3 SHIPPING AND SHIPPING RELATED INDUSTRIES

SHIPPING INDUSTRY

Industrial Structure

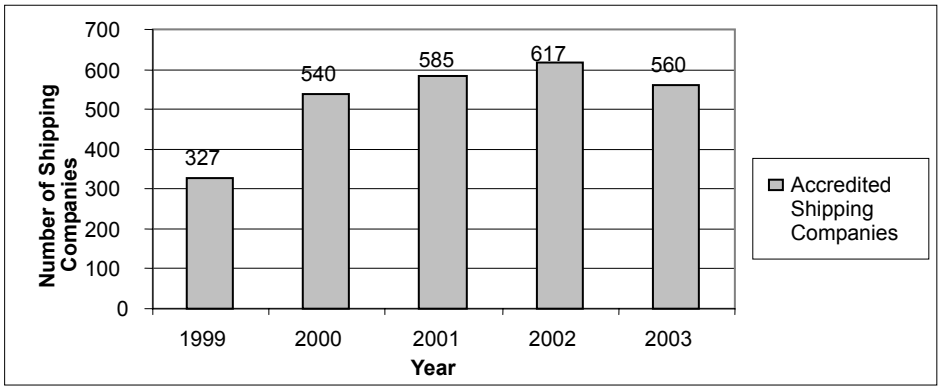
1. From the year 1999 to 2002, there has been an increasing trend in the number of new domestic shipping companies as accredited by the MARINA (see figure 3.1).

2. The top 10 largest companies own about 35% of total GRT of the domestic fleet. It is also pertinent to note that the youngest shipping company in the current top ten was established in 1985, which indicate that for the last 20 years, no major player was able to enter the market.

3. Thus, despite the increase of the number of shipping companies shown earlier, trunk line operation remains rooted to a few companies, thereby in many forums, the Philippine domestic shipping industry is commonly referred to be oligopolistic in structure.

4. Some part of domestic shipping, however, is operated and managed by numerous small scale shipping companies mostly registered in cities other than Manila and Cebu. Most of these companies are of single owner – single ship type of operation, similar to that of Jeepney ownership and operation in the land transport sector of the Philippines.

Figure 3.1. Accreditation of Shipping Companies



Source: MARINA Website

Table 3.1. Top Ten Domestic Shipping Companies

(in Terms of Paid-up Capital and GT, 2000)

Name of Company	Total Number of Vessel	Total GRT (000 tons)	Paid-up Capital (P' 000)	Year Established
1 Negros Navigation	21	65,500	3,637,635	1932
2 WG & A	28	173,900	1,496,599	1948
3 Lorenzo Shipping Corp	7	44,700	300,752	1973
4 Herma Shipping & Transport Corp	15	9,300	251,700	1985
5 Sulpicio Lines	31	147,300	213,252	1973
6 PNOC Shipping & Transport Corp.	9	18,150	190,000	1975
7 Solid Shipping Lines	10	37,350	125,000	1980
8 Phil. Fast Ferry Corp.	1	480	105,116	-
9 MIS Maritime Corp	6	13,000	100,000	-
10 NMC Container Lines, Inc	2	5,700	86,500	-

Source: MARINA-DSO

Ship Operation and Management Practices

5. The institutional framework directly or indirectly affects actual ship operation and management practices. This section raises some ship operation and management issues identified by the Study Team which conducted onboard surveys on ten (10) domestic vessels.

Ship Classification: Currently, 8 domestic societies provide the classification service. As a result, domestic shipowners has a wide range of choice while many including financial institutions question their service quality. On the other hand, IACS members such as ABS, BV, LR and DnV provide services to many of domestic vessels as a condition to apply for DBP finance and marine insurance.

ISM-Code: MARINA has seriously adopted the ISM/NSM Code to Philippine flagged vessels in order to enhance ship safety.

MARINA has made laudable efforts to adapt the Safety Management System (SMS) even to small vessels through simplified forms to fill up. MARINA's statutory surveys, the ISM/NSM audits, and the class surveys have their own distinct areas of concern. Nonetheless, there is still a need to improve the system, e.g. preparing suitable manuals, guidelines and checklists based on actual shipping conditions in terms of ship type and size, assigned route and area.

Capability for Ship-management: Seafarers should be responsible for onboard maintenance. According to the onboard survey, however, they conducted only ocular surveys without understanding technical criteria sufficiently. In principle, satisfactory ship-management practice can be put into practice through a combination of daily onboard maintenance by seafarers with regular ship inspection by professional superintendents. In this sense, ship-management has not been rooted in the Philippine domestic shipping.

Shipping Company Interview Survey

6. The survey of shipping companies was conducted using field survey and direct interview. It covered 55 firms nationwide (14 from Luzon, 20 from Visayas and 21 from Mindanao) with varying services and varying sizes which participated in the survey.

7. The general assessment of the last three years is that of lowered profitability. Reasons cited are varied, but most notable ones are: (1) higher fuel cost; (2) limited increase in cargo and passenger traffic; and (3) severe competition within the industry and against airlines.

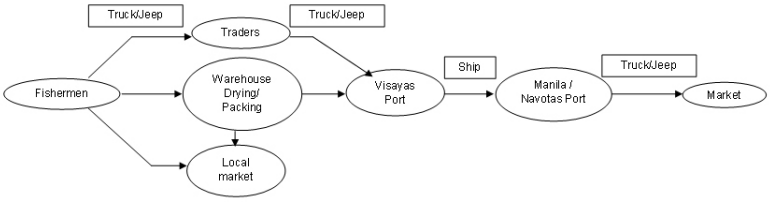
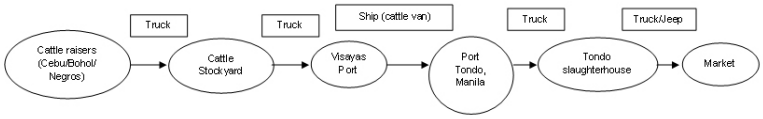
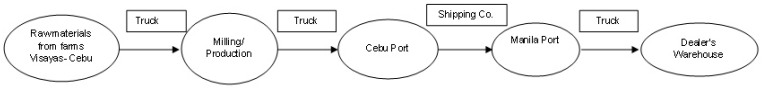
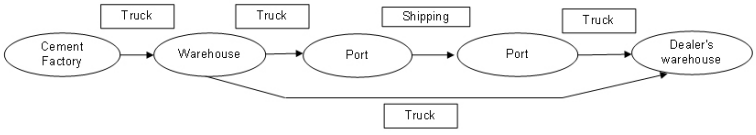
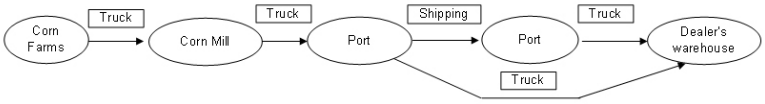
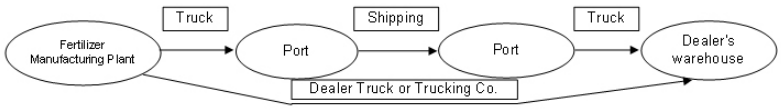
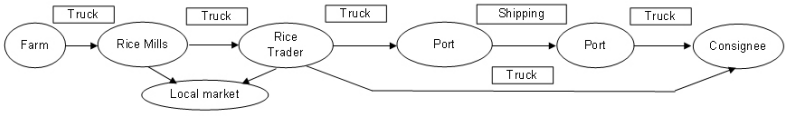
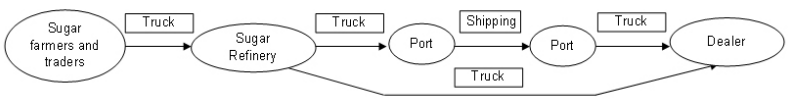
8. Regarding business expansion for the next three years, majority of the respondents are adopting a "wait-and-see" stance. However, many state that they will probably acquire more vessels. Several respondents are considering expanding their service in non-traditional routes – in particular routes between Visayas and Mindanao (e.g. Cebu-CDO) and trans-Visayas routes (e.g., Iloilo-Negros).

