

Response to the Senate Committee on Ways and Means' questions on the proposal to revert to regulation of the downstream oil industry

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1. Whether or not the main cause of increases in petroleum products prices is the deregulation of the downstream oil industry

The PIDS study “On the OPSF and the Downstream Oil Industry Deregulation: Lead Us Not into Reversal Temptation and Deliver Us from Obfuscation” by Navarro (2023) explicitly explains that domestic price surges are primarily driven by external shocks (global crude price movements) rather than by the deregulation itself. The policy goal of Republic Act (RA) 8479 or the downstream oil industry deregulation law was “a truly competitive market under a regime of fair prices.” Although RA 8497 did not define “fair prices”, this could be taken to mean as prices that are neither unnecessarily low that require subsidization at the expense of non-oil customers nor unnecessarily high for the producers’ advantage and at the expense of consumers.

Using Russia’s invasion of Ukraine in 2022 as an illustration of a major global event, Navarro noted that sharp domestic price spikes occurred in the first and second quarters of 2022. Deregulation merely transmitted world market prices; it did not cause the price escalation.

Moreover, post-deregulation reviews commissioned by the Department of Energy (DOE) found no cartel behavior among the downstream oil industry players. The 2012 DOE-commissioned review found that the then dominant three players average return on equity fell from 23.3 percent (1994-1996) to 13 percent (1998-2011).

2. Whether or not there are measures, legislative or otherwise, that can help lower petroleum product prices

Measures that improve transparency, security of supply, and targeted relief are recommended. Navarro (2023) groups these into: (a) pro-competition deregulation policy refinements; (b) supply-security tools; and (iii) demand- and equity-oriented policy instruments.

(a) Pro-competition refinements may include retail price unbundling in a way that does not violated existing nondisclosure agreements in supply contracts. A retail price unbundling policy could authorize the DOE to monitor and disclose cost components (e.g., landed cost, taxes, logistics, marketing), thereby improving transparency and helping detect predatory pricing or smuggling.

(b) Supply-security tools may include minimum inventory requirement and strategic oil reserves. The legislative codification of the minimum inventory requirement could institutionalize the precaution for continuity of supply while calibrating days-of-cover that minimize the storage

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burden for the small players. The strategic oil reserve may only be pursued if it is financially viable and if strictly designed as a severe disruption buffer rather than a price-control device.

- (c) Demand- and equity-oriented policy instruments cover targeted subsidies and energy efficiency measures. Targeted subsidies to vulnerable sectors (e.g., public transport sector, fuel-consuming fisherfolk, and poor households) are preferred to blanket price interventions because these avoid distorting price signals and are less fiscally burdensome. The general law for energy efficiency, RA 11285, is already in place and what needs to be done are measures that improve compliance with demand management and energy efficiency procedures.

These measures do not “force” petroleum retail prices down mechanically; rather, they discipline pricing, lower volatility exposure, and target relief where it matters.

3. If we re-establish a buffer fund like the Oil Price Stabilization Fund, will the government be able to sustain the grant of subsidies?

Coincident with the 2022 price spikes on the heels of Russia’s invasion of Ukraine, calls for deregulation policy reversal became prominent during the 2022 national election campaign period, when a few politicians included the Oil Price Stabilization Fund (OPSF) reinstatement in their election campaign promises. This is nothing new as over the years since deregulation, calls for reversing the policy recur every now and then, especially during price upheavals driven by external events.

But historically, the OPSF proved fiscally unsustainable and administratively problematic. Navarro (2023) documents systemic mismatches between inflows and claims, requiring budget bailouts and even off-purpose uses (e.g., RA 7639 authorization of diverting PHP3 billion to National Power Corporation capitalization). Navarro also tracks that litigation over credits and payments dragged on for years (e.g., case between Shell and the government from 1991 to 2008), obscuring the fund’s true position. More importantly, the review of experiences in other countries show that **the remaining oil price stabilization funds in the world (e.g., Thailand, Vietnam, Malawi, and Chile) struggle with deficits.**

4. Whether or not deregulation encouraged competition

The Philippine experience shows that deregulation indeed encouraged competition. Market structure and investment indicators point to substantial entry and diversification post-1998 deregulation. From being dominated by only three players before deregulation, players in the industry have expanded to 400 firms as of December 2021 and the share of the previously three dominant players fell from 95.7% in 1998 to 49.4% in 2021.

In the deregulated downstream oil industry, **reform durability—not reversal—is the welfare-maximizing path.** Price spikes happen because the Philippines heavily imports at world prices. Deregulation avoids the costly defense of misaligned domestic prices while supporting firm entry and investment.

Reference:

Navarro, A.M. 2023. On the OPSF and the Downstream Oil Industry Deregulation: Lead Us Not into Reversal Temptation and Deliver Us from Obfuscation. *Philippine Journal of Development* Vol. 47 (2023) No. 2. <https://www.pids.gov.ph/publication/philippine-journal-of-development/on-the-opsf-and-the-downstream-oil-industry-deregulation-lead-us-not-into-reversal-temptation-and-deliver-us-from-obfuscation>.