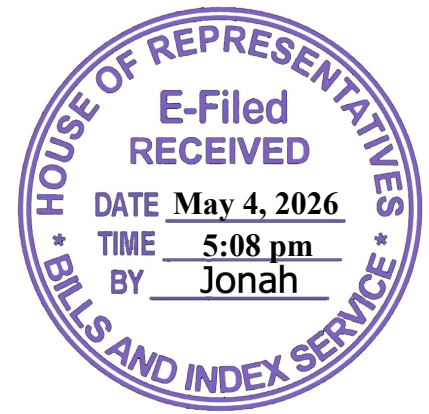


Republic of the Philippines  
**HOUSE OF REPRESENTATIVES**  
Batasan Hills, Quezon City

**TWENTIETH CONGRESS**  
First Regular Session

**HOUSE BILL NO. 9049**



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Introduced by **REP. ALFREDO “ALBEE” B. BENITEZ**

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**AN ACT MANDATING THE STOCKPILING OF PUBLIC AND PRIVATE OIL RESERVES, CREATING FOR THE PURPOSE THE NATIONAL PETROLEUM SECURITY RESERVE AND ESTABLISHING THE NATIONAL PETROLEUM SECURITY RESERVE TRUST FUND, MANDATING MINIMUM INVENTORY RESERVES FOR THE PRIVATE SECTOR, AND APPROPRIATING FUNDS THEREFOR**

**EXPLANATORY NOTE**

The closure of the Strait of Hormuz has put a spotlight on the energy vulnerability of the Philippines, particularly in maintaining a consistent and uninterrupted supply of petroleum. Historically, supply crunches and subsequent price spikes have occurred due to conflicts in the Middle East, such as the 1973 Oil Embargo by Arab members of the Organization of Petroleum Exporting Countries (OPEC) and the 1979 Oil Crisis following the Iranian Revolution.

The Philippines, being a net importer of petroleum, must ensure that it has an ample buffer to any future supply disruptions, whether arising from natural or man-made causes, that can cause significant harm to the life of Filipinos and to the national economy.

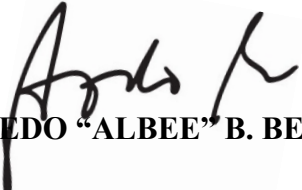
This bill proposes the creation of the National Petroleum Security Reserve, along with legislating mandatory minimum inventory requirements for private industry players to ensure that the country has enough buffer stock of petroleum to sufficiently cushion any future critical supply disruptions.

The Reserve shall strictly be used as a mechanism to ensure short-term petroleum supply security during critical supply disruptions; it shall in no way be used as a means for raising revenues for the national government, nor shall it be used as a mechanism to purposely lower price spikes arising from supply shortages. The National Petroleum Security Reserve Trust Fund established under this Act, shall only be strictly used for the purposes of developing and maintaining the operations of the Reserve. As part of responsibility- and risk-sharing, exemptions to the minimum inventory requirements shall be determined on a case-to-case basis, to ensure that market entry is not prohibitive and market competitiveness.

These are intentionally woven in to this proposed legislation, lest we make a repeat of the failures and pitfalls of the now defunct Oil Price Stabilization Fund, or the restrictive

requirements set forth in Republic Act 8180 otherwise known as the precursor of the current Downstream Oil Deregulation Act.

In view of the foregoing, the immediate passage of this bill is earnestly sought.



**ALFREDO "ALBEE" B. BENITEZ**

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

**SECTION 1. *Short Title.*** – This Act shall be known as the “*National Petroleum Security Reserve Act*”.

**SEC. 2. *Declaration of Policy.*** – The State shall ensure that the energy supply of the country, particularly petroleum products, is sufficiently cushioned from any potential disruption in the global or domestic supply chain which could result to critically low energy supplies or place the country in imminent danger thereof.

With the end in view of maintaining crucial oil reserves to protect the citizenry and the national economy, a National Petroleum Security Reserve under the control and supervision of National Government shall be established and maintained, funded by the National Petroleum Security Reserve Trust Fund created herein. Similarly, minimum inventory requirements shall be required from private sector industry players to add an extra layer of protection and promote risk sharing.

