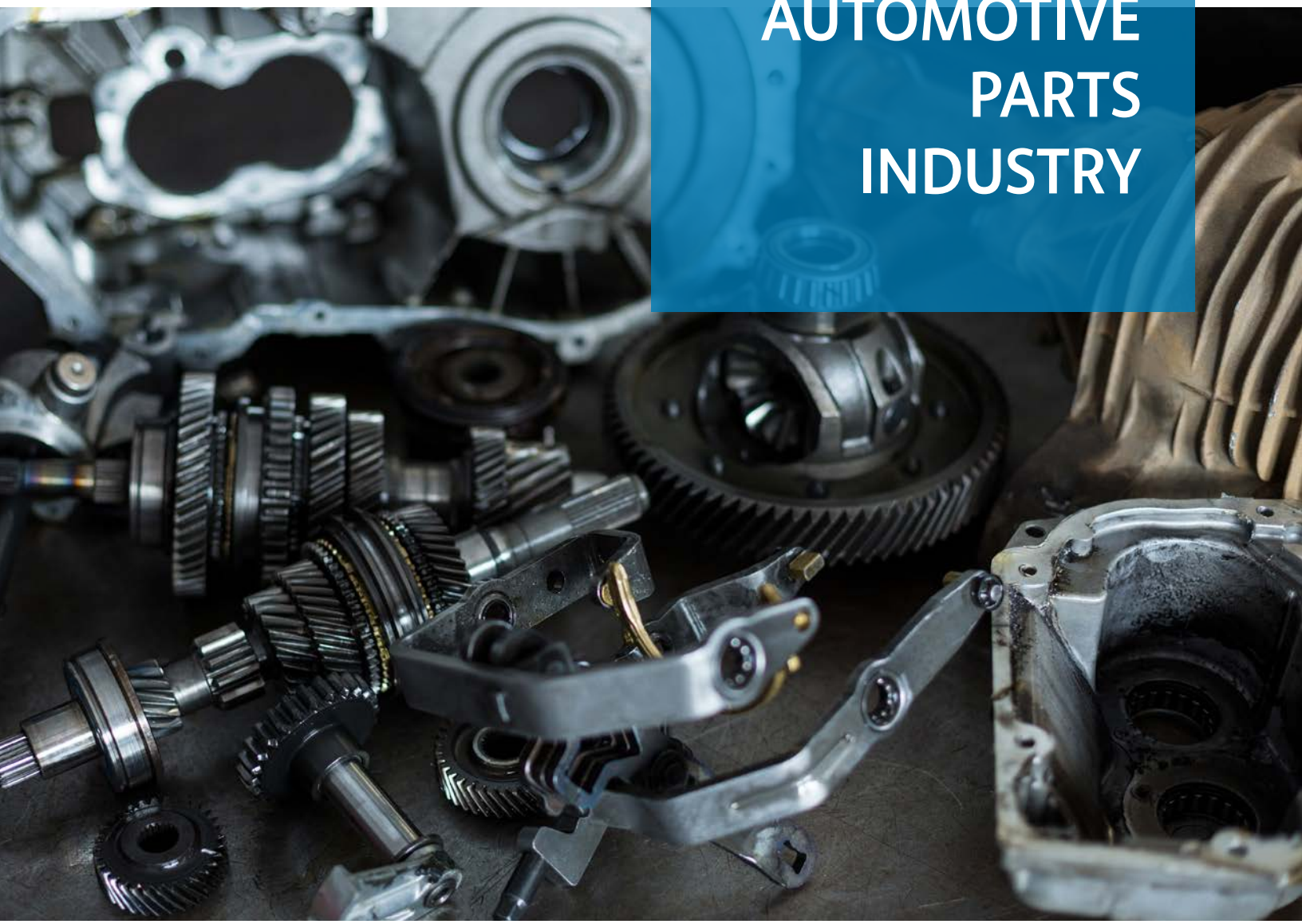
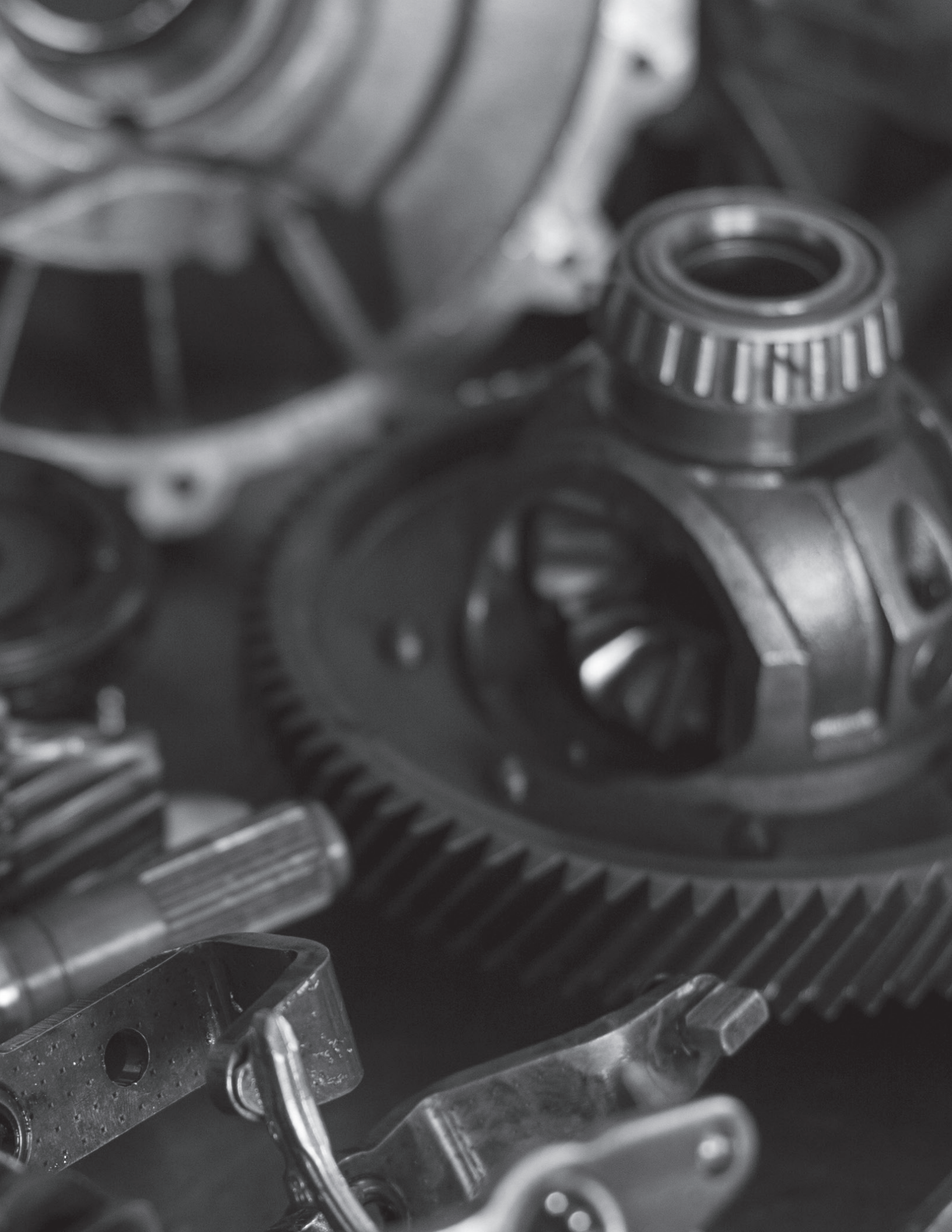
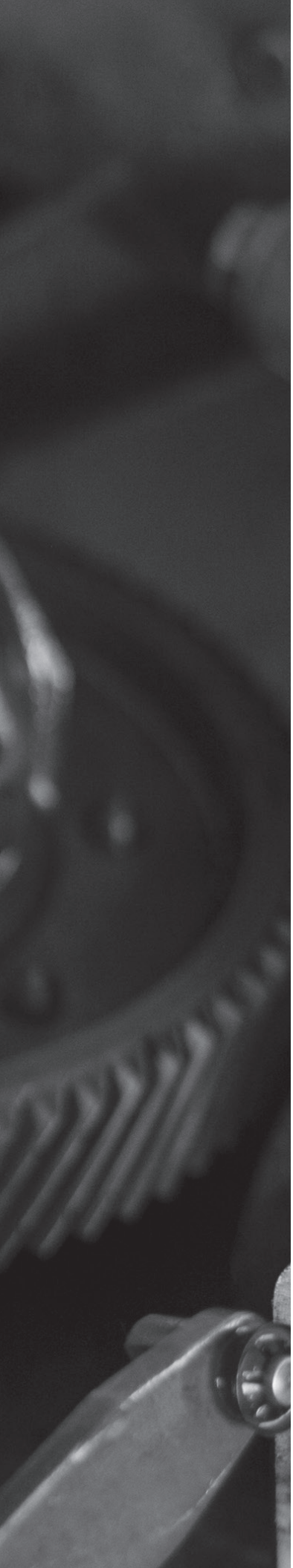
First Philippine Industrial Park
INTERCONNECTED ADVANTAGE

