

THIRTEENTH CONGRESS OF THE REPUBLIC OF THE PHILIPPINES

Second Regular Session

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SENATE

COMMITTEE REPORT NO. 55

Jointly prepared and submitted by the Committees on Energy, Agriculture and Food, and Finance on 4 MAR 2006

RE

: Senate Bill No. 2226 prepared by the Committees.

Recommending its approval in substitution of Senate Bill Nos. 1587, 1677, 1907, 2007, 2083, 2159, 2178, 2179 and 2185, taking into consideration House Bill No. 4629.

Sponsor

: Senator Miriam Defensor Santiago

MR. PRESIDENT:

The Senate Committees on Energy, Agriculture and Food, and Finance, to which were referred Senate Bill No. 1587, introduced by Senator Santiago, entitled:

"AN ACT

TO PROVIDE FOR A BIOFUEL FEEDSTOCKS ENERGY RESERVE, AND TO AUTHORIZE THE SECRETARY OF AGRICULTURE TO MAKE AND GUARANTEE LOANS FOR THE PRODUCTION, DISTRIBUTION, DEVELOPMENT AND STORAGE OF BIOFUELS."

Senate Bill No. 1677, introduced by Senator Pimentel Jr., entitled:

"AN ACT

TO PROMOTE THE USE OF ETHYL ALCOHOL OR ETHANOL AS ALTERNATIVE TRANSPORT FUEL, ESTABLISHING FOR THE PURPOSE THE NATIONAL FUEL ETHANOL PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES."

Senate Bill No. 1907, introduced by Senator Santiago, entitled:

"AN ACT

MANDATING THE USE OF ETHANOL AS ALTERNATIVE TRANSPORT FUEL, ESTABLISHING FOR THE PURPOSE, THE NATIONAL FUEL ETHANOL PROGRAM, APPROPRIATING FUNDS THEREFOR."

Senate Bill No. 2007, introduced by Senator Santiago, entitled:

"AN ACT

TO MANDATE THE USE OF BIOFUELS IN THE TRANSPORT SECTOR, ESTABLISHING FOR THE PURPOSE THE NATIONAL BIOFUEL PROGRAM, APPROPRIATING FUNDS THEREFOR."

Senate Bill No. 2083, introduced by Senator Cayetano, entitled:

"AN ACT

REGULATING THE USE OF DIESEL FUEL BY REQUIRING THE MANDATORY USE OF MORE EFFICIENT AND ENVIRONMENT-FRIENDLY BIODIESEL, AND FOR OTHER PURPOSES."

Senate Bill No. 2159, introduced by Senator Recto, entitled:

"AN ACT

MANDATING THE USE OF BIOETHANOL OR ETHYL ALCOHOL AS TRANSPORT FUEL AND SUPPORTING THE DEVELOPMENT AND USE OF OTHER BIOFUELS, ESTABLISHING FOR THE PURPOSE THE NATIONAL BIOFUELS PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES."

Senate Bill No. 2178, introduced by Senator Roxas, entitled:

"AN ACT

TO PROMOTE THE PRODUCTION, DISTRIBUTION, AND USE OF ALTERNATIVE FUELS AND MOTOR VEHICLES POWERED BY FUEL CELL TECHNOLOGY, HYBRID TECHNOLOGY, ELECTRIC POWER TECHNOLOGY, OR OTHER ALTERNATIVE FUEL MOTOR VEHICLE TECHNOLOGIES, AND FOR OTHER PURPOSES."

Senate Bill No. 2179, introduced by Senator Gordon, entitled:

"AN ACT

TO PROMOTE THE USE OF BIOFUELS BY ESTABLISHING THE NATIONAL BIOFUELS PROGRAM AND PROVIDING INCENTIVES, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES."

Senate Bill No. 2185, introduced by Senator Angara, entitled:

"AN ACT

MANDATING THE USE OF BIOFUELS AS QUALITY-ENHANCING ADDITIVES IN GASOLINE AND DIESEL FUEL FOR TRANSPORT USE, ESTABLISHING FOR THE PURPOSE THE NATIONAL BIOFUELS PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES."

