

FOURTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

RECEIVED BY: _____
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SENATE
S.B. No. 1890

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Introduced by Senator Loren Legarda

EXPLANATORY NOTE

This bill seeks to create a National Framework Program on Climate Change Mitigation, Adaptation and Communication and establish mechanisms to reduce greenhouse gas emissions from energy, power, transport and manufacturing sectors to usher in a low-carbon revolution in the Philippines and institutionalize the country's commitments to international efforts to address the problem on climate change.

Climate change refers to the variation in the Earth's climate or in regional climates over time, caused by processes internal to the Earth, or external forces including variations in its orbit around the sun, volcanic eruptions, and atmospheric greenhouse gas concentrations and, more recently, human activities. There is now global consensus that identifies elevated levels of greenhouse gases due to human activity as a major cause of climate change.

Global warming, the gradual worldwide rise in surface temperature, is no longer discussed as a hypothetical threat to humankind, but now a clear observable fact. According to *Time Magazine's Global Warming Report*, atmospheric levels of carbon dioxide were 379 parts per million (p.p.m.) in 2005, higher than any time in the past 650,000 years. Of the 12 warmest years on record, 11 occurred between 1995 and 2006. Global warming is caused by greenhouse effect, the mechanism by which Earth's atmosphere behaves like the panes of glass on a greenhouse, allowing solar warmth to pass through, but preventing it from escaping back into space - thus raising the temperature inside the greenhouse. Greenhouse gases like water vapor and carbon dioxide act like the panes of glass, allowing solar heat to pass in but not out. Generally, greenhouse effect is not harmful, but too much greenhouse gases cause a lot of damage.

The *United Nations Intergovernmental Panel on Climate Change (IPCC)* issued a report on the state of planetary warming in February 2007 and concluded that warming of the climate system is unequivocal. According to the Report, there is very high confidence that human activities since 1750 have played a significant role by overloading the atmosphere with carbon dioxide, hence retaining solar heat that would otherwise radiate away. Globally, carbon emissions are expected to increase by 50% by the year 2030 from about 40 gigatonnes of carbon-dioxide equivalent over year in 2000 to projected range of 50-76 gigatonnes per year by 2030. The IPCC likewise indicated that "business as usual" would lead to a five-degree Celsius rise in temperature, which would lead to rise in sea levels that would lead to catastrophic implications.

Already, the Asia-Pacific region suffers the most from extreme weather events and these will likely increase in climate change. In Asia, the melting of the glaciers in

the Himalayas will increase flooding and rock avalanches, affecting water resources within the next two to three decades. River flows will decrease as the glaciers recede and there will be less freshwater in large river basins. Coastal areas, especially heavily-populated mega-delta regions will be at greatest risk due to increased flooding from the sea and in some mega-deltas flooding from the rivers. Endemic morbidity and mortality due to diarrheal disease primarily associated with floods and droughts are expected to rise in East, South and Southeast Asia due to projected changes in hydrological cycle. Increases in coastal water temperature would exacerbate the abundance and/or toxicity of cholera in South Asia.

International commitments have been made to reduce global warming. From 1990 to 2005, the signatories to the Kyoto Protocol, an international agreement negotiated by 159 nations in December 1997, pledged to reduce emissions of greenhouse gases to levels near or below their output in 1990 by the year 2012. In 2007, the European Union has committed to reduce greenhouse gas emissions by 20% by 2020 from 1990 levels, and by 30% if other countries such as the United States, China and India also commit to targets. Japan and Canada, in the run up to the Group of Eight leading nations meetings in Germany in June 2007, have also agreed to a target of halving global emissions by 2050.

The Philippines, being an archipelagic country, is especially vulnerable to the effects of climate change, sea level rise and extreme events. Deterioration in coastal conditions, for example through erosion of beaches and coral bleaching, is expected to affect local fisheries, and reduce the value of these destinations for tourism. Sea-level rise is expected to exacerbate inundation, storm surge, erosion and other coastal hazards, thus threatening vital infrastructure, settlements and facilities that support the livelihood of island communities.

The sector most adversely affected by climate change is agriculture and food security. The sharpest fall in agricultural productions are experienced during strong El Niño events and after the occurrence of severe tropical typhoons. In the health sector, many of the biological organisms linked to the spread of infectious diseases are especially influenced by the fluctuations in climate variables. Among other factors, dengue fever and malaria are sensitive to temperature, relative humidity and rainfall. The climate change impacts on coastal zones and marine ecosystems observed in 1990s were massive coral bleaching in various reefs throughout the Philippines, fish kills, high mortality of cultured giant clams and red tide outbreaks.

