IMPACT OF EU INVESTMENT ON THE PHILIPPINES ECONOMY AND EMPLOYMENT

TRADE

WE INSPIRE EACH OTHER.

Contents

Foreword Honorable Domingo – Secretary of the Philippine Department of Trade and Industry

The Philippines is one of the fastest growing economies in Southeast Asia, which in turn is one of the most dynamic regions in the world. From 2010 to 2013, our GDP grew at an average of 6.3 percent—a remarkable increase from the 4.3 percent average recorded from 2006 to 2009. In the face of calamities and other challenges, the economy sustained its robust performance by growing at 5.8 percent over the first three quarters of 2014, with manufacturing continuing to be one of its main contributors. Growth since 2010 has been more industry- and investment-driven, providing a solid complement to the economic contributions of a large consumer base and stable inflow of remittance. These domestic and global growth drivers have helped transform our country into one of the most dynamic and resilient economies in the world. And we are confident in the long-term sustainability of our economic growth.

The Philippines is home to the 12th largest population in the world. Today, the average age of Filipinos is about 23 years old, and we are at the verge of a demographic “sweet spot” where majority of our population would be entering the workforce and experiencing higher incomes.

The European Union (EU) has been an important partner in sustaining the growth of our economy. The share of EU to Philippines’ total trade with the world has been steadily increasing: from 9.3% in 2012, 10.8% in 2013, to 11.4% for January to September in 2014. In 2013, EU accounted to 11.27% of total approved foreign investments to the Philippines.

We capped 2014 with our inclusion in the EU Generalized Scheme of Preferences Plus (GSP+) program - another milestone in our bilateral relations. Beginning 25 December 2014, we will be exporting 6,274 products to the EU at 0% tariff. This positive development will create more than 200,000 jobs in the initial years of its implementation. Employment opportunities will be in labor-intensive industries which will in turn stimulate grassroots development.

We thank the EU for recognizing the benefits by providing this significant development platform and deepen our bilateral relations.

We continue to work towards further improving the Philippine business environment and our initiatives have served us well. The latest World Bank "Ease of Doing Business" Report placed the Philippines at the 95th spot, a substantial improvement of 13 notches from 108 in 2013. The latest Global Competitiveness Index ranked the Philippines at 52 out of 144 countries. Our investment grade ratings have also been improving from the top three credit rating agencies such as Fitch, Standard and Poor's, and Moody's.

Good Governance is the focal point of our reform efforts. A transparent, responsive and accountable government is what we aim to achieve. Eliminating corruption, leveling the playing field, and making significant investments in our people pave the way towards inclusive growth.

With good governance and a more business-friendly environment, our partnership will continue to thrive. A partnership that is anchored on our superiority platform –a young, dynamic market with growing income and a large pool of educated, highly-skilled, and motivated Filipino workforce.

This publication captures the essence of the Philippine - EU partnership -- Your Business, Our People.

Thank you and Mabuhay!

Hon. Gregory L. Domingo
Secretary
Department of Trade and Industry,
Republic of the Philippines

Foreword H.E. Guy Ledoux – Head of the European Union Delegation to the Philippines

The Philippines economy is growing stronger, more than doubling its size in the last decade to €205 billion. The recent visit of President Aquino to four EU member states showed a keen interest of our leaders to increase trade predicting there is a lot more to come – and rightly so:

The Philippines reduced its external debts to an all-time low, concluded a peace agreement in Mindanao and has been upgraded by S&P's and Moody's to above investment grade. The economy will grow by 6-7% in the coming years. The Philippines moved to No. 95 out of 189 economies worldwide in the Ease of Doing Business report. This is up 53 positions since 2011, and a move from 8th in ASEAN (2012) to number 5. I appreciate the country's ambition to become number 3 in ASEAN and the top third of the world by 2016!

The EU is one of the most important trade and investment partners of the Philippines. More importantly, this trade is in value-added products: the EU imports from the Philippines include electronics, appliances, optical and photographic instruments, and food. The EU supplies about 30% of total FDI to the Philippines, providing around 450,000 jobs.

EU FDI flows to the Philippines went up by more than 150% in the first half of 2014. Likewise, Philippine investors have invested some €1.4 billion in the EU, a positive contribution to our economy that varies from Andrew Tan's purchase of the 5th largest scotch maker in the world - Whyte and Mackay - to the Ayala's group expansion of their microelectronics plant in the Czech Republic.

The EU welcomes the government's initiative to diversify its export-base to create longer-term sustainability and enhance trade, in particular with the EU. By joining efforts, our relationship can further support EU business opportunities in Asia.

I hope this brochure will increase understanding of our economic relations as well as identify further opportunities to strengthen trade and investment to accelerate economic development in both regions.

H.E. Guy Ledoux
Ambassador / Head of Delegation
European Union

Key Messages

The relationship between the European Union and the Republic of the Philippines is a longstanding one, which has strengthened substantially in recent years. The EU is the largest investor in the Philippines and EU investments have created positive effects to the country and its people. This brochure shows a number of EU companies in the Philippines and provides information of our presence based on official sources, chambers of commerce and individual companies. Some of the content is worth highlighting:

The EU is the largest investor in the World and in the Philippines: based on UNCTAD figures, EU Foreign Direct Investment (FDI) flows in 2013 reached over €189 billion (outflow) while inflows were equally impressive at €185 billion. Philippines inflows increased substantially as well, by 16% reaching €2.9 billion in 2013 or totaling €24.5 billion stocks. EU FDI stocks into the Philippines rose to some €8 billion in 2014 – around 30% of overall investment stocks in the country. According to Philippine statistics, actual EU FDI flows to the Philippines showed an increase in the first half of 2014 of €189 million reported FDI.

Altogether European companies employ 450,000 Filipinos: An initial analysis of twelve EU Member States' companies doing business in the Philippines are estimated to have generated around 450,000 jobs, supporting the livelihood of approximately 2.2 million Filipinos. In 2012 alone, the BOI recorded that from approved investments and estimated employment generation, 26,000 jobs were created owing to EU FDI.