**SEC. 3. *Definition of Terms.*** – The following terms shall be used herein as follows:

- a) “Bulk importer” refers to any juridical person duly registered with the Department of Energy engaged in the importation crude oil or refined petroleum products in commercially significant volume for further processing, sale, resale, or distribution within the Philippines;
- b) “Competitive sale” refers to the process by which the Philippine National Oil Company (PNOC) releases petroleum reserve stocks to the petroleum industry participants through a price-competitive bidding mechanism;

- c) “Crude oil” refers to naturally occurring unrefined petroleum and all liquid hydrocarbon mixtures in their raw extracted state, including condensates;
- d) “Critical supply disruption” refers to any event, whether of domestic or international origin, whether natural or man-made, that results in or is imminently likely to result in a sustained reduction in the volume of petroleum products physically available for delivery and consumption within the Philippines, of such magnitude and duration that it cannot reasonably be remedied through the normal operation of commercial markets, utilization of domestic industry inventories, or existing supply contracts within the period necessary to prevent significant harm to citizenry and the national economy;
- d) “Finished petroleum products” refers to refined products derived from crude oil used for energy purposes, including but not limited to diesel fuel, gasoline, jet fuel, liquified petroleum gas, kerosene, and fuel oil;
- e) “Petroleum” refers to crude oil and finished petroleum products described collectively;
- f) “Petroleum refining” refers to the transformation of raw, unusable crude oil into finished, petroleum products; and
- g) “Refiner” refers to any juridical person duly registered with the Department of Energy and engaged in petroleum refining.

**SEC. 4. Declaration of Critical Supply Disruption.** – In view of the existence of or imminent threat of petroleum supply disruptions for prolonged or uncertain periods that will cause significant harm to the citizenry and general economy, The President, upon recommendation and determination of the Department of Energy, shall issue a Declaration of Critical Supply Disruption, hereinafter referred to as the Declaration, authorizing the release of petroleum stockpiles from the Reserve pursuant to the relevant provision contained herein this Act.

The same Declaration shall be terminated upon the resumption of regular or favorable supply conditions.

**SEC. 5. National Petroleum Security Reserve.** – A National Petroleum Security Reserve, hereinafter referred to as the Reserve, is hereby established under the ownership of the national government and held in trust by the Philippine National Oil Company (PNOC).

The PNOC shall ensure that petroleum stockpiles meet stockpile targets and meet international standards for storage and quality maintenance.

**SEC. 6. Reserve Stockpile Target.** –At the start of every Fiscal year, the Department for Economy, Planning, and Development (DEPDev) and the Department of Energy (DOE), in consultation with relevant industry stakeholders, shall jointly set the target for the stockpiling of petroleum for the Reserve (hereinafter referred to as the “Reserve Stockpile Target”) for five years starting from the current fiscal year: *Provided*, that during Critical Supply Disruptions, the DEPDev and DOE may modify the stockpile target accordingly.

The stockpile target shall be determined with respect to matters relating to:

- a) Stockpile volume for crude oil or each finished petroleum product type based on net imports and domestic demand;
- b) Storage facilities to be established and maintained, whether through capital outlay or through co-storage agreements; and
- c) Domestic petroleum refining capacity.

The PNOC shall hold in reserve stockpiles of crude oil and each finished petroleum product type a supply equivalent of not less than ninety (90) days: *Provided*, That the ninety (90) supply minimum shall be met as soon as possible but not more than six (6) years starting from the year of implementation of this Act: *Provided, further*, That from the initial year of implementation, the minimum supply requirement per year shall be prescribed as follows:

- a) 1<sup>st</sup> year – not less than fifteen (15) days;
- b) 2<sup>nd</sup> year – not less than fifteen (30) days;
- c) 3<sup>rd</sup> year – not less than fifteen (45) days;
- d) 4<sup>th</sup> year – not less than fifteen (60) days;
- e) 5<sup>th</sup> year – not less than fifteen (75) days; and
- f) 6<sup>th</sup> year – not less than fifteen (90) days.

