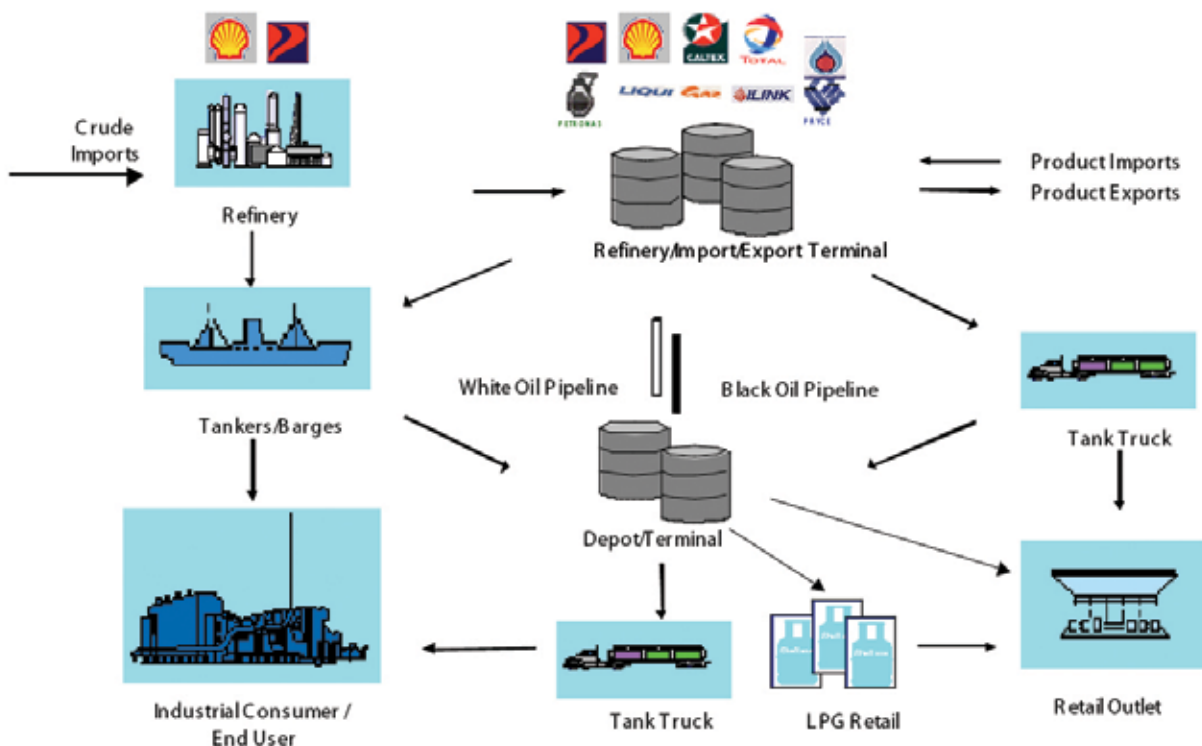


IV Responding to High Oil Prices

Downstream Oil Sector



I. OVERVIEW

Growth in global oil demand, shrinking buffers, oil supply shortages, speculation in the oil market, geopolitical tensions/conflicts, and under investment in exploration and refining all point to an uncertain and insecure energy future. Further, recent evidence of the drastic impact of global climate change particularly on the poor makes urgent the need for sustainable energy solutions. Focused actions are required now to help vulnerable sectors cope with high fuel prices.

The enactment of Republic Act No. 8479 deregulating the downstream oil industry has encouraged the entry of new players, thus increasing competition in the industry and providing greater access to petroleum products. There is, however, still much room for investments in the different business aspects of the industry, e.g., in refining, in storage, in marketing, and in distribution. Infrastructure improvement is not only desirable but also important considering the growing awareness of environmental considerations in the use of fuel. The thrust towards cleaner air has triggered a number of developments in alternative fuels and in local government policies on zoning and land use.

For example, new legislation and stricter regulations in the water transport of petroleum provide investment opportunities for local shipbuilders. In the LPG sector, there is a need for brand new cylinders that conform to the Philippine National Standard to replace substandard cylinders, for household, commercial, and automotive use.

The Philippine government is also encouraging investments in the establishment of regional petroleum stockpiles to form part of the government measures to ensure oil security. Because of limited available existing capacity, the government is encouraging investors to establish new storage facilities, instead of just filling up the spare ones. The Clean Air Act, which explicitly provides for stringent fuel quality specifications, resulted in a shortage in the capability of the local refiners to meet the petroleum products demand of the country, pursuant to the required quality. That situation is not only local and regional, but also global. This tightness in refining capability in the region has resulted in unprecedented margins for refiners in recent years, thus encouraging the construction of new refineries. Consumers can potentially benefit from the wave of the new regional capacities coming on stream. The coming on stream of new refineries in the region, however, will make the viability of further new refinery investments an issue, and refiners effectively now have the option to choose between “making” (investing in refinery to produce) or “buying” (importing) to meet their market’s demands.

Local oil refineries may be perceived as already missing out on the investment window for expansion. Still, that may merely be in terms of conventional petroleum products. The high demand for petrochemical feedstock, especially in China, may be a good incentive for refinery upgrading. Thus, local investments in refinery capacity should consider serving the regional and not just the Philippine market. However, it is important for the government to determine whether sufficient incentives or improvements in the investment climate can be made to encourage a “regional perspective” in the investments to be made by the trans-national oil companies in the country. It is clear that such a direction will require a national policy approach involving the various instrumentalities of government and not just the Department of Energy.

2. VIEWS EXPRESSED

2.1. During the Plenary Sessions

Mr. Thomas Crouch, Deputy Director General of the Asian Development Bank (ADB) offered a regional and global perspective on the energy sector. He highlighted that, the rapid increase in the annual energy demand with an annual rate of growth projected to average 1.6% until 2030. 70% of that growth, he said, comes from emerging economies and this poses a threat to energy security. He observed that, the Asia Pacific Region faces a tight supply-demand balance and it still relies heavily on imported petroleum. This, he said, actually paves way for greater regional and sub-regional cooperation, specifically in exploring new and alternative sources of energy.

He also reported that, increasing access to modern forms of energy for the poor requires high investment per capita. This, he said, could create an environment conducive to public and private sector partnerships.

Mr. Sohail Hasnie, Senior Energy Specialist of the Asian Development Bank (ADB) also stressed, the strong dependence on oil imports of countries in the region. He observed that, electricity demand is projected to grow by 2.2% per year and there is required new generating capacity of 74,000 MW every year. According to him, transport sector’s energy consumption stands at 44 per cent and residential sector at 20 % of total energy needs.

Dr. Nandita Mongia, Regional Coordinator and Team Leader for Regional Energy Program for Poverty Reduction in Asia and the Pacific of the UNDP Regional Center in Bangkok said that, recent increases in oil prices is due to strong demand as well as to geo-political factors that have kept supplies tight. Obviously, countries highly dependent on oil and oil imports are the most vulnerable. In India, China, Indonesia, and Lao PDR, she pointed out that, the policy on government subsidies clash with fiscal prudence and social justice considerations. There, she said, subsidies are shrinking but the fuel expenditure of poor sectors continues to rise. She stressed that, the high cost of oil adversely affects basic delivery of services to the poor.

Dr. Mongia offered the following possible approaches to dealing with high oil prices:

- 1) Restrain oil demand by adopting a policy of cutting down oil consumption per unit of GDP;
- 2) Shift to using inferior fuels, e.g., burning dung cakes and wood and crop residues;
- 3) Develop renewable energy for off-grid electricity;
- 4) Diversify energy sources to augment and sustain energy supply security;
- 5) Pursue biofuels utilization, but take into account issues on land reform and agricultural policy; and
- 6) Consider emergency preparedness and intervention measures.

She ended by noting that, Millennium Development Goals for women are at risk in terms of issues on health, education, and work.

Dr. Cayetano W. Paderanga Jr., Chairman of the Board of the Institute for Development and Econometric Analysis, Inc. (IDEA) and former **Director-General of the National Economic and Development Authority, Inc. (NEDA)** presented, a Philippine perspective to the oil crisis. According to him, the increase in oil prices is attributed to higher political risks, oil supply constraints, a weak US dollar, and the growing demand of large growing economies like China and India. Further, he noted, oil price increases resulted in a slight slowdown in overall global trading activity. He also pointed out that, a stronger peso meant lower import costs but also lower export earnings.

Dr. Paderanga stated that, the following actions are required in view of the aforementioned developments:

- 1) Promote infrastructure investments in the country;
- 2) Improve the quality of education; and
- 3) Achieve greater efficiency in governance and reduce red tape costs and corruption.

Dr. René B. Azurin, Professor of the College of Business Administration of the University of the Philippines pointed out that, it was necessary to take a broad perspective, rather than a narrow one, in responding to the issue of high oil prices. In that light, he said, the problem should not be viewed as one of simply dealing with high oil prices but as one of dealing with the energy situation of the country in general and in the long term. In this respect, it was necessary, he said that, other aspects of using oil, like its harmful effects on our environment and the fact that we are almost completely at the mercy of others for its supply, be considered in developing our policy approaches to the present problem.

Dr. Azurin pointed out that, high oil prices have the beneficial effect of discouraging their use and making the development and use of alternative energy sources more attractive. He then suggested that, this direction away from oil and towards cleaner alternative fuels should be encouraged from a whole economy point of view. In that respect, he said, the tax system must be made consistent with this policy direction and used to provide incentives for the right behavior in consumers and investors.

Accordingly, he suggested that, a consumption tax based on the carbon emissions impact of various products and activities be imposed to completely replace present taxes on income. He said that, it is “logically more reasonable to tax pollution than to tax income”.

From the Oil Industry, **Mr. Edgar O. Chua, Country Chairman of Pilipinas Shell Petroleum Corporation** highlighted the opportunities in the current oil crisis. He said that, the crisis can be converted to opportunity if government would use its windfall revenues from value added taxes, or VAT, to fund programs to cushion the impact of high oil prices. He stressed, however, that there is no silver bullet in the energy future. Biofuels alone, he said, will not solve the country’s energy problem. It must still be, he said, a varying combination of oil, coal, biofuels, hydro, and wind.

According to him, the continued rise in demand due to a growing population is the greater challenge. More people means more demand for energy. Energy production and use, however, he said, are principal contributors to air pollution (globally, 65% of carbon emissions comes from energy; in the Philippines, it is 49%) and climate change. As such, he recommended strategic responses such as Demand Management,

Fuel Diversification and Supply Security, Emergency Preparedness, and Oil Price Risks Mitigation.

Among the demand management strategic actions he proposed energy conservation and the management of CO₂ emissions. He also proposed accelerating the implementation of the Biofuels Law. He also reiterated the need for the immediate implementation of programs to directly assist the poor.

