

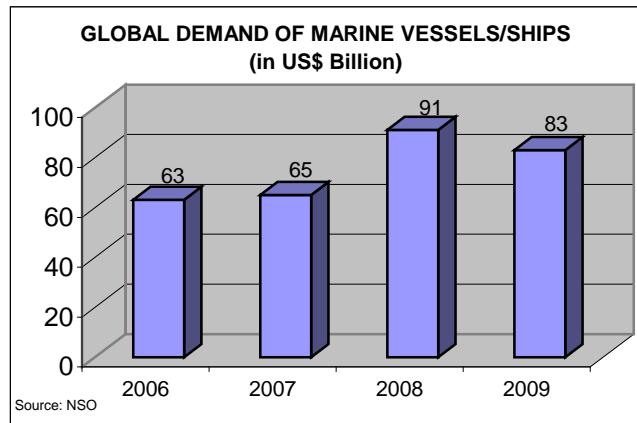
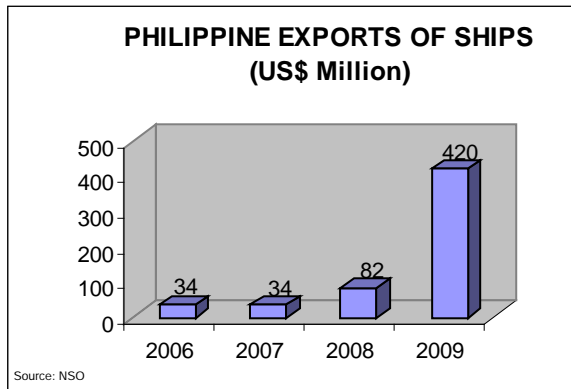
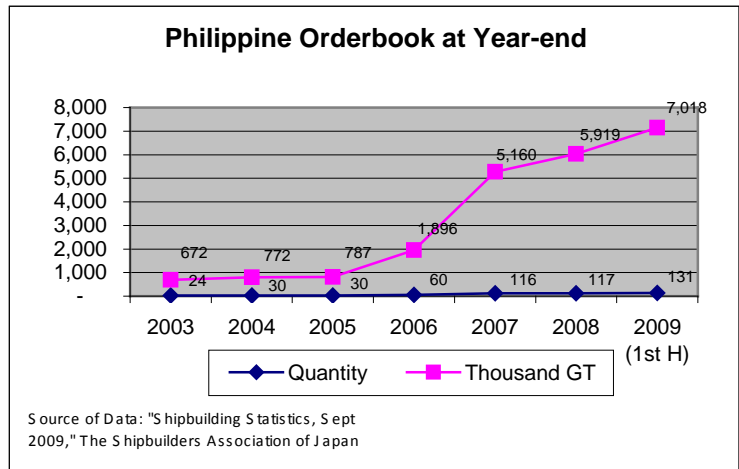
Introduction

The arrival of foreign shipbuilders in the Philippines propelled the export growth of Philippine-made ships in the international market. In the last five years the emerging shipbuilding nations, like India, Vietnam, Philippines and Brazil, have acquired a dominant position posing as potential threat as well as opportunity for the existing shipbuilding nations.

Philippine shipyards are now building more ships of larger tonnage capacities like bulk carriers, container ships and big passenger ferries. The construction at the Subic Bay Freeport of a \$68 million Turkish-owned commercial ship by Hanjin Heavy Industries Corporation, a South Korean shipbuilding giant, shows that the Philippines can really build world-class ocean-going vessels.

Market Opportunity

- Shipbuilding has a big opportunity in the export market.
 - Shipyards in neighboring countries are often fully booked for new orders.
 - Foreign shipbuilders expand their operations in neighboring countries in response to the increasing number of vessels being ordered by foreign shippers.
 - Philippine shipyards already have line ups of ship orders to be delivered in European countries like Greece and Germany.
- Shipbuilding is now shifting to Asia.
 - The Philippines, which specializes in production, will likely exceed market shares of the traditional shipbuilding nations.



