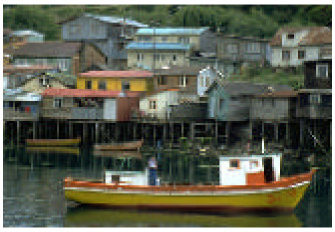

Domestic Situational Report

1997

The domestic shipping industry of the Philippines is presently in the midst of some significant transitions towards further growth and development, largely influenced by major policy initiatives and programs from the government, the sustained positive growth of the country's economy in recent years, as well as the favorable response of the private sector to emerging challenges in the industry.

I. GOVERNMENT INITIATIVES & PROGRAMS UNDERTAKEN

In terms of government initiatives, certain policies and programs have been adopted and instituted, spearheaded no less by the President of the Philippines, designed to enhance free market competition within, encourage further investments into the industry, and foster safe operations of vessels. Such initiatives took into account, and responded to, the basic problems confronting the industry over the past years, specifically too much regulation by, and bureaucratic red tape in government, inadequate financial assistance and incentives, and poor maritime safety record.

Among the more significant measures in this regard are;

i. 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 shipowners/ operators to determine the rates they will charge for their services, *except for third class passage and cargo carriage* 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 shall be accomplished through the *Domestic Shipping Consultative Councils* (**DOSCON**s) established in various regional centers of the country.

A more detailed presentation of the basic elements of each of the foregoing, and other related policy issuances, is provided:

A. ROUTE ENTRY/ EXIT DEREGULATION	B. SHIPPING RATES 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 lineroperation 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.	**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

• 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	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

Further measures to deregulate other aspects of the domestic shipping industry shall be explored and pursued where feasible and warranted, oriented towards giving greater flexibility for the industry players to operate under free market competition, *with government intervention eventually being expected to be made only on matters of safety and quality of service as would be required in certain situations*.

ii. 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 the *removal of certain restrictions to allow 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 was also provided some relief with departure clearance procedures streamlined through **E.O. No. 493**, issued on 3 December 1991. The Order *reduced the number of copies of the required documents to only three (3)*, 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.

iii. Incentives and 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 1996*, *146 vessels* for importation were *indorsed* by the MARINA *to BOI* for IPP incentives availment. 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%). Such acquisitions involved a *total cost* of *US$ 298.22 M* for a combined gross tonnage of 274,890, and having an average age of 14.3 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
TOTAL	**146**	**14.3**	**274,890.40**	**298,223,400**

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, all providing an indication on the extent of modernization being undertaken by domestic shipowners/ operators of their respective fleets, but have somehow been so far limited to big and medium-scale operators.

The government hopes to sustain the momentum generated under such an incentive program with the passage into law of the **"Philippine Domestic Shipping Development Act"**, as embodied under **House Bill No. 65** and **Senate Bill No. 345**, which are now pending in both houses of 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 3.46 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 3.426 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 shipowners and shipyards for the importation or local* *construction of vessels* to be deployed in the country's domestic trade. As of June 1996, the DBP has already *approved the financing* for the acquisition *of 39 vessels*, involving a total loan amount of *P 1.5525 Billion.* These are broken down into: Self-propelled barge (11 vessels / P 110.0 M); Cargo vessels (10 vessels / P 263.0 M); Fastcraft (5 vessels / P 266.0 M); Cargo-Passenger (5 vessels / P550.2 M); Tanker/ LPG/ Tanker Barge (5 vessels / P 314.0 M); and Container/ Deck Barge/ Tugboat (1 vessel each / P 49.3 M). Another project financed by the program was the completion of a slipway by a shipyard, involving a loan amount of P 8.3 Million. By 31 December 1996, releases reached P 1.6 B, with an additional P 53.9 M released during 01 January - 15 February 1997. On the other hand, an amount of P 915.7 M is due for release on approved projects while P 635.3 M is earmarked for endorsed projects, **thus leaving only P 251.75 M available for lending as of 15 February 1997.**

Given the positive results of the DSMP, the *DBP* has *proposed* for *additional funding* the amount of *JPY 20 Billion* (roughly equivalent to P 4.62 Billion), under the 22nd OECF Yen Loan Package *to implement a DSMP II*, although further financing programs would still be deemed necessary in order to sustain the trend for the country's fleet modernization.

iv. 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, *stricter enforcement of vessel classification requirements has been vigorously pursued*, while a *revision/ updating of the Philippine Merchant Marine Rules & Regulations (PMMRR) has been undertaken and almost completed*. 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.*

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 are simultaneously being undertaken under the coordination of the Department of Transportation & Communications (DOTC), with the same objectives.

Last 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 been recently completed by the Council and is due for presentation to, and 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*.

