11:30 PM

Jan. 9, 1971
Saturday

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MANILA

Bongbong left by Quantas via Hongkong, New Delhi, Teheran, Athens and London.

I talked to him and his sisters, Imelda and Kokoy about the possibility of his mother and two sisters joining him if there should be trouble here; that whether I am there beside them or not they (the children) should value education and get a doctorate degree because even if we should lose our fortune and position here in the Philippines, then they could make their own way in this world; that if for any reason we should be separated and I should not be able to guide them after normalcy returns to the world or the Philippines as the case may be, they should return to the Philippines where their roots are; that I would prefer their marrying Filipinos

Spent the afternoon preparing the records and money he and Kokoy would bring to London.

Spent the whole morning with the oil refineries representatives who as I expected could not budge although they did apologize.

The buses and jeepneys are running normally but I asked PSC Chairman Evangelista to punish those who

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were not following their franchise by going out.

And I asked Sec. Maceda to finish the confirmation of the Villegas rates today.

Maceda, who is an aspirant for senator, wanted to delay and even cut the rate to 1/2 centavo. Bong Tanco called up tonight asking if they could not give the increase by degrees. I did not approve this.

I believe that the answer to all these problems is a government controlled oil refinery in partnership with any of the middle east countries. I attach such a proposal.

December 10, 1970

MEMORANDUM

FOR: President Ferdinand E. Marcos

FROM: B. M. DEL ROSARIO

SUBJECT: The Need for a Filipino-Controlled Oil Refinery

No area of business in this country is probably as much dominated by non-Filipinos as is the petroleum industry. Five of the major companies distributing petroleum products in the Philippines are subsidiaries of international oil giants and of the four refineries, only one has Filipino equity participation which is now down to 37% from the 60% control that it used to have at the beginning until a few years ago.

Perhaps one reason why Filipinos have not been able to enter successfully the oil industry which has been controlled by the big western powers throughout the world is the huge capital outlays required not only to set up a refinery but to install the storage and distribution facilities and assure efficient marketing of the products.

Facts about the Oil Industry in the Philippines:

1) Total assets of oil companies (as of December 31, 1967): ₱1.2 Billion.

2) Of total investments at the end of 1967, foreign shareholders' equity accounted for ₱783 Million; local shareholders', only ₱59 Million.

3) Average return on investments in oil, 9% against 15-18% for the large enterprises operating in the Philippines.

4) Prices of crude oil have been found to be reasonable since in most instances the Philippines is paying a lower price than what Japan is paying.

5) A comparison of gasoline's retail prices with many areas in the world shows that the retail price of oil is among the lowest in the world.

6) Employment in the industry is placed at between 30,000 and 36,000.00

7) Total disbursements for wages, materials, services and other similar items, ₱300 Million to ₱400 Million anually.

8) Total taxes paid annually (1968), ₱330 Million.

9) The Philippine oil market has been growing at the rate of at least 10% annually with power consumption and generation expanding at around this rate.

Government Entry is Urgent

Petroleums is a strategic industry and should therefore eventually be dominated by nationals of this country - at least its distribution, if not its production. Control of the industry by Filipinos may not be feasible in the near or foreseeable future since it is a capital intensive enterprise.

The least that could and should be done under the circumstances therefore is for nationals of this country to get a progressively greater share of the business with government encouragement and assistance, or for the government itself to participate in funding the project.

It would appear that the oil industry is not as profitable as it is oftentimes pictured to be. The return on sales of one company last year was reported to be as low as 2.3%. Considering the huge investments involved, it is doubted if there would be another private Filipino-controlled organization that would be willing to get into the business.

Government entry into this strategic industry, especially on the production side, is thus considered imperative.

New Refinery Imperative

Power consumption in the country is growing rapidly, hence the need for a steady expansion in oil refinery facilities. It is forecast, for instance, that unless existing facilities are expanded, there would be production shortfalls by early 1972.

For this reason, at least one existing refinery was reported recently to be embarking on further expansion of its processing facilities - more than doubling its present capacity of 50,000 barrels of crude to 110,000 barrels daily.