Philippine Advantage

Readily Available Skilled Manpower

- The country has adequate supply of skilled manpower for shipbuilding and ship repair.
- Aware of the increasing number of workers required to be employed in the shipyards, the MARINA laid out a Manpower Development Plan for the sector in coordination with the Technical Skills Development Authority (TESDA). To date, TESDA has about 63,000 certified welders in its registry.
- Filipino workers are trainable for the skills that would fit shipbuilders' requirements; hence, they can be sourced within the city or municipality where shipyards could be located.
- Existing shipbuilders find it beneficial to invest in additional technical training to their prospective and existing employees to improve their level of competencies. Hanjin's productivity in its shipyard in Subic now with more than 19,750 workers, for example, is fast catching up with Hanjin's shipyard in South Korea.

Available Areas Suitable to Set up Shipyards

- The many areas suitable as shipbuilding bases is an advantage that makes the Philippines a shipbuilding and ship repair hub in Asia.
- Establishment of a shipyard in the Maritime Industrial Park within the Phividec Industrial Estate in Misamis Oriental is open.
- The 54,000-hectare business hub in Port Irene at the Cagayan Economic Zone Authority (CEZA) is being primed to be the country's next world-class shipyard; it is now undergoing upgrade including the lengthening of the pier to accommodate 20,000 deadweight-ton vessels.
- Owners of existing shipyards that are strategically located in the country are also determined to enter into shipbuilding arrangements with foreign investors.

Liberalized Imports of Raw Materials

- Most companies get their required components and raw materials from foreign sources, i.e., US, Europe, or Asia.
- Importation of major raw materials has been liberalized since 1989 that allows companies to get good quality inputs at favorable prices considering that raw material costs and their availability affect the competitiveness of the shipbuilding industry.
- In addition, shipbuilders located in economic zones enjoy tax and duty exemptions.

Industry Potentials

With a good management and skilled human resource matched with capital, technology and global market opportunities, the industry is moving forward to make the Philippines one of the largest shipbuilding nation in the world in the next five to ten years.

Employment Generation

- The increase in shipyard operations is establishing a trend in employment that is favorable to the sector.
- Table below shows the profile of manpower employed by the shipyard operations as of 2010. The biggest bulk of workers comprise the skilled and semi-skilled workers, with a total number of 27,688 or 70% of total manpower.
- About 63,000 welders are listed in the Registry of Certified Welders by TESDA
- More than 50,000 graduates of engineering and architectural courses in 2009 employable in the industry

Manpower Profile

Category	2010	%	Skills Set	Salary Range (Peso/month)
Managerial Personnel	2,370	6		25,000-45,000
Administrative Personnel	4,294	11		10,000-15,000
Technical Personnel	5,096	13	Architects & Engineers, Electricians	25,000-35,000
Skilled Workers/ Semi-Skilled Workers	27,688	70	Welders, Crane Operators, Steel Cutters, Outfitter, Painters, etc.	15,000-25,000
Total	39,448	100		

Source: MARINA and BOI

Government Support

Relevant laws and policies support the development of the industry and improve the capabilities of local shipyard manpower.

Investor-Friendly Laws

- Republic Act No. 9295 of 2004 promotes the development of Philippine Shipbuilding Industry.
- It provides incentives to encourage investments and the development of a viable shipbuilding industry.
- Shipbuilding is not covered by limitations on foreign ownership, which means foreign investors can own their companies 100 percent.

Incentives

To encourage investments and to ensure the development of a viable shipbuilding industry, the following incentives are granted:

Under RA 9295

- a) Exemption from value-added tax on the importation of capital equipment, machinery, spare parts, life-saving and navigational equipment, steel plates and other metal plates including

marine-grade aluminum plates to be used in the construction, repair, renovation or alteration of any merchant marine vessel operated or to be operated in the domestic trade.

