

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS

First Regular Session

HOUSE BILL NO. 3685



Introduced by **Honorable ANIELA BIANCA D. TOLENTINO**

EXPLANATORY NOTE

The proposed bill herein was filed in the 19th Congress but was not passed into law. This representation firmly believes that the entire country must work together to have legislation and mechanisms that will ensure that the Philippines will control and lessen its carbon emissions, which is seen as the main cause of climate change. Climate change has already caused a lot of damage to lives of Filipinos. AS such, there is a need for legislation that will promote sustainable development and environmental stewardship through the establishment of a low-carbon economy.

It has been reported that the Philippines share in carbon emissions in 2022 is at .4%. The Philippines has committed to lessen this number and the passage of a low carbon economy law will enable the country to fulfill its promise of helping the world fight climate change. The efforts to curb climate change will ultimately redound to the benefit of Filipinos. Climate change has caused extreme weather conditions that has destroyed infrastructure and livelihood of millions of Filipinos. A low carbon economy law will encourage and ensure that businesses will exert conscientious effort in minimizing its carbon emissions.

With a low carbon economy law, the Philippines will be able to achieve its national climate targets by thru a comprehensive carbon emission pricing framework and implementing mechanisms that drive greenhouse gas emissions reduction, enhance climate resilience, and foster sustainable economic growth. The proposed law herein will also promote investments and adoption of low-carbon technologies, renewable energy sources, and energy-efficient practices across all sectors of the economy.

In the implementation of this proposed law there will be an integrated climate change adaptation and mitigation measures into national and local development plans and programs. The proposed law will also establish robust compliance mechanisms and incentives to encourage private sector participation in decarbonization efforts

The Constitution mandates that "*The State shall protect and advance the right of the people to a balanced and healthful ecology in accord with the rhythm and harmony of nature*" [Section 16, Article II, 1987 Constitution]. It is imperative that legislation to affirm this requirement from our fundamental law be passed for avoid further damage that may be caused by climate change.

For the Filipino people, approval of this bill is earnestly being sought.

A handwritten signature in black ink, consisting of a large, stylized 'O' followed by a series of loops and a final upward stroke.

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS

First Regular Session

HOUSE BILL NO. 3685

Introduced by **Honorable ANIELA BIANCA D. TOLENTINO**

**AN ACT PROMOTING INVESTMENTS IN LOW CARBON ECONOMY,
ESTABLISHING FOR THIS PURPOSE A CARBON EMISSION PRICING
FRAMEWORK AND IMPLEMENTATION MECHANISM TO ACHIEVE LOW
CARBON AND CLIMATE-RESILIENT ECONOMIC DEVELOPMENT**

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

ARTICLE 1
General Provisions

SECTION 1. *Short Title.* – This Act shall be known as the “Low Carbon Economy Investment Act.”

SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the State to promote sustainable development and environmental stewardship through the establishment of a low-carbon economy. This Act aims to achieve the country's national climate targets by instituting a comprehensive carbon emission pricing framework and implementing mechanisms that drive greenhouse gas (GHG) emissions reduction, enhance climate resilience, and foster sustainable economic growth.

In pursuit of these goals, the State shall:

(a) Institutionalize systems and methodologies for accurate and transparent GHG inventory management and reporting at all levels;

(b) Develop and enforce sectoral decarbonization pathways and emission reduction targets in alignment with international climate agreements, particularly the Paris Agreement;

(c) Provide financial, technological, and capacity-building support to ensure the effective implementation of national climate action plans;

(d) Promote investments and adoption of low-carbon technologies, renewable energy sources, and energy-efficient practices across all sectors of the economy;

(e) Integrate climate change adaptation and mitigation measures into national and local development plans and programs;

(f) Establish robust compliance mechanisms and incentives to encourage private sector participation in decarbonization efforts; and

(g) Facilitate access to international climate finance and carbon markets to support the country's transition to a low-carbon economy.

By adhering to these principles, the State commits to fostering a resilient, inclusive, and sustainable future for all Filipinos.

SEC. 3. *Definition of Terms.* – As used in this Act:

(a) *Carbon emission pricing framework* refers to a system for setting a price on carbon emissions to incentivize reductions in GHG emissions through market-based mechanisms such as carbon taxes, emissions trading systems, and carbon offset mechanisms;

(b) *Carbon offset* refers to reduction in GHG emissions or an increase in carbon storage, *e.g.*, through reforestation, that is used to compensate for emissions occurring elsewhere, typically measured in metric tonnes of carbon dioxide equivalent (CO₂e);

(c) *Covered enterprises* refer to large and medium-sized enterprises whose emissions exceed a specific threshold set by the Climate Change Commission (CCC). These enterprises are required to prepare and implement decarbonization plans in accordance with this Act;

(d) *Decarbonization fund* refers to a fund established by covered enterprises to allocate financial resources for emissions reduction activities, including investments in low-carbon technologies and carbon offset projects;

(e) *Decarbonization pathway* refers to a strategic plan outlining specific, measurable, and time-bound targets and actions for reducing GHG emissions. This pathway includes emissions baselines, reduction strategies, and investment roadmaps aligned with national and sectoral decarbonization targets;

(f) *Emission reduction targets* refer to specific goals for reducing GHG emissions, stated as percentage reductions from a baseline year, aimed at achieving national climate targets in line with international agreements such as the Paris Agreement;

