

## LOGISTICS SECTOR

Logistics is the part of the supply chain system that spans the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing, border regulatory procedures, and security. It is the systematic management of movement of goods, services, and related information across supply/ value chain nodes.<sup>1</sup> However, the logistics component has minimal data available since the institutional framework for logistics in the Philippines has always been reviewed in the context of other sectors such as transport and agriculture and not as a logistics sector by itself.

The Philippine transport services, which include domestic freight forwarding firms, are categorized by Philippine laws as public utilities, subject to the 60-40 foreign equity rule. In addition, PD1466 mandates that the exportation and / or importation of all government cargoes, as well as private cargoes that have financial benefits to the Philippine government, must be carried by Philippine flag vessels.

### Industry Trends/ Background

- Overall road network of 215,088 km, of which 27 percent are paved and in good condition (DPWH, 2013)
- The different port district offices such as Manila/ North Luzon, Southern Luzon, Visayas, Northern and Southern Mindanao are handling a total of more than 300,000 shipcalls and around 5 million TEUs per year. (Please refer to Table 1 for details)
- Container terminals are designed to handle cargo traffic at the highest levels of efficiency<sup>2</sup>
- Philippine logistic performance index ranked number 57 out of 160 countries on the 2014 The World Bank (WB) Logistics Performance Index competitiveness ranking among ASEAN neighbors<sup>3</sup>

### Philippine Advantage:

- The Philippines is located right in the heart of Asia. It is located within four hours flying time from major capitals of the region, and is a critical entry point to over 500 million people in the Association of Southeast Asian Nations (ASEAN) market and a gateway of international shipping and air lanes suited for European and American businesses.
- The literacy rate in the Philippines is 94.6%
- Human capital availability, with 350,000 graduates every year enriching the professional pool.

**Table 1. Port Statistics**

	2012	2013	2014
Volume of Passengers	49,998,936	52,795,970	54,971,148
Number of Shipcalls	345,870	347,062	357,480
Cargo throughput at berth & anchorage (in Metric Ton)	193,714,306	200,291,832	210,552,565
Containers handled in TEU	5,212,577	5,198,419	5,293,762

Source: PPA Port Statistics

As of November 2015, as endorsed by MARINA, 209 vessels were registered with the Board of Investments (BOI) with a total project cost of around Php53.2 Billion and employment generation of 11,563.

<sup>1</sup> Committee for the ASEAN Economic Community (CAEC) Roundtable Discussion Series, Mr. Cielito F. Habito, Chief of Party Trade-Related Assistance for Development (TRADE) Project (24-25 February 2015, Crowne Plaza Manila)

<sup>2</sup> <http://investphilippines.gov.ph/about-the-philippines/why-philippines/>

<sup>3</sup> <http://www.competitive.org.ph/rankings/wb-logisticsperformanceindex.php>

MARINA also reports that as of December 2014<sup>4</sup>, there are 10,694 service vessels registered based on the Domestic Fleet Inventory undertaken. The table below presents the composition and specifications of the Domestic Merchant Fleet.

**Table 2: Domestic Merchant Fleet Inventory**

Type of Service	Number of Vessels	Total GRT	Ave. GRT	Ave. Age
Passenger	6,555	402,309.17	61.37	9.28
Cargo	3,051	1,585,686.63	519.73	15.65
Tanker	249	258,176.77	1,036.85	20.24
Tug	566	61,957.57	109.47	27.54
Dredger	28	13,224.27	472.30	20.93
Yacht	33	628.28	19.04	9.42
Special Purpose Ship	16	3,631.51	226.97	16.44
Miscellaneous Ship	78	20,518.70	263.05	11.96
Others	118	14,857.48	125.91	19.58
<b>TOTAL</b>	<b>10,694</b>	<b>2,360,989.75</b>	<b>220.78</b>	<b>12.50</b>

*Existing Logistic Hubs*

- Subic Bay Metropolitan Authority (SBMA)
- Clark Development Authority (CDA)
- Authority of the Freeport Area of Bataan (AFAB)
- Manila North Harbour Port, Inc. (MNHPI)
- Harbour Centre Port Terminals, Inc (HCPTI)