**SEC. 7. Reserve Storage Infrastructure.** – Following the Reserve Stockpile Target, the PNOC shall secure storage capacity for the Reserve through any or a combination of the following means:

- a) Construction or acquisition of government-owned storage facilities, including but not limited to tank farms, underground storage caverns, or other suitable installations, with preference to sites that minimize susceptibility to natural calamities and facilitate distribution to major consumption centers across the country;
- b) Entry into co-storage agreements with privately owned and operated storage facilities, under which Reserve stocks held at such facilities remain the exclusive property of the national government and are subject at all times to the inspection and withdrawal authority of the PNOC; and
- c) Entry into forward storage agreements with oil-producing or oil-exporting states or their designated national oil companies, whereby petroleum is held in storage facilities within or outside the Philippines subject to first drawing rights of the PNOC to demand delivery within a commercially reasonable period upon declaration of a Critical Supply Disruption.

Any co-storage agreement entered into pursuant to paragraph (b) of this section shall expressly provide that stocks held thereunder shall not be subject to any lien, pledge, mortgage, or other encumbrance by the facility operator, and shall not form part of the assets of the facility operator in any insolvency, rehabilitation, or liquidation proceeding.

**SEC. 8. *Acquisition of Reserve Stocks.*** – The PNOC shall acquire petroleum for the Reserve through open and competitive procurement processes or government-to-government negotiations and transactions; *Provided*, That the PNOC shall not acquire petroleum for the Reserve through negotiated procurement except in cases of urgent necessity as determined by DEPDev and the DOE, subject to post-hoc reporting to the Commission on Audit (COA) and to both Houses of Congress within thirty (30) days of such acquisition.

**SEC. 9. *Petroleum Quality Monitoring.*** – The PNOC shall pursue a continuous quality monitoring program and for all Reserve stocks and maintain a record thereof, including but not limited to the periodic sampling and laboratory analysis of stored petroleum in accordance with recognized international industry standards and monitoring concerning storage conditions and petroleum quality. The PNOC is authorized to engage the services of other relevant government agencies or accredited and recognized private sector third-parties in adherence to the provisions contained in this Section.

**SEC. 10. *Petroleum Stock Rotation.*** – To prevent wastage of petroleum stockpiles, petroleum stocks identified to have degraded in quality or nearing the end of their storage life, may be sold by the PNOC through competitive bidding and replace them with stocks of conforming quality.

**SEC. 11. *Reserve Exchange.*** – The PNOC shall be authorized to enter into exchange agreements with registered petroleum industry participants to address short-term, localized supply disruptions that do not constitute a Critical Supply Disruption as defined this Act. An exchange agreement shall specify the volume, grade, and delivery schedule of the petroleum released, and shall require the return to the Reserve of an equivalent volume of petroleum of comparable grade together with a volumetric premium of not less than two percent (2%) of the volume released, within a period not exceeding ninety days from the date of release.

**SEC. 12. *Reserve Drawdown.*** – The sale of petroleum stockpiles from the Reserve shall exclusively be authorized upon the declaration of a Critical Supply Disruption.

All Reserve stocks upon declaration shall be sold through a price-competitive bidding procedure conducted by the PNOC among registered petroleum industry participants. Bids shall be evaluated on price alone, subject to technical specifications for the grade of petroleum being sold.

No bid shall be accepted at a price below ninety percent (90%) of the prevailing market price for equivalent grades of petroleum as determined by reference to recognized international price benchmarks at the time of sale. Proceeds of all drawdown sales shall be credited to the Fund and earmarked for the replenishment of the Reserve.

No drawdown shall be authorized for a purpose other than the mitigation of a Critical Supply Disruption or as otherwise provided under this Act.

