

Promoting Efficient and Competitive Intra-ASEAN Shipping Services – *The Philippines Country Report*

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I. NATIONAL SHIPPING POLICIES

A. MARITIME ADMINISTRATION

Overall responsibility lies with the Department of Transportation and Communications (DOTC), set up under Executive Order 125 issued by President Corazon C. Aquino on 30 January 1987 and entitled "Reorganization Act of the Ministry of Transportation and Communications".

Its mandate as set out in its website reads as follows:

"...the (DOTC) shall be the primary policy, planning, programming, coordinating, implementing, regulating and administrative entry of the Executive Branch of the Government in the promotion, development, and regulation of dependable and coordinated networks of transportation and communications, as well as the fast, safe, efficient, and reliable postal, transportation and communications services."

To carry out its mandate, the Department at present has five sectoral/line offices, which are the Land Transportation Office (LTO), the Land Transportation Franchising and Regulatory Board (LTFRB), The Air Transportation Office (ATO), the Telecommunications Office (TELOF) and the Philippine Coast Guard (PCG). In addition, it has eight attached corporations, namely: the Light Rail Transit Authority (LRTA), the Philippine Ports Authority (PPA), the Cebu Port Authority (CPA), the Maritime Industry Authority (MARINA), Manila International Airport Authority (MIAA), the Mactan-Cebu International Airport Authority (MCIAA), the Philippine Aerospace Development Corporation (PADC) and the Philippine Postal Corporation (PhilPost). The four attached agencies are the Office of the Transport Cooperatives (OTC), the Philippine National Railways (PNR), the Civil Aeronautics Board (CAB) and the National Telecommunications Commission (NTC). Under the Office of the Secretary are the Port Projects Management Office (PMO-Ports) and the Municipal Telephone Projects Office (MTPO).

Ports are the responsibility of PPA, a government corporation – and, in Cebu, with the Cebu Ports Authority (CPA) – although there are many private and independent ports lying outside the authorities' actual control. The shipping sector is the responsibility of the Maritime Industry Authority (Marina), an 'attached agency' to DOTC.

While PPA is a government corporation and self funded, Marina is an attached agency under DOTC and is thus government funded. There are cross board linkages, with the administrator of each organisation on the board of the other. On a day-to-day basis, before concessions or franchises are approved, the views of the other are sought. Thus a shipping company should not be given a franchise or license for business not supported by port infrastructure. The essence of this is that a company applying to operate a shipping service must submit statements demonstrating financial stability, technical capability and a safety policy. Policies for safety etc. lie with PPA, although enforcement and implementation is by Coastguard, also an attached agency to DOTC. They are also an observer on Marina and PPA boards, and part of the 'Maritime Industry Cluster'

Marina is an 'attached agency' to the DOTC. It provides a range of regulatory and administrative functions within the industry. It has input into decisions affecting shipping services, such as port development, through a common director system whereby its administrator has a seat on the board of PPA, and vice versa. It has responsibility for policy aspects including ship registration and safety of navigation. Implementation of safety, security and navigational aids lies with the Coastguard, a separate DOTC sectoral office.

A comment on the roles of the various bodies would be that DOTC has very wide ranging responsibilities. Under this there appears to have evolved a plethora of different sub-structures that may hinder strategic ports development by allowing competitive distortions

and thus jeopardising foreign investment. The overall master plan appears to be difficult to implement given the potentially conflicting agendas driving port development. On the plus side, the current priority being given under the Strong Republic Nautical Highways initiative to improve inter-island domestic links through developing ro-ro facilities appears to be having some impact on historically high domestic transport costs, despite the continued aggregation of market power with a handful of domestic shipping operators.

Frequent shifts by senior bureaucrats appear to be a symptom of the political system and can be expected to continue. On the surface of it, new appointees at PPA and Marina demonstrate a clear vision of what is required and cross board representation offers coordination of activities. Implementation of that vision and change of culture will be the proof of the effectiveness of the many ostensibly sound policy objectives.

A comment from high placed non-government source suggested that there is a need for a national council overseeing ports development. There is clearly concern that the fragmentation that has been occurring is not in the national interest and will not provide a rational, integrated port system. It was suggested that the government is ostensibly pushing for such a council.

B. CURRENT LEGISLATIVE AND COMMERCIAL INITIATIVES

The main focus in the shipping sector is currently on developing port facilities to streamline the movement of domestic cargo. The government has prioritized development of roll-on/roll-off facilities and vessels. This initiative is being carried out under the 'Strong Republic National Highway' program, which is heavily supported by the President.

A fund of PP30B has been allocated through the Development Bank of The Philippines, PP7B to build small to medium ro-ro vessels and related port facilities, the remaining PP23B being for break-bulk. Three private sector companies are involved in the initiative. PPA is targeting 6 specific ports in the coming year. Industry sources agree that there has been substantial improvement in domestic cargo flows, with significant savings in both cost and in transit time, critical for the fresh food products moving particularly from Mindanao.

A new bill, 9295, has been passed and implementation rules and regulations are currently being developed. This will have various effects, but particularly it will further open up the industry for competition. A grouping of maritime related industries, the 'Maritime Industry Cluster', representing shipping, manning and ship building/repair interests, has been driving the new bill, being involved in its drafting and in the current process of establishing rules and regulations.

C. THE MANNING INDUSTRY

A major initiative is under way in the manning industry. This industry supplies Filipino crews for the world's fleet, with over 200,000 seafarers contributing 25% to 28% of the global manning, and US\$2.5B to The Philippines economy. The initiative, administered by The Philippines Seafarers' Promotion Council, is developing quality amongst the seafarers, protecting this major industry from competition from low cost providers.

D. SHIP REGISTRATION

Nationality requirements: To fly The Philippines flag, the vessel's owner must have substantial Philippines representation at management and board level. However, a similarly structured company can bareboat charter a vessel and register it under the Philippines flag for a minimum period of one year.

Crewing restrictions on national flag shipping: Generally 100% Filipino crew is the requirement. With the surplus of seafarers this is no issue, and domestic operators indicate that they are employers of preference given the short transits.

