

FORUM □ Economic Planning Sec. Gerardo P. Sicut

Steeling the economy from outside threats

QUESTION. Sir, I understand it is feasible now to use alcohol as motor fuel since the price of gasoline is higher than the price of alcohol. So we can now convert sugar into alcohol and from alcohol to motor fuel. We are just curious who will do the conversion? Is it going to be a joint venture between the two sectors or purely a government enterprise?

SEC. SICUT. Well the principle still has to be studied. We are currently working on this. But let me tell you that some countries have been doing this for some time now. In fact, the President has instructed that we look into the program and undertake in Brazil, and we are studying the Brazilian law on this. Countries like India have been using alcohol for fuel for some time and I think Australia is also known to have undertaken it.

Our estimates seem to indicate that on a 15-percent to 20-percent mix, it could lead to import substitution in the order of about US\$30 million, but this is a very rough estimate.

Does this mean savings?

Savings, in terms of imports—\$25 to \$30 million. It strikes me to be a modest figure at this point. But we are not sure. But going back to your question, I think that the undertaking will probably be a private venture because we have enough incentives available in our own investment law. We have the Board of Investments, and then we have the Energy Development Board that has some primacy over energy policy matters. We are, however, still working on this program which, as you will note, is linked with the sugar industry program over which the President has authorized the National Economic and Development Authority (NEDA) to undertake a very thorough overall study.

How long will this project or this study on conversion take? What is the lifespan before we can come out with the first implementing law?

First, we have to learn the techniques. We have to mobilize what is available. The private sector and the government will work together on this. Secondly, we are still debating the issue on whether we need to set up an alcohol agency patterned after the Brazilian model or work on it through a special program, utilizing the existing government machinery which will be involved in it to some extent. Thirdly, of course the sugar industry which is the primary source of the raw material.

So, considering all these, Mr. Secretary, how soon can we implement this plan?

We hope to begin implementing whatever is in this program before the end of this year. I mean, we ought to be pinpointing responsibilities as well as identifying segments in the private sector.

I understand that most of the companies which will be tapped in this project are the distilleries.

Yes, they are involved. They have been converting sugar into alcohol. It is only a matter of really working on what we have now and then seeing to it that this is synchronized with the fuel industry or those that have the regulatory capacity over the use of fuel.

Incidentally I think we have been burning alcohol for fuel for long, long ago. We are just returning to something that we have already done.

Has this method been proven profitable in Brazil?

In the case of Brazil it seems to have been a successful case. At least we have heard the minister who was here, Minister Weh, who had informed us more or less about what the Brazilians have done. Alcohol surely has a much bigger potential than petroleum from some standpoint, because it is reproducible, while petroleum is exhaustible and not replaceable. It takes millions

of years to make petroleum, and at the rate the world is consuming resources, we don't have these millions of years to wait.

How will we deal with higher oil prices?

SINCE we are also on the topic of fuel, certainly we will have to cover also in our talks the OPEC price increase to be effective January next year. Somebody here said that in the "Business Prospects" meeting, you said that you personally do not believe that OPEC will raise prices by December or January. Do you think there should be a revision of this view?

Well, you know, I expressed the view there largely to downplay the hysterical commentary that is going around. Because one can be hysterical and lose track of the fact that there are many ways with which we can adjust to the situation. I also emphasized in that meeting that I believe that despite what is said in the world press about increases of 10 percent, 25 percent and so on, there are members of OPEC that really do not want a high price increase. I do believe that there is and I did believe then that there will be some price increase, but I think that it is only because of the high price of oil that increases should not be emphasized in this type of discussion, when everything is speculative.

I am sure that the increase is of a much lower magnitude. I have expressed several factors working toward a lower rate of price increase. Number one, it seems that if I am correct in my assessment, there have been cases when the so-called prices at which they were selling, by agreement have not been really fully followed. In other words, there were some efforts at making larger sales through lower prices by some of the partners. As a cartel, they have to discipline themselves. Discipline is very important and too high a price will tempt discipline to break down.

Secondly, I think that some of the countries exporting oil are probably not determined to raise the price too high because they know that the consequence on the world economy can be bad. I think they will not underestimate the impact of price increases on world prosperity as well as on countries dependent on technology and industry. And a third point, which I think is also something they are concerned about, is the impact on the poorer countries—the ones without oil resources and the ones whose balance of payments are really suffering. I think the OPEC countries are also compassionate in relation to the effects on their fellow members in the OPEC—I mean those belonging to the Third World. They are the richest among the Third World countries. They know that what they do severely affects their friends in the Third World and I think that they are learning the responsibilities attached to all of these. So I am not as pessimistic as the others.

