NAIA passenger traffic nearly 11 million in Q1

THE Manila International Airport Authority (MIAA) said passenger throughput at the Ninoy Aquino International Airport (NAIA) was 10.86 million in the first three months, more than double the year-earlier level as confidence in international travel returned.

"With the reopening of borders in countries such as Hong Kong and China, as well as the easing of travel restrictions, many travelers have regained confidence to fly in and out of the Philippines for both leisure and business purposes," MIAA General Manager Cesar M. Chiong said in a statement.

Passenger throughput in the first quarter was up 158% from a year earlier but remains 6% below the corresponding pre-pandemic level of 11.59 million in the first quarter of 2019.

Flight movements — the sum of take-offs and landings — increased 77% to 67,781 in the first quarter. Flight movements exceeded the pre-pandemic level of 65,161 in the first quarter of 2019.

In the first quarter, 6.16 million passengers traveled on 42,331 domestic flights, up from the 5.45 million passengers and 36,206 flights in the first quarter of 2019.

"Because domestic borders opened earlier than international borders, airlines are deploying a lot of flights right now to serve our local destinations. Our domestic sector is thriving, and we are seeing the results of the government's efforts to revive tourism," Mr. Chiong said.

"As the aviation industry recovers from the effects of the pandemic, passenger numbers are likely to rise further in the coming months and years," he added. — **Justine Irish D. Tabile**

Easing FDI caps seen driving telco innovation

THE opening of telecommunications to foreign direct investment (FDI) will encourage the industry to become more competitive and innovative, analysts said.

"The telecommunications industry's growth potential has almost peaked. Hence, to remain competitive, telcos need to reinvent themselves and go beyond telco into techco," Globe Telecom, Inc. General Counsel Vicente Froilan M. Castelo said in an e-mail.

"Full foreign ownership for countries that allow reciprocity for Filipino investment will provide additional liquidity to the listed telco companies and allow shareholders to exit and cash out of their investments," he added.

Earlier this month, the National Economic and Development Authority (NEDA) released the implementing rules and regulations (IRR) for Republic Act No. 11647, which amends the Public Service Act (PSA).

The PSA allows full foreign ownership in more public services such as telecommunications, airlines, and railways. It is set to take effect on April 4.

Under the IRR, telecommunications was the only public service classified as "critical infrastructure," those services deemed "so vital to the Philippines that the incapacity or destruction of such systems or assets would have detrimental impact on national security."

Other public services cannot be considered critical infrastructure unless the President declares them through an executive order. NEDA can also recommend that a public service be considered critical infrastructure upon request of a government agency.

The IRR includes a reciprocity requirement for foreign investment in critical infrastructure, which means foreign nationals cannot own more than 50% of a company engaged in services classified as critical infrastructure, unless their country extends reciprocal treatment to Philippine nationals.

The rules also outline the process and criteria for a national security review of foreign investment in public services and critical infrastructure.

Foreign sovereign wealth funds and independent pension funds may also collectively own up to 30% of the capital of a public service classified as critical infrastructure.

Ateneo de Manila University Economics Professor Leonardo A. Lanzona said that telco's designation as critical infrastructure will be beneficial in the long run.

"Companies engaged in public services will be forced to compete with the foreign companies in order to survive. This means that they should focus on being world class in order to remain in business," he said in an e-mail.

Mr. Lanzona said the country is "better off" as there will be better public services provided without raising prices.

"Currently, because of their difficulty in accumulating the necessary inputs, domestic public service corporations can only expand their services if prices are raised. With the threat of foreign competition, the local companies as well as the government have to innovate and adopt the new technologies in order to supply services without causing greater burden to their consumers. With the emergence of digital technologies, the local outlets can achieve scale economies through learning by doing," he added.

"Even in a mature industry, sustained investment for expansion, upgrading and maintenance of telecom infra is indispensable because of equipment obsolescence and advancement of new technology," he said.

"As for investment by new players, there may be room for niche players for fixed broadband and satellite broadband but for the mobile space, the scarcity of available spectrum is a challenge that will limit the options of new mobile players," he added.

A recent study by London-based analytics company GlobalDataPlc showed that the total revenue of telecommunications companies in the Philippines is expected to rise at a compound annual growth rate of 4% from 2021-2026.