E. REGULATION OF COMPETITION IN SHIPPING

Generally initiatives over the last few years have removed most impediments to mounting competing shipping services. In fact, there is a system of licences/permits that has to be navigated and difficulty in finance is probably a fairly steep hurdle. Current legislation going through consultation stages is expected to address this situation:

1. International

There is no policy against international liner shipping arrangements.

2. Domestic

Similarly, barriers do not exist in the domestic shipping sector. However, the three major ferry operators controlling the services from Davao, Mindanao and Cebu, have merged over the last three years. Thus market power is concentrated in one operator. Whilst the operators are free to set their own rates (third class passenger travel being the only controlled pricing sector), Marina has powers to intervene if the public interest is in jeopardy.

The new priority on improving services with ro-ro facilities etc. has brought some reduction in rates, estimated by some to be as much as 25%. This priority, with close attention being paid by the President, may also be having an effect on rates in the same way as the port charges are apparently being constrained.

F. CARGO RESERVATION

There is no formal cargo general cargo reservation policy with respect to international cargoes.

Government cargoes are still directed towards The Philippines flagged vessels; however, the opportunities to enforce this in practice may be difficult given the low participation rate. Cargo owned by government or purchased with public funds or under government guarantee requires a waiver to move on non-Philippine vessels. There has been a general move away from any push for a national line approach as despite very low participation rates, it is accepted that The Philippines cannot expect to have any real control over international freight rates etc.

G. CABOTAGE

Cabotage continues, with only The Philippines vessels allowed to lift domestic cargo. There has been some loosening up, with overseas vessels allowed to carry empties between ports as long as this is for positioning and not carried as cargo. If it can be shown that no local owned vessel is available, domestic cargo can be carried under a single voyage permit issued by Marina. This has been happening frequently but mostly for tankers and gas carriers.

H. SUBSIDIES, GRANTS AND TAX INCENTIVES

There are various measures that have been in place to assist ship owners. These include implementation of a bareboat chartering program aimed to provide domestic shipowners with a “low cost alternative” to vessel acquisition. Thus a Philippines ship owner can bare-boat charter a vessel and register it under the Philippines flag.

Other measures address a perceived difficulty in obtaining finance for ship replacement and upgrade. Targeted financial assistance to domestic shipping includes:

- Public Utilities Priorities Plan: Grants exemption to domestic shipowners from input duties and taxes on vessels, machinery and parts. Includes provision for income tax exemption.

- Development Bank of The Philippines – IBRD loan facility of US\$20 million to provide financial assistance for replacement and repair of vessels in the inter-island fleet.
- World Bank: Loan facility for domestic shipping.
- Domestic Shipping Modernisation Program (DSMP) commenced 1995 – Yen 15 billion fund for modernisation etc.

Despite these measures, industry complains about the inflexibility of the system that applies to vessel acquisition. Even where finance is being sought from commercial lenders, the current system is cumbersome and leads often to projects being abandoned. The current review of the 'mortgage bill' (see below) is expected to address some of the issues.

The Maritime Vision 2000, under the President Fidel V. Ramos administration, provided a general framework for industry development, including:

- Executive Order No. 438 (1997) extended to bareboat chartering program until 2009;
- Republic Act No.7471 "An Act to Promote the Development of The Philippines Overseas Shipping", provides companies engaged in overseas shipping with exemption from income tax and import duties and taxes on vessels, spare parts etc.
- Maritime Liens and Ship Mortgage Bill (2003) designed to replace PD No. 1521 (the "Ship Mortgage Decree of 1978"), found to be out dated and unclear regarding maritime liens, thereby discouraging ship financiers extending loans to Filipino shipowners. The new bill redefines rights and obligations relating to liens to conform to international practice.
- Cargo Reservation (PD No.1466 – 1978) contains waiver provisions. Effectively a dead act in 2003. No longer operational, although still on the statute book.

The Board of Investment establishes the Investment Priorities Plan which provides benefits including tax holidays, accelerated depreciation etc.

II. KEY TRADING RELATIONSHIPS

A. TRADE FLOWS

Principal trades within ASEAN are rice, from Thailand and Vietnam and sugar from Thailand. An increasingly significant trade is in automotive products, where the main trading partner within ASEAN would be Thailand. Container trade is predominantly with Singapore and Malaysia, comprising mainly transshipment cargo for mainline services. A large component of the trade would be empty containers repositioning to Thailand in particular.

Many interviewees pointed out that in terms of products, the ASEAN nations tend to compete with similar products in world markets: however there is a range of cargoes moving between the nations, in many cases foodstuffs or commodities specific to one country. These include the traditional items such as rice and sugar and major movements related to production disparity in manufacturing such as cement and fertilisers. While some of these commodities still move in conventional fashion, others are subject to modal shift.

In The Philippines, there are no scheduled liner services serving other ASEAN nations outside of container mainline and feeder services. There is some movement between Indonesia and The Philippines but this is small scale tramp type operations.

A general comment on trade moving came from the meeting with ATI, who operate both container and break-bulk facilities.

Exports are limited both in containers and general cargo. 90% of containers exported are empties. For general cargo, exports are less than 2% of imports.

The only significant single export movement in containers is 50 teu of copper anodes (sheets in packs) per week to Singapore, new business. Otherwise, exports comprise mainly fruit, vegetables and seafood, in reefers, ventilated or dry boxes (canned goods). Mangoes are a significant volume but very seasonal, moving January to March. Taiwan is the main destination for fruit and vegetables.

Imports as general cargo include rice, sawn timber, logs, steel, livestock (cattle), chemicals in liquid bulk and dry break-bulk, cement, fertiliser raw materials (potash, urea), steel in wire rod, cold and hot rolled coil, construction sections. Coal has been imported in bags but this has dropped away.

There is some bulk, including silica sand and, in particular, grain although this now mainly moves through Mariveles port, towards Subic Bay. There is some bulk imported through Batangas. There are small exports of sand and cement domestically to smaller islands (e.g., Poullo).

Automotive is a growing sector, with both new and used vehicles in CBU form. Much of this moves through Batangas (Toyota's two plants are south of the city) on pure car carriers, although some comes in through Manila. Components are exported in boxes, although not a significant volume as yet. High value vehicles are imported in containers.

