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DATE: 20 JUL 2016
TIME: 1:15PM
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Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL No. 1760

Introduced by BAYAN MUNA Rep. CARLOS ISAGANI T. ZARATE

AN ACT
RENATIONALIZING THE PETRON CORPORATION

EXPLANATORY NOTE

Petron Corporation (Petron), which used to be state-owned and controlled, is currently the largest and the only publicly listed oil refining and marketing company in the Philippines. As of year-end 2011, Petron has remained the market leader, supplying more than one-third (37.7%) of the country's petroleum product requirements. It has 2,200 retail service stations located nationwide. Petron accounts for the largest share, 180,000 of the 290,000-barrel per day of the refining capacity of the country, which it produces in its petroleum refinery complex in Limay, Bataan – the largest in the Philippines. Petron also operates a fully automated lube oil blending plant in Pandacan, likewise the biggest and most advanced of its kind in the Philippines. Moreover, the company controls a 38 percent market share of the highly socially sensitive liquefied petroleum gas industry (LPG) with its LPG brand Gasul.

At the beginning of 2008, the Philippine National Oil Company (PNOC) and Saudi Aramco each owned 40% of Petron's outstanding stock, with the remaining 20% held by thousands of individual stockholders. In 2008, Saudi Aramco sold its entire stake to the Ashmore Group, a London-listed investment group. Then Ashmore added 11 percent more when it made a required tender offer to other shareholders, for a total stake of 51 percent. As of July 2008, Ashmore, through its SEA Refinery Holdings BV, had a 50.57 percent of Petron's stock.[6] Ashmore's payment was made on December 2008.[7] In December 2008, Ashmore acquired PNOC's 40-percent stake. On December 2008, San Miguel Corporation said it was in the final stages of negotiations with the Ashmore Group to buy up to 50.1 percent of Petron.[8]

On March 30, 2012, Petron acquired ExxonMobil's downstream business in Malaysia with XCEL Petroleum. In January 2013, Petron officially opened their Malaysian operations, rebranding all Esso and Mobil stations across Peninsular Malaysia.

Clearly, Petron Corporation dominates the local downstream petroleum industry but its ownership has been turned over to private companies, thus, instead of giving benefit to the Filipino consumers, the oil company controls local prices in the same way as the big transnational oil corporations do, like Exxon-Mobil, Royal Dutch Shell, Chevron-Texaco (its marketing arm is Caltex), British Petroleum (BP), and CFP-Total that almost completely and collusively control oil prices worldwide.

Even if the largest oil producing countries (Saudi Arabia, Iran, Venezuela, Mexico, and China) control 90 percent of the world's oil reserves, the five (5) transnational oil companies mentioned can dictate world prices because they control 60 percent of oil production and hold all levels of the market through their vast global network of exploration and exploitation sites, partnerships with nationalized oil companies, refineries, pipelines, tankers, and stations. Filipino consumers are thus severely dependent on such corporations, which control the exploration, exploitation, refining, importation, and retailing of crude and petroleum products from abroad; and even the re-exportation of our country's indigenous petroleum and petroleum-based products.

Because subsidiaries under the same corporations are both the buyers (refiners in the downstream petroleum industry) and the sellers (producers in the upstream petroleum industry), they can fix and pad prices through hidden transfer pricing every step of the way. Estimates show that 67% of world trade in oil is done through term contracts, or transactions between subsidiaries of the same companies, bypassing exchanges over world markets.

Such control over pricing has allowed big oil companies in the past to shock the globe with the highest ever world oil prices. The relentless increases have allegedly been caused by rising demand, particularly by Chinese and Indian markets; the lack of spare supply capacity; political tensions in the Middle East and North Africa; the financial crisis of now government-sequestered, Russian oil giant Yukos; stricter environmental regulations, especially in the United States; and scarcer oil. But these factors explain only to a certain degree the latest surge in world oil prices; they do not explain why oil prices are high to begin with. These popular claims rule out the control and influence of giant transnational oil corporations, which are almost invulnerable to the law of supply and demand and to the vagaries of speculation.

Locally, the Big Three -- Petron and the local subsidiaries of Shell and Caltex -- claim that they have not overpriced based on the price increases of Dubai oil exchanged over the spot market and on Peso-Dollar exchange rate fluctuations. Moreover, they have denied the existence of a local cartel, alleging that they have merely and coincidentally followed the movements of world oil prices. They claim these even as they are minimally affected by prices in world markets and even as they are able to trade in the same currency between subsidiaries.

The privatization, liberalization, and deregulation of the oil industry have allowed oil price increases to go unchecked. With petroleum as a sensitive commodity --which price directly affects the cost of almost all other commodities and services, including food, housing, social services and transportation -- deregulation has given transnational oil corporations even more leeway to influence the country's cost of living, livelihoods, business and commerce, employment, and the National Budget.

