

## **RE-INVENTING THE PHILIPPINE PORT SECTOR: STRATEGIES FOR COMMERCIALIZATION AND PRIVATIZATION**

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**abstract:** Shipping costs in the in the Philippines are deemed expensive, principally because of inefficiencies at the port. This may be attributed to the dominance and concentration of planning, development, operation and regulation of the ports sector in a monolithic and inward-looking national government agency. This paper discusses the proposed commercialization strategy intended to improve transport efficiency. The strategy involves: (i) a re-structuring of the port sector that will separate the conflicting responsibilities of operation and regulation, (ii) phased deregulation that will entice competition and entrepreneurship in ports development and operation, (iii) spinning off autonomous regional port corporations, and (iv) widening the privatization net via port facility leasing, build-operate-transfer schemes, demonopolization of cargo handling services, and port tariff reforms. At the end, three distinct privatization options are examined in terms of their goodness-of-fit to (and, to sketch the future of the sector in terms of) the ports of Cebu, Davao, and San Fernando.

### **1. BACKGROUND**

#### **1.1 The Setting**

As an archipelagic country, the Philippines relies heavily on shipping and the ports that serve domestic and international vessels. The inter-regional commodity flow borne by water transport is more than 50 times that by air and 113 times that by rail. Water transportation carries 98% of the domestic and foreign trade.

The ports system comprise more than a thousand 'ports', if all landing points of any type are counted; or less than 500, if only those with facilities qualify as ports. Of the latter, the more important ones are the public, common-user ports falling under the Philippines Port Authority (PPA). As of 1994, the PPA listed 109 ports under its umbrella, divided into 20 "base-ports" and 89 "terminal" ports. There are 226 private sector ports, which are dedicated or industrial facilities handling mainly own-account cargo. Their cargo traffic is not insignificant, accounting for 57 % of the country's total tonnages. A few private ports defy the cargo-only criterion, notably that in the cities of Bacolod and Davao and some ferry ports. Another class of public ports are those operated by other government entities, such as local government units and fishery authorities. One major public sector port outside of the PPA system is the Subic Bay Port, a former US naval facility that got transformed into a special economic zone.

The focus of this paper is the system of ports under PPA, shown in Figure 1.

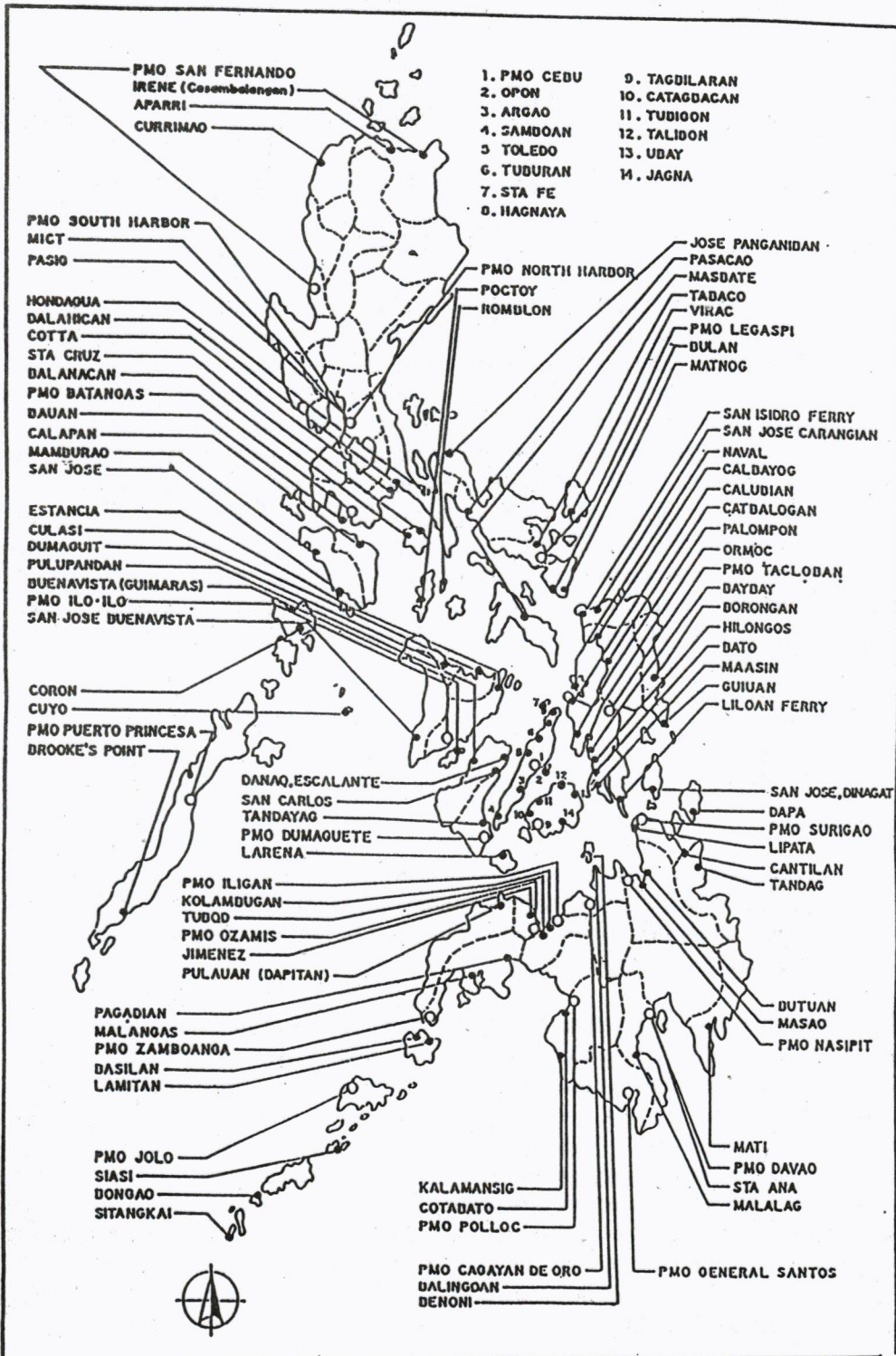


Fig. 1 - The Philippine Ports System



## 1.2 On the wave of integration

In the 1970s, the concept of an integrated national transport system (and its corollary, of central planning) became fashionable. A child of that era was the creation of PPA in 1974 with the basic mission "to integrate and coordinate port planning, development, control and operations at the national level." Before PPA's entry, ports were planned and built by the public works agency, while another entity handled revenue collection and operation.

