

## **Barriers to International Tourism and Air Connectivity: The Case of the Philippines**

Rosario Mielmia C. Aquino

### **ABSTRACT**

In an archipelago consisting of 7,107 islands and accessible to regional and transcontinental tourists only by air, international air connectivity is a crucial ingredient to the success of Philippine tourism and trade. This paper looked into the barriers the Philippines faces in terms of achieving an ideal international air network. The following are the most significant stumbling blocks to Philippine international air connectivity: Philippine Tax Laws particularly the 3.3% Common Carriers' Tax and 2.5% Gross Philippine Billings Tax; cost of overtime pay, transportation and meal allowances for the personnel of the Bureaus of Customs, Immigration and Quarantine; poor conditions at the Ninoy Aquino International Airport (NAIA); and Limited Air Liberalization policies. While the first two barriers have only been recently addressed, the inability of government to adopt an open skies policy stems from a bigger problem – poor conditions at the NAIA. While the present administration has taken bold and significant steps to reform policies that make the Philippines an “inhospitable” destination to fly to, it now faces the daunting task of funding and putting in place the necessary infrastructure to complement the strides it has taken in so far as legislation is concerned.

**Key Words:** transcontinental tourists, air connectivity, open skies policy, Limited Air Liberalization policies

Air transport is increasingly important to the global economy, be it for exportation and importation of goods or the movement of people. The ability to move people and goods quickly, reliably, and at a reasonable price in a production network is crucial. This depends considerably on air connectivity which encompasses the frequency of flights, reliability, and diversity of destinations available to end users (Arvis & Shepherd, 2010). Air connectivity makes a country an influential node within the global air transport system. The better connected a country is, the stronger the overall "pull" it exerts on the rest of the network (Arvis & Shepherd, 2010). Moreover, according to Arvis and Shepherd (2010), “A country’s connectivity score is higher if the cost of moving to other countries in the network is relatively low. It is considered to be less well connected if the dispersion of those costs is high.”

On 27-28 February 2012. the Asia Pacific Economic Conference (APEC) and the Department of Tourism (DOT) brought together leading officials from the Departments and Ministries of Tourism in the region, aviation regulatory commissions, local government units, tourism practitioners and members of the academe in a forum entitled “Destination APEC 2020: A Conference on Enhancing Tourism and Air Connectivity in the Asia-Pacific Region”. Discussions focused mainly on how air connectivity - or the lack thereof - impacts the tourism program of a country and a region thereby affecting economic growth. Among the topics discussed were: (1) Tourism and Air Connectivity in the Asia-Pacific Region; (2) Air Connectivity and Liberalisation: Effects on Tourism Growth; (3) Impact of Air Services Liberalisation on Tourism Growth: Progress in Regional Air Services Integration; (4) Impact of Air Services Liberalization on Tourism Growth: Country Experiences in Regulatory Reform Process; (5) Convergence of Tourism and Aviation Investment Policies ; (6) and Aviation and Tourism Growth: Implications for Airport Infrastructure (APEC Tourism Working Group, 2012).

This paper is a product of this conference and an amalgamation of various viewpoints and statistics gathered by industry prime movers such as the airline companies and the Department of Tourism, among others. The findings in this paper are expert opinions from the airline representatives of the Philippines, officials of the International Air Transport Association (IATA) and ASEAN Tourism Association (ASEANTA).

This paper is limited to the Philippine scenario. Its purpose is to present the barriers that hinder the Philippines from enhancing its international air connectivity as discussed in the conference and inferred by the author from the presentations and discussions of various experts. It also attempts to recommend measures that could be undertaken by the government and stakeholders in order to eliminate said barriers. These recommendations were partly derived from the various presentations in the conference as well as the author’s personal opinion.

### **Conceptual Framework of Reference:**

The researcher adopted the Value Chain of the Tourism Experience framework used by Mr.Felix J. Cruz, Vice President of Philippine Airlines, Chairperson of BAR and Chairperson of ASEANTA in his lecture entitled: “Convergence of Tourism and Aviation Policies: Case of the Philippines”. The author felt that this framework best describes the Philippine experience.

