

Policy Forum on the “Global Financial Crisis and Economic Slowdown: Impact on the Philippines and Policy Options”

Transport and Logistics Sector

A presentation by a transport and logistics services provider

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IMPACT ON THE LOCAL TRANSPORT AND LOGISTICS SECTOR:

- **Domestic seafreight cargo volume shrunk 4% in 2008.**
 - Drop in North Harbor, ports of Batangas, Cagayan de Oro, Davao and Ormoc.
 - Positive growth posted in MICT, ports of Calapan, Legaspi, Iloilo, Pulupandan, Tacloban, Davao and General Santos.
 - Customs collections outside Manila failed to meet targets.
 - Local carriers had to downgrade revenue and volume targets.
 - Plans for further vessel acquisition and capacity-expansion placed on hold.
 - Strong global demand for fresh bananas and pineapples spared Davao port .

- **Foreign sea-freight cargo volume dipped 12% in 2008.**
 - Country's total Imports dropped 5% while total Exports declined 22%.
 - Containerized Import and Export cargoes rose 4% and 8%, respectively.
 - Container volume increases noted at MICT, Batangas, Puerto Princesa, Iloilo, Tacloban, Tagbilaran, Nasipit, Davao, General Santos, and Zamboanga.
 - 6.2% fewer foreign shipcalls experienced at Philippine ports.
 - Foreign container lines looked to Mindanao for growth.

- Air passenger and cargo traffic to and from the Philippines declined sharply in 2008.
 - Airlines carried 2% fewer international passengers.
 - Steep plunge experienced during the second half of the year, 7% dive in the fourth quarter alone.
 - Average passenger load factor fell to 75%.
 - International air cargo traffic also dropped 6%.
 - Demand for space collapsed in the second half of the year. December 2008 cargo volume down 24% from previous year level.
 - Despite cut in capacity, average cargo load factor for the full year fell to 66%.
 - Rates cut by as much as 50% to encourage air shipments.
 - Airlines scrambled to fill huge space void with other goods.
- Shift in shipping mode seen for some cargoes from airfreight to seafreight.

OTHER IMPACTS:

- International freight forwarders offered deep rate cuts and liberal credit facilities to remain competitive.
- Trucking operators experienced excess capacities overnight. Parked more trucks to save cost. Faced credit squeeze and pressure to cut rates.
- Customs Bonded (CB) warehouse operators hit hard. Struggled to cope with crisis. Turned to China and other non-traditional markets for relief.
- Third-party logistics customers preferred lower costs over quality of service.
- Cold chain operators registered bigger volumes and stronger business.
- Domestic tanker operators faced credit squeeze, vessel layups.
- Supply chain managers for deferment of terminal handling rate hike.

NEAR- AND MEDIUM -TERM OUTLOOK FOR THE SECTOR:

- Most industry players taking wait-and-see stance in 2009. Considering state of the US economy as most critical issue. Meantime, expecting flat growth this year.
- Sea-freight exports continue drop, plunging 41% on January 2009 versus year-ago level.
- Likewise, no let up in air cargo and passenger traffic drop, tumbling 23.2% in same period.
- However, industry players turning cautiously optimistic as volume figures show slight improvements on March 2009.
- Local car industry growth sustains business for ship agents.
- Higher PMI (Purchasing Manager's Index) of 39.9 on February 2009, signals consumers are buying once more.
- Strong demand for HALAL foods offers opportunity for local cold chain operators.

MEASURES THAT BOTH THE GOVERNMENT AND INDUSTRY CAN UNDERTAKE:

- Co-operate with Philippine exporters in identifying buyers in newly emerging markets like Canada, India, South America, South Africa, Australia, New Zealand and the Middle East.
- Find ways to reduce domestic transshipment costs between Manila and principal cargo hubs in southern Philippines.
- Help PEZA locators to be more competitive with their counterparts in other Asian countries and China to encourage their head offices abroad to shift manufacturing and assembly operations to the Philippines.
- Consider selective reductions or deferment of proposed increases on present cargo handling, customs-releasing, and terminal charges as well as port and vessel fees.
- Encourage local exporters and importers to work with established transport and logistics companies to enable a more comprehensive control of their transport and logistics costs from origin to destination.
- Raise level of cargo-handling efficiency at terminals and principal ports outside of Manila.