

PRESIDENTIAL DECREE NO. 334¹
(As amended by P.D Nos. 405, 572, 927, 1516,
E.O. No. 171, M.O. No. 18 and R.A. No. 7638)

CREATING THE PHILIPPINE NATIONAL OIL COMPANY, DEFINING ITS
POWERS AND FUNCTIONS, PROVIDING FUNDS THEREFOR, AND FOR OTHER
PURPOSES

WHEREAS, in spite of the planned accelerated power development program using indigenous resources and the planned institution of conservation measures, the country will still be highly dependent on oil for a considerable length of time;

WHEREAS, it is imperative for the government to take a more active role in assuring adequate supply of oil by reducing the element of uncertainty on sources of crude oil supply.

WHEREAS, international political development in 1973 which led to an oil situation of crisis proportions have emphasized the need for such government activity; and

WHEREAS, there is a compelling need for the government to embark on measures which will help insure stable supply of petroleum products in order to sustain the growth of the economy and of the social well-being of the nation;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution as Commander-in-Chief of all the Armed Forces of the Philippines and pursuant to Proclamation No. 1081 dated September 21, 1972, as amended, do hereby order and decree, as part of the law of the land, the following:

SECTION 1. Short Title. — This decree shall be known as the "Charter of the Philippine National Oil Company."

SECTION 2. Declaration of Policy². — It is the declared policy of the State to promote industrial and over-all economic development through the effective and efficient utilization of energy sources, including oil and oil-based resources. In line with this policy, the establishment of an organized entity is necessary in order to assure adequate

¹ Presidential Decree No. 334 was enacted and took effect on Nov. 09, 1973; P.D. No. 405 was enacted and took effect on March 4, 1974; P.D. No. 572 was enacted on Nov. 05, 1974, but effectively thereof was made retroactive to Nov. 09, 1973; P.D. No. 927 was enacted and took effect on April 30, 1976; P.D. No. 1516 was enacted and took effect on June 11, 1978; E.O. No. 171 was enacted on May 8, 1987; M.O. 18 was issued on June 19, 1986 and R.A. 7638 was enacted on Dec. 9, 1992.

² As amended by P.D. No. 927.

supply of oil and oil products as well as power and energy to all to all users and consequently enable the unimpeded and efficient growth of the economy.

SECTION 3. Creation, Name, Domicile and Term. — There is hereby created a body corporate to be known as the Philippine National Oil Company, hereinafter referred to as the "Company," which shall undertake and transact the corporate business relative primarily to oil or petroleum operations and other energy resources exploitation as defined hereunder, and for that purpose, the Company shall have capacity to sue and be sued.

"Oil or Petroleum Operation" shall include actual exploration, production, refining, tankerage and/or shipping, storage, transport, marketing, and related activities concerning oil and petroleum products.

"Energy resources exploitation" shall include exploration, discovery, development, extraction, utilization, refining, processing, transport, and marketing of all forms of energy resources. "Energy resources" means any substance, mineral or otherwise, which by itself or in combination with other substance or after processing or refining or the application to it of technology emanates, gives off, generates or causes, the emanation or generation of heat or power or energy such as, but not limited to, petroleum or oil, coal, marsh gas, methane gas, geothermal sources of heat and power, uranium and other minerals and fossils deposits³.

The principal office of the Company shall be determined by its Board of Directors. It may establish such offices, agencies, subsidiaries, branches or correspondents in the Philippines or abroad as its business operations would require.

The Company shall have a term of fifty (50) years from the issuance hereof, which shall be deemed renewed for an equal period unless sooner dissolved by law.

SECTION 4. Purposes⁴. — The Company shall have the following purposes:

- a) To provide and maintain an adequate and stable supply of oil and petroleum products for the domestic requirement and for that purpose to engage in the transportation, storage, importation, exportation, refining, supply, sale and distribution of crude oil, refined petroleum and petroleum based products, whether imported or produced by local refineries;
- b) To engage in the exploration, exploitation and development of local oil, petroleum and other energy resources;
- c) To foster conditions relating to oil or petroleum operations and other energy resources exploitation conducive to a balanced and sustainable growth of the economy;

³ This paragraph was inserted pursuant to P.D. No. 927.

⁴ This Section was amended by Section 1 of Executive Order No. 171 dated May 08, 1987.

d.) To undertake, by itself or otherwise, exploration, exploitation, and development of all energy resources of the country, including surveys and activities related thereto;

e.) To undertake all other forms of petroleum or oil operations and other energy resources exploitation.

