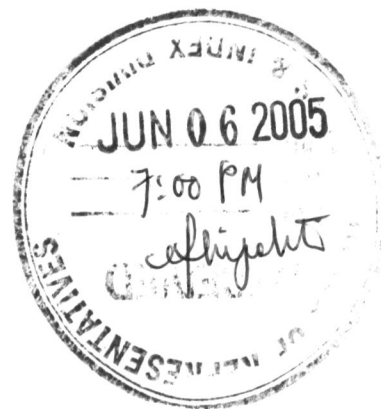


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Thirteenth Congress
First Regular Session

HOUSE BILL NO. 4426



Introduced by HONORABLE LUIS R. VILLAFUERTE

EXPLANATORY NOTE

Coco Methyl Ester (CME) is a renewable and biodegradable diesel fuel substitute derived from coconut oil through the process of transesterification. It is known as "coco-biodiesel", to distinguish it from the "cocodiesel" made popular in the 1970s, which was simply a crude coconut oil that did not under go any process of esterification.

This Coco-Biodiesel, when used as an additive to or substitute for diesel fuel at even the rate of one percent (1%) per volume has been found to reduce engine emissions of nitrous oxide and sulfur oxide, which are the main contributors to air pollution. Its chemical properties, such as high lubricity, detergency and solvency can help protect and keep engines clean. Moreover, it can be used on current diesel engines with little or no need for modifications.

This Bill seeks to mandate the use of coco-biodiesel as an additive to or substitute for diesel fuel and thereby bolster the development of the coco-biodiesel industry in the country, provide more jobs and income to coconut farmers, enhance the country's supply of energy by utilizing indigenous sources, and create a high-value export product in the potentially lucrative biofuel industry, while implementing the clean air policy and protecting the environment.

Given the merits of this bill, its early approval is earnestly requested.


LUIS R. VILLAFUERTE

Republic of the Philippines
HOUSE OF REPRESENTATIVES
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Thirteenth Congress
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HOUSE BILL NO. **4426**

Introduced by **HONORABLE LUIS R. VILLAFUERTE**

AN ACT
MANDATING THE USE OF COCO METHYL ESTER (CME),
ALSO KNOWN AS COCO-BIODIESEL, AS AN ADDITIVE TO OR
SUBSTITUTE FOR DIESEL FUEL DESIGNED TO EFFECTIVELY
REDUCE VEHICULAR EMISSIONS SUCH AS NITROUS OXIDE,
SULFUR OXIDE AND OTHER EFFLUENTS, AND ALSO TO
INCREASE FUEL EFFICIENCY, THEREBY ESTABLISHING
FOR THE PURPOSE THE NATIONAL COCO-BIODIESEL
PROGRAM, AND APPROPRIATING FUNDS THEREFOR

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

SECTION 1. *Title.* – This Act shall be known as the “Coco-Biodiesel Act of 2005”.

SECTION 2. *Declaration of Policy.* – It is hereby declared by the State to pursue a policy towards energy independence through the use of alternative and renewable energy sources consistent with the country’s sustainable economic growth plan that would expand opportunities for livelihood and attain energy sufficiency, with due regard to the protection of public health and the

environment by mandating the use of Coco Methyl Ester (CME), more popularly known as coco-biodiesel, as an alternative to or substitute for diesel fuel to:

- a) mitigate toxic and greenhouse gas (GHG) emissions
- b) develop and utilize indigenous renewable energy sources to reduce dependence on imported fuels; and
- c) increase rural employment and income.

