

## **Subic Bay Naval Base Now Subic Bay Freeport Zone**

### **A Mixture of Business & Pleasure**

This Special Economic Zone may be one of the most exciting places to be a part of right now, not only in the Philippines but maybe throughout all of Southeast Asia as well.

#### **HISTORY OF SUBIC BAY**

The Subic Bay Freeport Zone spans a total of 13,800.60 hectares of what used to be the site of the largest overseas military navy station for the United States, then referred to as Subic Bay Naval Base.

The Spanish first realized the potential of the harbor, building facilities and canals there in the late 1800s, just prior to the American Navy forcing them from the Philippines in the conflict that was the Spanish/American War.

After almost a century of U.S. occupation, utilizing the Bay as a strategic site for logistical support and manning of several wars, the American's were forced from their Philippines bases due to a combined act of Mother Nature and human intervention. The U.S. was persuaded to pull out their forces after the nearby Mt. Pinatubo volcano erupted in 1991 and the Philippines Senate decided it was time for the American's to leave, refusing to renew the longstanding Foreign Bases Agreement.

#### **SUBIC TODAY**

Many consider the Subic Bay Freeport Zone's greatest asset in terms of economic potential to be its deep water natural harbor. Hanjin currently utilizes this harbor as a gateway for their high-end shipbuilding facility at the north end of the bay. Employing over 7000 workers, this state-of-the-art ship building facility is valued at over \$1 billion and produces huge containerized transport ships.

Aside from the ship yard, more than 610 companies are based in the Subic Bay Freeport Zone, the sister Freeport Zone of the nearby Clark Freeport Zone. Subic is divided into four key investment areas, namely, the Central Business District, Subic Gateway, the Subic Bay Industrial Park, and the Subic Techno Park.

Additional commercial activities driving the Freeport Zone's economic engine are manufacturing-related businesses, electronic communications and computer industries, warehousing and transshipment, banking, education and, of course, a vibrant tourism, resort and lodging industry. All development and investment of the Subic Bay Freeport Zone falls under the jurisdiction of the Subic Bay Metropolitan Authority.

#### **TAX INCENTIVES FOR FOREIGN INVESTORS**

The Subic Philippine Freeport Zone provides foreign companies that opt to relocate to benefit from a competitive incentive package offered by the Philippine government. To avail of these incentives, such foreign companies should decide first whether to enlist as a Subic Bay Freeport (SBF) Enterprise or as a Subic Bay Regional (SBR) Enterprise. A company which opts for SBF status must first qualify as nationals and businesses of any

country operating in any field of economic activity - excluded from this qualification are any entities who are restricted because of the Foreign Investments Negative List (under the Foreign Investments Act of 1991.) SBR status, on the other hand, may be granted to all multinational firms that aim to participate in regional and/or international trade or services, as well as engage in business activities by locating their regional headquarters within the Subic Bay Freeport Zone.

There are more tax incentives for SBR-designated Enterprises - such status merits them tax and duty free exemptions for various items. These items could be imported raw materials and supplies, capital equipment and even ordinary consumer products that are meant to be consumed within the Freeport Zone. Case in point - an imported passenger car that was purchased to be driven within Subic Bay is priced 50% less than the same kind of car bought outside. But the most dramatic savings for locators are generated through imported materials and equipment meant for daily production, meaning locators will be able to compete on a significant basis.

Another tax incentive for SBR-designated Enterprises is the Income Tax Holiday which is granted to investors on a project basis. Registered enterprises do not have to pay any kind of local and national tax (including franchise taxes, fee for the Mayor's Permit, property tax, excise and ad valorem taxes, and value-added taxes.)

## **TAX LIABILITY OF INVESTORS**

So do investors have to shoulder any kind of tax liability at all? Actually, Enterprises are only required to declare a 5% final tax for the adjusted gross income they were able to produce from activities conducted within the Freeport. SBF Enterprises, in connection, are permitted certain deductions before they compute for the 5% final tax. SBR Enterprises, on the other hand, have to absorb a 5% final tax on gross income for their business activities with some or all countries located in the Asia-Pacific, and even with nations located elsewhere in the world (including the Philippines). Those who have to pay this tax may also enjoy more deductions (including those on sales and marketing salaries, and losses from foreign exchange transactions.)

Investors who wish to receive the Subic Special Investors Visa only need to funnel a minimum of US\$250,000 in investment into the Subic Bay Freeport Zone. Otherwise, there is no minimum investment required from investors.

## **COST OF LEASING PROPERTY**

To lease industrial land in the Subic Bay Industrial Park will cost investors US\$55 per square meter for properties measuring less than 2 hectares. For land surpassing 2 hectares, investors will have to shell out US\$50 per square meter. In the Subic Techno-Park, leased industrial land costs US\$75-80 per square meter but the lease only covers 50 years. Industrial land for lease in the Subic Bay Freeport is priced at US\$0.50-4.00 per square meter.

