the "Eat-All-You-Can", where a customer enjoys a sumptuous meal for half the price, with the condition of "no leftovers". Another strategy of fast food outlets is a 50% discount before the closing time.

Table 28. Restaurant Sub-sector Forward Linkage

Industry	Value (PHP'000)	Share (%)

Wholesale & retail trade	6,757,601	30.41
Air transport	5,108,064	22.99
Other recreational and cultural services	1,265,448	5.69
Construction	1,187,650	5.34
Non-life and other insurance activities	816,094	3.67
Public administration and defense	703,358	3.17
Investment, financing & other non-banking services	667,796	3.01
Life insurance	623,010	2.80
Public education services	553,821	2.49
Private education services	421,186	1.90
Other social and related community services	290,754	1.31
Drugs and Medicines	264,884	1.19
Private hospitals, sanitaria & similar institutions	262,432	1.18
Others	3,298,287	14.84
TOTAL	22,220,385	100.00

Source: 1994 Input-Output Table, NSO

Finally, recent studies show that Filipino consumers value the following characteristics of restaurant products and services as the most important, according to priority: 1) flavor and taste; 2) value for money/nutrient content; 3) presentation and packaging; 4) variety; 5) systematic ordering and selling; 6) feeling of security in food and environment; 7) prompt delivery and service; 8) consistency of service; 9) feeling of recognition and importance; and 10) feeling of security in location and accessibility.

Meanwhile, institutional buyers employ the services of the restaurant industry for occasions such as seminars, workshops, meetings, company celebrations, and marketing and promotional activities. Among the hotel and restaurant industry's main institutional markets are the wholesale and retail trade (30.4%), air transport (23%), and the other recreational and cultural services sectors (5.7%).

3.0. Backward Linkage/Suppliers

Hotel. Suppliers of majority of hotel inputs are many. Hoteliers are therefore able to scout for the best inputs at reasonable prices. In most cases, suppliers are even the ones who send brochures and quotations to hotels for possible contracts.

At any rate, most hotels have arrangements with their respective accredited suppliers, in particular, of food and beverage products. Imported supplies command a premium, but deluxe and first-class hotels are willing to pay for high quality.

Table 29. Hotel and Other Lodging Facilities Sub-sector Backward Linkage

Industry	Value (PHP'000)	Share (%)
Ocean, coastal and inland fishing	855,283	11.34
Electricity	798,217	10.59
Softdrinks & carbonated water	572,216	7.59
Perfumes, cosmetics & other toilet preparations	514,096	6.82
Wholesale & retail trade	397,799	5.28
Non-life and other insurance activities	390,626	5.18
Vegetables	324,543	4.30
Petroleum refineries	289,481	3.84
Malt and malt liquors	238,541	3.16
Carpets and rugs	215,414	2.86
Laundry, dry cleaning and dyeing plants	181,926	2.41
Other business services, n.e.c.	180,850	2.40
Coffee roasting and processing	149,104	1.98
Furniture and fixtures, n.e.c.	127,459	1.69

Source: 1994 Input-Output Table, NSO

Continuation of Table 29. Hotel & Other Lodging Facilities Sub-sector Backward Linkage

Industry	Value (PHP'000)	Share (%)
Rice and corn milling	122,607	1.63
Soap and detergents	117,193	1.55
Slaughtering & meat packing	107,399	1.42
Banking	105,659	1.40
Wooden furniture incl upholstery	101,949	1.35
Investment, financing & other non-banking services	100,048	1.33
Cigarette	83,542	1.11
Tour and travel agencies	83,036	1.10
Construction	80,614	1.07
Road freight transport & supporting services to land transport	80,012	1.06
Others	1,321,768	17.53
TOTAL	7,539,382	100.00

Source: 1994 Input-Output Table, NSO

Supplies and raw materials for restaurants operated by hotels account for about 19% of the hotel industry's operating cost (refer to Table 29), ocean, coastal and inland fishing sector (11.3%) and softdrinks and carbonated water sector (7.6%).

Other major suppliers of the hotel industry include, power (10.6%), the perfumes, cosmetics and toilet preparations (6.8%), and wholesale and retail (5.3%) industries.

Meanwhile, imports supply more than 90% of the Philippine hotel and restaurant equipment market. In 1998, imports were estimated at US\$70.39 million, registering an 18.5 percent drop from 1997 imports of US\$97.35 million (refer to Table 30).

Table 30. Hotel and Restaurant Equipment Market Size (in million US\$)

Description	1997	1998	1999	Projected Average Growth (%) 2000-01
Import Market	97.35	79.39	71.46	10%
Local Production	0.0	0.0	0.0	0.0
Exports	14.15	14.83	15.57	5%
Total Domestic Market	83.30	64.56	55.89	10%

Source: NSO

In general, imported equipment consist of refrigerating or freezing display counters and showcases, machinery for making hot drinks or for cooking or heating food, not normally used in the household, dishwashing machines, laundry-type washing machines exceeding 10 kgs., dry-cleaning machines, and automatic vending machines.

The U.S. remains the largest source of imported equipment in 1998 with a 45% market share. End-users prefer American-made equipment because of excellent quality, durability, and users' familiarity with them. Manufacturers from Japan (14%), Europe (12%), Korea (6%) and Singapore (4%) also supplied the import market.

After the U.S., Japanese suppliers sold US\$11.34 million worth of equipment with a 14% import market share, followed by Korea with sales of US\$5.04 million and a 6% import market share, and Singapore with US\$3.37 million sales and a 4% market share. The European countries led by Germany, Denmark, Italy, and Netherlands had a 12% import market share and sales of US\$10.13 million.

Japan's import market share jumped from 9% in 1997 to 14% in 1998. Japanese suppliers trailed the U.S. in sales of refrigerating/freezing display counters, cabinets and showcases; other refrigerating equipment; and dry-cleaning machines. Korea proved to be strong in sales of automatic goods/vending machines, while Singapore suppliers were effective in sales of machinery for making hot drinks/ for cooking/and heating food, as well as other refrigerating equipment. The dominant European suppliers were the Germans,

Danish, Dutch, and Italian. These suppliers shared the market for refrigerating and freezing display counters, equipment for making hot drinks, and washing, bleaching/dyeing machines with U.S. suppliers and the other third-country suppliers. In particular, Italian coffee/espresso machines were the leaders in this field. European equipment is popular in deluxe and first class hotels because of the presence of European chefs.

Local production, on the other hand, is limited to basic food service and kitchen equipment. Major local suppliers of stainless kitchen equipment such as counters, refrigeration equipment, and ovens include Fab-Asia, Allied Metals, Inc., and Gomeco Metal Corporation. Lowtemp Corp. manufactures refrigerated equipment; Pacific Star International Sales, stainless and galvanized iron furniture; Almedah Food Machineries Corp., rice grinders, hotdog rollers, convection ovens, fish ball forming/makers; meat grinders; emulsifiers; and Optima Systems, food showcases.

Liberalization is expected to reduce the bargaining power of suppliers further. At present, for example, a 10% tariff rate is imposed on imported hotel and restaurant equipment. The reduction and the eventual removal of tariff rates on hotel equipment, therefore, will allow more hoteliers to either replace or add to their current equipment. Making local establishment more attractive to both local and foreign patrons.

Likewise, deregulating the transport sector, one of the industry's major suppliers will significantly reduce transportation rates, benefiting hotel operators around the country.

Moreover, with liberalization, improvements in technology developed in one country are shared automatically with other countries. They are shared directly when they are embodied in new capital equipment that would relatively be cheaper with the reduction/removal of tariff and non-tariff barriers. As with other industries, the hotel sub-sector would benefit from the availability of cheaper and more modern technology (i.e., hotel systems such as reservations, accounting, etc.).

Finally, liberalization will allow the free movement and employment of international hotel managers, chefs, cooks and other hotel-related professions in the country.

Restaurant. Because of limited supply or lack of substitutes, suppliers have substantial influence over pricing of goods and services. Supplier power for the fast food industry is high because the number of food manufacturers is not enough to cater to the rapidly growing demand of food chains in their daily consumption needs. This strong demand for food supply from the big food

manufacturing companies is a result of the increasing number of fast food chains in the Philippines.

Most players prefer to get their raw materials locally. They negotiate directly with producers, manufacturers and wholesale distributors for food, beverage and packaging products to ensure the freshness of food products, for a uniform quality and to obtain competitive prices. However, industry players get two of their most basic raw materials abroad, namely beef and french fries. Beef is imported from Australia and french fries from the United States and other countries because the local supply of beef is insufficient there is virtually no potato industry.

Among the concerns of fast food establishments in their choice of suppliers are prices, substitution of raw materials, freshness and uniform quality.

Table 31. Restaurant Sub-sector Backward Linkage

Industry	Value (PHP'000)	Share (%)
Slaughtering & meat packing	12,148,577	27.47
Rice and corn milling	3,263,432	7.38
Ocean, coastal and inland fishing	2,620,709	5.93
Meat & meat products processing	2,578,811	5.83
Wholesale & retail trade	2,484,024	5.62
Canning & preserving of fruits and vegetables	2,103,582	4.76
Vegetables	1,719,509	3.89
Flavoring extracts, mayonnaise & food coloring products	1,363,241	3.08
Softdrinks & carbonated water	1,303,575	2.95
Cutlery, handtools, general hardware	1,020,333	2.31
Coffee roasting and processing	1,009,762	2.28
Coconut	969,981	2.19
Electricity	871,760	1.97
Malt and malt liquors	834,499	1.89
Noodles	834,136	1.89
Hen's egg	747,838	1.69
Miscellaneous food products	733,261	1.66
Fruits and nuts	679,888	1.54
Roots and tubers	522,733	1.18
Aquaculture and other fishery activities	518,513	1.17
Others	5,893,277	13.33
TOTAL	44,221,441	100.00

Source: 1994 Input-Output Table, NSO

Among the industry's biggest suppliers are the slaughtering and meat packing (27.5%), rice and corn milling (7.4%), and ocean, coastal, and inland fishing (5.9%) sub-sectors (refer to Table 31).

The emergence of free trade will certainly affect most industries today, including the fast food and restaurant industries. The General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) would be a challenge to the fast food industry because local suppliers would have to be more competitive given the different suppliers coming into the local market.

4.0. Laws Hindering/Facilitating

Hotel. In 1995, the Ramos administration signed Executive Order No. 219 establishing the domestic and international civil aviation liberalization policy. It opened domestic routes to competition and designated at least two international carriers as official carriers for the Philippines. According to the E.O., the government should pursue national interest and not the interest of only one carrier.

The liberalization policy was adopted to address the urgent need for the Philippines to improve air service availability, equality and efficiency through exposure to foreign markets and competition. This liberalization policy was consistent with the thrust to expand investment and trade by increasing air access for Filipino as well as foreign passengers.

When the domestic market was opened to competition, new players came in. They were Cebu Pacific, Air Philippines, Asian Spirit and Mindanao Express. They provided additional seats, lower prices and proved that the so-called "missionary routes" can be financially viable.

In 1995, when PAL was the only local carrier, only six million seats were available for domestic travelers. By 1999, there were ten million seats available, a 67% growth in air access to various destinations in the Philippines (refer to Table 32).

Table 32. Domestic Capacity Before and After E.O. 219

Route	1995		1999				Total
	PAL	PAL	Cebu Pacific	Air Phils.	Asian Spirit	Min Express	
MNL – Cebu	1,378,697	1,460,958	611,520	317,408			2,389,886
MNL – Dav	579,147	513,032	349,440	158,704			1,021,176
MNL – Zam	196,539	185,328	87,360	79,352			352,040

Sub-total	215,438	2,159,318	1,048,320	555,464			3,763,102
Others	4,264,058	3,199,664	1,659,840	1,268,696	435,240	213,408	6,776,848
TOTAL	6,418,441	5,358,982	2,708,160	1,824,160	435,240	213,408	10,539,959

Source: Civil Aeronautics Board

Contrary to claims by PAL that there was no market, these figures revealed that there was unserved demand for local travel. From two million in 1995, passenger traffic more than doubled by 1999.

Competition, likewise, made travel more affordable. In 1995, a roundtrip ticket in the Manila-Cebu route used to cost PHP2,846. In 1999, this was reduced to PHP2,598. Indeed, on the average roundtrip ticket prices to Cebu, Davao, and Zamboanga from Manila went down by 39.56% (refer to Table 33), the biggest reduction being on the Manila-Zamboanga-Manila route, 47.71%.

Table 33. Roundtrip Ticket Prices Before and After E.O. 219

Routes	1995		1999		% Change
			Actual	Adjusted for Inflation	
MNL-Cebu-MNL	PHP	2,846	PHP	2,028	28.74
MNL-Dav-MNL		5,128		2,963	42.22
MNL-Zam-MNL		5,070		2,651	47.71

Source: 1995 Fares – CAB

1999 Fares – Philippine Domestic Airlines

Competition also proved that there are really no “missionary routes”. Niche airlines such as Asian Spirit, Mindanao Express and SEAIR provide now service to tertiary routes which PAL abandoned in 1998. Both Asian Spirit and SEAIR, for instance, operate in Busuanga. These smaller carriers proved that these tertiary routes can be financially viable. Load factors in Busuanga and Masbate reached 70% and 76%, respectively in 1998.

The liberalization of international airline service (which increased access and reduced cost of travel) complemented the worldwide economic growth of the 1990s. The Philippine international tourism, in particular, gained from these developments as evidenced by the increasing growth in tourist arrivals during the period 1994-2000. Tourist arrivals to the Philippines increased by more than 37%, from 1.6 in 1994 to 2.2 in 1999. The growth in arrivals translated to higher receipts for the economy, from US\$2.28 billion in 1994 to US\$2.55 billion in 1999, or a 12% increase.

Moreover, liberalization made possible the direct links between Northeast Asian cities and Cebu, thus, making Cebu more accessible, with cheaper fares. Consequently, incoming international passengers to Cebu went up by more than

23%, from 130,000 in 1994 to 160,000 in 1998. The Japanese market accounts for 34% of total visitor arrivals in Cebu, followed by the US (13%) and the Taiwanese (11%).

For the hotel and restaurant industry, therefore, E.O. 219 proved to be extremely beneficial. The reduction in transportation cost and the increase in airline destinations encouraged both domestic and international travels.

The 2001 Investment Priorities Plan is formulated to serve as a conduit in the continuation of the economic reform programs crucial in sustaining the economic gains we have so far achieved. The implementation of these programs has ushered a continuous industrial development as evidenced by a strong growth of the industrial output, notable increase in foreign direct investments, acceleration of export sales, dispersal of growth to the countryside and congruent improvements in specific sectors.

For the past years, the annual drafting of the IPP has been guided by preceding economic development plans that include:

- the E.O. 226, otherwise known as the Omnibus Investments Code of the Philippines that specifies the incentives provided to priority investments; and
- the Medium-Term Philippine Development Plan of the Philippines (MTPDP) 1993-1998 that provides the agri-industrial vision for the country.

For this year, the 2001 IPP is, in part, being made parallel to the newly mandated Industrial Development Plan of the Philippines (IDPP), the blueprint for enhancing and sustaining global competitiveness of the Philippine industries in the short (1-3 years), medium (4-10 years) and long (11-15 years) term. The 2001 IPP will provide incentives to qualified activities in the IDPP. Otherwise, other types of assistance including those not specified in the IPP will be rendered.

Furthermore, the 2001 IPP specifically lends support to the pursuance of the national development vision focusing on agri-industrial development, sustainable human development, science and technology, and environment and natural resources management.

To achieve continuation of programs, the general goals of the 2001 IPP shall encompass those specified under the past IPPs that include:

- 1) enhancement of global competitiveness;
- 2) increase in exports;
- 3) increase in agricultural productivity;

- 4) setting-up and upgrading of infrastructure and support facilities;
- 5) countryside development;
- 6) alleviation of poverty through the creation of employment opportunities and the reduction in the cost of living;

In addition, the 2001 IPP will also cover the goals of the IDPP necessary in directing the country towards sustained growth and competitiveness:

- 1) improvement of the science and technology competence and support to the R& D efforts in industries;
- 2) assistance to SMEs by promoting linkage between the SMEs and large industries steering them in the direction of advanced technology and high value-added products; and,
- 3) ensuring efficient environment and energy management.

The 2001 IPP will, likewise, maintain the industry classifications previously laid-down in the past IPP's, to wit:

- 1) Export-Oriented Activities
- 2) Catalytic Industries
- 3) Industries Undergoing Industrial Adjustments
- 4) Support Industries
- 5) Mandatory Inclusions

Thirteen (13) economic activities are listed in this year's plan. The modernization program with a possible three-year income tax holiday will continue to be made available in the 2001 IPP. However, as a step closer to our objective of achieving social equity, support to projects uplifting the welfare of the consuming public will be reinforced. Projects identified under the Social Reform Agenda of the government which include socialized/low cost housing projects and other social services such as the establishment of educational/training institutions, rehabilitation centers, health service facilities, and new retirement villages will be given priority. Moreover, the 2001 IPP shall continue its commitment to encourage the establishment of Research and Development projects in an effort to fast track the development of technology in the country and the introduction of innovative products and processes in the market. As one of the basic economic sectors in the country, the acceleration of agricultural productivity will be propelled through the provision of continued support to the key areas identified in the Agriculture and Fishery Modernization Act by promoting integration of processes and activities to ensure food security and encourage more value-adding.

The 2001 IPP is likewise formulated as a component of the overall economic development plan that is responsive to the country's commitments under formal trade and investment agreements such as the AFTA, APEC and WTO. Policy and legislative measures are continuously being initiated towards the rationalization of the incentives scheme that will strike a balance between the provision of sector-specific and time-bound incentives attuned to the needs and peculiarities of strategic sectors and the universalization of substantive incentives across all industries. Once these measures are in place, activities listed in the IPP will be limited to a few critical industries that will accord optimum economic gains on a long-term basis.

In addition to the national listing of the 2001 IPP is a special listing of economic activities identified for promotion and eligible for incentives by the Autonomous Region for Muslim Mindanao (ARMM). The ARMM IPP is the list of priority areas that have been independently determined by the Regional Board of Investments (RBOI) of the ARMM in accordance with E.O. 458. Economic activities in this special listing shall be pursued in the ARMM only. However, economic activities listed in the national IPP may have its location also inside the ARMM.

In particular, among other sub-sector beneficiaries, the provisions above apply to the following sub-sectors in the tourism industry:

- tourist accommodation facilities which refer to hotel, apartel, tourist inns, pension house, and resorts. Resorts may also include special interest activities (which may or may not have accommodation facilities) such as but not limited to theme parks, convention, exhibition/trade display centers, eco-tourism projects or those involving environmentally sound tourism activities in a given ecosystem yielding socio-economic benefits and enhancing natural and cultural diversity conservation.
- tourism estates which refer to large tracts of land with defined boundaries in any of the destination areas in the country, suitable for development into an integrated complex with prescribed carrying capacities of tourist facilities and activities such as but not limited to accommodation, food and recreational centers and commercial outlets, and provided with roads, water supply facilities, power distribution facilities, drainage and sewerage systems and other necessary infrastructure.
- tourist buses
- restoration of historical and cultural sites/properties provided that the sites/properties are at least 100 years old as certified by the National Historical Institute and endorsed by the Department of Tourism.

A copy of the 2001 IPP and its implementing guidelines are found in Annex F of this study.

Meanwhile, employment of foreign nationals in the industry is subject to a tripartite agreement promulgated in 1992 between the Department of Tourism (DOT) and Department of Labor and Employment (DOLE) and the Bureau of Immigration (BI). The agreement addresses the following issues regarding the employment of foreign nationals in the hotel and restaurant industry: positions open to foreign nationals, procedures in the issuance of visa/permits, and disciplinary/penal provisions.

According to the agreement, only hotels and resorts duly licensed by the DOT shall be allowed to engage the services of foreign nationals. Foreign nationals in hotels and resorts that are already operational may occupy a maximum of four (4) managerial positions. Hotels or resorts yet to be constructed may employ as many foreign nationals as may be required during the stage of construction and up to six (6) months after opening of the hotel to the public. Moreover, the services of foreign nationals may be availed of during special occasions/events such as food festivals; provided, however, that the service contract shall be limited to a period of three (3) months renewable for a maximum period of another three (3) months.

A pre-requisite for employment of foreign nationals in the hotel and resort sub-sectors is a pre-arranged employment visa from the appropriate Philippine Embassy or Consulate or other designated visa-issuing office nearest their port of origin. If the foreign national has already been admitted into the country as a temporary visitor or under any other admission category, he may secure a change of status to pre-arranged employment visa from the Bureau of Immigration.

In the grant of the appropriate visa, the Department of Foreign Affairs and the Bureau of Immigration shall generally endeavor to determine non-work connected qualifications of the applicant.

As a pre-requisite to the issuance of the pre-arranged employment visa or change of status, the foreign national applicant shall secure an Alien Employment Permit from DOLE, which shall grant the same on the basis of non-availability of the services of local expertise for the vacancy, the undertaking of an understudy training program as appropriate, and in compliance with its other policy guidelines.

Finally, any person who violates the provisions outlined in the agreement shall be subject to any of the following penalties:

1. A fine of not less than PHP1,000 but not more than PHP10,000 or imprisonment of not less than three (3) months, or both as provided for by Article 289 of the Labor Code;
2. Non-renewal of the Alien Employment Permit and/or visa;
3. Suspension or revocation of the Alien employment Permit;
4. Deportation.

Restaurant. The government has taken an active role in cultivating an environment that would allow the local fast food industry to be globally competitive and to operate at levels comparable to international standards. Specifically, the Department of Health (DOH), together with the Bureau of Food and Drugs (BFAD) are directed to ensure strict food quality and hygiene standards. Under the new Intellectual Property (IP) Act, the Bureau of Patents, Trademarks and Technology Transfer (BPTTT) has been abolished. IP has been created to assume the BPTTT's functions of authorizing the registration of trademarks, service marks and other marks of ownership, hear and preside over proceedings affecting rights to trademarks. Meanwhile, the Department of Trade and Industry (DTI) is the governing agency that approves various promotions and advertisement campaigns of fast food chains.

All franchise agreements with foreign franchisors are registered with IP as well as licensing, technical assistance and services, technology transfer and distribution agreements.

Foreign franchisors in the Philippines, similar to other industries, are subject to the restrictions on ownership, 40%. The laws on technology transfer, however, guarantee franchisors in the Philippines royalties of 5% and a maximum allowable term of technology transfer arrangements of ten years.

Finally, as with the hotel and resort sub-sector, foreign national employment in the restaurant sub-sector is subject to the tripartite agreement signed by the Department of Tourism, Department of Labor and Employment and the Bureau of Immigration.

Specialty restaurants are allowed to employ foreign nationals subject to the following conditions:

Only specialty restaurants duly accredited with the DOT as well as those forming part of the integrated operation of licensed hotels/resorts may be allowed to engage the services of foreign nationals;

A specialty restaurant with a minimum seventy-five (75) seat capacity shall be allowed to have one (1) foreign Specialty Chef or Sous Chef. In the initial stage of operation of a specialty restaurant and for a maximum

period of two (2) years, three (3) more foreign specialty chefs or sous chefs may be allowed;

A specialty restaurant with a seating capacity of 500 or more may be allowed to employ three (3) additional foreign nationals in any of the following positions:

- (a) as specialty chef(s);
- (b) as sous chef(s);
- (c) as food service manager (s); or
- (d) a combination of the above.

A foreign national may be allowed to replace a Filipino citizen who is assigned to work abroad on a training program and who is presently occupying one of the positions that can be filled by foreign nationals under the agreement; provided, however, that in no case shall the foreign national be allowed to stay beyond two (2) years or the duration of the training of the Filipino, whichever, comes first.

The same policies are followed regarding the procedures in the issuance of visa/permits and disciplinary/penal provisions as the hotel and resort sub-sector.

5.0. Market Potential/Foreign Market Demand and Competition

5.1. Entering Foreign Markets

Local hotel and restaurant players can enter the foreign market through any of three modes of supply: 1) cross-border supply/consumption abroad; 2) commercial presence; and 3) movement of natural persons.

Foreigners coming to the Philippines is classified under the first mode, cross-border supply while Filipino-owned enterprises setting-up branches abroad through franchising (i.e., Jollibee, Goldilocks, Barrio Fiesta, etc.) is classified under the second mode. Transfer of technology through franchising, however, is subject to the unique laws of the market the hotel and restaurant firms intend to penetrate. These laws, which are as varied as the countries that implement them, commonly address issues such as royalties, repatriation of profits, employment of foreign nationals, property ownership, taxes, and the like.

Finally, the international deployment of hotel and restaurant workers and professionals is classified under the third mode, movement of natural persons. It is subject to laws pertaining to the practice of their profession. Indeed, most countries have policies preventing foreign professionals from practicing their profession in the domestic market.

5.2. Extent of Services Rendered Abroad

Export of services in the hotel and restaurant industry takes the form of sending industry workers and professionals to work for establishments belonging to the sector in a foreign land.

Table 34. Deployment of Filipino Hotel & Restaurant Industry Professionals, 1996-2000

Job Classification	1996	1997	1998	1999	2000	Rank
General Manager	82	101	97	74	65	9
Operations Manager	45	1	29	39	20	12
Budgeting & Accounting Manager	13	12	6	8	11	13
Catering & Lodging Services Manager	55	69	43	52	36	11
Assistant Catering & Lodging Manager	10	51	22	7	9	14
Employees' Housing Services Supervisor	1	8	2	1	1	15
Housekeeping & Related Services Supervisor	327	176	305	222	1523	7
Receptionists & Travel Agency Clerks	374	433	532	533	556	3
Bakers, Pastry Cooks & Confectionery Makers	247	224	338	405	278	5
Cooks & Related Workers	1,508	1,477	1,271	1,136	1,308	2
Cooks, Waiters, Bartenders & Related Workers	346	248	561	452	236	6
Waiters, Bartenders & Related Workers	3,293	3,530	3,115	3,558	3,269	1
Maids & Related Housekeeping Services	23	17	17	43	52	10
Housekeeping & Related Services	326	277	159	136	283	4
Launders, Dry Cleaners, Pressers & Related Workers	242	219	190	205	134	8
TOTAL	6,892	6,843	6,687	6,871	6,410	

*Average Annual Growth Rate of -1.74%/year

Source: POEA

In the last five years, hotel and restaurant related workers and professional deployment averaged more than 6,740 per year (refer to Table 34).

An estimated 75% of all hotel and restaurant professionals deployed during the period were cooks, waiters, bartenders and other related workers.

Filipino hotel and restaurant workers and professionals are known for their competence, trainability, and ease in adapting to different environments and are, therefore, in demand in the international market. Most hotel and restaurant related workers and professionals during the five-year period were deployed to United Arab Emirates, Saudi Arabia, Kuwait, Papua New Guinea, Singapore Malaysia, and the United States.

Moreover, large Filipino communities abroad are strong basis for the export of local restaurants and fast food technology. The presence of Goldilocks, Jollibee, Max, Red Ribbon, and Barrio Fiesta, among others, in the US, for example, is a result of demand from Filipino migrants longing for a taste for home.

5.3 Foreign Market Demand and Competition

Hotels. The Philippines still lags behind in terms of tourist arrivals. The 1997 peak tourist arrival of 2.2 million pales in comparison with country leaders such as France with 70 million and Spain with 47.7 million (refer to Table 35). In Southeast Asia, country leaders, such as Hong Kong and Thailand, attract as much as 11 to 7 million visitors per year. Moreover, data show that frequent travelers in Asia average 15 airline round trips each year and stay an exceptional 50 or more nights in hotels as compared to the Philippines average of 10 nights.

Table 35. 1998 Tourism Destinations in the World (in '000)

Rank	Country	Arrivals	% change	% of total
1	France	70,000	4.7	11.2
2	Spain	47,743	10.0	7.6
3	United States	47,127	-1.3	7.5
4	Italy	34,829	2.2	5.6
5	United Kingdom	25,475	-0.2	4.1
6	China	24,000	1.0	3.8
7	Mexico	19,300	-0.3	3.1
8	Poland	18,820	-3.6	3.0
9	Canada	18,659	7.9	3.0
10	Austria	17,282	3.8	2.8
11	Germany	16,504	4.2	2.6
12	Czech Republic	16,325	-3.0	2.6
13	Russian Federation	15,810	3.0	2.5
14	Hungary	14,660	-15.0	2.3
15	Portugal	11,880	16.0	1.9
16	Greece	11,077	10.0	1.8
17	Switzerland	11,025	4.0	1.8

18	China, Hong Kong	9,600	-7.7	1.5
19	Turkey	9,200	1.8	1.5
20	Thailand	7,720	6.9	1.2
21	Malaysia	6,856	10.4	1.1
22	Netherlands	6,170	-7.6	1.0

Source: WTO

Table 35. 1998 Tourism Destinations in the World (in '000)

Rank	Country	Arrivals	% change	% of total
23	Belgium	6,073	9.3	1.0
24	Ireland	5,981	10.0	1.0
25	South Africa	5,600	-14.3	0.9
26	Singapore	4,900	-5.5	0.8
27	Indonesia	4,859	7.0	0.8
28	Argentina	4,700	10.3	0.8
29	Tunisia	4,700	8.8	0.7
30	Korea, Republic of	4,250	9.5	0.7
31	Croatia	4,200	-2.8	0.7
32	Japan	4,100	-7.1	0.6
33	Australia	4,012	3.0	0.6
34	Egypt	3,766	2.9	0.6
35	Saudi Arabia	3,700	-0.6	0.6
36	Macau	3,590	-0.2	0.5
37	Puerto Rico	3,255	5.5	0.5
38	Morocco	3,241	10.0	0.5
39	Brazil	3,135	4.0	0.5
40	Romania	3,075	-0.3	0.5
	Philippines	2,100	-0.3	0.4
	World Total	625,236		100.0

Source: WTO

As for the number of visitor arrivals from within the Asia Pacific, in 1999, the Philippines only placed ahead of Vietnam at 1.78 million (refer to Table 36). Competition with Vietnam and the Mekong Basin, however, is expected to intensify as the latter countries step up the promotion of their cluster as the holiday and convention destination in Asia in the 21st century.

Table 36. 1999 Visitor Arrivals to Asia from Within Asia-Pacific

Country	Number of Arrivals	% Share
Hong Kong, China	8,185,862	78.7
Singapore	5,601,747	77.8
China (PRC)	5,174,460	94.3
Thailand	5,068,946	70.2
Japan	2,860,397	67.8
Korea (ROK)	2,674,281	67.9
Malaysia	2,201,227	78.3
Macau	2,050,787	78.9
Chinese Taipei (Taiwan)	1,765,554	76.3
Philippines	1,765,554	76.3
Vietnam	780,310	47.0

Source: Pacific Asia Travel Association (PATA)

Finally, European visitors account for a mere 1.3% of the Philippines number of arrivals as compared to India's 40% or Thailand's 21.3% (refer to Table 37). Studies show that, in general, guests stay longer in deluxe hotels. This was attributed to good value for money, first-rate service, and convenient locations.

Table 37. 1999 Visitor Arrivals to Asia from Europe

Country	Number of Arrivals	% of Share
Thailand	1,537,399	21.3
China (PRC)	1,126,305	2.0
Hong Kong, China	1,058,228	10.2
Singapore	963,326	13.4
India	861,945	40.5
Japan	499,577	11.8
Malaysia	359,051	12.8
Korea (ROK)	279,813	7.1
Philippines	288,472	1.3
Macau	236,706	9.1
Sri Lanka	218,478	59.7
Chinese Taipei (Taiwan)	159,071	6.9
Vietnam	129,004	7.8
Pakistan	135,520	38.9
Bangladesh	46,861	25.7

Source: Pacific Asia Travel Association (PATA)

Meanwhile, in terms of customer satisfaction, the 1999 Annual Visitor Sample Survey of the Department of Tourism indicates that, on the average, visitors from Oceania found Manila hotels to be near excellent with a rating of 1.69, the highest received for all facilities and nationalities surveyed (refer to Table 38).

Table 38. Foreign Visitors' Ratings of Facilities/Services

Facilities	East Asia	South Asia	North America	Oceania
Manila Hotels	2.09	1.89	1.83	1.69
Other Hotels	2.48	2.00	1.96	2.00
Resorts	2.18	2.17	1.78	1.89
Food	2.11	1.96	1.86	1.88
Restaurant	2.18	1.91	1.89	1.81
Discos/Nightclubs	2.56	2.00	1.97	1.75
Shops/Shopping Opportunities	2.21	1.84	1.97	2.00

*Total Respondents: East Asia (212), South Asia (82), North America (1189), Oceania (265)

* 1 = excellent, 2 = good, 3 = fair, 4 = poor, and 5 = did not use

Source: Annual Visitor Sample Survey , 1999, Department of Tourism

With respect to investments, however, among neighboring Asia Pacific countries, the Philippines is expected to attract the least number of international hotel chains from 1998 to 2000. During the period, an estimated 91 hotels will open in China (refer to Table 39), 57 in Indonesia (refer to Table 40), 49 in India (refer to Table 41), 37 in Malaysia (refer to Table 42), and 33 in Australia (refer to Table 43) compared to 28 in the Philippines (refer to Table 44).

Table 39. Expected Hotel Investments in China, 1998-2000

Investor	No. of Rooms	No. of Hotels
Jin Jiang Group/Shanghai	10,000	46
ITT Sheraton Corp./Boston Shangri-la Hotel	2,872	7
Hong Kong Inter-Continental Hotels	2,433	4
London	2,222	6
Holiday Hospitality/Atlanta	1,121	3
TOTAL	28,035	91

Source: Global Hospitality Resources, Inc.

Table 40. Expected Hotel Investments in Indonesia, 1998-2000

Investor	No. of Rooms	No. of Hotels
Accor Asia Pacific/Sydney	3,138	20
Century International Hotels/Hong Kong	1,033	6
Westin Hotels and Resorts/Seattle	871	2
Choice Hotels International/Maryland	721	5
Conrad Hotels/Beverly Hills	700	1
TOTAL	13,096	57

Source: Global Hospitality Resources, Inc.

Table 41. Expected Hotel Investments in India, 1998-2000

Investor	No. of Rooms	No. of Hotels
ITC Hotels Limited/New Delhi	1,945	9
The Oberoi Group/Delhi	1,935	13
The Taj Group of Hotels/Mumbai	1,129	7
Hyatt International/ Chicago	1,069	2
Four Seasons Hotels/Toronto	550	2
TOTAL	8,628	49

Source: Global Hospitality Resources, Inc.

Table 42. Expected Hotel Investments in Malaysia, 1998-2000

Investor	No. of Rooms	No. of Hotels
Stamford KYZ Zenith Hotels/Hong Kong	1,484	4
Century International Hotels/Hong Kong	1,419	2
Berjaya Hotels and Resorts/Kuala Lumpur	1,281	8
Marriott International/DC	886	3
Park Plaza International/Phoenix	871	3
TOTAL	11,711	37

Source: Global Hospitality Resources, Inc.

Table 43. Expected Hotel Investments in Australia, 1998-2000

Investor	No. of Rooms	No. of Hotels
Accor Asia Pacific Corp./Sydney	1,413	7
Choice Hotels International/Maryland	1,384	19
Westin Hotels and Resorts/Seattle	665	2
SPHC Group/Sydney	523	2
Raffles International/Singapore	366	1
TOTAL	5,022	33

Source: Global Hospitality Resources, Inc.

Table 44. Expected Hotel Investments in Philippines, 1998-2000

Investor	No. of Rooms	No. of Hotels
Asiaworld/Taipei	2,577	1
ITT Sheraton Corp./Boston	2,267	8
Accor Asia Pacific Corp./Sydney	1,856	9
Century International Hotels/Hong Kong	971	3
Berjaya Hotels and Resorts/Kuala Lumpur	877	2
TOTAL	10,187	28

Source: Global Hospitality Resources, Inc.

Restaurant. Growing prosperity in Europe and the US promises steady growth in the percentage of meals eaten in restaurants. The greatest strength will be in the fast food and other economy restaurants, which offer convenience for increasingly hurried two-income families, and expensive restaurants known for quality, which offer an affordable taste of luxury. Mid-prices restaurants will find it difficult to compete.