The integration of functions in PPA was liberally construed to include regulation of any port (not necessarily under PPA) and of the services rendered therein. Under its amended charter<sup>1</sup>, the PPA could take over any "public port facilities, quays, wharves, docks, lands, buildings, and other property" that may be declared -- based on its own recommendations -- a Port District by the President of the Philippines. However, PPA has been selective in bringing ports under its full control and maintained the status quo on many others.

## 1.3 A New Paradigm

The integration school of the 1970s had an underlying idea -- which is, that a central body can optimize the number and size of ports, and that competition among ports must be curtailed to avoid waste of resources. Increasingly, this theme is coming into conflict with the 1990s orthodoxy of free enterprise, privatization, devolution, competition and reliance on the free market. Independent single port authorities are starting to emerge in other parts of the world and to take more aggressive postures. Not unlike the transport sector of which it is a part, seaports are facing a paradigm shift.

Privatization of ports around the Asia Pacific rim is growing. Yantian Port in Shenzhen special economic zone is being developed with backing from Hongkong International Terminals, a subsidiary of Hutchison Whampoa. P&O Australia is building a A\$40 million grain terminal in Mariveles, northwest of Manila. Also, P&O together with Alatief Corporation, has signed a US\$100 million deal with PT Freeport Indonesia to build and manage a port in Irian Jaya. In Vietnam, a contract was awarded to a Malaysian-led consortium, to build-operate and transfer a deep-water port capable of handling 1.8 million TEUs southeast of Ho Chi Minh City. In Cambodia, the Sihanoukville Port Authority is in a joint venture with Singapore-based CWT Distribution.<sup>2</sup>

Lending urgency to the re-invention of the Philippine port sector is the common perception that inter-island shipping in the Philippines is more expensive than comparable movement of goods on international routes. There is some basis for this cost disadvantage; and the major factor is the cost at the ports. Improving port efficiencies is the main impetus to commercialize and privatize the Philippine common-user ports.<sup>3</sup>

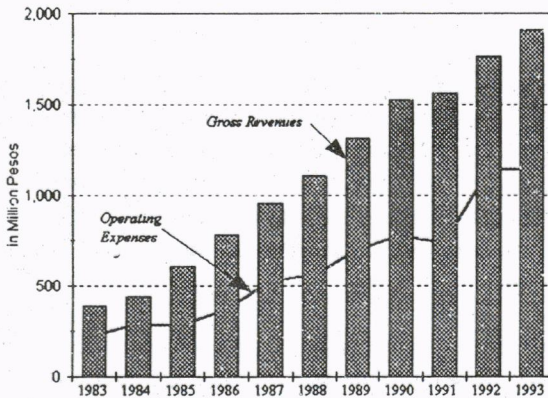
Thus, the Philippine port sector is being thrust into a new world characterized by fierce competition and commercialization -- where the trend is towards concentration in a fewer but larger ports with wider hinterlands, and where individual ports may thrive or die.

## 2. SITUATIONAL ANALYSIS

### 2.1 Financial Picture

Developing a commercialization strategy must, necessarily, begin with an analysis of PPA's financial position. As can be seen in figure 2, revenues consistently exceeded expenditures. Operating income has increased by about 455% over a 10-year period. The PPA's income after interest has increased more slowly because of the overhang of loans taken out to rehabilitate facilities in several ports. However, the debt service schedule over the next 5 years indicates a relatively constant payout so that net income should continue to grow.

With such a track record of yearly profits, PPA could claim efficiency. Underpinning that profitability, however, is the recurring revenues from private ports for which PPA had no investment nor corresponding services. Without this source of income, which is really more of a 'private port tax', the PPA would have suffered a loss for most of the past 5 years. And its debt service coverage would dip from 1.7 to 1.1.

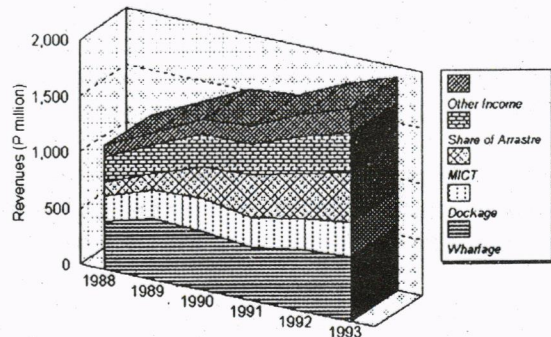


**Fig.2 - Revenues and Expenses of PPA**  
For the Years 1983 to 1993

In 1993, PPA chalked up total revenues of P 2,042 million, up by 5.4 % over the 1992 figure of P 1,937 million. A major contributor is the privatized Manila International Container Terminal (MICT), which accounted for 21.4 % of 1993 total revenues. Charges collected from private ports added 22.9 %; while wharfage and dockage, excluding those from private ports, provided another 14.2 % and 6.7 %, respectively.

Less than half of the total revenues of the PPA are derived from tariff charges, even when the fees on private ports are counted. Revenue derived from non-tariff sources would be even larger, except that the MICT agreement allows the lessee to collect these charges and use them as credit against lease

PPA derives its revenues from four sources, viz.: tariffs (wharfage and dockage), leases, cargo-handling contracts, and investments. The charges on private ports and an indeterminate number of non-PPA public ports are assimilated in the



**Fig. 3 - Composition of PPA Revenues**



payments. Of the tariff items, wharfage is the biggest; it averaged slightly more than ₱ 500 million for the last five years. The revenue mix through time is depicted in Figure 3.

Table 1 provides another way at looking at PPA's revenues. It indicates the relative importance

Table 1  
PORT REVENUES: FOREIGN AND DOMESTIC  
(in Thousand Pesos)

	Base Port	Terminal	Private	Total
Dockage	146,128	22,702	150,674	319,504
- Foreign	114,659	7,157	136,518	258,334
- Domestic	31,469	15,545	14,156	61,170
Wharfage	262,522	27,926	293,290	583,738
- Foreign	202,765	3,916	264,811	471,492
- Domestic	59,757	24,010	28,479	112,246
Storage	40,699	377	134	41,210
- Foreign	8,910	89	133	9,132
- Domestic	31,789	288	1	32,078
Arrastre	300,983	29,833	27,572	358,388
TOTAL	750,332	80,838	471,670	1,302,840

Note: Totals may not add up due to rounding off and deletion of unclassifiable items.

of the revenues from the cargo handling as well as the split between the revenues from domestic shipping and from foreign shipping. The volume of cargo handled at the base ports in 1993 totalled over 25 million tons of domestic cargo and 14 million tons of foreign cargo. While domestic cargo took 64 % of the volume, it contributed only 19.2 % of the wharfage charges and 19.1 % of the vessel charges. This disparity is a result of a port pricing policy that subsidizes domestic cargo by overcharging foreign goods.

