

TOURISM ADVOCACY PAPER 2018



EU - PHILIPPINES
BUSINESS NETWORK

ABOUT EPBN



OUTREACH



SUPPORT SERVICES



ADVOCACY

The EU-Philippines Business Network (EPBN) established in January 2014, is a project co-funded by the European Union and implemented by a consortium of European business organizations based in the Philippines. Led by the European Chamber of Commerce of the Philippines (ECCP), partner chambers include the Belgian-Filipino Business Club, British Chamber of Commerce Philippines, French Chamber of Commerce of the Philippines, German-Philippine Chamber of Commerce and Industry, Italian Chamber of Commerce of the Philippines, Nordic Chamber of the Philippines, and Spanish Chamber of Commerce of the Philippines.

The overarching objective of EPBN is to support European companies, especially small-medium enterprises, to increase exports to and investments in the Philippines by facilitating market access and ensuring a level playing field for all companies.

Adopting a threefold approach of outreach, support services and advocacy, EPBN provides a strong support system at every stage of entry to the Philippine market for European businesses. In delivering these services, EPBN cooperates closely with its partner organizations in other Association of South East Asian Nation (ASEAN) countries to provide information on ASEAN as a market, promoting the Philippines as a gateway to the region.



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Positions expressed in the advocacy papers are the result of the activities of the 14 Sector Committees working under the EU-Philippines Business Network.

METHODOLOGY

The 2018 edition of the EPBN Advocacy Papers features issues and recommendations formed after extensive discussions between members of the EPBN sector committees, dialogues and meetings with representatives from the Philippine Government, the EU Delegation to the Philippines and other EU national chambers and embassies. The EPBN 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 executive and regulating agencies of the government.

Further, the recommendations stated in each paper were created based on the discussions during the quarterly sector committee meetings, most of which were conducted with a representative from a concerned government agency based on the issues to be discussed. In close cooperation with the sector committee leaders and members, the EPBN secretariat thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with EU business interests and priorities. Once the secretariat has finalized the first draft of each sector paper, it was then circulated to the Committee members, Market Access Team Meeting 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 2017 EPBN 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 evolve to an even bigger bottleneck for EU businesses in the former year.

ABOUT THE THEME



EU-PHILIPPINES BUSINESS SUMMIT

EU AND THE PHILIPPINES: Jointly Pursuing Competitiveness for Inclusive Growth

Since its launch in January 2014, the EU-Philippines Business Network (EPBN) has strived to create an attractive investment and trade environment for EU businesses in the Philippines.

This 2018, we look at how the current administration's initiatives and programs in line with its Socioeconomic Agenda and priorities have substantially progressed – Build, Build, Build Program, tax reform, ease of doing business, labor protection furthered through the Executive Order on Contractualization, sustainable development and climate adaptation, and universal healthcare, among many others. In addition, the Philippines' economy is maintaining steady growth, the EU continues to be one of the top trading partner of the Philippines, and the EU-Philippines Partnership Cooperation Agreement has been put into force – a major milestone for the EU-Philippine relations.

With this, the EU-Philippines Business Network (EPBN) is organizing the EU-Philippines Business Summit 2018 with the theme "EU and the Philippines: Jointly Pursuing Competitiveness for Inclusive Growth" on 18 October 2018, at Solaire Resort Hotel, Paranaque. During the Summit, EPBN will hand over the 4th edition of the EPBN Advocacy Papers which contains a wish list of reforms towards a competitive, fair and more inclusive economic environment. We sincerely hope that the EU-Philippine economic ties will be deepened further. Rest assured that European business community will remain as the Philippine government's partner in achieving competitiveness and inclusive growth.

MESSAGE FROM THE AMBASSADOR

H.E. Franz Jessen
Head of Delegation,
Delegation of the European Union of the Philippines



The EU sees trade and investment as part of the answer to challenges faced in the country in terms of inclusive and pro-poor growth. Indeed, the EU and its industries have a positive agenda that is values-based and comes with an open dialogue to ensure nobody is left behind in strengthening its trade relations. It also recognizes the importance of opening new markets that contributes to growth on both ends. This is why the EU has even in times of economic turmoil led global efforts to fight protectionism, and promoted open trade and investment at home and abroad.