In the Central Business District, leasing office space amounts to US\$3.50-10 per square meter. On the other hand, leasing factory space in the Subic Bay Freeport is tagged at US\$2-20 per square meter.

## **TRANSPORTATION INFRASTRUCTURE OF SUBIC**

A very significant advantage to locating in Subic is the extensive public transportation and road infrastructure. The Freeport has bus services connecting almost all of the key points and a vast, well-maintained road network that links the major land areas within the Zone.

### **CLARK, SUBIC HIGHWAY**

The Bases Conversion and Development Authority (BCDA) utilizing loans from the Japan Bank for International Cooperation, has completed construction of a key transportation link named the Subic-Clark-Tarlac Expressway (also known as SCTEx). This superhighway directly interconnects Subic Bay and Clark and further extends to the Central Techno Park in Tarlac to the north of Clark.

With the completion of this thoroughfare, Clark, Subic and their nearby provinces are quickly becoming vitally-important participants in the government's "Global Gateways Development Program" initiative. This program aims to transform the Philippines into a globally competitive country. As a result, the Central Luzon region is projected to eventually become even more economically viable than Metro Manila, the nation's capital in several years.

### **THE NEW SUBIC PORT**

A port development project valued at US\$215 million is now finished and includes many new facilities. The successful construction of the new Cubi Point-based container port is amongst the most important. Also included in this enormous infrastructure build-out is the upgrade and repair of existing wharves, and the purchase of heavy-equipment and facilities such as four huge goose-neck quay-gantry cranes that can each accommodate an amazing 40.6 tons per load. These cranes increase the handling capacity of containers within at the port six-fold.

### **POWER, WATER AND TELECOMMUNICATION SERVICES**

The Subic Bay Freeport Zone has adequate power and water supplies to meet the needs of its current population and has embraced an aggressive utilities improvement program to ensure the needs of future growth.

The Freeport is currently dependent on the company Subic Enerzone to provide as much as 116 megawatts of electricity to consumers. Additional power stations are planned and budgeted to be built within the Zone within the near future. One of these, a very large coal-fired plant, will embrace the latest in green, clean-coal technology. Electricity costs are currently set at a very reasonable PhP5.56 per kilowatt/hour.

The entity that is Subic Water and Sewerage Company Inc. heads a consortium that is responsible for the steady supply of potable water and satisfactory sewerage services. Water capacity from this consortium (including BIWATER, DM Consunji, SBMA, and Olongapo City Water District) amounts to 33,000m<sup>3</sup> daily at a cost to the consumer of PhP23.13 per cubic meter.

Telecommunication services are handled by Subic Telecom, and at this writing, can provide 100,000 phone lines to the Freeport population. The utilities of the Freeport

Zone are in the process of being significantly upgraded to handle the extensive growth projections.

## **INTERNET SERVICE PROVIDERS**

Subic Bay enjoys world-class Internet and telecommunications service provided by PLDT Subic Telecom. From home-grade to full business-grade DSL, ISDN and T-1 service, this company is one of the first telecom companies in the Philippines and has the infrastructure, equipment and facilities to provide your company and residence with reliable and consistent service.

## **MANPOWER TALENT IN THE ZONE**

The Subic Bay Freeport Zone is known for a ample supply of highly-skilled manpower. Subic Bay Enterprises can source from a multitude of nearby areas such as Hermosa and Morong in Bataan, Subic town proper, and the City of Olongapo.

A good majority of these workers were previously employed by the US Navy and tend to possess a high degree of proficiency in English as such. The SBMA Labor Center assists Subic Bay Enterprises in manpower pooling. Other manpower services providers also exist who can help locators tap into the area's continuous and steady supply of workers - particularly when the need is immediate.

## **FINANCE/BUSINESS SERVICES SUPPORT**

Businesspeople may opt to patronize any one of the many branches of international banking institutions for their financing, electronic banking and investment activities. Various postal and courier services have set up house within the Zone to help residents of the Zone with their logistical support and to keep in touch with the rest of the world.

## **HOUSING FOR FOREIGN INVESTORS**

The housing needs of Enterprise officers and their families are easily met within the zone. Subic has available 1,876 housing units for corporate officer occupancy. These units were previously occupied by upper-level members of the US Navy and their families and are situated within well-maintained and secure areas. Around 1,000 units are still available for future occupancy under short-term or long-term lease arrangements.

The children of Enterprise officers may attend the nearby international Brent School Subic. These families will be pleased to know the school uses a predominantly US-based curriculum that is oriented towards the International Baccalaureate Program from Grades 1 to 12.

## **HEALTH SERVICES**

In the event of a medical emergency, Subic Bay residents can avail themselves of excellent 24-hour emergency and outpatient health care services at three locations within the Zone: the SBMA Dispensary at Cubi and another facility at Dewey Avenue, additionally health services are available at the New Terminal Clinic within the Subic Bay International Airport.

