Overview: Philippine Downstream Oil Industry

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Baguio City

Presentation Outline

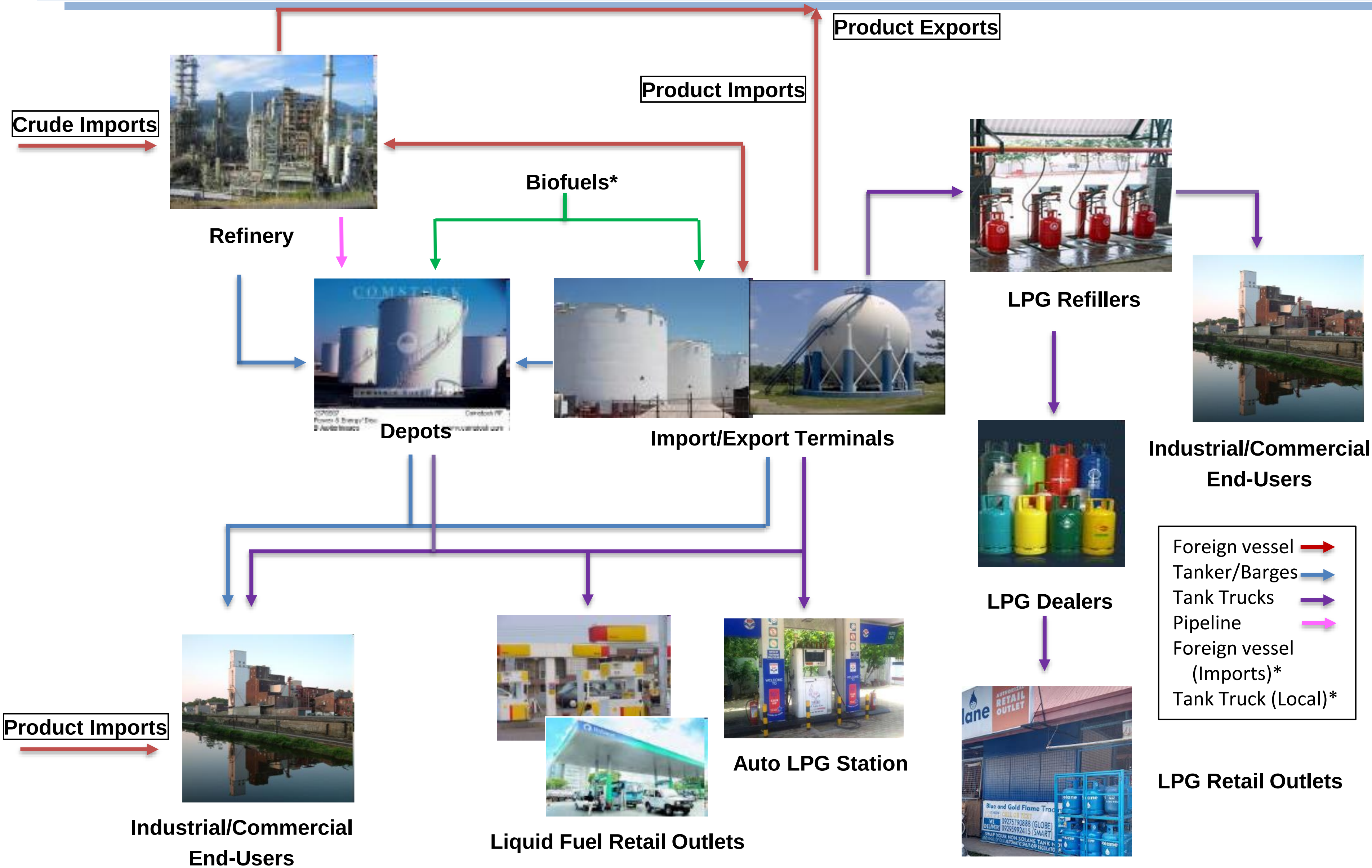
Introduction to Downstream Oil Sector

Regulatory Framework

Oil Industry Situation

North Luzon Situation

Downstream Oil Industry Chain



Regulatory Framework

Mandate

Republic Act No. 8479

'An Act Deregulating the Downstream Oil Industry, and for other Purposes'

- To ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally-clean and high quality petroleum products.