The study also noted that this growth will be primarily supported by the mobile data and fixed broadband segments.

The Philippines is also estimated to need as many as 4,000 new telecommunication towers per year, according to a report by PwC Philippines.

Terry L. Ridon, a public investment analyst and convenor of think tank InfraWatch PH, said in an e-mail that telcos' classification as critical infrastructure was likely due to national security concerns.

"The focus on the telco sector as critical infrastructure has been due to concerns that foreign control over telco firms may compromise the country's national security and state secrets, and the public's data and communications privacy, particularly if foreign telco partners have inseparable ties and legal obligations with their own governments and state-owned and controlled firms," he said.

Mr. Ridon said that this is part of the government's strategy to "ensure that the country does not hand over secret, sensitive and private information to foreign governments and their proxies, particularly to nations with which we have real and ongoing disputes."

"Allowing more than 50% equity of telcos to foreign investors effectively surrenders corporate control of critical infrastructure to foreigners. In other words, allowing more than fifty-percent foreign equity allows foreigners to determine the strategic direction of telco firms they control, including lawful and legitimate objectives, or malevolent and covert objectives," he added.

Antonio A. Ligon, a law and business professor at De La Salle University, likewise said in a Viber message that the sector's "critical infrastructure" status was due to "observations that security and privacy of delicate information relating to countries stability and well-being might be compromised if inappropriate safeguards to communications are in place."

"In this digital age, information and communication networks are likely to be the first line of a breach in national security. As it is, critical and confidential data can be stolen with a click of a button. On a larger scale, such theft can potentially lead to economic sabotage," Globalinks Securities and Stocks, Inc. Head of Sales Trading Toby Allan C. Arce said in a Viber message.

Mr. Arce also noted that more investment is needed to ensure that telcos "safeguard critical data from entities with malicious intent."

"Telcos may not be equipped or well capitalized enough to provide such safeguards. Thus, calling upon foreign investors to fill in the gaps with their expertise. But it's unlikely that these foreign entities will be content with just a minority share in a company in a very lucrative industry," he added.

Mr. Arce also said that there is still a long list of economic activities where foreign ownership is still limited due to national security concerns.

Under the PSA, public service utilities that are still subject to the 40% foreign equity limit are electricity transmission and distribution, water and wastewater pipeline distribution systems including sewerage, petroleum and petroleum products pipeline transmission systems, seaports, and public utility vehicles.

Mr. Lanzona said that education is also a crucial public service that must be opened to foreign ownership.

"Allowing more foreign schools can be the solution to the poor education system especially at the basic and primary, as well as the technical and vocational, levels. For the latter, allowing foreign investors to set up technical schools in the Philippines can be the best approach for upskilling our workers," he said.

Mr. Ligon said careful study is required for opening up mass media and education to foreign ownership.

"These two industries largely affect and influence the thoughts and ideas of our people, particularly the youth. History and study show that the US successfully colonized the Philippines because of the educational system," he added.

Mr. Ligon also said that other public services that could be considered critical infrastructure are water and electricity.

"Opening more industries to foreign ownership is indeed crucial to attracting much-needed capital and technology for the country to sustain its high-growth trajectory by generating higher quality jobs, thereby reducing poverty. But it is also important that favorable conditions or terms are in place for such mergers and acquisitions in order to protect local businesses and the national interest," Mr. Arce added.

On the other hand, Mr. Ridon noted that the restrictions on public service ownership were not the main obstacle preventing investment from entering the country. — **Luisa Maria Jacinta C. Jocson**

Dairy agency bats for P1.2-billion budget

THE National Dairy Authority (NDA) said it proposed a P1.2-billion budget for 2024, mainly to import dairy cattle and develop stock farms.

"The plan is to bring in animals then we will breed them in stock farms, so that we are able to distribute island-born (cattle) to farmers," NDA Administrator Gabriel L. Lagamayo told *BusinessWorld*.

The proposed funding will finance the import of 2,000 dairy cattle and develop two stock farms.

Philippine production is equivalent to only 1% of its milk demand and needs to import the rest.