For example, on June 18, 2013, escalating world oil prices have prompted oil firms operating in the Philippines to hike prices of gasoline (P1.05), diesel (P1.45) and kerosene (P1.30) per liter, inclusive of the 12-percent value-added tax. Even when international oil prices slumped in 2015 the corresponding downward adjustment of local oil prices was hardly commensurate to the price movement in the international oil market.

Indeed, there is a pressing need for government to regulate and intervene in the oil industry to protect the majority of Filipinos from runaway increases in oil prices. But due to the control of monopolistic, transnational corporations, regulation can only be effective and truly beneficial if it is part of a program to institutionalize national oil industrialization, so that local oil prices can be brought down from the unreasonable and unjustifiable levels set by giant transnational oil corporations and can be prevented from falling prey to further monopoly pricing and manipulation.

This Bill requires, as an imperative for an urgent and long-term response to the looming oil crisis, the renationalization of Petron Corporation, so that the valuable government asset can truly fulfil the responsibility of the State to ensure public welfare through fair and regulated prices.

This Bill is part of a range of bills to institute the policy of independence from monopoly pricing by transnational oil corporations through the regulation and the gradual industrialization of the petroleum industry. The other bills call for: the regulation of the petroleum industry through the creation of an oil regulatory council; the creation of a buffer fund solely to cushion drastic increases in petroleum prices; the centralized procurement of all imported crude oil and refined petroleum products; and the revision of investment, taxation, and other laws.

Approved,

Rep. CARLOS ISAGANI T. ZARATE
Bayan Muna Party-list

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HOUSE BILL No. 1760

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AN ACT
RENATIONALIZING PETRON CORPORATION

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

SECTION 1. ***Short Title.*** **-** This Act shall be known as the **"Petron Renationalization Act of 2016"**.

SECTION 2. *Declaration of Policy.-*

I. Social Justice

Article II, Section X of the 1987 Constitution states: "The State shall promote social justice in all phases of national development."

Article II, Section XIX of the 1987 Constitution states: "The State shall develop a self-reliant and independent national economy effectively controlled by Filipinos."

II. National Economy and Patrimony

Article XII, Section I of the 1987 Constitution states: "The goals of the national economy are a more equitable distribution of opportunities, income, and wealth; a sustained increase in the amount of goods and services produced by the nation for the benefit of the people; and an expanding productivity as the key to raising the quality of life for all, especially the under-privileged."

Article XII, Section XIV of the 1987 Constitution states: "The State shall regulate or prohibit monopolies when the public interest so requires. No combinations in restraint of trade or unfair competition shall be allowed."

Article XII, Section XVIII of the 1987 Constitution states: "The State may, in the interest of national welfare or defense, establish and operate vital industries and, upon payment of just compensation, transfer to public ownership utilities and other private enterprises to be operated by the Government."

Consistent with the foregoing, petroleum and petroleum products, being vital to national security and to industrialization and their supply at reasonable prices being essential to the general welfare, it is hereby declared to be the policy of the State to renationalize Petron Corporation and align its policies to fulfill the following objectives and purposes:

(a) To explore, exploit, and promote the exploration and exploitation of indigenous sources of petroleum and ensure that locally extracted crude oil, locally refined petroleum, and locally processed petroleum products primarily and singularly serve the country's local petroleum requirements;

(b) To assure that the country shall have a proper, adequate, and continuous supply of crude oil and refined petroleum products under the most economic and competitive terms possible, considering all available sources of supply and the country's total domestic petroleum requirements, and for this purpose to engage in the transportation, storage, importation, exportation, refining, supply, sale and distribution of crude oil, refined petroleum and petroleum based products, whether imported or produced by local refineries;

(c) To assure the public of reasonable and justified prices for petroleum products;

(d) To gradually increase the local petroleum refining capacity;

(e) To build the local upstream oil industry by upgrading research and development facilities, updating technological expertise, and wholly or jointly finance local petroleum exploration projects;

(f) To integrate the local downstream petroleum industry with the developing local upstream oil industry; and

(g) To encourage the participation of local private capital, technology, and labor.

SECTION 3. ***Definition of Terms.-***

(a) "Petroleum" shall refer to the naturally occurring mixture of compounds of hydrogen and carbon with a small proportion of impurities and shall include any mineral oil, petroleum gas, hydrogen gas, bitumen, asphalt, mineral wax, and all other similar or naturally-associated substances, with the exception of coal, peat, bituminous shale and/or other stratified mineral fuel deposits;

(b) "Crude oil" or "oil" shall be used interchangeably with "petroleum".