Some project cargo is imported, mainly in Rickmers Linie, Spliethof, Indotrans (now Swire, ex Hoegh).

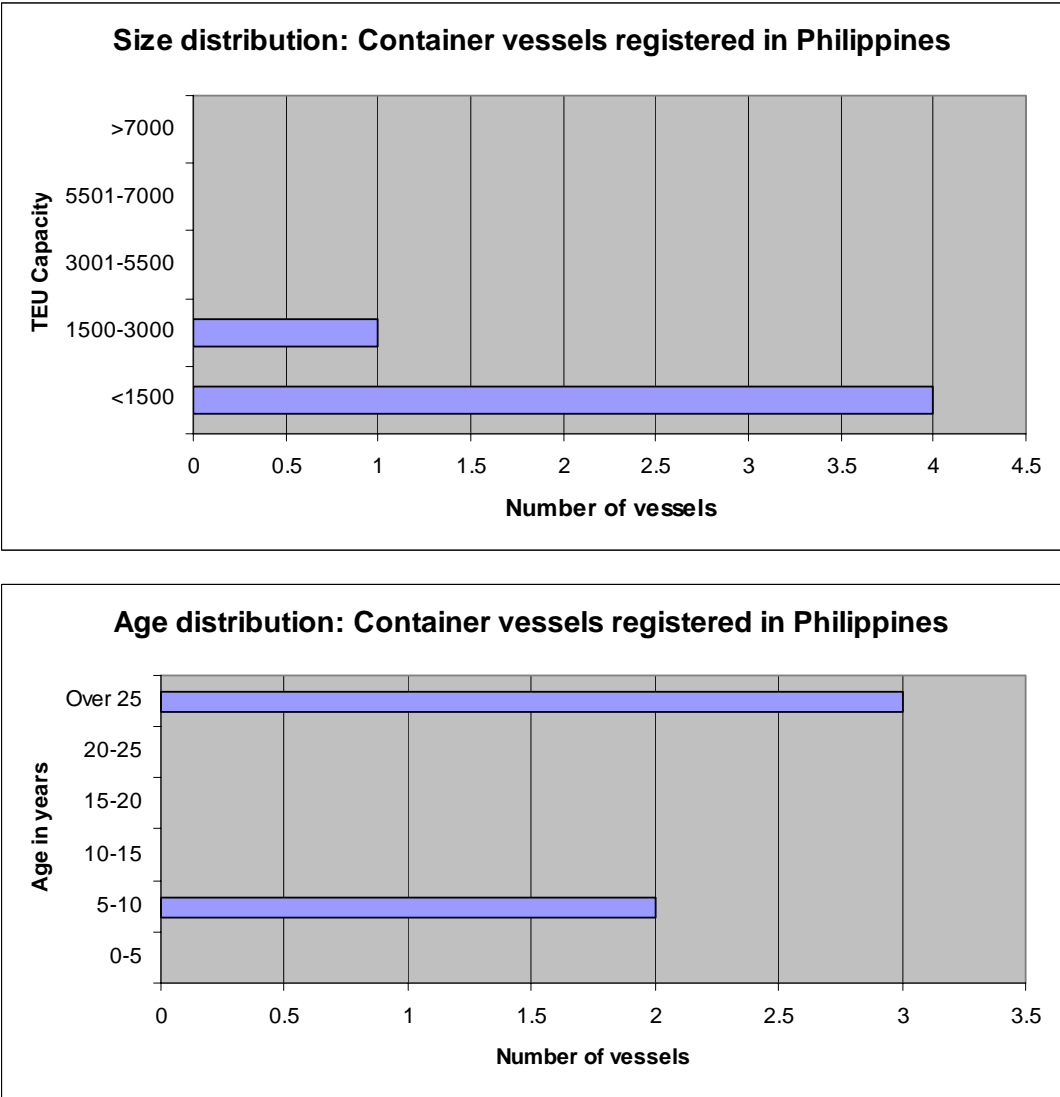
B. PORTS OF SHIPMENT

Main partners' ports in ASEAN are Singapore, Tanjong Pelepas and Port Klang, Bangkok, with in the Philippine cargo loaded mainly at Manila, Davao, Cebu, Cagayan De Oro, General Santos and Zamboanga.

III. NATIONAL FLEET

The following figures summarises the national flag carriers as identified by Lloyds Register.

