ECCP ADVOCACY PAPERS 2021

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EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

AVIATION AND TOURISM ADVOCACY PAPER 2021

ABOUT ECCP

The **European Chamber of Commerce of the Philippines** (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.

EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES
19th Floor, Philippine AXA Life Center Bldg.,
Sen. Gil Puyat Ave. cor. Tindalo Street,
Makati City, Metro Manila, Philippines, 1200

Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.

EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

AVIATION AND TOURISM ADVOCACY PAPER 2021

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We would also like to acknowledge the support of our committee members.

METHODOLOGY

The 2021 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in *2019* Advocacy Papers were examined under the following criteria:

Completed/Substantial Progress: Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

Some Progress: Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

No Progress/Retrogression: Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

MESSAGE FROM THE ECCP PRESIDENT

On behalf of the European Chamber of Commerce of the Philippines (ECCP), I am pleased to present the 2021 ECCP Advocacy Papers. This year's edition features an overview of the current business regulatory landscape in the Philippines as well as industry-specific challenges of the 22 sector committees of the Chamber. More importantly, the paper puts forward constructive policy recommendations for strengthening European-Philippine economic relations and opening up a new decade of growth opportunities as the theme of this year's Summit suggests.

Indeed, the past year has been a period unlike any other with the ongoing health crisis testing the resilience of most organizations and redefining the way we do business. Our advocacy work has also stepped up in organizing virtual discussions and actively engaging key stakeholders including policymakers to raise awareness on issues that matter the most to our members as well as push for reforms that will support our community during this period of uncertainty.

Understandably, the past 20 months have seen a shift of policy priorities from the Philippine government by focusing more on pandemic response and providing social safety nets to the affected and vulnerable. Nevertheless, we have witnessed promising developments on the economic front that will help restore business confidence and boost the country's position as a competitive destination for trade and investments including those from Europe. Among these include the signing of the landmark Corporate Recovery and Tax Incentives for Enterprises Act, the Financial Institutions Strategic Transfer Act, and the inking of the world's largest trade bloc known as the Regional Comprehensive Economic Partnership, of which the Philippines is a party. In addition, the Philippines' improved ranking of 90th in 2020 from 124th in 2019 of the World Bank's Doing Business report demonstrates the global community's relative trust in the country's business environment.

We at the Chamber strive to make the most of these exciting developments in the years to come. The 2021 ECCP Advocacy Papers is our contribution to addressing some of the remaining challenges to helpfully realize the potential of our bilateral ties and economic prospects. I would like to thank our Committee leaders, member companies, and the team behind our flagship publication. Moreover, the European business community continues to stand at the forefront of these crucial issues, which when addressed, will further support our shared goals towards inclusive and sustainable recovery. As such, we remain committed to working with the Philippines in navigating this new decade of growth opportunities.

Mr. Lars Wittig
ECCP President

MESSAGE FROM THE EU AMBASSADOR

I congratulate the European Chamber of Commerce of the Philippines (ECCP) for the 2021 edition of their Advocacy Papers.

These papers offer useful food for thought and action at a crucial time.

At present, the global economy is poised to show its most robust post-recession recovery. In the EU, recovery is underway following a massive vaccination campaign and an ambitious recovery plan decided collectively by EU leaders in 2020. In the EU, today, more than 70% of adults are vaccinated, resulting in improved business and consumer confidence.

Vaccination is the way to pull through collectively from a health crisis of this proportion. It should not stop there. At present, the EU is first and most urgent priority is to speed up global vaccination to ensure that access to vaccines becomes equitable worldwide.

While the European Union has focused on tempering the spread of the virus and its impact on lives and the economy, the EU has remained crucial in the global effort to strengthen the multilateral trading system, fight protectionism and ensure that global trade remains unhampered.

This strategy has reaped fruits. It is anticipated that 19 EU Member States will revert to pre-pandemic growth levels in 2021 and the remainder will follow in 2022. In the last quarter, growth in the Euro area outpaced both the US and China.

Next Generation EU and the seven years multi-annual budget will invest in both short-term recovery and long-term prosperity. It will support innovative policies and will set Europe on a path to a sustainable resilient recovery. One-third of this €1800 billion budget will finance the European Green Deal, which will be the EU's lifeline out of the COVID 19 crisis. This Green Deal will transform the EU into a modern, resource-efficient competitive economy.

The EU and the Philippines have established a relationship characterized by a shared goal of peace and prosperity for our peoples. In terms of commercial relations, we have seen steady growth in the bilateral trade in goods between the EU and the Philippines over the last years. However, EU-PH trade today is far from its full potential. Likewise, the Philippines needs to attract a greater portion of EU investments in ASEAN.

Let us continue to work together to achieve a sustainable and resilient recovery for our economies. I welcome these advocacy papers as a useful contribution in our pursuit of creating a level playing field and opportunities for industries and sectors to be able to participate; provide more choices to our consumers, and promote a sustainable approach to trade.

H.E. Luc Véron
Ambassador
Delegation of the European Union to the Philippines

MESSAGE FROM THE PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES

My warmest greetings to the **European Chamber of Commerce of the Philippines (ECCP)** as it organizes the **2021 European-Philippine Business Summit**.

This event is an opportune time to explore and pursue various programs and strategies that will enable the business community to overcome the adverse effects of the COVID-19 pandemic on our economy.

The government is one with you in this goal as it has shown in its commitment to advance free trade and to restore confidence in the Philippine economy through our landmark Tax Reform Law and the ratification of the Regional Comprehensive Economic Partnership, of which the Philippines is a party.

I hope that you will remain steadfast in promoting and attracting trade and investments to the country, especially from Europe. Together, let us revitalize our industries and boost our productivity under the new normal.

May you have a successful summit.

Rodrigo Roa Duterte
President of The Republic of the Philippines

MESSAGE FROM THE DEPARTMENT OF TRADE AND INDUSTRY

The presence of the European Chamber of Commerce in the Philippines (ECCP) in the country is a testament to the relationship between our economies evident in the current levels of trade and investments. In 2020, Europe ranked as the Philippines' 5th trading partner, with total bilateral trade amounting to US$13.06 billion. And as we secure the collective development of both our nations, the Department of Trade and Industry (DTI) continues to rely on the steadfast efforts of ECCP in facilitating market access and in creating a level playing field for both European and Filipino companies

Together with the holding of the **2021 European-Philippine Business Summit (EPBS),** the launch of the **2021 ECCP Advocacy Papers** not only reflects the continued partnership of both nations that has flourished and strengthened throughout the years, but is also the fruit of the hard work and commitment of the men and women behind the successes of your organization.

Despite the challenges of the pandemic, the Philippines remains a conducive place to do business and is still considered an emerging economy for investment. This can be attributed to our strong economic fundamentals and is a result of landmark policies and programs of the Duterte administration to create an enabling business environment in the country.

