THE DOMESTIC SHIPPING INDUSTRY OF THE PHILIPPINES: A SITUATION REPORT

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ABSTRACT

The paper reviews and analyzes the developments and trends of the domestic shipping industry of the Philippines from 1990 onwards. Using as a point of departure the problems commonly associated with the industry, the paper discusses the government initiatives / programs undertaken to address such problems, particularly the inroads made on deregulation / liberalization, streamlined and liberalized administration of the industry, incentives and financing programs, and intensified promotion of maritime safety. The paper subsequently takes stock of certain developments and trends in relation to instituted policies and programs of government, primarily in terms of the country's domestic fleet, investments and competition, shipping service standards, as well as trade and regional development. The more recent developments in the industry are likewise presented, such as the current overtonnaging situation in major routes, the effects of the regional economic / currency crisis, the issue of high domestic shipping cost compared to foreign shipping rates, the proposed liberalization of the country's cabotage, and some basic considerations as to the possible further deregulation of the industry. The paper concludes with an overview as to the future directions that will possibly be taken in the further development of the country's domestic shipping industry.

Prior to the onset in mid-1997 of the on-going regional economic / currency crisis, the domestic shipping industry of the Philippines was going through some significant transitions towards further growth and development, largely influenced by; (**1***)* **government policy initiatives and programs**; (**2**) **positive growth experienced by the country's economy since the early 1990s**; and (**3**) **favorable response of the private sector to emerging challenges in the industry**. There were then reasons to believe that the industry was finally breaking away from a host of institutional and economic-related constraints, following concerted efforts to address them. The efforts undertaken on the other hand, were primarily anchored on the framework that our domestic shipping industry plays a pivotal role, both historically and potentially, in our political, socio-cultural and economic integration as a nation, within the context of the country's archipelagic physical setting.

In order to better contextualize the major developments which have taken place in the industry during this decade, a brief overview on the problems commonly associated with domestic shipping would prove relevant as a point of departure.

I. PROBLEMS IN DOMESTIC SHIPPING

In so far as the general public is concerned, particularly those who have availed of domestic shipping services, the commonly cited complaints would be the continued operation of **old and ageing vessels** which are invariably associated with **poor passenger** and **cargo service standards,** as well as **inefficient operations**. The more critical problem from the public view however, is the occurrence of **maritime accidents** resulting in the loss of lives and damage to property as well as the environment.

On the part of ship owners/operators, their complaints primarily revolve around conditions which allegedly inhibit them from delivering the kind of services demanded/expected by the public. Foremost among these conditions is their lack of flexibility to immediately respond to business opportunities due to **restrictive government regulations** and the attendant **bureaucracy** involved. Moreover, considering the capital-intensive nature of their business, the **absence of much needed financial assistance and incentives**, as well as the **lack of better port infrastructure and facilities**, likewise serve as additional constraints to them.

(**Annex 1** presents in overview the foregoing problems).

II. GOVERNMENT INITIATIVES/PROGRAMS UNDERTAKEN

Recognizing the need to address the foregoing problems, certain policies and programs were adopted and instituted by the government, directed towards;

- enhancing free market competition within the industry;
- encourage further investments; and
- foster safe operations of vessels.

Among the more significant measures in the above regard were;

1. Deregulation / Liberalization

Prompted by the growing clamor for lesser government intervention and regulation in domestic shipping operations, this policy framework was initially considered way back in 1986. However, it was only in the latter part of 1992 that such a policy was translated into more concrete form with the issuance by the Maritime Industry Authority (MARINA) of Memorandum Circular (**M.C.**) **No. 71**, which was further expanded through another Circular, **M.C. No. 80**, issued on 8 November 1993. More specifically, these Circulars ***encouraged entry into developmental routes*** while ***fostering easier entry by additional operators into serviced routes***, thereby ***preventing monopolies***, as well as ***provided flexibility in certain areas of shipping operations***. The same Circulars ***fostered deregulation of liner shipping rates*** by allowing ship owners/ operators to determine the rates they will charge for their services, *except for third class passage and all cargo freights*, wherein the *fork tariff system was instead instituted*.

Strengthening such policies initiated, and also confirming the serious attention being given by the government to the country's domestic shipping industry, President Fidel V. Ramos issued Executive Order (**E.O.**) **No. 185** on 28 June 1994, followed by **E.O. No. 213** on 23 November 1994, which provided additional dimensions to the **deregulation of route entry** and **liner shipping rates**, respectively. This resulted in the further issuance by the MARINA of **M.C. No. 106** (to implement E.O. No. 185) and **M.C. No. 117** (to implement E.O. No. 213), with the latter already providing for the ***further deregulation of domestic shipping liner rates***, **specifically** ***cargo freight rates*** *except for non-containerized basic commodities*, effective 20 October 1996. The rates deregulation instituted however, does not yet partake of full deregulation. Instead, *the process of rate fixing* previously exercised by the government through quasi-judicial procedures, has been *modified*, with the *users and providers of domestic shipping liner services now assuming the active role* (without the detailed legal formalities) *of negotiating and determining the specific rate levels to be adopted on deregulated rates categories*. Such process is to be undertaken through the *Domestic Shipping Consultative Councils* (**DOSCON**s) established in various regional centers of the country.

(**Annex 2** presents a summary listing of the deregulation/liberalization policies instituted by the goverrnment while **Annex 3** provides the process flow attendant to the implementation of deregulated domestic shipping liner rates).

2. Streamlined & Liberalized Administration

In order to complement the foregoing policy initiatives designed to encourage competition and improve the business climate for domestic shipping, efforts were likewise undertaken by the government to make its *administration of the industry more responsive and efficient*, in order to further enhance investments. Such efforts ranged from:

- *removal of certain restrictions for easier acquisition of vessels from abroad*;
- adoption of measures to *facilitate the grant of vessel franchises to operate*;
- *less restrictive procedures for vessel departure clearances in ports*; and
- *improvements in the delivery of government services to the shipping clientele*.

Taking due cognizance of the realities on the age and cost of second- hand vessels available in the international shipping market, the MARINA *lifted the age and size restrictions on vessels to be acquired*, but with the requirement that such vessels coming in *shall be classed*. This policy was adopted under **M.C. No. 81** issued on 8 November 1993, which was reiterated through **M.C. No. 104** dated 6 April 1995.

In the area of franchise issuances, the MARINA issued **M.C. No. 74** on 14 January 1993 which provided for:

- the *institution of summary procedures in handling franchise applications*, thus, fast tracking what would oftentimes be protracted quasi-judicial procedures;
- the *use of compromise and arbitration for contested cases*, designed to similarly fast track the resolution of franchise applications; and
- the *adoption of prescribed periods to render Decisions*, specifically *15 days for uncontested cases* and *30 days for contested cases and complaints*.

Vessel operations were also provided some relief with departure clearance procedures streamlined through **E.O. No. 493**, issued on 3 December 1991. The Order *reduced the required documents to only three (3) copies*, and designated the Philippine Ports Authority (*PPA*) *as the singular agency to clear departing vessels*, in place of the previous practice which involved several agencies.

Within the MARINA itself, more efficient and faster processing of applications was fostered by *rationalizing documentary requirements and procedures*, as embodied under **M.C. No. 85** issued on 5 August 1994. At the same time, *functions and activities were gradually decentralized to MARINA Regional Offices* while *devolution* of some *to selected local government units was pilot-tested*, aimed at making the needed services more accessible and to insure more responsive, realistic and immediate actions on shipping matters affecting a particular area/ region of the country.

3. Incentives & Financing Program

In response to the problem of inadequate financial assistance and incentives to support the modernization of domestic shipping, the government likewise embarked on several programs/ initiatives in this direction.

Since 1987, *exemption from import duties and taxes for vessels, machineries, spare parts and cargo-handling equipment* has been extended to the domestic shipping industry under the **Investment Priorities Plan** (**IPP**) being administered by the Board of Investments (BOI). *From 1990 to 1997, 158 vessels* for importation were *indorsed* by the MARINA *to BOI* for IPP incentives availment. Up to 1996, these vessels were largely accounted for by General Cargo vessels (33.5%), RoRo vessels (25.3%), Tanker vessels (11.6%), Passenger/ Passenger Ferry vessels (9.6%), Passenger-Cargo vessels (8.2%), and High Speed Crafts (5.5%). From 1990 to the 1st Semester of 1998, such acquisitions involved a *total cost* of *US$ 309.045 M* for a combined gross tonnage of 278,423 and having an average age of 14.06 years. The table below shows the yearly figures for such IPP availments.