House Bill No. 4629, introduced by Representatives Badelles, Zubiri, Carmona, Figueroa, Marañon, Mangudadatu, Paras, Susano, Arroyo I., Gidaya, Puentevella, Chatto, Alfelor, Andaya, Aquino R., Macapagal Arroyo, Bondoc, Cari, Garin, Apostol, Gozos, Guingona, Lacson, Lapus, Macias, Nepomuceno, Petilla, Reyes V., Teodoro, Teves, Vargas, Villafuerte, Hizon, Baterina, Cua J., Datumanong, Singson, Tomawis, Rosales, Aguja, De Guzman, Aquino A., Virador, Ocampo, Mariano, Pablo, Madamba, Valdez, Maza and Del Mar, entitled:

"AN ACT

MANDATING THE USE OF BIOETHANOL OR ETHYL ALCOHOL AS TRANSPORT FUEL AND SUPPORTING THE DEVELOPMENT AND USE OF OTHER BIOFUELS, ESTABLISHING FOR THE PURPOSE THE NATIONAL BIOFUELS PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES," and have considered the same and have the honor to report them back to the Senate with the recommendation that the attached SB No. 2226, prepared by the Committees, entitled:

"AN ACT

TO MANDATE THE USE OF BIOFUELS IN THE TRANSPORT SECTOR, ESTABLISHING FOR THIS PURPOSE THE PHILIPPINE BIOFUEL PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES."

be approved in substitution of SB Nos. 1587, 1677, 1907, 2007, 2083, 2159, 2178, 2179, and 2185, taking into consideration HB No. 4629, with Senators Santiago, Pimentel Jr., Cayetano, Recto, Roxas, Gordon, and Angara, as authors thereof.

Respectfully submitted:

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THIRTEENTH CONGRESS OF THE REPUBLIC	·)			
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Second Regular Session)	6	MAR 14	P2:42

SENATE S.B. No. 2226

HECEIVED BY:

(In substitution of SB Nos. 1587, 1677, 1907, 2007, 2083, 2159, 2178, 2179, and 2185 taking into consideration HB No. 4629.)

Prepared by the Committees on Energy, Agriculture and Food *and* Finance, with Senators Santiago, Pimentel Jr., Cayetano, Recto, Roxas, Gordon, and Angara, as authors thereof.

AN ACT

TO MANDATE THE USE OF BIOFUELS IN THE TRANSPORT SECTOR, ESTABLISHING FOR THIS PURPOSE THE PHILIPPINE BIOFUEL PROGRAM, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES

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

1	SECTION 1. Short Title This Act shall be known as the "Biofuels Act of
2	2006."
3	SECTION 2. Declaration of Policy It is hereby declared the policy of the
4	State to pursue energy independence consistent with the country's sustainable
5	economic growth that would expand opportunities for livelihood, with due regard to
6	the protection of public health and the environment by mandating the use of biofuels
7	as a measure to:
8	a) develop and utilize indigenous renewable energy sources to reduce
9	dependence on imported oil;
10	b) mitigate toxic and greenhouse gas (GHG) emissions; and
11	c) increase rural employment and income.
12	SECTION 3. Definition of Terms. As used in this Act, the following terms
13	shall be taken to mean as follows:
14	a) AFTA - shall refer to the ASEAN Free Trade Agreement;
15	b) Alternative Fuel Vehicles - shall refer to vehicles that use alternative fuels
16	such as biodiesel, bioethanol, natural gas, electricity, hydrogen and
17	automotive LPG, instead of gasoline and diesel;
18	c) Bioethanol - shall refer to ethanol (C ₂ H ₅ OH) produced from biomass;
19	d) Biodiesel - shall refer to Fatty Acid Methyl Ester (FAME) or mono-alkyl
20	esters derived from vegetable oils or animal fats for use in diesel engines,

with quality specifications in accordance with the Philippine National Standards (PNS);