Mr. Raul T. Concepcion, Chairman of Consumer and Oil Price Watch recommended that, as part of the mitigation measures to address high oil prices, the government should focus on alternative fuels. Specifically, he suggested that, the government must arrange for financing to be extended for converting or acquiring new or rebuilt CNG buses from abroad in order that the program for Metro Manila buses and jeepneys to run on CNG or LPG instead of on diesel/gasoline be accelerated. Also, on the enforcement side, he requested the DOE to work closely with the BOC and the BIR to monitor the volume, value, and cost of inbound oil shipping lines to ensure the correct payment of duties and taxes. This, he said, would deter oil smuggling.

Mr. Meneleo J. Carlos, Jr. , Chairman of the Federation of Philippine Industries noted that, the cost of power from fuel oil is much higher than the cost of power using gas, coal, or geothermal energy. Large heat energy users should therefore shift to gas, coal, and geothermal sources for economic reasons and he said that the government must provide capital investment incentives to entice investors. He suggested that, the industry should negotiate for free access to all energy sources so that it can source from lowest-cost power suppliers and avoid fuel-oil-based power.

Mr. Carlos suggested a thorough cost analysis of all types of alternative fuels to establish their techno-economic viability. He also suggested a proper resolution of the food versus fuel issue with respect to biofuels.

Atty. Vigor D. Mendoza II, Chairman of the United Transport Koalisyon (I-UTAK) enumerated the issues faced by the transport group along with their group's recommended actions, to wit:

- 1) Soaring prices of oil products;
Adopt and implement Land Transport Policy (currently being discussed) which covers transport and land use funds, road safety, and transport technologies and provide incentives

for the promotion of alternative fuels to minimize the impact of oil price hikes on motorists and the public.

- 2) Continuous growth in the number of motor vehicles;
Develop alternative mode of transport such as ferry boats and railway systems to improve the traffic situation and eliminate the 5-10% fuel losses incurred due to traffic.
- 3) Persistence of "kotong" and "colorum" problems;
Address the red tape in franchise document processing by the LTFRB and implement seriously police enforcement measures to control "kotong" and "colorum". Traffic management agencies should collaborate closely with other agencies like the DOE's Task Force SEFEELS.
- 4) VAT suspension;
Consider the suspension of VAT on public transport fuel to reduce operators' operating costs and allow lower fares (affordability concerns of the riding public leads to a clamor for minimum wage increases and controls in the prices of basic commodities).
- 5) Environmental concerns;
Enforce strict vehicle standards to improve the fuel efficiency of motor vehicles. 40% of the fuel consumption of vehicles not properly maintained just go up in smoke in the form of harmful carbon dioxide emissions.

Representative Crispin B. Beltran of Anakpawis Partylist of the House of Representatives proposed to develop a program, which he called "Kabuhayan para sa Manggagawa" (Workers' Income Augmentation) that would provide additional income generating activities for minimum wage earners and eventually cushion the impact of high oil prices on the purchasing power of workers. He said that, the promotion of Filipino capital, labor, and technology in both the upstream and downstream oil industry and in the exploration of indigenous energy resources, such as geothermal and coal, was imperative as the country was too dependent on foreign companies.

2.2 Summit Day 2

Congressman Juan Miguel M. Arroyo, Chairman of the Committee on Energy of the House of Representatives said that, there was a need for a common and sustainable program for the development of indigenous sources of energy and that it was important to create a competitive market for energy resources. He also brought up the issuance of Executive Order No. 691 (which authorizes a cut in the oil tariff under an automatic price adjustment mechanism) as the first concrete step taken by the President to address surging oil prices.

Mr. Jesse O. Ang, Country Manager of the International Finance Corporation (IFC) said that, local investors in the upstream sector should be encouraged to participate more in the exploration and development of indigenous oil, gas, and coal. Otherwise, he said, the country will remain heavily dependent on imported fuel. According to him, the Philippines may avail IFC's long-term financing programs for oil, gas, and coal exploration and development.

Dr. Kelvin S. Rodolfo, Professor of the National Institute of Geological Sciences at the Universtiy of the Philippines highlighted the fact that the world has already reached the condition known as "peak oil", and oil production from hereon will be steadily declining. He said that, the crisis of diminishing global oil supplies and the crisis of global warming are twin crises that humanity must deal with today. Dr. Rodolfo pointed out that, global warming is indisputably caused primarily by human activities and that people must find ways to curtail the use of fossil fuel if the rise in global temperatures is to be held in check.

2.3 Summit Day 3

Senator Miriam Defensor-Santiago, Chairperson of the Senate Committee on Energy noted that, the world is entering a phase of "energy poverty" brought about by the escalating prices of fossil fuels. This, she said, increases concern for energy security and highlights the need for technology innovations in the energy sector. Under these conditions, she said, the country should be flexible and maintain a portfolio of energy options and the government should collaborate with NGOs, business firms, the consumer sector, and the general public in addressing the energy problem. She said that, every business firm should put in place an energy efficiency plan covering its operations, its supply chains, and even its workforce behavior.

Senator Santiago also expressed her views on the issue of biofuels by stating that we must be conscious of the tradeoffs between food security and biofuels production. She also ventured the idea that nuclear power can be considered as the best option for carbon-neutral energy. She recognized, however, that the risks of environmental pollution and safety need first to be addressed.

She said that, the Energy Committee in the Senate would support programs on energy that would:

- 1) Increase the efficiency of biomass fuels and promote the use of kerosene and LPG for cooking;
- 2) Increase the public's access to efficient stoves for biomass and modern fuels;
- 3) Offer targeted subsidies;
- 4) Remove market barriers to trade in kerosene, LPG, biomass fuels, and charcoal; and
- 5) Provide supportive regulatory policies for meeting energy needs.

Mr. Neil Atkinson, Senior Consultant of KBC Market Services in London expressed the view, that the increase in oil prices has placed subsidies at the center of the agenda in developing countries. Mr. Atkinson said that "Social policy objectives can be met more efficiently without subsidies, but some mistakenly see no subsidy as abandonment of objectives." A social security system targeted at poorer sections of society is more cost effective than providing fuel subsidies. He asked, "Why should middle and upper level earners enjoy cheap fuel?" Subsidy regimes, he pointed out, only contribute to the poor financial performance of some state-owned companies in developing countries.

Mr. Leonardo Q. Montemayor, President of the Federation of Free Farmers noted that, on key agricultural inputs, the cost of oil and fuel caused a 21% increase in prices between 2006 and 2007. Specifically, he said that, for the fishery sector, the share of fuel costs to total production cost amounted to 81% based on P30/liter, and 85% based on P40 /liter. Such being the case, he recommended that, the government should provide soft financing schemes and direct assistance to farmers and fisherfolk (e.g., electricity and fuel discounts). He also suggested that, livelihood opportunities, the building of rural infrastructure such as irrigation and post-harvest facilities, the review of land-use policy, and improvements in production yield technology have to be prioritized.

Senator Juan Ponce Enrile of the **Philippine Senate** reported on approaches to consumer protection during the energy crisis. He said that, system inefficiencies bring about high system losses particularly in the rural areas.

2.4 During the Summit Workshop

This workshop brought out various stakeholders' views on issues and concerns associated with high oil prices, given the present regulatory framework of the downstream oil industry and the present policy directions in the downstream sector in particular and the energy sector in general. The aim was to generate ideas and initiatives and recommend actions with respect to this particular focus area.

A total of sixty-six (66) participants officially registered for this workshop, more than a third coming from the oil industry (oil companies, oil (marine) transport companies, gasoline dealers, LPG dealers, and retail outlets). Representatives from government agencies comprised another third of the participants. Public transport leaders from various associations also actively participated, as well as representatives of NGOs and civil society, academe, LGUs, and media. There were no participants from multilateral and financial institutions.

HIGHLIGHTS OF THE WORKSHOP

Mr. Carlos R. Alindada, Chairman of the **Independent Review Committee for Oil Deregulation** was the main resource person of the workshop. He presented the findings, conclusions, and recommendations of the Independent Review Committee on the Oil Deregulation Law in 2005, and compared the same with the present situation. These highlighted the fact that the rise in the price of oil and oil products in the local market were caused by peso devaluations and increases in the global price of Dubai crude. The rising prices, he stressed, did not come about because of deregulation.

Subsidizing oil products, he said, is not a viable solution because it will cost government excessive amounts of money. He said that there is, at present, no hard evidence that cartels exist, but that the DOE should always be alert to its likelihood in the future. On pricing, he said that, the DOE should not support or initiate any change in the policy of the State as contained in the Downstream Oil Industry Deregulation Act of 1998 (RA No. 8479).

He further suggested that, the DOE, working through the government's representatives in the Board of Petron, should continue influencing Petron to act as a "price moderator". He pointed out that, in a deregulated market, the low cost producer often sets the price and that Petron, being a refiner and a market leader, can fill that role.

The Philippines, he pointed out, imports practically 100% of its oil requirements because total indigenous production accounts for less than one half of the country's needs for half a day. Thus, he said, any changes in international oil prices directly affect pump prices. The DOE, he said, should make the public aware that we are now in a regime of high oil prices. Further, he said, the DOE should continue its efforts to encourage exploration and development of indigenous energy resources, including oil and gas, encourage the use of alternative energy sources, and promote programs for the conservation of energy and the avoidance of waste in the use of oil products.

He noted that, it was interesting that the land transport and sea transport groups have different views on oil deregulation. The land transport sector is still regulated while the sea transport sector is deregulated. He suggested that the DOE look into an automatic fare setting mechanism or formula that can adjust fares quickly in response to both increases and decreases in fuel prices.

Highlights of the reactions of the discussants:

Governor Enrique T. Garcia of **Bataan** wanted to revert back to the regulation of the downstream oil sector. He argued that, this was the biggest factor that could bring down oil prices since the high oil price is due to high global crude prices and a fluctuating peso-foreign exchange rate. He emphasized that, the operations of the Oil Price Stabilization Fund (OPSF) could not be directly linked to the effects of regulation because the OPSF was instituted much later. Besides, he said, the OPSF was intended to stabilize prices, not really to subsidize them. He recognized that, the government could not afford to subsidize. He also presented Supreme Court ruling on the petitions against the Oil Deregulation Law.

Mr. Jose Enrique Africa of **IBON Foundation** identified as urgent the removal of value added taxes in oil products. He wanted this implemented in the short-term. For the medium-to-long term, he wanted the

development of diversified fuel sources, more efficient energy use, centralized procurement of oil products, the establishment of a buffer supply and buffer fund, the taking advantage of non-traditional trade deals such as bilateral deals and commodity swaps, and the nationalization of the oil industry. He pointed out that these recommendations were consistent with a fiscally and socially responsible state.

Mr. George San Mateo, Secretary-General of the transport group **Pagkakaisa ng mga Samahan ng Tsuper at Opereytor National (PISTON)** questioned the credibility of the Independent Review Committee because, he said, it should have been Congress who should have reviewed the Oil Deregulation Law. He expressed his group's opinion that, a cartel operates in the oil industry. He expressed support for the call to exempt oil products from VAT, to scrap the Oil Deregulation Law, to centralize oil procurement, and to maintain a buffer fund for oil. For the long term, he proposed the nationalization of the oil industry. He emphasized the need for political will to undertake the proposed reforms.

