OECD COMPETITION NEUTRALITY REVIEWS

Small-package Delivery Services in the Philippines

Highlights

Competitive neutrality (state-owned and private businesses competing on a level playing field) ensures that all enterprises, public or private, domestic or foreign, face the same sets of rules. Ensuring a level playing field between public and private market participants leads therefore to more choice, higher quality and lower prices for consumers and ultimately benefits economic growth and development. This is why it is useful to assess the impact of SOEs on competition.

The OECD was tasked by the ASEAN Secretariat and the ASEAN Expert Group on Competition, with funding from the UK Prosperity Fund (UK Government), to carry out an independent assessment of the impact of state-owned enterprises (SOEs) on competition in the small-package delivery services sector in ASEAN. The results of the assessment can help to promote a level playing field between SOEs and private entities in ASEAN and help detect special rights and privileges granted to SOEs that affect long-term growth and competitiveness. This document presents the highlights and main finding from the assessment and the full review is available at oe.cd/comp-asean.

The review is the result of an assessment by the OECD based on an analysis of selected (prioritised) Philippine legislation, interviews with stakeholders and desk research. The review took place in stages. **Stage 1** served to determine the exact scope of the study. Philippine Postal Corporation (PHLPOST) was identified as the relevant SOE, and the main laws and regulations and other SOE-related information were analysed. The OECD team met with government authorities, industry associations and private stakeholders. **Stage 2** screened the relevant legislation to identify potential provisions affecting the level playing field and to understand their rationales and policy objectives. **Stage 3** analysed the special rights, privileges and duties of the PHLPOST in depth. **Stage 4** served to draft the report with non-binding recommendations. The draft review and recommendations were shared and discussed with the relevant public stakeholders.

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SOEs and competitive neutrality

SOEs may enjoy rights or privileges unavailable to private competitors, which could confer undue competitive advantages. These advantages can make market entry or expansion more difficult for (domestic or foreign) private companies and result in a competitive obstacle. At the same time, SOEs may be subject to obligations, which can affect their ability to compete effectively with private companies. Examples of advantages of state-owned enterprises or factors that may affect competitive neutrality are:

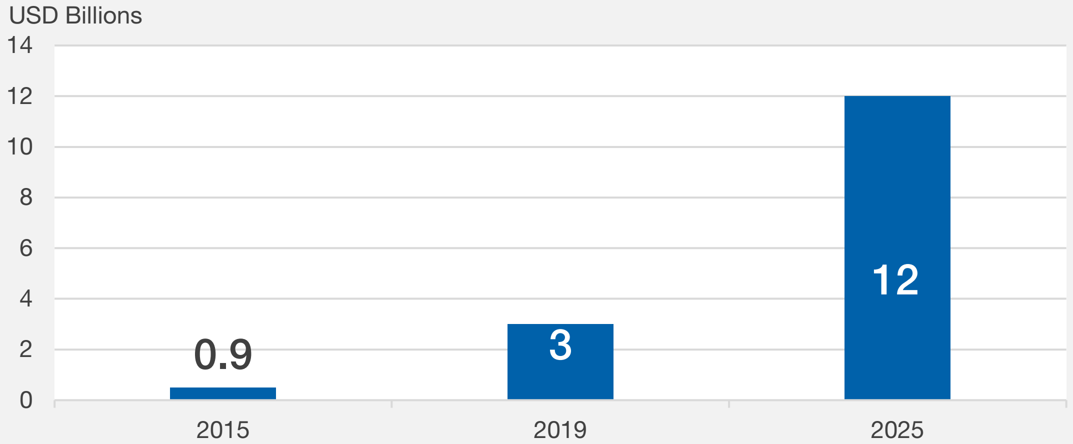
1. Financial treatment → Outright subsidies; State financing and guarantees
2. Asymmetrical regulation → Monopoly rights and incumbency advantages; Other preferential treatment by the government
3. Corporate governance → No separation between regulatory and commercial functions; Exemption from takeover and bankruptcy rules

E-commerce and small-package delivery services

The COVID-19 pandemic is disrupting global supply chains in unprecedented ways and will have a significant economic impact with GDP contractions in most ASEAN member states, including the Philippines, in 2020. However, due to the COVID-19 outbreak, the use of e-commerce has increased abruptly and sharply. The COVID-19 pandemic will lead to long-term changes, accelerating the shift to e-commerce. Many brick-and-mortar businesses will also evolve offering services beyond retail, including last-mile deliveries.