Regulatory Framework – Oil Industry

Republic Acts

- RA 7638 – DOE Act of 1992
- RA 8479 – Oil Deregulation Act of 1998
- RA 8749 – Clean Air Act of 1999
- RA 9367 – Biofuels Act of 2006
- RA 9513 – Renewable Energy Act of 2008
- RA 8184 – Excise Tax
- RA 9337 – RVAT Law of 2005

Batas Pambansa

- BP 33 – Prohibited Acts/Penalties Involving Petroleum

Executive Orders

- Implementing Issuances:
  - DOE Circulars
  - BIR Revenue Regulations
  - BFP Rules and Regulations

Regulatory Framework – Taxation

THE TRAIN Law

IMPACT OF EXCISE TAX ON PETROLEUM PRODUCTS PRICES (PER R.A. 10963)

Product	Current			1ST TRANCHE - JAN 2018			2ND TRANCHE - JAN 2019			3RD TRANCHE - JAN 2020			GRAND TOTAL		
	Excise Tax	12% VAT	Total	Excise Tax	12% VAT	Total	Excise Tax	12% VAT	Total	Excise Tax	12% VAT	Total	Excise Tax	12% VAT	Total
	Peso/liter												Peso/liter		
Gasoline	4.35	0.52	4.87	2.65	0.32	2.97	2.00	0.24	2.24	1.00	0.12	1.12	10.00	1.20	11.20
Avturbo	3.67	0.44	4.11	0.33	0.04	0.37	0.00	0.00	0.00	0.00	0.00	0.00	4.00	0.48	4.48
Kerosene	0.00	0.00	0.00	3.00	0.36	3.36	1.00	0.12	1.12	1.00	0.12	1.12	5.00	0.60	5.60
Diesel	0.00	0.00	0.00	2.50	0.30	2.80	2.00	0.24	2.24	1.50	0.18	1.68	6.00	0.72	6.72
Fuel oil	0.00	0.00	0.00	2.50	0.30	2.80	2.00	0.24	2.24	1.50	0.18	1.68	6.00	0.72	6.72
LPG (motive fuel)	0.00	0.00	0.00	2.50	0.30	2.80	2.00	0.24	2.24	1.50	0.18	1.68	6.00	0.72	6.72
LPG, P/kg	0.00	0.00	0.00	1.00	0.12	1.12	1.00	0.12	1.12	1.00	0.12	1.12	3.00	0.36	3.36

Oil Industry Situation

FY 2017 Production / Demand Mix

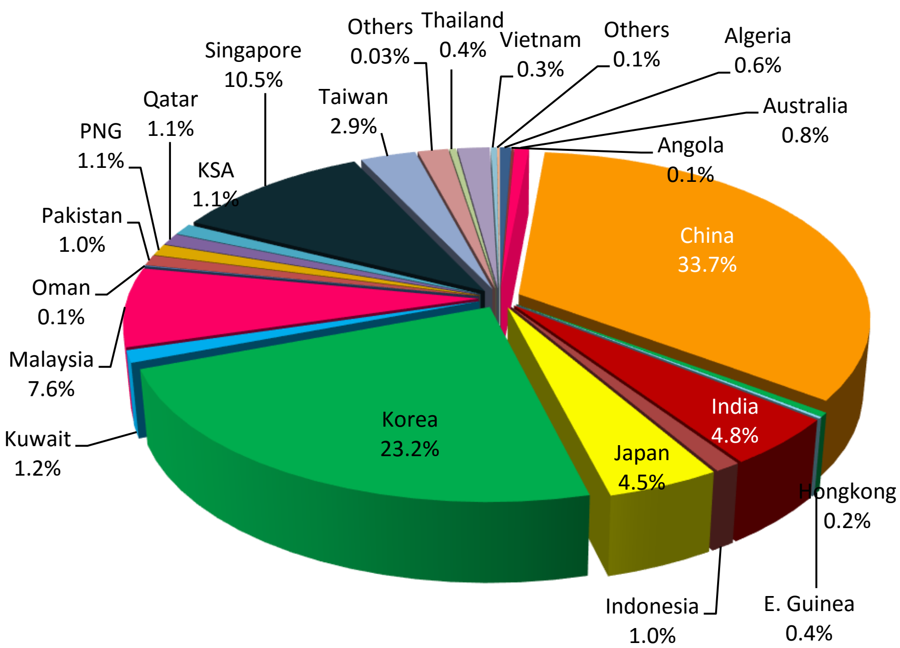
Production (208.2 MBCD)/ Demand (445.1 MBCD) %Mix