Port Tariff on Container Vessel	Average Cost
Port Dues	US\$ 0.081
Dockage at Berth	
Government Port for Foreign Vessels	US\$ 0.039
Private Port Registered with PPA Port for Foreign Vessels	US\$ 0.020
Dockage at Anchorage	US\$ 0.020
Domestic Dockage Fee (Usage Fee)	
6-100 GRT	PhP 82.00
Over 100 GRT	PhP 0.80
Domestic Wharfage	
Imported	

Wharfage on Cargo (Containerized foreign Cargoes)	Average Cost
Foreign 20 ft Import	PhP 519.35
Foreign 20 ft Export	PhP 259.70
Foreign Transshipment Per TEU	US\$ 1.00

Wharfage on Cargo (Non-containerized foreign Cargoes)	Average Cost
Import	
Cargoes in Sack/Bags/Bulk/Uncrated Live Animals/Steel Products Logs and Lumber/Heavy Lift Per Metric Ton	PhP 36.65

<sup>4</sup> Latest data retrieved on 20 January 2016 from the MARINA website ([http://www.marina.gov.ph/sectoral/summary\\_domfleetinventorydec2014.pdf](http://www.marina.gov.ph/sectoral/summary_domfleetinventorydec2014.pdf))

Others Per Revenue Ton	PhP 30.55
Export	
Cargoes in Sack/Bags/Bulk/Uncrated Live Animals/Steel Products Logs and Lumber/Heavy Lift Per Metric Ton	PhP 18.35
Others Per Revenue Ton	PhP 15.25
Foreign Transshipment	
Cargoes in Sack/Bags/Bulk/Uncrated Live Animals/Steel Products Logs and Lumber/Heavy Lift Per Metric Ton	US\$ 0.833
Others Per Revenue Ton	US\$ 0.694
Minimum Charge	PhP 10.00

<b>Domestic Wharfage Fee (Jan. 01, 2009)</b>	<b>Average Cost</b>
Cargoes in Sack/Bags/Bulk/Uncrated Live Animals/Steel Products Logs and Lumber/Heavy Lift Per Metric Ton	PhP 9.00
Others Per Revenue Ton	PhP 7.00
Minimum Charge	PhP 15.00

The Port of Manila is the largest seaport in the Philippines. It has three main groups namely, the Manila North Harbor, the Manila South Harbor, and the Manila International Container Terminal (MICT). The Port of Manila, which consistently ranks as one of the busiest ports in the world accounts for approximately 2.7 million TEU international cargo traffic per year. In the Journal of Commerce (2013), the Port of Manila is cited as the 38<sup>th</sup> busiest port in the world in 2012. However, due to the amount of traffic to and from the country, cargo and passenger concentration in the National Capital Region rose. Among the initiative provided to decongest cargo traffic was the development of the Batangas and Subic Ports. However, data from the National Economic and Development Authority (NEDA) showed that the utilization rates, which is 4.2 percent and 5.6 percent respectively for both the Batangas and Subic ports remained significantly low despite plans to encourage the use of these ports.<sup>5</sup>

## Airports

### Aviation's Contribution of output and jobs to the Philippines<sup>6</sup>

	Direct	Indirect	Induced	Tourism	Total
Contribution to GDP (US\$ M)	832	461	390	6,480	8,162
Contribution to employment (000s)	61.9	69.1	58.5	974.5	1,164.0

Source: IATA, ACI, Oxford Economics

- The Philippines has 85 airports, of which 10 are international<sup>7</sup>
  - Largest International Airports – Ninoy Aquino, Clark, Subic Bay and Mactan
  - International Passenger Traffic 1<sup>st</sup> sem 2015: 10,361,643 ;
  - Domestic Passenger Traffic S1 2015: 11,368,481
  - Domestic Schedule Cargo Traffic 2014: 250,681,487
  - Domestic Schedule Cargo Traffic 13 August 2015: 117,812,825
- (Source: Civil Aeronautics Board)

<sup>5</sup> A System-Wide Study of the Logistics Industry in the Greater Capital Region, (Epictetus E. Patalinghug, Gilberto M. Llanto, Noriel C. Tiglao, Alexis M. Fillone, Cherry Madriaga, Christine Ruth Salazar, and Ma. Diyina Arbo)

