The Climate Reality Project
PHILIPPINES

OCTOBER 2025

CARBON FOR SALE:

Weighing the Social and Environmental Costs and Opportunities of Establishing an Emissions Trading System in the Philippines

A POLICY ANALYSIS REPORT

The Climate Reality Project
PHILIPPINES

The Climate Reality Project Philippines is the country chapter of The Climate Reality Project, a non-profit organization founded by former US Vice President and Nobel Prize laureate Al Gore to catalyze global solutions to the climate crisis by making urgent action a necessity across every sector of society.

Climate Reality Philippines is home to a diverse network of more than 1,800 Pinoy Climate Reality Leaders, all equipped with the knowledge and tools to shape public opinion, inspire action, and lead the fight for a low-carbon and climate-resilient Philippines.

The Branch works with governments, civil society organizations, academic institutions, and the business sector in advocating for renewable energy sources, promoting sustainable transportation, building zero-waste communities, advancing the country's global commitment to reduce greenhouse gas emissions, fostering accountability and transparency in climate finance, and amplifying the voices of the marginalized in climate change discussions.

Climate Reality Philippines is hosted by the Institute for Climate and Sustainable Cities, an international non-government group advancing fair climate policy and low-carbon and climate-resilient development.

ACKNOWLEDGMENTS

The Climate Reality Project Philippines wishes to express its profound gratitude to the many individuals and institutions whose generous contributions, decisive guidance, and draft reviews have contributed to this policy paper.

We extend our special acknowledgement to all scientists, experts, and civil society organizations who generously shared their time and valuable perspectives as key informants and focus group discussion participants: 350 Pilipinas, Conservation International Philippines, Greenpeace Philippines, Haribon Foundation, Institute for Climate and Sustainable Cities, National Research Council of the Philippines, Oceana Philippines, Oxfam Pilipinas, Parabukas, SUSTAINARUMBLE!, University of Santo Tomas, UST College of Science, University of the Philippines Los Baños College of Forestry and Natural Resources, and other individuals and organizations who prefer to remain anonymous. No amount of appreciation can fully capture the significance of your insights, which provide essential information in understanding the complexities, challenges, and opportunities in the development of carbon policies in the Philippines.

The findings and recommendations presented in this report are intended to contribute to the ongoing discussions on carbon markets and carbon credits in the Philippines, with the hope of advancing science-based, on-ground perspectives to inform our legal frameworks, promoting environmental integrity and equitable benefits for communities.

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EXECUTIVE SUMMARY

This policy analysis addresses the pivotal opportunity and considerable risks inherent in establishing a national Emissions Trading System (ETS) via the Low Carbon Economy Investment Bill. As a nation standing against global climate impacts, the imperative to transition toward a resilient, low-carbon economy is both an environmental necessity and a socio-economic challenge. An ETS presents a market-based mechanism to drive this transition, channeling investment and incentivization toward decarbonizing the private sector.

This study was conducted from March 2025 to August 2025; and is based on analyses of the version of Low Carbon Economy Investment Bill filed during the 19th Congress as House Bill 11375 and primary data gathered through semi-structured key informant interviews and focus group discussions with Filipino scientists, academics, and civil society organizations. The findings and recommendations are therefore defined by the perspectives of respondent stakeholders, who provided critical evidence-based and advocacy-oriented viewpoints.

However, this report concludes that the system's efficacy rests entirely on its design and the regulatory foundation upon which it is built. The current iteration of the Low Carbon Economy Investment Bill, while a significant legislative step, contains fundamental flaws that, if unaddressed, risk creating a system that perpetuates business-as-usual activities, fails to protect vulnerable communities, and falls short of the nation's ambitious emissions reduction targets to the Paris Agreement.

Drawing on consultations and interviews with scientists, academics, and civil society organizations, this report evaluates the bill's architecture against the nation's unique vulnerabilities and development needs. The findings reveal a significant gap between the policy's intent and the practical requirements for a just and effective approach to carbon pricing. The path forward requires not only amending the bill itself but also prioritizing the enactment of essential supplemental legislation to ensure environmental integrity, social equity, and market stability.

KEY FINDINGS

This report looks at the following challenges:

- The bill's core mechanism for setting the emissions cap is fundamentally weak. While the system is mandatory for covered enterprises, the cap is not an independent, science-based limit. Instead, it is derived from the decarbonization plans proposed by the enterprises themselves, creating a

conflict of interest and a high risk of an unambitious trajectory that fails to align with the 1.5°C goal and the Philippines' NDC targets.