Production		Demand	Product
6.9	→	11.1	*LPG*
24.4	→	23.5	*GASOLINE*
9.8	→	10.3	*AVTURBO/ KEROSENE*
36.5	→	41.2	*DIESEL*
8.5	→	6.8	*FUEL OIL*
13.8	→	6.9	

POWER GENERATION	5.68
INDUSTRY	7.11
TRANSPORT	63.99
RESIDENTIAL	7.68
COMMERCIAL	8.66
AGRICULTURE	1.11
OTHERS, NON-ENERGY	5.76
TOTAL DEMAND	100.00

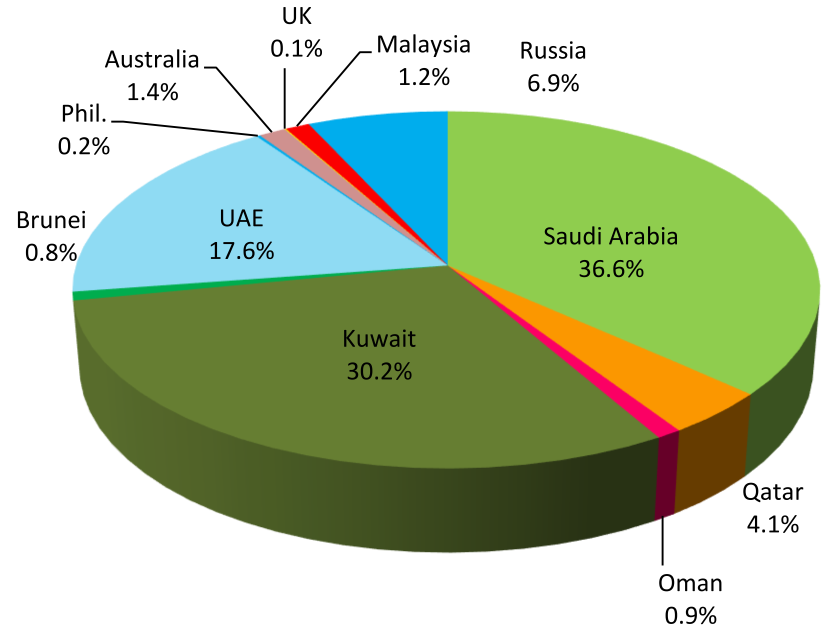