- (g) *Emissions allowance* refers to the permitted level of GHG emissions allocated to a covered enterprise for a specific period, as determined by the CCC;
- (h) *Greenhouse gas emissions* refer to emissions of gases that contribute to the greenhouse effect by absorbing infrared radiation, including carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF₆);
- (i) *Internationally Transferred Mitigation Outcomes (ITMOs)* refer to mitigation outcomes that are transferred between countries under Article 6 of the Paris Agreement, used to achieve nationally determined contributions and other international climate commitments;
- (j) *Mitigation* refers to actions taken to reduce or prevent the emission of GHG, including strategies to enhance energy efficiency, transition to renewable energy sources, and improve waste management practices;
- (k) *Nationally Determined Contribution (NDC)* refers to the Philippines' long-term roadmap for GHG mitigation and climate resilience, outlining commitments to reducing emissions and adapting to climate impacts as part of the global effort to limit temperature rise under the Paris Agreement;
- (l) *Paris Agreement* refers to an international treaty under the United Nations Framework Convention on Climate Change aimed at limiting global warming to well below two degrees Celsius (2°C) above pre-industrial levels, with efforts to limit it to one point five degrees Celsius (1.5°C); and
- (m) *Third-party verifier* refers to an independent entity accredited by the CCC to assess and verify the accuracy and reliability of GHG emissions data and the compliance of covered enterprises with the provisions of this Act.

ARTICLE 2

NATIONAL GHG EMISSIONS INVENTORY

SEC. 4. *Institutionalization of the Philippine Greenhouse Gas Inventory System (PGHGIS).* – The PGHGIS is hereby institutionalized to systematically manage and report GHG inventories across multiple levels, including national, community, entity, facility, and project levels. This system is designed to enable the Philippines to transition towards a climate-resilient pathway, promoting the avoidance, reduction, and removal of emissions for sustainable development.

SEC. 5. *Lead Implementing Agency.* – The CCC shall serve as the lead agency for the implementation of the PGHGIS. The CCC shall be responsible for the following:

- (a) **Direction and Guidance** – Provide overarching direction and guidance in the accounting and reporting of GHG emissions from identified key source sectors.

This includes the development and maintenance of centralized, comprehensive, and integrated data on GHGs at all inventory levels, particularly at the community and entity levels;

- (b) System and Methodology Development – Continuously develop and update the system and methodology for the archiving, reporting, registering, monitoring, and evaluating of GHG inventories. This ensures that the methodologies used are up-to-date and in line with international best practices;
- (c) Capacity-Building – Facilitate continuous capacity-building initiatives in the conduct of GHG inventories to ensure the application of the latest methodologies. This includes providing training and support, with assistance from relevant agencies such as the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA); and
- (d) Strategic Measures – Formulate strategic measures in collaboration with national government agencies, local government units (LGUs), academe, the private sector, and other relevant sectors to ensure continuous avoidance, reduction, and removal of GHG emissions. This holistic approach ensures that all stakeholders are engaged and contributing to national goals.

SEC. 6. Sectoral Agencies and Other Relevant Agencies. – To ensure the effective implementation of the PGHGIS, the following sectoral agencies shall take the lead in their respective areas, with assistance from the Philippine Statistics Authority (PSA):

- (a) Department of Agriculture (DA) – Responsible for the agriculture sector;
- (b) Department of Energy (DOE) – Responsible for the energy sector;
- (c) Department of Environment and Natural Resources (DENR) – Responsible for the waste, industrial processes, and forestry and other land-use sectors; and
- (d) Department of Transportation (DOTr) – Responsible for the transport sector.

Other agencies such as the Department of Science and Technology (DOST), Department of Health (DOH), Department of Public Works and Highways (DPWH), Department of Tourism (DOT), Department of Trade and Industry (DTI), and the Securities and Exchange Commission (SEC) shall also collaborate to ensure the application of transformative options under the NDC.

SEC. 7. Role of Local Government Units. – LGUs shall integrate climate change adaptation and mitigation measures into their local plans and programs. The following agencies, in coordination with the CCC, shall provide technical and capacity-building support to LGUs for the effective implementation of these measures:

- (a) DENR;
- (b) DTI;
- (c) SEC;
- (d) DOTr;
- (e) DA;

- (f) PSA; and
- (g) DOE.

SEC. 8. *National Integrated Climate Change Database and Information Exchange System (NICCDIES).* – The CCC shall institutionalize the NICCDIES as the primary platform for climate change and resilience information. The responsibilities of the CCC regarding NICCDIES include:

- (a) Issuing Guidelines – Develop and issue guidelines for the improvement, development, and utilization of NICCDIES to ensure it meets national and international standards for climate data management;
- (b) Engagement – Engage various stakeholders including government agencies, academe, and the private sector to contribute data sets to the NICCDIES. This collaborative approach ensures a comprehensive and inclusive database; and
- (c) Feedback Mechanisms – Institute feedback mechanisms to enhance the content, access, and continuous improvement of the NICCDIES. Regular updates and user feedback will ensure the system remains relevant and effective.

By institutionalizing these systems and clearly defining the roles and responsibilities of various agencies and stakeholders, the Philippines aims to create a robust framework for managing and reducing GHG emissions, thereby contributing to global climate goals and ensuring sustainable development for future generations.