<sup>6</sup> Aviation Benefits Beyond Borders April 2014

([http://aviationbenefits.org/media/26786/ATAG\\_\\_AviationBenefits2014\\_FULL\\_LowRes.pdf](http://aviationbenefits.org/media/26786/ATAG__AviationBenefits2014_FULL_LowRes.pdf))

<sup>7</sup> <http://www.caap.gov.ph/index.php/contact-us/directory/finish/22-contact/163-caap-airport-directory> (updated as of February 2015)

#### Major players in the Philippine Logistics Industry<sup>8</sup>:

- 2Go Group
- AAI Worldwide Logistics
- ASL Logistics Worldwide Inc.
- JRS Express
- LBC Express
- LF Global Logistics Solutions, Inc.
- LF Logistics Philippines
- Lorenzo Shipping Corporation
- Magsaysay Transport and Logistics
- Oceanic Container Lines (OCLU), Inc.
- Agility Philippines
- DB Schenker Philippines
- DHL Express
- DHL Global Forwarding
- DHL Supply Chain Expeditors
- FedEx
- Kintetsu World Express
- Kuehne + Nagel
- Nippon Express Philippines
- Panalpina Group
- Toll Holdings
- UPS
- UTi
- Yusen Logistics Philippines, Inc.

#### **Outlook/ Government Initiatives/Challenges:**

- 1) Sea ports development includes public and private investments on the ff:
  - Improvement and construction of various ports in Southern Mindanao (Davao and Cotabato)
  - Development of RORO facilities in Southern Luzon (Mindanao)
  - Various port development projects in Visayas (Cebu, Bohol, Iloilo, Palawan, Tacloban and Romblon)
  - Policy to shift foreign cargo traffic away from Manila port to maximize the use of Batangas and Subic International ports with a yard utilization rate of 60%<sup>9</sup> as of January 2015 and 52%<sup>10</sup> for November 2014, respectively.

Airport initiatives such as:

- Expansion of the Clark International Airport /DMIA costing Php250 M
  - Construction of VIP facility at Mactan-Cebu International Airport
- 2) Medium term plans to further encourage investments for development and expansion of logistics infrastructure to cater to the international market, to reduce logistics cost, and to make Philippine Logistics more competitive:
    - Promote Batangas port for CALABARZON – destined shipments and Subic for Luzon destined shipments
    - Executive Order on Chassis-RORO in support of ASEAN Connectivity
    - Modernize port operations in Batangas to serve automotive companies in CALABARZON

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<sup>8</sup> <http://www.transportintelligence.com/market-reports/report-philippines-transport-logistics-2015/333/>

<sup>9</sup> PPA News on the web - <http://www.portcalls.com/batangas-port-container-volume-balloons-762-in-2014/>

<sup>10</sup> <http://www.portcalls.com/subic-terminal-operator-invests-in-equipment-to-handle-volume-growth/>

- Create a plan to eventually phase out international cargo at the port of Manila over five years
- Develop Subic and Clark as a true free-ports or logistics hubs to distribute goods from the US and Europe to Asia:
  - allow cargoes to freely enter uncontrolled assigned “to-order” of bearer as long as goods will not leave the Freeport
  - move customs out of the Subic Freeport to a perimeter defined by SBMA before allowing goods to enter the port uncontrolled, put in place tight safeguards against smuggling
  - organize and convene a public-private planning group to promote an Asian Distribution Center of Goods/ Regional Warehouse Facility
- Allow transshipment of cargo in various modes
- Open the door to foreign investment along the entire multi-modal transportation chain
- Allow direct deconsolidation of cargoes to PEZA bonded warehouses
- Take advantage of quick turnaround cycles and local BPO capability
- Facilitate Importer of Record (IOR) services to develop expanded access to Internet trade
- Implement reforms in customs practices such as NSW, payment thru banks, etc.
- Reduce high domestic shipping costs through:
  - R.A. No. 10668 or Foreign Ships Co-Loading Act (amending cabotage law) which was approved last July 21, 2015, allowing foreign vessels to transport and co-load foreign cargoes for domestic transshipment.
  - introduce more reliable new ships with larger TEU capacity that are less expensive to operate
  - limit the age of ships that can be imported to operate
- Groups of importing companies should explore chartering ships and pooling container shipments in order to save international transportation cost
- Develop better data for the logistics sector in order to be able to chart and analyze its growth
- Modernization of tariff and customs administration.