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# PortCalls

The Philippines' only shipping and transport guide

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## Draft order requires off-dock operators to automate inventory management system

- Under the draft order, all off-dock/off-terminal customs facilities and warehouses (CFW) must implement an automated inventory management system to be provided by an accredited service provider
- An automated inventory system will allow BOC to strictly monitor and generate real-time and accurate information on the status of goods received by, stored in and withdrawn from CFWs
- The draft order is scheduled for virtual public consultation on April 23

A draft customs memorandum order (CMO) requiring mandatory use of an automated inventory management system (IMS) by off-dock and off-terminal customs facilities and warehouses (CFW) will undergo virtual public consultation on April 23.

The proposed order covers goods entered and stored in off-dock and off-terminal accredited CFWs and withdrawn from there for consumption, warehousing, transit, transshipment or export.

An automated inventory system enables BOC to strictly monitor and generate real time and accurate information on the

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## Cebu Pacific raises additional \$250M for recovery plan

- Cebu Pacific has approved a US\$250-million investment in the form of convertible bonds, the second part of its \$500 million fundraising plan
- The convertible bonds from International Finance Corp. (IFC), IFC Emerging Asia Fund, and Indigo Philippines LLC were approved by the Cebu Pacific board in a special meeting on April 16
- Shares for the convertible bonds number 318.750 million and has a P38 conversion price

LOSS-MAKING Cebu Pacific has raised US\$250 million in investment from private investors, the fresh infusion representing the second part of the low-cost carrier's \$500 million fundraising plan to jump start its recovery.

The investment in the form of convertible bonds from the International Finance Corp. (IFC), IFC Emerging Asia Fund, and Indigo Philippines LLC was approved by the Cebu Pacific board in a special meeting on April 16, the carrier said in a regulatory disclosure.

On the same date, Cebu Pacific also signed an agreement with the three investors to receive the \$250 million convertible bonds.

The number of underlying shares for the convertible bonds is 318.750 million common shares with a P38 conversion price.

Transaction closing is subject to post-signing deliverables, which the parties expect to complete over the succeeding weeks.

The IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. The IFC Emerging Asia Fund, on the other hand, is a \$693 million private equity fund managed by the IFC Asset Management Company.

Indigo Partners, meanwhile, is a US-

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based private equity firm that specializes in investing in the aviation sector. Its current airline investments include Frontier Airlines (USA), Volaris (Mexico), Wizz Air (EU) and JetSMART (Chile).

The \$250-million convertible bonds are part of the \$500 million fundraising plan—called the Business Transformation Fundraising Plan—that Cebu Pacific announced last year.

The plan had also included raising additional capital by issuing up to \$250 million in new convertible preferred shares. Last March, the airline's convertible preferred shares were successfully listed on the Philippine Stock Exchange, providing Cebu Pacific with P12.5 billion

in fresh capital.

The fundraising aims to enable Cebu Pacific to "navigate the current environment and thrive in the new normal."

The carrier said it "saw the urgent need to fast track its transformation" due to the "exceptional change in market conditions and industry dynamics" brought on by the COVID-19 pandemic that is outside the company's control.

It noted that travel restrictions imposed by various governments, both local and abroad, have sharply reduced passenger traffic and cast "uncertainty over the near term prospects of the corporation despite its market leadership."

The proceeds from the offer will be

used to strengthen the company's balance sheet by providing liquidity to address its financial liabilities. These include P4.805 billion allocation for repayment of an advance by parent company JG Summit Philippines Ltd.; P3.913 billion allocation for aircraft operating lease payments due in 2021; P3.328 billion allocation for principal debt repayments due in 2021; and P0.384 billion allocation for general corporate purposes, which are primarily for passenger refunds.

In addition to the two fundraising programs, Cebu Pacific last March 5 signed a 10-year term loan facility amounting to P16 billion with a syndicate of domestic banks.

## Maersk: Strong Asia cargo demand thru Q2 to amplify congestion, shortage

- Sustained box shipping demand from Asia to East Coast and West Coast of North America to continue in second quarter
- Port congestion and delays—especially in the Los Angeles and Long Beach ports—won't ease up anytime soon
- Vessel estimated arrival times into Asia being delayed by more than a week
- Equipment shortage will remain an industry-wide challenge in Asia, especially from April 19 until early May
- More than 10 missed sailings might not be covered in the coming weeks due to schedule delays and lack of available additional

### vessels to fill the gaps

STRONG demand for Asia exports will continue in the second quarter of the year, prolonging equipment shortage in the region as well as congestion and delays in US ports, according to a new Maersk forecast.

"We expect the strong demand from Asia to both the East Coast and the West Coast of North America to continue in Q2. The sustained surge in demand means that port congestion and delays—especially in the Los Angeles and Long Beach ports—will most likely not ease up any time soon," the integrated logistics giant said in an April 16 Asia-Pacific market update.

It added that the congestion is also delaying vessel estimated arrival times into Asia by more than a week.

Maersk noted, too, that equipment shortage remains an industry-wide challenge in Asia.

"We will see the largest impact in the following week, starting on 19th April until the beginning of May, as both empty containers coming back to Asia are delayed and import returns are lower. During those two weeks, we will see a tight equipment situation across a wider range of China ports, as well as Busan in Korea."