- The bill risks establishing a pay-to-pollute scheme. It allows companies that exceed their emissions allowance to comply by paying into a decarbonization fund, which can be reinvested back into these enterprises. This mechanism permits financial compliance without requiring direct operational changes to reduce emissions at source, undermining the polluter-pays principle.

- The bill is silent on critical issues of equity and justice. It lacks essential provisions for protecting Indigenous Peoples' rights, mandating fair benefit-sharing for local communities, and preventing ecosystem damage from low-integrity carbon offset projects.

- The bill creates overlapping mandates and fails to empower frontline governance. It assigns conflicting roles to the Climate Change Commission (CCC) and the Department of Environment and Natural Resources (DENR) without clear delineation. Crucially, it fails to grant Local Government Units the authority to approve, monitor, or reject projects within their jurisdictions, leaving communities without local oversight.

- The bill can be strengthened further with additional legal foundations. The report identifies the urgent need for laws such as a Carbon Rights Bill to define ownership and prevent exploitation, and a National Land Use Act to secure conservation zones.

KEY RECOMMENDATIONS

- Amend the cap-setting mechanism to mandate the Climate Change Commission to establish a binding, economy-wide, and scientifically derived emissions cap that declines aggressively in line with the 1.5°C goal and NDC targets, independent of corporate-submitted plans.

- Reform the decarbonization fund to restrict the option to simply pay into a government fund. Prioritize the fund's use for direct emissions reduction within the company's value chain or for high-integrity offset projects that meet strict ecological and social criteria.

- Enshrine equity and ecological safeguards in the bill, and integrate new provisions that mandate biodiversity co-benefits for all offset projects, establish a legal benefit-sharing framework to ensure revenues flow to local stewards, and grant LGUs regulatory authority over projects in their areas formally.

- Strengthen governance and transparency by establishing a multi-stakeholder oversight body and mandating a public, real-time registry for all emissions and trading data to ensure market integrity, prevent greenwashing, and build public trust.

- Build stakeholder capacity within LGUs and communities, and develop guidelines to integrate indigenous knowledge into monitoring systems.

- Accelerate the passage of the Carbon Rights Bill and the National Land Use Act for a more effective ETS. These supplemental legal frameworks are non-negotiable for providing the legal clarity and land security necessary to prevent conflict and exploitation.

I. INTRODUCTION

PHILIPPINES IMPERATIVE

Reported globally as the most at-risk country among 193 nations facing extreme climate disasters in 2024, the Philippines finds itself at the forefront of bearing the brunt of climate change (World Risk Index, 2024). The World Risk Index was measured based on three indicators: exposure to climate-related hazards, susceptibility to their impacts, and the lack of coping and adaptive capacities. Unfortunately, the Philippines ranks high in all three dimensions, making it one of the world's most climate-vulnerable nations.

The Philippines' high vulnerability, compounded by increasingly severe disasters, has driven catastrophic economic losses. For instance, Typhoon Ulysses in 2020 caused Php 20.2 billion in damages, while Super Typhoon Odette in 2021 inflicted Php 47.6 billion in losses and claimed hundreds of lives. Beyond these immediate financial losses, the rapid succession of typhoons threatened to compound systemic costs. In 2024 alone, six typhoons struck within thirty days. Some areas were repeatedly battered, leaving thirteen million people trapped, infrastructure crippled, and economic activity paralyzed (GreenDevelopment Solutions, 2025). These unprecedented escalations of risks redefine climate threats as immediate, multiplicatory, and nationally destabilizing.

In response, the Philippines looks toward international frameworks that guide collective climate action. One of these is the Paris Agreement, where country parties committed to limit global warming to well below 2.0°C, with efforts to cap it at 1.5°C above pre-industrial levels. Central to this Agreement are the Nationally Determined Contributions (NDCs) – individual country commitments to cut greenhouse gas emissions, reflecting each nation's priorities, capacities, and conditions. Through a ratchet mechanism, these NDCs are designed to progressively strengthen ambition, serving as blueprints toward the global net-zero target by 2050.