2022

THE PHILIPPINE AUTOMOTIVE PARTS INDUSTRY







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Abbreviations

ASEAN	Association of Southeast Asian Nations
BOI	Board of Investments
DTI	Department of Trade and Industry
EDC	Energy Development Corporation
EV	electric vehicle
FPH	First Philippine Holdings
FPIP	First Philippine Industrial Park
IPP	Investment Priorities Plan
LV	light vehicle
NGV	natural gas vehicle
OEM	original equipment manufacturers
PEZA	Philippine Economic Zone Authority
SC	Sumitomo Corporation

First Philippine Industrial Park

INTERCONNECTED ADVANTAGE

First Philippine Industrial Park, Inc. (FPIP) is one of the Philippines' largest and fastest-growing premier industrial parks today. With over 600 hectares of prime industrial land, it is now the preferred location of over a hundred world-class locators.

FPIP was established in 1996 in response to the government's call for private-sector assistance in catalyzing industrial growth. Today, FPIP continues to work with its locator partners in contributing to national development and economic growth by helping generate tens of thousands of local jobs and billions of pesos in annual export earnings.

FPIP brings over two decades of operational excellence and an even longer history of multifaceted industry experience through its partners and parent companies.

FPIP is a joint venture between First Philippine Holdings (FPH) and Sumitomo Corporation of Japan. FPH brings leading and pioneering experience in energy, power generation and distribution, transformer manufacturing, commercial and residential estate development and management, construction and engineering, as well as education and healthcare.

Sumitomo Corporation's experience in industrial park development and management aids FPIP in offering integrated services and world-class experience to locators all over the world. Sumitomo Corporation is a leading industrial park developer and operator in Vietnam, Indonesia, Myanmar, India, Bangladesh, and the Philippines.

Executive Summary

The automotive industry in the Philippines is the ninth-largest in the Asia-Pacific region, with approximately 273.4 thousand vehicles sold in 2019. Most vehicles sold and built in the Philippines are from foreign brands. For the most part, the Philippines is dominated by Japanese automobile manufacturers like most of its neighboring countries belonging to the Association of Southeast Asian Nations (ASEAN). Automobile production in the country is covered under the Philippine Motor Vehicle Development Program implemented by the Board of Investments (BOI). In addition, a small number of independent firms also assemble and fabricate jeepneys and other similar vehicles, using surplus engines and drivetrain parts mostly from Japan.

The Philippine automobile industry consists of two sectors: motor vehicle assembly and vehicle parts and components manufacturing. The country also has an active premium car market and commercial vehicle segment.

Statista.com states that "the automotive industry has been a thriving sector in the Philippines. Across the Asia Pacific Region, the Philippines ranked 11th among the countries with the highest passenger cars sold, with approximately 153.83 thousand vehicles in 2020. A recent survey revealed that around 43% of Filipino households owned a motorcycle or a tricycle and around 9.3% owned a car, jeep, or van. However, due to the ongoing coronavirus (COVID-19) pandemic, vehicle sales have been greatly affected, resulting in a 39.5% decline in 2020."

It further states that "Commuters spend a minimum of one and a half to two hours on the road. With the public transportation inflow of passengers, especially during rush hour, several consumers opt to purchase their vehicles despite the traffic congestion in the Philippines. As of October 2020, light commercial vehicles such as SUVs and vans were the highest selling type of automobile cars in the country, given the large size of Filipino families and households. In that year, around 61 thousand new SUVs were registered under the Land Transportation Office, although motorcycle registrations remain the highest among all vehicle types. In densely populated cities and urbanized regions like Metro Manila, the outpour of vehicles on the road is one of the leading causes of traffic congestion. With the rising population, public transportation is not enough to cater to all commuters. In 2019, the number of people living in urban areas was approximately 47 million. The urban population accounted for almost half of the total inhabitants within the Philippines."

According to the Department of Trade and Industry (DTI), the vision of the auto parts industry is to strengthen the position of the Philippines as a significant automotive player in the medium-term and become a regional hub for vehicles and parts in Asia supported by a strong domestic supplier base.

The industry's objectives are "(1) to develop an internationally competitive and viable automotive parts industry, in terms of product range, price, quality, and on-time delivery; (2) to enhance value added and local capabilities in the automotive parts industry through improvement of processes, technology, and human capital; and (3) to promote export-oriented parts and components manufacturers."

The DTI states that "[in 2019] the Philippine domestic auto parts industry is composed of 256 companies producing around 330 different parts and components. With four (4) Japanese automakers operating in the country, the industry represents some growing agglomeration economies in the Laguna and Cavite areas."

However, "the auto parts industry is facing competitiveness issues due to the absence of economies of scale and a weak supply base." To help firms achieve this, strategic industrial upgrading policy and carefully designed temporary subsidies are needed.

The DTI further states that "for domestic-oriented small and medium-sized firms, the challenge is improving their competitiveness to enable them to compete in a more liberalized market. For export-oriented ones, it

is important to identify ways and measures on how to maintain their competitiveness and take advantage of future opportunities. In both types of firms, expanding existing linkages and developing new ones would be crucial for the industry's growth and development."

Based on research, "Asia will be the most dynamic market, especially with the steady growth of China, India, and the Southeast Asian countries. The creation of the ASEAN Economic Community in 2015 along with other ASEAN+1 Free Trade Agreements offer increased trade and investment opportunities, as well as cooperative arrangements through joint ventures or mergers. There are also strong growth potentials in specializing in certain core processes and alternative fuel and e-vehicles and parts, given growing environmental and safety concerns."

The DTI states that "within the context of these opportunities and challenges, the Philippine auto parts and components industry is envisioned to become a significant player in the medium-term and become a regional hub for vehicles and parts in Asia supported by a strong domestic supplier base."

In line with the strengths and weaknesses of the industry, three major strategies are proposed to be implemented: "(i) enhancement of the competitiveness of Filipino parts and components firms, (ii) creation of an incentive program to support the adjustment of the parts and components sector as the automotive industry is transformed from completely knocked-down assembly to full manufacturing, and (iii) creation of a more predictable environment for business operations."

Global Perspective[1]

A survey by Deloitte[2] of 26,000 consumers in 25 countries to explore opinions regarding a variety of critical issues impacting the automotive sector, including the development of advanced technologies, has revealed the following:

- **Willingness to pay for advanced tech remains limited**. A majority of consumers are unwilling to pay more for advanced technologies in most global markets as they have been trained to expect new vehicle features as a cost of doing business for brands looking to differentiate themselves from their competitors.
- **Interest in electric vehicles is driven by lower running costs and better experience**. Consumer interest in electric vehicles centers on the perception of lower fuel costs, environmental consciousness, and a better driving experience. However, driving range and lack of available charging infrastructure remain barriers to adoption.

