Philippines Patriots Battle Against Piratization of Their Energy System

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The following report was prepared by *EIR* for the LaRouche Society of the Philippines, for wide distribution to the population and the political leadership of the Philippines. The Society, and a growing number of other institutions in the Philippines, are waging a fight to stop the attempted privatization and deregulation of the national energy system. President Gloria Macapagal-Arroyo, together with former President Fidel Ramos (who orchestrated the military coup in January that placed Arroyo in power) have moved rapidly to do the bidding of the actual powers behind the throne—the international financial institutions and the Anglo-American power cartels—by attempting to ram through the Congress the long-stalled Omnibus Power Bill, privatizing the National Power Company (Napocor) and deregulating the entire energy system of the Philippines.

Arroyo and Ramos decided that the failure of their candidates to sweep the May 14 Congressional elections (the results of which are still not official) has forced them to call a special session of the lame-duck Congress, with the hope that the bill could be driven through in the aftermath of the chaos surrounding the State of Rebellion declared by Arroyo following anti-government demonstrations on May 1, and before the full story on the disaster of California's deregulation is fully known to the Philippine people. This report is of interest to *EIR* readers around the world, both because the crimes of the international energy cartels are so similar everywhere, and as a model of how the LaRouche movement is bringing the international fight into each specific location around the world, as a single political campaign. The report and related material were delivered to the President of the Senate and other Senators on May 31 by a lobbying team from the LaRouche Society of the Philippines.

Bracketed clarifications and subheads have been added.

No to Privatization

1. Beginning May 29, a special session of the Philippines Congress will be held to push through the Electric Power Industry Reform Act of 2001, which would deregulate the entire electric power industry. The same group of financiers and energy companies, centered under the British Crown in London and Wall Street, who deregulated the electric power industry in the United States, are sponsoring this legislation in the Philippines.

The legislation will end the nation's primary means of control over the power industry, and turn it over to a group of thieves, like the Enron Corporation, which is a key part of the machine which has placed George W. Bush in the U.S. Presidency. As in California, they will be ready to raise rates by 50% to 500% as soon as the opportunity is created, thereby destroying industry and agriculture, shutting down hospitals and schools, and looting residential consumers of electricity, whose bills will soar. In carrying out this plan, these foreign forces are buttressed by Miralco of the Lopez family, the network of former President Fidel Ramos, and the business machine of Maurice Greenberg of AIG insurance.

As in the United States, much of the money sucked out of the Philippines through deregulation will go to propping up the financiers' international speculative financial bubble.

This is a direct assault on the national sovereignty of the Philippines. It must be stopped.

The Current System Works

2. The current government regulation of the Philippines electric power industry, while severely undermined over the past decade, essentially works. The state-run National Power Corporation (Napocor) functions, and could expand both its generating capacity and the improvement of electricity transmission, were it not for contracts, imposed, by dictate, by former President Ramos in the early 1990s, which have permitted the looting of Napocor by the very companies and forces that are now calling for it to be "privatized."

3. The sponsors of the "Electric Power Industry Reform Act of 2001," have incorporated many of the same features as the law which deregulated the electric energy sector in California. The Act would auction off sections of Napocor's 19,000 kilometer transmission lines to "concessionaires," break up and sell off Napocor's electric-generating capacity to these same bandits, and set up a "Wholesale Electricity Spot Market," where speculators will bid up the price of electricity to whatever price they desire, something that could not be done through the present regulated system.

4. The private corporate looters try to throw up a smokescreen, saying that they are for "free markets," and will lower prices by 27%. These same deceitful statements were made to get California to pass energy deregulation in 1996. Since

late 1999, once they controlled the flows of energy, these looters have charged whatever they could squeeze out: They have raised energy prices by more than 1,000% at the wholesale level, and thus far, more than 45% at the retail level. There are almost daily brownouts in different sections of California.

In the Philippines, as in California, the looters will say anything to get their legislation through. They know that the International Monetary Fund [IMF] bankers have stated that unless the Congress bows down and passes the energy deregulation bill, the IMF, the World Bank, and the ADB [Asian Development Bank] will withhold loans to the Philippines. These are the same IMF bankers whose demands and conditionalities have brought havoc upon the Philippines, South Korea, Indonesia, and other developing nations, especially since the speculative attack on the Asian economies in 1997-98.

5. The story of how this network of pirates has worked to destroy the Philippines' energy grid, through thievery, and has wrecked the energy system of California, as well as of countries such as Brazil, shows how dangerous their current plans are.