Mr. Efren de Luna, President of the transport group **Alliance of Concerned Transport Organizations (ACTO)** opined that, priority be given to "kabuhayan" or livelihood. Noting that, 75% of the income on fuels comes from the public transport sector, he said that it is but proper that some concrete support/benefits be reverted back to the sector. This should include, he said, regulations on the use of surplus engines and parts as they cause smoke/emissions, subsidized loans for the acquisition of better engines, and incentives to drivers like offering scholarships for their children. He also felt that, the VAT on oil products should be removed. He expressed support for deregulation, however.

Ms. Anna Whitehouse, President and Managing Director of **Total Philippines, Inc.** proposed that, government pursue programs to reduce tariffs to bring about lower diesel pump prices, that of prices should be moderated through staggered price adjustments, that the DOE adopt policies leading towards energy independence, that the Biofuels Act be implemented, that indigenous sources of fuels be developed to effect dollar savings, that the thrust towards cleaner and more environment-friendly fuels be accelerated, that new markets and new industries be developed to enhance livelihood opportunities, and that the industry partnership with the government Task Force against "Kotong" & "Kolorum" be maintained. She

proposed that, Total and the other oil companies continue with their subsidy of diesel (P1.00 discount) for the public transport sector, support the AutoLPG program, develop cleaner conventional fuels and higher-performing lubricants, introduce the use of CNG buses, and actively promote alternative fuels and renewable energies sources. She also proposed that, consumers begin to drive properly, learn to undertake regular maintenance, make use of car pooling, shift to compact fluorescent lamps, and lower their aircon thermostats.

Dr. Peter Lee U, Dean of the **School of Economics** of the **University of Asia and the Pacific** supported the statements of Mr. Alindada that, the Oil Deregulation Law is not the cause of high oil prices. He said that, high local oil product prices were the result of high international prices of crude oil since the Philippines is primarily an oil importer. He said that he was not in favor of subsidizing the prices of oil because the government simply cannot afford to subsidize. He suggested looking for other ways to address and cope with a continuing rise in the price of oil, like developing the use of alternative fuels and other sources of energy and making energy conservation a way of life. He also proposed that, to avert suspicion that the oil companies are involved in collusion, a competition policy law should be enacted and a separate agency should be established for its enforcement.

Undersecretary Gil S. Beltran of the **Department of Finance** said that, he was an advocate of energy conservation and shifting to alternative fuels. He said that, he also advocated pro-poor assistance through targeted programs, such as the DSWD's school-feeding program and the provision of credit for micro and small enterprises. He also suggested that, the public transport system be improved through the building of more mass transit railways.

2.5 Summit Workshop Output

The problems, gaps, issues, and concerns identified during the workshop and the time frame to resolve them were grouped into immediate, short-term, medium-term, and long-term actions. Various actions were proposed:

Immediate:

- 1) Removal/lifting of VAT on petroleum pump prices; (This would have a positive and

immediate impact on consumers, but would have a negative impact on the revenue collections of government.)

- 2) Reduction of VAT to the level equivalent to the tax take based on a 12% rate at a \$60 per barrel crude price;
- 3) Introducing transparency in the VAT collection process and in the selection of its beneficiaries;
- 4) Establishment of an inspection team to safeguard against the “loss” of oil volume in oil importation process;
- 5) Removal of consumer subsidies to improve the (currently low) profitability of oil companies, petroleum dealers, retailers, etc.; and
- 6) Provision of temporary fuel discounts to the fishing sector to immediately lower the fisheries production cost.

Short-Term (by February 2009):

- 1) Encouraging sharing of common depot facilities among the industry players to promote more operational efficiencies and to avoid unnecessary multiple handling of oil products, thus reducing costs;
- 2) Monitoring by GPS the vessels used in the distribution of petroleum products to improve efficiency and impose control in the distribution process, both in land and sea transport;
- 3) Relaxation of the requirements of the soft loan policies/criteria for Auto LPG conversion to help promote the more widespread use of alternative fuels;
- 4) Curtailment of oil smuggling to generate more revenues for the government;

- 5) Prosecution of oil smugglers;
- 6) Establishment of a Land Transport Leasing Corporation, through issuance of an Executive Order, to provide low cost financing to land transport operators;
- 7) Deregulation of the public transport sector to promote competition in the sector and lower fares;
- 8) Indexing of geothermal energy prices to coal prices;
- 9) Encouraging the conservation of energy through appropriate policies that promote behavioral changes.

Medium-Term (up to February 2013):

- 1) Indexing of natural gas prices to oil prices;
- 2) Accelerating of the use of alternative energy and alternative fuels by promoting I) LNG/CNG for power, industry, and transport use, II) the use of biofuels, III) mass public transport systems, and IV) the phasing out of jeepneys on major thoroughfares; and
- 3) Provision of soft loans for the modernization of fishing vessels and facilities (so as to increase efficiency in fishing and consume less fuel to achieve the same outputs).

Long-Term (up to February 2018):

- 1) Close monitoring by the BIR of oil tanker deliveries to ensure that the appropriate taxes (VAT) are being collected; and
- 2) Scrapping of the Oil Deregulation Law and the buying back by government of a majority stake in the Petron oil company.

PROBLEM IDENTIFICATION TEMPLATE

Type of Problem, Gap, Issue or Concern

To resolve over what time frame?	Stakeholder interests/conflicts	Finance/ Resources	Processes/ Mechanics	Learning/ Growth	Others
Immediate (by August 2008)	Removal of RVAT on fuel price (+) immediate reduction of fuel price to benefit consumers (-) revenue collection for government	Fuel accounts for 50-60% of production costs in fisheries	Illegal & unauthorized retailing & wholesaling of household LPG	Willingness to listen & understand the issues!	
	Low efficiency	Transparency on Oil Companies' financial status \$69/bbl @ 55 (forex) Crude oil based price \$69/bbl $P55 \times \$1 = P5,500$ \$100/bbl $\$41 \times \$1 = 4,100$ $\$31 \times 41 = P1271$ $P5,500 - P4,100 = P1,400 - P1,271 = 129/bbl/41$. variation Savings by Oil Companies \$3,146/bbl	Oil smuggling more than P12B/yr. Lost in smuggling referred to Senate hearing by Sen. Escudero & Sen. Roxas Jan.25,2008 US\$ 390,243,902.40/yr US bbl:3,902,439 US bbl/yr 620,487,804.90 liter/year at forex P41 = \$1 Solution: To establish an inspection team to safeguard the govt. against the lost of oil volume in the oil importation & the principle of check & balance in the oil industry		
	Poor profitability of stakeholders (oil companies/dealers)		Removal of stakeholder subsidies		
	To realize that oil & other commodities' prices are determined by speculation at commodity futures market		Transparency in RVAT collection process & beneficiaries		
	Reduce RVAT to level-off 12% based on \$60/bbl crude price index (Ex. $12\% * \$60/100$)				

To resolve over what time frame?	Stakeholder interests/conflicts	Finance/ Resources	Processes/ Mechanics	Learning/ Growth	Others
	Reduce RVAT to level-off 12% based on \$60/bbl crude price index (Ex. 12% * \$60/100)				
Short-Term (by March 2009)	Sharing of common depot facilities among industry players to promote more operational / cost efficiencies	Restrictive soft loan policies for taxi operators/ drivers to convert to Auto LPG	Improve efficiency & loss control in distribution (road & sea)	Education & awareness	
	Continuing oil price increase	Curb oil smuggling to generate more revenues for BOC/BIR - plug EVAT leaks, loopholes	How does government address to the loss in oil volume in the importation?		
	12% RVAT		P12B revenue losses due to smuggling		
	Rising transshipment costs, Ex. double hull regulation (Apr 2008) OPMF RA 9483 Sec. 22		\$12.9M yearly loss in volume		
	Geothermal energy price is indexed to coal prices. Needs to review price mechanism				
Medium-Term (by March 2013)	No energy management center		Oil Deregulation Law		
	No energy conservation law (old law lapsed)				
	Natural gas price is indexed on oil prices supply contract needs to be reviewed				
	Lack of comprehensive studies on alternative energy/fuels in anticipation of high cost & scarcity of supply				
Long-Term (by March 2018)	Traffic				
	Scrap oil deregulation law				
	Buy back Petron				

SOLUTIONS IDENTIFICATION TEMPLATE

Immediate

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Private	Support the call for a New Bretton Woods System, as being called by the Hawaiian government and as proposed by Mr. Lyndon La Rondre * 17 stickers	To save humanity by the disintegration of the current world financial system that would result to a new dark age, as the whole world is facing and imminent hyperinflation blowout, like what happened in Weimar, Germany in 1923			Government Business Academe
	Lifting of 12% VAT on petroleum products * 14 stickers	To lower the price of petroleum products		P123 savings for transport sector alone	Congress Senate
	Establishment of Land Transport Leasing Corporation through E.O. or Incorporation * 13 stickers	To provide low cost financing to Land Transport operators	Issuance of E.O. or Incorporation	Within the year	DOTC LTRFB
	Curtail Oil Smuggling *12 stickers	To remove oil smuggling Effective prosecution of oil smugglers	Government, through the Bureau of Customs, Department of Finance recognizes oil smuggling as a major problems to be addressed in 2008	Increase revenue Increase cases filed against oil smugglers	BOC Philippine Coast Guard PNP AFP Monitoring by private groups
	Curb Oil Smuggling/Plug VAT loopholes/leaks * 11 stickers	Generate more, generous in the hope of helping reduce VAT rate (lower than 12%) thus, reducing prices	Increase revenue collection		BOC, BIR DOF, DOE Philippine Coast Guard, Local Government., Media

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Private	Monitor by GPS vessels used in oil distribution * 6 stickers	To improve efficiency and control losses to minimize pilferage in distribution at sea and on land	Number of GPS installed on board vessels. Savings in cost of freight Enforcement of rules	2 nd Quarter 2008	DOE DOTC-MARINA PCG
	Sharing of common depot throughout the Philippines among oil companies Outsourcing or rationalizing the use of facilities * 3 stickers	To avoid unnecessary multiple handling of oil products Save on costs To minimize distribution cost	One supplier of fuel in a geographical area with other players taking their products from that supplier		DOE Major Oil Players
	Provide temporary fuel discounts to the fishing sector * 1 sticker	To immediately lower fisheries production costs	Higher income for fishermen	Upliftment of quality of life of poor fisherfolk	BFAR

Short-Term

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Government	Intensify Anti-Smuggling Campaign (include all phases of smuggling) *11 Stickers	Improve tax collection Increase revenue collection To collect the right amount of taxes due to government	No. of smugglers apprehended/neutralized Enforcement of the Attrition Law	100% collection	DOF BOC DOE
	Reduce RVAT *7 Stickers	To partially subsidize high oil prices	There are already discussions made by government agencies/personality	\$100/BBL 5% \$110/BBL 10% \$120/BBL 12%	Government
	Relax the requirements of the soft loan policies/criteria for Auto-LPG conversions *7 Stickers	To push for the widespread use of alternative fuels i.e. Auto-LPG through the conversion of vehicles into Auto-LPG	Increase number of taxi units converted Higher Auto-LPG sales/consumption	30% growth by 2009	DOF GFIs DOTC
	Deregulation of the transport fares *5 Stickers	To promote competitive transport fares/strategies Lifting of the PUV/PUJ lanes	Competitive fare rates with road worthy compliant vehicles and professional acting drivers (skill and attitude)	1 st Quarter 2009	Congress
	Promoting the use of alternative fuels for PUVs	To help reduce the country's dependence on imported crude oil	Passage of Alternative Fuel Bills Number of PUVs converted to CNG/LPG & other environmental-friendly fuels Development of CNG infra-mother and daughter stations, pipelines Exploration and development of downstream natural gas industry	Support Passage of the Bill mandating the use of CNG and other alternative fuels for PUVs Substantial reduction of pollution problem	Congress