SHIPPERS AND FORWARDERS

Commodity-wise Analysis

9. The following is a presentation of the overall production and consumption as well as shipping modalities of selected key commodities in the Philippines, which have been classified into perishable goods (fish, fruits and vegetables, livestock and poultry) and non-perishable goods (animal feeds, rice, cement, sugar, corn, petroleum and fertilizer).

Table 3.2. Some Findings from Commodity-wise Analysis

Commodity	Indicative Yearly Volume	Typical Logistic Chains	Shipping Forms
Fish	Production Scale: 4 mil. tons		Bulk: 6% Breakbulk: 39% Containerized 55%
Fruits and Vegetables	Production Scale: 8.8 mil. tons for fruits 1.0mil.tons for vegetables		Bulk: 32% Breakbulk: 14% Containerized 54%
Livestock and Poultry	Consumption Scale: 1.8 mil. tons for livestock 0.7 mil. tons for poultry		Live animals: 53% Reefer: 47%
Animal Feeds	Production Scale: 8 mil. tons		Bulk: 16% Breakbulk: 34% Containerized 50%
Cement	Production Scale: 13 mil. tons		Bulk: 23% Breakbulk: 76% Containerized 1%
Corn	Production Scale: 4 .5mil. tons		Bulk: 16% Breakbulk: 24% Containerized 60%
Fertilizer	Sales Scale: 1.8 mil. tons		Bulk: 3% Breakbulk: 89% Containerized 8%
Rice	Consumption Scale: 9.7 mil. tons		Bulk: 5% Breakbulk: 76% Containerized 19%
Sugar	Production Scale: 2.2 mil. tons		Bulk: 3% Breakbulk: 50% Containerized 47%
Petroleum	Consumption Scale: 120 mil. barrels	• Importation of refined products is increasing while domestic refinery output is decreasing. • The imported depots and refineries are mostly located at Bataan and Batangas in Luzon.	Mostly bulk

Shippers and Forwarders Interview

10. It is recognized that shipping is for the purpose of meeting the needs of shippers: the "clients" of the industry. To account the concerns of shippers, a shippers and forwarders interview was conducted. The following are the highlights of the interview results:

- Almost all shippers consider shipping and cargo handling cost too high and unreasonable.
- Mindanao shippers complain for lack of service – especially during peak season. The coverage of service is also desired to be increased.
- Irregular and corrupt practices are causing high cost of shipment.
- Pilferage is estimated to be as high as 5%.
- Lack of vessels and lack of appropriate vessels
- Delays in vessel scheduling needs to be addressed. – causes spoilage.
- Insufficient vans including reefer vans.
- Perishable goods traders complain on cargo handling, in terms of efficiency and in terms of ensuring minimal spoilage.
- There are many complaints regarding booked cargoes being left behind.
- Port conditions are very poor – lack of equipment, security, shallow depth and port space.
- Small consignment cargo is very expensive.

11. In the issue of high shipping cost, shippers pointed out the following increases in shipping cost in the last five years.

Table 3.3. Comments of Shippers on Shipping Cost Increments

Shipping	Cargo Handling/1	Trucking
+20% (2000)	+10% (2000)	+10% (2000)
+6% (2002)	+10% (2001)	+ 20% (2004)
+6% (2003)		
+7.5% (2003)		
+9% (2004)		
+5.5% (2005)		
+67% ('00~'05)	**+21% ('00~'05)**	**+32% (2000-2005)**

Source: DSDP Shippers Interview

/1 In year 1998 Arrastre increased 12% and Stevedoring 40%

SHIPBUILDING AND REPAIRING INDUSTRY

Shipyard in the Philippines

12. Maritime Industry Authority (MARINA) is in charge of the implementation of maritime industry development program, and also the accreditation of marine surveyors and maritime enterprises engaged in shipbuilding, ship repairing and ship breaking.

13. Table 3.4 shows the latest list of firms in Philippines licensed by MARINA. Majority of shipyards are small scale and large/medium-scale shipyards have maintained the same number in recent years.

Table 3.4. MARINA Licensed Shipbuilding and Repairing Firms, 1999-2003

Category	1999	2003	%
Large shipyards	11	9	9.7
Medium shipyard	16	13	14.6
Small shipyards	73	84	75.7
Total	100	106	100.0

Source: MARINA

14. Slipway of marine railway is the facility commonly used for new building and ship repair, and number of this facility shows comparatively large figures. As for achievement, the table below shows locally constructed vessels for the past five years. It reveals that fishing boat and barge comprise majority of constructed vessels, and this is a predictable result since majority of shipbuilders are small shipyards. In addition, there were 30 vessels totaling 776,236 GT constructed locally for export from 1999 to 2003, 28 of these are bulk carriers and 2 are passenger ferries.

Table 3.5. Local Shipbuilding Output (Domestic Use), 1999-2003

Type of Ships	GT	% Share
Fishing Boat	18,808	34.5
Barge	13,959	25.6
General Cargo	6,948	12.7
Tanker	5,160	9.5
Banca	3,102	5.7
Passenger Ferry	2,252	4.1
Patrol Boat	1,619	3.0
Landing Craft Trans	1,513	2.8
Pleasure Yacht	868	1.6
Tugboat	184	0.3
Landing Craft Mech	60	0.1
Others	53	0.1
Speedboat/Sports Craft	32	0.1
Total	54,564	100.0

Source: MARINA

15. It was found that ship repairing works were predominant in the industry, as observed in actual works on the slipway in many shipyards.

16. In addition, local shipyard received 492 international vessels totaling 10.9 million for dry-docked and repaired during the period 1999-2003. Many of these vessels are large sized bulk carriers, general cargo vessels and some container vessels.

Shipyard surveys

17. The Study Team conducted investigation and interview surveys at 14 shipyards. It can be pointed out that most of them are engaged primarily in ship repair work to maintain shipyard management despite of their installed facilities and equipments for new shipbuilding works. As a result, very few shipyards are concentrating in new shipbuilding business.

18. Problems in shipyard facilities are noted as follows:

- Generally, shipyard area is comparatively narrow for building the steel blocks or other equipment.
- There are no traveling cranes alongside the building berth. Instead of that, mobile truck cranes are employed for the same purpose.
- Advanced outfitting system is not applied.
- Floating crane is usually employed for outfitting alongside quay, not by traveling crane.

Seafront Slipway

Graving Dock

Converting an Imported Vessel from Japan

4 EXISTING SHIPPING SERVICES

CLASSIFICATION OF SHIPPING SERVICES

1. Currently, various types of services are available in the Philippine domestic shipping. The existing shipping services can be categorized as shown in Table 4.1.