## 2.2 Disaggregation by Port

It was not possible to break down the financial data of PPA to the level of individual ports. However, disaggregation by Port Management Office (PMO) was available. Not surprisingly, the largest revenue generators were Manila South Harbor (₱ 477 m) and Manila North Harbor (₱ 211 m), followed by Batangas (₱ 177 m) and Cebu (₱ 125 m). Without the incomes from private ports, Batangas (₱ 24 m) is outranked by Cebu (₱ 100m) and Cagayan de Oro (₱ 35 m). Notwithstanding possible distortions in attribu-

Table 2- AVERAGE REVENUES BY PORT  
(excluding Income from private Ports)

PORT MNGMT OFFICE		No. of TP and MP	GROSS REVENUE	AVE.REV./DAY	
				BP	TP/MP
SH	South Harbor	1	477,005	1,265,268	41,595
CEB	Cebu	13	99,457	254,038	1,419
NH	North Harbor	2	90,174	243,068	1,992
ILO	Iloilo	6	44,921	107,274	2,633
CDO	Cagayan de Oro	2	34,528	94,016	290
DVO	Davao	3	30,311	82,888	52
SFU	San Fernando	3	23,858	62,773	864
ZBO	Zamboanga	5	22,693	46,762	3,082
GSC	Gen. Santos	0	15,173	41,570	0
BAT	Batangas	9	23,589	40,748	2,653
TAC	Tacloban	15	17,746	34,830	919
NAS	Nasipit	2	11,811	20,748	5,805
POL	Polloc	2	7,731	17,940	1,621
DGT	Dumaguete	4	7,368	17,605	645
ILI	Iligan	4	11,688	16,904	3,779
LEG	Legaspi	7	14,464	12,408	3,888
PP	Puerto Princesa	3	5,382	11,575	1,057
SUR	Surigao	5	8,463	10,932	2,451
JOL	Jolo	3	2,670	3,800	1,172
	TOTAL	89	982,265	130,290	2,423

Notes: BP= Base Port; TP= Terminal port;  
MP = Municipal port

tions, the terminal ports produce a relatively small amount of revenues, as shown in Table 2. Less than 5% of gross revenues came from terminal ports, against more than 70% from base ports. The average revenue per day for a terminal port was P 2,400 -- with the highest, excluding the Manila ports, in Nasipit PMO and the lowest in the Davao PMO. The average base port earns P 130 thousand per day; excluding South Harbor, the range was from P 54 thousand (Cebu) to P 3.8 thousand (Jolo). Ten of the 19 base ports grossed less than P15 million revenues.

### **3. STRATEGIES FOR A NEW PORTS REGIME**

#### **3.1 Restructuring the Port Sector**

The road to commercialization and privatization entails a major re-structuring of the entire port sector, not just the set of ports directly under PPA's corporate umbrella. It also means abandoning the long-held view that to achieve allocative efficiency all public ports must be integrated and be managed under one central authority.

The key policy change is to allow greater competition between ports and to deregulate port pricing. Existing private ports, as well as prospective operators, shall be allowed to engage in full-scale common-user port development and operations without restricting competition among themselves nor against government-owned ports. To put them on an even keel with PPA-owned ports, the various charges collected by PPA (which partake of taxes) from private ports should be removed, or at least, be equalized among all common-user ports. To avoid a conflict-of-interest situation where PPA acts both as a referee and a player, the port regulatory powers (on entry and pricing) now lodged with PPA should be transferred to a more neutral entity, say the Maritime Industry Authority, and later on phased out.

With a reduced baggage, PPA will then be better able to exploit privatization and commercialization opportunities. The options for PPA range from: (a) basic, i.e., available to any level of port entity; to (b) contingent, which are suitable only in a regime of several autonomous port corporations.

#### **3.2 Basic Commercial Options**

##### *Profit (and Cost) Centers*

The most obvious, and basic, reform is to institute an accounting system based on profit center principles. This means that revenues and expenses should be attributed to as small a business unit as possible. At the very least, each PMO should have profit-and-loss responsibility with dredging costs and interests on local and foreign loans allocated in their books. Also, subsidiary ledger accounts of fixed assets shall be maintained for each profit center. A decentralized management and accounting system is a desirable prelude to the spin-off of ports into subsidiary or affiliate corporations.

##### *Expenditures Control*

The bulk of PPA's costs are fixed, and therefore unrelated to the level of traffic. Under this situation, the most effective mechanism for cost containment is through the annual budget process, where specific cost items are targeted for reduction on a year-to-year basis. Opportunities for



reducing costs will, necessarily, differ from port-to-port. The most obvious targets at the moment are: the abolition of a mezzanine organizational layer known as Port District Office, and reducing the bloated manpower count at the central office.

### *Privatization of Dredging*

Dredging has been PPA's achilles heel. PPA has six dredgers, which were acquired in 1982 and 1983 with loans from OECF and KFW. Utilization of the dredgers over the past 11 years hovered at 50% due to bureaucratic constraints on staffing and spare parts acquisition. As a result, several ports have become silted as to elicit complaints from shipowners. Recognizing the problem, the PPA initiated an internal study<sup>4</sup> to generate alternative solutions. The report identified three steps to improve dredging performance: (i) improve maintenance of the dredgers, (ii) improve the equipment utilization, and (iii) eliminate the over-capacity of the fleet. The study demurred on privatization for a number of reasons: possible unattractiveness of the dredging equipment to private sector, an imperfect dredging market dominated by PPA, possible losses on the disposal of the equipment, and higher dredging cost under private hands.

While outright sale is unlikely to attract good bids close to the book values of the dredgers, privatization is not always a case of transferring assets. The impetus can be effectiveness, rather than cost reduction. With a dredging backlog (estimated at 15 million cu.m.) and an annual dredging volume of 3 million cu.m. per year, the problem cannot wait for a resolution of the privatization issue. The more practical course of action is to: (i) tap private contractors to wipe out the dredging backlog of 15 million CM; (ii) focus the internal dredging unit to undertake an annual maintenance program of at least 3 million CM per year; (iii) hire an independent surveyor to assess the condition of the six dredgers and estimate rehabilitation costs; and, (iv) test the market by advertising the sale of the two dredgers.

