

Natural Wealth Appropriation and Misuse The Malampaya Case

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The Malampaya Project



- Philippines' only natural gas offshore project
- Natural gas fed to power generators produce max capacity of 3,000 MW, supplying over half of Luzon, the country's largest region

The Malampaya Project



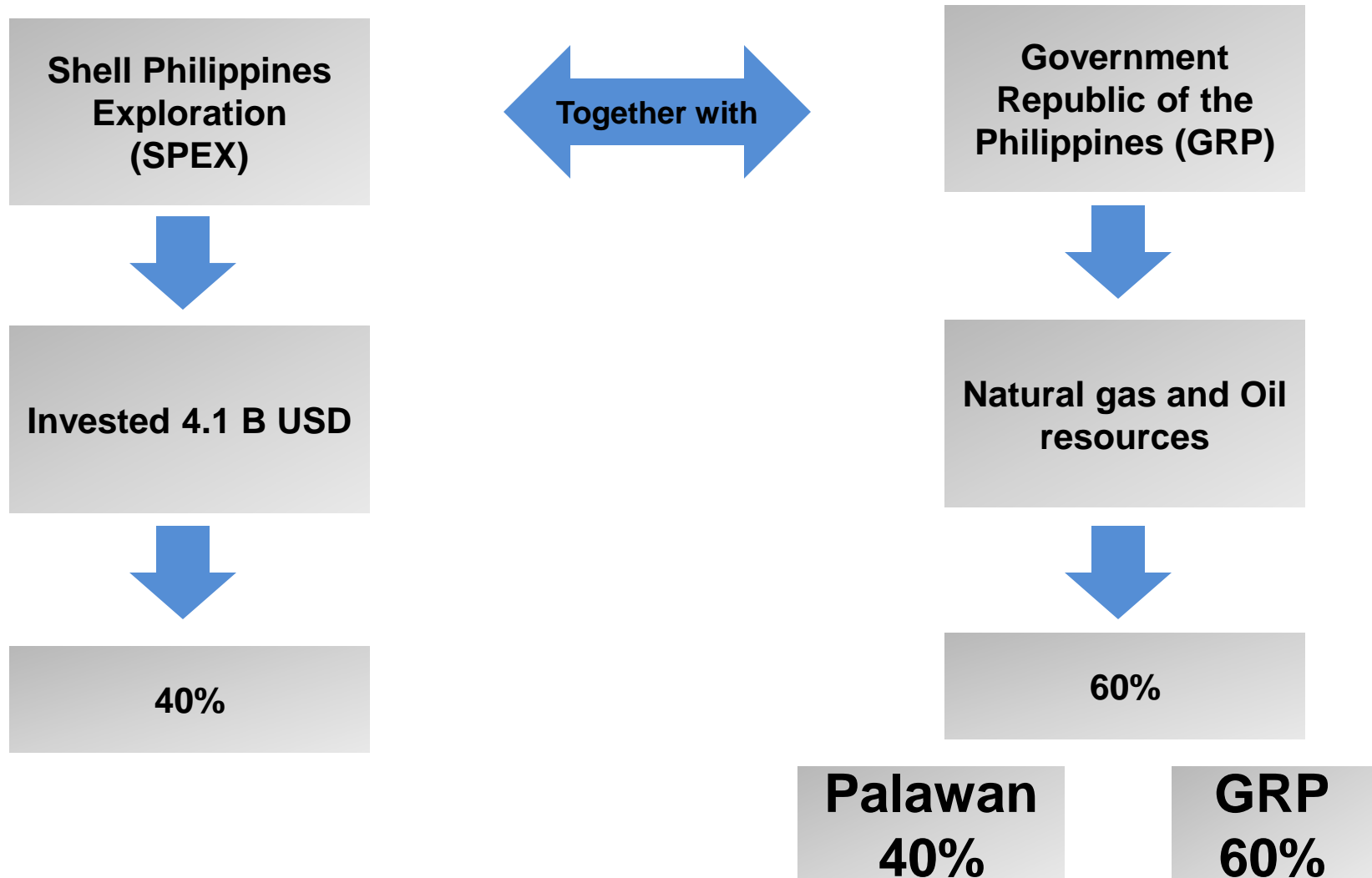
Malampaya Natural Gas Platform

- Operated as Service Contract 38, led by Shell, Chevron, Philippine National Oil Company (PNOC)
- Yields over P12 billion annually in royalty shares for the national government (In 2012 and 2013, royalty shares reached \$1B or P40B annually)

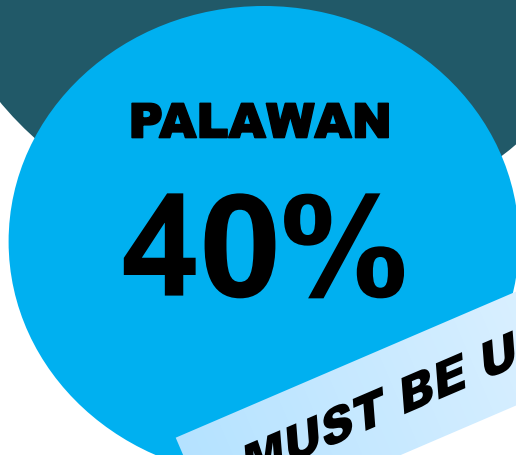
Legal Framework on Natural Wealth Sharing

- Local Government Code of the Philippines provides 60-40 sharing on royalty between National Government (NG) and Local Government Units (LGU)
- the National Government denies Palawan's share (Camago natural gas field located 80 kilometers offshore Palawan)
- Supreme Court still to rule on territorial jurisdiction issue