EU investments have created positive spill-over effects, including the generation of high quality jobs and technology transfer. Overall, around 600 medium to large sized companies from the EU are established in the Philippines. Close to 60 of these are generating together a turnover in the Philippines of more than €10 billion in 2012 (5% of GDP). The brochure provides examples of some key companies from the EU showcasing the positive role they play in society by providing quality jobs and technology transfer. These companies invest in sectors of relevance to the Philippine economic and industrial development, such as: energy, manufacturing, electronics, pharmaceuticals, logistics, agri-business, and construction.

There is much more out there for the Philippines. EU investment in the Philippines constitutes a fraction of what the EU is investing in the world (€189 billion in 2013), in Asia and even in ASEAN. This signifies the incredible opportunity the Philippines has to attract more foreign companies to the country. Further economic reforms in the Philippines such as the adoption of a competition bill, the Customs Modernization and Tariff Act and further liberalization of foreign ownership will enable the Philippines to attract more investment, thereby creating more employment and income in the country.

H&M Hennes & Mauritz AB (Sweden)

H&M is one of the biggest fashion retailers in the world delivering its business concept – fashion and quality at the best price – to everyone, in a sustainable way.

The *H&M* story began in 1947 when Erling Persson opened the first store in Västerås, Sweden, selling women's clothing. Much has happened since then – great expansion, new brands, more stores and new concepts. Today, the H&M Group has more than 3,400 stores in 55 markets including franchise markets.

H&M opened its first and flagship store in Manila in 2014 making the Philippines its 55th country. When foreign companies enter the Philippine market, they typically partner up with local businesses; *H&M* is one of the first EU retailers in the Philippines who preferred to do it on its own. For *H&M,* it is no goal in itself to be the first to enter a specific market. They prefer to continue to grow in a controlled manner with continued high profitability in both new and existing *H&M* markets.

The Philippines is an interesting market with a growing interest in fashion. "*Filipinos have a lot of interest in H&M. I think we have a business model that fits very well",* said CEO Mr. Karl-Johan Persson speaking with Filipino journalists at the *H&M* headquarters in Stockholm. *H&M* has opened 4 more stores in 2014. In order to foster growth of the H&M business in the Philippines, they have set up a local organization that includes their own logistics department.

For *H&M*, sustainability is a word of action: everything *H&M* does needs to be economically, socially and environmentally sustainable. All are highly interconnected and all equally important for future growth. This is why *H&M* has created *H&M* Conscious. Conscious is the name for everything H&M does for a more sustainable fashion future. *H&M* recieves many awards and recognitions every year. For example the 'International Retailer of the Year' award for its wide-ranging growth strategies with a truly global concept. Another award is the "Humanitarian of the Year" award by the *United Nations Association of New York (UNA-NY)* because of *H&M's* contribution to gender equality and the empowerment of women.

STEAG State Power Inc. (Germany)

STEAG State Power Inc. (SPI) is a leader in advanced coal power generation technology. SPI is majority owned by *STEAG GmbH*, with *Aboitiz Power Corporation* and *La Filipina Uygongco Corporation* as partners and shareholders.

SPI's majority owner *STEAG GmbH* has been involved in energy generation for more than 75 years. *STEAG´s* core competencies are planning, construction and operation of both large power plants and distributed energy facilities, along with asset-based power trading. *STEAG (SPI)* has introduced the latest technological innovations and European ingenuity in the Philippines. *STEAG* is an expression of growing social, political, cultural, and economic ties between the EU and the Philippines.

In the mid-90s, during a time of heavy power shortages, the Philippine government introduced several Investment Priority Plan (IPP) initiatives to invite foreign companies to invest in the energy sector through power-purchase agreements. SPI was established in 1995 as a special-purpose company created to own, finance, construct, operate and maintain the first coal-fired power plant in island of Mindanao.

SPI employs about 200 dedicated and competent staff. The company provides free health insurance to its employees, subsidises the education for the staff's children, and provides pension funds, a bonus system, and a competitive salary. SPI invested USD 305 million to establish a world-class energy power company in Mindanao that provides efficient and reliable source of electricity to the Philippines.

The company is committed to impact its environment and has initiated several Environmental Contribution programs such as Mapawa Carbon Sink, Urban Forestry, and Mangrove Rehabilitation and Development. Through various Community Development Programs, *STEAG (SPI)* also impacts the Filipino communities.

1 The Philippines as Investment Destination

The Philippines' vast pool of capable and English speaking workers, combined with political stability and a relatively developed private sector, distinguishes the Philippines from some of its neighboring countries. The government is initiating several reforms in its legislative agenda that will make the business environment more open to foreign direct investment. Only recently, the Philippines was once more upgraded by S&P and Moody's in terms of investment ratings – rated at levels above investment grade.

The Philippines is one of the fastest growing economies in Asia, expected to grow an average of 6% over the coming decade. The country moved up consistently in international perception indices such as the 'Ease of Doing Business', the 'Competitiveness Index' and the Corruption Perception Index.

The Philippines is the 12th most populous country in the world (having reached its 100 million count in July 2014), with a population 'dividend' that has yet to peak. It is the 40th largest economy in nominal GDP terms, or 30th on a PPP basis. While macro-economic and commercial indicators are modest today (€205 billion GDP or €2,100 per capita, external trade €110 billion), governance improvement has facilitated growth of public investment (€40 billion), and middle class of over 18 million.