Restaurants and food companies also adapt. McDonald's all 4,700 restaurants in the Pacific use Asian currencies for their business transactions. In Indonesia, it costs 80% less to build each restaurant due to lower costs for labor, real estate and other expenses. In Singapore, using local currencies, restaurants buy chicken patties from Thailand, rather than from the US, at much lower cost.

The discussion below focuses on the performance of and the latest trend in the restaurant industry in eight major world markets: France, Italy, UK, US, Germany, Spain, Japan, and Canada.

Table 45. Restaurant Industry Sales Performance in Major World Markets

Country	National Currencies (in million)
France	157,807
Italy	79,528
UK	27,663
US	251,900
Germany	68,814
Spain	7,981
Japan	25,285
Canada	27,919

Source: Euromonitor Market Direction

The Japan and the United States are by far the largest consumer restaurant markets in the world, each valued at over US\$200 billion in 1997. In Europe, Spain is the only market to exceed US\$50 billion, well ahead of Italy, the UK and Germany. The smallest of the eight key markets is Canada, valued at just US\$20 billion, reflecting a small and geographically widespread population (refer to Table 45).

Recent performance of the consumer catering market has varied across the major markets, as weak consumer confidence in several markets has impacted spending on non-essential items, and strengthening recovery in others has combined with more hectic lifestyles to boost demand for high quality, quick service meals and snacks.

Table 46. Restaurant Industry Performance in Major World Markets (in %)

Country	Number of Outlets	Nominal Value	Real Value
France	-1.2	1.7	-0.1
Italy	3.7	2.3	0.9
UK	-0.2	4.8	2.0
US	1.3	3.4	0.8
Germany	0.6	-0.5	-1.7
Spain	4.5	3.8	1.3
Japan	-0.1	1.0	-0.1
Canada	2.5	7.6	5.8

Source: Euromonitor Market Direction

Markets such as France, the UK and Japan have experienced further concentration in the consumer catering market as outlet numbers decline. The UK, however, highlights growing consumer confidence and the increasing popularity of dining out, as the slight decline in outlet numbers is more than matched by positive real value growth in 1997. Germany continues to be beset by economic recession and a heightened focus on the concept of value-for-money, and the only impetus for growth appears to come from new outlets. Thus the number of outlets rose in 1997, whilst market value declined in real and nominal terms (refer to Table 46).

Both Japan and the US have a greater number of restaurant outlets, respectively 915,752 and 706,600 in 1997, than either Canada or the European countries, and in the US the number of consumer catering outlets showed consistently positive growth over the review period (refer to Table 47).

Table 47. Number of Restaurant Outlets in Major World Markets, 1993-1997

Country	1993	1994	1995	1996	1997
France	153,746	150,437	150,976	149,742	147,948
Italy	201,325	205,755	210,975	217,146	225,159
UK	171,160	172,491	170,015	169,344	168,981
US	655,100	672,400	687,700	697,300	705,500
Germany	175,065	178,012	180,767	181,803	182,854
Spain	255,433	271,725	924,291	916,922	915,752
Japan	937,183	930,145	924,291	916,922	915,752
Canada	63,617	66,384	68,358	59,525	71,247

Source: Euromonitor Market Direction

In contrast to the rise in outlet numbers in Italy, the US, Germany, Spain and Canada over the review period, there was a contraction of 3.8%, 2.3% and 1.3% in numbers in France, Japan and the UK respectively.

With an increase of 25.2% in outlet numbers over the period 1993-1997, Spain has increasingly adopted European-wide trends in the consumer catering market (refer to Table 48). Initially, a strong cultural identity in terms of culinary preferences hindered the progress of European and US-style fast food trends. However, the emergence of fast food outlets offering Spanish-based products has enlivened the market and boosted outlet numbers.

Table 48. No. of Restaurant Outlets in Major World Markets Growth Rate (%)

Country	1993-1997	1996-1997
France	-3.8	-1.2
Italy	11.8	3.7
UK	-1.3	-0.2
US	7.9	1.3
Germany	4.4	0.6
Spain	25.2	4.5
Japan	-2.3	-0.1
Canada	12.0	2.5

Source: Euromonitor Market Direction

In France and the UK, however, competition and rationalization reduced outlet numbers over the period, but this process of consolidation appears to be slowing, with the rate of closures in the UK decreasing noticeably in 1997 (refer to Table 48).

Traditional sectors have been the hardest hit by changing social and eating habits, with the rise in snacking and demand for convenience playing into the hands of fast food operators, which by the very nature of their operations meet the needs of consumers living faster-paced lifestyles.

The homogenization of European culture and internationalization of cuisine generally has also impacted consumer catering, as operators with the necessary flexibility to adapt to meet these demands achieve notable success.

The 12% increase in outlet numbers in Canada over the period 1993-1997 reflects one aspect of the defensive strategies employed by consumer catering operators to ensure economic survival (refer to Table 48). In addition to menu diversification and co-branding, Canadian operators have chosen to expand the number of sites.

While traditional sectors have contracted as markets have consolidated, there have been pockets of growth. The Mediterranean restaurants have emerged as a popular consumer restaurant concept, as consumers are treated to

a dining out experience, which extends far beyond a simple meal offer. The maintenance of high standards of quality and service, allied in some cases to value-for-money price points, have made such outlets popular eating places for families and business people.

Meanwhile, sales growth rates in the eight key markets varied considerably over the period 1993-1997, with nominal value growth registered in all the markets with the notable exception of Germany (refer to Table 49).

Table 49. Restaurant Sales in Major World Markets

Country	1993	1997	Growth Rate (%)
France	154,965	157,807	1.8
Italy	74,647	79,528	6.5
UK	23,579	27,663	17.3
US	210,000	251,900	20.0
Germany	71,492	68,814	-3.7
Spain	6,415	7,981	24.4
Japan	24,599	25,285	2.8
Canada	22,609	27,919	23.5

Source: Euromonitor Market Direction

Spain recorded the strongest value performance in nominal terms where restaurant sales increased by 24.4% over the five-year period. This growth translates into real value growth of some 7% for the same period and reflects the growing acceptance of the fast food concept, albeit with an Iberian slant. Tourism, both domestic and incoming, the popularity of meal vouchers and expansion of theme restaurants and bars targeting high-spending groups of consumers generally have buoyed the market. Competition and the rise of fast food catering have, however, undermined value growth as consumers come to expect lower price points.

The Canadian market recorded the strongest real value growth, where nominal growth of 23.5% translated into healthy real value growth of 16.9% for the period 1993-1997. A relatively strong economy and improved consumer confidence have fuelled eating out trends. Furthermore, operators have attempted to encourage greater premium purchases, remaining mindful, however, of the aging of the population and changing consumer base.

Stronger economic growth underpinned the healthy performance of both the US and the UK markets, resulting in real value growth of 7.7% and 5.2% respectively for the five-year review period. The convenience of good quality food through quick service outlets has driven value sales in the US, while the introduction of multi-concept restaurant chains has limited operator risk by appealing to a number of different sectors.

In the UK, hectic lifestyles and the growth of tourism have boosted the frequency of eating out. The market has been further buoyed by the popularity of branded/theme outlets, particularly in the pubs sector.

Japan is the only remaining market to have registered real value growth over the review period, albeit a very modest 1%. In spite of ongoing economic difficulties there is a high incidence of eating out, but competition and lower spending confidence have forced operators to lower prices and accept tighter margins. The Japanese market has been further impacted by recent food health scares (most importantly the 0-157 bacillus), which have fundamentally changed the way consumers perceive consumer catering and the products offered.

Although both Italy and France registered nominal value growth over the period 1993-1997, this failed to translate into real value growth, resulting in declines of 7.6% and 7% respectively. The Italian market was particularly harshly hit by economic recession during the early part of the review period. Price has therefore become an important factor in the choice of catering outlet and the market as a whole has been unable to react swiftly to changing consumer demand. Traditional outlets have suffered especially, and the success of outlets offering innovative service at economical prices has failed to offset losses in the traditional restaurants sector.

French market value has been undermined by a series of negative influences, namely recession in 1993, terrorist attacks in 1995 and BSE scares in 1996. Business activity and tourism suffered as a consequence, although a recovery in 1997 was evident with a rise in the number of foreign visitors. Current lifestyles demand rapid service with high quality products and reasonable prices, factors which have further constrained price development.

The weakest performer of the major markets has been Germany, as the restaurant market has suffered value decline in both nominal and real terms. Average meal prices have declined as the influence of fast food and self-service has grown. The market reached its nadir in 1996 and appeared to have turned a corner in 1997, as operators proved more adept at dealing with and responding to the recession. As a result, outlet numbers are rising and consumers are being presented with a wider range of low/mid-price menus.

6.0. Supply Capability

6.1. Services Offered

Generally, hotels offer two major types of services: (a) accommodation and (b) dining services. Based on the quality and extent of services provided, location, bedroom, front office/reception, food and beverage, general facilities (service and staff), and special facilities (i.e., business center, limousine services

and airport transfers), hotels are further classified as Deluxe, First Class, Standard, and Economy. Hotel guests can expect a room with private bath, telephone, radio, and television, in addition to such customer services such as laundry, valet, cleaning and pressing. Aside from the services mentioned, hotels have other facilities: function rooms, ballrooms, health spas, coffee shops, dining rooms, cocktail lounges or night clubs, gift shops or newsstand-tobacco counters, and business centers for social occasions, health buffs, and business conferences.

The restaurant industry, on the other hand, covers fine dining specialty restaurants, fast food outlets, canteens, and food courts. Fine dining and specialty restaurants offer a wide variety of international cuisines. The restaurant originated in France dating back to 1765 when one A. Boulanger, a soup vendor, opened an establishment advertising restoratives, or restaurants, referring to the soups and broths available within. The institution took its name from the advertisement, and “restaurant” now denotes a public eating place in English, French, Dutch, Danish, Norwegian, Romanian, and many other languages, with some variations. In the Philippines, a new trend in the restaurant industry is rapidly gaining popularity, that is, “eat-all-you-can buffets”, which are offered at reasonable prices. A number of restaurants offer "buffets with no leftovers" at 50% off normal buffet prices.

The cafeteria, an American contribution to the restaurant’s development originated in San Francisco during the 1849 gold rush. Featuring self-service, it offers a wide variety of foods displayed on counters. The customer makes his selections, paying for each item as he chooses it or paying for the entire meal at the end of the line. Other types of quick-eating places originating in the United States are the drugstore counter, serving sandwiches or other snacks; the lunch counter, where the diner is served a limited quick-order menu at the counter; and the “drive-through” or drive-up restaurant where patrons are served in their automobiles. So-called fast food restaurants, usually operated in chains or as franchises and heavily advertised, offer limited menus - typically comprising of hamburgers, hot dogs, fried chicken, or pizza and their complements – likewise originated in the United States. Fast foods have the advantage of speed, convenience, and familiarity to diners who may eat in the restaurant or take their food home.

More than just as a place to eat, fast food consumers, however, may also avail themselves of party, such as birthdays and office celebration packages, and delivery services. Year-round party packages are offered by fast food chains, which generally include the venue, food, party games and give-a-ways. Delivery services, on the other hand, peak at lunchtime while night orders peak between the hours of 10 p.m. to 2 a.m.

6.2 Areas of Specialization

The industry as a whole does not have any particular expertise. Within the hotel sub-sector, however, players exert effort to develop niches in the market through product differentiation. The Westin Philippine Plaza, due to its proximity to the convention center and target marketing, has cornered a large share of local and international business conferences and cultural events. Hotels in the Makati area, Hotel Intercon, Shangri-la, and the Ayala Hotels, in particular, are strong contenders in the business executives market. Located in the premier commercial district of the capital, these hotels specialize in meeting the demands of business travelers. Hotel Inter-con, for example, capitalized on its ideal location and deliberately put in place amenities and facilities to suit the changing needs of the business traveler. Some of these eventually became the standard followed by other hotels here and abroad. Among these innovations are the GuestNet (enables all guests to access the Internet on their television screen through a wireless keyboard), Business Rooms (“mini offices” equipped with, among others, a large desk, a 5-in-1 copier/scanner/phone/fax/printer unit, and basic office amenities like pen and paper), and the cyberrelations officers (trained staff dedicated to helping guests with technical difficulties in operating their laptops or desktop computers).

In the restaurant sub-sector, market niching is likewise a practice. Top ten players in the restaurant sub-sector accounts for more than 70% of the total market. Max’s Inc., the undisputed industry leader cornering almost 50% of the market, specializes in affordable family-type affairs/occasions (i.e., baptisms, birthday parties, and weddings). Aristocrat chains, that competes in the same segment, is not too far behind at 20%. Relatively new entrants such as Friday’s and California Pizza Kitchen, taps into the young urban professionals market.

In the fast food sub-sector, Jollibee is the undisputed market leader in the hamburger segment with a 50%. The chain appeals to the lower- to middle-income brackets with its relatively low prices and a menu that has successfully captured the Filipino tastebuds. McDonald’s, with its relatively higher prices, is in second place with a 20% market share. The American fast food chain appeals to the AB crowd. Other hamburger fast food chains include Wendy’s, which appeals to the relatively health conscious consumers and the pioneer in fast food delivery services, Burger Machine, catering mostly to travelers with its mobile restaurants in numerous gas stations, and Tropical Hut, mostly open 24-hours. Relatively new players are Burger King and Carl’s Junior, which resurfaced in the late nineties after pulling out in the early part of the decade. Meanwhile, the industry leaders in the pizza segment are Pizza Hut, Shakey’s, Domino’s Pizza, and Little Caesar’s, the newest entrant to the pizza market. Leaders in the pizza segment cater to the young adult crowd, particularly Shakey’s pizza. In the chicken segment, Kentucky Fried Chicken is the undisputed market leader. Finally, only two establishments actively compete in the doughnut segment, Dunkin Donuts and Mister Donut. The former, Dunkin Donut leads with more

than a 90% share. Doughnuts in the Philippines are usually consumed between meals rather than during breakfast, which is the case in the United States.

6.3 Expertise/Technical Competence of Manpower

Competent Filipino hotel and restaurant workers and professionals are one of the strengths of the hotel and restaurant industry. Filipinos are among the best-educated and most trainable people in Asia. They are capable of performing even the most complicated task with world-class competence.

Filipino hotel employees are reputed to possess the following characteristics, which give local hotels an advantage over their regional competitors: they are resourceful, easy to train, and can speak English.

Native Filipino skills and talent are further complemented with the training offered by both the academe and the industry's in-house training programs. Hotel and restaurant management courses are offered in many colleges and universities in the Philippines, including the premier universities De La Salle University-College of St. Benilde (refer to Annex G for course description) and the University of the Philippines. More than the academic courses, the hotel and restaurant management courses curriculum in most colleges and universities include practicum wherein students undergo training a local or even foreign hotel establishment (i.e., the College of St. Benilde have their own hotel for student practicum and Perpetual Help College offer training in hotels in Singapore to their top graduates).

Once hired, hotel establishments conduct additional training. New hires undergo on-the-job training, in the form of apprenticeships, management training programs, and career development seminars. Thus, Filipino hotel and restaurant workers and professionals emerge as among the best in their fields. Indeed, it is not uncommon to find Filipinos (i.e., managers, chefs, waiters, receptionists, and bartenders) working in hotel establishments in the United States, the Middle East, and selected Asian countries.

Pirating is also a common source of competent hotel workers and professionals among hotel establishments. It is not uncommon for chefs, marketing managers, engineers, and accountants and auditors of a hotel or professional business outfit (i.e., accounting firm) to be offered an incentive (i.e., attractive compensation package) to change employers.

Finally, as most hotels in the country belong to international chains, thus, top management (i.e., general managers) is commonly composed of foreign nationals sent by the head office. Trained in international hotel operations, foreign managers bring their expertise to the local industry. Foreign expertise is

passed down to potential Filipino managers through an understudy program, a condition to foreign national employment.

7.0. Industry Training Needs

7.1. Quality and Quantity of Training

The Philippines felt the mini-construction boom of hotels and restaurant industries three decades back when Imelda Marcos and Tourism Minister Jose Aspiras launched a tourism campaign that saw the proliferation of deluxe and standard room hotels across town.

This hotel and restaurant management boom paved the way for different schools to give courses in Hotel and Restaurant Management. The first institution to offer training specifically for the hotel and restaurant industry is the Asian Institute of Tourism. Founded on February 26, 1976, the Asian Institute of Tourism is a pioneer in tourism education in the Philippines. Its mission is to upgrade the travel and tourism profession by providing high quality education and training to students who will be the industry's future managers, entrepreneurs and technical experts. The Institute performs the three basic functions of teaching, research and extension, fulfilling the following objectives:

1. to develop entrepreneurs, managers and qualified staff for the tourism industry,
2. to assist in the development, growth and professionalization of tourism,
3. to provide a realistic instructional and research laboratory for tourism operations and management, and
4. to provide a place for the conduct of professional and technical programs for the hospitality industry

Annex H provides a description of the courses and other services offered by the Asian Institute of Tourism.

AIT's lead was followed by other educational institutions. Examples of schools offering such formal education include De La Salle University (Dasmaringas and the College of St. Benilde), the University of the Philippines, and the International Hotel School, to name a few. Such courses involve basic aspects of hotel operations including the front office, food and beverage, house keeping, and room service, culinary skills, customer care, marketing, accounting, as well as European language skills.

Besides the formal training potential hotel and restaurant workers and professionals receive from the academe, hotel establishments conduct on-the-job training, apprenticeship, management training, and career development seminars (Annex I provides OJT program ratings of selected Hotel and Restaurant Management programs nationwide). A selected few are deployed to training

schools managed by the hotels themselves (i.e., Dusit). Technical Education Skills Development Authority (TESDA) also offers training and certification for certain hotel and restaurant industry entry-level positions.

Despite progress made in training hotel and restaurant workers and professionals, resulting in quality personnel, as a continuously evolving industry, a more intensive management training that combine theoretical as well as practical exposure to planning, organizing, staffing, communication, and coping in organizations. Moreover, training programs that strengthen technical skills particularly computer operations, especially with the increasing utilization of information technology in the industry (i.e., reservations, accounting systems, and point-of-sale-system for restaurants) would complement latest “software and hardware” employment.

Deregulation, globalization and radical shifts in leisure and tourism behavior on the demand side have driven the tourism industry towards information-oriented activities, as seen in the introduction of IT systems in a wide range of spheres in the tourism and leisure sector.

The increasing use of the internet for destination marketing, direct sales and bookings have given rise to electronic tourism markets and at present tourism is among the most important application domains in the World Wide Web. Annex L gives an overall picture of the so-called network economy and the tourism industry. Annex M, on the other hand, illustrates some of the more common technology services and enhancing management information and operation systems multinational hotel companies employ.

Indeed, the internet has brought about some very significant technological changes that enhance its capabilities and viability and its potential to drive electronic commerce. Besides introducing new and innovative business models in both the business-to-business and business-to-consumers markets, the Internet has shortened the value chain and put pressure on all players, especially intermediaries, by giving rise to the so-called “disintermediation” process, that is, the elimination of intermediary organizations such as travel agencies and global distribution systems (GDSs). These intermediary organizations are gradually being replaced by new emerging intermediaries. Annex N depicts the fundamental shifts in the electronic marketplace.

Thus, the challenge for tourism sector players, particularly the small- and medium- sized enterprises (SMEs), is to be able to compete for their market shares and take advantage of emerging opportunities and associated benefits to enhance their profitability and viability in the global marketplace. Annex O sets out the costs and benefits of developing and Internet presence for SMEs. Nonetheless, despite the benefits information technology, particularly electronic data interchange (EDI), can offer SMEs, empirical evidence suggests that SMEs perceive the technology as too complex and cumbersome and that the initial

investment is too high. The major obstacles to the introduction of EDI are summarized in Annex P.

8.0. Opportunities and Threats

8.1. Opportunities

Hotel

- **Social**

Despite the popularity of telephones, faxes, and e-mail, a face-to-face meeting is still the foundation of business relationships. Moreover, businesses generally prefer to hold seminars, workshops, conventions, and training sessions outside their respective companies. Thus, in the years ahead, as science and technology tighten their hold on business and society and the world knits itself ever more tightly into a single market, demand for hotel services is expected to increase.

Travel agents and meeting planners book nearly one out of two hotel rooms, and (the internet notwithstanding) these two groups are still the most frequent intermediaries between the guest and hotel company. They act as information brokers, passing information between guests and managers, process transactions by booking rooms and transferring money, and provide value-added service by integrating their customers' requirements for hotels with other travel needs (i.e., plane tickets and car rentals), while juggling each providers' offering options, constraints, rules and policies.

Thus, travel agents and meeting planners can and do influence a substantial number of bookings. Surprisingly, available data shows that many hotel operators fail to take full advantage of the opportunities presented by intermediaries. Too many hotel operators treat intermediaries as order takers, rather than as partners in pursuit of a common objective – the satisfaction of hotel guest. When hotels make an effort to capture intermediaries' business, the hotels develop for themselves a distinctive position with the intermediaries, and the intermediaries' loyalty appears to go up substantially.

Building the relationship with intermediaries begin with giving the intermediaries access to more precise information on the hotel's brand promises to ensure a correct and satisfactory transaction, as well as providing promotions and incentives and making timely commission payments.

- **Technology**

Large hotels in the country belong to international hotel chains, thus giving local operators access to technological innovations via their parent company.

Regular participation in local and overseas trade shows, (i.e., the National Restaurant Show held in McCormick Place, Chicago, the Northern American Association of Food Equipment Manufacturers, and the annual major hotel and restaurant shows held in the Asian region) provide hotel operators with opportunities to update themselves on the latest equipment and IT systems trend in the industry.

- **Political**

The main strength the hotel industry lies in the promotional boost it gets from the tourism programs of the government (i.e., the Centennial Celebration). The Philippine government actively lobbies for the opportunity to host international events. The Miss Universe Pageant and World Expo, for instance encourage tourists to tour the Philippine Islands.

Strong support of industry associations and trade unions (i.e., Hotel and Restaurant Association of the Philippines and the National Union of Workers in the Hotel Restaurant & Allied Industries) enable the hotel industry, among other things, to undertake programs and projects that upgrade and professionalize the sector and to influence government regulatory policies/laws/rules affecting the industry.

The Philippines is located in the center of Asia, home of the fastest-growing economies in the world. The archipelago lies southeast of Hong Kong, northeast of Singapore and almost directly north of Kota Kinabalu in Malaysia and Bali, Indonesia. Owing to its accessibility and strategic location, the Philippines is a natural mecca of commerce.

The deregulation of trade in goods and services is expected to enhance the country's natural advantage. Liberalization of trade in services addresses the issue on market access and national treatment. Commitments on the former aim to progressively eliminate restrictions to the entry of foreign services in a country's market while national treatment aim to promote fair treatment between foreign and domestic service providers. Both hope to reduce uncertainty in the conduct of trade in services. While free movement of capital and labor aim to allow foreign capital and professionals to enter the domestic market. At present, most countries have policies preventing foreign professionals from practicing their profession in the domestic market.

Liberalization is expected to benefit the tourism sector and, therefore, the hotel industry. In particular, deregulating the transport sector, and, thus, allowing new firms to enter the airline and shipping sector will significantly reduce transportation rates, encouraging more a lot of individuals to travel.

Likewise, the reduction of tariff rates on hotel equipment, currently at 10%, will allow more hoteliers to either replace or add to their current equipment. Making local establishment more attractive to both local and foreign patrons.

Moreover, with liberalization, improvements in technology developed in one country are shared automatically with other countries. They are shared directly when they are embodied in new capital equipment that would relatively be cheaper with the reduction/removal of tariff and non-tariff barriers. As with other industries, the hotel sub-sector would benefit from the availability of cheaper and more modern technology (i.e., hotel systems such as reservations, accounting, etc.).

Finally, liberalization will allow the free movement and employment of international hotel managers, chefs, cooks and other hotel-related professions in the country.

Restaurant

- **Social**

Moreover, the urban population to which restaurants cater is largely made up of young people who have higher disposable incomes and who are more likely to experiment with different cuisine.

Brand loyalty is particularly strong in the fast food sub-sector of the restaurant industry. Jollibee patrons, for example, generally stay loyal to the franchise regardless of price increases.

Demand for dining out is associated with both the ever-expanding options available, and also with the number one reason most consumers use restaurants: they provide a convenient, reasonably priced experience that offers better flavors and taste sensations than consumers can get at home. This has become particularly critical at a time when more and more women are entering the workforce and consequently have less time to prepare meals at home.

Moreover, the Philippine population is youth-oriented. Almost half of the estimated 75 million Filipinos are below 18. And since a large proportion of fast food consumers is between the ages of 16-24, the annual 2.3% population growth rate guarantees market growth for the sub-sector.

- **Technology**

International food chains and franchises facilitate transfer of technology in the local restaurant sub-sector. They provide training of potential employees and employ strict quality control systems.

In terms of availability of technology, the Philippine market is highly competitive with numerous products and brands offered at reasonable prices, and, therefore, allowing restaurant owners the luxury of choosing the type of technology that best suit their operations.

Equipment purchasing decisions depend on the type of end-user. For instance, local single-unit restaurants need inexpensive equipment, so price is the main guiding factor. On the other hand, fine dining restaurants are willing to pay a premium for high quality, durability, after-sales service, cost-effectiveness, reputable supplier and fast delivery.

Restaurant owners regularly participate in local and international equipment trade fairs, allowing them access to the latest hotel equipment technology.

- **Economic**

Restaurant patrons cross all economic groups. Fast foods and food courts cater to all income classes. Specialty fine dining restaurants, generally target the A, B, and C crowd.

The proliferation of one-stop shopping malls that offer various recreational facilities and amenities is also an important growth factor. The heavy pedestrian traffic that the malls attract means big business for the restaurant industry, particularly the fast food sub-sector. Moreover, these malls spare the restaurant industry from spending extensive business development studies for their outlets; mall magnates Henry Sy and John Gokongwei Jr. have established formidable track records in building malls.

Finally, Filipino communities abroad are strong basis for the export of local restaurants and fast food technology. The presence of Goldilocks, Jollibee, Max, Red Ribbon, and Barrio Fiesta, among others, in the US, for example, is a result of demand from Filipino migrants longing for a taste for home.

- **Political**

Strong support of industry associations and trade unions (i.e., Hotel and Restaurant Association of the Philippines and the NWHUAI) enable the hotel industry, among other things, to undertake programs and projects that upgrade and professionalize the sector and to influence government regulatory policies/laws/rules affecting the industry.

8.2. Threats

Hotel

- **Social**

The patronage of domestic tourists ensures the survival and profitability of most businesses that are dependent upon tourism primarily because domestic tourists outnumber foreign visitors. In the Philippines, 80% of all tourists are domestic travelers; their total spending, tourists who are at least 18 years old, amounts to about PHP57 billion. Nonetheless, very few hotel operators are able to tap into this market for most domestic travelers depend on family and friends to arrange trips and provide lodging.

- **Technology**

Hoteliers indicate several problems that need to be addressed by current local sources of hotel equipment. One is after-sales-service and availability of spare parts. Some distributors, in many instances, are unreliable and do not have an adequate supply of critical spare parts, especially for laundry equipment. When the equipment breaks down, distributors cannot provide repair service to the customer. This requires hotels to outsource laundry services. The phase-out of old models of machinery because of absence of spare parts support presents another serious problem to hotels.

Likewise, difficult economic situations raise financing costs to prohibitive levels for many hotel operators. To reduce exposure, banks also restrict financing to their very best clients, thereby limiting technological improvements to selected hoteliers.

- **Economic**

Economic and political factors contribute to the lackluster performance of the tourism industry in the past two years. Declining disposable income resulting from the Asian currency crisis and political instability resulted in a 3% contraction in tourist arrivals in 1998 and a 1% increase in 1999.

Pressure on hotel prices comes from the drive for value for money. Increased operating efficiency obtained through the computerization has helped to reduce costly waste in the supply chain. However, higher labor, raw materials, and utility costs continue to push operating costs up.

New hotel projects which, are actively being pursued are the Wingate Inns and Aston chain, among others, will add to the already overcrowded market.

Wingate's franchisor will build one inn every year until 2003. Investment per property is estimated at US\$4.5 million. While Aston International's thrust will be in developing resort-type hotels outside Metro Manila.

Finally, liberalization would open the market to more foreign hotel and restaurant professionals (i.e., managers, chefs, etc.), thus, posing a real threat to local talent.

- **Political**

Political instability discourages investors and tourists, the lifeblood of the hotel industry. Uprisings in the provinces, kidnappings, and the current scandal involving the president have reduced tourism considerably and resulted in a little bit over 50% hotel occupancy rate.

Delay of the implementation of the "open skies policy" signed into law by President Fidel Ramos (EO 219). The open skies policy seeks to liberalize the airline industry by allowing more foreign airlines access to local routes, which, in turn, bring more tourists into the country.

Restaurant

- **Social**

Although local entrepreneurs own most fine dining restaurants, an overwhelming number of fast food outlets are American franchises. These outlets, therefore, pose serious competition for local franchises. Particularly since tastes and preferences of consumers tend to favor international, especially, fast foods and restaurants.

- **Technology**

A primary limitation of the industry is that the restaurant business involves perishable goods which have to be disposed of at the earliest possible time. Inventory management is key to balancing raw material demand and supply.

In terms of equipment, restaurant owners indicate several problems that need to be addressed by current local sources of hotel equipment. One is after-sales-service and availability of spare parts.

- **Economic**

Restaurant patronage/sales are dependent on the levels of economic activity and real income of local residents and tourists. Periods of high inflation reduce the household income as well as the budget for “eating out”.

Continuing high rate of new entries into the crowded marketplace results in increased competition in all restaurant sub-sectors. Major players have sought to increase market share by a variety of strategies. In the fast food sector, many operators have offered substantial discounts, particularly in the burgers/chicken sub-sector, led by Jollibee. In the full-service restaurant sub-sector, the introduction of multi-concept restaurants, improved food quality, quicker service and targeted advertising have been used to make gains in the market. These strategies allow industry participants to maintain, if not increase, market share but at the expense of thinning margins.

The rising costs of imported food ingredients, notwithstanding the current currency crisis, result in increasing production costs. Profit margin erosion can be remedied by either increasing prices of final product/service or cut corners in production or the delivery of service. Either solution may result in a shrinking customer base.

Finally, liberalization will open the door to new international franchises, which can threaten the viability of local ones. Unrestrained transfer of technology can impede the development of local entrepreneurial talent.

- **Political**

Political instability, resulting in economic slowdown, reduces real income as well as the demand for restaurant services.

9.0. Action Plan Enhancing Competitiveness

9.1. Recommendations

The following recommendations are presented in the context of the country’s commitment to enhance the competitiveness of the hotel and restaurant industry. The intent is to enable the sector to compete more effectively in the local and domestic markets and to enhance the marketability of the country’s hotel and restaurant industry’s manpower in the international market. The determinants of a subsector’s competitiveness would depend on: 1) the level of expertise/competence of local professionals/businesses, 2) the degree of openness of foreign markets and their demand for local expertise, and 3) the

degree of openness of the local regulatory framework (i.e. absence or presence of reciprocity provisions).

A. Sustainable Tourism Development

1. Equally develop domestic tourism. Balance destination development and promotion between international and domestic tourism. Regularly monitor and measure domestic tourism performance.
2. Drafting, implementation and monitoring of programs for the industry following guidelines adopted at the international, national, regional, and local levels, after consultations with all parties concerned, including the unions representing workers in the industry. Such programs should incorporate the following principles:
 - Natural sites should be protected and strict provisions added to prevent pollution and to control the use of energy and natural resources;
 - Existing cultural practices in such areas which are helpful to safeguarding the sites should be upheld;
 - Eco-tourism should be promoted.
2. Extension of subsidies and loans for the development of tourist facilities.
3. Identify only three or four destinations for international tourism instead of adopting a diversified tourist promotion approach in order to maximize limited tourism development resources.

B. Legal/regulatory environment

1. Implement progressive liberalization in the airline industry and conclude more bilateral and multilateral agreements to expand its coverage.
2. Study possible legislation that would make liberal exemptions to the Constitutional provision on the practice of foreign professionals in the country.
3. Review bilateral agreements on reciprocal recognition of professionals that may have inconsistencies with the general obligations of GATS.
4. Adopt the recommendations of the review of the labor market test of the Philippines.
5. Pursue ongoing negotiations for mutual recognition agreements with selected countries in the field of accountancy, and use it as a model for negotiations in other professions. In the process of negotiating MRAs, the goals and nature of the MRA should be clearly explained to all parties concerned. Moreover, representatives of accredited professional/industrial

organizations should be directly involved in the negotiations since they are most knowledgeable about their respective professions and industries.

6. In the process of negotiations for a Mutual Recognition Agreement, (1) clearly explain the goals and nature of the MRA to all concerned parties, (2) pursue bilateral arrangements since they are more feasible compared to multilateral negotiations, and (3) solicit the inputs of, and actively involve, accredited professional/ industrial organizations in the negotiations.
7. Consolidate the proposals of all business services sectors, and provide for a general framework of action towards a Philippine position in the GATS services negotiations.

C. System of Incentives

1. Grant system of incentives for renovation
2. Grant tax exemptions to companies that provide training for their employees. This will promote the concept of human resource development as a strategic option in enhancing organizational competitiveness.
3. Allow tax-free and duty-free importation of needed equipment, and tax credits on locally purchased equipment, for capital-intensive business service industries such as rental / leasing of transport equipment, rental / leasing of other equipment, printing and publishing, photographic services, technical testing and analysis, computer related services.
4. Grant income tax holidays to upstart firms.

D. Human Resource Development

1. Align college curricula with the needs of the industry.
2. Formulate a unifying framework for human resources development that will enable government to determine priority areas in the implementation of training programs to enhance the professional and technical skills of Filipino workers. This unifying framework should provide a better perspective in dealing with issues on globalization, technological developments, and the quality of education as they affect the level of competitiveness of the country's labor force.

The Canadian Framework, for example, identifies nine key policy requirements for a successful travel and tourism HRD strategy:

- a. Industry/Employer Commitment through adequate investment in HRD programs, participation in training strategies, support in student work placements, and serving industry/education advisory committees.

- b. Government commitment, particularly in facilitating the coordination efforts between education agencies and the industry in developing an internationally competitive workforce.
 - c. Incentives in the form of career advancement, improved salary and benefits, and employer contributions.
 - d. Coordinating Agency, creation of a tourism education council that play a coordinating role for the national and regional development of travel and tourism HRD.
 - e. Education and Training Standards promote greater work satisfaction, improved chances for advancement, mobility throughout the industry, increased proficiency for a given occupation, and greater job security.
 - f. Theoretical and Applied Learning, successful tourism economies build partnerships with their university and college systems to provide both applied and theoretical learning opportunities for their workforce.
 - g. Access and Flexibility, credit transferability must be established between high school, certificate, diploma and degrees, thus providing accessibility to youth, minorities, women and working adults.
 - h. Partnerships, industry, government and educator involvement on HRD planning needs to be sustainable and not fragmented. Industry can contribute to HRD planning by identifying issues and priorities, and by supporting research into HRD issues, education and training policy for tourism, and labor market trends for tourism.
 - i. Effective and coordinated marketing and communication strategies by government and industry leaders are needed to advance the understanding of the value of HRD, both in terms of the potential career seeker as well as the industry itself.
3. Strengthen the capability of educational institutions to satisfy industry's need for professionals, particularly in areas where there is a lack of supply.
4. Strengthen the basic education system to enable elementary & secondary schools to equip students the basic skills, primarily the 4Rs (reading, writing, arithmetic, and right conduct). This also includes a strong foundation in the use of English.
5. Conduct a closer study on the human resources development efforts of local firms to pinpoint specific areas of deficiencies.
6. Promote continuing education to enhance the skills of professionals and technical workers to make them more competitive abroad and less vulnerable to displacement by foreigners who enter the local market.
7. Encourage the training and certification (i.e., from the Technical Education and Skills Development Agency) of basic entry-level positions in the hotel and restaurant industry.