[1] Global Automotive Industry Overview | Data and Analysis (accessed 22 October 2021.)
[2] https://www.deloitte.com/global/en/Industries/automotive/perspectives/global-automotive-consumer-study.html

- **In-person purchase experience is still preferred by many.** Most consumers would still prefer to purchase a vehicle at an authorized dealership. However, a perception of increased convenience and ease of use will likely support continued growth of virtual purchase processes.
- **Personal vehicles continue to be the preferred mode of transportation.** Shared mobility services like ride-hailing and car sharing have been slow to return to their pre-pandemic pace of growth as people prefer using personal vehicles to satisfy their transportation requirements.

Insights

The following insights are provided under the *2022 Automative Outlook: A Stable Market Ahead?* (Sollum, 2021).

- The economy and the global health situation are slowly starting to take a step in the right direction, and the development for light vehicle (LV) sales is following suit. With several hurdles overcome during the last year, the outlook for 2022 looks positive by comparison—but that does not mean the future is risk-free.
- The Delta variant, for example, poses a challenge to economic recovery by prolonging the pandemic, increasing the need for restrictions, and changing consumer behavior.
- While original equipment manufacturers (OEMs), parts suppliers, and consumers are adapting well to these challenges, and end-user demand is solid, this does not necessarily equate to increased sales, not least because supply chain pressure, including the semiconductor shortage, is holding production back.
- Today, light vehicle inventories are at a record low. But with production of semiconductors now ramping up, we assume the situation will stabilize during the second half of 2022.
- Quick forecasts
    - Global LV sales in 2021: 80 million units
    - Expected global LV sales growth from 2021 to 2022: 3.75%
    - Global sales expected to reach pre-pandemic levels in 2023
- Meanwhile, consumer confidence, low interest rates and good job figures have led to a strong demand for durable goods including LVs. Global LV sales are expected to reach 80 million units in 2021, up from 76 million in 2020 but still behind 2019 volumes, which reached 90 million. For 2022, moderate growth is expected to hike sales to 83 million, with global sales expected to reach pre-pandemic levels in 2023 before a big upswing in 2024 and 2025.
- In terms of consumer preferences, crossovers and SUVs continue to be more popular than passenger vehicles and sedans. This trend has been apparent for a decade and looks likely to continue into 2022, suggesting that consumers tend to like the high-ride style and perceived better sense of safety offered by these models, which, for some, appeal to their off-road aspirations.
- The impact of climate targets on vehicle sales
- 2021 saw COP26 take place in Glasgow, and a reinvigorated resolve to achieve global net zero by 2050 and keep global warming within 1.5 degrees of pre-industrial levels. There is still a long way to go to meet these targets and countries are being asked to come forward with ambitious 2030 emissions reductions that align with reaching net zero by the middle of the century.
- To deliver on these ambitious targets, countries will need to accelerate the phase-out of coal, curtail deforestation, speed up the switch to electric vehicles (EVs) and encourage investment in renewables. Needless to say, the automotive industry has a clear responsibility on these matters.
- Looking to the future, government incentives will likely continue to support low-emissions vehicles, which will in turn boost production of EV. In China, EV production and exports for both legacy OEMs and new players are rising and are likely to continue to increase; however, geopolitical tensions could lead to regionalized EV production in the years ahead. Elsewhere, sustainability is also playing an important role in the future of self-driving cars, with the global autonomous market expected to be worth $60 billion in 2030.
- As we enter 2022, market predictions remain cautiously optimistic, with LV sales set to grow, albeit modestly. And with the semiconductor supply chain showing signs of stabilization in the second half of next year, the signals at this stage suggest there could be better times ahead.

Automotive Parts and Components Global Value Chain[3]

Deloitte states that "a radically different value chain is emerging in the automotive industry where mobility is purchased as a flexible service and vehicles are connected, autonomous and electric" as opposed to "the traditional automotive business model where privately purchased, hardware-focused, human-driven vehicles powered by internal combustion engines (ICE) are the norm."

Because of this, "companies (including dealers, OEMs, suppliers, and service providers) will identify within their organization a technology, product line and/or division that needs to be reviewed and potentially given a new direction. Continuing with the same strategy that benefited from the strong automotive market of the past is unlikely to optimize returns in this evolving market. Particular attention needs to be paid towards areas that will not be part of your core strategy over the next decade and beyond."

Parts and Components

As a complex assembly sector, the automotive industry operates with a "tiered" supply chain structure. A single passenger vehicle is made from thousands of parts produced by hundreds of suppliers. The parts and components stage of the value chain involves small and mid-sized enterprises (SMEs) that mainly serve domestic

Table 1. Four Key Transformative Forces to Impact the Auto Industry

Electrification	Characterized by growth of e-powered vehicles driven by increased regulatory pressure, technological improvements, investments in charging infrastructure, and environment-friendly customers. Results from Deloitte's 2019 Global Automotive Consumer Study reveal that consumers continue to be increasingly interested in electrified powertrains. An estimated 25–30 million light passenger vehicles with electrified powertrain are predicted to be on the road worldwide by 2025. The CAGR in fuel cells, battery electric vehicles, plug-in hybrid electric vehicles, and other hybrid technologies are expected to grow around 34% from 2019 to 2025.
Shared Mobility	Shared mobility being more accessible and prolific with younger, more urban customers preferring to use ride-hailing services, saturation of smartphones, and advanced 5G networks
New Entrants	Big technology and consumer electronics players entering the automotive value chain are challenging existing business models and placing pressure on traditional suppliers for innovation. New players entering the automotive segment are observed to transform the automotive value chain from a linear model to an integrated web where several companies from different multiple tiers and segments are contributing content (hardware and software) to an ecosystem of connected systems inside the vehicle.
Technology Convergence	Convergence of automotives and technology causing the transfer of significant supplier value from hardware to software caused by the shifts in vehicle technology and functionality (e.g., proliferation of software and advances in autonomous "driving").