SECTION 3. *Definition of Terms.* – As used in this Act, the following terms shall have the following meanings:

- a) *Biofuel* – shall refer to a liquid fuel made from biomass and used to fuel vehicles, engines and fuel cells for electricity generation, and includes biodiesel, among others;
- b) *Coco-Biodiesel* – shall refer to the renewable and biodegradable diesel fuel derived from coconut oil, also known as Coco Methyl Ester (CME);
- c) *Diesel* – a heavy mineral oil used as fuel in diesel engines
- d) *Motor fuel* – shall refer to all volatile and inflammable liquids produced, blended or compounded for the purpose of, or which are suitable or practicable for, operating motor vehicles and engines;
- e) *Renewable energy sources* – shall refer to energy sources that do not have an upper limit on the total quantity to be used. Such resources are able to be replenished on a regular basis, and their renewal rate is rapid enough, relative to consumption, to consider viability over an indefinite period of time;

SECTION 4. *Mandatory Use of Coco-Biodiesel.* – The use of coco-biodiesel as an additive to or substitute for diesel fuel is hereby mandated by the National Coco-Biodiesel Program. The Department of Energy (DOE) shall be the lead agency in its implementation and is hereby directed to immediately adopt a

National Coco-Biodiesel Program that will implement, through the National Coco-Biodiesel Board (NCBB) created under this Act, a mandated blending of diesel with coco-biodiesel or the primary use of coco-biodiesel as motor fuel.

Within two (2) years from the effectivity of this Act, a minimum of one percent (1%) coco-biodiesel by volume shall be blended into all diesel fuel to be distributed, sold and used as motor fuel. Within four (4) years from the effectivity of this Act, a minimum of five percent (5%) coco-biodiesel by volume shall be blended into all diesel fuel to be distributed, sold and used as motor fuel. Subsequently and every two (2) years thereafter or sooner, the National Coco-Biodiesel Board (NCBB) shall review and assess the impact of the use of coco-biodiesel as well as the availability of local supply and shall determine the appropriate increase in the mandated minimum blend beyond five percent (5%) no later than four years from the effectivity of this Act.

SECTION 5. *Incentive Scheme.* – To encourage private entities to invest in the production of coco-biodiesel and its distribution for blending with diesel fuel or the direct substitution thereof by consumers, the following incentives are hereby provided:

a) Fiscal incentives

1. All entities engaged in the production of coco-biodiesel as may be certified by the DOE shall, for a period of ten (10) years from the effectivity of this Act, be exempted from the payment of tariff and duties in the importation of all types of machinery, equipment and other capital outlays thereto: *Provided, however,* that such imported machinery, equipment and capital outlays shall be for the exclusive use of the importing entity as manufacturer of coco-biodiesel; and

2. Coco-biodiesel shall be taxed at the same rate as those prevailing for unleaded gasoline and shall remain at such levels for a period of ten (10) years from the effectivity of this Act.

b) Non-fiscal incentives

1. Subject to the rules and regulations of the Board of Investments, all investments in the production of coco-biodiesel within at least three (3) years after the effectivity of this Act shall be considered as incorporated in the annual investment priorities plan (IPP) of the Board of Investments and shall enjoy the applicable fiscal and non-fiscal incentives as may be provided for by the Board of Investments as provided under existing laws and/or as hereinafter shall be enacted.

c) Financial assistance

1. Government institutions such as the Development Bank of the Philippines, Land Bank of the Philippines, Quedancor and such other government institutions providing financial services shall accord high priority to extend financing to entities that shall engage in activities involving production and/or distribution of coco-biodiesel fuel.

SECTION 7. *Powers and Functions of the Department of Energy.* – In addition to its existing powers and functions, the Department of Energy (DOE) is hereby mandated to take appropriate and necessary actions to implement the National Coco-Biodiesel Program. In pursuance thereof, the Department shall:

- a) Prepare the National Coco-Biodiesel Program consistent with the Philippine Energy Plan;
- b) Within six (6) months from the effectivity of this Act:

1. Establish standards for the production, processing and blending of coco-biodiesel into diesel fuel or the substitution of diesel fuel by coco-biodiesel;
 2. Establish guidelines for the transport, storage and handling of coco-biodiesel;
- c) Impose fines and penalties provided in Section 12 hereof against persons or entities found to have committed any of the prohibited acts under Section 11 (b) through (d) hereof;
 - d) Confiscate coco-biodiesel products sold in the market that are found to be not compliant with the specifications provided for under Sections 4 and 5 hereof and corresponding issuances of the DOE; and
 - e) Conduct an information and education campaign (IEC) to promote the use of coco-biodiesel as an additive to or substitute for diesel fuel.

