

BRIEF STATEMENT

by

Secretary Angelo T. Reyes

CEO-Ministers Dialogue during the ASEAN Energy Business Forum (AEBF)
Conference

Chair of the AEBF
Fellow Ministers and our Energy Partners from the Private Sector
Ladies and Gentlemen
Good Morning.

First, I wish to take this opportunity to thank the AEBF organizer for again making the CEO-Ministers Dialogue part of the regular agenda in the AEBF Conference. This is one rare opportunity for public and private sector officials to mingle and talk business and at the same time address some issues affecting energy investment within the region.

The Philippines is currently pursuing intensive efforts on investment promotion, stimulated by the growing need to secure long-term investments that can drive economic stability, growth, and sustainability in the country. With this statement, I want to utilize this initiative and, with a very limited time allotted to us, provide you with a brief look at investment opportunities in the Philippine energy sector. Likewise, I would like to share with you my personal perspective on the challenges of adopting integrated energy markets that affect regional trade and investment.

Success Story with the Private Sector

I would like to tell you that that we in the Philippines have made significant gains in the deregulation of our downstream oil industry. Our early deregulation has made pump prices lower than would be possible in the old regulated regime. This has allowed us to insulate the

government's fiscal purse from the high cost of subsidizing oil prices at the pump. At this point, we thank investors from ASEAN who took the risk of investing in our downstream sector.

Privatization Efforts of the Government in Power Sector and Investment Opportunities in other sectors

We are also opening-up our assets in the power sector. We have adopted reforms in that sector to bring about greater efficiency in the generation, transmission, and distribution of electricity. Our long-term vision is to have vibrant competition in the generation and supply of electricity to the consumer. The Wholesale Electricity Spot Market (WESM) commenced last year in our Luzon grid, thus providing wider options for consumers in sourcing their electricity and allowing a more transparent price setting mechanism. Foreign investors are very much welcome to participate in this ongoing process of privatization and we assure them of a stable and attractive investment environment.

Other Opportunities

To date, the goal of the government is to further increase the energy self-sufficiency level, to 60 percent by 2010. We can only achieve this target if more indigenous fuels will be discovered in the Philippine land/waters and if other indigenous resources like natural gas, renewable energy resources, and alternative fuels will be deployed, developed, and put into the mainstream. Renewable energy is a priority for us in power generation.

For the upstream sector, bidding rounds or the Philippine Energy Contracting Rounds (PECR) are being conducted for certain areas/blocks for geothermal, coal, and oil and gas.

Renewed interest is being directed toward the exploration, development and production of petroleum resources in the country following our Supreme Court's ruling that allows 100 per cent foreign ownership.

We also need prospective investors for the construction of strategic natural gas infrastructure projects to expand the use of natural gas in Luzon, the major island of the country where the demand concentration for natural gas is projected to increase significantly in the next 10 years.

For renewable energy, we would very much like solar companies to enter our local market and compete to make the cost of the solar energy systems more affordable. We also would very much like investors to participate in the development of wind energy resources in areas identified by the Department.

Finally, with the Passage of our Biofuels Act, the private sector is being encouraged to be involved in biofuels development, from manufacturing to construction of biofuels facilities and stations.

Considering the huge demand for fresh capital, active private sector participation and more public-private partnerships are targeted to satisfy the country's requirements and to boost economic activities.

Regional Integration of Energy Markets

Investment is ideal in a place where there exists an integrated energy market. An efficient and flexible regional/international energy market definitely will facilitate the free-flow of energy resources in the region and will therefore improve access to supplies. In ASEAN, we are starting to see the benefit of this system and we are now challenged to pursue the integration of energy markets even in the long run.

Integrating energy markets would mean opening-up and liberalizing the market for energy resources. In ASEAN, with its geographical and strategic location, the trend should be towards the direction of ultimately having an ASEAN Economic Community.

Integrated Energy Markets are characterized by interconnections across states, free and open trade, secure and transparent investment frameworks, clear price signals, market transparency, and effective competition. It enhances investor confidence and encourages investments.

However, it would be a hard task for ASEAN to achieve this goal because of diversity. For example, each member country has its own standards on resources. It also has distinct policies which are usually based on the sovereign law of the country.

Taking the development of biofuels as another case is timely if we want an integrated market since a harmonized/common standard can still be developed in the region (unlike the conventional fuels which have already established standards) since biofuels development is still at the early stage of development in the region.

It is therefore recommended that further studies and discussions be allotted for this system. It would take time to have an integrated energy market but, if done, this system/strategy can make the ASEAN region more competitive – with sustained energy supplies at affordable cost.

In closing, I would like to emphasize that, in the Philippines, we have many business opportunities and potentially attractive investments for all interested investors in the energy sector.

Thank you and Mabuhay.