The EU economy grew at its fastest rate in 10 years in 2017 at 2.4%. For the first time since 2007, all EU member states saw their economies expand. Robust growth is facilitating further reduction in government deficit now at less than 1% of GDP as well as debt levels and an improvement in labour market conditions with unemployment rate of 7.6% falling to almost the pre-crisis level. More important to our trading partners is the fact that our trade continues to grow strongly resulting to an 8% growth in EU imports and exports of goods to the world.

This shows that the EU economy is competitive, yet open and it will remain so and continue to benefit Philippines' development agenda. Philippines total trade with the EU increased by 16% in 2017 due to the remarkable 32% growth of PH exports to the EU market partly thanks to the increasing utilisation of the GSP+ preferences. Strong growth is particularly seen in sectors benefiting from GSP+ trade preferences, such as agri-food products. On top of this, sizable portion of all newly reported approved investments in the Philippines were sourced from the EU – contributing to the creation of more quality jobs.

The economic expansion in Europe is set to continue at a solid pace in 2018 and next, supporting further job creation. However, the EU also recognizes risks on the horizon. That is why the EU is working hard to make its economy even more resilient through many useful and necessary reforms – necessary to further improve productivity and investment as well as to ensure a more inclusive growth model.

I look forward continuing to work together to the benefit of effective value chains and supply chains so that the Philippines can take advantage of its position in the region and of its competitive skills and people. I warmly welcome this advocacy book as a good basis of our continued collaboration in our pursuit of enhancing and strengthening EU-Philippine trade and commercial relations.

MESSAGE FROM THE STEERING COMMITTEE CHAIRMAN

Mr. Guenter Taus
EPBN Steering Committee Chairman



The EU-Philippines Business Network (EPBN) is pleased to present to you the 4th edition of its Advocacy papers with the theme, “EU and the Philippines: Jointly Pursuing Competitiveness.” Pursuing competitiveness and sustainable growth has been at the front and center of our agenda.

The European business community has always looked towards close cooperation with the Philippine Government to achieve mutually beneficial goals, which strengthen the country’s investment and trade environment in support of increased competitiveness and long term, sustainable and inclusive growth.

Several positive reforms in 2018 were the Ease of Doing Business Act, the Build Build Build Program, the implementation of Universal Healthcare and the issuance of Memorandum Order No. 16, which eases restrictions on certain investment areas.

Despite these improvements, there are still several key barriers stifling EU-Philippine trade and investment. In particular, we look forward to passage of the Amendments to the Public Services Act of 1936 into law. These Amendments result in an open market coupled with stronger regulations which in turn will increase the quality of public services while lowering costs.

Moreover, we advocate for the reassessment of the licensing requirements from the Philippine Contractors Accreditation Board. A level playing field in infrastructure paves the path for the realization of the “Golden Age of Infrastructure” envisioned by President Duterte.

Finally, we strongly urge the government to consider the massive economic growth and job creation that fiscal incentives under the Philippine Export Zone Authority have brought about. An ambitious corporate income tax reduction in addition to other incentives will aid the Philippine in competing with other countries in the region.

These amendments would be a game-changer for the Philippines and they assist in EU investments contributing to Philippine development. It is in this context that the EPBN presents its recommendations towards a competitive, fair and more inclusive economic environment for the benefit of the Philippines and the EU.



MESSAGE

The Department of Tourism (DOT) extends its warmest congratulations to the European Chamber of Commerce of the Philippines (ECCP) and the EU-Philippines Business Network (EPBN) for another fruitful year of research. Our well wishes for the publication of the 4th edition of your Advocacy Papers.

We express our deepest appreciation for your continued partnership with our country in stimulating business development in various industries, especially tourism, as it plays a vital role in uplifting the local economy and in improving human capital and quality of life.



The recommendations in your sector paper are highly regarded and we look forward to working forward to wotking with you on projects in line with the National Tourism Development Plan to further improve the business environment and strengthen competitiveness.