6. The Marcos government [in the 1970s] wanted to build 8 to 12 nuclear power plants, on contract with Westinghouse Electric. This was blocked, as part of the process of the overthrow of the Marcos Administration. The only plant which was nearly completed, a 1,400 megawatt plant located in Bataan, was shut down by the Aquino government [installed after the 1986 overthrow of Marcos—also orchestrated by Ramos]. If the Marcos plan had been implemented, the Philippines would have had sufficient energy, so that it would not have been forced into the sweetheart deals later concluded by President Ramos with the power producers.

Under President Corazon Aquino, no new energy generating capacity was added.

Ramos Given Emergency Powers

Nine months after Ramos became President in June 1992, under pressure of (possibly contrived) energy shortages and threats from the IMF and World Bank, the Congress granted Ramos emergency powers to deal with the energy crisis. The President was authorized to exempt private power projects from public bidding, grant 100% foreign ownership, revamp Napocor, override a Supreme Court decision preventing the raising of energy prices, and grant virtually any other conditions demanded by the foreign energy producers. He did exactly that.

Under the emergency powers, President Ramos instructed Napocor to sign deals with private providers of electricity, called independent power producers, or IPPs. The deals stipulated that Napocor must purchase a fixed quota of electricity from the IPPs every year, at a fixed price, whether the electricity was needed or not. This was justified by projections that the demand for energy would rise dramatically in the future, projections that were grossly exaggerated.

Dozens of IPPs were constructed under these conditions. The plan was hailed by the financiers, and singled out in reports by the World Bank and the ADB, as models for all of Asia and the entire underdeveloped world. Rahul Khullar of the ADB enthused that the difference between these power contracts and such projects as toll roads, is that "the government is not able to guarantee road users will be willing to pay the going tariff rates. For power, on the other hand, such risks do not exist. The government can simply pledge to buy a certain quota in advance." The added benefits, he said, according to the Oct. 2, 1995 London *Financial Times,* were that the IPPs were "eligible for tax holidays, the right to import capital equipment duty free, and government-backed foreign exchange guarantees."

7. To see the results of this scam, we need only read a *Financial Times* article published in the Dec. 16, 1999 issue of *AsiaWeek:* "The IPP deals were made in the early 1990s, when the country was desperate for generating capacity amid blackouts of as long as 12 hours a day. At the time, the government of Fidel Ramos got emergency authority to negotiate power contracts without bothering with cumbersome bidding and review.

"The projects were approved based on demand forecasts that have now proven excessive. 'The anticipated growth [in demand] did not happen because of the Asian Crisis,' says Secretary Tiaoqui. 'Instead there was a decline.' (Similarly in Hong Kong, the government had authorized capacity expansion by CLP, one of the country's two power utilities, only to see consumption drop and consumers get hit with nearly $440 million in excess charges.) Eventually, the NPC (Napocor) or its future owners may have to negotiate lower fees or purchases. It now buys 48% of its power from private suppliers at about 6.5¢ a kilowatt-hour [kwh]—some 20% more than what Meralco (the private energy company owned by the Lopez interests) pays its IPPs. Plus the NPC uses only half the electricity it buys, at a cost of $1.1 billion a year. That's an annual loss of some $550 million."

Napocor Would Have Been Profitable

The *AsiaWeek* article also reported: "Last year [1998] the company . . . lost $90 million on revenues of $2.45 billion, mainly due to having to buy IPP power. For this year's red ink, it has to borrow $170 million from the government."

But if the $550 million payoff to the IPPs is taken into consideration, Napocor actually had a $380 million surplus, rather than a $170 million loss!

Thus, while Napocor is being privatized under the excuse that it is losing money, and would be more efficient and profitable under private, deregulated ownership, the fact is, that Napocor actually would be profitable, were it not for this theft, brought about through the collusion of the same government and private concerns which are now demanding full privatization and deregulation.

But, there is more. Let us look at the $550 million that NPC paid to the IPPs, and for which it actually got electricity in return. As we saw, Napocor paid for this electricity at 6.5¢

per kilowatt-hour, which is 20% more than private company Meralco paid for its electricity from the IPPs. Thus, Napocor overpaid 20% for the $550 million worth of electricity it received, an overcharge of $110 million on that account.

Napocor therefore paid $550 million in overcharge for electricity it did not receive, and $110 million in overcharge for electricity it did receive, a total overcharge of $660 million to the people of the Philippines.