### *Privatization of Security*

The subject of security is usually not listed among those open for privatization. However, the situation in many ports calls for drastic measures. Except for a few, all ports have inadequate perimeter fencing or virtually none. Gate control is haphazard at best, particularly at domestic ports, with little attempt to audit cargo receipts and releases. Cargo is continually at risk. Partial privatization has transpired, but it appears to have imperceptible effect on the standards of port security -- which continue to be egregiously bad. Privatization brings accountability, and a quick response to the lack of fences (as part of a contracted private security package).

### *Expanded Use of Leasing*

A port is a shared infrastructure whose provision and management led to government's intervention in the free interplay of private parties, i.e. the shippers, their goods, and the carriers. This intervention, unfortunately, has become a major cause of port inefficiency. To extricate itself from this role, PPA pursued terminal and or facility leasing as early as 1987<sup>5</sup>. The MICT deal for the South Harbor is its biggest (and most lucrative) leasing arrangement so far. There were other leases entered into by PPA for a number of storage facilities, but these are deemed small and quite limited. Overall, PPA has been slow in exploiting whole or partial port leasing. Legal impediment raised by dock workers is one factor. Natural risk aversion by civil servants is another. A third factor is selectivity: leasing is not for every port. A whole port lease would not be appropriate in a situation where competition is absent or is unlikely to emerge. Carriers can mask



their interests in whole port lease arrangement, notwithstanding safeguards in tendering and contract terms. A facility lease, on the other hand, is feasible only in a large port complex amenable to parcelling. The Manila North Harbor and Cebu Port lend themselves to facility leasing, while preserving other options.

### *BOT Arrangements*

Build-Operate-Transfer (BOT)<sup>6</sup> schemes and their variations have become popular in developing public infrastructure to overcome constraints on public finance and organization. The key factor that predisposes the BOT option to a port is the need for major investment in new and specialized equipment. Standard container terminals, bulk cargo terminals, and similar facilities are eminently appropriate for BOT arrangements. Among the ports under PPA that fits this criterion are: Macabalan in Cagayan de Oro, Sasa Wharf in Davao, and Makar Wharf in General Santos. The ports in Polloc, Zamboanga, Iloilo, Cebu and Batangas, may also be suitable candidates. A BOT deal could start on a lease footing, as in the case of the MICT and ATI contracts at the South Harbor, and turned into BOT arrangements as the lessees are investing in new facilities.

### **3.3 Contingent Options: System of Autonomous Ports**

#### *Spin-Off New Port Corporations*

Should PPA, sans regulatory powers, remain a port monolith or be broken into several 'baby PPAs'? The political winds, as well as the economic logic of creating competition, favor the latter. The birth of Cebu Ports Authority (CPA) was instigated by Congress in 1992. By 1994, two Bills of similar persuasion —one for Davao and another for Iligan<sup>7</sup>— are in the legislative mill. But rather than leave the game to Congress, PPA can and should take the initiative in spinning off the more viable ports into autonomous port entities. This pro-active move has the following advantages: (i) decentralization of management is achieved with adequate preparation and minimum disruption; (ii) eventual privatization of the new port entity can be built-in, via the sale of stocks to the public sector and to the employees; (iii) the new port corporations can be structured in accordance with their unique circumstances; and (iv) makes competition between ports more real.

There is no legal impediment to PPA initiating the birth of new port corporations by registration with the Securities and Exchange Commission, other than prior clearance from the Office of the President. Under its charter, it has the authority to create subsidiary corporations. At the beginning, the new entity will be 100% subsidiary of PPA; once more than 51% of the shares of stocks are sold out, the entity becomes private in character.

The only possible hitch to corporatisation is the ownership issue on port assets. Some legal experts opine that ports (especially those assumed or taken over by PPA from its inception) are classified as within the public domain, i.e., beyond the commerce of man. Under this legal principle, port assets are not owned by PPA, and therefore, cannot be conveyed. By adopting the *usufruct* concept, however, this impediment can be overcome with an unintended bonus to boot: the main 'port asset' would be exempt from local taxation.



### *Phase Out Cargo Handling Monopolies*

Arrastre and stevedoring services are provided by private entities selected by PPA. Since its inception, PPA followed a policy<sup>8</sup> of integrating stevedoring and arrastre services under one entity at each port. Not only was a single operator per port a natural consequence of the 'integration ethos' of that time, it was also administratively convenient to PPA. It dealt with, and collected its share of revenues from, only one operator. The one-port-one-cargo-handler rule was subsequently embellished to permit longer term contracts. In 1987, the terms were 8 years for major ports, 5 years for baseports, and 3 years for all other ports. These were modified in 1990<sup>9</sup> into: 10 years for ports handling more than 400 thousand tons of cargoes, 8 years for ports with volumes ranging from 100 to 400 thousand tons, and 5 years to ports with cargo volumes from 20 to 100 thousand tons.

The policy created cargo-handling monopolies that brought order at the port but at the expense of efficiency. When PPA decided<sup>10</sup> to backtrack and to "substitute the market as a mechanism for self-regulation in place of administrative measures", it was stymied by legal challenges and the ghost of 'gang wars'. Where more than one contractor occurred, exclusive zones were invariably assigned instead of "free and equal access to any facilities of the port." From 1988 to 1994, only three ports -- Polloc, Puerto Princesa, and San Fernando -- showed more contractors than before. The failure stems from a wrong question: how many cargo handlers can be allowed? As a regulator, PPA was mediating between the buyer (shipping companies and cargo owners) and seller (service providers). Cargo handlers acted as agents of PPA and forked out 10% of their gross incomes to the latter. The underlying assumption in the one-operator-one-port policy is that there can be one cargo-handler for all seasons; or at best, an average handler catering to an average vessel with average cargo in an average port. It is a tenuous argument, in the light of such variables as: vessel design and size, dimensions of cargoes, cargo-handling equipment, work methods, port configurations, weather, price elasticities, and value of time.

To make the customer the king, instead of the dockhandlers, PPA has to step out of the buyer-seller loop. That means a different framework: PPA would accredit cargo handlers according to abilities and resources, instead of contracting or anointing them. The question of how many operators becomes irrelevant; it is the market itself that will decide. Accreditation has the following advantages: (i) converts PPA into a neutral and impartial administrator of the ports; (ii) it obviates undue political interference in the choice of cargo handlers; (iii) cargo handlers of diverse competencies would emerge in response to a diverse range of market needs; and (iv) the contingent liability of PPA over dockworkers is extinguished.