E. Network and Linkages

1. Develop and strengthen linkage among industry players. This will assure industry players a stronger voice when dealing with government regarding the formulation of national policies concerning their respective industries. This will also open up opportunities in terms of pooling of resources, exchange of information, and the conduct of training for members. Industry associations should also take an active role in the process of negotiating mutual recognition agreements (MRAs) because they are the one who are most familiar with their members' needs, capabilities, and preparedness to face liberalization.
2. Develop and strengthen linkage between industry and academe. This could be done through on-the-job training (OJT) or apprenticeship agreements that would enhance the skills of college students through hands-on training and exposure to the actual workplace. The parties could also come up with consultancy arrangements that would enable firms to benefit from the research capabilities of the faculty of schools, and that would enable academe to tap the expertise of professionals in their academic programs. Finally, industry and academe could institutionalize systems for the continuing education of company personnel either through graduate studies or through in-house training / customized programs that could be provided by schools to the firms.
3. Develop linkages between industry and intermediate industries (i.e., booking and travel agents). Travel agents and meeting planners can and do influence a substantial number of bookings. Building these relationship with intermediaries begin with giving the them access to more precise information on the hotel's brand promises to ensure a correct and satisfactory transaction, as well as providing promotions and incentives and making timely commission payments.
4. Develop and strengthen linkage between industry and government. The industry associations should work closely with government agencies in the following areas: (1) negotiation of MRAs with other countries, (2) review of licensing and regulatory requirements to make them more attuned to present-day requirements, (3) provision and exchange of information regarding both the local and foreign markets, (4) formulation of a national policy for certain industries, (5) provision of continuing education, (6) marketing efforts abroad, and (7) promotion among their members of various financing sources offered by government, among others. A model that could be closely examined concerning government and industry coordination is the Packaging Center of the Philippines, one of the flagship projects of the Department of Science and Technology (DOST). It has an Advisory Committee tasked to provide direction and recommendations on

its overall program strategy, taking into consideration the inputs of various sectors who have a stake in the packaging industry. This Committee is composed of representatives from the Department of Science and Technology (DOST), Industrial Technology Development Institute (ITDI), Packaging Institute of the Philippines (PIP), PhilExport, NEDA, CHED, and DTI.

5. Develop and strengthen linkage between industry and international associations. Local industry associations should affiliate with international associations, and strengthen their relationships with their counterpart associations in other countries. This will open up opportunities for possible joint venture partnerships and exchange of technology. This might also facilitate discussions regarding the possibility of negotiating mutual recognition agreements.

D. Joint Ventures/Alliances/Mergers

1. Encourage more local firms and foreign firms to form joint venture partnerships and to explore mutually beneficial arrangements, using the Philippines as base of operations. While local firms will benefit in terms of additional capital investments and the transfer of technology into the country, foreign firms will also derive gains in terms of getting a foothold in the domestic market, and in terms of utilizing their local counterparts' strong understanding of the local business conditions.
2. Encourage the smaller local players to consider the possibility of merging with each other to enable them to build up their capital base and to attain economies of scale needed to compete effectively in a more competitive environment.

E. Financing

1. Encourage banks to create special financing schemes to help small- and medium- scale hotel and restaurant firms gain access to more capital needed for investment in advanced technology, and to help them bridge working capital requirements.
2. Encourage banks (e.g. Development Bank of the Philippines) and other financing institutions to provide funds for training and development of local manpower, particularly for small- and medium-scale firms.
3. Provide direct government assistance to professional associations
4. Encourage local business services players to avail of the benefits of the "Productivity Incentive Act"
5. Simplify requirements for availing of loans to encourage firms, particularly the smaller players, to take advantage of financing schemes.

6. Encourage local investors, particularly in closely-linked industries, to pool venture capital funds.
7. Encourage foreign investors to establish commercial presence in certain areas that need expertise and advanced technology (e.g. R&D services)

F. IT Applications

- Adopt and promote the use of information technology in the following areas:
 - On-screen information and promotional guide listing the hotel's outlets and services through the in-room television. Hotel guests may then view their folios, receive messages, book reservations at hotel restaurants, participate in guest satisfaction surveys, and conduct express checkouts;
 - Hotel and restaurant marketing, advertising and promotion via the internet;
 - Accessing market trends (i.e., tourism, culinary, business services, etc.) on the web;
 - Conduct of training (i.e., computer-based training); and
 - Waste management

9.2 Performance Monitoring Scheme

Depending on the perspective, monitoring the hotel and restaurant industry's performance can be done by several institutions. Designated government agencies, for example, set policies and guidelines pertaining to customer physical safety and satisfaction (i.e., in terms of accommodations and health and sanitary standards). They also guard against fraud and, ideally, promote truth in advertising and transparency in product information (i.e., the Department of Trade and Industry approves all types of marketing schemes pertaining to promotions such as raffles, price discounts, etc.). Moreover, public institutions also monitor entry and exit of players in the industry and specific performance indicators (i.e., measured occupancy rates, financial highlights, deployment of workers and professionals, etc.).

Meanwhile, industry associations, the Hotel and Restaurant Association of the Philippines in particular, take on the role of undertaking programs and projects that will upgrade and professionalize the industry, promoting unity and mutual cooperation among industry members, encouraging and fostering high ethical standards, and representing the sector's interest matters of government regulatory policies/laws/rules affecting the industry.

Finally, trade unions safeguard the rights and welfare of industry workers and professionals. They work closely with government and industry participants

in improving working conditions and employee performance (i.e., recommending additional training and or certification) and in defending employee rights.

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**AMENDING PART IX OF THE INTEGRATED REORGANIZATION PLAN BY
RENAMING THE DEPARTMENT OF TRADE AND TOURISM AS THE
DEPARTMENT OF TOURISM, AND CREATING THE DEPARTMENT OF
TOURISM WITH A PHILIPPINE TOURIST AUTHORITY ATTACHED TO IT IN
LIEU OF PHILIPPINE TOURIST COMMISSION**

WHEREAS, there is need to realign government efforts towards trade promotion and tourism development for greater effectiveness;

WHEREAS, the tourist industry will represent an untapped resource base toward an accelerated socio-economic development of the Philippines;

WHEREAS, the tourism program is subjected to various administrative and organizational problems; and

WHEREAS, tourism properly deserves the Government's immediate and priority attention.

NOW, THEREFORE, I, FERDINAND E. MARCOS, President 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, and in order to effect desired changes and reforms in the social, economic, and political structures of our society do hereby adopt, approve, and make as part of the law of the land the amendment to the provisions of Part IX of the Integrated Reorganization Plan by renaming the Department of Trade and Tourism as the Department of Trade and creating the Department of Tourism with a Philippine Tourist Authority attached to it in lieu of the Philippine Tourist Commission.

SECTION 1. Declaration of Policy. — It is hereby declared to be the policy of the Government to make the tourist industry a positive instrument towards accelerated national development; through which more people from other lands may visit and better appreciate the Philippines and through which the Filipinos themselves may learn more about the natural beauty, history and culture of their country and thus develop greater pride in and commitment to the nation.

SECTION 2. Creation of a Department of Tourism. — There is hereby created a Department of Tourism, hereinafter referred to as the Department, which shall be the primary policy, planning, programming, coordinating and administrative entity of the executive branch of government in the development of the tourist industry, both domestic and international.

SECTION 3. Authority and Responsibility. — The authority and responsibility for the exercise of the powers and the discharge of the functions of the

Department shall be vested in the Secretary of Tourism, hereinafter referred to as the Secretary. The Secretary shall be assisted by one Undersecretary.

SECTION 4. Functions. — The Department shall be responsible for the following functions:

- a. Supervise all activities of the government which concern tourism;**
- b. Effect the removal of unnecessary barriers to travel; the integration and simplification of travel regulations; as well as their efficient, fair and courteous enforcement to assure expeditious and hospitable reception of all visitors;**
- c. Formulate an integrated program of promotion and publicity designed to attract and induce people abroad to visit the Philippines, and patronize things Philippine, and to enhance the prestige of the Filipino people and the Republic;**
- d. Review all tourism which may involve loans from government financial institutions before said institutions may take action on them, and approve all tourism projects and firms applying for tax incentives under the Export Incentives Act, as amended by Presidential Decree No. 92, before the Board of Investments may take action on them;**
- e. Represent the Government in all such conferences and meetings concerning tourism and travel and discharge such responsibilities of Government as may arise from treaties, agreements and other commitments on tourism and travel, to which it is a signatory;**
- f. License, regulate and supervise travel agents, tour operators, and tour guides;**
- g. Classify, regulate, supervise and license hotels, resorts, inns, motels, hotels, restaurants and other related facilities and services which cater to foreign and domestic tourist and in addition, formulate suitable standards to ensure that the highest possible standards are met, reasonable fees and charges are made and that services are given with honesty, courtesy, and efficiency; and**
- h. Perform such other functions as may be provided by law.**

SECTION 5. The Department shall have an Administrative Service, a Planning Service, and a Financial and Management Service in conformity with Part II of the Integrated Reorganization Plan.

SECTION 6. The Department shall have such number of field offices here and abroad as may be necessary for the effective promotion of the tourist industry.

SECTION 7. Bureau of Tourist Promotion. — There is created a Bureau of Tourist Promotion which shall, among others, be responsible for organizing and supporting a program of public relations, promotion and publicity calculated to interest, attract and encourage overseas travelers to visit the Philippines, including the publication and dissemination of pamphlets, brochures and other literature and publicity materials and the production and distribution of audio-visual materials, participation in travel fairs and other sales and promotion arts.

It shall have the following divisions with corresponding duties and responsibilities, among others:

a. Press and Publication Division

- 1. Publish, produce and disseminate publicity materials as may have bearing on tourist attractions in the country, and the history of the Philippines, its progress, its natural resources and the culture and art of its people;***
- 2. Encourage educational and cultural tours to increase travel within the country as a means of developing domestic tourism; and***
- 3. Participate in fairs and exhibits to promote local goods and products and provide a medium for the dissemination of information about the Philippines as a tourist spot.***

b. Research and Statistics Division

- 1. Compile, analyze and integrate statistical data on Tourist Industry;***
- 1. Develop, forecast and prepare economic reports and review based on conductive research; and***
- 2. Undertake continuing analysis of economic conditions and trends relating to the sectoral area concerned.***

c. Training and Evaluation Division

1. ***Conduct training courses and apprenticeship programs for tourist guides, hotel and restaurant personnel and such other personnel who perform functions that have a bearing upon the tourist industry; and***
2. ***Organize and conduct promotional training seminars.***

SECTION 8. Bureau of Special Services. — There is hereby created a Bureau of Special Services which shall have the following divisions with corresponding duties and responsibilities, among others:

a. Tourist Reception Division

1. ***Coordinate with all other agencies concerned, whether government, or private, on procedures to assure hospitable reception of tourist during their visit to the country, including the establishment of efficiently-run information centers at strategic locations; and***
2. ***Maintain a security force, where necessary, to provide security and assistance to tourists and travelers and to extend investigative services to tourists who may require such assistance.***

b. Licensing and Inspection Division

1. ***Prepare and maintain for ready reference a register of all business and establishments that offer transportation, accommodation or service of any kind to tourists;***
2. ***Regulate and license the business of travel agencies; tour operators, and tour guides;***
3. ***Classify, regulate and license hotels, resorts, restaurants, inns, motels, and hostels in accordance with set standards and guidelines; and***
4. ***Exercise supervision over the operation of all facilities and services that cater to, or have anything to do with travelers.***

SECTION 9. Creation of Philippine Tourism Authority. — To implement the policies and programs of the Department, there is hereby created a Philippine Tourism Authority, hereinafter referred to as the Authority, which shall be attached to the Department. The functions of the Authority are hereby declared to be governmental.

SECTION 10. Purposes and Specific Powers. — The purposes and specific powers of the Authority are as follows:

- a. Implement all policies and programs of the Department on project development;*
- b. Collect such taxes as may be provided by law;*
- c. Operate and/or contract to operate such agencies, functional units, offices and departments of the Authority as it may deem necessary or useful for the furtherance of any of the purposes of this Decree;*
- d. Extend assistance whenever necessary, to private enterprise in undertaking tourist projects;*
- e. Undertake the development of tourist attraction including the conduct of feasibility studies and where necessary, recommend agreements for tourist plant and facilities development with private entities;*
- f. Provide and maintain essential facilities for tourists and travelers where private enterprise is not prepared to take care of them; and*
- g. Adopt, alter and use a corporate seal which shall be judicially noticed; make contracts, lease, own or otherwise dispose of personal and real property; sue and be sued; and otherwise do and perform any and all things that may be necessary or proper to carry out the purposes of the Authority.*

SECTION 11. Capitalization. — The capital of the Authority shall consist of (1) existing assets transferred to it from the Board of Travel and Tourist Industry and the Philippine Tourist and Travel Association as hereinafter provided and such other properties as may be contributed to the Authority by the government to form part of its capital and (2) the taxes under Republic Act No. 1478 and Republic Act No. 6141. All hotel room taxes that will be collected under the provisions of existing laws are likewise assigned to the Authority to form part of its capital.

SECTION 12. Power to Issue Bonds or Incur Indebtedness. — Whenever the Board may deem it advisable and necessary for the Authority to contract loans, credits and other indebtedness, or to issue bonds, notes, debentures, securities,

and other instruments of indebtedness for the development and/or operation of the tourist industry, it shall by resolution so manifest and declare stating the purpose for which the indebtedness is to be applied and citing the project study devised for the purpose. In order for such resolution to be valid, it shall be passed by the affirmative vote of at least four members of the Board and approved by the President of the Philippines upon the recommendation of the Secretary of Finance, after consultation with the National Economic and Development Authority and the Monetary Board of the Central Bank.

SECTION 13. The Authority shall be administered by a General Manager who shall be appointed by the President from among persons of proven executive competence and experience in the field of tourist development.

SECTION 14. Board of Directors. — The corporate powers of the Authority shall be vested in and exercised by a Board of Directors composed of the Secretary of Tourism as Chairman, the General Manager as Vice Chairman and three part-time members who shall be appointed by the President for their expertise.

SECTION 15. Tenure of Office. — The tenure of office of the members shall be six years: Provided, That in the first appointments, the term of office of the three members appointed by the President shall be fixed as follows: one member for six years, one member for four years, and the third member for two years: Provided, finally, That no vacancy shall be filled except for the unexpired portion of the term.

SECTION 16. Meetings and Quorum. — The Board shall meet regularly once a month and as often as the exigencies of the service demand. The presence of at least three members shall constitute a quorum, and the vote of three members shall be necessary for the adoption of any rule, resolution or decision or any other act of the Board.

SECTION 17. Compensation of Chairman and Members of the Board. — The members of the Board shall receive such per diems and allowances as may be fixed by the President.

SECTION 18. Powers and Duties of the Board. — The Board shall have the following powers and duties:

- a. To promulgate policies and to prescribe such rules and regulations as may be necessary to implement the intent and provisions of this Decree, which rules and regulations shall take effect thirty (30) days following their publication in two (2) newspapers of general circulation in the Philippines;***

- b. To approve the annual budget and such implemental budgets which may be submitted to it by the Chairman;***
- c. Upon the recommendation of the General Manager, to organize, reorganize, and determine the Authority's staffing pattern; to fix their salaries and to define their powers and duties;***
- d. Notwithstanding the provisions of law, rules and regulations to the contrary, to enter by itself into any contract or agreement as may be necessary for the proper, efficient and stable administration of the Authority and for the attainment of the purposes and objectives of this Decree;***
- e. To render annual reports to the President and such special reports as may be requested; and***
- f. Generally, to exercise all the powers necessary or incidental to attain the purposes of this Decree.***

SECTION 19. General Manager: Powers and Duties. — The General Manager shall have the following powers and duties:

- a. To direct and manage the affairs of the Authority in accordance with policies of the Board;
- b. To prepare the agenda for the meeting of the Board and submit for its consideration and approval the policies and measures which he deems necessary and proper to carry out the provisions of this Decree;
- c. To submit within thirty (30) days after the close of each fiscal year an annual report to the Board and such other reports as may be required;
- d. To submit an annual budget and necessary supplemental budgets to the Board for its approval;
- e. To establish the internal organization of the Authority under such conditions that the Board may prescribe; Provided, That any major reorganization shall be subject to the approval of the Board; and

- f. To perform such other duties as may be assigned to him by the Board.

SECTION 20. *The Secretary of Tourism may establish a Tourism Advisory Council, which may be composed of representatives of the following trade organizations; (1) hotels, (2) restaurants, (3) air carriers, (4) travel agencies, (5) cottage industry producers and/or distributors, (6) sea carriers, (7) land transportation operators, and (8) bankers association who shall be entitled to such per diems and allowances as may be authorized: Provided, That the Secretary may designate representatives from other trade organizations as may be necessary. The members of this Council shall be exempt from conflict-of-interest provisions of the Anti-Graft and Corrupt Practices Act.*

SECTION 21. Applicability of the Civil Service Law. — All officials and employees of the Authority, except technical and professional personnel, shall be subject to Civil Service Law, rules and regulations and the coverage of the Wage and Position Classification Office.

SECTION 22. Appointment by the Board. — Employees of the Authority shall be appointed by the Board, upon the recommendation of the General Manager, to positions in the approved budget using as guide the standards set forth in the Civil Service Law and rules.

SECTION 23. Transitory Provisions. — The properties, monies, assets, rights, choices in action, obligations, liabilities, records, and contracts of the defunct Board of Travel and Tourist Industry shall continue to be vested in and assumed by the Authority, as a government corporation, pursuant to this Decree.

The Board of Directors shall determine what personnel of the Board of Travel and Tourist Industry shall be absorbed by the Authority.

SECTION 24. Rescission of the Charter of the Philippine Tourist and Travel Association. — The Charter of the Philippine Tourist and Travel Association as granted under Republic Act No. 710 is hereby rescinded, without prejudice to its continuing as a duly registered private corporation. Any assets derived from the government subsidy under the aforementioned charter shall be transferred to the Authority.

SECTION 25. *The staffing requirements of the Department shall be provided for in the General Appropriation Act.*

SECTION 26. *The Civil Aeronautics Board is reconstituted and attached to the Department. It shall be composed of the Secretary of Tourism as Chairman, the Civil Aeronautics Administrator, the Commander Officer of the Philippine Air Force, the Assistant Director for Air Transportation of the*

Bureau of Transportation and two other members appointed by the President of the Philippines.

SECTION 27. The Hundred Islands Conservation and Development Authority, the San Juanico Tourist Development Authority, the Looc Estate and such other entities as may be organized to promote tourism are hereby attached to the Department.

SECTION 28. The Department of Trade shall perform all the functions, except those on tourism, of the Department of Trade and Tourism pursuant to the applicable provisions of the Integrated Reorganization Plan.

SECTION 29. Repeal. — Presidential Decree No. 132, dated February 19, 1973 and any all acts, statutes, decrees, rules, repealed or modified accordingly.

SECTION 30. Effectivity. — This Decree shall take effect immediately.

Done in the City of Manila, this 11th day of May, in the year of Our Lord, nineteen hundred and seventy-three.

Appendix B

Amending Part IX of The Integrated Reorganization Plan By Renaming the Department of Trade and Tourism as The Department of Tourism, and Creating the Department of Tourism With a Philippine Tourist Authority Attached to It In Lieu of Philippine Tourist Commission

WHEREAS, there is need to realign government efforts towards trade promotion and tourism development for greater effectiveness;

WHEREAS, the tourist industry will represent an untapped resource base toward an accelerated socio-economic development of the Philippines;

WHEREAS, the tourism program is subjected to various administrative and organizational problems; and

WHEREAS, tourism properly deserves the Government's immediate and priority attention.

NOW, THEREFORE, I, FERDINAND E. MARCOS, President 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, and in order to effect desired changes and reforms in the social, economic, and political structures of our society do hereby adopt, approve, and make as part of the law of the land the amendment to the provisions of Part IX of the Integrated Reorganization Plan by renaming the Department of Trade and Tourism as the Department of Trade and creating the Department of Tourism with a Philippine Tourist Authority attached to it in lieu of the Philippine Tourist Commission.

SECTION 1. Declaration of Policy. — It is hereby declared to be the policy of the Government to make the tourist industry a positive instrument towards accelerated national development; through which more people from other lands may visit and better appreciate the Philippines and through which the Filipinos themselves may learn more about the natural beauty, history and culture of their country and thus develop greater pride in and commitment to the nation.

SECTION 2. Creation of a Department of Tourism. — There is hereby created a Department of Tourism, hereinafter referred to as the Department, which shall be the primary policy, planning, programming, coordinating and administrative entity of the executive branch of government in the development of the tourist industry, both domestic and international.

SECTION 3. Authority and Responsibility. — The authority and responsibility for the exercise of the powers and the discharge of the functions of the Department shall be vested in the Secretary of Tourism, hereinafter referred to as the Secretary. The Secretary shall be assisted by one Undersecretary.

SECTION 4. Functions. — The Department shall be responsible for the following functions:

- i. Supervise all activities of the government which concern tourism;*
- j. Effect the removal of unnecessary barriers to travel; the integration and simplification of travel regulations; as well as their efficient, fair and courteous enforcement to assure expeditious and hospitable reception of all visitors;*
- k. Formulate an integrated program of promotion and publicity designed to attract and induce people abroad to visit the Philippines, and patronize things Philippine, and to enhance the prestige of the Filipino people and the Republic;*
- l. Review all tourism which may involve loans from government financial institutions before said institutions may take action on them, and approve all tourism projects and firms applying for tax incentives under the Export Incentives Act, as amended by Presidential Decree No. 92, before the Board of Investments may take action on them;*
- m. Represent the Government in all such conferences and meetings concerning tourism and travel and discharge such responsibilities of Government as may arise from treaties, agreements and other commitments on tourism and travel, to which it is a signatory;*
- n. License, regulate and supervise travel agents, tour operators, and tour guides;*
- o. Classify, regulate, supervise and license hotels, resorts, inns, motels, hotels, restaurants and other related facilities and services which cater to foreign and domestic tourist and in addition, formulate suitable standards to ensure that the highest possible standards are met, reasonable fees and charges are made and that services are given with honesty, courtesy, and efficiency; and*
- p. Perform such other functions as may be provided by law.*

SECTION 5. *The Department shall have an Administrative Service, a Planning Service, and a Financial and Management Service in conformity with Part II of the Integrated Reorganization Plan.*

SECTION 6. *The Department shall have such number of field offices here and abroad as may be necessary for the effective promotion of the tourist industry.*

SECTION 7. Bureau of Tourist Promotion. — There is created a Bureau of Tourist Promotion which shall, among others, be responsible for organizing and supporting a

program of public relations, promotion and publicity calculated to interest, attract and encourage overseas travelers to visit the Philippines, including the publication and dissemination of pamphlets, brochures and other literature and publicity materials and the production and distribution of audio-visual materials, participation in travel fairs and other sales and promotion arts.

It shall have the following divisions with corresponding duties and responsibilities, among others:

a. *Press and Publication Division*

- 4. *Publish, produce and disseminate publicity materials as may have bearing on tourist attractions in the country, and the history of the Philippines, its progress, its natural resources and the culture and art of its people;***
- 5. *Encourage educational and cultural tours to increase travel within the country as a means of developing domestic tourism; and***
- 6. *Participate in fairs and exhibits to promote local goods and products and provide a medium for the dissemination of information about the Philippines as a tourist spot.***

b. *Research and Statistics Division*

- 1. *Compile, analyze and integrate statistical data on Tourist Industry;***
- 3. *Develop, forecast and prepare economic reports and review based on conductive research; and***
- 4. *Undertake continuing analysis of economic conditions and trends relating to the sectoral area concerned.***

c. *Training and Evaluation Division*

- 3. *Conduct training courses and apprenticeship programs for tourist guides, hotel and restaurant personnel and such other personnel who perform functions that have a bearing upon the tourist industry; and***
- 4. *Organize and conduct promotional training seminars.***

SECTION 8. *Bureau of Special Services.* — There is hereby created a Bureau of Special Services which shall have the following divisions with corresponding duties and responsibilities, among others:

a. Tourist Reception Division

- 3. Coordinate with all other agencies concerned, whether government, or private, on procedures to assure hospitable reception of tourist during their visit to the country, including the establishment of efficiently-run information centers at strategic locations; and*
- 4. Maintain a security force, where necessary, to provide security and assistance to tourists and travelers and to extend investigative services to tourists who may require such assistance.*

b. Licensing and Inspection Division

- 5. Prepare and maintain for ready reference a register of all business and establishments that offer transportation, accommodation or service of any kind to tourists;*
- 6. Regulate and license the business of travel agencies; tour operators, and tour guides;*
- 7. Classify, regulate and license hotels, resorts, restaurants, inns, motels, and hostels in accordance with set standards and guidelines; and*
- 8. Exercise supervision over the operation of all facilities and services that cater to, or have anything to do with travelers.*

SECTION 9. Creation of Philippine Tourism Authority. — To implement the policies and programs of the Department, there is hereby created a Philippine Tourism Authority, hereinafter referred to as the Authority, which shall be attached to the Department. The functions of the Authority are hereby declared to be governmental.

SECTION 10. Purposes and Specific Powers. — The purposes and specific powers of the Authority are as follows:

- a. Implement all policies and programs of the Department on project development;*
- b. Collect such taxes as may be provided by law;*
- c. Operate and/or contract to operate such agencies, functional units, offices and departments of the Authority as it may deem necessary or useful for the furtherance of any of the purposes of this Decree;*

- d. Extend assistance whenever necessary, to private enterprise in undertaking tourist projects;*
- e. Undertake the development of tourist attraction including the conduct of feasibility studies and where necessary, recommend agreements for tourist plant and facilities development with private entities;*
- f. Provide and maintain essential facilities for tourists and travelers where private enterprise is not prepared to take care of them; and*
- g. Adopt, alter and use a corporate seal which shall be judicially noticed; make contracts, lease, own or otherwise dispose of personal and real property; sue and be sued; and otherwise do and perform any and all things that may be necessary or proper to carry out the purposes of the Authority.*

SECTION 11. Capitalization. — The capital of the Authority shall consist of (1) existing assets transferred to it from the Board of Travel and Tourist Industry and the Philippine Tourist and Travel Association as hereinafter provided and such other properties as may be contributed to the Authority by the government to form part of its capital and (2) the taxes under Republic Act No. 1478 and Republic Act No. 6141. All hotel room taxes that will be collected under the provisions of existing laws are likewise assigned to the Authority to form part of its capital.

SECTION 12. Power to Issue Bonds or Incur Indebtedness. — Whenever the Board may deem it advisable and necessary for the Authority to contract loans, credits and other indebtedness, or to issue bonds, notes, debentures, securities, and other instruments of indebtedness for the development and/or operation of the tourist industry, it shall by resolution so manifest and declare stating the purpose for which the indebtedness is to be applied and citing the project study devised for the purpose. In order for such resolution to be valid, it shall be passed by the affirmative vote of at least four members of the Board and approved by the President of the Philippines upon the recommendation of the Secretary of Finance, after consultation with the National Economic and Development Authority and the Monetary Board of the Central Bank.

SECTION 13. The Authority shall be administered by a General Manager who shall be appointed by the President from among persons of proven executive competence and experience in the field of tourist development.

SECTION 14. Board of Directors. — The corporate powers of the Authority shall be vested in and exercised by a Board of Directors composed of the Secretary of Tourism as Chairman, the General Manager as Vice Chairman and three part-time members who shall be appointed by the President for their expertise.

SECTION 15. Tenure of Office. — The tenure of office of the members shall be six years: Provided, That in the first appointments, the term of office of the three members appointed by the President shall be fixed as follows: one member for six years, one member for four years, and the third member for two years: Provided, finally, That no vacancy shall be filled except for the unexpired portion of the term.

SECTION 16. Meetings and Quorum. — The Board shall meet regularly once a month and as often as the exigencies of the service demand. The presence of at least three members shall constitute a quorum, and the vote of three members shall be necessary for the adoption of any rule, resolution or decision or any other act of the Board.

SECTION 17. Compensation of Chairman and Members of the Board. — The members of the Board shall receive such per diems and allowances as may be fixed by the President.

SECTION 18. Powers and Duties of the Board. — The Board shall have the following powers and duties:

- a. To promulgate policies and to prescribe such rules and regulations as may be necessary to implement the intent and provisions of this Decree, which rules and regulations shall take effect thirty (30) days following their publication in two (2) newspapers of general circulation in the Philippines;*
- b. To approve the annual budget and such implemental budgets which may be submitted to it by the Chairman;*
- c. Upon the recommendation of the General Manager, to organize, reorganize, and determine the Authority's staffing pattern; to fix their salaries and to define their powers and duties;*
- d. Notwithstanding the provisions of law, rules and regulations to the contrary, to enter by itself into any contract or agreement as may be necessary for the proper, efficient and stable administration of the Authority and for the attainment of the purposes and objectives of this Decree;*
- e. To render annual reports to the President and such special reports as may be requested; and*
- f. Generally, to exercise all the powers necessary or incidental to attain the purposes of this Decree.*

SECTION 19. General Manager: Powers and Duties. — The General Manager shall have the following powers and duties:

- g. To direct and manage the affairs of the Authority in accordance with policies of the Board;
- h. To prepare the agenda for the meeting of the Board and submit for its consideration and approval the policies and measures which he deems necessary and proper to carry out the provisions of this Decree;
- i. To submit within thirty (30) days after the close of each fiscal year an annual report to the Board and such other reports as may be required;
- j. To submit an annual budget and necessary supplemental budgets to the Board for its approval;
- k. To establish the internal organization of the Authority under such conditions that the Board may prescribe; Provided, That any major reorganization shall be subject to the approval of the Board; and
- l. To perform such other duties as may be assigned to him by the Board.

SECTION 20. *The Secretary of Tourism may establish a Tourism Advisory Council, which may be composed of representatives of the following trade organizations; (1) hotels, (2) restaurants, (3) air carriers, (4) travel agencies, (5) cottage industry producers and/or distributors, (6) sea carriers, (7) land transportation operators, and (8) bankers association who shall be entitled to such per diems and allowances as may be authorized: Provided, That the Secretary may designate representatives from other trade organizations as may be necessary. The members of this Council shall be exempt from conflict-of-interest provisions of the Anti-Graft and Corrupt Practices Act.*

SECTION 21. Applicability of the Civil Service Law. — All officials and employees of the Authority, except technical and professional personnel, shall be subject to Civil Service Law, rules and regulations and the coverage of the Wage and Position Classification Office.

SECTION 22. Appointment by the Board. — Employees of the Authority shall be appointed by the Board, upon the recommendation of the General Manager, to positions in the approved budget using as guide the standards set forth in the Civil Service Law and rules.

SECTION 23. Transitory Provisions. — The properties, monies, assets, rights, choices in action, obligations, liabilities, records, and contracts of the defunct Board of Travel

and Tourist Industry shall continue to be vested in and assumed by the Authority, as a government corporation, pursuant to this Decree.

The Board of Directors shall determine what personnel of the Board of Travel and Tourist Industry shall be absorbed by the Authority.

SECTION 24. Rescission of the Charter of the Philippine Tourist and Travel Association. — The Charter of the Philippine Tourist and Travel Association as granted under Republic Act No. 710 is hereby rescinded, without prejudice to its continuing as a duly registered private corporation. Any assets derived from the government subsidy under the aforementioned charter shall be transferred to the Authority.

SECTION 25. The staffing requirements of the Department shall be provided for in the General Appropriation Act.

SECTION 26. The Civil Aeronautics Board is reconstituted and attached to the Department. It shall be composed of the Secretary of Tourism as Chairman, the Civil Aeronautics Administrator, the Commander Officer of the Philippine Air Force, the Assistant Director for Air Transportation of the Bureau of Transportation and two other members appointed by the President of the Philippines.

SECTION 27. The Hundred Islands Conservation and Development Authority, the San Juanico Tourist Development Authority, the Looc Estate and such other entities as may be organized to promote tourism are hereby attached to the Department.

SECTION 28. The Department of Trade shall perform all the functions, except those on tourism, of the Department of Trade and Tourism pursuant to the applicable provisions of the Integrated Reorganization Plan.

SECTION 29. Repeal. — Presidential Decree No. 132, dated February 19, 1973 and any all acts, statutes, decrees, rules, repealed or modified accordingly.

SECTION 30. Effectivity. — This Decree shall take effect immediately.

Done in the City of Manila, this 11th day of May, in the year of Our Lord, nineteen hundred and seventy-three.

Appendix C

Department of Tourism Programs and Projects

During the period in review, the DOT launched the Estrada Administration's **REDISCOVERY Program**, to encourage and promote international and domestic tourism. This program seeks to underscore the fact that the challenges faced by the tourism industry today require a fresh look.

More importantly, the **REDISCOVERY** program is envisioned to revitalize the Philippine tourism industry as it is anchored on the unique selling point of the Philippines. The program is composed of two vital campaigns, namely: the Balkbayani or the Tourism Frontliners Program and the Rediscover Your Roots Program. The Balikbayani is aimed at tapping the more than six (6) million Overseas Filipino Workers (OFWs) as frontliners for tourism marketing and promotions, while the Rediscover Your Roots is designed for the third- and fourth- generation Filipinos living abroad. The Rediscovery program was successfully launched in the USA, Japan, and Hongkong last August 1999. The DOT also spearheaded the **Turn of the Century Celebration** at the Rizal Park last 26-31 December 1999. The celebration, dubbed as the **Milenyo Filipino Festival**, showcased the Filipino achievements in the area of agriculture and science and technology during the past century. The festival was highlighted by President Joseph Ejercito Estrada and First Lady Loi Ejercito who led the countdown to the new millennium.

A. Community-based Tourism

In cooperation with the Department of Agriculture (DA), Department of Environment and Natural Resources (DENR), and Technical Education and Skills Development Authority (TESDA), and Entrepreneurial Development in Rural Tourism (EDRT) was implemented in Batangas, Boracay, and Banaue, benefiting eighty-two (82) community residents, which include the Aetas.

The project consists of (4) phases, namely: conduct of actual training on craft development and specialization, sampling/evaluation of the quality and design, conduct of business expenses and savings training (BEST), and conduct of advance course on craft development. The program is primarily focused on livelihood training along the lines of crafts-making, bonsai growing, dish gardening, and hand-made papermaking.

Preparations are also on going for the implementation of the said project in Palawan. Relatedly, the DOT is conducting preliminary survey in the area for potential beneficiaries of the project.

B. International Tourism Promotions

The DOT actively participated in major international travel and tourism events and meetings to showcase the Philippines' various destinations. Among these international events were the ASEAN Tourism Forum and Travel '99 in Singapore, Internationale Tourismus Bourse in Berlin, 48th Pacific Asia Travel Association Annual Conference in Japan, International Tourism in Asia in Hongkong, and Kangwon-do International Travel Expo in South Korea.

The DOT signed an agreement with Chilean tourism authority during the visit of President Joseph Ejercito Estrada in Santiago, Chile last September. The agreement seeks to promote bilateral and mutual cooperation in the areas of information/databanking, investment, human resources development, and marketing and promotion.

The DOT supported the "*Elf Authentique Adventure*" endurance games, which ran from Northern Samar to Biliran, Leyte last April 1999. The adventure games was estimated to have generated P70 billion pesos worth of free publicity from international media groups such CNN International, Star Sports, Eurosports, Euronews, LCI France, Sports Illustrated Magazine, and New York Times. The media coverage carried the spectacular footages of Samar and Leyte.

In addition, the DOT facilitated the filming of Strix Television's "Expedition Robinson 1999". A Scandinavian's popular adventure TV series, in El Nido, Palawan. An estimated 4 million Scandinavians viewed the show which resulted from free publicity worth P3 billion pesos for the Philippines.

The DOT, likewise, signed an agreement with the Singapore Airlines (SIA) for a comprehensive marketing and promotion drive to attract more tourists to the Philippines. Under the agreement, the SIA has committed an amount of US\$1 million to promote the Philippines as an international tourism destination focusing on Europe, Australia, and Singapore markets.

The promotion of eight (8) anchor destinations was launched. These destinations are Metro Manila, Baguio-Ifugao, Vigan-Laoag, Palawan, Boracay, Bohol, Cebu and Davao.

