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

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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 ruse of a partial reduction. The Aquino government, peeved by this intransigence 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.[1] 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.[2]

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, Pilipinas 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 Geronimo Velasco, in his defense of another oil price increase in 1983 inspite of the fact that the price of crude was 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 1 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 $28/barrel in 1983 to as low as $7/barrel in August 1986. Because of the big decline in the price of international crude, Marcos first ordered a reduction of local oil prices 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 $13/barrel to $17/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 centavos. 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 of the ad-valorem tax as will be 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 of by the economically better-off, while LPG is a mass commodity, with the poor being its most extensive consumer.

Table I: **Price of Regular Gasoline**, Peso/Liter as of July, 1987

Direct Company's Recovery	P3.49	48% *
OPSF	(0.71)	10%
Government Take	P3.47	48%
a) Specific Tax	2.60	36%
b) Ad Valorem Tax	0.87	12%
Hauling Charge	P0.05	.007%
Dealer's Mark up	P0.23	.03%
Retail Price	P6.53	
Actual Price	P7.24	

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)

	Old Prices[a]			New Prices[b]	
	Actual Price	Retail Price	OPSF	Retail Price	OPSF
Regular Gas	P7.24	P6.53	(P .71)	P7.15	P.37
Premium Gas	7.61	6.90	(.71)	7.50	——
Kerosene	5.28	4.81	(.47)	5.30	.30
Diesel	5.16	4.76	(.40)	5.25	.42
LPG	3.58	3.57	(.01)	3.69	.45
Fuel Oil	3.59	2.50	(1.09)	2.83	——

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

[a]Data taken from "Dapat nga bang Itaas ang Presyo ng Langis?" published by the Church-Based Consumers' Movement (CBCM)

[b]Data taken from the Energy Regulatory Board (ERB) on the new oil prices as of August 26, 1987.

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.[5]

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-

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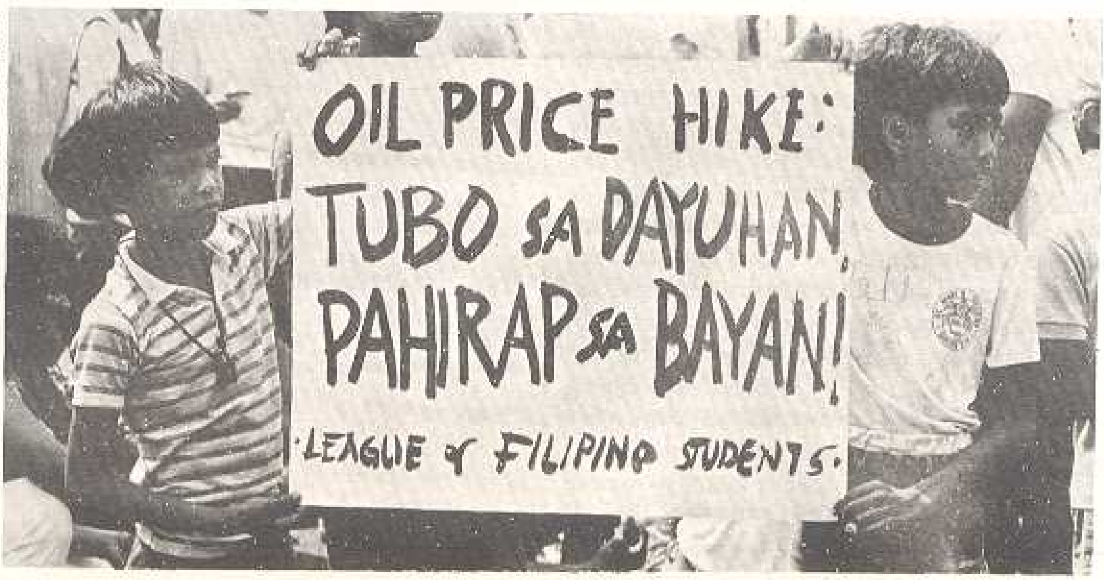

Table III: Local Oil Companies' Petition for the Oil Price Increase of August, 1987 (per liter of oil Products)

Unrecovered costs	Caltex	Pilipinas Shell	Petrophil	Ave.
Landed Cost	P0.065	P 0.101	P0.026	P0.064
Refining & Marketing	0.146	0.086	0.050	0.094
Transhipment	0.014	0.014	0.019	
Other Costs	0.013	-------	-------	
Total Unrecovered	P0.238	P0.201	P0.095	P0.178
OPSF	0.722	0.722	0.722	
Grand Total	P0.960	P0.923	P0.817	P0.90

Source: Public Hearing with oil companies at the ERB.