Table 1: **MARINA INDORSEMENTS TO BOI FOR IPP AVAILMENTS**

Year	No. of vessels	Average Age	Total GRT	Total Cost (US$)
1990	12	18.5	5,300.10	24,804,000
1991	22	16.0	27,064.49	17,102,000
1992	23	18.4	70,812.47	51,528,000
1993	21	14.8	50,477.04	49,485,000
1994	25	11.2	39,547.59	44,010,000
1995	19	12.9	30,159.26	38,911,000
1996	24	10.6	51,529.45	72,383,400
1997	12	12.3	3,387.60	9,671,866
Jan. – June 1998	1	1.0	145.00	1,150,000
TOTAL	**159**	**14.06**	**278,423.00**	**309,045,266**

Source: MARINA

There were likewise a significant number of availments for IPP incentives in recent years for the **importation of vessel spare parts, machineries and cargo-handling equipment/ materials**. For **1997**, the MARINA **indorsed to the BOI 86 applications** for incentives availment of such importations, involving a **total cost of US$ 11.98 M**, but only 68 applications were actually approved and granted the applied incentives. All these provide an indication on the extent of modernization being undertaken by domestic ship owners/ operators of their respective fleets, although these have been somehow limited so far to big and medium-scale operators.

Unfortunately, *the foregoing IPP incentives* on exemption from import duties and taxes *can only be availed of until 31 December 1997, or until 31 December 1999 for those enterprises located outside of the National Capital Region and registered on or before 31 December 1994,* pursuant to **R.A. No. 7918** enacted on 24 February 1995. The government however, hopes to sustain the momentum generated under such an incentive program with the passage into law of **Senate Bill No. 157** (***An Act To Promote The Development of The Interisland Shipping Industry***) now currently pending in the 11th Congress. Significantly, S.B. No. 157 is a re-filed version of House Bill No. 65 and Senate Bill No. 345 ("Philippine Domestic Shipping Development Act") which were not acted upon during the previous 10th Congress.

Complementing the foregoing IPP incentives was the successful sourcing by the government of funds from the 19th Yen OECF Loan Package, in the amount of JPY 15 Billion (roughly P 3.91 Billion), for the implementation of the **Domestic Shipping Modernization Program** (**DSMP**) since 1995. Out of such loan amount, JPY 14.838 Billion is earmarked for relending, which is roughly equivalent to P 3.886 Billion. The DSMP, which is being administered by the Development Bank of the Philippine (DBP), has been *providing the needed financing, at reasonable interest rates, to domestic ship owners and shipyards for the importation or local construction of vessels* to be deployed in the country's domestic trade. As of **31 December 1997**, the DBP has already ***approved the financing*** for the acquisition *of **97 vessels***, involving a **total loan amount** of ***P 2.730 Billion***. These are broken down into:

- Passenger Ferry / High Speed Crafts (32 vessels) - P 639.3 M;
- Passenger Cargo (17 vessels) - P 849.2 M;
- Tanker/ LPG/ Tanker Barge (16 vessels) - P 648.1 M;
- Lighters/ Self-propelled Barge (15 vessels) - P 219.0 M;
- General Cargo vessels (15 vessels) - P 284.6 M; and
- Fish Carrier (2 vessels) - P 90.0 M.

Other projects financed by the program were the completion of a slipway by a shipyard, involving a loan amount of P 8.3 Million, and a terminal facility project involving a loan amount of P 70.0 M. As of **30 June 1998**, actual releases from the fund reached **P 2.55 B**, with another **P 322.09 M** due for release and another **P 362.4 M** earmarked for indorsed projects, thus leaving **P 646.1 M** still available for lending.

Given the positive results of the DSMP, the *DBP* has successfully negotiated for *additional funding* in the amount of *JPY 20 Billion* under the 22nd OECF Yen Loan Package *to implement a DSMP II, with focus to be given this time to tertiary / developmental routes, as well as local shipbuilding development.*

4. Intensified Promotion of Maritime Safety

Even as a liberalized and conducive environment is being fostered by the government for vessel acquisitions and operations, it has simultaneously given its serious attention to the improvement of maritime safety in domestic shipping operations, especially in the light of the numerous maritime accidents that have been occurring over the years. Government programs in this regard were essentially guided by the need to address the attendant concerns related to ***vessel seaworthiness***, the need to **insure *crew competence***, and the provision of essential ***aids-to-navigation***.

In the area of vessel seaworthiness, ***the requirement for certain vessels to be classed remained as a basic policy***, and was subsequently complemented by the coverage of other vessel types with the ***Vessel Safety Inspection System*** (**VSIS**) pursuant to **MARINA M.C. No. 124**. On the other hand, the ***Philippine Merchant Marine Rules & Regulations (PMMRR)*** was ***revised / amended*** in **1997** in order to update its old provisions and incorporate new ones such as those pertaining to the operation of High Speed Crafts, among others. Correspondingly, *compliance with the pertinent provisions of the STCW Convention as it applies to domestic seafarers has likewise been enforced gradually since 1994*, even as several foreign-assisted projects are being implemented to *improve the quality of education and training for seafarers, including their certification* **---** all designed to address the need to insure crew competence in vessel operations.

Other policy measures were likewise instituted in order to address specific concerns on maritime safety and pollution prevention, as embodied in certain MARINA Circulars. The range of such concerns include safety measures during a vessel's voyage (M.C. No. 114), safety measures for motorbanca passengers (M.C. No. 123), passenger advisory on vessel safety through on-board film showing or voice tape recording (M.C. No. 72, M.C. No. 135 and M.C. No. 136), measures to insure safety of Oil Tankers / Barges (M.C. No. 128) and regulation of High speed Craft operations (M.C. No. 121).

Improvement of the country's neglected aids-to-navigation facilities have also been partially addressed through the **Maritime Safety Improvement Project** (**MSIP**), funded under the 18th Yen Loan Package Program, which resulted in the *rehabilitation of 29 lighthouses and beacons along the Manila-Cebu route, with another 8 having been subsequently added for the extension phase.* Other foreign-funded projects of a similar nature were simultaneously undertaken under the coordination of the Department of Transportation & Communications (DOTC), with the same objectives.

On March 27-28, 1996, the **Maritime Safety Conference** was held, with the theme "*Awareness & Collective Responsibility for Maritime Safety*", and was participated in by representatives of various agencies of government and private sector associations/ entities connected to the various aspects of maritime safety. It was on this Conference that the President issued **E.O. No. 314** dated 28 March 1996, establishing the **National Maritime Safety Coordinating Council**, and also directed the *formulation of a **National Maritime Safety Plan***. Such Plan has already been completed by the Council and is due for approval by the President.

Over and above these measures to enhance the maritime safety situation of the country, the MARINA policy on the accreditation/ registration of domestic shipping enterprises has been revised through **M.C. No. 79** issued on 8 November 1993, serving to *insure management competence and financial capability of those who will be allowed to engage in domestic shipping operations.*

To further underscore the government's commitment to foster a newer dimension of maritime safety culture in the country, the *International Management Code for the Safe Operation of Ships and for Pollution Prevention* (**ISM Code**) has been *officially adopted for implementation to domestic vessels* required to be classed and for certain sizes, through the issuance of **Flag State Administration Advisory No. 8** dated 06 October 1998. Compliance with the ISM Code by affected operators and their vessels will entail the development, implementation and maintenance of the prescribed *Safety Management System*, which will serve to: (**1**) **provide safe practices in ship operation and a safe working environment**; (**2**) **establish safeguards against all identified risks**; and (**3**) **continuously improve safety management skills of personnel ashore and on board, including preparing for emergencies relating both to safety and environmental protection**.

(Please refer to **Annex 4** for an overview of the ISM Code)

III. INDUSTRY DEVELOPMENTS & TRENDS

Based on initial assessment of developments and trends in the industry, the projected results of the above policy initiatives and programs of the government would appear to have been manifesting themselves after 1992 and up to 1996, as may have been essentially triggered by the emergence of a more favorable climate for investments, which in turn fostered competition. For example, given such policies, coupled with the increasing demand for shipping services as a result of greater production/economic activities, with corresponding increase of trade in the country, *there has been noted an increasing trend in the number of domestic shipping operators*, in *investments* into the industry and in *vessel acquisitions*. It may also be significant to point out that the *vessels being acquired in recent years have been bigger and better equipped* than previous acquisitions, particularly for passenger-carrying and container vessels. Moreover, the acquisitions undertaken in recent years have also resulted in *notable improvements in the quality of shipping services being provided*, especially with the *entry of luxury passenger ships in the major routes* covering the ports of Manila, Cebu, Cagayan de Oro, Iloilo and General Santos. If this trend continues, such noted improvements in the quality of shipping services will gradually filter down to the secondary routes, inasmuch as those previously deployed in the primary routes will most certainly be redeployed to other routes. Similarly, there can also be noted an *increasing trend in the performance of the country's domestic fleet, based on cargo and passenger throughputs* at the country's base ports.