The Rediscovery Holiday Package, a short-term promotion designed to promote Manila, Davao, Cebu, Boracay, and Banaue among leisure travelers in Asia, Europe, Australia and North America, was implemented with the support of the private sector.

C. Domestic Tourism Promotions

The DOT supported the launching of the Lakbay TV and Lakbay Net, which promoted the country's tourist destinations through the cable television and the INTERNET.

THE DOT tied up with Negros Navigation to promote the Balk Probinsya Program to encourage more Filipinos to travel. Also, the "Dream Vacation for Sale Plus" was implemented in cooperation with tour operators and resort owners nationwide.

The "Barkadahan Sa Turismo" made available to youth and student groups affordable rates to PTA-owned properties. Among the properties included in this program are: Lingayen Gulf Resort Hotel and the San Fabian Beach Resort in Pangasinan, the Pagsanjan Garden Resort in Laguna, McArthur Park Beach Resort in Camiguin, Mt. Data Hotel in Mt. Province, and Banaue Hotel and Youth Hostel in Ifugao.

Further, the Halina Rediscovery Campaign was conceptualized to boost domestic travel in the countryside.

D. Destination Development

Pursuant to Executive Order No. 403, the DOT pursued the implementation of President Estrada Tourism Highway Program. In consonance with Back-to-Basics campaign, an agreement was signed by the DOT with the Pilipinas Shell for the provision of clean restrooms, installation of signages, and setting up of information counters in major Shell gas stations along the tourism highway.

The DOT also fast-tracked the completion of road network, water supply, and liquid and solid waste disposal systems in Samal Island, Davao del Norte. Likewise, the rehabilitation of the berthing facility in Kaputian was implemented to complete the critical estate infrastructure of the area.

The construction of water treatment and intake facilities, outfall pipelines, and distribution lines is being accelerated pursuant to the ongoing Overseas Economic Cooperation Fund (OECF) project in Boracay Island. These projects are being undertaken by the DOT to protect the pristine coastal environment of the island. In Panglao Island, asphalt paving of Lourdes-Bacolod Road was undertaken.

To preserve and protect the rice terraces against soil erosion in Asipulo and Hungduan, Ifugao, the DOT financed the construction of the Bana-o Communal Irrigation System, Wingiyon Irrigation System, Nungawa Communal Irrigation System, and Baang Irrigation System.

The DOT submitted to National Economic and Development Authority (NEDA) the terms of reference for the Northern Palawan Tourism Development Infrastructure Program for OECF funding. The DOT also signed a Memorandum of Agreement

(MOA) with the Provincial Government Palawan and the DENR to verify ownership and status of properties within the identified tourism development sites.

In coordination with the National Commission for Culture and the Arts (NCCA), University of the Philippines-College of Architecture (UP-CA), Palawan Natural and Historical Foundation (PNHF, Inc.), Palawan Tropical Forestry Protection Programme (PTFPP), and the local government units, the DOT agreed to undertake the establishment of Palawan Cultural Village, which focuses on identifying the appropriate buffer zones to protect the lifestyles of the ethnic groups of the area while meeting the demand of tourists for cultural experience.

Through the technical assistance of the Spanish Government, the DOT agreed to undertake the establishments of Palawan Cultural Village, which focuses on identifying the appropriate buffer zones to protect the lifestyles of the ethnic groups of the area while meeting the demand of tourists for cultural experience.

Through the technical assistance of the Spanish Government, the DOT is undertaking the physical restoration of selected public areas and buildings in Vigan, as well as the formulation of a Master Development Plan for the Revitalization of Historic Center for Vigan. A proposal for the formulation of Sustainable Cultural Tourism in the Philippines and the development of Model Community-based Ecotourism Projects was also submitted by the DOT to the Spanish Government for possible financial assistance.

To address the critical concerns and expand tourism, the DOT organized the Philippine Tourism and Transportation Summit last 22-23 June 1999 at the Manila Hotel. Two hundred (200) participants from local and international airlines, hotels, resorts, as well as water and land transport sectors attended the summit, which resulted in a policy recommendation on progressive liberalization.

E. Sustainable Tourism Development

In cooperation with the United Nations Development Programme (UNDP) and the Philippine Council for Sustainable development, cultural enrichment, and socio-economic development.

In pursuance of the Agenda 21, the DOT completed the GREEN GLOBE Destination Report and Action Plans for Camiguin Island and Ifugao. A destination management group (DMG) has been set in place in the said areas to provide the link between the different stakeholders and the National Steering Committee. The DMG is composed of stakeholders headed by the Provincial Governor with the DOT Regional Director and the Provincial Environment and Natural Resources Officer (PENRO) as Vice-Chair.

The DOT also spearheaded the National Ecotourism Congress last 27-29 October 1999 in Tagbilaran City, Bohol. The Congress, which was organized jointly with the Department of Environment and Natural Resources (DENR), Department of Interior and

Local Government (DILG), and the Philippine Women's University (PWU), was attended by 422 participants from national government units, private sectors, and international organizations. A proposed policy and strategic guidelines was developed during the Congress, which will serve as inputs in the formulation of the National Ecotourism Plan.

F. Tourism Investment Promotions

Joint government and private sector investment missions were participated in by the DOT to attract foreign investors. These include the First Bicol Tourism, Trade and Investment Mission to the U.S., and the APEC International Trade Fair Mission to New Zealand. The DOT also assisted foreign groups in exploring investment opportunities in the Philippines. Among the Potential investors who visited the Philippines during the year were from Italy, Romania, Hawaii, Fukouka, Indonesian Chamber of Commerce, Korean Chamber of Commerce, CAN-Shinnerer U.S. Trade & Investment, and Malaysian Honorary Investment and Trade.

Through investment dialogues, clinics and surveys, the DOT continued to mobilize local government units (LGUs) to support government's tourism investment policies, promotion programs and projects. The DOT conducted investment dialogues and clinics in Siargao in Surigao del Norte; Polilio Island in Quezon; Tabaco and Polangi in Albay; and Naga City in Camarines Sur.

G. Tourism Services

To continually improve the quality and upgrade the standards of service in the industry, a total of 1,942 accommodation establishments, travel agencies and tour operators, taxis, and taxi drivers were accredited by the DOT. Likewise, four (4) accreditation codes affecting calesa, motorized banca, foreign exchange dealers, and rent-a-car were formulated to further professionalize the quality of these services.

The DOT also conducted 101 training programs along the areas of frontline office, housekeeping, waitering, bartending, tourist reception, and guiding technique. These programs benefited 1,441 industry personnel from accommodation establishments, tour operations and travel agencies, and local communities.

The DOT signed a Memorandum of Agreement with the Maritime Industry Authority (MARINA) for the granting of exemption from or reduction of the requirement of allocating fifty percent (50%) of the total passenger capacity for 3rd class accommodation in the case of the liner passenger capacity for 3rd class accommodation in the case of the liner passenger vessels providing 1st, 2nd, and 3rd class accommodations. The DOT is also negotiating with the Tourism industry Board Foundation, Inc. (TIBFI) for the accreditation of training centers, trainers, and tourism programs. It is envisioned that these agreements will promote better and efficient tourism services.

In addition, the DOT continued to implement the Tripartite Agreement with the Department of Labor and Employment (DOLE), and the Bureau of Immigration (BI) to comply with the provisions on the employment of foreign nationals in the hotel, resort, and restaurant sectors.

H. Regional Operations

With the support of the local government units and private sectors, the DOT regional offices have implemented social tourism oriented projects particularly the beautification and landscaping of municipal plazas, construction of cultural centers, and installation of streetlights.

Support to the local governments were also provided by the regional offices in the promotion of various festivals such as Feast of the Black Nazarene in Manila, Panagbenga in Baguio City, Rimat Ti Aminan in Ilocos, 1999 Sambali Festival in Cagayan, San Fernando Giant Lantern Festival in Pampanga, Pahiyas Festival in Quezon, and Peñafrancia in Bicol.

Other festivals which were provided with support in the Visayas and Mindanao islands include the Dinagyang and Ati-Atihan in Iloilo City and Aklan, Sinulog and Sandugo in Cebu and Bohol, Kasadya-an Festival in Tacloban City, Talak Festival in Zamboanga, Lanzones Festival in Camiguin, Kadayawan Sa Dabaw in Davao City, Shariff Kabunsan Festival in Central Mindanao, and Balangay Festival in Butuan City.

I. Internal Services

The DOT implemented various activities and training programs during the year to enhance the skills and capacity of its personnel. A total of 279 personnel benefited from the training program, which include Frontline Services Management, Values Orientation Workshop, Orientation/Re-orientation Seminar, Effective Written and Oral Communication, and Basic First Aid and Occupational Health Seminar. Further, ten (10) qualified DOT family official/ employee were extended foreign scholarships and opportunities to participate in international workshop/ conferences.

To promote camaraderie among the DOT employees, a sport-fest was conducted featuring popular games like basketball, chess, dart, scrabble and games of the generals.

In line with the worldwide campaign of all computer-based operation to be a Y2K compliant, the DOT in coordination with Technological and Livelihood Resource Center (TLRC) implemented the Y2K projects which include the Awareness Briefing, inventory and assessment of information technology resources, actual Y2K remediation and testing/validating, and monitoring of Y2K project status.

In addition, the maintenance and updating of the DOT Web Page as well as the revision of the Personnel Management Information System, Project Tracking System, and the Travel and Tourism Statistical System were undertaken.

Attached Agencies

A. Philippine Tourism Authority

As the infrastructure arm of the DOT, the Philippine Tourism Authority (PTA) continued to pursue the implementation of major social and environmental related projects to develop domestic tourism in the countryside. Among the social projects undertaken by the PTA were the construction of the multi-purpose hall in Cabarroguis, peoples' plaza in Lambunao, installation of submarine outfall pipeline in Boracay, and the rerouting of electrical facilities in Vigan Heritage Village. In coordination with the University of the Philippines-Marine Science Institute (UP-MSI), the PTA spearheaded the implementation of environmental conservation projects such as coral transplantation, sea urchin culture, and giant clam garden at (HINP) in Alaminos, Pangasinan. Other activities also undertaken at the HINP to sustain the program were the construction of demonstration sites, establishment of mangrove planting stations, and regular clean-up drive. Furthermore, in collaboration with the local government of General Luna, the PTA constructed and refurbished the Cabuntog Lodge and Resort to cope up with the growing demand for accommodation facilities in Siargao Island, popularity known as the "Surfing Capital of the Philippines".

In line with its promotional mandate, the PTA also launched aggressive marketing campaigns to create public awareness on the best tourism destinations in the countryside. Among the promotional projects, which were undertaken during the period under review were Lakbay Milenyo Program, Para sa Pamilyang OFW Program, Tagaytay Picnic Grove and Dumaguete Concerts, and the Pinoy, Turismo at Iba Pa Travel.

To amplify the autonomy and empowerment of the local government units, the PTA devolved the operations and management of its major entities to augment the financial capabilities of the concerned LGUs. Among the major establishments, which were turned over to the local governments were the Plaza Independencia in Cebu, Mt. Samat in Bataan, and the Ardent Hot Springs in Camiguin. In terms of financial performance, the PTA generated an amount of P1.36 billion from travel tax collection, and increase of 5.61% compared to the previous year's collection amounting to P1.28 billion. This increase can be attributed to the intensified computerization program of the tax collection system of the PTA.

B. Philippine Convention and Visitor's Corporation

The Philippine Convention and Visitors Corporation (PCVC) continued to pursue its mandate of providing the country substantial exposures in international and domestic market. During the period in review, the PCVC actively participated in international tourism travel fairs, which included the Internationale Tourismus Borse (ITB); ASEAN Tourism Forum '99 (ATF); TRAVEL '99; 48th PATA Annual Conference; 12th European Incentive & Business Travel and Meetings (EIBTM) Exhibition; Japan Congress of International Tourism Asia; (ITA '99); International Tourism Asia; (ITA '99) Taipei International Travel Fair '99 among others.

The PCVC provided assistance in bidding for the hosting of major events, to wit: World Flower Council (2000); World Youth Student Travel Conference (2001); 31st SKAL Asian Area Assembly (2002); 16th Biennial Congress of Thoracic and Cardiovascular Surgeons of Asia (2003); International Congress on Chemotherapy (2005) Federacion, Internationale de Gynecologie et d' Obstetrique (2006). The PCVC also provided technical and promotional assistance to incentive groups and private sectors in bidding for 59 booked events. In addition, the PCVC assisted the private and government sectors in terms of photo and video coverage, audio-visual dubbing and presentations, slide duplications, as well as technical/creative assistance to special projects.

To generate media exposure and mileage, the PCVC assisted and hosted invitees from the media and travel trade groups and other tourism-related organizations, which visited and made film/video coverage of the country's top destinations.

The PCVC also provided promotional/ technical support to five (5) special projects among which are: International Horticultural Exposition; Philippine Rediscovery Holidays; Elf Authentique Aventure; Balikbayan Millennium and Reunion for Peace in the Millennium.

To support the Corporation's participation in trade and travel fairs, ad placements were implemented and monitored in domestic and international publications. Likewise, intensify the promotion of various tourism events and destinations, the PCVC produced various promo materials (primers, maps, brochures, banners, kits and folders).

C. Intramuros Administration

The Intramuros Administration (IA) continued to improve its facilities to enhance its position as a major cultural landmark. During the period in review, the IA completed the fabrication of traffic signages, installation of streetlighting, rip-rapping of Fort Santiago Moat, and the strengthening of Rizal shrine ruins. The IA also completed the installation of the Intramuros Scale Model.

To maintain the historical facilities of the Intramuros, the IA continued to undertake maintenance of walls, fortifications, gardens, parks, and plazas. To preserve and properly manage the museum objects and antiques, continued monitoring and inventory of icons was undertaken.

To promote Filipino culture and history, IA staged the Philippine British Arts Month featuring the Intramuros Evenings Performing Arts consisting of the following: Juan Luna; Cartas de Amor; Jazz Up; The Walls; Miong; Pagbibigkis, Hatol ng Guhit na Bilog; Mga Sayaw ng Puso at Kaluluwa; Ang Paglalakbay; Tumawag Kay Libby Manaoag; Kuwerdas, Klasiko, Kuwatro; and Huling Panauhin. The IA also staged special events such as the April Boy Regino Concert, Serenata Sa Fort Santiago, Gurkha Bagpipe Band, and the Gabi ng Kundiman sa Intramuros. The IA also staged photo, painting, and mobile exhibits entitled Peacetime... Wartime... This Time, Images of the Walled City, and the 1999 Philippine Shopping Festival: Final Sale of the Century.

In cooperation with the Philippine Educational Theater Association (PETA), the IA showcased the Dula-Daluyan National Youth Theater Festivals featuring the Filipino poetry.

D. National Parks Development Committee

The National Parks Development Committee (NPDC) pursued the development, beautification, preservation, and maintenance of parks under its jurisdiction which include: Rizal Park, Paco Park, Pook Ni Mariang Makiling, Plaza Olivia Salamanca as well as the Urdaneta-Legaspi Village, T.M Kalaw Center Island, and Padre Burgos Center.

During the period in review, the NPDC completed the installation of deep-well, drainage pump, and the Sculptural Markers on Philippine History.

To promote pride of national identify, the NPDC staged 104 Light and Sound Presentations on the martyrdom of Dr. Jose P. Rizal. In coordination with the various Filipino artists, the NPDC also staged the Concert at the Park, as well as other special concerts. In addition, the NPDC hosted various socio-cultural educational projects and activities, which include the Flag Reverence Day, Time Capsule Centennial, 127th GOMBURZA Day, and the Centennial Clock.

To maintain peace and order at the park, NPDC strictly enforced its rules and regulations as well as city ordinances and other pertinent laws. The NPDC apprehended 329 violators who were referred to appropriate authorities.

E. Nayong Pilipino Foundation, Inc.

The Nayong Pilipino Foundation (NPF) continued to maintain its image as the repository of our rich cultural heritage in an urban setting. During the period in review, the NPF implemented the maintenance of its physical structures such as the model houses, parks, landscaping, and regional comfort rooms. The NPF also undertook the rehabilitation of the aviary and the redesigning of the aquarium. Likewise, to maintain the cleanliness of the parks' lagoon, ponds, and bird feeding areas, regular maintenance and rehabilitation were undertaken.

In coordination with various cultural groups, the NPF implemented twelve (12) cultural programs and other related events namely: Sto. Niño Festival, Alay ng Nagmamahal; Banduria, Octavina atbp.; Visayan Folklore; Semana Santa featuring Palm Sunday, Senakulo, and Hanap Kayamanan; Sining Pambata; Tagalog Fiesta; Santacruzán Sa Nayon; Karera ng Traysikad; Balagtasan Sa Nayon; Kawil at Pain; and the Pain; and the Peñafrancia Festival.

The NPF also mounted exhibits such as the Kasining Painting Exhibit, Hiyas at Palamuti Exhibit , Hiyas at Palamuti Exhibit, Greenworld of Ornamental Plants Exhibit, and the Science and Technology Exhibit, and the Science and Technology Exhibit.

Department of Tourism

Goals and Policy Thrusts for CY 2001-2003

For the planning period 2001-2003, the Department of Tourism (DOT) shall pursue the following goals and objectives in accordance with the 20-year Tourism Master Plan:

1. Optimize the contribution of tourism to economic growth at the national and local levels, particularly working towards poverty alleviation and a better quality of life.
2. Develop tourism on a sustainable basis with the active participation and leadership of local stakeholders in planning, implementation and monitoring of tourism programs.
3. Promote greater self-regulation against abusive and exploitative forms of tourism, most especially as they affect the marginalized sectors such as women, youth and indigenous peoples.
4. Promote globally competitive tourism products for the continuing growth of the Philippine economy.

Cognizant of the above goals, the DOT's umbrella program under the Estrada Administration is the Rediscovery Tourism Program.

In this regard, the first year of the Rediscovery Program should be monitored during the planning process. This is to determine whether each division or each attached agency had planned its projects in the framework of Rediscovery, or whether there is a need to strengthen methods of integration and communication so that the DOT will finally be able to implement a unified and focused program.

Likewise, inasmuch as the Philippines is an active member of ASEAN and this region will present itself as a single destination in Asia, all operating units should include activities and programs in consonance with our tag line: "The Philippines, the Other Face of Asia". In addition, there is the need to input in each unit/ division/ office plans the proposals of the private sector and LGUs emanating from the Consultative Meeting held last 19 January 2000 at the Hotel Intramuros de Manila.

Furthermore, the following shall continue to be pursued by the various operating units in accordance with the Estrada Administration's Medium-Term Philippine Development Plan (MTPDP):

1. Implementation of the National Tourism Master Plan, Regional Tourism Master Plans and area plans that will diversify the tourism activities, products and services offered by the country, thereby, positioning the Philippines as a major tourist destination in the Asia-Pacific region;
2. Conduct of aggressive international and domestic promotions/ marketing campaign anchored on the Estrada Administration's Rediscovery Program as well as on the eight anchor destinations, namely, Metro Manila, Baguio-Iligan, Vigan-Laoag, Palawan, Boracay, Bohol, Cebu and Davao;
3. Implementation of republic acts and presidential issuances which mandate the development of specific areas for tourism, thereby generating employment and livelihood opportunities for the widest segment of the population.

Annex B

4. Strengthening of the regional and international operations pursuant to the localization and the globalization thrust of the government, as well as to transform the said offices to effectively discharge promotions and development functions;
5. Development of community-based tourism programs that will harness local skills, talents, entrepreneurship, and multi-stakeholders partnership;
6. Promotion of sustainable tourism development through the active participation of local communities in planning, implementation and monitoring of tourism projects, including the conservation of cultural heritage and protection of the environment;
7. Upgrading of industry skills to bring about efficient and quality services, and satisfaction to both domestic and foreign visitors;
8. Conservation of cultural heritage and indigenous knowledge systems and practices thereby instilling nationalism and pride of place among the Filipinos;
9. Enhancement of market research and product development through the use of 375X
10. Promotion of gender sensitivity in the implementation of tourism programs, particularly towards improving the status of women the tourism industry.

The following are the priority sub-sector activities as enumerated in the MTPDP to guide the different offices/ sectors in the preparation of their plans and budgets for 2001-2003:

1. Market the Philippines as a competitive destination in Asia to do business, for holidays and for convention and retirement purposes;
2. Encourage LGUs and local communities to venture in identified projects in tourism priority areas;
3. Develop and implement existing standards and guidelines for physical infrastructure development in ecotourism areas to ensure minimum adverse impact of the environment;
4. Promote domestic and international tourism;
5. Upgrade tourism training studies on travel and tourism.
6. Promote excellence in studies on travel and tourism.

Key projects for the Rediscovery Tourism Program under the Estrada Administration:

1. President Estrada's Tourism Highway
 - Summer Caravans with Philtranco
2. Save the Ifugao Rice Terraces
3. Manila-Premier Gateway to the Philippines
 - NAIA to Pasig Scientific Beautication
 - Save the Metropolitan Theater
4. One-day Tour to Region 3 and the NCR
5. Balikbayan in the New Millennium
 - Balkbayani Program
 - Discover Your Roots Program
6. Back-to-Basics Cleanliness Drive
7. Tourist Assistance Centers
8. Visit ASEAN Year 2002

Appendix D

Industry Associations

The Hotel and Restaurant and Tripartite Consultative Body, Inc. (HRTCB)

In September 23, 1992, the core group creating the Hotel and Restaurant and Tripartite Consultative Bond, Inc. (HRTCB) first met. The sectors involved are the government composed of the Department of Labor and Employment (DOLE), the Department of Tourism (DOT) and the Bureau of Immigration-Department of Justice (BI-DOJ); the management, represented by the Hotel and Restaurant Association of the Philippines (HRAP) and the Philippine Hotel Owners Association of the Philippines (PHOA) and labor, consisting of the National Union of Workers in the Hotel, Restaurant and Allied Industries – Alliance of Progressive Union (NUWHRAIN-APL) and the Associated Labor Union – Trade Union Congress of the Philippines (ALU-TUCP). It was agreed upon that a tripartite body for the Hotel and Restaurant Industry is necessary to help ensure industrial peace by providing a policy forum where sectoral perspectives are interchanged in handling labor management issues in the workplace. Thus they decided to draw up a Memorandum of Agreement which was signed on December 21, 1992.

The HRTCB which was co-chaired by then Undersecretary Bienvenido E. Laguesma together with Undersecretary Evelyn Pantig of the Department of Tourism ventured on organizing regional counterparts of the HRTCB. They were successful in establishing charters in Cebu City, Davao City and Cagayan De Oro City. In its first year, apart from its information campaign activities to promote industrial peace through joint consultation mechanisms, HRTCB's major accomplishment was in facilitating the signing of a Memorandum of Agreement (MOA) between the Alvarez-Borromeo Development Corporation and the National Union Workers in the Hotel, Restaurant and Allied Industries, the parties in the Montebello Case. The MOA ended the almost nine (9) month-old case on the Montebello CBA Re-opening Negotiations Deadlock.

HRTCB gained its legal personality on October 21, 1996 as it was registered with the Securities and Exchange Commission. Its first set of officers were Glenda R. Barreto, President Mr. Josep Estrada; Assistant Secretary Bernardino B. Julve, Vice-President Mr. Josep Estrada; Atty. Antonio T. Fontanilla, Secretary; Merceditas Z. Santos, Treasurer; and Daniel L. Edralin, P.R.O. Co-chairpersons from 1993-1996, on the part of DOLE have been represented by several Undersecretaries who were assigned to Labor Relations. These were Undersecretaries Buenaventura C. Magsalin; Undersecretary Jose Espanol and Undersecretary Dimapilis Baldoz. On the other hand,

Undersecretary Evelyn B. Pantig has been the co-chairperson of the DOT from 1992-1998. In 1999, the HRTCB's Co-chairpersons are Undersecretary Ricaforte of the DOT and Undersecretary Rosalinda Dimapilis Baldoz of the DOLE.

From 1993 to 1999, HRTCB has dutifully aligned its activities by its vision which is to be the primary dynamic body capable of influencing the government, its members and other sectors in the promulgation and implementation of policies and programs promotive of synergistic labor-management-government sector relationship to enhance industrial peace and improve productivity within the hotel and restaurant industry.

Inspired by its vision, the HRTCB recognized Hotels and Restaurants with Outstanding Labor Management Cooperation (LMC) in their workplaces. In 1996, it recognized Cebu Plaza Hotel as the hotel with an Outstanding LMC and gave special Citations to Manila Hotel, Shangrila Edsa Makati and Via Mare Restaurant. Likewise, in 1997, Cebu Plaza again was awarded as the Hotel with Outstanding LMC for it was able to help the company restore its good labor relations after it has to adopt adjustments due to the economic crisis.

Its 1997 highlight include the signing of an Industrial Peace Accord in the Hotel and Restaurant Industry to ensure that the APEC Summit Delegates will have a pleasant stay in the Philippines. While in 1998, HRTCB has been involve in the conciliation of a labor dispute in the Manila Diamond Hotel and it was able to secure a PHP1 million DOLE-GATT WTO Adjustment-Funding for its activities like the conduct of Seminars on Labor-Management-Cooperation Voluntary Modes of Conflict Resolutions in the Hotel and Restaurant Sector and Livelihood Trainings for Displaced Workers. For 1999, the HRTCB have drafter a supplement to the Department Order No. 10 Series of 1997 of the Department of Labor and Employment for the regular status of regular extra workers and has been conducting trainings on Cross Cultural Training Programs for Expats to ensure better working relations within the industry.

The HRTCB through its seven years of existence has managed to consolidate its database that could come handy for policy development within the industry. It is able to start with its CBA Comparative Analysis among the De Luxe Hotels; establish a directory of Hotels and Restaurants in the Philippines as well as establish a Labor Update Situationer on a monthly basis.

The Philippine Hotel Owners Association (PHOA)

The Philippine Hotel Owners Association (PHOA) whose current membership represents twenty of the major hotels in the country held a total of five membership meetings for the year 1999. The Association was addressed by then Honorable Secretary Gemma Cruz Araneta of the Department of Tourism during its first meeting for

the year held on January 11, 1999. On March 12, 1999, Mr. Patricio L. Lim of The Peninsula Manila and Mr. Oscar Salvacion of The Wetin Philippine Plaza were elected President Mr. Josep Estrada and Vice-President Mr. Josep Estrada, respectively, for the term 1999-2000. Senator Loren Legarda, Chairperson of the Senate Committee on Tourism was keynote speaker for the last meeting for the year held on Dec. 13, 1999.

Interview sources reveal that topics commonly discussed in PHOA meetings pertain to current concerns of the hotel sub-sector (i.e., employee training, regulations, etc.).

The Hotel and Restaurant Association of the Philippines (HRAP)

Amended by Laws

Preamble

The officers and Members of the Hotel and Restaurant Association of the Philippines, fully recognizing the role and commitment of the private sector in contributing to the development, growth and promotion of Philippine tourism, in cooperation with other organization/associations involved with the industry, do hereby promulgate this Constitution and By-Laws.

Article I: NAME OF ASSOCIATION

The name of the Association shall be "Hotel and Restaurant Association of the Philippines, Inc."

Article II: OBJECTIVES

1. To pursue vigorously the role of HRAP as the single voice organization representing the Philippine private business sector in the hotel and restaurant industry.
2. To undertake programs and projects that will upgrade and professionalize the hotel and restaurant industry in the Philippines.
3. To promote unity and mutual cooperation among those in the industry and other instrumentalities engaged in tourism, in order to protect the interest and welfare of the industry.
4. To encourage and foster high ethical standards in business resulting to fair and honest competition.
5. To act as the official single voice for and in behalf of the members in matters of government regulatory policies/ laws/rules affecting the industry.
6. To exercise dynamic in promoting goodwill, understanding, fellowship within the hospitality industry both national and international.
7. And without limitation of any of the foregoing purposes and objectives, to do and perform any and all acts and things reasonably necessary or proper or may be deemed incidental or conducive to the attainment and

consumption of the foregoing purposes and objectives and any and all acts and things permitted by the laws of the Philippines to be done and performed by a corporation of a similar nature in particular.

Article III: MEMBERSHIP

1. **Classes of members:** There shall be seven classes of members namely: (1) Regular 2) Allied 3) Associate 4) Affiliate 5) Chapter 6) Honorary 7) Life
2. **Regular members:** Duly Licensed
Hotel division members shall include hotels, resort, inns, apartelles, and pension houses.
Restaurant division members shall include restaurants, clubs, pubs, cafes, bistros, music lounges, and similar establishments that provide hospitality services.
3. **Allied members:** Duly licensed suppliers of hotels, restaurants, resort inns, clubs, and similar establishments and entities and persons whether judicial or natural who have great interest in the development of the hospitality and tourist industries. Allied members shall be entitled to vote and voted for as provided for elsewhere in these By-Laws.
4. **Associate Members:** Schools offering Hotel and Restaurant degree courses. These shall include universities, colleges, institutes, and cooking schools offering hotel and restaurant management/administration degree programs and/or tourism oriented courses, which have interest in contributing to the development of the hospitality and tourist industry.
5. **Affiliate Members:** Juridical associations composed of professionals working in the hotel and restaurant industry, such associations to include but not necessarily limited to EHAP, AMPHR, AMPHR< AHSOP, HARFORPHIL, HART, HEAP, HRCCP and HSMA.
6. **Chapter Members:** Chapter organizations within the framework of the Association located in any province or chartered city in the Philippines (except Metro Manila) the organization of which is approved by the HRAP Board of Directors and governed by the provisions of the by-laws of the Association.
7. **Honorary Members:** Persons who are invited by the Association to become such because of exceptional and outstanding contributions to the development and growth of the hospitality or tourist industries. His nomination will be approved by a two-thirds (2/3) vote of the members of the Board of directors.
8. **Life Members:** Persons who have rendered long years of outstanding service to the Association as an officer or member.
9. **Application for Membership:** Application for membership shall be considered by the Board upon sponsorship of two (2) members of the Association and the favorable recommendation of the Committee on Membership. However, for Associate Members, it is necessary that the applicant must be accredited by the Education Committee of HRAP as a requirement for approval of applicant by the Board.

10. **Expulsion of Members:** Any member who shall commit any act or acts inimical to the interest and welfare of the Association may be expelled upon the vote of two thirds (2/3) of all the members of the Board.

Article IV: PRIVILEGES, FUNDS, FEES & DUES

1. **Funds:** The funds of the Association shall consist of fees and dues from members; voluntary donations; sums as may accrue from the proceeds of activities undertaken by the Association; and interest gained or earned on saving accounts, trust funds and income that may be legally earned by the Association. The funds of the Association shall be kept in an account with a reputable commercial banking institution chosen by the Board for the purpose. In addition and whenever permissible, the Board may invest a portion of such funds as available for the purpose of generating added financial stability for the Association.
2. **Admission Fees:** Members of the Association except Honorary members, upon approval of their application for membership shall pay the admission fee.
3. **Re-Admission Fee:** When a member, previously resigned, re-admitted, a re-admission fee prescribed by the By-Laws shall be charged.
4. **Annual Dues:** Members of the Association shall upon approval of their application for membership pay the sum prescribed for each type of membership for their annual dues.
5. **Special Assessments:** Whenever the need arises, the Board may assess a special amount provided advise thereto and reasons thereof are given in advance. Two-third (2/3) vote of the entire body may however revoke said assessment.
6. **The Board of Directors:** shall have the authority to increase the admission fees, re-admission fees, and the annual dues herein above provided as exigencies may require, provided however, that increase shall be effective thirty (30) days after notice shall have been given to the general membership.
7. **Privileges:**
 - 7.1 **Regular, Allied and Associate** members shall have the right to vote and be voted upon and shall be entitled to all services and privileges that the Association prescribe for.
 - 7.2 **Honorary and Life** members cannot vote and be elected to office. However, they may be entitled to participate in programs/projects contributing to the development and growth of the hospitality and tourist industries.

ARTICLE V: MEETINGS

1. **Annual Convention:** The Association shall hold an Annual Convention, the date and venue to be determined by the Board of Directors upon proper notice.
2. **General Membership and Special Meetings:** The Association shall hold a General Membership meeting every quarter to discuss problems and development in the industry, inform the membership of the projects of the association and take up any matter of general interest. Special meetings of the Association may be called by the President or upon written request by at least twenty (20) members stating the objectives of the special meeting.
3. **Board Meeting:** The Board of Directors shall hold a regular meeting monthly on the place and date fixed by the president. Special meetings of the Board may be called by the president or by the secretary of at least five (5) members of the Board request for it in writing stating the purpose of such special meeting.
4. **Notice of Meeting:** In all meetings, written notices shall be sent by the secretary at least one week in advance, except in the case of special meetings of urgent nature.
5. **Quorum:** Except where the provisions of the Corporation Code requires a bigger majority the presence of fifty (50) members in good standing shall constitute a quorum to do business in general membership meeting at the presence of a simple majority of the directors present in the Philippines. Shall constitute a quorum in all meetings of the Board.
6. The "Robert's Rule of Order" as revised shall govern the proceedings of the Association.

ARTICLE VI: OFFICERS

1. **Executive Officers:** The Officers of this Association shall be the President, a Vice-President for Hotel Division, a Vice-President for Restaurant Division, a Treasurer, a Secretary, a Public Relations Officer, and **an Executive Director** and such other Vice Presidents as may be elected by the Board of Directors as exigencies should require. All officers shall serve fro a term of **two (2) years**. No president shall be allowed to serve more than two (2) consecutive terms.
2. **Election of Officers:** The President, who shall concurrently be the Chairman of the Board of Directors, shall be elected by the general membership. The Vice-President for the Hotel Division shall be elected by the regular members of the hotel division from among themselves. While

the Vice President for the Restaurant Division likewise shall be elected from among themselves. In the event of a tie a reballoting shall be held.

The Secretary, the Treasurer and the Public Relations Officer shall be elected by the members of the Board of Directors from among themselves.

The Directors representing the Allied members and Associate members shall be qualified to be elected President or Vice President for the Hotel and Restaurant Division.

The position of the Executive Director shall be decided by the Board of Directors upon the latter's composition. The Executive Director need not be a member of the Association. He shall be considered as a managerial employee of the same.

3. **Vacancies:** In case of resignation, absence, permanent disability or incapacity or death of the President, the Vice-President representing the same sector which the President represented shall automatically serve as President for the remaining term.

In case of temporary disability or incapacity or when the President travels abroad and therefore cannot perform his duties the President will designate as acting President anyone of the two Vice-Presidents.

In case of permanent or temporary disability or incapacity of any of the directors and/or other officers, the President shall choose the former's successor with prior consultation with the Board.

4. **President:** The President shall a) preside over the meeting of the association and of the Board of Directors; b) appoint with approval of the Board of Directors; c) exercise general supervision over the organization's activities and make an annual report thereon to the members during the annual general meeting; d) sign all contracts approved by the Board of Directors, correspondence and other documents on behalf of the Association before the public and Allied industries and with trade bodies abroad; and e) perform such duties as appurtenant to his position or which the Board of Directors may assign to him.
5. **Vice President for Hotel Division:** He shall act as the presiding officer of the Hotel Division and assist the President by coordinating and devoting his best effort pertaining to operations, activities and other matter of significance particularly to hotel members of the Association. He shall be responsible for holding meetings with hotel members when necessary, for the solution of problems and relevant issues that concern the hotels and planning for implementation of projects geared towards advancing the benefits and improving the business welfare not only of the hotel members of the Association but also of the Hotel industry in general.

