



Republic of the Philippines  
**House of Representatives**  
Quezon City, Metro Manila

## **COMMITTEE ON OVERSIGHT**

17 March 2007

**HER EXCELLENCY**  
**PRESIDENT GLORIA MACAPAGAL ARROYO**  
Malacañang, Manila

**Madam President,**

In 2006, the House Committee on Oversight conducted a series of public hearings on the management and operation of ports by the Philippine Ports Authority (PPA) as a result of a privilege speech given by Cong. Eduardo Zialcita of the First District, Parañaque.

In his speech, Cong. Zialcita raised the following points:

1. PPA is unjustly favoring existing port operators Asian Terminal, Inc. (ATI) and International Container Terminal and Services, Inc. (ICTSI) over Harbour Centre Port Terminal, Inc. (HCPTI). He alleged that the real reason for PPA's denial of HCPTI's petition to go into international containerized cargo handling for non-locators is to protect the interest of ATI and ICTSI, Contrary to its mandate to uphold the interest of the general public,
2. PPA approves petitions for rate increases by ATI and ICTSI without sufficient public hearings and despite objections by businessmen against such petition.
3. He also cited the basic conflict of interest in PPA's charter. PPA is allowed to share at least 10% from the cargo handling revenues of port operators. This means PPA stands to benefit as much as the port operators every time port rates are increased, As a regulator, however, PPA should focus on the creation of a conducive environment *for* the development of our ports and consequently promote economic growth.

4. Cong. Zialcita alleged that it is this conflict of interest in PPA's charter which has resulted in the development of PPA's monopolistic tendencies. This is also the reason why it is in PPA's interest to favor ATI and ICTSI, as mentioned in #1 & 2. The country does not only have one of the highest cargo handling rates in Asia, It has also failed to implement a comprehensive port development program for the country,

The series of public hearings conducted by the Committee brought to fore the following:

**Uncompetitive Rates**, The Philippines ranked 10th among 21 Asian ports studied by ESCAP in 2002 in port charges inclusive of berthing fees, wharfage dues and cargo handling, making it more expensive than our neighbors like Hong Kong, Malaysia, Korea, Singapore and Thailand. The study used the purchasing power parity (PPP) analysis.

A JICA study in 2003 meanwhile showed that while our berthing and usage fees are low (enabling domestic ships to stay longer at the ports - average of 52 hours at the North Harbor), our cargo handling charges are higher, with stevedoring rate 237% vs. Calcutta and 170% vs. Pusan, Korea rates.

In a position paper submitted by the Federation Of Philippine Industries, Inc. (FPI), cargo handling rates have steadily gone up.

Year	Domestic		Foreign	
	Arrastre	Stevedoring	Arrastre	Stevedoring
1998	12%	40%	8%	40%
1999			20%	
2000	10%	10%	8%	8%
2001	10%	10%	10%	15%
2002			10%	10%
2003				
2004	38% (petition)		12%	
2005				
2006			10% (containerized) 8% (non-containerized)	

According to the Distribution Management Association of the Philippines, Inc. (DMAP), PPA has granted increases in international cargo handling to both ATI and ICTSI, as follows:

	Foreign Containerized	Foreign Non-Containerized
March 2005	12%	12%
March 2006	10%	8%

These increases in cargo handling have resulted in higher distribution costs to businessmen. This is also reflected in the uncompetitiveness of the country versus its Asian neighbors as the ESCAP study shows.

**Conduct of Public Hearings.** Stakeholders in the industry have decried PPA's practice in the conduct of public hearings. According to DMAP, PPA gives them very short lead times, generally just a day or two. The notices do not include the petitioner's justification and at the hearings the petitioner sits in front with the PPA hearing officer or panel, facing the oppositors.

**HCPTI's Petition.** Also brought to the Committee's attention was the *application at a private port operator*, Harbour Centre (HCPTI), to handle foreign containerized cargo of non-locators. PPA contends that the Manila harbor cargo volume is not big enough to accommodate another player at the moment. Given the fact that ATI and ICTSI won their contracts through public bidding, PPA believes it is only right that they protect them as partners.

