‘Critical’ for PHL to sign FTA with Europe within two years

By Alyssa Nicole O. Tan
Reporter

THE PHILIPPINES must enter into a free trade agreement (FTA) with the European Union (EU) within a two-year window or become the last of three major markets in Southeast Asia deemed priorities by the EU, according to the European Chamber of Commerce of the Philippines (ECCP).

“The timeline here is critical,” ECCP President Lars Wittig told *BusinessWorld* in a video call. “I believe in order for the EU to succeed here in the Philippines, and for the Philippines to succeed with inclusive growth, the EU and the Philippines must ensure a free trade agreement (FTA) within the next 24 months.”

He said of the other regional markets deemed important by the EU, Vietnam signed an FTA in 2020 while Indonesia is expected to do so by 2024.

The three countries are also classified by the EU as eligible for its Environmental Improvement Project (EIP)

“I would consider it a disaster... if Indonesia managed to get to the Free Trade Agreement level with the EU before the Philippines,” Mr. Wittig said.

During a meeting on the sidelines of the Association of Southeast Asian Nations-European Union (ASEAN-EU) Commemorative Summit in Belgium, President Ferdinand R. Marcos, Jr. cited the Philippines’ interest in resuming negotiations for an FTA with the EU, as well as the renewal of the country’s participation in the EU’s Generalized Scheme of Preferences Plus (GSP+), according to a statement released by the Office of the Press Secretary last week.

“The Philippines remains interested and therefore ready to work toward the resumption of negotiations of the Philippine-EU FTA,” Trade Secretary Alfredo E. Pascual said during a presentation to the EU Parliament Committee on International Trade in Brussels in October.

“A 2020 study shows that 83% of German companies want to resume FTA negotiations, citing huge potential for EU companies, with the FTA positively affecting competitiveness,” he added.

Mr. Marcos said that while the Philippines awaits the resumption of FTA negotiations, “we remain committed to maintaining our EU GSP+ beneficiary status, serving as a stepping-stone towards this FTA.”

Negotiations on the EU-Philippines FTA began in 2016 but have been on pause since 2017.

European Commission President Ursula Von der Leyen said the GSP+ “would open the door for a much easier start into going into free trade agreement negotiations.”

Mr. Wittig said that in the meantime, it was essential for investors and the economy that the Philippines maintain and expand the GSP+.

“It should not be a secret that for me, personally, it really is a destination and objective, a key to success for both EU and the Philippines and the inclusive growth here that we expand on the GSP+ until we can finally get a free trade agreement with the EU,” he said.

According to the Philippine Foreign Service Institute, GSP+ is a preferential trade arrangement that allows for the duty-free entry of 6,274 Philippine products into Europe. This constitutes 66% of all EU tariff lines.

This means that Philippine goods can enter the European market at a lower price, making them more competitive.

In return, the Philippines must implement 27 international core conventions covering labor rights, human rights, good governance, and environmental concerns.

“You don’t have to convince Europeans to go all the way to the Philippines. That’s not the challenge here. They know they need Southeast Asia, they already have ASEAN on top of their list, say towards the Philippines, Indonesia, or Vietnam,” Mr. Wittig said.

“Vietnam is today’s number one competitor, but I see all their advantages appear(ing) two, three years ago. I see those being diluted if not eliminated relative to our offerings here in the Philippines,” he added.

He said the large domestic market is deemed attractive. “If you crack the code in the Philippines, this will become one of your largest, best markets, not just in Asia but globally.”

Mr. Witting said only a small number of Western executives are aware of this.

“They think if you are going to be successful in Asia, you must succeed in Japan, China. India. They do not realize that the Philippines is actually... kicking ass in business performance and serving their shareholders, whichever stock market they’re listed on, back in the Western world,” he said.

“This is a much-overlooked opportunity, not just market-wise, not just bringing value to the Philippines and inclusive growth, but bringing value to your shareholders,” he added.