CRUDE

FY 2017 Oil Imports By Country of Origin



PRODUCT IMPORTS

97,530 MB

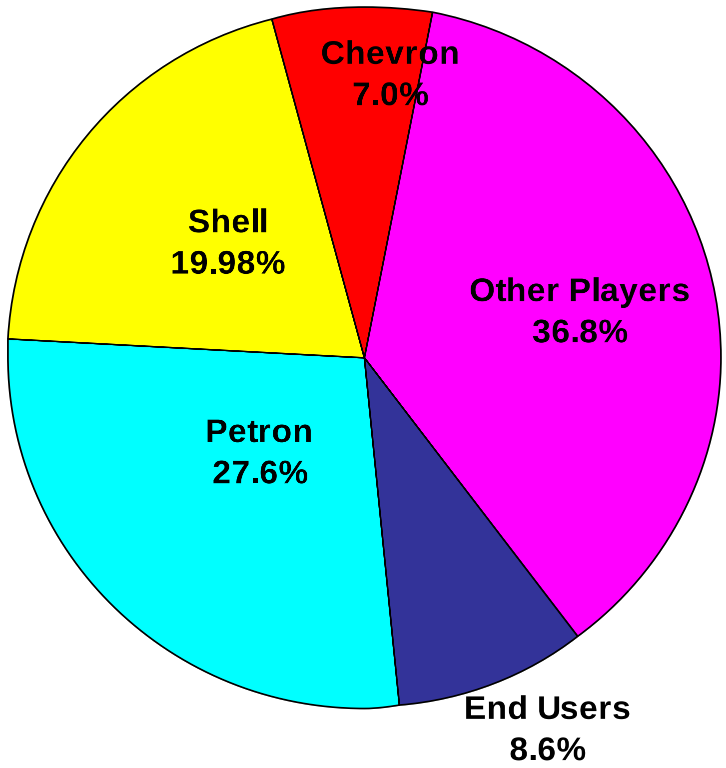


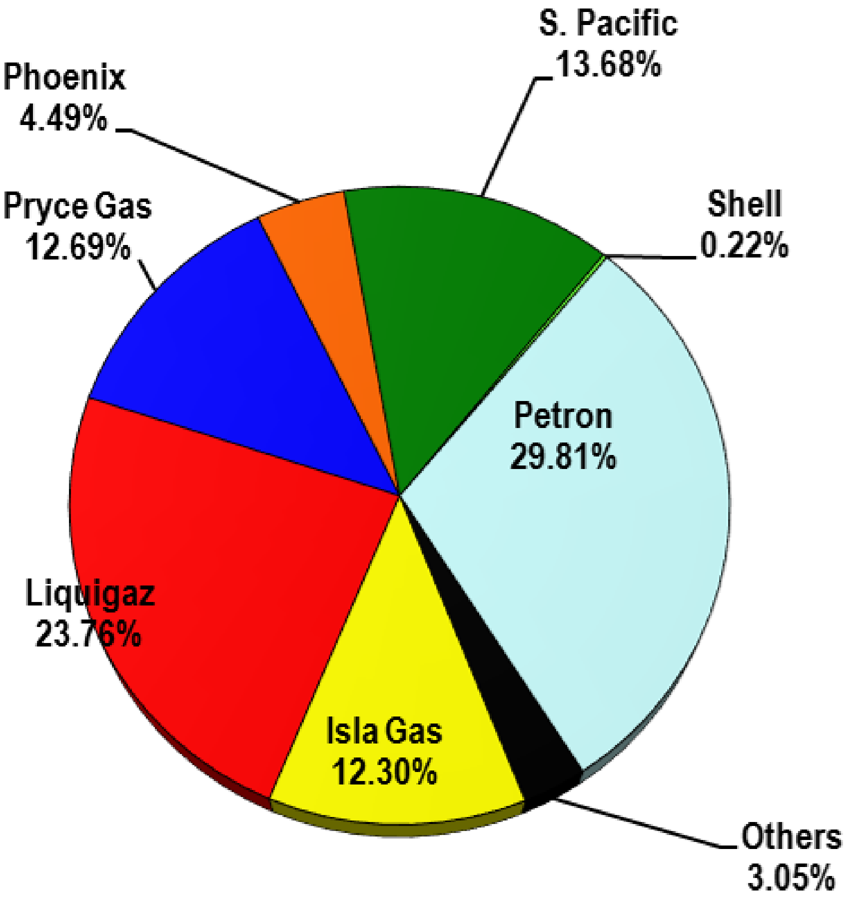
CRUDE IMPORTS

73,943 MB

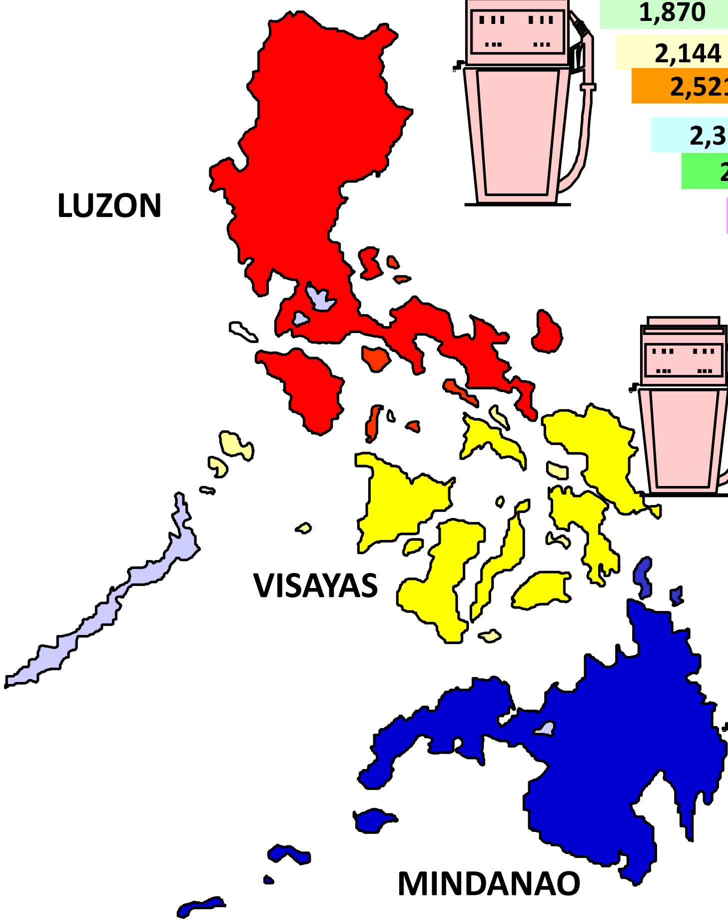
•Philippines - shipments from Subic/Clark freeports, sourced from various countries, e.g., Thailand, Singapore, etc.