There is a need for government to provide the enabling framework and incentives to mainstream the adaptation to and the mitigation of climate change. Adaptation, or actions intended to safeguard a person, community, business or country against the effects of climate change, and mitigation, or any measure that will reduce greenhouse gas emissions – are necessary to ensure that our nation is capable of stronger resilience against the impact of climate change.

This bill aims to do just that by establishing a national framework program for adaptation to and mitigation of the impact of climate change, with the organizational structure and resources for its implementation. Incentives for investments in climate mitigation and adaptation projects are likewise prescribed in this proposal along with the conduct of a pilot cap-and-trade system as a strategy for GHG emission reduction.

Under this bill, the Framework Program aims to increase the country's renewable energy-based capacity to 50% from 2008 to 2013, and 50% from 2013 to 2020,

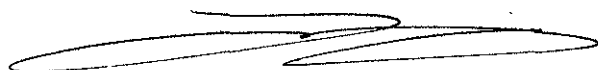
identify the most vulnerable communities/areas to the extreme impacts of climate change and conduct local risk and vulnerability assessments to identify options and select appropriate adaptation measures for adoption as joint priority projects of the national and local governments.

To encourage and promote investments in clean energy, carbon sequestration, reforestation/afforestation, and energy efficiency projects for climate change mitigation and adaptation, the government shall provide incentives for all developers and implementers of such projects and activities that have been duly certified by the DENR and/or the DOE in the case of energy projects, in consultation with the National Solid Waste Management Commission and/or the DTI. Such incentives include tax and duty-free importation of machinery, equipment and materials, tax credit on domestic capital equipment, real estate tax exemption, value-added tax exemption, and income tax holiday and exemption. All manufacturers, fabricators and suppliers of locally-produced GHG emission reduction and carbon sequestration equipment and components duly recognized and accredited by the DENR, in consultation with DOST, DOF, DTI, and the National Solid Waste Management Commission shall be entitled to the same privileges above cited.

Also, within ten (10) years following the effectivity of this Act, all greenhouse gas emission reduction/carbon sequestration operating contract holders shall enjoy the following additional incentives, subject to review by the DOE every three (3) years: priority dispatch, exclusion from payment of ancillary services, exclusion from payment of interconnection and wheeling charges, and exemption from the universal charge.

To pilot an emission cap-and-trade project in the Philippines, the DENR shall lead and provide support for the planning, implementation and monitoring of a model emission trading system in greenhouse gases. The DENR shall determine the criteria for the selection of the most polluting industrial sector which shall be the target for the model emission cap-and-trade project and design a suitable pilot project for the purpose. Cap-and-trade programs are those where the government limit the level of carbon that can be emitted by an industry. Companies that hold their emissions below the cap can sell their remaining allowance on a carbon market, while companies that exceed their limit must purchase credits on that market. A Climate Adaptation Fund is hereby established for the purpose of providing financial assistance for priority adaptation projects identified and approved by the Commission. A shift to a low-carbon economy will create demand for new products, new technologies and open new markets. The Philippines must seize this opportunity and take the lead in Southeast Asia.

In view of the urgent need to reduce the impact of climate change and the benefits of the shift to a low-carbon economy not only to the Philippine environment but to the economy as well, immediate approval of the bill is earnestly sought.




LOREN LEGARDA

Senator

FOURTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE
S.B. No. 1890

7 NOV 20 2011

SECRETARY: 

Introduced by Senator Loren Legarda

AN ACT
ESTABLISHING THE FRAMEWORK PROGRAM FOR CLIMATE CHANGE,
CREATING THE CLIMATE CHANGE COMMISSION, APPROPRIATING FUNDS
THEREFOR, AND FOR OTHER PURPOSES

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

SECTION 1. Title.- This Act shall be known as the "Philippine Climate Change Act of 2007."

SEC. 2. Declaration of Policy.- It is the policy of the State to afford full protection and advancement of the right of the people to a healthful ecology in accord with the rhythm and harmony of nature. In this light, the State has adopted the Polluter Pays Principle to require polluting parties to pay the cost of polluting the natural environment, the Principle of Sustainable Development, to fulfill human needs while maintaining the quality of the natural environment for current and future generations, and the Precautionary Principle to guide decision making in risk management.