The effects of the government initiatives on the domestic shipping industry, especially its deregulation/liberalization efforts, may be further looked into by considering such areas as the country's domestic fleet profile, trends in investments and competition, noted changes in shipping service standards, and correlations to trade and regional development.

1. The 1995 Domestic Shipping Merchant Fleet Profile

From the *1995 Domestic Operating Fleet Inventory* undertaken by the MARINA, there were *5,020 merchant vessels* documented to be operating for that year, based on related certificates issued. From the profile of such inventoried fleet, as shown in Table 2, there is a predominance of General Cargo vessels in terms of number (42.7%) and tonnage (29.7%), which could be indicative of the extent of cargo being transported by break-bulk mode in the country's domestic trade. It may however, be interesting to note that container vessels are gradually increasing, with a similar notable trend for tanker vessels. Another interesting observation is the significant build up of Passenger-Ferry vessels, which has resulted in the relatively younger average age for this category, with the corresponding implication that shipping services are being expanded in tertiary and ferry routes.

Table 2 : **DOMESTIC OPERATING MERCHANT FLEET:1995**

Type of Service	No. of Vessels	Total GRT	Average GRT	Average Age
Passenger ferry	1,096	30,191	27.55	9.61
Passenger-cargo	353	371,327	1,051.92	14.83
General Cargo	2,145	434,378	202.46	10.06
Container	39	131,568	3,373.54	23.95
Liquid Cargo/Lighterage	20	4,780	239.00	16.74
Barging	546	264,724	484.84	16.42
Tanker	173	172,608	997.73	17.07
Towing/Salvage	444	36,109	81.33	17.16
Pleasure	54	2,480	45.93	-
Pilotage	12	1,297	108.08	25.08
Others	138	14,431	104.57	13.40
TOTAL	**5,020**	**1,463,793**	**291.59**	**11.61**

Source: MARINA (Final Tabulation)

N.B. The 1996 inventory has been completed but the vessels covered have excluded sizes 3 GT and below such that the resulting figures turned out to be smaller than the 1995 figures, thereby rendering the statistics non-comparable for purposes of trend determination.

2. Investments and Competition

A number of indicators may be cited to show that competition and investments have been perking up over the years, presumably due to the improved business climate brought about by the government's policy initiatives and programs.

As shown in the Table 3 below, *there has been an increasing trend in the number of new companies going into domestic shipping*, as incorporated with the Securities and Exchange Commission (SEC), as well as those applying for MARINA accreditation, which would necessarily result in more competition in certain trades and routes. It may also be interesting to note that *a growing number of such companies are joint venture arrangements between Filipino entrepreneurs and foreign investors* , mostly coming from Japan and Southeast Asia.

Table 3: **SEC REGISTRATION & MARINA ACCREDITATION OF DOMESTIC SHIPPING ENTERPRISES**

	1991	1992	1993	1994	1995	1996	1997	1st Sem. 98
• SEC Registration of Domestic Shipping Enterprises								
- No. of Companies	31	35	49	50	53	66	153	67
- Paid-Up Capital (P'000)	20,004	78,830	121,810	132,737	271,100	361,787	282,857	47,732
• MARINA Accreditation of Domestic Shipping Enterprises								
- No. of Companies	24	25	46	92	159	96	119	65
- Paid up Capital (P'000)	75,614	69,834	99,886	1,035,217	619,183	269,365	5,290,823	448,624

Source: MARINA

Even selected financial indicators of existing companies, as in the case of the members of the Domestic Shipowners Association (DSA), would serve to confirm increased investments, as reflected in the following table;

Table 4 : **SELECTED FINANCIAL PROFILE OF DSA-MEMBER COMPANIES**

	1990	1991	1992	1993	1994	1995	1996	1997
▪ Assets (P'000)	3,192,730	3,566,574	4,938,449	7,229,088	10,683,046	14,070,905	19,266,449	20,929,787
▪ Property & Equipment (P'000)	1,676,446	1,784,692	3,034,954	4,801,771	7,290,116	9,632,044	13,333,583	14,624,710
▪ Stockholder's Equity (P'000)	824,868	931,907	1,261,120	1,475,498	2,731,076	5,933,425	9,227,730	8,622,157

Source: DSA

It would also be significant to mention the move of some big shipping companies (William Lines, Inc., Aboitiz Shipping Corp., Negros Navigation Co. and recently Lorenzo Shipping Lines, Inc.) to *generate more capital through public offerings of stocks*. From initial figures obtained, *William Lines, Inc*. was able to generate *P2.07 Billion*, while *Negros Navigation, Co.* generated *P611.0 Million*, as *additional capital* from such public offerings. Simultaneously, the bigger liner shipping companies intensified their efforts to expand their markets through greater publicities/ advertisements, which even included the television media.

Another development which needs to be cited is the agreement entered into by William, Aboitiz and Gothong, wherein William Lines, Inc. acquired the vessels and related assets of the two other companies by outright purchase through issuance of the corresponding shares of stocks in favor of the two companies. Correspondingly, William Lines, Inc. had its corporate name amended to William, Gothong & Aboitiz, Inc. (*WG&A*), which was approved by the SEC,Cebu Extension Office, on 28 February 1996. On the apprehension that the arrangement could foster monopoly, it may be relevant to point out that there are other big shipping companies in the liner routes to be affected, like Sulpicio, Negros, Lorenzo, Solid and Trans-Asia.

Complementing the above indicators would be the record and pattern of vessel acquisitions over the past years, as shown in the Table 5 below;

Table 5 : **MARINA-APPROVED VESSEL ACQUISITION PROJECTS**

	IMPORTATION			**BAREBOAT CHARTER**			**TOTAL**	
	No of Vessel	**Total GRT**	**Ave. Age**	**No. of Vessel**	**Total GRT**	**Ave. Age**	**No. of Vessel**	**Total GRT**
1990	30	15,406	16.9	31	55,788	14.6	**61**	71,194
1991	39	42,115	16.8	34	53,191	16.6	**73**	95,306
1992	34	75,906	15.7	20	29,203	19.3	**54**	105,109
1993	62	82,700	17.8	16	21,180	15.9	**78**	103,880
1994	97	91,355	17.5	22	39,508	16.5	**119**	130,863
1995	131	123,212	16.5	28	39,467	15.7	**159**	162,679
1996	108	146,283	14.6	30	45,438	14.3	**138**	191,721
1997	95	242,835	16.4	28	58,112	12.2	**123**	**300,947**
1st Sem.98	27	13,422	15.2	8	19,665	9.0	**35**	**33,087**
TOTAL	**623**	**833,234**	-	**217**	**361,552**	-	**840**	**1,194,786**

Source: MARINA

What is readily apparent from the above statistics is the *sudden increase in the number of vessels being imported starting from 1993*, which has been sustained up to 1995, although the rate of increase of such importations has been decelerating. Another notable trend was the *emerging dominance of importation over bareboat charter as a mode of vessel acquisition since 1992*, which could be a reflection of greater confidence for long term investments. Dominating the foregoing vessel acquisitions in terms of numbers would be General Cargo vessels (33.8%), RoRo vessels (13.2%), Barges (11.0%), Passenger-Cargo vessels (6.4%), and Tankers as well as Tugboats (5.7% each). It may also be expected that future vessel acquisitions will probably involve more of tankers, fastcrafts, container vessels and RoRo vessels.

3. Shipping Service Standards

Such noted trend in increased investments and entry of more operators into the industry to foster competition, would be expected to have a corresponding impact on shipping service standards offered to the public. Although more substantial conclusions can only be derived by getting the feedbacks from the users of the shipping services themselves, there are however, several obvious manifestations that improvements in service standards have indeed been taking place, although perhaps not on a widespread scale as yet.

The most obvious manifestation is the entry *over the past years of luxury passenger vessels* that have been deployed in the major routes. The *passenger accommodations and amenities offered by these newly-acquired vessels, approximating the standards offered in most hotels, have undoubtedly revolutionized the previous negative impressions of travelling by sea.* It is to the credit of the more progressive shipping companies that a new image in passenger service standards has been fostered, as in the "**Superferries**" of *WG&A, Inc*., the "**Princesses**" of *Sulpicio Lines, Inc*., and the "**Saints**" of *Negros Navigation Corp*. On the other hand, the vessels replaced by the newly-acquired ones, which were once the best during their time, would certainly be a welcome improvement in the secondary routes where they are to be redeployed. It is to be underscored moreover, that *such revolution in luxury passenger shipping service has also been taking place in the secondary and ferry routes, where similarly newly-acquired vessels are likewise being deployed* providing improved passenger comfort and amenities. In like manner, a significant number of cargo vessels have been acquired and deployed in both liner and tramping operations to foster similar improvements in cargo service standards, especially with the deployment of newer and more efficient container vessels, tankers, general cargo vessels and even RoRo vessels.