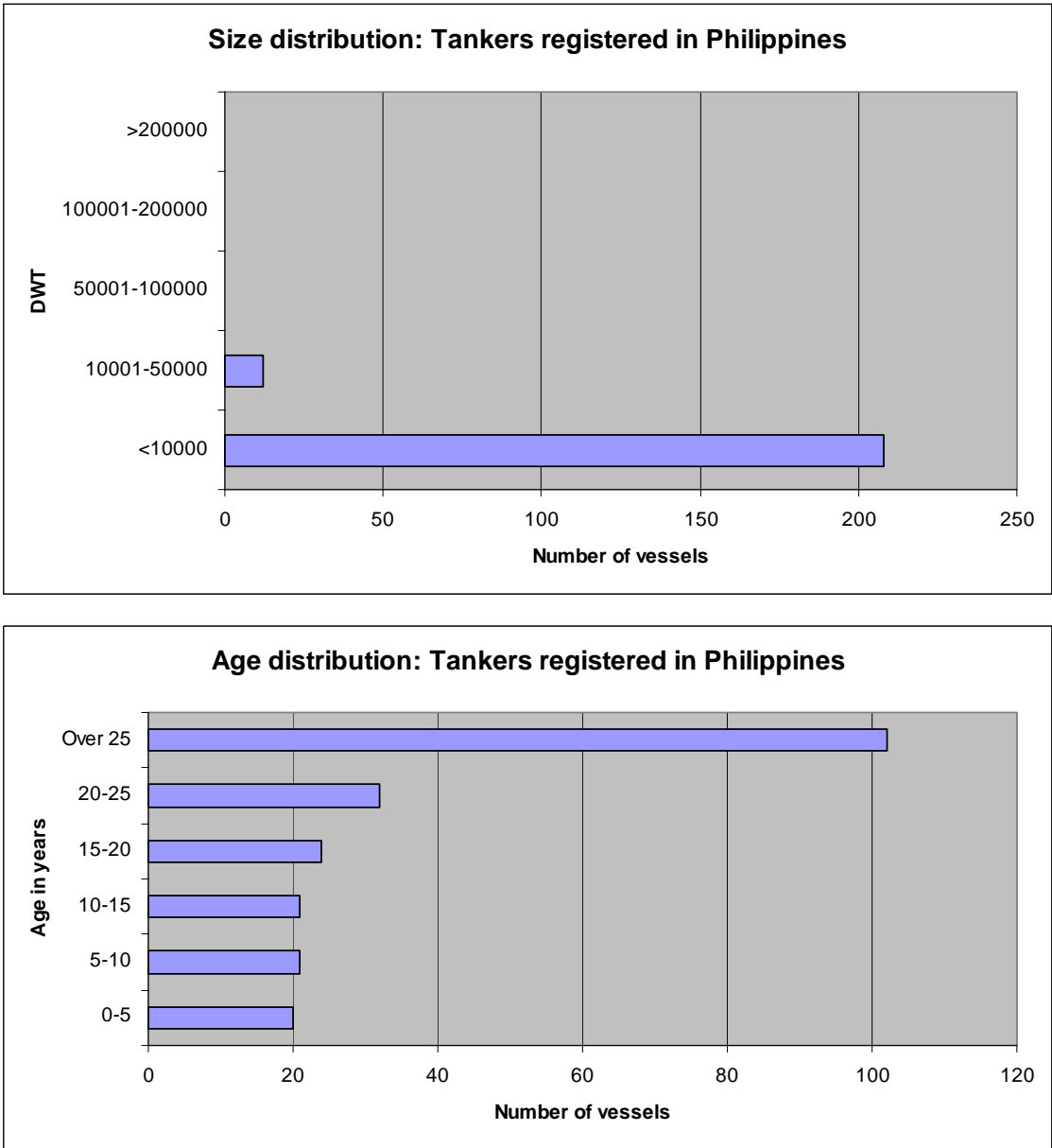
Figure 1: Size/age distribution of container vessels



The small number of container vessels underlines the low participation rate of Philippines flag vessels in overseas trade.

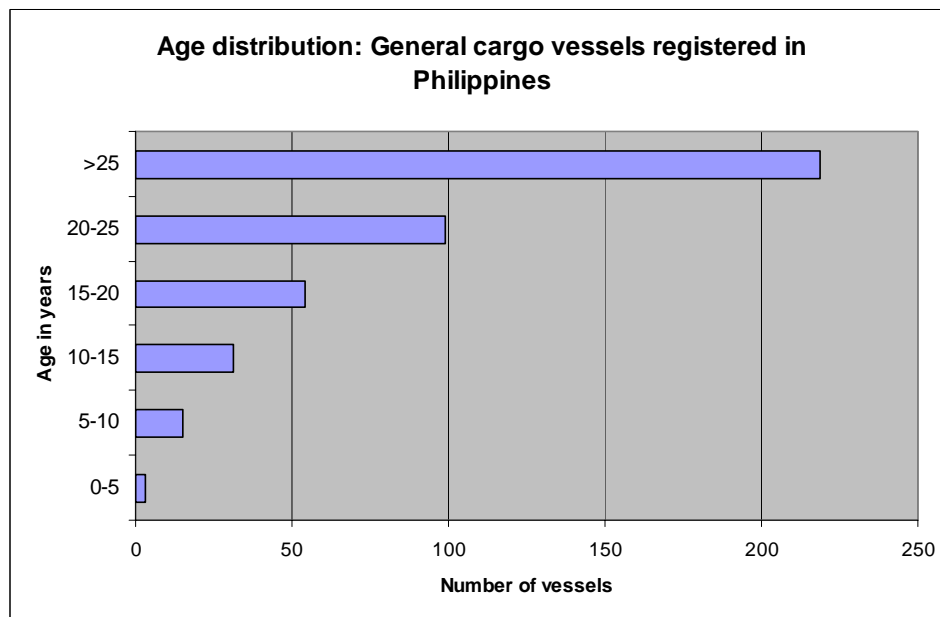
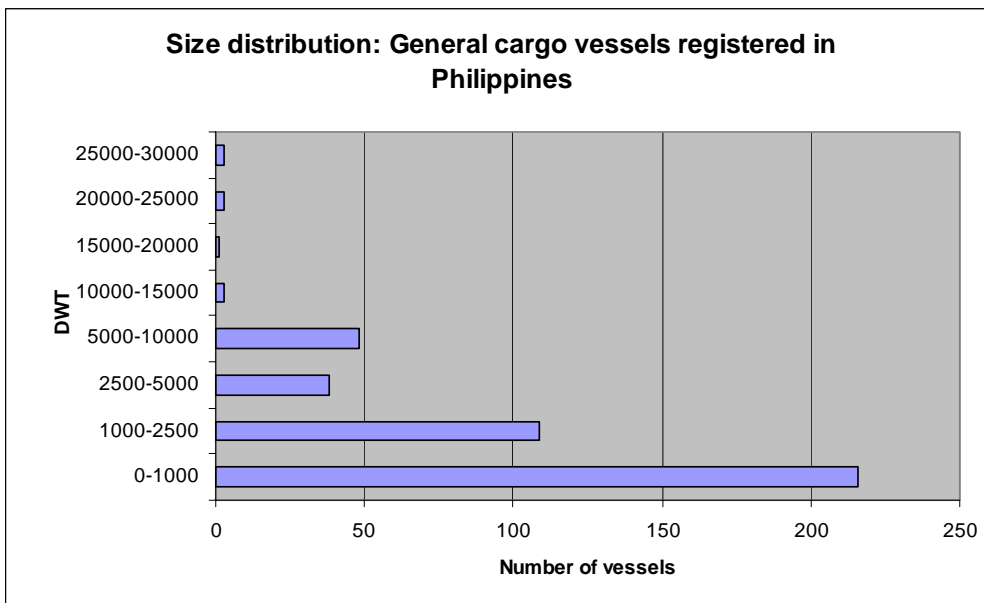
It also demonstrates that the vessels owned are predominantly small – less than 1,500 teu and 60% are over 25 years of age.

