PUBLIC CONSULTATION ON THE PHILIPPINE ENERGY PLAN 2008-2030

15 August 2008 Lipa City, Batangas

Oil Pricing in the Philippines

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REGULATORY FRAMEWORK

- RA 7638 – DOE Law
- RA 8479 – Oil Deregulation Act
- RA 8749 – Clean Air Act
- RA 9367 – Biofuels Act

- RA 8184 – Excise Tax
- RA 9337 – RVAT

  - EO 691 – Automatic Tariff Adjustment
  - EO 449 – Lower Tariff for Bioethanol for Fuel
  - DOE Circ 2006-08-011 – Importations of Ethanol for Fuel
  - BIR Rev Reg 8-2006 – Ethanol for Fuel

DOE ROLES

DOE - OIMB

- Monitoring
  - → **Fuel quality/quantity** ***(RA 8479 / RA 9367)***
  - **refining/marketing process, inventory, price** ***(RA 8479)***
- Additives Registration ***(RA 8479 / RA 8749)***
- Fuel Quality Standard Setting ***(RA 8749 / RA 9367)***
- Petroleum Facilities Standard Setting ***(MOA with BPS)***
- Regulate as necessary ***(RA7638)***

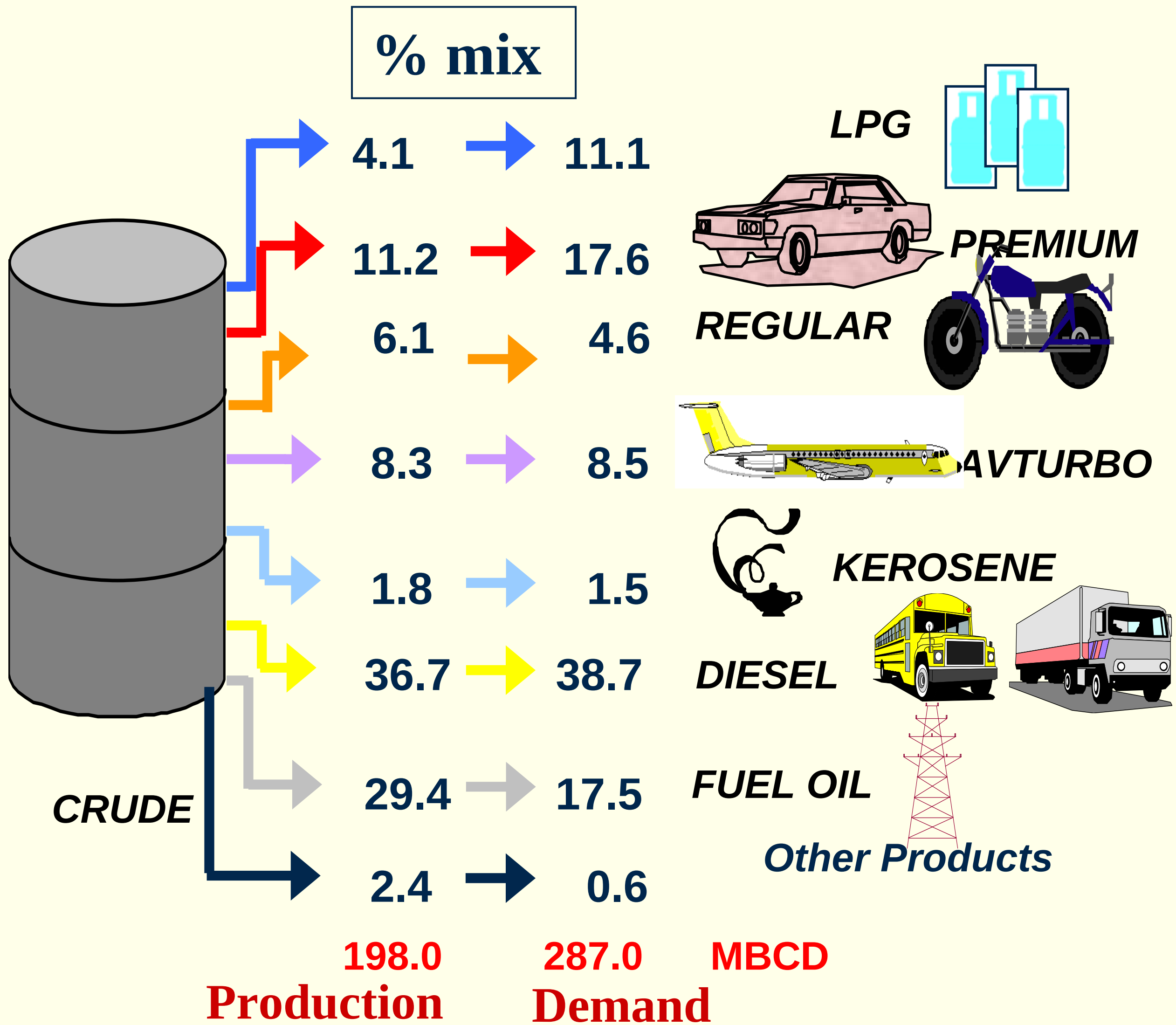
DOE - EUMB ***(RA 9367)***

- Accreditation Biofuels Manufacture
- Monitoring of Biofuels Manufacture/Marketing

