

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

15th CONGRESS

HOUSE BILL NO. 4526

07 FEB 2011
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Introduced by Representative ARNEL U. TY

EXPLANATORY NOTE

The social upheaval and political unrest in the oil-producing countries of the Middle East and North Africa have revived fears of possible disruptions to and reductions in the global production and supply of crude oil.

This in turn has roiled the global commodities markets, pushing up crude oil prices to their highest levels in 30 months.

Worries that the country might face a shortage of finished petroleum products have prompted the Philippine government to obtain assurances from our good neighbor, Indonesia, to extend us the extra supplies should the need arise in the future.

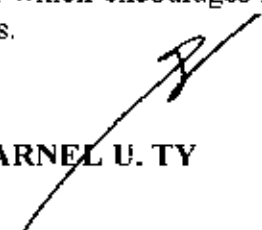
Regardless of the conditions in oil-producing regions, there is really a need for the Philippines, through our own efforts, to establish an emergency reserve supply of finished petroleum products, to secure our requirements estimated at the equivalent of 300,000 barrels of oil per day.

Fortunately, we have a state-owned entity, the Philippine National Oil Co. (PNOC), clearly and specifically mandated by law to provide and maintain an adequate and stable supply of oil and refined petroleum products for the domestic requirement.

This bill seeks to establish a National Strategic Petroleum Reserve, to be put up and maintained by the PNOC, to enable the country to cope with future temporary disturbances in the global supply of crude oil and finished fuel products.

Other countries have already established, or are in the process of building their strategic petroleum reserves for emergency use. These countries include the United States, China, Russia, Japan, India, Taiwan, South Korea, Singapore, Thailand, and Pakistan.

This measure also gives flesh to the country's commitment under the Association of Southeast Asian Nations (ASEAN) Petroleum Security Agreement, which encourages members to build extra stockpiles and forge emergency oil-sharing agreements.


ARNEL U. TY

**Republic of the Philippines
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HOUSE BILL NO. 4528

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**AN ACT
CREATING THE NATIONAL STRATEGIC PETROLEUM RESERVE
AND FOR OTHER PURPOSES**

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 “National Strategic Petroleum Reserve Act of 2011.”

SECTION 2. Policy. – Consistent with the mandate of the Philippine National Oil Corporation (PNOC) to provide and maintain an adequate and stable supply of crude oil and finished petroleum products for the domestic requirement, it is the policy of the State to serve as the people’s supplier of last resort and establish a strategic reserve that will serve as buffer in the event of potential shortages.

SECTION 3. Creating the National Strategic Petroleum Reserve. – The PNOC shall establish a National Strategic Petroleum Reserve for the sole purpose of securing the country’s supply of petroleum products during a crisis or emergency. The supplies, however, may be used in trade to provide funds for the maintenance of the reserve.

Initially, the reserve shall store refined or ready-to-use petroleum products such as gasoline, diesel, liquefied petroleum gas.

In the future and as may be required based on the judgment of the Department of Energy (DOE) or the PNOC, other finished petroleum products may be added the list in the immediately preceding paragraph, without any need for further legislation.

SECTION 4. Operation, Management and Administration. – The reserve shall be operated, managed and administered by the PNOC by itself or in partnership or joint venture with other parties. The PNOC shall be the controlling government agency for the reserve.

SECTION 5. Funding Source. – The amount necessary to implement and sustain the reserve under this Act shall be included in the annual General Appropriations Act, or sourced from the sale of PNOC assets, should there be any. Additional funds may also be sourced from any of the royalties earned by the government from the commercial exploitation of the country’s natural gas and crude oil deposits.

SECTION 6. Powers and Duties of the PNOC in Relation to the Reserve. – In addition to the powers granted to it by Presidential Decree No. 334, the PNOC shall have the following powers and duties with regard to the reserve:

- (a) To establish, maintain, control and direct in any area within or without the national territory, as it may deem appropriate, a reserve and construct, install or maintain therein duty-free ports adequate for the use of vessels, ports sufficient for direct service flights, telecommunications center and ship-to-shore communications facilities, provide electric power and fresh water supply, and perform such other acts as it may deem necessary and advantageous or convenient to such operations.
- (b) Set Implementing Rules and regulations (IRR) for the proper management of the reserve.
- (c) Formulate strategies for petroleum shortage prevention.
- (d) Monitor and determine the volume of petroleum products needed to keep the reserve adequate.
- (e) Manage the reserve to ensure that the country's petroleum product needs are met by releasing supplies to the public, either directly or through private distributors, when the need arises.
- (f) Set the prices of petroleum products originating from the reserve based on current market standards.
- (g) To exercise the right eminent domain as may be necessary for the purpose of establishing the reserve.
- (h) Enter into contracts with any person or entity, domestic or foreign, and with governments, by way of purchase, lease or rent or other deferred payment arrangements of equipment and/or raw materials and supplies, as well as for services connected therewith under such terms and conditions as it may deem proper and reasonable to efficiently establish, maintain and administer the reserve.
- (i) Enter into loan or exchange contracts with any person or entity, domestic or foreign, and with governments, to provide funds for the maintenance of the reserve, to increase the capacity of the reserve, to replace refined petroleum products that are about to degrade or under any other circumstances requiring trade or sale, under such terms and conditions as it may deem proper and reasonable to efficiently establish, maintain and administer the reserve.

SECTION 7. Drawdown Authority. – The drawdown of supplies from the reserve may be authorized only upon a finding by the Secretary of Energy of any of these instances:

- (1) **Full Drawdown** to counter an actual severe supply interruption. This situation exists when both the following conditions exist:
 - (a) An emergency situation exists and there is a significant reduction in supply which is of significant scope and duration; and
 - (b) A severe increase in the price of petroleum products has resulted from such emergency situation and such price increase is likely to cause a major adverse impact on the economy.

- (2) **Limited Drawdown** to counter a perceived petroleum shortage. This exists when there is a reduction in supply that appears sufficiently severe to bring about an increase in the price of petroleum likely to cause a major adverse effect on the economy; and
- (3) **Trade Drawdown** which includes the sale or exchange of petroleum products with other ASEAN member-countries, as provided for in the ASEAN Petroleum Security Agreement, or with other parties for higher quality petroleum products, in exchange for storage capacity, or to resolve petroleum delivery problems of oil companies, among others, as may be determined by the President.

The IRR shall determine the aggregate quantity of petroleum to be withdrawn from the reserve under any of the above circumstances.

SECTION 8. Documents to be Submitted Within sixty (60) days from the effectivity of this Act, the DOE, through the PNOC, shall submit the following documents to the Congress and the President:

- (1) Implementing Rules and Regulation (IRR); and
- (2) Business plan and feasibility study of setting up the reserve.

In this regard, the Congress shall conduct consultation sessions with the DOE, the PNOC, and other concerned government agencies and petroleum industry players.

SECTION 9. Deadline for the Establishment of the Reserve. – Within two (2) years from the lapse of the sixty (60) days set for submission of the documents required in the previous section, the PNOC shall perform all the acts necessary and within its power to establish, manage, operate and develop the petroleum reserve.

SECTION 10. Separability Clause. – Should any section or provision of this Act be held unconstitutional or invalid, such declaration shall not invalidate other provisions hereof.

SECTION 11. Repealing Clause. – All laws, decrees, executive orders, proclamations, rules and regulations inconsistent herewith are hereby repealed and/or modified accordingly.

SECTION 12. Effectivity. – this Act shall take effect fifteen (15) days following its publication in the Official Gazette or in two (2) newspapers of general circulation.

Approved,