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Private	<p>Lack of comprehensive studies of alternative energy/fuels in anticipation of high cost and scarcity of supply (SKIP)</p> <ul style="list-style-type: none"> • Tap all NGOs or academics • To conduct thorough study and proposal <p>*2 Stickers</p>	To avoid conflict of interest of politician as mentioned by Senator Santiago		<p>Target date are to be set</p> <p>The loop should be closed</p>	Private Sector with Government Incentive
Government	<p>Behavioral Change</p> <ul style="list-style-type: none"> • Re-educate people • Laws on energy conservation should be enacted • Upgrade technologies • Energy management center should be created 	Conservation of energy through policies and behavioral change		Decrease consumption by 30%	DOE DepEd
	<p>Rising trans-shipment cost</p> <p>Ex.: Double haul/OPMF</p> <ul style="list-style-type: none"> • Limit double hull to persistent cargo • Review RA 9483 specifically Sec. 22 	To soften the impact of rising crude prices	Continue supply of ships/bottoms	No increase in trans-shipment cost	DOE DOTC Congress DOF MARINA
	<p>Geothermal Energy- (SKIP)</p> <ul style="list-style-type: none"> • Maximize local resources • Create more support group studying how to increase production of geothermal energy 	For the local users (Filipinos) to enjoy and utilize our own produced geothermal energy	Continue the law implementing the usage of geothermal energy for local based application on adopting the law with current economic condition	<p>Monitor industries using geothermal energy and detect the utilization</p> <p>Government should take control on the abuse in usage of geothermal</p>	

Medium-Term

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Government	Curtailement of oil smuggling (Immediate) * 11 Sticker	To collect the right amount of taxes due to government	Increased government revenues	100% collection	Government
	Study options on centralized procurement of imported petroleum * 8 Stickers	To have control over the country's oil storage facilities	The cost is expected to go down as government negotiates for special terms and arrangements with potential suppliers		Office of the President DOE NPC
	Provide direct assistance to fishing vessels/ facilities through soft financing * 1 Sticker	To increase efficiency in fishing, thus, consume lesser fuel for the same output	Lesser cost of production in fisheries	Lower fisheries products costs for the consumers	DOF
	Review the pricing formula for supply contract between users of natural gas and producers	To reduce the increase in natural gas prices whenever crude oil prices rise significantly	Multi-agency committee created Revised/enhanced supply contract	Moderate the impact of oil price increase indexed on natural gas prices	DOE DOF SPEX and users of Natural Gas
Cross Sector		Promote LNG/CNG for power, industry and transport use as our natural gas supplies (Malampaya) is good for 23 years only	Refrigerated LNG in place CNG stations in place	In place before natural gas runs out Study immediately	DOE DOTC DTI
		Promote biofuels • biodiesel (CME, coconut, palm oil) jatropha • ethanol (sugar, cassava) • biomass gas / biogas	Fuels meet automotive standards	According to plan/ study	DOE Biofuels Board
		Promote mass transport electricity/ fuels Phase out jeeps in major thorough fares	More MRT/LRT, electric cars Buy out jeeps and make them shareholders of mass transit authority	According to plan/ study Jeepney drivers/ operators become stockholders Re-educate to new business lines	DOTC DOE

Long-Term

Sector	What initiatives do you propose?	What is the objective of the initiatives?	What is/are indicator(s) of progress in the initiatives?	What performance target(s) do you propose?	Who do you think should take the initiative?
Government	Promote an inter-modal mass transport system *11 Stickers	<ul style="list-style-type: none"> • Programs that promote the use of rail, bus and other forms of mass transit • To conserve energy and reduce pollutions and congestion 	Number of mass transport lines operating	100% collection	DOTC
	Use of alternative and indigenous sources of energy for domestic consumption that will surely benefit the public. *9 Stickers	To maximize the natural resource for the use of the people		Lower cost fuel	DOE DOST DOTC
	<ul style="list-style-type: none"> • BIR – close watch on oil tankers deliveries • Suspension or total elimination of RVAT on fuel products • Increase tariff 	<ul style="list-style-type: none"> • To ensure that VAT is being paid right • Save government from losing revenues • Improve revenue collection of tariff collected at source • Few people to police 	<ul style="list-style-type: none"> • When revenues from VAT improves Customs collections increase by 20% 	20% increase collection from small players	BIR-Customs and Police

2.6 During the ADB Workshop

ADB Workshop 5, of the same title “Responding to High Oil Prices” practically covers the Downstream Oil Sector.

The output from Workshop 7 on Day 3 was subjected to reality check, while taking into consideration views expressed by the plenary and workshop speakers and discussants.

The ADB Workshop was able to assemble a comprehensive web of solutions that reflect immediate, short-term, medium-term, and long-term measures that are geared towards a sustainable and practicable plan of action. Objectives, strategies and priority and supporting actions were identified, as well as “actors”. The types of measures adopted under these objectives comprise policy and legislation; regulation, enforcement and compliance; investment (financing, infrastructure, technology, incentives); and information, education, and communication campaigns. It was seen that both government and the private sector in the downstream oil industry would play major roles in the implementation of actions for this cluster.

The outputs of the Summit Workshop on the Downstream Oil Sector were subjected to scrutiny and analysis, taking into consideration all the views expressed by the plenary and workshop speakers and discussants.

After much discussion, the Post-Summit Workshop was able to assemble a comprehensive package of measures—grouped into immediate, short-term, medium-term, and long-term actions—that constitute what was felt to be a sustainable and practicable strategic plan for responding to high oil prices. Objectives, strategies, priorities, and supporting actions were identified, as well as the “actors” in these actions. The types of measures adopted comprised:

- 1) policy and legislation;
- 2) regulation, enforcement and compliance;
- 3) investment (financing, infrastructure, technology, incentives); and
- 4) information, education, and communication campaigns.

It was seen that both government and the private sector in the downstream oil industry sector must

play major roles in the implementation of the assorted actions in the strategic plan.

The actions in the strategic plan were organized around the following objectives identified during the Summit workshop:

Objective I: To mitigate the impact of high oil prices on consumers

Global oil prices are obviously beyond the control of importing countries like the Philippines. Thus, the country’s high dependence on imported crude necessitates measures to absorb the shock of rising oil product prices. The reliance of the country’s basic service sectors, including transport and power, on imported fuel means direct adverse consequences for consumers, a majority of whom belong to the lower income segments of society and who have little economic capacity to cope with escalating prices.

Accordingly, mitigating measures to help cushion the impact of high oil prices and provide immediate to short-term relief to particularly vulnerable sectors of society were considered to have top priority.

In this light, the strategic directions proposed were:

- 1) the rationalization of policies that affect the downstream oil industry sector, including (but not limited to) taxation and subsidies;
- 2) the promotion of the development and utilization of alternative fuels (that is, diversification), particularly indigenous and renewable fuels; and
- 3) the development of financial mechanisms to soften the impact of high oil prices on vulnerable sectors.

The priority immediate actions proposed to mitigate the impact of high oil prices on consumers were:

- 1) Revisiting the taxation structure for petroleum crude and its products and developing targeted expenditures for pro-poor projects funded by oil tax collections;
- 2) Providing fuel discounts to vulnerable sectors;
- 3) Providing subsidies to vulnerable sectors;
- 4) Reviewing Sec. 22 of RA 9843 (oil pollution management fund);

- 5) Establishing a Land Transport Leasing Corporation through EO;
 - 6) Reviewing the pricing formula for new contract between users and producers of natural gas; and
 - 7) Deregulating public land transport fares.
- 2) Sustaining the implementation of the anti-kotong and anti-kolorum program;
 - 3) Strict enforcing of rules on LPG distribution and use;
 - 4) Installing of Global Positioning System (GPS) trackers on sea-going and land-based oil tankers; and
 - 5) Institutionalizing of a monitoring mechanism and product tracking system, possibly involving product “markers”.

Objective 2: To minimize resource “leakage” in the oil and the public transport sectors

One of the factors that has affected the local costs of petroleum crude and its products is smuggling, pilferage, and adulteration. In 2007, about 4 billion liters, or 33 percent of the Philippines’ oil consumption last year, went untaxed. This has resulted in at least 16 billion pesos in annual revenue losses for the government.

Inefficiencies in the distribution chain have likewise allowed the rampant pilferage of fuels, both using sea-going vessels and land-based tankers. Adulteration of fuels has also emerged as a concern and this has likewise been attributed to the lack of systematic monitoring of the distribution chain.

The transport sector has also brought to the fore issues that create problems for their sector, particularly corruption in traffic enforcement (kotong) and the proliferation of “kolorum” or unlicensed PUVs. These practices were estimated to account for cutting the income for drivers and public transport operators in half. In recognition of this, the government is already undertaking a consolidated, integrated approach to eliminate kotong and kolorum PUVs in Metro Manila. This effort involves various Cabinet departments and agencies. This campaign, which addresses drivers’ concerns about reduced income, can be expected to cushion the impact of high oil prices by averting the need for transport fare hikes.

The strategic directions outlined under this objective of minimizing resource “leakage” were:

- 1) to intensify the campaign against oil smuggling;
- 2) to improve distribution efficiency; and
- 3) to improve governance in the public transport sector.

The priority actions proposed were:

- 1) Strict enforcing of anti-smuggling laws;

A supporting action involves the hastening of the implementation of Department of Finance Order No. 23-07 dated July 26, 2007 on Fuel Marking. This aims to curb smuggling.

Objective 3: To promote efficiency in the supply and distribution chain

Aside from the resource “leakages” mentioned above, a number of inefficiencies in the supply and distribution chain affect the overall viability of the downstream oil industry sector. These translate to significant increases in the pump prices of petroleum products. The solutions proposed consist of innovations in procurement, storage, and distribution, as well as the introduction of policy adjustments to lower costs.

The strategic direction proposed under this objective of promoting supply chain distribution efficiency was to establish and encourage a “best practices” mindset that can lead to more efficient storage and distribution operations on the part of oil companies and their distributors and retailers that, hopefully, will lead significant reductions in local oil product prices.