ARTICLE 3

NATIONAL CLIMATE CHANGE ACTION PLAN AND MONITORING, REPORTING, AND VERIFICATION SYSTEM

SEC. 9. *Nationally Determined Contribution.* – The NDC shall serve as the Philippines' long-term roadmap for GHG mitigation and climate resilience, outlining the country's commitments to reducing emissions and adapting to climate impacts. The NDC shall include the following components:

- (a) National and Sectoral Decarbonization Pathways and Emission Reduction Targets – Specific goals for reducing GHG emissions, stated as percentage reductions from a baseline year. These targets shall be ambitious yet achievable, reflecting the country's commitment to international climate agreements, including the Paris Agreement. The national decarbonization pathway will provide an overarching strategy for emissions reductions across all sectors, while sectoral pathways will outline specific strategies and targets for key sectors such as energy, transportation, industry, forestry, and agriculture. Each pathway shall include milestones and timelines to ensure progressive emissions reductions, consistent with the objective to limit global temperature rise to below 2°C, with efforts to limit it to 1.5°C above pre-industrial levels;

- (b) **Adaptation Measures** – Strategies and actions to adapt to the impacts of climate change. This includes building resilience to extreme weather events, protecting vulnerable ecosystems, and implementing climate-resilient cities, industrial hubs, agriculture, and other key economic aspects of the country including among others public health, water resources, and infrastructure to ensure comprehensive resilience;
- (c) **Mitigation Actions** – Plans for implementing policies, measures, and projects aimed at reducing GHG emissions across various sectors such as energy, transportation, industry, forestry, and agriculture. Mitigation actions shall include transitioning to renewable energy sources, enhancing energy efficiency, promoting sustainable land use practices, and reducing emissions from waste management; and
- (d) **Finance, Technology Transfer, and Capacity-Building** – Support from developed countries in terms of finance, technology transfer, and capacity-building to effectively implement the NDC. This includes mobilizing international climate finance, fostering public-private partnerships, and leveraging technology for low-carbon development. Capacity-building initiatives shall focus on enhancing the skills and knowledge of stakeholders involved in climate action.

SEC. 10. *Comprehensive Engagement with the Private Sector in NDC.* – The CCC shall actively engage with the private sector and develop comprehensive national and sectoral decarbonization strategies and roadmaps. This includes working closely with relevant government agencies, industry stakeholders, and experts to ensure these strategies align with both national and international climate goals.

The CCC shall integrate the actions and contributions of the private sector into the NDC. This involves incorporating decarbonization pathways provided by covered enterprises and regularly updating the NDC to reflect these contributions accurately.

Additionally, the CCC shall continuously review and update these decarbonization pathways based on data from covered enterprises. This ensures that the strategies remain aligned with international climate commitments and the latest advancements in climate science and technology.

SEC. 11. *Establishment of Monitoring, Reporting, and Verification System.* – The CCC shall establish a comprehensive Monitoring, Reporting, and Verification (MRV) system to track mitigation outcomes and the accomplishments of the NDC. This system shall ensure accurate, transparent, and timely reporting of national climate actions and compliance with international carbon market standards. The consolidated mitigation outcomes shall be reflected in the NICCDIES and shall be made available to the public.

SEC. 12. *Mandates of Other Relevant Agencies on MRV.* – The following agencies are also provided the following mandates relevant to NDC's MRV system:

- (a) The DENR is mandated to work with the CCC to monitor and report mitigation outcomes in the forestry, waste, and industry sectors. The DENR shall implement conservation, restoration, and waste management practices that contribute to GHG emission reductions and ensure these are accurately accounted for in the national climate action framework;
- (b) The DOE is mandated to coordinate with the CCC to monitor and report mitigation outcomes in the energy sector. The DOE shall implement and oversee energy efficiency and renewable energy projects that contribute to GHG emission reductions and ensure these are accurately accounted for in the national climate action framework;
- (c) The DOTr is mandated to collaborate with the CCC to monitor and report mitigation outcomes in the transport sector. The DOTr shall implement and oversee transportation initiatives that contribute to GHG emission reductions and ensure these are accurately accounted for in the national climate action framework; and
- (d) The DA is mandated to collaborate with the CCC to monitor and report mitigation outcomes in the agriculture sector. The DA shall implement and oversee agricultural practices that contribute to GHG emission reductions and ensure these are accurately accounted for in the national climate action framework.

SEC. 13. *Climate Change Expenditure Tagging as part of MRV.* – The Climate Change Expenditure Tagging (CCET) is hereby institutionalized as an audit tool to track climate adaptation and mitigation projects and programs. The CCET shall be jointly administered by the CCC, Department of Budget and Management (DBM), Department of the Interior and Local Government (DILG), Office of the Civil Defense, and other relevant agencies, with the Commission on Audit producing timely audit reports on climate expenditure. The CCET shall:

- (a) Monitor and evaluate the allocation and utilization of funds for climate projects;
- (b) Ensure transparency and accountability in climate finance;
- (c) Identify funding gaps and recommend measures to address them;
- (d) Facilitate the efficient allocation of resources towards high-impact climate initiatives; and
- (e) Support the integration of climate finance into national and local budgeting processes.