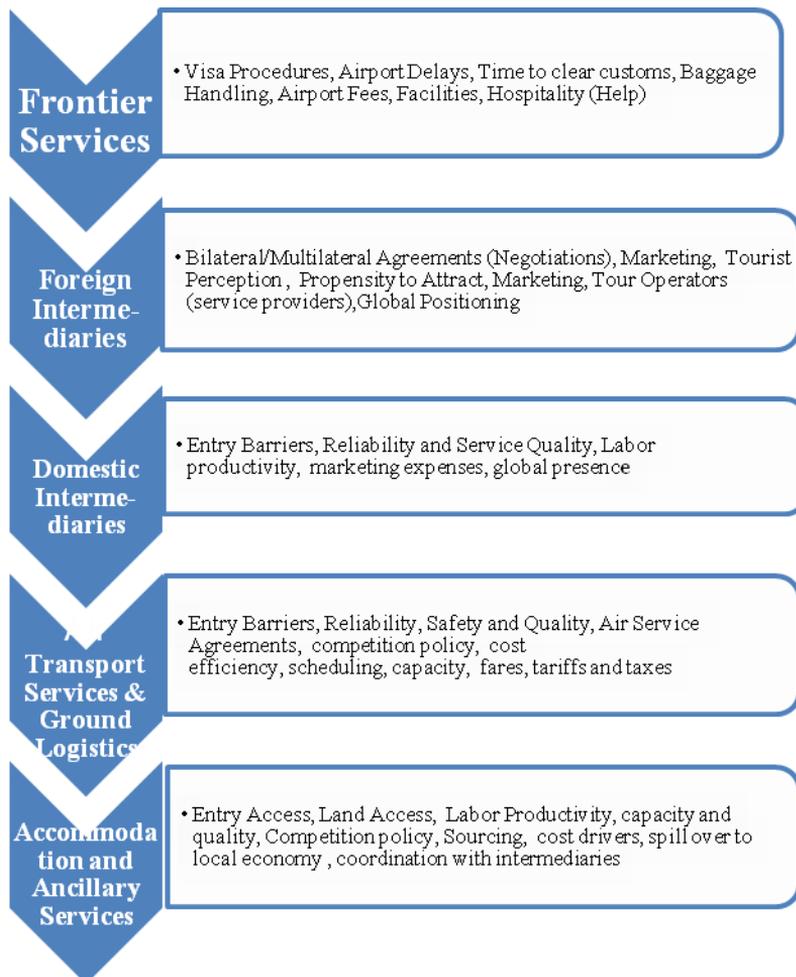


Figure 1 Value Chain of the Tourism Experience

Cruz posits that for airlines to be interested to operate in a destination, the seven factors affecting flight operations must be favorable. These factors are: frontier services; foreign intermediaries; domestic intermediaries; transport services; ground logistics; accommodation; and ancillary services.

This assembly of variables is the yardstick by which the researcher assessed the Philippine situation and determined the sticking points in the attainment of an ideal level of international air connectivity. These factors contribute to the cost of moving to other countries in the network and reflect the country's connectivity score. As Arvis & Shepherd (2010) had pointed out, connectivity score is determined by the cost of moving from one country to another within the network.

## FINDINGS

In ASEAN's comparative statistics of 2011, the Philippines was a poor 6<sup>th</sup> in tourist arrivals in the 10-member ASEAN region outperforming only Cambodia, Laos, Myanmar and Brunei Darussalam (ASEAN, 2012). Although it (Philippines) did better in 2012, with 4,272,811 tourist arrivals, this did not change its comparative ranking.