- b) Net operating loss carry-over
- c) Accelerated depreciation.

For Projects Registered with the Board of Investments (BOI)

- a) Income tax holiday – six (6) years for projects with pioneer status and four (4) years for non-pioneer status. Any of the following may qualify for pioneer status:
 - 1. Shipyard operation with a minimum berthing capacity of 7,500 DWT; or
 - 2. Project cost of at least the Philippine Peso equivalent of US\$10 million.
- b) Additional deduction for labor expense
- c) Duty exemption on imported capital equipment (under E. O. 528)
- d) Simplification of Customs procedure
- e) Unrestricted use of consigned equipment
- f) Employment of foreign nationals
- g) Access to Bonded Manufacturing/Trading Warehouse system
- h) Exemption from duties on imported spare parts (under E. O. 528)
- i) Exemption from wharfage dues and any export tax, duty, impost and fee

For Projects Registered with the Philippine Economic Zone Authority (PEZA)

- a) Income Tax Holiday for 4 to 8 years
- b) Special 5% tax rate on gross income after the lapse of ITH
- c) Tax and duty exemption on imported capital equipment
- d) Exemption from 12% input VAT on allowable local purchase of goods and services (e.g., communication charges)
- e) Unrestricted use of consigned equipment
- f) Employment of foreign nationals

Costs of Doing Business

- **Salary Range (Average monthly salary, Php)**
 - Managerial Position – 35,000 – 50,000
 - Engineers/Architects - 20,000 – 30,000
 - Welders/Electricians/Steel Cutters/Outfitters/Painters – 15,000 – 25,000
 - Administrative Personnel – 10,000 – 15,000
- **Industrial Land Lease Rate/Year**
 - US\$ 50-55 per sq.m.

Industry Players

Filipino Shipbuilders

- Two notable Filipino-owned shipbuilding companies are Herma Shipyard, Inc., which has recently gone into double hull petroleum tanker shipbuilding, and Colorado Shipyard Corporation, which can build medium to large cargo ships.

Tsuneishi

- The Tsuneishi Cebu shipyard, operated by Japan's Tsuneishi Holdings Corp., in partnership with Cebu's Aboitiz Group had produced about 77 ships by the end of 2007.
- Starting in 1997 with the 23,407-DWT M/V Sea Amelita, a log/bulk carrier named after then-First Lady Amelita Ramos, the company proceeded to make history in the local shipbuilding industry.

Hanjin

- Hanjin, which started building its US\$1.7 billion shipyard on a 200 hectare in Subic in early 2006, has increased the momentum of big ship production recently.
- Launched the first container ship to be built in the Philippines in July of 2008
- The huge capacity of Hanjin’s dry dock in Subic, where four vessels can be built at a time, resulted in faster production.
- It is interested in pursuing a US\$2 billion expansion project in Phividec Industrial Estate in Misamis Oriental, which is bigger than Subic because it is going to occupy 450 hectares.

Keppel

- Keppel started operating its shipyard in the Philippines in early 1994 with a capacity of 28 vessels per year. It expanded its operation by fabricating tugboats and oil rig hull.
- It now operates two (2) shipyards, namely: Subic (350,000 DWT) and Batangas (50,000 DWT).
- It offers a complete solution in offshore rig construction, shipbuilding, ship repair and conversion, with a full range of drydocks in its three shipyards strategically located in the Philippines.

Major Projects:

Name of Project	Hanjin	Keppel	Tsuneishi	Herma
Capacity	18 Vessels/year (2,489,700 DWT)	8 Vessels and 16 Tugboats/year (up to 480,000 DWT per facility)	Can Build up to 250,000DWT vessel	6 Vessels/year
Location	Subic	Batangas	Cebu	Bataan
Project Cost	P 79.6 Billion	P 1.5 Billion	P 12 Billion	P 215 Million
Employment	19,750 Employees	1,520 Employees	8,800 Employees	290 Employees

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