

PHILIPPINE SHIPBUILDING INDUSTRY

(As of December 2017)

Introduction

The Philippines is today the fastest growing economy in Asia, expanding by nearly 7% in the 3rd quarter of 2016. Being a country of more than 100 million people living across 7100 islands, its continued growth is highly dependent on the development of inter-island shipping.

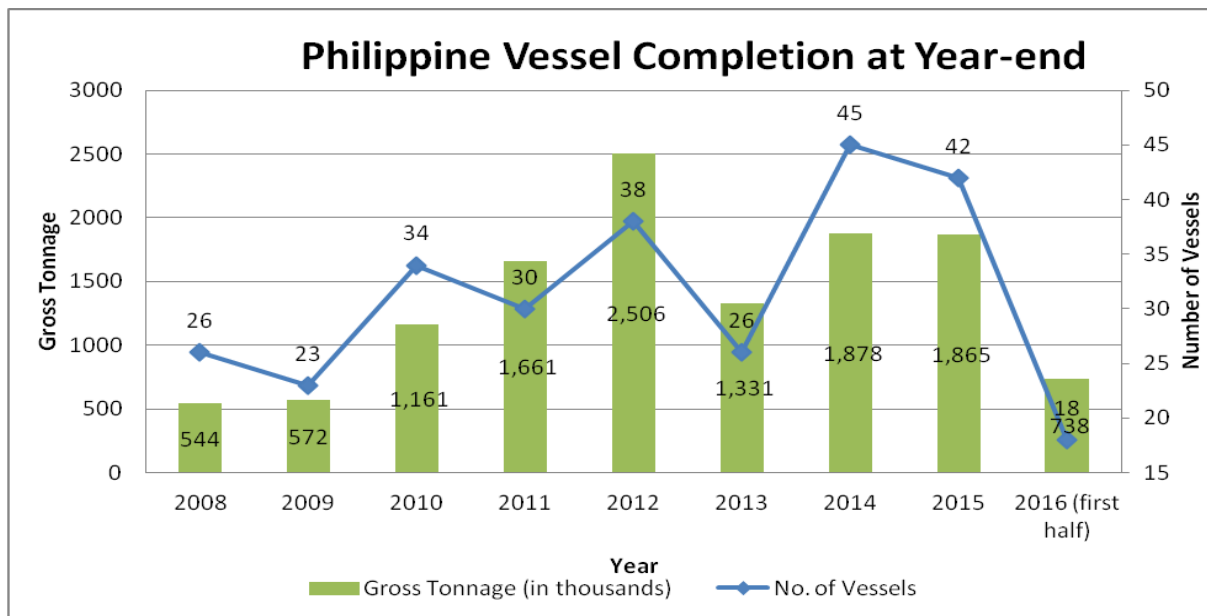
The arrival of foreign shipbuilders in the Philippines propelled the export growth of Philippine-made ships in the international market.

After being recognized as the 4th largest shipbuilder in the world in terms of Vessel Completion in Gross Tonnage (GT) in 2015 by the Shipbuilders Association of Japan, shipyards established in the Philippines are now building more ships of larger tonnage capacities like bulk carriers, container ships and passenger ferries. The construction of 320,000-DWT 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 and local markets.
 - Shipyards in major shipbuilding countries are often fully booked for new orders.
 - Existing shipbuilders expand their operations in neighboring countries in response to the increasing number of vessels being ordered by foreign shippers.
 - Shipbuilding is now shifting to Asia. The Philippines, which specializes in production, will likely exceed market shares of the traditional shipbuilding nations.
 - Ships built in the Philippines are partnered together with their durability and quality.
 - Shipbuilding has a big opportunity in the local the market.
 - Planned RORO Modernization Program
 - Replacement of old vessel (Cargo)