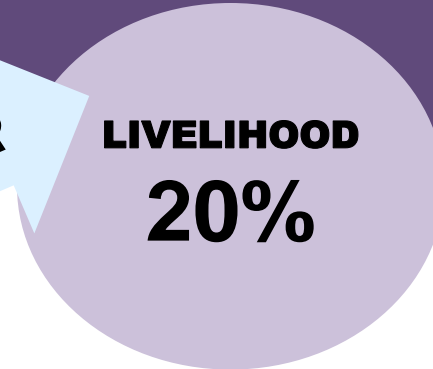
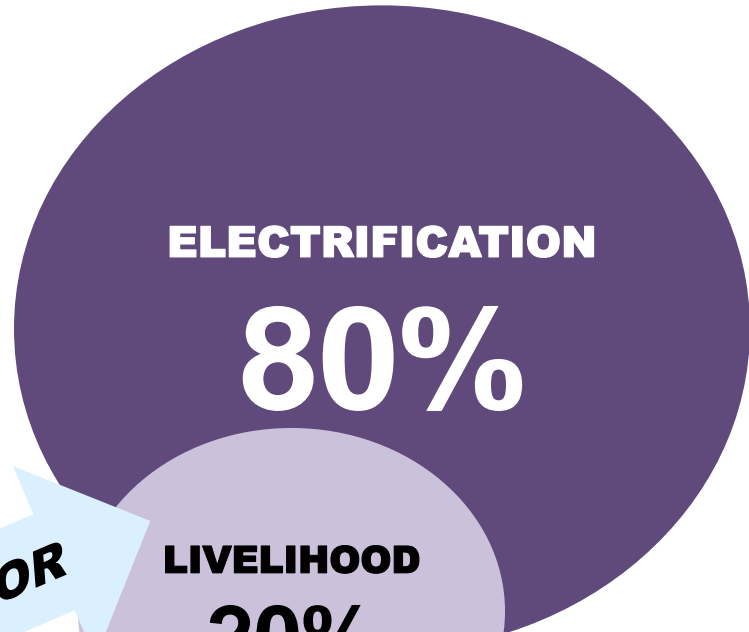
SERVICE CONTRACT NO. 38



R.A. 7160: LOCAL GOVERNMENT CODE



MUST BE UTILIZED FOR



Sharing Agreement

- Interim sharing scheme between NG and LGU not subjected to public scrutiny and transparency
- Initial release of P3.9 billion to Palawan in 2008 (decided by key political leaders)
- Disposition of fund did not follow the general provision of law (80% must be spent in energy-related projects benefitting local populations)
- Royalty fund became huge political pork barrel for powerful politicians

1st Commission on Audit (COA)

Report: P1.782 B (US\$41M)

- 217 infrastructure projects costing **P1.7 Billion** did not comply with bidding procedures under existing laws
- **80 projects** went to **1 contractor**
- For **23 delayed projects**, government did not collect liquidated damages
- Government failed to set aside a total of **P85,678,663.34** retention money
- Construction of an airport was split into **6 contracts**
- For the solar home panel installation, a total of **P5,937,721** remains unaccounted for

2nd COA Report: P 520 M (US\$1.2M)


- **109 projects**, costing **Php 493,025,401.80**, did not comply with bidding procedures under existing laws
- **36 projects** had overlapping contractors
- **8 of 12 engineers** violated government accreditation requirements
- **9 projects** (roads, bridges and highways), costing Php 170,437,978.88, were overpriced by **P5,566,273.32**
- **40 school buildings** were overpriced by **P1,931,947.13**
- **11 delayed roads** and **1 delayed school building** failed to collect the total liquidated damages of **Php1,450,818.55**


Findings of the National Bureau of Investigation (NBI)

- As of September 2009, there were no project documents.
- In almost all road projects, materials introduced were either minimal to zero.

Government Proposal

19  **×** **20M** **=** **380M**
roads

2  **×** **20M** **=** **40M**
bridges

100  **×** **1M** **=** **100M**
classrooms

(Slide credit: Kilusan Love Malampaya)

ACTUAL



₱20,000,000.00

ACTUAL



20,000,000.00

How Malampaya Was Misused

- Political leaders determined projects and manipulated bidding rules to favor certain public works contractors
- Ghost and overpriced projects
- Favoritism of project contractors
- Share spent by national government was unaccounted for

“It is clear from the testimonies especially of Department of Public Works and Highways (DPWH) Secretary Singson during these hearings that there was massive corruption of Malampaya funds.”

*- Sen. Teofisto Guingona III
Chair, Senate Blue Ribbon Committee
January 2013*

“Why most of these funds went to infrastructure projects instead of being used to alleviate the energy problem begs for an honest answer. Is it because this is where kickbacks are made?”

- Bishop Pedro Arigo, testimony during the Senate Blue Ribbon Hearing, January 2013

“It is clear that there are people who are accountable. There was clear misuse of public funds in the Malampaya Project. This is not only about corruption. This is about the gross injustice done to a person who was just seeking to bring out the truth.”

- *Senator Teofisto Guingona III, closing statement during the Senate Blue Ribbon Hearings, January 2013*

Road Project Funded with \$5M from Malampaya



Reclamation Project in N. Palawan (\$12M+-)



Civil Society Policy Advocacy

- Full transparency through effective safety mechanisms
- Special law to de-politicize royalty as “pork barrel”
- Congressional oversight of royalty money
- Prosecution of criminal and administrative cases against officials behind Malampaya corruption

In relation to Climate Finance

Governance concerns

- Clearly established transparency and accountability mechanisms
- Effective mechanisms for Participation of Civil Society groups (selection process, capacity building, role in monitoring and assessments)
- Effective compliance with established policies and rules