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- e) Bioethanol Fuel shall refer to hydrous or anhydrous bioethanol suitably denatured for use as motor fuel, with quality specifications in accordance with the Philippine National Standards (PNS);
- f) Biofuel shall refer to bioethanol and biodiesel and other fuels made from biomass and primarily used for motive, thermal and power generation, with quality specifications in accordance with the PNS;
- g) Biomass shall refer to any organic matter, particularly cellulosic or lignocellulosic matter, which is available on a renewable or recurring basis, including trees, crops and associated residues, plant fiber, poultry litter and other animal wastes, industrial wastes, and the biodegradable component of municipal solid waste;
- h) **DA** shall refer to the Department of Agriculture created under Executive Order No. 116, as amended;
- i) DOE- shall refer to the Department of Energy created under Republic Act
 No. 7638, as amended;
- j) DENR shall refer to the Department of Environment and Natural Resources created under Executive Order No. 192, as amended;
- k) Diesel shall refer to refined petroleum distillate, which may contain small amount of hydrocarbon or non-hydrocarbon additives to improve ignition quality or other characteristics, suitable for compression ignition engine and other suitable types of engine with quality specifications in accordance with the PNS;
- 1) **DOF** shall refer to the Department of Finance created under Administrative Order Nos. 127 and 127-A;
- m) **DOST** shall refer to the Department of Science and Technology created under Republic Act No. 2067;
 - n) **DOTC** shall refer to the Department of Transportation and Communication created under Executive Order No. 125-A, as amended;
- o) *DTI* shall refer to the Department of Trade and Industry created under Executive Order No. 133;
- p) Feedstock shall refer to organic sources or biomass used in the production of biofuels;
- q) Gasoline shall refer to volatile mixture of liquid hydrocarbon, generally containing small amount of additives, suitable for use as a fuel in sparkignition internal combustion engine with quality specifications in accordance with the PNS;

- r) Motor fuel shall refer to all volatile and inflammable liquids and gas
 produced, blended or compounded for the purpose of, or which are suitable
 or practicable for, operating motor vehicles;
 - s) *PBB* or *Board* shall refer to the Philippine Biofuel Board created under Section 7 of this Act;
 - t) 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 renewable on a regular basis, and whose renewal rate is relatively rapid to consider availability over an indefinite period of time;
 - u) Transport Sector as used in this Act, shall refer to transport system; and,
 - v) WTO shall refer to the World Trade Organization.

SECTION 4. *Mandatory Use of Biofuels*. Pursuant to the above policy, it is hereby enacted that all liquid fuels for motors and engines sold in the Philippines shall contain locally-sourced components as follows:

- 4.1 Within two (2) years from the effectivity of this Act, a minimum of five percent (5%) bioethanol fuel by volume shall be blended into all gasoline fuel distributed and sold in the country provided that the ethanol blends conforms to PNS on fuel ethanol. The Philippine Biofuel Board (PBB) created under this Act is empowered to determine the feasibility and thereafter mandate a total of ten percent (10%) blend of bioethanol by volume within four (4) years from effectivity of this Act.
- 4.2 Immediately upon effectivity of the IRR of this Act, a minimum of one percent (1%) biodiesel by volume shall be blended into all diesel engine fuels sold in the country, provided the biodiesel blend conforms to PNS for biodiesel. The Philippine Biofuel Board (PBB) created under this Act is empowered to determine the feasibility and thereafter mandate a total of two percent (2%) blend of biodiesel by volume within two (2) years from effectivity of this Act.
- 4.3 The Philippine Biofuel Board shall periodically review and assess the economic, technical, environmental and social impact of the use of bioethanol fuel and biodiesel as well as the availability and security of supply and shall determine the appropriate minimum blend, subject to the provision in Section 8(c) of this Act.
- SECTION 5. *Incentive Scheme*. To encourage investments in the production, distribution and use of locally-produced biofuels at and above the minimum mandated blends, the following incentive scheme is hereby provided:
- a) Specific Tax
 The specific tax on biofuels, per liter of volume capacity, shall be zero (0).

b) Duties on Plant Investments

Entities that are accredited by the DOE in accordance with this Act, within five (5) years from the effectivity hereof, shall be allowed to import exempt from duties such machinery and equipment actually, directly and exclusively for use in the production of biofuels for a period of five (5) years from the date of DOE accreditation. Provided, however, that the imported machinery and equipment are not manufactured domestically in sufficient quantity, of comparable quality, and at competitive prices.

c) Board of Investments (BOI) Incentives

Subject to the rules and regulations of the BOI, all investments in the production, blending, and distribution of biofuels and adoption of biofuel-compliant vehicle technologies shall enjoy the applicable fiscal and non-fiscal incentives as may be provided for under the Omnibus Investment Code, as amended;

d) Water Effluents

All water effluents such as but not limited to distillery slops from the production of biofuels used as liquid fertilizer and for other agricultural purposes are considered reuse, and are therefore, not covered under Section 13 of Republic Act No. 9275, also known as the Philippine Clean Water Act; Provided, however, that such application shall be in accordance with the guidelines issued pursuant to R.A. No. 9275, subject to the monitoring and evaluation by DENR and approved by DA.

e) Financial Assistance

Government financial institutions, such as the Development Bank of the Philippines, Land Bank of the Philippines, Quedancor and such other government institutions providing financial services, shall in accordance with and to the extent allowed by the enabling provisions of their respective charters or applicable laws, accord high priority to extend financing to entities that shall engage in activities involving production, storage, handling and transport of biofuel and biofuel feedstock, including the blending of biofuels with petroleum, as certified by the DOE.

