

4.2 Recommendable Institutional and Regulatory Framework

4.2.1 Reinforcement of the Privatization Philosophy

(1) The Nature of the Privatization

There are many interpretations regarding “ Privatization “. It is just like the confused case of the tower of Babel. Many different ideas are conveyed by the word “ Privatization “. The inter-relation of privatization and nationalization is shown in the Figure 4.2.1-1. The horizontal line shows the degree of Privatization, while the vertical line shows the degree of Business Ethics. On the Privatization Line (horizontal) the extreme left means the position of the perfect national organization and the extreme right end point shows the perfect private company. As for the Business Ethics Line, the highest point shows the business climate of the highest Business Ethics. The lowest point naturally shows the worst Business Ethics climate. According to this standard , it is possible to dot any type of organization or company on the Figure 4.2.1-1.

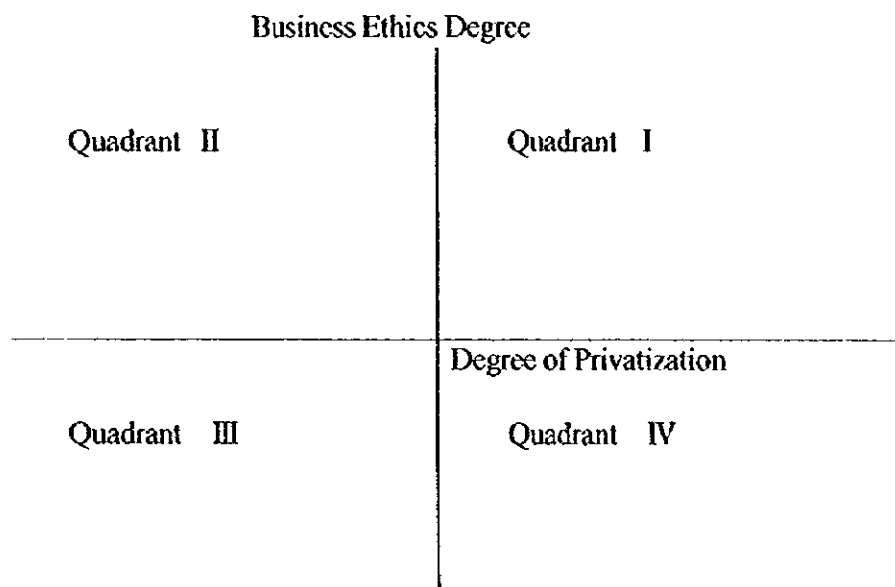
The first quadrant (I) shows the area of the Privatization and the higher Business Ethics. The quality of companies and organizations in this quadrant varies according to both degrees. The ideal company can be dotted at the point of the right end and the highest end of the Figure 4.2.1-1.

The second quadrant (II) shows the area of the National or Non-Privatized organizations. The GOCCs (Government Owned and Controlled Corporations) can hopefully be dotted somewhere in this quadrant. Why “ hopefully “? Because some of the GOCCs are regretfully dotted in the third quadrant(III) where Business Ethics is low or very low.

The fourth quadrant (IV) shows the private sector where the Business Ethics are not satisfactorily high or very low. The business climate brought about by the companies dotted in this quadrant could be extremely bad. Any type of business crime, in large scale or small, could happen because the executives and management people lack Business Ethics.

In short, the Privatization efforts should be concentrated to bring all companies and business organizations privatized to the first quadrant. Otherwise, Privatization will not have any meaning. This point can not be emphasized enough.

Figure 4.2.1-1 Inter-relation of Privatization and Nationalization



Source: JICA Study Team

(2) How to Reinforce Business Ethics

Very basically, it is necessary to go back to the education system and instill from early on the need for an ethical business climate. However, with society influence, economic activities are ceaselessly carried out through every day life and it is simply impossible to stop all activities of society and wait for the next generation. Therefore, efforts to bring forth a desirable business society must be carried out in every possible way.

It is obvious that when SBMA separates one of its fields of activities through privatization, the mental climate is transferred to the new organization. That means the original education of ethics in SBMA is not only desirable, but also indispensable. One standard way is for management to declare " Code of Ethics " that is to be strictly adhered to by all employees. However, it is not employees but the management that needs to have strict moral for business activities.

Therefore, the best way is that the possible way to reinforce Business Ethics is to conclude a nationwide general agreement on the Business Ethics which is to be equally applied to any business organization, regardless whether it is private or public. The democratic economy in the free world will collapse instantly if the component members neglect to purify the decay by themselves.

Any society which does not have a self purifying machinery shall not be able to live on long.

(3) Another Aspect of Privatization

The analysis of Privatization has been concentrated on the inter-relation between Business Ethics and Privatization. There is another aspect , however, to evaluate the true economic role of the Privatization. That is the aspect of “ Service “ in business activities.

It has been experienced in many countries in the world that once a national enterprise is privatized, the service is generally improved remarkably and the balance sheet recovers. From the modern economics view point, this is the result of the market equilibrium mechanism. Therefore, any privatized company dotted in the fourth quadrant of the Figure 4.2.1-1 is not desirable but also it is easily imagined that the services of the company will not be satisfactory. This is because the correlation between Business Ethics and Service is strong. It is illogical that good service would be given by a company with low Business Ethics and also that bad service would be given by a company with high Business Ethics.

From the view point of the customer or consumer, the Service is generally visible, at least perceptible, while the Business Ethics is usually invisible. In this regard, to maintain high Business Ethics standard is more difficult than maintaining Good Service. The human body may serve to illustrate this point by equating Business Ethics to an internal organ and Service to the outer skin. If something happens to the skin, for example a rash, it is rather easy to cure if it has not originated from any disease of an internal organ. However, in case of an internal organ, say a stomach, the cure may not be so simple.

In order to judge the health condition of a person, it is a general way to read his face, namely his countenance. If he is smiling and looks fresh, he is healthy. Instead if one looks gloomy and pale, he has some problem either physically or mentally, maybe both. Exactly the same method can be introduced to judge the condition of a business organization.

4.2.2 Health Check Items of Port Privatization

(1) Business Ethics/Service Standard

The vision of the SBMA includes the following statement:

“ SBMA shall be at the forefront of the Philippine’ pursuit of enviable economic and social progress into the next millennium; capitalizing on Subic Bay’s strategic location and inherited infrastructure while continuously developing its facilities into a world-class freeport with a highly competitive, customer driven

workforce.”(Emphasis added)

The above vision shows that SBMA is changing from its ex-US Navy body origins to a customer oriented organization. However, to further expedite this transformation will not be an easy job for the management of SBMA. It is at this stage that the Business Ethics and Service Standard need to be introduced. A GOCC with high standard of Business Ethics and high Service Standard is desirable but does not always exist. There are many examples to the contrary in countries of the world.

The first health check item of whether an organization is worth being privatized or not lies in the field of the general feeling of the Business Ethics and the Service Standard which GOCC find it hard to deal with generally.

This is a fundamental item in assessing the health of an organization being considered for the Privatization. It is just like the body heat (temperature) of a human body. If it is very low, the public organization can not function and Privatization would be justified as a means to improve the situation.

(2) Efficiency/Productivity

At the time of reporting (January, 1999), about 5, 000 personnel including FSC are working for SBMA. Including about 200 (excluding 73 volunteers) employees of the Seaport Department. It would be fair to say that both figures are more than enough. Just to evaluate the efficiency of the total personnel, let us divide 1998 total revenues of P 1.6 Billion by 5,000.

$$P\ 1.6\ \text{Billion}/5,000\ \text{men} = P\ 320,000/\text{man}\ (\text{about}\ \$8,000)$$

Gross average revenue per man of the SBMA is \$8,000.

For the case of the Seaport Department, about P83 Million was earned by 200 employees in the year of 1998.

$$P\ 83\ \text{Million}/200\ \text{men} = P\ 415,000/\text{man}\ (\text{about}\ \$10,000)$$

The above figures are higher enough when compared with the per capita GDP of this country i.e. 1994: \$934, 1995: \$1,055, 1996: \$1,166, 1997: \$1,127. However, there is much room for improving when compared with GDPs of Japan, US and some European countries which are at the level of near \$30,000.

Apart from the above standard of evaluation, Bataan Ecozone Profile shows that about \$396 Million was attained for Export by 24,285 men, thus per man figure is \$16,311 per year in

1997, or about double the overall average of SBMA employees.

On the other hand, here is a nationwide evaluation standard available to judge the scale of the gross amount of the earning. "The top 2000 Corporations in the Philippines " (Source: Securities and Exchange Commission) which was published on February 2, 1998 by Manila Bulletin is the latest of this kind.

According to this list, the total gross revenue of P 1.6 Billion of the SBMA is 246th of the 2000 corporations. A Muramoto Audio-Visual Phils., Inc. in MEPZ(Mactan Export Processing Zone) Lapu-Lapu of Cebu earned the total revenue of P1.6 in the year of 1996. Because the total number of employees of the company is about 1,500, the average gross revenue per man per year is \$26,750, more than three times of the figure of the SBMA's.

Also looking into " the Philippine Top 2000 ", there are some interesting examples in the water-front and ocean going industries as follows:

Table 4.2.1-1 The Three Companies Comparison

Rank	Industries	Company	G. Earning	Employees	\$/man
204	Container Terminal	ICTSI	P2.0 Billion	800	\$62,500
272	Ocean Liner	APL	P1.5 Billion	200	\$75,000
486	Ocean Liner	Sea Land	P0.8 Billion	150	\$53,000

Source: Philippine Top 20000 1996

*Remarks: ICTSI--International Container Terminal Services, Inc.

APL ---American President Lines, Ltd.

Sea Land--Sea-Land Services, Inc.

It is obvious that SBMA's per man productivity or productivity of value added are both very low and thus an effective measure to improve the productivity could be the Privatization.

The Efficiency and Productivity are closely connected each other like a vein and the pulse rate. They are very important items for the health check of a business organization.

(3) Profitability

The gross sales amount or revenue just shows the scale of an organization, and therefore another evaluation standard becomes necessary, that is, profitability which is shown by the following formula:

$$\text{Ratio of Ordinary Profit to Net Sales} = \text{Ordinary Profit/Net Sales}$$

SBMA's 1997 Net Income After Tax (which corresponds to Ordinary Profit for a private company) was P 2.1 Million, thus the above Ratio is P2.1/P1,600.0 Million equals 0.13%. On the other hand the Muramoto Audio-Visual Phils., Inc which earned about P1.6 Billion in 1996, attained the Ordinary Profit of P163.5 Million, thus the Ratio is P163.5/P1,600.0 equals 10.2%.

The Ratios of these two organizations are eloquent of the difference of profitability and efficiency. Namely, Muramoto is 100 times more profitable than SBMA. (10.2% vs 0.13%). It is worth recalling that according to the Efficiency/Productivity standard, Muramoto is about 10 times more Efficient and Productive.

There is a good example to show that a mere sales amount does not guarantee the prosperity of a company. According to " Philippine Top 2000 ", Philippine Airlines (PAL) ranked eighth in total earnings with P28.7 Billion, but registered a record loss of P2.2 Billion, which was the last but one (1999) among the 2000 companies.

ICTSI, which ranked 204th in earnings was 115th in profits. APL was listed as 42nd in the race of Profit despite the fact it was 272nd in Sales. On the other hand, Sea-Land which was 486 in Sales was 1953rd in Profit because it posted a loss of P69.6 Million.

The profit is the nucleus of an economic organization like the heart of a human body and profitability is a condition of the heart. The above examinations show the importance of the profit and the profitability. PAL, the Nation's eighth largest company has died because of non profitability, a heart attack. Some of the home doctors of PAL had known of the fatal disease for a long period but failed to write out the right prescription. The accumulation of huge losses year by year finally took the life of PAL. The cause of the death of PAL, therefore, is very clear and the question whether Privatization or Nationalization is the best way to revive the Company is not germane

The gravest problem facing PAL is its non profitability, which is the result of poor management. So far, talks for a possible alliance with Cathay Pacific Airways Ltd. And Northwest Airlines have stalled for this reason. In other words, if profitability can be demonstrated, there would be many candidates to rescue PAL.

The possibility of generating some amount of profit subject to management skill is a necessary condition for Privatization of any organization in the public sector. If there is no hope of profit under any circumstances, then the Privatization would be pointless. It is like the fidelity of trying hard to revive a dying patient with a feeble heart.

(4) Degree of Public Nature

In regard to the above “ Profitability “, some may ask whether there is really any field where no one can produce a profit, or profit itself is not allowed to be generated. In the democratic free economy, an appropriate profit is recognized. However, in some limited fields which are considered as component sectors of infrastructure, it has long been thought immoral to get a profit from business in those fields.

Infrastructure means basic structural foundations of a society or enterprise such as roads, bridges, waterworks, sewers, etc.. Because infrastructure is a country’s economic foundation, it has been believed by the public that those facilities and services should be maintained and supported by taxes and public servants without any argument whether it is the best way or not.

In the US of the early ‘80s, an opinion that better public services could be possible through the private sector became popular. Soon, many of the services which previously had been considered as typical public services were subcontracted to private companies. Among them are various schools, hospitals, fire stations and even churches.

Quite recently, the water supply service of Washington has become the target of the argument whether it is practically necessary. The reason is that because the quality of water is getting worse, about 60% of the citizen are not drinking the public water and instead buying water from the public water companies. There are three public water companies in Washington and they are competing with each other to supply water of better quality. This case shows that the concept of Public has been drastically changing and there is no sanctuary of Public any more in Privatization.

It is to be born in mind that eventually any functions of the Philippine Government except military services can be privatized if they produce better effect to the public.

In summing up, the following health check items should be used as standards in determining whether privatization is necessary:

Health-check Items of GOCCs	Need to be privatized when
1. Business Ethics/Service Standard	low or very low
2. Efficiency/Productivity	low or very low
3. Profitability	no room to improve
4. Degree of Public Nature	no sanctuary

4.2.3 The Outline of The Privatization of SBMA

(1) Overview

In a broader definition of the Port of Subic, it is necessary to grasp the outline of Privatization of the whole SBMA. The Table 4.2.3-1 shows the details of the investors as of January 15, 1999. Because they are doing business on the SBMA parcels by leasing privately, it is fair to call them privatized companies.

Table 4.2.3-1 The Subic Bay Investors

<u>Category</u>	<u>Number of Companies</u>
Courier	4
Estate Development	12
Insurance	5
Financial Services	16
Transportation of All Modes	12
Hotel	13
Information Technology Services	4
Health and Medical Services	3
Freight Forwarding	28
Manufacturing of All Kinds	71
Project Management	15
Publishing	2
Recreational	9
Equipment Repair/Leasing	2
Retailing of All Kinds	25
Education	2
Batch Plant	2
Other Service-Related Activities	14
Utilities	11
Tour Operator	3
Other Tourism-Related Industries	2
Shipping	5
Consultant Services	3
Warehousing/Transshipment	43
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Total No. of Investors	306

Source: SBMA L&E Dept.

(2) Classification of Investors

Of the above total 306 investors, the following groupings may shed of some light on the nature of investor:

I	Transportation Related 83 (27%)	Non-Transportation 223 (73%)	Total 306 (100%)
II	Service Related 130 (42%)	Non-Service 176 (58%)	Total 306 (100%)
III	Maritime Related 48 (16%)	Non-Maritime 258 (84%)	Total 306 (100%)
IV	Manufacturing 71 (23%)	Non-Manufacturing 235 (77%)	Total 306 (100%)
V	SBMA Affiliated 0 (0%)	Non-SBMA 306 (100%)	Total 306 (100%)

As is shown above, all investing companies are 100% private and no SBMA affiliated company is included. It is observed that the department in charge of SBMA privatization (Land & Estate Management Department) is focusing on purely private sector investment.