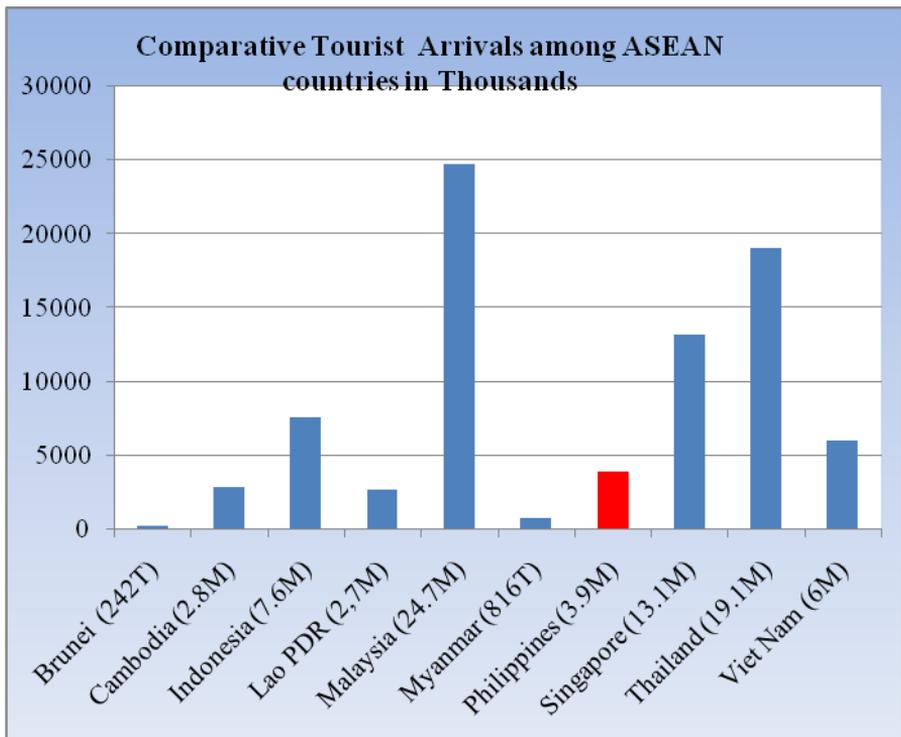


Figure 2 Comparative Tourist Arrivals  
Source: APEC Tourism Working Group, 2012

The Philippines must have a bigger slice of the tourism pie if we want to stay in the market. International air connectivity is imperative to achieve this goal. Given the archipelagic nature of this country, 98% of all foreign tourists in the Philippines arrive by air (Anjaparidze, 2012). Unfortunately, despite this fact, flight frequencies provided for by major international carriers in the long haul traditional markets is declining (Cruz, 2012).

Table 1  
Connectivity to Long Haul Markets

YEAR	Incoming flights from Europe per week	Incoming flights from US per week
2001	22	24
2011	7	16

Table 1.1  
Connectivity to Long Haul Markets

Country of Origin (2011)	DESTINATION		
	Thailand	Philippines	Singapore
USA	35	44	63
GERMANY	35		33
FRANCE	14		14
NETHERLANDS	18		14
UNITED KINGDOM	34		59

Source: Board of Airline Representatives (2011)

As to tourist arrivals by port of entry, 78% come through NAIA in Manila, 14% via the Mactan International Airport in Cebu, four percent (4%) through the Diosdado International Airport in Clark and four percent (4%) from other ports. Tourists, in this context refers to people from other countries who visited the Philippines.

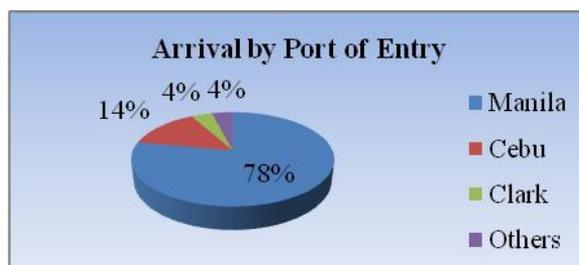


Figure 3 Arrival by Port of Entry  
 Source: Department of Tourism, 2011

NAIA is clearly the country’s most significant gateway. As with most of the countries’ premier airports, NAIA’s ability – or inability - to host airline operations and tourist arrivals and departures is crucial to air connectivity and ultimately to the tourism campaign efforts of the country.

