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How Carbon Trading can be an Opportunity in the Philippines

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A quick guide on carbon trading

- **Cap and trade** is a market approach to reducing carbon dioxide emissions. A government sets a ceiling, or cap, on the total amount of emissions it will allow. Companies trade carbon allowances with each other to meet their targets.
- **Carbon allowances** are sold by the government or distributed for free, usually to power plants and heavy manufacturers. Allowances give firms a right to emit a share of the total emissions, as set by the cap.
- **Carbon offset credits** can also be bought by companies. These count as emissions reductions by enabling emitters to pay for decarbonizing activities elsewhere.



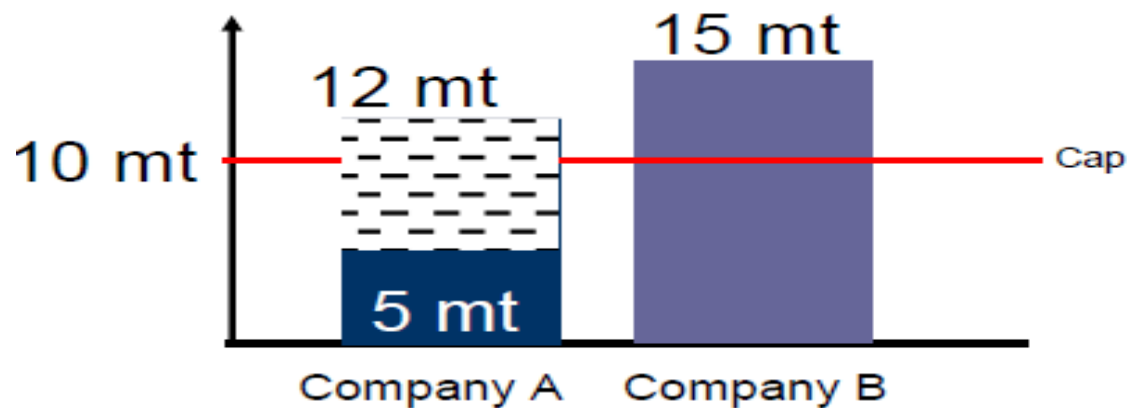
A quick guide (continuation)

- **Carbon trading** is buying and selling allowances or offsets. Companies that exceed their emissions quota can purchase allowances from others. Companies can sell or bank spare allowances for future use.
- **Carbon markets** are where allowances and credits are traded. Economists view them as efficient, because each company decides how to cut emissions to meet its goals, and by how much.
- **Carbon taxes** are paid by companies to the government for each tonne of CO₂ emitted. They are simpler to implement than markets and favoured by many economists, but they are politically unappealing.