Figure 2: Size/age distribution of tankers



The large fleet of tankers is composed of predominantly small vessels, with very few over 10,000dwt. Age distribution shows some later tonnage, but the majority of vessels in the 25 years and over range

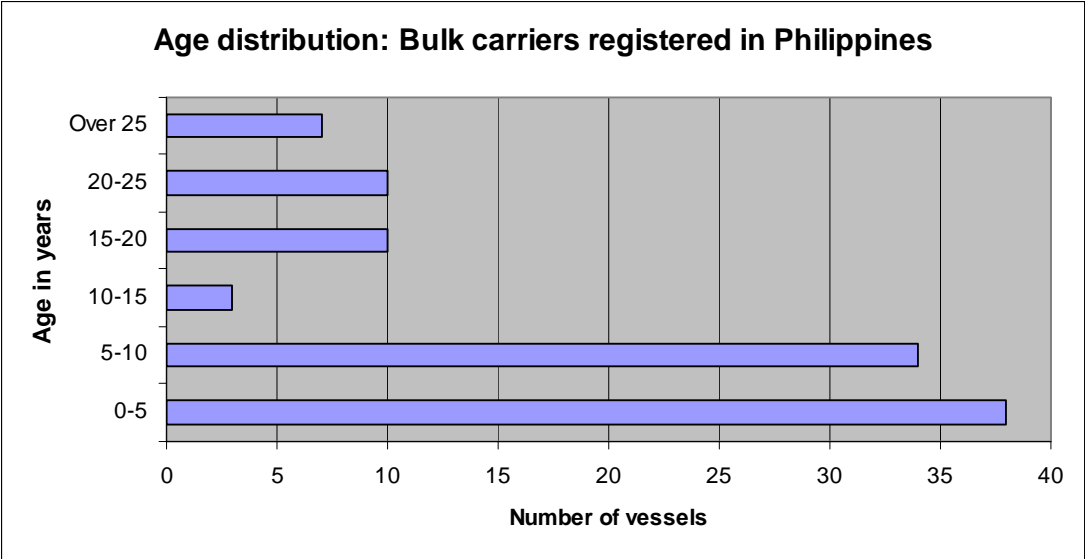
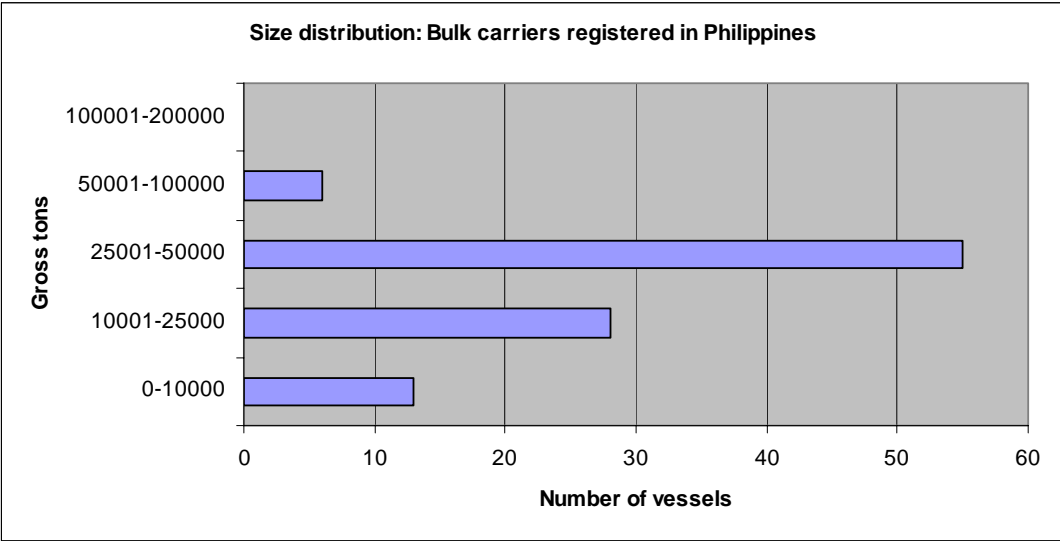
Figure 3: Size/age distribution of general cargo vessels



The general cargo fleet is composed of predominantly small vessels with only a handful over 10,00dwt.

Age distribution indicates a very low retirement/replacement program, with a large preponderance of vessels over 25 years.

Figure 4: Size/age distribution of bulk vessels



The bulk fleet shows a better size distribution with a substantial number of mid range vessels.

Age distribution is also reasonable, with a large percentage of ships in the 0 to 10 years range.

IV. PORTS

A. OVERVIEW OF PORT ADMINISTRATION

Although all port development is theoretically within the national Master Plan, there is a level of fragmentation evident that is having an impact both on port operators and on the agencies themselves.

The Ministry of Finance issues a permit for a port to operate as an international facility, thus activating customs presence etc. This is the subject of some quite public controversy currently as a particular facility has been developed and started to operate on a large scale as an international port a few kilometres from Manila ports under a license issued, apparently illegally, by PPA.

This underlines a further linkage in the Philippines system, where companies, agencies and individuals can apparently have a direct path to the office of the President, bypassing other agencies. This may well be a factor in the current fragmentation of the industry, where major ports are operating independently of PPA.

1. Private Participation in Port Ownership and Operation

Private sector involvement in container terminals has been common since the 1980s. There is little impediment to overseas or local operators, provided they can meet the usual criteria of financial stability, management structure and capability, and the ability to pay an acceptable percentage of gross revenue to the government.

There are many privately owned port facilities, mainly dedicated to specific commodities.

B. TARIFFS AND THEIR APPLICATION

Port charges – i.e., wharfage and wharfage – are controlled, with common charges nationwide with approval having to come from the Office of the President.