FY 2017 MARKET SHARE TOTAL PRODUCTS / LPG MARKET MARKET SHARE





New Players' Gas Stations



LUZON

1,870
2,144
2,521
2,321
2,449
2,645
3,180
3,804
3,936

VISAYAS

614
576
617
532
636
669
786
1,041
1,067

MINDANAO

576
577
608
619
652
800
1,031
1,243
1,261

Total (1996) = 3,060
Total (1999) = 3,297
Total (2002) = 3,746
Total (2005) = 3,369
Total (2008) = 3,737
Total (2011) = 4,114
Total (2012) = 4,997
Total (2013) = 6,088
Total (2015) = 6,264

Flying V	314
Total Phils.	193
Unioil	42
Seaoil	262
Jetti	54
PTT/SBDI	52
Eastern	35
City Oil	
Metro Oil Subic	20
Uno Fuel	18
Nation Petroleum	
USA 88	7
Filoil Gas Co.Inc	101
Phoenix	298
Independent	1,080
TOTAL	2,476
Dec. 2011	1,019
Dec. 2008	741
Dec. 2007	738
Dec. 2006	602
Dec. 2005	506
Dec. 2004	755
Dec. 2003	661
Dec. 2002	564
Dec. 2001	411
Dec. 2000	276
Dec. 1999	112

Investments of New Players after R. A. 8479

(as of December 2017)

ACTIVITY	NUMBER OF PLAYERS		INVESTMENTS (Bn PhP)	
	FY 2010	FY 2017	FY 2010	FY 2017
Liquid Fuel Bulk Marketing	126	229	14.13	19.08
Fuel Retail Marketing	14	12	9.26	14.31
LPG Bulk Marketing	12	11	7.38	16.57
Bunkering	20	19	2.61	2.61
Terminalling	9	13	4.67	8.82
Refining *	2	2	6.7	118.3
Grand Total	**181**	**284**	**82.80**	**241.08**

North Luzon Situation

Oil Situation in the Philippines
- Price Decontrol

DOE price monitoring and assessment

- International prices, i.e. Daily MOPS Dubai, gasoline, diesel, kerosene, and monthly CP of LPG
- Retail prices in Metro Manila and key cities of Luzon, Visayas and Mindanao

Oil companies set local prices

- For gasoline, diesel, etc. – industry players reflect weekly MOPS movements in local prices
- For LPG, movements in the CP are quickly reflected in the domestic market on the first week of the month
- Independent oil marketers exercise freedom of choice (shop around for lowest price or enter into supply contracts)

Local Oil Pricing – Cost Components

FOB

+ Freight
+ Insurance

CIF

+ Import duty
+ Specific tax
+ Port chargers
+ Other imposts
+ VAT

Tax-paid Landed Cost

Some consider ANYTHING BEYOND the TAX-PAID LANDED COST (TPLC) as OVERPRICING. But such does not consider the local costs…

Tax-paid Landed Cost

+ Refining Cost (for crude)
+ Storage/Handling/Marketing Costs
+ Oil Company's Profit
+ VAT

Direct Oil Company Take

+ Transhipment Cost
+ Profit Margin
+ VAT for local sale

Wholesale Posted Price

+ Hauling Charge
+ Dealer's Mark-Up
+ VAT

Pump Price

Oil Demand in North Luzon

Demand Situation (As of FY 2017)