SEC. 14. *Local Climate Change Action Plan Quality Assessment Review (LCCAP QAR) System as part of MRV System.* – The CCC, in collaboration with the DILG and PAGASA, shall formulate and institutionalize the LCCAP QAR system. This system will provide feedback mechanisms for LGUs to improve their Local Climate Change Action Plans (LCCAPs), ensuring responsiveness to local hazards and socio-economic transformation towards low-carbon pathways. The LCCAP QAR shall:

- (a) Establish criteria and indicators for assessing the quality and effectiveness of LCCAPs;
- (b) Provide technical guidance and capacity-building support to LGUs for the preparation and enhancement of their LCCAPs;
- (c) Facilitate peer reviews and knowledge-sharing among LGUs to foster continuous improvement; and
- (d) Ensure alignment of LCCAPs with national and international climate goals.

SEC. 15. *NDC Steering Committee.* – The CCC shall be the lead agency in the development, implementation, monitoring, and evaluation of the NDC. The NDC Steering Committee shall be composed of representatives from the following agencies:

- (a) National Economic and Development Authority;
- (b) DA;
- (c) DOE;
- (d) DENR;
- (e) DOTr;
- (f) Department of Foreign Affairs;
- (g) Department of Finance;
- (h) DBM;
- (i) Department of Labor and Employment;
- (j) DOST;
- (k) DILG;
- (l) DOH;
- (m) DPWH;
- (n) DOT;
- (o) Department of Human Settlements and Urban Development;
- (p) DTI;
- (q) Department of Education, Commission on Higher Education, and Technical Education and Skills Development Authority;
- (r) National Commission on Indigenous Peoples;
- (s) Philippine Commission on Women;
- (t) National Youth Commission;
- (u) National Anti-Poverty Commission;
- (v) Representatives from the academe;
- (w) Representatives from each of the covered sectors; and
- (x) Representatives from civil society organizations.

SEC. 16. *Responsibilities of Government Agencies as members of NDC Committee.* – The aforementioned agencies shall align their policies and strategies with the NDC and undertake the following responsibilities:

- (a) Alignment with National Development Priorities – Ensure the alignment of the NDC with national development priorities and strategies, integrating climate goals into economic and social planning;

- (b) Sector-Specific Mitigation and Adaptation Strategies – Lead the implementation of sector-specific mitigation and adaptation strategies. Each agency shall develop and execute plans tailored to their sector's unique challenges and opportunities;
- (c) Coordination for Technical Assistance and Climate Finance – Facilitate coordination with development partners for technical assistance and climate finance. This includes mobilizing resources, securing grants and loans, and ensuring the efficient use of funds;
- (d) Annual Appropriations – Ensure annual appropriations for the implementation of unconditional policies and measures related to climate action. Budgeting should reflect the urgency and scale of climate initiatives;
- (e) Promotion of Low-Carbon Technologies and Innovations – Promote the development and adoption of low-carbon technologies and innovations. Agencies shall support research, development, and deployment of sustainable technologies;
- (f) Technical and Capacity-Building Support to LGUs – Provide technical and capacity-building support to LGUs for integrating the NDC into local plans and programs. This includes training, workshops, and technical assistance;
- (g) Development of Nature-Based Tourism Solutions – Develop and promote nature-based tourism solutions that align with climate goals. This includes sustainable tourism practices that protect natural resources and enhance local resilience;
- (h) Integration with Urban Development Plans – Ensure the integration of the NDC with urban development plans, promoting low-carbon and climate-smart infrastructure projects. Urban planning should prioritize sustainability and resilience;
- (i) Inclusion of Indigenous Peoples' Needs and Rights – Ensure the needs and rights of indigenous peoples are addressed, applying a gender lens in the NDC implementation process. Policies should promote equity and social inclusion; and
- (j) Representation of Youth Interests – Represent youth interests and ensure intergenerational justice in policies and measures. Youth engagement should be a cornerstone of climate initiatives.

ARTICLE 4

INTERNATIONAL TRANSFER OF MITIGATION OUTCOMES

SEC. 17. *Mandate to the Climate Change Commission.* – The CCC is hereby mandated to establish the necessary protocols, procedures, and systems to effectively implement the mechanisms for ITMOs and other Article 6 transactions, including:

- (a) **System for Issuance of Letters of Authority (LoA).** – The CCC shall be responsible for issuing LoA to project developers seeking to engage in ITMOs. This LoA shall serve as official government approval for the transfer of carbon credits under Article 6 mechanisms, ensuring compliance with national and international regulations;
- (b) **System for Corresponding Adjustments.** – The CCC shall establish a system for making corresponding adjustments to the national GHG inventory and mitigation outcomes to reflect the transfer of ITMOs. This system shall prevent double counting of emission reductions and ensure the integrity of the country's NDC commitments. Carbon credits based on carbon rights granted by the government to tenure holders for lands of the public domain, as well as those generated in public lands and ancestral domain lands, shall not be claimed by the government as part of its NDC accomplishment or must be removed from government accounts. Such credits must be excluded from government accounts to prevent double-counting and ensure they remain available for market transactions. Corresponding adjustments shall be reflected dynamically and in real time into the NDC ITMOs accounts in the NICCDIES and shall be made available to the public. This provision aims to uphold the integrity of private and indigenous carbon projects and their contributions to global climate mitigation efforts;
- (c) *Optimizing International Climate Finance and NDC Achievement.* – The CCC shall coordinate with relevant agencies to develop a strategy that optimizes both the generation of climate finance through ITMOs and the achievement of the NDC objectives. The CCC shall formulate a comprehensive mitigation strategy to guide government actions in meeting NDC targets; and
- (d) *Enabling Private Sector Engagement in Carbon Markets.* – The CCC shall facilitate the participation of the private sector in carbon markets by enabling private entities to generate and sell carbon credits from their mitigation activities. The government shall focus its investments on areas outside the opportunities available to the private sector, such as investments in protected areas for Reducing Emissions from Deforestation and Forest Degradation Plus initiatives. This approach ensures that government efforts are complementary to private sector actions, thereby maximizing the overall impact on national mitigation outcomes.