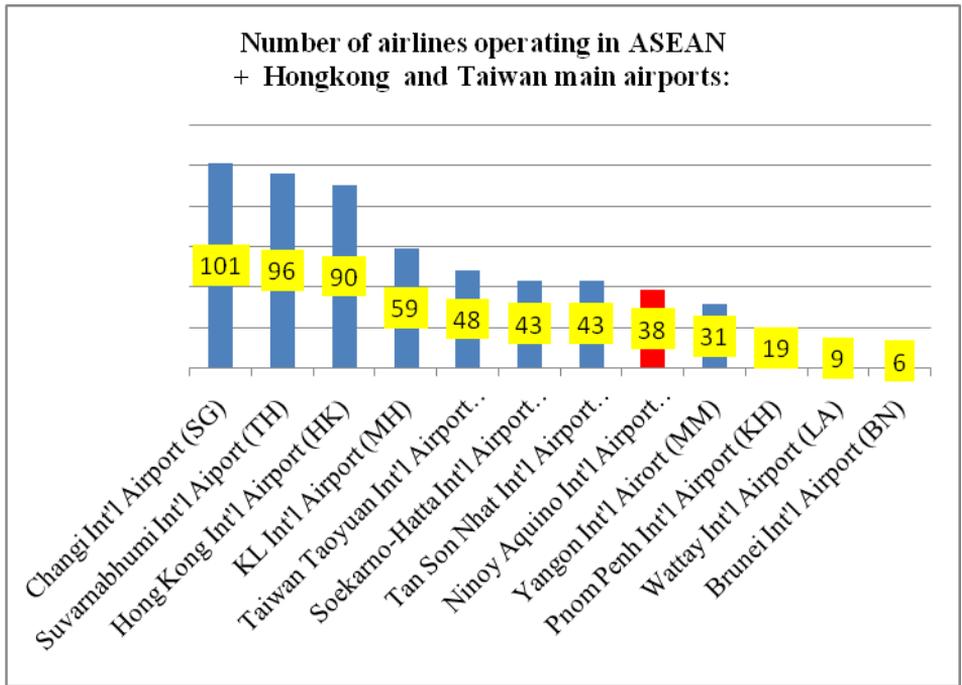


Figure 4 Airlines Operating in ASEAN  
 Source: Flight Stats

The graph above shows the rather dismal ranking of NAIA when it comes to number of airline operations compared to other ASEAN major airports plus closest neighbors and tourism powerhouses Hong Kong and Taipei. Airline carriers are often called air bridges and what make these “bridges” even more vital for the Philippines is that it is the only country in Southeast Asia that is accessible only by air (no passenger cruises dock in the Philippines).

The Philippine Civil Aviation Board (CAB) reveals that of the 55 carriers with authority to fly in and out of the country, only 45 operated last year - 38 of which operate at NAIA. . Among others, Aeroflot, Air France, Vietnam Airlines, Canadian Airlines and British Airways ceased flying to the Philippines in 2001 followed by Swissair,

Egyptair, Air France in 2004 and Lufthansa in 2008. So it is not just a lack of air agreements but the voluntary cessation of operations of carriers that have permits to operate in NAIA. Some of the reasons cited were top competition posed by other airlines (Du, 2008), common carriers tax and the gross Philippine billings tax on cargo and passenger revenues (Gonzalez, 2011).

The Board of Airline representatives (including representatives of Philippine Airlines and Cebu Pacific), the International Air Transport Association (IATA) and ASEANTA presented several barriers to better air connectivity in the Philippines:

### **As to Frontier Service:**

- **Congestion at NAIA Terminal I**

Originally designed for 4.5 million passengers yearly, the Ninoy Aquino International Airport Terminal 1 handled 8.2 million passengers in 2012 – almost two times its capacity. Data from the Department of Transportation and Communications (DOTC, 2012) showed that the fleet of commercial airlines using NAIA doubled to 119 from only 62 in 2008.

The website [sleepinginairports.net](http://www.sleepinginairports.net) (2010) which conducts annual surveys on the worst airports in the world (where NAIA Terminal I has, two years in a row – from 2010-2011, topped the survey) reports that outbound travelers at NAIA I continue to complain about the long and numerous queues that begin outside the terminal. Once inside, there is no place for quiet rest and enjoyment as passengers are kept busy going through various queues for the next few hours en route to the assigned gate. Inbound passengers meanwhile deplore the long lines at customs, insufficient seating, delays receiving bags on belts and poor quality restaurants (<http://www.sleepinginairports.net>, 2010).