Among these initiatives is the consistent pursuit of game-changing reforms such as the **Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act** and the **Financial Institutions Strategic Transfer (FIST) Act,** which are expected to bring in more investments and ensure the stability of our financial system to accelerate the country's quick and sustainable economic recovery. The Philippines is also part of the **Regional Comprehensive Economic Partnership (RCEP) Agreement,** which is intended to strengthen regional economic integration and increase economic resiliency through enhancing market access for goods, services, and investment. All of these, together with the review of other economic restrictions, have the common goal of attracting more investments that will create more jobs in the country.

As the Philippine economic situation continues to improve, this year's theme, **Amidst theCrisis: A New Decade of Growth Opportunities,** sets the tone for our continued partnership. We are counting on the private sector to harness the potential of our revitalization as we embark on pursuits that will ensure the inclusive and sustainable development of our nations. Ultimately, our goal is to make your investments in the country as profitable as possible, which will secure the development of our economies, provide better opportunities for employment, and empower our citizens to become productive members of society as we take on the greater effort of nation-building to create a better quality of life for all Filipinos.

Congratulations and *mabuhay po kayo!*

Hon. Ramon Lopez
Secretary
Department of Trade And Industry

MESSAGE FROM THE HOUSE OF REPRESENTATIVES

Our warmest felicitations to the European Chamber of Commerce of the Philippines, ECCP President Lars Wittig, ECCP Vice Presidents Amal Makhloufi and Kavita Hans, distinguished officers and members, on the launching of the 2021 edition of ECCP Advocacy Papers.

They say that the darkest nights produce the brightest stars. We convene today at a time of great uncertainty brought about by a global pandemic. As Speaker of the House of Representatives of the Philippines, I would like to express my deep appreciation to the European Chamber of Commerce in the Philippines and the ECCP Advocacy Committees in producing the 2021 ECCP Advocacy Papers, covering the most significant areas in development policy, from agriculture, the environment and water, to education, health care, and human capital, and of recent import, defense and disaster response, and renewable and energy efficiency. These papers are vital inputs to policy formulation, can serve to enhance Philippine development road maps, and be our springboard for continued discussion and engagement between the ECCP and our government in forging sustainable means of collaboration.

On the part of the House of Representatives, we intend to move towards a more resilient, more inclusive, and more sustainable post-pandemic economy with reforms which seek the following: one, to liberalize foreign investments into the country; two, to promote greater competition in key industries; three, to enhance governance in key infrastructure agencies; and four, to remove restrictions on foreign equity, thereby making economic policies more attuned to the realities in both local and international landscapes.

The opportunity to build a better economy is before us and should indeed, be seized. Through cooperation and collaboration, let us together bring into fulfillment a decade of renewal and growth.

Thank you.

Lord Allan Jay Q. Velasco
House Speaker District Representative Marinduque

WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines prides itself in its dynamic and robust economy, transforming into one of the region's top economic performers and attracting companies to invest and expand their operations. In the last decade, the country was able to sustain an average annual growth of 6.4% between 2010-2019 from an average of 4.5% between 2000-2009.[1] Among its neighboring countries in the Association of Southeast Asian Nations (ASEAN), the Philippines was ranked 4th in terms of Gross Domestic Product (GDP) growth rate with 6.1% in 2019 (Table 1).

Table 1. ASEAN GDP Year-on-Year Growth Rates, 2019 and 2020 (% per year)

Country	2019	2019 ranking	2020	2020 ranking
Brunei Darussalam	3.9	8th	1.2	3rd
Cambodia	7.1	1st	-3.1	6th
Indonesia	5.0	5th	-2.1	5th
Lao People's Dem. Rep.	4.7	6th	-0.5	4th
Malaysia	4.3	7th	-5.6	8th
Myanmar	6.8	3rd	3.3	1st
Philippines	**6.1**	**4th**	**-9.6**	**10th**
Singapore	1.3	10th	-5.4	7th
Thailand	2.3	9th	-6.1	9th
Vietnam	7.0	2nd	2.9	2nd

Asian Development Bank. *Asian Development Outlook 2021*[2]

However, the onset of the unprecedented COVID-19 pandemic has resulted in a drastic decline of economic activity around the world. In the Philippines, like in many other countries, the government had to implement huge fiscal support programs and impose strict quarantine measures to mitigate the spread of the virus, which in return restricted economic activity. Specifically in the Philippines, the recessionary impacts of the pandemic contracted the GDP growth rate by 9.6% for the year 2020 (Table 1). The Philippine Statistics Authority (PSA), which has been collecting annual data since 1947, records this decline as the first annual contraction since the Asian Financial Crisis seen in 1998. It also surpassed the prior record of 7.0% contraction in 1984.[3]

The annual preliminary figures from the PSA show that the unemployment rate rose to 10.3% in 2020, accounting for 4.5 million unemployed Filipinos in the labor force, which is significantly higher compared to the previous year's 5.1% rate. Likewise, the country's employment rate dropped from 94.9% in 2019 to 89.7% in 2020, with the Services sector accounting for 56.9% share, followed by the Agriculture sector with 24.8%, and the Industry sector with 18.3%.[4]

1 World Bank. (07 April 2021). Philippines: Overview. Retrieved from https://www.worldbank.org/en/country/philippines/overview
2 Asian Development Bank. (April 2021). Asian Development Outlook 2021. Retrieved from https://data.adb.org/dataset/gdp-growth-asia-and-pacific-asian-development-outlook
3 Nikkei Asia. (28 January 2021). Philippines GDP shrinks 9.5% in 2020, worst since 1947. Retrieved from https://asia.nikkei.com/Economy/Philippines-GDP-shrinks-9.5-in-2020-worst-since-1947
4 Philippine Statistics Authority. (08 March 2021). 2020 Annual Preliminary Estimates of Labor Force Survey. Retrieved from https://psa.gov.ph/content/2020-annual-preliminary-estimates-labor-force-survey-lfs

Currently, unemployment rate for July 2021 is estimated at 6.9%, the lowest recorded rate since in April 2020. The country also recorded a significant increase in terms of employment rate at 93.1% for the same month.[5]

On the other hand, headline inflation rose further to 3.5% in December 2020, from 3.3% in November 2020, primarily due to the increase in the inflation of heavily-weighted food and non-alcoholic beverages at 4.8% during the month. Additionally, annual increments were higher in terms of health (2.6%); transport (8.3%); and restaurant and miscellaneous goods and services (2.5%).[6] The Bangko Sentral ng Pilipinas (BSP) posted a slight increase in the average headline inflation for 2020 at 2.6%, but remained well within the government's target range of 2-4% for the year.[7] Subsequently, the PSA recorded a 4.9% headline inflation rate for August 2021, from 4.0% of the previous month, which is the highest inflation recorded since January 2019. The uptrend was mainly brought about by the higher annual increment in the index of the heavily-weighted food and non-alcoholic beverages at 6.5% during the month, from 4.9% in July 2021.[8]

In the 2021 World Competitiveness Ranking compiled by the Institute for Management Development (IMD), the Philippines ranked 52nd out of 64 countries, slipping down seven spots from the previous ranking. Specifically, the report noted the country's rankings dropping in three of the factors with Economic Performance falling 13 places to 57th; Government Efficiency slipping three spots to 45th; and Business Efficiency dropping from 33rd to 37th. Meanwhile, the Infrastructure category retained its ranking at 59th.[9]