We likewise bank on the EPBN to cultivate more robust linkages and esure continuous support for micro, small, and medium enterprises (MSMEs) and sustainable and inclusive development for all.

The DOT affirms the importance of ECCP and the various partner chambers of commerce in helping raise awareness as well as improving investor confidence to drive more European companies to do business in the Philippines.

Thank you and Mabuhay!


BERNADETTE ROMULO-PUYAT
Tourism Secretary

TOURISM

A man wearing a red long-sleeved shirt, yellow shorts, and a grey cap is rowing a traditional wooden boat on clear, vibrant blue water. The boat is constructed from dark wood and has two long bamboo poles protruding from the sides. The man is seated in the middle of the boat, holding a wooden oar that dips into the water. The background is a vast expanse of bright blue water with gentle ripples and a few small whitecaps. The overall scene conveys a sense of peaceful outdoor recreation and traditional craftsmanship.

INTRODUCTION

Philippine tourism is improving, however the slow pace of development means that competitors in the region outperform the local tourism sector. The Philippine tourism sector as a whole generated USD 36 Billion¹ or 12.2% in Direct Gross Value Added to the 2017 Gross Domestic Product. This is higher by 24.2% than the previous year's record of 29 Billion USD. Moreover, expenditure from foreign tourists increased by 43.9% to 8.4 Billion USD in 2017² compared to 5.8 Billion USD³ in 2016. This makes up 9.2% of the total exports from the Philippines and is the country's third largest export. Domestic tourism expenditure, on the other hand, increased by 22.5% from 39 Billion USD⁴ in 2016 to 49 Billion USD⁵.

Tourism arrivals in the Philippines reached an all-time high of approximately 6.5 million tourists in 2017, an increase of 10% from 5,967,005 from the same period in 2016.⁶ However, this figure pales in comparison to the tourist arrivals of other ASEAN nations with the Philippines ranking 6th out of 9 countries in 2017.⁷ This is comes as a shock when three of the country's islands nabbed the top 3 spots in Conde Nast's list, The Best Islands of the World⁸. The natural beauty of the islands and the warm and hospitable Filipino people are big advantages for competitiveness of tourism in the country, but the framework to support, sustain, and promote tourism needs a lot of work.

The Department of Tourism (DOT) aims increase tourism arrivals to 7.5 million in 2018⁹. However, even this target is much smaller compared to the figures from the rest of South-East Asia. It is six times smaller than Thailand's actual tourism arrivals in 2017¹⁰ and half the actual tourism arrivals in Vietnam, which only started accepting tourists 30 years ago¹¹.

In particular, Philippine investment and employment statistics in tourism reflect concerns on infrastructure connectivity, ecological standards and institutional stability. To date in 2018, Philippine Tourism's GDP contribution has only increased by 5.9% compared to Vietnam's increase of 6.2%, China's increase of 6.6%, and Thailand's 7.4% growth. Travel and Tourism investment in 2017 was 1.9 Billion USD, a miniscule 2.4% of total investment in the country¹². Moreover, direct employment in the tourism sector also fell far below expectation with marginal growth of 0.9% in 2017, disappointing predictions of a 2.6% rise¹³.

1 PHP 1.9 Trillion according to Philippine Statistics Authority. (07 June 2018). Tourism Satellite Accounts. Retrieved 03 July 2018, from <https://psa.gov.ph/tourism-satellite-accounts-press-releases>

2 PHP 448.6 Billion

3 PHP 311.7 Billion

4 PHP 2,1 Trillion

5 PHP 2,6 Trillion

6 Department of Tourism. (n.d.) Industry Performance 2017

7 Tourist Arrivals in 2016, By Country of Arrival. Retrieved from <https://www.statista.com/statistics/645730/tourist-arrivals-in-asean-region-by-country-of-arrival/>

8 The Best Islands in the World. (2017). Conde Nast Traveler. Retrieved from <https://www.cntraveler.com/galleries/2014-10-20/top-30-islands-in-the-world-readers-choice-awards-2014> accessed 16 September 2018