The L&E Department has two divisions namely Land Management Division and Estate Management Division. The responsibilities of each are as follows:

Land Management Division

1. Maintain a record of total land holdings
2. Survey and demarcation as per the approved Master Plan
3. Allocation of land to approved investors
4. Management of land lease
5. Monitor land allocation and usage against the approved land use as per the Master Plan
6. Provide information on valuation trends of land within the SBMA areas and furnish comparisons with other areas of development in the country
7. Initiate appraisal studies on best possible returns on land owned by SBMA

Estates Management Division

1. Maintain a record of all properties excluding land
2. Allocation of buildings and facilities to approved investors
3. Management of leases
4. Monitor the allocation and use against the approved use as per the Master Plan or any other approved utilization plan
5. Provide information on lease trends within the SBMA area and to furnish comparison with other urban/development areas within the country
6. Initiate appraisal studies on best possible returns on property of SBMA
7. Maintenance of properties-residential, commercial and industrial
8. Management of SBMA offices, amenities and facilities
9. Act as Customer Services unit for maintenance issues
10. Liaise with Works and Technical Services Division to provide the technical maintenance support

The development and disposal of real estate assets and the provision of social services top the agenda of the BCDA (Base Conversion Development Authority) as is requested in EO No.12. The EO has called for more aggressive international marketing to attract further investments into the special economic zones.

The Subic and Clark Zones have consistently led investment generation in the countryside. According to the L&E Department, SBMA has chalked up a record P100 Billion in committed investments since 1993, while Clark reportedly registered P83 Billion since 1994. These investments have generated jobs surpassing the employment generated by these former US military facilities.

(3) SBMA Participation in The Private Sector

Section 13.(b) of RA (REPUBLIC ACT) NO.7227 stipulates POWERS AND FUNCTIONS OF THE SBMA and in article (4) of the sub-section (b), the business functions of SBMA are specified as follows:

“ To construct, acquire, own, lease, operate and maintain on its own or through contract, franchise, license permits bulk purchase from the private sector and build-operate-transfer scheme or joint-venture the required utilities and infrastructure in coordination with local government units and appropriate government agencies concerned and in conformity with the existing applicable laws thereto; “

At the time of reporting, SBMA has five related companies: four joint ventures and one

affiliated company.(see Table 4.2.3-2) As it was already stated in the foregoing sentences, it is observed that SBMA's policy regarding capital investment is very discreet and defensive. SBMA is investing its precious capital into the truly necessary field on which the future development of SBMA depends.

Concerning the four joint venture companies, SBDMC is growing satisfactorily. The company was established to explore the Subic Bay Industrial Park Project. The outline of the Project is as follows:

- 1) Total area: 300 hectares
- 2) Location: Located in Subic Bay Freeport Zone
- 3) Phasing:

Phase I	105 hectares	June, 1995-December, 1996
Phase II	55 hectares	October, 1996-June, 2000
Phase III	140 hectares	Estimated 2003/2005
- 4) Development cost: US\$ 60,000,000
- 5) Developer: SBDMC, Inc. established in 1994

The Project is in Phase II: the total numbers of tenants in Phase I reached 39. Almost all of them are Taiwanese companies with the exceptions of one Philippine and one Hong Kong company. Thirteen of the 39 companies have already finished construction of the factories and some of them have started production. Remaining 26 are still in the stage of , though most will be starting construction by the end of 1999.

Subic Bay Technopark has been promoted by STEP (Subic Technopark Corporation), a joint venture of SBMA, JAIDO and TOYO Construction Co., Ltd. Established in 1995, STEP is promoting the Subic Bay Technopark Project. An outline of the Project is as follows:

- 1) Total area: 60 hectares
- 2) Location: Located in Subic Bay Freeport Zone
- 3) Development cost: US\$6,000,000
- 4) Developer: STEP Corporation

The project is still at the initial stage and four companies are listed as the tenants. Two of them are already operational and the remaining two are preparing for construction.

Subic Waters and Subic Telecoms are the joint ventures in the field of infrastructure and SBMA's policy to participate in this kind of business is reasonable, because to maintain the

service standard of infrastructure such as these is more effectively done if SBMA is one of the main stock holders of the companies.

SBMA has only one affiliated company, FMC (Freeport Service Corporation). The Facility Management Agreement was signed on August 11, 1997 and FSC was established by SBMA which paid P27million as a starting capital. FSC Board of directors is comprised of five directors and two are from SBMA. The President and CEO shall be elected by the SBMA Board of directors. The Agreement is three years and renewable. About 3,000 men are employed by FSC, about two-fifths of the total number of SBMA personnel. FSC is paying SBMA 10% of its net income.

Table 4.2.3-2 SBMA Related Companies

<u>Company Name</u>	<u>Type</u>	<u>Capital Amount</u>	<u>Equity Breakdown</u>	
1. Subic Waters Corp.	Joint Venture	US\$ 120,000,000	SBMA	20%
			Olongapo City	1
			BI Water*	30%
			DMCI*	40%
2. SBDMC, Inc. (Subic Bay Development Management Inc.)	Joint Venture	US\$ 1,000,000	SBMA	51%
			UDC*	49%
3. Subic-Technopark Corp.	Joint Venture	US\$ 100,000,000	SBMA	33.3%
			JAIDO* etc.	50%
			TOYO*	16.6%
4. Subic Telecoms	Joint Venture	US\$ 20,000,000	SBMA	20%
			PLDT*	40%
			AT&T	40%
5. Freeport Service Corp.	Affiliated	P 27,000,000	SBMA	100%

Remarks:

BI Water: British corporation, DMCI: D. M. Cunsunji Inc.,

UDC: United Development Corp. (Taiwanese Corp.),

JAIDO: Japan International Development Organization (Japanese Company),

TOYO: TOYO Construction Co., Ltd., PLDT: Philippine Long Distance Telephone Co., Ltd.

Source: SBMA Investment Center

FSC is considered as a facility management company but SBMA is subcontracting almost all field of the jobs. Thus, FSC is not only doing facility management but also running SBMA itself at the bottom line. In other words, SBMA is "out-sourcing" a considerable part of the job, intentionally or un-intentionally. This method is effective when an organization plans to downsize or to keep its body slim.

SBMA is expected to be self-sustainable and it is necessary for SBMA to make its organization as streamlined as possible. If SBMA wishes to concentrate its efforts to the administration of SBFZ, FSC could be an effective tool to that end.

SBMA, in its year-end report, reported that P 19.6 billion or more than US\$ 493 million, in investments will be generated from 23 new lease agreements, 16 sub-lease agreements and two leases for additional facilities approved by the SBMA board of directors since last September, and also from the renewal of 19 existing lease contracts and the amendments of nine old contracts which the board also passed.

The new lease and sub-lease agreements, plus the leases on additional facilities will bring in P 4.9 billion or US\$ 125 million while the approved contracts on existing projected were projected to be worth P 14.7 billion, US\$ 493 million.

Biggest among the new Subic locators are the Japanese-owned Taiwan Mitsumi Co., manufacturers of CD-Roms and floppy disc drives, which will pump-in up to US\$ 60.4 million and create 1,960 jobs, and Sankyo Seiki Manufacturing Co., a manufacturer of micro motors for computer hard disc drives, with US\$ 35.8 million investments and 2,000 jobs. Both manufacturers opted for 50-year-lease agreements with the SBMA.

Among the old Subic locators which have opted to renew their businesses in Subic are Acer Information Products, with a US\$ 105 million projected investment in warehousing of personal computer parts; Legenda International Resorts and Casino Ltd., with US\$ 96.15 invested in entertainment facilities; and Thomas Audio Philippines, with US\$ 72.8 million investments in the manufacture of audio and communication products.

In summing up, the SBMA involvement with the private sector is mainly concentrated to the leasing of the land and estate in line with the basic policy to make full use of the existing assets within SBFZ area. In this regard it is not only desirable but indispensable to have an efficient container port and airport in SBFZ to futher promote Subic Bay Industrial Park and Technopark.

4.2.4 Recommendable Institutional Framework

(1) Basic Circumstances of The Port of Subic

As is already mentioned, the specific points of the Port of Subic to be considered in the study of the Port Development , Management and Operation are summarized as follows:

1. SBMA is a GOCC under control of BCDA
2. Philippine Government is expediting the Privatization
3. Port of Subic is the main commercial port in Central Luzon
4. Location of Port of Subic is strategically more important than ever
5. Civil investment for break-water and dredging is not needed in Subic Bay
6. SBMA is trying to induce more investment to the Industrial Park
7. JICA and World Bank are backing up SBMA

(2) Basic Concept of Ports of Japan

There are 1,102 ports and harbors exist in Japan under the jurisdiction of the Port and Harbor Law. Twenty-one ports are defined in the Law as “ Specially Designated Major Ports “ which are especially important for promotion of foreign trade of the nation. 112 are “ Major Ports “ which play important roles in the national interest, and 961 are categorized as “ Local Ports “ which include 35 “ Ports of Refuge “ and 68 “ Other “ ports which have no particular designation. The main objective of “ Ports of Refuge “ is to provide refuge for small crafts in case of storms or any other emergency case. Such ports are not supposed to be used for loading or unloading of passengers or cargo under normal circumstances.

Traditionally, ports have been regarded as an important junction point of sea and land. This is a world wide concept of ports and in fact, the function of most of the present ports in the world are limited to this role, with some exceptions mainly in US, such as New York-New Jersey and Port or Port of Seattle, both of which are operating airport terminals, toll bridges and mass transportation like subways in addition to marine terminals.

On the other hand, in some countries like Japan and some European countries, the roles of ports have become considerably different from those of traditional ports, without following the pattern of the above US ports. In Japan, for example, ports have been regarded as the nucleus of both national and regional development, and port development projects have been planned and implemented as strategic means for national and especially for regional development. As result, Japanese ports, beyond a simple marine terminal, have become integrated complex with multiple functions such as industry, commerce, communication, public services, housing and recreation.

In Japan as well as in some European countries, some ports were selected from the view points of the natural and socio-economic conditions. For example, Japan is an island country with steep mountain ranges running through the country, and flat lands suitable for human activities are located only along coastlines. Severe shortage of flat land and over-crowded situation of large cities located along coastlines required extensive port development with land reclamation and caused concentration of multiple functions in port area. In addition, Japan has to import almost all principal raw materials, and in return, export manufactured goods. This constraint also generated the necessity of extensive port development with industry zones in their hinterlands. These national conditions of Japan are exactly the same as those of the Philippines'.

Based upon the recognition above mentioned, port development in Japan has been carried out as a part of general municipal public works with national government subsidies, and ports are not expected to recover development costs through their operation. This policy is different from the generally accepted one of port development in the world; ports should be financially self-sustained with revenues from their operation. Regardless of the difference of the policy of port development, it is clear that port development has been promoted because of its contribution to the social and economic development of both nation and region, not because of direct return from port operation. It has become a worldly recognized concept that to contribute to regions, as well as to nation, a port development plan should be formulated with a view regarding a concrete type of development and should be adjusted to the regional development plan.

For these above reasons, ports in Japan have been integrated, administered and managed by each public sector (Port Management Body) which is usually established by one or more local governments, or a local government itself.

Each Port Management Body formulates port development plans in consideration of the development of its hinterland, constructs and maintains port facilities, and administers and manages their ports. At this stage, the actual operation of ports facilities is left to private enterprises which cover marine transportation, stevedoring, port transportation and warehousing under control of the laws and regulations concerned.

Port Management Body is prohibited to obstruct or interfere with the fair activities of private enterprises and also to operate businesses in competition with them. Port Management Body is also prohibited from giving discriminatory treatment to any party with respect to the use of facilities and the administration and management of the port. This share system by Public and Private has been developed to generate more improvement in operational efficiency compared with the case of direct involvement of a Port Management Body.

(3) Port Administration Systems in Three Major European Countries

Port Administrations of Germany are carrying out Cost/Benefit Analysis (CBA) for port development activities, while no CBA has ever been conducted in France. In United Kingdom, most of the main ports are already privatized, thus, although commercial /financial analysis are conducted, no CBA which takes the benefit of society into consideration such as those being done in Japan have been conducted. This differences derive from the port administration systems of each country as follows:

Germany

There are about ten main ports nationwide all of which are under control of State Government. States(City)administrate the port area, and the national government is not concerned in the field of the planning and funding. The government's field of responsibility is the highway network leading to ports (there are substantial needs for maintaining highways because of many river ports in the country). The central government exclusively maintain highways using the national budget.

CBA is required under the " Budget Law " for any national project. In the case of a port development project such as container terminal construction by a State or a City, there are no regulations on such analysis. However, CBA is sometimes conducted for a big project.

France

The main six ports are classified as " Self Governing Ports " and administrated by the port administration union traditionally. There are about 300 non Self Governing Ports which are under control of the national government. Despite this long established fact, the national government exercises a large influence over budget and human relations such as personnel changes.

It is believed that 80% of break-water construction and 60% of wharf construction are subsidized by the national government. It has been observed that a considerable amount of advanced investment based only on the forecast demand is possible because those main ports are strongly influenced by the voice of the public.

United Kingdom

There are about 290 ports in the United Kingdom. All 19 main ports are privatized and independent of the central or regional governments. Ports are completely under the control of private capital. Purchase of a total port including all management and staff is not a rare case. Until the end of 1985, 19 main ports were owned and controlled by the national government,

however, they were privatized in 1986 according to the national policy.

(4) Port Administration Systems of The United States

There are about 150 ports which have wharves of 7.5m draught or more in the United States. To administrate these ports, about three kinds of Port Management Bodies are in existence. One is a designated organization, as part of municipal government. Another is a designated committee established by a municipal government. The last is a designated committee established by a state law which specifies the establishment of the committee.

Although the Federal Government realizes the importance of ports and the necessity of the national port plan to maintain and to develop ports nationwide, it is eventually difficult to intervene because the power of Port Management Body or State Government is too strong. Thus the Federal Government is not a Port Management Body and there is no subsidiary from the Government.

(5) Desirable Concept of The Port of Subic

Geographically, the Philippines and Japan are more or less the same, especially when comparing the Luzon region with Japan. Therefore, the basic concept of ports should not deviate from that of Japan's elaborated above. The most eminent difference is observed in the port developing policy of both countries. While SBMA is expected to be a self sustaining organization, Japanese ports are largely supported by the subsidiary from the Central Government. Many ports in developed countries are self-sustaining and in this regard the Japanese case is rather exceptional.

CBA is not always carried out in every country but nobody can deny the significance of the Analysis. It is observed that whether CBA is needed or not largely depends on national traits. It is interesting to note that only in Japan and Germany are CBA s being conducted for the development of ports.

The intervention of the national government in the countries mentioned above is none or slight even in case of its involvement. The necessary fund is raised by the Port Management Body in most cases. Self-sustaining spirit is the main-stream in most ports in the world, with the exceptions of French and Japanese ports.

In considering the various policies and philosophy concerning administrating, developing and operating ports in the world, and also taking the particular national features of the Philippines into consideration, the following concept is desirable to be established:

“The Port of Subic is a superior port from the geographical view-point. It does not

need any break-water and dredging for most of the vessels entering the port.

The strategic importance of the port has increased recently, mainly because of the fact that many shipping lines are looking for a regional hub port in the Pacific Region and partly because Asian main ports are congested.

SBMA is a GOCC and suitable for an administrative body to develop the Port through Privatization.

To be self-sustainable, SBMA must be modernized and streamlined. To realize this target, it is necessary to introduce the health check concept of the private sector.

For the fund raising activities, SBMA should be the center of the activities. However, the role of the Central Government to back-up and endorse the SBMA is indispensable.

The boundary of administration of SBMA should include:

- 1) Seaport and related business
- 2) Airport and related business
- 3) Land & Estate
- 4) Tourism and related business

Finally, to carry out the efficient administration of the above mentioned activities, SBMA organization must be business-minded, customer-oriented and public-minded.