2. In the Philippines, shipping service for passenger is mostly combined with cargo transport service. In terms of capacity, Ropax vessels and conventional cargo-passenger vessels are the dominant service providers among the cargo-passenger shipping service. These types of vessels serve as liner for mainly mid/long-distance primary routes connecting major cities in the country. Wooden-hull banca vessels have the largest number and coverage. This type mainly serves short-distance tertiary routes connecting major islands and remote small islands. There are also pure passenger shipping services such as fast craft and tourism boat, etc.

3. For cargo shipping service, container vessels are supplying liner shipping service for containerized cargos. Container vessels are comparatively large in size and those are serving mainly for mid/long-distance primary routes connecting major cities in the country. General cargo vessels and tankers are serving mainly primary and secondary routes, while bulk carriers (mostly barges) are serving for secondary and tertiary routes.

Table 4.1. Classification of Existing Domestic Shipping Services

Service Type	Vessels							Service Route	
	Type	No.	Total GT (000)	Ave. GT	Ave. Pax	Ave. Age	Hull	Type	Distance
Passenger-Cargo	Ropax/RoRo	149	484	3250	1019	29	Steel	Primary	Mid/ Long
	Conventional Cargo-Passenger	116	35	302	325	26	Steel	Secondary	Short/ Mid
	Wooden-hull banca	2,503	53	21	37	10	Wood	Tertiary	Short
	Passenger and Fast crafts (incl. tourist boats)	150	32	216	216	16	Steel, Fiber glass	Secondary/ Tertiary	Short/ Mid
Cargo	Container	28	109	3893	-	28	Steel	Primary	Mid/ Long
	General Cargo	854	531	622	-	22	Steel, others	Secondary	Mid/ Long
	Dry Bulk (barge)	178	97	543	-	22	Steel	Secondary/ Tertiary	Short/ Mid
	Tanker	205	184	900	-	21	Steel	Primary/ Secondary	Mid/ Long

Source: MARINA (2003)


Ropax Vessel


Fast craft


Tanker


Wooden-hull banca


Short-distance


Tug & Barge

CARGO-PASSENGER AND PASSENGER SHIPPING

Ropax Vessels

4. Ropax (RoRo passenger-cargo vessel) is one of dominant shipping service types in the Philippines for both of passenger and freight transport. Ropax has become a major player on primary domestic shipping routes since the mid-1990s. Most of the existing Ropax are Japanese-made vessels.

Table 4.2. Profile of Major Ropax Operators and Vessels

Shipping Company	Base Port	No. of vessels (built in Japan)	Total GT	Ave. GT	Ave. Pax Capacity	Largest Vessel (GT)	Ave. Age[1)]
WG&A	Manila/Cebu	22 (21)	148,922	6,769	1,543	15,223	29
Sulpicio Lines	Cebu	19 (18)	114,652	6,034	1,705	13,820	32
Negros Navigation	Iloilo	10 (10)	54,743	5,474	1,513	7,909	33
Trans Asia Shipping	Cebu	12 (12)	22,257	1,854	636	3,991	32
Total	-	68 (66)	346,676	5,098	1,404	15,223	31

Source: MARINA (2000)

Note: 1) calculated as of 2005

5. Ropax vessels operate as liner service mainly for primary routes connecting Manila, Cebu and other major cities in Visayas and Mindanao. Basically, bigger vessels are used for longer distance routes, while smaller vessel for shorter distance routes.

6. Operational characteristics and problems are as follows:

- Most of Ropax vessels are very old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation. However, it is not anymore possible for Japan to be able to sell as many vessels to the second-hand market as it did in the 1990s.
- Ropax vessel is operated as a liner by way of some ports. Therefore, comparing to direct shipping service, it needs more travel time on the sea and time for waiting for berthing and cargo handling at port, and load factor is different by section. It reflects to higher passenger and freight rates.

Conventional Cargo-passenger Vessels

7. Most of conventional cargo-passenger vessels are providing liner service for short/ medium-distance secondary routes connecting between major hub ports and other secondary ports in the countries such as Manila, Batangas, Cebu, Iloilo, Bacolod, Cagayan de Oro, General Santos, Davao and other small ports with in the areas.

8. There are 69 companies which operate conventional cargo-passenger vessels. Of which 55% own and operate only one vessel, most are managed as a family business. Other companies also own and operate a number of vessels but maximum is 4 vessels. Tendency is that shipping companies with more vessels operate bigger size of vessels.

9. Operational characteristics and problems are as follows:

- Most of conventional vessels are old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation.
- Conventional cargo-passenger vessels are serving mainly for the secondary shipping routes and its service is very essential service for the movement of people and cargoes to support the regional economy and development.
- Some of shipping routes are operated by only one shipping companies. Therefore, there is no competitive environment to increase the service level.

Wooden-hull bancas

10. Wooden-hull bancas are providing its liner service for mainly tertiary shipping routes connecting between minor towns within the region. They serve not only for passenger but also for mixed use of cargoes and passengers.

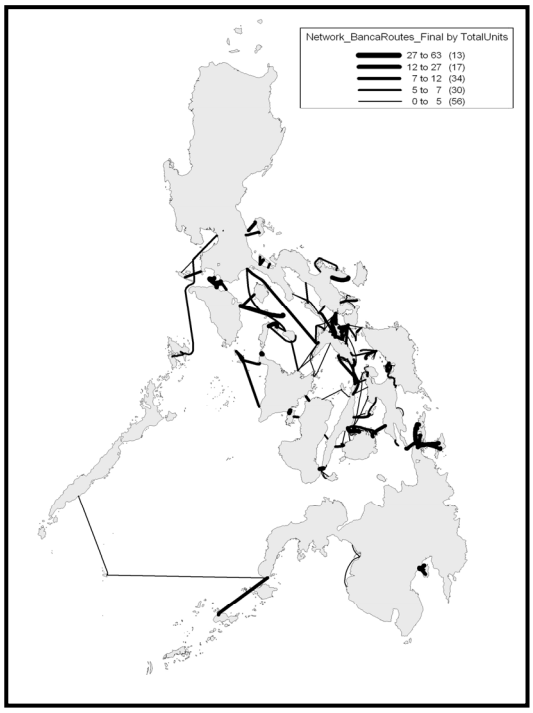
11. Wooden-hull bancas are vulnerable against hazardous waters. Therefore, it serves for coastal transport requirement such as on tertiary and development routes. It is still popularly used on many routes with limited traffic (less-commercial routes).

12. There are 991 companies which operate 1,250 wooden-hull bancas. Of which 82% own and operate only one vessel. There are only 3 companies which operate more than 6 vessels with average size of 41GT. Tendency is that companies with more bancas operate bigger size of bancas.

13. Operational characteristics and problems are as follows:

- Average age of bancas is not old but they are a concern in terms of safety. Therefore, the Government recently issued its phase-put program (MARINA's M.C. 190 in 2003). During this 3-7 years phase-out period, however suspension of locally indispensable services cannot be allowed. Thus, a well-coordinated shift from traditional to modern operation must be done in transition.
- Operating speed of bancas is slow compared to fast crafts which are gradually introduced in competitive routes.
- It has difficulties in maintaining service level due to low traffic of passengers and cargoes.

Figure 4.1. Map of Banca Routes by Units



Source: MARINA 2002 Database

Passenger Vessels and Fast Crafts

14. This passenger vessel is providing a sort of intermediate level of shipping service between operations of conventional cargo-passenger vessels and wooden-hull bancas. Most of passenger vessels are operating as liner service for secondary and tertiary routes.