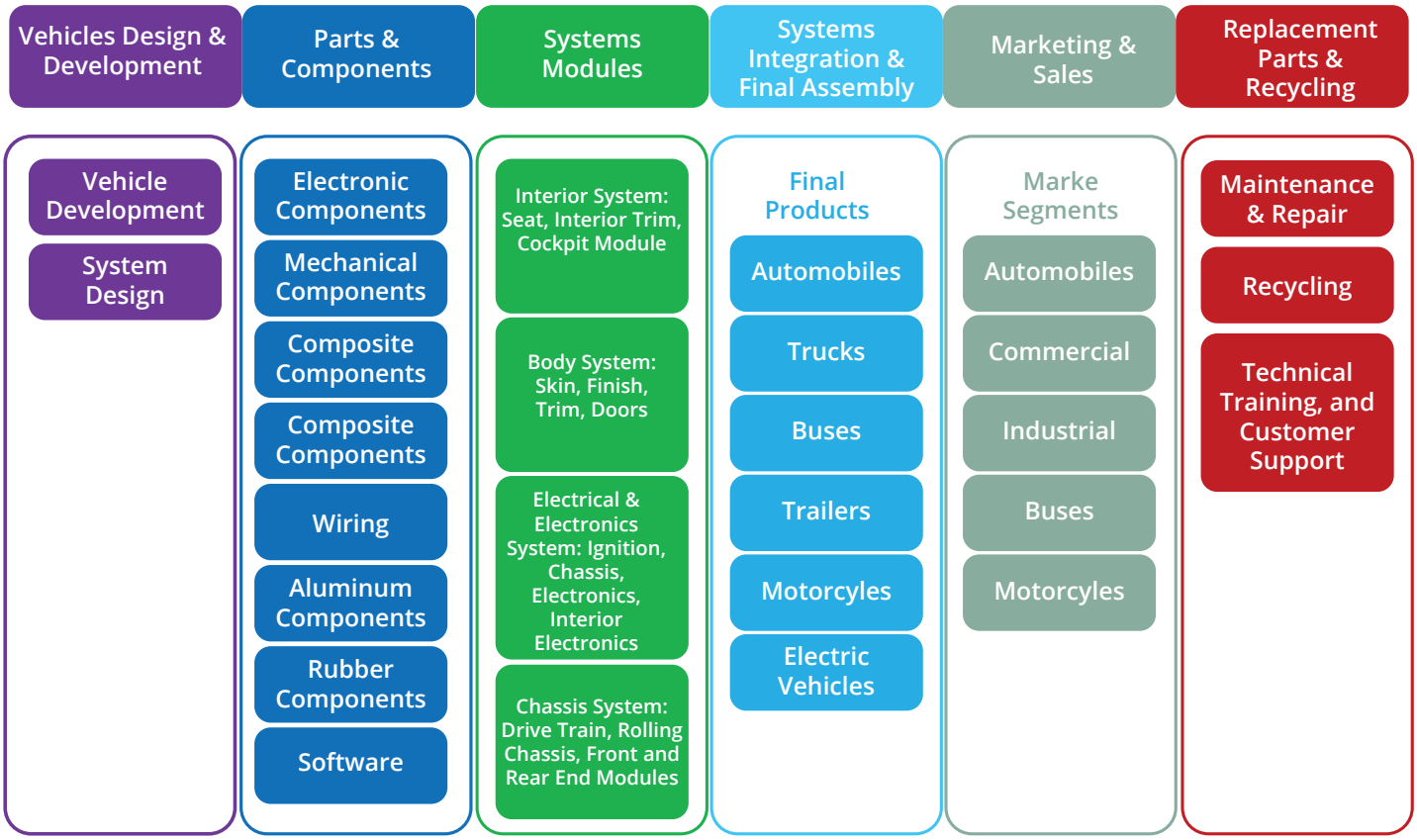
Source: Deloitte Insights.

[3] https://www2.deloitte.com/us/en/insights/industry/automotive/automotive-industry-value-chain.html

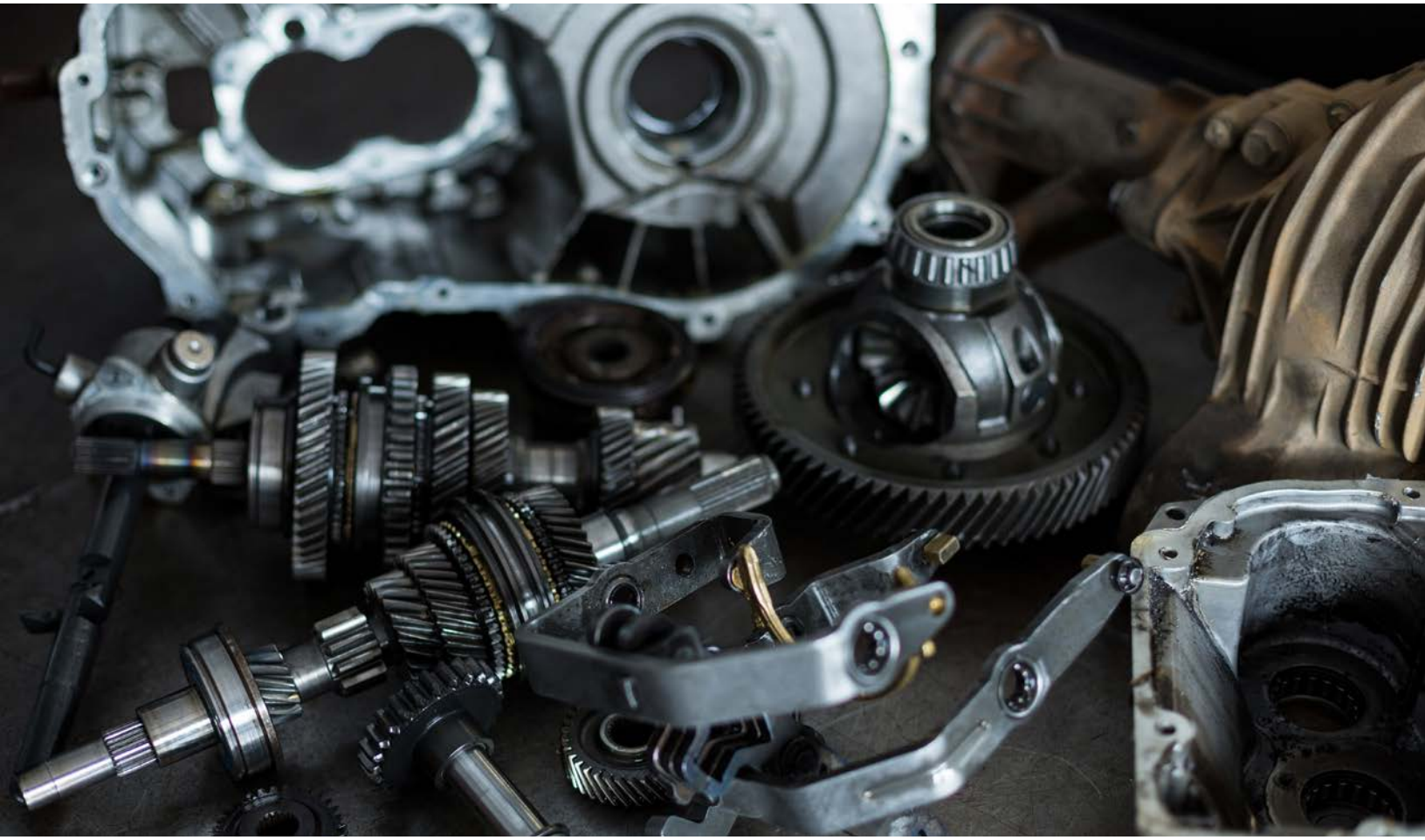
markets. However, general supplier consolidation in higher tiers made it possible for the supply chain for local suppliers and SMEs to access export markets in more generic parts. To resolve capacity utilization concerns, global and regional suppliers have expanded their reach, enabling them to work for several lead firms or Tier 1 suppliers.

Parts and components are used to build modules that describe physically interconnected systems of parts such as front ends (bumpers, grills, lighting, etc.) instrumentation or "cockpit" clusters; or front or rear end suspension "cradles" that include dozens of suspension parts (springs, shock absorbers, tie rods, etc.). These modules form the basis of systems, which can be divided into four broad categories: interior (seat, trim and cockpit module); body (doors, skin, finish, trim); electrical and electronic (ignition wiring, chassis electronics, and interior electronics); and chassis (drive trains, radiators, front and rear end modules).

Figure 1. Automotive Global Value Chain



Source: Duke CGGC. (2016).



The Philippine Context

According to The Philippine Automotive Industry on Wikipedia:[4]

- The automotive industry in the Philippines is the ninth largest in the Asia-Pacific region, with approximately 273.4 thousand vehicles sold in 2019. Most of the vehicles sold and built in the Philippines are from foreign brands. For the most part, the Philippines is dominated by Japanese automobile manufacturers like most of its neighboring countries belonging to ASEAN. The automobile production in the country is covered under the Philippine Motor Vehicle Development Program implemented by the BOI. In addition, a small number of independent firms also assemble and fabricate jeepneys and other similar vehicles, using surplus engines and drivetrain parts mostly from Japan.
- The Philippine automobile industry consists of two sectors: motor vehicle assembly and vehicle parts and components manufacturing. The country also has an active premium car market and commercial vehicle segment.
- Automobile sales in the Philippines mostly consist of locally assembled and imported cars, notably coming

[4] https://en.wikipedia.org/wiki/Automotive_industry_in_the_Philippines

from Thailand, Indonesia, and other countries. In 2019, an imported vehicle from Indonesia cost 24% lower than a locally made equivalent. The same cost difference applies to completely built-up cars from South Korea (also 24%) and Thailand, with 18%.[4] The country also imports cars from the People's Republic of China, India, and the United States (US).