Although Terminals 2 and 3 are more modern, the Centennial Airport (Terminal 2) has limited capacity and Terminal 3 is operating under its capacity.

### **As to Foreign Intermediaries and Accommodation Services**

- **Air Service Agreements and Infrastructure**

In response to the ASEAN agreement where member countries are to adopt a Single Aviation market, the Philippines claims to have adopted a policy that aggressively pursues open skies not only within ASEAN but beyond the region. The business sector calls it pocket open skies. On March 14, 2011, President Benigno Aquino III signed

Executive Order 28 and 29 granting certain countries freedom for their carriers to carry passengers from their home base to the Philippines **other than NAIA** and vice-versa, and the right to carry traffic between two foreign countries on a flight that either originated in or is destined for the carrier's home country (5<sup>th</sup> freedom traffic rights, EO 29).

However, infrastructure bottlenecks continue to choke not just NAIA but the country's aviation sector. Civil Aviation Aeronautics Board (CAB) Executive Director Carmelo Arcilla discloses during the conference that many foreign carriers are unable to find slots in most major Philippine airports and are deterred from mounting flights to the country. He said several major foreign airlines have decided not to start or expand operations in the Philippines due to the scarcity of space. This is particularly true at the Ninoy Aquino International Airport (NAIA). The only open slots, he reveals further, are during dead hours but there are no takers. He claims that there have been a lot of orders for slots, but NAIA cannot meet them.

### **As to Transport Services and Ground Logistics:**

- **Runway Limitations**

InterAksyon.com, the online news portal of TV5 reveals that NAIA's single runway has a capacity to host an average of 36 takeoffs and landings an hour. However, in 2012, the commercial and general aviation flight ran to as high as 50 events (takeoffs and landings).

Delayed take offs cost airlines money in terms of parking fees, aviation fuel (while engines are idling) and misconnections for passengers if the waiting time is significant.

- **Transit Facilities**

While NAIA-1 does have a VIP lounge and a day room for transiting passengers, the terminal does not offer a pleasant lay-over with no quality rest time in sight much less sleeping. The restaurants are inadequate, sitting is limited, the restrooms are below acceptable standards— at least in terminal I and the transit bus between terminals leaves when there are enough passengers and not on a regular schedule.

### **Tariff and Taxes**

Foreign carriers operating in the Philippines have been paying a 3% common carrier's tax (CCT) and up to 2.5% gross Philippine Billings Tax (GBPT). The 3-percent common carriers' tax is based on passenger volume while the 2.5-percent Gross Philippines Billings

Tax is imposed on passenger, cargo or mail originating from the Philippines up to final destination, regardless of the place of sale or payments of the passage or freight documents. The taxes imposed by the Philippines significantly increases air travel costs for the marginally-profitable airline industry and for the highly price-sensitive leisure traveler (BAR, 2012).

This certainly is a big deal especially for a country where 98% of tourists arrive by air. Several lobby groups urged the Government to abolish the CCT and GPBT, which has been levied on all revenues, passengers, cargoes and excess baggage leaving the Philippines.

In March 2012, Air France-KLM ended its non-stop flights to Manila and transformed its route to one with an intermediary stop in Taipei, thus reducing its Manila seat allocation and ending the last non-stop link to Europe. KLM general manager for South China Sea Cees Ursem blamed the “current economic circumstances,” specifically the high taxes imposed on the airline by the Philippine government for the move. He said the taxes were “big burden” on KLM’s Manila operations. Taipei, and other cities, he reveals, do not impose such taxes on the airline (Gonzales, 2011).

On March 7, 2013, the President signed RA 10378 entitled An Act Recognizing the Principle of Reciprocity as Basis for the Grant of Income Tax Exemptions to International Carriers. It came into effect 15 days after its general circulation. “The law aims to address the clamor of the airline industry for equal tax treatments between local and foreign air carriers and encourage the re-entry of aviation players that have left the country in the past due to unequal tax treatment.” (Gatdula, 2013, Philippine Star, August 4, 2013).