In terms of the country's Foreign Direct Investments (FDI), the BSP officially recorded USD 6.5 billion net inflows for 2020, which is a 24.6% contraction from the USD 8.7 billion net inflows in 2019. The contraction was primarily driven by the fluctuation of supply chains and business outlooks that had affected investor decisions. Majority of the equity capital placement came from Japan, the Netherlands, United States of America (USA) and Singapore wherein these capital were channeled to manufacturing, real estate and the financial and insurance industries.[10]

On the other hand, total FDI net inflows from January to June 2021 registered at USD 4.3 billion. Specifically, the top source country is Singapore with USD 519.88 million, followed by Japan with USD 259.85 million and USA with USD 69.87 million. Investments were channeled mainly to manufacturing, financial and insurance, and electricity, gas, steam, and air-conditioning industries.[11]

5 Philippine Statistics Authority. (07 September 2021). Unemployment Rate in July 2021 is Estimated at 6.9 percent. Retrieved from https://psa.gov.ph/content/unemployment-rate-july-2021-estimated-69-percent
6 Philippine Statistics Authority. (05 January 2021). Summary Inflation Report Consumer Price Index (2012=100): December 2020. Retrieved from https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-december-2020
7 Bangko Sentral ng Pilipinas. (2020). BSP Inflation Rate Report. Retrieved from https://www.bsp.gov.ph/SitePages/MediaAndResearch/Inflation%20Report.aspx
8 Philippine Statistics Authority. (07 September 2021). Summary Inflation Report Consumer Price Index (2012=100): August 2021. Retrieved from https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2021
9 IMD World Competitiveness Center. (2021). World Competitiveness Ranking. Retrieved from https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/
10 Bangko Sentral ng Pilipinas. (10 March 2021). FDI Registers US$509 Million Net Inflows in December 2020; Full-Year Level Reaches US$6.5 Billion. Retrieved from https://iro.ph/articledetails.php?articleid=3547&catid=4
11 Bangko Sentral ng Pilipinas. (10 September 2021). FDI Net Inflows Up by 60.4 Percent YoY in June 2021; H1 2021 Level Reaches US$4.3

At the European level, FDI net inflows registered at USD 38.42 million with Germany accounting for USD 29.02 million, followed by the United Kingdom (USD 4.52 million), Sweden (USD 3.88 million), France (USD 1.99 million), and Luxembourg (USD 1.66 million).[12]

The total external trade of the country in terms of goods was recorded at USD 155.03 billion in the year 2020, which is lower by 15.1% compared to the USD 182.52 billion recorded during 2019. Among the major trading partners are the People's Republic of China, Japan, and the USA.[13] The European Union (EU) followed as the fourth largest trading partner, accounting for 8.4% of the country's total trade in 2020. Meanwhile, as for the Philippines' bilateral trade with the EU member countries, Germany ranked as the top trading partner.[14] Likewise, in 2019, Germany ranked as the highest trading partner with a total trade of USD 5.55 billion or 31.5 percent of EU's total trade, followed by the Netherlands, France, the United Kingdom, and Italy.[15]

Over the past years, the Philippines was able to maintain its credit ranking at 'BBB' with a stable outlook from various agencies. However, the recent negative outlook from Fitch reflects the increasing risks to the credit profile from the impact of the pandemic and its aftermath.[16] The table below shows the latest ratings from various agencies:

Table 2. Philippine Credit Ratings

Date	Agency	Rating
July 2020	Moody's	Baa2 Stable
May 2021	Standard & Poor	BBB Positive
July 2021	Fitch	BBB Negative

Source: Moody's, Standard and Poor, Fitch

Without a doubt, the adverse impacts of the global crisis hampered the country's long-term notable gains. However, recent reports also show a promising growth forecast for the country as global recovery sustains its momentum. Particularly, the country posted a strong rebound in the second quarter of 2021 with a GDP growth of 11.8% compared to the -16.9% rate of the same period last year. Categorically, the main contributors are manufacturing (22.3%); construction (25.7%); and wholesale and retail trade; repair of motor vehicles and motorcycles (5.4%). Among the major economic sectors, Industry and Services posted positive growths of 20.8% and 9.6%, respectively.[17]GDP growth is also expected to increase at 4.5% in 2021 and 5.5% in 2022; while inflation rates are forecasted at 4.1% in 2021 and 3.5% in 2022.[18] However, the country continues to be vulnerable given the emergence of new variants of the virus and hiccups on the vaccine rollout. With this, substantial reforms on key economic policies, ease of doing business, investment on digital infrastructure, and strengthening the public health system have a pivotal role for the country to address the adverse impacts caused by the pandemic as well as boost economic recovery and competitiveness.

Billion. Retrieved from https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5926

12 Bangko Sentral ng Pilipinas. (n.d.) Net Foreign Investment Flows. Retrieved from https://www.bsp.gov.ph/statistics/external/Table%20 10.pdf

13 Philippine Statistics Authority. (August 2021). 2020 Foreign Trade Statistics of the Philippines. Retrieved from https://psa.gov.ph/sites/default/files/2020%20FTS%20Publication_signed-compressed.pdf

14 European Commission. (2021). Countries and Regions: The Philippines. Retrieved from https://ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/

15 Philippine Statistics Authority. (28 April 2020). Highlights of the 2019 Annual Report on International Merchandise Trade Statistics of the Philippines. Retrieved from https://psa.gov.ph/content/highlights-2019-annual-report-international-merchandise-trade-statistics-philippines

16 FitchRatings. (12 July 2021). Fitch Revises Philippines' Outlook to Negative; Affirms at 'BBB'. Retrieved from https://www.fitchratings.com/research/sovereigns/fitch-revises-philippines-outlook-to-negative-affirms-at-bbb-12-07-2021

17 Philippine Statistics Authority. (10 August 2021). GDP posted double digit growth of 11.8 percent in the second quarter of 2021, the highest since fourth quarter of 1988. Retrieved from https://psa.gov.ph/national-accounts

18 Asian Development Bank. (n.d.). Economic indicators for the Philippines. Retrieved from https://www.adb.org/countries/philippines/economy