Countries are required to update their NDCs every five years. The next round, with a 2035 timeframe, was due by February 2025. However, over 90% of the 174 signatories missed the deadline. For the Philippines, whose first NDC submission was overdue by a year in 2021, expectations now rest on presenting a more ambitious and updated climate commitment ahead of the 30th United Nations Conference of the Parties (COP30) in Belem.

PHILIPPINES' NDC

The Philippines bears an inequitable burden of climate vulnerability despite contributing only about 0.5% of global emissions, or roughly 235 million metric tonnes of carbon dioxide (Emission Index, 2024). As a signatory to the Paris Agreement, the country has committed to strengthening its capacity to adapt to unavoidable climate impacts while contributing to global efforts to mitigate warming. Through its climate pledge, the Philippines also seeks to unlock international financing and technical support to help it cope with the unprecedented impacts of erratic climate change.

In its Nationally Determined Contribution, the Philippines pledged to reduce greenhouse gas emissions by 75% by 2030. Of this target, 72.29% is conditional on international financing and external support, while only 2.71% is unconditional, relying solely on domestic resources (NDC Implementation Plan 2020–2030). The NDC covers the sectors of agriculture, waste, industry, transportation, and energy.

Sectoral NDC targets outline a suite of dedicated policies and measures notably identified for potentially reducing national emissions and adapting to climate change impacts. Energy, as the largest contributor of emissions at 59%, aligned its targets to the Philippine Energy Plan (2023-2050) and focused on renewable energy transition, scaling up RE deployment, and cross-sectoral efforts to decarbonize the transportation sector. The waste sector prioritizes methane recovery, waste diversion, and improvements on wastewater treatment; while industrial processes and product use (IPPU) targets consider alternative fuel use and other low-carbon production methods, particularly in refrigerants and cement industries. For agriculture and forestry and other land use (FOLU), plans will leverage sustainable land use and enhanced carbon sinks. FOLU was not considered in the first Philippine NDC as it claims to be a net sink.

Despite the NDC 75% ambition, the overwhelming reliance on conditional support exposes significant limitations, being vulnerable to the unpredictability of finance and

resources available internationally. For unconditional policies and measures, concerns were raised about the insufficiency of domestic drivers for decarbonization, which the private sector and subnational governments were regarded as being instrumental in. National efforts to establish legislative measures to mandatorily drive down emissions from high-emitting industrial and energy players remain pending. Due to this untapped potential, there is a growing uncertainty in meeting the NDC targets, which underscores the need for complementary market-based instruments and regulatory domestic mechanisms to harness.

OPERATIONALIZING ARTICLE 6 AND CARBON MARKETS

At COP29 in Baku, parties reached a landmark decision with the full operationalization of Article 6 of the Paris Agreement, concluding a decade-long negotiation to establish a global framework for carbon markets and non-market cooperation. This breakthrough creates new avenues for developing countries to access climate finance by opening pathways for capital flows that support both mitigation objectives and the Sustainable Development Goals (Climate & Company, 2024).

Article 6 rests on three pillars: international cooperative approaches (6.2), a centralized carbon market (6.4), and non-market-based cooperation (6.8).

Article 6.2 enables bilateral and multilateral transfers of Internationally Transferred Mitigation Outcomes (ITMOs), allowing developing countries to generate revenue by selling carbon credits to other states or private entities, thereby monetizing emissions reductions that contribute to or exceed their NDC targets. Article 6.4 establishes a UN-administered crediting mechanism, often referred to as the Article 6.4 mechanism or the Paris Agreement Crediting Mechanism, which certifies and regulates international carbon trading and allows private sector and non-party stakeholders to participate in cross-border transactions under the Paris Agreement framework (McAllister et al., 2024). Article 6.8, meanwhile, promotes non-market approaches such as technology transfer, capacity-building, and cooperative initiatives that strengthen sustainable development outcomes alongside emissions reduction goals.

KEY CONCEPTS OF ETS AND ITS LEGAL FRAMEWORK

Building on the international consensus around carbon market mechanisms under Article 6 of the Paris Agreement, countries have increasingly adopted the ETS as a central tool for climate change mitigation. An ETS is grounded in the cap-and-trade principle. A regulatory authority sets a cap on total greenhouse gas emissions from specific sectors or activities, ensuring certainty by limiting the overall quantity of emissions rather than only pricing them. Emission permits, each typically equal to

one tonne of carbon dioxide, are allocated to covered entities. Companies must then surrender permits equivalent to their actual emissions during a compliance period. Those that reduce emissions below their allocation can sell excess permits, while those that exceed their cap must purchase additional ones. This creates incentives for cost-effective abatement, rewarding entities that can cut emissions more efficiently.