From May 3, the situation will be improving, and Maersk expects the empty container supply to normalize for the week of May 10, adding it continues to purchase and charter additional equipment.

### Container equipment outlook

The carrier also gave its Asia-Pacific regional equipment outlook based on

the supply in the past weeks and demand forecasts.

**20-foot dry containers:** Regional stock is enough to cover demand forecasts

**40-foot high cube dry containers:** Regional stock is currently not sufficient to cover demand forecasts.

"From this week onwards, equipment supply may be delayed due to port congestion and the Suez incident. Shanghai and Ningbo ports are majorly impacted as they provide the main bulk of supply to Europe. Furthermore, with all these delays, coastal re-positioning might be impacted," it said.

**45-foot high cube dry containers and 40-foot non-operating reefers:** Regional stock is not enough to cover demand forecasts

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## e-commerce logistics up 27.3% in 2020, to hit \$660B in 2025

- Global e-commerce logistics market posted strong 27.3% growth in 2020 and is forecast to grow at a CAGR of 8.6% from 2020-2025
- Retailers' online sales volumes grew rapidly last year but their logistics costs also increased
- Logistics providers growing in importance in helping e-retailers meet consumer demands
- Last mile is one of the major constraints of e-retailing, now one of the most important sectors

### in logistics and likely to undergo major restructuring

THE global e-commerce logistics market grew by 27.3% in 2020, the exceptional growth spurred by COVID-19's tremendous impact on the retail landscape, according to a new Transport Intelligence (Ti) report.

Ti's Global e-commerce Logistics 2021 highlights the rapid growth of the e-commerce logistics market as online retail demand soars and consumer requirements for same or next-day last mile

delivery options rise sharply.

While the e-commerce logistics market is experiencing rapid growth during the pandemic, growth is expected to moderate to a still strong compound annual growth rate or CAGR of 8.6%, hitting EUR557 billion (US\$666 billion) by 2025.

The moderation is largely because of frontloading of e-commerce adoption with the pandemic accelerating online retail adoption through 2020.

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# Draft order requires off-dock operators...

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status of goods received by, stored in and withdrawn from off-dock and off-terminal accredited CFWs. This ensures correct payment of duties, taxes and other charges due on loose cargoes.

Released by the Department of Finance (DOF) and Bureau of Customs (BOC), the order, once approved, will implement Customs Administrative Order (CAO) No. 09-2019, which provides guidelines for the establishment, maintenance and operations of CFWs. It will also execute CAO 14-2020, which covers accreditation and regulation of value-added service providers (VASP).

Under the draft CMO, all off-dock/off-terminal CFWs licensed to operate by BOC must implement an automated IMS to be provided by an accredited service provider.

Facilities for the temporary storage of goods, CFWs are established and authorized by BOC pursuant to Title VIII (Tax and Duty Deferment, Preference and Exemption), Chapter 2 (Customs Warehouses) of the Customs Modernization

and Tariff Act.

### What are CFWs?

These facilities include container yards (CY), container freight stations (CFS), seaport temporary storage warehouses, airport temporary storage warehouses, and other premises for customs purposes. Other types of CFWs are terminal facilities, off-dock CFWs, off-terminal CFWs, and inland container depots.

CFWs also extend to examination areas, cold storages, wharves, infrastructure and other premises where goods subject to customs clearance may be stored, examined, or disposed of. This is intended to protect government revenues, prevent the entry of contraband, and curtail customs fraud.

The deputy commissioner for BOC's Assessment and Operations Coordinating Group (AOCG) will oversee implementation of the IMS, while actual operations of the system will be supervised by the deputy collector for operations of the port. Wharfingers assigned at CFWs and

other authorized customs personnel will have access to the IMS to monitor the actual status of transfer of containers from port of discharge to the off-dock/off-terminal CFW, as well as the status of the cargo from receipt, storage and release of goods from there.

The transfer of containers from the port of discharge to an off-dock/off-terminal CFW must be covered with BOC's Electronic-to-Mobile System's Transit Permit Single Administrative Document (P-SAD) together with other documentary requirements. The P-SAD will replace the current manual hard copy Permit to Transfer to Outside CY-CFS.

### Enrollment in E-TRACC

Each container must also be enrolled in BOC's Electronic Tracking of Containerized Cargo (E-TRACC) System before full completion of customs cargo clearance.

Containers transferred from the port of discharge to an off-dock/off-terminal CFW without being secured with an E-TRACC seal will not be allowed to be

opened by any customs officer without the approval of the district collector of the port of discharge. BOC may also impose any penalty or sanctions that apply under the circumstances.

The IMS service provider will collect a fee for the use of the web and device applications, cloud database, and support services. The proposed fee structure is as follows:

- P200, excluding value-added tax, for every released house bill of lading

- P125,000, excluding VAT – one-time setup fee for each CFW location for the application configuration, database and reports setup, project management, training sessions, one mobile device, and one Bluetooth printer

The IMS Accreditation Committee will review the fee structure each year and may recommend changes to the Customs commissioner.

Any CFW that obstructs or violates any provisions of the proposed order will be imposed penalties under CAO 09-2019. – **Roumina Pablo**

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