RCBC projects 2023 inflation average at 4.5-5.5%

RIZAL Commercial Banking Corp. (RCBC) said average inflation is expected to slow to 4.5% to 5.5% in 2023 as oil prices ease, with the lower end of his forecast in line with the government’s official projection of 4.5%.

In an email, the bank’s Chief Economist Michael L. Ricafort said he sees inflation in the first quarter averaging 7.2%, sliding down to 6.1% in the second quarter. Third quarter inflation is forecast at 4.8%, and fourth quarter 3.4%.

“Inflation will ease largely due to global crude oil prices already easing to near 1-year lows recently, alongside the easing of other global commodity prices in recent months,” Mr. Ricafort said.

Nymex crude oil prices decreased 13.84% to \$79.35 per barrel on Christmas day from the Feb. 23 close of \$92.10 at the outset of the Russia-Ukraine war.

Brent crude oil prices decreased 13.6% to \$83.92 on Dec 23 from Feb. 23’s close at \$97.13 per barrel; and West Texas Intermediate (WTI) settled at \$79.56, a 14.28% decline from its \$92.1 close on Feb. 23.

Inflation in the first 11 months was estimated at 5.6%, with the consumer price index (CPI) rising to a 14-year high of 8.0% in November year-on-year, he said.

Mr. Ricafort added that the recent recovery of the peso from a record high P59 against the dollar in September and October will help ease inflation going forward.

The peso closed at P55.15 Friday on the back of increased remittances during the holiday season, leading to an increase in conversion of dollars to pesos.

The peso recently strengthened past the P56 level on Dec. 2, finishing at P55.74. The P55 level was last touched on Aug. 19 with a close of P55.93.

Mr. Ricafort also noted that the average inflation in 2023 could exceed the target range due to the impact of wage and transport fare hikes.

In June, the Metro Manila Wage Board ordered a P33-minimum wage hike. Wage boards can only act on wage petitions a year after a region’s last wage order.

Meanwhile, The Land Transportation Franchising and Regulatory Board (LTFRB) approved fare increases for modern and traditional public utility jeepneys (PUJ), public utility buses (PUB), taxis, and transport network vehicle service (TNVS) in September, which took effect in October. — **Aaron Michael C. Sy**

Flurry of port project bids expected in Jan.

By Arjay L. Balinbin
Senior Reporter

THE GOVERNMENT has started seeking bidders for various port projects, including those in Southern Leyte and Surigao del Sur.

The Philippine Ports Authority (PPA) started issuing invitations to bid for several port projects on Dec. 19, the first such invitations since President Ferdinand R. Marcos, Jr. took office at midyear.

These include the P180.12-million rehabilitation of San Ricardo Port in San Ricardo, Southern Leyte.

“Completion of the works is required in 600 calendar days from the receipt by the successful bidder of the notice to proceed,” the PPA said.

The deadline for submitting bids is Jan. 13. The contract covers pile driving works (offshore), reinforced concrete works, rockworks, placing of fill materials, and construction of portland cement concrete pavement.

The PPA is also seeking bidders for the P381.40-million upgrade, expansion, and construction of the first phase of the port operations building of the Port of Liloan in Southern Leyte.

The agency requires completion of the works in 660 days from the receipt of the notice to proceed. The bid submission deadline is Jan. 18.

The project covers pile driving works (offshore), reinforced concrete works, rockworks, placing of fill materials, the construction of portland cement concrete pavement, and the construction of a two-floor building.

Also in Southern Leyte is the expansion of the port operational area and construction of terminal office, passenger shed, pumphouse, powerhouse, and guard house at the Port of San Juan.

The P51.26-million project has to be completed in 300 calendar days from the receipt of the notice of award. The bid submission deadline is Jan. 18.

The PPA is likewise seeking bidders for the P129.47-million construction of the port operations area of the Port of Lawigan in Bislig, Surigao del Sur. Construction needs to be completed in 360 days from the receipt of the notice of award. The bid submission deadline is Jan. 19.

The contract covers reinforced concrete works, rockworks, placing of fill materials, and construction of interlocking concrete paving blocks.