9 Commission on Appointments. (2018). Cabinet Secretaries Castriciones, Romulo-Puyat, Guevarra, COMELEC commissioner, DFA senior officials, AFP Chief and ranking officers breeze through the CA. Retrieved from <https://comappt.gov.ph/>

10 World Travel and Tourism Council. (2017). Travel and Tourism Economic Impact 2017 Thailand.

11 Vietnam National Administration of Tourism. (2018). International visitors to Vietnam in December and 12 months of 2017. Retrieved from <http://vietnamtourism.gov.vn/english/index.php/items/12453>

12 World Travel and Tourism Council. (n.d.). Travel & Tourism Economic Impact 2018 Philippines. Retrieved 4 July 2018, from: <https://www.wttc.org/-/>

13 Ibid.

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

The following recently adopted or considered reforms are relevant to the tourism sector:

- **The Mactan-Cebu International Airport (MCIA) was inaugurated** on 6 June 2018. A product of the Build-Operate-Transfer (BOT) model, the MCIA is an example of the significant benefits PPPs bring to infrastructure connectivity and tourism. Despite an established system for PPPs, the Philippine government expressed an inclination for using Official Development Assistance (ODA) and government funds to finance the construction of infrastructure projects. The Duterte administration aims to contract PPPs for operation and maintenance only¹⁴.
- **Temporary shutdown of Boracay Island** due to almost non-existent implementation of environmental standards. DENR stated that only 50-60% of establishments in Boracay are compliant with the Clean Water Act.¹⁵ The cessation of business is expected to last a maximum of six months, displacing about 36,000 Filipino workers and more than 1.7 million tourists¹⁶. The rehabilitation of Boracay Island will include waste management, strict enforcement of environmental laws and building codes¹⁷ as well as studies on long-term carrying capacity of the island.
- **DENR sets up new Boracay wastewater management strategy** via Memorandum Circular 2018-06. This requires beachfront establishments with 50 rooms and above to establish their own Sewage Treatment Plant. Establishments with less than 50 rooms have the option to connect to a cluster STP with nearby establishments. Small restaurants, bars and hotels with 5 rooms and below, and with no available space for the construction or installation of individual or clustered STPs, are exempted from the STP requirement, provided they secure discharge permits from the EMB Region 6 stating the volume and quality of wastewater to be discharged. DENR later revoked Memorandum Circular 2018-06 and is in the process of drafting a new wastewater management strategy.
- **Expiration of Tourism Incentives.** The fiscal incentives granted by the Tourism Act of 2009 were intended to cover the period 2009 to 2019¹⁸, however they were only implemented in December 2016¹⁹. Further, the sunset clause of the Tourism Act and the pending TRBAHO Bill²⁰, pose a threat to the incentives.²¹ TIEZA²² argues that the 10-year sunset clause of the Tourism Act should be applicable only after the effective implementation of the law in December 2016²³.

14 Department of Finance. (2018). Keynote Speech: Remarks before the Asia Pacific Investors Cooperation.

15 Department of Environment and Natural Resources. (2018). Statement of Secretary Roy A. Cimatu on Boracay. Retrieved from <http://denr.gov.ph/news-and-features/latest-news/4052-statement-of-secretary-roy-a-cimatu-on-boracay.html> on 06 April 2018

16 Ibid.

17 Ibid.

18 The Bureau of Internal Revenue did not issue the corresponding Revenue Regulation to implement the Tourism Act until 7 years after its enactment. RR No. 7-2016 finally grants fiscal incentives to the tourism sector.

19 Ibid.

20 Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO Bill) previously TRAIN 2.