6. **Vice-President for Restaurant Division:** He shall act as the president officer of the Restaurant Division and assist the President by coordinating and devoting his best efforts pertaining to operations, activities and other matters of significance particularly to restaurant members of the Association. He shall be responsible for holding meetings with restaurant members when necessary, for the solution of problems and relevant issues that concern restaurants and for the planning and implementation of projects geared towards advancing the benefits and improving the business welfare not only of the restaurant members of the association but also of the restaurant industry general.
7. **Secretary:** His duties are a) to preserve the minutes of the meetings of the Association and its Board of Directors and committees; b) to circularize among the members all important policies, resolutions and projects adopted by the Board of Directors as well as all matters of general interest; c) to be the custodian of all records and correspondence of the organization and d) to keep an up-to-date membership roster, he must be a resident citizen of the Philippines.
8. **Treasurer:** His duties are a) to take custody of all funds of the organization and to disburse them in accordance with the directives of the Board of Directors; b) to supervise the collection of all dues, charges and assessments as well as all other amounts payable to the organization; c) to keep the books of accounts, receipts and vouchers; d) to submit to the members through the Board of Directors an annual budget of income and expenses for the ensuing year; e) to submit to the Securities and Exchange Commission for Office verification the cash book, journal and ledger. He shall post a bond in such amount as may be fixed by the Board.
9. **Public Relations Officer:** He shall devote all his best effort of maintaining a good image of the Association not only before the general public but also with the allied industries and among general membership as well. He shall assist in promoting good relations with the mass media, government and civic circles.
10. **Executive Director:** He shall be the Chief Operating Officer of the Association who shall be under the direct control and supervision of the president and shall have the following duties a) to look after and superintend all operations of the corporation: b) to initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation; c) to have general supervision and management of the business affairs and property of the corporation: d) to ensure that administrative and operational policies of the corporation are carried out under his supervision and control; e) subject to guidelines prescribed by law to appoint, remove, suspend or discipline employees of the corporation, prescribe their duties, and determine their salaries; f) to oversee the preparation of the budgets and statement of accounts of the corporation ; g) to prepare such statements and reports of the corporation as may be required of him by law; h) to represent the corporation as may be required of him by law; h) to represent the corporation at functions and proceedings upon the instructions of the President or the Board of Directors; I) to execute in behalf of the Corporation all contracts, agreements, and other instruments affecting the interests of the corporation which require the approval

of the Board of Directors, except as otherwise directed by the Board of Directors; j) to make reports to the Board of Directors during the monthly meetings; k) to perform such other duties as are incidents to his office or are entrusted to him by the President and the Board of Directors.

ARTICLE VII: BOARD OF DIRECTORS

1. **Composition:** The corporate power of the Association shall be exercised, all business conducted and all its property controlled and held by a Board of Directors composed of (18) persons as follows: the President, Vice President for Hotel Division, and fifteen (15) other members distributed as follows: five (5) directors to represent the Hotel Division and to be elected by and from among the regular members of the Hotel Division; five (5) directors to represent the Restaurant Division and to be elected by and from among the regular members of the Restaurant Division, two (2) directors representing the Allied Division and to be elected by and from among the Allied members ; one (1) director to represent the Associate members; one (1) director representing the Department of Tourism; and the Executive Director. The former President of the Association shall be a member of the Board in an ex-officio capacity.

All Directors shall have voting powers with the exception of the Department of Tourism (DOT) representative, the Executive Director, and the former President of the Association.

2. **Powers and Obligation:** The Board of Directors is charged the responsibility of accomplishing the purposes and objectives of the Association. It shall manage and control all properties of the Association, and shall exercise all the corporate powers inherent thereto.
3. **Vacancy:** Any vacancy in the Board of Directors shall be filled in the manner provided by the Corporation Code but only for the unexpired term of the Directors whose position is vacated.

ARTICLE VIII: ELECTIONS

1. An election committee of two members from the Hotel Division; two members from the Restaurant Division and one member from the Allied Division, and one member from the Associate, shall be appointed by the President with the approval of the Board of Directors at least four (4) weeks prior to the election date from among members who will not be candidates to screen nominations and set-up election procedures.
2. Voting for the election of directors of Officers shall be the official representatives of the bona fide member or his authorized alternate as officially certified by the Secretary. No proxy vote shall be allowed.
3. **Qualifications of Candidates:** Only duly authorized representatives of member firms in good standing and without any outstanding dues with the Association may be elected or appointed to any office or position in this Association. It is understood that any individual elected or appointed as

officer or director of the Association is deemed to be elected or chosen on the basis of his personal qualities and that it is not the member firm represented which occupies the position or office. In that event they any officer or director during his incumbency should cease to be a duly authorized representative of a member firm he shall be automatically considered as having vacated the position or office unless within sixty (60) days therefrom should again become a duly authorized representative of a member firm.

4. Any bonafide member can be elected "in absentia" provided he has previously indicated his acceptance of availability for the nomination in writing (except if nomination will be undertaken in the floor during the convention proper).
5. The election of officers and directors shall be by secret ballot.

ARTICLE IX: CHAPTERS

1. The Association shall encourage the establishment of Chapters in all provinces and chartered cities except in Metro Manila, the organization of which shall be approved by the Board of Directors and governed by the provisions of this Article. All chapter fund raising activities shall require prior approval of the HRAP Board of Directors.
2. **Nature and Purpose:** These Chapters shall be chapter organizations within the organizational framework of the Association and, as Chapter organizations, they shall elect their own directors, officers, and administer their affairs in accordance with the following guidelines:
 - a. Their purpose and activities shall be in conformity with the objectives of the HRAP.
 - b. They shall establish their own administrative policies, rules and regulations, as they deem appropriate, provided there are not in conflict with the interests of the HRAP.
 - c. They shall clearly identify themselves as HRAP chapters.
 - d. They shall participate in activities of the HRAP whenever their participation is to the best interest of the organization as a whole.
3. **Dues and Assessments:** Each chapter shall pay annual dues in an amount to be fixed by the Board; and fees special assessments as may apply to a regular member.
4. **Right to vote:** Each chapter shall be entitled to two (2) votes for every group of fifteen (15) each member hotels and restaurants, to be counted as one vote for hotel division and one vote for restaurant division. The votes of each chapter shall be cast by its duly assigned representatives.

ARTICLE X: COMMITTEES

1. There shall be standing and ad-hoc committees appointed by the President with the approval of the Board to take charge of the specific functions of the Association.
2. **Composition:** The composition of each committees shall at all times include a chairman and a minimum of two (2) members. In all cases, at least one (1) member of each committee shall be drawn from the Board and one (1) may be appointed but not necessarily as committee chairman. The President, upon his discretion, may delegate to the Chairman the selection of members to serve in said committees.
3. **Appointments:** The Chairman and members of each committee shall be appointed at the first Board meeting of the incoming President or within 30 days after such meeting. Each committee members shall serve until his successor has been appointed.
4. **Standing Committees:**
 - 4.1 **Membership Committee-** The primary function of this committee shall be to screen all applicants for membership and make recommendations to the Board for final approval. The committee may set its own rules and related to membership drives and acceptance of new members; provided however, that such rules do not contradict the provisions on membership set forth in these By-Laws. The committee shall assist the Secretary on the quarterly revision of membership roster and shall sit jointly with the Ethics Committee on investigation and deliberations pertinent to cancellation of membership. This committee is charged with the function of conducting the annual membership drive.
 - 4.2 **Finance Committee-** The primary function of this committee shall be to oversee the income, expenditures, properties, investments, trust funds, and other negotiable assets of the Association to ensure the maximum protection of financial stability.
 - 4.3 **Legislation Committee-** The primary function of this committee is to keep posted, review and analyze all proposed bills, ordinances, decrees and rules and regulations covered by circulars emanating from pertinent government agencies and affecting the members of the Association and the hospitality trade and industry in general. This committee shall inform the Board of matters deemed disadvantageous to the industry and submit special studies, position papers and proposals as to the courses of action to take to preserve the welfare of the industry. It shall work hand in hand with the Government Liaison Committee.
 - 4.4 **Government Liaison Committee-** The primary function of this committee shall be to establish communications and to make representations with the government agencies concerned on issues recommended by the Legislation Committee as requiring immediate action through its committee shall also represent the Association when necessary, in hearings and

dialogues conducted by government agencies for the purpose of resolving questions affecting the interests of the industry.

4.5 Ethics Committee- The primary function of this committee shall be to act as safeguard over the business ethics of the members, consider the complaints filed with the Association and submit recommendations to the Board. It shall also arbitrate on conflicts between members adversely affecting the interests and general welfare of the Association. In the exercise of its functions, the committee shall at all times be guided by the objectives as provided for in these By-Laws and Code of Ethics prescribed by the Association. The committee on investigations related to cancellation of membership.

4.6 Education Committee- The primary function of this committee shall be to plan and undertake projects geared toward vocational training and manpower development along skills required by the hospitality industry. It shall serve as liaison on behalf of the Association and institutions, schools, or organization engaged in manpower education and training.

4.7 Publication Committee- The primary function of this committee shall be to arrange, prepare and publish or cause the publication of a periodic newsletter or magazine to be distributed among all members and keep them posted on the Association's activities. Whenever called upon by the Board, the committee shall handle the printing of programs, invitations, tickets and the like on behalf of the Association.

4.8 Program Committee- The primary function of this committee shall be to plan and take charge of the monthly meetings and other ceremonies of the Association in terms of scheduling, selecting the place and including in the agenda certain activities designed for the cultural and scientific development among the members. The committee shall also drum up activities intended to promote camaraderie, fellowship and closeness among the members of the Association.

4.9 Special Projects Committee- The primary function of this committee shall be to always be in the look out for good projects and to take charge of special projects thereof and recommended by the Board. Committee shall carry out functions like studying the feasibility of certain projects, and the financing, scheduling the implementation thereof.

5. Ad-Hoc Committee- The president with the approval of the Board may also, from time to time, create committees whose work will be temporary in character and either to execute a specific assignment to assist as standing committee. Like the standing committee, the Chairman of the Ad-Hoc Committee need not come from the Board. Its function shall at all times to be coordinated with the standing committees. Any such committee may be dissolved at any time by the appointing authority.

6. Reports- All committees shall submit reports to the Board pertinent to their activities either regularly or at such time that the Board shall require. The Board shall make the final decision on the actions proposed by each committee.

ARTICLE XI: MISCELLANEOUS PROVISIONS

1. **Account and Audit-** All books and accounts of the Association shall be audited at least once a year by a professional auditor so designated for such purpose by the Board. The books of the Association shall be open for inspection at all times during regular business hours.
2. **Office-** The office of the Association shall be located in Metro Manila, Philippines, as the Board may designate.
3. **Seal-** The corporate seal of the Association shall consist of a circular design on which shall be inscribed the name of the Association and the words "Incorporated 1951, Philippines".
4. **Limit of Indebtedness-** The Board of Directors shall not incur any indebtedness on the part of the Association in excess of the money in the Custody of the Treasurer unless such indebtedness is authorized by the members of the Association at the Annual General Membership Meeting or at a Special General Meeting called for this purpose.
5. **Dissolution-** In the event of dissolution of the Association, its remaining assets, after the payment and liquidation of its liabilities, shall be disposed of and turned over to any non-profit foundation selected by the Board of Directors or to the Republic of the Philippines or any of its agencies or instrumentalities or political subdivision.
6. **Fiscal Year-** The fiscal year shall coincide with the calendar year.

ARTICLE XII: AMENDMENTS

1. **Procedures-** Any provision of these By-Laws may be amended or repealed at an annual, regular or special meeting duly called for the purpose, by the affirmative vote of the majority of the members in good standing and majority of the Board of Directors. The power to amend or repeal any of the By-Laws, or adopt new By-Laws, may be delegated to the Board of Directors by the affirmative vote of two-thirds (2/3) of the members, provided however, that any power so delegated to the Board may be revoked whenever a majority of the members vote in an annual, regular or special meeting duly called for the purpose.
2. **Notice-** Notice of the proposed changes in these By-Laws shall be sent out to the members at least ten (10) days before each proposed change shall be acted upon.
3. **Construction and Interpretation-** Upon all questions of construction and interpretations of these By-Laws the decision of the Board of Directors shall control unless overruled by a majority vote of the members of the Association.

REPUBLIC OF THE PHILIPPINES)
CITY OF MANILA) S.S.

DIRECTOR'S CERTIFICATE

We, the undersigned, on oath taken, depose and say that:

1. We represent the majority of the Board of Directors and the Corporate Secretary of the Hotel and Restaurant Association of the Philippines, Inc.
2. At the regular meeting held last 09 November 1992, we approved the Amendment to the Articles of Incorporation and the Amendments to the New By-laws for the corporation. For reference, a copy thereof is attached herewith and made an integral part hereof.
3. At the meeting called for the purpose last 28 November 1992, two-thirds (2/3) of the members of the corporation likewise approved the Amendment to the Articles of Incorporation and the Amendments to the New By-laws at the principal office.

Makati, Metro Manila, Philippines

MILAGROS C. ARANETA
Corporate Secretary

LORENZO J. CRUZ
GLENDA R. BARRETO

MICHAEL A. GIBB

Appendix E

Trade Unions

National Union of Workers in Hotel, Restaurant and Allied Industries (NUWHRAIN)

The NUWHRAIN-APL-IUF chapters grew from 38 to 44 in 1989 with the formation of new local unions at the Manila Galleria Suites in Mandaluyong; Olympia in Makati; and the Holiday Inn Resort-Clark Field, Mimosa Golf and Country Club and Fontana Leisure Parks at Clark Air Base; and the affiliation of the Goldenfield Garden Hotel union in Bacolod. Individual membership, however, went down to 5,643 from 5,893 in 1998 as employers continued to reduce the regular workforce in the midst of the continuing slump, particularly in the tourism industry.

Nevertheless, at the company level, NUWHRAIN was still able to conclude 5 CBAs, of which four were for the last two years of the existing CBAs at the Intercontinental, Peninsula and Hyatt (RF and Supervisory), and one for the straight 6th CBA of the Dusit, hotels. A total of 13 LMCs were filed during the year (5 in NCR, and one each in Regions I and VI), six of which had been settled amicably leaving only the Goldenfield NOS in Bacolod still pending.

At the regional level, the NUWHRAIN-APL again played a crucial role in securing for workers including its members in Metro Manila a PHP25.50 raise in the minimum wage, thru NCR Wage Order No. 2, starting October 1999.

For the industry level, it launched a series of activities towards helping eliminate child labor and child prostitution, in cooperation with the IUF and ILO; on 27 September, as part of its annual International Trade Union Action Day on Tourism celebration more than 200 NUWHRAIN-APL-IUF members in 20 vehicles held a motorcade rally, pickets and dialogue with the DOLE and DOT to elicit action on a 10-point tourism workers' concerns.

Nationally, the NUWHRAIN continued to take part thru its national center, the Alliance of Progressive Labor (APL). In campaigns to strengthen human, democratic and trade union rights, mainly thru amendments to the Labor Code, and part-list law; and campaigns against poverty, the VFA and charter change.

At the global level, among others, NUWHRAIN again joined the advocacy against free trade (and for fair trade), pro-people reform of the IMF-WB-ADB, and Jubilee 2000 Debt Campaign; the Free Burma Campaign; and the solidarity work for Indonesia and East Timor. It also hosted the holding of the 6th IUF-Asia Pacific Hotel, Restaurant, Catering and Tourism (HRTC) Conference at the Dusit in May 1999, and provided resource persons for the HRTC organizing drive in Indonesia, Sri Lanka and India.

Annex B

In December 1999, a new set of national officers led again by Nestor Cabada were directly elected nationwide to serve for the 5-year term until 2004, all of whom commit to carry on the annual and long-term activities of NUWHRAIN-APL-IUF.

Appendix F

Investment Priorities Plan and Implementing Guidelines

Part I

2000 PRIORITY INVESTMENT AREAS

I. NATIONAL LIST

The **National List** is a list of Activities under the IPP which activity/activities are deemed National in scope, eligible for incentives under E.O. 226, and subjects to General and Specific Guidelines.

EXPORT ACTIVITIES*

1. **Manufacture/production of non-traditional products**
(minimum export requirement of 50% if Filipino-owned; 70% if foreign-owned)

Non-traditional products shall exclude: (a) copra (b) crude coconut oil (c) desiccated coconut (d) copra meat and cake (e) inedible molasses (f) pineapple in syrup (g) logs (h) lumber (i) plywood and veneer and (j) unmanufactured tobacco.

2. **Export trading**

Trading of non-traditional export products

3. **Services**

Export of services such as knowledge, information, technology and systems and/or application or installation thereof in the project sites

Services provided to international airlines/shipping lines/military aircraft or seacraft even if rendered locally may qualify for registration provided revenues are paid for in foreign currency. Mere deployment of people or individual practice of profession abroad shall not qualify for registration.

4. **Support to exporters**

* May cover modernization activities

Manufacturing activities and services rendered to exporters except financing services and trading other than export trading

SUPPORT TO GOVERNMENT PROGRAMS

1. Agricultural/fishery/forestry production, processing and services*

- Commercial production of agricultural crops, livestock, and poultry, feeds/feed ingredients, fish species, and forest species seedlings
- Processing of agricultural and fish products/by-products/wastes
- Service /activities in support to the foregoing activities and to industrial tree plantation

2. Information Technology Services*

- Software Development Projects
 - System Software
 - Middleware
 - Application software
- IT enables services
- Support & knowledge-based services
- Business process out sourcing

3. Mass housing projects including development and fabrication of housing components**

4. Drugs and Medicines*

5. Social Services*

- Educational training institutions specializing in developing skills for the manufacturing, agriculture, fishery, forestry, mining, tourism, infrastructure and service sectors

* May cover modernization activities

** Coverage of modernization limited to fabrication only

- Health service such as hospitals, diagnostic centers, therapy centers, clinical laboratories, ambulatory health care facilities, facilities for mentally-ill patients, and other health services (as determined by the BOI in consultation with the Department of Health and other government agencies concerned)
- Social welfare services such as day care centers, senior citizens centers, centers for disabled, trauma/crisis centers, rehabilitation centers for youth offenders in selected areas and out-of-school youths centers, and other social-welfare services, (as determined by the BOI in consultation with the Department of Social Welfare and Development and other government agencies concerned)
- Retirement villages (limited to new projects only)

6. Tourism*

- Tourist accommodation facilities such as hotels, apartels, tourist inns, pension houses, and resorts

Resorts may also include special interest activities (that may or may not have accommodation facilities) such as but not limited to theme parks, convention and exhibition/trade display centers, eco-tourism projects and those involving environmentally-sound tourism activities in a given ecosystem/specific locality.

- Tourism estates
- Tourist buses
- Historico-cultural heritage projects covering the restoration of historical and cultural sites and properties identified, classified and declared as such by the National Historical Institute

Other cultural properties shall be endorsed by the National Commission for Culture and the Arts and the Department of Tourism.

- Agricultural – Tourism Projects
-

7. Environmental Projects*

- Development or conversion of Industrial Ecosystem
- Industry self-regulation at the plant/firm level
 - Activities leading to environmental management systems certification (i.e., IS 14000)
 - Activities in compliance with multilateral agreements where the Philippines is a signatory (i.e., Montreal Protocol Prescriptions on Ozone Depleting Substances and International Framework Convention on Climate Change)
- Establishment of toxic and hazardous waste facility
- Establishment of waste handling facilities/sewerage systems for industrial/municipal wastes (may include rehabilitation)
- Projects on Philippine rivers environmental management and rehabilitation similar to the activities under the Pasig River Rehabilitation Program
- Installation of pollution control devices in compliance with the Clean Air Act (R.A. 8749)

8. Infrastructure*

- Establishment of physical infrastructure similar to and/or those covered under BOT (R.A. 6957, as amended by R.A. 7718), Industrial Estates/ Communities, Service Cities, Urban Community Redevelopment, IT Parks, and Energy Conservation Activities projects, among others.

9. Common Carriers*

* May cover modernization activities

- Public utility land, air, and water transport. Air and water facilities may involve cargo operations only
- Pipeline operations for transport of petroleum products and/or natural gas, petrochemicals, and similar products.

10. Engineered Products*

- Manufacture of machinery and equipment such as metalworking machinery (tools & dies included), special purpose industrial machinery, electrical machinery, agricultural machinery, communication equipment and apparatus, medical equipment and/or devices, and office, computing and accounting machinery, including their parts and components
- Preparation of designs of machinery and equipment and/or their parts and components
- Radio and television manufacturing projects (limited to modernization only)

11. Projects of Cooperatives*

- Activities undertaken by producer cooperatives (e.g., agricultural, fishery, and industrial cooperatives) and service cooperatives.

12. Development of Energy Sources

- Development of renewable energy sources such as natural gas and liquefied natural gas.
- Mini-hydro electric power

13. Shipbuilding/shiprepair/shipbreaking*

14. Manufacture of motor vehicles and parts and components*

* Covers modernization activities

15. Research and development activities (may include in-house activities)

MANDATORY INCLUSION

PREVAILING LAW	ACTIVITY
1.	Activities under the Agricultural & Fisheries Modernization Act under R.A. 8435
2.	Production and/ or processing of High-Value crops under R.A 7900
3.	Commercial Fishing under R.A. 8550
4.	Industrial Tree Plantation under P.D. 705
5.	Iron & Steel Projects under R.A. 7103
6.	Exploration, mining, quarrying, and processing of minerals under R.A. 7942
7.	Publication or printing of books or textbooks under R.A. 8047
8.	Activities under the Jewelry Industry Development Act (limited to export-oriented projects) under R.A. 8502
9.	Projects under BOT (costing more than P1.0 billion under R.A. 6957 as amended by R.A. 7718
10.	Refining, storage, marketing and distribution of petroleum products under R.A. 8479
	Manufacturing, processing of coconut-based and natural aleochemical biodegradable surfactants under R.A 8970

Production/ Manufacture of iodized salts under R.A. 8172

11. AICO (ASEAN Industrial Cooperation Agreement) projects

Sharing of industrial activities between ASEAN- based companies. A minimum of two companies in two different ASEAN countries are required to form an AICO arrangement.

II. REGIONAL LIST

The Regional List is a List Activities under the IPP which are Regional in scope for which projects/ activities should be implemented in the identified region where it shall be located. The eligibility to incentives under E.O. 226 shall be determined by the location of the project and subject to General and Specific Guidelines.

A. MANUFACTURING/PRODUCTION ACTIVITIES

Region	Activities
CAR	<ul style="list-style-type: none"> • Gifts, Toys and Housewares • Jewelry • Pulp and Paper • Textiles* and Garments & Articles of Textiles
I	<ul style="list-style-type: none"> • Furniture • Packaging Products • Textiles* and Garments & Articles of Textiles • Gifts, Toys and Housewares
II	<ul style="list-style-type: none"> • Composite Board • Gifts, Toys and Housewares
III	<ul style="list-style-type: none"> • Chemical Products* • Composite Board • Jewelry • Leather and Leathergoods • Pyrotechnics
IV	<ul style="list-style-type: none"> • Chemical Products*
V	<ul style="list-style-type: none"> • Chemical Products* • Chemical Products (Organic Chemicals)* • Furniture • Gifts, Toys and Housewares • Industrial Carbon* • Jewelry
VI	<ul style="list-style-type: none"> • Composite Board

Annex B

- Furniture
 - Gifts, Toys and Housewares
 - Industrial carbon*
 - Jewelry
 - Leather & Leather goods
 - Pulp and Paper
 - Textiles* and Garments & Articles of Textiles
- VII
- Composite Board
 - Gifts, Toys and Housewares
 - Jewelry
 - Packaging Products (Wooden container)
 - Pulp & Paper
 - Textiles* & Garments & Articles of Textiles (Hand of Loomwoven Products*)
- VIII
- Chemical Products (Oleochemicals) *
 - Industrial Carbon*
 - Pulp and Paper
 - Textiles* and Garments & Articles of Textiles (Cordage)
- IX
- Composite Board
 - Gifts, Toys and Housewares
 - Jewelry and Gemstone
 - Pulp and Paper
 - Rubber Footwear
 - Textiles* and Garments & Articles of Textiles
- X
- Chemical Products* (Inorganic Fertilizer, Lubricants*, Oleochemicals* & Parts)
 - Composite Board
 - Pulp and Paper
 - Wood Products
 - Soaps, Detergents, Shampoos*
- XI
- Chemical Products*
 - Gifts, Toys and Housewares
 - Industrial Carbon*
 - Packaging Products (Glass Packaging)
 - Textiles* and Garments & Articles of Textiles

- XII*
- Chemical Products*
 - Composite Board
 - Furniture
 - Gifts, Toys and Housewares
 - Jewelry
 - Pulp and Paper
 - Rubber Footwear
 - Textiles* and Garments & Articus of Textiles

- CARAGA*
- Chemical Products (Essential Oils) *
 - Composite Board
 - Furniture
 - Gifts, Toys and Housewares
 - Jewelry
 - Pulp and Paper

SPECIFIC COVERAGE

ACTIVITY	COVERAGE/DEFINITION
Chemical Products	<ul style="list-style-type: none">• Manufacture of organic chemicals, inorganic fertilizer, oleochemicals, lubricants, essential oils, paints, and petrochemicals
Composite board	<ul style="list-style-type: none">• Manufacture of composite boards (e.g. particle board) using natural resource-based materials/ wastes and industrial refuse
Furniture	<ul style="list-style-type: none">• Manufacture of furniture
Gifts, Toys and Housewares	<ul style="list-style-type: none">• Manufacture of baskets, shellcraft, woodcraft, stonecraft, fibercraft, and fossilized dried flowers and ornamental ceramic products
Industrial carbon	<ul style="list-style-type: none">• Manufacture of coal/ charcoal

* May cover modernization activities

	briquettes, activated carbon, carbon black and acetylene black
Packaging products	<ul style="list-style-type: none"> • Manufacture of packaging products or materials
Pulp and paper	<ul style="list-style-type: none"> • Manufacture of pulp and/or paper products
Pyrotechnics	<ul style="list-style-type: none"> • Manufacture of firecrackers and pyrotechnics devices as defined and listed under R.A. 7183 (excluding industrial explosives)
Rubber Footwear	<ul style="list-style-type: none"> • Manufacture of rubber shoes and parts thereof, sandals and slippers
Textiles and Garments & Articles of Textiles	<ul style="list-style-type: none"> • Manufacture of textile, items of clothing and other wearing apparel and made articles of textile
Soaps, Detergents and Shampoos	<ul style="list-style-type: none"> • Manufacture of soaps, detergent and shampoos (may be integrated with production of raw materials)
Wood Products	<ul style="list-style-type: none"> • Manufacture of window and door panels, jambs, moldings, and other builder joinery

B. INDUSTRY CLUSTERS*

An industry cluster is a group of interlinked or related activities composed of industries, suppliers, required support services, infrastructure and institutions.

REGION	Coverage: CLUSTER/S
NCR	<ul style="list-style-type: none"> • Footwear Center
CAR	<ul style="list-style-type: none"> • Wood Center
I	<ul style="list-style-type: none"> • Loomweaving Center

* May cover modernization activities

Annex B

II	<ul style="list-style-type: none">• <i>Wood Center</i>
III	<ul style="list-style-type: none">• <i>Fine Jewelry Center</i>• <i>Food Center</i>
IV	<ul style="list-style-type: none">• <i>Automotive Parts and Components</i>• <i>Electronics</i>
V	<ul style="list-style-type: none">• <i>Coconut Center</i>• <i>Pili Center</i>
VI	<ul style="list-style-type: none">• <i>Marine Product Center</i>• <i>Pili Center</i>
VII	<ul style="list-style-type: none">▪ <i>Costume Jewelry Center</i>▪ <i>Fashion Accessories Center</i>▪ <i>Home Furnishing Center</i>
VIII	<ul style="list-style-type: none">• <i>Coconut Center</i>• <i>Abaca Center</i>• <i>Aquamarine Center</i>• <i>Food Center</i>
IX	<ul style="list-style-type: none">• <i>Seaweed Center</i>• <i>Fish Center</i>• <i>Rubber Center</i>
X	<ul style="list-style-type: none">• <i>Rubber Center</i>
XI	<ul style="list-style-type: none">• <i>Fish Center</i>
XII	<ul style="list-style-type: none">• <i>Food Center</i>
CARAGA	<ul style="list-style-type: none">• <i>Wood Center</i>

Part II
AUTONOMOUS REGION OF MUSLIM MINDANAO (ARMM) LIST

A. EXPORT ACTIVITIES

1. Export Trader and Service Exporters

2. Support Activities for Exporters

B. AGRICULTURE FOOD AND FORESTRY-BASED INDUSTRIES

1. Processed Food

- Production and processing of Halal meat
- Leguminous and other vegetable-based protein (textured, palletized or liquid)
- Spices processing (e.g., hot pepper, black pepper, ginger, etc.)
Note: May be integrated with plantation
- Vegetable oils (e.g., peanut oil, rice bran oil, sunflower and soybean oil) Production of food crops
Note: Maybe integrated with post-harvest processing and other vegetables (such as Tomatoes)
- Integrated coconut processing
- Seaweeds processing
- Cassava processing
Note: May be integrated with plantation
- Fruit processing (e.g., durian, mangosteen, jack fruit, marang, banana, mango, passion guava, calamansi, and guyabanos)
- Aquaculture (Fish Production and Processing) such as, but not limited to:
 - Frozen fish
 - Chilled fish
 - Canned fish
 - Abalone
 - Crab fattening
 - Eel production
 - Squid processing
 - Carp and tilapia production and processing
 - Tropical fish production and processing
 - Shrimps/prawn
 - Lapu-lapu (Grouper) and other marine products

- Corn flour mill (Integrated with plantation)
- Young corn production
- Note: May include processing/canning
- Mushrooms culture and processing
- Sweet potato plantation and processing
- Crocodile farming and processing

2. Cutflower Production

3. Pearl Culture and Processing

4. Industrial Tree Plantation (Include Mangrove, Rattan, Bamboo, etc.) and wood processing (cement wood board and fiberboard) reconstructed veneer

5. Shipbuilding and Watercraft

6. Abaca Pulp Plantation and Processing

7. Palm Oil Plantation and Processing

8. Coffee Processing (maybe integrated with plantation)

9. Particle Board (use of agri-based waste material such as rice straw, wood waste, etc.)

10. Activated Carbon Manufacturing (use of coconut shell, wood based, etc.)

11. Feeds Production (animal feeds and feeds for aquaculture)

12. Tobacco Plantation and Processing

13. Production of Beverage Crops (but not limited to)

- Cacao beans
- Coffee beans (Arabica variety)

14. Production of Plantation Crops and other Medical Herbs/Essential oil plants (including flower extracts)

15. Production of Livestock and Poultry (including dairy products)

- Beef (including cow-calf and feedlot operations)
- Carabao (water buffalo) production
- Goats and sheep
- Frozen semen and embryos
Note: includes natural method and artificial insemination and embryo transfer technology

16. **Bricks and Roofing Tiles production**
17. **Quality Seeds and Seedlings of Fruit Trees and Other Planting Materials Propagated Asexually or by Tissue Culture**
18. **Sugarcane Plantation and Refineries**
19. **Sericulture**
20. **Mosquito Coil Processing**

C. BASIC INDUSTRIES

1. **Pharmaceuticals**
 - Antibiotics
 - Penicillin
 - Streptomycin
 - Tetracycline's
 - Soft gelatin capsules
2. **Medical Devices**
 - Prosthetics
 - Diagnostics
3. **Other pharmaceuticals**
4. **Textile and Textile Products**
 - Yarns and fabrics
 - Hand-woven textiles
 - Specialty fabrics
 - Tire cord fabrics
 - *Note: Must be integrated with weaving and dipping units.*

- Ramie (degummed, staple fiber, combed tops, noels and slivers)
- Fish nets
- Fabrics made of indigenous raw materials
- Silk reeling

**5. Fertilizers (organic and inorganic)
Solid waste materials**

6. Mining (Exploration and development of Mineral Resources)

- Mining and quarrying of metallic and non-metallic minerals (including small scale as defined under P.D. 1899, but to exclude river beds in operations)
- Processing of minerals (such as beneficiation and other metallurgical methods)
- Cement – At least 1.0 MTPY Capacity (clinker based)

D. CONSUMER MANUFACTURES

1. Rubber Products such as:

- High pressure and hydraulic rubber hoses
- Rubber bolts
- Industrial rubber rollers
- Rubber tires

2. Leather Products

E. INFRASTRUCTURE AND SERVICES

1. Public Utilities (with developmental route of the four provinces of the ARMM and other adjacent Cities and Provinces)

- Common carriers (land, air and water transport facilities)
 - Electric transmission/distribution
- Water supply facilities/waterways and sewerage systems
 - Buses/cargo trucks
 - Other specialized mass transport systems
- Power generation like hydro power, and geothermal

2. Telecommunications with International Gateways

3. Tourism

- Tourism estates

Subject to guidelines developed jointly by the Board of Investments– ARMM and Department of Tourism (DOT)

- Tourist accommodation facilities
 - Hotels
 - Resorts
 - Other tourist accommodation facilities such as apartels, pension houses, tourist inns, and others.
- Tourist transport facilities
 - Air
 - Water
 - Tourist buses and taxi/van

*Note: *Endorsed by the DOT*

***New and expansion projects may be registered*

4. Agriculture- Fisheries Infrastructure and Services Under the Agriculture and Fisheries Modernization Act, R.A. 8435

5. Industrial Service Facilities

Coverage:

Common centers:

- Testing and quality control laboratories
- Training and demonstration centers
- Tool shops and similar facilities
- Metal working
 - * Electroplating
 - * Foundry
 - * Forging
 - * Machining
 - * Heat treatment
 - * Brass making
- Furniture
 - * Kiln drying
 - * Treatment and processing facilities
- Ceramics
 - * Kiln
 - * Glazing
- Food Processing

- * Bottling and canning of distilled Water
- * Industrial salt
- * Vapor heat treatment
- * Slaughterhouse/abattoir
- Automotive battery plate manufacturing
Note: The following criteria must be met:
 - a. *The project will serve the common needs of the industry in the locality and;*
 - b. *The project will improve the relative status and comparative advantages of the industry*

Development of retirement villages

- Shall include health and medical facilities including amenities required by the Philippine Retirement Authority (PRA).
- Subject to the guidelines to be approved by BOI-ARMM in consultation with the PRA, the Department of Health (DOH), the Regional Planning and Development Office (RPDO) and other concerned agencies.

6. Petrochemical Complex

7. Industrial Gases (such as oxygen and nitrogen)

8. Miscellaneous Chemical Products

- Biotechnological/biosynthetic chemicals
- Essential oils
- Fine chemicals

F. ENGINEERING INDUSTRIES

1. Engineering Products

- Motor vehicle part and components
- Automobile parts and assembly
- Modern offset printing

2. Electronics and Telecommunications Products

G. ARMM PRIORITY AND TOURISM AREAS

NOTE: Listed below are potential tourist destinations which need further exploration and evaluation for intensified promotions, development and marketing.

NUCLEUS	GATEWAY	SATELLITE DESTINATION
Area I – Sulu	Jolo	Sulu Province
Area II – Tawi-Tawi	Bongao	Tawi-Tawi Province
Area III – Lanao del Sur	Marawi City	Lanao del Sur Province
Area IV– Maguindanao	Cotabato City	Maguindanao Province

Part III GENERAL POLICIES

I. Regional Dispersal of Industries

To influence industry and encourage enterprises to locate outside NCR, the BOI uses the incentive package of E.O. 226 to encourage registered enterprises to locate in other regions of the country.

Registered projects locating in Less Developed Areas (LDA) listed below, may enjoy a six (6) year income tax holiday regardless of status (pioneer or non-pioneer) or type of project (new or expansion) as well as additional deductions from taxable income equivalent to expenses incurred in the development of necessary and major infrastructure facilities. This privilege, however, is not granted to projects engaged in mining, forestry and the processing of minerals and forest products since they would naturally locate in such areas to be near the sources of their raw materials.

LESS-DEVELOPED AREAS

REGION	PROVINCE	REGION	PROVINCE
CAR	Abra Mountain Province Kalinga	VII	Siquijor Negros Oriental
		VIII	Eastern Samar

	Ifugao		Northern Samar
	Apayao		Western Samar
II	Nueva Vizcaya		Biliran
	Quirino	IX	Basilan
	Batanes		Zamboanga del Norte
III	Bataan**	X	Misamis Occidental
	Pampanga**	XI	Davao Oriental
	Tarlac**		Davao del Norte
	Zambales**		Saranggani
IV	Aurora	XII	Sultan Kudarat
	Romblon		North Cotabato
	Oriental Mindoro	XIII	Agusan del Sur
	Occidental Mindoro		Surigao del Sur
	Marinduque	ARMM	Lanao del Sur
V	Masbate		Maguindanao
	Camarines Norte		Sulu
	Catanduanes		Tawi-tawi
VI	Antique		
	Aklan		
	Guimaras		

** Lahar-affected provinces treated as LDAs during the effectivity of this IPP.

Complementary to the provision of the law granting maximum incentives to registered enterprises in LDAs, the BOI limits incentives to firms that locate in congested urban centers. Initially, the locational restriction applies to the National Capital Region (NCR) wherein projects are not entitled to ITH.