ARTICLE 5

DECARBONIZATION PLAN AND INVESTMENT ROADMAP FOR COVERED ENTERPRISES

SEC. 18. *Enterprises and Sectors Covered in this Act.* – Covered sectors are those that materially contribute to national GHG emissions, as determined by the government. This determination considers both the current and potential future contributions of these sectors to GHG emissions. Materiality assessments will be

based on emissions volume, economic significance, and potential for emission avoidance and reduction. The covered sectors include:

(a) Sectors with Energy-related emissions:

- i. Petroleum refining, electricity generation, combined heat and power generation.
- ii. Manufacturing and other industries and construction with fuel combustion activities – iron and steel, chemicals, pulp and paper, food processing, beverage, tobacco, mining and quarrying, textile, infrastructure, utilities, among others.
- iii. Industries with fugitive emissions – oil and natural gas, fuel transformation (coke production, gasification transformation, *etc.*)

(b) Transport sector – includes aviation, water-borne, and road transport.

(c) Sectors with Industrial Process Emissions and Product use:

- i. Mineral Industry (Cement, Lime, Glass, *etc.*)
- ii. Chemical Industry (Petrochemical and Carbon Black Production, Fluorochemical production)
- iii. Metal Industry
- iv. Electronics Industry
- v. Product use of Ozone-depleting substances substitutes (Air-Conditioning and Refrigeration, blowing agents, fire protection)

(d) Sectors with Agriculture- and Forestry-related emissions:

- i. Manufacturing companies with supply chain in agriculture and forestry, *e.g.*, food and beverage, palm oil, *etc.*
- ii. Companies with land conversion activities that result to loss of carbon stocks.

(e) Sectors with Wastes-related emissions:

- i. Manufacturing and commercial establishments that generate biodegradable wastes that end up in landfills.
- ii. Manufacturing and commercial establishments that generate effluents with high Biological Oxygen Demand content.
- iii. Manufacturing establishments that use packaging that ends up in dumpsites that are subjected to open burning.

(f) All other emerging sectors that materially contribute to the countries' GHG emissions as determined by CCC.

SEC. 19. *Mandate for Covered Enterprises.* – All covered enterprises shall be mandated to prepare a decarbonization plan aligned with the objective to limit global temperature rise to below two degrees Celsius (2°C) above pre-industrial levels, with the goal of achieving net-zero emissions by 2050.

The decarbonization plan shall outline specific, measurable, and time-bound carbon reduction pathway with milestones and targets from the effectivity of this law

towards 2050. These milestones shall include annual targets to ensure a progressive reduction in GHG emissions. The decarbonization pathway must be consistent with national decarbonization pathways and sector-specific targets established under this Act and shall incorporate the latest climate science and technological advancements to ensure effectiveness and relevance.

The decarbonization plan shall include the following components:

- (a) Emissions Baseline and Projections – A detailed inventory of current GHG emissions using globally acceptable GHG inventory standards and future emissions projections under a business-as-usual scenario. The business-as-usual scenario represents the projected emissions trajectory if no additional mitigation measures are implemented beyond those already in place.
- (b) Emissions Reduction Strategies – A comprehensive strategy for reducing direct and indirect emissions, including the implementation of energy efficiency measures, adoption of renewable energy, and other low-carbon technologies. This shall include:
 - i. Reduction Strategies within the Value Chain – Measures and initiatives to reduce emissions within the enterprise's own operations and supply chain. This includes implementing energy efficiency improvements in production processes and facilities, transitioning to renewable energy sources for power and heating needs, enhancing waste management practices to minimize methane emissions, and reducing emissions from logistics and transportation through fleet optimization and the use of low-emission vehicles.
 - ii. Reduction Strategies beyond the Value Chain – For emission sources within its value chain that are not yet financially viable to reduce, the covered enterprises are given the option to meet their reduction milestones and targets:
 - (1) Insetting – Covered enterprises may invest outside their value chain to drive a corresponding amount of reduction beyond their value chain that can be more financially viable. This may involve 1) establishing and operating a new decarbonization enterprise that focuses on reducing emissions through innovative projects and technologies; or 2) investing in existing companies or by buying equity in firms that are dedicated to decarbonization investments, ensuring these enterprises contribute to significant emissions reductions.
 - (2) Offsetting – Covered enterprises may also purchase carbon credits from certified projects developed by other entities that reduce or remove emissions. This allows covered enterprises to achieve their emissions reduction targets by supporting external projects that are verified and credible. Examples include purchasing credits from renewable energy projects, reforestation projects, or other certified emissions reduction initiatives.