What about the effects on us? We have a target growth rate of six to seven percent every year. Shall we hold on to this target for 1977?

I think that the growth rate depends not only on the price of fuel. You know, it depends also on the prospects for world trade and in our internal efforts. Therefore, I think that we can still maintain our growth rate.

If it is going to be a severe price increase, we might slow down by one percent of the actual rate of growth. So, if we were aiming at 7 percent, we could probably hit 6 percent or even 5 percent if worse comes to worst. But despite the problems we are having about terms of trade difficulties as evidenced by the fall of the sugar price and the unlikely recovery of copper and our other exports, I think we can maintain a reasonable growth.



We don't have millions of years to wait.

Earlier, you were saying about adjustments to an increase in the OPEC prices. Are you referring to the import or export margin—meaning the terms of trade? Specifically, if there is a severe increase in the prices of OPEC, does it mean that we will have more restraints on imports although we are trying to expand exports at the same time?

Yes, well, you know, if our exports are not able to earn as much, obviously our imports will have to adjust. Of course, we manage to import more because some of our imports are really in the areas of machinery and raw materials and the payments for these are over long-term periods. They are not instantaneous. So, part of our imbalance is due to the fact that we are just creating more productive efforts and we are paying for this through longer-term repayments in the future.

How much do you think will the imports of raw materials and machinery be allowed to grow in case of a severe or, say, a 10 percent increase in the OPEC price?

Well, we will have to really work along the following lines. It depends on the availability of long-term development credits and that thing, I believe, is not going to be reduced. In fact, based on our internal domestic efforts, there is evidence that we can continue relying on credit as a major source of expansion of our economic development efforts. Well, if that is going to move toward that direction, then we can use this independently of short-run problems.

However, if this thing is going to persist, I mean, if it is going to affect our exports severely and if the world economic conditions are going to be as severe as they were about two years ago, it could hurt us.

I cannot, therefore, give you the exact numbers on which we would allow imports of machinery. It will depend on the complex of forces operating together and what results they will yield.

To protect us against too much imports, or to discourage unnecessary imports, or to even trim down import growth, is the government thinking of letting go its support of the peso in the foreign exchange market?

I did not understand your question. In other words, will we at this time allow a free float of the peso?

This is too delicate an issue to discuss over a press briefing. Our peso is essentially a strong currency, and it has been strong for several years. I don't see any reason why it should be the subject of speculative discussions.

What about the pooling of import purchases by the private sector? Could that pooling be a mechanism for these projects of the government being officially declared or made known?

In the case of public development projects, the importations are more or less pooled. Now, in the case of the private sector, it is a simple machinery, but there is the danger of creating too great an authority over it, so that it might lead to some problems. So, I am not so sure that it should be completely pooled. In some cases, for instance, we are buying buses and so on. I think we can really get good bargains if the buses are pro-



cured altogether rather than singly.

What we used to do is to allow everyone to just do so. So the mechanism would be through existing agencies that we have—in the Transport Authority or the Metro Manila Transit. We are thinking that the best place to do it is really in the public utility sector which affects directly the general public. Let us not go into those individual projects that are being set up by private industry because they have all the right to look for all the channels where they find it best, because one of the problems is that technology is involved, and technology is something that is not so easily lumped together with others. It has to be done on a company-by-company basis.

I just want to ask a follow-up question on this oil price increase. I understand that the government, at least now, has a general expectation on how much the rate of increase would be; and, on the basis of this, you have made certain projections on how the economy will work. Can you tell us the expectation?

What we have been doing really—and I don't have the numbers here—is that every now and then we do some exercises on input-output table basis. If the price of a particular item were to be raised by 10 percent, what is the impact on all the other sectors?

Can we talk of specifically the 10 percent impact?

We have been doing this for some time. In general, an analysis of this impact shows that they don't escalate as the general public tend to think. You know the reason why I don't want to release these technical studies is because they become the basis of speculative discussion. Maybe, in two weeks' time, I might.

Granting a 10-percent increase in the price of oil, what is the target for the increase in the consumer prices next year? This year, I think it is seven or eight percent.