### *Port Tariff Reforms*

A single and uniform set of port tariffs is applied in all common-user ports under PPA. However, it has not led to similar revenue pattern on a port-by-port basis. Some ports collect a major portion of their revenues from wharfage; others depend more on income from cargo-handling. With the use of leasing, the income picture of a port would also change. Under a commercial regime, each port should design its own tariff in accordance with its own strategy, cost, traffic, and special circumstances. The political sensitivity of port tariff and the legal constraint, aside from PPA's conflict-of-interest on this matter, preclude implementation of tariff reform on a nationwide scale. Thus, the 'new' port entities are the ideal candidate ports for the adoption of tariff adjustments.

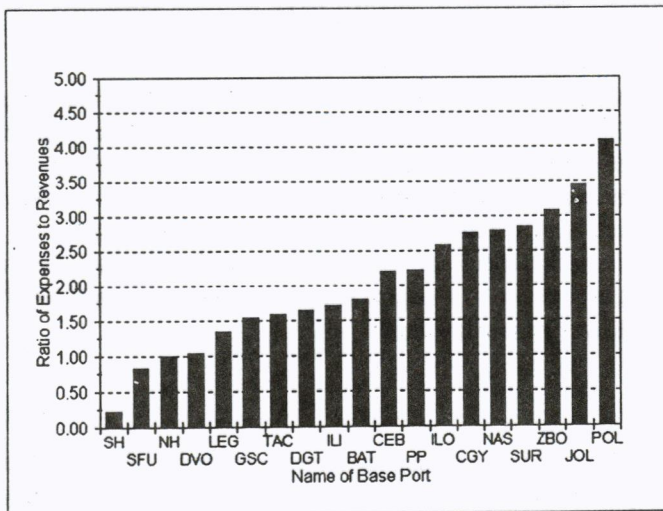
Port pricing is, of course, not a matter of simple cost recovery -- where prices are set to generate sufficient revenue to cover the investment and operating revenues of the port authority. On the other hand, welfare economics lead to port prices that optimizes capacity utilization but which do not necessarily equate to financial surplus. In either approaches, the results are different under a centralized system of ports and under a decentralized system where each port independently sets its prices. In a situation where every port in the system has to cover its own costs, the idea of charging what the traffic can bear or the value-of-service principle (VSP) can be applied.<sup>11</sup>

#### 4. NOT ALL PORTS ARE THE SAME

A profit center orientation, privatization of dredging and security, and expenditures control are three measures with systemwide applicability. The other options (leasing and BOT schemes) are selective, they require certain conditions at the port.

Not all the 109 ports in PPA's portfolio can be spun off. Those that are exhibit the following characteristics:

- Profit picture is positive, or revenues can exceed expenses with little effort (see Figure 4);
- Privatization down the line appears feasible, with possible entry of a strategic partner;
- Need for capital to expand or rehabilitate the port;
- Forthcoming termination of cargo-handling contract and other agreements that will otherwise tie the hand of the successor entity.



**Fig. 4 - Ratio of PMO Expenses to Revenues**  
(excl. private ports & interest charges)

The break-up of PPA into smaller port authorities require a gradualist approach. Definitely, PPA has to prune its list of ports. The continuing improvement in roads has reduced the importance of some ports while expanding the sphere of others. Some port planners argue that PPA select an optimal set of national ports. The search for optimality, however, can be tedious if not futile. It entails minimization of total system costs, in ports and inland, by allocating demands to the different

ports. The exclusion process will take time. Many of the ports in PPA's list are appropriate for transfer to local government units (LGUs), yet getting agreement on which ports should go to the LGUs would be difficult.



Port size or turnover is also not synonymous with viability. As depicted in the scattergrams of figures 5 and 6, there are many baseports awash in red inks. Also, there are small ports producing profits. These figures also weaken the argument that cargo-handling monopoly is required for viability in smaller ports.

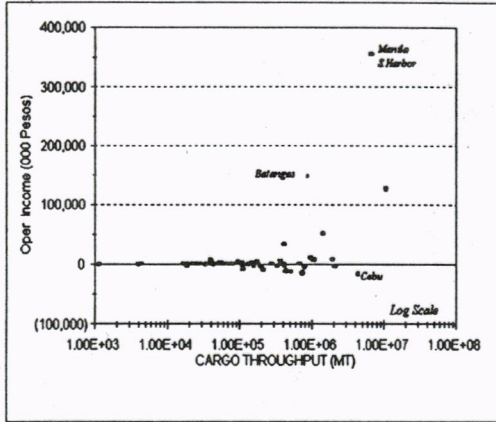


Fig. 5 - Profitability vs Port Turnover Baseports, 1993

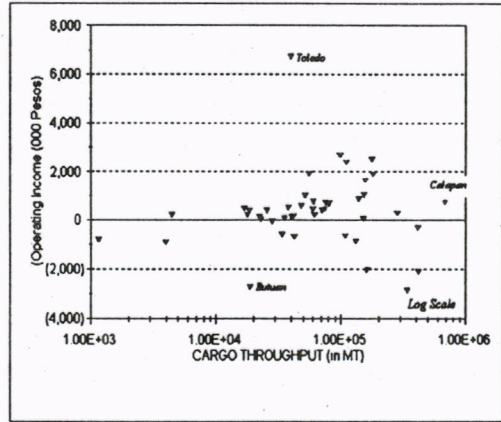


Fig. 6 - Profitability vs Port Turnover Small Ports, 1993

Three ports with different circumstances are discussed in the following sections to illustrate how an individual port can sail into, and help create, the new port environment.

## 5. CEBU PORT: A CASE OF PREMATURE BIRTH

### 5.1 Why Cebu?

As the second largest port in the Philippines, the port of Cebu is a logical candidate to wriggle out of PPA's embrace. Congress beat everybody to the draw and carved the Cebu Port Authority (CPA) out of the PPA system in 1992. Nearly three years after, the CPA has yet to be activated. Doubts about its ability to stand on its own persist, and rightly so. Expenditures exceed revenues by a factor of 2, as shown in figure 4. The delay in activating the CPA has caused uncertainties to the port community and caused PPA to withhold major disbursements for the maintenance and repair for the port. But since the CPA is a *fait accompli*, the only recourse is to make it work.