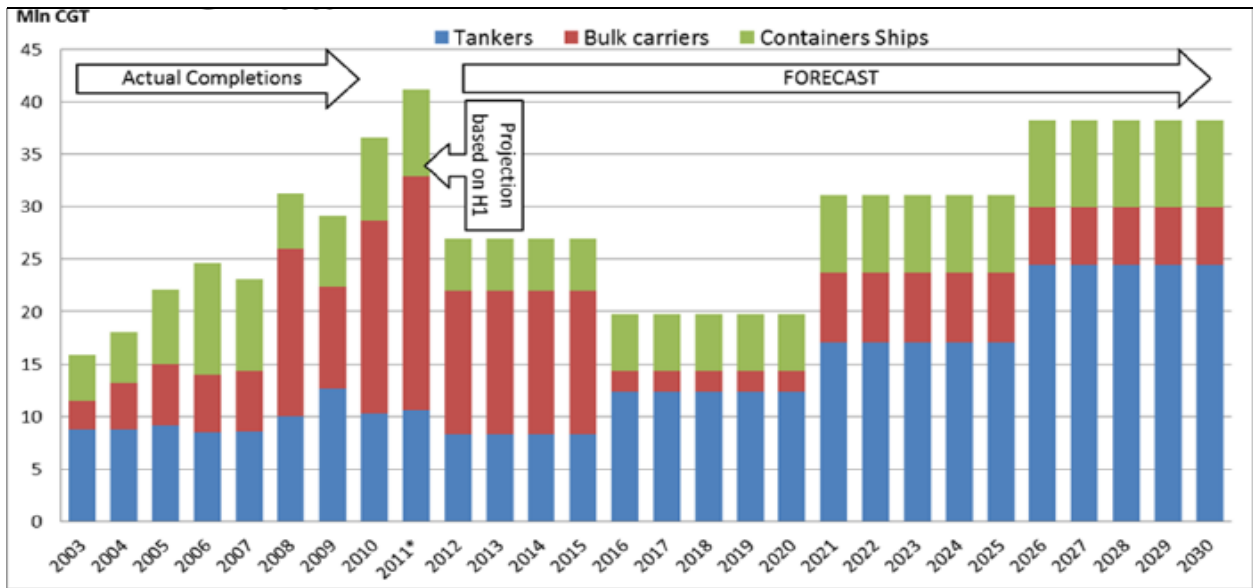
Figure 1: Shipbuilding Completion in the Philippines from 2008 to 2016 (First half)



Source of Data: “Shipbuilding Statistics September 2016”, Shipbuilding Association of Japan

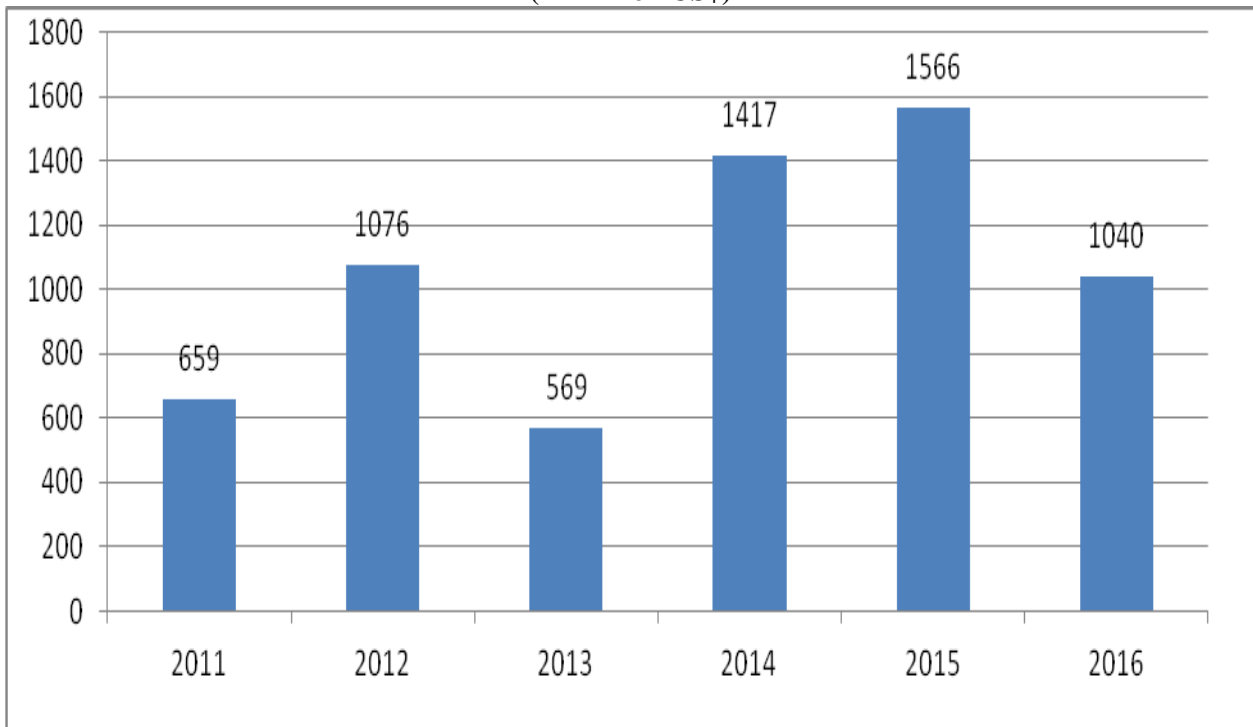
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Figure 2: Actual Completion and Forecast of Selected Cargo Ship types up to 2030 (in Million CGT)