The priority actions proposed were:

- 1) Developing an appropriate policy on the storage and distribution of petroleum products, e.g., sharing of oil depots throughout the Philippines among oil companies;
- 2) Synchronizing local policy with international regulations on the double hull requirement for sea vessels carrying oil products; and
- 3) Developing an appropriate policy on centralized product procurement/importation

Objective 4: To reduce dependence on imported fuels

The country's vulnerability to global oil price shocks is, obviously, a consequence of the fact that it is not an oil producer and must import virtually all of its oil requirements. This dependence on imported fuels clearly needs to be reined in. Since 2003, crude oil prices have risen from \$22 to over \$80 a barrel. It now stands at over \$100. The Philippines ranks 13th in the Asia-Pacific region in terms of oil price vulnerability. More supply shocks and the onset of the "peak oil" condition can be devastating for the economy. A future where oil remains affordable now seems fictional as the global oil supply drops and climate change imperatives severely restricting carbon emissions become operationalized worldwide.

The strategic directions proposed under this objective of reducing dependence on imported fuels consist of initiatives that will, in the medium- to long-term, achieve the following:

- 1) the reduction in the country's consumption of oil-derived products by, for example, developing and using energy-efficient products and making public transport systems more energy efficient; and
- 2) the creation of an environment conducive to the increased use of alternative sources of energy and alternative fuels.

The priority actions proposed were:

- 1) Building an oil product testing and monitoring capacity;
- 2) Improving infrastructure that is compatible with biofuels and blends, e.g., storage tanks, pipeline systems, receiving, blending and loading facilities;
- 3) Accelerating the development of more mass transport systems;
- 4) Improving infrastructure like roads, bridges, highways, and skyways to make traffic flow more efficiently; and

- 5) Providing incentives for the development and utilization of alternative fuels and energy efficient devices.

Objective 5: To promote public awareness of the downstream oil industry sector's initiatives and of developments affecting pricing

In addressing matters concerning how the country can respond to high oil prices, technological measures and policy interventions play a major part, but a comprehensive program to educate Filipinos on practical realities is also essential. Given the fact that the nation has no control over global oil price fluctuations, what can be done is necessarily confined mainly to taking measures to mitigate the local effects of oil price increases. Such local actions require multi-sectoral engagement, grassroots participation, and massive education. The proposed priority actions can only be effectual if supported by a critical mass of citizens who are willing to take decisive action at the individual, family, community, provincial, regional, and national levels. This necessitates a strategy that incorporates mechanisms to educate whole stratas of Philippine society.

The priority actions proposed were:

- 1) Sustaining an intensive information and education campaign (IEC);
- 2) Conducting multi-sectoral consultations;
- 3) Developing a coherent communication plan for the downstream oil industry sector; and
- 4) Establishing an on-line resource center.

The Post Summit Evaluation Matrix will present the views by the different speakers/stakeholders in the workshop including the results of the analysis and recommendations of the DOE through the Oil Industry Management Bureau (OIMB).

POST-SUMMIT EVALUATION MATRIX

DAY 1

VIEWS	COMMENTS	RECOMMENDATIONS
Mr. Thomas Crouch , Deputy Director General of the Asian Development Bank (ADB)		
Rapid increase in energy demand and the continued reliance on imported petroleum in Asia Pacific Region paves way for cooperation in exploring new and alternative sources of energy.	Promote energy efficiency and conservation. Continue development of alternative and renewable energy.	Implement Biofuels Law; Advocate passage of RE Bill and Continue to implement Energy Conservation and Efficiency Programs.
There is a high investment requirement per capita to increase access to modern forms of energy for the poor.	Modern forms of energy might not be a priority concern of the poor	Encourage private sector participation in investment capitalization.
Mr. Sohail Hasnie , Senior Energy Specialist of the Asian Development Bank (ADB)		
Region highly dependent on imported fuels.	Promote energy efficiency and conservation. Continue development of alternative and renewable energy.	Need for more regional collaboration on the security of supply of high quality fuels.
Dr. Nandita Mongia , Regional Coordinator and Team Leader for Regional Energy Program for Poverty Reduction in Asia and the Pacific of the UNDP Regional Center, Bangkok		
Restrain oil demand by adopting a policy of cutting down oil consumption per unit of GDP.	Promote energy efficiency and conservation.	Pursue sustained Enercon programs.
Shift to inferior fuels such as burning dung cakes, wood and crop residues: <ul style="list-style-type: none"> • Develop RE for off-grid electricity-Diversify energy sources to augment and sustain energy supply security • Pursue biofuels utilization taking into account issues on land reform and agricultural policies 	Use of inferior fuels is not an answer rather development and utilization of indigenous and renewable fuel sources must be prioritized.	Implement Biofuels Law; Advocate passage of RE Bill and Continue to implement Energy Conservation and Efficiency Programs
Millennium Development Goals are at risk in terms of issues on health education and work for women <ul style="list-style-type: none"> • Consider emergency preparedness and intervention measures 		Pursue comprehensive and integrated cross sector developmental programs taking into consideration Gender, Health, Environment, etc. issues.

VIEWS	COMMENTS	RECOMMENDATIONS
Dr. Cayetano W. Paderanga, Jr. , Chairman of the Board of the Institute for Development and Econometric Analysis (IDEA)		
Oil prices is attributed to political risks, oil supply constraints, weak US dollar, high demand of growing economies such as China and India.	Regime of high oil prices	Agree. Promote infrastructure develop and implement economic governance to eliminate red tape and corruption.
Oil price increase resulted to slight slowdown in global trading activity.	Oil economic prime mover	
Session 2: Stakeholders Concern		
Mr. Edgar O. Chua , Country Chairman of Pilipinas Shell Petroleum Corporation		
Crisis can be converted to opportunity by using the windfall VAT to fund program to cushion the impact of high oil prices.	Yes, through efficient tax collection and use of tax money, to benefit the taxpayer, to alleviate poverty while promoting social justice.	Support recommendation and implementation by Department of Finance.
We believe that the world in the future, there is no silver bullet, it should not be biofuels alone that will solve the problem. It would still be combination of oil coal, biofuels, hydro and wind. So it's going to be a more complex energy structure in the future.	Government has already started several initiatives that needs some push, e.g., passage of the Renewable Energy Bill. The implementation of the Biofuels Law also needs some serious consideration which is seen as one that could contribute in sustainable development.	Immediate passage of the RE Bill and conduct of R&D on other potential energy programs/projects.
Ms. Elisea G. Gozun , Chairperson of the Earth Day Network Philippines and Former Environment Secretary		
Properly priced means including the economic valuation of its adverse impact not just on the environment but eventually also to the people, especially people's health.	Agree. Quality and environment has corresponding costs and are components in the present pricing structure of petroleum products. However, the present tax structure may have to be reviewed because more polluted products are zero-rated, e.g., diesel, bunker, etc. One of the parameters being considered in the approval of any energy project is that it must be environment-friendly. The energy sector has also integrated the inclusion of an Environmental Impact Assessment in most of its projects.	Pursue tax review to consider environmental cost vis-à-vis socialized taxation. EIA must be one of the primary considerations in the approval of an energy project.

VIEWS	COMMENTS	RECOMMENDATIONS
Mr. Sulficio O. Tagud, Jr. , Chairman and CEO of the Negros Navigation Company, Inc		
To cushion the possible impact on the poor, government should consider targeted subsidies. To reduce the VAT is not the way to go, not from the environment perspective nor from an economic perspective much less from social perspective.	Agree.	No subsidy on fuels. Consider direct subsidy to most needy sectors, in cash or in kind.
In the public sector industry, there will be no long-term if we cannot go beyond the short-term if we cannot manage to remain viable inspite of the high fuel prices.	The whole Energy Summit is expected to provide measures to keep the country viable inspite of high fuel prices.	Pursue recommendations from the Summit. Energy Conservation Program must be further promoted and be pursued as one of the advocacy programs of the energy sector. EC Way of Life must first be inculcated in the very lives of energy sector employees, thus creating critical a critical mass.
For a longest time, government has proven itself to be the poor allocator of resources. So, just do not collect the windfall VAT particularly those that are accruing or coming from the public transport sector industry.	A valid comment. Precisely why the workshop topic is “Responding to High Oil Prices”.	Conduct extensive studies on proposals so that policy decisions are based on real experiences.
Mr. Raul T. Concepcion , Chairman of Consumer and Oil Price Watch		
Requested to extend the financing for the conversion and/or acquisition of new or rebuilt CNG buses from abroad to accelerate program to Metro Manila buses and jeepneys to run on CNG or LPG instead of diesel/gasoline.	A current initiative of the government	

VIEWS	COMMENTS	RECOMMENDATIONS
Atty. Vigor D. Mendoza II , Chairman of the United Transport Koalisyon (1-UTAK)		
Promotion of alternative fuels to minimize the impact of oil price hikes.	A current initiative of the government.	Study the best option.
Develop alternative mode of transport such as ferryboat and railway systems to improve traffic situation that would lead to decrease in 4-10% fuel loss due to traffic.	Agree	Support/recommend proposal to the Department of Transportation and Communication.
Strictly address “red tape” on franchise document processing by LTFRB and better traffic management like improving police enforcement measures will control “kotong” and “colorum” as well as collaborating closely with their agency such as DOJ Task Force and SEFEELS.	A current initiative of the government. The executive body issued order to unify fees of jeepney violations in Metro Manila.	Continue initiatives and coordinate with concerned agencies like DILG for better implementation to protect the public consumers from illegal activities.
Consider the suspension of VAT on public transport fuel that would result to lower cost and lower fares (affordability concerns of the riding public leads to clamor to increase minimum wage and prices of basic commodities).	Indeed R-VAT is a burden. Oil used to enjoy subsidy. After removing it, RVAT is added, constituting 11% of petroleum prices.	The Department of Finance should review RVAT on petroleum vis-à-vis collection efficiency especially because RP is not I/T ready for tracking, overall tax structure and impact. e.g. Sen. Roxas rationale for his Bill. Transparency in the use of the collection.
Enforce vehicle standards to increase fuel efficiency of motor vehicles. 40% fuel consumption from vehicles when not properly- maintained goes up in smoke in carbon dioxide and thus, strict execution of preventive maintenance for vehicles is encouraged.	Agree, especially for the public transport vehicles which are mostly not well maintained	Support recommendation
Representative Crispin B. Beltran , Anakpawis National Partylist of the House of Representatives		
Development of the program on “Kabuhayan para sa Manggagawa” (Workers’ Income Augmentation Program) to provide additional income generating activities for minimum wage earners which will eventually cushion the impact of high oil prices on the purchasing power of workers.		Support recommendation and implementation by the Department of Finance.
Promoting Filipino capital, labor technology both in the upstream and downstream oil industry as well as in the exploration of indigenous energy resources such as geothermal and coal is imperative as we are dependent on foreign countries.		

