The Mechanism of Philippine Oil Pricing: A Study in Economic Imperialism

Edberto Villegas

Soon after increasing the prices of oil products by an average of 80 centavos per liter, the Aquino government admitted that it had made a hasty decision on the matter. On August 25, 1987, President Aquino cut back the oil price hike by 45% due to mass protests, especially exemplified by a general transport strike. However, the rollback did not restore the old prices, which the people saw as certain to start a chain reaction of price increases of other prime commodities. Consequently, another general strike was launched on August 26, 1987, extensively paralyzing commuter movement in Metro Manila and other major cities. The people wanted no less than a complete rollback of oil prices. They were not taken in by the promise of a partial reduction. The Aquino government, pained by this insensitivity of the people, immediately arrested the leaders of the general strike.

What led the government to hastily raise oil prices, the 17th time since 1971? The government has advanced as reason the depletion of the Oil Price Stabilization Fund (OPSF), which reimburses the oil companies if the price of international crude oil increases. According to the Energy Regulatory Board (ERB), because of the losses incurred by the oil companies due to the increase of the price of crude oil from $13 per barrel in 1986 to $17/barrel in 1987, they might not be able to meet the oil demand of the Philippine market, which is 70,044 barrels of crude oil per day.

The ERB maintains that such eventuality will adversely affect the economy. But let us examine closely the government’s argument for this new oil price increase.

What is the OPSF?

The OPSF was originally called the Consumer Price Equalization Fund (CPEF) and was first incorporated into the price of a liter of petroleum product through PD 1956 during the Marcos martial law regime, without the benefit of a public
hearing. The justification for its adoption in 1979 was that after the revolution in Iran and the shut-down of many of the oil fields in that country, OPEC member-countries imposed different pricing systems for their crude oil. The previous uniform pricing of OPEC was thus discarded. For instance, according to the Marcos government, while Caltex Phil. then paid only $32 per barrel of crude from Saudi Arabia, Filipino Shell's crude imports from Kuwait and Brunei were priced higher. Marcos' Ministry of Energy argued that to assure uniform pricing for oil products in the local market, a CPEF should be introduced, which would reimburse those oil companies that pay higher prices for their crude. The Marcos government even claimed CPEF was a form of socialized pricing since if there were different prices for gasoline, the rich may buy all the cheap gasoline.\(^3\)

However, when in 1982, OPEC agreed to restore uniform pricing, the Marcos administration lost its rationalization for CPEF. The government then thought of a new excuse to retain CPEF, which was the deterioration of the peso in relation to the dollar. Then Energy Minister Geromino Velasco, in his defense of another oil price increase in 1983 insisted that it was the price of crude going down that year, contended that there has been a continuing depreciation of the peso from March to December 1982.\(^4\) After this pronouncement, the Marcos government forthwith made the fluctuation of the peso-dollar exchange rate and any future increase of the price of crude oil as legitimate reasons for reimbursing the oil companies from CPEF.

Table I shows that percentage distribution of the various categories in the price of one liter of regular gasoline in July, 1987, before the oil price increase. The price of regular gasoline is used as the example to illustrate the mechanism of the OPSF.

The OPSF in Table I is listed as negative since it has been filled up by past collections from direct consumers' payments since 1979 to January 1985 and from April 1985 to January 1986. As can be seen from the Table, the consumer pays P6.53 as retail price per liter of regular gasoline (P7.24 . 0.71 cent.) with 0.71 cent. being granted as reimbursement from the remaining amount of the OPSF.

From January to April 1985, due to the slump in crude oil price, reimbursement from the OPSF was suspended. It was again suspended from January 1986 to March 1987. Crude oil price fell from S28/barrel in 1983 to as low as S7/barrel in August 1986. Because of these declines, Marcos' Ministry of Energy argued that the price of crude oil in 1984 as an election gimmick and again in 1985. But, now, according to the oil companies, the OPSF has been depleted, yet there has been a new increase of the price of crude from S13/barrel to S17/barrel this year. This is the reason why the oil companies petitioned for a raising of oil prices to again replenish the drained OPSF. Below is presented the new prices for the different oil products compared with the old rates with their OPSF components.