Exemption from the above locational restriction however may be given to the following:

1. Projects locating in the following government industrial estates declared as such by national law or by presidential proclamation prior to 1 January 1989.
 - a) Dagat-Dagatan (PD 569 dated 30 Oct. 1974)
 - b) Vitas Industrial Estate, Tondo (EO 1086 dated 31 January 1986, as amended/expanded through Presidential Proclamation No. 39 dated 9 September 1992 and Proclamation No. 465 dated 1 August 1994) (Vitas Industrial Estate/Smokey Mountain)
 - c) Bagong Silang Industrial Estate, Caloocan City (Presidential Proclamation No. 843 dated 26 July 1971)
 - d) FTI, Taguig (LOI 900 dated 25 July 1979)

e) Navotas Fishing Port Complex (EO 772 dated 8 Feb. 1982)

2. Service-type projects with no manufacturing facilities, such as, but not limited to, software development, data encoding, film reproduction/animation, editorial services, design and pattern-making for export oriented industries, gemstone cutting and polishing, dentures/prosthetics, and cold storage facilities for agricultural products.
3. Environmental, public utility and infrastructure projects except industrial communities, service cities, mass housing development projects and industrial estates projects.
4. Expansion projects for export: Expansion projects for export-oriented enterprises within Metro Manila are eligible for registration and incentives.

For projects earlier registered as new with a first time expansion, these shall be exempt from the industrial location policy provided that in addition to the usual guidelines for registration of expansion projects, all of the following conditions are met:

- a) Expansion shall be effected within the firm's existing premises;
- b) The enterprise has a good track record of exports and has no record of violation of the terms and conditions governing its existing registration(s), specifically, the earlier project exceeded its projected export commitment in the past three (3) years prior to July 1997;
- c) That the expansion project shall export at least 70% of its production;
- d) As a general rule, the acquisition of brand new equipment applies; and,
- e) Use of production processes/equipment that meet environmental standards.

Existing expansion projects proposing to expand in their nth time within Metro Manila may also be allowed provided they meet all of the above conditions as a preliminary and subject to other conditions the Board may impose upon certain findings on the project.

Expansion projects shall be registered provided the project's activity is listed in the current Investment Priorities Plan.

5. Modernization Projects

II. Promotion of Small and Medium-Sized Enterprises (SMEs)

In line with the MTPDP, the BOI promotes the development of small and medium-sized enterprises on account of their contribution to employment generation, countryside development, and the cultivation of the Filipino entrepreneurial spirit. The sectors given priority under the SMEs are the activities that will support exports and the priority programs of the government as well as those with strong or with potential industrial linkage.

In addition to the incentives under E.O. 226, assistance to small and medium sized projects may be made available through BOI. These comprise:

1. Assistance in the preparation of project feasibility studies (PFS) for BOI registration;
2. Business consultancy;
3. Availability of an exchange and assistance facility that identifies SME support companies of a registered enterprise, thereby encouraging intra-sector linkages;
4. Technical assistance through the BOI's regular programs which include the JETRO Supporting Industries Promotion Program;
5. Assistance in sourcing financing support; and,
6. Entrepreneurial assistance to overseas contract workers who mostly tend to engage in SMEs.

For the year 2000, BOI will continue to target a minimum of eighty percent (80%) SME registered companies relative to total registrations as previously specified in the past IPPs.

III. Encouraging Upstream Linkages or Registered Activities

To best assist the registered enterprises, and at the same time stimulate investments in corresponding SME support industries, the BOI provides an information exchange and assistance facility that will identify SME support companies of a registered enterprise and, thus, encourage intra-sector linkages.

Projects locating in the Autonomous Region in Muslim Mindanao (ARMM) should register with the respective BOI Office.

IV. Policies on Project Type

Projects may be considered NEW, EXPANSION or EXISTING based on the following conditions:

A. New Projects

Other than the normal definition of a new project, i.e., one to be established by a newly formed/incorporated enterprise, the following are deemed new projects and shall enjoy the corresponding privileges.

1.A project to be established by an existing enterprise with existing business operation(s) entirely distinct and different from the proposed project in terms of final product, production process, equipment, and raw materials;

2.A project to be established by an existing enterprise along the same line of business as any of its existing operations provided the new project shall be in a site beyond a fifty (50) kilometer radius from any of its existing plants;

3.A project to be established by a new enterprise whose stockholders are also stockholders of an existing enterprise engaged in the same activity may be registered as new, provided that the common stockholders in the existing enterprise do not own more than seventy percent (70%) of the equity in the new enterprise;

4.A project will involve the reactivation of facilities that have been idle for at least one (1) year;

5.A rehabilitation or modernization project of a power plant of the National Power Corporation under a Rehabilitate-Operate-Transfer or Rehabilitate-Operate-Own scheme;

6.A project acquired from the Assets Privatization Trust;

7.A project whose existing operation will be closed but will open new facilities for the same activity outside its old facility; will change its entire equipment; and open up an entirely new line. The new facility should be competitive;

8.Projects with idle plants for less than one year or are operating at a substantially low level (to be determined on a case to case basis) may be treated as new if all the following conditions are met:

- a) Substantial new investments from new stockholders equivalent to at least 25% of total assets of the company before buy-in and resulting in the new stockholders owning majority shares of the company;
- b) The new investments shall be used for upgrading the existing facilities to make it competitive; and,
- c) The buy-in will result to a minimum increase of 50% in operating capacity.

B. Expansion Projects

An expansion project refers to a project that meets all of the following:

- 1.an increase in capacity of an existing facility by more than twenty-five percent (25%);
- 2.the output shall not be distinct from existing products;
- 3.the setting up of facilities within fifty (50) kilometers from the existing site; and,

4. more than seventy percent (70%) of its equity is owned by the same set of stockholders/owners of another enterprise engaged in the same activity.

As a general policy, BOI-registered enterprises shall qualify for the registration of an expansion project provided eighty-five percent (85%) utilization of its registered capacity (for manufacturing activity) has been attained. If a portion of its existing capacity has been committed to exports, the enterprise should have met at least seventy percent (70%) of this commitment.

C. Existing Export Projects

As provided for under Article 32 of E.O. 226, existing export projects are those that are engaged in activities not listed in the IPP but will export part of production under such conditions and/or limited incentives as the Board may determine.

V. Multi-Phased Projects

Projects where capacity build-up shall be implemented in several stages over a period of time, shall be registered on a per phase basis. The first phase will be registered as a new project and the succeeding phases may be registered, if qualified, as expansions.

This policy shall, however, not apply to infrastructure projects where commitment for total development is required.

VI. Projects Critical to the Environment

A. New and expansion projects shall be required to secure an Environmental Compliance Certificate pursuant to P.D. No. 1586 (Philippine Environmental Impact Statement System).

B. All projects that will involve handling, transport, processing and/or storage of toxic, hazardous substances and/or nuclear wastes shall be subject to the provisions of R.A. No. 6969 (Toxic and Hazardous Substances and Nuclear Wastes Control Act of 1990) and such other laws and/or presidential proclamations/decrees that may be enacted or issued in the future.

C. No project involving the importation of wastes for final deposition as a material of no economic value to the country shall be eligible for registration.

VII. General Policy on ISO 9000

To assist registered firms to improve their efficiency and competitiveness, the attainment of ISO 9000 certification is promoted to BOI firms registered under the 2000 IPP.

Companies are encouraged to submit a timeframe of activities leading to ISO 9000 certification as a measure to monitor each company's progress towards achieving ISO 9000 accreditation status.

VIII. General Policy on ISO 14000

To encourage the private sector to embrace the concept of Environmental Management Systems (EMS) as a way to achieve a balanced pursuit of productivity and economic growth side by side with environmental standards compliance and ecological integrity of the country, companies are encouraged and supported to adopt a timeframe of initiatives leading to ISO 14000 certification as a measure to track their progress leading to this end or goal.

IX. General Policy on Brand New Equipment

Acquisition of brand new equipment is encouraged.

Part IV
SPECIFIC GUIDELINES TO THE NATIONAL AND REGIONAL LISTS

I. EXPORT ACTIVITIES*

1. Manufacture /production of non – traditional products

This refers to manufacturing/production of non – traditional export products with capability to export at least 50% of its output, if Filipino – owned or at least 70%, if foreign – owned.

2. Export trading

This refers to selling of non – traditional export products abroad.

For an export trader to be eligible for a pioneer status, an enterprise must commit to export at least US\$ 10 million annually and at least fifty per cent (50%) of its exports should be sourced from small and medium enterprises (SMEs).

It must be able to assist the SMEs by providing any of the following: financing, raw materials, components, equipment, or technology.

Export traders may be entitled to the ITH incentive only on their income derived from the following:

- a.) Export of new products, i.e., those which have not been exported in excess of US\$100,000 in any of the two (2) years preceding the filing of the application for registration, or
- b.) Export to new markets, i.e., to a country where there has been no recorded import of a specific export product in any of the two (2) years preceding the filing of the application for registration.

3. Services

This refers to the services rendered to clients abroad such as knowledge, information, technology and systems and/or application or installation thereof in the project sites.

To be eligible for pioneer status, an enterprise must comply with any of the following:

- a.) It must engage in an activity that is new in the country; or

* May cover modernization activities

- b.) It will effect the export of locally developed systems and technology.

Services provided to military aircraft or seacraft are subject to the following:

- a.) Foreign ownership is limited to a maximum of forty per cent (40%);
- b.) Application for registration must include a clearance from the Department of National Defense.

4. Support to exporters

This covers services comprising a portion of the process involving the manufacture of final products, sub – assembly of parts/components of the final export product, fabrication of parts/components of the final export products wherein the raw materials are provided by the direct exporter, product testing and inspection, repair, maintenance and calibration of machinery and equipment used by export – oriented companies utilizing high – technology processes.

Registered enterprises considered as support to exporters must render at least fifty per cent 50% of its services, if Filipino – owned, or seventy per cent (70%) of its services, if foreign – owned to exporters registered with the Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), or other economic zones.

Product testing and inspection shall cover activities that will verify Philippine products' compliance to national and international standards.

Registered enterprises engaged in product testing and inspection shall comply with ISO/IEC Guide 25 (Requirements for the Competence Testing and Calibration Laboratories) and shall be accredited with the Bureau of Product Standards within the first year of registration.

For registered enterprises engaged in the repair, maintenance and calibration of machinery, at least fifty per cent (50%), in case of Filipino-owned, or at least seventy per cent (70%), in case of foreign-owned, of the income should be generated from the servicing of export – oriented firms registered with PEZA or other economic zones.

Repair and maintenance shall cover activities which will ensure the proper operation of machinery and equipment and may include the provision of spare parts and sub – assemblies necessary for the repair.

II. SUPPORT TO GOVERNMENT PROGRAMS

1. Agricultural/fishery/forestry production, processing and services^{*}

- a. Commercial production of agricultural crops, livestock and poultry, feeds/feed ingredients, aquatic species, and forest species seedlings.

Covered under this heading are the activities involving the production, i.e. planting, breeding, growing, raising, harvesting, post-harvest processing, of agricultural crops (food crops, industrial crops, feed crops, fiber crops, ornamental plants, etc.), livestock (pigs, cattle, goats, etc.) and poultry (chicken, ducks, etc.) aquatic species (fish, crustaceans, mollusks, etc.), and the production of seedlings (whether sexually or asexually propagated) of forest species (such as mahogany, gmelina, falcata, eucalyptus, etc.), and the production of animal and/or fish feeds and/or feed ingredients, all of which are for commercial purposes.

The project may adopt a purely corporate production operation or nucleus estate smallholders (NES) scheme or contract-growing scheme in the production of the agricultural product(s), provided that only the owner of the produce as indicated in the contract/agreement may be qualified for registration with the BOI.

New, expansion, or rehabilitation/modernization of existing farm/project, may qualify for registration.

Project under this sub-heading may be granted pioneer status if it meets any of the definitions 1), 2) and 3) of Article 17 of EO 226. However, to qualify for pioneer status on the basis of definition no. 3), an endorsement from the Department of Agriculture that the project is feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self-sufficiency and other social benefits of the project, must be secured and submitted by the proponent as supporting document to the application for registration.

Proponent must be at least 60% Filipino. However, if the project qualifies for a pioneer status or at least 70% of total production will be exported, foreign equity ownership may be allowed up to 100% provided that the activity is not included in the negative list of the Foreign Investments Act (FIA).

- b. Processing of agricultural and fish-products/by-products/wastes

^{*} May cover modernization activities

Processing refers to the conversion of raw/fresh or semi-processed agricultural and fishery products or by-products or wastes into intermediate products or final products.

The sub-heading covers, activities involving the processing of agricultural products (crops, livestock and poultry), or fishery products, including their by-products and wastes as the major raw material that could be in their raw/fresh or semi-processed form, into specific intermediate product or final product that are either for food or non-food use.

This also covers toll-processing or contract processing scheme, in which case, the owner of the raw material and the final-product, or the toll-processor may qualify for registration with the BOI. A duly executed contract shall be submitted with the application for registration.

The agricultural/fishery raw materials for processing may be locally sourced through any of the following schemes: 1) contract-growing or nucleus estate smallholders (NES) scheme 2) contract to buy scheme 3) direct buying scheme, or it can be sourced through importation in case the particular product is not locally produced in sufficient quantity and desired quality, provided that the importation should follow the usual procedure.

New, expansion, or rehabilitation/modernization of existing farm, may qualify for registration.

Project under this sub-heading may be granted pioneer status if it meets any of the definitions 1), 2) and 3) of Article 17 of EO 226. However, to qualify for pioneer status on the basis of definition no. 3), an endorsement from the Department of Agriculture that the project is feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self-sufficiency and other social benefits of the project, must be secured and submitted by the proponent as supporting document to the application for registration.

Proponent must be at least 60% Filipino. However, if the project qualifies for a pioneer status or at least 70% of total production will be exported, foreign equity ownership may be allowed up to 100% provided that the activity is not included in the negative list of FIA.

- c. Service activities in support to the foregoing activities and to industrial tree plantation

This sub-heading covers service-oriented activities or service activities rendered for a fee to agricultural producers, agri-processors and industrial tree plantation operations such as but not limited to the following: farm machinery and equipment services, pests and diseases control services, irrigation and drainage services, cold storage and ice plant, provided that ice plant alone should be located in an LDA to qualify for registration, warehousing and bulk storage, mechanized bulk handling, such as grains terminal, specialized transport facilities, abattoir and/or dressing plant, drying and/or milling, food and agri-product terminal market/trading center, intermediation services, and other form of service activities.

The service activity to be registered must be primarily intended to the agricultural and fishery producers, processors, and industrial tree plantation operators. In case the proponent is also an agri/fishery producer or processor or ITP enterprise, it may be allowed to use for itself up to 30% of the total annual service capacity.

New, expansion, or rehabilitation/modernization of existing facility, may qualify for registration.

Proponent must be at least 60% Filipino.

2. Information technology services (ITS) *

IT Services covers projects offering services both in the domestic and international market, in the following activities are eligible for BOI registration:

- a.) Software development projects may be divided into three categories:
 - Application software products refer to the development of packaged software programs that provide solutions to problems specific to an industry or business (such as banking, manufacturing, research and development works, etc.). These also include programs that could address problems and functions across industries (such as human resource management, payroll system, project management and other officer related activities).

*May cover modernization activities

- Middleware products are computer programs that are used: a) as interface among disparate application systems (e.g., web-based applications and mainframe-based or legacy applications; or b) to develop and manage new applications that are robust, scalable and highly available.
- System Software products pertain to the development of operating system-type and software tools-type packaged programs.

Included are Operating Systems and Internet browsers and search engines.

- b.) IT – enabled services cover providers of services related to data encoding, digital directories, digital catalogues, legal records, financial and accounting records, hospital and medical records, engineering and design (e.g., computer-aided structural design), customer-interaction services (e.g., message handling, call centers, help desk), unified messaging services and voice over IP.
- c.) Support & knowledge – based services refer to other types of IT-related professional services, including but not limited to, provision of application or systems as in application service provider or ASP, consulting services, software maintenance services, information systems planning, computer and systems audits and other similar services.
- d.) Business Process Outsourcing (BPO) services form a significant part of the major business process or operating function in a business enterprise where the services are performed by another enterprise which is located remotely from it and the services are rendered regularly and continuously, mainly at the service providers' site and are delivered electronically to the client and/or to other recipients of the services on the clients' behalf.

Individuals, partnerships or corporations interested to engage in Information Technology_Services (ITS) not yet registered and the expansion of existing BOI-registered projects may qualify for registration under E.O. 226 and shall be eligible for incentives thereof.

All ITS projects will be considered preferred areas of investments for the next four years starting from the effectivity of the 2000 IPP.

Since the activity is listed in the IPP, for Filipino entities (at least 60% Filipino – owned), export commitment is not required.

For foreign entities (more than 40% foreign – owned), at least 70% of total services rendered must be exported. If pioneering, 100% of services may be rendered to the domestic market. Provided, however, that the firm complies with the requirement under the Foreign Investments Act that the paid – up capital is at least US \$200,000 which will be lowered to US \$100,000 if (1) the project involves advanced technology as determined by the Department of Science and Technology or (2) hires at least fifty (50) direct employees.

To be eligible for pioneer status, a project must comply with any of the following:

1. It must utilize new or untried technology.
 2. It must have substantial venture capital.
 3. It will introduce a major innovation in software development.
 4. The project cost should be at least P100 million.
3. Mass housing projects including development and fabrication of housing components**

A. Development of mass housing projects

Subject to guidelines to be developed and adopted by the BOI in consultation with the Housing and Land Use Regulatory Board (HLURB), Housing and Urban Development Coordinating Council (HUDCC), and other concerned government agencies.

B. Fabrication of housing components

This covers the fabrication of major mass housing components using non-traditional, structurally sound, and environment-friendly materials/technology. These include roof/framing systems, partition systems, flooring systems, door/window systems, finishing/ceiling systems, and plumbing/sewerage systems.

- a.) The maximum costs of house and lot to qualify for socialized/low cost housing are set by the Housing and

** Coverage of modernization limited to fabrication only

Urban Development Coordinating Council (HUDCC). As of 3 March 2000, the distinctions as a general rule are as follows:

- Socialized housing pertains to house and lot packages costing P180,000 and below for Metro Manila and key urban areas in the country and P150,000 and below for other parts of the country;
- Low-cost or economic housing pertains to house and lot packages costing between P180,000 to P500,000.

b.) The volume of production to be sold to socialized and/or low-cost housing projects shall account for at least seventy per cent (70%) of the total sales volume.

For purposes of ITH availment, the HUDCC shall validate the performance of the performance of the registered firm as to its compliance with the commitment to allocate production volume for socialized housing and/or low-cost housing project, as mentioned in the foregoing.

c.) Separate endorsements from the HUDCC and the DOST are required.

d.) If necessary, the proposed product shall be required to undergo evaluation by the HUDCC under the Accreditation of Innovative Housing Technologies (AITECH) System.

e.) If in any year of commercial operation, the registered enterprise's volume of sale to socialized and/or low-cost housing projects accounts for less than seventy per cent (70%) of the total sales volume, the registration shall be automatically cancelled subject to refund of incentives availed of.

f.) Products, other than steel-based, should conform with the Modular Coordination System (MCS) of the Construction Industry Authority of the Philippines.

4. Drugs and Medicines^{*}

This covers the manufacture of essential drugs (including herbal medicines) listed in the current Philippine National Drug Formulary (PNDF) and active substances of these drugs. An endorsement from

^{*} May cover modernization activities

the Department of Health (DOH) on the proposed activity shall, however, be required upon filing an application for registration.

As a post – registration requirement, the firm shall submit a License to Operate (LTO) issued by the Bureau of Food and Drugs-Department of Health (BFAD-DOH).

5. Social Services*

This covers the following:

a.) Educational training institutions specializing in developing skills for the manufacturing, agriculture, fishery, mining, tourism, infrastructure and service (including the training of maintenance personnel, seafarers complying with international standards and the development of environmental/sustainable disciplines – i.e., pollution control officers/managers, environmental management auditors) sectors.

- The curriculum must be approved by either the Technical Education and Skills Development Authority (TESDA) or the appropriate government agencies, and endorsed by the recognized industry association. Educational institutions other than those established by religious groups and mission boards, shall be owned solely by citizens of the Philippines or corporations or associations at least sixty per cent (60%) of the capital of which is owned by such citizens. [Sec. 4(2) Art. XIV of the Constitution.]
- The registered educational/training institutions must provide training laboratories and laboratory scale manufacturing equipment. An endorsement from DOST regarding acquisition of these equipment is required.
- In-house training facilities of industrial plants may be registered provided no more than thirty per cent (30%) of trainees shall come from within.

b.) Health service delivery that includes hospitals, diagnostic centers, therapy centers, clinical laboratories, ambulatory health care facilities, facilities for mentally-ill patients and other health services as determined by the BOI in consultation with the Department of Health and other government agencies concerned.

- Application for registration involving health/medical/social services must be endorsed by either the Department of
-

Health, Department of Social Welfare and Development and/or other concerned agencies.

- An expansion project is one which will effectively increase the existing capacity by more than twenty-five per cent (25%) in terms of number of beds, if applicable, or an increase in scope of services which may be measured in terms of additional equipment/facilities.
- Establishment of clinics intended solely for mere individual practice of medical profession is not eligible for BOI registration.

c.) Social welfare services which include day care centers, senior citizens centers, centers for disabled and handicapped, trauma/crisis centers, rehabilitation centers for youth offenders in selected areas, out-of-school youths centers, and other social welfare services as determined by the BOI in consultation with the Department of Social Welfare and Development and other government agencies concerned.

- Application for registration should be endorsed by the Department of Social Welfare and Development or other government agencies concerned and must comply with the specific conditions and regulation being imposed by the authorized government agency.
- Projects under BOT Scheme shall be subject to the following additional requirements to be eligible for BOI incentives:
 1. Endorsement of the application for registration by appropriate government entity (DSWD, Local Government Units, any authorized government agency or government-owned corporations)
 2. Copy of the BOT agreement
- A pioneer status shall be granted to a project if it will meet the following conditions:
 1. The project will be using a new technology fielding a concept that has been proven and accepted/endorsed by DSWD or any authorized government agency or government – owned corporation.
 2. Project costing more than P1.0 billion shall be granted pioneer status.

d.) New retirement villages

- Subject to the Guidelines for Registration and Administration of Incentives to Retirement Villages under E.O. 226 developed jointly by PRA, PRAMA, and BOI, published on 24 April 1999 at the Malaya.

6. Tourism*

Applications for registration of all tourism activities must include an endorsement from the Department of Tourism.

a.) Tourist Accommodation Facilities

- New and expanding tourist accommodation facilities may be granted pioneer status if they meet the following:

Type of Activity	Minimum Project Cost	
	Less Developed Area	Elsewhere (excluding Metro Manila)
Hotels	US\$50,000 per room	US\$100,000 per room
Resorts	US\$5.0 Million per resort	US\$10.0 Million per resort

- Tourist accommodation facilities with golf courses must have at least one hundred (100) rooms.

b.) Tourism estates

- This refers to large tracts of land with defined boundaries in any of the destination areas in the country, suitable for development into an integrated complex with prescribed carrying capacities of tourist facilities and activities such as but not limited to accommodation, food and recreational centers and commercial outlets, and provided with roads, water supply facilities, power distribution facilities, drainage and sewerage systems and other necessary infrastructure.
- Tourism estates with a minimum area of one hundred (100) hectares may be granted pioneer status. Those estates of not less than fifty (50) hectares shall be eligible for registration with a non-pioneer status. Those estates in an island less than fifty (50) hectares may also be registered provided the whole area is developed into a tourism estate.
- A tourism estate should have at least five (5) locators.

c.) Tourist buses

- Application for registration should be accompanied by a proof of filing an application with the Land Transportation Franchising Regulatory Board (LTFRB).

* May cover modernization activities

- Buses must be brand new and suited to local conditions.

d.) Historico-cultural heritage projects covering the restoration of historical and cultural sites and properties identified, classified and declared as such by the National Historical Institute

- Subject to the guidelines to be developed and adopted by the BOI in consultation with the Department of Tourism, National Historical Institute and National Commission for Culture and the Arts.

7. Environmental Projects^{*}

a.) Development or conversion of industrial ecosystems (IES)

- This refers to an industrial cluster where waste/pollution minimization is practiced by among other measures, waste materials are converted into raw materials or feedstocks for other factories. This may also include non-manufacturing activities such as hot/chilled water or power generated from surplus resources and supplied to the communities/institutions at affordable rates.
- Eligible applicants must show processing or pre-treatment and recycling operations needed to convert waste/residues into raw materials for use by other firms. Said firms may belong to the same industry or to other industries, such as but not limited to electronics, metals, chemicals, food, packaging industries (which produce the highest volume of waste).
- Non-manufacturing related activities or supply capability to service the communities/institutions within the coverage area such as but not limited to hot/chilled water, power (electricity), gas, etc. may also qualify for registration.
- Projects costing at least P500 million may be granted a pioneer status.
- Industrial cluster must have at least two (2) participating establishments to qualify.

b.) Industry self-regulation at the plant/firm level

- Environmental Management Systems Certification (i.e., ISO 14000)
- ISO 14000 refers to the first set of generic standards being developed by the International Organization for Standardization (ISO) that provides business management with a structure for managing environmental impacts. The standards include a broad range of environmental disciplines, including basic

^{*} May cover modernization activities

environmental management systems (EMS), auditing, environmental performance evaluations (EPE), labeling, life cycle assessment (LCA), and environmental aspects in product standards (EAPS).

- Applicants are required to apply for ISO 14001 accreditation and commit to put up all capital equipment necessary to improve its manufacturing processes to either minimize waste/pollution or achieve better effluent/emission levels including but not limited to waste treatment/anti-pollution equipment/devices.
- Manufacturing activity must utilize equipment aligned to environmentally-friendly operations.

Activities in compliance with Multilateral Agreements (i.e., Montreal Protocol Prescriptions on Ozone Depleting Substances) and International Framework Convention on Climate Change.

- Applicants installing manufacturing improvements in support of specific country RP commitments are entitled to income tax holiday for the specific activity covering the production of products or employment of processes with no less than fifty per cent (50%) reduction of Green House Gases (GHG) or Ozone Depleting Substances (ODS) or any other desired emission material or substance.
- An endorsement from an oversight government agency as to the project's ability to help the country conform with its specific programs results/targets, although not required will be helpful (i.e., Montreal Protocol Desk of the Department of Environment and Natural Resources).

c.) Establishment of Toxic and Hazardous Waste (THW) Merchant Facilities

- Merchant facility refers to an integrated and self-contained facility capable of handling a wide range of toxic and hazardous waste (THW) for processing that involves treatment, storage and disposal (TSD).
- Only projects using locally generated THW are qualified for registration.
- Projects with complete treatment, storage and disposal facilities for toxic and hazardous waste (THW) or projects costing more than P1.0 billion may be granted pioneer status.
- Projects with no disposal facility may be registered with non-pioneer status provided, however, that the project shall have a commitment for the final disposal of waste.

d.) Establishment of waste handling facilities/sewerage systems for industrial/municipal wastes (modernization may include rehabilitation)

- Industrial waste must be limited to non-THW solids/sewers for treatment in this system.
 - Projects with complete range of treatment or segregation/classification, storage/retrieval, delivery/distribution of recycled materials may be granted a pioneer status.
 - Projects costing more than P1.0 billion may be granted a pioneer status.
- e.) Testing/measuring services for emission and effluent and other related environmental parameters (for industrial and vehicular engines preferably with rehabilitation facility)
- Applicant must propose to establish both mobile and stationary emission/effluent testing facilities.
 - Applicant with testing activities integrated with rehabilitation facilities may qualify for a pioneer status.
 - Applicant which will engage only in testing activities shall be granted a non-pioneer status.
 - Applications for registration involving several locations filed simultaneously shall be registered on a per site basis.
- f.) Projects on Philippine rivers environmental management and rehabilitation similar to the activities under the Pasig River Rehabilitation Program

Individuals, partnerships, or corporations engaged in economic activities and investments located along both sides of the Philippine Rivers Systems and their tributaries that will undertake the following activities:

- Relocation of business establishment located within the 10 meter wide easement along both sides of the Pasig River, San Juan River, Marikina River, and 3 meter wide on both sides of smaller streams that cause the pollution of the said waterways to other areas except Metro Manila.
- New Business/Project provided that the enterprise is deemed to have complied or is complying with the requirements of the programs of the PRRC.
- Rehabilitation / Modernization of Existing Plant
- Retooling / establishment of pollution control abatement facilities of companies along the Pasig River.
- Housing projects which are part of the resettlement plan of the PRRC.
- Projects to be established within the prescribed radius of the PRRC's resettlement area provided that relocatees will be given priority in the employment.
- PRRC's other Development Programs;

Application for registration shall be accompanied with an endorsement from the Pasig River Rehabilitation Commission (PRRC).

- g.) Installation of pollution control devices in compliance with the Clean Air Act (R.A.8749)
Subject to the guidelines to be developed and adopted by the BOI in consultation with the Department of Environment and Natural Resources.

All environmental activities are exempted from the locational restriction policy.

8. Infrastructure^{*}

Construction, rehabilitation, improvement, betterment, expansion, modernization, operation, and maintenance of the following types of project.

- Highways, including expressways, roads, bridges, interchanges, tunnels and related facilities;
- Railways or rail-based projects packaged with commercial development opportunities;
- Non-rail based mass transit facilities, navigate inland waterways and related facilities;
- Port infrastructure like piers, wharves, quays, storage, handling, ferry services and related facilities;
- Airports, air navigation, and related facilities;
- Power generation, transmission, distribution, and related facilities;
- Telecommunications, backbone network, terrestrial and satellite facilities and related service facilities;
- Information Technology and data base infrastructure;
- Irrigation and related facilities;
- Water supply, sewerage, drainage and related facilities;
- Education and health infrastructure;
- Land reclamation, dredging and other related development facilities;
- Industrial and tourism estates or townships, including related infrastructure facilities and utilities;
- Industrial communities;
- Service cities;
- Urban Community Redevelopment;
- IT Parks;
- Energy Conservation activities;

^{*} May cover modernization activities

- Government buildings, housing projects;
- Markets, slaughterhouses, and related facilities;
- Warehouses and post-harvest facilities;
- Public fish ports and fishponds, including storage and processing facilities;
- Environmental and solid waste management related facilities such as collection equipment, composting plants, incinerators, landfill and tidal barriers; and,
- Other infrastructure and development projects that may be authorized and endorsed by the appropriate agencies, preferably new whenever possible.

Industrial Estates include:

- large tracts of land for the use of a community or a cluster of industries and services which include science and technology parks;
- technology incubation centers or science and technology centers under a unified and continuous management;

As a general rule, development of industrial estates must be outside Metro Manila, Laguna and Cavite. In the case of Cavite and Laguna, industrial estates will be allowed in underdeveloped areas as identified below.

- a.) The minimum area shall be twenty five (25) hectares of contiguous land and shall provide area and facilities for at least five (5) locators. In meritorious cases, the Board may consider registration of an industrial estate with an area less than twenty five (25) hectares provided the estate caters to SMEs of specific sectors of industries and that fifty per cent (50%) of the saleable area shall be provided with standard factory buildings.

“Locator” refers to an enterprise situating itself in the industrial estate who either leases or buys the module.

- b.) The establishment of industrial estates must conform to the land use regulation in specific areas where it will be located as determined/required by the local government unit (LGU), Housing and Land Use Regulatory Board (HLURB) and Department of Agrarian Reform (DAR). Therefore, applications for registration shall include endorsements from the LGU concerned, HLURB and DAR.
- c.) As a minimum requirement, the proposed industrial estate must provide core facilities such as paved roads, power system, water

supply, drainage system, pollution control devices, and communication facilities within the estate.

- d.) The development of the whole industrial estate must be completed within a maximum period of three (3) years from the date of registration of the project.
- e.) List of underdeveloped areas/municipalities in Cavite and Laguna during the effectivity of this IPP:

Cavite - Mendez-Nuñez, Magallanes, Amadeo, Indang, and Noveleta

Laguna - Siniloan, Victoria, Alaminos, Liliw, Pagsanjan, Sta. Maria, Majayjay, and Pangil

“Industrial Communities” refer to large tracts of land for development with carrying capacity for town facilities such as accommodation facilities, multi-purpose centers, health centers, drugstores, schools, and other livelihood centers.

- a.) These communities should be located within five (5) kilometer radius from an industrial estate and must be located outside Metro Manila. However, those located more than five (5) kilometers from an industrial estate may be registered provided developers will show proof that they will service an industrial estate (e.g., provision of transportation, services, or housing to the industrial estate).
- b.) The size of an industrial community shall not be less than fifty (50%) hectares of contiguous land.
- c.) The establishment of an industrial community must conform with the land use regulation in specific areas where it will be located as determined/required by the LGU, HLURB, and DAR. Therefore, applications for registration shall include endorsements from the LGU concerned, HLURB and DAR.
- d.) As a minimum requirement, the proposed industrial community shall provide core facilities as follows: paved roads, power system, water supply system, drainage and sewerage system, pollution control devices, communication facilities, residential components, recreational and sports facilities, places of worship, medical clinic/health centers, drugstores, schools, multi-purpose centers and other livelihood industries and related activities,

“Residential component” refers to the housing unit located in the industrial community under leasehold rights and/or full ownership.

- e.) At least twenty five per cent (25%) of the gross area of the industrial community should be allocated for socialized/low-cost housing.
- f.) A project may qualify for expansion if it will have an increase of more than twenty five per cent (25%) in hectarage and will involve the construction of additional residential units and core facilities but may exclude the ancillary facilities. Mere addition of facilities to an existing project without the construction of additional residential components, even if involving an increase in area, can not be considered as an expansion IC project.
- g.) Expansion projects of ICs may be allowed to utilize the existing ancillary facilities provided the incremental hectarage does not exceed one hundred per cent (100%) of the hectarage of the existing project.
- h.) In Cavite and Laguna, only projects locating in the following areas and municipalities shall be eligible for registration:

Cavite - Mendez-Nuñez, Magallanes, Amadeo, Indang, and Noveleta

Laguna - Siniloan, Victoria, Alaminos, Liliw, Pagsanjan, Sta. Maria, Majayjay, and Pangil

“Service Cities” refer to well-planned, managed, developed, environmentally sustainable and globally competitive metropolis provided with a full range of products, services and amenities which include, among others, educational facilities, medical facilities such as tertiary (specialty) hospitals, a grand central station to serve as multi-modal transportation hub which will include an integrated mix of local and regional public transit system and a comprehensively designed pedestrian circulation system, a well-lighted and integrated parking system and structure, integrated design and adaptable utility system composed of underground power lines, water supply system with water treatment system and dual piping system, provision for centralized gas facility and provision for district cooling, and latest telecommunications system that should integrate existing system with traffic, parking, cable, theaters, concert halls and galleries and convention centers employing/adapting new or the latest concepts within the structures.

- a.) Components within the service city shall conform to the zoning regulations of the LGU and land use regulation of the HLURB and DAR. Therefore, applications for registration shall include endorsements from the LGU concerned, HLURB and DAR.
- b.) Service cities must have an area of not less than five hundred (500) hectares and should be located outside Metro Manila, Laguna and Cavite. Those projects below five hundred (500) hectares, except

those in an island wherein development shall cover the whole island, are not qualified for registration.

“Urban Community Redevelopment” shall refer to the renewal of certain urban districts in need of major redevelopment into well-developed state-of-the-art and environmentally-sustainable industrial centers catering to light industries.