We don't expect that price increase would be severe anymore. Last year the price increase had been, I think, within the 7 percent level. In fact, it was 5 percent—between 5 and 7 percent. If there is a price increase of oil, obviously there will be an effect on all the others. But do you know what contributed to the excessive price increases we had in 1973? The inflation psychology, plus the great boom in our export price. That was a good effect—the boom in export prices—but when you see it in terms of indices and then in terms of total effects on the price levels locally, you get scared also. But, as I said one time to you, we ought to analyze much better these price indices. Sometimes they are good for us, although the price is rising.

The future of gold

CAN we turn to gold now? About the Gold Subsidy Program, I understand there are opposing views between Secretary Paterno and Secretary Virata on how much subsidy should be extended to the gold industry. I understand Secretary Paterno was battling for at least an amount that would help the industry break even; but the position of Secretary Virata is that there should not be any subsidy at all to the gold industry for the reason that gold is now

just an ordinary export commodity.

If a subsidy will be extended to the industry, then subsidies to, say, sugar where the government made a lot of money in 1974, should also be given and to the other industries as well.

Actually, we were discussing this in the Monetary Board and to some extent in a subcommittee of the NEDA. Because of the monetary character of gold until lately, we were talking about the desirability or undesirability of granting subsidy.

The future of gold seems to be a big question mark because of the demonetization of gold by the IMF. They are going to sell their gold holdings and so on. On the other hand, there is the feeling that gold is still a prime commodity with monetary potentials, despite the deploration going on, plus the fact that it is a speculative commodity which can have price changes that are as volatile as any. And if we have holdings of gold, we could make use of the recovery of subsidies that were paid today for the future because of this. So, what we ended up talking about was really whether we would guarantee to the gold producers something in the amount of 130 million US dollars—something like that, not exactly—or, let us say, 110 million US dollars. We were reviewing the cost of production of most of the major gold producers.

Incidentally, when I said one time "secondary gold producers," I did not mean "marginal." Somebody picked it up and thought that it was marginal. Secondary gold producers mean they produce other things besides. They have to produce copper to begin with. Primary gold producers are those producing essentially only gold. So they try to mine the gold veins and so on and they try to extract them.

What policy do we expect from government on gold subsidy?

Well, let me say that the question of subsidy is still under serious consideration. It is the level of the amount. And as I pointed out in a previous meeting, we would not want to take care of overhead costs. And if companies are paying too high a price for their executives, they ought to weed them out. I mean, our concern is to maintain employment in these mines, and companies that are having difficulties on cost squeezes because of factors within and outside their control ought to be able to adjust. I have a feeling that much of the so-called overhead of companies can be reduced. They have luxurious offices in some places and they have fat salaries for some executives. They ought to be trimmed down. And perhaps, fat bonuses for some stockholders in spite of problems. But our concern is to take care of the variable costs. This is the cost that takes care of employees and laborers who would be either employed or not.

Taxation and fuel

Will taxation be tied up again on the possible increase in oil prices?

Well, along this line, reviewing the tax component of oil products, and considering the President's own injunction against luxurious consumption, I mean, unnecessary consumption of oil, we believe that one of the thoughts we are looking into is whether the taxes on these products are high enough to contain this luxurious consumption. If people get used to a particular type of price and then they resume old habits, there may be justification for additional increase on this, provided that there will be enough safeguards to see to it that public utilities have a sustained utilization at a good concession in terms of taxes. Well, I mean there may be—I am just speculating.

Surely in the public utilities field, in other words.

No, in general, for consumption purposes—more especially for private motor vehicles.

Sir, are you implying that those for industrial uses will be maintained?

Well, you know, we have always

kept a system whereby industrial uses have gotten lower taxes for industrial fuel and so on. Cooking fuel also. But the President has been worried about the traffic jams we have and so on and the waste of our vehicles. Of course, part of this is related to our inadequate infrastructure. But you improve the road and the traffic enlarges rather than decreases.

Because the number of vehicles keeps on growing.

Yes. They are growing.

Another point is that these roads cost a lot to construct and if gasoline is consumed that way, there must be a justification for building more of this infrastructure through additional taxes of gasoline products. Well, anyway, I am hinting to you the possibility. We are studying this, in short.

In other words, we are joining the practice of other countries in forcing a decline in the consumption of gasoline by raising prices. We have to do that actually. Early this year, I remember the President said that our target is a 10 percent decline in consumption of oil products. As of September, I think the PNOC said that we only hit 4 percent.

