

LETTER OF INSTRUCTION NO. 563

TO : THE ENERGY DEVELOPMENT BOARD THE CENTRAL BANK OF THE PHILIPPINES

THE PHILIPPINE NATIONAL OIL COMPANY THE BUREAU OF CUSTOMS THE COMMISSION ON IMMIGRATION AND DEPORTATION

SUBJECT : ESTABLISHMENT AND OPERATION OF BONDED WAREHOUSE(S) TO BE USED AND CONVERTED INTO AN INTERNATIONAL ACCEPTABLE EXPLORATION SUPPLY BASE(S) TO SERVICE PETROLEUM AND OTHER ENERGY-RELATED OPERATIONS IN THE PHILIPPINE

(1) In line with the policy of the State of accelerating the exploration, development and production of indigenous energy resources to achieve self-reliance in the country's energy requirements, there is a need and demand for easy availability and accessibility of support and logistic facilities for onshore and offshore exploration activities in petroleum and other energy related fields through the establishment and operation of Exploration Supply Base(s) in the Philippines.

(2) In furtherance of this objective, the Philippine National Oil Company is hereby directed to establish and operate by itself, or through duly designated qualified operator/s, bonded warehouse(s) pursuant to the provisions of Sections 1901-1909 of the Revised Tariff and Customs Code of the Philippines, as amended, hereinafter referred to as the "Tariff Code" to be used and converted into an internationally acceptable Exploration Supply Base(s). In the management and administration of the operation of the Exploration Supply Base(s), the Philippine National Oil Company is empowered to:

(a) Prescribe rules and regulations pertaining to the conduct of operations in the Exploration Supply Base(s);

- (b) Fix the rates and charges for the use of and services or privileges accorded within the Exploration Supply Base(s);
 - (c) Provide all the necessary facilities, services and appurtenances for the promotion, marketing and development of the Exploration Supply Base(s);
 - (d) Upon application in due form, to grant authority to persons, firms, corporations or associations, service companies, service contractors and/ or subcontractors who are directly or indirectly/engaged in energy-related operations, to establish an office and do business in the Exploration Supply Base(s) including the privilege to erect such buildings and other structures within the Base(s) so as to meet their particular requirements: Provided, That such permission shall not constitute a vested right as against the government, nor preclude the right of the government to order the revocation of the grant: Provided, however, That such grant of authority shall not be in conflict with the public use of the Exploration Supply Base(s): Provided, further, That said authority shall be granted only upon prior licensing of said service or support companies to do business in the Philippines with the appropriate government agencies.
 - (e) To enter into any contract or agreement necessary for the proper, efficient and stable administration and management of the Exploration Supply Base(s);
 - (f) Generally, to exercise all the powers necessary or incidental hereto.
- (3) The Bureau of Customs shall exercise technical supervision over the Exploration Supply Base(s). It shall see to it that the provisions of Sections 1901 to 1909 of the Tariff and Customs Code, as amended by Presidential Decree No. 34 and other pertinent rules and regulations governing the establishment and operation of bonded warehouses are complied with and the following procedures are observed:
- (a) Every operator shall be required to post a performance bond for the establishment and operation of the bonded warehouse in the Base and shall

submit a Letter of Guarantee from the Philippine National Oil Company to guarantee the payment of the ascertained duties, taxes and other charges due on the articles transferred into said warehouse or for their re-exportation.

(b) Under a special permit, the Collector of Customs concerned may allow the transfer of articles from the port of entry to the bonded warehouse in the Base subject to the filing of warehousing entry and submission of the covering bills of lading and commercial invoices within thirty (30) days from the date of such transfer. The presentation of the consular invoice and Certificate of Origin is hereby waived.

(c) Articles duly transferred to the Exploration Supply Base for warehousing shall be allowed to remain in the bonded warehouse for a period of two (2) years from the time of arrival to the port of entry. For reasons found satisfactory by the Commissioner of Customs, such period may be extended for a series of one (1) year extension: Provided, That the total warehousing period including the initial two (2) years shall not exceed five (5) years. Articles not withdrawn at the expiration of the prescribed period shall pay the corresponding duties, taxes and other charges and/or shall be forfeited and sold at public auction.