- Subject to the guidelines to be developed and adopted by the BOI in consultation with HLURB, MMDA and other government agencies.

“Telecommunications Projects” shall refer to the establishment and operation of telecommunication systems intended to provide local exchange service (to include public calling offices/Alternative Communications Program), international gateway facilities, inter-exchange service (i.e., satellite and terrestrial-based), cellular mobile telephone service, global mobile personal communications by satellite service, trunk radio service (TRS), public radio paging service, international satellite communications, VSAT System.

- All applications for registration shall be filed with an endorsement from the National Telecommunications Commission (NTC).
- The application shall include beside the information required under **BOI Form No. 501**(Application for Registration), a project report.
- For multi – media operation, it must cover areas in line with the country’s program for regional development.
- For international satellite communication facilities, existing infrastructure with current operating permit from authorized government agency may qualify as New Project provided any of the following condition is met:
 - Operating for less than one year or operating at a substantially low level based on the cost of launching and operating satellite facilities.
 - There will be substantial upgrade of capacity (technical/technology) to be provided by the original proponent or new investors.
 - Venture capital infusion of joint venture partner.
 - Ratio of new investments over existing facilities is at least 90%

- Projects costing more than P1.0 Billion may be granted a pioneer status
 - a.) The application for registration must include an endorsement from the National Telecommunications Commission (NTC) such that it will allow for flexibility in provision of BOI incentives under the annual IPP and still enable both the BOI and NTC to track down the very fast pace of telecommunications development.
 - b.) For activities that will require the use of satellite, the utilization of a Filipino satellite is being encouraged, at least on a limited basis especially when the operator proposes the use of a satellite from a country not observing reciprocity/open sky policy.
 - c.) The incentives derived from BOI shall be included in the computation of rates charged to the consumers.

Ports refer to the establishment and/or operation for public use: piers, wharves, quays, storage and cargo-handling facilities, ferry service facilities, and other related facilities. The establishment and/or operation of airport facilities for public use; air navigation, storage and handling facilities, and other related facilities including but not limited to Inter – Modal Facilities.

- a.) The application for registration must include a proof of application for an endorsement or Certificate of Registration or Permit to Operate to be issued by Philippine Ports Authority (PPA) or Air Transportation Office (ATO).
- b.) Upgrading of existing ports may be registered as a new project provided that the cost of upgrading already approximates the cost of constructing a new facility, i.e., ninety per cent (90%) and above, as certified by the PPA or ATO.
- c.) If the cost of upgrading the facility is less than ninety per cent (90%) of the cost of constructing a new facility, the project may be registered as a modernization activity.
- d.) The operation must serve as a public utility or support to village enterprises.
- e.) The development and operation of different port facilities may be considered for registration as well as cargo handling services within the port.
- f.) Projects costing more than P1.0 billion shall be granted pioneer status.

Water supply/distribution/treatment

- a.) Major areas of water operations on a provincial, municipal or city level, involving raw water are as follows: water supply, water distribution and water treatment.

- b.) The treatment facility shall cover the minimum basic process flow of a treatment plant such as screening, mixing, flocculation, sedimentation, filtration and chlorination. Its capacity must be sufficient to handle the volume of raw water for its target subscriber area.
- c.) Distribution activity must involve the installation of a piping network that includes water main service pipelines and flow metering systems.
- d.) Upgrading of existing water supply/distribution/treatment facilities, may be registered as a NEW project provided that the cost of upgrading already approximates the cost of constructing a new facility, i.e., ninety per cent (90%) and above, as certified by the National Water Regulatory Board.
- e.) Projects costing more than P1.0 billion shall be granted pioneer status. Projects that will cover at least two (2) of the major areas of water operation will also be entitled to a pioneer status.
- f.) Projects involving any of the foregoing areas of water operations dedicated solely to either IEs, ICs, SCs, or subdivision development areas are not qualified for registration under this listing.

Major water catchment basins/waterways and related infrastructure, man-made or natural including sewerage systems

- a.) Reclamation projects undertaken under this listing qualify for registration.
- b.) Upgrading of existing waterways and sewerage system facility may be registered as a NEW project, provided, that the cost of upgrading already approximates the cost of constructing a new facility, i.e., ninety per cent (90%) and above, as certified by the Philippine Estate Authority (PEA) and the Department of Public Works and Highways (DPWH) or any of its appropriate agencies.
- c.) If the cost of upgrading the facility is less than ninety per cent (90%) of the cost of constructing a new facility, the new project may be registered as a modernization activity.
- d.) Upgrading may be characterized by or may result in any but not limited to the following as certified by the appropriate agencies:
 - Development of water supply /resource including irrigation and power
 - Development of transportation, commerce and tourism
- e.) Projects costing more than P1.0 billion may be granted a pioneer status.

Tollroads/highways

- a.) Upgrading of existing tollroads/highways may be registered as a NEW project provided that the cost of upgrading already

approximates the cost of constructing a new road, i.e., ninety per cent (90%) and above, as stated in the certification issued by the Toll Regulatory Board (TRB). In addition, said TRB certification shall further state that the incentives to be availed of will result to lower toll charges (i.e., on a per kilometer rate) compared to possible higher toll charges, if without incentives.

- b.) In cases wherein only a portion of the tollroad/highway will be upgraded, the firm shall be required to install a toll collection system that will segregate the revenue for the upgraded project from the upgraded portion.
- c.) Upgrading of existing tollroads and highways considered as a NEW project will enjoy ITH limited to the upgraded portion only.
- d.) If the cost of upgrading is less than ninety per cent (90%) of the cost of constructing a new tollroad/highway, the project may be registered as a modernization only.
- e.) Projects costing more than P1.0 billion may be granted a pioneer status.

Additional guidelines for ports, water supply/treatment/distribution, major water catchment basins/waterways and related infrastructure, man-made or natural including sewerage systems, and tollroads and highways:

Projects undertaken under Joint Venture agreement between the private sector and government entity concerned that meet the following conditions may be registered:

- The Philippine investor-partner in joint venture has a legislative franchise covering the infrastructure whenever applicable.
- The infrastructure project has been declared a priority program of the national government.

Power generation projects eligible for registration are:

- a.) Those utilizing indigenous and environmentally friendly fuel
- b.) Those using renewable energy sources. Renewable energy sources include biomass, waste to energy conversion, solar, wind, geothermal, hydro, etc.

Power Generation:

- a.) Application for registration of power generation project must include the following documents:
 - Proof of filing for Accreditation from the Department of Energy (DOE); and
 - Draft of power supply contract

- b.) All projects undertaking the listed activities are eligible for pioneer status.
- c.) Mini-hydroelectric plants with a capacity equivalent or less than 10,000 kilowatts should register with the Department of Energy (DOE) under R.A. 7165 (Mini-hydroelectric Power Incentives Act).

Power Transmission:

Pioneer status may be granted if the project cost exceeds P1.0 billion.

Power Distribution:

- a.) Power distribution may be registered subject to the forty per cent (40%) maximum foreign ownership.
- b.) Pioneer status may be granted if the project cost is more than P1.0 billion.

9. Common Carriers^{*}

This covers land transport, air transport, and inter-island shipping.

- a.) Land transport includes public utility bus operations, rail transport operations which include light railway and other electric-based transit systems, and pipeline operations for the transport of petroleum products whether liquid or gases or natural gases.

Public Utility Bus Operations

- Only buses for provincial routes may be registered provided franchises are available for particular routes. However, Public Utility Articulated Buses (PUAB) for operations within Metro Manila can be registered. PUABs refer to buses with high seating capacity of seventy (70) and above (excluding driver and conductor); gross vehicle weight of 20,000 kg and above; body make of articulated coach with entry and exit doors, emergency exits, optional separate baggage compartment and tempered glass window; fixed, regular, limited stop or express routes; with fares based on distance or zonal as authorized by LTFRB; and, running on segregated busway systems.
- Buses must be brand new and suited to local conditions.
- Registered PUB operators must have their own terminals that can accommodate the total number of buses under their franchises.
- Proof of an application with the LTFRB must be submitted together with the application for registration.
- Projects costing more than P1.0 Billion shall be granted pioneer status.

^{*} May cover modernization activities

Rail transport operations which include light railway and other electric-based transit system

- The application for registration shall include an endorsement from the appropriate government agencies.
- Projects costing more than P1.0 billion shall be granted pioneer status

Pipeline operations for the transport of petroleum products whether liquid or gases or natural gases

- A proof of filing of an application for Authority to Operate Pipeline System with the DOE shall be submitted together with the application for registration.
- Projects costing more than P1.0 billion shall be granted pioneer status.
- Upgrading of existing pipeline facility may be registered as new project provided that the cost of upgrading already approximates the cost of constructing a new facility, i.e., ninety per cent (90%) and above, as certified by the DOE.
- If the cost of upgrading is less than ninety per cent (90%) of the cost of constructing new pipelines, the project may be registered as a modernization activity.

b.) Air transport facilities include passenger aircraft operations and cargo aircraft operations.

- Applications must be endorsed by the Civil Aeronautics Board (CAB).
- Each aircraft must be airworthy as certified by the Air Transportation Office (ATO).
- The operations must serve as a public utility.
- Lease with option to purchase the aircraft may be allowed.
- Pure lease without option to purchase may be allowed provided it has a minimum lease agreement of five (5) years.
- A registered air transport enterprise plying the missionary / developmental routes, as indicated in the Certificate of Public Convenience and Necessity (CPCN), and supportive of village enterprises or of exporters as determined by the Board shall be eligible for pioneer status.

c.) Inter-island shipping includes pure cargo vessel operations, passenger carrying vessel operations and passenger-cargo vessel operations.

- A registered inter-island shipping enterprise plying the secondary, tertiary or developmental routes, as indicated in the Certificate of Public Convenience and Necessity (CPCN) is considered to be locating in a Less Developed Area (LDA) and eligible for pioneer incentives for projects locating in LDAs.

- For vessels, age limit must not be more than ten (10) years old. For high – speed passenger crafts, age limit is five (5) years.
- All applications for registration must be endorsed by the Maritime Industry Authority (MARINA). Vessels for tourism purposes must also be endorsed by the Department of Tourism (DOT).

10. Engineered Products*

This listing shall include preparation of designs of engineered products and/or their parts and components, as well as metal finishing processes, such as plating and galvanizing.

Special purpose industrial machinery may include but will not be limited to environmental equipment.

11. Projects of Cooperatives*

This covers activities undertaken by producer and service cooperatives excluding business activities whose source of income are derived from deposits, lending, trading, buying or selling or otherwise deal, trade or invest in stock markets, debentures, bonds or other marketable instruments generally recognized as securities, or other similar activities.

Producer cooperative is one which undertakes joint production whether agricultural, fishery or industrial.

Service cooperative refers only to those engaged in electric light, power distribution, housing development and other services in consonance with those listed under the current IPP.

Pioneer shall mean a registered enterprise:

- (a) Engaged in the manufacture, processing or production and not merely in the assembly or packaging of goods, products, commodities or raw materials that have not been or are not being produced in the Philippines on a commercial sale; or
- (b) Which uses a design, formula, scheme, method, process or system of production or transformation of any element, substance or raw materials into another raw material or finished goods which is new and untried in the Philippines; or
- (c) Engaged in the pursuit of agricultural, forestry and mining activities and/or services including the industrial aspects of food processing whether appropriate, pre-determined by the Board, in consultation

* May cover modernization activities

with the appropriate Department, to be feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self sufficiency and other social benefits of the project; or

- (d) Which produces non-conventional fuels or manufactures equipment which utilize non-conventional source of energy or uses or converts to coal or other non-conventional fuels of sources of energy in its production, manufacturing or processing operations.

12. Development of Energy sources

Subject to guidelines to be developed and adopted by the BOI in consultation with the Department of Energy.

13. Shipbuilding/shiprepair/shipbreaking*

This covers the construction, repair or breaking of cargo/passenger vessels designed to support the needs of the shipping and iron and steel sectors.

- a.) Shipbuilding and shiprepair projects may be given pioneer status if the minimum berthing capacity is 10,000 deadweight tons.
- b.) A shipbreaking facility must have the capability to dismantle vessels of at least 100,000 deadweight tons to be granted pioneer status.
- c.) Steel re-rolling and/or steel scrap supply agreement with local millers must be submitted to support the applications for shipbreaking.

14. Manufacture of motor vehicles and parts and components

Manufacture of parts and components

- a.) The manufacture of motor vehicle accessories such as car aircon units and stereos shall be covered by this listing.
- b.) The manufacture of essential prime car movers, such as batteries for electric cars and LPG converters shall likewise be covered by this listing.

Integrated manufacture of motor and/or proprietary parts and components with assembly of motor vehicles:

- a.) Proponents shall be registered under the CDP/CVDP/MDP and shall comply with the Motor Vehicle Development Program (MVDP) guidelines.
- b.) Pioneer/non-pioneer status shall be determined by the Board based on investments, employment, technology, and a program to develop local and small and medium parts suppliers.
- c.) For assembly plants locating in LDAs and in meritorious cases, the BOI may waive relevant commitments/requirements under the

MVDP and/or recommend the grant of non-tax incentives as it may deem appropriate in consultation with the Technical Review Committee.

15. Research and Development

This covers both in-house R&D activities of any manufacturing/producing firm and the commercial R&D activities of private firms and research institution.

An endorsement is required from the Department of Science and Technology, Department of Agriculture or the relevant agency concerned.

R&D activities should be located within the premises of the applicant firm's manufacturing/production facility. Research institutions may be located near industrial estates or export processing zones, in academic campuses or agricultural/industrial areas.

III. MANDATORY INCLUSION

1. Activities under the Agricultural & Fisheries Modernization Act, R.A. 8435*

The activities that may qualify for registration under this heading are as follows:

- a.) Agricultural production involving the cultivation of the soil, planting of crops, growing of fruit trees, raising of livestock or poultry, whether for food or non-food purposes, including the harvesting and marketing of such farm products, and other farm activities and practices.
- b.) Fisheries or the production, harvesting, processing, marketing of fish or fisheries/aquatic products.

New, expansion or rehabilitation/modernization project may qualify for registration.

Project under this sub-heading may be granted pioneer status if it meets any of the definitions 1), 2) and 3) of Article 17 of EO 226. However, to qualify for pioneer status on the basis of definition no. 3), an endorsement from the Department of Agriculture that the project is feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and

* May cover modernization activities

agricultural program for self-sufficiency and other social benefits of the project, must be secured and submitted by the proponent as supporting document to the application for registration.

Proponent must be at least 60% Filipino. However, if the project qualifies for pioneer status or will export at least 70% of its total production, foreign equity ownership may be allowed up to 100% provided that the activity is not included in the negative list of the FIA.

2. Production and/or processing of high-value crops under R.A. 7900

This covers the activities involving the production and/or processing of high – value crops, as defined herein, whether for food or non-food purposes.

- a.) Traditional crops – these are rice, corn, coconut and sugar cane.
- b.) High- value crops – these are crops other than traditional crops. These include but are not limited to the following: coffee, cacao, fruit crops, root crops, vegetable crops, legumes, spices and condiments, cutflower and ornamental plants.

New, expansion or rehabilitation/modernization project may qualify for registration.

Project under this sub-heading may be granted pioneer status if it meets any of the definitions 1), 2) and 3) of Article 17 of EO 226. However, to qualify for pioneer status on the basis of definition no. 3), an endorsement from the Department of Agriculture that the project is feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self-sufficiency and other social benefits of the project, must be secured and submitted by the proponent as supporting document to the application for registration.

Proponent must be at least 60% Filipino. However, if the project qualifies for pioneer status or will export at least 70% of its total production, foreign equity ownership may be allowed up to 100% provided that the activity is not included in the negative list of the FIA.

3. Commercial Fishing under R.A. 8550*

This covers commercial fishing operations farther in and beyond the Philippine EEZ. (Fishing vessels must be of Philippine registry).

* May cover modernization activities

- a.) Small scale commercial fishing – fishing with passive or active gear utilizing fishing vessels of 3.1 gross tons (GT) up to twenty (20) GT;
- b.) Medium scale commercial fishing – fishing utilizing active gears and vessels of 20.1 GT up to one hundred fifty (150) GT; and
- c.) Large scale commercial fishing – fishing utilizing active gears and vessels of more than one hundred fifty (150) GT.

New, expansion or rehabilitation/modernization of existing fishing fleet, may qualify for registration.

The proponent must be at least sixty percent (60%) Filipino.

4. Industrial Tree Plantation under P.D. 705

This covers the establishment of forest tree plantations which include timber and non-timber species such as rubber, bamboo, rattan, etc. (excluding fruit trees) for commercial and industrial purposes.

- a.) New project refers to the development of any public or private land to plantation of timber and non-timber producing species to supply the raw material requirements of forest-based industries. It also includes plantation with existing tree crops which have not yet reached commercial harvest

Tree plantation in public lands shall be covered by any of the following:

- Socialized Industrial Forest Management Agreement (SIFMA);
 - Industrial Forest Management Agreement (IFMA);
 - Private Forest Development Agreement (PEDA);
 - Community-Based Forest Management Agreement (CBFMA)
- b.) Establishment of industrial tree plantations must conform with the rules and regulations of the DENR, or DAR, if applicable.
 - c.) Expansion projects may be registered if at least 85% of existing land area has been planted to tree crops, or if the proposed project shall be located within the 50-km distance from the nearest boundary of the existing ITP project of the proponent.

5. Iron and Steel under R.A. 7103^{*}

The following may be registered either on a P/NP status:

- A. Primary steel products in the form of refined iron ore, ingots, slabs or blooms/billets from which the following range of steel products could be derived:

^{*} May cover modernization activities

- 1.) From Slabs
 - a.) Hot Rolled Flat Products
 - Hot Rolled Plates
 - Hot Rolled Coils
 - b.) Cold Rolled Flat Products
 - CRC for GI Sheets
 - CRC for deep drawing applicants
 - CRC for automotive, appliances, etc.
 - Tin Mill Black Plate for Tinplates

- 2.) From Blooms and Billets
 - a.) Structural
 - b.) Wire Rods
 - c.) Merchant Bars

- B. Intermediate steel products such as plates, hot-rolled or cold-rolled flat products (for GI sheets, deep drawing applications, automotive and appliance) or their equivalents (tin mill black plates for tinplates); or bars/rods which are plain surface long products in round or non-round shapes and in straight lengths or coiled, the types of which are not currently produced in the Philippines, for use in drawing, extrusion or forging.
- C. Manufacture or processing of products or provision of infrastructure such as roads, auxiliary facilities such as ports and harbors; and industrial services, primarily for the direct use of enterprises engaged in the activities referred to in A & B above; or
- D. Refinement or treatment of by – products or waste products predominantly of the enterprises in A & B above.
- E. Downstream steel products utilizing as raw materials, articles produced by integrated iron and steel mill(s) in the Philippines.

6. Exploration, mining, quarrying and processing of minerals under R.A. 7942^{*}
 - a.) Exploration of mineral resources
 - Projects are qualified for pioneer status.
 - Qualified projects are :
Projects with approved exploration permit, mineral agreement or Financial and/or Technical Assistance Agreement (FTAA) under E.O. 279, series of 1987 or under R.A. 7942.
 - Projects are not entitled to ITH.

^{*} May cover modernization activities

- b.) Mining, quarrying and processing of minerals except those involving river bed operations, cave mining and beach mining.
- All processing projects must locate outside Metro Manila.
 - Mining or quarrying integrated with mineral processing shall be entitled to full incentives.
 - Processing activity without mining or quarrying shall be entitled to full incentives.
 - Mining and processing of aggregates is not entitled to ITH.
 - All marble processing projects, whether or not integrated with mining and quarrying, to qualify for registration, must export at least fifty per cent (50%) of production, if Filipino-owned or at least seventy per cent (70%), if foreign-owned.

INDUSTRY CLUSTER

The commitment for all industry clusters is seventy percent (70%). Manufacturers of packaging products that will serve one or more industry clusters are qualified for BOI registration even if located outside these clusters provided that at least seventy percent (70%) of the production will be supplied to the clusters.

Note: Please see list of cities/municipalities/provinces for all regions in the back cover of this IPP.

NCR

Footwear Center

Coverage:

- a. Footwear such as leather and non-leather footwear, sandals and slippers and other footwear
- b. Footwear components such as heels and soles, uppers, metal accessories, etc.
- d. Footwear-related activities such as shoelast manufacturing, R&D, design & pattern-making, etc.

Geographic Coverage:

- a. Marikina City (for footwear manufacturers)
- b. Marikina City or outside Metro Manila (for footwear components & footwear-related activities)

CAR

Wood Center

Coverage:

Annex B

- a. Main activity – manufacture of finished wood products such as wooden frames, packing cases, builders' joinery & carpentry of wood, tableware & kitchenware, wooden furniture, wooden seats & other articles of wood
- b. Direct support & service activities:
 - manufacture of primary or intermediate wood products such as lumber, veneer, plywood, composite board, wood strips and parquet, mouldings, etc., which serve as major raw materials in the manufacture of the above finished products.
 - rendering of ancillary or support services like kiln drying, subcontracting, painting and finishing

Geographic Coverage: CAR

Region I

Loomweaving Center

Subject to the Implementing Rules and Regulations developed by the BOI in consultation with the concerned DTI -Regional Office and RDC.

Region II

Furniture Center

Coverage:

- a. Main activity – manufacture of furniture, furniture parts & components.
- b. Direct support & service activities:
 - manufacture of raw materials such as wood products.
 - Rendering of services such as kiln drying facility, subcontracting, equipment rental, warehouse, packaging & waste treatment.

Geographic Coverage: Region II

Region III

Fine Jewelry Center

Coverage:

- a. Main Activity – manufacture of fine jewelry
- b. Mining Industry (precious metals, non precious metals & unworked precious stone)
- c. Agriculture Industry (pearls)
- d. Chemical Industry (wax, plating solutions & vulcanized rubber)

Geographic Coverage: Region III

Food Center

Coverage:

- a. Processing of agricultural produce into intermediate or final products that are either for food or non-food use. Specifically these agri-processing activities are: flour milling, oil-seed crushing or oil seed milling and/or refinery, starch production, feed milling, meat processing, sugar milling/refinery, and others. The raw material of these activities could be locally sourced, or imported if not locally available in desired quantity and quality, provided that importation of said agricultural products shall be in accordance with usual procedure, rules and regulations.
- b. Production of the major raw materials for the activities in item a, provided that at least seventy percent (70%) of production shall be supplied to the firms within the cluster / center.
- c. Manufacturing activities that are using the products and/or by-product of the above activities as the major raw material or as one of the major raw materials, in the manufacture of the final products, provided that at least seventy percent (70%) of raw material requirement shall be sourced from the firms within the cluster / center.
- d. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided at least seventy percent (70%) of the production will be supplied to the firms within the cluster / center and to other centers identified in the 2000 IPP.
- e. *Other ancillary activities that support the above activities specifically service activities such as bulk-handling, transport, & storage/warehousing, cold storage, abattoir and dressing plants, pollution control, research and development, manpower training, etc., provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.*

Geographic Coverage: Region III

Region IV

Automotive Parts and Components

Subject to the Implementing Rules and Regulations developed by the BOI in consultation with the concerned DTI -Regional Office and RDC.

Electronics

Subject to the Implementing Rules and Regulations developed by the BOI in consultation with the concerned DTI -Regional Office and RDC.

Region V

Coconut Center

Coverage:

- a. Processing of coconut meat into oil, milk or cream, desiccated coconut, & other value-added products.
- b. Processing of coconut shells & coconut husks into value-added products, such as industrial carbon, coir fiber & coir manufacturer, & other products.
- c. Manufacturing activities that are using coconut oil or other intermediate coco products, as the major raw material, provided that at least seventy percent (70%) of raw material requirement shall be sourced from the firms within the cluster / center.
- d. Coconut production including the production of seednuts, provided that at least seventy percent (70%) of production shall be supplied to the firms within the cluster / center.
- e. *Coconut production and coconut processing-related services such as farm machinery & equipment services, copra drying services, specialized transport services, research & development, manpower training center, provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.*

Geographic Coverage: Region V and in the Provinces of Quezon, Laguna, and Marinduque

Pili Center

Coverage:

- a. Production of planting materials
- b. Commercial production/processing of pili nuts such as but not limited to pili sweets, candies, and high grade oil extraction

New, expansion or rehabilitation / modernization of existing farms/nurseries/ processing plant

Geographic Coverage: Region V

Region VI

Marine Products Center

Coverage:

- a. Processing of marine produce into intermediate or final product that are either for food or non-food use. Processing activities are not limited to canning, feed milling, and fishmeal production.
- b. Commercial production of marine products, provided at least 70% of production will be supplied as raw materials for the activities in item a.
- c. Post-harvest activities such as but not limited to cold storage and ice plant, provided at least 70% of service capacity will be intended for the firms under items a & b.
- d. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided at least 70% of the production will be supplied to the firms within the Center and the other centers identified in the IPP 2000.

Geographic Coverage: Region VI

Sugar Center

Coverage:

- a. Production of sugar cane or other sugar producing crops, including the production of planting materials.
- b. Sugar milling and/or refining
- c. Manufacturing activities that use sugar as the major raw material/input, such as the manufacturing of sugar confectionery, flavored sugar, and manufacturing activities using the by-products & wastes of sugar milling/refining as the major raw material, provided that at least seventy percent (70%) of raw material (i.e., sugar and sugar by-products / waste) requirement shall be sourced from the firms within the cluster / center.
- d. Service activities specifically the following: farm machinery and equipment, irrigation and drainage, specialized transport equipment, pests and diseases control, research and development., provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster center.

Geographic Coverage: Region VI and in the province of Negros Oriental

Region VII

Costume Jewelry Center/Fashion Accessories Center

Coverage:

- a. Main Activity – Manufacture of costume jewelry/fashion accessories
- b. Industrial Supplies (dyes, pigments, paints, enamel)

Annex B

- c. Cards of paper
- d. Plastic Beads
- e. Glass Beads, imitation pearls
- f. Identifiable parts
- g. Plastic cards
- h. Beads of base metal
- i. Garter strings
- j. Leather strings
- k. Nylon strings
- l. Vulcanized rubber strings
- m. Hairpins

Geographic Coverage: Region VII

Home Furnishing Center/Furniture Center

Coverage:

- a. Main activity – manufacture of furniture, furniture parts & components.
- b. Direct support & service activities:
 - manufacture of raw materials such as wood products.
 - Rendering of services such as kiln drying facility, subcontracting, equipment rental, warehouse, packaging & waste treatment.

Geographic Coverage: Region VII

Region VIII

Coconut Center

Coverage:

- a. Processing of coconut into oil, milk or cream, desiccated coconut, & other value-added products.
- b. Processing of coconut shells & coconut husks into value-added products, such as industrial carbon, coir fiber & coir manufacturer, & other products.
- c. Manufacturing activities that are using coconut oil or other intermediate coco products, as the major raw material.
- d. Coconut production including the production of seednuts.
- e. *Coconut production and coconut processing-related services such as farm machinery & equipment services, copra drying services, specialized transport services, research & development, manpower training center.*

Geographic Coverage: Region VIII

Abaca Center

Coverage:

- a. Production of planting materials.
- b. Commercial production of abaca and raw fiber processing such as but not limited to pulp and paper specialty paper, twine, rope, handicraft, etc.

Geographic Coverage: Region VIII

Aquamarine Center

Coverage:

- a. **Processing of aquamarine produce into intermediate or final product that are either for food or non-food use. Processing activities are not limited to canning, feed milling, and fishmeal production.**
- b. **Commercial production of aquamarine products, provided at least 70% of production will be supplied as raw materials for the activities in Item a.**
- c. **Aquamarine hatchery operation such as but not limited to lapu-lapu, tilapia, ell, hito, bangus, prawn/shrimp culture.**
- d. **Post-harvest activities such as but not limited to cold storage and ice plant, provided at least 70% of service capacity will be intended for the firms under items a & b.**
- e. *Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided at least 70% of the production will be supplied to the firms within the Center and to other centers identified in the IPP 2000*

Geographic Coverage: Region VIII

Food Center

Coverage:

- a. Processing of agricultural and fisheries produce into value added products for food or animal feed purposes.
- b. Production of agricultural crops, livestock and poultry, fisheries / aquatic species as raw material for above processing activities, provided that at least seventy percent (70%) of production will be supplied to the firms within the cluster / center.
- c. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided that at least seventy percent (70%) of the production will be supplied to the firms within the center and to other centers identified in the 2000 IPP.
- d. Other ancillary activities that support the above activities specifically service activities such as cold storage, bulk storage/warehousing, bulk-

handling and transport, abattoir and dressing plants, pollution control, research and development, manpower training, etc, provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.

Geographic Coverage: Region VIII

Region IX

Seaweed Center

Coverage:

- a. Farm production up to primary processing (drying, cleaning, etc.) of seaweeds as raw material for plant processing or for export, including the production of seedstocks.
- b. Processing of seaweeds into carrageenan, agar & other value added products.
- c. Manufacturing of packaging materials necessary for the processed seaweed products.
- d. Service activities that support the production, processing & packaging of seaweeds.

Geographic Coverage: Region IX

Fish Center

Coverage:

- a. Processing of fishery produce into intermediate or final products that are either for food or non-food use. Processing activities are not limited to canning, feed milling and fishmeal production.
- b. Commercial fishing/production, provided at least 70% of production will be supplied as raw materials for the activities in Item a.
- c. Post-harvest facilities such as but not limited to cold storage and/or ice plant, provided at least 70% of service capacity will be intended for the firms under items a & b.
- d. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided at least 70% of the production will be supplied to the firms within the Center and to other centers identified in the IPP 2000.

Geographic Coverage: Region IX

Rubber Center

Coverage:

- a. Rubber plantation or production of natural rubber latex or cup lumps, including the propagation of planting materials, provided that at least seventy

percent (70%) of production shall be supplied to the firms within the cluster / center.

- b. Rubber processing or the processing of natural rubber latex or cup lumps into crumb rubber, and other intermediate natural rubber products.
- c. Rubber products manufacturing activities that will utilize the above intermediate natural rubber products as the major raw material, provided that at least seventy percent (70%) of raw material requirement shall be sourced from the firms within the cluster / center.
- d. Other ancillary activities that support the above activities including pollution control, research & development, manpower training, etc, provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.

Geographic Coverage: Region IX

Region X

Rubber Center

Coverage:

- a. Rubber plantation or production of natural rubber latex or cup lumps, including the propagation of planting materials, provided that at least seventy percent (70%) of production shall be supplied to the firms within the cluster / center.
- b. Rubber processing or the processing of natural rubber latex or cup lumps into crumb rubber, and other intermediate natural rubber products.
- c. Rubber products manufacturing activities that will utilize the above intermediate natural rubber products as the major raw material, provided that at least seventy percent (70%) of raw material requirement shall be sourced from the firms within the cluster / center.
- d. Other ancillary activities that support the above activities including pollution control, research & development, manpower training, etc, provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.

Geographic Coverage: Region X and the province of North Cotabato

Region XI

Fish Center

Coverage:

- a. Processing of fishery produce into intermediate or final products that are either for food or non-food use. Processing activities are not limited to canning, feed milling and fishmeal production.
- b. Commercial fishing/production, provided at least 70% of production will be supplied as raw materials for the activities in Item a.

- c. Post-harvest facilities such as but not limited to cold storage and/or ice plant, provided at least 70% of service capacity will be intended for the firms under items a & b.
- d. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided at least 70% of the production will be supplied to the firms within the Center and to other centers identified in the IPP 2000.

Geographic Coverage: Region XI

Region XII

Food Center

Coverage:

- a. Processing of agricultural and fisheries produce into value added products for food or animal feed purposes.
- b. Production of agricultural crops, livestock and poultry, fisheries / aquatic species as raw material for above processing activities, provided that at least seventy percent (70%) of production will be supplied to the firms within the cluster / center.
- c. Manufacturing of packaging products that are important to the above activities, such as but not limited to tin cans, carton boxes, paper as labeling. Provided that at least seventy percent (70%) of the production will be supplied to the firms within the center and to other centers identified in the 2000 IPP.
- d. Other ancillary activities that support the above activities specifically service activities such as cold storage, bulk storage/warehousing, bulk-handling and transport, abattoir and dressing plants, pollution control, research and development, manpower training, etc, provided that at least seventy percent (70%) of production or service capacity shall be supplied or rendered to the firms within the cluster / center.

Geographic Coverage: Region XII

CARAGA

Wood Center

Coverage:

- a. Main activity – manufacture of finished wood products such as wooden frames, packing cases, builders' joinery & carpentry of wood, tableware & kitchenware, wooden furniture, wooden seats & other articles of wood
- b. Direct support & service activities:
 - manufacture of primary or intermediate wood products such as lumber, veneer, plywood, composite board, wood strips, parquet, mouldings, etc.,

Annex B

which serve as major raw materials in the manufacture of the above finished products.

- rendering of ancillary or support services like kiln drying, subcontracting, painting and finishing

Geographic Coverage: CARAGA

Part V INCENTIVES TO REGISTERED FIRMS

Incentive privileges may be enjoyed only upon registration. In general, registered enterprises are entitled to the following incentives:

A. Tax Exemptions

1. Income Tax Holiday (ITH)

- a) BOI registered enterprises shall be exempt from the payment of income taxes reckoned from the scheduled start of commercial operations as follows:
 - 1) New projects with a pioneer status for six (6) years;
 - 2) New projects with a non-pioneer status for four (4) years;
 - 3) Expansion projects for three (3) years. As a general rule, exemption is limited to incremental sales revenue/volume;
 - 4) New or expansion projects in less developed areas for six (6) years, regardless of status; and,
 - 5) Modernization projects for three (3) years. As a general rule, exemption is limited to incremental sales revenue/volume.
- b) The income tax holiday is limited in the following cases:
 - 1) Export traders may be entitled to the ITH only on their income derived from the following:
 - a) Export of new products, i.e., those which have not been exported in excess of US \$100,000 in any of the two (2) years preceding the filing of application for registration, or
 - b) Export to new markets, i.e., to a country where there has been no recorded import of a specific export product in any of the two (2) years preceding the filing of the application for registration.
 - 2) Mining Activities
 - a) The exploration and development of mineral resources are not entitled to an ITH;
 - b) Mining and/or quarrying without mineral processing is not entitled to an ITH;
 - c) Mining and processing of aggregates is not entitled to ITH.
- c) New registered pioneer and non-pioneer enterprises and those located in the LDAs may avail themselves of a bonus year in each of the following cases:
 - 1) the indigenous raw materials used in the manufacture of the registered product must at least be fifty percent (50%) of the total cost of raw materials for the preceding years prior to the extension unless the Board prescribes a higher percentage; or
 - 2) the ratio of total imported and domestic capital equipment to the number of workers for the project does not exceed US\$10,000 to one (1) worker; or

- 3) the net foreign exchange savings or earnings amount to at least US\$500,000 annually during the first three (3) years of operation.

In no case shall the registered pioneer firm avail of this incentive for a period exceeding eight (8) years.

2. Exemption from taxes and duties on imported spare parts
A registered enterprise with a bonded manufacturing warehouse shall be exempt from customs duties and national internal revenue taxes on its importation of required supplies/spare parts for consigned equipment or those imported with incentives.
3. Exemption from wharfage dues and export tax, duty, impost and fees
All enterprises registered under the 2000 IPP will be given a ten (10) - year period from date of registration to avail of the exemption from wharfage dues and any export tax, impost and fees on its non-traditional export products.
4. Tax exemption on breeding stocks and genetic materials
Agricultural producers will be exempted from the payment of all taxes and duties on their importation of breeding stocks and genetic materials within ten (10) years from the date of registration or commercial operation.

B. Tax Credits

1. Tax credit on tax and duty portion of 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 on local breeding stocks within ten (10) years from date of registration or commercial operation for agricultural producers.
2. Tax credit on raw materials and supplies
A tax credit equivalent to the national internal revenue taxes and duties paid on raw materials, supplies and semi-manufacture of export products and forming part thereof shall be granted to a registered enterprise.

