INSTITUTE FOR CLIMATE AND SUSTAINABLE CITIES

POSITION PAPER ON TAX REFORM BILLS

Raise revenues, change behavior for inclusive development

For the 13th Public Hearing of the Senate Committee on Ways and Means on the Tax Reform for Acceleration and Inclusion (TRAIN) Bills, focusing on petroleum excise tax, held on August 10, 2017.

The Institute for Climate and Sustainable Cities (ICSC) supports the intent and the substance of the pending tax reform bills, but not every detail, nor in every cranny. It appreciates the effort to formulate a tax regime that:

- Is progressive in intent or equitable in its effects, as incremental revenues are needed for investments in human capital and badly-needed infrastructure;
- Discourages irresponsible behavior;
- Accelerates sustainable and inclusive economic development; and
- Supports efforts to internalize environmental externalities that lead to better market outcomes.

ICSC is a climate policy advocacy group that presses the country's policymakers for the Philippines to continue to be a responsible actor in international climate negotiations, because the Philippines is one of the top five vulnerable countries to bear the brunt of climate change, a fact that has long been recognized internationally. ICSC often hears positions that say the Philippines should do nothing because the country is simply a victim of past behavior by the developed countries. ICSC does not buy that because the country exercises leadership among the most vulnerable nations. Moreover, the Philippines has an array of mitigation measures that don't entail major, additional financial and economic costs. These just need to be enabled by regulations.

The Institute focuses its comments on the tax reforms that pertain to fossil fuels and, inevitably, renewable energy sources:

1. **There is no longer any leaded gasoline in the country.** The full phaseout of leaded gasoline was effected on December 23, 2000, pursuant to the provisions of the Clean Air Act of 1999. The Department of Energy (DOE) still has to act to dispel this misperception by doing away with the 'unleaded' label. What the authors must be referring to is regular, lower octane gasoline.
2. **ICSC disagrees with the tax on diesel, pegged at P3/liter. The tax should be at the same level as gasoline.** While diesel engines are more thermally efficient, and emit 80% less carbon dioxide per kilometer, received science says they emit 4 to 10 times more toxic pollutants (nitrous oxides or NOx and particulate matter or PM) than gasoline cars.
3. **Concerns have been raised on the impact of taxes on diesel (for high-speed turbo-generators) and bunker (for low-speed engines)** on the electricity rates in the small island grids that are served by the Small Power Utilities Group of the National Power Corporation (SPUG-NPC) and private power providers. **Taxes on these fuels should serve to accelerate the hybridization of generation systems in these islands that makes financial and socio-economic sense.**

   Hybridization means integrating variable renewable energy (VRE) sources into existing diesel systems. This makes financial sense because the average costs of hydro, wind, and solar energy are already lower than the variable costs (mainly fuel) of diesel generation. This means that even after paying for capacity costs of the thermal sets, average costs for the systems are reduced, leading to lower costs of generation, and therefore charges for missionary electrification. This is a win for almost all stakeholders. Yet, while equitable, economically sensible, and already specified by the Electric Power Industry Reforms Act or EPIRA for SPUG-NPC to install renewable energy systems whenever feasible, this mandate has yet to be fulfilled.

Even in the short run, many island power systems are better served by 100% renewable energy systems, with VRE and storage. We have recently been assured by the battery department of AES—the world's leader in utility-scale storage and the owner-operator of the Masinloc coal plant—that storage costs are already low enough to make 100% VRE financially viable.

4. **There should also be no preferential treatment of bunker fuel.**
5. **ICSC is also dismayed that while there is a tax for diesel and bunker, which is used for power generation, there is none for coal, which is way more pollutive.**
6. **On fuel marking, ICSC recommends that the Department of Finance (DOF) coordinate with the DOE on the implementing rules,** as the DoE has the institutional capability on this.

Some who oppose the proffered tax reform measures, specifically the petroleum excise tax proposal, contend that any tax increase on refined petroleum products and associated electricity rate increases are anti-poor. ICSC disagrees. The Institute supports the assertion of the DOF that the poor can be better supported through improved targeting of poverty alleviation programs, instead of subsidizing pollutive behavior. The lifeline rate system can also be redesigned to shield the poorest of the poor. The poor in fact suffer most from health damages caused by pollution and from the impacts of climate change.

On the other hand, oppositors who oppose the petroleum excise tax proposal by raising the simplistic protectionist argument – that cheap energy and electricity are key to economic development, meaning manufacturing sector expansion – need to understand that electricity price is not the only factor that influences our country's comparative advantage.

In sum, ICSC commends the DOF and the authors of the Senate bill for taking this visionary initiative. There are historical precedents for this, such as the differential tax on gasolines with different lead content. The Clean Air Act also provided for market-based instruments to curb pollution but these still have not been implemented. We urge the Department of Environment and Natural Resources, DOE, and DOF to please review these provisions. Still ICSC says that the extant Senate bill needs to be enacted quickly.

ICSC would also like to offer our insights and services to the committee on bills on carbon taxation in the future.

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