DAY 2		
VIEWS	COMMENTS	RECOMMENDATIONS
Congressman Juan Miguel M. Arroyo , Chairman of the Committee on Energy of the House of Representatives		
Stressed the need for a common and sustainable program for energy development of indigenous sources and the imperative to create a competitive environment given the country's vulnerability to oil prices and limitation to influence world market.	A current government initiative.	Prioritize best option. Consider localization, thus improve on cost, local economy, so ultimately implement proper devolution thus minimize urban poor as well.
Mentioned the issuance of Executive Order No. 691, which authorizes cut in the oil tariff under an automatic price mechanism as the first concrete step by the President to address surging diesel prices.	Minimized clamor for fare increases but could be effective for short-term only.	
Mr. Jesse O. Ang , Country Manager for the International Finance Corporation (IFC)		
Investing on exploration and development of indigenous petroleum, coal and geothermal resources remains to be an option in the energy sector. Otherwise, the country will continue to rely heavily on importation.	A current government initiative.	Prioritize best option. Consider localization, thus improve on cost, local economy, so ultimately implement proper devolution thus minimize urban poor as well.
Philippines may avail International Financing Corporation's long-term financing programs for oil, gas and coal exploration and development.		
Dr. Kelvin S. Rodolfo , Professor at the National Institute of Geological Sciences at the University of the Philippines		
Highlighted the equation of both Peak Oil, the crisis of diminishing global oil supplies, and the Crisis of Global Warming, the vastness of geologic time compared to human time.	Maybe a serious consideration.	Continue initiatives for efficient use of fuel and conservation.
Global warming as primarily caused by human activities, thus, we must curtail the use of fossil fuel.	Agree. The surge in oil prices could be one of the indications for efficient use of fuel and conservation.	Pursue plans and program for the mass transport system.

DAY 3

VIEWS	COMMENTS	RECOMMENDATIONS
Mr. Carlos R. Alindada , Chairman of the Independent Review Committee for Oil Deregulation		
High oil prices after deregulation due to peso devaluation and increases in the international prices of oil	Peso devaluation and international prices of crude and petroleum products drive local prices.	Pursue economic recovery and promote the development and utilization of indigenous sources of energy to reduce dependence on oil which is generally imported.
Subsidy not a viable solution	Government no funds to sustain the proposed financial subsidy like OPSF. Subsidy benefits everybody.	No subsidy on fuels. Consider direct subsidy to most needy sectors, in cash or in kind.
	Subsidy breeds inefficiencies.	Promote energy efficiency and conservation.
No evidence of price cartels	Price cartels are difficult to prove.	Promote transparency and implement sustained IEC.
Regime of high prices	Oil is a finite resource and supply further aggravate by geo-political conflicts and tensions.	Diversify energy sources and reduce dependence on oil by accelerating the development, promotion and commercialization of alternative, renewable and indigenous sources.
	Tight oil refining capacities	Strict enforcement of laws to protect consumer welfare and to promote level playing field.
	Demand increasing faster than supply.	Institute ENERCON as a way of life.
Petron to act as price moderator	Possible because it is a refiner, 40% owned by government, and the market leader with >1/3 market share, though not always a "low-cost producer".	Government to continue with suasion, as necessary.
Land and sea transport have different views on oil deregulation	Maybe good to have some kind of automatic fare-setting mechanism.	Advocate amendment of Public Service Act to effect automatic fare-setting mechanism.
Governor Enrique T. Garcia of Bataan		
Revert back to regulation the DOI to ensure no abuse especially on pricing	Not a good option. Present situation much better than during the regulated regime. Concerns are more on enforcement.	Amend existing Deregulation Law to enhance enforcement powers, and provide appropriate budget/funding.
Regulation does not necessarily mean subsidizing. OPSF intended to stabilize prices, not to subsidize.	The public expects repeal of Deregulation Law to keep prices low. Having a pricing formula may not appease the public if such result in prices increases.	Allow market forces to work.

VIEWS	COMMENTS	RECOMMENDATIONS
Mr. Jose Enrique Africa of IBON Foundation		
"Giving relief, taking control"	There has to be an integrated approach towards sustained economic growth. Earn from local and international developments.	Conduct extensive studies on proposals so that policy decisions are based on real experiences.
Diversified fuels	A current initiative of the government	Harmonize government policies and initiatives especially on prioritizing of alternative fuels.
More efficient energy use	A current initiative of the government	There should be technology-matching initiative. Enhance IEC, including technology validation of inventions/gadgets.
Centralized procurement	A logistics nightmare, especially with archipelagic country. Need more financial and logistical support for storage, vessels, double hauling.	Conduct formal study on the advantages and disadvantages of centralized product procurement/importation.
Buffer supply/fund	Industry buffer fund not seem feasible with the continuing rise in prices.	Consider direct subsidies on vulnerable sectors. Consider stockpiling.
Mr. George San Mateo , Secretary-General of the transport group PISTON		
Questioned credibility of IRC	Anybody is free to conduct studies. The members were professionals and experts in their respective six fields/sectors.	Use update of IRC Report (c/o SGV/UAP) as inputs to the proposed bills re: Oil Deregulation Law.
Cartel exists in the oil industry	IRC reported that they found no evidence of cartelization.	Support/advocate passage of competition policy law.
Exempt oil from RVAT	Indeed, RVAT is a burden. Oil used to enjoy subsidy. After removing it, RVAT is added, constituting 11% of petroleum prices. Total tax burden now is 11-22% vs. 2-13% if without RVAT, vs 2-38% prior to deregulation. Crude oil was only about \$15-20/bbl prior to deregulation but now at \$80-110/bbl. But RVAT significantly improved the country's fiscal position.	DOF should review RVAT on petroleum vis-à-vis collection efficiency especially because RP is not I/T ready for tracking, overall tax structure and impact, e.g., Sen. Mar Roxas rationale for his Bill. Transparency in the use of the collection, giving priority to the vulnerable sectors of the society.

VIEWS	COMMENTS	RECOMMENDATIONS
Mr. George San Mateo , Secretary-General of the transport group PISTON		
Review, suspend or scrap oil deregulation law	Oil players note that they were happier during regulated regime. Records show that oil players are earning less now. Consumers are better-off with Oil Deregulation Law. Enforcement is more of the issue.	Pursue passage of Sen. Santiago bill and complementary laws (e.g., LPG Bill) and regulations to promote consumer safety and welfare.
Nationalization of the Oil Industry	A good idea for a country with own oil resources, bad for one who is totally dependent on it.	Pursue oil deregulation. Orderly competition is better.
Political will to undertake the proposed reforms	Present DOE leadership strong and able to enforce.	Study and pursue proposed reforms. Clarify roles and authorities, especially at DOE.
Mr. Efren De Luna , President of the transport group ACTO		
Concrete support/benefit be reverted back to the transport sector	Constant dialogue with public transport sector is providing clarity, convergence, ownership and therefore, better cooperation. A concrete example of social mobilization.	Sustain enforcement by PACTAF. Pursue close coordination and cooperation. Support direct benefits to sector. Advocate those that can be provided from the energy sector.
- priority be given to “kabuhayan”		
- subsidized loan to acquire better engines		
- scholarships for their children		
Support deregulation but request removal of RVAT	A reasonable proposal from a vulnerable sector.	For serious consideration.
Ms. Anna Whitehouse , President and Managing Director of Total Philippines, Inc.		
Pursue program on tariff reduction	Almost institutionalized, with full cooperation by the oil industry. But only a stop-gap measure.	Institutionalize. Pursue a more permanent measure (thus, review total tax structure not only for oil).
Pursue policy towards energy independence	A current initiative of the government.	Facilitate implementation. Improve IEC as well.
Implementation of the Biofuels Act	A current initiative of the government. Ensure all objectives met and not sacrificing more basic social needs.	Fastrack necessary issuances to effectively implement Biofuels Act. Pursue with caution, learning from mistakes of other countries.
Use of indigenous source of fuels	A current initiative of the government.	Prioritize best option. Consider localization, thus improve on cost, local economy so ultimately implement proper devolution thus minimize urban poor.
Pursue new markets, new industries with livelihood for economic development	A poverty alleviation measure. Also good for business. An integrated and wholistic approach in economic development.	Pursue recommendation. Encourage more active participation by the whole oil/energy industry.
Partnership with the TF against “Kotong and Kolorum”	A current initiative of the government.	Promote good governance.

3. ANALYSIS AND COMMENTS

This workshop endeavored to assemble a comprehensive web of solutions that reflect immediate, short-, medium-, and long-term measures that are geared towards sustainable and practicable plan of action.

Given the theme “\$100 per Barrel: Crisis or Opportunity?”, the energy summit is focussed on how to respond, thus cushion the impact of high energy costs particularly to the vulnerable sectors of the society that would require the needed social security support.

Regime of high oil prices

It is evident that high oil prices in the country are merely a reflection of what is happening globally. The increasing dollar cost of oil importations (from \$15-20/bbl in the early 90's to \$100/bbl now) and the devaluation of the peso (from P25/\$ in the 90's to as high as P56/\$ in the 2006) are the factors that caused of domestic oil prices to rise. Fortuitously, the appreciation of the peso's value to the dollar starting in 2007 has helped somewhat to temper further increases in domestic oil prices, keeping them down by about P3.00-5.00 per liter.

Oil is a finite resource and demand for it is now increasing faster than its supply production. A confirmation of this is the equation of peak oil and global warming that now poses a threat not just to the global economy but also more importantly to our future. The world, energy expert say, has already breached the threshold “peak oil”, the point beyond which global oil production is expected to begin a gradual and inexorable decline. “Peak oil” means that the more readily available half of the world's existing resources of oil have already been extracted and the remaining half will be more difficult and expensive to extract. It is, thus, imperative for government to promote and implement the responsible extraction of resouces parallel to the acceleration of research and development of alternative and indigenous sources of energy and its adoption of its uses. These initiatives have finally found its niche in the mainstream of the country's energy independence agenda.

Traditional oil exporters like Indonesia, an OPEC member, and China, are now net oil importers. Oil supply is further affected by geopolitical conflicts in the major oil producing and exporting countries, partly brought about by the increasing “resource nationalism” of their citizens. The thrust towards cleaner air has also resulted in limiting oil refining capacities to those

that meet the more stringent fuel quality specifications. The Caltex Refinery in the Philippines, for example, was decommissioned in 2003 because of its difficulty in meeting the fuel quality requirements of the Clean Air Act.

What is imperative for oil dependent countries like the Philippines is to accelerate the development, promotion, and commercialization of alternative, renewable, and indigenous sources of energy. Also required is a strict enforcement of laws to protect consumer welfare and ensure a level playing field. Institute Energy conservation must also be inculcated into the public consciousness as the new way of life.

Oil Deregulation Law

The Oil Deregulation Law of 1998 is perceived by various sectors as the cause of high oil prices. There are, thus, clamors for its *suspension, scrapping, or repeal*. Pro-people groups are also espousing a *nationalization of the oil industry and/or centralized procurement*. However, these are not good options. The nationalization of the oil industry might (arguably) be a good idea for a country with own oil resources, but certainly not for one that is totally dependent on oil importation. Centralized procurement by some government designated agency will only create a logistics nightmare (especially with an archipelagic country like ours), not to mention introduce new opportunities for corruption.

Amidst the clamor from various sectors to repeal the Oil Deregulation Law, a six-man Independent Review Committee composed of diverse individuals from different fields was created. As a result of the review, several recommendations were reached and that was also discussed by its then, Chairman Alindada during the Plenary session.