Providing some degree of validation to the foregoing is the Social Weather Station (SWS) survey conducted in 1996 for the DOTC, which revealed, among others, that 47% of the respondents felt that travelling by sea was now easier compared to two years before.

Another indication of noticeable improvement in shipping service standards is the *increasing number of high-speed crafts being deployed in a number of ferry and developmental routes*. By the nature of fastcraft operations and the attendant technology involved, this development, if sustained, is expected to further foster another dimension of comfort and convenience to be provided to the riding public in several places throughout the country's archipelago.

4. Trade and Regional Development

Given the vital role being played by domestic shipping to the country's trade, and the triggering effect that trade fosters in regional development, any improvements in domestic shipping would therefore be expected to exert an impact on the country's trade and regional development. This conceptual framework is supported by the fact that *there has been a steady increase in the total passenger throughput in the various ports of the country from 1992 (33.7 million) to 1997 (41.38 million).* Even in terms of *domestic cargo thoughput*, the same increasing trend could be noted, with *56.82 million metric tons* carried in *1992* which went up to *74.04 million metric tons* in *1997*.

While the increase in cargo throughput is primarily a direct manifestation of increased production/economic activities in the various island- economies of the country, such may also be viewed as having been sustained, and even stimulated, by the provision of shipping services between and among such island-economies. Thus, the increase in the volume of cargo carriage for certain routes would have a strong correlation with the increasing growth and development of the areas/regions involved. Accordingly, the development of other urban centers throughout the country has resulted in the emergence of new route/link patterns, or the operation of new shipping services to cater to the subsequent increase in demand for such services. And the momentum for growth and development of such urban centers largely depends on their being connected with the areas of consumption for their surplus products, as well as areas of production for their needed production inputs and other requirements.

All the foregoing noted developments and trends in the domestic shipping industry (while some would still require more substantive validation or study) would nevertheless serve to contextualize the impacts of the government's policy initiatives and programs in relation to the current situation of this vital sector of the country's economy.

IV. MORE RECENT DEVELOPMENTS

Several developments have recently taken place to influence the aforecited trends, aside from certain issues which have been raised concerning the country's domestic shipping industry.

1. Supply Exceeding Demand for Shipping Services

Following earlier developments in the industry, the investment climate became more attractive, and stimulated existing as well as prospective operators to acquire more vessels and invest more on operations in anticipation of emerging market opportunities.

Domestic trade and passenger throughput in recent years however, did not grow as much in conjunction with the growth in tonnage of the domestic fleet, leading to a situation where the supply of vessels is in excess of demand, a situation more often referred to as overtonnaging. As a result, the utilization rates (UR = actual carriage versus capacity) of vessels for cargo and passenger carriage suffered considerably, as shown in Table 6 below where a summary of the carriage performance of selected liner companies in major routes, based on their submitted 1996 Annual Reports, is tabulated.

Table 6: **UTILIZATION RATES OF SELECTED LINER COMPANIES IN MAJOR ROUTES**

Carriage Type / Route	WG & A		NENACO		SULPICIO		TOTAL	
Passenger	# of Vessels	UR	# of Vessels	UR	# of Vessels	UR	# of Vessels	UR
Manila – Cebu & v.v.	4	31.08%	-	-	8	12.03%	12	21.65%
Manila – Davao & v.v.	4	26.94%	1	4.83%	4	12.12%	9	18.84%
Manila – Iloilo & v.v.	6	24.53%	9	23.51%	4	2.92%	19	19.68%
Manila – Cag.de Oro & v.v.	8	2.69%	5	1.29%	1	8.63%	14	2.89%
Cargo								
Manila – Cebu & v.v.	8	48.63%	-	-	12	8.61%	20	29.78%
Manila – Davao & v.v	8	45.83%	1	11.57%	6	7.67%	15	24.13%
Manila – Iloilo & v.v.	10	29.34%	11	31.89%	11	2.93%	32	25.89%
Manila – Cag.de Oro & v.v.	12	40.98%	5	31.72%	1	6.85%	18	34.26%

While the computations were merely based from a representative sample, it is quite evident that the major routes covered are overtonnaged, given the very low URs computed, vis-à-vis the estimated break-even UR of 68%. Such situation could explain certain efforts being made by affected companies to rationalize their current vessel deployment schemes to improve on their URs (i.e., reducing the number of vessels or frequency of calls at certain ports; substituting existing passenger – cargo / RoRo vessels with pure container vessels to reduce subsidization of passenger operations) or adoption of measures to increase their market shares, especially for passengers (i.e., fare discount promotions). It is possible that the same situation would likewise be setting in in other liner routes, and even in the tramping trade.

2. Effects of the Regional Economic / Currency Crisis

The preceeding situation was further aggravated by the onset of the regional economic / currency crisis, which slowed down economic activities and consequently domestic trading that inevitably translated into lesser demand for shipping services. This served to further aggravate the overtonnaged situation in the industry. Accordingly, most domestic vessels, especially those in the primary routes, became underutilized, operating on low carriages of cargoes and passengers compared to their capacities – necessarily resulting in considerable reduction of revenues and profit margins, or operation at break-even levels. Such reduced revenues was further compounded by the devaluation and subsequent depreciation of the Philippine peso as it exerted serious impacts on the cash flows of most shipping companies / operators, given the increased peso equivalent needed for importation of equipment / spare parts, payment of dollar-denominated loans, charter hires, fuels and other related expenses. The resulting higher interest rates also brought forth difficulties in sourcing much-needed capitalization. The case of Negros Navigation Co. illustrates the foregoing impacts wherein the company had to resort to the sale of 55% of its shares of capital stock to Metro Pacific Corp. in order to generate fresh capital worth P 900 M and alleviate its financial burdens arising from outstanding debts needed to be paid.

(**Annex 5** presents a summary view of the foregoing effects to the shipping industry)

Despite the foregoing setbacks however, the domestic shipping industry could be likened to the Philippine economy where some of the requisites and foundation for development have been institutionalized, and would thus be capable of weathering the storm and recover from it. With the demand for domestic shipping services being a derived demand, a recovery of the Philippine economy, with the concomitant resurgence of economic production and trade, would also inevitably lead to the recovery of the domestic shipping industry.

3. The Issue of High Domestic Shipping Cost

Lately, there has been a revival of an age-old issue on the higher cost of domestic shipping services compared to those of foreign shipping lines engaged in the carriage of the country's exports and imports. While there still remains the need to properly validate the alleged higher freight rates of domestic liner vessels compared to the rates of their foreign counterparts, under comparable terms, the issue could serve as an occasion to examine certain factors preventing the country's domestic shipping operators into becoming more competitive. Such obstacles of our shipping industry to greater competitiveness are briefly discussed hereunder.

a) High Fuel Cost (Local vs. Foreign)

Vessels consume largely Diesel and Special Fuel Oil for their operations. Comparing the cost of such fuels in the Asian region, our domestic ship owners obviously suffer a disadvantage in terms of higher fuel cost in the Philippines compared to other Asian countries as shown in the table below;

Table 7: COMPARATIVE BUNKER PRICES AMONG ASIAN COUNTRIES

Country	Fuel Oil Price (US$/m.t.)	Diesel Oil Price (US$/m.t.)	Regular Gasoline (US$/m.t.)
Philippines	112	188	249
Hongkong	89	134	148
Taiwan	92	152	182
Singapore	74	125	118
Malaysia	103	153	160
Japan	94	195	n.a.
Korea	76	150	160

Source: ERB for Philippine prices (as of 12 March 1998) and Shell Gas Eastern Inc. for prices of other countries (as of 18-22 May 1998)

It would clearly appear from the above price comparisons that **domestic vessels pay 8.7% to 51.3% more for Fuel Oil**, and **23.7% to 40.2% more for Diesel Oil**, than their foreign vessel counterparts.