### 5.2 Current Facilities and Operations

While there are several ports comprising CPA, the strategic one is the Cebu City wharf, across Mactan Island which acts as a natural breakwater. The port's marginal wharf extends for 4 kms. but roughly 1.2 km of which is unusable due to siltation. From about berth 18 to 33, the apron area is squeezed by vehicular traffic on the adjacent road that spills over onto part of the cargo marshalling space. The international terminal of 690 linear meters is in much better shape and has a container yard of 7.5 hectares, with a capacity for 100,000 TEUs. It also being used to serve the large interisland vessels due to the poor facilities at the domestic terminal. PPA indicates that berth occupancy at the international terminal hovered at 76% of nominal capacity in 1994. Cargo-handling at the terminal is provided by a private company owned by the dockworkers. The port

has not experienced strikes, work slowdowns or other labor problems. Breakbulk cargo productivity is 15 tons per gang-hour, and container productivity is 11 boxes per hour. Average vessel turnaround time is 13 hours.

### 5.3 Cebu's Financial Performance

Accounts for PMO-Cebu include six other ports aside from the wharf in Cebu City. Total revenues in 1993 amounted to P125.2 million, compared to P119.4 million and P106.6 million in 1992 and 1991, respectively. These revenues came mainly from cargo-handling activities (34%), followed by wharfage (31%), port dues and dockage (20%).

To get a more accurate picture of the financial conditions of CPA, the revenue and expense data for ports in Bohol and private ports have to be excluded. A synthesized profit and loss statement is shown in Table 4, which reflected a loss of P 100 million in 1993, inclusive of an allocated interest charge of P 77 million. When the depreciation is added back, the real cash deficit goes down to P 23 million. This is less severe than the situation at the time of the creation of CPA in 1992.

Table 5  
PROFORMA BALANCE  
SHEET OF CPA  
(as of 31 December, 1993)

Current Assets	69
Fixed Assets	4,596
Total Assets	P 4,665
Current Liabilities	9
Long Term Debt	498
Net Worth	4,158
Total Liab. & Equity	P 4,665

Table 4  
ESTIMATED PROFIT AND LOSS STATEMENT  
CEBU PORT AUTHORITY  
(In Million Pesos CY 1993)

PARTICULARS	Cebu BP	Other Ports	TOTAL CPA
REVENUES	90,695	2,460	93,155
Port Dues/Dockage	15,555	619	16,174
Wharfage	23,716	1,205	24,921
Storage	6,475	0	6,475
Arrastre/Stevedoring	32,326	1,144	33,470
Other Income	12,623	(508)	12,115
OPER. EXPENSES			
Personal Services	15,085	1,977	17,062
MOOE	12,484	252	12,736
R/M-Port Facilities	17,872	0	17,872
Depreciation	67,618	1,694	69,312
TOTAL OPEX.	113,059	3,923	116,982
INCOME/LOSS	(22,364)	(1,463)	(23,827)
INTEREST	77,013	0	77,013
NET INCOME/(LOSS)	(99,377)	(1,463)	(100,840)

Without pre-empting what the eventual allocation of assets would be between CPA and non-CPA ports, a pro-forma Balance Sheet for CPA would look like Table 5.

### 5.4 CPA's Business Strategy

CPA has many options. But the first item on its agenda must, of course, be financial. The financial problem that CPA faces upon its activation is not insurmountable. The pro-forma balance sheet of CPA indicates "bankability", i.e., it has enough assets to incur loans.

While the cash generation was a negative P32 million in 1993, advance figures for 1994 reveal a positive cash flow stream. On a revenue of P157.5 million and cash operating charges of P 51.6 million, the cash generation before interest expense is P 105.8 million. Subtracting an allocated interest expense of P 90 million, the net cash generation becomes P 15.8 million. Furthermore, the actual interest burden for CPA may be P 77 million, rather than P 90 million. If the difference



of P 13 million (90 less 77) is added to P 15.8 million, then CPA is looking at a positive cash flow of P 28.8 million before payment on debt principal of about P 54 million.

The simplest way out is for PPA to advance the working capital of CPA, aside from continuing with the amortization of the foreign loans attributed to Cebu port. The amounts can be treated as credit to future dividends to be paid out by PPA to the National Treasury or as domestic debt of CPA to PPA. CPA and PPA can enter into an agreement converting the long term debt assumed by CPA into a domestic debt to PPA. After all, the debt was contracted by PPA and it cannot be transferred without the consent of the creditor banks. Nor is it practical to divide the loan agreements in proportion to the benefits to several recipient ports.

The CPA can revise its port tariff, independent of PPA, to cover costs of operations, debt repayments and position the port for transshipment. It is already accommodating in excess of 100,000 tons per annum of foreign cargoes in transit. Since it is more dependent than PPA as a whole on port tariffs, the impact of tariff change on the bottom line will be more significant. A mere P10 passenger terminal fee can net an extra P42 million per year. Applying a time-based dockage of P7.00/LOA-hour to deep-draft vessel and P3.50/LOA-hour to shallow-draft vessel would add more than P100 million. These two tariff changes alone would already wipe out the cash deficits of CPA from start of business.

Another advantage of CPA over PPA is that it is not constrained by the mandatory 10% share on income of cargo-handlers. CPA can jump the gun and adopt the same commercialization and privatization options mentioned in this paper ahead of PPA. An attractive scheme is for CPA to lease out a portion of its port, possibly the container operations, and generate similar revenue streams as the MICT of PPA. CPA can also scout around for a joint-venture partner for developing and operating the 1.2 km portion of the domestic wharf that needs rehabilitation.

## **6. PORT OF DAVAO: ITCHING FOR ACTION**

### **6.1 Competitive Situation and Traffic Outlook**

Sasa Wharf accommodated nearly 2 million tons of cargo in 1993, representing a rise of 11 % in comparison to the 1992 cargo throughput level. Approximately 45% of the cargo accommodated at the port is containerized. It competes with the private port of TEFASCO, for both international and interisland cargoes. Cargo traffic for the latter port exceeded 0.5 million tons and around 50,000 container movements.

Sasa Wharf offers the best demonstration of a port in competition with another. Its expenses nearly approximate revenues (see fig. 4), and therefore could easily fend for itself. Spinning off Sasa wharf from PPA is consistent with the move in Congress to create a Davao Port Authority. However, incorporation through PPA initiative provides more flexibility as it can be designed towards commercialization, privatization, and deregulation.

### **6.2 Current Facilities and Operations**

Located near the head of Davao Gulf, in Southern Mindanao, Sasa Wharf is only 10 kms. from the center of Davao City. Pakiputan Strait defines the approach to the port, with the navigation channel being about 800 meters wide. Both the old quay of 515 linear meters and the new quay

of 405 linear meters have controlling water depth alongside of 10.6 meters. The new quay is 35 meters wide, with a container stacking area in back extending for the full length of the quay. Total land area of the port is 16.75 hectares.