Thriving Sector

Statista.com[5] states that "the automotive industry has been a thriving sector in the Philippines. Across the Asia Pacific Region, the Philippines ranked 11th among the countries with the highest passenger cars sold, with approximately 153.83 thousand vehicles in 2020. A recent survey revealed that around 43% of Filipino households owned a motorcycle or a tricycle and around 9.3% owned a car, jeep, or van. However, due to the ongoing coronavirus (COVID-19) pandemic, vehicle sales have been greatly affected, resulting in a 39.5% decline in 2020."

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[5] https://www.statista.com/topics/6433/automotive-industry-in-the-philippines/#dossierKeyfigures (3 January 2022)

Summary of the Philippine Automotive Parts Industry

According to the DTI,[6]

- the vision of the auto parts industry is to strengthen the position of the Philippines as a significant automotive player in the medium-term and become a regional hub for vehicles and parts in Asia supported by a strong domestic supplier base.
- The industry's objectives are "(1) to develop an internationally competitive and viable automotive parts industry, in terms of product range, price, quality, and on-time delivery; (2) to enhance value added and local capabilities in the automotive parts industry through improvement of processes, technology and human capital; and (3) to promote export-oriented parts and components manufacturers."
- DTI states that "[in 2019] the Philippine domestic auto parts industry is composed of 256 companies producing around 330 different parts and components. With four (4) Japanese automakers operating in the country,[7] the industry represents some growing agglomeration economies in the Laguna and Cavite area."
- However, "the auto parts industry is facing competitiveness issues due to the absence of economies of scale and a weak supply base." To help firms achieve this, strategic industrial upgrading policy and carefully designed temporary subsidies are needed.
- The DTI further states that "for domestic-oriented small and medium-sized firms, the challenge is improving their competitiveness to enable them to compete in a more liberalized market. For export-oriented ones, it is important to identify ways and measures on how to maintain their competitiveness and take advantage of future opportunities. In both types of firms, expanding existing linkages and developing new ones would be crucial for the industry's growth and development."

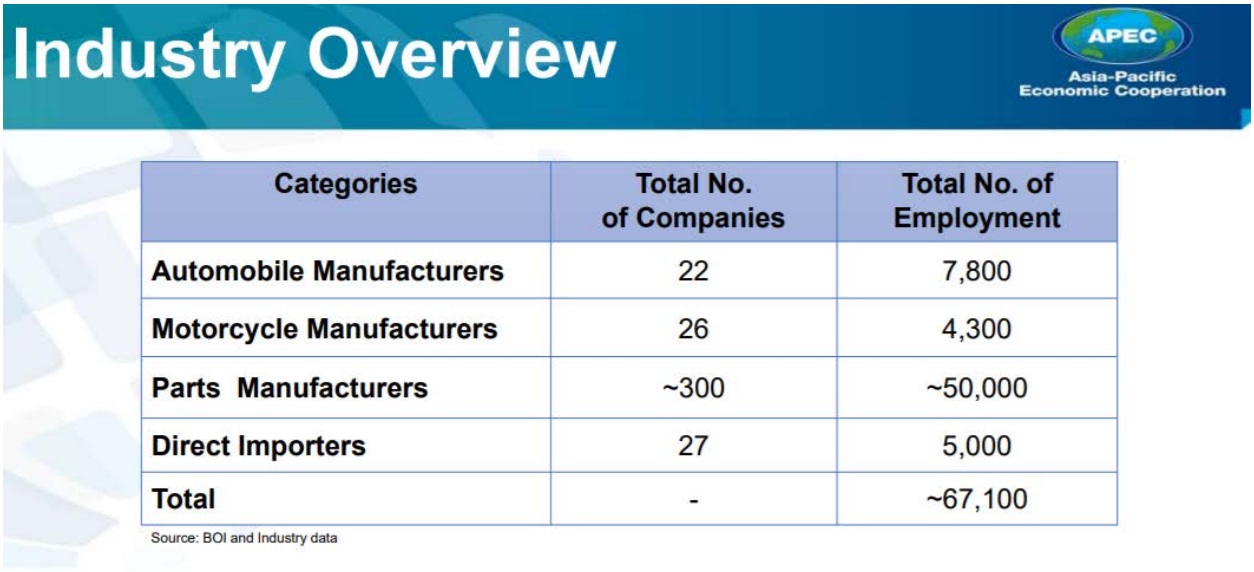
[6] https://www.trade.gov/market-intelligence/philippines-automotive-market

[7] Suzuki Motor Corporation (Suzuki), Daihatsu Motor Co. Ltd. (Daihatsu), Toyota Motor Corporation (Toyota), and Mazda Motor Corporation (Mazda).

- Based on research, "Asia will be the most dynamic market, especially with the steady growth of China, India, and the Southeast Asian countries. The creation of the ASEAN Economic Community in 2015 along with other ASEAN+1 Free Trade Agreements offer increased trade and investment opportunities, as well as cooperative arrangements through joint ventures or mergers. There are also strong growth potentials in specializing in certain core processes and alternative fuel and e-vehicles and parts, given growing environmental and safety concerns."
- The DTI states that "within the context of these opportunities and challenges, the Philippine auto parts and components industry is envisioned to become a significant player in the medium-term and become a regional hub for vehicles and parts in Asia supported by a strong domestic supplier base."
- In line with the strengths and weaknesses of the industry, three major strategies are proposed to be implemented: "(1) enhancement of the competitiveness of Filipino parts and components firms; (2) creation of an incentive program to support the adjustment of the parts and components sector as the automotive industry is transformed from completely knocked-down assembly to full manufacturing; and (3) creation of a more predictable environment for business operations."[8]

The Philippine Automotive Parts Value Chain

The Philippine automotive manufacturing capabilities are mostly oriented toward the domestic market rather than regional or global chains. The key players active in the Philippines are Japanese automakers (Toyota, Mitsubishi, Mazda, Nissan, and Isuzu), which produce vehicles for the domestic market. The country's participation in the automotive global value chain is focused on the production of parts and components—specifically in wiring, electronic components, and aluminum components—and systems modules—particularly in the electrical and electronics system (ignition, chassis electronics, and interior electronics), and in the chassis system (drive trains, rolling chassis, wheel and tire assemblies, front and rear end modules, and vibration controls).



Categories	Total No. of Companies	Total No. of Employment
Automobile Manufacturers	22	7,800
Motorcycle Manufacturers	26	4,300
Parts Manufacturers	~300	~50,000
Direct Importers	27	5,000
Total	-	~67,100

Source: BOI and Industry data

Source: APEC. (2020).

[8] https://industry.gov.ph/industry/auto-parts/

The Philippine automotive industry's structure comprises the following activities:

- Manufacture of parts and accessories for motor vehicles
- Manufacture of motor vehicles
- Manufacture of bodies for motor vehicles
- Wholesale and retail trade of motor vehicles
- Maintenance and repair of motor vehicles
- Wholesale and retail trade of parts and accessories of motor vehicles

Around 2019, the parts and components sector manufactures about 330 parts for OEM and replacement markets. Almost 60% of all parts manufacturers produce OEM parts while the remaining 40% caters to the replacement market (Gimenez, 2009).