The following IRC recommendations highlighted, among others:

- 1) DOE should not support or initiate any change in the Policy of the State in the Downstream Oil Industry Deregulation Act of 1998 (RA No. 8479);
- 2) DOE should not propose or support any programs that leads to any subsidy. On the other hand, the committee recognizes the need to alleviate the poorest sectors of society and some social action needs to be made. However, this is a function of other government agencies and not the DOE's; and

- 3) There is no evidence that cartels exist though the various sectors deem it otherwise.

While there are no hard facts to establish that cartels do exist, the DOE should be ready on its likelihood and safety nets should be put in place to ensure that the welfare of the consumers are better protected.

The IRC Report concluded that oil product price increases were caused mainly by world price of crude (increases) and peso exchange rate (improvement), not by deregulation.

It is believed that the present situation where market forces produce dynamic retail competition in oil products is still the much better option. More consumer choices, better oil products, facilities, and services, and wider access to a varied range of products are among the fruits of the present deregulated environment. Competition resulting from the deregulation of the oil sector has actually resulted in lower margins for the oil industry players (meaning lower prices for the consumers) than during the period when the industry was of regulated. This fact was a conclusion of the detailed study conducted by the Independent Review Committee on the effects of oil industry deregulation.

In any event, should certain sectors wish it, a detailed study will need to be first conducted by an independent body on the advantages and disadvantages of centralized product procurement. This option cannot be gone into casually because of its enormous financial and logistical requirements in order to achieve a broader public ownership and improve transparency.

Oil Industry Operations

One of the factors that contribute to the high local costs of petroleum crudes and products is the unfair trade practices such as smuggling, pilferage, and adulteration. In 2007 alone, about 4 billion liters or 33 percent of the Philippines' oil consumption were left untaxed. This has resulted in at least 16 billion pesos in annual losses for the government. In response to this dilemma, a two-pronged approach has been identified, that is, the strict implementation of anti-smuggling laws parallel to the need to hasten the implementation of Department of Finance Order No. 23-07 dated July 26, 2007 on Fuel Marking, which aims to curb smuggling.

In efficiencies in the distribution chain have likewise allowed the rampant pilferage of fuels, both using sea-going vessels and land-based tankers. One of the identified priority action to address the said concern

is the installation of a Global Positioning System (GPS) trackers along with the institutionalization of a monitoring mechanism marker/data tracking system.

Adulteration of fuels has also emerged as a concern and this has been likewise attributed to inadequate checks and balances in the distribution chain. The transport sector has also brought to the fore issues that hound their sector, particularly corruption in traffic enforcement and management (kotong) and proliferation of kolorum PUVs, practices which account for half of lost income for drivers and operators.

Enforcement, specifically in ensuring the welfare of the public and for keeping the playing field level for all industry players, might be more of an issue. Parallel to this, a competition policy law could be formulated in order to complement the liberalization and deregulation of the oil industry sector. Oil companies can also be encouraged to open ownership of shares in their companies to the public in order to achieve a broader public ownership and improve transparency.

In response to the above, the government is currently undertaking a consolidated, integrated approach involving various Cabinet departments and agencies to eliminate kotong and kolorum PUVs in Metro Manila. Sustaining the implementation of the Kontra Kotong and Kolorum (KKK) is deemed as an important action to minimize economic leakage on the oil and public transport sectors.

Subsidy and Taxation

Calls by some speakers to revert back to a regulated industry environment and to provide a financial subsidy like the Oil Price Stabilization Fund were opposed strongly by other speakers. One expressed objection is that subsidies benefit even those who do not need help and tend to encourage wasteful consumption. Another objection is that government will have to raise additional funds from the public through taxes to sustain the subsidies. Another objection is that government is a notoriously inefficient user of resources and putting more public resources in the hands of government is not advisable from an economic point of view.

As far as *safety nets for the poor* are concerned, the various recommendations for the outright suspension of the 12% value added tax (VAT) on petroleum products will translate into about a P4 to P5 per liter

reduction in domestic prices, but also mean about a P40 billion per year loss in government revenues. The Department of Finance's position to instead use/allocate oil tax collection to specific and direct pro-poor programs appears the far better alternative.

Government, however, recognizes that revenues have increased as a result of the ad valorem tax on imports (tariff) and the value added tax on oil products whose prices are now higher than initially projected. Thus, President Arroyo issued Executive Order No. 691 instituting an automatic tariff rate adjustments corresponding to certain international oil price trigger levels. Such trigger prices are determined by the Department of Finance (DOF), in coordination with the DOE, NEDA, and the DTI, based on the goal of maintaining a "revenue neutral" position.

It must be emphasized, however, that such measures should clearly benefit the poor and not result in: 1) unrestrained consumption or 2) the rich benefiting as free riders on tax subsidies.

The DOF may also want to review the VAT on petroleum products vis-à-vis collection efficiency because the country is not yet that "I/T-ready" for tracking. There should also be a study on the overall tax structure and its impact, both direct and indirect.

Diesel price discounts

Other proposals support the institutionalization of a 2-tier pricing system for diesel at the retail level with the lower pricing specific for public utility vehicles. At present, over 1,000 stations nationwide offer P1.00 per liter discounts to public utility vehicles through a so-called "jeepney lane", an increase by some 50% over last year's level.

The public transport group is definitely one of the vulnerable sectors of the industry. With fuel comprising as much as thirty percent of their operation costs, the transport sector operating in a regulated fare regime are at the forefront of petitions to government for some relief. However, it has become evident that merely increasing fares in transport are more likely to adversely affect the poor and shall also result in other corollary problems like higher inflation rates and consequent petitions for wage increases. Hence, a measure offering temporary relief merely causes more social problems for the same sector it was desired to help in the first place.

Given such a situation, the transport groups have sought relief not only through petitions for fare increases but also through requests for government action in maintaining their sector free of unlicensed entrants (e.g., unauthorized PUVs), corrupt mulcting and extortion practices, redundant regulators (e.g., separate LGU ticketing systems) in traffic enforcement, and other unnecessary "fees" collected from the drivers and operators.

Engine retrofitting programs and their replacement and conversion to alternative fuels (e.g., AutoLPG) are also being discussed as possible ways to cushion the impact of high fuel costs. More than addressing the financial capability of the transport sector to upgrade to more efficient engines, such programs also address growing concerns on pollution. The government is also being called on to further improve the road infrastructure as a measure to reduce the operating costs of the transport industry.

Also proposed were the incorporation of LPG and kerosene into the list of "Basic Necessities" as covered by the Price Act thereby subjecting their retail price to a level of regulatory controls.

High fossil fuel prices and the push for less polluting fuels have now made renewable and alternative energy sources more viable. Of immediate availability to the transport industry are the biofuels which displace a certain portion of the imported conventional fuels through fuel blending.

In fact, it has become more attractive to make investments in biofuels production given the high cost of conventional fuels. Furthermore, biofuels are also proving their potential in addressing energy security issues given their local established availability and their desirability from the point of view of lower polluting emissions. As such, **Senator Miriam Santiago** highlighted that, discussion on biofuels production should be taken in the context of a national energy security policy.

Parallel to those identified, the government has already started several initiatives that need some push, such as the immediate passage of the Renewable Energy Bill and the conduct of research and development on other potential energy programs/projects. The implementation of the Biofuels Law also needs some serious consideration that is seen as one that could contribute in sustainable development.

Global Warming and Climate Change

“In the coming decades, the world must meet the challenge of producing more energy for a growing world population, while stabilizing or even reducing greenhouse gas emissions.” Road transport emissions contributed 1.5 giga tonnes (Gt) of carbon emissions in 2000 and this could rise to over 3Gt by 2050 as the number of vehicles exceeds 2 billion.

Energy is the fuel for growth, an essential requirement for economic and social development. However, it cannot be overemphasized that alongside with development is the seeming disregard of the environment.

It has been a known fact that energy projects are the major contributors of pollution in the environment. Over the last century, the burning of fossil fuels like oil and coal to operate power plants attribute to the rise of greenhouse gases into the atmosphere. Coincident with this rise has been an increase in the global average temperature, up by nearly a degree Celsius. This in turn may warm the earth and change the climate in other ways. If these trends continue, global temperatures could rise by a further one to four degrees by the end of the 21st century, potentially leading to disruptive climate change in many places.

Today, as we face up to climate change as a major environmental threat, the way forward becomes less certain. No single solution will deliver this change rather we need a mix of options that focus on using energy more efficiently, continue research and development and further advocate the use of renewable energy and other alternative fuels.

While change takes time, starting the process now and laying foundations for the future are matters of urgency, and every stakeholder in the energy sector has a key role to play. By starting to manage our carbon dioxide emissions now, we may be able to limit the effects of climate change to levels that we can adapt to.

Energy Efficiency and Conservation

Generally, individual consumers are also encouraged to find solutions to lower energy costs through demand side management (DSM) or energy efficiency initiatives that was identified as one of the proposed strategic responses .

There were four (4) strategies, among others, introduced during the summit under DSM as enumerated below:

- 1) Better traffic management Policy enforcement measures (control kotong and kolorum), Mass transport investment (PNR, MRT/LRT), 24-hr. repair work on roads and more infrastructure
- 2) Improve generation, transmission and distribution efficiencies of power plants
- 3) Systemic/Structural analysis and review of industry practices (e.g., delivery schedules, collection practices, thermostat settings, building designs, and the like)
- 4) Review personal practices on energy use, e.g. tire inflation, driving behavior and engine tune ups

Gaining momentum from the launch of the Energy Efficiency and Conservation Program, the government must continue its implementation, taking note of the lessons learned which could further enhance its promotion and dissemination. It must be further promoted and be pursued as one of the advocacy programs of the energy sector. “ECWay of Life” must first be inculcated in the very lives of energy sector employees thus creating a critical mass. Energy conservation must be a way of life.

4. CONCLUSIONS AND RECOMMENDED ACTIONS

The current oil crisis has serious ramifications on the Philippine economy and will definitely affect the well-being of the most vulnerable sectors of society. The most directly affected sector in the downstream oil industry is the public transport sector, which has to bear the brunt of the fuel price impact. Further, being a basic service sector, any coping measures adopted by the public transport sector would affect other sectors, much like a “domino effect”.

As a net importer of crude oil, the Philippines is highly vulnerable to global oil market volatility and has no control whatsoever over oil prices. As such, it is necessary to put together some extraordinary national measures to mitigate the local effects of rising oil prices. The patchwork of solutions must of course include measures to reduce the country's dependence on imports. The local effects of the spiralling global prices of oil are, however, also aggravated by local factors, including inefficiencies in the supply and distribution chain, shortages in refinery capacity, underdevelopment of indigenous alternative fuels, resource leakages due to smuggling, pilferage, and adulteration, the dearth of needed public works infrastructure, delays in the development of more mass transport systems, corruption in the vehicular traffic enforcement system (kotong), and irregularities in the regulation of the transport sector (kolorum) It is also noted that domestic (local) taxes comprise a significant portion of the pump prices of petroleum products.

As illustrated in the table (see page 110), the country's primary energy mix in 2007, the country's self-sufficiency level is expected to increase by 57.2 percent. It is also seen that the share of imported oil will decrease and shall account for 31.8 percent in the supply mix.