Recognizing the dangerous consequences of climate change, among them rising seas, changing landscapes, biodiversity loss, drought, fire, floods, stronger storms and storm damage, heat related illnesses and disease, and economic losses, and the vulnerability of the islands of the Philippine archipelago and its local communities, particularly the poor populations, to climate risks, the State shall cooperate with the global community in the resolution of climate change issues and shall adopt appropriate measures for the prevention of loss of lives, disease, and damage to property, crops and the environment. It is the policy of the State for national and local governments, businesses, nonprofit organizations, communities and individual residents to prepare for the consequences of climate change and by doing so, prevent and reduce the social, economic and environmental effects of global warming.

The State, in pursuit of the abovementioned policy, shall strengthen, consolidate and institutionalize existing government initiatives to effect plans and programs for urgent concerns pertaining to climate change and the mitigation, adaptation to, and communication of its adverse impacts on human security, wellbeing and the environment.

SEC. 3. Definition of Terms.- For purposes of this Act, the following shall have the corresponding meanings:

- a) *“Adaptive capacity”* shall refer to the ability of a system to adjust to climate change (including climate variability and extremes) to moderate potential damages, to take advantage of opportunities, or to cope with the consequences;
- b) *“Climate Change”* shall refer to the variation in the Earth’s global climate or in regional climates over time. It describes changes in the variability or average state of the atmosphere over time scales ranging from decades to millions of years. In IPCC usage, it refers to any change in climate over time, whether due to natural variability or as a result of human activity.
- c) *“Fossil Fuel”* shall refer to hydrocarbons, primarily coal and petroleum (fuel oil or natural gas), formed from the fossilized remains of dead plants and animals.
- d) *“Global Warming”* shall refer to the increase in the average temperature of the Earth’s near-surface air and oceans that is associated with the release of greenhouse gases.
- e) *“Greenhouse effect”* shall refer to the process by which the emission of infrared radiation by the atmosphere warms a planet’s surface.
- f) *“Greenhouse gases”* shall refer to components of the atmosphere that contribute to the greenhouse effect including, but not limited to, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.
- g) *“Mitigation potential”* shall refer to the potential for GHG reductions that could be made, relative to emission baselines, for a given level of carbon price (expressed in cost per unit of carbon dioxide equivalent emissions avoided or reduced). Mitigation potential is further differentiated in terms of market potential and economic potential;
- h) *“Sea level rise”* shall refer to an increase in sea level which may be influenced by factors like global warming through expansion of sea water as the oceans warm and melting of ice over land..
- i) *“Vulnerability”* shall refer to the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes. Vulnerability is a function of the character, magnitude, and rate of climate change and variation to which a system is exposed, its sensitivity, and its adaptive capacity;

SEC. 4. Framework Program on Climate Change. – A Framework Program on Climate Change Mitigation, Adaptation and Communication of national scope shall be established and implemented for the purpose of enabling climate planning, research and development, extension, and monitoring of activities for protecting vulnerable communities from the damage to lives, property and the environment of extreme climate impacts and the reduction of greenhouse gas emissions from energy, power, transport, and manufacturing sectors. Along this line, the Framework Program shall implement plans of action to fulfill the following objectives:

- a) The achievement of significant increase in renewable energy-based capacity as follows: i). 50% from 2008 to 2013, and ii) 50% from 2013 to 2020;
- b) The identification of the most vulnerable communities/areas to the extreme impacts of climate change;
- c) The conduct of local risk and vulnerability assessments for the purpose of identifying options and selecting appropriate adaptation measures for adoption as joint priority projects of the national and local governments;

The basic program shall be formulated in accordance with the commitments of the State as a party to the UNFCCC.

The implementation of the national program shall be led by the Department of Environment and Natural Resources in coordination with the Department of Energy, the National Solid Waste Management Commission, local government units, and other agencies of government with responsibilities vital to effective climate adaptation and mitigation.