AVIATION
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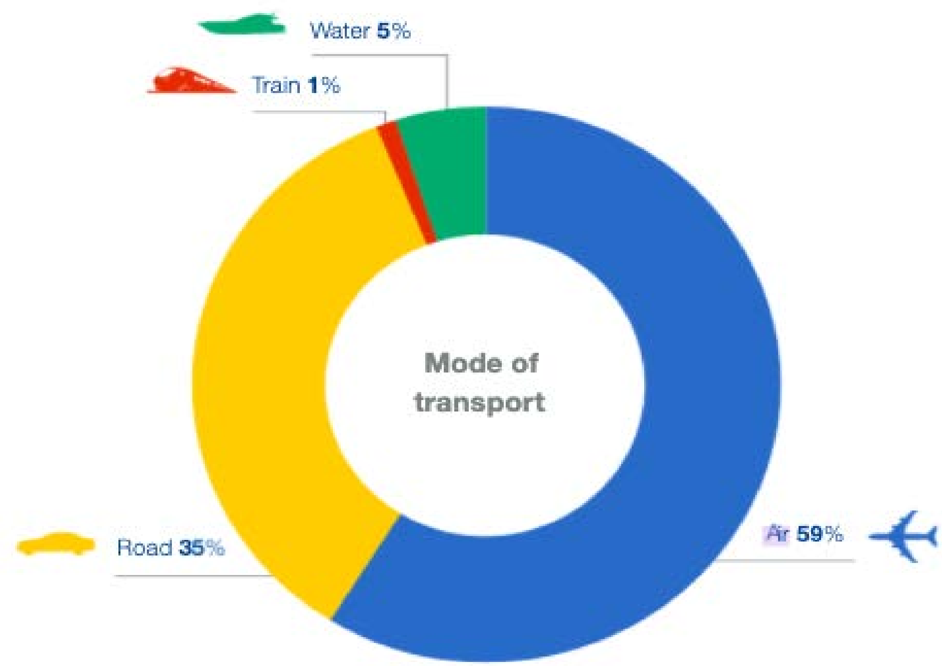
INTRODUCTION

A year into the pandemic, the world continues to struggle to adapt to the new normal. One of the biggest challenges that most of the countries face today is having to revive the economy while ensuring the safety of the population. The aviation and tourism industries are two of the most adversely affected industries by the pandemic as these two rely heavily on the movement of people which is difficult to facilitate in view of the travel restrictions placed to mitigate the coronavirus.

Tourism is one of the biggest industries in the world. The industry provides over 319 million jobs all over the globe and accounts for 10.4% of the global economy, contributing USD8.8 trillion to the world GDP. The sector is particularly important to developing countries who rely heavily on the influx of tourists to sustain their economies.[1] The success of the tourism industry, however, is highly dependent on the performance of the aviation industry, with the latter being dubbed as the 'backbone' of the former. It is a well known fact that the two industries are interdependent with each other. Air transport facilitates the movement of people and provides access to tourist destinations, especially those located in remote areas. According to the United Nations World Tourism Organization (UNWTO), international tourism is dominated by air travel with 59% of tourists prefer travelling via air as indicated in its publication, UNWTO International Tourism Highlights: 2020 Edition.[2]

Mode of Transport, 2019 (% share)[3]

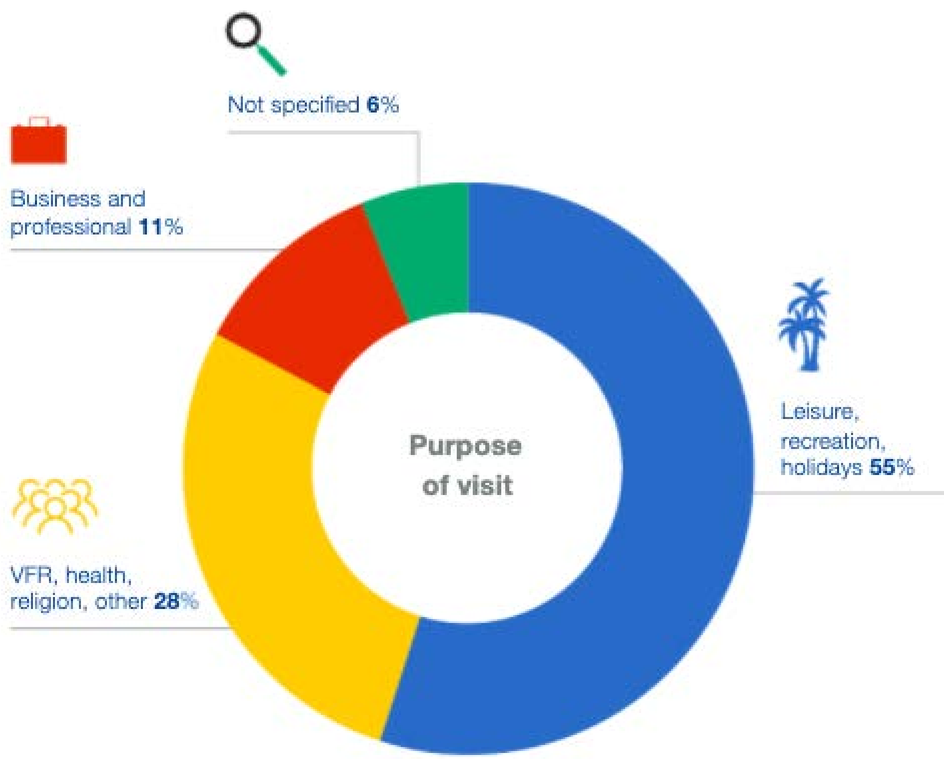


Source: United Nations World Tourism Organization

On the other hand, the tourism industry helps spur international travel. Based on the same publication, leisure travel remains to be the dominant purpose for travel in all regions of the world with the exception of the Middle East. Leisure travel accounts for 55% of international tourism. This is followed by visiting friends and relatives (VFR) or for health/religious purposes at 28%, and business and professional purposes at 11%.[4]

1 Aviation Benefits Beyond Borders. (n.d.). Tourism Enabler. Retrieved from https://aviationbenefits.org/social-development/tourism-enabler/
2 United Nations World Tourism Organization. (2020). International Tourism Highlights: 2020 Edition. Retrieved from https://www.e-unwto.org/doi/epdf/10.18111/9789284422456
3 Data as of November 2020 (Provisional Data)
4 Ibid.

Inbound Tourism by Purpose of Visit, 2019 (% share)[5]



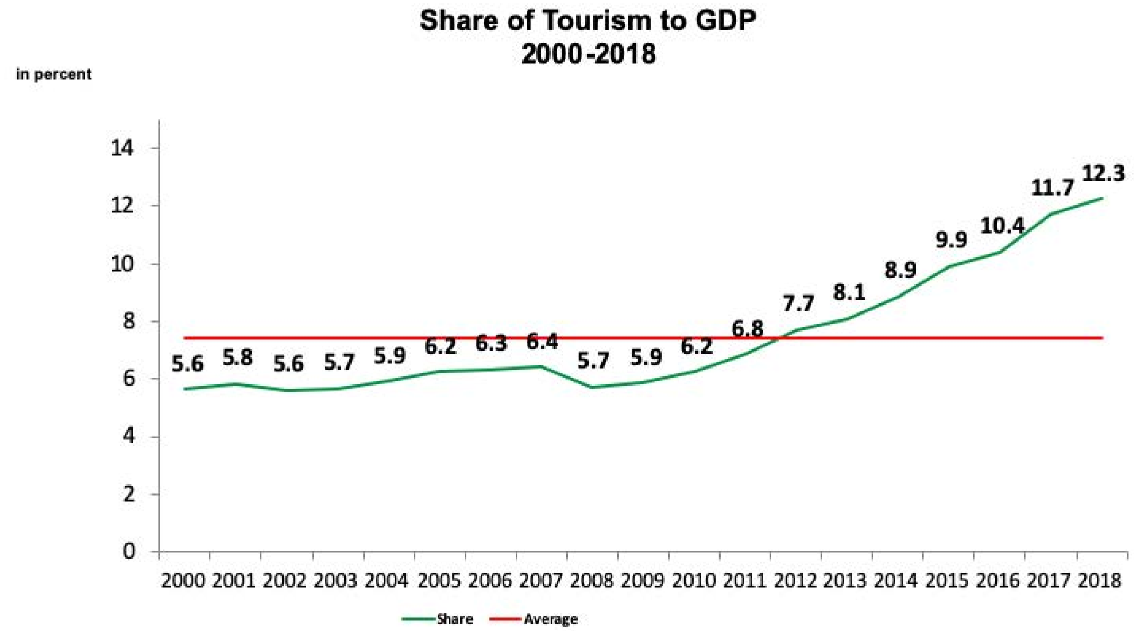
Source: United Nations World Tourism Organization