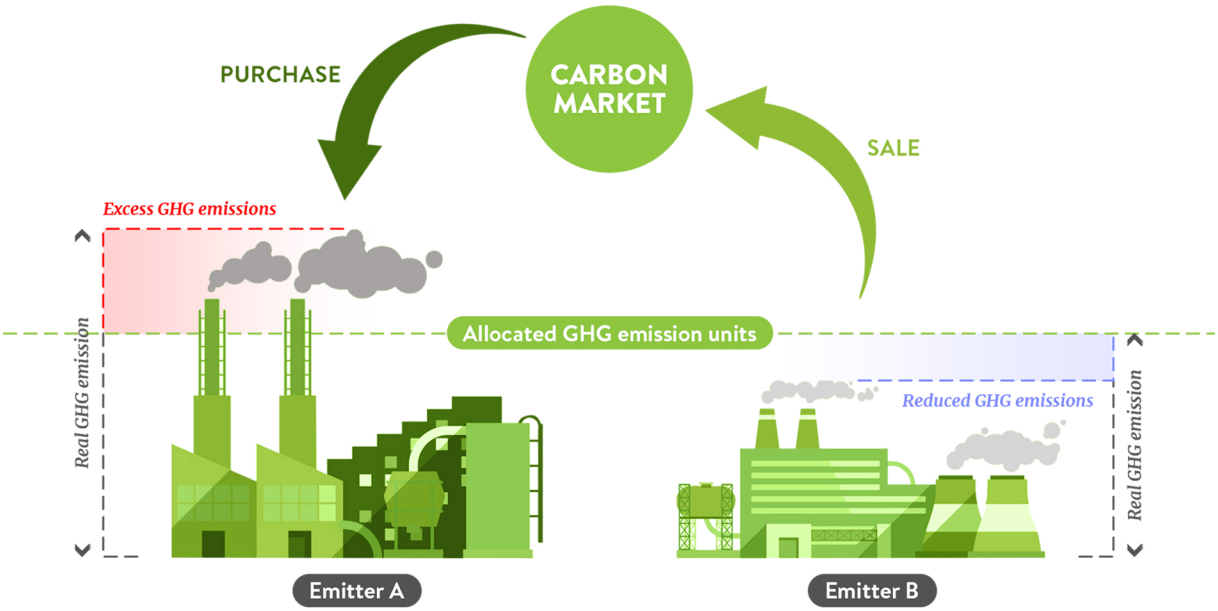

Figure 1. *How an emissions trading system works.*

The origins of emissions trading trace back to the 1997 Kyoto Protocol, which set binding emission reduction targets for industrialized nations. The Protocol introduced three market-based mechanisms: international trading of emission allowances, the Clean Development Mechanism (CDM), which enabled investment in emission reduction projects in developing countries, and Joint Implementation (JI), which supported similar projects between developed nations. These mechanisms facilitated cross-border carbon credit trading and the generation of certified reductions, but they also revealed key limitations. Most notably, developing countries were exempt from binding targets, which undermined the system's global reach.

The 2015 Paris Agreement addressed these shortcomings by creating a more flexible framework for international carbon markets under Article 6. This includes voluntary cooperation through the transfer of emissions reductions between countries, as well as the Sustainable Development Mechanism (SDM), which replaced the CDM. Unlike its predecessor, the new mechanism emphasizes environmental integrity, transparency, and accountability by requiring reductions to be measurable, verifiable, and additional to baseline scenarios (Ahuja, 2024). Together, these frameworks enable countries to meet their national climate pledges through market-based cooperation. Today, more than 100 countries are considering or implementing

carbon pricing measures as part of their climate strategies (International Carbon Action Partnership, n.d.).

For the Philippines, this global evolution underscores both the opportunity and the urgency of designing an emissions trading system that not only aligns with international standards but also responds to its unique socio-economic vulnerabilities and development needs.

II. METHODOLOGY

We employed a multi-faceted approach to examine the development and implementation challenges of the emerging ETS in the Philippines, as well as stakeholder perceptions of its potential impacts.