The average retail price increase for all oil products is 44 cents. We see from Table I that the OPSF was scrapped as a price component for premium gasoline and fuel oil. However, the retail prices of these two commodities still registered a 9% and 13% hike, respectively, due to an increase in the ad-valorem tax as was discussed later. It is with diesel oil, mostly used by jeepney drivers, and LPG, used for home cooking, that OPSF was marked up, with the latter product showing a 44% increase. It is to be noted that premium gasoline and fuel oil are commodities generally availed by the economically better-off, while LPG is a mass commodity, with the poor being its most extensive consumer.

<table>
<thead>
<tr>
<th>Table I: Price of Regular Gasoline, Peso/Liter as of July, 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Company’s Recovery</td>
</tr>
<tr>
<td>OPSF</td>
</tr>
<tr>
<td>Government Take</td>
</tr>
<tr>
<td>a) Specific Tax</td>
</tr>
<tr>
<td>b) Ad Valorem Tax</td>
</tr>
<tr>
<td>Hauling Charge</td>
</tr>
<tr>
<td>Dealer's Mark up</td>
</tr>
<tr>
<td>Retail Price</td>
</tr>
<tr>
<td>Actual Price</td>
</tr>
</tbody>
</table>

Source: Energy Regulatory Board

*Total percentage may not add up to 100% due to rounding.
### Table II: Old and New Prices of Oil Products
(New Price as of August 26, 1987)

<table>
<thead>
<tr>
<th>Product</th>
<th>Actual Price</th>
<th>Retail Price</th>
<th>OPSF</th>
<th>New Prices</th>
<th>Retail Price</th>
<th>OPSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Gas</td>
<td>7.24</td>
<td>6.53</td>
<td>(P .71)</td>
<td>P7.15</td>
<td>P3.70</td>
<td>-</td>
</tr>
<tr>
<td>Premium Gas</td>
<td>7.61</td>
<td>6.90</td>
<td>( .71)</td>
<td>7.50</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kerosene</td>
<td>5.28</td>
<td>4.81</td>
<td>( .47)</td>
<td>5.30</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Diesel</td>
<td>5.16</td>
<td>4.76</td>
<td>( .40)</td>
<td>5.25</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>LPG</td>
<td>3.58</td>
<td>3.57</td>
<td>( .01)</td>
<td>3.69</td>
<td>45</td>
<td>-</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>3.59</td>
<td>2.50</td>
<td>( 1.09)</td>
<td>2.83</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Average Retail Price Increase of all Oil Products = 44 cent.

<table>
<thead>
<tr>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data taken from “Dapat nga bang Itaas ang Pasyo ng Langis?” published by the Church Based Consumers’ Movement (CBCM)</td>
</tr>
<tr>
<td>Data taken from the Energy Regulatory Board (ERB) on the new oil prices as of August 26, 1987.</td>
</tr>
</tbody>
</table>

In 1986 when the price of crude oil was going down and the peso-dollar exchange rate became relatively stable, the oil companies lost a legal basis to keep on drawing from the OPSF. Thus, they came out with a new argument to be still reimbursed from the Fund, which is that they incurred inventory losses due to the reduction of local oil prices. Clearly this was not included as one of the valid grounds for drawing from the OPSF even during the Marcos era. To accommodate the new petition of the oil companies, President Aquino signed into law Executive Order (EO) 135 allowing inventory losses to be reimbursable from the OPSF and made this retroactive to January 1986.

In sum, the OPSF is a government assurance that the local oil companies will never lose in their business. It is a continuing government subsidy to the oil companies, including the government-owned Petrophil. It is the people, especially the poor, who are made to shoulder this subsidy. Where else can one find a situation in which the poor are made to support the rich so that the latter can continue to profit but in the Philippine oil industry?