"In the past years, *tumataas naman 'yong* production, *'yon nga lang,* the demand exponential *ang* increase *na hindi kayang habulin ng* production (Production has been rising, but demand has been rising at an exponential rate. Domestic production cannot keep up)," he said.

The US Department of Agriculture projects Philippine demand to increase 3% to three million metric tons (MT) in liquid milk equivalent this year.

According to Mr. Lagamayo, the Philippines' main dairy suppliers are the US, New Zealand, and Australia.

He projects dairy production of 32 million MT this year from 30 million MT previously, aided by the herd buildup.

"We don't have enough dairy animals to do that. *Hindi sa atin likas ang — kung meron man tayong* native, *may gatas nga, pero* at the end, *gaano karami naman*? (Dairy production has not really taken hold — whatever native dairy animals we have are not enough). Whereas, if we invest in dairy animals or we try to cross breed our native cattle to dairy animals, *pwede 'yon* (we might be able to do it)," he said.

The Philippine Statistics Authority estimates the herd of dairy animals at 70,995 head in the nine months to September 2022.

Dairy cattle accounted for 52% of the milk produced by volume from 23,745 head.

The registered herds of dairy carabaos and goats numbered 17,299 and 29,851, respectively.

For this year, Mr. Lagamayo said 2,000 dairy animals from Australia are under quarantine, part of the 3,700 shipment of imported animals that will be distributed to farm owners.

Beneficiaries will be evaluated to determine what improvements they require in facilities, animal feed, and know-how.

The NDA will also propose dairy farm owners to organize cooperatives to maximize feed usage.

"The farmers need to work together," Mr. Lagamayo said.

Julius C. Velasquez, a dairy farm owner in Norzagaray, Bulacan, said he and his fellow farm owners plan to establish an association.

"*Ang nangyayari po kasi, hindi nila binibigay 'yung kambing sa mga gustong magsimula. Nauuwi rin po sa malalaking* farm. *'Yong mga gusto rin magalaga, hindi sila magkaroon* (The people who want to start dairy farming are not receiving goats, but the big farms get them. The ones who want to start raising goats don't get any)," he told *BusinessWorld* via phone. — **Sheldeen Joy Talavera**

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link <bit.ly/Dairy041023>

OPINION

Building resiliency during economic uncertainty

SUITS THE C-SUITE
MARIA VIVIAN C. RUIZ

(Second of two parts)

Boards play a critical role in helping management teams find ways to thrive in unpredictable circumstances as organizations today find themselves navigating a wide range of challenges. With so much uncertainty still present, boards must decide where to focus their attention. To better understand board priorities in 2023, EY conducted a study of more than 400 corporate board members across the Americas, including Argentina, Brazil, Canada, Chile, Colombia, Mexico, and the US. While the study focuses on western markets, the insights on the five top board priorities are also relevant for Philippine companies.

In the first part of this article, we focused on two of the top board priorities, which were navigating difficult economic circumstances and rethinking capital strategy through investments in technology. This second part of the article will discuss the remaining three priorities, specifically on how boards can enable innovative technology transformation, champion a future-focused talent agenda, and establish cybersecurity as an enterprise risk and strategic opportunity.

TECH TRANSFORMATION AND INNOVATION

Boards are crucial in helping to promote innovation, regardless of the state of the economy and the business environment. They can support the executive team in maintaining balance and push decision-makers to consider how the company can address new external challenges by innovating the business rather than investing or cutting costs.

Boards are in a unique position to provide thought-provoking hypothetical questions about potential new products, services, and income streams related to megatrends, such as how the emergence of Gen Z is changing employee and consumer trends. Scenario planning can further build resilience by allowing for the potential of uncertainty, challenging long-held beliefs, and spotting possibilities to redefine the future of the company through proactive innovation.

Despite the prevailing volatility, it is important to keep an eye on the longer-term developments that will shape the future of business. The value of operational, consumer, and market data is now being unlocked by advanced data analytics as the world enters a new era of data centricity powered by developing technologies. Deeper interaction is made possible by new human-machine interfaces, which also open up new avenues for communication, commerce, customer outreach, and the creation of goods and services. To best support their companies, boards must stay current on new technologies and their ideas.