(6) Recommendable Institutional Framework

In order to identify the ideal framework of an organization, it is necessary to examine the existing institutional framework of the present structure. We have already analyzed the background and desirable concept of the SBMA, and on the basis of this understanding, it becomes possible to draw the future picture of new SBMA.

The institutional framework of port development, administration and management of the Philippines is not prescribed in one single and designated law as Japan's "Port and Harbor Law". Instead, the Philippine Port Authority (PPA) is administrating all the port related matters within its capacity.

The Port and Harbor Law of Japan is a basic law which provides measures for orderly development, administration and management of ports to contribute to the improvement of communication and appropriate utilization and balanced development of the land. This concept is a very general one and can be applied to any country of the world. It would not significantly alter SBMA's port administration policy.

The main features of the above fundamental functions of the SBMA may be summarized as follows:

- 1) Port development, administration and management to be assigned to SBMA
- 2) The development cost to be at SBMA's responsibility with the back up of the central government
- 3) SBMA as a Port Management Body should be prohibited from being engaged in port-related business that is suitable for the private sector
- 4) Right of SBMA to review , plan and authorize development plan of the Port of Subic in collaboration with the Central Government (Department of Transportation and Communications) to be confirmed

According to the above function definition, main roles of SBMA and the central government are as following:

Role of SBMA

1. to form and establish port development plans
2. to administrate and maintain port area and port facilities in good operating conditions
3. to administrate to carryout construction and maintenance works for port facilities
4. to administrate land reclamation works in port area
5. to administrate to maintain and improve, where necessary, environmental conditions of the port (e.g. ship sludge treatment, oil pollution contingency plan, water front amenities)
6. to control, by means of permission systems, both public and private use of land and water areas of the port
7. to restrict disorderly use of land and water area in and nearby the port
8. to enforce necessary regulations on the use of water facilities and public mooring facilities
9. to ensure safety in the port area in collaboration with other agencies concerned (e.g. vessel navigation, handling of dangerous cargoes, vehicle traffic, etc.)
- 10 to prepare a port tariff and collect fees and charges from port users for the public services
11. to administrate to install necessary facilities for fire-fighting and rescue, and provide oil fences, chemicals, and other materials for anti-oil pollution
12. to conduct or administrate to conduct surveys and studies, and compile statistic for the port development, and promote publicity and marketing from the view point of

port-sales

13. to ensure the adequate provision of port service (water and bunker supply, etc.)

14. to establish and control welfare facilities for international/domestic seamen and workers

Role of The Central Government (Department of Transportation and Communication and PPA)

1. to formulate national port development policies, and establish necessary laws and regulations for port administration and development
2. to give advice to SBMA on port administration and development
3. to examine and coordinate port development plans of other ports
4. to backup SBMA in financing port construction project
5. to develop and maintain channels outside of the port areas
6. to establish technical standards for port planning, design and construction
7. to pursue technical innovation in ports

The above is a proposed guide line for the role-sharing by SBMA and The Central Government in port development, administration and management of the Port of Subic. However, very large scale construction projects or construction works which need advanced technology may be undertaken by a newly designated body.

Regarding the control of port operation of private enterprises, it would necessary to introduce some kinds of laws or regulations according to the level of necessity. For reference, there are some examples of the Japanese laws other than Port Harbor Law, pertaining to the water front businesses as per Table 4.2.4-1:

Table 4.2.4-1 Japanese Laws related to the Water-front Industry

<u>Name of Law</u>	<u>Regulates</u>
Marine Transportation Law	shipping companies, shipbrokers, shipping agents
Harbor Transportation Industry Law	port transportation, stevedoring, lighter, longshore, tallying, sworn-measure, survey, others
<u>Warehousing Law</u>	<u>all business related to warehouse</u>

Source: JICA Study Team

Furthermore, additional laws and regulations shown below are usually necessary in most countries in the world to regulate each activity of port operation:

1. Emigration and Immigration Control
2. Quarantine
3. Plant Quarantine
4. Livestock Infectious Diseases Prevention
5. Customs
6. Foreign Exchange and Foreign Trade Control
7. Various Environmental Pollution Prevention

CIQ control in SBMA is being done properly by each respective agency. The Bureau of Customs has its branch in SBMA, while Immigration Control and Quarantine offices are located at Olongapo city.

In summing up, ports administration activities may be classified in many different ways according to the purpose of the classification. The most commonly used is that ; port administration activities are classified into two groups, port management administration and port development administration. Port management administration can be further divided into the management of physical port facilities and the management of a variety of socio-economic activities conducted in ports and ports related areas. Port development administration is the management of physical aspects of port development activities.

Management of ports physical facilities is mainly concerned with construction maintenance, repair and conservation and the water area and harbor facilities as an integrated system together with human resources for their operations, and to facilitate effective utilization of these facilities by the port users, the public in general.

The entities responsible for this administration are port authorities. On the other hand, socio-economic activities in ports are diversified and related administration for their management is also diversified. Some administrative activities may be limited only to the water areas, others cover only the overland areas, and still other may cover both water and land areas.

For SBMA it is important to define the status of the function of the Seaport and the Airport, because SBMA, just like the Tokyo Metropolitan Municipal Government, has many income originating departments and people do not take it as granted that SBMA is responsible for both seaport and airport. Thus it is hoped that SBMA will set up the Port Authority which is responsible for all activities of administration of the port and the airport.

It is also suggested to study and introduce the post of the port-master, who is responsible for tasks relating to ensuring safety of traffic of ships in designated sea area and order in the ways of vessels' sailing.

4.3 Technology Transfer Method and Training System

4.3.1 Technology Transfer Method

(1) Definition of Technology Transfer

The word “ technology “ as defined by POD is “ knowledge or use of the mechanical arts and applied sciences. In other words “ technology “ is a group of software or know-how. “ The word “ transfer “ means to hand over. Therefore, Technology Transfer means to hand-over a group of software and in this report it is meant that a group of software regarding Port Development, Management and Operation are compiled and handed over to SBMA staff from Japanese organizations.

International meaning of Technology Transfer is equalization of the knowledge and economizing of development costs. Assuming that each country tries to develop similar technology, the total cost is roughly the average cost spent by one country multiplied by the number of the countries involved. This is wasting a huge amount of money.

If one country can hand over developed knowledge to another country successfully, the receiving country can utilize the know-how instantly without wasting time by developing the same knowledge from the beginning, while the hand-over country can start new technology development.

Today when natural resources are getting scarce, the efforts to economize all materials as well as human activities are of urgent necessity. In this regard, Technology Transfer is becoming more important each day.

(2) Kinds of Technology Transfer

There are some levels of Technology Transfer according to the quality of Technology and the combination of provider and receiver.

OJT (On the Job Training)

This is the most popular and oldest method to transfer technology in every field of industry in every part of the world. Historically, this method is the only way to hand over wisdom or tradition from one generation to another. Because there is a limit to teaching by “ manual “, this method has been a mainstream of transfer of technology even in modern society.

As a matter of fact, technology can not be transferred completely through written

documents alone. Documents need be read and understood by readers. Lecturers or teachers are necessary to help readers understand documents completely. Knowledge contained in documents is mainly for records but daily training is vital in case of business or industry.

For example, how did a dressmaker in the old days train his apprentice? Of course, he might have handed the apprentice some memo of the technique of dress making, but it would surely not have been enough. The main part of the know-how of the master can not be written on paper. That is the reason this knowledge is called know-how.

OJT , therefore, still remains the main method of Technology Transfer in the world of today. Any organization which does not have an OJT system of any kind can not transfer necessary wisdom and information to the next generation and will cease to exist sooner or later.

BOT (Build-Operation-Transfer)

BOT can be called one modification of OJT. It will be unworkable if any factory, for example, right after the completion is simply handed over by a builder to a company who ordered the factory with nothing but an operation manual to guide employees. Such cases actually happened in the past in many countries. Naturally, many people suffered from incomplete transition and that is why BOT was needed and became popular in those countries.

BOT, therefore, shows exactly three elements of the necessary transition of any project which generally comprises Hardware, Software and Humanware. “ Build ” is the word for Hardware while” Operation “is mainly for Software and “ Transfer “ is for Humanware. In this terminology of BOT, it is clearly shown that any Technology Transfer will not be completed if any of the above three elements are absent during the process of transition.

About B, O and T, T is the most important and difficult portion of all. Building of Hardware is a relatively easy job. Operation of Hardware is also not so difficult, however, Transfer of the operation Technology (Operation know-how) is not so easy. That is the nucleus part and it takes time.

The BOT Law (RA 7713) which became effective on May 5, 1994 authorizes the financing, construction, operation and maintenance of infrastructure projects by the private sector. Since the energy crisis started in the early 1990s, this investment mode has been the preferred avenue by business companies who are willing to finance such projects for long-term gains. Since the BOT scheme came into form, a private investors have volunteered to undertake several projects ranging from power generation facilities, roads and toll-ways, and information technology networking. But the string of court cases have been brought about by many companies and users regarding how to operate and transfer.

Bowing to pressure from business world, the government will create an independent

body to review and arbitrate conflicting policy decisions spawned by the BOT Law. This story tells the difficulty of BOT, especially that of “ Transfer “.

TCC (Training through Curriculum Course)

This is a popular method of T of BOT and will be effective when jointly conducted with OJT. Newly assigned operation crew of a new factory generally sit and learn in a class room to get an orientation from staffs of a builder. After the orientation, OJT will follow.

A plant or project is just like a ship or airplane. Anyone can drive it if he is properly educated its driving method. If a machine is simple, just a manual may be enough but in case of an advanced machine with complicated devices, more detailed instruction is necessary. Otherwise it will be difficult to obtain the expected result.

The result of the Curriculum Course Training is totally depend on the quantity and quality of the Curriculum. For example, if one wants to become a pilot, then he must take a n educational course for a pilot, never a course for ship’s captain.

The same can be said for TCC. It is important to define the objective of a course and also define the qualification and capacity of trainee. If the definition is inaccurate from the start, it is difficult to expect a beneficial result from TCC.

(3) Curriculum Formation for TCC

From the view point of training SBMA staff, it is necessary to define their job description and responsibility. In this report, it is assumed that TCC is aimed at those staff assigned to the following two groups.:

Group I: Staff assigned for the Planning/Operation/Administration of Port of Subic

Group II: Staff assigned for the Development/Maintaining of Container Terminal

On the assumption that the above two groups are to be trained by TCC, the following Curriculum is proposed:

1. TCC for Group I Staff

Objective

Efficient development, administration and operation of port is indispensable to expedite social and economic development. Especially today when the inter-modal through transportation is

quickly developing, the necessity of the harmonized development of transportation facilities among countries is getting bigger every day. Under these circumstances, it is equally necessary for any country, regardless whether it is developed or developing, to foster key personnel who are expected to be leaders, planners or administrators of port.

With the above recognition, this curriculum is designed to train the middle class staff of SBMA for bringing them up as planner/administrator through learning necessary method for port development and administration.

Qualification of The Trainee

- a. Recommended by SBMA management
- b. University or college graduate or posses attainments equal to or higher than that and with on the job experience of minimum eight years or more
- c. Only those who are presently and will be in the future on the job of SBMA port administration and operation
- d. Age over 30 and below 45
- e. Able reading, writing and good at conversation in English. (TOEFL 600 level)
- f. Healthy enough to take training

Number of Trainee per Class

10 to 15 persons per one TCC

Proposed Curriculum

<u>Days</u>	<u>Subjects of Lectures</u>
One	Orientation of the Course
One	Outline of the ports in the world and the Philippines
One	Outline and History of Port of Subic
Two	General Overview of the port development/administration/operation system of the world.
Two	General Overview of the port planning and civil work of the world.
One	Environmental Engineering and Port Development
One	Subic Bay Observation
Three	Gaming Simulation
One	Port Selection by Container Lines
One	Union Labor and Waterfront Industry
Three	Case Study for Port of Manila which include berth assignment of vessels administration by EDP, port and container terminal administration by PPA

Two	Container handling Machine
Two	Container Terminal Designing
One	Port Sales and Marketing
One	Documentation in port relating industry and EDI
One	Summing up and Report writing/Diploma awarding and Closing Party

Total 25 lecture days

2. TCC for Group II Staff

Objective of Course

The course is designed for training the middle class engineers who are expected or presently involved in the job for container terminal development, planning and construction and maintaining. The back-ground of this Course is the same with that of GCC for Group I staff. The only different point is that an emphasis is put on Container Terminal Construction and Maintenance.

A container terminal is a factory where the logistic status of a container changes from either export to import or import to export. By a different expression, a container terminal is a dam where many containers are pooled for a period of time in order to be transformed either for export or import.

Further it can be said that a container terminal is a mother ship of container ships or a base port from where many ships call and sail out, and is equipped with all the necessary equipment because typical LO/LO ships do not have any box handling cranes at all. They are equipped with only engines and plugs for reefer containers. Therefore, it can be said that container ships are not ships in the traditional sense but trucks or trains on the sea.

To design and construct a container terminal, it is important to think that you are going to design a huge factory, a huge dam or a huge mother vessel.

As a factory, it must be designed to process containers while they are in its custody. As a dam, it must pool containers and drain them off according to an operation schedule. As a mother vessel, it must have a control room (a bridge of a vessel), a mechanical division (an engine room), and a yard (a vessel's hold) and above all its surrounding background and business society (the sea).

In this Course of “ Planning, Constructing, Operating and Maintaining of Container

Terminal “, it is intended to show that a container terminal is a product of modern human society. It consists of three major elements, namely Hardware, Software and Humanware, of which the third element is the most important one.

Qualification of The Trainee

Same with Group I

Number of The Trainee per Class

10 person

remarks: If it is possible to introduce “person to person education system”, this figure may be changed.

Objectives for Trainee

- a. To gain comprehensive view of “ Containerization and Container Terminal in the world”
- b. To grasp the necessary methods of planning Container Terminal
- c. To have complete knowledge on Container Terminal Operation and Maintenance

Proposed Curriculum

<u>Days</u>	<u>Subjects of Lectures</u>
One	Orientation
One	Containerization, its history and outlook
Two	Container Terminal Part I (Hardware)
Two	Container Terminal Part II (Software)
Two	Manila Port Observation
One	Demand of Container Terminal/Method of Long Term Planning
One	Basic Concept and Condition of Container Terminal Planning
Five	Drill for Container Terminal Planning
One	Container Terminal Maintenance
Five	Drill for Container Terminal Maintenance
Three	Case Study (Overall)
One	Summing up and Report writing/Diploma awarding and Closing Party
<hr/>	
Total 25 lecture days	

4.3.2 Training System

(1) SBMA In-house System

This is the final target of SBMA. In order to realize this target, SBMA management is expected to foster the leading members of SBMA, because they must play the role of lecturers in TCC in the near future. In other words, the following proposals are based upon the recognition that being self taught is the ultimate type of education.

Also the Training System of SBMA needs to be planned in connection with the man power evaluation system and eventually with the salary and wage payment system. Workers are motivated by an incentive system and a training system would be welcomed by them.

There are many unqualified personnel in SBMA and FSC. The problem is not the fact that they are not qualified but that many of them do not have an intention to improve themselves by self learning. It is necessary to set up SBMA In-house Training Courses which are connected to the qualification system and salary /wage payment system.

The fore-mentioned methods for Technology Transfer are at the same time useful for the qualification of staff. It is acknowledged broadly in society that professionals such as doctors or lawyers must be qualified to do business. For the past long period, general business works have been exempted from the qualification system of any kind, but recently a revolutionary change is spreading among the business world. That is a qualification of ISO Standard. For the case of SBMA, it is quite useful to get the qualification ISO 9000 from ISO. It is a sign of reliability and it is acknowledged worldwide.

If each man of SBMA is self taught to become qualified in his professional responsible field, SBMA will be qualified by ISO sooner or later.

