

# Laws and Regulations in the Logistics Sector in the Philippines

## Highlights

Laws and regulations are key instruments to achieve public-policy objectives, such as consumer protection and public health. When they restrict market forces more than necessary or impose unnecessary costs, a comprehensive competition review can help identify restraints and develop alternative, less restrictive policies that still achieve government objectives. More intense competition is linked to increased productivity, growth and other benefits, including lower consumer prices, greater consumer choice, better quality of products and services, and faster adoption of innovation.

The OECD was tasked by the ASEAN Secretariat and the 10 ASEAN Member States to carry out an independent competition assessment to identify rules and regulations that may hinder the efficient functioning of markets in the logistics sector. The project was supported by the UK Prosperity Fund (UK Government). The assessment covered the following activities:

- Freight transport (by road, railway and water)
- Freight forwarding
- Warehousing
- Small package delivery services
- Value-added services

This booklet presents the key findings and highlights from this analysis. The full results of the analysis are available at [oe.cd/ca-asean](http://oe.cd/ca-asean).

The assessment took place in stages. In **Stage 1**, the OECD undertook a fact-finding mission in the Philippines and prioritised 96 pieces of sector-relevant legislation. **Stage 2** screened this legislation using the OECD's Competition Assessment Toolkit and identified potential barriers. **Stage 3** involved an in-depth analysis of the potential barriers, including assessing the possible competitive harm resulting from these barriers and taking the objectives of policy makers into account. **Stage 4** developed 76 recommendations for provisions found to restrict competition unnecessarily, taking into account the Philippines' context, international experience and relevant economic literature, and consulted the relevant authorities on these recommendations. **Stage 5** finalised the recommendations. The final report including all findings and recommendations was released as an OECD publication.

	Legal texts	Potential restrictions identified	Recommendations
Freight transport by land	21	16	15
Freight transport by water	56	47	38
Freight forwarding	6	11	7
Warehousing	2	4	0
Small parcel delivery	3	5	4
Horizontal/ others	7	11	11
International agreements	1	1	1
<b>Total</b>	<b>96</b>	<b>95</b>	<b>76</b>

## Key Findings and Main Recommendations

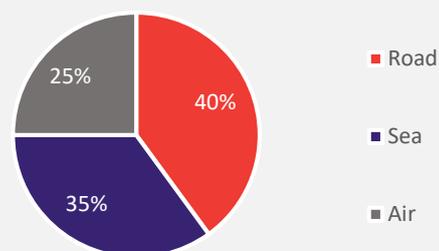
The market size of the logistics transport services sector in the Philippines is approximately USD 11 billion; it has a **4% share to total Gross Domestic product** in the Philippines. On a global level, the Philippines ranks 60 in the World Bank's Logistics Performance Index (LPI). It ranks 6 out of the 10 ASEAN Member States. The Philippines' strength is in international shipments, supported by the government policy of creating a strong shipping industry. While the Philippine Development Plan 2011-2016 recognised that inadequate infrastructure and the resulting poor logistics network are critical constraints to investment and growth, various recent infrastructure projects under the government's Build! Build! Build! (BBB) investment programme are likely to further improve the quality of infrastructure and the overall logistics performance of the Philippines.

Similar to other ASEAN Member States, the Philippines is suffering from the socio-economic impact of the COVID-19 outbreak. The pandemic has resulted in the disruption of supply chains and limited the flows of trade and investment. Logistics companies have been impacted by operational constraints (delivery delays, congestion and higher freight rates) and a lower demand in certain sectors.

### Freight Transport

As an archipelago, the Philippines relies on maritime transport to move goods in both domestic and foreign markets; road transport is mainly used to move goods to and from ports and within each island. In terms of revenue, road transport has the highest revenue share (40%) in the domestic logistics market. Maritime transport is second for revenue with 35%. Foreign investment in transport operations and services is limited and domestic transport service providers dominate the industry.