**Are the Local Oil Companies Really Losing?**

But are the local oil companies really losing as they claim in their petition (Table III) to ERB early this year?

From Table III, we see that the three oil companies petitioned for an average increase of 90 centavos per liter of oil products. According to them, this was due to un-
### Table III: Local Oil Companies’ Petition for the Oil Price Increase of August, 1987 (per liter of oil Products)

<table>
<thead>
<tr>
<th>Unrecovered costs</th>
<th>Caltex</th>
<th>Pilipinas Shell</th>
<th>Petrophil</th>
<th>Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landed Cost</td>
<td>P0.065</td>
<td>P 0.101</td>
<td>P0.026</td>
<td>P0.064</td>
</tr>
<tr>
<td>Refining &amp;</td>
<td>0.146</td>
<td>0.086</td>
<td>0.050</td>
<td>0.094</td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transhipment</td>
<td>0.014</td>
<td>0.014</td>
<td>0.019</td>
<td></td>
</tr>
<tr>
<td>Other Costs</td>
<td>0.013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Unrecovered</td>
<td>P0.238</td>
<td>P0.201</td>
<td>P0.095</td>
<td>P0.178</td>
</tr>
<tr>
<td>OPSF</td>
<td>0.722</td>
<td>0.722</td>
<td>0.722</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>P0.960</td>
<td>P0.923</td>
<td>P0.817</td>
<td>P0.90</td>
</tr>
</tbody>
</table>

Source: Public Hearing with oil companies at the ERB.

### Table IV: Oil Company profits, 1983 - 1986
(In PH 1,000)

<table>
<thead>
<tr>
<th>Refineries</th>
<th>1983</th>
<th>% Increases (Decrease)</th>
<th>1984</th>
<th>% Inc. (Dec.)</th>
<th>1985</th>
<th>% Inc. (Dec.)</th>
<th>1986</th>
<th>% Inc. (Dec.)</th>
<th>Average Inc. (Dec.) / Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batang</td>
<td>26,211</td>
<td>(104.9)</td>
<td>31,163</td>
<td>17.8</td>
<td>80,159</td>
<td>31.3</td>
<td>403,532</td>
<td>403.5</td>
<td>109.6%</td>
</tr>
<tr>
<td>Caltex</td>
<td>75,220</td>
<td>138.0</td>
<td>41,668</td>
<td>44.6</td>
<td>220,999</td>
<td>430.2</td>
<td>39,698</td>
<td>(36.3)</td>
<td>121.9%</td>
</tr>
<tr>
<td>Pilipinas Shell</td>
<td>(10,689)</td>
<td>104.9</td>
<td>92,226</td>
<td>124.3</td>
<td>206,897</td>
<td>124.3</td>
<td>204,828</td>
<td>(0.01)</td>
<td>245.5%</td>
</tr>
<tr>
<td>Phil. Petroleum</td>
<td>(63,669)</td>
<td>27.9</td>
<td>143,024</td>
<td>35.5</td>
<td>35,591</td>
<td>(75.1)</td>
<td>273,572</td>
<td>668.7</td>
<td>186.5%</td>
</tr>
<tr>
<td>Total</td>
<td>154,411</td>
<td>(52.0)</td>
<td>308,880</td>
<td>99.5</td>
<td>493,670</td>
<td>50.2</td>
<td>664,264</td>
<td>34.6</td>
<td>35.6%</td>
</tr>
</tbody>
</table>