(d) Articles duly entered or transferred to the bonded warehouse in the Exploration Supply Base may be withdrawn for consumption in the Philippines upon filing of withdrawal entry papers and without the payment of the duties and taxes thereon if sold to tax-exempt entity with existing petroleum service contract, coal operating contracts and other 141energy production sharing contracts with the Energy Development Board, upon presentation of the Board's Certificate of Tax Exemption.

(e) In cases of emergency withdrawal from the bonded warehouse, as requested by tax-exempt entities such as petroleum service contractors and coal contract operators, articles urgently needed may be withdrawn even without the prior

submission of the requisite Board's Certificate of Tax Exemption, subject to the condition that the tax-exempt entities guarantee the submission of the corresponding Certificate of Tax Exemption or pay the applicable duties and taxes thereon, fifteen (15) days from the date of such withdrawal.

(f) Articles sold to non-tax exempt contractors, persons or firms shall be subject to seizure and forfeiture and sale at public auction pursuant to the applicable provisions of the Tariff and Customs Code, as amended, or to the payment of twice the amount of duties and taxes due on the articles.

(g) Articles duly withdrawn from the bonded warehouse in the Base for e-exportation may be allowed upon compliance with existing export laws, rules and regulations and submission of a Certificate from the Energy Development Board that such articles are no longer needed in the Philippines.

(h) Articles withdrawn from the bonded warehouse may be returned in the bonded warehouse upon submission of a Certificate of Authority from the Energy Development Board showing the list of such articles that are being returned in the bonded warehouse.

i) Nothing in this Letter of Instruction shall diminish the tax exemption 142 privilege under the provisions of existing laws of tax-exempt entities with existing petroleum service contracts, coal operating contracts and other energy production sharing contracts with the Energy Development Board.

(4) The Central Bank of the Philippines is hereby directed to see to it that:

(a) All applications for importation of machinery, equipment, spare parts and materials except those falling under the banned categories (unclassified, semi-unclassified and non-essential commodities in accordance with the Central Bank Commodity Classification Manual) are given due course by authorized agent banks: Provided, That such application are accompanied by a certification from the Energy Development Board attesting among others, that:

(i) The support or service companies are duly authorized by the Energy Development Board to do Business in the Exploration Supply Base(s); and
(ii) Such importations shall not entail any payment in foreign exchange to be drawn out of the local banking system.

(b) Likewise, applications for issuance of release certificates covering the above-described importations shall be given due course by agent bank: Provided, That copies of pertinent shipping documents are submitted to the Central Bank thru the Management of External Debt and Investment Account Department (MEDIAD) by the agent-banks concerned within five (5) working days from the date of issuance of covering release certificates.

(c) No foreign exchange shall be sold to service said importation, except when the foreign exchange required shall come from the foreign currency deposits of a non-resident under Central Bank Circular No. 343.

(5) The Commission on Immigration and Deportation shall facilitate and allow, upon favorable endorsement of the Energy Development Board, the entry of alien technical and specialized personnel (including the immediate members of their families) who will exercise their professions for the operations of the support or service companies in the Exploration Supply Base(s): Provided, however, That upon termination of the employment or connection of any such alien with the service or support companies, the applicable laws and regulations on immigration shall apply to him and his immediate family.

(6) In order to insure the smooth and speedy flow of activities in the Exploration Supply Base(s), other government agencies and offices, including government-owned or controlled corporations concerned or involved in any manner in the operations contemplated herein, more particularly the Bureau of Quarantine, the Philippine Coast Guard, the Philippine Constabulary, the Telecommunications Control Bureau, the Civil Aeronautics Administration, and the Philippine Ports

Authority, are hereby directed to extend such assistance as may be needed or required by the Philippine National Oil Company for the efficient implementation and effective enforcement of the provisions of this Letter of Instruction.

(7) This Letter of Instruction shall take effect immediately.

Done in the City of Manila, this 24th day of June, in the year of Our Lord, nineteen hundred and seventy-seven.