21 R.A. 9593, 14th Cong. (2008).

22 Tourism Infrastructure and Economic Zone Authority

23 In the period between enactment of the law in 2009 and implementation in 2016, the Tourism Investment estimates a revenue loss of PHP 232.33 billion in investments



EPBN ADVOCACY

The Philippine tourism sector still has much room for growth in developing connectivity, standardizing the implementation of environmental standards, and providing security as well as institutional stability. With this, the EPBN has made the following recommendations:

1. SUPPORT THE IMPLEMENTATION OF THE NATIONAL TOURISM DEVELOPMENT PLAN (NTDP)

The EPBN strongly supports the implementation of the National Tourism Development Plan as it lists the priorities in the Tourism Sector namely: developing Transport Infrastructure, encouraging Tourism investments, and supporting a stable business environment, and sustainable development. The NTDP was submitted to NEDA for integration into the Ambisyon 2040.

2. IMPROVEMENT OF INTERNATIONAL AND DOMESTIC CONNECTIVITY

The Philippines, as an archipelago, relies primarily on air transport and an integrated transportation system to safely and efficiently move tourists from one destination to another. The country's poor infrastructure connectivity hampers the development of a flourishing tourism industry. Improving domestic connectivity is pivotal to develop the country as an international tourism destination.

In the development of connectivity infrastructure, we strongly encourage the Philippine government to revisit their policy on PPPs. PPPs clearly benefited connectivity and tourism in the Visayas area as seen in the Mactan-Cebu International Airport. The PPP model ensures that there is continuity between operation and maintenance of the project since a single company handles both phases. The hybrid model preferred by government may create serious challenges during the operation and maintenance phases as the government will be required to manage the conflict between developers and operators of such infrastructure projects.

3. STRENGTHEN IMPLEMENTATION OF ECOLOGICAL STANDARDS

Unchecked development, poor implementation of environmental ordinances and building laws lead to environmental degradation in the country's top tourist destinations, as abundantly demonstrated by the Boracay issue. This results in billions of pesos of lost revenue.

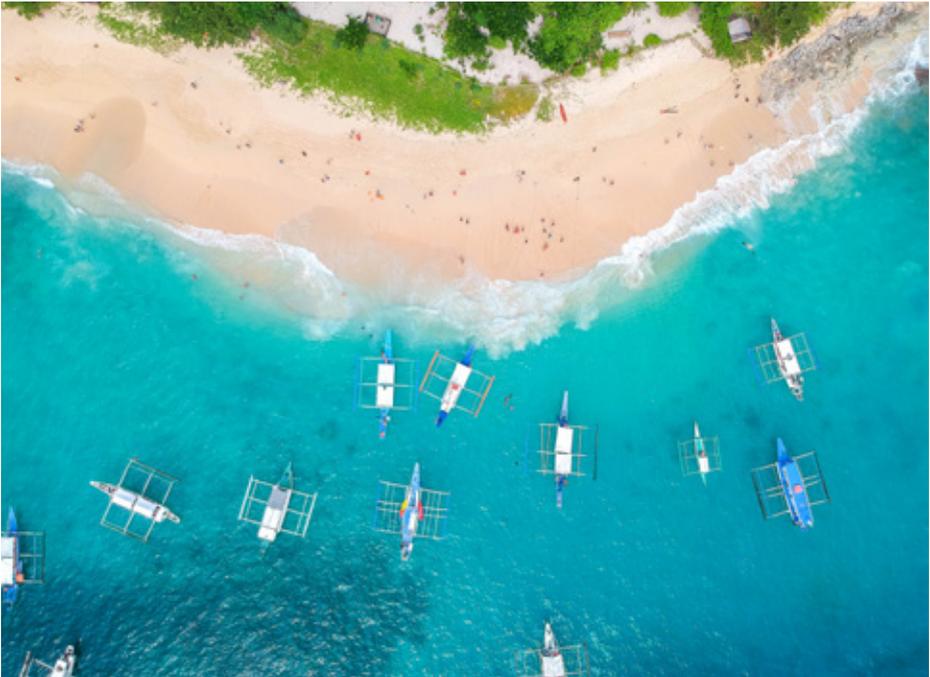
We support the DENR's efforts to strictly implement ecological standards in tourism sites, however it must be done with efficient use of resources. Thus, EPBN strongly urges the DENR to reconsider their policy on individual Sewerage Treatment Plants for beachfront establishments²⁴. Instead of passing on the responsibility for waste treatment to water consumers, the DENR should implement existing laws and require all establishments to be properly connected to the sewerage line. The local water utilities are mandated by the Philippine Clean Water Act to treat wastewater before releasing it back to the ocean.