If we return to the above example, in 1999, were it not for the $660 million overcharge, Napocor would have had a $490 million surplus, money that could have gone for new power plants, transmission lines, and improved maintenance. There is more, but the point is established.

8. There is also the question of what to do with the "Stranded Debt Costs," which are placed at approximately $5.4 billion, but could be twice that amount. These are the "unpaid obligations" which Napocor has not recouped by charging higher rates. These costs, fully the result of theft through collusion, are to be gouged from the population, either through taxes, higher energy costs, or, as proposed by Energy Secretary Camacho, through the use of royalties from the huge Malampaya gas fields being developed by Shell and Texaco—i.e., by giving away the nation's patrimony to the thieves, foreign and domestic.

9. Over the years since the 1993 Ramos emergency measures, the cumulative amount of loot that these forces took out of Napocor totalled an estimated $2.5-$4 billion, if not more. Energy deregulation would now come back for more.

In 1993-94, these same international financiers pushed through other coordinated measures to make the Philippines more amenable to their looting: measures that restructured/liberalized the central bank, including the elimination of exchange controls which stood in the way of speculators, and a measure to privatize the water system, which has proven to be a disaster.

They are now planning to increase the damage they have already done.

The Lessons of California and Brazil

10. In California, the same forces have savaged the economy. First, they promised that they would create competition that would lower prices. In 1999, the long-term price that a utility in California paid for electricity was $35 per megawatt-hour (MWh). Companies such as Enron, Reliant Energy, etc. many of them owned by the Bush backers of the Macapagal-Arroyo/Ramos government, bid up the price of electricity on the California Electricity Spot Market, the same spot market they want to set up in the Philippines. They drove up the average price to $510 per MWh, far more than a 1,000% price increase. The electricity retail prices have been increased by 46% so far.

California produces 10.2% of America's manufacturing output, and a huge amount of America's agricultural output, including 100% of its prunes, olives, pistachios, and walnuts; 97% of its grapes; 91% of its broccoli; 90% of its processed tomatoes; 77% of its lettuce; 66% of its carrots; and so forth. Both its manufacturing and its irrigated agriculture are highly energy intensive, and the energy thieves' manipulated price hikes are hitting them very hard.

The Philippines' "Power Reform Bill" replicates all the key destructive features of what was done in California.

11. The global nature of the energy crisis is evident everywhere. One dramatic example is Brazil, where the government has imposed draconian energy rationing, with penalties on those who fail to comply. The crisis is blamed on a severe drought, but the drought would have been a manageable problem if the country's energy potential had not been sabotaged by a process that included the following: privatization of distribution lines, leading to a delivery system inadequate to move available hydroelectric energy to the cities; the role of the World Wildlife Fund and other radical environmentalist bodies in stopping the development of the hydroelectric potential in the Amazon region; and IMF conditions on the budget, which prevented investment by either the central government or the states in producing new power facilities.

Overturning Deregulation

12. The obvious failure of the privatization and deregulation policies in the United States and around the world have brought the ideas of Lyndon LaRouche to the forefront. In states across the United States, legislators are introducing bills to stop energy deregulation, or to re-regulate where deregulation has already been passed. California Gov. Gray Davis (D) is now demanding not only that the price gouging be stopped, but also that the Texas-based companies responsible for the theft be criminally prosecuted. With the Senate now being run by a Democratic majority, the issue of overturning the Bush "free market" energy lunacy will move to the top of the agenda.

In the city of Düsseldorf, Germany, a referendum was placed on the ballot to stop a deregulation plan passed by the corrupt local government, and the referendum passed by a 90% majority. In Mexico, efforts to deregulate are being countered by friends from across the border, warning them of the realities of deregulation as demonstrated in California. Similar moves are afoot around the world.

13. This international movement provides the necessary opening to fight the forces that are destroying the Philippines economy, and the world economy. By placing the issue of the General Welfare of the population, as spelled out in the U.S. Constitution, above that of the "shareholder value" of a select financial oligarchy, LaRouche has initiated an international alliance of forces committed to putting the world financial system through bankruptcy proceedings, and creating a New Bretton Woods financial-monetary system. The pivot of this policy is the "Great Projects" approach to the development of the vast Eurasian continent, through rail-centered development corridors connecting Europe and Asia. This, and not subservience to international pirates, can provide a future for the Philippines in keeping with the aspirations of its citizens.