Manila Standard

Spurring the growth of the logistics' industry

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The country's strong domestic economy and the growth of e-commerce have attracted local conglomerates to enter into the logistics' industry.

Pangilinan-led Metro Pacific Investments Corp., Henry Sy's SM Investments Corp and Dennis Uy's Chelsea Logistics Holdings Corp. are expanding their business into logistics for future growth. MPIC acquired a number of small logistic firms, while SMIC and Chelsea have taken in the 2GO Group Inc., the country's largest shipping and logistics company.

Metro Pacific ventured into the logistics and distribution business in May 2016 when it acquired the assets of mid-sized corporate logistics provider Basic Logistics as it saw a strong demand for logistics services in the country. It then formed a new company called Metro Pacific Movers Inc. in a joint venture with the shareholders of Basic Logistics to provide logistics, shipping, freight forwarding and e-commerce services.

In January 2017, Metro Pacific through its subsidiary Premier Logistics Inc. acquired some of the assets and business of Ace Logistics worth P280 million.

"We want to build up a significant substantial logistics group … I think it's a very basic need of the country, to have a more efficient logistics' infrastructure because the cost of moving goods back and forth between Manila and for example, Mindanao, is, we understand more expensive than moving the goods from here to Europe for example. That's something we should cure," Pangilinan said.

In 2014, the World Bank reported a lower logistics performance index (LPI) for the Philippines, 57th out of 160 countries, down from 44 out of 155 countries in 2010. The country was behind Singapore, Malaysia, Thailand, Vietnam, and Indonesia in 2014.

The logistics' sector – part of transportation and storage under the Philippine Standard Industrial Classification (PSIC) – contributed 6.1 percent to the country's economic growth during the third quarter of 2014. The sector's impact on economic growth is certainly extensive considering logistics' cost, according to the Department of Trade and Industry (DTI), accounts for 24 percent to 53 percent of the wholesale price of goods in the country.

Pangilinan said its new venture will complement with its existing businesses.

"The group as a whole moves quite a bit of goods and equipment throughout the country so this will help the group as well in facilitating how we operate. PLDT, Meralco, the tollways and to some extent, Maynilad and so forth," he added.

Metro Pacific committed to invest P5 billion in the logistics' business over a five-year period.

Chelsea, meanwhile, is working toward becoming the prime mover of vital goods, cargoes, and passengers in the Philippines and eventually a regional player by expanding organically and creating synergies with 2Go Group Inc. and affiliates within the Udenna Group.

Udenna started its shipping business in 2006 through Chelsea Shipping Corp. to support the operations of the country's leading independent and fastest-growing oil company, Phoenix Petroleum Philippines, Inc. It currently has the largest tanker fleet in terms of capacity with a total of 39,271.64 gross registered tonnages.

Chelsea acquired a 28.15-percent indirect economic interest in 2Go Group in March and subsequently took over its management. Chelsea also acquired Worklink Services, Inc. (WSI) to expand its logistics business.

"WSI will augment our logistics and manpower businesses as well as create additional synergy within the group," Chryss Alfonsus V. Damuy, Chelsea president and chief executive said.

"The acquisition will prove even more valuable in steering CLC to greater heights by bringing in an experienced and competent management and staff, who have been in the logistics business for more than 20 years," he added.

WSI was established in 1994 for the primary purpose of providing efficient, effective and reliable courier, forwarding, trucking, and logistics services to a growing domestic industry.

"In every investment put into expanding our operations, we strive to ultimately provide better shipping and logistics services to Filipino businesses and consumers as well as create more jobs and support the economy's growth," Damuy said.

REGULATION BARRIERS

Despite optimism from local conglomerates, state think tank Philippine Institute for Development Studies (PIDS), in a study, said the government must reduce regulatory burdens in the logistics' industry to boost the country's export competitiveness.

In 2016, the Philippines' overall logistics performance index was "way below those of the older members of the Association of Southeast Asian Nations", the study said, adding that it was even lower than Vietnam—one of the transition economies in Southeast Asia.

"In the field of logistics, the Philippines has one of the most restrictive set of regulations which, together with other factors, are responsible for its relatively poor logistics performance," PIDS said.

PIDS identified various regulatory issues and challenges in the sector, particularly in the implementation aspect. The study revealed that the lack of awareness about the importance of integration and coordination in the logistics' chain has resulted in "inconsistent, overlapping, and sometimes contradictory policies".

This issue, according to the authors, has caused loss of major logistics providers and foreign investors in the country. Furthermore, the uncoordinated logistics' system in the country can also be attributed to the absence of a single coordinating agency.

At present, various agencies have different sets of regulations for the transport, logistics, and distribution sectors in the Philippines—Land Transportation Franchising and Regulatory Board and Land Transportation Office for road transport, Maritime Industry Authority and Philippine Ports Authority for maritime transport, and Civil Aviation Authority of the Philippines for air transport, among others.

This remains to be a hindrance for prospective investors to do business in the country as "there are many regulations and business licenses covering all aspects of logistics services under the jurisdiction of different government agencies," the authors explained.

Maritime transport is one of the most important modes of transport in international trade especially for archipelagic countries like the Philippines. However, the poor quality of port management in the country has led to higher logistics' costs on the part of service providers.

In terms of the logistics' industry, the authors noted the lack of effective enforcement of important regulations on the part of implementing agencies. An example of this is the continuous operation of old and outdated delivery trucks and vehicles in the country.

The same issues persist in the local government level, with different local government units (LGUs) implementing "varied, inconsistent, and unpredictable regulations", the authors pointed out.

These regulations include the use of different stickers for passage to different areas, the inconsistency of operating permits, and different number coding schemes between cities and provinces.

REGULATORY REFORMS

To address this regulatory issue, the authors proposed that the Department of Transportation, along with Congress, should disallow the collection of pass-through fees in LGUs to prevent abuse of authority from happening in the grassroots.

The authors also suggested "introducing more foreign competition and improving access to the most efficient transport and logistics service providers" to accelerate the country's overall trade performance.

The study also recommended the creation of a lead agency to oversee the sector and ensure "that the flow of information between relevant stakeholders is maintained" and is responsible for getting the full cooperation and support from other government agencies involved.

TRAFFIC CONGESTION

The Export Development Council's Networking Committee on Transport and Logistics also said a major logistics' concern is the traffic congestion near Manila ports. Hence, the Terminal Appointment Booking System (TABS) is implemented by port operators in Manila to help ease port traffic.

TABS regulates the number of trucks plying Metro Manila, going to and from the ports, avoiding the recurrence of port congestion and addressing corruption and extortion of some brokers/fixers. Trucks registered under TABS are exempted from the Metropolitan Manila Development Authority truck ban at limited hours.

To further reduce logistics' costs in the domestic shipping, the efficiency of the roll-on, roll-off (Roro) network will be enhanced by the recent approval of Executive Order 204, expanding the Roro network policies to chassis Roro (Charo).

With Charo, the cost of cargo handling will be lesser by 15 percent to 20 percent. It will allow truckers to be more productive since their trucks will not go with the container in the Roro vessels anymore.

For air transport, the Dual Airport Policy, such as Ninoy Aquino International Airport (Naia) and Clark Airpot, is very critical for the logistics' industry.