The facilities of the port are adequate for the current level of traffic. The port operates on a 24-hour basis. There are two cargo-handling contractors at the port, each providing both arrastre and stevedoring services. Containers are handled between ship and shore using ship's gear. The new portion of the quay was designed for use of transtainers in the piling and sorting of containers, but such equipment is not now available at the port.

The new and old quays can be divided conveniently into two terminals, if facility lease is pursued. Future expansion permit extending the quay 500 meters to the south, if cleared of squatters.

### 6.3 Sasa's Financial Performance

The Sasa Wharf, together with the terminal port of Mati and municipal port of Malalag, comprise the PMO-Davao. It pre-tax income amounted to ₱48.3 m in 1993; ₱ 40.2m in 1992; and, ₱ 44.6m in 1991. However, these revenues were boosted by charges collected from private ports, which comprised 62% of total in 1993.

Table 6  
REVENUE MIX: SASA WHARF  
(In Thousand Pesos)

	1991	1992	1993
Dockage:	5,418	5,929	7,391
Foreign	3,949	4,691	5,848
Domestic	1,469	1,238	1,543
Wharfage:	6,661	8,732	8,213
Foreign	4,186	6,221	5,318
Domestic	2,475	2,511	2,895
Storage:	1,584	2,042	2,895
Foreign	0	1	283
Domestic	1,584	2,042	2,529
Arrastre/Stev.	7,309	7,870	8,797
Total - Cargoes	15,554	18,645	19,822
Other Income	3,179	2,715	3,041
Ttl. REVENUES	24,151	27,289	30,254

As can be gleaned from Table 6, the revenue mix for Sasa Wharf indicates high reliance on cargo-handling, at 29% of total revenues, followed by wharfage, with 27% share. Table 7 shows that the operations of Sasa Base Port were generally profitable in spite of the exclusion of revenues from private ports.

Table 7  
PROFITABILITY: SASA WHARF  
(in P 000)

	1991	1992	1993
NET REVENUES	24,151	27,289	30,254
OPER. EXPENSES	16,659	15,855	20,862
Personal services	8,509	8,840	8,730
MOOE	8,150	7,015	12,132
GROSS MARGIN	7,592	11,434	9,392
Depreciation	5,720	7,364	7,717
Income bef. Interests	1,872	4,070	1,675
INTERESTS	830	4,210	272
INCOME/(LOSS)	1,042	(140)	1,403

Table 8  
BALANCE SHEET - SASA WHARF  
(in P 000)

ASSETS	1993
Current Assets	68,042
Fixed Asset - Net	271,844
Other Assets	26,348
TOTAL ASSETS	366,234
LIABILITIES & NETWORTH	
Current Liabilities	4,704
Long-Term Debt	8,375
Total Liabilities	13,079
Retained Earnings	353,155
TOTAL LIABIL. & NETWORTH	366,234



A pro-forma balance sheet for Sasa Wharf is shown in Table 8. By all indications, Sasa Base Port can stand on its own. Current ratio stood at a healthy 14.5:1 while total assets was nearly 28x total liabilities.

### 6.5 Business Strategy

On the revenue side, it can re-calibrate its tariff as illustrated in Table 9 and get the kind of results shown in Table 10. Under scheme C, gross revenues would jump by 38%, from P29.3 million to P40.4 million, with dockage (54% share) and wharfage (12% share)

providing the main sources of income. Passengers may also be tapped, as none were derived from this source before. The levies coming from private ports, which amounted to P49 million in 1993, is seen to disappear with the formation of Sasa Wharf Corporation. Table 10 also suggest a target revenue level of P61.5 million to achieve a 7% return on operating assets (ROA).

Table 9  
TARIFF SIMULATION or SASA WHARF

TARIFF ITEMS	PRESENT TARIFF	SCHEME		
		A	B	C
Avg. Wharfage - Foreign /RT	26	17.5	5.0	5.0
Avg. Wharfage-Domestic/RT	2.6	12.5	3.0	3.0
Port Dues per GRT-Foreign	1.9	2.0	2.0	2.0
Port Dues per GRT-Domestic		1.5	1.5	1.5
Dockage-Deep Draft/LOA-hr	3.8	8.0	7.0	7.0
Dockage-Shallow Draft	0.3	4.0	3.5	3.5
Cargo-handling/Ton-Foreign	6.1	10.0	8.0	0.0
Cargo Handling/Ton-Domestic		7.5	6.0	0.0
Passenger Fee (peso/pax)		20.0	15.0	20.0
Private Port Tax (P 000)	49,153	0		

Table 10  
SIMULATED RESULTS of TARIFF ADJUSTMENTS

Sasa Wharf, in ₱ 000

REVENUE ITEMS	AMOUNT (1993)	SCHEME		
		A	B	C
Port Dues-Foreign	5,848	1,064	1,064	1,064
Dockage-Foreign		8,406	7,355	7,355
Port Usage-Domestic	1,543	3,246	3,246	3,246
Dockage-Domestic		16,930	14,814	14,814
Wharfage-Foreign	4,722	3,868	1,105	1,105
Wharfage-Domestic	2,504	15,338	3,681	3,681
Storage - Foreign	283	283	283	283
Storage-Domestic	2,529	2529	2529	2529
Share-Arrastre&Stev.	8,797			
Cargo-Handling - Foreign		2,210	1,768	0
Cargo Handling - Domestic		9,203	7,362	0
Passengers		3,320	2,490	3,320
Other Income	3,041	3,041	3,041	3,041
<b>Total Revenues</b>	<b>29,267</b>	<b>69,437</b>	<b>48,739</b>	<b>40,439</b>
Desired Revenue	61,484	61,484	61,484	61,484
- ROA=7%	30,314			
- Oper. Expenses	31,170			
<b>Total less Desired Revenues</b>	<b>(32,217)</b>	<b>7,953</b>	<b>(12,745)</b>	<b>(21,045)</b>

## 7. PORT OF SAN FERNANDO

### 7.1 Port Market

The Port of San Fernando is located about 300 kilometers north of Manila and has an annual cargo throughput of about 1.3 million metric tons, of which 57% are domestic traffic. It is a medium-sized port, smaller than Davao and Cebu. But unlike the other two, it functions more like an industrial port – with fertilizer and petroleum products as primary commodities.

Despite its smaller size, it is in a better financial condition than Cebu. The preponderance of industrial establishments within its catchment area suggest that a search for a strategic partner will not be difficult. The competitive picture is clouded by proposals to construct a large port at Bolinao, on the Pangasinan coast. On the upside, however, is the expansion of industries in and around San Fernando.