(2) Utilizing PPA's Training System

Although it is desirable for SBMA to have its own training system, it will surely take time. That is the reason why SBMA must learn PPA. There are a training center in the organization of PPA and it is a wise way to utilize this facility and know-how of training specially designated for container terminal operation and administration.

The Philippine Ports Authority Training Center (PPATC) is the manpower training and development arm of PPA. The Center was originally created and administered by the Bureau of Customs in early 1973 and was formally transferred to the PPA in August 1, 1976 when the Authority assumed the responsibility of implementing an integrated program for the planning,

construction, development, maintenance, financing and operations of ports and port districts for the entire country by virtue of Presidential Decree (PD)-857.

There are basically two groups of training courses, details of which are shown in Table 4.3.2-1 “ PPA Courses “ Part I and II

Table 4.3.2-1 PPA Training Courses (Part I)
 ---Organic Courses---

A. Manila Training-Nationwide Level

1-2. Labor Management Relation

- 4 Port Security and Safety Management for Port Police Personnel
- 5 5 Environmental Impact Assessment
- 6. Statistical Projection and Forecasting
- 7. Constructors’ Performance Evaluators Accreditation Program
- 8. Technical Report Writing
- 9. Financial Management
- 10. Trainers’ Course

B. Manila Training-Manila and Luzon Based

- 11. Computer Operation Training (User System)
- 12. Computer-Aided Drafting Design
- 13. Computer Operations Course (Software)
- 14. Port Driver/Mechanics
- 15. Operations Orientation Course

C. Out-ports Training ---omitted---

PPA Training Course (Part II)
---Non Organic Courses

1. Dock-workers/Stevedores
 2. Supervisory in Port Operations
 3. Port Safety
 4. Standard First Aid
 5. Supervisory Development Program
 6. Checkers Upgrading
 7. Equipment Operations and Maintenance
 8. Integrated Port Operations
 9. Terminal Management
 10. Container Operations
 11. Technical Report Writing
 12. Human Resource Development
 13. Work Attitude and Value Enrichment
-

Source: PPA Training Center
(Training Delivery Division)

Total of 27 courses are available in 1999, and about 540 graduates are expected, which means an average of 20 trainees per class. Listed above are course titles and many of them are repeatedly held in accordance with the numbers of trainees. Necessary time is 3-5 days per course and fee is about P300 average per person per course.

There are two ways to utilize PPA's Training System. One is to send a group of selected SBMA staff to the training center, and the other is to invite some lecturers from PPA. It will be also effective to compile a SBMA text book for the Course jointly with the lectures from PPA and originate a SBMA version of the PPA Course.

PPA has accumulated knowledge about development, operation and administration of container terminals in Port of Manila and Batangas. It is said true that there are treasures of know-how buried underground at an operation site of factory or construction, and according to this old saying, also in container terminal site in Manila and Batangas, there must be a lot of hints how to build and operate Port of Subic.

(3) Utilizing Japanese Government's Training Program

There are some training courses designed for Port Administration Staff sponsored by the

Japanese Government (JICA). An outline of the two seminars of the training program is as follows:

Names of the Seminars

- 1): Seminar on Port Administration and Management
- 2): Development of Container Terminal

Numbers of Trainees acceptable per class

- 1): 17 persons
- 2): 8 persons

Period of Seminar

- 1) & 2) about 60 days

Main Subjects of Seminar

1) Seminar on Port Administration and Management

- a. Port Administration
- b Port Operation
- c. International Port Seminar (Comparison of Ports of the World)
- d. Case Study on Some Japanese Ports
- e. Observation of Actual Administration of Ports in Japan

2) Development of Container Terminal

- a. General explanation on Japanese Ports
- b. Outline of Container Terminals of Japan
- c. Planning/Operation/Administration of Container Terminal
- d. Necessary Methods
- e. Observation Tour and Case Study
- f Country Report/Group-wise Report and Discussion)

Qualification of Trainee

For both Seminars

- 1) Recommended by the Government of the applying country
- 2) University/College Graduate or equal ability
- 3) Reading/Writing/Conversation in English (proficient)
- 4) Ages 30-40
- 5) Healthy enough as a trainee
- 6) Not a Military Personnel

Countries Sending Trainees in the past

Argentina, Bangladesh, Brazil, Chile, China (PRC), Egypt, Guinea, Fiji, Haiti, India

Selection of Trainee

- 1) Selection to be made by the pertaining Government
- 2) After receiving application, JICA (Japan International Cooperation Agency) and MOT (Ministry of Transportation) will jointly make a final decision
- 3) One trainee per one country as a rule. In case of plural applicants, the government's will of the applying country shall be honored

4.4 Marketing Strategy for Port Promotion

4.4.1 Sales Point of Port of Subic

(1) Capital Port of Central Luzon

Regional development of Central Luzon will be realized in steps, as the resources base including financial capacity expands and related institutional development takes place in due time. As the regional development of Central Luzon goes on, a need for a port, especially for an international container port will become greater. So far most of the cargoes, to (Import) and from (Export) the region are through Metro Manila Port.

Investments into key infrastructure facilities will support the establishment of the National Triad Growth Centers proposed in the Master Plan for Central Luzon Development Program. They include initial implementation of the highway link between SBFZ and Clark, the Clark International Aviation Complex with a new passenger terminal, telecommunication and utilities for SBFZ and Clark, and urban renewal in the Metro Manila spillover areas in Bulacan.

With the provision of upgraded service facilities, functional division among major urban centers will start functioning. In this assumption, a land use promotion project will be produced for the San Fernando-Angeles Metropolitan area, and some other urban areas.

With this outlook of Central Luzon Economic Development, it is a plain fact that the region must have a modern container port as its principal port. This fact itself is the main sales point of Port of Subic.

Some comments will be necessary on Poro Point which is boasting as Northern Luzon's gateway. Poro Point sits along the fine coastline of La Union, strategically facing westward into the China Sea as if it is linked by some kindred bond with the shorelines of mainland Asia. It is, perhaps, this geographic advantage which lured the Americans into Poro Point and enticed them to make it home of one of their most famous tiny air station in this part of the world – the Wallace Air Station. BCDA (Base Conversion Development Authority), through its subsidiary JPDC (John Hay-Poro Point Development Corporation), took over the operation and development of Poro Point's San Fernando Seaport in February 1997. It also took over the San Fernando Airport in January last year. It is reported that a master development plan is now in place providing for the establishment of a seaport a container terminal, an air port, regional business center, export processing zone, tourism complex and agribusiness processing zone/distribution centers. It is also reported the seaport's pier operations, cargo handling and warehousing facilities and capabilities will be modernized to meet global standards.

In a long term view point, Poro Point can be a competitor to Subic because of the strategic location and the similarity of nature of the target they are aiming, namely Air-Sea Park. However, in comparing the sum of the investment necessary, Subic is far attractive than Poro Point, because it is not needed for Subic to build break-water, while it is indispensable for Poro Point.

(2) Future Regional Hub Port in Asia-Pacific Region

The pioneer line of Port of Subic is APL (American President Line) They had served Subic all through the US Navy days and has continued the services even after 1993, when the Naval Station was abolished. At present, APL carries about half of the total containers to/from the Port.(11,000teu out of 22,000teu in1998) They are maintaining fairly accurate weekly service, using two vessels:

M/V NOL Beryl 690 TEU (17 Knot)
M/V Shanfung 550 TEU (17 Knot)

One service route is shown below. The service nickname is BUGO FEEDER named after the port of BUGO in Mindanao, from where Del Monte cargo, APL's principal cargo in the South Philippines, is shipped:

Day 1	Depart	Kaohsiung	Fridays
Day 3	Inbound to	Subic	Sundays
Day 3	Inbound to	Manila(South Harbor)	Sundays
Day 4		Manila(MICT*)	Mondays
Day 7&8		Cagayan & Bugo	Wednesday to Thursday
Day 10 &11		Davao	Saturdays to Sundays
Day 13	Back to	Manila & Subic	Wednesdays
Day 13	Outbound from	Manila & Subic	Wednesdays
Day 14	Arrive	Kaohsiung	Fridays

The BUGO Service is serving not only the US, but also Inter Asia, Europe and Middle East ports. All the cargoes are transhipped at Kaohsiung to mother vessels. At present, in APL Service network, the port status of Subic is a regional hub and that of Kaohsiung is Asian-Pacific Hub.

Other than the BUGO Service, APL has another important Inter Asian Feeder Service, namely SPS (Singapore-Philippine Service) which covers Singapore-Subic-Manila and back to Singapore on a weekly basis.

As a matter of fact, APL is treating the Port of Subic as an Inter-Asia Hub, proving that Subic can function in that capacity. Subic is a more important port than Manila in gathering cargoes from the southern islands in the Philippine archipelago as well as switching cargoes to and from Trans-Pacific, Japan, Korea , Singapore, European and Middle East ports and other Asian ports, although some of those ports are not actually served because Subic is not equipped with a modern container terminal.

To demonstrate the Port of Subic's strategic location, the distance in nautical miles between Subic and various Asian ports is given in Table 4.4.1-1:

Table 4.4.1-1 Nautical Miles between Subic/Variou Asian Ports

Ports	Nautical Miles	Sailing Hours (by 20 knot Ship)
Kaohsiung	494	24.7 (One Day-0.7 Hours)
Manila	66	3.3
Cagayan & Bugo	608	30.4 (One Day-6.4 Hours)
Davao	950	47.5 (about Two Days)
Hong Kong	555	27.8 (One Day-3.8 Hours)
Shanghai	1,062	53.1 (Two Days-5.1 Hours)
Ho Chi Minn (Vong Tao)	1,173	58.6 (Two Days-10.6 Hours)
Laem Chabang	1,515	75.8 (Three Days-3.8 Hours)
Jakarta	1,569	78.5 (Three Days-6.5 Hours)
Port Kelang	1,530	76.5 (Three Days-4.5 Hours)
Singapore	1,335	66.8 (Two Days-18.8 Hours)
Kobe	1,391	70.0 (Two Days-22 Hours)
Busan	1,343	67.0 (Two Days-19 Hours)

Source: SBMA Seaport Department

APL's dedicated competitor, Maersk Line is also calling Subic on weekly basis. Two vessels are put into the feeder service line connecting Subic, Manila and Kaohsiung. The particulars and fixed schedule ports are as follows:

- 1) Vessels: M/V Maersk Davao (10,396 G/T, 17 knots, 600 TEU)
 M/V Maersk Cebu (10,396 G/T, 17 knots, 600 TEU)

- 2) Schedule: Kaohsiung—Subic—Manila—Kagayan—General Santos—Davao
 Cebu—Manila—Subic—Kaohsiung--

- 3) Service Frequency: Bi-Weekly

Maersk Line is also treating the Port of Subic as a regional hub port. Through this cycle feeder service covering the south sea area of the Philippines, they are gathering fruits products such as " Dole " cargo from General Santos and Davao, at the same time delivering the import cargo to these area.

The strongest sales point of Port of Subic is this strategic location and this point is unsurpassed by any neighboring port in Asian-Pacific region. Just think that a small island country such as Singapore with a population of 3.1million are handling about 13 million TEU per year. Less than 10% of the total throughput is destined or originated from this island country. The rest are all tranship boxes, which are distributed to every part of the world through this port. Assuming the Port of Subic can function like Singapore or Hong Kong or Kaohsiung, the throughput of the port will surely reach a level of one million TEU per year.

(3) Sea-Air-Park Compound Port

Port of Subic is an ideal port which is furnished with a seaport, an airport and two industrial parks, this overall package is another important salespoint. Once, there was a best selling IT (Inclusive Tour) named Air-Sea-Pack. This was one variation of JAL Pack and the Passengers of this IT could enjoy air travel as well as cruising all included in one package tour. Just substitute " cargo " for "passengers" and you can begin to appreciate the appeal of a Sea-Air-Park package in selling the Port of Subic.

Some US Ports such as the Port of New York & New Jersey and Port of Seattle are current examples of Sea-Air-Park Compound Ports. However, as far as Park is concerned, Subic is by far the best. In case of NY-NJ, industrial parks are rather scattered and not strategically located in the region. In this regard, Subic has a clear advantage in terms of logistics.

It is difficult to find similar ports among competitors in the Asian-Pacific region. The concept of an industrial park is not old and therefore the method of total planning which

intentionally combine seaport, airport and industrial park is also young. Singapore and Hong Kong, for example, each have a long history as commercial ports but attached industrial parks are located in various places. Especially in Hong Kong, the traffic control is complicated, and in case of combining air cargo with sea cargo, it is not an easy job.

It is no exaggeration to say that Subic has a large potential to capitalize on this combination of Seaport, Airport and Industrial Parks, although few people in Philippine economic circle acknowledge this.

4.4.2 Marketing Strategy for Port Promotion

(1) Establish the Status of Subic as Capital Port of Central Luzon

Salespoints, if employed properly, can become the nucleus of a marketing strategy. Port users (Shippers, Consignees, Shipping Lines, Container Operators and their agents, Forwarding Agents etc.) select one port out of some competing ports based on 1) level of charges, 2) necessary transit time and 3) safety.

Therefore, claiming to be the “ Capital Port of Central Luzon “ without any concrete background is nonsense. For the time being, the main competitor of Port of Subic is Manila Port, although these two ports have different roles to play in the final stages.

The level of port charge is critical to the port users. In this regard, the abdication of the Arbitrary Charges of ANERA (Asia/North America Eastbound Rate Agreement) from Subic Bay is a must condition for Subic to become one of the main ports of Asia.

Arbitrary Charges of ANERA for the case of export from Subic to various destination points in the United States are as follows:

Kind of Container	Arbitrary Charge
Dry 20'	US\$ 465.00
Dry 40' (8'6")	US\$ 515.00
Dry 40' (9'6")	US\$ 580.00
Dry45'	US\$ 650.00
(For LCL Cargo)	
Per cbm	US\$ 23.00/dry
Per mt	US\$ 50.25/dry
Per mt	US\$ 76.00/reefer

These charges include Arrastre, Wharfage, Trucking Costs plus other SBMA Charges. The above charge levels are substantial when an average box rate from Subic to US West Coast Ports is \$3,000, and these figures themselves symbolize the economic barrier between Manila and Subic. This charge is not applied to any container and cargo exported from the Port of Manila.

The above charges are for export containers and cargo, and the separate charge are applied to import containers cargo. Just for reference, \$ 500 for Dry 40' and \$ 450 for Dry 20'. The remaining items are more or less the same.

There are also the charges of the same nature in other trade such as to from Europe, Near/Middle East and Inter Asia. However, the Freight Conferences or Agreements governing these trades are not so strict regarding the segregation of the calling ports, thus the collecting of the out-port surcharge or arbitrary charge is not so strict compared with ANERA.

For example, the out-port surcharges for European ports from Subic are incorporated in the ocean charges, for example all inclusive rate for European main ports, say to Rotterdam from Manila is \$ 1,350 for 20' and \$ 2,700 for 40' while from Subic is \$ 1,500 for 20' and \$ 3,000 for 40'. Therefore, it is clear how much charge is included as an out-port surcharge but the name of the charge is not typed on the face of bills of lading. This has little meaning to the member lines of the European conferences, but to be welcomed by shippers and consignee, also by SBMA because this can be an ignition point of deletion of the charge.

In other words, there are two kinds of out-port surcharges (arbitrary charge), namely a hard shell (ANERA) and a soft shell (Other Conferences and Agreements)
The freight rate differences between Manila and Subic is not fatal in the trades other than the North America, but fatal in the trade between US and Subic.

In summing up, the strategic policy on how to let the concerned shipping lines abolish the Arbitrary Charges of ANERA so that more containers and cargo come in and out go through the Port of Subic should be established. There are shippers and consignees behind shipping lines, and it must be an ultimate strategic target to let them clearly type the name of Subic, not Manila as the port of discharge in L/C (Letter of Credit).