In the Philippines, the tourism industry plays a significant role in the country's economy. Before the onslaught of the pandemic, the sector had an average share of 7.4% to GDP from 2000 to 2018 and an average share of 11.1% to the country's total employment. A total of 5.4 million persons were reported to be employed in different tourism industries in 2018. Out of the different tourism expenditures, domestic tourism expenditure had the highest growth with an average growth of 17.8%, followed by inbound tourism and outbound tourism at 9.7% and 9.4% respectively.[6] Domestic tourism expenditure refers to a resident visitor's tourism expenditure within the country. Inbound tourism refers to the tourism expenditure of a non-resident visitor within the country. Lastly, outbound tourism refers to a resident visitor's tourism expenditure outside the country.[7]

5 Data as of November 2020 (Provisional Data)

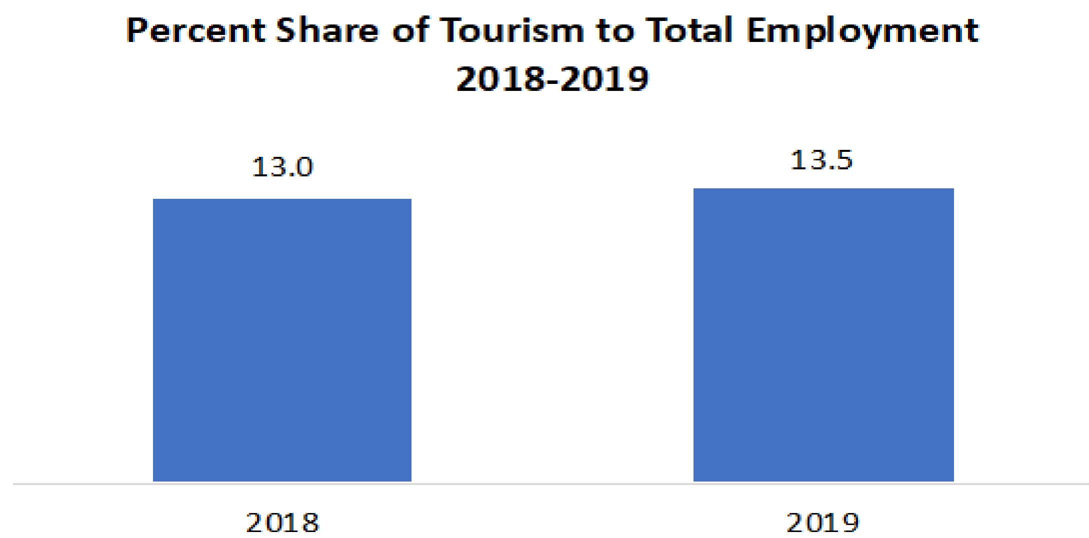
6 Philippine Statistics Authority. (2020). Average Contribution of Tourism to GDP is 7.4 percent from 2000 to 2018. Retrieved from https://psa.gov.ph/tourism/satellite-accounts/id/162601

7 United Nations World Tourism Organization. (n.d.). Glossary of Tourism Terms. Retrieved from https://www.unwto.org/glossary-tourism-terms



Source: Philippine Statistics Authority

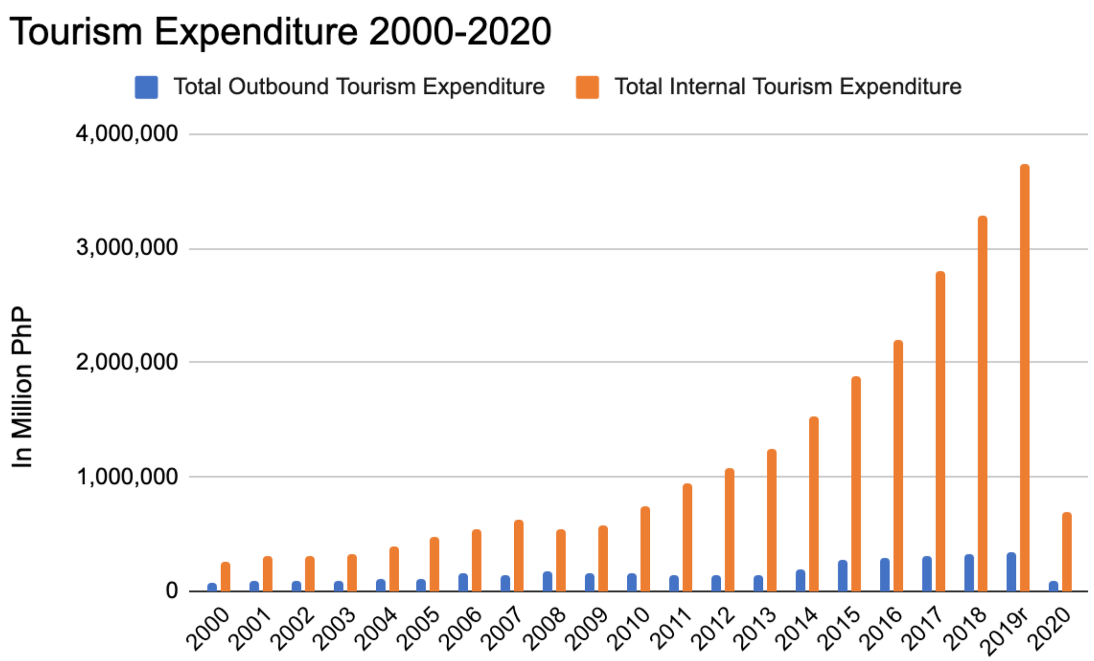
In 2019, the sector's share to GDP further increased to 12.7% with the Tourism Direct Gross Value Added (TDGVA) amounting to PhP2.48 trillion which is 10.8% higher than the PhP2.24 trillion figure reported in the previous year. This is, by far, the highest share of the sector to GDP in 19 years. Both domestic and inbound tourism expenditure reported an increase in 2019. For domestic tourism expenditure, it amounted to PhP3.14 trillion which is 10.4% higher than the reported amount in 2018 which is PhP2.58 trillion. Meanwhile, inbound tourism expenditure amounted to PhP548.76 billion, higher than the figure in 2018 by 23.2%. Similarly, employment in the sector also increased by 6.5% at 5.71 million in comparison to the 5.36 million reported in 2018.[8]