Cargo handling charges are not controlled, although a ceiling is set by the PPA board. Stevedores are allowed to discount, although where they have an agreement requiring them to remit a percentage of gross revenue to the government (e.g., ~20% in the case of ICTSI, ATI at North and South Harbors, Manila), this is calculated on gross revenue, ensuring that any discounts are borne 100% by the operator.

Port charges are denominated in US dollars to hedge against possible depreciation of the Peso. Major terminal operators set their tariffs also in US – ICTSI, ATI. With many of their costs in Pesos, they also are cushioned. Port users may not have the same luxury.

C. HANDLING PERFORMANCE

Crane rates at major container terminals have improved to be reasonably in line with world standards in major facilities (e.g., ~25-30 moves per hour at MICT, up to 20 at ATI). However, a recent trend has seen rates drop as a result of skill losses as drivers migrate to the Middle East.

D. INTER-PORT COMPETITION

The main terminals in Manila have always been competitive. Elsewhere, the high percentage of private operators and stevedores ensures reasonable choice and market forces regulate price. However, the tendency for fragmentation of the industry with facilities being developed in an ad hoc fashion has the potential to cause major damage. The recent development of the Harbor Centre Terminal just north of Manila's main terminals appears to have more to do with political favour than sensible strategy, and appears to be making one of

the existing terminals less than profitable. In the short term, it is undeniably increasing competition, but in a way that may not be sustainable in the longer term.

E. ASEAN NETWORK PORTS

ASEAN network ports in The Philippines are identified as¹:

Manila, Batangas, Subic Bay, Cebu, Iloilo, Cagayan de Oro, Davao, General Santos and Zamboanga. Base cargo handling characteristics for these ports are shown in the table below, and the following table summarises marine characteristics such as channel details, depths alongside etc.

Table 1: The Philippines ASEAN network ports – cargo capabilities

| Port | Owner | Cargo functions ⁽¹⁾ | | | | | Trade | | Remarks |
|----------------|-------------------------|--------------------------------|--------|--------|--------|---|---------------------|-----------------------|--|
| | | C | D B | L B | G C | P | Total vol t (yr) | Total teu (yr) | |
| Manila | PPA | * | * | * | * | * | 26.6m t (2001) | 2.5m teu (2003) | Wide range of commodities. Two major container terminals, S Harbor (ATI) and MICT (ICTSI). |
| Subic Bay | Atlantic Gulf & Pacific | * | | * | * | | | 58,304 teu (2003) | Under control of Subic Bay Metropolitan Authority. Largest Privately owned/operated port. |
| Batangas | PPA | * | | | * | * | | 11,484 teu (2003) | Being developed in 2 stages. Stage 1 complete. Stage 2 will give capacity of 1.15m teu pa |
| Cebu | CPA | * | * | * | * | * | 5m t (1999) | 399,670 (1999) | Control now rests with Cebu Port Authority (CPA). Wide range of cargo types and commodities. |
| Iloilo | PPA | * | * | * | * | * | | 97,665 teu (2003) | Wide range of cargo types and commodities. |
| Cagayan de Oro | PPA* | * | | | * | * | | | *Effective control now rests with the Independent Muslim State of Mindanao. Wide range of cargo types and commodities. |
| Davao | PPA* | * | | | * | * | | 202,016 teu (2003) | *see above |
| General Santos | PPA* | * | | | * | * | | 115,822 teu (2003) | *see above. ATI operate container terminal. |
| Zamboanga | PPA* | * | | | * | * | | | *see above |

Notes: 1. Cargo types – C=container; DB = dry bulk; LB=liquid bulk; GC = general or break-bulk cargo; P=passengers

¹ Almec report November 2002

Table 2: The Philippines ASEAN network ports – physical characteristics

| Port | Access | Channel | | | Berths | | Tugs |
|----------------|---------------------|------------|---------------------|-------------|-------------------|---------------|--------------|
| | | Dept hm | Width m | Length m | Total length m | Depth m | Number & hp |
| Manila | Road, rail, IWT | 11 | 300 | 1.1 | 11,227 | 5-14.5 | Many... |
| Subic Bay | Road | See | note | (1) | 1,892 | 9 - 15 | See note (2) |
| Batangas | Road ⁽⁴⁾ | See | note | (3) | 750 | | See note (2) |
| Cebu | Road, ferry | 8.8 | 50 | 0.5 | 1,141 | 8-9.3 | 650hp |
| Iloilo | Road, ferry | 22 | - | - | ~1,000 | 6-10.5 | - |
| Cagayan de Oro | Road, ferry | - | - | - | 869 | - | - |
| Davao | Road, ferry | 8-10 | easy ⁽⁵⁾ | | 1,293 | 6.5 – 10.6 | - |
| General Santos | Road, ferry | - | - | - | ~1,218 | 8-13 | - |
| Zamboanga | Road, ferry | 70 | easy | | 1,395 | 5-10 | - |

Notes: (1) Subic Bay is 13 x 5.5 km – easy approach (2) Tugs are available. Details na. (3) Batangas is a new deep water port on the Sunda Strait. Access reported to be easy. (4) New highway to Manila under construction (5) Entry to Davao is easy, direct from Davao Gulf. No restrictions apart from depth of 16-20 fathoms.

F. PORT DEVELOPMENT PROJECTS

Major port developments in the international sector would be limited, with most of the government's emphasis on upgrading domestic facilities. However, the main exception is Batangas, being developed by PPA. Currently at Stage 1, with bulk, break-bulk and some container capacity, this port is being developed as part of the push to de-congest Manila. It is already handling large volumes of bulk and break-bulk cargo, particularly CBU. Stage 2 to be completed over the next two years will see expanded container capability. Manila terminal operators, ATI and ICTSI, are already operating in the port with both container and break-bulk operations.