### 7.2 Current Facilities and Operations

The facilities consist of two new piers which are multi-purpose, and are 150 meters long and 21 meters wide. The draft varies from 10 meters to 17 meters along the piers. In addition, the port has several piers dedicated to coal, petroleum products, and other bulk products. The total storage area of the warehouses is 11,638 square meters, plus 173,460 square meters of open storage. San Fernando Bay has a good anchorage, and can accommodate 20 vessels at a time.

The port is the site of one of the first BOT projects in the Philippines. In September 1992, the PPA and Bacnotan Consolidated Industries, Inc., signed an agreement that gave the latter the right to rebuild Pier 1 after a damaging earthquake, and to operate the pier as a private pier for 25 years.

### 7.3 Financial Performance

PMO San Fernando consist of the base port located at San Fernando, La Union and the terminal ports of Masinloc in Zambales, Aparri and Irene in Cagayan. Table 11 shows the financial results during the last 3 years for the San Fernando base port. Unlike other ports, San Fernando derives most of its revenue from wharfage – 56.6% of total revenues and less than 10% for cargo-handling activities in 1993. It is not dependent on charges against private ports, which amounted to ₱ 602 thousand, or less than 3% of total.

Nearly all of the PMO total assets of ₱ 336 million is attributable to

Table 11  
SAN FERNANDO PORT  
(in ₱ 000)

	1991	1992	1993
<b>INCOME STATEMENT</b>			
REVENUES	15,925	21,732	23,284
- Dockage	2,869	3,529	4,446
- Wharfage	6,369	10,736	13,181
- Arrastre/Stevedoring	3,673	4,568	2,198
- Other Income	3,014	2,899	3,459
EXPENSES	10,113	16,301	9,754
Income bef. Depreciation	5,812	4,735	12,928
Depreciation	2,530	3,427	6,257
Interest Expenses	0	0	0
NET INCOME	3,282	1,308	6,671
<b>BALANCE SHEET</b>			
Current Assets	7,095	6,900	18,508
Fixed Assets	112,123	123,778	258,856
Other Assets	40,199	59,062	59,300
Total Assets	159,417	189,740	336,664
Current Liabilities	3,048	3,874	2,714
Long Term Debt	35,790	0	0
Net Worth	120,579	185,866	333,950



the San Fernando base port. Significantly, it has no long term debts that might scare away potential investors.

#### 7.4 Vision for San Fernando

San Fernando Port needs to re-invent itself. The port has not, through 1994, realized its potential for serving much of Northern Luzon. It has not accommodated passengers. The port could operate as an open, public port with the terminals (except Pier 1 which is privately-owned) serving all shippers, consignees and ocean carriers.

An independent private entity is more likely to pursue an expanded vision to attract liner shipping services as well as pure cargo and container vessels. It can adjust its tariff in accordance with profit and market objectives. Two possible tariff schemes are shown in Table 12, with the results on the bottom line shown in Table 13. Thus, a doubling of revenues is realizable by closing the gap in wharfage between foreign and domestic vessels, and also by adopting a time-based

Table 12  
SAN FERNANDO PORT TARIFF SIMULATIONS

TARIFF ITEMS	Existing TARIFF	SCHEME	
		A	B
Avg. Wharfage - Foreign	26.0	22.5	22.5
Avg. Wharfage-Domestic	2.6	17.5	17.5
Port Dues/GRT-Foreign	1.9	2.0	2.0
Port Dues/ GRT-Domestic		1.5	1.5
Dockage-Deep Draft/LOA-hr	3.8	10.0	7.0
Dockage-Shallow Draft	0.3	5.0	3.5
CargoHandling/Ton-Foreign	2.1	3.0	3.0
CargoHandling - Domestic		2.0	2.0
Passenger		20.0	15.0
Private Port Tax	602	0.0	0.0

dockage rate based on vessel size and draft. This twin moves could push its return-on-asset to 7%. Another efficiency move is to scale down its workforce -- from 44 to about 25 and generate savings of more than P2.0 million a year.

Table 13  
RESULTS OF TARIFF CHANGES  
Port of San Fernando, in ₱ 000

REVENUE SOURCE	AMOUNT	SCHEME	
	(1993)	A	B
Port Dues-Foreign	3,947	1,017	1,017
Dockage-Foreign		11,603	8,122
Port Usage-Domestic	307	639	639
Dockage-Domestic		5,774	4,042
Wharfage-Foreign	11,646	10,890	10,890
Wharfage-Domestic	1,142	10,115	10,115
Storage - Foreign	0	283	283
Storage-Domestic	12	2529	2529
Share-Arrastre&Stev.	2,179		
Cargo-Handling - Foreign		1,452	1,452
Cargo Handling - Domestic		1,156	1,156
Passengers		0	0
Other Income	3,688	3,688	3,688
<b>Total Revenues</b>	22,921	49,146	43,933
Desired Revenue	43,440	43,440	43,440
- ROA=7%	25,030		
- Oper. Expenses	18,410		
<b>Total less Desired Revenues</b>	(20,519)	5,706	493

#### 7. CONCLUSIONS

In a competitive or commercial regime, PPA has to separate its viable ports and more promising activities from the losing propositions. It has been selective in the past, it could be more stringent in the future by dropping more ports out of its list. Several of the ports in its current list were neither developed nor being maintained by it; they have no PPA staff assigned to them, or they have only revenue-collection

staff assigned. To this extent, it has limited its burden.

Another important change is to explicitly recognize and measure the "cross-subsidy" burden that PPA has claimed to perform amongst its mixed bag of ports. In a centralized set up, the charges imposed on private ports is rationalized as a means to subsidize the non-viable ports. Under a decentralized regime, the continuation of the port tax can be justified if a similar levy is imposed on public ports and the amounts earmarked into a special purpose fund. In 1993, revenues from the private ports amounted to P 468.6 million. The purposes and uses of such a fund are seen to change in time -- initially, as an internal stabilization fund of PPA, then an earmarked fund, and later as a port and sea-lane maintenance fund to support the repair and maintenance of lighthouses, navigational buoys, dredging of navigation channels, and essential but non-viable small ports. Legal constraints and demand-supply uncertainties dictate a three-phase evolution of the fund.

As more ports are spun off and as the LGUs get control over a number of ports, PPA will end up as the national government's investment holding unit for ports. In the interregnum, PPA assumes the role of a caretaker of ports-in-transition. Hopefully, one of the newer port corporations would shed its insular outlook and become an aggressive player in the Asian Pacific trade.

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