15. Those passenger vessels include also high speed passenger vessel, known as "fast crafts". This is one of the major changes in recent years in the domestic passenger shipping service. This service is particularly popular in Visayas.

16. Operational characteristics and problems are as follows:

- In some routes, it is very difficult to maintain service level due to low traffic of passengers and cargoes.
- The fast crafts, sailing over 35 knots, must navigate under sound safety regulation. Since they are non-conventional vessels under the IMO-SOLAS, safe navigation under state initiative can be appreciated. The High Speed Crafts Code governs their operations.
- Most shipping routes are operated by only one shipping company. Therefore, there is no competitive environment to increase service level.

Short-distance RoRo Shipping

17. Short-distance RoRo service is very essential in an island country like the Philippines. This service could change not just business and agriculture, but also domestic tourism. It enhances accessibility by minimizing handling expenses and travel time for goods, resulting in reduced prices for consumers. There is less need for loading goods on and off barges or bancas, as cargo trucks themselves can get on the RoRo vessel.

18. RoRo vessels, unlike other modern shipping vessels, do not require large port infrastructure and equipment. Instead, they only require orderly parking space, a good access road and efficient and dedicated port services.

FREIGHT SHIPPING

Container Vessels

19. There are only 4 companies which are operating a total of 28 container vessels in the Philippine domestic shipping as of year 2000. Those are based in Manila and Cebu serving liner shipping service connecting major cities in the country such as Iloilo, Bacolod, Dumaguete, Cagayan de Oro, Davao, General Santos. The container vessels transport various types of commodities which are suitable to be transported in containers. Major commodities for container are fruits and vegetables, corn, animal feeds, live animals, chemicals, manufactured goods, and other general cargoes.

20. Operational characteristics and problems are as follows:

- Most container vessels are very old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation.
- Most of container vessels have ship gear because adequate container cranes are not provided at most of ports in the country. Therefore, productivity of cargo handling is low.
- Container vessel is operated as liner by way of some ports. Therefore, comparing to the direct shipping service, it needs more travel time on the sea and time for waiting for berthing and cargo handling at port, and load factor is different by section. It reflects to higher freight rates.

Table 4.3. Profile of Major Container Operators

Shipping Co.	No. of vessels	Total GT	Ave. GT	Ave. Age[1)]
Aboitiz Shipping Corporation	1	2918	2918	34
Lorenzo Shipping Corporation	6	39851	6642	24
Solid Shipping Lines, Inc	10	37353	3735	22
Sulpicio Lines, Inc	11	28851	2623	35
Total	28	108974	3892	28

Source: MARINA (2003)
Note: 1) As of year 2004

General Cargo Vessels

21. Most of general cargo vessels are operating as tramper service based on the demand of goods to be transported. Major commodities transported by general cargo vessels are cement, iron and steel, fertilizer, transport equipment, logs and lumber, agricultural products such as sugar, paddy and rice, wheat, and other general cargos which are not suitable to be transported in containers.

22. There are 901 shipping companies which operate general cargo vessels. Of which 78% own and operate only one vessel, most likely managed as a family business. There are only 10 shipping companies which operate more than 10 vessels. Tendency is that shipping companies with more vessels operate bigger size of vessels.

23. Operational characteristics and problems are as follows:

- Both steel vessels and wooden-hull vessels are very old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation.
- Among secondary routes, steel vessels are serving relatively longer routes, while wooden-hull vessels operate relatively shorter routes.
- Productivity of cargo handling is low due to inadequate cargo handling system at port.
- According to the shipper interview survey, availability of shipping service is very critical for their stable business activities. At times, shippers experience a big loss due to delay in shipping.

Table 4.4. List of Domestic Shipping Companies with more than 10 General Cargo Vessels

Shipping Companies	No. of Vessels	Hull Type
Candano Shipping Lines, Inc.	28	Steel
Asian Shipping Corporation	27	Steel
Loadstar Shipping Co., Inc.	19	Steel
Northern Mindanao Transport Co., Inc.	17	Steel
North Front Shipping Service, Inc.	16	Steel
Island Integrated Offshore Service, Inc.	14	Steel
Premier Shipping Lines, Inc.	14	Steel
Majestic Shipping Corporation	12	Steel
Mediola Reynaldo	11	Wood
Tacoma Integrated Port Services, Inc.	11	Steel

Source: MARINA (2000)

Dry Bulk Carriers

24. In the MARINA's vessel database, there is only one bulk carrier. In the Philippine, shipping service for dry bulk cargoes are relied on barges. Therefore, in this section existing services by barges are analyzed.

25. Barges are operated as tramper service based on the demand of goods to be transported. Major commodities transported by barges are wheat, copra, cement, fruits and vegetable, animal feeds, and other general cargos.

26. There are 96 companies which operate barges. Of which 78% own and operate only one vessel. There are only 3 shipping companies which operate more than 6 vessels. Tendency is that shipping companies with more barges operate bigger size of barges.

27. Operational characteristics and problems are as follows:

- Barges are operated as tramper and engaging mainly on costal shipping based to/from major cities such as Manila, Cebu, etc.
- Most of barges are old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation.
- Productivity of cargo handling is low due to inadequate cargo handling system at port.

Tankers

28. The Philippine imports crude and refined petroleum products from foreign countries. 92% of total domestic consumption is imported, of which 81% is crude and 19% is refined petroleum. Domestic tankers are mainly engaging on the distribution of petroleum over the country.

29. There are 88 companies providing tanker transport services, of which 55% owns and operates only one tanker with an average size of 966GT. There is only one company which operates more than 10 tankers, Herma Shipping and Transport Corporation. The group of companies that operates 2-5 tankers has more than half of total transport capacity compared to other groups.

30. Operational characteristics and problems are as follows:

- Most tankers are old and continuously aging. Older vessels need to be replaced for safety and for more efficient operation. Oil companies as client for tanker companies expressed the problems on aged tankers and service availability.
- Tankers are basically registered as tramper service but usually operate as scheduled service because their shippers are very limited oil companies. Generally tankering companies have transportation contract with oil companies valid for 1-3 years.
- Caltex has closed its refinery plant in Batangas and Shell is also planning to shift to importing refined petroleum products instead of crude oil. Considering this situation, there are some rooms to make the distribution system of oil products more efficient, if the new regional depots to accommodate imported refined petroleum is developed in other areas like Visayas and Mindanao.

SHIPPING SERVICE COMPETITIVENESS

31. Airfare (economy class) costs about twice higher than shipping fare (third class) for Visayas and Northern Mindanao areas.

32. Table 4.6 shows the comparison of transport fare and travel time between direct shipping service (i.e. mid/long distance Ropax) and RoRo-highway network. As shown in this table, fare of RoRo-highway system is cheaper. However, in terms of travel time, is more or less comparable.

33. Service frequency should also be considered. Direct shipping service by Ropax is providing almost daily service, while RoRo service at Batangas-Calapan route is frequent (every 30 minutes from 1:00am to 11:30pm). However, frequency at Roxas-Caticlan route is only two trips a day.

34. Comparison with international and Indonesia rates show that Philippine container rates are expensive as shown in Table 4.7.