If one adds to this the fact that the big liner operators, members of the Domestic Shipowners Association (DSA), spends 25.6% of their 1997 Total Operating Expenses for Fuel, the disadvantage becomes quite evident.

b) High Interest Rates (Local vs. Foreign)

Another major expense in vessel operations revolves around the interest rates shouldered by ship owners/ operators arising from needed capitalization. Our domestic ship owners would again suffer at a disadvantage in this regard, as shown by Table 8;

Table 8: COMPARATIVE INTEREST RATES AMONG ASIAN COUNTRIES

		Interest Rates (%)		
Country	20 March 1998	1997	1996	1995
Philippines	15.81	13.13	13.80	15.75
Hongkong	7.53	9.63	6.60	8.75
Taiwan	7.85	8.66	6.60	7.25
Singapore	5.78	8.06	3.30	6.00
Malaysia	11.02	9.07	7.30	7.70

Source: Far Eastern Economical Review

As of March 20, 1998, **Philippine shipowners/ operators pay 43.5% to 173.5% *more* in terms of interest rates compared to their Asian counterparts**, which would further make them less competitive, despite efforts to increase Total Assets, which stood at P 20.929 B as of 1996 for the DSA members. Significantly, interest expenses of the DSA member-operators account for 12.7% of their 1997 Total Operating Expenses of about P 9.315 B.

c) High Insurance Premium (Local vs. Foreign)

Another major expense in shipping operations are the payments for Insurance Premium relative to Protection & Indemnity (**P&I**) and Hull & Machinery Insurance of vessels. In the case of DSA member-operators, this accounts for about 2.4% of their Total Operating Expenses in 1997. Although there are no readily available statistics as to variations in insurance premium among Asian countries, it is generally acceded that the country's domestic vessels pay higher cost of insurance premium, (particularly for Hull & Machinery coverage) compared to their foreign counterparts.

d) Less Port Efficiency & Productivity (Local vs. Foreign)

Cargo handling efficiency greatly influence a vessel's productivity which, in turn, is translated into the level of freight rates to be charged. The lower cargo handling productivity to which our domestic vessels are confronted with likewise place them at a disadvantage compared to their foreign vessel counterparts. Productivity in our domestic ports approximates only about one-half of the efficiency in other foreign ports.

e) Higher Taxes for Domestic Shipping Operations

Our domestic shipping operators are subjected to **34% income tax**, **10% value added tax** (VAT), and **3% common carrier's tax,** among others, as compared to foreign shipping lines calling on the country's ports which are subjected to only 2.5% tax on gross income.

f) Lack of Comparable Government Support Program for Domestic Shipping

Foreign shipping lines likewise enjoy better subsidies than their Philippine counterparts which enable them to make better rates offerings. In the case of American shipping companies for example, they enjoy such government support as the Jones Act, the PL 480, Merchant Marine Act and last November 1997, the law requiring Alaskan crude oil to be exclusively carried by U.S. tankers.

g) Higher Cost in Domestic Liner Operations To Subsidize Passenger Carriage & Services in Less Profitable Routes

The typical **revenue profile** of domestic liner vessels is such that **65% of total revenue** is accounted for by **freight revenues,** while the remaining **35% comes from passenger revenues**. Considering that passenger- carrying vessels are required to allocate 50% of their passenger capacity to 3rd class accommodations (except for those accredited by the Department of Tourism), the rate of which is regulated/ prescribed by government, freight rates of domestic vessels are designed not only to recover cargo carriage cost but likewise provide subsidization to passenger carriage operations. Aggravating matters for the country's domestic shipping operators is the fact that the current passage rates for 1st and 2nd class accommodations, although deregulated, could only be increased by so much in view of the low air fares now being offered by airline companies who could afford to do so due to some form of fuel tax subsidy that they can avail of, which is not being enjoyed by domestic shipping operators.

4. Proposed Liberalization of the Country's Cabotage

A consequence of the foregoing issue on high domestic shipping cost is the growing advocacy to allow foreign vessels to operate in the country's domestic trade in order to avail of lower shipping costs from foreign vessels. Such advocacy in effect calls for the liberalization or lifting of the country's cabotage.

Cabotage is a principle that refers to the practice of maritime countries of reserving the privilege/ right of navigating and trading along the coast between two ports within the national territory, only to vessels which are duly registered in that country. Such principle is often enforced by way of a provision of law in most countries (quite often erroneously referred to as Cabotage Law). In the Philippines, such a principle is translated into law under specific provisions of the Tariff and Customs Code of the Philippines (TCCP) to wit,

Sec. 810: " *A Certificate of the Philippine registry confers upon the vessel the right to engage, consistently with law, in the Philippine coastwise trade…*";

Sec. 902: " *The right to engage in the Philippine coastwise trade is limited to vessels carrying a Certificate of Philippine registry,* " ; and

Sec. 903: " *All vessels engaging in coastwise trade must be duly licensed annually.*"

The aforecited legal provisions clearly stipulate that the basic requisites for a vessel to be accorded the right to engage in the country's coastwise trade are a Certificate of Philippine Registry and a License issued annually. Relatedly, "***coastwise trade***" has been defined as the transport of passengers or goods from one Philippine port to another Philippine port, whereupon such are loaded at one port and unloaded at the other port.

The advocacy for cabotage liberalization is, on the other hand invoking Sec. 1009 of the TCCP which provides;

Sec. 1009: " *Clearance of Foreign Vessels To and From Coastwise Ports.*

Passengers or articles arriving from abroad upon foreign vessel may be carried by the same vessel through any port of entry to the port of destination in the Philippines; and passengers departing from the Philippines or articles intended for export may be carried in a foreign vessel through a Philippine Port.

Upon such reasonable condition as he may impose, the Commissioner may clear foreign vessels for any port and authorize the conveyance therein of either articles or passengers brought from abroad upon such vessel; and he may, likewise, upon such conditions as he may impose, allow a foreign vessel to take cargo and passengers at any port and convey the same upon such vessel to a foreign port."

The Department of Justice however, under Opinion No. 73, s. 1997 dated 03 November 1997, held among others, that;

- While foreign vessels are generally limited to touch at ports of entry only (pursuant to Sec. 1001), they may be allowed by the Commissioner to proceed to a port of loading or unloading, other than a port of entry (pursuant to Sec. 1009), for purposes of picking up passengers or cargoes destined to a foreign port, or delivery of passengers and cargoes originating from a foreign port to its Philippine port of destination;
- Sec. 1009 however, cannot be invoked as a legal basis for allowing foreign vessels to transport passengers or cargoes from one Philippine port to another Philippine port (transhipment), as hereunder stated in the DOJ Opinion;
  " *… Sec. 1009 does not in terms provide that a foreign vessel may pick up passengers and/or cargoes at one local port and unload them at another local port for loading in another foreign vessel. And we do not think that the provision can be construed as authorizing such activity. Otherwise, a foreign vessel could engage in coastwise trade which is a nationalized activity reserved only to vessels of Philippine registry (see Sec. 902, infra)…*"

Without necessarily disregarding the reasons behind the clamor for cabotage liberalization, mostly coming from the export sector of the economy (i.e., the need to bring down transport costs and improve the price of exports for a better competitive edge in the world market, greater flexibility of shipment schedules, improvement in shipping service quality), one should not likewise disregard the position and arguments of affected domestic shipping operators in opposing the proposed advocacy, as adequately presented in the DSA Position Paper entitled "Liberalization of the Cabotage Law: A Preview of its Effects to the Domestic Shipping Industry" (September 1997).

Essentially however, if the principal reason for the advocacy is the alleged lower shipping rates from foreign vessels, there might be a need to first insure whether such expectation would still hold true should foreign vessels operate within the same playing field as domestic vessels and be similarly confronted with the same obstacles to competitiveness as previously discussed.

5. Is Full Deregulation The Desired Goal for the Industry?

Amidst a gradually evolving deregulated environment for the country's domestic shipping industry, the extent of deregulation that would be deemed appropriate to be pursued becomes a critical consideration. Assuming that the needed legislative amendment(s) will be enacted to provide a liberalized legal framework for the industry, will full deregulation be the goal to be opted for? Determination of the desirable goal on deregulation will necessarily involve taking into account several perspectives.

From the government's perspective, full deregulation would necessitate a paradigm shift - from domestic shipping services being considered as public utilities, to one where they are essentially considered as purely commercial services. The shift entailed, if so decided upon, will carry with it certain political and social implications/ consequences that will have to be carefully evaluated, vis-a-vis the general expectation for the government to continue upholding public welfare and interest. What would make the decision more crucial would be the prospect of increased shipping rates, as the pricing for shipping services will inevitably seek its real market level, just like what is presently happening to the country's oil industry - with the gravity of such prospect being underscored by the generally inelastic nature of the demand for shipping services by some sectors of society and the economy. Alternatively, it may be equally important for the government to try and determine at what stage of the industry's development (as well as the national economy's) would full deregulation be suitable and advisable, with the attendant basic conditions being present and well-established to allow certain forces and mechanisms to be operative that will uphold general welfare and interest.