REGION	Gasoline			Diesel		
	Total (In MB)	(% Share)		Total (In MB)	(% Share)	
		Reseller	Ind'l/Comm'l		Reseller	Ind'l/Comm'l
NCR	10,168	71.7%	27.7%	18,562	48.3%	50.6%
CAR	153	90.6%	7.5%	523	88.0%	10.5%
Region 1	1,480	61.8%	38.2%	2,279	57.7%	41.8%
Region 2	986	54.0%	45.9%	1,847	57.2%	42.6%
Region 3	5,486	48.2%	51.7%	12,174	39.7%	59.9%
Total N. Luzon	8,104			16,823		
Total Philippines	39,104			68,743		
CAR vs. Total NLuzon	**1.9%**			**3.1%**		
CAR vs. Total Philippines	**0.4%**			**0.8%**		

Supply Sources in North Luzon

Number of Stations in North Luzon

REGION / PROVINCE	Number				Population ('000)	Density 3/ ('000)
	Majors	Independents 1/	Others 2/	Total		
NCR	538	184	143	865	12,877	15
CAR	48	14	25	87	1,722	20
Abra	*8*	*2*	*1*	*11*	*241*	*22*
Apayao	*3*	*1*	*0*	*4*	*119*	*30*
Benguet	*25*	*6*	*13*	*44*	*791*	*18*
Ifugao	*3*	*2*	*1*	*6*	*203*	*34*
Kalinga	*5*	*3*	*4*	*12*	*213*	*18*
Mountain Province	*4*	*0*	*6*	*10*	*155*	*16*
Region 1	231	72	179	482	5,026	10
La Union	*37*	*11*	*27*	*75*	*787*	*10*
Ilocos Norte	*41*	*17*	*11*	*69*	*593*	*9*
Ilocos Sur	*45*	*13*	*23*	*81*	*690*	*9*
Pangasinan	*108*	*31*	*118*	*257*	*2,957*	12
Region 2	178	47	71	296	3,451	12
Region 3	441	153	179	773	11,218	15

1/ *Importers (other than Majors), distributors/marketers*

2/ *White Stations; With own brands*

3/ *Average number of persons served per station*

Based on the 2015 Census of Population

- NCR is the most densely populated region, , with a population density of 20,785 persons per square kilometer.
- The most sparsely populated region in 2015 was the Cordillera Administrative Region (CAR), with 87 persons per square kilometer.

Supply Sources in North Luzon

Other Supply Sources For Fuels (Excluding LPG)

REGION	Depot		Import Terminal		Refinery		Total	
	Number	Total Capacity (in MB)	Number	Total Capacity (in MB)	Number	Total Capacity (in MB)	Number	Total Capacity (in MB)
NCR	12	286.57	3	595.08			15	881.65
CAR	0	-	0	-	0	-	0	-
Region 1	1	0.43	4	386.10			5	386.53
La Union			*4*	*386.10*				
Laoag City	*1*	*0.43*						
Region 2	1	47.88	0	-			1	47.88
Region 3	7	999.10	5	6,487.67	1	9,537.00	13	17,023.77

Note: In Region 2, the previously owned 4 storage facilities of Theta petroleum was turned-over to NPC-SPUG in 2013 for power generation.

In CAR, no operational depot. Closed depot which was previously operated by Shell.

Oil Pricing – After Landed Cost

GASOLINE PRICE ANALYSIS

Local Context of the Pump Price

March 2018 MOPS Gasoline (FOB)	74.25
Add: Freight	2.00
CNF, $/bbl	76.25
Forex	52.08
CNF, P/lit	24.98

Concerned Area	Gasoline Actual Price End-March 2018	International Content (CNF)	Local Content		
		Amount	Excise Tax	VAT	Industry Take
Manila	53.57	24.98	7.00	5.74	15.85
North Luzon					
Baguio Benguet	59.16	24.98	7.00	6.34	20.85
Tuguegarao Cagayan	49.50	24.98	7.00	5.30	12.22
Vigan Ilocos Sur	53.74	24.98	7.00	5.76	16.01
San Fernando La Union	51.63	24.98	7.00	5.53	14.12
Lingayen Pangasinan	48.72	24.98	7.00	5.22	11.52
San Fernando Pampanga	51.74	24.98	7.00	5.54	14.22
Bulacan	50.40	24.98	7.00	5.40	13.02