| Distributors      |       |                        |       |              |       |              |       |              |                            |
| Petrophil         | 51,823| (14.4)                 | 61,667| 17.8         | 80,159| 31.3         | 403,532| 403.5        | 109.6%                     |
| Shell Dist.       | 15,265| 63.5                   | 44,469| 191.3        | 39,750| (10.6)       | 49,557 | 24.7         | 62.2%                      |
| Mobil Phils.      | 233   | 99.5                   | 233   |              | 233   |              | 39,325 | (39.1)       |                            |
| Sea Oil Mktg.     | 233   | (12.1)                 | 51.1  | 51.1         | 318   | 60.6         | 215   | 32.4         | 39.1%                      |
| Petro Dist. Serv. |       |                        |       |              |       |              |       |              |                            |
| Making Ent.       |       |                        |       |              |       |              |       |              |                            |
| Total             | 67,452| (42.5)                 | 105,807| 56.9        | 120,304| 13.7         | 454,831| 331.9        | 76.5%                      |
| Grand Total       | 221,863| 49.50                 | 413,887| 86.6        | 613,974| 48.3         | 1,119,895| 82.2         | 41.7%                      |
| Oil Consumption  (ML)^b | 11,441.6| 0.0               | 9,416. | (17.7)      | 8,429.2| (10.5)       | 9,223.1| 9.4          | 4.7%                       |
| Co. Profits per   | 1.9   | (50.0)                 | 4.4   | 131.8        | 7.3   | 65.9         | 12.1  | 65.8         | 53.3%                      |
| liter (in cents.) |       |                        |       |              |       |              |       |              |                            |

^aPhil. Petroleum refines the crude oil of Caltex, Pilipinas Shell and Petrophil.

^bMillion Liters

Basic Sources: Business Day's Top 1000 Corporations, 1984 - 86; SEC's Top 1000 Corporations, 1987; BOE
recovered costs from 1983 to 1986 and additional costs during the first quarter of 1987. The Aquino government initially granted the companies 80 centavo increase on the average, using as benchmark Petrophil’s computation, but later reduced it by 45%.

The oil companies’ claim that they were not able to recover costs from 1983 to 1986 contradicts their statements of profits during this period. (See Table IV)

Table IV shows that total company profits of the oil industry increased by an average of 41.9% annually from 1983 to 1986. Profit per liter of petroleum products also went up by an average of 53.3% yearly during the same period. All these profits were realized by the industry despite the fact that oil consumption during that four-year period fell by an average of 4.7% annually. As for the three major oil companies who petitioned for an oil price increase, their average profits per year for 1983-86 were registered as follows: Filipinas Shell, 243.5%; Caltex, 121.9%; and Petrophil, 109.6%.

Making the granting of an oil price increase more unwarranted is that the cost of international crude oil steadily declined from a high of $28 per barrel in 1983 to as low as $7 per barrel in August 1986. This decrease in the cost of crude oil should have reduced oil company recovery by P 2.93. But instead of lowering it, direct company take for gasoline were even raised. (Table V)

With the above, even if we grant for the sake of argument, that the three major oil companies’ recovery claim of an average of P0.90 per liter of oil products were correct, still the Filipino people are shortchanged by P 2.03 ($2.95 - P0.90)! Therefore, their petitions even for a single centavo increase should never have been granted.

Table V: Potential Reduction vs. Actual Change in Direct Oil Company Take, 1983 to 1986 (In centavos per liter)
(In centavos per liter)

<table>
<thead>
<tr>
<th></th>
<th>Potential Reduction</th>
<th>Actual Increase (Decrease) in Company Take</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Premium Gas</td>
<td>Regular Gas</td>
</tr>
<tr>
<td>1983</td>
<td>40.6</td>
<td>166.2</td>
</tr>
<tr>
<td>1984</td>
<td>11.0</td>
<td>204.8</td>
</tr>
<tr>
<td>1985</td>
<td>19.2</td>
<td>(68.8)</td>
</tr>
<tr>
<td>1986</td>
<td>222.3</td>
<td>(256.0)</td>
</tr>
<tr>
<td>1983-86</td>
<td>293.1</td>
<td>46.2</td>
</tr>
</tbody>
</table>

*Computed as follows: fall in average crude oil price x
(1 + customs duty) x peso-dollar rate ÷ 1.51. The latter is a factor which converts the peso cost per barrel into a centavo cost per liter. One barrel of crude oil is equivalent to 159 liters, 5 percent of which is assumed lost in the refining process. (Computed by IBON Data Bank)