Likewise, the PPA contends that allowing Harbour Centre to operate foreign containerized cargo would be disadvantageous to PPA because while PPA gets 20% of cargo handling revenues of ICTSI, Harbour Centre pays PPA only P20,000 per year, plus 50% share as docking and wharfage charges. Should Harbour Centre be allowed full operations, PPA's revenues could go down.

On the contrary, Harbour Centre albeit its limited operations permit, is able to attract a good slice of clientele in breakbulk cargo handling because it invested heavily on the development of the infrastructure, land and equipment in accordance with the provisions of the directive on Privatization of Philippines Ports. From its revenues clone in 2006, the PPA collected at least Php 80 million which the Agency collected directly to reduce bureaucratic process. It is therefore, a misrepresentation to say that PPA only earns P20,000 a year from Harbour Centre because said amount represents its yearly license fee only.

The experience of shippers with the entry of Harbour Centre into foreign non-containerized cargo shows that there is effective competition .....

services (reduced cargo loading/unloading time, faster turnaround time for ships, and approximately 40% reduction in cargo handling cost for shippers).

The same cannot be said in the foreign containerized market, however, currently serviced only by ICTSI. The high cargo handling cost arising from lack of competition serves as an effective trade barrier and undermines the global competitiveness of our exports, particularly electronic products.

**On the Extension of ICTSI's Contract Even Before It Expires.** It was also brought to the Committee's attention the decision of PPA to extend ICTSI's contract at the MICT for another 25 years, despite the fact that the current contract still has eight years to go. PPA justified the extension on the good performance of ICTSI and an offer from ICTSI to invest US\$125 M during the period. However, an examination of the current contract signed by PPA with ICTSI reveals that while ICTSI promised to "attract and encourage foreign transshipment cargo at the MICT", this business was never developed and is therefore a violation of the original contract, It is ironic that ICTSI is awarded a new contract despite this major lapse.

## **Recommendations**

The Philippine Ports Authority plays a vital role in the country's economic development. Its ports serve as the gateway of products coming in and out of the country. It is imperative therefore that it implements policies that create an environment conducive for local businesses to grow. In the global market, it should ensure that the country becomes competitive with its neighbors and develop the country as a transshipment hub of products.

The Committee supports DMAP and FPI's position that the PPA opens the operation of cargo handling of containerized and non-containerized cargo to competition. This will force current operators to be more efficient while at the same time reduce rates. The argument that the traffic of cargo volume in Manila cannot accommodate an additional player cannot hold given the growing trade in the region every year. On the other hand, allowing only one player to continue monopolizing the market develops complacency and in the end hurt business through high shipping rates.

One operator system in the port industry also presents danger where a port operator may influence decision makers and thus, breed graft and corruption.

The Committee supports the position of the NEDA and DTI in espousing competition and multi-operator system in the industry and urges DOTC to act on this matter to ensure that competition reigns in our ports. This will allow an efficient distribution system enabling business to prosper and giving consumers access to lower priced products.

On the issue of its negative impact on PPA's revenues, a financial feasibility study can be undertaken by PPA. taking into consideration the investment made by Harbour Centre in the port and projected revenues from the operation. This could then be the bases. among others, of the determination on how much Harbour Centre should pay PPA if it is allowed to handle the additional service.


The Committee also echoes the DMAP and FPI's call for the implementation of a more transparent system of consultations whenever there are petitions for rate increases. This means making sure all stakeholders are given a chance to air their side before a decision of made and whether to grant or deny the petition.

The Committee also endorses the proposal of Cong. Zialcita to amend the PPA charter to separate its developmental functions as against regulatory ones.

Attached herewith is the full report of the Committee for your perusal. Given the strategic importance of the above findings, we trust Her Excellency will act on the above recommendations immediately.

Thank you very much,

Very truly yours,

  
**DANILO E. SUAREZ**  
Chairman