Further, the organization urges the DENR to update the carrying capacity studies of the country's top tourist destinations. Such studies were conducted for Boracay in 2008 and were only updated when the Island's ecosystem was on the brink of collapse. The Philippine government should take swift action to ensure that the same does not happen to other tourist destinations such as Palawan, Siargao, and Puerto Galera.

Last, the environmental and building regulations in tourist destinations should be updated to include development in protected areas and better connections to existing sewage treatment plans. These regulations should reflect the limited carrying capacity of the island, thus they should also focus on developing alternate tourist destinations in nearby areas in Visayas. The compliance of business to environmental standards and building codes will also be encouraged by streamlining government processes under the Ease of Doing Business Act.

4. RETAIN FISCAL INCENTIVES FOR THE TOURISM SECTOR IN TIEZA

In light of the delay in implementation of the incentives under the Tourism Act of 2009, EPBN strongly urges for the retention of incentives and for tourism investments and projects to be placed under the Special Investment Priority Plan (SIPP) of the government. This will spur the much-needed investments in tourism infrastructure and development.



²⁵ Under the TRABAHO Bill, existing fiscal incentives will be rationalized and only those activities or investments covered by the Special Investment Priority Plan (SIPP) will be granted fiscal incentives.



EPBN INTERVENTIONS

The Philippines has a lot to offer in terms of tourism and the industry is a significant contributor to the Philippines' employment and economic growth. Tourism has high potential to create inclusive and sustainable growth, particularly in rural areas that are heavily affected by un- and underemployment.

EPBN conducts regular dialogues with Philippine government officials to advocate for the retention of fiscal incentives for Tourism Export Zones. EPBN held a dialogue with TIEZA COO Pocholo Paragas, TIEZA Regulation Manager Atty. Niño Ruperto F. Aquino, and discussed the incentives program of TIEZA and the implications of tax reform on the tourism industry during the EPBN Tourism Committee Meeting. EPBN has also had several meetings with DOT Usec. Bengzon on tourism development planning.



ASSESSMENT OF RECOMMENDATIONS

Advocacy	Recommendations	Completed	Substantial Progress
Support the implementation of the NTDP			
Improvement of international and domestic connectivity	Implement measures to improve international air connectivity.		
	Develop a two-airport system in Manila, utilizing NAIA and Clark, and improve international airport infrastructure in high priority tourism destinations.		
	Provide funding for seaports, airports, and roads that connect priority tourism destinations.		
Retain the incentives for the tourism sector	There was a significant delay in implementing the incentives under the Tourism Act, which were supposed to be implemented in 2009. However, delays with BIR caused a delay of 7 years.		
Implementation of ecological standards	Improve implementation of ecological standards and building codes		
	Support the speedy rehabilitation of Boracay Island and the development of alternative tourist destinations		

Some Progress	No Progress	Retgression
The NTDP was submitted to NEDA for integration into Ambisyon 2040.		
Mactan-Cebu International Airport (MCIA) has finished construction of a second terminal. Development of Bohol Panglao Airport, Davao Airport and other regional airports are at a standstill		
The Manila – Clark Railway project started pre-construction activities in January 2018 and is expected to be completed in 2022.		
Government efforts to improve infrastructure have been evident over the past year with the launch of the Build Build Build Program.		
		Tourism incentives provided for in the Tourist Act of 2009 and BIR Revenue Regulation No. 7-2016 may be removed by virtue of the TRABAH0 BILL
	Boracay Island was closed for tourists following news of insufficient wastewater management. DENR's directive for establishments to put up their own STPs is backward-looking and ignores provisions in the Clean Water Act.	
DENR has released the carrying capacity studies for the Boracay. DOT released a "Whitelist" of compliant establishments in the Island. However, businesses on Boracay remain constrained by DENR's insistence on individual STPs		



EU-PHILIPPINES BUSINESS NETWORK



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