Source: Philippine Statistics Agency

8 Philippine Statistics Authority. (2020). Share of Tourism to GDP is 12.7 percent in 2019. Retrieved from https://psa.gov.ph/tourism/satellite-accounts/id/162606

As illustrated above, the Philippine tourism industry was on the rise. However, as the pandemic took hold and restrictions were implemented by the government, the sector experienced a major drawback in 2020 with the sector's share to GDP decreasing to 5.4% from 12.7% in the previous year, which is the lowest it has ever been in 20 years. The closest figure that the sector has reported was way back in 2000 wherein the industry had a GDP share of 5.6%.[9] Data from the Philippine Statistics Authority shows that the TDGVA also contracted by 61.2%, amounting to PhP973.31 which is significantly lower than the recorded figure of PhP2.51 trillion in the previous year. Similarly, tourism expenditures also declined in 2020 as internal tourism expenditure, which is composed of both inbound and domestic tourism expenditure, declined by 81.6% while outbound tourism expenditure decreased by 73.2%. In terms of employment, an 18.1% decline in the total number of people employed in the tourism sector was reported, from 5.72 million in 2019 down to 4.68 million in 2020. As such, the sector's share to total employment in the country also declined to 11.9% from 13% in the previous year.[10]



Similarly, the aviation sector in the country also experienced a major drawback in its earnings. Prior to the pandemic, the sector which includes airport operators, airlines, airport on-site enterprises (e.g., restaurants and retail), air navigation services, and aircraft manufacturers employed over 45,000 people. Overall, the air transport industry and foreign tourists spending supported about 1.2 million jobs in the Philippines. Furthermore, the air transport industry amounted to about USD2.7 billion of the country's GDP while USD7.7 billion of the GDP comes from the spending of foreign tourists. In total, the air transport sector and foreign tourists spending amounted to USD10.4 billion or 3.4% of the country's GDP. Among the country's direct flights, the Republic of Korea had the most number of flights followed by Singapore, Hong Kong, Japan, and the People's Republic of China.[11]

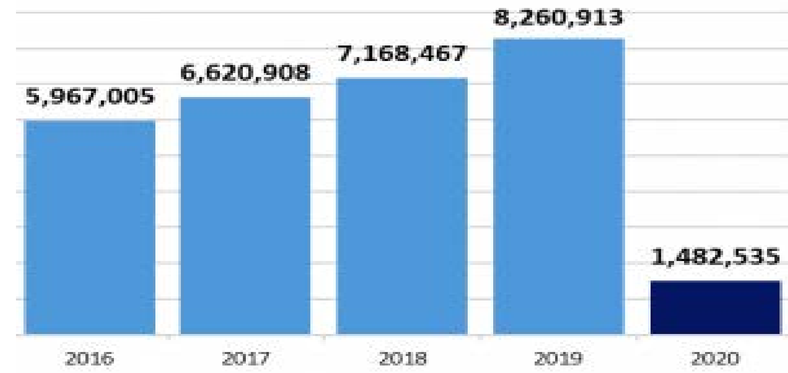
9 Tirona, A. (2021). Tourism contribution to GDP lowest in at least 2 decades. Retrieved from https://www.bworldonline.com/tourism-contribution-to-gdp-lowest-in-at-least-2-decades/

10 Philippine Statistics Authority. (2021). Share of Tourism to GDP is 5.4 percent in 2020. Retrieved from https://psa.gov.ph/tourism/satellite-accounts/id/164617

11 International Air Transport Association. (n.d.). The air transport sector makes a major contribution to the Philippines' economy. Retrieved from https://www.iata.org/en/iata-repository/publications/economic-reports/philippines--value-of-aviation/

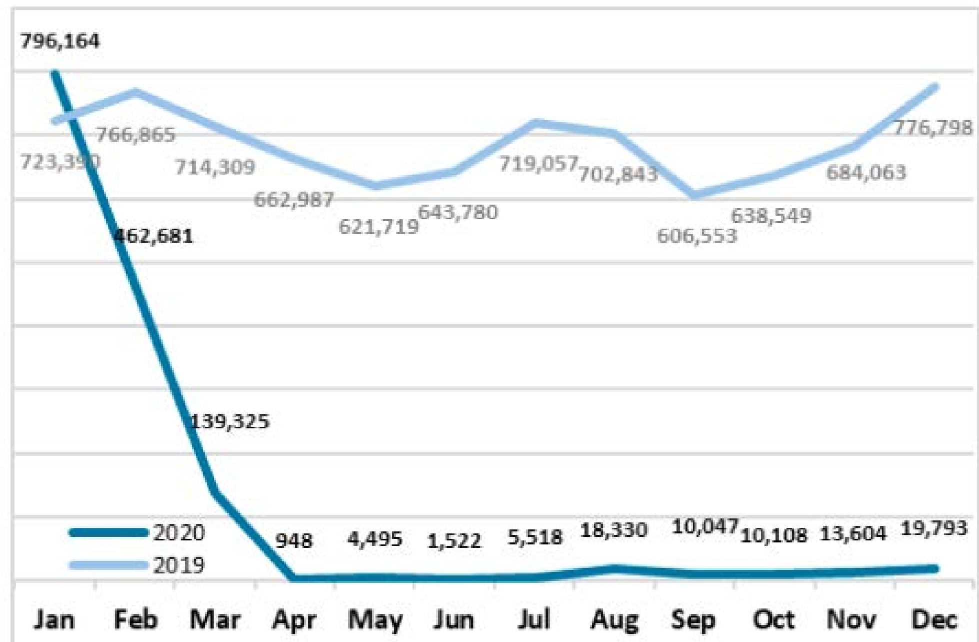
Upon the outbreak of the pandemic, however, the demand for passenger air transport significantly declined. Data from the Bureau of Immigration shows that the total number of inbound passengers contracted by 82.05% at 1,482,535 visitors in 2020 from 8,260,913 arrivals in the previous year. This is the lowest number of arrivals that the country has recorded in 5 years, starting 2016.[12]

Inbound Visitor Arrivals, 2016-2020



By month, April recorded the lowest number of arrivals at 948 visitors following the start of the decline in February at 462,681 posting a decline of 39.67% from the previous month. The drop in arrivals from the month of February is alluded to the implementation of travel restrictions in countries such as Korea, Taiwan, and China. Meanwhile, the sharp decline starting mid-march to April is due to the temporary suspension of visa issuance and visa-free entry into the country, as well as the travel restrictions on leisure travel and on foreign nationals who are not holders of diplomatic visas and permanent resident visas, and are not spouses or children of Filipino nationals.[13]

Inbound Visitor Arrivals per Month



Souce: Department of Tourism

12 Department of Tourism. (2020). Inbound Tourism Update. Retrieved from http://tourism.gov.ph/industry_performance/2020/VisitorArrivalsReport2020.pdf