The country is initiating more structural reforms in its legislative agenda to attract, promote and welcome productive investments from foreign individuals, partnerships, corporations and governments. Members of Congress such as Feliciano Belmonte, Jr., Speaker of the Philippines' House of Representatives are proposing and promoting laws that would support further economic reforms, such as a competition law, a revised retail act and international connectivity through reform of aviation and portal sectors. In 2013, The Department of Trade and Industry (DTI) recorded that the Philippines has increased its level of competitiveness in nine out of 12 pillars, owing to the government's anti-corruption efforts. The Government is taking further steps in making processing for new businesses easier, shorter and simpler by improving its electronic customs systems and re-engineering business permit and licensing systems. This should help provide for a business-friendly environment and avoid incidence of corruption.

The Philippines offers foreign investors opportunities to participate in Public-Private Partnerships (PPP). Projects aim to lead to significant improvement in infrastructure that will further make the Philippines more competitive and attractive for increased EU FDI. During the visit of President Aquino to Europe in September 2014, two PPP agreements were signed, including a technical services agreement for operation and maintenance of the Manila LRT 1 Cavite Extension Project[1] for the extension of the metro line and a project to "design and construct" the LRT 1 Extension Project,[2] which would provide eight more stations spanning 12 kilometers. The creation of new highways, subway systems, and development of airports are examples of the government's ambitions to partner up with the private sector.

The Philippine government sees FDI as crucial in achieving inclusive growth.[3] This vision is outlined in the Philippine Development Plan (PDP) of 2011-2016, aiming to attract EU FDI by: "improved public and business satisfaction with public services (reduced forms, delays, steps); fully operationalized Philippine Business Registry to simplify the business requirements and setting up of EU businesses in the

[1] Between the Light Rail Consortium and the French transport firm RATP Development

[2] With French engineering firm Bouygues Publics Travoix, Alstom Transport

[3] Philippine Development Plan (PDP) 2011-2016

country; improved global competitiveness ranking and investment grade status; and accelerated infrastructure development through various PPP projects."

Some of the above is still work in progress but it is worth noting that as of 2013, the Philippines ranks among the top 19 destinations for foreign direct investments chosen by international corporations signifying that the Philippines is increasingly being recognized by major stakeholders.

EU CEOs have expressed their optimism of a growing presence in the country. Sonion emphasized that the Philippines was preferred to other locations because of "the generally high educational level of the workforce, reasonable infrastructure, competitive incentives for foreign investors. In addition, good cooperation with PEZA in the First Philippine Industrial Park was welcomed". Lufthansa Technik AG, Continental and Sonion mentioned the support of the Philippine Economic Zone Authority (PEZA) as one of the main reasons the company established in the Philippines. As of 2012, there are around 288 EU businesses registered in PEZA, contributing to employment and industrial development in various sectors such as IT, manufacturing, energy, financial services, and much more.

BUSINESS PROCESSING OUTSOURCING – A POTENTIAL FOR FDI

The Philippines is ranked 1st in the world in terms of business process outsourcing destination (BPO). The BPO sector grew at a substantial speed of 18% (more than €13 billion) in 2012 and it is estimated that the BPO industry of the Philippines will have gross revenue of around €19 billion by 2016 accounting for approximately 10% of the nation's GDP.[4] The BPO industry is estimated to have provided a total of about 900,000 direct jobs today and over 3 million indirect jobs.[5] EU businesses are well established in the BPO industry, strengthening engagement since 2009 from €240 million to €720 million in 2012. 10% of the BPO industry is effectively managed by EU businesses – a sector that will employ around 1.6 million Filipinos in 2016.

[4] Information Technology and Business Processing Association of the Philippines (IBPAP): http://www.philstar.com/business/2013/08/21/1113281/economic-footprint-bpo-industry

[5] World Bank: Philippine Economic Update 2013

SONION Philippines (Denmark)

The start of the *Sonion* factory in the Philippines illustrates the strong and growing economic relationship between the EU and the Philippines. *Sonion*, headquartered in Denmark, manufactures balanced armature receivers, high-performance electret microphones, telecoils and a range of micromechanical components for use in hearing instruments. After opening facilities in Poland, the Netherlands, the USA, Vietnam and China, *Sonion* began operations in the Philippines in 2012 through its 11,000 sqm factory in Manila. *Sonion* has made a significant double digit M€ investment to set up its operations in the Philippines and will keep investing. Production is for exports.

A big part of the company's decision to invest in the Philippines was the high educational level of Filipino employees, reasonable infrastructure, competitive incentives for foreign investors and the support of the Philippine Economic Zone Authority (PEZA). At the launch of operations the company employed 130 personnel in the Philippines. In 2014, this number was already around 450. Sonion foresees to grow to around 750 staff by the end of 2015.

The company has several Corporate Social Responsibility (CSR) initiatives. An example is its health insurance scheme that goes well beyond the nation's legal requirements. This is a priority for Sonion as Filipino's government-provided health care coverage is limited. The company invests in people by giving training to support further development of competencies and securing their future jobs.

In the development, production and sales processes, the company goes through several quality assessments, targeting the highest standard of quality and reliability to the benefit of customers. For this reason, Sonion has obtained the ISO 9001 and ISO 14001 certifications.

GlaxoSmithKline Philippines (United Kingdom)

GlaxoSmithKline (GSK) is a science-led global healthcare company that create value through research and manufacturing of a broad range of innovative healthcare products. The Philippines is one of 40 countries globally where GSK conducts its clinical trials. The company has its headquarters in London.

GSK's legacy company was incorporated in the Philippines in 1968. *GlaxoSmithKline Philippines* was born from the merger between *Glaxo Wellcome and SmithKline Beecham* in 2001, with the corporate office in Makati City and a manufacturing facility in Cainta, the country's only manufacturing site at USD 14 million total manufacturing investment. To the Filipinos, GSK Philippines is strongly committed to make a difference in their lives, by making its quality and affordable medicines, vaccines, healthcare products within their reach.

GSK Philippines currently has over 800 employees in three major businesses: Pharmaceuticals, Vaccines and Consumer Healthcare with an annual sales turnover of USD 181 million in 2012. It was named "Employer of the Year" by the People Management Association of the Philippines in 2010.