SECTION 5. Powers and Functions of the Company⁵. — The Company shall have the following powers and functions:

a) To undertake, by itself or otherwise, exploration, exploitation and development of all energy resources of the country, including surveys and activities related thereto⁶;

b) To establish, maintain, control and direct in any area within the national territory as it may deem appropriate, a petroleum and energy base territory and construct, install or maintain therein duty-free ports adequate for the use of vessels engaged in offshore oil drilling operations, airports sufficient for direct service flights, telecommunications center and ship-to-shore communications facilities, provide electric power and fresh water supply, and perform such other acts as it may deem necessary and advantageous or convenient to such operations;

c) To lease, at reasonable rates, to private domestic entities or persons such portion or portions of the petroleum and energy base, including facilities necessary for warehousing, logistical centers for the storage of oil drilling and oil well supplies, fabrication of off-shore drilling components and structures, mechanical repair facilities and the like; spaces for the office, habitation and recreational requirements of personnel directly engaged in offshore oil drilling and in manning the various logistical support operations and their immediate dependents;

d) To undertake all other forms of petroleum or oil operations and other energy resources exploitations⁷;

e) To enter into contracts, with or without public bidding, with any person or entity, domestic or foreign, and with governments for the undertaking of the varied aspects of oil or petroleum operation, and energy resources exploitation including the acquisition, by way of purchase, lease or rent or other deferred payment arrangements of equipment and/or raw materials and supplies, as well as for services connected therewith under such terms and conditions as it may deem proper and reasonable;

⁵ As amended by P.D. No. 927.

⁶ This paragraph was transferred as Paragraph d of Sec. 4 pursuant to Executive Order No. 171.

⁷ This paragraph was transferred as Paragraph (e) of Sec. 4 pursuant to Executive Order No. 171

- f) To borrow money from local and foreign sources as may be necessary for its operations;
- g) Any provision of law to the contrary notwithstanding, including but not limited to Section 13 of Act 1459, as amended, to invest its funds as it may deem proper and necessary in any activity related to its purposes, including in any bonds or securities issued and guaranteed by the Government of the Philippines and the Company may organized and incorporate subsidiary corporations for the purpose. The capital stock of the corporations organized and incorporated by the Company may be subscribed in whole or in part by the Company. Where the company has a controlling interest of not less than fifty-one percent (51%) of the issued and outstanding capital stock of such subsidiaries, the securities, including shares of capital stock issued by the subsidiaries and corporations owned and / or controlled by it, as well as the sale of and / or subscription to such securities and shares if capital stock shall be exempt from registration, licensing or other requirements imposed under the Securities Act (C.A. No. 83, amended) any other law, decree, order or regulation.
- h) To purchase, hold, alienate, mortgage, pledge or otherwise dispose of the shares of the capital stock of, or any bond, security of other corporations or associations of this or any other country; and while the owner of said stock, to exercise all the rights of ownership, including the right to vote thereon;
- i) To hold lands and acquire rights over mineral lands in excess of the areas permitted to private corporations, associations and persons by statute;
- j) To engage in export and import business of oil, petroleum other forms and sources of energy and there derivatives, as well as in related activities;
- k) To acquire assets, real or personal, or interests therein, and encumber or otherwise dispose the same as it may deem proper and necessary in the conduct of its business;
- l) Subject to existing regulations, if it deems necessary, to establish and maintain such communication system, whether by radio, telegraph or any other manner, without the need of a separate franchise therefor;
- m) To determine its organizational structure, and the number and salaries of its officers and employees;
- n) To establish and maintain offices, branches, agencies, subsidiaries, correspondents or other units anywhere as may be needed by the Company and reorganize or abolish the same as it may deem proper;

- o) To exercise the right of eminent domain as may be necessary for the purpose for which the Company is created;
- p) Subject to payment of the proper amount, to enter private lands for the purpose of conducting geological or geophysical studies in connection with petroleum, mineral and other energy resources, exploration and exploitation;
- q) To acquire easement over public and private lands necessary for the purpose of carrying out any work essential to its petroleum operations and energy resources exploitation, subject to payment of just compensation;
- r) To establish and maintain technical educational system for the sustained development of the necessary manpower to manage and operate its affairs and business;
- s) To adopt a code of by-laws to complement this charter;
- t) To adopt and use a corporate seal which shall be judicially noticed;
- u) To perform such acts and exercise such functions as may be necessary for the attainment of the purposes and objectives herein specified;
- v) To perform such other functions as may be provided by law.