The PPA is also seeking bidders for the proposed dredging of Pulupandan and Himamaylan Ports in Negros Occidental and Tacloban Port in Leyte. The bid submission deadline is Jan. 12.

Another dredging project is for the Iloilo clustered project: Iloilo River, International Container Port Complex, Fort San Pedro, Dumangas and Jordan. The bid submission deadline is Jan. 11.

Also on offer is a P445.41-million construction and offshore installation of aids to marine navigation in Northern Mindanao covering the ports of Surigao and Lipata, Surigao City; San Jose, Dinagat Islands; Dapa, Siargao Island; Nasipit and Masao, Butuan City; and Balingoan, Misamis Oriental. The bid submission deadline is Jan. 11.

The United Nations Conference on Trade and Development cited in a report the need for increased investment in maritime supply chains, including ports, shipping fleets, and hinterland connections, to boost sustainability and prepare the country for future global crises.

The Philippines was one of many countries that experienced serious vessel delays and container shortages during the pandemic.

In his first State of the Nation Address, President Ferdinand R. Marcos, Jr. said that his administration will work on improving the country’s transportation system, along with modernizing current seaports, to maximize its strategic location in the Pacific.

OPINION

What key COP27 outcomes mean for PHL companies

SUITS THE C-SUITE
BENJAMIN N. VILLACORTE

It’s been almost a month since the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) concluded. In November 2022, stakeholders from the public and private sectors around the world gathered to delineate the next steps and help ensure that the existing goals to tackle the climate crisis are met.

At the end of the summit, held in the coastal Egyptian city of Sharm el-Sheikh, parties instituted a landmark deal that would establish and operationalize new funding arrangements for developing countries, including the Philippines. Droughts, rising seas, typhoons, and more affect the communities in these places. The dedicated fund was pegged to provide assistance to those ruined by loss and damage caused by the worst impacts of climate change.

While the Philippines stands to benefit from this move, we may have to wait for some time for the details of how this decision will be implemented. The rate at which global temperatures are rising makes climate change not only an environmental issue but also an economic and social concern. We need all the help we can get to reduce greenhouse gas emissions through bolstered technology, finance, and capacity building.

BUSINESSES AND DECARBONIZATION

Within five years, the average global temperature could pass the target limit of 1.5 degrees Celsius set in the Paris Agreement if our collective will to prevent it slackens. COP27 reaffirmed its members’ commitment to avoid this, but countries, businesses, and civil society must collaborate to ascertain a tangible outcome.

In particular, private sector organizations are well-positioned to be a force for good on the path to sustainability. In the Philippines, while the government leads COP27 efforts, companies can work hand-in-hand to ensure financial and human resources are channeled toward aligning with global decarbonization targets.

Alignment and financing are significant factors in adaptation, which is on the country’s agenda alongside securing financial support from developed nations. Matching current targets and goals is crucial in cutting emissions drastically; exceeding them can have opposite effects we might not be prepared to handle. Funding must also flow in support of building climate resilience. Underfinancing adaptation poses more risk and focusing on mitigation strategies could be more costly.

With their influence and levers for change, businesses and institutional investors can tackle the big sustainability challenges by:

• Becoming leaders in the decarbonization journey and going beyond what’s legally required (more on this later), such as reducing pollution and other environmental impacts for businesses and supporting green initiatives for investors;

• Engaging key decision-makers and clients across many areas like climate security, decarbonization, food security, sustainable finance, and gender equality to increase collaboration and facilitate collective action; and

• Fostering innovation that drives change.

Climate change innovation and investment can be further strengthened by the government’s formation of local policies and guidance and the promotion of partnerships with the private sector.

CLIMATE-RELATED DISCLOSURES

What’s noteworthy is that more and more companies worldwide are disclosing climate-related financial information: a way for them to communicate with stakeholders, including investors and potential investors.

The fourth EY Global Climate Risk Disclosure Barometer reveals that corporate reports scored 84% — climbing from 70% — for their coverage of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In terms of the quality of disclosures, the average score was 44%, just slightly higher than last year’s 42%. Both figures are up, but there’s clearly a gap between coverage and quality that must be addressed to enable businesses to deliver meaningful disclosures around the challenges they face.