II. 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 be manifesting themselves 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.

i. The 1995 Domestic Shipping Merchant Fleet Profile

From the *1995 Domestic Fleet Inventory* undertaken by the MARINA, there were *4,011 merchant vessels* documented to be operating for that year, based on Certificates of Inspections 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 (41.1%) and tonnage (30.3%), 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	Ave. Age
Passenger ferry	865	26,336	8.95
Passenger-cargo	337	341,720	13.41
General Cargo	1,650	376,015	10.35
Container	36	121,072	23.29
Liquid Cargo/Lighterage	16	4,460	18.40
Barging	401	191,133	16.91
Tanker	I40	134,373	15.93
Towing/Salvage	390	32,131	17.58
Pleasure	36	1,588	-
Pilotage	11	619	26.91
Others	129	11,759	-
TOTAL	**4,011**	**1, 241,206**	

ii. Investment 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 by 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
· SEC Registration of Domestic Shipping Enterprises						
- No. of Companies	31	35	49	50	53	66
- Paid-Up Capital (P'000)	20,004	78,830	121,810	132,737	271,100	361,787
· MARINA Accredi-tation of Domestic Shipping Enterprises						
- No. of Companies	24	25	46	92	159	96
- Paid up Capital (P'000)	75,614	69,834	99,886	1,035,217	619,183	269,365

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
· Assets (P'000)	3,192,730	3,566,574	4,938,449	7,229,088	10,683,046	14,070,905
· Property & Equipment (P'000)	1,676,446	1,784,692	3,034,954	4,801,771	7,290,116	9,632,044
· Stockholder's Equity (P'000)	824,868	931,907	1,261,120	1,475,498	2,731,076	5,933,425

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

	No. of Vessel	**Total GRT**	**Ave. Age**	**No. of Vessel**	**Total GRT**	**Ave Age**	**No. of Vessel**	**Total GRT**
1990	30	15,406	6.9	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
TOTAL	**501**	**576,977**	**-**	**181**	**283,775**	**-**	**682**	**860,752**

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.

iii. 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 "Superferry" vessels of *Aboitiz Shipping Corp.*, the "Mabuhay" vessels of *William Lines, Inc*., the "Princesses" of *Sulpicio Lines, Inc*., the "Saints" of *Negros Navigation Corp*. and the "Our Ladies" of *Carlos A. Gothong Lines*. 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 several months back for the DOTC, which revealed, among others, that 47% of the respondents felt that travelling by sea is now easier compared to two years back.

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.

iv. 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 1995 (43.01 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 *68.10 million metric tons* in *1995*.

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.

III. DIRECTIONS, FUTURE PROGRAMS & ATTENDANT CONSIDERATIONS

Despite the current situation of the country's domestic shipping industry, it would nevertheless be essential and incumbent on the part of government to maintain a realistic and responsive policy framework, as well as the appropriate directions and goals, that will sustain the gains achieved for this sector so far.

i. General Goals/Objectives For The Industry

Under the Medium Term Development Plan for the domestic shipping industry, the following *overall goals* have been set to be pursued by the government for the sector:

A domestic shipping fleet complementing an overseas shipping 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 acceptable standards of shipping services to cater to/support the transport requirements for agriculture, trade and industry and tourism; and

Seaworthy vessels, manned by well trained/ competent officers and crew, and largely sourced from/ effectively mainitained by a developed shipbuilding and shiprepair industry.

ii. **Prospects & Future Programs**

To realize these goals, the government plans to *continue and sustain its program of encouraging further investments into the sector and promoting domestic fleet modernization*. While the extent of deregulation instituted so far may not yet be the ideal as probably desired by some industry players, the fact remains that the Public Service Law (*PSL*) *will need to be amended* if further deregulation efforts are to be pursued. Needless to say, much of the deregulation policies recently adopted were largely formulated without disregarding the provisions of the PSL and related jurisprudence. Efforts towards proposing a *legislative amendment to the PSL shall therefore be undertaken*, with the end-in view of having a *more acceptable framework that will allow for market-based entry/exit into liner routes, and also for rates adoption without tedious/protracted hearings and restrictive procedures/policies*. Of essential importance to be incorporated into such legislative amendment would be the *liberalization of the cap currently imposed on the return on investment (ROI) of public utilities*. Other areas of possible amendments will largely depend on a more thorough evaluation of the effects of the deregulation policies now being implemented.

As a complementary program to the above, the MARINA will also need *to come up with a comprehensive policy framework for vessel retirement- cum-replacement*, preferably to be tied up to a financing and/or incentives program of government.

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.

Government's administration of the industry shall also be rationalized further and endeavoured to be made more efficient and responsive. In the case of the MARINA, continuing efforts shall be exerted towards systematizing/ streamlining its related procedures, to be further enhanced by the possible adoption of an operations quality standard system (QSS), and computerization of such operations where deemed warranted. Complementing such program would be the utilization of information technology (IT) for MARINA's database development to foster more comprehensive capture of relevant data/ information, as well as their more efficient processing, storage and retrieval. In the same vein, it is envisioned that IT shall provide the means by which more effective communications/ networking and data exchange/ sharing , as well as reports submission and processing can be achieved between the MARINA and the various players of the domestic shipping industry. Such prospects shall hopefully provide a stronger foundation for some of MARINA's functions being further devolved to local government units (or even non-government organizations) and decentralized to the regional level.

Still in pursuance of the aforecited goals, the government will also devote greater attention to actively *fostering improvements in domestic shipping service standards,* as well as the *efficient and rationalized operations of the domestic fleet. A major program in this regard would be the institutionalization of monitoring and reporting systems on domestic shipping operations under an emerging deregulated environment. Considering the pivotal nature of this program/concern, an overview of its premises and elements are discussed hereunder;*

With the deregulation/liberalization of the domestic shipping industry already initiated, 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 operations would still involve the dimension of public service utility 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*. Accordingly, certain mechanisms need to be developed and institutionalized by the MARINA which will enable it to address such areas of concerns. These mechanisms contemplated are systems designed to monitor domestic shipping operations and foster prescribed standards for vessel safety and the services to be provided.

iii. 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.

iv. 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.

v. 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.