SEC. 5. *Components of the Framework Program on Climate Change.* - The Framework Program on Climate Change shall have the following components:

- a) Research, development and extension initiatives for local adoption of appropriate and affordable mitigation and adaptation technologies;
- b) Local database development and vulnerability assessment to assist communities to identify, understand, and be prepared for the risks brought about by extreme impacts of climate change;
- c) Capacity building for DENR, other national agencies, and their regional counterparts in training communities for community-based vulnerability assessment, data gathering and analysis, planning and decision making;
- d) Training of vulnerable communities in the conduct of vulnerability assessments, data gathering and monitoring, planning and decision making for risk management;
- e) Facilitation of local adaptation programs for priority vulnerable areas and communities;
- f) Promotion of incentive schemes, rules and regulations for accelerated preferential use of renewable energy sources for reduced greenhouse gas emissions; and
- g) Advocacy for and monitoring of the inclusion of climate risk management costs in the national and local plans, budgets and permitting systems of relevant government offices.

SEC. 6. *Creation of the Commission on Climate Change.* - There is hereby created a Climate Commission, hereinafter referred to as the Commission, which shall be organized within sixty (60) days from the date of approval of this Act.

The Commission, as an attached agency, shall be under the administrative supervision of the Department of Environment and Natural Resources and shall act in coordination with the Department of Science and Technology and its attached offices for technical cooperation.

SEC. 7. *Objectives.* - The Commission shall have the following objectives:

- a) To monitor the implementation of the Philippine Clean Air Act of 1999 (Republic Act 8749) so as to ensure compliance with the provisions of the law by all regulated sectors;
- b) To recommend legislation, policies, programs and budgets on global warming or climate change adaptation and mitigation;
- c) To disseminate climate change information to the general public and to the government;
- d) To represent the Philippine Government in all international and regional meetings, conferences and/or conventions concerning climate change; and

- e) To keep under review all unratified international environmental treaties pertaining to climate change and make recommendation for ratification and compliance.

SEC. 8. Powers and Functions of the Commission. - The Commission shall have the following powers and functions:

- a) Oversee the dissemination of information on climate change, greenhouse gases and their effects, local vulnerabilities and risk, Convention mechanisms for compliance including the Clean Development Mechanism and Post Kyoto Protocol regimes, and adaptation and mitigation measures;
- b) Promote the creation of local entities to address climate risks in the regions, provinces, cities and municipalities;
- c) Assist capacity building in local community-based vulnerability assessment and disaster preparedness for timely identification of the most vulnerable communities and areas and prioritization of adaptation programs and projects;
- d) Facilitate capacity building for local planning, implementation and monitoring of climate initiatives in vulnerable communities and areas;
- e) Formulate guidelines for climate change impact assessments and provide technical assistance for their implementation and monitoring;
- f) Formulate rules and regulations for reduction of greenhouse gas emissions from the use of fossil fuels by the transport and power sectors, and other activities that are also major emitters;
- g) Support local research and development programs and projects of state universities and colleges for GHG emission reduction and carbon sequestration technologies and their implementation;
- h) Create an environment conducive to adequate and affordable insurance coverage for vulnerable activities and projects through support for local capacity building to ensure good information gathering, assessment and analysis of risks faced by vulnerable areas and communities;
- i) Review major government programs and budgets for inclusion of climate risk management concerns; and
- j) Advise the President on socio-economic, legal, and environmental aspects of climate change.

SEC. 9. Composition. The Commission shall consist of nine (9) voting members to be appointed by the President under this Section and eleven (11) non-voting members to be appointed under Section 10.

Members of the commission appointed under this section shall be selected so as to be representative of the social, environmental, cultural and economic diversity of the State and to be representative of the multi-disciplinary nature of policy, science, education and implementation elements of the efforts to reduce greenhouse gas emissions and to prepare for the effects of climate change.

The President shall select a chairperson and a vice chairperson from among the members appointed under this section.

The term of office of a member appointed under this section is four years. Before the expiration of the term of a member, the President shall appoint a successor whose term begins on January 31 of the next year. A member appointed under this section is

eligible for reappointment. In case of vacancy for any cause, the President shall make an appointment to become immediately effective for the unexpired term.

Failure of a member to maintain compliance with the eligibility requirements related to the member's appointment shall result in disqualification from serving on the commission.