The fourth refinery with minority Filipino equity participation will double also their production facilities. Operating results of all refineries so far show that the refinery department of the oil business is less profitable than the marketing side.

Since it will be difficult to get private Filipino enterprise to increase the Filipino investors' share in the refinery operations, the government must take the initiative in taking a share of the steady expansion in the production of refinery facilities.

Financing the Refinery

It is hereby proposed that the Philippine Government take the initiative in the establishment of a new petroleum refinery with a daily capacity of at least 50,000 barrels. This can eventually be expanded to 75,000 barrels.

A new petroleum refinery of the size envisaged during the initial operations will probably require at least US $30 Million investment. An investment of this magnitude will have to rely mainly on foreign borrowing with the counterpart peso outlays probably less difficult to generate if the government becomes an active partner in the enterprise.

Such a refinery as contemplated herein can be established and financed under any of the following alternative arrangements:

a) A joint venture between foreign investors, Filipino investors and the Philippine Government.

b) A partnership between foreign investors and the Philippine Government.

c) A partnership between Filipino investors and the Philippine Government.

d) A wholly-owned and operated government refinery.

The problem of securing the necessary financing to cover the cost of machinery and equipment would become simpler if any of the first two alternatives proposed could be implemented. If the tie-up could be made, for instance, with a foreign petroleum organization that would arrange for the setting up of the plant on a 40% equity participation, the project would become easier of realization.

But if the partnership should be with Filipino investors or should the government be obliged to do it alone, then a foreign loan to cover the cost of equipment could be arranged through either any of the following alternatives:

a) Direct loans from suppliers of crude oil in the Middle East who are interested in joining the Philippine Government as partners in the new refinery project.

b) Loans through a triangular arrangement whereby the Middle East partner can secure the financing from another capital source, such as an investment or lending agency in New York or London.

Ideal Capital Structure

An ideal setup for the proposed refinery project is for the government to underwrite the entire capital of the corporation to be organized and to get a professional private group to manage its operations.

Such corporation can be created either:

a) Through legislation authorizing the organization to be incorporated and financed with public funds through direct appropriation or issuance of government bonds; or

b) Through Executive Order creating the corporation with government financial institutions like the Government Service Insurance System, Social Security System, Development Bank of the Philippines, Philippine National Bank, National Investment and Development Corporation, and the National Development Co. as stockholders, as in the case of the Greater Manila Food Terminal Market and the National Housing Corporation.

Since it may not be easy to push through such a project via congressional action, it is suggested that creation of the proposed corporation be done through Executive Order. Under this setup, the corporation will thus have to be owned or controlled by the government or any subdivision or instrumentality thereof as provided for in the Constitution.

It is proposed that the government-controlled corporation be capitalized at ₱50 Million and that at least ₱30 Million be subscribed and fully paid up by the six (6) government financial institutions mentioned here as original incorporators. This means that the GSIS, SSS, DBP, PNB, NIDC, and NDC will have to put up ₱5 Million each.

Machinery and equipment for the proposed refinery can be purchased on long-term credit, preferably from one of the major oil producing countries which can also supply the refinery project with crude on a deferred payment arrangement.

This arrangement appears to be more feasible under the circumstances since it will not involve substantial dollar outlays at the start or during the initial stages because of the long-term credit and deferred payment agreement that we are assured can be signed with the prospective machinery and crude suppliers.

The equity that each of the government financial institutions included as incorporators and shareholders will be putting up is quite modest considering the magnitude of the enterprise being set up. Their participation in the project will be worth the investment of the trust funds they hold since they will be investing in the same time pave the way for gradual ownership and control of a strategic sector of Philippine industry.

Organizing New Enterprise

What is most important now is to get the refinery enterprise organized as soon as possible through government initiative and with government support through equity participation from the major state-owned financial institutions.

But the enterprise must be run and managed by private enterprise and, if possible, placed under professional management.

I have been assured by potential creditors with the necessary resources and know-how as well as the supply of crude oil that such a project is feasible and that they will be willing to extend financial and technical support should their assistance be sought.