Primary data was gathered through semi-structured key informant interviews with established Filipino scientists and researchers in ecology, forestry, and watershed management. These were complemented by focus group discussions with representatives from the academe, biodiversity researchers, and civil society organizations with professional experience in carbon-financed projects and carbon markets. Furthermore, gathering of data was conducted from March 2025 to August 2025.

We structured key informant interviews and focus group discussions around five thematic areas: (1) Advocacy and science influence on policies, (2) Carbon markets, (3) Low Carbon Economy Investment Bill, (4) Carbon pricing mechanism and emissions trading system, and (5) Social and ecological impacts.

We developed standard guide questions (refer to Annex A) under each theme to steer the conversations and ensure comparability of insights across participants.

Secondary data complemented the key informant interviews and focus group discussions, particularly through document analysis of House Bill 11375 or Low Carbon Economy Investment Bill, filed under the 19th Congress, and draft position papers shared by informants.

SCOPE AND LIMITATIONS

The report evaluates the feasibility and design requirements for an emissions trading system in the Philippines, with a focus on the perspectives of scientists, academics, and civil society organizations. Insights were drawn exclusively from these stakeholder groups to highlight evidence-based and advocacy-oriented viewpoints on carbon markets and the Low Carbon Economy Investment Bill or HB 11375.

The study does not capture the perspectives of private sector actors, government agencies, and indigenous peoples' groups, all of whom are critical stakeholders in the development and implementation of carbon credit mechanisms.

Furthermore, findings are derived entirely from the five identified thematic discussions. While this provides structured insights into key dimensions of the feasibility of an emissions trading system, it may not fully capture the broader institutional, financial, and political dynamics that could shape the system's development.

Despite these limitations, the study provides a critical evidence base by centering on the perspectives of scientists, academics, and civil society organizations. These groups play an essential role in ensuring that the design of an ETS in the Philippines is scientifically credible, socially responsive, and ecologically grounded.

III. FINDINGS

A. UNEVEN INFLUENCE OF SCIENCE AND CIVIL SOCIETY ORGANIZATIONS IN ETS DEVELOPMENT

The study examines the engagement of the scientific community and civil society organizations in the development of the Low Carbon Economy Investment Bill, which potentially can make way for the national emissions trading system. Effective climate governance, especially for a complex market mechanism like an ETS, requires a whole-of-society approach, relying on the expertise, accountability, and on-ground perspectives that scientists and CSOs provide to ensure environmental integrity and social equity.

The findings reveal a concerning lack of formal, meaningful consultations with these critical stakeholders where their evidence-based warnings were largely absent from the legislative text. In the Philippines, government receptiveness to scientific and civil society inputs in environmental policymaking is uneven, with a bias toward sidelining evidence when it conflicts with economic priorities. Academic and private sector groups occasionally influence the drafting of policies and ordinances, particularly when their inputs align with development agendas. Civil society organizations also engage actively through consultations and lobbying, providing critical data on climate impacts and ecological risks. However, their recommendations are often overlooked. For example, the protection of biodiversity and habitats of threatened species of Taal Lake was overruled to give way to the construction of a Taal Lake Circumferential Road. These disturbing patterns of development indicate a recurring disregard for scientific guidance and the long-term health of the environment, in favor of economic gains and short-term objectives. Even when research and advocacy do shape outcomes, such as in certain watershed management ordinances or local climate adaptation plans, the integration of science into policy remains inconsistent and conditional rather than systematic.

While inputs from academic and civil society groups are often overlooked, these patterns are evident in the current iterations of the bill. Critical provisions such as the absence of mandatory emissions cap and weak social safeguards directly reflect the insufficiency of integrated scientific research and community-based perspectives. The bill's treatment of carbon offsets, for instance, which risks promoting ecologically harmful monoculture plantations, shows a clear disconnect from the conservation science expertise that scientists and CSOs could have solidified.

Another evident fundamental truth of Philippine climate governance is the reliance on legislative and executive "champions" rather than on institutionalized and systemic processes for integrating expertise. "Champions," as described are individuals, positioned within decision-making institutions, act as key advocates who

can push the climate agenda forward and accelerate the passage of critical legislation. Without the inclusion of scientists and CSOs in the policymaking process, the resulting framework is not only weaker but also carries heightened risks of perpetuating business-as-usual activities, failing to protect vulnerable communities, and undermining the nation's climate goals.