13 Ibid,

Consequently, revenue from the airline sector declined in the same period. Philippine Airlines, the country's flag carrier, reported a PhP73 billion loss, by far the biggest loss that the airlines incurred. Consolidated revenue of the airlines declined by 64% at PhP55.3 billion in 2020. Due to this, the airlines had to lay off a third of its employees (2,700 jobs).[14] Similarly, other airlines operating in the country also reported losses for the year with Cebu Pacific reporting a net loss of PhP22.2 billion[15] and AirAsia Philippines with a 77% decline in its revenues.[16]

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

- Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF-MEID) Resolution No. 123-C dated 28 June 2021 introduces the implementation of "green lanes" which facilitates the easier entry of fully vaccinated travelers, who are inoculated in the Philippines and in "green countries", through shortening the required facility-based quarantine period from 10 days to 7 days. "Green countries/jurisdictions" are those who are classified by the Department of Health as low risk based on their incidence rate and case trajectory.[17] As of 15 July, a total of 57 countries from all over the world are classified as "green countries/jurisdictions" based on the revised list indicated in IATF-MEID Resolution No. 127-B.[18]
- On local travel, the IATF-MEID released Resolution No. 124-B which allows for the use of vaccination cards as alternative to RT-PCR testing for interzonal travel and shortened quarantine period for fully vaccinated people that are close contacts of probable and confirmed COVID-19 cases.[19] Following this, the Task Force issued Resolution No. 125 which clarifies that the use of vaccination cards in lieu of RT-PCR testing shall be subjected to the discretion of the destination's local government unit (LGU).[20] This is in response to the LGUs concern on the possibility of fake vaccination cards.
- On aviation infrastructure development, the Department of Tourism in February 2021 stated that 75 more airport projects will be undertaken by the government. This includes upgrades on the passenger terminal building of Bacolod Airport, Kalibo Airport's runway strip grade correction, and establishment of Clark International Airport's administrative building, among others.[21]
- On legislation:
    - Senate Bill No. 1490 and House Bill No. (HBN) 7976 aims to establish the Philippine Airports Authority, which shall be an independent agency focused on the development of Philippine airports and provide a unified approach in the operations and maintenance of domestic and international airports.[22] Under the proposed bills, all operating powers and duties of the Civil Aviation Authority of the Philippines shall be transferred to the Philippine Airports Authority. As of writing, SBN-1490 filed by Senator Grace Poe is still pending in the committee level since 5 May 2020.[23] Meanwhile, HBN-7976 filed by Representative Eric Olivarez has been approved at the committee level.

14 Morales, N. (2021). Philippine Airlines parent posts record loss, readies restructuring plan. Retrieved from https://www.reuters.com/business/aerospace-defense/philippine-airlines-parent-posts-record-loss-readies-restructuring-plan-2021-06-17/

15 Asian Aviation. (2021). Cebu Pacific posts US$457 million net loss for 2020. Retrieved from https://asianaviation.com/cebu-pacific-posts-us457-million-net-loss-for-2020/#:~:text=Cebu%20Pacific%20(CEB)%20said%20on,the%20unprecedented%20COVID%2D19%20crisis.

16 Camus, M. (2021). AirAsia PH revenues down 77% in 2020. Retrieved from https://business.inquirer.net/320520/airasia-ph-revenues-down-77-in-2020

17 Inter-Agency Task Force for the Management of Emerging Infectious Diseases. (2021). Resolution No. 123-C Series of 2021. Retrieved from https://www.officialgazette.gov.ph/downloads/2021/06jun/20210628-IATF-RESOLUTION-123-C-RRD.pdf

18 Inter-Agency Task Force for the Management of Emerging Infectious Diseases. (2021). Resolution No. 127-B Series of 2021. Retrieved from https://www.officialgazette.gov.ph/downloads/2021/07jul/20210715-IATF-Resolution-127-B-RRD.pdf

19 Inter-Agency Task Force for the Management of Emerging Infectious Diseases. (2021). Resolution No. 124-B Series of 2021. Retrieved from https://www.officialgazette.gov.ph/downloads/2021/07jul/20210702-IATF-RESO-124B-RRD.pdf

20 Inter-Agency Task Force for the Management of Emerging Infectious Diseases. (2021). Resolution No. 125 Series of 2021. Retrieved from https://www.officialgazette.gov.ph/downloads/2021/07jul/20210708-IATF-Resolution-125-RRD.pdf

21 Balinbin, A. (2021). Government to start work on 75 airport projects. Retrieved from https://ppp.gov.ph/in_the_news/government-to-start-work-on-75-airport-projects/

22 Arangkada Philippines. (2021). Policy Tracker. Retrieved from http://www.investphilippines.info/arangkada/wp-content/uploads/2021/06/Policy-Tracker-as-of-June-14-2021.pdf

23 Senate of the Philippines. (2020). Senate Bill No. 1490 - Philippine Airports Authority Act. Retrieved from http://legacy.senate.gov.ph/lis/bill_res.aspx?congress=18&q=SBN-1490

- On 15 Feb 2020, Rep. Edgar Sarmiento filed HBN-8700 which seeks to amend Republic Act 9498, otherwise known as Civil Aviation Authority Act of 2008 to resolve the supervision and management issues faced by the local civil aviation industry and thereby strengthen CAAP to face global challenges.[24] The bill has already been approved at the committee level. No counterpart bill has been submitted to the Senate as of writing.[25]

ADVOCACY RECOMMENDATIONS

1. IMPROVEMENT OF INTERNATIONAL AND DOMESTIC CONNECTIVITY

a. Upgrade Airport Infrastructure

As a country's gateway to the world, airports, and the air transport sector at large, have played a significant role in the economic development of cities and regions as they provide access to local markets hence, opening the economy to foreign direct investments and other spillover impacts on the economy's productive capacity. Aside from the direct benefits from airports in terms of job generation, it also helps spur growth in other sectors such as the tourism sector. Airports also play an important role in the country's domestic and international trade as it facilitates the movement of goods across the country and around the globe.

Over the years, many countries such as Singapore and Hong Kong have striven and invested to make their country the leading international gateway in their region, recognizing the economic advantages this would bring. The Philippines has made some great strides with the Mactan-Cebu International Airport recently receiving global accreditation for safe travel, as well as with the Ninoy Aquino International Airport (NAIA) ranking 10th in the world's most improved airports in the 2018 Skytrax World Airport Awards. The country, nevertheless, has yet to further improve its competitiveness vis-a-vis its ASEAN neighbors as NAIA has been often ranked relatively dismal.

Some of the identified key issues of NAIA are the lack of connecting facilities between the four separate terminals and the limited volume of passengers that it can accommodate. In fact, in 2019, the volume of passengers in NAIA reached more than 20% overcapacity resulting in delayed flights and uncomfortable experiences for passengers, ultimately damaging the country's international reputation as a tourist and investment destination. Also, prior to the onslaught of the COVID-19 pandemic, the airport was catering to 46 million people when it was originally only designed to cater to 25 to 35 million people per year, as reported by the Asia Sentinel and the Oxford Business Group. Based on the Air Transport Regulatory Competitiveness by the International Air Transport Association (IATA) in 2018, the Philippines scored 4.4 out of 10 in the passenger facilitation which is below the overall average of the Asia-Pacific region at 4.7.