From the private sector perspective, full deregulation would somehow be the inferred preference or desired goal. Such inference however, might need to be further validated considering the various sectors and corresponding interests at play within the industry. There is, for example, the apprehension that under an unregulated domestic shipping environment, the big shipping companies might eventually encroach upon the areas of operations of smaller shipping companies and ease the latter out of competition. While there may be some forces in a free-market environment to foster self-regulating mechanisms with respect to scales of operation vis-a-vis routes that can be efficiently and economically served, the manifested apprehension would still merit serious consideration for purposes of identifying appropriate measures/ policies that could address the undesirable effects of such an eventuality. On the other hand, the users of domestic shipping services, specifically the shippers which would also form part of the private sector interest, may likewise have their own apprehensions involving the obvious concerns on the need to insure certain levels of service standards as well as rates, especially within the context of possible cartels and even oligopolies.

It would thus be quite apparent that the proper path and destination towards deregulation be immediately resolved before any representations are made to Congress for legislative initiatives.

V. FUTURE DIRECTIONS

Sustaining the gains so far achieved in domestic shipping, as well as its ability to cope with the attendant crises of the country's economy, will essentially revolve around the continued realization of the following goals formulated for the industry:

- **A domestic shipping fleet complementing an overseas fleet in the efficient movement of raw materials and products to domestic and international markets, as a support to the country's drive for global competitiveness**;
- **An adequate, efficient and economical domestic shipping fleet providing competitive standards of shipping services to cater to/ support the transport requirements of agriculture, trade and industry and tourism**;
- **Seaworthy vessels manned by well-trained/ competent officers and crew, and largely sourced from/ effectively maintained by a developed shipbuilding/ shiprepair industry**.

To realize these goals, government will need to continue and sustain its program of encouraging further investments into the sector and promoting fleet modernization, preferably complemented by a comprehensive policy framework for vessel retirement-cum-replacement, as tied up to a financing and/or incentives program. In the area of financing, efforts are being initiated towards the conceptualization and eventual implementation of a Maritime Credit Corporation along the concept that has been adopted in Japan.

Following its deregulation/ liberalization initiatives, it becomes very critical for the government to immediately put in place monitoring systems that will provide timely and reliable information/feedback on the industry, which would enable government to undertake appropriate interventions where public interest would so warrant. Despite lesser government interference to be expected in the industry, the fact that domestic shipping would still partake of a public utility dimension would make it incumbent for government to still ensure that public interest and welfare is protected. Government's specific areas of concerns in this regard would be on vessel safety, passenger service standards, cargo service standards, and adherence to imposed conditions and requirements for operations. Thus, the MARINA has gradually put in place certain mechanisms that will address such concerns, specifically the : (**a**) *Domestic Shipping Service Monitoring System* (**DOSSMONS**); (**b**) *Vessel Safety Inspection System* (**VSIS**); (**c**) *Passenger Service Rating System* (**PSRS**); and (**d**) *Cargo Service Rating System* (**CSRS**).

(Please refer to **Annex 6-A** for the attendant conceptual framework and **Annex 6-B** for a brief discussion of the foregoing systems)

There are however, basic issues that require attention and resolution for purposes of clearer direction, such as:

1) the extent of deregulation to be instituted, in line with current efforts to amend the PSL;
2) the clamored deregulation of the cap currently imposed on the return on investment of public utilities;
3) the proposed liberalization of cabotage to enhance the movement of the country's exports/ imports;
4) the harmonized development of local shipbuilding capability in conjunction with growing tonnage demand;
5) the corresponding deregulation of port operations in order to accelerate the provision of needed port infrastructures and services; and
6) the need for reorientation of government plans and programs to shift attention to tertiary, developmental and ferry routes, in line with the current administration's thrust to focus attention on the greater masses of our people.

From a larger perspective, the country's active involvement into the mainstream of international affairs and cooperation will no doubt pose corresponding challenges to Philippine domestic shipping, which, with proper responses, could stimulate further development, not only of the sector but the national economy as well. Given the prospects of liberalized trade with other countries, global competition, and emergence of borderless economic regions (i.e., BIMP-EAGA, APEC, North Quadrangle Growth Area), the playing field for domestic shipping will be accordingly broadened/ enriched, as more opportunities are inevitably created. Thus, premised on sustained Philippine economic development, further milestones would accordingly be oriented towards insuring that the country's merchant vessels will conform with the technical and manning requirements of other countries, or that of international conventions (1995 STCW Convention, ISM Code, HSC Code), and that the service standards to be offered will be globally competitive in terms of quality, efficiency and economy.

Annex 1

PROBLEMS / ISSUES CONFRONTING THE PHILIPPINE DOMESTIC SHIPPING INDUSTRY

As Viewed by the Industry

INADEQUATE FINANCIAL ASSISTANCE & INCENTIVES

For replacement of

TOO MUCH REGULATION & RED TAPE IN GOVERNMENT

LACK OF BETTER PORT INFRASTRUCTURES & FACILITIES

OBSTACLES TO COMPETITIVENESS

- **High Fuel Cost**
- **High Interest Rates**
- **High Insurance Premium**
- **Less Port Efficiency & Productivity**
- **Higher Taxes**
- **Lack of comparable Gov't. Support**
- **Higher Operational Cost due to Subsidization**

As Viewed by the Public

OLD / OBSOLESCENT VESSELS

POOR SERVICE STANDARDS

INEFFICIENT OPERATIONS

POOR MARITIME SAFETY RECORD

- **Vessel Seaworthiness**
- **Crew Competence**
- **Inadequacy of Aids to Navigation/ Search & Rescue Capability**

Annex 2

DOMESTIC SHIPPING DEREGULATION / LIBERALIZATION POLICIES IN OVERVIEW

A. ROUTE ENTRY/ EXIT DEREGULATION

MARINA M.C. No. 71 (22 October 1992)
No monopolized routes adopted as a policy.

- Entry of new/ additional operators in established routes/links allowed, if;
  - cost-effective, competitive or superior service is provided
  - Improved quality of service and/ or innovative/ technologically advanced shipping service is introduced.
- No limit on vessel replacement capacities.
- Flexibility provided for cargo liner operation to alter frequencies, ports of call & swap/substitute vessels.

MARINA M.C. No. 80 (08 November 1993)

Executive Order No. 185 (28 June 1994)

MARINA M.C. No. 106 (06 April 1995)

- Minimum of 2 operators in any route.
- Entry made easier in routes serviced for 5 years.
- Newly-acquired vessels granted flexibility of entry into any route, subject to certain conditions.
- Entry into developmental routes encouraged by way of rates incentives.
- Liberalized vessel rerouting, amendment of frequencies/ schedules, vessel swapping/ substitution

B. SHIPPING RATES DEREGULATION

MARINA M.C. No. 46 (19 May 1989)

- Abolition of Ad Valorem rates / Adoption of 3/10% valuation surcharge to cover insurance premiums.
- Reclassification/ Upgrading of Basic Commodities Class (Agricultural Products) to Class C Basic.
- Deregulation of 2nd Class Passage Rates. (1st Class Passage deregulated on October 1983)

MARINA M.C. No. 57 (25 October 1990)

- Deregulation of Reefer, Transit & Livestock rates
- Abolition of 3/10% valuation surcharge
- Adoption of Fork Tariff System, intially set at+5%/ -5%.

MARINA M.C. No. 67 (06 May 1992)

- Automatic Fuel Adjustment Mechanism instituted.
- Widened Fork Tariff range to 10% / -15%.

