

**Introduction**

The arrival of foreign shipbuilders in the Philippines has introduced the country's shipbuilding industry in the international market. Philippine shipyards are now building more ships for export than for domestic use. Majority of these ships are of large tonnage capacities like bulk carriers, container ships and big passenger ferries.

The export market, which is dominated by three foreign shipbuilders, now account for more than 98% of the total turnover and the number is expected to further increase.

**Market Opportunity**

Market opportunities for shipbuilding is strong in the export market.

- Shipyards in neighboring countries are fully booked for new building orders until 2010
- Foreign shipbuilders expand their operations in neighboring countries in response to the increasing number of vessels being ordered by foreign shippers.
- Already lined-up for production in Philippine shipyards are container ships to be delivered in European countries such as Greece and Germany.
- Dry-docking activity is also promoted to attract international vessels that are passing thru the country's coast waters.
- There are more than 150 Philippine-registered oceangoing ships required to undergo dry-docking and repairs in registered Philippine shipyards.

**Philippine Advantage**

Foreign shipbuilders put up new shipyards in neighboring countries to have more room for shipbuilding and the Philippines is a choice of location because of the advantages that it offers.

**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).
- Filipino workers are trainable for the skills that would fit shipbuilders' requirements; hence, investors don't need to look far to find workers - they can be sourced within the city or municipality where shipyards could be located.
- They would also love further trainings; hence shipbuilders find it worth to invest in additional technical training to their prospective and existing employees to improve their level of competencies.
- The actual work training in the shipyard thereafter contributes to the efficiency of the shipbuilding crew.

**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.

- There are owners, including the government, of existing shipyards which are strategically located in the country who are determined to enter into shipbuilding arrangements with foreign investors.

### **Liberalized Imports of Raw Materials**

- At present, most companies get their required components and raw materials from foreign sources, i.e., US, Europe, or Asia.
- Importation of major raw materials were liberalized since 1989, which prove helpful to the companies to get their inputs at good quality and favorable prices considering that material costs and availability are significant factors that 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 the fourth largest shipbuilding nation in the world in the next five to 10 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 2008. The biggest bulk of workers comprise the skilled and semi-skilled workers, with a total number of 23,194 or 70% of total manpower.

#### **Manpower Profile for 2008**

Category	2008	%
Managerial Personnel	1,985	6
Administrative Personnel	3,597	11
Technical Personnel	4,269	13
Skilled Workers/ Semi-Skilled Workers	23,194	70
<b>Total</b>	33,045	<b>100</b>

*Source: MARINA,BOI*

- Flexible, Productive, Loyal, Dedicated with Excellent Work Ethic and Attention to Detail – The Philippines’ workforce is highly educated, naturally enthusiastic, conscientious, friendly, loyal and diligent with excellent work ethic and attention to detail. This gives the employers the benefit of having a committed workforce, higher proportions of appropriately experienced personnel, that positively results to:
  - Low turnover rates
  - Significant cost savings (in recruitment and training cost)

## **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, an Act promoting the development of Philippine domestic shipping, shipbuilding, ship repair and ship breaking, was signed into law on 03 May 2004.
- In order to encourage investments and the development of a viable shipbuilding and ship repair industry, the Act provides the grant of incentives to qualified shipbuilders and ship repairers.
- Shipyards are not classified as “public utilities”; thus, are not covered by limitations on foreign ownership.
- Foreign investors can set-up their companies 100 percent foreign-owned.

## **Incentives**

### **Incentives Under RA 9295**

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

- 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.

### **Incentives for Projects Registered With the Board of Investments (BOI)**

Shipbuilding, ship repair and shipyard operations (excluding ship breaking) are covered under the preferred activities of the 2009 Investment Priorities Plan (IPP).

BOI registered companies can avail the following incentives:

- 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

**Incentives 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 – 20,000 – 35,000

Engineer / Supervisor - 10,000 – 15,000

Administrative – 7,000 – 12,000

- **Industrial Land Lease Rate -**

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 the Aboitiz-owned FBMA Marines, Inc. which has been building catamarans.

***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 shipyard here in early 2006, has increased the momentum of big ship production recently.
- After launching its first ship - the first container ship to be built in the Philippines - in July of 2008, three other ships were launched in a few months later.
- The huge capacity of Hanjin's dry dock in Subic, where four vessels can be built at a time, resulted in faster production.
- Hanjin expects to launch more than 15 vessels in 2009.

***Keppel***

- Keppel, which started operating its shipyard here in early 1994 with a capacity of 28 vessel per year. Now Keppel expanded its operation in the Philippines by fabricating tugboats and oil rig hull which is the current demand in the world market presently.
- Keppel operates three (3) shipyards in the Philippines namely – Subic (350,000 DWT), Batangas (50,000 DWT) and Cebu (35,000 DWT).

- Keppel offers a complete solution for your every need in offshore rig construction, shipbuilding, shiprepair and conversion, with a full range of drydocks in its three shipyards strategically located in the Philippines, which is along the main trading route in the South China Sea and Pacific Ocean.

**Major Project Details:**

Name of Project	<b>Hanjin</b>	<b>Keppel</b>	<b>Tsuneishi</b>	<b>Herma</b>
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	Cebu	Bataan
Project Cost (Php)	79.6 Billion	1.5 Billion	12 Billion	215 Million
Employment	17,597 Employees	1,520 Employees	8,800 Employees	290 Employees

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