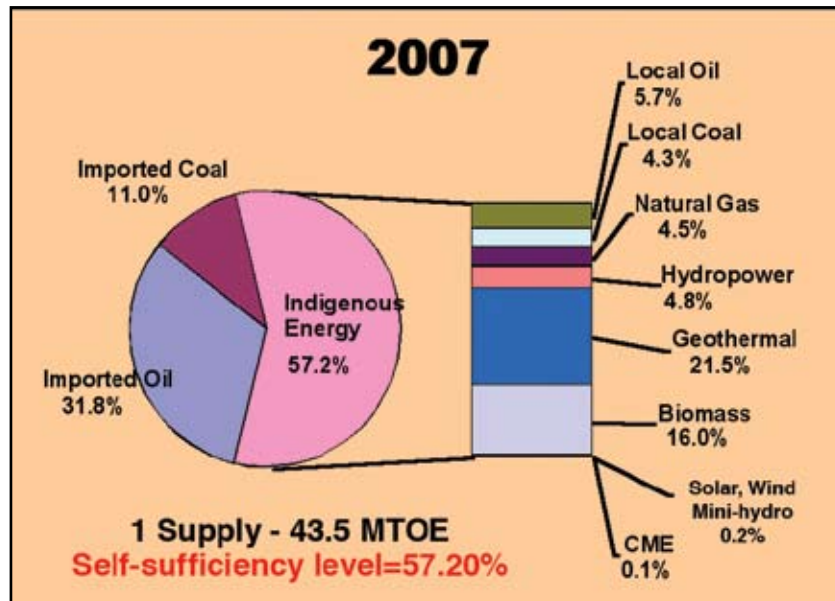
The most directly affected sector in episodes of this magnitude in the downstream oil industry is the transport sector, which has to bear the brunt of the impact and being a basic service sector, any coping measures adopted by the transport sector would translate to all sectors, much akin to a domino effect.

The Philippines' standing as a net importer of crude oil makes it highly vulnerable to global market volatility and has hardly any command over oil prices. As such, it is necessary to come up with extraordinary national measures to mitigate the local impacts through a patchwork of solutions must of course include measures to reduce the country's dependence on imports. The local effects of the spiralling global prices of oil are, however, also aggravated by local factors, including inefficiencies in the supply and distribution chain, shortages in refinery capacity, underdevelopment of indigenous alternative fuels, resource leakages due to smuggling, pilferage, and adulteration, the dearth of needed public works infrastructure, delays in the development of more mass transport systems, corruption in the vehicular traffic enforcement system (kotong), and irregularities in the regulation of the transport sector (kolorum) It is also noted that local taxes comprise a significant portion of the pump prices of petroleum products.

What is imperative for oil dependent countries like the Philippines is to accelerate the development, promotion, and commercialization of alternative, renewable, and indigenous sources of energy. Also required is a strict enforcement of laws to protect consumer welfare and ensure a level playing field. Energy conservation must also be inculcated into the public consciousness as the new way of life.

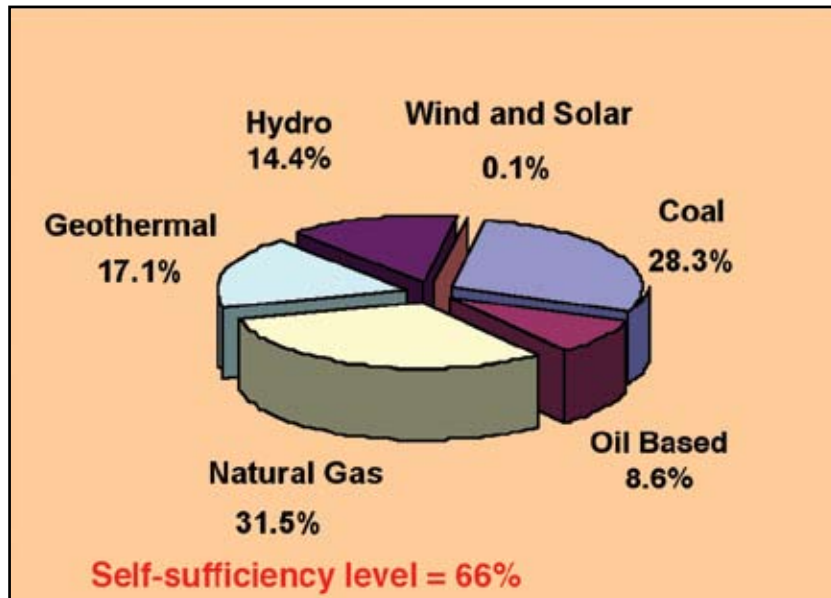
2007 Primary/Power Generation Mix

PRIMARY ENERGY MIX



2007 Energy Mix is based on 2007 forecast

POWER GENERATION MIX



Responding To High Oil Prices

Program of Action

Objective 1		Strategy	
To mitigate impact of high oil prices on consumers		<ul style="list-style-type: none"> • Rationalization of policies governing DOI (downstream oil industry) • Promotion of alternative fuels • Development of financial mechanism to cushion impact to vulnerable sectors 	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Revisit the taxation regime on petroleum crudes and products including RVAT and develop targeted expenditures schemes for pro-poor projects from oil collections	Report of the review	Policy and Legislation	Senate (lead) Congress DOE DOF
Provide fuel discounts to vulnerable sectors	Number of gas stations providing discount	Policy and Legislation	DOE (lead) Oil Companies
Provide subsidy to vulnerable sectors	Direct subsidy in cash or in kind	Policy and Legislation	DOF (lead) DSWD, NFA, DOE
Review Sec. 22 of RA 9843 (Oil Pollution Management Fund)	Suspended/deferred implementation of Sec. 22 of RA 9843	Policy and Legislation	
Establish Land Transport Leasing Corporation through EO or Incorporation	Issued EO or Incorporation	Policy and Legislation	DOTC LTFRB OP
Short-Term (within 1 year)			
Review Sec. 22 of RA 9843 (Oil Pollution Management Fund)	Amended Sec. 22 of RA 9843	Policy and Legislation	Congress (lead) DOTC-MARINA DOE
Medium-Term (5 years)			
Review the pricing formula for new contracts between users and producers of natural gas	Report submitted	Policy and Legislation	DOE (lead) DOF, SPEX Users of Natural Gas
Deregulate public land transport fares	Bill filed amending the Public Service Act	Policy and Legislation	Congress (lead) DOTC

Objective 2		Strategy	
To minimize economic leakage on the oil and the public transport sectors		<ul style="list-style-type: none"> • Rationalization of policies governing DOI (downstream oil industry) • Promotion of alternative fuels • Development of financial mechanism to cushion impact to vulnerable sectors 	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Strictly enforce anti-smuggling laws	Number of apprehension, prosecution and conviction of violators	Regulation, Enforcement and Compliance	DOF and BOC (lead) BIR, DOF, DOE Oil Companies
Sustain the implementation of KKK (Kontra Kotong and Kolorum)	Number of apprehension, prosecution and conviction of violators	Regulation, Enforcement and Compliance	DOE (lead) DOTC, DTI, NBI, DOJ DILG, DND, MMDA, LGUs
Strictly enforce LPG rules and regulations	Number of apprehension, prosecution and conviction of violators	Regulation, Enforcement and Compliance	DOE (lead) DTI, DILG DND, DOJ
Short-Term (within 1 year)			
Improve efficiency and control losses in distribution at sea and on land by installing GPS trackers	Percentage of vessels & tank trucks with GPS trackers installed	Regulation, Enforcement and Compliance	DOE (lead) DOTC MARINA PCG
Institutionalize a monitoring mechanism marker system/data tracking system	-100% fuel marking at the gas station level - Reconciled oil import & demand data	Regulation, Enforcement and Compliance	DOE (lead) Oil Companies DOF (lead) DOE, BOC, BIR, NSO
Supporting Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Hasten the implementation of the DOF Circular No.23-07 dated July 26, 2007 on Fuel Marking	Volume of smuggled fuel confiscated	Regulation, Enforcement and Compliance	DOF and BOC (lead) DOE

Objective 3				Strategy			
To promote efficiency in supply and distribution chain				Promotion of practices that reduce operational cost			
Priority Action		Success Indicator		Type of Measure		Lead Agency/Sector	
Immediate (within 6 months)							
Develop a policy on the storage and distribution of petroleum products, e.g., sharing of depots throughout the Philippines among oil companies		Circular or Signed MOU		Policy and Legislation		DOE (lead) Oil Companies	
Synchronize local policy with international regulations on double hull requirements		Revised MARINA policy on double hull persistent cargo		Policy and Legislation		DOTC and MARINA (lead) DOE	
Short-Term (within 1 year)							
Develop a policy on centralized oil procurement/importation		Policy Report		Policy and Legislation		DOE (lead) Oil Companies	

Types of Measure:

- Policy and Legislation
- Regulation, Enforcement and Compliance
- Information-Education-Communication (IEC)
- Capability-building
- Market Development
- Investment (Financing, Infrastructure, Technology, Incentives)

Objective 4		Strategy	
To reduce dependence on imported fuels		<ul style="list-style-type: none"> • Development of infrastructure for biofuels and blends • Development of mechanisms to improve transport system 	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Short-Term (within 1 year)			
Build testing and monitoring capacity	Installed laboratory facilities for quality assurance and control	Investment (Financing, Infrastructure, Technology, Incentives)	DOE (lead) National Biofuels Board Oil companies BOI
Improve infrastructure e.g., storage tanks, pipeline systems, receiving, blending and loading facilities that are compatible with biofuels and blends		Investment (Financing, Infrastructure, Technology, Incentives)	DOE (lead) National Biofuels Board Oil Companies BOI
Long-Term (beyond 5 years)			
Accelerate the development of mass transport system	Number of mass transport lines operating	Investment (Financing, Infrastructure, Technology, Incentives)	DOTC (lead)

Types of Measure:

- Policy and Legislation
- Regulation, Enforcement and Compliance
- Information-Education-Communication (IEC)
- Capability-building
- Market Development
- Investment (Financing, Infrastructure, Technology, Incentives)

Objective 5		Strategy	
To promote awareness on the downstream oil industry initiatives and developments including pricing		Establishment and implementation of mechanisms to educate the public	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Enhance IEC campaign	Number of exposures in tri-media	IEC	DOE (lead) Civil Society/NGOs PIA, Media, Academe
Conduct multi-sectoral consultations	Number of consultations conducted	IEC	DOE (lead) Civil Society/NGOs PIA, Media, Academe
Short-Term (within 1 year)			
Develop communication plan for DOI	Communication Plan	IEC	DOE (lead) Civil Society/NGOs PIA Academe
Establish on-line resource center	Operational website	IEC	DOE (lead) Civil Society/NGOs Academe

Types of Measure:

- Policy and Legislation
- Regulation, Enforcement and Compliance
- Information-Education-Communication (IEC)
- Capability-building
- Market Development
- Investment (Financing, Infrastructure, Technology, Incentives)