DOE-ERTLS conducts testing of samples, DOE-Legal processes violations

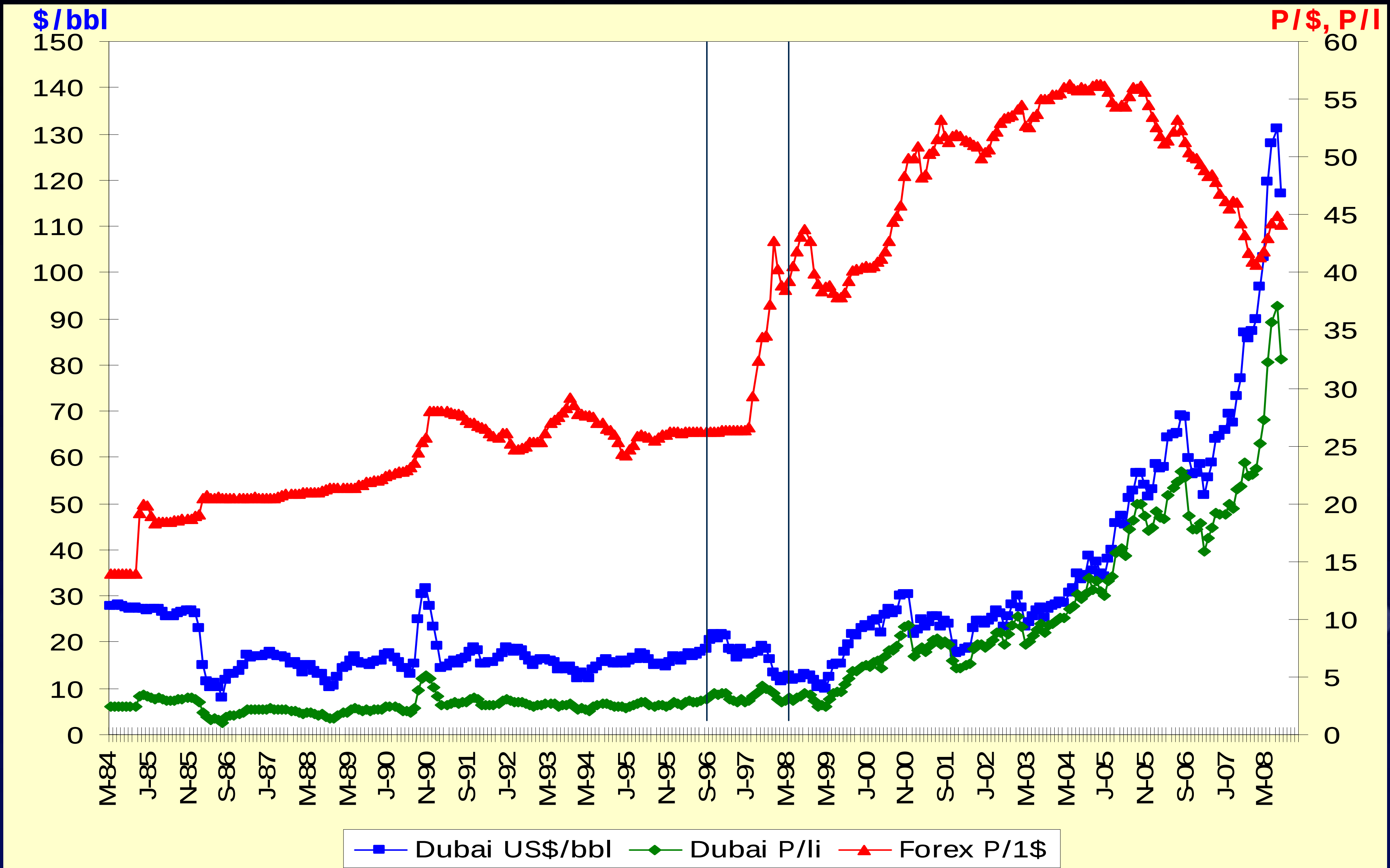
OIL SUPPLY & DEMAND

Sectoral Demand	
Sector	%
Transport	63
Residential	8
Commercial	5
Agricultural	3
Industrial	14
Power	7



DUBAI CRUDE PRICES/FOREX

March 1984 – MTD August 2008



REASONS FOR HIGH OIL PRICES

- **DEMAND**
  - High, esp. China, India and US
  - Increasing faster than supply
  - Seasonality
    - *Summer* – high on gasoline, diesel
    - *Winter* – high on diesel, kerosene, LPG, crude
- **CRUDE SUPPLY**
  - Close to maximum crude production by OPEC
  - Depleting oil reserves
- **PRODUCT SUPPLY**
  - Tight oil refining capacities

Supply & Demand Fundamentals

- Geopolitical tensions/conflicts
  - in Middle East and other oil producing countries
    - → Iraq, Nigeria, Venezuela
    - → Stand-off between Iran and Israel/US/Western countries on nuclear enrichment program
  - Conflicts/disturbances in big consuming countries
    - → US, Korea, UK
- Climate/weather disturbances
- Weak US Dollar vs. Euro
  - → HEDGING / commodity trading

Actual supply disruptions

Sentiments on threats – Fear Factor

WORLD OIL SUPPLY AND DEMAND

Top Producers	mil bbl/d	Net Exporters	mil bbl/d
Saudi Arabia	*10.67*	*Saudi Arabia*	*8.53*
Russia	9.68	Russia	6.87
United States	*8.33*	*UAE*	*2.56*
Iran	4.15	Norway	2.55
China	*3.85*	*Iran*	*2.55*
Mexico	*3.71*	*Kuwait*	*2.34*
Canada	*3.29*	*Venezuela*	*2.18*
UAE	*2.95*	*Nigeria*	*2.13*
Venezuela	*2.80*	*Algeria*	*1.84*
Nigeria	*2.44*	*Iraq*	*1.44*
Brazil	2.17	*Angola*	*1.38*
Algeria	*2.12*	Kazakstan	1.15
Iraq	*2.01*	*Qatar*	*1.03*

OPEC = 13 countries incl. new-member Angola and Ecuador.