**SEC. 13. *Reserve Drawdown Replenishment.*** – Replenishment of the Reserve shall immediately commence within ninety (90) days from the termination of the declaration of a Critical Supply Disruption. The PNOC shall provide a replenishment plan specifying the projected timeline for restoring the Reserve to its pre-drawdown volume, and shall be made publicly available within thirty days of same termination.

**SEC. 14. *National Petroleum Security Reserve Trust Fund.*** – There is hereby established a special fund to be known as the National Petroleum Security Reserve Trust Fund, hereinafter referred to as the Fund, which shall be maintained as a separate account in the National Treasury and shall be administered by the PNOC. The Fund shall be used exclusively for the purposes specified in this Act and shall not be subject to sequestration, transfer, reversion, or reappropriation for any other purpose.

The Fund shall be capitalized and sustained from the following sources:

- a) Proceeds from the competitive drawdown of Reserve stocks;
- b) Proceeds from authorized quality-driven rotation sales;
- c) Volumetric premiums received under exchange agreements;
- d) Returns on investments of idle Fund balances;
- e) Grants, donations, and contributions from domestic or foreign sources, subject to acceptance by the PNOC and in compliance with applicable laws; and
- f) Such sums as may be appropriated by Congress for the initial capitalization of the Fund.

**SEC. 15. *Exclusive Uses of the Fund.*** – Disbursements from the Fund shall be made solely for the following purposes:

- a) Acquisition of crude oil and petroleum products for the Reserve;
- b) Construction, acquisition, maintenance, and improvement of storage infrastructure for the Reserve;
- c) Payment of fees and charges under co-storage agreements and forward storage agreements;
- e) Conduct of the quality surveillance program and geomechanical monitoring activities;
- f) Replenishment of Reserve stocks;
- g) Operational expenses of the Authority including personnel costs and administrative expenditures; and

h) Such other expenditures as are directly necessary to fulfill the mandate of the Authority under this Act.

**SEC. 16. *Investment of Idle Funds.*** – Fund balances not immediately required for disbursement may be invested by the Authority in government securities issued or guaranteed by the Republic of the Philippines or in time deposits with government-owned financial institutions, with the returns on such investments credited to the Fund. The PNOC shall at all times maintain sufficient liquid balances to meet projected acquisition and operational requirements for the succeeding six(6)-month period.

**SEC. 17. *Exemption of Net Earnings from Republic Act No. 7656.*** – All net earnings originating from the sale of Reserve petroleum stockpiles as provided in this Act herein shall be exempted from the fifty percent (50%) remittance mandated from GOCC under Republic Act No. 7676 otherwise known as the Dividend Law of 1993.

**SEC. 18. *Relationship with Republic Act No. 8479.*** – Nothing in this Act shall be construed as amending, modifying, or diminishing the rights, obligations, and protections established under Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998, including the prohibition on price regulation of petroleum products and the liberalization of the downstream oil industry.

The Reserve and the Fund shall at all times operate in a manner consistent with the deregulated character of the downstream oil industry, and the Authority shall not acquire market share or engage in the retail distribution of petroleum products in competition with private industry participants.

**SEC. 19. *Minimum Inventory Obligations.*** – Industry players in the petroleum industry are hereby mandated to maintain the following minimum inventory obligations:

- a) Refiners shall maintain at all times a minimum inventory of crude oil equivalent to thirty (30) days of rated refinery throughput;
- b) Bulk importers shall maintain at all times a minimum inventory of petroleum products equivalent to fifteen (15) days of their average monthly importation volume over the preceding twelve (12) months; and
- c) Liquefied Petroleum Gas suppliers shall maintain at all times a minimum inventory of petroleum products equivalent to seven (7) days of their average daily sales volume over the preceding thirty days.

The Department of Energy shall monitor compliance with the foregoing obligations and shall report any systematic or persistent non-compliance to the Authority. Stocks held pursuant to this section are private commercial inventory and shall not be credited toward the Reserve target.

Minimum inventory requirements may be waived or reduced by the DOE on a case-to-case basis, based on reasonable and meritorious grounds, to ensure that such requirements do not prohibit or discourage market entry of new market players nor cause anti-competitive behavior.

