

## **Remarks at Philippines Energy Summit – Dr. Rene B. Azurin**

The shock of crude oil prices hitting the psychological but arbitrary barrier of \$100 creates the danger that we will all focus our attention on measures to specifically deal with the narrow issue of high oil prices. I believe that the purpose of this summit in general and in this morning's session in particular is to make sure that we all take a broader perspective of this whole oil price problem.

For example, in recent days, we have been bombarded with public calls for the elimination of tariffs and Value added taxes on oil products. These suggestions that betray a narrow and shortsighted perspective . Such measures are also, I would like to emphasize, is intrinsically unfair.

Let me explain. First, those who use oil products are responsible for the carbon emissions that pollute an environment we all share. Tariffs and taxes are a way of directly penalizing the parties who pollute for the harm they make to other parties like you, me and the polar bears on melting ice caps. It is a way of making polluters themselves pay (even partially) for the cost of clean up the pollution they create. If we eliminate such taxes, we are in effect telling polluters that you can dirty our air and you could do it for free. Additionally, tariffs and taxes raise the price of oil products, discourage consumption of them, and make the alternative energy sources that scientists are trying to promote because they are less polluting and more attractive to the consumers.

Thus, taxes on oil products provide the right incentives for behavior that should be encouraged. On the other hand, oil product subsidies (of any kind) introduces the wrong incentives and gives the wrong signal.

Second, eliminating tariffs and taxes on oil products really help those with the most cars and most air conditioners, but not the real poor who spends some 60% of their income just on food and uses very little in petroleum products and electricity. Thus, such measures do not help the sector in the Philippine society that need it most. Providing direct assistance for essential food and medicines would have a greater and more direct impact on such needy sectors than scrapping taxes on oil products.

Taking a broader view and extending the range of our vision, one of the things we should do in tackling the present oil crisis is to overhaul our tax system entirely. One measure I strongly believe we should take is to scrap our present system of taxing the income – meaning that we should eliminate income taxes (both personal and corporate) altogether – and, instead, substitute for it a tax on carbon emissions. It is logically more reasonable to tax pollution than to tax income. The P450 billion or so that our government now raises from income taxes can be just as readily raised from specific tax based on the amount of carbon one emits. Instead of raising revenues by penalizing people because

they pollute and cause harm to the rest of us. Effectively, this is also a tax for consuming more. The more you consume, the more tax you pay. That is not only fair but also points the way toward a long-term solution not just to energy problems but to the government's fiscal problem and the country's larger social and economic development problem as well.

One final point. I think we can use the talent and expertise assemble for this summit more productively if we realistically focus on factors we can control an not on factors we can do nothing about. For instance, it would completely unproductive to talk about trying to control the global price of crude or discuss price controls as a way of bringing down the prices of oil products. We must accept, realistically. That upstream crude oil prices and downstream oil product prices are set by the twin oligopolies of oil producing countries and oil marketing companies, and are not controlled by us. Thus, no matter how some sectors and some of our legislators rant and rave about regulating the so-called excessive profit of the oil companies, price controls will not bring down oil product prices. We should note that the oil company subsidiaries here do not show any excessive profits, mainly because oil company profits are typically taken upstream, meaning at the well and not downstream at the pump. Unfortunately, we have no power to do anything about this.

What we can do is focus on measures that will, one, help the vulnerable sectors of our society, deal with what we can expect to be a continuing upward trend in oil prices as world supplies of oil are used up, and, two, ultimately reduce our country's dependence on imported oil for the energy needs required to sustain our economic growth.