(2) Towards becoming a Regional Hub Port

The international shipping business world is now in the midst of rough sea. Even the oldest British line merged with a very old Dutch line in 1987. APL, one of the most defiant and pioneer shipping lines of the US became a part of Neptune Orient Line (NOL), a national line of Singapore, also in 1997.

In Japan, only three ocean going liners remain in the international shipping business. In 1961, the number of the big liners was 18, but was cut back to 6 in 1964. Then the gale of the revolution of containerization attacked the shipping companies of the world with lightning speed. After 20 years, Japan's six lines were reduced to five, then to four and at present only three lines remain.

All through the storm, every line has exercised every effort to survive the rough seas. The rationalization of operation is the key and that means the rationalization of both containers and container ships operation. The operations of containers and container ships are not separable, because boxes travel onboard containerships and after running around inland they come back to the waterfront and wait for ships.

In order to rationalize the whole operation, the concept of " Hub " was introduced. Actually the concept was borrowed from the air cargo business. Under this concept, the capacity of container ships started getting larger and larger. In the 1980s, the largest container ship's size was about 2,000 TEU. However, in the early 1990s, the heavy competition of building larger container ships started based on the Hub concept. The size became larger day by day, 2,000 TEU to 3,000, to 4,000, to 5,000, to 6,000, to 7,000 and even to 8,000 TEU.

Under these circumstances, the center part of the containerization competition has been focused on where a hub port is located. By the mid 1990s, many new ports have emerged as hub ports. Some of them are: Colombo, Salalah, Kaohsiung and Geoia Tauro (in Italy). Singapore, Hong Kong and Argecilas are already well known.

What is a hub port then? The exact function has already been shown by the routing and performance of BUGO Service of APL. By this fixed day weekly service (every Sunday for import, every Wednesday for export for Subic), incoming /outgoing cargoes of the Southern part of the Philippines as well as Subic cargoes are smoothly transported through the Port of Subic, then to Kaohsiung. This is a hub port.

Is it possible for Subic to function in place of Kaohsiung? If it is possible, Subic can be called a hub port. The answer is simple. If Subic is furnished with a group of modern container terminals, the port will instantly become a strategic hub port in the Asian Pacific Region. In the past, a hub port is needed mostly for horizontal trade like a trade between Europe and Asia, or North America and Europe. In other words, East and West trade needed a hub port in the container transportation system.

Now that the containerization of East and West has ended its preliminary stage, the next phase will be North and South integration in the Asia-Pacific region. Just look at the atlas, it is discernible to everybody that the location of the Port of Subic is ideal. Kaohsiung is a little bit

north, and Honolulu is far from the consuming area. Sydney is far down south.

At present, Subic is located at one of the best points in the region as a hub port. However, even Subic has some potential competitors but Manila is not among them. Subic's competitors in the near future could be Ho Chi Minn and Laem Chabang. Among these three ports of Subic, Ho Chi Minn and Laem Chabang, Subic still holds an advantageous position. The reason is that Subic has a smaller hinterland than those of the other two ports. Strangely enough, one of the conditions of " hub "is not in the scale of the hinterland or cargo volume originated in there, but in the location itself.

Cargo which is originated or consumed in hinterland of a port is not indispensable for a hub port, but tranship cargo is. For example, the ratio of transshipment cargo is 90% for Singapore, 75% for Hong Kong and 97% for Aljeciras. These figures indicate that the location of a port decides the possibility of becoming a hub, as if some ports are destined to become hub ports and others are not.

In this regard, very few people are familiar with the strategic location of Subic, and therefore, it is necessary to show the interested parties especially some international alliances the benefits of making Subic a hub port.

(3) Sales Catch Phrases of Sea-Air-Park Complex

The other name of " Container Transportation System " is " International Multi-modal Transportation System ". Originally, by multi-modal it was meant transportation by sea mode and air mode as a general case. Nowadays, however, the portion of air mode is increasing.

" Piggy back " for land (rail) mode is famous, but " Birdy back " for air mode and " Fishy back " for water (river) mode are not so popular yet. These nick names for each mode of transportation tells the development process of containerization. Air/Sea mode have mingled in the container business, and the speed of development is amazing. Many FCL containers can not get started just because some LCL air cargo can not reach them.

Airport/Seaport Facilities as one can play five or more times of the role which Airport or Seaport can play separately. Why that is is partly explained above, but the main reason is the fusion of sea cargo with air cargo. The volume of Air/Sea border line cargo is quickly increasing. In the past, there was a distinctive border line between Air cargo and Sea cargo. Sea cargo never flied and Air cargo never sailed with an extreme exceptions. But that is not the case in the world of today.

In addition to Air/Sea Facilities, Industrial Park is another strategy of SBMA. Of these three, all that is lacking is Sea, namely modern container terminals. To complete the

catch phrase of Air-Sea-Park, it is necessary to expedite the construction of container terminals and to promote the Industrial and Techno Parks of Subic. Therefore, to sell the Seaport is to sell the Airport and the Parks and to sell the Park is to sell the Airport and the Seaport. It is very necessary to integrate these three as one to promote SBMA with a clear strategic intention and will.

Port promotion in the case of SBMA is Airport promotion as well as Industrial Park promotion. In this regard, it is quite reasonable and agreeable that the same deputy administrator is responsible for the operation and results of both airport and seaport

4.4.3 Port Promotion and Sales

(1) Port Sales Information and Materials

1) Home Page of Port of Subic

Existing home pages of SBMA are not dedicated to the port function of the Port of Subic. More specific information about the Port should be presented. More about Capital Port of Central Luzon, Hub port in the Asian-Pacific Region in the next millenium and Air-Sea-Park. These catch phrases must be accompanied by detailed explanations and statistics and maps or photos.

2) Sales Promotion Brochures

Even in today's computer age, printed brochures can offer an effective means of promotion. For example, a calendar or a plain map which shows the exact location of the port with simple explanation might be more effective than a home page. PSA (Port of Singapore Authority, a privatized company) is successfully utilizing brochures in this manner.

The brochure must be simple but carry essential information which customers need for their business planning and every day life. The information necessary to be included in the brochure is:

- a. Location of the Port of Subic with chart and map
- b. The details of the port facilities with maps
- c. Sales points of the Ports (Air-Sea-Park , Capital Port of Central Luzon, New Hub Port in Asian-Pacific Region)
- d. SBMA's outline
- e. Terminal operators' outline
- f. Benefit of using the Port from the side of the shipper with some examples through

model movements of cargo and cost comparison of Subic versus competing ports and zones

g. List of port sales promotion offices home and abroad

3) Advertisement in Marine/Trade Magazines

It is necessary to continuously announce to the world that the Port of Subic is changing and there is a chance for any shipping line or alliance or container terminal operator to set up a value-changing base for the international multi modal industry.

For example, the Fairplay Magazine would be a good place to begin. Most people in the marine related industries subscribe to the magazine and the effect of their reporting and advertising power is considerable. Subscribers include the management and executive level personnel in shipping lines, ship builders, marine lawyers, marine brokers, trading firms, union leaders in the waterfront, national or municipal governments and news reporters of various media.

The weakest point of the Port of Subic is that the name is still remembered by most people of the world as a US Naval base, and almost nobody knows what happened or is happening to Subic. It must be, therefore, broadly announced that the Port is not a military port any more, but a commercial port and it is going to be a capital port in the Central Luzon with modern container terminals and related facilities.

Periodical advertisement in some renowned magazines or other media will heighten awareness about what is happening in Subic. It is widely said that the continuity is the origin of the might.

4) Video Tape of the Port of Subic

Seeing is believing. Thousands of brochures can be upstaged by just for video tape sometimes. To produce a video tape itself is not difficult if the historical shots of every development stage have been preserved. Therefore, it is advisable to take and keep historical film records of the port development.

The usage of Port Sales Promotion video tape is very wide. Firstly it can be used in Port Sales Seminars domestically and abroad, and this is the main usage of the tape. Secondly, it can be duplicated and rented or presented to the various port users. It can also be used as a text video for new employees of SBMA.

(2) Port Sales Promotion Tour

To meet the key personnel of the industries related to ports and trade, such as trading firms, shipping lines, waterfront business companies is a good way to promote the Port. It is necessary for SBMA to dispatch a Port Sales Promotion Team regularly to the cities and regions which are strategically important to Subic. In short, this tour is necessary to sell the name of the Port so that the shippers and consignees will nominate Subic as the direct destination or loading port.

Thoughtful preparation is required to ensure a successful tour. It is advised to select the members of the tour carefully. Usually, the team members preferably include not only SBMA Seaport officer, but some people from container operators, Industrial Parks and Techno Parks , and further it is desirable that some officials from neighboring municipalities also participate. All of them are well aware and informed of the Port, today and tomorrow.

At each city or country, the standard schedule of the team consists of a seminar and a party after it. " Seminar on Port of Subic " could be ceremonial one or very business like, according to the policy of the team. If possible, visiting some important customers of the Port is desirable besides inviting them to the seminar and the following party.

Invitation list for the seminar and party is important for the success of the tour. To make a reliable list is a time consuming work, and it might be fair to say that the list making itself is a good OJT for SBMA staff. It is just like an archery contest to make the invitation list. After seminar and party, the rate of attendance will tell how accurate the list was. It is hoped that the attendance rate will be around 70% or more, because 70% is said to be near the break even point of Cost/Benefit of Sales Promotion of this kind.

Most of the materials mentioned in (2) are for this occasion, and they must be sent to the seminar/party place in advance. It is also necessary to prepare some give-aways to be presented to the guests of the party together with brochures.

(3) Setting up Port Sales Offices abroad

It is definitely necessary to set up an office in the west coast of the US which is dedicated to the port sales activity for Subic. It can be either a part of SBMA organization or agent's office. The job description of this office is as follows:

- a. Soliciting ships and cargo to the Port
- b. Providing accurate information of the Port
- c. Customer Service such as bettering Port services

For reference, about 20 US main ports and states have their own offices in Japan and various port cities of Asia-Pacific Region. About 10 Asian main ports have their offices abroad. It is one option to contract with a municipal government of which holds a port regarding the port sales activity.

In this regard, a sister ports contract between two ports is worth studying. In this contract, like those of Yokohama/San Diego and Kobe/Seattle, the sister ports act as its sister port agent as well as yearly exchanging of citizens including students. For the Port of Subic, it may be good to have such kind of contract with one or two ports in the US, because there are many Americans, aged and young who have unforgettable memories of Subic.

4.5 Action Program for Improvement of Management and Operation Systems

4.5.1 Necessary Improvements

(1) Excess Personnel

As of the end of February, 1999, SBMA as a whole is run by a staff of about 5,000, and the Seaport Department is run by a staff of 200. For the case of the Seaport Department, in addition to this official figure of about 200, there is another group of 73 volunteers who are not paid from SBMA. Most of the volunteers lack the quality of doing job and while working as volunteers they also get an education as apprentices. Basically the employees' matter is the responsibility of the Human Resources Management Department and they will decide how to deal with the volunteers. All in all, it is clear that there is an excess number of employees, manpower needs to be adjusted to an appropriate level. A concept of efficiency and productivity is necessary to be introduced to have a consensus between the management and employees

It is already shown in 4.2.1 (2)Efficiency/Productivity that Muramoto Audio-Visual Philippines and SBMA attained almost the same amount of gross revenue of P 1.6 billion in 1996, with 1,500 employees for Muramoto, and 5,000 for SBMA. In this example the efficiency or productivity of SBMA is less than one third of that of Muramoto. Of course, it is not easy to compare a GOCC and a purely private company regarding efficiency or productivity. However, efficient operation of the SBMA organization need to be pursued by the management to establish the stable foundation as a self sustaining economic body.

Present employees of SBMA, regardless white or blue, have a right to work as far as they are qualified for the needed job definition. The problem is that some of them or many of them are not qualified for the existing jobs. That is roughly proved by the fact that the efficiency/productivity of SBMA is very low. In other words three SBMA men generate less than or about the same of revenue as one man of Muramoto.

If the revenue of 1.6 billion of SBMA remains unchanged, the numbers of employees must be reduced from 5,000 to 1,500 to attain the same productivity, or to try to increase the total revenue to the level of P 4.8 to 5.0 billion (about three times of P 1.6 billion). Either will do, but in either direction, it is possible only when all of SBMA employees are qualified for each job assigned.

In summing up, the optimum number of the employees would be around 1,500 men, although there is a considerable room to adjust the number downwards. In the case of the Seaport Department, the fairest should be a staff of about 70.

(2) Quality of Personnel

Who is the ideal SBMA employee ? First of all, he/she must have a desire to improve his business and working circumstances. He/she also must be a good team player who embraces the “ One for all, All for one “Spirit. That person must excelling his/her own professional field. That person must be a good leader as well as a good follower. And above all, the ideal SBMA employee loves Port of Subic, SBMA and the nature of this area.

In defining the SBMA employee, it has become notable that the contents of quality are mostly spiritual and mental, and therefore, what is needed for SBMA management to strengthen the quality of employees is rather metaphysical education, not physical.

For example, management and administration is a typically metaphysical subject and even operation in its true meaning is in the field of metaphysics. In these fields of management, administration and operation, no one can attain a satisfactory results, without creativity, thinking ability or custom of self teaching. That is because there is no textbook in those fields which displays an exact sample of management, administration or operation. Only self-thinking, self-taught people can take over the torch light which is to be handed by the present management.

SBMA management should, therefore, encourage the will and efforts of th employees to learn or to continue learning in any subject whatsoever, physics or metaphysics. It is hoped that SBMA will provide some in-house classes for the employees who have will to learn on the subjects related to the port business.

In summary, if SBMA aims at improvement of efficiency or productivity of office work or manual labor of the employees, it should concentrate its efforts to the education of them, directly through seminars or classes or indirectly through helping them learn.

(3) Need for Container Terminal Facilities

It is surprising that a port which has no gantry crane is handling more than 20,000 TEU every year. If there were only one modern container terminal with new gantry crane, one is enough for the time being, in Subic, the throughput will exceed 100,000 TEU per year within one or two years. In this regard, every minute, hour, day and month are very precious and not to be wasted. There are many competing ports in Asia-Pacific Region. Laem Chabang and Ho Chi Minn are among them. Although, Subic still has an advantage, there will not be much time in the so called “hub port race”. The shipping lines whose vessels are calling the Port are hoping that the decision to construct new facilities will be made soon.

The operation system of the Port, as far as container handling is concerned, is far from the evaluation. It remains at the most primitive level of operation, but it is encouraging that the

throughput of the Port is maintaining the line of 25,000 TEU without any quay gantry crane.

(4)Improvement of the Non-Containerized Cargo Operation Administration

The size of the conventional vessels are getting bigger and bigger, and if the operational means remain unchanged, the productivity has to grow lower. The Port is going to handle these conventional type vessels to a certain level for years to come, and the expected earning from those vessels are not negligible small, and the effective measure to handle those cargoes remain very important to the Port.

The future image of the Port of Subic must be a well balanced port of an effective operation for both containerized cargo and break bulk/bulk conventional cargo. The reputation of a port can not be maintained only by good reputation in either kind of cargo. The good reputation of a port is possible only through over-all operation of excellent service for both cargoes.

As a port management body, SBMA must establish a basic attitude toward non-containerized cargo ship operators, not as a stevedore supervisor, but as a port manager and administrator. For instance, SBMA must be much concerned with the berth occupation ratio and availability. If a berth is fully occupied by productive (quick operation) vessels always, that will bring a good revenue to SBMA, but if the same berth is occupied by a non productive (slow operation) vessel for along time, that will hurt SBMA.

However, supervising stevedoring operation is not SBMA's business, but it is ship owners/agents' business. The tool to administrate the users of a port is a port tariff and in this regard, review of the existing port tariff is very important.