In order for the Philippines to capitalize on its air transport sector, improvements in the airport infrastructure and its system must be implemented even more so now with the COVID-19 impact on the aviation and tourism industries. The modernization of the NAIA airport will help revamp and restart both sectors most especially in the post-pandemic era. The lesser volume of travellers provides the perfect opportunity for the government to modernize NAIA now to provide the Filipinos and foreign tourists with a world-class aviation gateway. To this end, we welcome

24 House of Representatives. (2021). House Bill No. 8700. Retrieved from https://www.congress.gov.ph/legisdocs/basic_18/HB08700.pdf

25 Arangkada Philippines. (2021). Policy Tracker. Retrieved from http://www.investphilippines.info/arangkada/wp-content/uploads/2021/06/Policy-Tracker-as-of-June-14-2021.pdf

the initial plan of the government to modernize NAIA and continue to advocate for strengthened public-private partnerships in the rollout of key infrastructures such as airports. PPPs are a great mechanism especially for big-ticket projects such as this one as it offers access to the private sector's pool of funds, expertise, and innovation. It is now more than ever that the government should maximize the use of the PPP program to help free up public resources that can be used for other urgent COVID-19 response measures.

b. Streamline travel requirements and adhere to international COVID-19 safety protocol for international travel

More than a year into the pandemic, more and more countries are now looking into the possibility of re-opening their borders as the world's vaccination rate continues to increase. It is therefore important for the country to continue monitoring developments on this front to prepare the aviation and tourism industries for the re-opening. To encourage travelers to visit the Philippines, we recommend the streamlining of travel requirements provided that the requirements will still be sufficient to verify the health status of the individual. As such, the ECCP welcomes the government's recent move towards the relaxation of travel restrictions including the implementation of "green lanes/list" which calls for a shorter quarantine period for fully vaccinated travelers coming from "green countries". The Chamber looks forward to the expansion of the list of "green countries" in the near future as more and more countries pose desirable results of their vaccination campaigns, specifically for countries in America and Europe. As competition for tourists is expected to be cutthroat once the borders reopen, a much simpler list of travel requirements will increase the country's competitiveness as a tourist destination.

2. PROMOTE DOMESTIC TOURISM

a. Enact uniform policies/protocols for areas classified as "low-risk"

With the market for international tourism remaining to be very minimal to none, domestic tourism is the country's best bet to somehow spur the recovery of the local tourism industry. Assuming that all Filipinos who chose to travel abroad in previous years will now opt to travel within the Philippines, then the domestic tourism industry has every potential to replace international tourism. The challenge, however, lies in the varying travel requirements in place per locality despite having the same community quarantine status (i.e. GCQ, MGCQ). These unpredictable variables make it difficult for travelers to plan a trip, leading them to defer any plans of visit until more stable guidelines are in place.

The ECCP strongly recommends for the government to adopt more stable and uniform travel policies and requirements, especially for areas classified by the IATF as "low-risk, to establish a sense of predictability in the sector to encourage more people to travel within the country. Furthermore, while the chamber supports the government's decision to allow the use of vaccination card as an alternative to RT-PCR testing, we believe that leaving it up to the local government units' discretion on whether vaccination cards in lieu of RT-PCR testing will be accepted or not will only create unnecessary confusion and will not change the status-quo.

b. Fast-track the vaccination of tourism frontliners

We commend the inclusion of tourism frontliners in the A1 and A4 vaccination priority groups and the government's expressed commitment to protect our workers in the tourism industry. Aside from ensuring the safety of our frontliners, their inoculation will also reassure tourists of their safety should they choose to travel within the Philippines. It is therefore essential for the country to fast-track the vaccination of our tourism frontliners to further facilitate the recovery of the tourism sector.

3. Work with aviation stakeholders to develop a roadmap for safe re-opening of borders that takes into account testing and vaccination protocols and aims to remove quarantine requirements for travelers. A first step could be the establishment of travel bubbles for international travel.

While waiting for international travel to officially resume, the Philippines may explore the possibility of establishing a travel bubble with a particular country. In relation to this, the DOT has earlier remarked that the country is open to explore possibilities for the establishment of an international travel bubble between the Philippines and neighboring countries as an initial step.[26] A travel bubble provides for the entry of travelers from a particular country to another. In Asia and the Pacific, the first travel bubble was implemented on 1 May 2020 for the Republic of Korea and the Republic of China.

Locally, the travel bubble concept is also being implemented to facilitate domestic travel. Some examples of this would be the travel bubble between Metro Manila and Palawan which was established in July 2020[27], between Baguio and La Union through the signing of the "Summit and Sea" memorandum of understanding, and between Baguio and Ilocos Region established in October 2020[28].

Some considerations to take into account when establishing a travel bubble would be (1) number of COVID-19 cases and incidence; (2) vaccination rate of the partner country; and (3) public perception on the entry of foreign travelers into the country.

4. Enact laws to strengthen the Civil Aviation Authority of the Philippines (CAAP), including through the ratification of the Montreal Protocol 2014 to tackle the growing issue of unruly passengers in light of the COVID-19 pandemic, and create a National Transportation Safety Board.

Data from the International Air Transportation Association (IATA) in 2018 show that out of the reported 45 million flights, 40,000-50,000 incidents of unruly passenger behavior were estimated to have occurred. Today, against the backdrop of the pandemic, the issue of unruly passenger behavior continues to grow as airlines implement new and more restrictive measures to contain the spread of the coronavirus.

To this end, the ECCP strongly believes that the enactment of laws and regulations that would strengthen good governance and ensure orderliness is of high importance. One of these measures is the ratification of the Montreal Protocol 2014 which aims to strengthen the states' ability to control the degree and frequency of disorderly behavior on board airplanes by implementing protocol on how unruly passengers should be dealt with.

Further to this, the Chamber supports the recent move in the Congress to establish an independent agency focused on the development of Philippine airports through the Philippine Airports Authority (PAA) with the aim of providing a unified approach in the operations and maintenance of domestic and international airports. Relatedly, we also support the move in the House of Representatives to streamline CAAP's existing functions as operator and investigator, allowing the agency to focus on its role as safety regulator. We believe that such a move will further strengthen CAAP and result in a more efficient airport industry

26 Dela Cruz, R. (2021). PH open to tie-up with other countries to boost int'l travel: DOT. Retrieved from https://www.pna.gov.ph/articles/1127134

27 Rocamora, J. (2020). Travel bubble in Palawan 'successful': DOT exec. Retrieved from https://www.pna.gov.ph/articles/1120022

28 Cabreza, V. (2021). Baguio, La Union capital form travel bubble. Retrieved from https://newsinfo.inquirer.net/1429428/baguio-la-union-capital-form-travel-bubble

EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

19th Floor, Philippine AXA Life Center Bldg.,
Sen. Gil Puyat Ave. cor. Tindalo Street,
Makati City, Metro Manila, Philippines, 1200

8845-1324 to 26

info@eccp.com

www.eccp.com