Column for Business Mirror
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April 16, 2012

The Entrepreneur

Confronting high oil prices

THERE'S not much we can do about rising oil prices because we import virtually all of our requirements. And the situation is made unstable by current tensions in the Middle East, which accounts for the bulk of the global oil supplies.

Even the world's most powerful nation is helpless. US President Barack Obama's chances of winning a second term may be affected by oil prices. His critics have pointed out that US domestic gasoline prices have more than doubled since Obama took office—from $1.832 per gallon in January 2009 to $3.787 on March 19, 2012. In some areas gasoline prices are as high as $4 a gallon.

In a recent speech at the University of Miami, where gasoline prices average $3.69 a gallon, Obama admitted, "Just like last year, gas prices are climbing across the country; this time, it's happening even earlier. And when gas prices go up, it hurts everybody."

The US is a major oil producer, but Obama said no amount of domestic production could offset the broader forces driving up gas prices, primarily the instability in the Middle East and the huge demand from China, the fast-growing second-largest economy in the world. And, if worse comes to worst, the US can tap its 700-million-barrel Strategic Petroleum Reserve to counter global supply disruptions.

We don't have such emergency reserves of petroleum products. Oil from a few offshore fields in Palawan is just a small part of our domestic requirements. The government also lost its strategic ability to influence oil prices when it privatized 100 percent of Petron Corp.

In power generation, we abandoned the development of a nuclear power plant. For all intents and purposes, the Bataan nuclear plant project can and, in my view, should no longer be revived. I'm not keen at pursuing new nuclear power-generation projects, given last year's meltdown in Fukushima, which continues to be a problem in Japan, more than a year after its tsunami disaster.

So, what are our options? We cannot revive the Oil Price Stabilization Fund, which was adopted during the 1970s to cushion the impact of the oil crisis. At present, we do not have the resources to finance such fund.

With respect to oil, the government should continue to encourage exploration activities. Fortunately, foreign investors have maintained interest in drilling for oil, mainly in waters off Palawan, where we have several producing wells.

We should also speed up the development of other indigenous energy sources like natural gas. While we lack crude-oil resources, we are rich in other natural resources. We have fertile lands, and we can produce more than we need. Thus, we can increase exports, which will generate foreign exchange to pay for oil imports.

The clamor for a review of the oil- deregulation law is understandable because that law was expected to result in lower domestic prices of petroleum products. But it has not delivered on that promise.

At the same time, current pricing of gasoline, diesel and other oil products has raised the issue of cartel-like practices of oil industry players. For instance, why are prices of service stations of supposedly competing companies the same in specific areas? Two of the major players operate their own refineries in the Philippines, while their competitors import finished oil products, yet retail prices are the same at the pumps.

I don't want to raise false hopes. As I have said earlier, there's really not much we can do about rising oil prices. Removing or suspending the value-added tax on petroleum products will only provide temporary relief, but the government is not inclined to do it because revenues from value-added taxes finance major problems like the Conditional Cash Transfer Program.

The latest round of price increases has renewed calls for the repeal or review of the oil-deregulation law. In my view, repealing the oil-deregulation law will not solve the problem of high oil prices. But I believe that the law may stand some amendments to strengthen its provisions against cartel-like pricing, which defeats the objective of the law toward healthy competition.

Oil industry players should also accept that despite deregulation, the oil industry remains a sensitive sector of the economy because of its impact on prices of essential commodities and services.

Thus, the government has the responsibility of monitoring the domestic oil trade, including prices, to protect the interest of the people.

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