B. LIMITED TRUST AND CAPACITY IN CARBON MARKET MECHANISMS

The Philippines is emerging as a promising destination for nature-based carbon projects, with the voluntary carbon markets showing early traction even before compliance obligations are introduced. The findings present a fragmented policy landscape for carbon market initiatives in the country, including uncertainties in structures, governance gaps, and a fundamental concern that carbon markets may prioritize financial returns over ecological and social outcomes.

Carbon market developments occur within prohibitive barriers that would otherwise prevent projects from being developed. Stakeholders report that carbon markets in the country operate in complex and opaque standards and methodologies that create substantial obstacles for potential participants without dedicated resources to study the requirements. This barrier is compounded by extremely high costs, with registration fees alone requiring up to 50,000 USD, effectively excluding local communities and smaller organizations from participation.

The absence of formal voluntary carbon market guidelines has created an environment of uncertainty where projects proceed without standard national frameworks for oversight and quality control. This regulatory gap is particularly evident in conflicts concerning ecosystems and protected areas, such as overlaps in the jurisdiction between the Department of Environment and Natural Resources (DENR) and the Bureau of Fisheries and Aquatic Resources (BFAR), specifically on abandoned fish ponds and mangrove restoration sites. Moreover, the country lacks a comprehensive National Carbon Stock Assessment, creating data gaps that undermine accurate carbon accounting. Different ecosystems possess varying carbon sequestration potential values, and the absence of localized, ground-truth data forces projects to rely on international accounting standards that may not reflect the Philippines' conditions. The high costliness of ground-truth assessments exacerbates this challenge, particularly for nature-based solutions.

Stakeholders also emphasized concerns about additionality, which refers to whether carbon projects generate genuine emissions reductions beyond what would have happened without them, and leakage, which occurs when protecting one area simply shifts deforestation or emissions to another site. While some international standards exclude protected areas from carbon financing due to perceived lack of additionality, participants reaffirmed such a current condition within the Philippines' protected areas, which suffer from inadequate protection. On the other hand, the risk of leakage requires careful and strict consideration in project design and monitoring.

The issue of who owns the carbon rights is perhaps the most complex and pressing governance challenge, yet a fundamental one. From the sharings, it reveals confusion around the separation of land ownership from carbon rights, particularly within ancestral domains where indigenous peoples assert full ownership of both. Without a clear legal framework for carbon rights, it results in internal discord and exploitation, as projects persist without guidelines for benefit-sharing mechanisms and alignment with the Free, Prior, and Informed Consent (FPIC).

Another issue arises that carbon markets should not represent the only profitability aspect of ecosystems. Many critical ecosystems and habitats are not suitable for carbon projects but still require continued financial support for protection and restoration. A pluralistic approach to financing conservation that promotes non-market mechanisms is essential for effective and sustainable conservation and restoration efforts, particularly given that the Philippines' forest cover remains at approximately 24%, far below the 50% forest cover necessary to sustain ecological services.

One strategic milestone towards governance challenges in critical ecosystems is the launching of the National Blue Carbon Action Partnership of the DENR. This specifically targets the restoration and protection of blue carbon ecosystems such as mangroves, seagrasses, and tidal marshes. This strategy is particularly relevant by

providing a coordinated framework for blue carbon projects that could develop standardized methodologies, directly addressing several institutional gaps in the current carbon market landscape.

C. GAPS AND RISKS IN THE LOW CARBON ECONOMY INVESTMENT BILL

The analysis of the proposed Low Carbon Economy Investment Bill reveals a significant disconnect between the legislative text and the ground-level concerns expressed by stakeholders. While the bill presents an opportunity to establish a broad framework for carbon pricing, results show several critical issues that may arise once the law is implemented.

First, the bill delegates the setting of emissions allowances to enterprises themselves. According to the bill (Art. 6, Sec. 22a), the Climate Change Commission (CCC) is tasked with determining sectoral emissions allowances based on consolidated decarbonization plans submitted by participating enterprises. This structure creates a circular logic in which companies are effectively allowed to set their limits. Without a scientifically derived, economy-wide cap that declines aggressively over time, the bill risks being unambitious and misaligned with the Philippines' Nationally Determined Contribution.

Second, the bill establishes weak compliance mechanisms and sets a poor precedent for future climate law. It omits a clear national policy to decarbonize by mid-century

and fails to establish a legally binding, declining cap aligned with long-term targets—an essential feature of effective emissions trading systems.