Oil Pricing – After Landed Cost

DIESEL PRICE ANALYSIS

Local Context of the Pump Price

March 2018 MOPS Diesel (FOB)	78.17
Add: Freight	2.00
CNF, $/bbl	80.17
Forex	52.08
CNF, P/lit	26.26

Concerned Area	Diesel Actual Price End-March 2018	International Content (CNF)	Local Content		
		Amount	Excise Tax	VAT	Industry Take
Manila	42.05	26.26	2.50	4.51	8.79
North Luzon					
Baguio Benguet	44.70	26.26	2.50	4.79	11.15
Tuguegarao Cagayan	41.50	26.26	2.50	4.45	8.29
Vigan Ilocos Sur	41.22	26.26	2.50	4.42	8.04
San Fernando La Union	39.54	26.26	2.50	4.24	6.54
Lingayen Pangasinan	40.16	26.26	2.50	4.30	7.10
San Fernando Pampanga	39.86	26.26	2.50	4.27	6.83
Bulacan	40.95	26.26	2.50	4.39	7.80

Retail Prices - Metro Manila vs. NLuzon

Price Assessment: Pre- vs. Post-Deregulation

Concerned Area	Last ERB Price Feb-96 (P/li)	Aggregate Adjustment from Feb-96 to Mar-18	Would-be Price	Actual Price End-March 2018
GASOLINE				
Manila	9.50	55.04	64.54	53.57
North Luzon				
La Trinidad Benguet	9.75	55.04	64.79	59.97
Tuguegarao Cagayan	10.21	55.04	65.25	49.50
Vigan Ilocos Sur	9.98	55.04	65.02	53.74
San Fernando La Union	9.59	55.04	64.63	51.63
Lingayen Pangasinan	9.79	55.04	64.83	48.72
San Fernando Pampanga	9.64	55.04	64.68	51.74
Bulacan	9.56	55.04	64.60	50.40
DIESEL				
Manila	7.03	39.09	46.12	42.05
North Luzon				
La Trinidad Benguet	7.28	39.09	46.37	40.30
Tuguegarao Cagayan	7.74	39.09	46.83	41.50
Vigan Ilocos Sur	7.51	39.09	46.60	41.22
San Fernando La Union	7.12	39.09	46.21	39.54
Lingayen Pangasinan	7.33	39.09	46.42	40.16
San Fernando Pampanga	7.17	39.09	46.26	39.86
Bulacan	7.10	39.09	46.19	40.95

In Closing

Geographical Variation in Prices

2013 OIL PRICING STUDY by the Center for the Advancement of Trade Integration and Facilitation (CATIF), UP Diliman

"Most oil companies do not apply uniform prices across the country. Geographical variation in prices is largely due to differences in transportation costs of supplying the areas. Thus, gasoline prices in the mountain city of Baguio are higher than those in Rosario, La Union at the base of the zigzag roads going up to Baguio.

Inside geographical pockets, however, prices tend to be uniform due to competition."

Geographical Variation in Prices

2012 OIL PRICING STUDY by the INDEPENDENT OIL PRICE REVIEW COMMITTEE (IOPRC)	
"Based on the gravity model, distance is an important factor in explaining regional pump price differences, at least for gasoline. Transport and handling costs play an important role in this, and the overall efficiency of the logistics sector is vital here.	Based on theory, the testimony of market players, and information gathered, the results show that greater competition leads to lower prices."

SOCIAL RESPONSIBILITY: FOSTERING GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

The DOE recognizes that there are always rooms for improvement. The Department will always seek the wisdom of the lawmakers, as well as its stakeholders, on how the law, and its implementing rules, can be improved.

Together with our stakeholders, DOE delivers its full commitment to finding solutions which will better serve our consumers.

KAYANG-KAYA KUNG SAMA-SAMA !

Information at DOE website

Oil Pricing Information:

- Oil Monitor
- Pricing Formula
- Retail Pump Prices
- LPG/Auto-LPG Prices
- Price Adjustments
- List of Stations Offering Discount
- Reportorial Requirements

Other Information on the Downstream Oil Industry:

- Industry Structure
- Regulatory Framework
- Promotion of Free Market Atmosphere
- Benefits of Deregulation
- Competition
- Standard Formulation and Enforcement
- Oil Supply Demand Report
- Reportorial Requirements

Thank You !

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