SEC. 10. *Ex Officio nonvoting members.* - In addition to the members appointed under Section 7 of this Act, the Commission shall include the following ex officio members:

- (a) The Secretary of Science and Technology, or his appointed permanent representative from the Philippine Atmospheric, Geophysical and Astronomical Administration
- (b) The Secretary of Energy, or his appointed permanent representative;
- (c) The Secretary of Transportation and Communications, or his appointed permanent representative;
- (d) The Secretary of Public Works and Highways, or his appointed permanent representative;
- (e) The Secretary of Environment and Natural Resources, or his appointed permanent representative;
- (f) The Secretary of Agriculture, or his appointed permanent representative;;
- (g) Three additional ex officio nonvoting members, each from a state agency or an academic institution.

The following representatives of Congress shall also serve as ex officio nonvoting members:

- (a) The Chairman of the Senate Committee on Environment; and
- (b) The Chairman of the House of Representatives' Committee on Environment.

Each legislative member serves at the pleasure of the appointing authority and may serve so long as the member remains in the chamber of Congress from which the member was appointed.

SEC. 11. *Meetings.* - A majority of the members of the Commission constitutes a quorum for the transaction of business. The commission shall meet at times and places specified by a majority of the members of the commission.

The Department of Environment and Natural Resources shall provide clerical, technical and management personnel to serve the commission. Other agencies shall provide support as requested by the department or the commission.

The members of the Commission shall be entitled to a per diem of one thousand pesos (PhP1,000.00) for actual attendance in meetings which shall not exceed three thousand pesos (P3,000.00) per month.

SEC. 12. *Operation.* - The Commission may adopt by rule such standards and procedures as it considers necessary for the operation of the commission..

SEC. 13. *Panel of Technical Advisers.* For the purposes of building local climate science, objective identification and evaluation of options, planning and implementation of initiatives, the Commission may constitute a national panel of technical advisers consisting of practitioners in disciplines that are related to climate change and representatives of civil society.

The panel shall act as an advisory body that shall provide support to the Commission in climate science, technologies, and best practices for risk assessment and enhancement of adaptive capacity of vulnerable human settlements to potential impacts of sea level rise, drought, floods, coral damage, strong storms and storm damage, heat-related illnesses and diseases, biodiversity and economic losses.

The Commission shall set the qualifications and compensation for technical advisers. It shall provide resources for the operations and activities of the national advisory panel to facilitate information gathering, sharing, assessment, planning, and decision-making to prepare vulnerable communities for the management of such risks that are brought about by climate change.

SEC. 14. *Regional Extension Units.* The work of the Commission shall be carried out by the Regional Extension Units to be established in the areas that have been identified to be most vulnerable to the impacts of climate change. The Regional Extension Units which shall operate under the leadership of the Regional offices of the DENR and the DOST and in collaboration with local institutions in research, development and extension, environmental and professional organizations.

Regional extension units may tap local technical advisers to form local panels that shall provide support in the gathering, assessment, and dissemination of climate information and the planning and decision making for the adoption of technologies and best practices for risk assessment and enhancement of adaptive capacity of vulnerable human settlements. The Commission shall provide the guidelines for the selection and hiring of such advisers.

SEC. 15. *Membership in the National Security Council.*- The Chairman of the Commission shall automatically be a member of the National Security Council and shall report directly to the President of the Philippines regarding sensitive environmental information on climate change.

SEC. 16. *Incentives for Greenhouse Gas Emission Reduction and Carbon Sequestration Projects and Activities.* - For the purpose of encouraging and promoting investments in clean energy, carbon sequestration, reforestation/afforestation, and energy efficiency projects for climate change mitigation and adaptation, the government shall provide incentives for all developers and implementers of such projects and activities that have been duly certified by the DENR and/or the DOE in the case of energy projects, in consultation with the National Solid Waste Management Commission and/or the DTI, the following privileges shall be granted:

a. *Tax and Duty-free Importation of Machinery, Equipment and Materials.* - Within the duration of an operating contract, importation of machinery and equipment, and materials and parts thereof, whether or not shipped with such machinery and equipment, including control and communication equipment, shall not be subject

to tariff duties and value-added tax: Provided, however, that the said machinery, equipment, materials and parts are:

1. not manufactured domestically in reasonable quantity and quality;
2. directly and actually needed and shall be used exclusively in the carbon sequestration and GHG emission reduction facilities; and
3. covered by shipping documents in the name of the duly registered Operator to whom the shipment will be directly delivered by customs authorities;