The metalworking subsector is the largest with a share of 48% of the total number of firms in the industry. Seats and trims follow with a share of 18%. Next is rubber with a share of 15%. Plastics account for a share of 9%, while electrical has a share of 8%. The metal sector is composed of large parts manufacturers such as Asian Transmission Corp., Toyota Auto Parts, and Honda Parts Manufacturing whose main products consist of transmission assemblies. These large companies exist along with relatively small parts companies that manufacture mainly small-type bracket and clips and metal-based components like clutch pedals and battery trays.

Table 2. Automotive Parts Industry Subsectors

Metal	Firms that manufacture stamped parts, aluminum wheels, mufflers and exhaust pipes, radiators, leaf spring, and steering wheels and columns
Rubber	Firms that manufacture tires and other rubber parts such as rubber hoses for radiators, heaters, and air conditioners, weather strips, glass runs, side moldings, and other molded rubber products like pedal pads, steering gear, tube/boot, plugs, bumper bounds, and oil seals
Seats & Trims	
Plastics	Firms producing small plastic injected parts and fiber-reinforced plastic components that cater mainly to the replacement market
Electrical	Companies manufacturing wiring harnesses characterized by the use of state-of-the-art technology and skilled workers
Others	Firms manufacturing horns, lamps and relays, small motors and alternators, and semiconductor controls for anti-brake systems, car stereos, and car speakers

Source: Duke CGGC. (2016).

Table 3. Major Auto Parts Companies Supplying OEM, Replacement, and Export Markets

Product	Firm	Quality Accreditation	Major Clients
Wiring harness	Yazaki Torres Manufacturing, Inc.	QS 9000, ISO 14001, ISO 9001, Ford Q1	Ford, Jaguar, Toyota, Mitsubishi, Mazda, Honda, Isuzu, Nissan, Universal Motors Corp.
	International Wiring Systems Corp. (Phils.)	ISO 9002, QS 9000, ISO 14000	Sumitomo Wiring Systems (Japan, USA, Australia)
	Pilipinas Kyohritsu, Inc.	ISO 9002, QS 9000	Nissan Motor (Japan, Phils.), Nissan Diesel, Universal Motors Corp.

continued on next page

Table 2 *continued*

Product	Firm	Quality Accreditation	Major Clients
Transmission	Asian Transmission Corporation	ISO 14000	MMC (Japan, Thailand, Philippines), Proton Malaysia
	Honda Parts Manufacturing Corp.	ISO 9000	Honda (Japan, Indonesia, India, Thailand, United Kingdom, USA, Pakistan)
	Toyota Auto Parts	ISO 14000	Toyota (Thailand, Indonesia, Malaysia, Taiwan, Japan, South Africa)
	Isuzu Auto Parts Manufacturing Corp.	ISO 9001	Isuzu (Thailand)
Alloy Wheels	Philippine Aluminum Wheels, Inc.	QS 9000, ISO 9001	Mitsubishi, Nissan, Toyota, Universal Motors Corp., Ford, Isuzu, GM, Hino
	Enkei Phils., Inc.	QS 9000	Honda, Toyota, Enkei Asia Pacific, Mitsubishi, Isuzu, Ford, Nissan
	Kosei Inc. (Asia Pacific)	QS 9000	Toyota, Honda, Mitsubishi, Japan, Isuzu, Nissan, Ford
Radiator, leaf spring, stamped parts	Roberts Automotive & Industrial Parts Manufacturing Corp.	ISO 9002	Mitsubishi, Honda, Hino, Columbian, Universal Motors
Tires	Yokohama Tires		Honda, Toyota, Mitsubishi, Isuzu, Nissan, Ford, Universal Motors, Hino, Columbian
Auto rubber parts	Othsuka Poly-Tech Phils., Inc.	ISO 9002	Toyota, JIDECO, Hoda, Lamcor

Source: Duke CGGC. (2016). The Philippines in the Global Automotive Value Chain.

Advantages and Capabilities

Advantages and capabilities of the Philippine automotive parts industry include

- strong industrial linkages;
- comparative advantage in a number of products like ignition/other wiring sets for vehicles, radio receivers,
- external power;
- lead-acid electric accumulators;
- brake system parts;
- transmissions for motor vehicles;
- pneumatic tyres for motor cars and other parts and components; and
- presence of global automotive brands.

In terms of business support organizations, the auto parts industry is represented by the Motor Vehicle Parts Manufacturers Association of the Philippines composed of over 100 parts and components makers, which is led by a set of 16 individuals (11 men and 5 women). The automotive industry, which encompasses auto parts, is served by (1) the Philippine Automotive Federation Incorporated that represents both auto assemblers and parts makers, (2) Chamber of Automotive Manufacturers of the Philippines, Incorporated composed of 14 auto assemblers and importers, and (3) the Philippine Automotive Competitiveness Council Incorporated, which is focused on providing a unified voice for the industry.

Compared with the total workers in the manufacturing sector where 75% are production workers—with the

rest being office or non-production workers—67% of total employed persons in the auto parts industry are production workers. The manufacturing sector as a whole shows a fairly balanced breakdown between the sexes (54% of production workers are male) while the auto parts sector shows the converse (54% of production workers are female). This shows that in the industry, women are not only limited to office roles but are integral in higher value-adding processes.

Initiatives

Deep investments in capital equipment and skills result to local automotive clusters being very long lived, and the industry being so often the target of industrial promotion policies.

The BOI annually releases an Investment Priorities Plan (IPP) that provides investment incentives to registered firms engaged in economic activities as prescribed in the Omnibus Investments Code. The automotive industry has been constantly listed as a preferred area under the BOI's IPP. The 2010, 2011, 2012, 2013, and 2020 IPPs included the manufacture and preferred activities. The following are incentives that may be availed by the industry:

- Income tax holiday
- Duty exemption on imported capital equipment, spare parts and accessories
- Exemption from wharfage dues and any export tax, duty, impost, and fees
- Tax credits on imported raw materials
- Tax and duty-free importation of consigned equipment
- Additional deduction for labor expense accelerated depreciation
- Non-fiscal incentives (i.e., employment of foreign nationals, simplification of customs procedures, and access to bonded manufacturing warehouse)

According to the BOI, the Philippine auto parts has three strategies, (1) enhancement of the competitiveness of Filipino parts and components firms; (2) creation of an incentive program to support the adjustment of the parts and components sector as the automotive industry is transformed from complete knockdown assembly to full manufacturing; and (3) creation of a more predictable environment for business operations.[9]

The Philippine government continues to offer support to boost the local automotive industry through incentives, as follows:

- Comprehensive Automotive Resurgence Strategy Program
  - Aims to increase investments in local motor vehicle manufacturing and promote local sourcing of materials used in the assembly process
  - Offers $600 million in incentives to a limited number of lead firms
  - Caps the output-based assistance to a maximum of three models, enabling local parts makers to generate economies of scale by producing components for a small number of products
- Motor Vehicle Development Program (MDVP) 2.0
  - Aims to incentivize scale in local production, based on a technology roadmap being developed
- Omnibus Investments Code
  - Grants fiscal and non-fiscal incentives to enterprises registered under the IPP. The 2017 IPP lists the manufacture of industrial goods, including motor vehicles and its parts and components, among the preferred activities for investments, and the 2022 IPP lists charging/refueling stations for alternative energy vehicles in Tier 1.[10]

[9] https://boi.gov.ph/ufaqs/auto-parts/
[10] https://www.aseanbriefing.com/news/the-philippines-2022-strategic-investment-priority-plan/

- Natural Gas Vehicle (NGV) Program for Public Transport
    - Reduction of duty rates to 1% for imported NGVs, NGV engines & other NGV industry-related parts & components certified by the Department of Energy (DOE)
- Natural Gas Motor Vehicles and Natural Gas Industry–Related Equipment, Parts & Components under Sec. 104 of the Tariff and Customs Code of 1978, as amended
    - Duty-free importation of compressed NGVs, industry-related equipment, parts and components

The government has also designed an export incentive program specifically for the automotive industry. The program provides a preferential tariff privilege on a firm's imports based on credits earned from its completely built unit exports. The granting of preferential tariff rates is contingent upon export performance on a yearly basis. An equivalent net foreign exchange earning is credited to the participant for every unit of CBU exported according to category.