Philippine companies should work twice or even thrice as hard to accelerate their efforts. They must improve their disclosures by following the TFCD and increasing the quality of their reports at the same time. And to truly deepen their reporting, it is imperative to address the global climate problem by materializing concrete actions. They would need to re-strategize or embed decarbonization efforts in their corporate policies and long-term plans.

This commitment will soon become more than just an option for publicly listed companies (PLCs). In 2019, the Securities and Exchange Commission (SEC) released a memorandum that required PLCs to report on the management of their economic, environmental, social, and governance (EESG) impacts in a “comply or explain” approach. It means PLCs can attach their sustainability reporting template to their Annual Report and provide explanations for items they have no data on — all within the first three years upon implementation. That three-year window is closing as the SEC plans to make sustainability reporting mandatory for all PLCs by 2023.

To complement the SEC’s efforts in mainstreaming EESG disclosures among PLCs, the Philippine Financial and Sustainability Reporting Standards Council (FSRSC) recently approved the formation of the Philippine Sustainability Reporting Committee (PSRC). The PSRC, composed of members from accounting firms, regulatory agencies, academic institutions, and industry associations, will provide technical assistance to the FSRSC on the adoption and issuance of sustainability reporting guidelines and standards in the Philippines. To achieve this, the PSRC will leverage the guidelines from the International Sustainability Standards Board, which are expected to be released in 2023.

ENERGY INDUSTRY TO TAKE THE LEAD

Improving climate disclosures for greater transparency and accountability is just one facet of the journey. Companies must develop roadmaps with short-term, medium-term, and long-term goals and design concrete steps to achieve them.

Those with the most significant exposure to risk can and should lead the way in managing it. There are two things to focus on: 1) how they adapt their own assets to changing climate conditions and 2) how they handle resources, such as water, to ensure efficiency and avoid harming the resiliency of other industries.

In this light, the energy industry has much to gain and to lose. Eliminating greenhouse emissions is the first hurdle to meet, which ties in closely with limiting dependence on fossil fuels. Shifting to renewable energy sources should continue to grow to balance how the sector generates the capacity needed to power our post-industrial world.

Meanwhile, innovation and investments in the agriculture, food, and forest products sector should also be directed toward activities that enhance adaptability. On-farm emissions usually come from livestock, soil management, and practices like rice cultivation and crop fertilization. Changing the way we farm — making it greenhouse gas-efficient — involves the use of technologies that can be scaled across regions and production systems.

We cannot talk about significant climate action without dealing with the plastic crisis. With 400 million tons of plastic waste produced every year, the sector will continue to rely on fossil fuels (from which the chemicals used in creating plastic are sourced). Funding the shift to plastic substitutes is vital, but just as valuable and urgent is the need to push policies to stop the illegal traffic in plastic waste.

COMMITMENT INTO TANGIBLE ACTION

The climate crisis requires everyone’s concerted effort. It’s an all-hands-on-deck type of situation. We need solutions that aggressively tackle the climate problem. Businesses should begin to feel the urgency of investing time, resources, and leadership efforts into long-term, sustainable performance, which includes funding relevant technology like data and analytics for developing early warning systems; and pursuing innovation in areas like agriculture, applied materials, and biofuels. It is also their duty to provide more sustainable choices to consumers.

Our corporate report scorecards show there are still gaps in the communication between companies and stakeholders. Through improved ESG disclosures, businesses can be more transparent and earn long-term investors’ trust. This setting and meeting of expectations can help both sides assess performance and address risks and opportunities that translate to investment and innovation. Such actions would translate to a greater impact than just pure commitments.

The race is on to find climate-related solutions that can scale rapidly. Businesses and investors should see it as an investment with a payoff that is worth so much more in the long run: the lives that will be saved and the survival of this planet.

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BENJAMIN N. VILLACORTE is a Partner from the Climate Change and Sustainability Services team of SGV & Co.