GSKP has joined forces with the W*orld Health Organization (WHO), Department of Health (DOH) and Coalition for the Elimination of Lymphatic Filariasis (CELF)* to eradicate Lymphatic Filariasis, the second leading permanent disability in infectious diseases. To date, *GSKP* has distributed 144 million tablets of Albendazolein to the Philippines, saving millions of Filipinos from the disease.

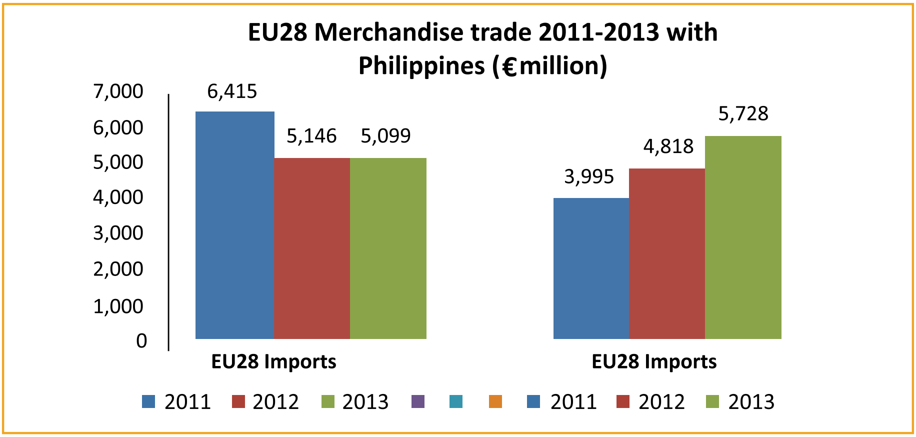
GSKP has partnered with Save the Children to save 1 million children's lives around the world in five years. The company is active in Disaster Relief Operations in the Philippines and is in partnership with DOH, Philippine Red Cross, Philippine Medical Association, Sagip Kapamilya and GMA Kapuso Foundation to aid disaster preparedness and relief.

2 EU and the Philippines: A Strong Trade and Investment Partnership

EU trade with the Philippines is substantial and bound to grow stronger in the coming years, thanks to the further growth of Filipino business as well as upcoming trade measures (GSP+). As trade grows, investment will continue to increase as more EU businesses will choose to invest in the potential of the Philippines.

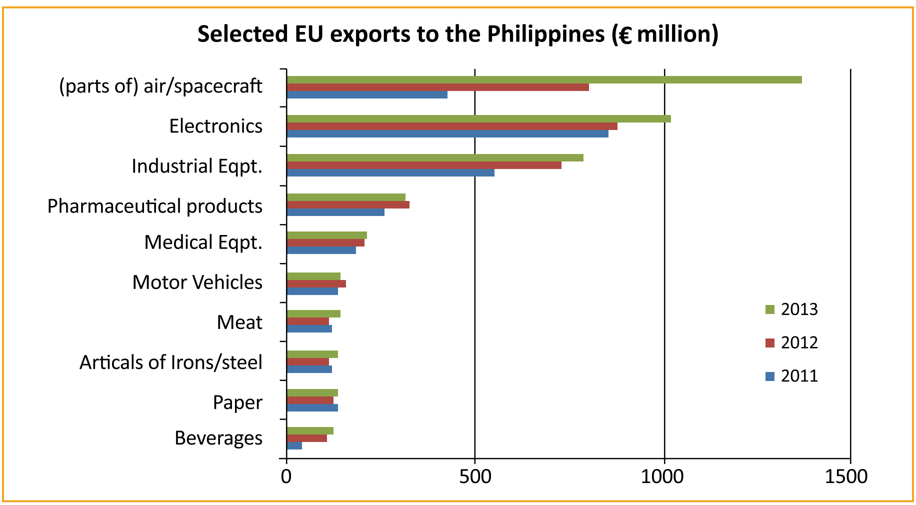
EU FDI plays a crucial role in establishing companies, creating jobs and setting up global supply chains – The Philippines is becoming an increasingly attractive location to EU FDI benefiting both sides in contributing to the global market. Investment and trade are inter-dependent and complementary – around half of world trade takes place between affiliates of multinational enterprises that exchange intermediate goods and services. The EU has several key multinational corporations established in the Philippines helping the country increasing its overall trade and investment. This is evident in key EU multinational corporations who are supporting the Philippines in becoming an increased competitive player as an investment and trade hub in South East Asia.

Figure 1: EU28 Merchandise trade 2011-2013 with the Philippines (€ million) Source: Eurostat



The EU welcomes the Philippine government's initiative to diversify its export-base to create longer-term sustainability and enhance its trade relations to the outside world, in particular with the EU. The Philippines is not alone in this objective: developing economies accounted for 43% of world merchandise trade in 2013[6] and 34% of world trade in commercial services in 2013.

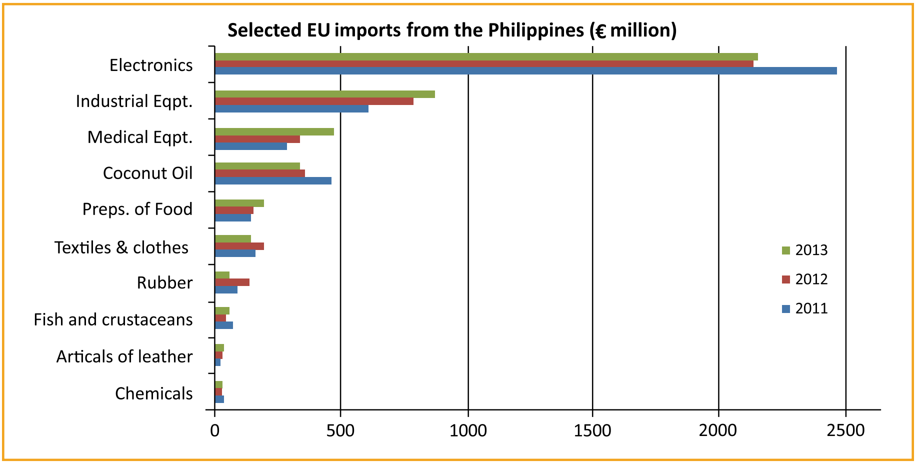
Figure 2: EU28 Merchandise trade 2011-2013 by HS chapter with the Philippines (€ million)Source: Eurostat