Source: Sea Europe (Ships & Maritime Equipment Association)

Figure 3: Philippine Exports of Vessels from 2011 to 2016 (in Million US\$)



Source: PSA, DTI-EMB

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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 government laid out a Manpower Development Plan for the sector in coordination with the Technical Skills Development Authority (TESDA). To date, TESDA has more than 100,000 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 worth 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 32,000 workers, for example, is fast catching up with Hanjin's shipyard in South Korea.

Available Areas to Set Up Shipyards

- Being the 2nd largest archipelago in the world, making it suitable to build a shipbuilding base, Philippines' geographic structure and location became one of the primary factors for it to be the 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
- Also there are, owners of existing shipyards that are strategically located in the country who are determined to enter into shipbuilding arrangements with foreign investors.

Figure 4: Available Areas Suitable to Set up Shipyards in the Philippines



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Liberalized Imports of Raw Materials

- Importation of major raw materials has been liberalized since 1989 to allow companies get quality inputs at favorable prices
- In addition, shipbuilders located in economic zones enjoy tax and duty exemptions

Industry Potential

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 December 2015. The biggest bulk of workers comprise the skilled and semi-skilled workers, with a total number of 32,827 or 69% of total manpower.
- More than 57,000 graduates of engineering and architectural courses in 2014 are employable in the industry

Table 1: Manpower Profile for Shipyard Operations in the Philippines

Category	2016	%	Skills Set
Managerial Personnel	3,405	7	Management
Administrative Personnel	5,657	11	Administrative
Technical Personnel	6,558	13	Architects & Engineers, Electricians
Skilled Workers/ Semi-Skilled Workers	33,827	69	Welders, Crane Operators, Steel Cutters, Outfitters, Painters, and others
Total	49,447	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

- 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.

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Incentives

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

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. Pioneer status with pioneer incentives shall be governed by Article 17 of E.O. 226.
- b) Additional deduction for labor expense
- c) Simplification of Customs procedure
- d) Unrestricted use of consigned equipment
- e) Employment of foreign nationals
- f) Access to Bonded Manufacturing/Trading Warehouse system
- g) 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 – 80,000
Engineers/Architects - 20,000 – 60,000
Welders/Electricians/Steel Cutters/Outfitters/Painters – 15,000 – 28,000
Administrative Personnel – 12,000 – 20,000
- **Industrial Land Lease Rate/Year**
US\$ 50-65 per sq.m.