SECTION 6. Powers and Functions of the Department of Energy. - In addition to its existing powers and functions, the Department of Energy is hereby mandated to take appropriate and necessary actions to implement the Philippine Biofuel Program. In pursuance thereof, the Department shall:

a) Formulate within six (6) months from the effectivity of this Act the Implementing Rules and Regulations under Section 14 of this Act;

- b) Within six (6) months from the effectivity of this Act, prepare the
 Philippine Biofuel Program consistent with the Philippine Energy Plan and
 taking into consideration the DOE's existing biofuels program;
 - c) Within six (6) months from the effectivity of this Act:

- (1) Establish standards for biofuels and biofuel-blended gasoline and diesel; and,
 - (2) Establish guidelines for the transport, storage and handling of biofuels;
- d) Impose fines and penalties against persons or entities found to have committed any of the prohibited acts under Section 11 (b) to (d) of this Act;
- e) Stop the sale of biofuels and biofuel-blended gasoline and diesel that is not in conformity with the specifications provided for under Section 4 of this Act, the PNS and corresponding issuances of the Department; and,
- f) Conduct an information campaign to promote the use of biofuels.

SECTION 7. Creation of the Philippine Biofuel Board. – The Philippine Biofuel Board is hereby created. It shall be composed of the Secretary of the Department of Energy or his designated Undersecretary as Chairman and the Secretaries or the designated undersecretaries or assistant secretaries of the Department of Trade and Industry (DTI), Department of Science and Technology (DOST), Department of Agriculture and Food (DAF), Department of Transportation and Communications (DOTC), Department of Finance (DOF – Bureau of Internal Revenue, Bureau of Customs and Tariff Commission) and the Department of Environment and Natural Resources (DENR); one (1) representative each from the biofuel industry, the petroleum industry and the automotive industry duly endorsed by their respective industry associations and appointed by the President of the Republic of the Philippines.

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

The Board shall be assisted by a Technical Secretariat attached to the Office of the Secretary or the Office of the Undersecretary of the DOE as the case maybe. It shall be headed by a 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 8. *Powers and Functions of the PBB*. – The Philippine Biofuel Board shall have the following powers and functions:

a) Review, monitor the implementation of, and evaluate for further expansion, 1 2 the Philippine Biofuel Program prepared by the DOE pursuant to Section 6 (b) of this Act; 3 b) Monitor the supply and utilization of biofuels and biofuel blends and 4 5 recommend appropriate measures in cases of shortage of feedstock supply 6 for approval of the Secretary of DOE; c) Review and adjust the minimum mandated biofuel blends as it deems 7 appropriate, subject to publication; provided that the minimum blend shall 8 9 not be lowered within seven (7) years from the effectivity or full implementation of the mandated minimum blend as provided for in Section 10 4 of this Act; 11 d) Recommend a program that will ensure the availability of alternative fuel 12 13 technology for vehicles, engines and parts in consonance with the mandated minimum biofuel blends, and to maximize the utilization of 14 15 biofuels, for the adoption and implementation of appropriate government agencies; 16 17 e) Recommend specific actions to be executed by the DOE and other appropriate agencies of government concerning the implementation of the 18 Philippine Biofuel Program. 19 SECTION 9. Role of Government Agencies. - To ensure the effective 20 implementation of the Philippine Biofuel Program, concerned agencies shall perform 21 22 the following functions: a) The Department of Finance shall: 23 (1) In coordination with the Tariff Commission, create and classify a tariff 24 line for biofuels and biofuel blends in consideration of WTO and 25 AFTA agreements. 26 (2) Monitor the production and importation of biofuels through the Bureau 27 of Internal Revenue and the Bureau of Customs. 28 (3) Through the Bureau of Internal Revenue and Bureau of Customs, 29 30 impose fines and penalties on any person or juridical entity committing the prohibited act under Section 11(a) of this Act. 31 b) The Department of Science and Technology (DOST) and the Department 32 of Agriculture (DA) shall coordinate in identifying and developing viable 33 feedstock for the production of biofuels. 34