All refiners, bulk importers, and retail station operators shall submit monthly reports to the DOE including but not limited to data on actual inventory levels, importation volumes, and local purchases.

**SEC. 20. *Reportorial Requirements and Congressional Oversight.*** – The PNOC shall submit a report to the Committee on Energy of the Senate and the House of Representatives one month before the end of every fiscal year on the status of the Reserve, the financial condition of the Fund, and such other matters concerning the implementation of this Act.

**SEC. 21. *Prohibition on the Use of the Reserve and the Fund.*** – No person, whether an officer of the PNOC, or any other government official or employee, shall authorize, direct, or cause the drawdown or release of Reserve stocks for any purpose other than those expressly authorized under this Act. No drawdown shall be authorized for the purpose of influencing the domestic retail price of petroleum products, generating revenue for the general budget, or conferring financial benefit upon any private entity outside of the competitive drawdown procedure.

**SEC. 22. *Transparency.*** – There shall be a publicly accessible information system, through the internet or other appropriate means, containing the following information reflecting the following information on a monthly basis:

- a) The current volume and composition of the Reserve;
- b) Information and updates on Storage sites and their status;
- c) Exchange agreements entered into;
- d) Report on quality monitoring; and
- e) Transactions involving stock rotation.

**SEC. 23. *Penalties.*** – Violation of the applicable provisions under this act shall be penalized as follows:

- a) Any petroleum industry participant that fails to comply with the minimum inventory obligations under Section 19 of this Act, upon determination of violation by the DOE after due notice and hearing, shall be liable to an administrative fine of not less than Five hundred thousand pesos (Php500,000.00) and not more than Five million pesos (Php5,000,000.00) for each violation, without prejudice to the suspension or revocation of its Certificate of Compliance issued by the Department.
- b) Any officer, director, employee, or agent of a petroleum industry participant who willfully submits a false or fraudulent report to the Department or to the Authority in connection with any obligation imposed under this Act shall be liable to an

administrative fine and, upon conviction by a court of competent jurisdiction, to a term of imprisonment of not less than two (2) years and not more than six (6) years, or a fine of not less than One million pesos (Php1,000,000.00) and not more than Ten million pesos (Php10,000,000.00) or both, at the discretion of the court.

c) Any person who directs, or causes an unauthorized drawdown or release of Reserve stocks shall, upon conviction by a court of competent jurisdiction, be liable to a term of imprisonment of not less than six (6) years and not more than twelve (12) years, without prejudice to civil liability for damages and to perpetual disqualification from holding public office.

**SEC. 24. *Appropriations.*** – Congress shall appropriate Sixty billion pesos (P60,000,000,000.00) to the Fund as initial funding for the purposes of this Act. Thereafter, necessary additional funding shall be included in the annual General Appropriations Act.

**SEC. 25. *Transitory Provision.*** – Within one hundred (180) days from the effectivity of this Act, the DOE and DEPDev shall prepare and implement security plan setting forth the immediate steps to be taken to establish interim oil stockpiling capacity through co-storage agreements with existing private storage facility operators pending the construction or acquisition of dedicated government storage infrastructure.

**SEC. 26. *Implementing Rules and Regulations.*** – The DOE and DEPDev, in coordination with the COA, shall promulgate the implementing rules and regulations of this Act within one hundred eighty (180) days from the date of its effectivity. Pending the promulgation of such rules, the PNOC may adopt interim guidelines upon the approval DOE and DEPDev consistent with the provisions of this Act.

**SEC. 27. *Separability Clause.*** – If any portion or provision of this Act is declared unconstitutional, the remainder of this Act or any provision not affected thereby shall remain in force and effect.

**SEC. 28. *Repealing Clause.*** – All laws, presidential decrees, executive orders, administrative orders, and rules and regulations inconsistent with this Act are hereby repealed, amended, or modified accordingly.

**SEC. 29. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days upon publication in the *Official Gazette* or in a newspaper of general circulation.

**Approved,**