Respectfully submitted:

B. M. DEL ROSARIO

FROM: DIRECTOR ABLAN:

SIR/MA'AM:

FLT NO. 761 LEFT HONGKONG 8:53PM AND IS EXPECTED IN NEW DELHI AT 3:20AM TOMORROW. ALL IS WELL.

Conrado T. Laguatan
202 Teodorica Building
Roxas Boulevard
Manila

8 Jan 71

1) Salientes and Abad, per your instructions, have conferred on the $600,000 balance for the Arsenal. Abad cabled Balao to press for advance procurement under 15th year schedule;

2) PJHL Bid No. 71-001, $10 million 2nd Year Implementation has been advertized and scheduled for opening on Jan 18th.

Strongly suggest that proper instruc- be given to Salientes, to get rid of speculators. Otherwise, companies with which arrangements have been made i.e. Toyo Group, will meet with great difficulty in complying.

To date, outside groups have been able to qualify and "infiltrate" causing alarm to Nippon Steel, which heads the cartel group;

3) In accordance with his promise to you, Lacuna has been neutralized and will cooperate as Minority Representative, to kick-out and disqualify the unwanted bid participants. His participation will be limited to necessary technicalities.

FOR YOUR EYES ONLY

FOR YOUR INFORMATION AND GUIDANCE

Subject: Government Arsenal

Enclosed herewith is Progress Report dated 6 Jan 71 of SND Enrile on above subject matter. Hereunder is a brief summary of events leading to its establishment:

1. 1965, $10 million GA equipment contracted under the 10th year Reparations schedule. October 1967, per DND Order No. 166, the GA was formally established. January 1968, the first shipment of GA reparations equipment arrived;

2. March 1968, PFM proclaimed the permanent site of the GA. April 1968, the 51st Engineering Brigade started site preparation. June 1969, corresponding master plans were completed by EDCOP;

3. September 1968, construction of powder plant was bidded and awarded to J.V. Angeles Inc. at ₱ 1,76 million. October 1968, USDM Salientes submitted time and fund release schedules to PFM (At a later stage, a revised backward integration concept was adopted because of delays in fund releases.);

4. October 1969, Phase II of GA Master Plan was bidded and awarded (Again, delayed fund releases and the "floating rate" caused expiration of contractor's option. A year's effort was lost);

5. November 1970, $ 1.9 million under 13th year Reparations schedule was contracted with shipments scheduled for March 1971. January 1971, re-bid for said Phase II will be opened.

Main Causes of Delay

1. Fund releases not timed to GA Master Plan Schedule. Only 25% of total funding requirements were made available. Also, difficulties were encountered in gathering GSM (government supplies & materials);

2. Lack of trained personnel to handle GA activities. The training schedules per Reparations contracts -

Powder plant	-	10 trainees now in Japan
Cartridge Assembly	-	March 1971
Case, Bullet and Primer plant	-	July 1971

Status of GA Project

1. Powder Plant is 92% completed;
2. FY 70-71, 4th Quarter, assembly plant with propellant powder totally manufactured by GA will be operational, but, case, bullets and primer will be imported under contracted 13th year Reparations allocation;

3. FY 71-72, case and bullets, possibly primer, will be wholly manufactured by GA.

C. T. Laguatan
8 Jan 71

copy for:
USOM

REPUBLIKA NG PILIPINAS
(REPUBLIC OF THE PHILIPPINES)
KAGAWARAN NG TANGGULANG BANSA
(DEPARTMENT OF NATIONAL DEFENSE)
TANGGAPAN NG KALIHIM
(OFFICE OF THE SECRETARY)
CAMP GENERAL EMILIO AGUINALDO
QUEZON CITY

January 6, 1971

President Ferdinand E Marcos
Malacañang, Manila

Dear Mr. President:

The Government Arsenal (GA) is a new project in this country and everything has to be started from the bottom. It has to recruit, develop, and train its personnel on a new activity; prepare the site, construct, and install its facilities; organize and establish its administrative and operating procedures; develop and publish its safety and security requirements distinct from other existing facilities and peculiar only to its own -- all the above against a background of stringent government regulations, funds and the inevitable challenges of a new government project.