- (c) Investment Roadmap – An investment plan detailing the financial resources and investments required to achieve the emissions reduction targets within the short-, medium-, and long-term planning horizons.

SEC. 20. *Submission and Approval.* – Covered enterprises shall submit their decarbonization pathways to the DENR for review and approval within one year from the effectivity of this law. The DENR shall assess the pathways for compliance with the established national and sectoral decarbonization targets and provide feedback for necessary revisions.

SEC. 21. *Periodic Update of Decarbonization Plan.* – Decarbonization pathways shall be reviewed and updated at least every five (5) years to incorporate new scientific data, technological advancements, and policy changes. Covered enterprises shall submit updated pathways to the DENR for approval, ensuring continuous alignment with national climate goals and international commitments.

ARTICLE 6 CARBON PRICING AND DECARBONIZATION FUND

SEC. 22. *Emissions Allowance.* – The CCC shall be responsible for determining and allocating the permitted emissions, known as the emissions allowance, for each sector and for each covered enterprise within that sector. The emissions allowance shall be established annually based on the sectoral consolidated decarbonization pathways of covered enterprises as provided in Section 19.

- (a) Determination of Sectoral Emissions Allowance – The CCC shall determine the annual emissions allowance for each sector by consolidating and analyzing the decarbonization pathways submitted by all covered enterprises within the sector. This includes evaluating the sector's overall emissions reduction targets, considering advancements in climate science and international commitments, and coordinating with relevant stakeholders to ensure the allowances are ambitious and achievable.
- (b) Allocation of Emissions Allowance to Covered Enterprises – The CCC shall allocate the annual emissions allowance to each covered enterprise within the sector, proportionate to their contribution to the sector's total emissions and their potential for emissions reduction, ensuring alignment with sectoral and national decarbonization targets.
- (c) Review and Adjustment of Emissions Allowance – The CCC shall regularly review and adjust the emissions allowances based on new data, technological advancements, and changes in climate policy. This involves collecting and analyzing updated emissions data and progress reports from all covered enterprises, incorporating feedback from stakeholders, and issuing revised emissions allowances and guidelines to maintain the effectiveness and relevance of decarbonization strategies.

SEC. 23. *Determination of Excess Emissions and Pricing.* – Any GHG emissions by a covered enterprise that exceed the annual emissions allowance for a given year shall be subject to a carbon price set by the CCC. The following provisions shall apply:

- (a) *Determination of Excess Emissions* – The excess emissions of a covered enterprise shall be calculated as the difference between the actual GHG emissions for the year and the allocated annual emissions allowance of the same year.
- (b) *Imposition of Carbon Price* – Covered enterprises with excess emissions shall be required to allocate funds equivalent to the carbon price for each metric tonne of CO₂e emitted above the allowed limit. This carbon price shall be determined by the CCC in consultation with stakeholders and relevant agencies, based on the methodology provided in Section 24.

SEC. 24. *Methodology of Pricing Carbon Emissions.* – The methodology for pricing carbon emissions shall be anchored on objective and reasonable bases. The total carbon price shall be based on two principal cost components:

- (a) *Mitigation Cost Component* – The price of carbon shall reflect the cost of mitigating carbon emissions, specifically the cost associated with the removal of one metric tonne of CO₂ or its equivalent from the atmosphere. This component ensures that the carbon price covers the expenses related to emissions reduction technologies and practices.
- (b) *Preventative Resilience Cost Component* – In addition to the mitigation cost, the carbon price shall also include the cost of preventive resilience measures. This considers the broader socio-economic costs of carbon emissions, factoring in the expenses required to effectively adapt to, avoid, and minimize the adverse impacts of climate change on communities, industries, ecosystems, society, and the economy.

The carbon price shall be reviewed and adjusted periodically every three (3) years to reflect changes in mitigation and resilience costs, ensuring that the pricing mechanism remains effective and aligned with national and international climate goals. This dynamic approach guarantees that the carbon price accurately represents the true cost of carbon emissions and drives continuous improvement in emissions reduction efforts.

SEC. 25. *Decarbonization Fund.* – Covered enterprises shall establish a decarbonization fund into which the funds corresponding to the carbon price for excess emissions shall be allocated. These funds shall be exclusively used to finance emissions reduction activities.

SEC. 26. *Options for Allocation of Decarbonization Fund.* – Covered enterprises shall be given the option to allocate its own decarbonization fund into the following options:

- (a) *Reduction of Emissions within the Value Chain* – Covered enterprises shall allocate decarbonization fund to reduce emissions within their value chain where viable. This includes implementing energy efficiency improvements, transitioning to renewable energy sources, and enhancing waste management practices.
- (b) *Investment in Viable Business Models Beyond the Value Chain* – Covered enterprises may allocate decarbonization fund to invest in decarbonization activities beyond their value chain through the following options:
 - i) *Investment and Operation of Own Decarbonization Enterprise* – Establishment and operation of their own enterprise focused on decarbonization technologies and practices.
 - ii) *Collective Investment* – Pooling of resources with other covered enterprises to invest in and operate a decarbonization business model or technology, thereby achieving economies of scale and greater impact.
 - iii) *Equity Investment* – Purchase of equity in an enterprise solely dedicated to investing in and operating decarbonization projects and technologies.
- (c) *Transfer of Decarbonization Fund and Obligations* – Covered enterprises may transfer their decarbonization fund and obligations to third parties, including:
 - i) *Government Allocation* – Transfer of funds to the national government for allocation for decarbonization and climate resilience programs, projects, and activities such as those financed by the People’s Survival Fund.
 - ii) *Purchase of Allowance or Carbon Offsets* – Purchase of excess allowance from obliged enterprises with emissions falling below their emissions allowances or purchase of carbon offsets from certified projects implemented in the Philippines that meet internationally recognized carbon credits certification standards and methodologies, ensuring that the offsets represent real, measurable, and additional emissions reductions.