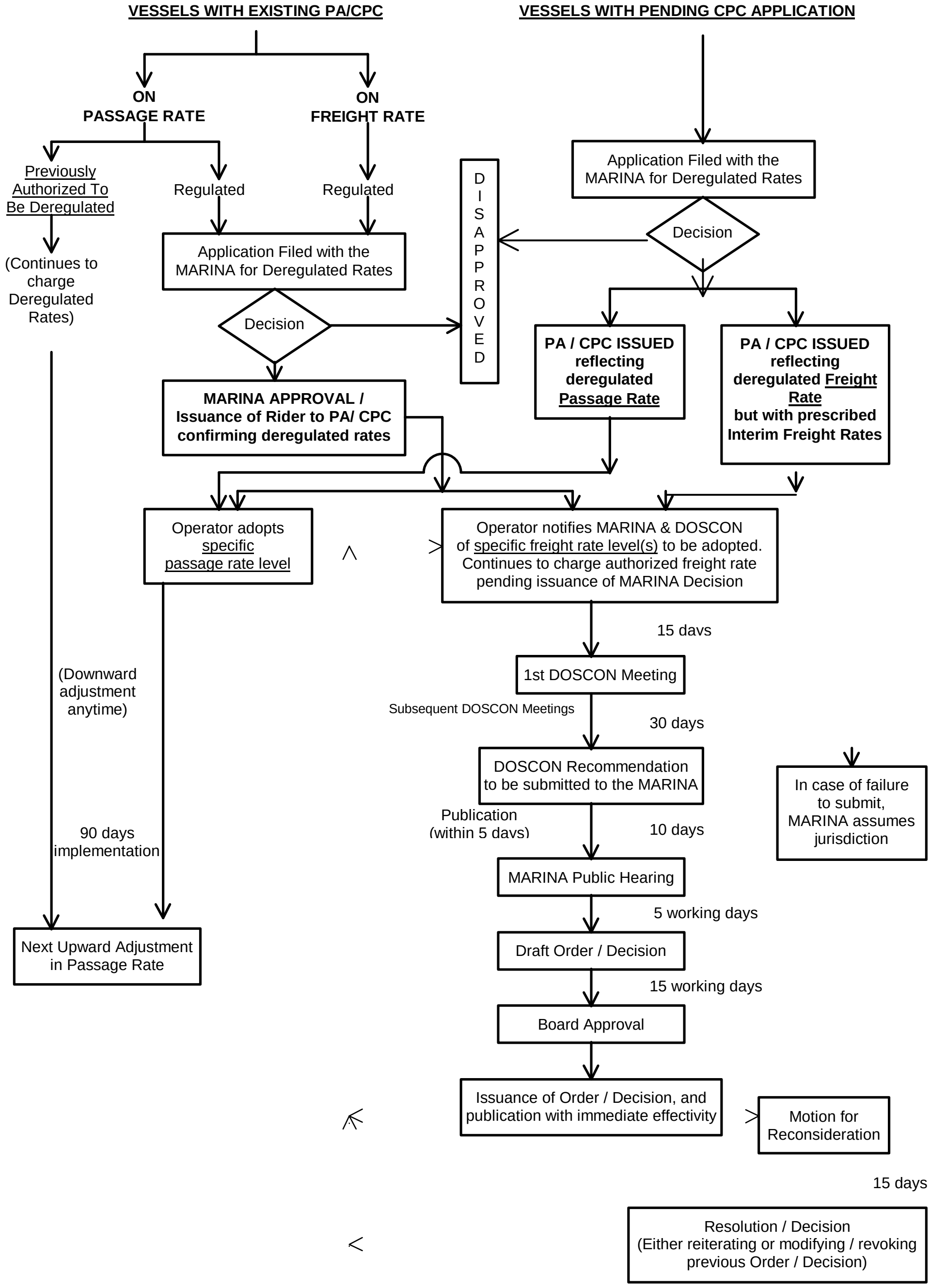
E.O. No. 213 (28 November 1994) /

MARINA M.C. No. 117 (2 October 1996)

- Deregulation of all commodities Class A, B, & C, except for non-containerized Basic commodities
- Exempting DOT-accredited vessels from allocating 50% of their passenger capacities to 3rd class accomodations. / Deregulation of passage rates for DOT-accredited vessels serving tourist destinations

Annex 3

PROCESS FLOW FOR IMPLEMENTATION OF DEREGULATED RATES



Annex 4

OVERVIEW OF THE ISM CODE

The **ISM Code** *seeks* to:

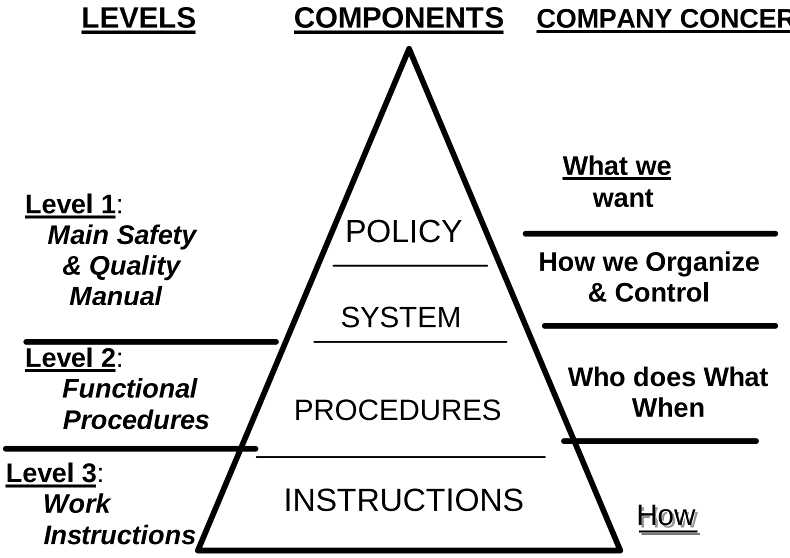
(1)Provide safe practices in ship operation & a safe working environment;

(2)Establish safeguards against all identified risks; and

(3)Continuously improve safety management skills of personnel ashore and on board including preparing for emergencies, relating both to safety & environmental protection.

By *requiring shipping companies/ operators* to **develop**, **implement** and **maintain** a

SAFETY MANAGEMENT SYSTEM (SMS).



ISM CODE REQUIREMENTS

- Safety & Environment Protection Policy
- Company Responsibilities & Authority
- Designated Person(s)
- Master's Responsibility & Authority
- Resources & Personnel
- Documentation
- Company Verification, Review & Evaluation
- Development of Plans for Shipboard Operations
- Maintenance of the Ship & Equipment
- Reporting & Analysis of Non-Conformities, Accidents & Hazardous Occurrences
- Emergency Preparedness

SAFETY & ENVIRONMENTAL PROTECTION POLICY

- To prevent personal injury or loss of life
- To prevent health problems
- To prevent damage to ship, cargo & environment
- To prevent harbor & sea pollution
- To ensure compliance with rules & Regulations
- To ensure that applicable codes & standards are taken into account

COMPANY RESPONSIBILITES & AUTHORITY

Organizational structure with clearly delineated functions/ responsiblities for each for the company and the vessel(s).

DESIGNATED PERSON(s)

- Ensure safe ship operation
- Provide a link between the company & those on board
- With direct access to highest level of management
- Ensure adequate resources & shore-based support
- Monitor the company's SMS

MASTER'S RESPONSIBILITY & AUTHORITY

- Implement the safety & environmental policy of the company
- Motivate the crew in the execution of the policy
- Issue appropriate orders & instructions in a clear & simple manner
- Verify that the specified requirements are observed
- Report to the company possible modifications that he considers necessary to ensure safety & environmental protection
- Review the management system at regular intervals

RESOURCES & PERSONNEL

- Designation of the necessary resources, including suitable, qualified & experienced personnel to the administration of ship's personnel
- Procedures for selection & recruitment of ship's personnel
- Provision for adequate crew training
- Familiarization (change of command, safety tour, when joining, tasks instructions, specific duty instructions, etc.

COMPANY VERIFICATION, REVIEW & EVALUATION

- Verification of key opera-tions, work permits, log-books, employee compe-tence/ qualifications, rep-orts, otesanalysis, etc.
- Master's Review
- Management Review
- Internal audits

DEVELOPMENT OF PLANS FOR SHIPBOARD OPERATIONS

- Shipboard Safety Management Manual (Navigation & Watchkeeping, Machinery systems, Hull & Deck equipment, Repairs, Pollution Prevention,etc.)
- Safety, Health & Training Manual
- Cargo Handling Manual