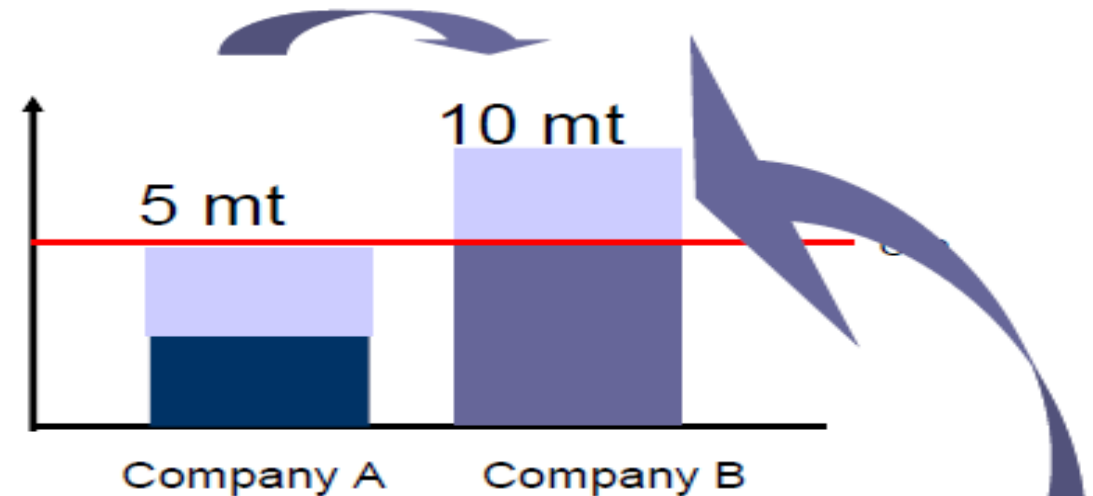


How it works

Company A has lower emission abatement costs



Company B purchases excess allowances from Company A



offset

→ Company B can also buy offsets for some emissions

Structure of the Global Carbon Market



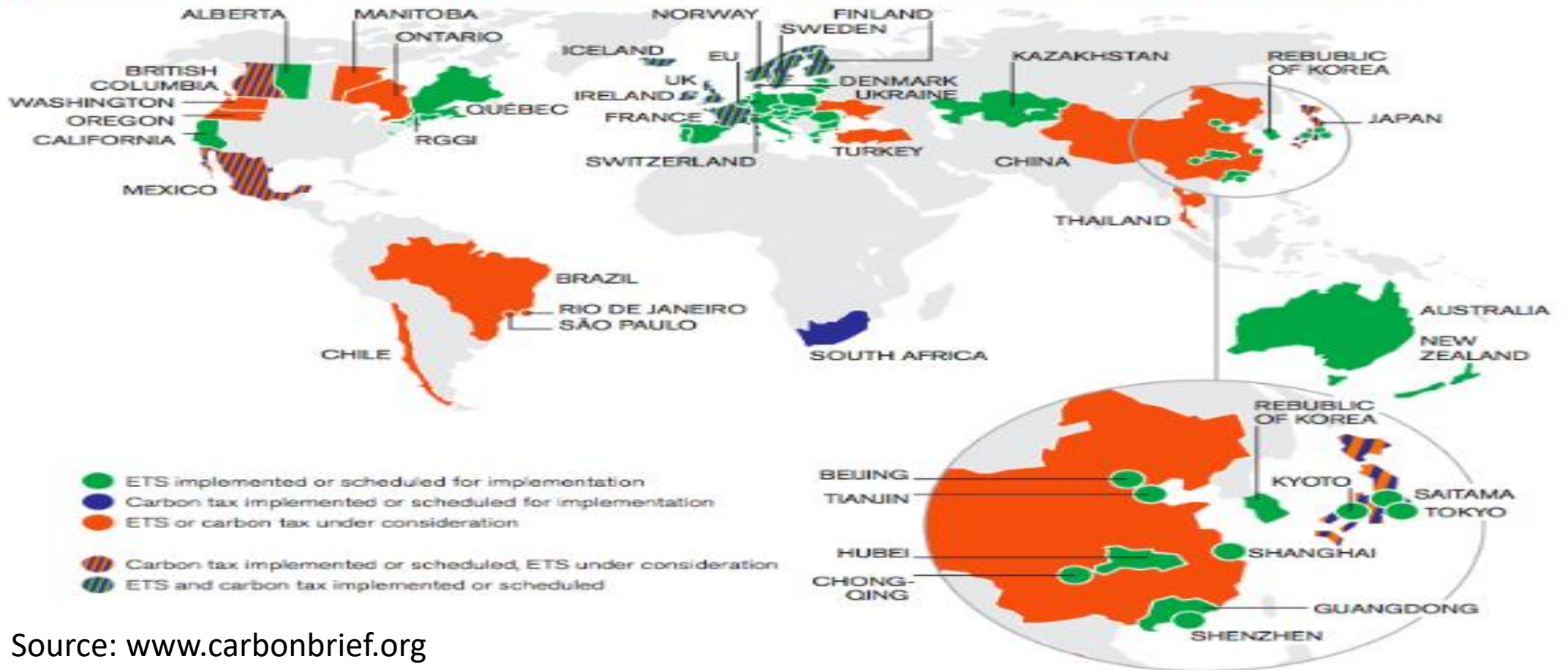
Source: www.slideshare.net

Voluntary Standards

	Gold Standard	VCS	Climate Action Reserve	American Carbon Registry	Climate Community & Biodiversity
Components of Protocol	Accounting, verification, and certification	Accounting, verification, and certification	Accounting, verification, and certification	Verifier accreditation; certification; no specific accounting components	Verifier accreditation; certification; no specific accounting components
Accounting Methodology	CDM methodologies	CDM methodologies	Six broad project protocols	CDM or broad protocols	Project must meet 15 criteria on validation checklist
Registry	Yes	Four registeries to be released soon	Yes	Yes	Public database of projects
Additionality Requirements	Yes; project specific	Project specific or threshold	Performance threshold, regulatory additionality, projects must have taken place since 2009	Yes; project specific	Yes; project specific
Emphasizes Co-Benefits	Yes; biodiversity and community	N/A	N/A	N/A	Yes; climate, biodiversity and community

Countries with Ongoing Carbon Pricing Initiatives

Figure 1 Summary map of existing, emerging, and potential regional, national and sub-national carbon pricing instruments (ETS and tax)



Source: www.carbonbrief.org

Problems besetting the carbon market

- **Low Price due to over allocation of allowances in the EU:**
 - Member states lack of verified baseline emissions data when establishing caps in their national allocation plans
 - Baseline emissions were generally overstated
 - Absence of emission reduction target for member states in the EU
 - Caps were established against a business-as-usual basis with limited ambition
 - Member states protected their own industries, allocations appeared generous relative to emissions
 - Economic downturn led to low energy demand



Historical Carbon Price in the EU Emissions Trading System

EUA closing prices



Problems in the Carbon Offset Projects

- Forest carbon project development requires carbon benefits to be quantified using rigorous methodological approaches
- Developing forest carbon projects is complex and often daunting for project proponents, whether they are from the private sector, government, or civil society.