SEC. 27. Decarbonization Taxonomy. – The CCC shall, in coordination with relevant government agencies and private sector stakeholders, develop a decarbonization taxonomy, as guidance for companies to allocate their decarbonization fund towards sustainable investments. This taxonomy will categorize various decarbonization technologies and projects, including nature-based solutions, providing standardized definitions and criteria that align private sector investments with national and global decarbonization goals.

ARTICLE 7 COMPLIANCE MECHANISM

SEC. 28. Annual Compliance Report. – All covered enterprises are required to submit an Annual Compliance Report to the DENR. The Annual Compliance Report shall contain the following:

- (a) *Emissions Baseline and Reduction Progress* – A detailed inventory of the current GHG emissions, including any reductions achieved during the reporting period, measured against the enterprise’s decarbonization pathway.
- (b) *Reduction Activities and Outcomes* – A comprehensive description of specific emissions reduction activities undertaken, their outcomes, and the impact on the enterprise’s overall GHG emissions. This shall include the following:
 - i. Implementation of energy efficiency improvements;
 - ii. Transition to renewable energy sources;
 - iii. Enhancements in waste management practices;
 - iv. Other measures and initiatives undertaken within the value chain to reduce emissions; and
 - v. Quantitative and qualitative outcomes of these activities and their contributions to the enterprise’s emissions reduction targets.
- (c) *Emissions Allowance and Excess Emissions* – Documentation of the allocated emissions allowance for the year and any excess emissions, including the calculation of funds allocated to the decarbonization fund.
- (d) *Allocation of Decarbonization Fund* – A comprehensive account of how the decarbonization fund was allocated, detailing investments in emissions reduction activities, both within and beyond the value chain.
- (e) *Future Plans* – Outline of planned emissions reduction activities and investments for the upcoming year, aligned with the enterprise’s decarbonization pathway.

SEC. 29. *Third-Party Audit Report.* – Covered enterprises are required to secure a third-party audit report to accompany their Annual Compliance Report. The third-party audit shall include:

- (a) *Verification and Compliance Assessment* – Verify the accuracy of the emissions data, reductions achieved, allocation of decarbonization fund reported by the covered enterprise, and assess the enterprise’s compliance with the emissions allowance.
- (b) *Audit Findings* – Include detailed findings and recommendations to enhance the enterprise’s compliance with its decarbonization pathway.

SEC. 30. *Role of DENR in Compliance Monitoring.* – The DENR shall be responsible for monitoring the compliance of covered enterprises for their submission of Annual Compliance Report and third-party audit report as specified in this Act.

SEC. 31. *Development and Implementation of Verification Standards and Methodologies for Emissions Reporting and Compliance.* – The CCC shall develop and implement comprehensive standards, procedures, and methodologies for the verification of emissions reporting and compliance with the provisions of this law by

covered enterprises. These standards will guide third-party verifiers in their verification processes and in the issuance of statements of attestation.

The established standards and methodologies shall:

- (a) Guarantee the integrity, accuracy, and reliability of reported emissions data and the compliance verification process.
- (b) Include specific criteria and practical approaches for both verifying emissions data and assessing compliance with this Act.

SEC. 32. *Development and Administration of Accreditation Process for Third-Party Verifiers.* – The CCC is hereby vested with the authority to develop procedures and administer the accreditation of independent verifiers. The CCC shall:

- (a) *Develop Accreditation Procedures* – Establish clear and comprehensive procedures for the accreditation of third-party verifiers. These procedures shall be designed to ensure that third-party verifiers meet the stringent standards required for the verification of emissions reporting and compliance assessments.
- (b) *Administer the Accreditation Process* – Implement the entire accreditation process from application to approval, ensuring that all third-party verifiers undergo a rigorous evaluation based on the established procedures and standards.
- (c) *Ensure Compliance with Accreditation Standards* – Regularly review the performance of accredited third-party verifiers and ensure they are compliant to the latest version of the accreditation standards.

ARTICLE 8 PENALTIES FOR NON-COMPLIANCE

SEC. 33. *Penalties for Non-Compliance.* – Covered enterprises that fail to comply with the provisions of this Act shall be subject to the following penalties:

- (a) *Payment of Penalties* – Covered enterprises that exceed their emissions allowance and fail to allocate the required funds to their decarbonization fund shall pay a penalty amounting to twice the estimated amount of the decarbonization fund that should have been allocated.
- (b) *Failure to Submit Reports* – Covered enterprises that fail to submit their Annual Compliance Report or third-party audit report by the designated deadlines shall be subject to a penalty determined by the DENR.
- (c) *Revocation of Business Permit* – Covered enterprises that commit violations of the provisions of this Act, for three (3) consecutive years, including failure to

submit required reports and failure to meet emissions reduction targets, shall be subject to the revocation of their business permit.