A travel tax of Two Thousand Seven Hundred Pesos (PHP 2,700) for First Class and One Thousand Six Hundred Twenty Pesos (PHP 1620.00) for Economy and Business class passengers is still imposed on all residents in the Philippines crossing country borders.

- **Accommodation and Ancillary Services**

The Philippine government agencies particularly the Bureaus of Customs, Immigration and Quarantine (CIQ) have been charging airline and shipping companies overtime pay, meal and transportation allowances for its employees serving at the international airports and seaports all over the country. (Cruz, 2012) Secretary Cesar Purisima in a September 13, 2012 press release reveals that CIQ officers charge their overtime work to the airlines at rates higher than the government’s pay scheme.

As early as July 31, 2012, he (Sec. Purisima) wrote a memorandum, to President Aquino recommending the discontinuance of charging overtime pay by customs, immigration and quarantine employees against airline companies claiming that such practice hurts the tourism industry. In the same manner, then Transportation Secretary Mar Roxas advised the Board of Airlines Representatives (BAR) and Airline Operators Council (AOC) to stop paying overtime pay to said government employees. The Cabinet Economic cluster then adopted a policy implementing a 24/7 shifting schedule and that government will fully finance the service rendered by the employees in the international airports. As of this writing, the agencies are presently in the process of increasing their manpower and promise that by 2013, a complete 24/7 operations will be in place so that no overtime pay need to be paid.

Tourism Secretary Ramon Jimenez opines that the practice of charging overtime work to airlines lacks transparency and is prone to abuse. This is substantiated by the April, 2012 airport customs examiners' complaint against their superiors for the alleged padding of overtime pay with the airlines.

As expected. Customs, Immigration and Quarantine (CIQ) officers at the three terminals of the Ninoy Aquino International Airport (NAIA) were up in arms over the Roxas' directive to the BAR and AOC to stop paying overtime to CIQ personnel because the government would be assuming such responsibility. According to CIQ officers, Section 7-A of the Philippine Immigration Act (PIA) provides that airline companies must pay the overtime wage of port workers, as had been the practice since 1950.

*“Immigration employees may be assigned by the Commissioner of Immigration to do overtime work at rates fixed by him when the service rendered is to be paid for by shipping companies and airlines or other persons served.”*

In September 2012, Senate President Pro Tempore Jinggoy Ejercito Estrada filed Senate Resolution 862 urging the Senate to conduct an inquiry in aid of legislation on the termination of the charging and collection of overtime pay of customs, immigration and quarantine employees against airline companies . He posits that the Philippine Immigration Act provides that immigration employees may be assigned by the Commissioner to do overtime work at rates fixed by him when the service rendered is to be paid for by the shipping companies and airlines or other persons served. The measure is co-authored by Sen. Panfilo Lacson and Sen. Ferdinand Marcos, Jr.

The resolution is presently at the committee level (Committees on Public Services and Finance).

## **CONCLUSION:**

With regards to policies, government has adopted positive measures for the purpose of eliminating the barriers to international air connectivity. It has passed legislation, abolishing the CCT and GPBT. It has likewise assumed the responsibility for paying the overtime compensation of CIQ employees (unless moves at the upper house to pass on the cost to the airlines prosper) while in the process of beefing up its manpower in order to have 3 shifts available to serve the needs of the aviation industry. These were two major deterrents for foreign carriers to the Philippines as they added up to operational cost. Short of full air liberalization, the Aquino administration has adopted a pocket open skies policy scrapping ceilings on frequencies of flights and seat capacities in all airports other than NAIA. What remains the largest hindrance to an ideal air connectivity status in the Philippines is NAIA. The terminal reserved for foreign carriers (Terminal I) is overcrowded, chaotic and lacks globally acceptable facilities. The availability of only one runway serving 4 terminals is not only a major turn-off for carriers interested to fly to the Philippines but also dangerous for the airlines already operating in Manila. With only 14% traveling through the Mactan International Airport and 4% through the Diosdado Macapagal International Airport, Manila is still clearly the preferred gateway to the country.