Table 4.5. Comparison of Fare between Shipping and Air Transport

Routes (one-way)	Distance (N.M.)	Shipping Fare[2)]		Air Transport[1)] Fare
		First Class	Economy	
Manila – Iloilo	340	3,892	1,400	3,028
Manila – Cebu	392	3,663	1,500	3,048
Manila – CDO	504	5,067	1,750	3,868
Manila – Davao	829	4,705	2,500	3,818

Source: Philippine Airlines and Shipping Companies

Note: 1) Economy class (2005)
2) 3rd class without meal (2005)

Table 4.6. Comparison of Services between Shipping and RoRo-Highway (Manila-Iloilo)

Mode	Class	Manila – Iloilo	
		Fare (P/pax)	Travel Time
RoRo + Highway	- Aircon Bus	1,100	19 hours
	- Non-Aircon Bus	866	
Direct Shipping Service	- Third Class	1,675	20 hours

Source: DOTC (2003)

Table 4.7. Cross Country Comparison of Container Freight Rates

Philippines	20,000 – 30,000 P/TEU for 400 n. miles 30,000 – 40,000 P/TEU for 800 n. miles
Indonesia	2 mill. Rp or 12,000 P/TEU for 400 n. miles 3 mill. Rp or 18,000 P/TEU for 800 n. miles
International	130 – 350 US$ or 7,000-19,000 P/TEU MNL-HK (548 n.miles) 250 – 550 US$ or 14,000-30,000 P/TEU MNL-SNG (1,300 n.miles)

Source: Indonesia – STRAMINDO (03); Philippines – DSDP Survey (04); International – WB PTSR (04)

5 SHIP FINANCE

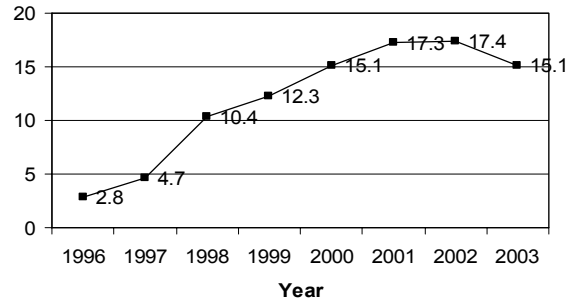
FINANCIAL MARKET AND DEVELOPMENT FINANCE IN THE PHILIPPINES

Market Characteristics

1. Compared with neighboring countries, the Philippine financial market has the following characteristics:

- Low level of domestic savings rate: GDS/GDP is 17.7% compared to 81.1% in Thailand, 21.1% in Indonesia, and 41.9% in Malaysia. (Year 2002)
- High level of spread: 2.83 spread (difference between inflation and time deposit rate) compared to -0.90 in Thailand, 1.49 in Indonesia, and 2.0 in Malaysia. (Year 2004)
- Distressed loan: Non-performing loan rate increased from 2.8% in 1996 to 17.4% in 2002 but decreased to 15.1% in 2003.
- Weak bond market: In 2002, the size of the market became half of Thai and Indonesian bond market. The bond market is almost occupied by government bond with small share of company bonds.
- Bank dominated financial sector: Like many developing countries, the banking sector occupies substantial share in the Philippine financial market. As of the end of March 2004, around 900 banks; including 42 large-scale private banks or commercial banks are operating.
- Small-size commercial market: The size of the Philippine financial market in terms of the total bank assets is small, i.e., only 46 billion dollars or less than half of Thailand, Indonesia and Malaysia.

Figure 5.1 Non Performing Loan Rate



Source: BSP

Performance Analysis of DBP

2. Top domestic banks are called as Universal banks, and they are allowed to have wide range of operation such as commercial bank operation and investment bank operation. The DBP obtained the license for Universal bank in 1995. There are 16 domestic large banks including DBP which are certified as Universal banks. With this license, the DBP extends its banking operation to the following fields:

- Lending service focusing on providing mid/long-term development fund to agri-industrial sector, especially to rural SMEs (corporate lending only);
- Foreign exchange trading;
- Investment banking;
- Depositary service;
- Others (Domestic/overseas remittance, various fiduciary services, dealing of foreign currency and government bond, etc.)

3. The recent performance of the DBP is largely favorable. Even though the growth rate of recent two years has stagnated, the net profit steadily increased during past 6 years. Total revenue has been gradually increasing with slight decrease in 2003. In addition, outstanding balance, deposit or borrowed money, and outstanding gross assets have been increasing even though they show signs of leveling-off in recent years. Capital fund has steadily increased as well. The DBP is ranked 7th among Philippine banks based on size of the assets.

4. Major financial indicators as of December 2003 illustrate the following DBP conditions:

- Return on Equity (ROE) and Return on Assets (ROA) as 10.24% and 1.29% respectively. These are higher than the average of all commercial banks (9.44% and 1.21% respectively as of March 2004).
- The capital to risk assets ratio based on BIS standard is 22.22%, which is also much higher than commercial banks' average of 12.61%.

- The interest margin (balance between interest rates of lending and deposit) is 4.34%, which is slightly lower than commercial banks' average.
- The rate of non-performing loans (NPLs) of the DBP improved from 11.32% in 2002 to 10.84% in 2003. This rate is much lower than banking sectors average of 14.31%.
- Ratio of delayed payment or delayed interest payment, which is so-called would-be-NPL, is 11.32% as of end of 2003.

ASSESSMENT OF DSMP I AND PROVISIONAL ASSESSMENT OF DSMP II

Background and Project Preparation

5. The Domestic Shipping Modernization Program (DSMP I) is considered to have played a major role in realizing the objectives of the government in ensuring safe and efficient movement of goods and people, since it aims to enhance marine safety through the modernization of vessels and shipyards. The DSMP I financing assistance, which started in early 1995, has promoted new investments in the areas of shipping, shipbuilding/repair and port services.

6. In view of the great effects of DSMP I to the modernization of the domestic shipping and related industries as well as vast and urgent development demand in rural areas, DBP decided to continue the second phase of the DSMP program. DSMP II has been formulated to put its focus on the sustainable development in the countryside in tandem with the continued financial support not only to shipping and its related industries, but to extend also to LGUs, in line with the objectives and goals of the Medium-Term Philippine Development Plan.

Scheme and Achievement

7. The outline of DSMP I and II is compared in Table 5.1. Major difference between Phase I and II are the Borrowers of the loans, the Participating Financial Institutions, eligible end-users and possible financing projects.

Table 5.1. Outline of DSMP I and II

Components/Steps	Phase I (L/A No. PH-P151)	Phase II (L/A No. PH-P189)
Borrower	GOP	DBP
Executing Agency	DBP	DBP
Loan Amount (Sub-loan) (Consulting Services)	15,000 million Yen (14,838) (162)	19,990 million Yen (19,532) (458)
Loan Disbursed Amount (Progress in %)	12,700 million Yen (84.7%)	10,277 billion Yen (51.4%, as of the end of September 2005)
Exchange of Notes	November 1994	September 1998
Loan Agreement (L/A)	December 20, 1994	September 30, 1998 (Effective: January 7, 1999)
Terms and Conditions		
Interest Rate	3.00 p.a.	2.20 p.a.
Repayment Period (Grace Period)	30 years (10 years)	30 years (10 years)
Procurement	General Untied	General Untied
Processing and release of sub-loans	May 2, 1995 – March 20, 2000	On-going
Final Disbursement Date (Original Plan)	March 2000 (December 1997)	January 7, 2007 (January 7, 2005)
Procurement of Consulting Services	April 26, 1995 (Actual services started on May 15, 1995)	December 4, 1998 (Actual services started on February 15, 1999)

Note: Completion of the project is defined as the expiry date of disbursement from the OECF/JBIC.
Source: DBP

8. Number of sub-project contracted each year is summarized in the table below. For Phase I, 56 sub-projects with 41 end-users were contracted for sub-loans by the Year of completion, 2000. For Phase II, only 47 sub-projects with 31 end-users were contracted for sub-loan as of February 16, 2005.