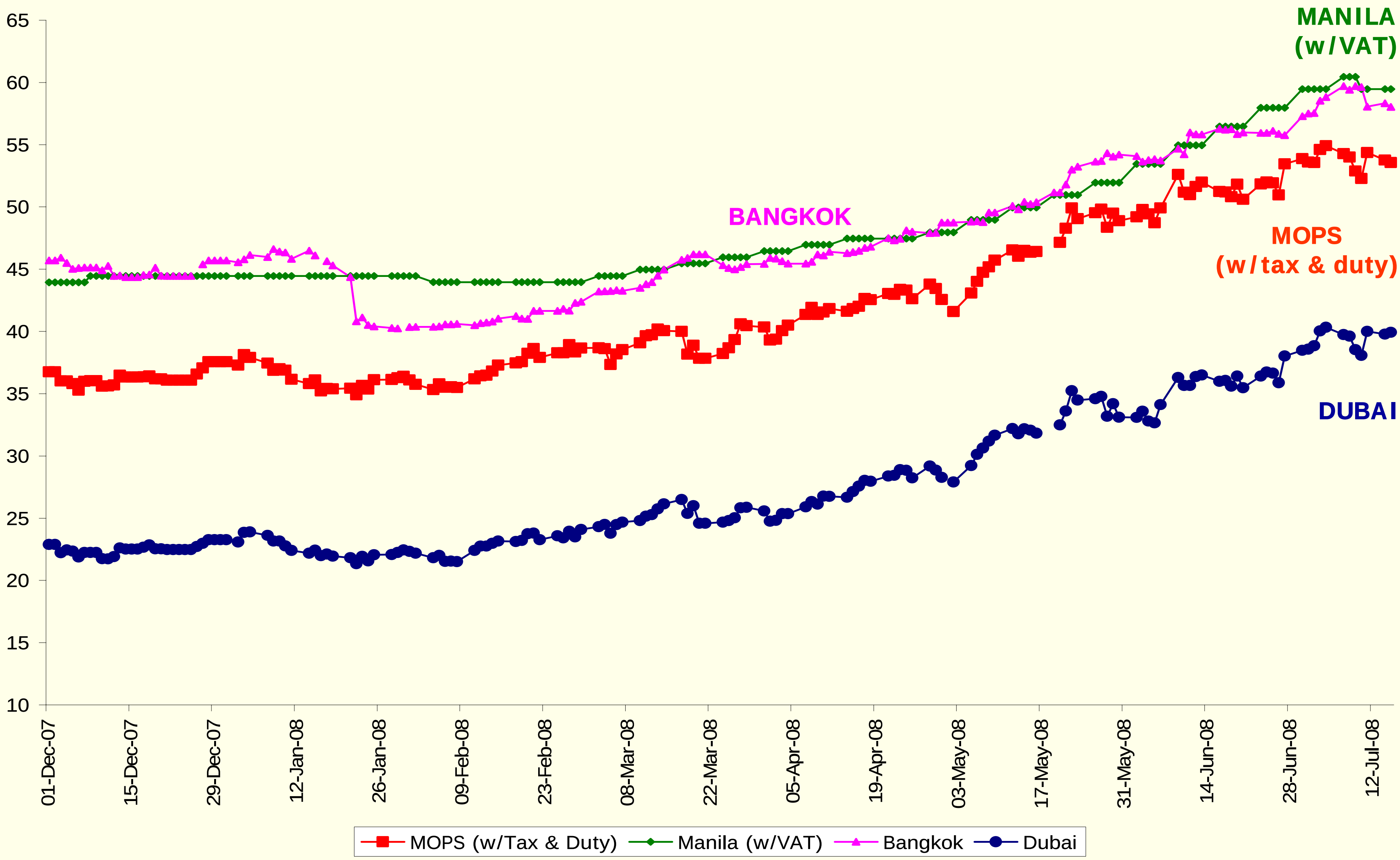
Source: EIA 2006 data

	2004	2005	2006	2007	2008
	million b/d				
DEMAND					
US*	20.73	20.80	20.60	20.90	20.43
China	6.40	6.70	7.14	7.58	8.00
India	2.41	2.53	2.60	2.84	3.10
Phils.	0.32	0.30	0.28	0.28	0.28
Others	52.64	53.57	54.28	54.40	54.99
TOTAL WORLD DEMAND	82.50	83.90	84.90	86.00	86.80
SUPPLY					
OPEC**	29.07	30.31	29.64	31.04	32.18
Non-OPEC	50.30	50.40	51.10	49.60	50.00
NGLs and non-	4.20	4.50	4.60	4.80	5.10
TOTAL SUPPLY	83.57	85.21	85.34	85.44	87.28