- (d) *Authority to Impose Penalties* – The DENR shall have the authority to impose the penalties specified in this section on covered enterprises found to be non-compliant with the provisions of this Act.

ARTICLE 9 ENABLING MECHANISMS

SEC. 34. *Access to Carbon Markets.* – The CCC shall provide technical assistance to covered enterprises to facilitate access to carbon markets. This assistance shall include:

- (a) *Linkage to Potential Buyers* – The CCC shall facilitate connections between covered enterprises and potential buyers of carbon credits to support the sale and trading of carbon credits.
- (b) *Technical Support for Registration* – The CCC shall provide technical support for the registration of carbon projects in recognized carbon certification programs, ensuring that enterprises meet the necessary standards and requirements to participate in carbon markets.
- (c) *Tax Deductibility of Certification Expenses* – Carbon certification expenses shall be considered allowable deductions from gross income in accordance with Section 34 of the National Internal Revenue Code of 1997, as amended.

SEC. 35. *Tax Incentives.* – Investments in emerging low-carbon technologies by covered enterprises shall be eligible for income tax holidays and enhanced deductions on research and development expense in accordance with Title XIII of the National Internal Revenue Code of 1997, as amended by Republic Act No. 12066, otherwise known as the “Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act”.

SEC. 36. *Facilitation of Access to International Climate Finance.* – The CCC shall facilitate access to international climate finance to support the implementation of decarbonization pathways and related initiatives by covered enterprises. This includes identifying funding opportunities, assisting in the preparation of funding proposals, and ensuring compliance with international funding requirements.

SEC. 37. *Other Support Function of CCC.* – The CCC shall be responsible for consolidating the reduction strategies and roadmaps of covered enterprises, developing and maintaining an online registry, creating standardized templates for GHG emissions accounting and reporting, facilitating national and sectoral decarbonization strategies, and facilitating access to international climate finance and mechanisms for trading ITMOs under the Paris Agreement. The mandates and responsibilities of the CCC shall include the following:

- (a) Creation of Templates for GHG Emissions Accounting and Reporting – The CCC shall develop and provide standardized templates for the accounting and reporting of GHG emissions baselines, adopting globally acceptable methodologies. These templates shall ensure consistency, accuracy, and transparency in the reporting process and shall be mandatory for all covered enterprises.
- (b) Consolidation of Reduction Strategies and Roadmaps – The CCC shall be responsible for collecting and consolidating the decarbonization pathways submitted by all covered enterprises. This includes assessing and validating the individual pathways to ensure alignment with national decarbonization targets and sector-specific goals.
- (c) Development and Maintenance of an Online Registry – The CCC shall establish and maintain a comprehensive online registry to be integrated in NICCDIES, that serves as a centralized database for all decarbonization pathways and related information. The online registry shall:
- i. Contain detailed information on the decarbonization pathways of all covered enterprises, including emissions baselines, reduction strategies, investment roadmaps, monitoring and reporting mechanisms, and risk management plans.
 - ii. Ensure transparency and accessibility, allowing public access to relevant data while protecting confidential business information, and include features for stakeholder engagement, public feedback, and knowledge sharing.
 - iii. Enable real-time tracking and reporting of progress in achieving emissions reduction targets, integrating third-party verification reports and compliance audits for data accuracy and reliability.
 - iv. Support the analysis and reporting of aggregated data to inform national climate policy, facilitate international reporting, and continuously improve decarbonization strategies at national and sectoral levels.
 - v. Establish protocols for data security, user access, and protection of sensitive information, ensuring the registry is regularly updated with the latest data from covered enterprises.

SEC. 38. *Support Function of LGUs.* – LGUs should integrate climate change adaptation and mitigation measures in their local plans and programs. LGUs shall support and facilitate the activities of covered enterprises as regards their decarbonization investments within the respective jurisdiction of LGUs.

ARTICLE 10

Miscellaneous Provisions

SEC. 39. *Appropriations.* – The amount necessary for the initial implementation of this Act shall be charged against the current year's appropriations of the department or agencies concerned. Thereafter, such sums as may be necessary for the continued implementation of this Act shall be included in the annual General Appropriations Act.

The LGUs concerned, in consultation with the CCC, may provide the necessary funds for the implementation of this Act.

SEC. 40. *Annual Report to Congress.* – The implementing agencies shall report to Congress on their progress in carrying out the provisions of this Act for each fiscal year. The reports shall be consolidated by the CCC for presentation to the appropriate committee in Congress at a meeting called for the purpose.

SEC. 41. *Staffing Complement of the CCC.* – The CCC shall determine the additional positions required for purposes of this Act consistent with its organizational structure and staffing pattern, subject to evaluation and approval of the DBM.

SEC. 42. *Implementing Rules and Regulations.* – The CCC shall, in coordination with the NDC Steering Committee, draft and issue implementing rules and regulations necessary, in coordination with other relevant and appropriate government agencies within sixty (60) days after its approval.

SEC. 43. *Separability Clause.* – If for any reason any section or provision of this Act is declared by the court as unconstitutional or invalid, the other sections or provisions thereof shall not be affected thereby.

SEC. 44. *Repealing Clause.* – All laws, ordinances, rules, and regulations, and other issuances or parts thereof, which are inconsistent with this Act, are hereby repealed or modified accordingly.

SEC. 45. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,