## **SPORTS AND RECREATIONAL & TOURIST ACTIVITIES**

Subic Bay is a sport enthusiast's paradise with various sports and recreational facilities - these include parks, bowling alleys, swimming pools, horse-back riding stables, and a newly remodeled 18-hole golf course along with an incredible sports and fitness complex that includes a gymnasium, running track, tennis and badminton courts ran by the SBMA authority.

For those who wish to work-out at a quality gym facility after a tough day at the office, there is a Slimmer's World International facility available.

For those yachtsmen and women, there is an exclusive private yacht club with elegant facilities including restaurants, bars, spa, sauna, Jacuzzi, tennis, workout gym and more.

If you appreciate the well-preserved environment of Subic, various eco-activities have been provided - these include hiking the Apaliin trail, camping, and demonstrations by indigenous Aeta tribesmen in their culture, visiting the dormant and recently active volcano Mt. Pinatubo, a journey through the nearby Zambales Mountain Range, and a fun-filled and experiential tour at Jungle Environment Survival Training (JEST) Camp.

If the JEST Camp doesn't raise your adrenaline levels enough, Subic Bay Freeport Zone also has different theme parks that will get you going. There's the Subic Extreme Adventure Park which offers Tension Traversing, High Ladder Climbing, Canopy Sliding, and High Pole Jumping. Another popular offering at the Zone is the Zoobic Safari where you can have close encounters with tigers including a realistic safari, visit the serpent and reptile den, flamingo pond, boar pen, ostrich pen.

You'll also find a fun-filled aquarium and Ocean Adventure park within the Subic Freeport area. Here you can not only view show with dolphins, sea lions and whales, but you have the ability to experience close encounters, swimming and even training programs with these marvelous sea mammals.

## **SUBIC AS HOME FOR RETIREES**

Real estate developers have capitalized on the clean, safe, environmentally-friendly and peaceful community of Subic Bay to attract retirees from various countries. Several condominiums have been built and many more are in the works in order to cater to this market made up mainly of retirees and expats from Canada, Europe, the United States, Taiwan, China, Japan, and Korea.

Subic Bay has been tagged as one of 14 ideal areas for retirees to relocate to in the Philippines. This means Subic Bay developers have the potential to secure a sizeable portion of the \$40 billion of projected-revenue the country may generate by 2015 if the Philippines is transformed into the retirement capital of Southeast Asia as are the mid to long-term plans of the Philippines government and as analyzed and projected by the Philippine Retirement Agency.

## **FOREIGN CARRIERS TO GET AERONAUTICAL FEE DISCOUNTS**

While currently flights are rather limited due to the push to make the Clark Airport the premier gateway and the new SCTEX highway reducing travel time and hassle to Clark,

the new airline terminal at the Subic Bay International Airport is not going to wait. SMBA and various local investors are attempting to promote this highly capable facility to new heights.

The Subic Bay Metropolitan Authority is offering discounts on aeronautical fees that airlines shoulder for using the Subic Bay International Airport. With this program, carriers will enjoy an 80% cut in fees on weekdays and 60% discount during weekends. These fees will cover charges such as use of navigational equipment and radar, lighting, parking, and take-off and landing.

With the local Subic Bay Golf Course undergoing a \$48 million upgrade and expansion project, the foreign developer is planning to promote and sponsor large-group junket flights from numerous other Southeast Asian countries as a regular means of boosting the international tourist population and keeping the new golf course filled. These flights are to be made via the Subic Bay Airport.

### **SHIPBUILDING THRIVES IN SUBIC**

In 2007, Hanjin Heavy Industries Corp.—Philippines, one of the largest ship-building companies in the world, headquartered in South Korea, is expected to provide over 30,000 jobs (directly and indirectly) as it spurs its operations in Subic Bay to full capacity.

Hanjin as of this writing of December 2008 employs 15,000 workers in Subic Bay, with a large percentage of these being skilled staff recruited when its Philippine operations were at the pre-operations and construction stages.

Hanjin's Subic Bay facility has been tagged to build new 4,300 Twenty Foot Equivalent Units container ships earmarked for Greece and Germany. Initial production will be composed of six 4,300 TEU capacity container ships ordered by Diorxy Maritime Corp. of Greece which are scheduled for completion and delivery by 2009. During the second series of production, six more ships will be constructed for delivery to the German company NSC Schiffahrtsgesellschaft.

According to DTI secretary Peter Favila, the local economy, as well as Hanjin, are expected to benefit significantly from these two orders. Favila further noted that construction of the 12 new ships will launch the Philippines' into its new role as the center of shipbuilding activities in Asia and the Pacific due to its superior capacity to undertake large-scale shipbuilding.

With the addition of Hanjin's ship-building activities in Subic Bay, export industries in the Philippines are expected to expand to around \$2 to \$3.5 billion this year.