Basic Source: Bureau of Energy Utilization; Board of Energy.
The Government Oil Taxes

Why did the Aquino government give in to the petition for a new oil price increase in spite of the continuing profitability of the oil companies? It is because with such an increase the government, besides hiking the profit of the Philippine National Oil Corporation (PNOC), can also raise its tax collection. Even after the imposition of CPEF (now the OPSF), Petrolphil, a subsidiary of PNOC, has been withdrawing from it despite the fact that the original intent of the Fund was to reimburse only those oil companies which bought crude oil at a higher price. (PNOC was importing the lowest-priced crude at $35/barrel in 1979 on government-to-government contract bases with mostly Middle East countries.) For instance, CPEF reimbursements as of June 30, 1982 were as follows:

Table VI: Oil Companies' CPEF Reimbursements as of 30 June 1982 (P 000)

<table>
<thead>
<tr>
<th>Company</th>
<th>Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrophil</td>
<td>P1,896.8</td>
</tr>
<tr>
<td>Pilipinas Shell</td>
<td>1,882.2</td>
</tr>
<tr>
<td>Caltex</td>
<td>1,362.6</td>
</tr>
<tr>
<td>Mobil*</td>
<td>954.5</td>
</tr>
</tbody>
</table>

*Mobil sold out its shares in BRC to the government in 1985.


From Table VI is seen that it was Petrophil, contrary to the rationale of CPEF, that was withdrawing the heaviest from the Fund. In 1982, when OPEC restored its uniform pricing, the government, as was already pointed out, created another justification to be reimbursed from CPEF, and this was the fluctuation of the peso-dollar rate. This, thereby, finally provided a legal basis for Petrophil to draw from CPEF.

With the new oil price increase, Petrophil can be assured of continuous reimbursement from OPSF. It is to be noted that Petrophil presently imports its crude oil at the lowest price at $15.90/barrel. How Petrophil and the Bataan Refining Company (BRC) utilize their profits, the public of course is uninformed about. Petrophil's profit in 1986 was P403 million, the highest among all the local oil companies. (Refer to Table IV).

The government likewise benefits from an oil price hike through an increase tax collection. This is vital to pay off the Philippine government's external debts of $22 billion as of March, 1987 (76.7% of the total Philippine foreign debt of $28.6 billion). The government has been constantly pressured by the IMF-World Bank group and its consortium of 483 banks to honor its all its debts (including those siphoned by Marcos) so that it has reserved 47% of its 1987 budget for debt service (P75 billion of P160 billion). In 1986, the government also paid 42.2% of its export earnings to meet its external debt obligations. Oil taxes are major portions of Philippine government tax revenues. For instance, tax collection from sale of petroleum products in 1986 was 23% (P11.7 B) of total government tax revenues for that year, which was P47 B. So important are oil tax revenues to service government foreign debts that in 1983, the Philippine government in its letter of intent to the IMF committed itself to further increase oil prices. This commitment was accomplished by an upward adjustment of taxes and company take in the oil price increase of June 22, 1983.

Moreover, though local oil consumption has been declining from 1980 on, particularly in 1984 due to the debt moratorium, oil tax collection has been increasing. (Table VII)

Table VII: Oil Tax Revenues and Oil Consumption (1980-86)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Collection (in billion pesos)</th>
<th>Oil Consumption (in million bbl.)</th>
<th>Tax / Bbl. Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>7.4</td>
<td>79.96</td>
<td>P 92.55</td>
</tr>
<tr>
<td>1981</td>
<td>7.8</td>
<td>75.22</td>
<td>103.69</td>
</tr>
<tr>
<td>1982</td>
<td>7.8</td>
<td>74.85</td>
<td>104.21</td>
</tr>
<tr>
<td>1983</td>
<td>7.5</td>
<td>74.82</td>
<td>100.24</td>
</tr>
<tr>
<td>1984</td>
<td>14.5</td>
<td>61.64</td>
<td>235.24</td>
</tr>
<tr>
<td>1985</td>
<td>14.6</td>
<td>55.61</td>
<td>265.41</td>
</tr>
<tr>
<td>1986</td>
<td>11.7</td>
<td>52.63</td>
<td>222.31</td>
</tr>
</tbody>
</table>