Potential Upgrading Trajectories[11]

Based on a study by McKinsey, "from the third quarter of 2020 through the first quarter of 2021, automakers around the world have seen rapid (and in some cases, record) levels of production. As with multiple industries across geographic regions, the pandemic has brought a great acceleration of the trends across the mobility value chain that were building before it occurred. For the industry at large, it is expected that the core autonomous, connectivity, electrification, and smart, shared-mobility trends will continue to accelerate—particularly in the case of electrification.

McKinsey states that "investments in connectivity (which include sectors such as infotainment and cybersecurity) increased, and investments in electrification barely dipped at all—and then rose dramatically from the third quarter to the fourth quarter of 2020."

The analysis states that "mobility will continue to become more digital, more connected, and especially more electric. Automakers will have to adjust their organizations, such as by ramping up the number of software engineers relative to mechanical engineers significantly. In all, automakers may need to reskill up to one-quarter of their current workforces. These trends will continue to accelerate as the industry moves further from the COVID-19 crisis."

[11] https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/how-the-automotive-industry-is-accelerating-out-of-the-turn

First Philippine Industrial Park

First Philippine Industrial Park (FPIP) is one of the largest and fastest-growing premium industrial parks in the Philippines. With over 500 hectares of prime industrial land, it is the preferred location of the world's largest companies with more than 140 world-class locators, all contributing to national development, jobs creation, and economic growth. These locators include industry giants such as Brother, Canon, Murata, Collins Aerospace, Honda, Philip Morris, and Nestle, among others.

Established in 1996, FPIP is a 500+ hectare special economic zone (SEZ) located in the thriving industrial CALABARZON area south of Metro Manila. Considered the most prime investment location in the country today, it is host to a growing number of global leaders in diverse sectors such as aerospace, automotive, consumer goods, electronics, medical devices, and office equipment, among others.

FPIP offers locators best-in-class infrastructure and utilities, while providing industry-leading park management and support to its locator partners. Alongside special incentives in form of tax holidays and lower tax rates,* the the unique FPIP experience assures locators ease of doing business, safety and security, and the consistency of

* For eligible enterprises.

a first-world manufacturing environment. These enable locators to focus on increasing their competitiveness in the global marketplace.

FPIP brings over two decades of operational excellence, and an even longer history of multifaceted industry experience through its partners and parent companies.

FPIP is a joint venture between the local conglomerate First Philippine Holdings (FPH) and the Japanese conglomerate Sumitomo Corporation (SC). FPH brings leading and pioneering experience in energy, power generation and distribution, transformer manufacturing, commercial and residential estate development and management, construction and engineering, as well as education and healthcare.

On the other hand, Sumitomo Corporation's experience in industrial park development and management aids FPIP in offering integrated services and world-class experience to locators all over the world. Its network and sales arm are instrumental in helping FPIP attract a significant number of Japanese locators, which are more than half of the locators inside the park. Sumitomo Corporation is also a leading industrial park (IP) developer and operator in Vietnam, Indonesia, Myanmar, and India as well as an IP sales agent in Indonesia, Thailand, and Cambodia.

FPIP and its locator-partners have created about 70,000 jobs to date, transforming the host communities of Sto. Tomas and Tanauan in Batangas into a thriving industrial hub. FPIP also supports the local educational and health systems, and contributes significantly to local infrastructure development to help improve overall living conditions and uplift the lives of residents in the area.

Upholding World-Class Standards

FPIP is a multi-awarded, ISO-certified, and a PEZA Hall of Fame Awardee.

Among over 400 ecozones in the country, FPIP is one of the only two recipients of PEZA's first Green, Health, Smart and Sustainable Award due to its notable commitment to promoting healthy industrialization and sustainably designed, smart, and green economic zones.

FPIP achieved the Investors in People Silver recognition from 2016 to 2019, the international benchmark for

companies that aim for business improvement through people management.

For 3 years (2018, 2019, 2021), FPIP was recognized and awarded by the DENR- Environmental Management Bureau of the CALABARZON region for being an active partner in the protection of fragile natural resources through the implementation of Republic Act No. 9003, or the Ecological Solid Waste Management Act of 2000, and for its sustainable practice of using Best Environmental Technology (BET) and Best Available Practice (BAP) governance.

FPIP has also been the recipient of other awards over the past 25 years in recognition of its support for the community and the environment. Other awards given by various sources include the "Outstanding Community Project Award" granted by PEZA; the "Game Changer Communities Award" conferred by DENR-EMB; the "Gawad Kalasag Plaque of Recognition" awarded by NDRRMC; and the "Outstanding Environmental Performer Award" given by PEZA, among others.

Options to Optimize Your Business

Industrial Offerings

FPIP envisions to be the manufacturing location of choice of high-quality export-oriented locators seeking to grow their businesses, and in the process, help build industries and create jobs. FPIP provides best-in-class

infrastructure, highly reliable utilities, and industry-leading park management. FPIP has dedicated teams of engineers and technical staff to ensure that the park is safe, clean, and operating efficiently to serve the needs of its locators, employees, and visitors.

Industrial Land

FPIP's prime-grade and site-developed lots are ideal for manufacturing operations of light and medium industries. Strategic location, various lot sizes and options, and access to supporting facilities and services enable seamless construction and expansion of small, medium, and large-scale facilities.

Ready-Built Factories (RBFs)

FPIP's locator-ready, shell-type factory buildings cater to the needs of smaller-scale light to medium industries, as well as serve the back-end business of various industries such as assembly and contract manufacturing, and support/allied industries. This enables RBF locators to quickly establish efficient operations near their partners and prospective customers.This will allow the suppliers or partners of multinational and local companies to be located near their customers, an important requirement to enhance the coordination between buyers and suppliers.

FPIP continues to increase the leasable area of its ready-built factories, with over 180,000 square meters in leasable RBF space to date. FPIP's newest RBF clusters are now configured to accommodate solar panel installations. To complement the RBF specification customization that FPIP offers to meet the unique requirements of locators, FPIP also practices regular predictive and preventive maintenance to ensure that the facilities and equipment are in top condition.

Built-to-suit RBFs

Apart from FPIP's standard RBF offerings, FPIP offers built-to-suit RBFs to cater to a prospective locator's specific needs and requirements. FPIP's in-house teams of engineers and technical staff can provide expertise on refurbishment and renovations based on the locator's preferred handover conditions. Value-added services such as mechanical, sanitary/plumbing, and electrical engineering assistance are also offered, ensuring that locators receive the best customizable menu package available.

Benchmark for Park Development and Management

Best-in-class Infrastructure and Utilities with the Highest Reliability

FPIP provides high-quality infrastructure and utilities to assure locators of stable power and water supplies, reliable communication services, and accessibility. The park also boasts a centralized wastewater treatment facility and a solar-powered bridge as part of the park's sustainability efforts.

Power Supply

FPIP provides the most stable and reliable power supply to its locators via its exclusive on-site 115 kV substation with redundancy via three separate circuits and exposure to minimal inclement weather risk due to the presence of an underground power distribution grid.

FPIP also offers its locators the choice to get energy supply from clean and renewable sources through affiliates First Gen Corporation (FGen) and Energy Development Corporation (EDC). Both FGen and EDC have Retail Electricity Supply and Renewable Energy Supply licenses that allow partners to switch to 100% green and good power.