## **RECOMMENDATIONS:**

1. CIQ must complete its recruitment and training of additional manpower within the year to eliminate any overtime compensation for employees.
2. NAIA terminal I must be upgraded immediately.
3. Terminal III must be fully utilized and the transfer ASEAN carriers to this terminal should be considered.
4. The development of secondary gateways must be expedited. The Diosdado Macapagal International Airport in Clark must be upgraded and made more accessible (express train, safe, regular, reliable and affordable coach transfers) to and from Metro Manila.
5. The Legislative-Executive Development Advisory Council (LEDAC) should be convened and the policy direction for the

aviation and tourism industries must be included in their agenda.

The Philippines under the present administration is certainly cognizant of the importance of establishing international air connectivity. It has undertaken bold and significant steps in pursuit of this goal. It now faces the daunting task of funding and putting in place the necessary infrastructure to complement the strides it has taken in so far as policies and legislation are concerned.

## REFERENCES

- Anjaparidze, G. (2012). *Impact of Aviation Taxes on Tourism Growth*. [PowerPoint Slides]. International Air Transport Association .
- Arvis, JF & Shepherd, D (2011). The air connectivity index: Measuring integration in the global air transport network. (Policy Working Paper No. 5722). The World Bank.
- Cruz, F (2012). *Convergence of Tourism and Aviation Policies: The Case of the Philippines* [PowerPoint slides]. Board of Airline Representatives.
- Amojelar, D. (2013, March). International passenger traffic growth slumps to a 3-year low on NAIA congestion. Retrieved from <http://www.interaksyon.com/business/57139/international-passenger-traffic-growth-slumps-to-3-year-low-on-naia-congestion>
- ASEAN (2012). Tourism Statistics. Retrieved from <http://www.asean.org/news/item/tourism-statics>
- Departures and Arrivals. Retrieved April 9, 2012 from*  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=SIN>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=BKK>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=HKG>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=KUL>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=TPE>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=CGK>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=SGN>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=MNL>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=YGN>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=PNH>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=VTE>  
<http://www.flightstats.com/go/Airport/airportDetails.do?airportCode=BWN>
- Du, G. (2008). *Lufthansa to cease Manila-Europe flights*. (2008, January 29). Xinhua News Agency. Retrieved on July 25, 2013, [http://news.xinhuanet.com/english/2008-01/29/content\\_7520689.htm](http://news.xinhuanet.com/english/2008-01/29/content_7520689.htm).

- Executive Order 28, S 2011. Official Gazette. Retrieved from <http://www.gov.ph/2011/03/14/executive-order-no-28-2/>
- Executive Order 29, S 2011. Official Gazette. Retrieved from <http://www.gov.ph/2011/03/14/executive-order-no-29-2/>
- Gatdula, D.L. (2013). Tourism infra spending to reach P70 B by 2016. Phil Star Business. Retrieved from <http://www.philstar.com/business/2013/08/04/1047821/tourism-infra-spending-reach-p70-b-2016>
- Gonzales, M. (2011). *Palace concerned with KLM plan to cease Manila flights*. (2011, October 20). ABS-CBN News. Retrieved <http://www.abs-cbnnews.com/business/10/19/11/palace-concerned-klm-plan-cess-manila-flights>
- RA 10378. Official Gazette. Retrieved from: <http://www.gov.ph/2013/03/07/republic-act-no-10378/>
- Senate Resolution No. 862: Payment of Overtime Pay (Philippine Immigration Act. Retrieved from: [http://www.senate.gov.ph/lis/bill\\_res.aspx?congress=15&q=SRN-862](http://www.senate.gov.ph/lis/bill_res.aspx?congress=15&q=SRN-862)
- 2012 *Worst Airports*. (n.d.) Retrieved April 15, 2013 from [http://www.sleepinginairports.et/2012\\_best-airports.htm#.UWwxd6L.WLXA](http://www.sleepinginairports.et/2012_best-airports.htm#.UWwxd6L.WLXA)