Provided further, that prior approval of the DENR, and/or the DOE in the case of energy projects, is obtained for entitlement to the following incentives:

b. *Tax Credit on Domestic Capital Equipment.* - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and custom duties that would have been paid on the machinery, equipment, materials and parts had these items been imported shall be given to the facility operating contract holder who purchases machinery, equipment, materials and parts from a domestic manufacturer for purposes set forth under sub-paragraph 2 of the immediately preceding paragraph (a). Provided further, that prior approval by the DENR and/or the DOE, in the case of energy projects, was obtained by the local manufacturer. Provided finally, that the acquisition of such machinery, equipment, materials, and parts shall be made within the validity of the GHG emission reduction/carbon sequestration operating contract;

c. *Real Estate Tax Exemption.* - Any provision of existing Laws to the contrary notwithstanding, all lands, including easements, civil works, equipment, machinery, and other improvements of a registered developer actually and exclusively used for GHG emission reduction/carbon sequestration facilities shall be exempted from the payment of any real estate tax; Provided, That the activities they engage in exhibit high social economic returns and necessary to assist reasonable recovery of large investments;

d. *Value-added Tax Exemption.* - The sale of electricity generated from the same facilities shall be exempt from the ten percent (10%) value-added tax based on the gross receipts;

e. *Income Tax Holiday and Exemption.* - Within seven (7) years following the actual commercial operation of a GHG emission reduction/carbon sequestration facility, the operating contract holder shall be fully exempt from income taxes levied by the National Government;

SEC. 17. Non-Fiscal Incentives for Clean Energy Projects. - Within ten (10) years following the effectivity of this Act, all GHG emission reduction/carbon sequestration operating contract holders shall have the following additional incentives, subject to review by the DOE every three (3) years:

a. *Priority Dispatch* - GHG emission reduction/carbon sequestration facilities shall have the first right to supply electrical energy, up to its maximum capacity, to any grid whether or not any fossil power generating facility is operating;

b. *Exclusion from Payment of Ancillary Services* - GHG emission reduction/carbon sequestration facilities may be excluded from any obligation to pay "Load Following and Frequency Regulation", "Spinning Reserve", "Back-up Reserves", and "Energy Imbalances";

c. *Exclusion from Payment of Interconnection and Wheeling Charges* - GHG emission reduction/carbon sequestration facilities may be excluded from any requirement to pay interconnection and wheeling charges as required under existing laws.

d. *Exemption from The Universal Charge.*- Power and electricity generated through GHG emission reduction/carbon sequestration facilities for the generator's own consumption and/or for free distribution in the off-grid areas shall be exempted from the payment of the Universal Charge provided for under Section 34 of Republic Act No. 9136.

SEC. 18. *Incentives for Commercialization of All GHG Emission Reduction and Carbon Sequestration Projects* - All manufacturers, fabricators and suppliers of locally-produced GHG emission reduction and carbon sequestration equipment and components duly recognized and accredited by the DENR, in consultation with DOST, DOF, DTI, and the National Solid Waste Management Commission shall be entitled to the following privileges:

a. *Tax and Duty-free Importation of Components, Parts and Materials* - All shipments necessary for the manufacture and/or fabrication of GHG emission reduction/carbon sequestration equipment and components shall be exempted to importation tariff and duties and value added tax; Provided, however that the said components, parts and materials: (a) are not manufactured domestically in reasonable quantity and quality at reasonable prices; (b) are directly and actually needed and shall be used exclusively in the manufacture/fabrication of equipment; and (c) are covered by shipping documents in the name of the duly registered manufacturer/ fabricator to whom the shipment will be directly delivered by customs authorities; Provided further, that prior approval of the DOE was obtained before the importation of such components, parts and materials were made;

b. *Tax Credit on Domestic Capital Components, Parts and Materials* - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and custom duties that would have been paid on the components, parts and materials, had these items been imported shall be given to a GHG emission reduction/carbon sequestration equipment manufacturer, fabricator, and supplier duly recognized and accredited by the DENR, who purchases GHG emission reduction and carbon sequestration components, parts and materials from a domestic manufacturer. Provided, that such components, materials and parts are directly needed and shall be used exclusively by the GHG emission reduction and carbon sequestration manufacturer, fabricator and supplier for the manufacture, fabrication and sale of GHG emission reduction and carbon sequestration equipment. Provided further, that prior approval by the DENR obtained by the local manufacturer;

c. *Local Taxes* - All duly recognized and accredited GHG emission reduction/carbon sequestration equipment manufacturers/ fabricators shall be exempted from taxes and fees imposed by local government units, such as real