9. It was envisaged at appraisal that the loan would be used 1) to purchase new or second-hand ships, 2) as investment to comply with vessels classification or security regulations, 3) to repair or convert existing ships, 4) to modernize shipyards, and 5) to modernize cargo handling facilities.

10. Out of 56 financed sub-projects, 51 consisted either of building new vessels or purchasing second-hand vessels including barges; all of the vessels comply with vessel classification and security regulations, a loan condition requested by DBP. Two sub-projects consist of repairing and upgrading vessels, and five sub-projects involve the construction /rehabilitation of shipyard/terminal/port facilities. Loan size varied from 4.5 million Pesos (construction of a molasses terminal) to 390 million Pesos (acquisition of 2 passenger-cargo vessels), averaging 59 million Pesos. Most sub-loans will mature in 5 to 10 years. Tables below show the number and amount of sub-loans by type of sub-project.

Table 5.2. Number of Sub-projects (Phase I and Phase II)

Year	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	Total
Phase I (Completed)	14	12	12	10	7	1	-	-	-	-	-	56
Phase II (as of Feb. 16, 2005)	-	-	-	-	2	11	10	3	11	10	0	47

Source: DBP

Table 5.3. Number and Amount of Sub-loans by Type of Sub-project (Phase I)

(Unit: million Pesos)

Type of Sub-project	No. of Sub-project (%)	Total Amount of Sub-loans (million Peso) (%)
Cargo	11 (20%)	475 (15%)
Fast craft/Passenger/Cargo	19 (34%)	1,357 (41%)
Tanker	17 (30%)	872 (27%)
Tugboat/Barge	4 (7%)	231 (7%)
Shipyard/Terminal/Facilities	5 (9%)	344 (10%)
Total	56 (100%)	3,279 (100%)

Source: DBP

11. Having reviewed 88 fund releases, salient features of achievement and results of disbursement of Phase II compared with Phase I are summarized below:

- Among 88 fund releases, shipping companies took 43 fund releases, which is almost 50% in the number of fund release. Monetary-wise, shipping companies took 79% (Peso 2,553 million out of Peso 3230 million).
- Among 43 fund releases taken by shipping companies, big companies took 26 fund releases; and monetary-wise, 83% (Peso 2,433 million out of Peso 2,936 million).
- One of the biggest shipping companies took 18 fund releases out of 43; and monetary-wise comprises 67% (Peso 1,980 million out of Peso 2,936 million).

Identification of Improvement Needs

12. Problems and constraints pertaining to DSMP I and II, identified either through interviews with stakeholders of both lender-side and borrower-side, and studying relevant documents and reports, have been summarized in Table 5.4. Many of these issues resulted in slow disbursement in the program, particularly during phase II, which is considered to be the critical issue for DSMP II and needs to be addressed for adjustment and effectiveness to the original plan and better output of the program.

Table 5.4. Issues and Constraints Identified during Implementation of DSMP II

ISSUES	CURRENT STATUS	DBP'S ACTIONS	SOLUTIONS REALIZED OR TIME TABLE FOR SOLUTION BY DBP
Real Estate Collateral Requirement	Some Applicants don't have enough cash flow to meet the requirements, particularly Limited Capacity of Shipowners/Ship (small and medium companies) to obtain financing.	Focusing more on the project's cash flow generation	As one of practical solutions, NDC MEC was proposed and established. Once, their operation started, the MEC is expected to contribute to ease REC requirement issue through leasing the ships, which does not require collateral.
		Checking of proponent's track record Bank's assistance for the preparation of the required documents	
	Slow submission of documents required by DBP or PFI for loan due to lack of enough equity and/or human resources.	Checking of proponent's ability to provide a higher equity share in the project.	
Requirements for International Classification for Vessels	Remains non-negotiable despite numerous objections from the ship owners	Ongoing discussion with DnV on the local class for vessels built to DnV class.	DnV domestic Philippines class has been established and now any vessels are taken into DnV's class when requested.
	DSMP consultants are following up the guidelines with DnV office in Norway	DnV and DBP are finalizing the guidelines	
Loan Marketing and Processing, and Loan Management	DBP's RMO (now, AMO) are not pursuing the DSMP II projects, that has led to slow loan disbursement.	Ongoing monitoring and assistance in the packaging/evaluation projects.	DBP's team approach has been successfully functioning to shorten the days required for the bank's document processing.
	The lack of manpower in some branches of DBP with experience to handle evaluation of DSMP caused slow down of approvals. The account officers of branches are likewise fully occupied since all projects presented for financing irrespective of size and nature must be attended to.	The DSMP Project Team was expanded to provide assistance to branches with pending DSMP loan proposals. Monitoring of projects jointly undertaken by the branch account officers and DSMP Project Team.	
	Lack of technical expertise of DBP in the proper appraisal of maritime vessels. (Phase I)	Training course was conducted for DBP appraisers with a resource speaker from a well-reputed ship brokerage in Singapore. There are now 40 appraisers in DBP with skills in the proper appraisal of maritime vessels.	
	The depreciation of the peso affected the project costs of existing and prospective projects. The situation dampened the enthusiasm of some entrepreneurs due to longer pay-back time to recover investments.	Aggressive marketing and promotional activities were instituted emphasizing lower interest rate, longer repayment terms and grace periods of the DSMP.	
Availability of Quality second-hand vessels	Lack of quality second-hand vessels which can be offered to DSMP II borrowers. Lack of capability of Filipino shipyards to build and/or repair ships.	Coordination with other gov't agencies such as JICA, JRTT, international brokers and DBP consultant in identifying second-hand vessels	
		Close coordination with DnV Manila Office facilitate finalizing of class entry guidelines for older vessels	

Source: Consultant's analysis

Assessment on DBP's Efforts and Received Solutions

13. **Real estate collateral requirement**: In line with guidance of BSP, requirement of mortgage is severe and rigid. It may be difficult for DBP alone to change this regulatory framework. Other archipelagic countries such as Japan and Indonesia have evolved their public ship finance methods without collateral requirements particularly for small to medium shipping
15. financed vessel to be classed by one of the companies. With addressing DSMP II underutilization issue, it is deemed the right time for the Philippines to institutionalize its sustainable public finance scheme rather than conventional finance based on collateral.

14. **Requirements for IACS services in financing vessels**: It is widely recognized that a locally classed ship is not considered bankable from many of financers and marine insurers. To address it, DBP put one requirement on a

IACS members regardless of its size. However

the shipping industry find it difficult due to costly fees to get and maintain an IACS class. To alleviate those costly charges, DBP and the DSMP II Consultant suggested DnV, one of the IACS members, to design special DnV class guidelines for Philippine domestic vessels. Although it is reported applicable, the effectiveness is questioned. The Study also reveals that there are numerous non-conformity problems even on an IACS classed vessel in domestic trade. Therefore what is the most important to make domestic vessels seaworthy and bankable is to train domestic personnel including government ship inspectors, local classification surveyors and professional superintendents.