SECTION 8. *Creation of the National Coco-Biodiesel Board.*

The National Coco-Biodiesel Board (NCBB) is hereby created. It shall be composed of the Secretary of the Department of Energy or his/her designated Undersecretary as Chairperson and the Secretaries or designated Undersecretaries or Assistant Secretaries of the Department of Trade and Industry (DTI), the Department of Finance (DOF), the Department of Transport and Communication the Department of Science and Technology (DOST), the Department of Agriculture (DA), the Department of Environment and Natural Resources (DENR) and the Philippine Coconut Authority (PCA), and one (1) representative each from the coco-biodiesel producers, diesel companies, and automotive manufacturers, duly endorsed by their respective industry associations and appointed by the President of the Philippines, as members.

The DOE Secretary or his/her designated Undersecretary, in his/her capacity as Chairperson, shall convene the NCBB within one (1) month of the effectivity of this Act.

The Board shall be assisted by a Technical Secretariat headed by an Executive Director to be appointed by the Board. The number of staff of the Technical Secretariat and the corresponding positions shall be determined by the Board, subject to approval by the Department of Budget and Management (DBM) and existing civil service rules and regulations.

SECTION 9. *Powers and Functions of the National Coco-Biodiesel Board.* – The National Coco-Biodiesel Board (NCBB) shall have the following powers and functions:

- a) Approve the National Coco-Biodiesel Program;
- b) Formulate, within six (6) months of the effectivity of this Act, the Implementing Rules and Regulations under Section 14 hereof;
- c) Monitor, review and evaluate the implementation of the National Coco-Biodiesel Program;
- d) Monitor the supply and utilization of coco-biodiesel and recommend appropriate measures in cases of actual or projected shortage of supply;
- e) Create and evaluate plans for further expansion of the program;
- f) Review and increase the minimum mandated coco-biodiesel blending rate or primary use of coco-diesel as it deems appropriate;
- g) Recommend specific actions concerning the implementation of the National Coco-Biodiesel Program to be executed by the NCBB, the DOE and other appropriate agencies of government.

SECTION 10. *Role of Government Agencies.* – To ensure the effective implementation of this program, concerned agencies shall perform the following functions:

a) The Department of Finance shall:

1. In coordination with the Tariff Commission, create and classify a tariff line for coco-biodiesel harmonized with WTO and AFTA agreements, if any are relevant and applicable.
2. Review provisions of the Tax Code pertaining to transactions related to the sale and purchase of motor fuel and motor fuel additives and recommend measures to provide a competitive edge for coco-biodiesel products. In addition, review existing levels of specific tax on diesel products, and re-align them to consider the effects of coco-biodiesel additives or direct substitution thereof vis-à-vis other diesel products.
3. Identify suitable incentives to encourage investments in domestic production of biofuels and to cause the diesel companies operating in the Philippines to blend and retail biofuel blends and also to recommend to the Board of Investments appropriate implementing incentives.
4. Monitor the production and importation of coco-biodiesel from other countries.
5. Through the Bureau of Internal Revenue and the Bureau of Customs, impose fines and penalties to any person or juridical entity committing the prohibited acts under Section 11 of this Act and coordinate with the DOE on enforcement of specifications and standards for coco-biodiesel.

b) The Department of Science and Technology (DOST), the Department of Agriculture (DA) and the Philippine Coconut Authority (PCA) shall coordinate in identifying

and developing a sustainable stock of raw materials for the manufacture of coco-biodiesel through the introduction, upgrading and/or improvement of appropriate technologies.