The Philippines has placed significant importance on e-commerce as one of the key areas that would benefit from the development of trade and investment, as noted in the Philippine E-Commerce Roadmap 2016-2020. E-commerce revenue in the Philippines was estimated at USD 970 million in 2019. As the Philippines e-commerce market has seen rapid growth, competition in small-package delivery services has increased in recent years. There are a number of third-party logistics companies, including both local and regional players, active in the country. However, the market for small-package delivery services remains highly concentrated. A level playing field in small-package delivery services is crucial for developing a competitive market and fulfilling the sector's potential.

E-commerce market value in the Philippines (2015-2025)



Source: Google, Temasek and Bain & Company, e-Conomy SEA, 2019

SOEs and the sector for small-package delivery services

SOEs (or Government-owned and controlled corporations, GOCCs) play an important role in the Philippine economy, including in the delivery industry.

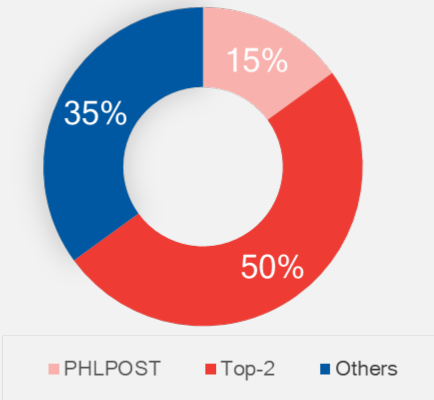
In 2018, the Philippines had 120 GOCCs with a total value of assets of PHP 7 916.07 billion, a net worth of PHP 3 626.28 billion and a comprehensive income of PHP 225.43 billion.

Source: Governance Commission for GOCC, 2018

As in other countries, the state has been active in the postal sector in the Philippines for many years. Established as a chartered Government Owned and Controlled Corporation in 1992, PHLPOST was initially attached to the Department of Transportation and Communications. PHLPOST is now under the direct jurisdiction of the Office of the President.

PHLPOST has a public service obligation to deliver letters and parcels, including small packages, throughout the Philippines. It has one of the largest networks in the Philippines and operates both non-express (postal) services and express (courier) services.

In 2019, three market players – JRS Express, LBC Express and PHLPOST – are estimated to represent approximately 65% of the B2C domestic market for small-package delivery services.



Key recommendations

1. Adequately compensate PHLPOST for its public service obligations (PSO) and ensure accounting separation between PHLPOST's PSO and commercial activities.
2. Subject PHLPOST's commercial activities to licensing requirements comparable to those imposed on other players.
3. Amend legislation to clarify that PHLPOST does not exercise any regulatory powers on the sector.
4. Ensure that legislation explicitly states that DICT-PRD sectoral regulation applies equally to PHLPOST and its competitors.
5. Amend legislation to reflect that the state will not grant any preferential (financial) treatment to PHLPOST.

Fostering Competition in ASEAN

Funded by the UK Prosperity Fund (UK Government), **Fostering competition in ASEAN** is a project that aims at assessing regulatory constraints on competition in the logistics sector in all 10 ASEAN countries identifying regulations that hinder the efficient functioning of markets and creating a non-level playing field for business.

The project runs two parallel components: **competition assessment reviews** of specific logistics sub-sectors and **competitive neutrality reviews** of small-package delivery services.

This report and the accompanying "OECD Competitive Neutrality Reviews: Small-Package Delivery Services in the Philippines" are contributions to implementation of the ASEAN Competition Action Plan.

Access all reviews and more information on this project at **oe.cd/comp-asean**