[6]World Trade Organization - International Trade Statistics (2014, page 9-10)

In 2013, the European Union was the 4th largest trading partner of the Philippines and likely becoming the third provider of goods in 2014, or 11% of Philippines' total. Total EU-Philippine trade increased by 9% to €10.8 billion in 2013 and is estimated to grow by over 20% in 2014. The majority of Philippine goods sold to the EU are electronic products but trade with the EU of machineries, food & beverages, industrial and medical equipment is growing substantially.

Figure 3: EU28 Merchandise trade 2011-2013 by HS chapter with the Philippines (€ million) Source: Eurostat



As the Philippines is growing fast and estimated to become the 28th largest economy of the world by 2028, trade in services such as transportation, BPOs and IT will likely strengthen. Meanwhile, agriculture, manufacturing, and tourism will also play a crucial role as the EU deepens its trade & investment relations with the Philippines.

In 2013, the EU launched its third Trade Related Technical Assistance (TRTA) to the Philippines to promote trade and investments as drivers of economic growth, job creation, and poverty reduction. A sum of €8 million is dedicated to promote further integration of the Philippines in the international and regional trade and investment system and to attract more local and foreign direct investments.

MAPFRE Insular (Spain)

MAPFRE is a Spanish pioneer company in insurance and a good example of how European companies extend their services to the Philippine people. MAPFRE allows them to have access to affordable and reliable insurance. The company extends its assistance ranging from personal accidents, fatalities and burials to micro insurance coverage helping those with limited financial resources to get covered. MAPFRE Insular is 75% owned by MAPFRE of Spain and 25% by Insular Life Assurance Co. Ltd. of the Philippines.

MAPFRE started its presence in the Philippines in 1995, by acquiring Provident Insurance Corporation. In 2005, it merged with the general insurance arm of Insular Life, renaming the company to its actual name. MAPFRE Insular became one of the first to insure and protect the interest of overseas Philippine workers by covering repatriation costs, protection of finances, road assistance coverage of vehicles and much more.

At the beginning of 2014, MAPFRE Insular employs more than 345 local workers. The company made an investment near €23 million in 1995. In 2014, the net worth of the company is over €300 million. The company is among the highest capitalized and most solvent of non-life insurance businesses in the country.

Through the MAPFRE Foundation in Spain, the company has partnered with NGOs to support the Philippine people. For example in Bacolod, where they support an NGO who rescues abandoned children from the streets and takes care of them until they are reinserted in the society. In Metro Manila, MAPFRE Foundation supports a home for orphan babies and children providing shelter and a possibility to reunite with their families. The company also supports a day care centre that provides education, medication and food to children of working parents. Over €90 thousand has been allocated to such social projects and another €60 thousand is attributed to teaching over 600,000 children per year on road safety, developed in partnership with the Department of Education of the Philippines.

Lufthansa Technik AG (Germany)

Lufthansa Technik AG, corporate Headquarters in Germany, is the world's leading provider of aircraft-related technical services and the most geographically diverse maintenance, repair and overhaul services (MRO) company in the world. *Lufthansa Technik Philippines (LTP)* was founded on September 2000 and has locations in Cebu, Clark and its main location in Manila. LTP is 51% owned by *Lufthansa Technik AG* and 49% by *MacroAsia Corporation.* The Manila-based facility has recently added the world's largest and most technologically advanced aircraft, the Airbus A380, into its roster of capabilities.

In the Philippines, the company has found a strategic location in Southeast Asia along the Pacific Rim. Main Asian hubs like Hongkong and Singapore are within 4-hour flight radius. The Manila base is located within a free trade zone. This zone simplified import-export procedures, has lower costs due to exemption from duties and taxes on merchandise and ensures easy employment of specialists from outside the Philippines for supervisory, technical or advisory positions.

LTP employs 2700 personnel in the Philippines. 100% of its personnel undergo extensive training, to be authorized to work on aircraft from Europe, North America, Asia and Australia. There are frequent personnel transfers among the Lufthansa Technik subsidiaries to assure optimum skills transfer within the *Lufthansa Technik Group.* The company FDI in the Philippines is still growing. LTP has invested in a $37.9-Million aircraft maintenance hangar at the Ninoy Aquino International Airport.

In terms of CSR, the company works with the Environmental Responsibility Program for a greener earth In addition to that, the company has more than 60 projects focusing on improving the quality of elementary education in rural areas. More than US $600,000 has been contributed for the construction of public school buildings and facilities from Luzon to Mindanao. LTP has support for typhoon victims and communities and donations of medical equipment.

LTP mechanics reattaching the engine blades of an Airbus A380, the biggest passenger aircraft in the market today

Besides the 18 Maintenance Organization approvals, LTP is recognized by the Philippines' Department of Environment and Natural Resources for practicing waste reduction programs. Further, LTP receives with its ERP program the green awards from the EU's Green Philippines Island of Sustainability Initiative.

