SENATE
OFFICE OF THE SECRETARY

FOURTEENTH CONGRESS)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

7 JUN 30 P2:22

SENATE BILL NO. 21 RECEIVED BY:

Introduced by Senator M. A. Madrigal

EXPLANATORY NOTE

Republic Act 8479 was enacted in 1998 to replace Republic Act 8180, otherwise known as the "Downstream Oil Industry Deregulation Act of 1996," which was declared unconstitutional by the Supreme Court

After nine years, many sectors are clamoring for the scrapping of RA 8479 for the following reasons:

1. The present conditions in the oil industry do not show that it is really regulated as oil companies continue to operate as cartels.
2. Oil companies have continuously failed to explain the mechanisms they use in setting oil prices and its relation to the crude oil world market and to the foreign exchange rate.
3. Deregulation has failed to bring down oil prices.
4. The oil deregulation system has failed to check the unilateral move of oil firms to dictate prices of oil.
5. Oil companies engage in intense speculation in the future price of oil, thus affecting the increase of oil prices.
6. Large companies still have the largest share in the market.

Carlos Valdes III in his study, "The truth about the oil crisis," (*Executive Alert*, December 23, 2004) wrote about the financial speculation of oil in the world market, to wit:

The oil spot market was created in 1969 by the Lazard/Rothschild-allied Philipp Brothers, then the world's largest metals trader. Philipp Brothers, largely in the person of their top trader Marc Rich, began by selling small quantities of Iranian crude oil to independent refiners.

The oil shocks of 1973 and 1979, which were orchestrated by the financier oligarchy under the cover of the OPEC oil embargo and the fall of the Shah in Iran, resulted in a shift in oil pricing away from long-term contracts toward the Rotterdam-based spot market.

By "spot" is meant that one buys the oil at a market only 24-48 hours before one takes physical (spot) delivery, as opposed to buying it 12 or more months in advance. In effect, the spot market inserted a financial middleman into the oil *patch income stream in much the same way that deregulation would later do for electricity.*

Today, the oil price is largely set in the futures markets. The two principal locales which dominate oil futures trading are the London-based International Petroleum Exchange (IPE), established in 1980, and the New York Mercantile Exchange (NYMEX), which is more than a century old, but also first started trading oil futures in 1983.

Traders call futures contracts "paper oil": the contracts are a paper claim against oil, which is far in excess of the volume of oil produced and actually delivered at oil terminals on behalf of those contracts.

The traders transact a large volume of derivatives bets. Speculators purchase on the IPE and NYMEX exchanges, futures contracts; each single contract is a bet on 1,000 barrels of oil. More than 100 million of these oil derivatives contracts were traded on these exchanges in 2003, representing 100 billion barrels of oil. In a year 2000 study, Executive Intelligence Review (EIR) showed that on the IPE, for every 570 "paper barrels of oil" – that is futures derivatives covering 570 barrels – traded each year, there was only one underlying physical barrel of oil. The 570 paper oil contracts pull the price of the underlying barrel of oil, manipulating the oil price. If the speculators bet long – that the price will rise – the mountain of bets pulls up the underlying price.

But worse, there is a second layer of leverage. At the London IPE, the speculator can buy a futures contract on a margin of 3.8%. That is, were the speculator to buy a single futures contract, representing 1,000 barrels of oil at, say, an oil price of $40 per barrel, then the contract represents $40,000. However, the speculator pays only $1,520 for the premium of the contract – or 3.8% of the $40,000 – which gives him control over the contract.

Through an investment of $1,520, the speculator controls 1,000 barrels of oil. A small group of speculators, through leverage, control the world oil price. A NYMEX document, ``How the Exchange Works,'' boasts that it has nothing to do with oil production. ``Yet the buying and selling on the Exchange occurs amid the winding streets of the oldest section of New York, with nary an oil well or copper mine in sight. In fact, many thousands of transactions conducted on the Exchange each day are accomplished without the participants ever seeing a gallon of heating oil.''

Consider the IPE, which was created in 1980. Today, the IPE is run by a Knight of the British Empire and former Royal Dutch/Shell official, Sir Robert Reid, and has a board which includes Lord Fraser of Carmyllie, representatives of Goldman Sachs, Morgan Stanley, BNP Paribas, Credit Lyonnais, and French oil giant Total.

The present government has resisted widespread calls to re-regulate the downstream oil industry in the wake of seemingly endless rounds of oil price hikes since its deregulation in 1997. Pump prices of gasoline increased by 283% and diesel by 347% from 1997-2006, with the largest increases of 138% recorded in the last six years since 2001.

The government's continued imposition of these burdensome policies only underlines its adherence to the dictates of powerful foreign transnational corporations and their mega-profits over the welfare of Filipinos. In fact, the three biggest oil corporations in the country declared a combined net income of ₱48 billion ($960 million) from 2001-2005.

The repeal of the Oil Deregulation Act will end the cartel-like operation of the three major oil players and ease the burden on the suffering Filipino.

The approval of this bill is earnestly requested.

M. A. MADRIGAL

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S. B. NO. 21

Introduced by Senator M. A. Madrigal

AN ACT
REPEALING REPUBLIC ACT 8479 OTHERWISE KNOWN
AS THE "DOWNSTREAM OIL INDUSTRY DEREGULATION ACT OF 1998"

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

Section 1. ***Short Title.*** – This Act shall be known as the "Act Repealing Republic Act 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998."

Section 2. Any provision of law to the contrary notwithstanding, Republic Act 8479, otherwise known as the "Downstream Oil Industry Deregulation Act of 1998" is hereby repealed.

Section 3. This Act shall take effect fifteen (15) days after its complete publication in a newspaper of general circulation.

Approved,