SECTION 6. Governing Body⁸. — The Company shall be governed by a Board of Directors, hereinafter referred to as the "Board" which shall be composed of nine (9) members, to be appointed by the President of the Philippines. The members of the Board shall serve for a term of three (3) years or until their successors shall have been appointed and qualified. In case of any vacancy in the Board, the same shall be filled by the President of the Philippines for the unexpired term.

No person shall be appointed as member of the Board unless he is a natural born citizen of the Philippines, at least thirty-five (35) years of age and of established integrity.

The Chairman of the Board, who shall be the chief executive officer of the Company as well as the President of the Company⁹, shall be appointed by the President of the Philippines. The other officers of the Company shall be appointed by the Board.

SECTION 7. Capital Stock¹⁰. — The Company shall have a capital stock divided into ten million no-par shares to be subscribed, paid for the voted as follows:

⁸ As amended by P.D. Nos. 405 and 927.

⁹ Under Sec. 6 of R.A. 7638 dated December 9, 1992, the Secretary of the Department of Energy shall be the Ex-Officio Chairman of PNOC, unless otherwise provided by the President. Also under R.A. 7638, the Ex-Officio Chairman shall not serve as Chief executive Officer of PNOC.

¹⁰ As amended by P.D. No. 1516.

a) Two million shares of stock shall be originally subscribed and paid for by the Republic of the Philippines at an original issue value of P50 per share.

b) The remaining eight million shares of stock may be subscribed and paid for by the Republic of the Philippines or by a government financial institutions at values to be determined by the Board, but in no case less than the original issued value above stated to the Republic of the Philippines.

The voting power pertaining to shares of stock subscribed by the government of the Republic of the Philippines shall be vested in the President of the Philippines or in such person or persons as he may designate.

The voting power pertaining to shares of stock subscribed by the government financial institutions shall be vested in them.

SECTION 8. Duties and Responsibilities of the Chairman of the Board and President¹¹. — The Chairman of the Board and the President, shall exercise such powers and perform such duties as may be provided in the By-Laws or as may be vested in them by the Board.

SECTION 9. Issuance of Bonds. — The Company, upon the recommendation of the Secretary of Finance and with the approval of the President, is hereby authorized to issue bonds or other securities, whether tax-exempt or not, which may be guaranteed by the government, to finance its oil or petroleum operation.

SECTION 10. Legal Counsel¹². — The Secretary of Justice or the Solicitor General shall perform the duties of General Counsel of the Company. Any provision of law to the contrary notwithstanding, the Secretary of Justice or the Solicitor General and such personnel as may be necessary to assist him in the performance of his duties and responsibilities shall receive such allowances as shall be fixed by the Board.

SECTION 11. Auditor¹³. — Any provision of law to the contrary notwithstanding, the Commission on Audit shall appoint, subject to the approval of the Board, a representative who shall be the Auditor of the Company and such personnel as may be necessary to assist said representative in the performance of his duties. The salaries of the Auditor and his staff shall be approved by the Board. The Auditors of corporations owned or controlled by the Company who shall be reputable accounting and auditing firms shall be appointed by their respective boards of directors.

¹¹ As amended by P.D. No. 927.

¹² As amended by P.D. No. 1516. Please note however that under M.O. No. 18 dated June 19, 1986 of then Executive Secretary Joker P. Arroyo, Sec. 10 was modified to the extent that the Deputy Executive Secretary, if he is a lawyer shall be the ex-officio legal counsel of PNOOC.

¹³ As amended by P.D. No. 927.

SECTION 12. Appointment, Control and Discipline of Personnel¹⁴ — Any provision of law to the contrary notwithstanding, the "Board", upon recommendation of the President of the Company, shall appoint the officers and employees of the Company and its subsidiaries; fix their compensation, allowances and benefits, their working hours and such other conditions of employment as it may deem proper; grant them leaves of absence under such regulations as it may promulgate, discipline and / or remove them for cause; and establish and maintain a recruitment and merit system for the Company and its affiliates and subsidiaries.

SECTION 13. Loans¹⁵. — The Company as well as any affiliate corporation in which it holds, owns and/or controls by itself or jointly with one or more Government Owned or Controlled Corporations at least seventy-five percent (75%) of the issued and outstanding shares of stocks entitled to vote, when specifically authorized by the President of the Philippines, is hereby authorized to contract loans, credits, in any convertible foreign currency or capital goods, and indebtedness from time to time from foreign governments, or any international financial institutions or fund sources, or any other entities, on such terms and conditions it shall deem appropriate for the accomplishment of its purposes and to enter into and execute agreements and other documents specifying such terms and conditions.