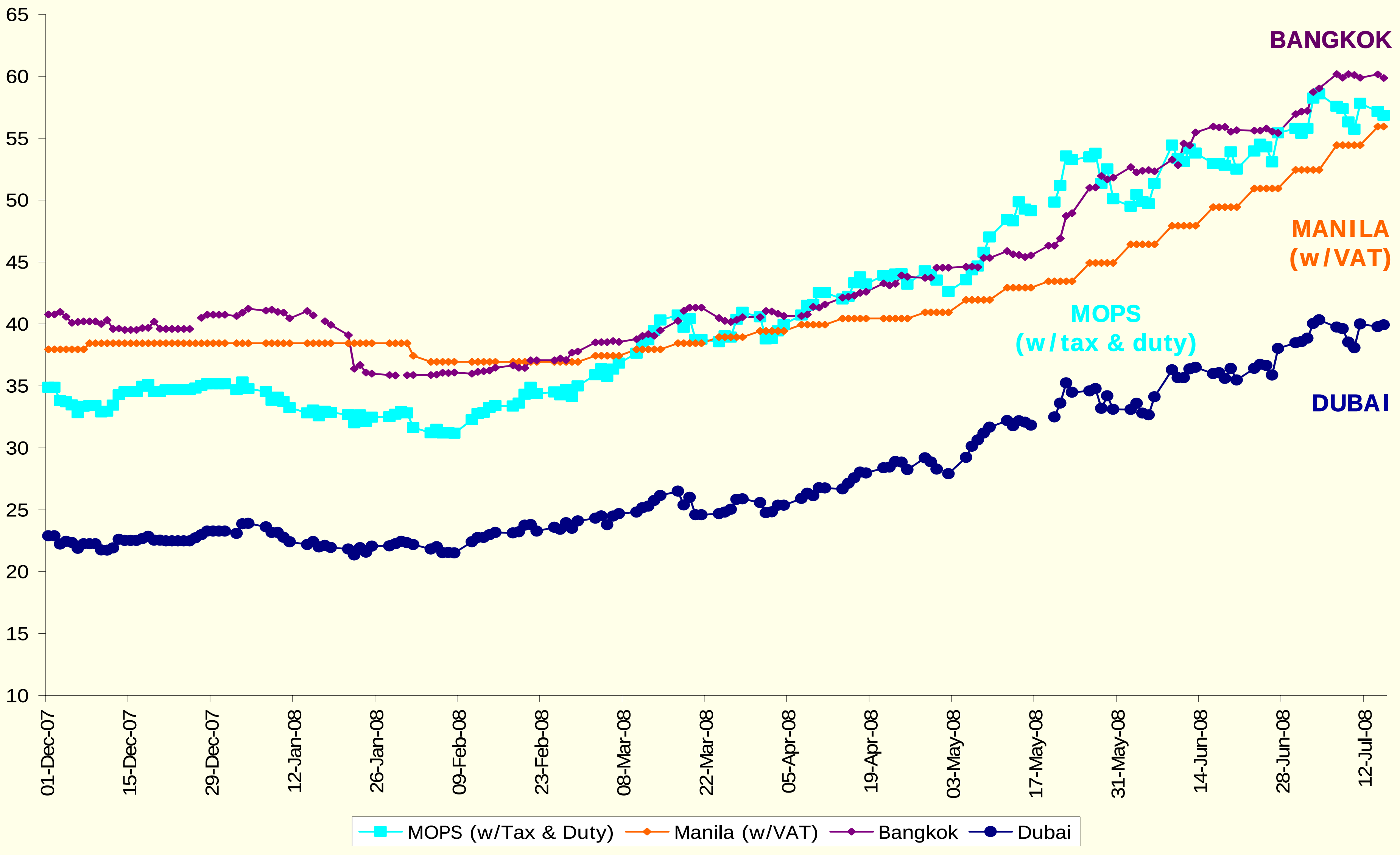
Note: 1) Balance of Total Supply vs Total Demand : stock change and miscellaneous
2) 2008 supply and demand taken from IEA forecast in its June Oil Market Report
3) 2008 OPEC output includes the production allocated for Angola and Ecuador of 1.9 mb/d and 520,000 b/d, respectively. OPEC output in Dec 07 includes Angola and Ecuador.