We created a cabinet committee to implement the writing of a five-year plan, ten-year plan and the perspective plan. We have been meeting. Our technical committees are working. We expect that all these things will be finished by early February. By March or April, we hope that the President will be able to approve the plan or at least act on our recommendations so that the plan can be made effective for 1978 to 1982 for the five-year plan and another one up to 1987. This committee is under the chairmanship of the NEDA but it involves the total government machinery.

What are the highlights of this development plan?

Well, it deals with the total national and economic development plans and it involves the total machinery of the government, I mean, all those implementing divisions as well as all the agencies tied up with the NEDA.

How does it comply with the required emphasis on export orientation rather than imports?

It will be a combination, because our economy is built up from within, and there is a lot of potentials for exports. So, in the case of tax measures, we aim to really raise the revenue to 16 GNP ratio of about 15 percent or another 16 percent in a few years. The purpose is not to tax existing income, but to be able to see to it that we capture additional income flowing to the economy in support of basic premises related to

basic cleanliness, maintenance of governmental operation and employment, too. And when people begin to see this, they will be more surprised when they take a look at the countryside with new roads being improved. Have any of you gone to Baguio? The road is very beautiful. And the road going up north.

These are things that are not known because we see only what is immediately before us. But actually, a lot of improvements are going on all around the country, continuously without letup.

On housing and export

Would it be correct to say that the government is going on without imposing new taxes and not on existing income?

New sources of taxation may be a better way of looking at it, including those that would discourage affluent consumption.

So you will tax consumption?

Oh, yes.

Not income.

Well, they are both in some cases.

Let me point out to you one of the problems we are facing, the housing program. We have scanned around and taken a look at all the possibilities and it seems to us that there is reason to suggest some sort of a payroll tax to be paid by employers to support the total housing program. We have heard that the private sector is more worried about General Order No. 47-type order, which would require them to provide housing when they grow large. But the government is devising a system of expanding the housing program. We don't know how much it is—1 percent, 1-1/2 percent of payroll by the employer.

Possibly it could be a general tax; it could be a special type of providential arrangement, in addition to existing resources. We are studying this. And we believe that this could raise resources for low-cost housing of a substantial character. And currently the National Housing Authority is really working on programs of mass housing in Metropolitan Manila based on what might be called housing estate concept.

That is the high-rise type of housing.

We don't want to talk of high-rise, but we believe that because the price of land has been so expensive in Manila and because of our system of patch ownership of property, it would be essential to maximize the use of land in the areas where we have government consolidated landholdings which are still available. In the meantime, this will give us time. If we work on this concept it will give us time, while working on the consolidation of other land areas.

We believe that some of these hous-

ing projects should be in places where people are around, not in places where people are not around, because they create demand for additional fuel consumption, transport, dislocation of families, dislocation in the rearing of children, family problems and so on.

Do you mean land consolidation in areas where there is already population?

Yes. Sir, I understand that the level of domestic savings which must be increased through measures like taxation will not be enough to propel the industrialization of the economy and so the government is looking at more foreign investments and more foreign borrowings to finance this.

Well, I have said this in many instances, because you know if we are to attain the targets of growth that we have set for ourselves, our capability has to be assisted. That is why we have a program of preparing more projects for presentation so that we can borrow from the World Bank and from the Asian Development Bank, and so that we can package projects from bilateral sources, like Japan, United States and Australia.

For instance, negotiations have been made so that we can improve and build roads and highways. As I understand it, we will get a \$95-million loan from the World Bank which is \$10 million more than what we had originally thought would be needed. This could mean a larger coverage of the road program.

Is this nationwide?

Yes. For the improvement of various roads.

Will there be new policies regarding foreign investments and liberalization of foreign loans?

Our policies are there and we are expanding the facilities for attracting foreign investments. We are also studying the creation of an Export Processing Zone in the Visayas situated in the Mactan Island where we have a huge airport. We are studying this. It will be basic to the export-labor intensive type activity. Cebu is best located for this.

Besides, they have power, I think.

Yes. The virtue of this proposed project is that it is in a place where a huge concentration of skilled manpower is located. Secondly, it is located in a secondary city that could be a counter-pull, away from Metro Manila. And there is sophisticated infrastructure, the most sophisticated in the Visayas. The airport is very sophisticated and large; it can carry additional expansion, and export-oriented activities based on light manufacturing industries could be best located there. Water is a problem there but I don't think it is going to be too great of a problem. □



With escalating prices of real estate in Manila, use of land is being maximized.