Source: PNOC

The above will reveal that the government has tenaciously maintained its tax earnings from the sale of oil products. Though the government was forced to lower oil prices in 1984, 1985 and 1986 due to the severe slump in the price of crude oil, specific tax* as of March 1987 in fact increased by an average of 144% from its March 1985 level. Ad valorem tax** was decreased by an average of 32% during the same period, thus, the net tax increase was 112%. The Aquino government has announced that it has scrapped the specific tax through EO 195, effective July 14, 1987. However, through the same EO 195, the ad valorem tax component of oil products was increased by an average of 13%. Customs duties, which are being paid by the oil companies were reduced from 20% to 15% in line with the government import liberalization program. Thus, it is the ordinary consumer who is being made to bear the brunt of this reduction of customs duties through the oil price increase of August 1987.

What's with the Private Oil Companies?

Because of the transfer pricing indulged in by the multinational oil companies, their petitions for an oil price increase, based on their statements on unrecovered costs (Table
must not be taken at their face value. Transfer pricing is
the practice of private oil companies of purchasing petroleum
products and services from affiliates at marked-up prices.
For instance, oil firms in the Philippines pay management fees
to their mother companies of three American cents per barrel
of crude oil. This may be the reason why the crude oil that
Shell and Caltex import are more expensive at $17.50/barrel
(average) at present than that of the government, which is at
$16/barrel.

The oil majors, which include Caltex and Shell, use the
average freight rate assessment (AFRA) as their basis for
determining freight costs of their crude oil. AFRA is higher
than the spot market freight rates, and the oil tankers that
charge AFRA are in fact affiliated with the oil majors.

Another method of jacking up prices of Caltex and Shell
is heating up their crude oil from 60°F (the internationally-set
standard) to 80°F to 100°F in order to expand its volume and
thus sell more of the commodity. In the process of heating,
Shell and Caltex incur refining costs which they then charge
as part of their company take in the prices of local oil pro-
ducts. This situation is of course highly anomalous.

The Aquino government argues that the petition for an
oil price increase must be heeded, otherwise, Caltex and Shell,
because of unrecovered costs, may cease supplying oil to the
Philippine market. As we have seen, the claim of the oil
companies that they have been losing is highly questionable,
but let us consider the government’s fear of the private oil
companies’ control of the Philippine petroleum market.
During the Marcos regime, it was the government that im-
ported 58% of the oil requirement of the country, but sold 23%
of this to the private oil companies. Currently, the government
only controls 33% of the local oil market, while the rest (68%)
are in the hands of the private oil firms. It was the corrup-
tion, and incompetence of the Marcos government that
enabled the local oil majors to wrest majority control of the
local market. But instead of rectifying this wrong, what does
the Aquino government propose to do, inspite of the fact that
it bewails the dominance of the oil majors in the Philippine
market? It is considering selling Petronill and BRC to a private
oil company, British Petroleum, one of the so-called seven
sisters. PNOCl is also on the sale counter, along the govern-
ment policy of privatization of public and semi-public corpora-
tion as per IMF/World Bank recommendation. Thus, Presi-
dent Aquino’s plaints regarding the private oil companies
control of the Philippine oil industry, which makes the govern-
ment helpless before them, only reveal crocodile tears.

What Can Be Done?