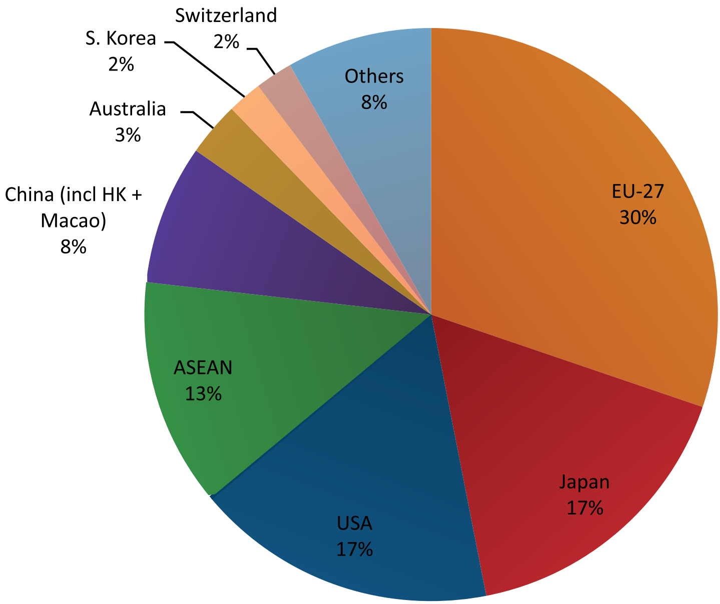
3 The EU is the largest Investment Partner of the Philippines

The Philippines is attractive for FDI and European investors are finding more and better reasons to invest in the Philippines as the business climate is improving. The EU is a long-standing partner of the Philippines and the largest investor with an estimated €8 billion in total FDI stock in 2013 - about 30% of total FDI in the Philippines, ahead of the US and Japan. These European companies are playing an important role in the Philippines economic development.

The Philippines is one of the fastest growing economies in Asia in 2013. This trend is set to continue in the medium term as growth is expected to average 6% over the coming period. The Philippines' business climate is improving likewise and the nation becomes more attractive for FDI. In 2012, the Philippines recorded FDI growth of 74%, while in 2013 this was 16% (UNCTAD) - doubling from €1.45 billion to €2.9 billion in 2 years' time. Officials in the Philippines are confident the strong foreign direct investment (FDI) showing from last year will be maintained in 2014, with an improved business climate along with political and economic stability and ongoing economic reforms.[7]

[7]http://www.oxfordbusinessgroup.com/news/philippines-aims-high-fdi

Figure 4: Main sources of FDI stock in the Philippines, 2012 Source: International Monetary Fund – 2013

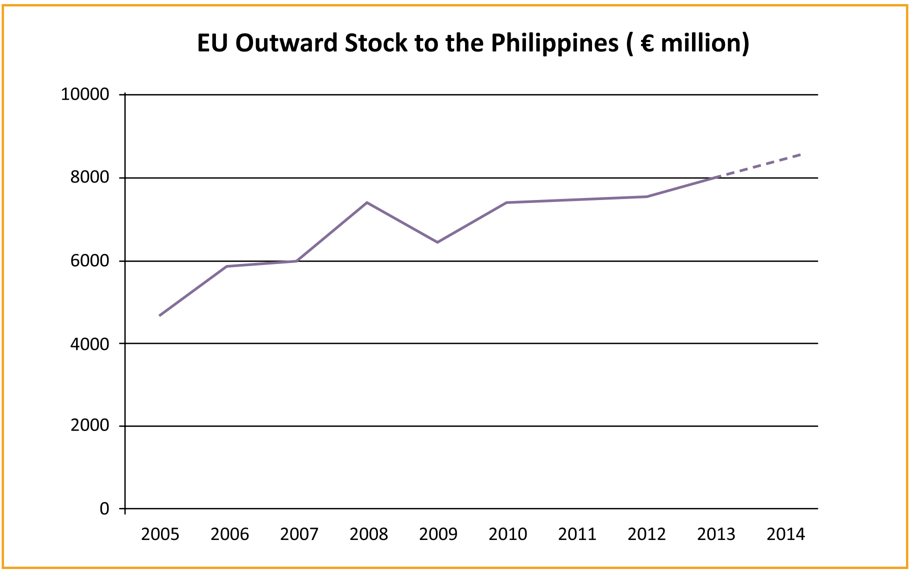


EU FDI stocks in the Philippines continue to increase: in the first half of 2014 with €189 million, following €382 million in 2013 and €231 million in 2012.

Companies mentioned in this brochure together are worth more than €1 billion FDI in the Philippines. Altogether, they added an estimated €95 million investments in 2014. European companies are the world's most active investors overseas (€189 billion in 2013 alone) while the EU at the same time continues to be the world's number one receiver of FDI (€185 billion in 2013). EU FDI to the Philippines has led to technology transfer, strengthened competitiveness of domestic companies, and improved productivity. This process is supported by EU companies in the Philippines using on-the-job training programs to enhance skills and effectiveness of the workforce. EU FDI to the Philippines adds, besides capital inflows, to employment generation and exports as companies' value chains are increasingly global and companies in the Philippines tend to source for production and exports.

The Philippines will likely strengthen its competitiveness by further integration into the ASEAN Economic Community as well as concluding trade agreements. By doing so, competitive sectors such as the Business Processing Outsourcing (BPO) sector, construction and (processed) food will benefit strongly especially once the ASEAN Comprehensive Investment Agreement (ACIA) will be fully implemented, liberalizing investments and taking away barriers to industry.

Figure 5: EU FDI stock with the Philippines (Eurostat)



In 2013, EU FDI stocks to the Philippines rose to some €8 billion (estimate based on Eurostat and BSP). The EU thereby continues to be the leading FDI partner to the Philippines. EU FDI stock now represents 30% of total FDI stock in the Philippines.

The Sanofi Group Philippines (France)

Sanofi Aventis, Sanofi Pasteur and *Merial* are all affiliates of the French pharmaceutical company Sanofi, a diversified global healthcare leader focused on patients' needs. These affiliates together make up the *Sanofi* Group in the Philippines. The company was established in the Philippines in 1978 with the aim to make a difference to people's lives through the company's global footprint and commitment to improving access to medicines and healthcare. From the start of its operations, the *Sanofi* group made an estimated investment in the Philippines of €15 million.