For our planet and social institutions, new technologies and the behaviors they encourage in people carry both promise and risk. On one hand, technological advancement can lead to a new immersive virtual workplace, the capacity to reduce unconscious bias, the potential to encourage healthier lifestyles, and lowered carbon emissions by substituting non-polluting virtual experiences for real-world presence and physical goods.

However, emerging technologies can pose significant dangers for data privacy, fraud, false information, polarization and isolation, mental health, and energy costs. Better sustainability results need to be part of the future vision and strategy around new technologies and consumer strategies. This is especially significant at a time when stakeholder expectations and demands are drastically shifting in light of environmental and social developments.

A FUTURE-FOCUSED TALENT AGENDA

Global macrotrends are still influencing the future of work, making it more urgent for businesses to adjust to the shifting talent landscape. The structural shift in labor markets poses a formidable challenge as we suffer the highest global talent shortage in more than a decade. Employees are reevaluating and reordering the things they value most in an employer and are prepared to take action to satisfy those needs, with 68% of employers stating that employee turnover rose during the previous year. Previous methods used to attract and retain employees are no longer effective due to evolving employee needs, including the need for flexible and hybrid employment.

Highly-skilled employees will continue to retain more power even as the labor market cools. Millennials and Gen Z, particularly those working in the hardware and technology industry, are where the highest turnover is anticipated. Technologically-skilled workers are also in high demand, with inflation driving up the cost of competitive remuneration as a result.

It is crucial to monitor employee morale and workplace culture, as employers and employees have varied perspectives regarding the effects of hybrid, flexible, or mobile work options on productivity and career progression opportunities. If employees are not given the same level of flexibility provided during the pandemic, 54% of respondents to the EY Global Workforce Survey said they would consider resigning.

The ability of a company to retain talent may depend on whether or not its leaders are decisive and human-centered, with an emphasis on innovation, building trust, and exhibiting desired attributes. In order to get a more comprehensive understanding of employee needs and sentiment beyond simply gauging the tone at the top, boards may need to spend more time in conversation with the chief human resources officer to champion a future-focused talent agenda. They also need to evaluate the company plan for overall compensation, filling of any skills gaps, and talent retention.

CYBERSECURITY: A STRATEGIC OPPORTUNITY

The high degree of cyber risks that businesses confront are growing, with risks from ongoing digital transformation, flexible working, and the introduction of disruptive technologies having increased in 2022. Management must continue to stress the value of managing cybersecurity as an enterprise risk since the stakes are higher than ever, but should also see it as a chance to strategically position their companies as reliable business partners.

The board should set the tone by discussing cyber threats with management outside of the chief information officer (CIO) or chief information security officer (CISO). When developing new technology, goods, and business arrangements, CEOs should be questioned about how cybersecurity is incorporated into the design process from the beginning using the "trust by design" idea. In order to better challenge management, boards should be familiar with new or growing risks, the financial worth of the company's risk (including the effectiveness of cyber insurance coverage), and leading cybersecurity risk management techniques.

Cybersecurity risk management in the current context is about response readiness and resilience. This means focusing on early detection, isolating important assets, preparing continuity plans to operate in a crisis, reporting to and working with authorities while managing litigation, and communicating with employees, customers, and investors.

Holding cyber incident simulations with management and the board should be prioritized, as well as stress-testing the organization to improve readiness and recovery efforts by clarifying roles and escalation processes. Third parties, such as a public relations agency or forensic specialists, can be included as necessary.

Finally, boards may oversee improved disclosures that make it clear to investors and other stakeholders how seriously they are taking cybersecurity threats and how qualified they are to do so. These disclosures are becoming more crucial as stakeholder scrutiny of these issues grows.

BUILDING STRENGTH IN RESILIENCE

To meet the challenges in this new era of constant uncertainty, resilience will be key to sustained success. Boards should work together with management to navigate uncertain economic conditions, rethink capital markets through investments in technology, pursue transformation and innovation, enable a future-focused talent agenda and elevate cybersecurity risk oversight.

Through continuous collaboration with management, boards will be able to build strength in resilience to weather ongoing volatile economic conditions.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views reflected in this article are the views of the author and do not necessarily reflect the views of SGV, the global EY organization or its member firms.

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