- c) The DOST, through the Philippine Council for Industry and Energy Research and Development (PCIERD), shall develop and implement a research and development (R&D) Program supporting a sustainable improvement in coco-biodiesel production and utilization technology. It shall also publish and showcase related technologies developed locally and abroad.
- d) The Department of Agriculture (DA), through its relevant agencies, shall:
 - 1. Within six (6) months from the effectivity of this Act, develop a national program for the production of coconut trees and coconut oil for use as raw materials for coco-biodiesel.
 - 2. Institute a coconut development program that will ensure increased productivity and sustainable supply of raw materials for the manufacture of coco-biodiesel.
 - 3. Publish information on available and suitable areas for the cultivation of coconut trees and the production of coco-biodiesel. The DA shall instruct the Administrators of the Philippine Coconut Authority (PCA) and other DA-attached agencies to develop and implement policies supporting the National Coco-Biodiesel Program.
- e) Local Government Units (LGUs) shall assist the DOE in monitoring the distribution, sale and use of coco-biodiesel in their respective jurisdictions.

SECTION 11. *Prohibited Acts.* – The following acts shall be prohibited:

- a) Diversion of coco-biodiesel, whether locally produced or imported, to be used as fuel to non-fuel uses;
- b) Distribution, sale and use of diesel fuel without coco-biodiesel additive and diesel with coco-biodiesel additive concentration level not complying with the requirement under Section 4 of this Act.
- c) Non-compliance with the established standards and guidelines set by the National Coco-Biodiesel Board (NCBB) regarding the production, processing, sale, distribution and utilization of coco-biodiesel.
- d) Inappropriate and misleading labeling of coco-biodiesel products.

SECTION 12. *Penal Provisions.* Any person, including but not limited to the Chief Operating Officer and Chief Executive Officer of the partnership, corporation or any entity involved, who commits any of the prohibited acts or violates any provision of this Act and its Implementing Rules and Regulations shall be subject to the following sanctions:

- a) Imprisonment of a period no shorter than three (3) months but no longer than one (1) year;
- b) Fine ranging from fifty thousand pesos (Php50,000.00) to three hundred thousand pesos (Php300,000.00);
- c) Confiscation of coco-biodiesel products and diesel products with coco-biodiesel additives not complying with the specifications provided under Sections 4 and 5 of this Act and corresponding issuances of the NCBB;
- d) Closure of distribution facilities for non-payment of fines and blatant disregard of NCBB orders.

SECTION 13. *Appropriations.* – The funds necessary for the initial implementation of this Act shall be charged against the current appropriations of the DOE. Thereafter, the funds necessary to carry out the provisions of this Act shall be included in the

annual General Appropriations Act. Alternatively, such amounts shall be earmarked from coco levy funds that are available and not subject to liens and encumbrances, as shall be recommended by the Philippine Coconut Authority after consultation with the Presidential Commission on Good Government, and as shall be recommended to and approved by the President to be earmarked as funding support for the implementation of the National Coco-Biodiesel Program.

SECTION 14. *Implementing Rules and Regulations.* – The DOE, through the National Coco-Biodiesel Board, in consultation with the Committees of Energy of the Senate and the House of Representatives, and relevant stakeholders, shall, within six (6) months after the effectivity of this Act, promulgate the Implementing Rules and Regulations of this Act: *Provided, That* the draft of the implementing rules and regulations prior to its final adoption and official publication shall be posted and made available on the DOE or NCBB website for a minimum of one (1) month.

SECTION 15. *Repealing Clause.* – All laws, presidential decrees, executive orders, presidential proclamations, rules and regulations or parts thereof inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 16. *Separability Clause.* – If any provision of this Act is declared unconstitutional, the same shall not affect the validity and effectivity of the other provisions hereof.

SECTION 17. *Effectivity.* – This Act shall take effect upon its approval and publication in at least two (2) newspapers of general circulation.

Approved,