Freight segments by revenue, 2017

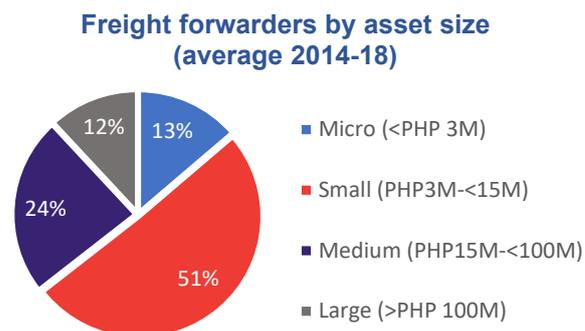


#### Key recommendations

1. **Amend the legislation to clarify that freight transportation should not be interpreted as a public utility.** This will make the regulatory framework less burdensome and remove the 40% foreign equity limitation in these sectors.
2. **Make all licences and permits required for trucks for hire available through a single application to a single agency.** Separate processes to obtain port-related activity permits should be removed.
3. **Separate the operational, regulatory, and commercial functions of port authorities,** ensuring that an independent body has the power to adopt regulations regarding ports and port operations.
4. Operators should be allowed to **carry out repairs, alterations and fulfil any dry-docking requirements in overseas shipyards** that impose equivalent standards to those required in the Philippines.
5. **Maritime authorities should work together to remove any overlapping requirements,** for example, safety-certificate requirements.

## Freight Forwarding and Warehouses

Freight forwarders are regulated by different agencies according to the mode of transport used: the Department of Trade and Industry (DTI) (for sea-based transport) and the Department of Transport (DOTr, for air). This sector is characterised by a large number of SMEs and three-quarters of freight forwarders have assets lower than PHP 15 million (USD 300 000).



There is no general legal framework for the regulation of warehousing in the Philippines. Most warehouses (57%) are general-purpose warehouses, with a significant number (17%) of cold storage warehouses and 5% bonded warehouses.

### Key recommendations

1. **Concentrate the responsibilities for the regulation of all freight forwarders in a single ministry**, regardless of their mode of transport.
2. **Repeal indicative rates** for freight-forwarding services that can give an incentive to service providers to co-ordinate and keep rates high.
3. **Allow the accreditation of freight forwarders on a national level.** Remove the authorisation procedure for individual branches of freight forwarders or allow the accreditation of all physical offices in one application.

## Small Package Delivery Services

The rapid growth of e-commerce has led to significant growth in demand for postal and courier services. In 2019, the size of Southeast Asian e-commerce market was estimated at approximately USD 38 billion and **e-commerce revenues in the Philippines was estimated at USD 970 million.** Therefore, the Philippines has placed a significant importance on e-commerce as one of the key areas that would benefit from the development of trade and investment, as noted in the Philippine E-Commerce Roadmap 2016-2020.

**USD 970 Million**

E-commerce revenues

### Key recommendations

1. **Allow foreign participation** in the market for express-delivery services.
2. **Remove the minimum prices** for postal services including for small packages. Alternatively, the regulator should increase transparency around the mechanism to calculate minimum rates.
3. **Grant new licences** to every applicant for courier services that fulfils stated conditions. Currently no licences are being awarded.

## Horizontal and Regional Issues

Over the last few years, the Philippines has implemented significant reforms to become an attractive country for domestic and foreign investments, including a single window, which acts as a one-stop-shop for establishing a business. In addition, there are ongoing initiatives to streamline licences and registrations that could improve the Philippines' place in international rankings on ease of doing business and competition in services.

### Key recommendations

1. Create a **legal database** including all laws and regulations. As a first step, authorities should publish on their website all relevant legislation within their purview. Every piece of legislation should include subsequent amendments so that all legislation has a consolidated, updated version.
2. Consider **lifting minimum capital requirements** for logistics providers. Alternatively, ensure that minimum capital requirements are the same for all businesses, irrespective of whether they are Philippine or foreign entities.
3. Continue the **process of digitalisation** of all application procedures for logistics-related authorisations.

Sources: Statista 2019, Ken Research 2018, Philippines Statistics Authority 2016, Google, et. al. e-Conomy SEA 2019.

## Fostering Competition in ASEAN

Funded by the UK Prosperity Fund (UK Government), **Fostering competition in ASEAN** is a project that aims at assessing regulatory constraints on competition in the logistics sector in all 10 ASEAN member states identifying regulations that hinder the efficient functioning of markets and creating a non-level playing field for business.

The project runs two parallel components: **competition assessment reviews** of specific logistics sub-sectors and **competitive neutrality reviews** of small-package delivery services.

This report and the accompanying “OECD Competitive Neutrality Reviews: Small-Package Delivery Services in the Philippines” are contributions to the implementation of the ASEAN Competition Action Plan.



Access all reviews and more information on this project at [oe.cd/comp-asean](https://oe.cd/comp-asean)