The Republic of the Philippines, through the President of the Philippines, or his duly authorized representative, may guarantee, absolutely and unconditionally, as primary obligor and not as surety merely, the payment of the loans, credits and indebtedness secured by the Company or any of its affiliate corporations, as provided above, which may be over and above the amount which the President of the Philippines is authorized to guarantee under Republic Act Numbered Sixty One Hundred Forty-Two (R.A. 6142), as amended, as well as the performance of all or any of the obligations undertaken by the Company or its affiliate corporations in the territory of the Republic of the Philippines pursuant to loan agreements entered into with foreign governments or any international financial institutions or fund sources.

The loans, credits and indebtedness contracted under this subsection and the payment of the principal, interest and other charges thereon, as well as the importation of machinery, equipment, materials, supplies and services, by the Company or any of its affiliates corporation as defined herein, paid from the proceeds of any loan, credit or indebtedness incurred under this Act, shall also be exempt from all direct and indirect, taxes, duties, fees, imposts, and all other charges and restrictions, including import restrictions previously and presently imposed, and to be imposed by the Republic of the Philippines, or any of its agencies and political subdivisions.

SECTION 14. Government Financial Institutions Guarantees. — The provision of any law to the contrary notwithstanding, any financial institution owned or controlled, other than the Central Bank, Government Service and Insurance System and the Social Security System, is hereby empowered to guarantee acceptance credits, loans,

¹⁴ As amended by P.D. No. 927.

¹⁵ As amended by P.D. No. 572

transactions, undertakings, or obligations of any kind which may be incurred by the Company, whether directly or indirectly, in favor of any person, association or entity, whether domestic or foreign.

SECTION 15. Privileges and Incentives¹⁶. — The Company shall be entitled to all the incentives and privileges granted by law to private enterprises engaged in petroleum or oil operations.

In addition, the Company shall be exempt from all taxes, duties, fees, imposts, and all other charges imposed directly by the Republic of the Philippines, its provinces, cities, municipalities and other government agencies and instrumentalities; Provided, that the Company's affiliates corporations as provided in Section 13 hereof, as amended, shall be exempt only from all taxes, duties, fees, imposts and all other charges imposed directly or indirectly by the Republic of the Philippines, its provinces, cities, municipalities of aircraft, vessels, tankers, barges and other floating structures, including any machinery, engines, motors, equipment, spare parts and material thereof.

Other government offices and other government-owned-or-controlled corporations shall extend whatever assistance may be needed by the Company or any of its affiliates or subsidiaries, including the detail of its officials and employees to the Company or any of its subsidiaries on full time or part-time basis under arrangement satisfactory to the Company and its affiliates and subsidiaries and the other office or corporation concerned. Said officials and employees, as well as the directors of the Company and its affiliates and subsidiaries, may receive allowances and other emoluments notwithstanding the provision of any law to the contrary¹⁷.

The employees of the Company shall be entitled to all the retirement and insurance benefits and leave privileges of government employee. However, subsidiaries of the Company, organized to undertake purely business ventures shall not, as a matter of right, be subject to the provisions of the Government Service and Insurance System, as provided for under R.A. 186, as amended, as well as to any law, executive orders and decrees relating to leave of absences, retirement privileges, regular working hours, and other government employee benefits¹⁸.

SECTION 16. Appropriations. — For the initial funding requirements of the Company, the sum of Two Hundred Million Pesos is hereby set aside and appropriated from the General Funds, not otherwise appropriated.

SECTION 17. Reports. — The Company shall, within three months after the end of every fiscal year, submit its annual report to the President. It shall likewise submit such periodic or other reports as may be required of it from time to time.

¹⁶ The second paragraph of this Section pertaining to the tax-exemption privileges of PNOC and its subsidiaries was repealed by P.D. No. 1931 of President Marcos and E.O. No. 93 of President Aquino.

¹⁷ This paragraph was inserted pursuant to P.D. No. 572.

¹⁸ This paragraph was inserted pursuant to P.D. No. 405.

SECTION 18. Separability Clause. — Should any provision of this Decree be held unconstitutional, no other provision hereof shall be affected from time to time.

SECTION 19. Repealing Clause. — All laws, decrees, executive orders, administrative orders, rules or regulations inconsistent herewith are hereby repealed, amended or modified accordingly.

SECTION 20. Effectivity. — This Decree shall take effect immediately.

Done in the City of Manila, this 9th day of November, in the year of Our Lord, nineteen hundred and seventy-three.