With 584 employees, *Sanofi* works to transform scientific innovations into therapeutic solutions for patients. *Sanofi-Aventis* Philippines currently supply the innovator anti-cancer Taxotere™ for the government's "Breast Cancer Medicines Access Program." Their products Taxotere™ and Thymoglobuline™ are also included in the Philippine Health Insurance Corporation's new Catastrophic Illness Benefit Packages, called the "Z Packages."

The company has a multi-year partnership with the *Philippine Children's Medical Center* called "My Child Matters (MCM)." The main objective of the project is the development of effective and sustainable programs to create a positive impact on pediatric cancer control and put childhood cancer at the forefront of national agenda. The MCM project in the Philippines also demonstrated the value cooperating with international organization and agencies to jumpstart the development of childhood cancer care services in a developing country.

Sanofi continues to support the Philippines during natural disasters through the *Sanofi Espoir Foundation* with donations for post-disaster relief as well as the rehabilitation of destroyed healthcare facilities through the *Philippine Red Cross and Medicins Du Monde.* In 2011, Sanofi Espoir also donated to aid the victims of Typhoon Sendong in 2011 while the local affiliate in the Philippines donated vaccines and medicines in response to the calamity brought by Typhoon Ondoy in 2009.

Joining hands in rebuilding a community for Yolanda survivors. L-R: Charlie Ayco, president of Habitat for Humanity; Atty. Darwin Mariano, ASEAN Public Affairs Director of Sanofi; Sen. Richard Gordon and Gwendolyn Pang, chairman and secretary general of the Philippine National Red Cross, respectively

Philips Electronics & Lighting, Inc. (The Netherlands)

Royal Philips began its trade in the Philippines in 1918, selling lighting products and short wave radios. *Philips* in the Philippines was later formally organized and started its operations in 1956, evolving to what it is known today as *Philips Electronics & Lighting, Inc. Philips* successfully transformed itself to become a respected leader in innovative lighting solutions, consumer appliances, and healthcare innovation, and espousing the global objective of becoming the leading company in health and well-being. Up to this day, *Philips* is the national sales and marketing organization of *Philips* in the country. Its main product lines are in the business areas of lighting, consumer lifestyle and healthcare.

Philips employs a total workforce of approximately 120 employees. The company sets high performance targets for its employees and believes it is critical to report on their progress. *Philips* is using the benchmark information and research of external indexes to help strengthen its management systems and sustainability reporting.

Philips has a long investment portfolio in the Philippines. *Philips Semiconductors Philippines Inc. (PSPI)* has invested more than 750 million euros in the country from 1981 to 2006, when *Philips* globally sold its 80% share in the semiconductor business. Today, *Philips* has its commercial office in Bonifacio Global City (Taguig) where it continues to provide state-of-the-art Lighting, Healthcare and Consumer Lifestyle products and services throughout the country.

Philips is a partner of the *World Wildlife Foundation (WWF)* for advocacies on global warming and environment friendly technologies. More recently, *Philips* also partnered with *I Can Serve Foundation* to promote breast cancer awareness and to promote health and well-being through *Simply Healthy* – a program that educates poor communities on nutrition, climate change and entrepreneurship.

In 2014, the company received the “Champion for Change” Award for delivering resource-efficient healthcare solutions to clients and assisting them in improving their environmental performance. It also won the prestigious “Exhibition Award” (2008) in the QIC World Finals held in Buenos Aires, Argentina. *Philips* has been recognized by the Bureau of Internal Revenue as one of the top corporate tax payers in the industry.

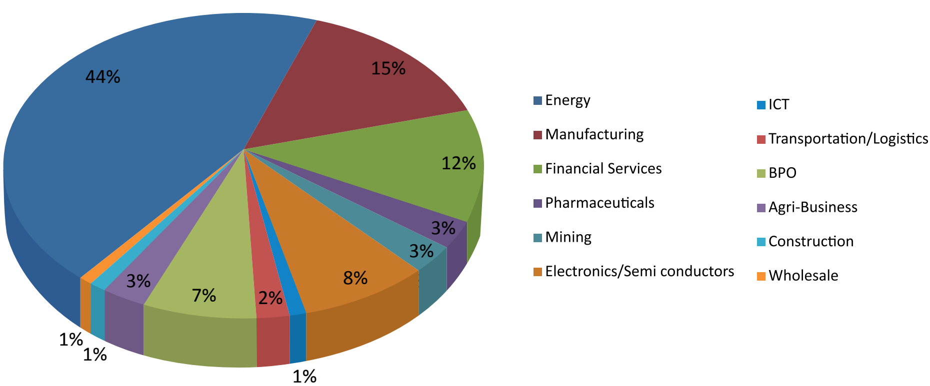
4 EU Investments Matter: Employment & Industrial Development

Estimates are that EU investments have generated around 450,000 jobs in the Philippines. Around 60 EU companies are among the most successful ones in the Philippines. EU FDI has also provided technological transfers, contributing to the industrial development and competitiveness of the local economy.

EU COMPANIES CONTRIBUTE IN ATTRACTING FDI AND BUSINESS TO THE PHILIPPINES

Around 600 EU corporate members are registered with European Chambers of Commerce in the Philippines. Out of these, close to 60 belong to the top most Successful Corporations in the Philippines. Together these 60 companies contribute more than €10 billion of income to the Philippines. These companies are active in sectors of energy, manufacturing, financial services, electronics, pharmaceuticals, BPOs, transportation/logistics, agri-business, construction, mining, and ICT.

Figure 6: Share of Gross Revenues from Top 58 Most Successful EU Businesses (%) (BusinessWorld Top 1000 Corporations in the Philippines 2013)



5 EU Companies in the Philippines - more than Business alone

EU companies create positive effects in the Philippines. They help strengthen the competitiveness and attractiveness of the country, thus paving the way for more foreign companies to invest in the country. EU firms are also supporting local communities and civil society organizations.