Carbon Trading under the Paris Agreement

- New climate regime requires all parties to undertake nationally determined contributions of their own choosing.
- 187 countries had put forward NDCs, presenting various 2020-2030 target reduction dates. These contributions come in many forms, ranging from absolute economy-wide targets to peaking years, carbon intensity reductions.
- A new transparency system will apply to all parties, but will be less prescriptive than the accounting of AAUs that underpinned the Kyoto Protocol.
- Hopefully, these will lead increased demand for carbon credits and a higher carbon price



DENR Efforts

- Executive Order 193 dated 2015 states that the government shall involve the participation of the private sector with a view towards enabling private companies to achieve carbon neutrality
- In the process of preparing a policy document that will encourage private sector investment in projects that reduce emissions from deforestation and forest degradation and/or sequester carbon by providing verifiable carbon sequestration certificates (CSCs)



Specific Objectives of the of the policy document

- Provide verified and certified carbon sequestration certificates (CSC);
- Recognize private sector activities to protect carbon stock through forest protection;
- Provide standardized guidance for monitoring, measurement, carbon accounting, and verification of forest carbon projects;
- Establish an online registry platform for tracking applications, facilitating review and verification, recognizing protection of carbon stock, and issuing CSCs; and,
- Lead to the creation of a governance board.

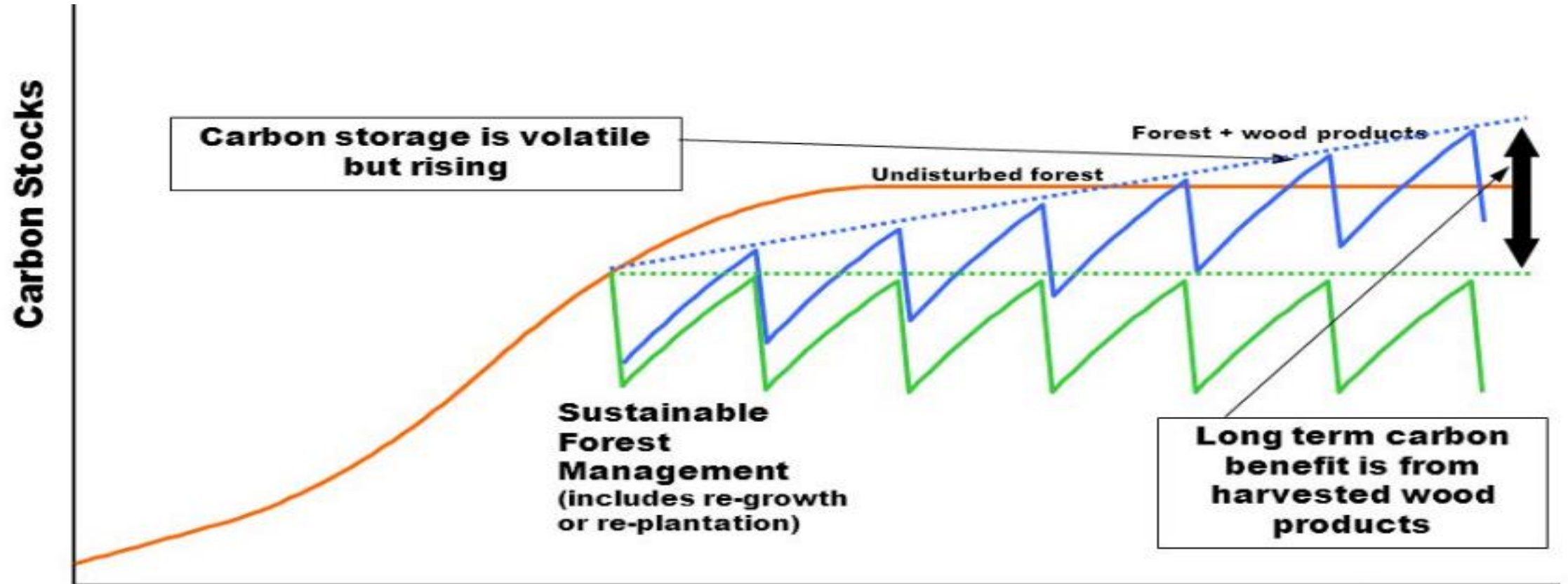


Eligible Activities

- Forest Protection
- Afforestation, reforestation and restoration
- Wetlands protection and restoration (e.g., mangroves, marshlands)



Carbon Sequestration and Timber Harvesting are compatible



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