Industry Players

Foreign Owned Ship-Builders

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

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- 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.

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 operates two (2) shipyards in the Philippines, namely: Subic and Batangas 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.

Figure 5: Geographical Location of Existing Foreign-owned Shipyards in the Philippines

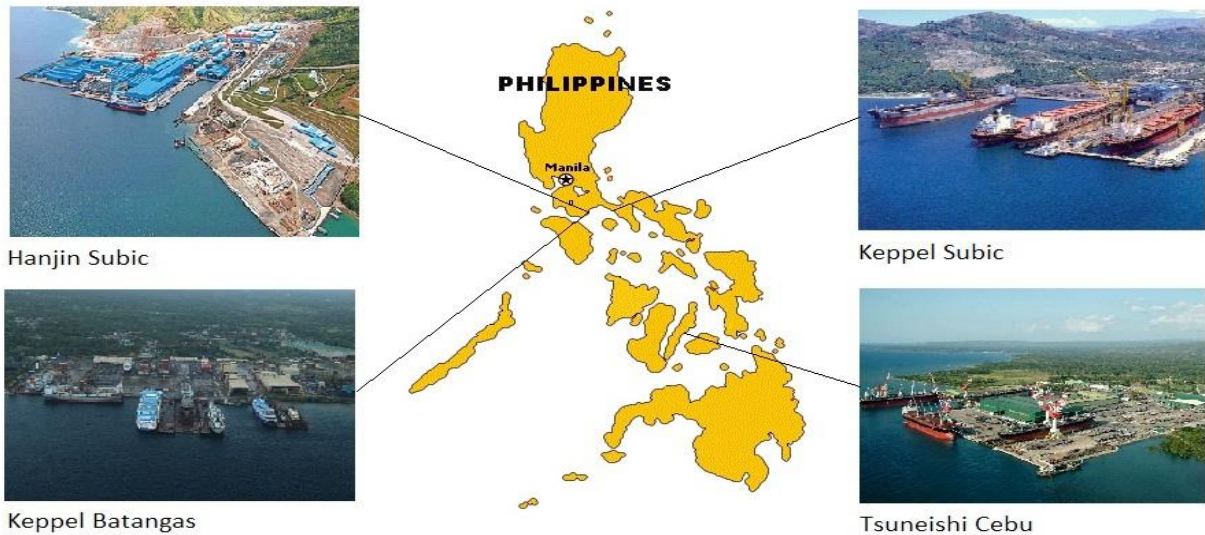


Table 2: Annual Capacity, Vessel Types, Location, Project Cost, and Employment Capacity of Foreign-Owned Shipyards

	Hanjin	Keppel	Tsuneishi
Annual Capacity	18 Vessels	8 Vessels and 16 Tugboats	16 Vessels
Types of Vessels & Tonnage	Bulk Carrier 205K DWT Container 12,800 TEU Tanker 320K DWT	Bulk Carrier 50K DWT	Bulk Carrier 180K DWT, Cape Size 5,100 Car Carrier
Location	Subic	Batangas and Subic	Cebu
Project Cost	US\$ 1.77 Billion	US\$ 33.33 Million	US\$ 267 Million
Employment	33,000	5,801	13,000

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Filipino-owned Shipbuilders

- Filipino-owned shipbuilding companies are also contributing to the export growth of Philippine-made ships.

Figure 6: Geographical Location of Existing Filipino-owned Shipyards in the Philippines



Table 3: Annual Capacity, Vessel Types, Location, Project Cost, and Employment Capacity of Filipino Owned Shipyards

	Herma Shipyard	Colorado	Gensan
Annual Capacity	6 Vessels	5 Vessels	3 Vessels
Types of Vessels & Tonnage	Tankers 7K DWT	Passenger Cargo Vessel 15K DWT	Passenger Cargo Vessel 15K DWT
Location	Bataan	Cebu	General Santos
Project Cost	US\$ 5 Million	US\$ 23 Million	US\$ 5 Million
Employment	290	820	127

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