Among non-PPA ports, the newly opened Harbor Centre Terminal development, mentioned above, is a major development by private sector interests. Other developments such as the ongoing Subic Bay facility and many bulk handling facilities are aimed at specific industry sectors

V. INTRA-ASEAN SHIPPING ROUTES AND THEIR CHARACTERISTICS

A. CONTAINERS

1. Route Structure for Major Intra-ASEAN Services

Major intra-ASEAN routes are offered by container vessel operators. There is no clear delineation between feeder and mainline as mother ships generally do not call and virtually all international cargo would be hubbing through other Asian ports. Some intra-Asian and intra-ASEAN cargo would be carried on the same vessels. The major routes for container services in South East Asia would be to Singapore, Tanjung Pelepas, Port Klang etc. There are also container services offering direct calls to other ASEAN destinations, including Bangkok, Jakarta, Sihanoukville (Cambodia) and Yangon (Myanmar).

2. Shipping Lines Active on the Routes

Many mainline operators are represented in the Philippines, although most do not offer direct services to long haul destinations, feeding containers through other Asian ports including ASEAN ports in Singapore, Malaysia etc. Most of these services would also accept at least some cargo for the hinterland trade at those ports.

Regional shipping lines offering services from the Philippines to other ASEAN nations would include: RCL, Hub Line, Advanced Container Line (PIL), Interasia Line, Chen Lai, SITC (Ben Line), Star Line, Pendulum Line, Myanmar Five Star Line and Samudera.

3. Size of Vessels Deployed

The top end container vessels were described as 'large feeder vessels' of 1,500 to 2,500 teu. Most regional lines would be using vessels in the 500 to 1,500 teu range.

4. Transit Times

Published schedules suggest transit times of 4 to 5 days to Jakarta and Surabaya; 4 days to Singapore; 4 days to Bangkok/LCB. Cargo to Vietnam, Cambodia and Myanmar is mostly transhipped via either Singapore or Hong Long, with typical second leg transit times of 4 days to HCMC, 9 to 10 days to Phnom Penh or Sihanoukville and 4 days to Yangon.

B. BULK

1. Overview

Bulk cargoes are carried mainly in internationally trading bulkers up to cape-size. There are many dedicated bulk terminals in the Philippines and much major bulk would move through these facilities. However, some bulk product is still discharged to lighters from vessels at anchor in roadsteads. Little of this cargo is moving between ASEAN countries and, where it is, it would be shipped in tramp vessels chartered by cargo interests.

Liquid bulk comprises petroleum products for local distribution, chemicals in parcel tankers and edible and palm oil. Hazardous cargoes and chemicals are discharged either at dedicated users' facilities or to barges with the vessel in a prescribed hazardous anchorage. Much of this movement would be intra-ASEAN, with supplies from Singapore and Indonesia. There is a growing trade in palm oil from Indonesia.

Although some of this business is regular, it is still not a liner operation. Movement would be largely on inducement, although some coastal tankers would be on regular rotations.

2. Size of Vessel Typically Used

Local distribution of product is in tankers ranging from say 500 dwt to 2,000 dwt. Constraints on size of vessels would be both infrastructure, with depth of water in many regional ports limited to a few meters, and also parcel size. Particularly for chemicals, relatively small parcels are common, dictating either purpose built tankers with many segregated compartments and pumping systems, or in small vessels or barges suited to the parcel size.

3. Who Controls Shipping

Large volumes of imported products are controlled by both state and private sector oil companies. Larger volume chemical imports are often in globally owned parcel tankers. Small tankers, particularly coastal distribution of both petroleum products and chemicals, are mainly owned by relatively small, specialised operators.

4. Indicative Freight Rates

Cost of vessels has increased of late, driven by oil and steel prices, but not to the same extent as dry cargo and bulk vessels. Rates are reflecting this.

C. GENERAL CARGO

1. Role of Container v General Cargo Services

There has been a substantial shift to containers in the international trades and in the more major domestic sector (e.g., WG&A superferries carry both ISO 20'/40's and their own 10' containers), but break-bulk and wheeled cargo is still very important in the inter-island trades. The government initiative on logistics includes a push for ro-ro development (floating highway concept), with 48 domestic links identified as suitable for such development, indicating 96 vessels. These will not necessarily be sophisticated vessels, many probably more like LCTs. Funds will be made available through the Development Bank of the Philippines. A high level government contact commented that the ro-ro services will have to compete with small wooden built general cargo vessels.

2. Route Structure for Major Intra-ASEAN Services

There are no break-bulk liner services as such operating between the Philippines and its ASEAN neighbours, except perhaps in the automotive sector. The main element of this trade is built up vehicles (CBU) and CKD components for local assembly. This is now reaching the point where dedicated car carriers are operating in a semi liner fashion between North Asia and ASEAN countries. As globalised systems are developed by car manufacturers this is leading to regular movements of vehicles between assembly plants and markets in other ASEAN countries. For instance, Ford is assembling one model (the Lynx) in the Philippines and exporting it throughout ASEAN, while Toyota and General Motors are exporting particular models from their plants in Thailand. There is some return movement of components, but this is still relatively small volume and moving mainly in containers.

There are small-scale but regular movements of bulk and break-bulk between Indonesia and the Philippines but, being essentially tramp movement, there is no established route pattern.

3. Shipping Line/s Active on the Route

Car carriers are operated mainly by global operators such as Toyo Fuji. There are no known local operators involved in this movement, except where it involves CBU in containers. Project cargoes, predominantly heavy lift and awkward cargoes, are normally shipped in multipurpose tonnage operated by overseas lines such as Rickmers Linie, AAL/PAS, Spliethof, Indotrans (now Swire, ex Hoegh) and Wallenius Wilhelmsen liner vessels.

4. Typical Vessel Size

This is hard to define as in tramp trades vessels are typically chartered for a voyage or to lift a particular parcel. The most likely size range would be tween-deckers and small bulk vessels in the range 5,000dwt to 20,000dwt. Multi purpose vessels such as those mentioned above, would be larger, up to 30,000 to 40,000 dwt.

5. Transit Times

Transit times for break-bulk and bulk are often short. Industry contacts indicated only two days being common for Indonesian sourced cargo.

6. Indicative Freight Rates for Major Intra-ASEAN Links

Freight rates for general cargo would be very variable, being mainly one-off rates and with tariffs not publicly available. The easiest measurement would be the costs of a vessel per day, with small bulk and tween-deckers now fetching up to US\$20,000 per day compared to US\$5 -10,000 two years ago.