16. **Loan marketing and management**: Several problems were raised such as inadequate marketing efforts, lack of loan appraisal expertise and time-consuming procedures. DBP has paid internal efforts to overcome them. However some issues have remained and they must be addressed due to poor capability to manage bilateral assistant fund, i.e. JBIC. Apparently, since most of ship sub-loans have gone to large shipping companies during DSMP II, it is difficult to justify mobilizing public fund into the domestic shipping sector. In principle, increased capability in marketing, appraisal and sub-loan management enables more financial support to the SME. As a development finance institution, DBP must pursue it. Surprisingly, it is an argument point between the Study Team and DBP. DBP informed that they have no directive to support SME within the scope of DSMP I & II. Lack of directive may have led DBP to manage public ship finance at an unsatisfactory level.

17. **Insufficient availability of quality second-hand vessels**: It is definitely critical for shipping companies to apply a ship sub-loan to DBP. There are some structural factors attributed by big demand and small supply particularly between the developing countries of fast growing domestic trade such as Philippines and Indonesia and the developed countries such as Japan. Slow DBP processing service exacerbates the situation. One fundamental solution is a paradigm shift from looking for quality second-hand vessels to ordering newly built vessels even at some thousand tons and more.

However this must be done under a strong policy package and DBP is not in a position to do it.

MARINA as a Catalyst between Shipping and Finance

18. MARINA has not been involved in the implementation of DSMP financed by JBIC. MARINA is responsible for registration of ships, either acquired as secondhand or newly built, and approval of franchise of shipping route for liner. Efficiency of MARINA's handling of those works could affect the viability of shipping companies' operation. If MARINA can utilize those information and data regarding prospective operation submitted to DBP, relevant process for the issuance of the letter of approval necessary for ship acquisition would be effectively shortened.

19. MARINA can also contribute to assuring the return of investment for the shipping companies' operation through providing consistent regulatory administration in line with the objectives of direct credit programs such as DSMP. A good example would be the one which is being prepared by MARINA for protecting the investment made for the operation in the missionary routes. MARINA is now preparing a specific memorandum using its regulatory power.

20. Taking those important policy coordinating roles into account, there is a strong need for MARINA to work as the catalyst between shipping and finance.

Urgent Proposal on Facilitation of DSMP II Disbursement

21. Time is limited to address the underutilization issue. The situation is complicated where an incremental need in ship finance and a difficult ship finance environment to mobilize funds co-exist. The Study suggests an urgent proposal which is composed of four immediate actions: (i) Intensification of marketing/ promotion activites toward regular clientele; (ii) Utilization of NMEC ship leasing channel for small to medium operators; (iii) Close coordination between DBP and MARINA; and (iv) Reinforcement of DSMP operation team.

6 INSTITUTIONAL DEVELOPMENT

SHIPPING FRAMEWORK

Market Access and Tariff Setting

1. Upon the effectivity of Republic Act 9295, otherwise known as the Domestic Shipping Development Act (DSDA) of 2004, the quasi-judicial functions of MARINA are now governed by this new law and its Implementing Rules and Regulations (IRR). Before this, the law in effect was the Public Service Act.

2. The law specifically states that a Certificate of Public Convenience (CPC) for domestic trade can only be granted to a domestic ship owner/operator. The only exception is when no domestic vessel is available or suitable to provide the needed shipping service and public interest warrants the same, in which case MARINA shall issue a Special Permit to a foreign flag vessel, pursuant to Sec 6. of RA 9295

3. The main considerations for the grant of a CPC, and any amendment thereto are (1) the economic and beneficial effect which the proposed service shall have to the port, province or region which it proposes to serve, and (2) the financial capacity of the domestic ship owner/operator to provide and sustain safe, reliable, adequate, efficient and economical service in accordance with the standards set by government regulations.

4. In its application for a CPC, the domestic ship owner/operator shall state the route(s) it proposes to serve, and the service(s) it proposes to offer. If the domestic ship owner/operator does not intend to operate in a fixed route(s), it shall nevertheless state in its application the service(s) it proposes to offer.

5. The validity of the CPC varies from five (5) years for wooden-hulled vessels up to twenty-five (25) years for non-wooden-hulled vessels. For domestic ship operators whose ships are chartered, the CPC shall be valid for a period co-terminus with the MARINA charter approval granted to the ship with the longest charter period.

6. The DSDA enshrined the deregulated regime in fare setting in domestic shipping. However, considering the need to protect and safeguard the interest of the general public, MARINA still retains a measure monitoring and police powers.

Ship Registration

7. All motorized vessels of domestic ownership and more than three (3) gross tons should be registered with the Maritime Industry Authority. If it is used in towing/pushing or carrying goods and/or passengers for hire, it should be registered with MARINA regardless of tonnage.

8. This requirement holds true even for vessels to be used in international waters as long as Philippine nationals own it. It is the duty of the owner or agent of the vessel to immediately file an application with MARINA.

9. As evidence of such registration, MARINA shall grant a Certificate of Philippine Registry (CPR), provided that such a vessel has secured a ship identity certificate (e.g. Certificate of Number for vessels below 3GT).

10. A vessel constructed and/or acquired abroad through importation or bareboat charter or lease-purchase must first secure a Provisional Certificate of Philippine Registry (PCPR) from MARINA before it can be brought to the Philippines. The application shall be duly supported with the required documents. If the application is found in order, MARINA shall endorse the same to the Department of Foreign Affairs for the issuance of a PCPR by the nearest Embassy or Consulate.

11. Upon registration of a vessel, MARINA shall issue a Certificate of Ownership (CO).

Inspection, Classification, Certification

12. MARINA as the Administration, enforces the provisions of the Philippine Merchant Marine Rules and Regulations in regard to the inspection, survey and marking of vessels, etc. MARINA is also authorized to use surveyors or organizations to carry out this mandate.

13. Inspections of hull, boilers, machinery, firefighting/lifesaving appliances, pilot ladders,

navigation lights and other details specified in the ship's certificate are to be made annually.

14. MARINA shall fully guarantee the completeness and efficiency of the inspections and surveys, and shall undertake to establish the necessary arrangements to satisfy this obligation.

15. MARINA maintains a roster of recognized Classification Societies to class Philippine vessels. Vessels classed by such a Classification Society shall be class-maintained and dry docked in accordance with the schedule prescribed by the rules of the Classification Society. In addition to this requirement, classed passenger vessels shall also undergo underwater survey by a recognized underwater surveying company if it cannot undergo dry docking within the prescribed schedule pursuant to MC 152.

Table 6.1. Vessel Classification Requirements

Vessel Type	Classification Requirements
Passenger-carrying ships 500 GRT and above; Passenger high speed crafts	International classification society (MC 25-D)
Passenger-carrying ships 500 GRT and above (if vessel acquired after January 1, 1997); Tankers and barges hauling petroleum, petroleum by-products, chemicals and other hazardous cargoes (irregardless of GRT); Bulk carriers and Cargo vessels 500 GRT and above	Any classification society recognized by MARINA (MC 124)
Other tankers and barges 500 GRT and above (imported or chartered); Bulk carriers below 500 GRT; Cargo vessels below 500 GRT	Any international classification society or local classification society recognized by MARINA (MC 104). Classification requirement optional effective January 1, 1997 subject to pertinent provisions.
Passenger-carrying ships below 500 GRT	International classification society (MC 25-D). Classification requirement optional effective January 1, 1997 subject to pertinent provisions.
Other tankers and barges NOT hauling petroleum or chemicals (imported or chartered); Barges locally constructed as of September 20, 1990; Non-propelled barges boats over 3 GRT; Vessels 3 GRT and below	No classification requirement

Source: Study on Maritime Accidents, JICA (2003)

Ship Safety Standards

16. Without a doubt, safety should be paramount in all policy considerations. Sovereign states have even bonded together to institute and implement safety rules and regulations. The Safety of Life at Sea (SOLAS) Convention is the foremost example of this. The first safety convention was adopted in 1914 in reaction to the sinking of the Titanic. It has had several amendments since then. The Convention that is currently in force is known as the SOLAS 1974, as amended, or when combined with the 1978 Protocol, the SOLAS 74/78. The convention is kept up to date by amendments by the International Maritime Organization (IMO), the latest being the May 2004 amendments. The amendments come into force through tacit acceptance procedures and are deemed binding on all member states on the date specified in the amendment. It is also accepted that the convention is mainly applicable to vessels engaged in international shipping and trade.