The marketing and administration strategy towards bulk/non-containerized cargo vessels must be discussed by SBMA staff. For example, the strategy could contain the following points:

- 1) Kind of cargo to welcome/not to welcome from the side of SBMA, in other words SBMA should select cargo and vessels and should work to solicit those desirable cargo and vessels.
- 2) To introduce an incentive system into the port tariff for the users to encourage quick dispatch of vessels.
- 3) To encourage shipping lines/agents and stevedoring companies to innovate cargo loading/unloading operation system and reflect the effect to the port tariff.
- 4) To study to lease out some part of the waterfront facilities if the arrangement gives a merit to SBMA.

(5) Stream-lining of Organization

There was a considerable change in the organization of SBMA in late 1998. One of the remarkable changes is the establishment of the office of Chief of Staff and strengthening the capacity of the chief operating officer which post was just a nominal in the old organization and not included in the organization chart.

Another noticeable change is that Seaport Department and Airport Department are under control of one deputy administrator independently. Before the change of the organization, both departments were part of the Transport & Communication Group together with Land Transportation Department and Telecommunication Department. These are the results of the efforts to streamline the organization and to be appreciated to some extent. However, this reform may be in the midway of more large scale reformation and it would be premature to evaluate the change.

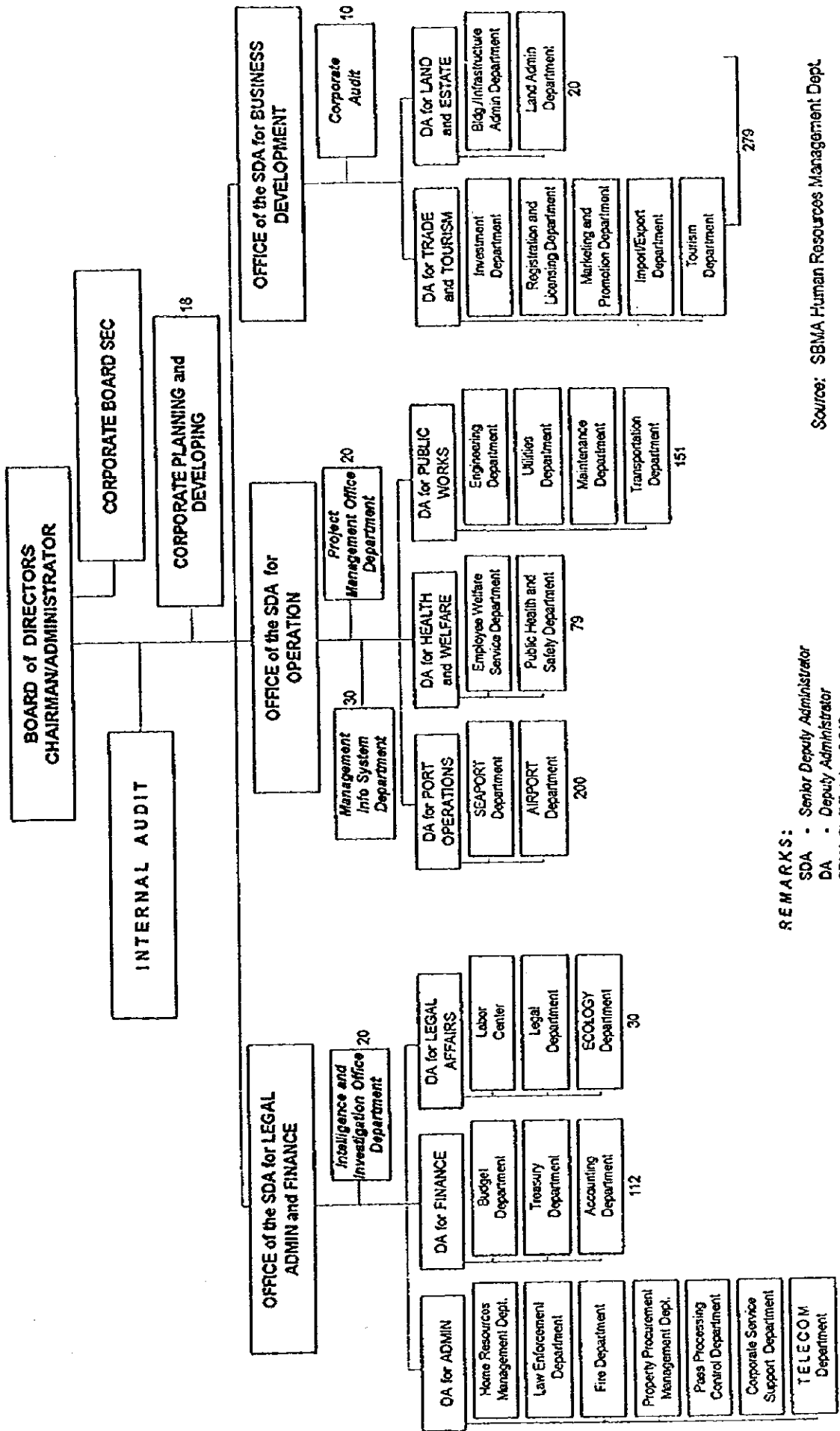
It is an efficient method to check the organization whether it is properly organized or not by the standard of " Plan-Do-See " . This is called " Management Cycle Method "in many countries. If an organization is properly composed, it is easy for anybody to tell what section is Planning, what section is Doing and what section is Seeing. Further, there is an optimum parity for the composition of Plan, Do and See. The optimum parity is said to be about 10% for Plan, 80% for Do and 10% for See. Of course, each department must have its own management cycle, but here in this sub chapter, the SBMA organization as a whole will be analyzed.

Figure 4.5.1-1 is the latest organization chart of SBMA which is being presented to the board of directors meeting for authorization during March, 1999. In order to verify the organization, a simple test is to classify each department by functions of Plan, Do and See.

Figure 4.5.1-1

SBMA ORGANIZATIONAL CHART

(As of March 01, 1999, Proposed for Approval)



REMARKS:
 SDA - Senior Deputy Administrator
 DA - Deputy Administrator
 SBMA Staff Total - 2,249

Source: SBMA Human Resources Management Dept.

Referring to the job definition of each department, the following groups are identified:

“Plan” Group:

(Two Departments, 28 Personnel, about one % of the total)

Corporate Planning and Developing, Marketing and Promotion Dept.

“Do” Group:

(Twenty-two Departments, 1,939 Personnel, about 83 % of the total)

Home Resources Management Dept., Law Enforcement Dept., Fire Dept., Property Procurement Management Dept., Pass Processing Control Dept., Corporate Service Support Dept., Telecom Dept., Labor Center, Seaport Dept., Airport Dept., Employee Welfare Service Dept., Public Health and Safety Dept., Engineering Dept., Utilities Dept., Maintenance Dept., Transportation Dept., Investment Dept., Registration and Licensing Dept., Import/Export Dept., Tourism Dept., B’ldg/Infrastructure Admin. Dept., Land Admin. Dept.

“See” Group

(Five Departments, 70 Personnel, about three % of the total)

Intelligence and Investigation Office Dept., Legal Dept., Ecology Dept., Project Management Office Dept., Corporate Audit Dept.

“ Plan and See “

(One Department, 30 Personnel, about one % of the total)

Management Info. System Dept.

General observation is that SBMA’s proposed organization has a lighter “Plan” section, namely a small planning staff than average and also lighter “See” section, namely a small seeing (checking) staff than average. “ Do” group include about 590 personnel of Security Dept. and 26 of Fire Dept. Thus a real “ Do “ group figure in terms of doing business is about 1,000 personnel.

SBMA is now in the process of re-organization and the number of the SBMA personnel will be increased by 50% to about 3,375, while the number of the personnel of SFC will be decreased by 50% to about 1,600, thus the total number will remain at the level of 5,000 in the near future according to the Human Resources Management Department.

In summing up, SBMA’s organization must be further streamlined to function as a wheel of the management cycle, Plan-Do-See and Plan to next cycle. Further, the naming of Departments and Sections should be contrived so that everyone can understand which part of Plan-Do-See the organization is sharing. There is an old saying that the name suggest the reality.

(6) Need for Standardization

Global standardization in business society is the prevalent trend these days. To grasp the process of application and authorization of ISO Standards, the example of a newly established electronics company of the Philippines will serve. Due to its desire to become part of the tier of quality assured firms and the growing drive to implement Philippine environmental laws, this company tried to adopt ISO 14001 Environmental Management System.

Understanding the principles and benefits of management systems prescribed by two standards, ISO 9002 and 14001, are significant to form a strategic and competent control of all aspects of the company's operation through Plan-Do-See. ISO 9002 which is a quality-inclined management system focuses on effective control and greater efficiency to increase customers confidence in the organization's ability to produce the right products on time and within specification.

On the other hand, ISO14001 basically implies comprehensive management system to control the organization's relation with the government, community, customers and environment.

According to the explanation of the company, to start the bid for the recommendations, the company held its kick-off ceremony almost two years ago spearheaded by its President. Committees were formed to undergo brainstorming sessions, and create programs and strategies on how to draw and implement the new system. Training and orientation were given to employees in order to address the requirements of the standards and to gain their commitment for their forth coming implementation.

An organization vying for an ISO certification faces a daunting task in preparing the voluminous documents necessary to set up the comprehensive management system. At this stage, the Filipino employees took the lead role in utilizing and making every available resource of this newly established company visible.

This example tells us that the way of doing business in both the private or public sector, is becoming standardized. Also it tells that although the ISO Certificate itself is precious, the process of preparing for it and what the employees and management can get during that preparation is more precious.

SBMA is a young organization, just seven years old. However, it is never too early to build up the basic mentality and skeleton of the whole organization. It is said that " Genius displays itself even in childhood ".

In terms of quality of management and operation, SBMA needs to standardize its way of

doing business. This entails keeping comprehensive records and statistics.

(7) EDP (Electronic Data Processing) & EDI (Electronic Data Interchange)

In early 1998, there were two computer systems in the then SBMA. One was Cyber City Project system and the other was that of each department's hand made or dedicated small computer system. Now one year has passed and a big change is observed. The following extraction of a letter from the MIS addressed to all department heads of SBMA is eloquent of what has transpired:

(omitted) Please be informed that MIS is no longer capable of providing all requests due to lack of resources. We are one of the few if not the only one of the government controlled agencies that has acquired large number of computers, printers, servers, and other computer accessories deployed to different departments.

SBMA was able to acquire such equipment because of the Cyber City Project funded by the World Bank. However, the Cyber City Project is already dead.

MIS office is not allowed to procure for the over-all use of SBMA because any procurement made by any department should be for its own consumption only.

(omitted) Each Department should obligate portion of their budget for their equipment need. Each Department should prepare the RIV (Request Issue Voucher), justification, and cover letter to MIS. MIS will accumulate all requests and will provide TOR and SPECS for bidding and procurement purposes.

After a few years of duplication and deviation, the computerization of SBMA has been revitalized. The Seaport Department is now back to the original stage of EDP and EDI. At present, Seaport Department has its own small system which can produce statistics only. It is just a calculating computer and nothing more. Therefore, the quality of management and operation of SBMA is destined to crawl at a very primitive level.

4.5.2 Action Program for Improvement of Management and Operation Systems

(1) Reducing the Number of Employees

The foregoing Sub-chapter, 4.5.1 " Necessary Improvements "analyzed SBMA as a whole. In this Section, the focus will be on the Seaport Department.

At present, about 200 staff members plus 63 volunteers are working in the Department. The number of workers should be reduced to around 100 at the first stage, and 60 to 70 men at the final stage. How to reduce the staffs size without decreasing the number of workers is an

issue that must be addressed. One effective means is the introduction of the SBMA Qualification Degree System. The framework of this System is as follows:

- 1) Degree: Seaport Controller III
 Seaport Controller II
 Seaport Controller I

 Seaport Administrator

 Seaport Planner III
 Seaport Planner II
 Seaport Planner I

 Seaport Engineer III
 Seaport Engineer II
 Seaport Engineer I
- 2) Schooling: as per SBMA in-house curriculum
 (partly bridging with education for Technology Transfer may be
 possible and useful)
- 3) Diploma: For successful graduates, diploma will be awarded
- 4) Link to the salary system: It is necessary to make a public notice that the
 qualified staff will be paid according to the
 program

By introducing this system, it will become possible to adjust the staff size to the targeted level. It would be necessary, however, to prepare a safety net for dismissed workers in order to gain public acceptance.

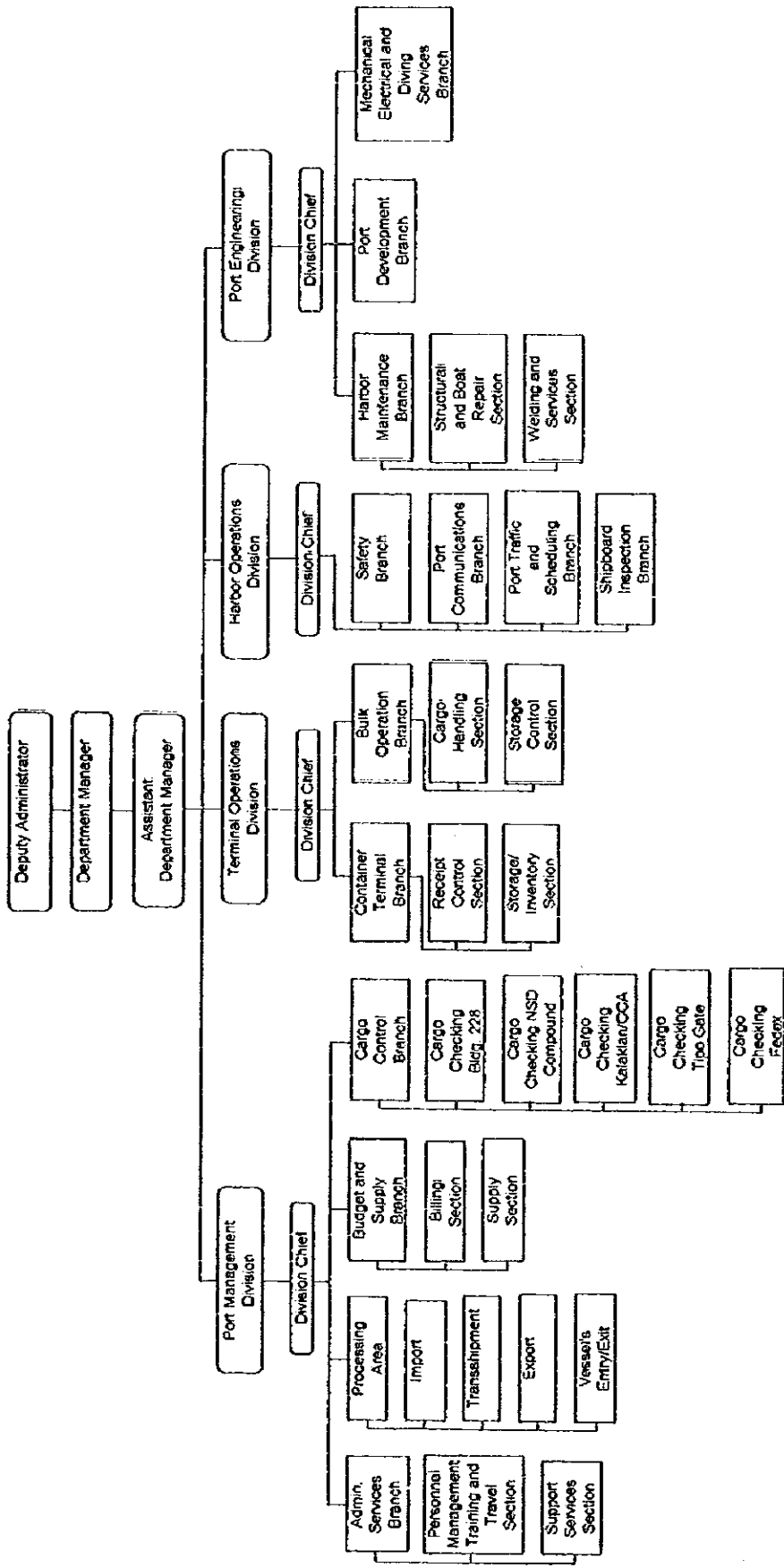
(2) Reorganization of Seaport Department

At the time of reporting, there are four divisions and 32 branches or sections in the Seaport Department. (see Figure 4.5.2-1) In the Volume 2 of this report, a new organization is proposed. (see Figure 4.1.1-2 “ Proposed Organization Chart of Seaport Dept. “ on page 4-13 of Volume 2).