D. COMMENTARY ON INTRA-ASEAN SHIPPING IN THE PHILIPPINES

The following summarises the overall situation in the particular country, and looks at specific issues of modal shift. It also considers the issues raised in the country as being significant in an intra-ASEAN sense.

1. Overview

The shipping scene in the Philippines is dominated by a massive number of ports – over 1,000 – of which many are small, regional facilities serving the inter-island trades. Of the lesser number of commercially important ports, numbering perhaps 140, a few are dedicated to international trades and of these, eight are reported to be profitable. The other ports all exist to a greater or lesser extent as social obligations.

Being an archipelagic nation, the domestic trade in the Philippines is an essential part of the transport infrastructure. The business is dominated by a handful of major operators with superferries and general cargo vessels, but a large volume of trade in both freight and passengers is still moved inter-island in small vessels ranging down to wooden built ships of less than 250dwt. Government initiatives are seeing the development of more sophisticated vessels and port facilities, focusing on roll-on/roll-off vessels and ramps to streamline services and constrain costs. This is aimed also at retiring smaller less efficient and less environmentally friendly vessels and replacing with steel built, preferably local. There is little crossover of vessels into international trades although licensing systems do allow for this.

There is a large tanker fleet, comprising mainly smaller vessels of advancing years.

In the bulk area, Philippine shipowners have moved to acquire larger vessels. However, most are involved in world wide tramp operations and vessels calling at Philippines ports would be largely vessels chartered by cargo interest to deliver grain, coal etc.

2. Shipping Characteristics and Modal Shift

Exports from the Philippines are predominantly containerised. However, imports are a mix of container, bulk and break-bulk. Bulk imports are handled through some specialised bulk handling facilities (e.g., Mariveles) and at dedicated private terminals.

Some cargoes are still handled in break-bulk mode, but these would be relatively small scale in overall trade terms. A major trade with ASEAN nations is rice, in large volumes and still moving largely in break-bulk vessels from Thailand and Vietnam. The centralised control of this cargo (National Foods agency) has kept it in break-bulk form despite a solid move to containers for higher grades moving elsewhere in the ASEAN

region. The shipments are still mainly in 50kg bags, hand stowed and discharged. Sugar, particularly in raw form, also moves in this way.

Timber is imported into the Philippines in break-bulk form. This is predominantly in sawn form, strapped in bundles and shipped by tug/barge from East Malaysia. There were no indications of logs moving.

Cement and fertiliser would be the other major movement in break-bulk, still favouring bag (20 to 50kg).

Liquids, petroleum and palm oil, petro chemicals and chemicals, are largely moved in bulk in small tankers. These are typically in the 1,200 to 1,700 dwt range. Chemicals and hazardous cargoes are predominantly handled at dedicated private facilities or by lighter in midstream or at anchor in the roadstead at major ports.

A major break-bulk movement is motor vehicles, with intra ASEAN flow of both CBU and CKD building up, and signs that the automotive exchange agreement will also see components being increasingly shipped in containers between countries such as Thailand, Indonesia and the Philippines.

3. Shipping Issues

Freight Rates

In general the international trade is dominated by massive export/import imbalance. Various estimates were quoted, ranging between a ratio of 1:10 and 1:20 of exports to imports. This is driving distortions in freight rates, with rates to areas of shortage (e.g., Thailand) from surplus areas (e.g., Philippines) being a fraction of the opposite leg. This is causing concern to ship owners who see this as a destabilising influence, impeding investment in larger or more sophisticated tonnage.

The following summary of freight rates currently pertaining in the region came from a meeting with Jardine Shipping:

Philippines: Freight Rates from Manila

| Manila to | Export US\$ per 20' | Import (= 3 to 4x export) |
|---|--------------------------------|--------------------------------------|
| Hong Kong | 60 | 180 - 240 |
| Singapore | 60-70 | 180-280 |
| Thailand | 120 | 360-480 |
| Malaysia | 120 | 360-480 |
| Europe | 1,300* | |
| USA | 1,900 | |
| Middle East | 1,300 | |
| <i>* Four years ago was US\$600/20'</i> | | |

Finance

For the Philippines shipowners, the problem of financing new or upgrade tonnage is a major issue. Whilst there have been measures to assist in the retirement and replacement of the aging fleet, these have apparently been hindered by cumbersome regulation. New legislation passed but with rules currently in final stages of consultation, is expected to ameliorate the situation.

An issue peculiar to the Philippines is international manning. The massive contribution that Filipino seafarers make to both the manning of the world fleet and

the national economy make this an important industry. Much work is currently being carried out to maintain the competitiveness of Filipino crews.

On the periphery of the shipping industry, the government initiatives to increase retirement and replacement of the fleet are also aimed at providing work for Filipino ship builders and repairers. A focus on shifting benefits away from purchase of second hand tonnage is aimed at boosting local construction.

At the same time, cabotage is still strictly maintained, although with a reasonable single voyage type permit system. There is still a preference for government owned or funded cargo to move in The Philippines flag vessels. To assist maintaining sufficient The Philippines flagged vessels to sustain this, registry is open to vessels chartered under bare-boat terms by existing Filipino ship owners.

Impacts of Security Protocols

Although shipping lines and port operators worldwide are starting to implement surcharges on freight rates to address additional costs borne by vessels, in The Philippines there has apparently been no move to identify and quantify costs. Sources close to the government suggested that, whilst responsibility was clearly with DOTC, there had been some confusion in deciding where the responsibilities lay for implementation and enforcement, now devolved on the Coastguard and the port authorities. As a result of the delay in settling this confusion, more emphasis has been placed to date on implementing the protocols than on establishing and apportioning costs.

Infrastructure Issues

The proliferation of ports in The Philippines is seen as an issue since, despite national plans and reasonable strategies for de-congesting major cities, there is a danger that decentralising control to provincial and private operators may lead to duplication of facilities and additional costs that will devolve on to the shipping and exporting communities.

However, on the positive side, the current strategies for improvement of intra Philippines trade flows do appear to be bearing fruit in terms of both costs and efficiency, which will be reflected also in international trades as domestic vessels provide feeder options from the more remote areas.