



Republic of the Philippines
CONGRESS OF THE PHILIPPINES

Senate
PASAY CITY

SUBJECT : **SPOT REPORT ON THE 9:00 A.M., 11 NOVEMBER 2004
PUBLIC HEARING OF THE COMMITTEE ON WAYS AND
MEANS HELD AT THE RECTO ROOM TO DISCUSS SBN
1815 AND HBN 3174 - SIN TAXES**

I. PRELIMINARY:

SENATORS PRESENT: Recto, Enrile, J. Estrada, Gordon, Magsaysay,
Pangilinan, Flavier, Cayetano, Roxas, and Osmeña III

RESOURCE PERSONS: Juanito Amatong, Secretary, Department of Finance; Grace Pulido Tan, Undersecretary, DOF; Carlitos Encarnacion, Administrator, National Tobacco Administration; Jose Buñag, Deputy Commissioner, Bureau of Internal Revenue; Lina Isorena, Executive Director, National Tax Research Center; Harry Tan, Jr. and Salvador Mison, Representatives, Fortune Tobacco Corporation; Virinia Elero, Philip Morris; Antonio Yao, La Suerte Cigars; Dennis Belgira, British American Tobacco Phils.; Hilario Punzalan, Secretary General, Fortune Tobacco Corporation Labor Union; Sancho Esquillo, Representative, Associated Anglo-American Tobacco Corporation Labor Union; Art Bayona, San Miguel Corporation; Olivia Limpe-Aw, Executive Vice President, Distileria Limtuaco; Ferdinand Masi, General Manager, Consolidated Distillers of the Far East; Jose Gabriel Olives, Chief Operating Officer, Asia Brewery.

II. DISCUSSION:

Senator Enrile inquired if the DOF submitted the position papers he was asking for during the last committee meeting. Senator Enrile likewise sought the policy direction that DOF is adopting *vis a vis* SBN 1815 and HBN 3174. Department of Finance Undersecretary Grace Tan stated that although DOF is fully cognizant of the health dimensions of the issue nevertheless their main thrust is to maximize revenues to address the fiscal crisis.

Fortune Tobacco Corporation (FTC) representative Harry Tan, Jr. pleaded with the committee not to adopt the tax rates as embodied in SBN 1815 because its enactment will spell financial disaster to FTC. DOF Undersecretary Tan

commented that cigarette smoking is an ADDICTION. Regardless of the price, smokers will still buy the product.

Senator Enrile inquired into the one billion pesos collected as result of RA 7171. Secretary Amatong stressed that it is DBM which has the sole authority to dispense with the abovesited funds. Senator Enrile requested the presence of Secretary Boncodin during the next public hearing to shed light on the matter.

Ilocos Sur Mayor Zaragosa remarked that the proposed tax rate would significantly reduce consumption and might lead to the death of the tobacco industry. He added that he is unaware that there was an improper disposition of the funds. Senator Enrile argued that the middle men are the ones accumulating profits and not the poor tobacco farmers. Senator Enrile divulged that up to this date one billion pesos in tobacco funds remains unliquidated. Some of the funds were even diverted to establish a tomato paste processing factory which has been unoperational.

Senator Enrile proposed that the tobacco funds be transmitted DIRECTLY to the farmers THRU the various COOPERATIVES. A Tobacco Planters Association representative expressed his gratitude to Senator Enrile, however he emphasized that he fully trusts his political leaders.

Senators Recto and Gordon acknowledged the urgency of the enactment of the sin tax measures. They explained that its non passage would lead to a one percent downgrade of the nation's credit standing before the international financial community. This situation would result to a twenty billion peso increase in the country's interest payments. Secretary Amatong added that the tax measures were intended to address the nation's growing Consolidated Public Sector Debt.

Senator Enrile charged that the latest DOF position was the version provided by the Executives of the Fortune Tobacco Corporation. DOF officials denied accusations that they struck a deal with the country's leading tobacco manufacturing firms.

Senator Jinggoy Estrada asked if the fiscal crisis is over as announced by President Arroyo. Secretary Amatong replied that the fiscal crisis has ended IF the country can freely assess foreign capital and support its fiscal expenditure program. However, Secretary Amatong contended that the nation STILL HAS A FISCAL PROBLEM!

National Tobacco Administration Head Carlitos Encarnacion informed the Committee that there are 62,000 registered tobacco farmers. At this juncture, Senator Osmeña III requested the resource persons to submit data on the retail prices/production costs of cigarettes in Asian countries.

Bureau of Customs Chief George Jereos told the Committee that the BOC collected 359 million pesos from custom duties from distilled spirits. Senator Osmeña III ordered Mr. Jereos to submit a position paper highlighting the

volume of alcohol that were imported for the last ten years. Senator Osmeña III complained to the Committee about BOC's inability to submit the desired data on numerous instances.

Senator Enrile divulged to the Body that the Executives of Fortune Tobacco Corporation are his close friends. Mr. Harry Tan Sr. is a godson while General Salvador Mison was a helpful subordinate during the 1986 EDSA Revolution. Even Mr. Lucio Tan used to frequently visit Senator Enrile's Makati residence.

Senator Enrile foresaw that his advocacy for the increased tax rates on cigarettes would surely draw the ire of influential tycoons. Senator Enrile chose to pursue his cause despite its inherent risks since the passage of the sin taxes would be BENEFICIAL to the country's NATIONAL INTEREST.

Respectfully submitted,

Arturo I. Mojica, Jr.