(c) "Petroleum products" shall mean products formed in the course of refining crude petroleum through distillation, cracking, solvent refining and chemical treatment, coming out as primary stocks from the refinery like: liquefied petroleum gas (LPG), naphtha, gasolines, solvents, kerosenes, aviation turbine fuels, automatic/industrial diesel oils, industrial/residual fuel oils, waxes and petrolatums, asphalts, bitumins, coke and refinery sludges, or such refinery petroleum fractions which have not undergone any process or treatment as to produce separate chemically defined compounds in a pure or commercially pure state; and to which various substances may have been added to render them suitable for particular uses, provided that the resultant product contains not less than 50% by weight of such petroleum products.

(d) "Philippine national" shall mean a citizen of the Philippines, or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least sixty percent (60%) of the capital stock outstanding and the entitlement to vote is owned and held by citizens of the Philippines; or a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of which one hundred percent (100%) of the capital stock outstanding and the entitlement to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least sixty percent (60%) of the fund will accrue to the benefit of Philippine nationals: *Provided, That* where a corporation and its non-Filipino stockholders own stocks in a Securities and Exchange Commission (SEC) registered enterprise, at least sixty percent (60%) of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines and at least sixty percent (60%) of the members of the Board of Directors of each of both corporations must be citizens of the Philippines, in order that the corporation shall be considered a Philippine national.

SECTION 4. ***Specific Policy Objectives of Petron.-*** The specific policy objectives of Petron Corporation to fulfil this declaration of policy shall include, but shall not be limited to, the following:

(a) Especially for Petron's socially and economically sensitive products, such as liquefied petroleum gas (LPG), naphtha, gasolines, kerosenes, automatic/industrial diesel oils, and industrial/residual fuel oils, to adopt a pricing policy that shall keep the prices of crude oil and petroleum products, sold in wholesale or retail to local consumers, as socially and economically viable as possible and as allowed by the fulfilment of the objectives of this Act;

(b) To control cartel and monopoly pricing, and thus check unreasonably high prices;

(c) To raise and promote the local capacity for exploration, refining and exploitation, processing, and development of petroleum;

(d) Before or after the full nationalization of Petron, or once deemed feasible and cost-effective by the Board of Directors of Petron, to invest, through partnerships, joint-ventures, mergers, or acquisitions, in entities involved in activities directly related to the policies of Petron provided under this Act. Such investments shall prioritize local Philippine nationals and government agencies such as the Philippine National Oil Company (PNOC);

(e) To encourage the participation of local private capital by prioritizing such investments in joint ventures it shall undertake consistent with the provisions of this Act; and

(f) To prioritize Filipino capital, technology, and labor through the investment decisions and conduct of operations of Petron.

SECTION 5. ***Transitory Duty of PNOC upon the Effectivity of this Act.-*** The Philippine National Oil Company (PNOC) shall, upon the first year of effectivity of this Act, reacquire equity in Petron Corporation by at least 51% of its total subscribed stocks singularly from the 9% owned and/or traded by individuals or from the 40% owned by the Ashmore Group, or from the 50.1% of San Miguel Corporation or in a combination of which sum is at least 51% of the total subscribed stocks of Petron Corporation.

PNOC shall initially buy back the shares at the Philippine Stock Exchange. If the minimum 51% is not repurchased, the PNOC shall cause the expropriation, subject to just and fair compensation, of Petron stocks from Ashmore, San Miguel Corporation or whoever/whichever has possession/ownership/control/custody thereof.

For the first year upon the effectivity of this Act, four billion pesos (PhP4,000,000,000.00) shall be appropriated by the National Government for the initial repurchase of Petron stocks.

SECTION 6. *Full Nationalization of Petron Corporation.-* The Philippine National Oil Company (PNOC) shall reacquire 100% ownership of Petron Corporation within a period of four (4) years. Reacquisition costs shall mainly be funded by the National Government, through annual budget appropriations. The secondary source for the full repurchase shall be the expanding earnings of PNOC from its increasing stake in Petron Corporation over the period of reacquisition.

To achieve this objective, the PNOC is hereby required to aggressively and consistently improve the operations and income of Petron Corporation in line with the policies of this Act. The eventual corporate merger of the PNOC and Petron Corporation shall hereby be a matter of policy.

SECTION 7. *General Repealing Clause.-*

(a) Any and all articles, sections, and provisions under Republic Act No. 8479, otherwise known as the "Downstream Oil Industry Deregulation Act of 1998," contrary or inconsistent with this act are hereby repealed.

(b) All other laws, decrees, executive orders, rules and regulations, or parts thereof inconsistent with any of the provisions of this Act, are hereby repealed or amended accordingly.

SECTION 8. *Separability Clause.-* If, for any reason, any section or provision of this Act is declared unconstitutional or invalid, such other sections or provisions not affected thereby shall remain in full force and effect.

SECTION 9. *Effectivity.* – This Act shall take effect fifteen days after its complete publication in at least two (2) national newspapers of general circulation.

Approved,