



# Downstream Oil Deregulation

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A Simplified Discussion

# What is downstream oil?

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- Downstream Oil Industry – the business of importing, exporting, re-exporting, shipping, transporting, processing, refining, storing, distributing, marketing and/or selling, crude oil, gasoline, diesel, liquefied petroleum gas, kerosene, and other petroleum and crude oil products (Sec. 4, RA 8180)



# What is deregulation?

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- Removal of barriers (i.e., regulations) to facilitate free competition
  - e.g., restrictions on imports, entry of industry players, price setting
- Minimal role of government in economic sectors and industries
  - No direct competition with the private sector (hence privatization trend)



# Deregulation of downstream oil industry

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- Removal of protection with regard to
  - Importation, processing and retailing of petroleum products
  - Determination of prices of petroleum products
  - Entry of industry players (from 3 to 601)



# Overview

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- 1950s – deregulation started
  - Competition among Shell, Caltex, Esso, Mobil, Filoil and Getty
- 1970s to 1996 – regulation imposed
  - Became necessary due to increase in crude prices in the world market
  - PNOC established in 1973
    - Petron started as PNOC's marketing arm
  - OPSF established in 1984
  - Oil Industry Commission established; ERB replaced OIC in 1987



# Preparing for deregulation

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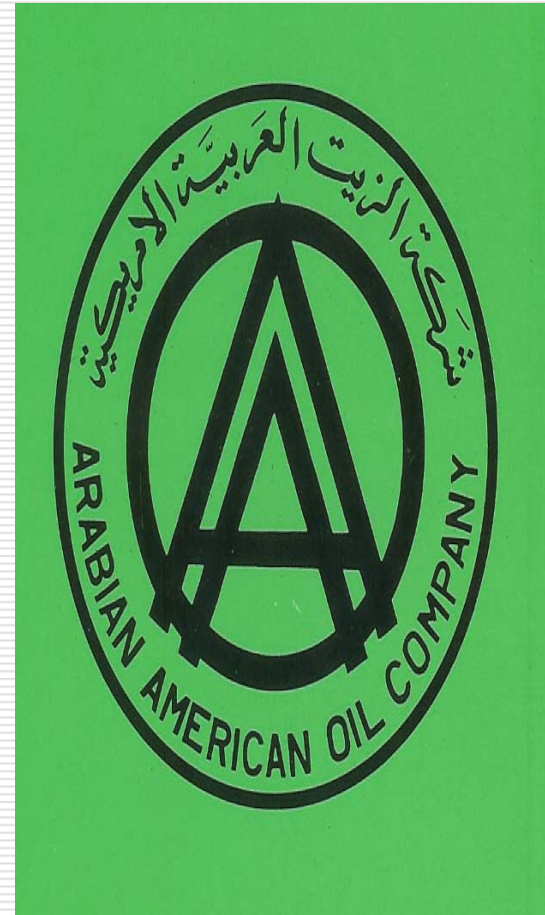
- 1992 –Department of Energy established through RA 7638
  - Sec. 5 (b) – privatization of agencies concerned with energy and deregulation of power and energy sectors
  - Sec. 5 (e) – stresses timetable of deregulation of appropriate energy projects and activities of the energy industry
- 1993- skills training at DOE as preparation for the eventual deregulation of downstream oil industry



# Deregulation all over again

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- 1993 – privatization of Petron
  - Sale of 40% to ARAMCO and 20% as IPO
- 1996 – first oil deregulation law through RA 8180
- 1997 – SC declared RA 8180 unconstitutional
- 1998 – second oil deregulation law through RA 8479



# Other related policies

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- RA 8184 (1996) – imposes specific taxes on most petroleum products
- RA 9337 (2005) – aka RVAT Law; 12% VAT on all petroleum products
  - 2006 (Jan-Sept) income: P15.1 billion
  - 2007 income: P45.6 billion
  - 2008 projected income: P73.4 billion



# Effect of oil deregulation in figures

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	Sept. 25, 2007	Sept. 19, 2008	Inc.
Unleaded gas	40.95	50.96	<b>24.44%</b>
Diesel	35.45	49.94	<b>40.87%</b>
11-kg LPG	480-533	598-659	<b>23.64%</b>
Dubai crude (\$ per barrel)	75.68	87.01	14.97%
Forex rate	46.1315	46.6922	1.21%



# DOE argument

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- "It must be emphasized that deregulation does not guarantee lower prices but **fair prices**. Domestic oil prices are increasing **because world market prices are increasing**. Domestic prices are generally based on international prices with Dubai as benchmark crude for Asia...Hence, adjustments in domestic oil prices are simply reflective of crude costs and foreign exchange rates."

# Why this situation?

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- According to neoliberalism, deregulation = lower prices, better services
  - **depoliticization** of prices
  - **acclimatization** to price changes
- However, petroleum products are “demand inelastic.”
  - Demand not affected by price fluctuations since these are needed by the public
  - e.g., transport sector absolutely needs petroleum products for its operations



# Actual effects

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- ❑ Unabated price hikes
- ❑ Price differences based on location, extent of competition
- ❑ Concentration of operation in Metro Manila, other urban areas



# Issues not addressed by deregulation

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- Uneven economic situation in urban and rural areas
- Lack of justified price setting for socially sensitive products (diesel, kerosene, LPG)

# Nationalization as alternative

- ❑ Clarification: This does not mean reverting to 1970s regulatory framework
- ❑ Need to control prices of petroleum products, particularly socially sensitive ones
- ❑ Need to make them **affordable** and **accessible**
- ❑ Need to uphold and promote rights of the poor majority, not the rich oil companies



# Concrete measures

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- Repeal of RA 8479, VAT
- State control of Petron
- Centralized procurement of crude oil, petroleum products
- Engagement in commodity swaps
- Establishment of buffer fund
- Removal of taxes on petroleum products
- Search for alternatives to oil as sources of energy



# If deregulation continues

- ❑ Deregulation of land transportation franchise
- ❑ Full deregulation of land transport fares





# Necessary tasks

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- Continue protests against increased oil prices and inconsequential rollbacks
- Analyze issue in the context of repealing RA 8479 and calling for nationalization
  - Expose myth of deregulation
  - Resist economic/reformist tendencies in handling the issue

# Thank you!

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