The proposed organization consists of three divisions and 14 sections. In comparing these two organizations, the major difference is that the Terminal Operation Division and Harbor Operation Division of the existing organization are omitted in the proposed chart.

Figure 4.5.2-1

SEAPORT DEPARTMENT ORGANIZATIONAL CHART
(As of February 15, 1989)



Personnel Distribution:	SBMA Emp.	FSC Emp.	Consultant	Director	Total
Director-in-charge Office				1	1
DA's Office	1	3			4
GM's Office	1	1			2
TOD	18	26			45
FOD	15	4			19
FMD	31	50			81
FED	20	17	2		39
TOTAL	87	101	2	1	191

The new chart has been designed with a philosophy of Plan-Do-See. It is assumed that SBMA Seaport will concentrate all of its human resources and necessary materials to the fields of port planning , administration and port sales. The new container terminals are assumed to be leased out to private operating companies through the concession. It is also assumed that some numbers of bulk ships or break bulk conventional ships will continue calling the Port.

Even in this interim period, it is proposed to reshuffle the existing organization in preparation for the days when container terminal operation function is separated from the Seaport Department. For instance, Container Terminal Branch of Terminal Operation Division could be made smaller and simpler. The same could be said about Bulk Operation Branch.

Port Management Division which has 81 members as of Feb. 15, 1999 also should be rationalized. In the Department, 11 people are working in the Administration Service Branch, 13 for Processing , 12 for Budget and Supply and 44 for Cargo Control Branch. The reason why so many men are assigned to Cargo Control Branch is that 44 men are doing tally work at the operation sites in the Port. Tallying cargo is a typical waterfront job and basically is not the port authority's responsibility.

Assuming that container terminal operation is shifted to the private sector through the concession , the tallying of FCL and LCL cargo automatically shifts to private companies and will no more be the SBMA 's responsibility. Even at present, the number of workers can be reduced if the tallying method is rationalized.

Some comments would be necessary about 73 volunteers of the Seaport Department. At present, they are mostly engaged in checking and guarding the bonded areas. They are not paid.

In summary, the Seaport Department is in a transition period and should be reorganized in the near future when the newly completed container terminals will be leased out for private operation and SBMA Seaport Department will act as a Port Management Body concentrating its efforts on Planning , Administration and Marketing/Port Sales. The new organization will be explained more minutely in the sub-chapter 4.7 Organization and Tariff for Short Term Development Plan.

(3)Constructing New Container Terminals

As is elaborated in 3.2 "Short Term Development Plan", four phases for the new container terminal construction are needed to cover a competent capacity against the container traffic demand up to 2020. The capacity of existing port facilities at NSD and Boton areas are adequate to the conventional cargo demand up to 2020.

The above is the basic assumption of the Port planning, and concerning the new

container terminal, the short term plan is considered as one package consisting of Phase 1 and 2, because the time period between the completion of Phase 1 and the commencement of Phase 2 is only two years.

To attain an efficient transition to a new container age of the Port, it is recommended in 3.2.1 " Policy for the Short Term Plan and Urgent Development Plan " that the SBMA installs a second handed gantry crane at the existing berth of Sattler Pier through 2000 to 2005 in order to attract non-gear container vessels and to produce new container customers in SBF until the new container terminal facilities are completed and become operational. The details of the policy for both the Short Term Plan and The Urgent Development Plan are elaborated in 3.2.1.

(4) Improving Operation of Conventional Type Vessels

This is mainly an administrative in nature, because the stevedoring work is subcontracted by some stevedoring companies. Therefore, it is necessary for SBMA to ask them for their cooperation to improve the productivity of the operation. There is an established concept of "Dispatch and Demurrage " in the shipping business. This is a system to stimulate the operation of a ship as well as that of a stevedoring company or a shipping agent. According to the system, an amount of money will be paid for a quick dispatch of a ship, while a penalty will be levied in case of delay. It is often observed at Subic Port that large vessels sit idle for a number of days.

It is not the intention here to point out some small points of operation which need a little improvement, but the importance of the improvement of berth availability from the present level. For instance, if there is one wharf which can accommodate 30,000 GT vessel, the yearly availability of the wharf is 365 on condition that an operation of one ship can be completed within one day. If average operation hours for one ship are 48, then availability is reduced to half of 365, i.e. 183. Thus , an availability of one wharf is directly connected to the productivity of cargo handling operation.

It is proposed to set up an operational target of the stevedoring companies through negotiations with them, and if necessary to introduce an incentive system into the payment system of the stevedoring charges.

(5) Working Committee on ISO Certificate

Standardization is a global trend as is elaborated in the previous subchapter. Thus it is desirable for SBMA, especially for Seaport Department to apply, if possible, for the ISO Certificate. So far, there is no world wide standard of service of container terminals; word of mouth among users and advertising are the main factors in attracting cargo. However, an average container terminal at least has to conform the following standards:

1) Container Handling Capacity

Ship-side: 1,000 boxes per 10 hours

Land-side: maximum waiting time at gate--less than one hour

2) Container Handling Charge Level: Competitive Market Rates

3) Storage Capacity: two or three times of standard calling vessel's TEU

It is not intended here to mention about the planning procedure of container terminal, but the above demonstrates that standardization has started even in the business world of containers. It is quite understandable because "container" itself is a child of the world standardization movement.

Through a applying for the ISO Certificate, the Seaport Department staff will surely learn about the importance of world standards. This is the starting point of I improving Management.

Working committee should be organized to study about ISO Standards as the first step. And if an earnest wish for the Certificate among the Committee members is confirmed , then SBMA should proceed forward to the final goal. It is emphasized that the process for the applying for the Certificate is more variable than the actual result. Through the preparation, all the concerned staffs will realize the importance of learning the international language of world business standard.

(6) Upgrading EDP and Preparation of EDI

The existing EDP of the Seaport Department is merely a small data processing system and in that limited job definition it is functioning fairly well. However, to improve the quality of management and operation of the Port, the present system is not applicable. The Department needs a new system designated to the appropriate objectives of the Department. In order to install the right system, it is necessary to grasp and define the needs of the frontline and bottom line at present and in future.

At present, EDP is not used for operational works, neither for containerized cargo nor un-containerized cargo. All the jobs at site are manually done and only statistical reports such as daily or weekly revenue reports are used from time to time.

In the near future, SBMA Seaport Department, as the Port Management Body, will need a state of the art system for both EDP and EDI. EDP can be designed by defining the SBMA 's own jobs, but EDI is a different story. It must be done jointly with the terminal operators, because main portion of data interchange between container terminals must be done by themselves and SBMA as Port Management Body is just enough to prepare a receptacle module

of some reporting data from them.

Finally, it is worth noticing that recently there added a prototype of a new application job to the Seaport Department. The new application is all manual but will be transferred to EDP application if a terminal device is supplied. It is noticeable because the application is the first one other than statistical and calculation applications.

Because of a series of missing containers inside the NSD compound in 1998, a new application was added to prevent a recurrence of similar cases. Until that accident, movements/activities of containers once they were received and accepted for storage inside the NSD Compound, had not frequently been monitored. Consequently, the Seaport Department were compelled to inquire as to the status of the foreign transshipment containers, once any other department reported that these containers were no longer inside the NSD Compound

In view of the above, the Seaport Department immediately implemented a new application to prevent further embarrassment. The Department decided to monitor the activities and movements of foreign transshipment containers inside NSD Compound to Customs Clearance Area (CCA), thence, to Kalaklan Gate and/or Tipo Gate up to the next transshipment loading operation for the final destination port in the Philippines, and/or for immediate loading on board an outward carrier in SBMA. Because the Port of Subic is aiming at a hub port where transshipment containers come and go, this application will become an important one.

Outline of the monitoring work process is as follows:

1) Monitoring Indicator

Number of foreign transshipment containers whose movement/activities were not monitored, thus no feedback received by the Seaport Department. This was amended.

2) Determine Cause

Terminal operation personnel assigned to monitor the status/activities/movements of foreign transshipment containers failed to establish the status of foreign transshipment and subsequently failed to give feedback to the Seaport Department.

3) Establish the Solution

a. Terminal operation personnel to provide timely information as to the status/activities/movements of foreign transshipment containers inside the NSD Compound. Check if documents has expired and check container seals if intact and un-tampered.

b. Checkers assigned at Kalaklan Gate and/or Tipo Gate to provide timely feedback as to the status/activities/movements of boxes. Check documents if expired and re-check container's seal if intact and un-tampered.

4.6 Improvement Plan and Schedule for Short Term Development Plan

4.6.1 Urgent Development Plan

The Urgent Development Plan is specially designed so that operations will not stop even during construction of the new container terminal facilities, in fact, it is intended to strengthen the basic starting point of the Short Term Plan. The Plan will increase the container handling capacity to 110,000 TEUs which is mentioned in " Sub-Chapter 3.1.2 Phasing Plan for Port Facilities " and allow full container ships (non-gear ships) to be handled at Sattler Pier.

The Urgent Development Plan consists of the installation of a second-hand gantry crane at Sattler and the pavement work of the existing container yard (10 ha) at NSD area. There is no room to doubt the feasibility of this Plan, and only outstanding subject is how and where to find a second-hand crane in excellent maintenance condition.

An actual step towards the realization of the Urgent Development Plan is being taken by the Seaport Department.

4.6.2 The Short Term Development Plan

(1) Case 1: One Terminal Operator for Whole 560m x 420m Terminal Site

The layout of the prototype port plan is versatile to cope with possible changes in the actual economic development situation of the Port. The number of operators or any operation can be modified if given sufficient advance notice.

On the assumption that only one operator operates the whole site of the new terminal, no problem is envisaged concerning the operation itself. However, from the view point of competition, one private company monopolizing all container facilities of the Port is not desirable. Also, it is not desirable from the earnings point of view. For instance, SBMA can get a greater amount of money through concessions for the two container terminal facilities than through one concession.

It is also to be noted that the Port has a public nature always and it is widely believed that the due attention should be paid to that aspect. In cases, a small container shipping line decides to call at the Port of Subic, if there is only one container terminal operator, the initiative of terminal charges is in hands of the operator, not in the shipping lines' hands. This is something that should not happen in a port administration. In this regard, it is not recommendable to lease out the whole site of the newly constructed container terminal to only one private operator.

(2) Case2: Two Terminal Operators for Two Terminal Sites divided equally

The berth length of the Short Term Plan is 560 m in total (each berth has 280 m) and the berth depth is 13.0 m. These two terminal sites are ideal to receive and handle 2,000 TEU type container ships. The port layout plan of these new container terminals for the Short Term Plan is shown in Figure 3.2.2-1.

Figure 3.2.2-1 shows the layout of the two terminals. Both terminals have a berth of 280 m and two gantry cranes. Assuming that an each gantry crane has per hour loading/unloading capacity of 25 boxes, regardless 20' or 40', full or empty, and ten hour-operation per day, then 500 boxes can be loaded or unloaded per day. RTGC (Rubber Tired Gantry Cranes) are assumed in the yard operation for both terminals. Therefore as far as Hardware is concerned these two terminals are twins, and it is Software and Humanware that make a difference through competition. By this arrangement it becomes possible for the prospective users to select a container terminal which fits better the requested services and calling frequency of the vessels to the terminal.

The merit of Case 2 is firstly the increase in the prospected sum of the leasing fee, because the total of the sum of the leasing fee for each terminal will surpass the sum of the leasing fee for one terminal as a whole. Further, applicants for each container terminal concession can calculate the profit and loss in a more feasible way, because a decision to lease-in a big terminal site with 560 m berth from the start is hard to make.

At present, a total of five shipping lines are using the Port as liner port basis. The shipping line wise calling times are shown in Table 4.6.2-1:

Table 4.6.2-1 Ship Calls by Shipping Lines (1998)

Shipping Lines	Jan. to June	July to Dec.	Total Calls	Per Month
APL	47	49	96	8
Maersk	26	28	54	4.5
RCL	9	8	17	1.4
TMS	9	7	16	1.3
CF Sharp	-	1	1	-
Total Calling	91	93	184	7.2

Source: APL Subic, SBMA Seaport Dept

Presently, there are about seven prospective users (seven shipping lines or NVOCC- Non Vessel Operating Common Carrier), waiting for the completion of the new facilities when the deletion of the arbitrary charge is most likely. On the assumption that all the seven prospective users come to the Port of Subic, it would eventually be impossible to accept all of the vessels coming by only one terminal operator as is in Case 1.

On the other hand, in Case 2, the availability of the berths and container handling capacity is far better than Case 1, because the quality of the administration and operation is likely to be better through a competition among the two operators. For instance, the shipping lines and the international alliances of them are competing very severely and try to occupy the best date of berthing in case of calling a port. Sometimes, they do not even mind paying a considerable amount of money to secure that position if their customers need it. This kind of negotiation between a terminal operator and a shipping line is a matter of daily business. This is marketing and sales of both sides.

In future, because both terminals will become popular among shipping lines who operate vessels with container capacity of 2,000 TEU or more. Assuming about half of the total capacity, say 1,000 TEU (which equals about 650 boxes here in Subic, because 20'/40' ratio being as 30/70) are to be loaded/unloaded, it takes only about thirteen hours to complete. It is a great merit for the shipping line.

On the other hand, an operation by using one gantry crane at either terminal can be optimum for a comparatively smaller size vessel operator. The berth length is long enough for two small vessels, one gantry crane each, and loading/unloading operation capacity is optimum for smaller volumes of containers, say capacity of around 200 TEU (about 120 boxes) or less. It takes only 5 hours even if the whole boxes are to be loaded or unloaded. It is to be noted that the both terminals also can accommodate bigger vessel than 2,000 TEU type if they cooperate using the total berth length of 560m.

The storage capacity is big for both terminals, because of the introduction of the RTGC. There are eleven blocks of RTGC, each block having 168 ground slots, or 1,848 ground slots in total. Assuming average two high, the total stacking capacity will become 3,696 TEU, and 5,545 TEU for three high.

In the year 2006, the throughput of 237,301 TEU (about 155,000 boxes on assumption 20'/40' ratio being 30/70) is assumed. Based on the assumption that the right side terminal which will be completed and operational by the end of 2005, operates 365 days per year, 24 hours per day with three shifts operation, ship-side operation (loading/unloading) figure per day will be about 500 boxes ($155,000/365 = 424$ boxes). This figure is well within the loading/unloading capacity of 1,000 boxes per 10 hour operation of the terminal. Regarding the land side operation, there are six lanes for receiving and delivery operation. Assuming the

average processing time at each gate as six minutes regardless of Import/Export, full/empty, about 10 boxes per gate per hour can be handled, thus 60 boxes per hour per all six gates. Therefore, gate operation time of the terminal will be around ten hours.

In the year 2007, when both terminals will become operational, the assumed throughput is 300,951 TEU (196,000 boxes). On assumption that the first terminal handles the two third of 196,000 boxes namely 130,000, the remaining is 66,000 boxes for the newly completed terminal with two gantries. This is less than half of the capacity of the new terminal, because this terminal can easily handle 155,000 boxes per year on assumption that the terminal operates 10 hours per day and 365 days per year. In reality, 196,000 boxes will be divided by the two operators through the competition, but in any way of dividing, the boxes are well within the total capacity of the two terminals.