b) The DOST through the Philippine Council for Industry and Energy

Research and Development (PCIERD) shall develop and implement a

research and development program supporting a sustainable improvement

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1 in biofuel production and utilization technology. It shall also publish and promote related technologies developed locally and abroad. 2 c) The DA through its relevant agencies shall: 3 (1) Within six (6) months from the effectivity of this Act. develop a 4 5 national program for the production of crops for use as feedstock supply. For this purpose, the Administrators of the Sugar Regulatory 6 7 Administration and the Philippine Coconut Authority, and other DA-8 attached agencies shall, within their authority, develop and implement 9 policies supporting the Philippine Biofuel Program and submit the 10 same to the Secretary of the Department of Agriculture for 11 consideration. 12 (2) Ensure increased productivity and sustainable supply of biofuel feedstocks. It shall institute a program that would guarantee that a 13 14 sufficient and reliable supply of feedstocks is allocated for biofuel 15 production. 16 (3) Publish information on available and suitable areas for cultivation and 17 production of such crops. 18 e) The Department of Trade and Industry shall: (1) Include in its Motor Vehicle Development Program the 19 development and promotion of the manufacture and/or investment 20 in production of alternative fuel vehicles. 21 (2) Within six (6) months from the effectivity of this Act, develop and 22 adopt standards for vehicles and vehicle parts and components for 23 incorporation into and in support of the Philippine Biofuel Program 24 intended to ensure compliance with safety and fuel efficiency 25 requirements as well as emission standards. The DTI, in 26 27 coordination with the DOE, the DOTC and the DENR shall ensure the strict enforcement of these standards. 28 29 f) The Local Government Units (LGUs) shall assist the DOE in monitoring the distribution, sale and use of biofuels and biofuel blends. 30 31 SECTION 10. Oversight Committee on Biofuels – It is hereby mandated to create an oversight committee on biofuels headed by the chairpersons of the 32 Committee on Energy of both houses of Congress to monitor and ensure the 33 34 implementation of the provisions of this Act. 35 SECTION 11. **Prohibited Acts.** – The following acts shall be prohibited: a) Diversion of biofuels, whether locally produced or imported; 36

b) Sale and use of pure gasoline or diesel and / or biofuel-blended gasoline or

diesel in violation of the requirement under Section 4 of the Act;

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- c) Non-compliance with the established standards and guidelines of the DOE adopted for the implementation of this Act; and
- d) Mislabeling, misleading or fallacious labeling of gasoline, diesel, biofuels and biofuel-blended gasoline and diesel.

SECTION 12. *Penal Provisions*. – Any person, including but not limited to the chief operating officer, chief executive officer of the partnership, corporation or any entity involved, in violation of any provision of this Act shall suffer the penalty of three (3) months to one (1) year imprisonment and a fine ranging from fifty thousand pesos (P50,000.00) to three hundred thousand pesos (P300,000.00).

In addition, the DOE shall confiscate any amount of such products that fail to comply with the requirements of Sections 4 and 5 of this Act, and implementing issuances of the DOE. The DOE shall stop the operation of businesses for refusal to comply with any order or instruction of the DOE Secretary in the exercise of his functions under this Act.

SECTION 13. *Appropriations*. — The fund necessary for the initial implementation of this Act shall be charged against the current appropriations of the Department. Thereafter, the fund necessary to carry out the provisions of this Act shall be included in the annual General Appropriations Act.

SECTION 14. Implementing Rules and Regulations. – The DOE, through the Philippine Biofuel Board, in consultation with the Committees of Energy of the Senate and the House of Representatives, the stakeholders and other agencies concerned, shall within six (6) months from the effectivity of this Act, promulgate the implementing rules and regulations of this Act: Provided, That prior to its effectivity, the draft of the implementing rules and regulations shall be posted at the DOE Website for at least one (1) month, and shall be published in at least two (2) newspapers of general circulation.

SECTION 15. *Repealing Clause*. – All laws, presidential decrees or issuances, executive orders, presidential proclamations, rules and regulations or parts thereof inconsistent with the provisions of this Act, are hereby repealed, modified or amended 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 fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

Approved,