

US-ASEAN Business Council (USABC) Statement on Airport Policy Brief Press Conference

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In recognition of urgent reforms needed at the air transport infrastructure realm, the US-ASEAN Business Council stands in support of this timely airport policy brief. Successful implementation of these reform initiative will improve the international trading regime in the Philippines and propagate the resulting benefits, job creation, and inclusive growth. So since its time for action, US business is keen to work with Philippines' public and private sector stakeholders on projects where we can add value in terms of cutting edge technologies, employment creation, best practices, human resource development, and working with MSEs as part of the global supply chain.

We have some recommendations in addition to the policy brief. It is in support and in alignment and these are infrastructure recommendations that our committees have come up with.

Read full statement below.

Full Statement:

The Philippines is seen to have one of the greatest infrastructure development potential in ASEAN. The Council is encouraged that the administration under President-elect Rodrigo Duterte promises to reverse this reality by increasing infrastructure spending up to 7% of the Philippine's GDP, heralding in the golden age of infrastructure.

In the latest 2016-2017 World Economic Forum Competitiveness Report, the Philippines' ranking in terms of quality of overall infrastructure and quality of air transport infrastructure declined when compared with previous years. It emerged as the lowest when compared with the six major ASEAN air transport markets (Singapore, Malaysia, Thailand, Indonesia, Vietnam, Cambodia and Philippines). As regards airline connectivity, measured by the available airline seat kilometers per week (domestic and international), Indonesia has the most extensive network followed by Thailand and Singapore. The Philippines ranked fifth out of seven economies.

In recognition of urgent reforms needed in the air transport infrastructure realm, the Council stands in support of this timely Airport Policy Brief Press Conference and the five corresponding reform initiatives recommended. As an established regional advocate for international trade, the catalytic positive impact of improved airport infrastructure in an archipelago such as the Philippines cannot be underscored. Enhanced air transport connectivity will strengthen Philippines participation in the US\$6.4 trillion international air cargo trade and global supply chains for the production of high value commodities. As the policy brief has outlined, while the 51million metric tons of cargo shipped by air represent only 0.5% of the volume of the world trade shipments, these are mostly high-value, time sensitive, and physically perishable products, accounting for over 35% of global merchandise trade value. Air transport also supports the mobility of Overseas Filipino Workers (OFWs, and their families), who contribute around US\$28billion to the Philippine economy. Successful implementation of these five reform initiatives are essential to improve the international trading regime in the Philippines, and propagate the resulting benefits to job creation and inclusive growth.

The Council recognizes that the Philippines government alone cannot deliver the resources needed to institute the five reform initiatives; the engagement of private sector infrastructure firms and investors is necessary to achieve a more modern, efficient, and competitive aviation services and facilities in the Philippines. Besides supporting reform initiatives, U.S. companies are keen to learn how they can tap into the various airport infrastructure projects. The Council's member companies see these long-term investments by the Philippines Government as recognition that overhauling Philippines' air transport infrastructure will take decades. U.S. companies therefore see the present as a critical time to establish a working relationship with the Philippines Government to building lasting infrastructure partnerships. While progress such as this is important, especially in project promotion to international stakeholders, the overall ecosystem for infrastructure project development and execution still contains constraints. Addressing these constraints would unlock significant new sources of investment coinciding with

the growing interest in Philippines in reaction to the high levels of GDP growth rates which have been achieved. U.S. business is keen to work with Philippines public and private sector stakeholders on projects where we can add value in terms of cutting edge technologies, employment creation, human resources development, best practices and working with SMEs.

In addition to the five reform recommendations as outlined by the policy brief, the Council also appreciates the opportunity to summarize the following recommendations that can strengthen greater private sector financing and investment in air transport infrastructure projects in Philippines, and address the development of secondary international gateways and provincial airports:

1. Institute integration in Public Private Partnership (PPP) project planning: PPPs have emerged as an important tool for improving economic competitiveness and infrastructure services. Private sector participation in publicly owned airports has become a global trend. The Centre of Aviation (2015) reports that 40 of the 100 largest airports around the world in terms of revenue are either fully or partially owned or controlled by private sectors. The private sector participates in managing and operating public airports through various schemes ranging from PPP to full privatizations. The Council commends the Philippines PPP Center for producing catalogs of projects available for bidding. U.S. companies seeking infrastructure investment opportunities in Philippines value such public, detailed information on projects, including specific airport projects crucial to Philippine's development. One key recommendation to strengthen the robustness of the PPP mechanism would be to institute integration in PPP planning. Investors want government agencies to be well coordinated. This includes adopting consistent practices across agencies that make processes straightforward and predictable throughout projects' life spans. Investors prefer partnering with governments that implement PPP structures following project financing norms and use standard agreements that are recognized internationally. There must be robust interfacing with all key stakeholders, i.e. Philippine government organizations, government owned and/or controlled corporations (GOCCs), government financial institutions (GFIs) and other government offices and instrumentalities to execute mammoth infrastructure projects.
2. Negotiate Appropriate Risk Allocation for the Private Sector: One cause of PPP failure is the inability of the public and private sectors to agree on the allocation of roles and responsibilities (and hence risk and returns). Lack of clarity on policies around market structure, pricing and subsidies and ownership and finance can lead to delays in implementation as the private sector are unable to accept the initial terms laid out for PPP projects. Strengthening negotiations for assigning risk and returns across the public and private sectors is critical because the terms that are agreed on upfront need to be upheld over the life of the PPP concession which can last decades.
3. Encouraging the Institution of Life Cycle Cost Assessment in Government Procurement Decisions: Government procurement decisions should consider the total cost of ownership over an entire project/system life cycle, as it is not uncommon for projects to

subsequently face unexpected operational, support and maintenance costs that were not anticipated at the point of procurement. Financial and socio-economic benefits to the government would be immense in terms of project cost savings through productivity and efficiency gains in massive infrastructure development projects with the use of products and services that provide superior value and benefits through their extended life cycle.

4. Promoting Fair Government Practices: Procurement decisions should be made on a cost effective fit-for-purpose basis, and not based on or influenced by non-performance/capability based factors such as the country of origin or local content/participation. Such criteria ultimately reduces competition and drives up costs. Short term benefits that may be benefited by such local requirements reduces the incentives for local players to innovate and play competitively against international players, thus resulting in limiting their ability to grow regionally and globally, and contribute towards the national economy. Internationally accepted and endorsed standards should be used whenever possible in project bid specifications, as domestic or specialized standards would reduce the range of products and services that could potentially be used for the projects, thus increasing project and implementation costs.
5. Instituting Technology: As Philippines works to improve aviation infrastructure, one key element that can help accelerate development is using technology in the design and construction phases. Using technological software and processes, a government infrastructure owner can save significant costs and time in completing a project, as well as increase visibility and transparency into the project for all stakeholders.

The Council stands ready to share best practices on these areas upon the Philippines government request. Members will keen to continue to exchange ideas on how the U.S. private sector can support plans to accelerate infrastructure development and address regional disparities in infrastructure.