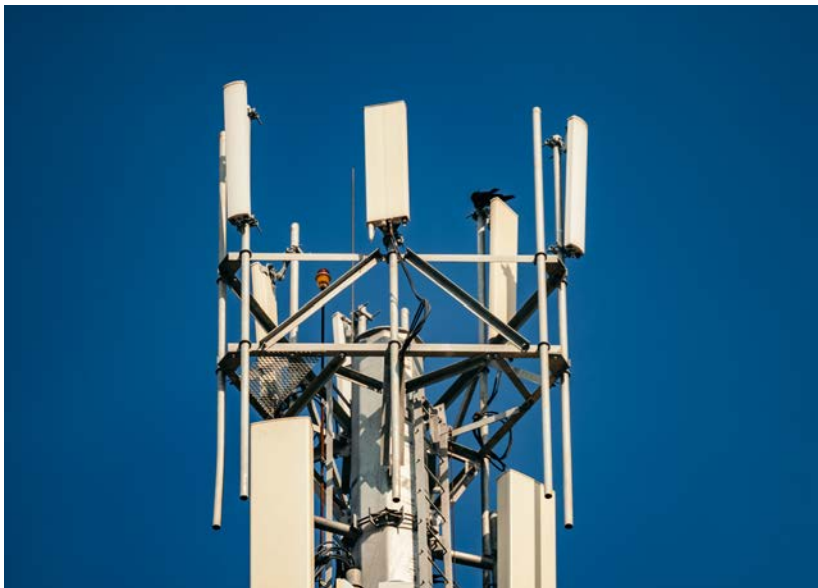
FPIP strives to deliver resilient and compelling energy solutions that promote energy productivity, empowering its customers to make the right choices and to do more with less energy, while simultaneously reducing their carbon footprints. By offering this option to locators, FPIP contributes to its group's mission of forging collaborative pathways for a decarbonized and regenerative future.

Industrial Water

FPIP has abundant industrial water through its fifteen deep wells and above-ground reservoirs, a 24/7 water supply to locators via a centralized distribution system backed by full-scale generators, and modern wastewater and centralized sewerage collection and treatment facilities.

Centralized Wastewater Treatment

As part of the park's sustainability efforts and waste management, FPIP treats domestic effluents in its Centralized Wastewater Treatment Facility (CWTF). Wastewater from park locators is treated in the CWTF and becomes available for recycling or reuse. With this,



groundwater extraction is reduced, and groundwater resources are preserved.

Telecommunications

FPIP ensures fast, consistent, and reliable internet services, capable of supporting video, voice, and data transmissions, through its wireless underground fiber optic and copper cables. It also offers a wide choice of telecommunication services through partnerships with multiple leading providers.

Road Network

FPIP provides a network of wide, well-paved, and properly spaced roads, with broad, concrete, 6-lane/ 40-meter right-of-way (ROW) main roads, 23m secondary roads, as well as newly installed dedicated bike lanes to ensure ease of mobility around the park. It offers a flood-free environment through an extensive underground drainage system and also remains environment and pedestrian-friendly with its well-lit pedestrian and bicycle lanes.

Solar-Powered Bridge

FPIP's newly constructed bridge is powered by solar energy and symbolizes the company's commitment to energy efficiency, sustainability, and low carbon emissions as it connects the industrial park with its expansion areas.

Laboratory Services

FPIP offers environmental laboratory services to locators, including monitoring services for wastewater to ensure compliance with environmental regulations. These efforts are also expected to result in increased convenience, lower costs, and faster response time for FPIP locators. FPIP is also increasing capacity by purchasing additional laboratory equipment, while adding qualified chemists, and ensuring strict compliance with external regulatory bodies.

Commercial Offering

FPIP offers not just space for industrial businesses, but office and commercial spaces as well.

Oasis Commercial Center

The Oasis Commercial Center is primed for office and commercial lease requirements. The three-story building offers office and retail spaces, and includes a school, retail establishments, banks, and a multi-purpose sports facility, among other amenities.

A Growing Variety of Commercial Facilities and Amenities
FPIP offers a wide range of facilities and amenities for its locators and visitors to enjoy.

SanTomas Suites and Microtel Hotels

Business, leisure travels, and lodging are also made more convenient and comfortable at FPIP through the presence of SanTomas Suites and Microtel located within the industrial park.

- **SanTomas Suites** is a 40-room business hotel that serves as the perfect place for overnight or extended stays. It comes with all the essential amenities that ensure comfort and functionality, including a king-sized bed, high-speed internet access, work desk with lounge chair, and an energy-efficient airconditioning system.
- **Microtel Suites** is a 78-room hotel centrally located at FPIP which offers warm hospitality and smartly designed rooms. Each room offers the best value and amenities such as an individually controlled airconditioning unit, and a fully automated fire safety system.

Restaurants

Restaurants within FPIP that offer a wide range of cuisines include Minori-Tei (authentic Japanese food), Jongro Korean restaurant (authentic Korean cuisine) and Millie's (all-day continental and local dining), and are open for breakfast, lunch, and dinner. These restaurants also offer delivery services.

Consuelo Park

The new Consuelo Park, named after the matriarch of the Lopez family, aims to provide a space for relaxation, reinvigoration, well-being, and enjoyment to all those who visit. With its eco-trails, 600-person capacity amphitheater, bamboo grove, play fields, and pond feature, this community park is also envisioned to heighten social inclusivity and environmental responsibility.

Consuelo Park Residences

FPIP offers locator-employees the experience of relaxed community living with the Consuelo Park Residences, FPIP's first residential dormitory complex. Consuelo Park Residences features six (6) dormitory buildings and common facilities. Situated at the heart of the industrial hub and alongside Consuelo Park, residents enjoy easy access to work and recreational facilities as well as experience convenient and comfortable living through common facility provisions such as a dining hall, laundry shop, pocket gardens, walkways, bike racks, and the availability of internet and air conditioning units upon request. Safety and security of the place is also ensured with its gated premises and 24/7 security and CCTV surveillance.

Oasis Multi-purpose Covered Court

The facility also includes the Oasis Multi-Purpose Covered Court, a covered twin court for different sports and recreational activities such as basketball, volleyball, tennis, badminton, darts, and table tennis. The venue may be leased for different company activities and events.

School: FIRST College

FPH established FIRST College in 2018 with a vision to create a school that will deliver real-world, relevant, up-to-date, and practical technical training. The goal was to develop students whose technical training and education is truly useful to modern industries—in a way that companies would want to hire students immediately after graduation.

It is the first college located inside an industrial park, and the first to offer a Bachelor of Science in Industrial Operations and Management program in the Philippines. FIRST College is committed to cultivating graduates that have both the technical and leadership skills needed to succeed in the 21st Century workplace.

OUR LOCATORS

FPIP is the preferred location of more than 140 world-class manufacturing facilities and support services. Today, FPIP is home to global and industry-leading businesses from various industries such as leading consumer electronic manufacturers Brother, Canon and Murata, leading aircraft interior manufacturer Collins Aerospace, bicycle parts manufacturer Shimano, motorcycle manufacturer Honda, tobacco giant Philip Morris, and leading food and beverage producers Nestlé and D&L, among others.

Through their partnership with FPIP, FPIP locators also gain access to the expertise and resources of the subsidiary companies of First Philippine Holdings (FPH), one of FPIP's parent companies. FPH's subsidiary companies offer end-to-end solutions, expertise, and experience in energy, power generation and distribution, transformer manufacturing, construction and engineering, commercial and residential estate development and management, as well as education and healthcare.

First Industrial Township

First Industrial Township (FIT), formerly known as Philtown Industrial Estate, is FPIP's sister company. It was acquired by First Philippine Holdings (FPH) and Sumitomo Corporation in January 2015 with the goal of expanding the industrial estate portfolio and increasing the reserve of land area for incoming locators.

FIT offers industrial land for lease, and investment solutions tailored to various locators' needs. FIT's offerings also include utilities and infrastructure with site developed lots in a variety of sizes and reliable facilities to ensure that locators will have everything they need to efficiently run their businesses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