Most EU investors are active within energy, manufacturing, and financial sectors but others also invest in recycling, pharmaceuticals, information technology, maritime, and business process outsourcing, making EU investments dynamic and thus contributes to Philippines' economic development.

Technology Transfer and Value Adding – Technological transfer of EU companies have brought the latest technological innovations to the Philippines and the use of the most modern technology available in the world. The example of Lufthansa Technik, as well as other innovation-driven EU businesses mentioned in this brochure, exemplify the latest European technology that is being combined with the skills of the Filipino workers hence creating new possibilities for European industry and the Philippines.

EU FDI makes the Philippine economy more competitive. More and more investors from Europe are impressed: The Philippines reduced its external debts to an all-time low, concluded a peace agreement in Mindanao and has been upgraded by S&P's and Moody's to above investment grade. European companies contribute to the country's further improvements on international perceptions and its 6-7% targeted growth.

Investments from the EU have helped to develop Philippines' industries, human capital, and environmental-friendly initiatives. EU companies support a number of Corporate Social Responsibility (CSR) programs. Good examples are the *Philips-Simply Health Campaign* together with the Philippine Department of Health and Civil Society Groups educating low-income communities on health and wellness. They raise awareness on topics such as healthy eating, proper food preparation, breastfeeding, and breast cancer detection as well as energy efficiency and climate change. *MAPFRE Insular* is teaching over 600 000 children per year on road safety, a program developed in partnership with the Philippines Department of Education. *GlaxoSmithKline Foundation* has established programs of financial assistance, education, and medical donations, including vaccines. It provides emergency relief for health recovery in the event of disasters. Continental, Sanofi and MAPFRE have equally contributed to responding to recent natural disasters in the Philippines.

EUs quick response to help the victims of Typhoon Yolanda proved to be more than a government-to-government affair of friendship and understanding; it reached out to EU businesses from top management down to local employees who all joined forces showing solidarity with the Philippines and its people, showing that EU business presence in the country is more than just business.

Continental (Germany)

Continental develops intelligent technologies for transporting people and their goods. This leading international automotive supplier is represented in the Philippines by Temic Automotive (Phils.), Inc., Manila, and Continental Temic Electronics Philippines Inc., Calamba. The plants produce electronic brake systems, interior electronics and sensor clusters.

Established in the Philippines forty years ago as the first European automotive supplier, Continental set the stage for the Philippines' uprising in to the global market. Owing to good incentives and efficient work with Philippine Economic Zone Authority (PEZA); a new first-class, top notch electro-mechanical plant was established in Calamba Light Industry & Science Park a decade ago pushing the Philippine manufacturing industry in electronics and automotive parts to a new level. The plants in Manila and Calamba employ approx. 1200 employees. Several of Continental' local workers who started on an operational level were successfully upgraded to engineering positions. Owing to the success of BPO and global in-house service centers in the Philippines, Continental also set-up its shared services in the country providing services not only to Asia but worldwide.

Committed to quality, reliability and innovation – 31% of all exports from the Philippines go to the European Union, 33% to Asia and 36% to the United States and Mexico. In 2014, the company has spended an additional 50 million euros to install in its Philippine facilities new technologies that would help the company serve the requirements of the global automotive sector.

Continental is committed in supporting the welfare of the Philippine people by having major blood donation programs, tree planting programs, river clean up, corporate funded running days and typhoon victim assistance. Major achievements of the company include several domestic and international awards: Ford Quality 1 (Q1) Award, Quality Excellent Award from General Motors, PEZA outstanding Environment Performance Award given for two consecutive years in a row (2010-2011), certificate in highly protected risk and facility safety, and many others. Last year, Plant Manila won as among the Best Labor-Management Councils in the country which was awarded by the Dept of Labor and Employment for outstanding practices in labor-management cooperation. This year, the employees of the Continental plant in Calamba were again honored with the PEP award for their environmentally conscious performance.

Concluding Remarks

With around 30% of overall investment stocks, the EU is the largest investor in the Philippines. More importantly, EU FDI into the Philippines keeps growing every year. Equally impressive, EU-Philippines trade is expected to grow by over 20% in 2014 alone. This brochure aims to show the value of EU foreign direct investments in the Philippines.

EU FDI plays an important role on the economic development, competitiveness and attractiveness of the country. EU investments have created positive effects to the country. An initial analysis of EU companies doing business in the Philippines estimates that around 450,000 direct jobs have been created. In addition, investments provide technological transfers that contribute to the industrial development of the economy. EU FDI plays a crucial role in establishing companies and setting up global supply chains thereby making the Philippines a more competitive economy.

In addition, EU companies support to Corporate Social Responsibility programs shows that the EU-PH relationship is more than a government-to-government affair of friendship and understanding; private companies and individuals are reaching out to communities in the Philippines.

Companies in this brochure emphasize that the Philippines was preferred because of the high educational level of the Philippine workers and the good cooperation with the government. At a business level, EU CEOs are optimistic about the Philippines and the business opportunities, foreseeing a growing presence in the country through investing – also taking into consideration the pivotal role the Philippines will play for a number of sectors in an ASEAN context.

To attract more foreign direct investment to the Philippines, conducive policies are important. The EU welcomes the efforts made by the government and the Legislative to further liberalise key sectors of the economy and thus facilitate more investments. To take the most out of the opportunities offered by FDI, the government should have a look at amendments and measures such as the adoption of the Competition bill, a revised Retail law, the adoption and implementation of the Customs Modernisation and Tariff Act and liberalising foreign ownerships caps. This will support companies' decisions to invest in the Philippines!

The coming into effect of the GSP+ - the Generalised Scheme of Preferences special incentive arrangement for sustainable development and good governance - will provide the Philippines with additional tariff preferences to the EU market, thereby forming a major incentive for new (foreign and domestic) investments in the Philippines, creating additional jobs and prosperity.

EU

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