17. Under its provision, responsibilities and authorities are given to "flag state" and "port state". The government of the flag that a vessel flies, or the "flag state", has the responsibility to ensure that such vessel complies with the requirements of the SOLAS Convention, where applicable, and the said vessel also possesses the necessary statutory certificates to evidence such compliance. On the other hand, the Port State Control Governments of other IMO-member nations at which port a vessel may be located, sometimes called the "port states", have the authority to inspect ships of other IMO-member countries if there are clear grounds for believing that the ship and/or its equipment do not substantially comply with the requirements of the SOLAS Convention. This is also known as the "Port State Control".

18. The Revised Philippine Merchant Marine Rules and Regulations embody all the applicable rules and regulations affecting Philippine domestic shipping, especially with regard to safety.

19. As part of MARINA's continuing efforts to keep its safety regulations and systems apace with technical advancements and cognizant of actual conditions in the field, MARINA formulated and adopted the Ship Safety Information System (SSIS) in 2003. This was revised in 2005.

Table 6.2. Vessel Safety Requirements

Vessel Type	Safety Requirements
Passenger high speed crafts; Passenger-carrying ships, Oil tankers, Chemical tankers and Gas carriers 500 gross tons and above; Bulk carriers 500 gross tons and above -required to be classed and those currently classed	Compliance w/ ISM Code (MC 143; MC 122)
Passenger-carrying ships, Tankers, Bulk carriers, Other cargo ships, Tug boats (whenever pulling/pushing non-propelled tanker barges carrying oil products) BELOW 500 GRT – not required to be classed	Compliance w/ NSM Code (MC 159)
Cargo vessels 3 GRT and below; Non-propelled barges boats over 3 GRT; Vessels 3 GRT and below utilized to carry passengers and cargoes, Vessels 35 GT and below, with outriggers and with open deck	Compliance w/ PMRR (MC 154)

Source: Study on Maritime Accidents, JICA (2003)

Wooden-hulled Vessels

19. Wooden-hulled vessels abound in the Philippines. Considering that many small islands, with small seaborne traffic, make up our archipelago, it is but expected that the laws of economics would dictate that services would be offered by low-cost and low maintenance wooden-hulled vessels.

20. This condition would have continued without much scrutiny from the public and media, except that through the years, even though the sea transport market between islands grew, the ship owners/operators still stuck with wooden-hulled vessels albeit bigger in dimensions to carry more load and passengers. They came under even stricter scrutiny when such vessels are involved in maritime incidents with great loss of lives and property.

21. In response to the recent maritime accidents involved by wooden-hull vessels, the MARINA issued Memorandum Circular No. 190 on "The Progressive/Gradual Phase Out Of Wooden-Hulled Ships in the Domestic Trade" in 2003. However, when this was presented to a number of shipping operators including those who operate wooden-hulled vessels, it was greeted by protests. As an aftermath of this debacle, MARINA was forced to issue Flag State Advisory No. 48-03- Deferment of the Implementation of MARINA Memorandum Circular No. 190 (Rules of the progressive / Gradual Phase-Out of Wooden - Hulled Ships in the Domestic Trade).

RECENT GOVERNMENT INITIATIVES IN SHIPPING DEVELOPMENT

RoRo Shipping and Intermodal Transport Development

22. In the course of the DSMP II implementation, DBP has considered that the focus should not be shipping alone, but more holistic. In their effort to further widen out the positive effects of the program, DBP launched the Sustained Logistics Development Program (SLDP). The main components of SLDP are: a bulk grains highway; a road RoRo terminal system and a cold chain, all of which are critical in fostering economic growth particularly in the countryside. SLDP aims to improve the country's basic infrastructure for the efficient movement of basic commodities through the introduction of modern storage handling and transport systems. DBP has pre-identified 48 RRTS routes in the country for its financing criteria.

23. Almost in parallel with this effort of DBP, the Project Management Office – Ports (PMO-Ports) of the Department of Transportation and Communications (DOTC) and the Office of the President's Priority Programs and Official Development Assistance Affairs Office (OP-ODAAO) were undertaking studies to further improve the efficiency in the movement of people and cargoes.

24. To integrate all of these efforts, and to harness the needed support and participation of the private sector, Her Excellency, President Gloria Macapagal-Arroyo issued Executive Order No. 170, dated 22 January 2003, as amended by EO 170-A, dated 09 June 2003. and EO 170-B, dated 19 September 2005. This established policy guidelines to promote private sector participation and investment in the development and operation of the roll-on/roll-off terminal system.

25. The Strong Republic Nautical Highway was launched in April 2003 with a caravan from Manila to Dapitan City, Zamboanga del Norte. Presently, the SRNH covers the Manila to Iligan route via Dapitan City. Meanwhile, DOTC is currently looking at the possibility of expanding the coverage of SRNH through the Central and Eastern Nautical Highways.

Coordinated Policy Between Shipping and Shipbuilding

26. Shipping and shipbuilding are two intertwined sub-sectors of the maritime industry. A strong maritime country, as a rule, should have strong shipping and shipbuilding industries. And, logically, policies should be enunciated to promote and develop both sub-sectors. This was followed by the MARINA, as can be gleaned from the numerous MARINA Memorandum Circulars issued to that effect.

27. However, the translation of government policies and projects into actual new buildings is still something to be desired. As an example, in the DSMP I, imported second-hand vessels were more preferred than newly constructed vessels at local shipyards in terms of the approved sub-loan amounts.

28. The domestic shipbuilding industry should not be faulted for this. New buildings, from the viewpoint of the ship operators, were simply not competitive enough with the second-hand market. Price-wise, on a peso per ton evaluation, the second hand vessels were cheaper. Time-wise, the second-hand vessels can be easily deployed within months of its procurement versus the long time needed for the design and building of a new vessel. Incentives-wise, the procurement of second-hand vessels also has the upper hand. Imported second-hand vessels are granted exemptions from import taxes and custom duties, while the engines to be used by domestically built vessels do not enjoy such privileges.

29. This problem is addressed by the issuance of RA 9295 which provides exemption of shipyards from the payment of Value Added Tax on the importation of spare parts and materials to be used in the construction of ships. In regard to investment, the earlier SC ruling that shipyards are not "public utilities" and thus, are not covered by limitations on foreign ownership would encourage more foreign investors as they can now acquire/set-up companies that are 100% foreign-owned. RA9295 even stipulates restriction on vessel importation under sound evaluation of shipbuilding capability by MARINA within ten (10) years. Therefore it can be considered that the country has newly entered a new challenge period to pursue the balanced development between shipping and shipbuilding.