It is also possible that one shipping line or one group of them wishes to lease a terminal exclusively by paying a leasing fee of big amount to build a stronghold in a heated competition and it is the strategy of SBMA whether it responds to such a request of shipping lines.

In summary, it is recommended that SBMA choose Case 2 for the new container terminal facilities. In this assumption, two successful bidders will become the private terminal operators of the two terminals in 2007 in the final course of time. As is already explained, the first terminal is to be completed by the end of 2005, and the second terminal is scheduled to be completed by the end of 2007. Therefore a concession for each terminal is to be conducted two times.

(3) Policy for the Privatization of New Container Terminal

As is elaborated in the previous sub-chapter 4.1.1, it is the central government's policy to expedite privatization. It is proposed to let private enterprises operate the new terminal or the new terminals as case may be. In this line, the above two alternative cases of terminal operation have been studied.

The above privatization scenario is based on the assumption that the heaviest investment portion of public use facilities such as channels, reclaimed land with an administration building as well as high priced gantry cranes are invested by SBMA, while all other onshore facilities and equipment are to be procured by the private sector.

In addition to privatization of container terminals, it is also advisable that the relate waterfront businesses, not limited only to container, such as Van Pool, CFS, Cargo Tally and Checker should be privatized in a more complete way.

4.7 Organization and Tariff for Short Term Development Plan

4.7.1 Organization for Short Term Development Plan

(1) New Seaport Department, What to do and What not to do

It is assumed that the new Seaport Department will concentrate its efforts on the planning and administration of the Port as a Port Management Body. The role of SBMA Seaport Department is minutely explained in 4.2.3-(5) Recommendable Institutional Framework, and the following organization design is based on the framework, and the philosophy of Plan-Do-See.

Basically, the new Department is dedicated to administration and planning, thus not directly responsible for the waterfront operation. The following is a summary of the jobs which will be the main tasks of the new Department:

Plan

1. to form and establish port development plans
2. to form port sales plans
3. to form port maintenance plans
4. to form port budget plans

Do

1. to maintain port area and port facilities in good operating conditions
2. to carryout construction and maintenance work for port facilities
3. to administrate land reclamation works in port area
4. to ensure safety in the port area in collaboration with other agencies concerned
5. to ensure the adequate provision of port service

See

1. to grasp the profit and loss through the port administrative account system
2. to feed back the results of the audited results to Plan and Do sections
3. to bridge the result to the Planning section

The jobs which are going to be deleted from the existing job description list are as follows:

1. Guards & Checkers, Tallying of Containerized Cargo

2. Container Terminal Operation All kinds
3. Data & Documents Processing for All Cargo

There is a considerable number of men in the Seaport Department engaged in the above activities. Forty-one members are working as guards and checkers and 30 more are requested as additional manpower needed. Further, 44 men are working as tally men. In total 115 men out of 264 men (191 men plus 73 volunteers) are working as guards, checkers or tally men.

Basically, guarding a bonded area is not the job of the port management body. It is generally the responsibility of the customs and it is rare that the port management body itself guard the bonded area. Also, tallying is not for the SBMA's job. SBMA should be a land owner, presenting a place of business to the economic world.

Guarding of bonded area is primarily important for the Customs of the Philippines. About tallying of cargo, it is a long established business tradition in the shipping business world that private tallying company, such as sworn measurers company carries out tallying for either for shippers side or ships side and another tallying company counts for the other side, thus mutual tallying is possible. In any case, it is not the job of a port management body.

In the near future, these three on-site jobs mentioned above are going to be deleted from the job description list of SBMA.

(2) Proposed Organization

The new Seaport Department will consist of three divisions, Planning & Administration Division (PAD), Port-sales Promotion Division (PPD) and Port Engineering & Maintenance Division (PEMD). Each Division has an in-division management cycle

This proposed organization is based on the following assumption:

- 1) SBAM concentrates its management resources to activities of administration of the Port.
- 2) Conventional type vessels and cargo handling operation is perfectly privatized and the Seaport Department is not involved in operational matter. (Pre-Arrival Meeting is not necessary any more)
- 3) The customs service as well as IQ services are done by the right national Organizations.
- 4) Tallying is to be privatized or cut from the Seaport Department's responsibility.

In planning the proposed organization, the above assumption played a very important role. In other words, it was intended to change SBMA from ex-US Navy base port to a commercial port of the world standard.

1) PAD has five sections, Port Planning, Accounting, General Affairs, Marine No.1 and Marine No.2.

Port Planning Section conduct planning of the port for both long term and short term and if it is necessary this section is responsible for necessary port planning for an emergency case.

Accounting Section is responsible for all the accounting matters including the necessary reports to the divisions and sections concerned. This Section is responsible for all the jobs concerning budget planning and billing/auditing. This Section is a " Do " and " See " section.

General Affairs Section is responsible for controlling human relations as well as the manpower. This Section is responsible for office supporting including stationary and other utilities. This Section is a " Do " section.

Marine Section No.1 is responsible for berth allocation & adjustment which will continue to be a job of the Port Management Body. This Section is responsible all concerned controlling and administration jobs relating container terminals. This Section is a " Do " section.

Marine Section No. 2 is responsible for Public Port Services such as arranging supply of water or petroleum. Tug Boat/Pilot arrangements, if totally privatized, the arrangement should directly be made by shipping line/their agents to relating companies. This Section is responsible all concerned controlling jobs regarding conventional vessels and cargoes. This is a " Do " section.

In case of more rationalization, it would be possible to combine Marine Section No.1 and 2.

2) PPD has five sections, Sales & Marketing, Customer Services, Public Relations, Contract and Information & Statistics.

Sales & Marketing Section is responsible for the sales promotion of the Port. This Section carries out marketing of both container cargo and non-container cargo. The activity of this section is typically that of " Do ", however, without a planning power, it would be difficult to promote the Port Sales. Thus, the nature of the Section is " Do " plus " Plan ".

Customer Service Section is responsible for handling various requests and claims from customers. Customers will include all users regardless kind of transportation modes. They are

shipping lines, their agents, air lines, their agents, truckers, forwarding agents, NVOCC, terminal operators, CFS operators etc. This Section is a “ Do “ section.

Public Relation Section is responsible for general public relation work such as producing home pages, sales promotion brochures and necessary bulletin. This Section is expected to function as a spokesman of SBMA. “ Do “ section.

Contract Section is responsible for all contractual matters including negotiations with customers and interpretation of contract clauses. “ Do “ and “ See “ section.

Information & Statistics Section is responsible for grasping the present status of the Port and out-look for the future through the records and statistics. This Section is a typical “ See “ section.

For further down-sizing, it is possible that the functions of the Customer Service Section could come under the Public Relation Section into Public Relation Section.

4) PEMD has four sections, Maintenance, Engineering No.1, Engineering No.2 and Property & Supply Control.

Maintenance Section is responsible for all maintenance works of the properties and owned facilities. This Section also oversees the maintenance works of the leased properties and facilities to lessors such as terminal operators and ware house users. “ Do “ section.

Engineering Section No.1 is responsible for Structural Civil Engineering works for the Port’s own facilities. Because most of the civil structures are constructed and owned by the Port, this Section’s main job is how to support the port planning from the sea front. “ Do “ and “ See “ section.

Engineering Section No.2 is responsible for Electrical/Electronics works SBMA utility operation administration. This Section is also responsible for administration of EDI systems of container terminal operators from the view point of the Port’s operation.

Property & Supply Control Section is responsible for the procurement of necessary parts and equipment for all properties and facilities of the Port. This Section is also responsible for the inventory of necessary parts and material.

For further downsizing, it is advisable to combine the Maintenance Section and the Property & Supply Control Section.

4.7.2 Port Tariff

(1) Summary of the Existing Port Tariff

Although Tariff System of the SBMA is out lined in page 4-35 of Vol.2, it would be proper for better understanding to sum up the latest state of the Port Tariff including some changes in the charge collecting system of the Seaport Department.

- 1) The composition of the current SBMA Port Tariff is the same with that of the Port of Manila, namely the nationwide tariff established by the Philippine Port Authority (PPA). Therefore, basic feature of the Tariff mirror the PPA 's tariff.
- 2) The Tariff is divided into two parts. One is " SBMA Seaport Charges " which is paid to SBMA directly by user, and most of the income is retained by SBMA, but some of the specific items such as Pilot Fee or Tug Services ,according to item, of the total gross income is paid to companies which actually carried out services to user. The main items of this kind are pilot fee, tug service fee, charges on vessels such as harbor fee, berthing fee, anchorage fee and line handling fee.
- 3) The other is " Schedule of Cargo Tariff " which is paid to the cargo handler by user, and later paid to SBMA. However, for " Cargo Charges (Arrastre/Longshoring) ", 10 % of the total gross income is paid to SBMA later. The main items are stevedoring charges which is firstly paid to stevedoring companies, and arrastre charge which is firstly paid to box draying truck companies.

(2)SBMA Seaport Tariff-Revised 03

The Seaport Department is now proposing to the board of directors the third revision of the Seaport Tariff for review and approval. The current Tariff became effective April 1, 1994, thus, this revision will be the first in the past five years The proposed Tariff is again based on the prevailing PPA Tariff with a minimum increase of 10 %, and an average increase of 25 %. The revised Tariff is still lower than the current PPA tariff which was increased about 20 % from Jan. 1998. The board of directors will approve the new Tariff within a few weeks, and it is necessary to make an announcement to the public in news-papers at least one month in advance, thus, it would become around May/June for the new Tariff become effective. There will be no retroactive charging.

Concurrently with this revision, the Seaport Department has made some changes in the tariff structure without changing the basic structure of the PPA Tariff.

The new Seaport Tariff 's structure is as follows:

SBMA SEAPORT CHARGES

- I PROCESSING FEES *
- II PILOTAGE FEES
- III TUG SERVICES
- IV CHARGES ON VESSELS
- V CHARGES ON CARGOES
- VI STORAGE CHARGES OF CHASSIS
- VII CHARGES FOR WATER SUPPLY
- VIII CHARGES FOR HARBOR CLEANING MAINTENANCE

SCHEDULE OF CARGO TARIFF

- I CONTAINERIZED
- II CONVENTIONAL
- III MISCELLANEOUS CHARGES
- VI OTHER MANPOWER CHARGES
- V APPLICATION OF CHARGES

* "PROCESSING FEE" has been consolidated in the new Tariff. These fees have been established, but were not previously included in the prevailing Seaport Tariff.

(3) Change of Collection of Stevedoring and Service Provider Fee

It was resolved at the Tenth Regular Meeting of the Board of Directors of SBMA held last December 29, 1998 that the collection of the captioned charges shall be paid directly to the Seaport Department. At the same meeting the increase of the current Tariff rates was also resolved.

The existing collecting system as explained already is that the charges classified as "Schedule of Cargo Charges" are paid directly to the cargo handler by user. By this time change of collecting system, all of those charges must be paid directly to SBMA. Then, SBMA pays to the cargo handler a fixed % of the gross income as per the Tariff later.

The significance of the above change is that the income can be grasped more quickly than in the present system, and the interest of the gross amount is not negligible. Accounting job is more simple than ever because the only outstanding job is to pay the fixed % to the cargo handler. In the existing system, the Seaport Department must prepare billing notice to the cargo handler requesting payment to SBMA. Under the new system, it is their duty to verify the amount to be paid by SBMA.

(4) SBMA share for other services rendered

Another significant change of the new Tariff is that the captioned share has been incorporated in the Tariff of " Schedule of Cargo Tariff " III Miscellaneous Charges (Payable by whoever requested the service) 7. as follows:

a) Pilot fee	20 %
b) Tug Services	10 %
c) Cargo Handling	10 %
d) Chandling Services	10 %
e) Repair Services	10 %
f) Boat Rental	10 %
g) Bunkering	10 %
h) Maritime Surveying	10 %
i) Tank Cleaning	10 %
j) Other Port Related Services	10 %

(5) Port Tariff as Income Originating Machinery

Table 4.7.2-1 shows the revenue of the Seaport Department in the calendar year of 1998. In 1998, the grand total was P 82,687,897 and the charges related to container handling were cargo charges, storage charges, reefer charges and other charges. About 44 % are originated by container handling according to the statistics of the Seaport Department. The item-wise income originated by container handling is calculated as follows:

- 1) Cargo Charges $P22,402,578 \times 0.44 = P9,857,134, /21,762 \text{ TEU} = P453 \text{ US\$ } 11.3$
- 2) Storage Charges $P8,141,577 \times 0.44 = P3,582,293, /21,762 \text{ TEU} = P165 \text{ US\$ } 4.11$
- 3) Reefer Charges $P418,458 (100\%) /21,762 \text{ TEU} = P19 = \text{US\$ } 0.48$
- 4) Other Charges $P9,526,943 \times 0.44 = P4,191,855, /21,762 \text{ TEU} = P193 \text{ US\$ } 4.82$

The total numbers of containers handled in the same period was 21,762 TEU. The average income per TEU is, therefore, P 830, about US\$ 21.00 per TEU.

An increase of about 20 % to the current rates is proposed to the board of directors for approval, thus the per TEU income will increase to US\$ 25. Assuming another 20 % increase of rates will be made by the end of 2004, the per TEU earning will become about US\$ 30.

Table 4.7.2-1 Revenue of the Seaport Department Year-End Report

UNIT: Peso 1,000

PARTICULAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL (1998)	TOTAL (1997)
VESSEL CHARGES	2,641	2,328	1,986	2,282	2,514	4,261	3,034	2,263	2,672	6,254	2,739	4,779	37,753	24,706
CARGO CHARGES	2,745	1,694	1,037	1,217	2,828	1,359	2,816	1,406	2,949	1,272	2,125	954	22,403	19,645
STORAGE CHARGES	2,032	1,117	166	804	370	238	467	94	695	1,007	571	581	8,142	10,628
REEFER CHARGES	16	10	5	9	51	42	39	20	4	92	87	45	418	535
OTHER CHARGES	1,363	433	1,045	1,047	678	668	479	990	597	966	774	487	9,527	8,604
PROCESSING FEE	305	324	354	325	416	317	290	329	426	404	390	391	4,270	3,114
TOTAL	9,102	5,905	4,593	5,683	6,855	6,884	7,126	5,103	7,342	9,996	6,687	7,236	82,512	67,232
TOTAL REVENUE													82,512	67,232
ACCOUNT RECEIVABLE													175,869	4,935,781
GRAND TOTAL													258,381	5,003,013

Source: SBMA Seaport Department

In 2005, it is forecasted that 237,301 TEU will be handled at the new container terminal. Assuming that the terminal operation is done by the private sector, and SBMA Seaport Department receive the share prescribed in the Seaport Tariff, namely average US\$ 30.00 per TEU, the gross amount will be US\$ 7,119,030 (237,301 TEU x US\$ 30.00).

(6) Rationalization of the Seaport Tariff

Although the revised Seaport Tariff is much improved compared to the current one, there still remains more room for improvement from the view point of the Port Management Body. In this regard it is recommended to invite Experts on Tariff from Japan to set up SBMA's own Tariff in preparation for the Short Term Plan.

The individual expert dispatch program for technical cooperation is intended to help counterparts staff and engineers who will promote economic and social development. The individual experts dispatched from Japan are assigned mainly to government agencies, test and research institutes, plants, schools and vocational training institutes. Their services include advice in setting policies, guidance of education and technical training in various fields, consulting service and guidance in the operation, control and maintenance of machinery and equipment including container facilities.

The individual experts are also dispatched for follow-up of other economic and technical operation such as yen loan and grant aid cooperation, and they play an important role in ensuring effective cooperation in such cases.

Because the container terminals are to be privatized, a tariff issuing right must be transferred to the private sector as far as operators conduct in line with SBMA's policy. Therefore, it is basically their business what level of charges they are going to apply to their customers.