Source: IEA's June '08 Oil Market Report

MOPS vs. MANILA vs. BANGKOK & DUBAI
Unleaded



MOPS vs. MANILA vs. BANGKOK & DUBAI
Diesel



TAXES ON PETROLEUM

PRODUCT	PRIOR TO DEREGULATION			DEREGULATION OF THE OIL INDUSTRY									
				R.A. 8180		R.A. 8479							
								Pre-RVAT PERIOD		RVAT PERIOD (R.A. 9337)			
	TARIFF % CIF	SPECIAL DUTY	SPECIFIC TAX	TARIFF % CIF	SPECIFIC TAX	TARIFF % CIF	SPECIFIC TAX	TARIFF % CIF	SPECIFIC TAX	TARIFF % CIF	SPECIFIC TAX	RVAT (%)	
	E.O. 264		R.A. 6965	R.A. 8180	R.A. 8184	E.O. 461	R.A. 8184	E.O. 336	R.A. 8184	E.O. 440		01Nov '05	01Feb '06
PREMIUM GASOLINE	20	1.00	2.52	7	5.35	3	5.35	5	5.35	3	4.35	10	12
UNLEADED GASOLINE	20	1.00	2.52	7	4.35	3	4.35	5	4.35	3	4.35	10	12
REGULAR GASOLINE	20	1.00	2.28	7	4.80	3	4.80	5	4.80	3	4.35	10	12
AVIATION TURBO	20	1.00	2.38	7	3.67	3	3.67	5	3.67	3	3.67	10	12
KEROSENE	20	1.00	0.50	7	0.60	3	0.60	5	0.60	3	0.00	10	12
DIESEL OIL	20	1.00	0.45	3	1.63	3	1.63	5	1.63	3	0.00	10	12
FUEL OIL	10	1.00	0.00	3	0.30	3	0.30	5	0.30	3	0.00	10	12
LPG	10	1.00	0.00	7	0.00	3	0.00	3	0.00	0	0.00	10	12

* *Shall be adjusted to 2%, 1%, or 0% upon certification by the Department of Energy that the trigger price levels have been reached.*

Note: Highlighted are the prevailing taxes and duties

MITIGATING MEASURES

High Oil Prices – A Global Phenomenon

A. <u>On going:</u>

1. Incremental local oil prices increases P0.50-2.00/li per week
2. Diesel discounts in PUJ "jeepney" lanes
3. Automatic tariff cut (EO 691) - P1.50/l cut on price effective June 2008
4. Enhanced enforcement
   - PTF-SEFEELS: court cases/closure/penalties
   - PAKTAF: anti kotong/kolorom drive now giving public transport drivers additional P4,000/mo. take home

B. <u>Long term:</u>

5. Energy conservation & efficiency
6. Shift to alternative fuels e.g. CNG, LPG, biofuels
7. Shift to renewables
8. Exploration/development of indigenous resources

MITIGATING MEASURES

High Oil Prices – A Global Phenomenon

Katas ng VAT (Php4B)

1. Php2B – PhP500/household ($\leq$ 100kwh/mo.)
   "Pantawid Kuryente"
2. Php1B – scholarship
3. Php1B – switch:
   a. vehicles conversion to cleaner fuels
   b. incandescent bulbs to energy efficient CFL

ENERGY SECURITY & CLEAN AIR INITIATIVES on FUELS

CAA

Biofuels Act of 2006

Clean Fuel Initiatives (WWFC)

Fuel Quality Regional Harmonization (WP 29 & Vehicle Harmonization)

Alternative Fuels / Energy Security & Sufficiency

Climate Change Initiatives

Review & Formulate Standards Technical Committee on Petroleum Products & Additives (TCPPA)		Monitoring: Sampling & Testing
Int'l Fuel Quality Standards	Emission Stds Regulations	Field/On-site testing
R & D on Fuel Specification	Vehicle Technology Dev't.	Laboratory testing
Dev't in Fuel Additives	IRR for Standards	Local Supply and Demand

Multi-lateral bodies: ADB, USAID, JICA, JETRO etc.	Inter-agency Cooperation: DOE, DTI, BPS, DENR-EMB, DOTC DOF, BIR, BOC, TC, DOST, LGUs, etc.	Others: Industry – Oil/Car NGO's, Academe

Thank you!