estate tax on lands, local business tax, building permits fees, among others; Provided that the manufacturing/fabricating facilities are in compliance with the established performance standards certified by the DOE;

d. *Special Realty Tax Rates on Equipment and Machinery* - Any provision of the Real Property Tax Code or any other law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a DOE recognized and accredited GHG emission reduction and carbon sequestration manufacturer, fabricator and supplier of GHG emission reduction and carbon sequestration equipment shall not exceed one percent (1%) of the original cost of such civil works, machinery, equipment, devices and/or other components;

e. *Value-added Tax Exemption* - Exemption from the ten percent (10%) value-added tax on (i) the gross receipts derived from the sale of locally-manufactured GHG emission reduction and carbon sequestration equipment and components; (ii) imported and locally purchased machinery, equipment and devices described in items (a) and (b) hereof and (iii) other local Value-Added Tax:

f. *Income Tax Holiday and Exemption* - For seven (7) years starting from the date of recognition/accreditation, a GHG emission reduction and carbon sequestration manufacturer, fabricator and supplier of GHG emission reduction and carbon sequestration equipment shall be fully exempt from income taxes levied by the National Government.

SEC. 19. *Emission Cap-and-Trade Pilot Project.* - The Secretary of the DENR shall lead and provide support for the planning, implementation and monitoring by the EMB of a model emission trading system in greenhouse gases. The EMB shall determine the criteria for the selection of the most polluting industrial sector which shall be the target for the model emission cap-and-trade project. The Bureau shall also design a suitable pilot project for the purpose, in consultation with the industry sectors, civil society and environment practitioners.

(a) *Appropriation.* - The Secretary of the DENR shall, subject to appropriation, as part of the Secretary's activities with respect to research and development for the reduction of GHG emissions, consider funding at least 50 percent of the cost of a demonstration project to design, construct, and test an emission trading system. The Secretary shall expedite approval and funding to enable such project to be completed no later than January 1, 2009.

(b) *Authorization.* - There are authorized to be appropriated such sums as may be necessary to carry out this section, to remain available until expended.

SEC. 20. *Climate Adaptation Fund.* - There is hereby created a Climate Adaptation Fund for the purpose of providing financial assistance for priority adaptation projects identified and approved by the Commission. The Fund shall be administered through the Development Bank of the Philippines or other local banking institution.

SEC. 21. *Functions of the Climate Adaptation Fund* - The Climate Adaptation Fund shall:

- a. Finance the research, development, demonstration and promotion of technologies for adaptation and mitigation;
- b. Finance the conduct of climate vulnerability assessment and resources inventory for mitigation and adaptation; and
- c. Finance the advocacy, networking and communication activities for the promotion of information and wide adoption of mitigation measures by the general population and of adaptation programs by vulnerable local communities; and
- d. Conduct such other activities necessary to carry out the objectives of this Act.

For this purpose, an amount of One Billion Pesos (Php1,000,000,000.00) shall be allocated as seed money for the fund which shall be sourced from the following:

- a. Demonstration Earnings
- b. Grants
- c. Donations
- d. Government share from the sale of CERs of CDM projects
- e. Proceeds from the sale of government properties starting from the date of effectivity of this Act

The DENR shall manage and administer the said fund subject to existing government accounting and auditing procedures. The DENR, in consultation with other government units and agencies, is hereby authorized to manage and disburse the funds to be used solely for the purposes enumerated herein in the form of grants, loans, equity investments, loan guarantees, and insurance or to access other local or international funds pursuant to the provisions of this Act.

SEC. 22. *Appropriations.*- The amount necessary for the initial implementation of this Act shall be taken from existing allocations of the DENR and the DOST. Thereafter such sums as shall be necessary for the operation and maintenance of the Commission shall be included in the annual General Appropriations Act.

SEC. 23. *Implementing Rules and Regulations* - The Department of Environment and Natural Resources and the Department of Energy are hereby empowered to issue implementing rules and regulations necessary, in coordination with other relevant and appropriate government agencies within sixty (60) days after its approval. Failure to issue rules and regulations shall not in any manner affect the executory nature of the provisions of this Act.

SEC. 24. *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. 25. *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. 25. *Effectivity.*- This Act shall take effect upon its complete publication in the Official Gazette or in at least two (2) national newspapers of general circulation.

Approved,