In 1965 the GA equipment were contracted by the REPACOM as part of the 10th year REPACOM Reparations Schedule under an allocation of about $6 Million. Many needed items to complete the Project were not included due to this limited allocation. Part of these omitted items are now included in the 13th year REPACOM Reparations Schedule for $1.9 Million. The first shipment of GA equipment were however received only in January 1968.

In October 1967 the site was formally decided at its present location at Bo. Lamao, Limay, Bataan. In January of 1968, pursuant to DND Order No. 196, the Government Arsenal was formally established and President Marcos signed the Proclamation for the permanent site of the Government Arsenal in March 1968. Site preparation was started in April 1968 by the 51st Engineer Brigade. Simultaneously, the master plan and other plans of the site and other facilities were being prepared and was completed by EDCOP in June of 1969.

USDM Salientes in a report to PFM in October 1968 presented a time schedule for the GA establishment with an accompanying schedule for the release of the needed funds. The funds required per Presidential directive were not released per schedule, hence the non-implementation of the original GA plans and programs. A revised program, on a backward integration concept, was therefore prepared, and is now being followed.

The GA is composed of (a) Propellant Plant, (b) Case and Bullet Plant, (c) Primer Plant, (d) Cartridge Assembly Plant, and (e) the necessary attendant facilities.

In September of 1968 the Powder Plant construction, the plans of which was finished first, was bidded and awarded to J. V. Angeles at the cost of P1.76 Million. Due to administrative delay in perfecting the contract and the difficulties in getting government supplied materials (GSM), the Propellant Plant is at this moment about 92% complete.

In October of 1969 the Phase II Development Program and its corresponding Attendant Facilities was bidded out and awarded. The delay in the release of funds and the advent of the "floating rate" of the peso resulted into the expiration of the contractor's option to enter into a contract with the government. A years effort to perfect this contract was wasted and the GA has therefore planned out another approach to complete the Phase II Development Program. In January 1971 announcement of public bidding on portions of Phase II Development Program will be made, breaking up the Phase II Development Program into small projects while the others are being done by administration.

The operation of the GA will take a little more time for the following reasons:

a. Fund releases are not sufficient and not made available to meet the GA schedule. About 25% of the total fund requirements has so far been made available.

b. Lack of trained personnel to handle the various activities of the GA. GA training program with Japanese Suppliers (part of 13th year REPACOM Schedule) has been confirmed only on the following dates:

(1) Propellant Plant - July 1970 (10 trainees are now in Japan on this training program)

(2) Case & Bullet Plant, Cartridge Assembly Plant, Primer Plant to include attendant facilities - September 30, 1970 (Training on Cartridge Assembly Plant and part of the attendant facilities were scheduled in March 1971 and for the Case and Bullet Plant and Primer Plant the schedule was set in June 1971. Local training will follow after the above schedule of foreign training is completed.)

c. Operational procedures necessary on how to operate the plant has to be prepared simultaneously with the instruction program parallel the completion of the respective GA facilities.

It is now expected to have the Project operational in the fourth quarter of FY 70-71 as an assembly plant with the propellant powder completely manufactured by the Arsenal, and the case, bullet and primer imported under the 13th year Reparations schedule. In FY 71-72, it is expected that the case and bullet, and possibly the primer also, will be wholly manufactured by the Arsenal.

Very respectfully,

JUAN PONCE ENRILE
Secretary

/Lpc:

Jan. 8. 1971 Friday $\frac{6}{F. 6}$

Cesar Zalamea – yesterday

Pioneer Oil – VP Ponce Enrile and

Ambassador of [illegible] Santos, [illegible] Buenaga Holland farewell call –

[illegible] Plans –

Political philosophy

Farmers

Laborers

Students

Jason Park –

Gen Balao by telephone 10th yr reparation

Com – Gastina

Records for transfer

Baby Ysmael – the cry baby – pessimist

The two groups of jeepney drivers

Koftay and Honolulu & Australia

Party for Bonbong