DOCUMENTATION

Document Control

MAINTENANCE OF THE SHIP & EQUIPMENT

Planned Maintenance System

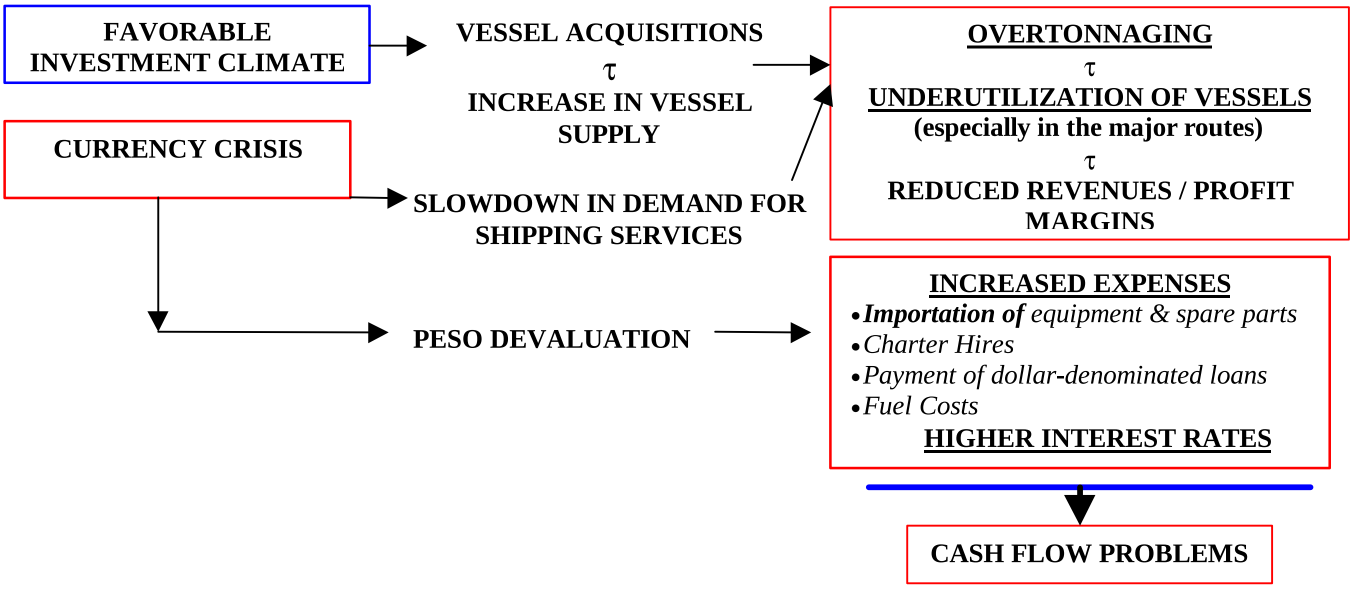
- Inventory content
- Maintenance Time Intervals
- Maintenance Instructions
- Maintenance Documentation & History
- Reference Documentation
- Document flow Chart
- Signing Instructions

EMERGENCY PREPAREDNESS

- Contingency Plan
- Emergency situations (Fire at sea or port, Grounding/ Stranding/ Beaching, Abandon ship, Rescue actions in tanks/ holds, Illness/ Epidemics, Death, Extreme weather conditions, Towing assistance, Main engine Failure/ Breakdown, Search & Rescue action, etc.)
- Emergency Preparedness -Ship/ shore (Communication Center, Organization, Communication system & procedures, Reporting & notification requirements, alert levels, Procedures/ checklists, Records & record keeping)
- Accidents/ Incidents (Accident? Incident reporting, analysis & investigation – tobe documented, and implementation of corrective actions)

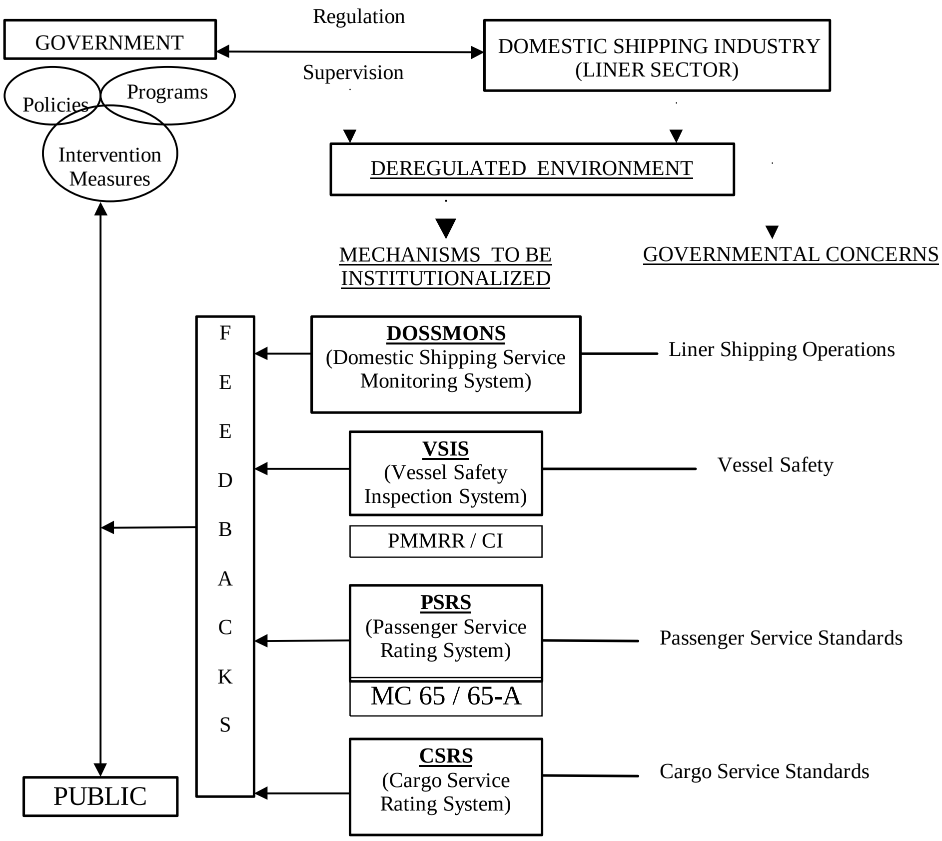
Annex 5

EFFECTS OF THE CURRENCY CRISIS ON DOMESTIC SHIPPING



Annex 6-A

CONCERNS & REQUIRED SYSTEMS UNDER A DEREGULATED DOMESTIC SHIPPING INDUSTRY



Annex 6-B

REQUIRED SYSTEMS UNDER A DEREGULATED DOMESTIC SHIPPING INDUSTRY

◊ **Domestic Shipping Service Monitoring System (DOSSMONS)**

Measures to correct problems and inadequacies of interisland shipping services cannot be taken if such are not known to government. For the MARINA to be made constantly aware of such problems and inadequacies, it is essential that all interisland liner shipping and ferry services be monitored much more closely than in the past, and which is expected to be addressed by the DOSSMONS to be established.

The DOSSMONS is a system by which the contents and information of operators' Annual Reports are to be translated into computerized database format to bring about systematized storage, enhanced processing and easier access. Such a database system shall be supplemented by reports pertaining to domestic shipping and trade, as well as results of periodic coordinative meetings to be conducted between and among concerned government agencies and private sector entities. (Annex C presents a summary view of the basic elements of DOSSMONS.)

◊ **Vessel Safety Inspection System (VSIS)**

Under a deregulated environment, insuring vessel seaworthiness becomes an even more critical concern of government. The VSIS is intended to provide a formal manual of procedures for the conduct of periodic vessel safety inspections by authorized and trained government inspectors/surveyors. The system shall provide an inspection process that will cover the structural seaworthiness of the vessel, verification of vessel documents, operational readiness and safety measures adopted on board, and crew adequacy, competence and certification. Needless to say, the VSIS shall be essentially based on, and integrated with, the provisions of the PMMRR and the current practice of issuance of Certificates of Inspection.

◊ **Passenger Service Rating System (PSRS)** and **Cargo Service Rating System (CSRS)**

The PSRS and CSRS are designed to complement the VSIS, wherein vessels passing the VSIS will subsequently be inspected and rated on the basis of their services for passenger and cargo. The PSRS and CSRS consist of elements/sub-elements to be rated, the mechanics/procedures/guidelines for conducting the vessel surveys and assignment of ratings, and the consolidation of the results of service ratings for each vessel surveyed.

Under the PSRS, the basic *service elements* so far identified to be rated are: ***Passenger Accommodation*** (seating/sleeping areas, toilet & bath, eating/drinking areas, deck/open areas, etc.); ***Market Adequacy*** (frequency, capacity, adherence to schedule, service speed); ***Boarding System*** (control, baggage assistance, waiting area, etc.); ***Baggage Stowage & Security***; ***Reservation System***; and ***Management & Staff***.

For the CSRS, the basic elements initially identified to be rated are: ***Shipping Service*** (adequacy, responsiveness, adherence to schedule); ***Cargo Safety & Security Arrangement***; ***Loading & Unloading System***; ***Reservation/ Booking System***; ***Claims/ Customer Service***; and ***Management & Staff***.

The public will be accordingly advised on the ratings obtained by the vessels subjected to the systems, primarily to serve as a guide, and also as a means of stimulating competition. On the other hand, the same results of ratings, together with the relevant inputs obtained from DOSSMONS, will likewise guide the MARINA in making appropriate interventions by way of administrative and policy measures.