There are other options open to the government than
persisting in retaining OPSF. To counter the dominance of
the private oil companies in the local market, which is the justifi-
cation for OPSF, PNOCl can itself be utilized to serve as
stabilizer of local oil prices instead of OPSF. But, first, this
corporation has to forego its intense drive for profit, which is
not supposed to be the primary function of the government
service entity. As the case is, PNOCl always joins the private
oil companies in petitioning for an oil price like since it
benefits also from OPSF. If PNOCl finally adopts as its over-
riding objective the meeting of the country’s oil needs at the
lowest possible price, this corporation can either import or
increase its imports from non-OPEC countries like the USSR,
China, etc., which have lower-priced crude than OPEC. The
USSR is the number 1 oil producer in the world, followed
by Saudi Arabia. The reason why the Philippines does not
import crude from the Soviet Union is actually political, due
to the dictates of its capitalist foreign patrons. With lower-
priced PNOCl oil, the private oil companies may be pressured
to decrease their prices. The latter will realize that, henceforth,
the government will not stand any manipulation to increase
oil prices at the expense of the public.

BRC is only operating at 53% of its capacity, so the
Aquino government could even double its oil imports to fully
utilize BRC’s refining plants and thereby expand its share of
the local oil market. Some pessimists may remark that the
government has limited dollars for imports. But when it is
known that the government pays in dollars for the oil being
produced at its own home ground, Palawan, this argument is
seen to be untenable. What is happening in the oilfield at
Palawan (Matinloc, Cadlao and Nido), which are operated by
Alcorn, a foreign corporation, is that PNOCl buys from this
company crude oil which the government considers as im-
ports. Why should the government pay in dollars for oil
produced by a foreign corporation in its own territory and
include these as part of imports? This policy, which is a
squandering of foreign currencies, is ludicrous, to say the
least.

PD 87, passed in 1972 by Marcos, which allows full
control of exploration by foreign oil companies of our local
oil reservoir, should be forthwith abolished. There should be
instituted instead a service-contract arrangement for a foreign
corporation to extract oil for the Philippine government where
the contractor is not granted any share in the oil produced.
There are several of such oil contractors offering this kind of
arrangement in Latin America.

PNOCl must also immediately cease heating its crude
import from 60°F to 80°F — 100°F like that being practiced
by the private oil companies. This action of PNOCl is more
unbecoming of a supposedly service-oriented public corpora-
tion and in fact even jacks up the retail prices of petroleum
products due to refining costs.

The profits of PNOCl, P403 million in 1986, could like-
wise be spent to import crude oil on a government-to-government
basis, a cheaper deal than buying from the international
spot oil market at Rotterdam and Geneva. Further, to save on
dollars, the government should undertake selective debt repu-
dation, rejecting especially those debts which were stolen by
Marcos and his cronies.
All the above is of course based on the premise that government leadership places the welfare of the people above its commitments to foreign creditors. Debt repudiation will surely invite punitive measures from these creditors, which are backed up by their governments. The Aquino government may not have the courage to take up this task. In fact, the government is using the arguments of the private oil companies against those of the mass organizations. Thus there may be no other alternative but nationalization of the oil industry when a true government of the people finally emerges. After all, the nationalization of a basic industry in the Philippines constitutes one of the steps towards the final demise of imperialism.

* A specific tax is a fixed levy, say, 10 cents a liter of refined oil, and is adjusted every now and then by presidential executive order.

** The ad value tax is a percentage of the direct company take, for instance, 14% for LPG and kerosene, 22% for diesel, 25% for gasoline.

The seven sisters are the largest oil companies in the world which include: Exxon, Caltex, Mobil, Shell, British Petroleum, Gulf Oil and Conoco. British Petroleum is majority-owned by the British government. Shell is owned by Dutch and US capitalists, while the rest are American multinationals.

Notes:

2. This was the rational oil consumption in 1986, Bureau of Energy Utilization, Quarterly Review, December 1986.
5. IBON Data Bank.
6. Ibid.
7. Public Affairs Office, PNOC.
9. Ibid., p. 33.
12. IBON Data Bank.
13. Computed from the data of the Energy Regulatory Board (ERB).
14. Public Affairs Office, PNOC.
16. Public Affairs Office, PNOC.
19. Public Affairs Office, PNOC.
21. Public Affairs Office, PNOC.
22. Ibid.
23. IBON.