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

Refineries	1983	% Increases (Decrease)	1984	% Inc. (Dec.)	1985	% Inc. (Dec.)	1986	% Inc. (Dec.)	Average Inc. (Dec.) / Year
Bataan	26.211	(104.9)	31,163	319.9	30.273	(2.9) k	46,166	52.5	21.9%
Caltex	75,220	138.0	41,668	(44.6)	220.909	430.2	139.698	(36.8)	121.9%
Philippinas Shell	(10,689)	(104.9)	92,226	962.8	206,897	124.3	204,828	(0.01)	245.5%
Phil. Petroleum[a]	(63,669	27.9	143,024	124.6	35,591	(75.1)	273,572	668.7	186.5%
Total	154,411	(52.0)	308,080	99.5	493,670	60.2	664,264	34.6	35.6%
Distributors									
Petrophil	51,823	(14.4)	61,067	17.8	80,159	31.3	403,632	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)	-------	-------	-------	-------	39,325	-------	-------
Sea Oil Mktg.	233	(12.1)	51.1	51.1	318	60.6)	215	32.4	39.1%
Petro Dist. Serv.	-------	-------	-------	-------	-------	-------	(38,166)	-------	-------
Making Ent.,	-------	-------	73	-------	77	5.5	68	-------	-------
Total	67,452	(42.5)	105,807	56.9	120,304	13.7	454,631	277.9	76.5%
Grand Total	221,863	49.50	413,887	86.6	613,974	48.3	1,118,895	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 liter (in cents.)	1.9	(50.0)	4.4	131.8	7.3	65.9	12.1	65.8	53.3%

[a]Phil. Petroleum refines the crude oil of Caltex, Pilipinas Shell and Petrophil.

[b]Million Liters

Basic Sources: *Business Day's* Top 1000 Corporations, 1984 - 86; SEC's Top 1000 Corporations, 1987; BOE

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

	Potential Reduction[a]	Actual Increase (Decrease) in Company Take Premium Gas	Regular Gas
1983	40.6	166.2	162.3
1984	11.0	204.8	183.7
1985	19.2	(68.8)	(64.1)
1986	222.3	(256.0)	(248.4)
1983-86	293.1	46.2	35.5

[a]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.

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: Pilipinas Shell, 245.5%; 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.[6] 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 P2.03 (P2.95 - P0.90)! Therefore, their petitions even for a single centavo increase should never have been granted.

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. Ever since the imposition of CPEF (now the OPSF), Petrophil, 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)**

Petrophil	P1,896.8
Pilipinas Shell	1,882.2
Caltex	1,362.6
Mobil*	954.5

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

Source: Ministry of Energy, Report on the Status of the Consumer Price Equalization Fund as of 30, June. 1982.

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 $16.90/barrel.[7] 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).[8] The government has been constantly pressured by the IMF-World Bank group and its consortium of 483 banks to honor 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.[9] 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.[10] 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.[11] 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)

	Tax Collection from Sale of Petroleum Products (in billion pesos)	Oil Consumption (in million bbl.)	Tax / Bbl. Average
1980	7.4	79.96	P 92.55
1981	7.8	75.22	103.69
1982	7.8	74.85	104.21
1983	7.5	74.82	100.24
1984	14.5	61.64	235.24
1985	14.6	55.01	265.41
1986	11.7	52.63	222.31

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%.[12] 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%.[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.[14] 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

III), 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.[15] 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.[16]

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.[17]

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 products. 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.[18] 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 imported 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.[19] It was the corruption, and incompetence of the Marcos government that enabled the local oil majors to wrest majority control of the local market. But instead of righting 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 Petrophil and BRC to a private oil company, British Petroleum, one of the so-called seven sisters.* PNOC is also on the sale counter, along the government policy of privatization of public and semi-public corporation as per IMF/World Bank recommendation.[20] Thus, President Aquino's plaints regarding the private oil companies control of the Philippine oil industry, which makes the government 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 justification for OPSF, PNOC 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, PNOC always joins the private oil companies in petitioning for an oil price hike since it benefits also from OPSF. If PNOC finally adopts as its overriding 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 PNOC 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,[21] 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 PNOC buys from this company crude oil which the government considers as imports.[22] 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 company 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.

PNOC 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 PNOC is more unbecoming of a supposedly service-oriented public corporation and in fact even jacks up the retail prices of petroleum products due to refining costs.

The profits of PNOC, P403 million in 1986, could likewise 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 repudiation, rejecting especially those debts which were stolen by Marcos and his cronies.[23]

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; so many centavos per liter of refined oil, and is adjusted every now and then by presidential executive order.

**The ad valorem 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 Cocal. British Petroleum is majority-owned by the British government. Shell is owned by Dutch and US capitalists, while the rest are American multinationals.

Notes:

[1] *Manila Bulletin*, August 15, 1987.

[2] This was the national oil consumption in 1986, Bureau of Energy Utilization, *Quarterly Review*, December 1986.

[3] *Times Journal*, August 2, 1980.

[4] Board of Energy, Resolution 82-02, December 82.

[5] IBON Data Bank.

[6] *Ibid.*

[7] Public Affairs Office, PNOC.

[8] *IBON Facts & Figures*, August 15, 1987, p. 3.

[9] *Ibid.*, p. 43.

[10] *Business Day*, March 3, 1987.

[11] Philippine Letter of Intent to the IMF, February 28, 1983.

[12] IBON Data Bank.

[13] Computed from the data of the Energy Regulatory Board (ERB).

[14] Public Affairs Office, PNOC.

[15] *Business Day*, July 13, 1973.

[16] Public Affairs Office, PNOC.

[17] Michael Tanzer, *The Political Economy of International Oil and the Underdeveloped Countries*, Beacon Press, 1969, pp. 154-55.

[18] *Manila Bulletin*, Auguts 15, 1987.

[19] Public Affairs Office, PNOC.

[20] Philippine Letter of Intent to the IMF, Oct. 31, 1984.

[21] Public Affairs Office, PNOC.

[22] *Ibid.*

[23] IBON.