C. Additional Deductions from Taxable Income

1. Additional deduction for labor expense (ADLE)
For the first five (5) years from registration, a registered enterprise shall be allowed an additional deduction from taxable income equivalent to fifty percent (50%) of the wages of additional skilled and unskilled workers in the direct labor force. This incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with ITH.

This additional deduction shall be doubled if the activity is located in an LDA.

2. **Additional deduction for necessary and major infrastructure works**
Registered enterprises locating in LDAs or in areas deficient in infrastructure, public utilities and other facilities may deduct from taxable income an amount equivalent to the expenses incurred in the development of necessary and major infrastructure works.

This privilege, however, is not granted to mining and forestry-related projects as they would naturally be located in certain areas to be near their sources of raw materials.

D. Non-fiscal Incentives

1. **Employment of foreign nationals**
A registered enterprise may be allowed to employ foreign nationals in supervisory, technical or advisory positions for five (5) years from date of registration. The position of president, general manager and treasurer of foreign-owned registered enterprises or their equivalent shall however not be subject to the foregoing limitations.
2. **Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies and exports of processed products.**
3. **Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of a re-export bond.**
4. **The privilege to operate a bonded manufacturing / trading warehouse subject to Customs rules and regulations.**

PART VI CLARIFICATORY NOTES TO MODERNIZATION PROGRAMS

I. GENERAL GUIDELINES

1. In general, modernization projects will be eligible to pioneer or non-pioneer status as specifically provided in the 2000 IPP coverage listing. To be eligible for pioneer status, the modernization project must comply with Article 17 of E.O. 226 unless other conditions are provided in the specific guidelines covering the activity.
2. In general, modernization programs must be completed within two (2) years from date of registration except for those engaged in agricultural projects, mining/ mineral processing and power projects with a capacity of at least 100 MW the modernization of which may be completed within three (3) years from date of registration.
3. To be eligible for registration, the location and specific activity of modernization project must be listed in the 2000 IPP.
4. The modernization project can be undertaken in the firm's existing plant site and shall be exempted from the locational restriction policy. The relocation of the plant site may be allowed provided that the modernized project is outside NCR and that existing facilities are rendered totally inoperable or if still operable, it will function only as an adjunct to the modernized site without capability to independently produce a complete finished product.
5. In general, modernization projects shall result to a yield rate of at least 95%.
6. The modernization program should identify the phases/stages of production sought to be modernized.
7. All projects registered under the modernization program shall be eligible to income tax holiday and all other incentives under E.O. 226 applicable to the modernization program.

Specifically, only the increment income resulting from modernization shall be entitled to ITH for three (3) years from the start of commercial operation regardless of location. Modernization projects that do not result to an increase in current installed capacity shall not qualify for availment of this incentive. For purposes of computation of this incentive, a base figure shall be established to be equivalent to the current installed capacity of the firm at the time of filing of application for registration of modernization project.

Incentive covering the exemption from wharfage dues, export tax, duty, impost and fees shall also be applied only on the incremental capacity resulting from the modernization.

8. The general policy on brand new equipment also applies to modernization program.

II. SPECIFIC GUIDELINES

Modernization, in general, is limited to the coverage of each area listed in the IPP where such modernization activity is allowed.

A. *Export Activities*

1. Modernization may also cover the conversion/modification and enhancement of existing equipment by adding accessories or putting ancillary, replacement of major part components as well as systems improvement and also the introduction of additional process equipment/ facilities (e.g., computerized pattern-making for garment firms).
2. Export producers (direct or indirect), service exporters and enterprises engaged in activities in support of exporters are eligible for registration under this program provided that they have been in operation for at least two (2) years immediately preceding the filing of an application for registration under the program. A track record of exports is not required prior to the filing of the application for registration but once registered, the enterprise must comply with the minimum legal export commitment.
3. The firm shall submit a comparative analysis/evaluation of modernization activities to be undertaken and the equipment to be modernized.
4. In addition to attaining the prescribed minimum yield rate, the modernization activities should achieve operational flexibility to meet requirements of the export markets or result to a meaningful upgrading of product or services.

B. Drugs & Medicines:

1. Modernization refers to the renovation/modification/upgrading of existing structures/facilities and the acquisition of equipment and facilities to conform with the provisions of BFAD Circular No. 3 Series of 1998 mandating pharmaceutical manufacturing firms to comply with the Current Good Manufacturing Practices.
2. The firm shall submit a comparative analysis/evaluation of modernization activities to be undertaken.

C. Social Services

Modernization of social service facilities is allowed.

Social Welfare Services

- modernization refers to the renovation of existing structures / facilities and the acquisition of more modern equipment and facilities mainly to upgrade services.

D. Tourism

1. Modernization shall mean the modification/ upgrading/ restoration to the original condition of the facilities/ structures/ amenities/ of tourist accommodation facilities (hotels, resorts, inns, etc.) to conform/ meet the classification requirements of the DOT.
2. Modernization of tourist accommodation facilities is allowed. However, projects within Metro Manila are not entitled to any incentive.
3. Modernization projects, to qualify for pioneer status, must entail a cost of at least P300,000 per room.

E. Environmental/ Ecological Support Facilities

Establishment of Waste Handling Facilities/ Sewerage Systems for Industrial/ Municipal Waste.

Pioneer status may be granted if the project cost exceeds P 1 billion.

F. Infrastructure

a) Port

1. Upgrading of existing ports with project cost less than ninety percent (90%) of the cost of constructing a new port is considered modernization.
2. Pioneer status may be granted if the project cost exceeds P 1 billion.

b) Water Supply/Distribution/ Treatment

1. Upgrading of existing water supply/ distribution/ treatment facilities with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.
2. Pioneer status may be granted if the project cost exceeds P 1 billion. Projects that will cover at least two (2) of the major areas of water operation will also be entitled to a pioneer status.

c) Major Water Catchment Basins/Waterways and Related Infrastructure, Man-Made or Natural including Sewerage Systems

1. Upgrading of existing waterways and sewerage system facility with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.
2. Pioneer status may be granted if the project cost exceeds P 1 billion.

d)

ollroads/Highways

1. Upgrading of existing tollroads/highways with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.
2. Pioneer status may be granted if the project cost exceeds P 1 billion.

e)

P

ower Generation/ Transmission/ Distribution

1. Power Generation
 - a) All projects for modernization undertaking the listed activities are eligible for pioneer status.
 - b) Completion period of the modernization project must be within three (3) years from date of registration.

2. Power Transmission
Pioneer status may be granted if the project cost exceeds P 1 billion.

3. Power Distribution
Pioneer status may be granted if the project cost exceeds P 1 billion.

G. Common Carriers

a. Land Transport

1. Modernization of PUBs, including those in Metro Manila, that involves refleetting, is allowed under the following conditions:
 - a) buses must be brand new and suited to local conditions;
 - b) refleetting is within the coverage of existing franchises (i.e., as to the number of units);
 - c) substituted old units should not be used for public conveyance in any form; and
 - d) Submission of a scheduled system per bus trip.

2. Rail Transport Operations
 - a) Upgrading of existing rail transport operations with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.
 - b) Pioneer status may be granted if the project cost exceeds P 1 billion.

3. Pipeline Operations
 - a) Upgrading of existing pipeline operations with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.
 - b) Pioneer status may be granted if the project cost exceeds P 1 billion.

b. Inter-Island Shipping

1. Modernization shall mean an undertaking of any of the following: vessel replacements, repowering or replacement of engines, vessel conversion, acquisition of brand new communication and navigation equipment, acquisition of support and cargo handling facilities and modification of vessels to meet classification requirements.
2. Replacement of vessels may be allowed to vessels covering same franchise.
3. Replaced vessels should not be used by the firm for public conveyance in any form.
4. Before start of operation, seaworthiness of modernized vessel must be issued by MARINA.

H. Engineered Products and/or their Parts and Components

1. For radio and television, registration may be allowed provided fifty percent (50%) of the incremental volume shall be exported.
2. Upgrading of a company's existing major equipment shall be on a one-to-one basis and the equipment to be acquired, in general, will be brand-new and will meet the environmental standards required for environmental safety.
3. Machine shops engaged in engine reconditioning and/or rebuilding services, as well as general purpose welding and press shops shall not qualify under this program.

I. Motor Vehicle Parts and Components and Motor Vehicle Specifically Passenger Cars, Commercial Vehicles & Motorcycles

1. **Modernization refers to the upgrading of production facilities and/or ancillary/support facilities through the adoption of modern technology/equipment. The objectives of the modernization program are any or a combination of the following: to enhance productivity, achieve operational flexibility to meet market requirements and/or changes in technology trends, improve product quality and compliance with standards and to meet environmental standards.**
2. **Pioneer status may be granted to a project covering the modernization of motor vehicle parts and components if it involves the upgrading of the primary production facilities and will comply with the provisions of Article 17 of E.O. 226.**
3. **The modernization of a motor vehicle assembly plant should be integrated with the modernization of its parts suppliers. Pioneer/non-pioneer status shall be determined by the Board based on investments, employment, technology and the program to upgrade local small and medium parts suppliers.**

J. Agriculture and Fishery and High Value Crops

Subject to the general guidelines, when applicable.

K. Iron and Steel

Modernization projects for the following products qualify under the Program:

1. Primary steel products in the form of refined iron ore, ingots or blooms/billets from which the following range of steel products could be derived:
 - a.) From Blooms & Billets
 - Structurals
 - Wire Rods
 - Merchant Bars
2. Intermediate steel products such as plates, hot-rolled or cold-rolled flat products (for GI sheets, deep drawing applications, automotive and appliance) or their equivalents (tin mill black plates for tinsplates); or bars/rods which are plain surface long products in round or non-round shapes and in straight lengths or coiled, the types of which are not currently produced in the Philippines, for use in drawing, extrusion or forging.

Modernization shall cover any or a combination of the following:

1. Installation of additional line process facilities, provided that the same products will still be produced;
2. Partial replacement of an existing production line; and/or,
3. Complete replacement of an existing production line.

Existing facilities are either totally junked or partially utilized as an adjunct of the new line to the extent that the existing facility cannot independently produce the existing product.

Modernization must result in any or combination of the following:

1. At least ninety six per cent (96%) yield for long products;
2. At least ninety eight per cent (98%) yield for flat products;
3. At least five per cent (5%) reduction in electricity usage for firms with melting facilities.

L. Mineral Resources

1. Modernization projects must be completed within three (3) years.
2. Marble projects shall be required to export fifty percent (50%), if Filipino-owned or seventy percent (70%), if foreign-owned, of any increase in existing capacity resulting from the modernization project.
3. Non-compliance with the foregoing export commitments shall be a ground for cancellation of registration and refund of incentives availed under the Program.

M. BOT Projects

Modernization of projects under BOT Law (R.A. 6957, as amended by R.A. 7718).

Upgrading of existing tollroads/highways with project cost less than ninety percent (90%) of the cost of constructing a new facility is considered modernization.

N. Chemical Products

1. After two (2) years from start of completion of modernization project, the firm shall export fifty percent (50%), directly or indirectly, of increase in production output due to modernization.
2. If one hundred percent (100%) of the incremental production would be exported indirectly, this should be geared for export oriented firms that in turn will directly export at least seventy percent (70%) of their output.

Appendix G

College of St. Benilde Hotel and Science in Hotel, Restaurant, and Institution Management Curriculum

CSB Vision-Mission

The College of Saint Benilde, a member of the De la Salle University System, is a dynamic, Filipino, Catholic tertiary educational institution for innovation and teaching excellence in the Lasallian tradition of *religio, mores, et cultura*.

The College recognizes the uniqueness and multidimensionality of human intelligence, and aspires to form Christian community builders who are deeply rooted in faith, appreciative of the worth of each individual, socially responsible, creative, professionally competent, and Filipino in ideals.

Through effective learner-centered teaching methodologies and relevant service-oriented programs for the academe, industry, and government, the College commits itself to the building of a just, humane, and progressive society.

School of Hotel, Restaurant, and Institution Management

Vision-Mission

The School of Hotel, Restaurant, and Institution Management (SHRIM) is committed to providing the hotel and restaurant industry with professionals who possess the requisite knowledge, skills, attitude, and Benildean values to become successful entrepreneurs, hoteliers, and restaurateurs. It aspires to take the lead in offering relevant and innovative courses that meet the demand for industry-ready professionals for hotels and restaurants in the Philippines and abroad.

Bachelor of Science in Hotel, Restaurant, and Institution Management (BS-HRIM)

Program Description

The Bachelor of Science in Hotel, Restaurant, and Institution Management (BS HRIM) is a ten-term (3.3 years) program which integrates theory and practice to provide students with a strong management and service orientation, as well as a global perspective of hotel and restaurant operations.

The program provides students with the opportunity to undertake and complete on-the-job training in laboratory subjects and in-house practicum at the DLSU-CSB Angelo King International Center in order to obtain substantial, varied and experiential knowledge of the industry prior to practicum in hotels and restaurants.

Industry Linkages

The relevance of course offerings is ensured through active linkages with the hospitality and tourism industry. The program provides intensive practicum in local, regional, national, and international establishments to foster career challenges.

The School of Hotel, Restaurants, and Institution Management has linkages with the Hotel and Restaurant Association of the Philippines (HRAP) and the Educational Foundation of the National Restaurant Association (NRA) of the United States.

Faculty

Faculty members are professors and instructors trained in the Philippines and abroad, as well as industry-based experts and practitioners. Linkages with industry, government agencies, research, and cultural organizations provide the students exposure to other practitioners in the field.

Career Opportunities

Open to graduates are placement and advancement opportunities in lodging, food service, recreation, travel and tourism-related business, and government establishments here and abroad. Graduates with an HRIM program-strengthened entrepreneurial spirit are encouraged to put up their own establishments. After gaining experience as professionals, graduates have the option to pursue careers in consultancy and research in hotel, restaurant, and institution management.

Curriculum

Students are prepared for their careers through 36 general units of general education, and 83 units of core/ professional/ major courses. The latter focuses on the aspects of the operations of a lodging/ food service establishments as part of the hospitality and tourism industry.

The practicum, offered during the last term provides graduating students with 600 hours of on-the-job training: 150 in the International Center, 150 hours in food-service establishments and 300 hours in a lodging establishment.

Summary of Courses*

FIRST YEAR		
First Trimester		
Course Code	Course Description	Units
COSK1-E	Communication Skills 1	3 (3)
AESTHET	Aesthetics	3
GEPSYCH	General Psychology	3
BIBSTUD	Bible Study	3

Annex B

PEONEPF	Physical Fitness	2
SEPERDE	Seminar on Personality Development	3
ROTC-01	Military Training 1	(3)
TOTAL		(1.5) 14 (7.5)

Course Code	Second Trimester Course Description	Units
ALGEB-E	Elementary Algebra	3 (1.5)
HISTORY	Philippine History	3
PHI-GOV	Philippine Government and Constitution	3
PTOUR-1	Principles of Tourism 1	3
DYNAREL	Church and Sacraments	3
PETWODA	Dances	2
ROTC-03	Military Training 2	(1.5)
TOTAL		17 (3)

Course Code	Third Trimester Course Description	Units
COSK2-E	Communication Skills 2	3 (3)
BMAT2-E	Business Mathematics	3 (1.5)
PTOUR-2	Principles of Tourism 2	3
FILIP11	Sining ng Komunikasyon	3
RECONSE	Religion and the Contemporary Search for Self	3
PETRIID	Individual and Dual Sports	2
ROTC-03	Military Training 3	3
TOTAL		17 (6)

SECOND YEAR**First Trimester**

Course Code	Course Description	Units
COMORAL	Oral Communication	3
WORPROC	Wordprocessing	3
PAECEDU	Peace Education	3
CHEMLEC/LAB	General and Food Chemistry	3 (2)
FILIP12	Filipino sa Tanging Gamit	3
CATHWOR	Catholicism in the Modern World: Problems and Challenges	3
ROTC-04	Military Training 4	(1.5)
TOTAL		18 (3.5)

Second Trimester

Course Code	Course Description	Units
PHILIEN	Philippine Literature	3
BACNTH1	Basic Accounting for the Hospitality Industry	3
PRIMLEC/LAB	Principles of Food Production and Menu Planning	4 (4)
FILIP13	Retorika	3
NUTRLEC/LAB	Nutrition and Wellness	3 (2)
PEFORTS	Team Sports	2
TOTAL		18 (6)

Third Trimester

Course Code	Course Description	Units
WORLITE	World Literature	3
RDIMLEC/ LAB	Rooms Division Management	3 (2)
FOODSYS	Foodservice System	3
MARKMGT	Marketing Management for the Hospitality Industry	3
MANAPUR	Purchasing Management for the Hospitality Industry	3
HAZONFO	Hazard Analysis in Food	3
TOTAL		18 (2)

THIRD YEAR**First Trimester**

Course Code	Course Description	Units
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Annex B

PHILOMA	Philosophy of Man	3
INSOCIO	Introduction to Sociology	3
CASLEC/LAB 1	Catering System 1	5 (6)
OPERCON	Controlling and Analyzing Costs in Food Service Operations	3
BARMLEC/LAB	Bar Management	3 (2)
TOTAL		17 (8)

Second Trimester		
Course Code	Course Description	Units
FORLAN1	Foreign Language	3 (1.5)
FINAMAN	Financial Management for the Hospitality Industry	3
HURMGMT	Human Resource Management for the Hospitality Management	3
DEBELEC/LAB	Facilities Design and Building Engineering System	3 (2)
CASLEC/LAB	Catering System 2	5 (6)
LEGASHI	Legal Aspect of the Hospitality Industry	2
TOTAL		19 (8)

Third Trimester		
Course Code	Course Description	Units
FORPLAN2	Foreign Language 2	3
NATSC13	Ecology	3
CASEIS1	Issues and Cases	1
INFOSYS	Information Systems for the Hospitality Industry	3
ENFRAMA	Entrepreneurship, Franchising and Small Business Management	3
INTECON	Introduction to Economics with Agrarian Reform	3
JOSERIZ	Life and Works of Jose Rizal	3
TOTAL		19 (8)

FOURTH YEAR		
First Trimester		
Course Code	Course Description	Units
PRACTUM	Practicum-800 hours	12
TOTAL		12

**The DLSU-CSB
Angelo King
International Center**

The School of HRIM will be housed at the De La Salle University-College of Saint Benilde-Angelo King International Center built on a 2,100 square meter lot on Estrada corner Arellano Street, Malate, Manila- a few blocks away from CSB Campus.

The Center will offer the following amenities 49 guestroom, a conference hall, fine dining restaurant, cafeteria, business center, travel agency and transport service offices, gifts shop, three floors of parking, self-laundry/ironing facilities, a meeting room for in-house guests, two passenger elevators, and 24-hour security.

The School in HRIM will occupy three floors of the Center and will provide the following facilities to students: air-conditioned lecture rooms, a demonstration kitchen, institutional hot, cold and baking/pastry kitchens with adequate cold/dry storage areas, a demonstration, bar, two basic food laboratories, two computer laboratories a nutrition laboratory, multi-media room, conference room, reading room, study room, two planning rooms, clinic, prayer room, two passenger elevators, a service elevator, and ample locker, shower, and comfort rooms.

The 12-storey building which will be completed by June 1999, will also house the DLSU System Office, the Center for English Language Learning, and the Career Development Program of the School of Business and Management.

The Center is envisioned to be the only operational hotel-school in the country. It will serve as the venue for preparing HRIM students for a career in the lodging/food service industry here and abroad through actual hands-on/on-the-job training in all laboratory courses.

The Hotel and Tourism Institute of the Philippines (HTIP)

In 1994, HRAP signed a contract with Singapore Hotel Association (SHA) Singapore Hotel Association Technical Education Center (SHATEC) to offer Post-Baccalaureate Certificates for Middle Management Training. The school with a laboratory hotel was planned to house the Post-Baccalaureate Program of SHATEC. The hotel was completed and turned over in 1997.

Twelve modules were developed-designed for the school's middle management training in 1994. To cope with the delay in the completion of the hotel and school, HRAP offered the 12 modules in different hotels as a venue for training.

In a period of four years (1994 – 1997), however, a total of 118 participants have graduated from the SHATEC HRAP Program. All the 118 graduates were promoted two-steps higher after the training. About 30% are now abroad with top executive positions in well-known international chain hotels. An estimated 5% applied their training by setting up their own hotel/restaurant business. The rest are in the Philippines currently occupying managerial positions.

In 1997, the Hotel and Tourism Institute of the Philippines (HTIP) received a registration permit from TESDA to offer a two-year program in Hotel and Restaurant Operations. The objectives of the program are the following:

- PRO-POOR: offers scholarships to high school graduates needing financial assistance
- PRO-DEVELOPMENT:
 - Strategy for poverty alleviation
 - Preparation for youth to become active participants in community development
- PRO MARKET
 - Sustainable
 - Gainful employment of all scholars

In order to achieve its mission in the education/training of quality manpower for the hospitality industry who will guarantee CARING, COURTEOUS, COMPETENT and INTERACTIVE service to their customers, the DUAL-TRAINING SYSTEM (DTS) is the school's preferred mode of delivering technology-based education/training. This arrangement was achieved with the facilities of Hotel Intramuros de Manila, a partner of HTIP.

In 1998-1999 thirty-three students, who are all TESDA-PESTA Scholars, enrolled at HTIP. About 61% of them enrolled for the second year. Thirty-nine dropped out due to financial reasons. However, due to the excellent training they received during their first year at HTIP, about 75% of the 13 students who dropped out were immediately employed. Meanwhile, for the same year, a total of fifty-four (54) freshmen enrolled at HTIP.

Appendix H

The Asian Institute of Tourism

History

Founded on February 26, 1976, the Asian Institute of Tourism (AIT) is a pioneer in tourism education in the Philippines. Its mission is to upgrade the travel and tourism profession by providing high quality education and training to students who will be the industry's future managers, entrepreneurs and technical experts. The AIT complex along Commonwealth Avenue was constructed with the help of the Department of Tourism and the Philippine Tourism Authority.

Objectives

The Institute performs the three basic functions of teaching, research and extension, fulfilling the following objectives:

- To develop entrepreneurs, managers and qualified staff for the tourism industry;
- To assist in the development, growth and professionalization of tourism;
- To provide a realistic instructional and research laboratory for tourism operations and management; and
- To provide a place for the conduct of professional and technical programs for the hospitality industry

Facilities

The Institute boasts of the biggest collection of tourism books and journals in the country as well as a computer laboratory. When fully rehabilitated, the AIT House will have first-class facilities, which will provide services to the University community as well as other clients. It will also be used as a training hotel for students.

BS Tourism Program

Aimed at developing young entrepreneurs, managers and qualified staff personnel for the tourism industry, the program has been comprehensively designed to develop well-rounded student in all fields of tourism. The course requires a student to take 46 courses equivalent to 147 units. About one-half or

60 units are general education subjects taken in service units of the University, such as the College of Arts and Letters, College of Social Science and Philosophy and the College of Science. The remaining 87 units which are taken at the AIT consist of 19 required tourism subjects, five tourism electives, a language elective and a practicum of 360 hours.

The subjects cover general management, accounting and finance, marketing and promotions, tourism laws and regulations and management of the different tourism sectors which include tour and travel operations, air, land and sea transportation and hotel and resort operations.

A special feature of the program is the internship program. The students are required to undergo 360 hours (equivalent to five course credits) of practicum in the summer prior to their senior year. By getting practical exposure to a sector of the tourism industry of their choice, students can make informed decision on their career options, which may be in the airline, hotel, resort, convention, travel agency management, tour operations, and allied fields.

Training and Extension

As part of the AIT's education program, the Institute conducts professional and technical programs for the tourism industry. These short-term courses include seminars, workshops, symposia and related activities for the public and/or private clientele.

The AIT is in the forefront in the conduct of training programs and short-term courses on:

- tourism awareness
- development planning
- marketing and regional destination promotions
- tour operations and travel agency management
- hotel operations
- resort operations

Recently conducted training programs and seminars include:

- Donsol Eco-tourism Management Planning. January - February 1999.
- First Mindanao Travel Mart. June 1999.
- Community-based Sustainable Tourism. September, 1999.
- Quality Service Through Professional Housekeeping. October 20 -21, 1999
- San Jose Youth Organization, December 5 - 6, 1999.
- Development of Trade Skill Standards and Tests. 1999.

- Tourism Awareness Workshop, 1999.
- Pahinungod - Lakbay Aral (Manual on History). 1999.
- Conference on Sustainable Community-Based Tourism. 1999.
- Bolinao Ecotourism Awareness. 1999.
- Technical Workshop on Sustainable Tourism. 1999.
- Lecture for Asia-Pacific Tourism Training Institute Students. 1999.
- Bais Bay Coastal Resource Management Program. 1999.
- Development Training Regulation for the Tourism Industry. on-going.
- Committee on Archipelagic and Ocean Studies Network. on going.

Research

Research is envisioned as a major function of the AIT particularly in terms of servicing the needs of the tourism industry for data, which could be used to guide policy-making bodies on tourism development. It undertakes research activities either singularly or in cooperation with related institutions.

AIT's efforts in tourism research are extensive and well-known. The Institute focuses on the following major research areas:

- domestic tourism
- economic impacts of tourism
- socio-cultural impacts
- evaluation research
- policy researches

Publications

The Institute uses its publications as a medium to disseminate information to both the private and government sectors. Recent publications of the institute includes:

- Principles of Travel and Tourism by Prof. Reil G. Cruz Women Entrepreneurs in Tourism AIT Monograph No.1 Series 98 - 1
- "Maximizing and Spreading the Socio-Economic Benefits of Tourism in Rural and the Underdeveloped Areas", Jose P. Mananzan

Appendix I

**Hotel and Restaurant Administration/Travel and Tourism OJT Program
Profile**

OJT Profile	Frequency/ Percentage
With OJT	100%
Number of Companies with tie-up	100%
5 or less	28%
6 to 10	23%
10 to 20	13%
More than 21	36%
Location of Firms	100%
Within city/town/municipality of school location	39%
Within province but outside city/town	13%
Within region but outside the province	4%
Outside the region but not in Cebu or Manila	13%
Cebu	4%
Metro Manila	27%
Contact Person in Establishment	100%
HRD/Personnel Manager	28%
Owner	11%
General Manager/Director	23%
Supervisor/Department Head	38%
Number of Years Linkage with Firms	
Minimum	1 year
Maximum	24 years
Average	4 years
Year Level of Students who Undergo Program	100%
Fourth Year	47%
1 st to 4 th year	4%
3 rd to 4 th year	15%
2 nd to 4 th year	34%
Number of Hours Required for Training	
Minimum	2 hours
Maximum	1,400 hours
Average	504 hours

* Based on fifty-three schools surveyed nationwide

Annex B

Existence of Written Contract or MOA	24.5%
Use of Endorsements to Send Students	96.2%
Existence of Guidelines or Manuals**	52.8%

Source: CBERD CHED Study, 2001

** None of the 53 schools screen the students who undergo OJT. Requirement imposed is a passing grade on pre-requisite projects.

Appendix K

International Tourism Receipts by Region (US\$ billion)

	1985	1990	1995	1997	1998	1999	Growth rate (%)	Average Annual growth (%)	
							1998/1997	1985-1997	1995-98
World	118.1	263.6	405.8	439.7	441.0	454.6	3.1	10.7	2.8
Africa	2.5	5.3	8.1	9.4	9.8		4.8	11.0	6.8
Northern Africa		2.9	2.7	2.9	3.3		14.9		6.4
Western Africa		0.6	0.7	0.8	0.9		12.4		10.5
Middle Africa		0.1	0.1	0.1	0.1		3.5		-1.1
Eastern Africa		1.1	1.1	2.3	23.3		-1.8		5.9
Southern Africa		1.2	2.6	3.3	3.3		-1.3		7.2
Americas	33.3	69.2	100.5	116.9	118.0		0.9	10.2	5.5
Northern America		54.8	77.5	89.7	88.5		-1.3		4.6
Caribbean		8.7	12.2	14.0	15.0		7.1		7.1
Central America		0.7	1.5	1.8	2.1		18.6		12.6
Southern America		4.9	9.3	11.4	12.3		8.3		9.7
Asia									
East Asia and Pacific	13.2	39.2	74.6	75.7	67.8		-10.4	13.4	-3.1
North-eastern Asia		17.6	33.6	37.1			-4.8		1.7
South-eastern Asia		14.5	27.9	24.3	20.4		-16.0		-9.9
Oceania		7.1	13.0	14.3	12.1		-15.5		-2.6
South Asia	1.4	2.0	3.5	4.0	4.3		.5.3	9.1	6.8
Europe	63.5	143.5	211.7	224.5	232.5		3.6	10.5	3.2
Northern Europe		24.7	32.6	34.2	35.7		4.4		3.1
Western Europe		63.5	81.0	75.3	77.9		3.5		-1.3
Central and Eastern Europe		4.8	22.7	31.9	3.1		-2.5		11.1
Southern Europe		44.6	65.8	70.6	75.7		7.3		4.8
East Mediterranean Europe		5.9	9.7	12.6	10.1		-3.4		7.7
Middle East	4.2	4.4	7.5	9.2	8.6		-6.7	5.7	4.5

Source: World Tourism Organization(WTO): Tourism highlights 2000,op.cit.

Appendix L

Network Economy and Tourism Industry

Player	Short-term Impact	Medium-term Impact
Airlines	Price and cost competition among airline groups, direct sales (trials), price differentiation	Electronic linkages and service packages for (business) customers, professional distribution partners will regain or expand power because they can offer the best rates and comparative shopping
Internationally operating chains	Successful competition of attention in the new medium	More flexible pricing schema, mass customization through integration of Web application into operations (knowledge management)
SME tourism suppliers-associations	Individual presence in the new medium	Electronic distribution channel sustainable only within an alliance model or operated by intermediaries. Personal touch of segment: customer interface without or invisible IT support.
DMOs (Destination Management Organization)	Strategies to get around legal constraints for integrating booking processes, cooperation models within destination, information providers and quality control	Occupy new role as consolidator and aggregator, operation of own servers, cooperation model in the electronic distribution channels—enforced cross-selling activities, enforced maintenance relationship models with more suppliers.
Tour operators	Increased customization of the product, tight control over the value chain (ownership of numerous principals)	Extended and flexible offerings as a result of increased usage of IT, flexible contractual models with more suppliers
GDS/CRS	"INTEL inside" marketing strategy for major touristic websites increases transaction volume, establishment of own booking servers	Technologically avid players will develop and extend their IT infrastructure and expand their scope: data mining, customer decision support, etc., further concentration in the GDS segment, emergence of smaller, more targeted CRS
Travel agents	Quality requirements and economies of scale will accelerate existing concentration trends, industry experts expect a dramatic drop in the number of travel agencies	Successful examples of hybrid strategy: Web and high street outlets, travel supermarkets, value-based pricing of services
New intermediaries	Exploit all available distribution channels, product and price differentiation, financial/ marketing cooperation, probably in	New services such as price comparisons and market overviews, personalized tools for customers

Annex B

	combination with changes in ownership	
Tourists	Increased IT competence, Web as information and booking channel accepted	Differentiated, situational and price-dependent service preferences: self service v. total customer care, security and privacy issues as inhibitors

Source: H. Werthner, S. Klein: Information technology and tourism- A challenging relationship, Springer Computer Science, Springer-Verlag, 1999, p.226.

Appendix M

Technology utilized as a Competitive Method

Customer-oriented technology	Management-oriented technology
Online reservations	Computer networking system
Working room	Global information technology
In-room high-speed Internet service	Decision-making system
Multifunction device	Business intelligence system
In-room computer installation	Property management system
In-room entertainment	Global distribution system
Electronic lock system	Information database system
Feature-added website	Database processing system
E-commerce and e-trade service	Franchise service delivery system
Electronic concierge	Material handling system
Teleconference and videoconference	Yield management system
	Revenue management system
	Direct marketing application
	Database marketing
	Financial application
	Cash flow analysis system
	Multimedia training system

Source: IH&RA, 2nd White Paper on the Hotel Industry, op.cit., p.5.

Appendix N

Changing Roles and Relationships in the Electronic Market Space

Player	Changing Role	Changing Relation to other Players
Tourist	More active role in specifying and configuring services	Addressed by more players: new intermediaries and suppliers
Travel agent	More emphasis on consulting and complex business	Diminishing power in the sales, channel, loss business segments to direct sales activities of travel suppliers and tourism websites
Internet travel sites (cybermediaries)	New intermediaries (cybermediaries) platform character, bundling of offerings	New players with understanding of technology and the new rules of the market but little traditional power, the need to form alliances for growth and external competencies, market functionality (comparison shopping, etc) as asset for marketing but obstacle for cooperations
Regional and/or national tourist organizations	Potential for extended role: destination management and regional Web platform, new ways of customer interaction	Difficult neutral status in relation to the represented suppliers
Tour operator	Boundaries between individual and packaged tour are blurring	More flexible agreements with suppliers in order to be able to produce and market more flexible packages
CRS/GDS	Growth potential in collaboration with websites marketing like "INTEL inside" powered by Amadeus, Galileo, etc.	Exploring new business segments alone or in collaboration with players in the electronic retail segment; potential conflict of interest between different potential customers (suppliers, cybermediaries, travel agents, etc.)
Suppliers	Electronic direct sales to tourists redefining customer processes (electronic, ticketing, automated check-in, etc.)	Ambivalent relationship to travel agents, horizontal and vertical alliances

Source: H. Werthner, S. Klein, op.cit., p.179

Appendix O

Cost and Benefit Analysis for Developing Internet Presence for Small and Medium-sized Tourism Enterprises

Costs

- Costs of purchasing hardware, software and communication package
- Training cost of users
- Design and construction of Internet presence
- Cost of hosting the site on a reliable server
- Ongoing maintenance and regular updating
- Marketing the Internet service and registration of domains
- Development of procedures for dealing with Internet presence
- Commissions for purchases on-line by intermediaries
- Advertising fees for representation in search engines and other sites
- Interconnectivity with travel intermediaries such as TravelWeb, ITN, Expedia

Benefits

- Direct bookings, often intermediaries and commission free
- Global distribution of multimedia information and promotional material
- Low cost of providing and distributing timely updates of information
- Global presence on the Internet, 24 hours a day, 365 days a year
- Durability of promotion (in comparison to limited life of printed advertising in press)
- Reduction of promotional cost and reduction of brochure waste
- Great degree of attention by visitors to website
- Reduction of time required for transactions and ability to offer last minute promotions
- Low marginal cost of providing information to additional users
- Support of marketing intelligence and product design functions
- Development of targeted mailing lists through people who actively request information
- Great interactivity with prospective customers
- Niche marketing to prospective consumers who request to receive information
- Interactivity with local partners and provision of added value products at destinations
- Ability to generate a community feel for current users and prospective customers

Annex B

Source: D. Buhalis and W. Schertler (eds.): Information and communication technologies in tourism 1999, Proceedings of the International Conference in Innsbruck, Austria 1999, 1999, Springer Computer Science, Springer-Verlag Vienna, 1999, p. 224.

Appendix P

Obstacles to the introduction of electronic data interchange (EDI)

Layer	Obstacles
Interorganizational relations and the role of intermediaries	The implementation of EDI is facilitated by a cooperative relationship among the business partners. As a matter of fact competitive relationships are dominant and the industry is fragmented
Technical and organizational integration	Most of the potential benefit of EDI depends on the organizational and technical integration (Cox and Ghoneim, 1994). Both are complex, time consuming and costly
Interchange agreements and response patterns (pragmatics)	Numerous incompatible regulations, varying from region to region, pose a major obstacle to the development of set generic interchange agreements (Bons et al. 1994)
Product codes and descriptions (semantics)	While numerous incompatible classification systems, e.g., for hotels, exist, no standardized product codes for tourism services are available (Baker et al. 1996)
EDIFACT messages (Syntax)	EDIFACT messages for tourism are still under development
Telecommunication and security	Most of the small and medium-sized tourism suppliers have little or no experience with electronic message exchange. Technical investments and training are necessary. Throughout Europe, different communication protocols and serves are used, VANS are widely perceived as being too expensive

Source: J. Werthner, S. Klein, 1999, op.cit.p. 265.