Instead of enforcing reductions, the bill allows firms that exceed their allowances to pay into a *decarbonization fund* (Art. 6, Sec. 25-26). Because this fund can finance projects outside a company's value chain or be absorbed into government accounts, it risks becoming a pay-to-pollute scheme rather than a driver of abatement.

Penalties for non-compliance (Art. 8, Sec. 33) remain weak. Fines amount to only twice the carbon price that should have been paid, a cost many businesses may treat as a manageable expense rather than an incentive to reduce emissions fundamentally. The revocation of business permits after three consecutive years of non-compliance appears stronger but is undermined by the long timeframe, which fails to create urgency.

Third, the bill does not prioritize environmental or social safeguards. Concerns surfaced around the bill's treatment of carbon offsets (Art. 6, Sec. 26c). Stakeholders warned that the lack of prioritization for biodiversity co-benefits could encourage monoculture plantations, which deliver high carbon yields but undermine ecosystem resilience and biodiversity.

Interviewees strongly emphasized that the bill is silent on protections for Indigenous Peoples, benefit-sharing mechanisms for local communities, and safeguards against "carbon cowboy" practices. While the bill mentions the development of a *decarbonization taxonomy* (Art. 6, Sec. 27) to guide investments, this remains a future promise rather than a current safeguard.

Fourth, the bill risks worsening institutional conflicts. The bill assigns overlapping responsibilities to the CCC (allowance setting, monitoring, reporting, verification, and oversight of international trading) and the DENR (approval of decarbonization plans and compliance monitoring). Without a clear delineation of authority, these overlapping mandates risk creating bureaucratic delays and enforcement gaps and challenges that stakeholders have already identified as barriers to effective climate governance.

Finally, interviewees emphasized that the bill should be supported by other complementary regulatory frameworks, such as a National Land Use Act and Carbon Rights Bill, which should precede or accompany the operationalization of the Low Carbon Economy Investment Bill. Without these supplemental legal foundations, the bill risks being enacted on unstable ground. The following section will provide extensive information on these policies and their legislative status.

D. SUPPLEMENTAL POLICY FRAMEWORKS

Stakeholders repeatedly highlighted that the Low Carbon Economy Investment Bill cannot function in isolation. Some existing or pending laws shall be pursued in alignment with the bill's provisions to address enforcement gaps. These include:

a. Carbon Rights Bill

The Carbon Rights Bill is the most urgent and foundational for any functional carbon market in the country, as it directly addresses the critical legal void where the concept of carbon as a distinct, tradable property right is currently unrecognized creating a dangerous grey area that enables exploitation and leads to conflicts particularly on ancestral domains. By legally defining and vesting carbon rights with, as the Carbon Rights Bill explicitly states for private landowners, Indigenous Cultural Communities or Indigenous Peoples, and tenure holders, this bill establishes the clear ownership, transfer, and benefit-sharing mechanisms necessary to prevent exploitation, resolve disputes, and ensure that financial benefits from nature-based projects flow directly to the rightful land stewards rather than intermediaries. Thereby providing the essential social license and equity safeguards without which other market mechanisms would operate on unstable ground with no legal basis for transacting credits.

b. National Land Use Act

The National Land Use Act is a critical missing piece for an effective ETS. It would provide the scientific and legal basis for identifying and designating permanent priority areas for conservation, restoration, and renewable energy development, the very landscapes where carbon offset projects would be most viable and ecologically beneficial. A study by the Philippine Institute for Development Studies (2023) also supports and urges the passage of the National Land Use Act to address persistent land use conflicts, environmental degradation, and inefficient resource allocation. Without this Act, carbon projects are at the mercy of ambiguous local zoning ordinances and political whims, risking that land earmarked for reforestation could be converted for economic use at any time. The Low Carbon Economy Investment Bill's effectiveness needs this Act, as there is no overarching mechanism to ensure that land use plans align with national climate and carbon reduction goals, leaving the market vulnerable to instability and reputational risk from projects on contested or inappropriate land.

c. National Voluntary Carbon Market Framework

While the Low Carbon Economy Investment Bill focuses on a compliance market for large emitters, the voluntary carbon market is already active in the Philippines. A dedicated voluntary carbon market framework can be established either through legislation or an administrative order, and fundamentally expected that this policy shall establish a national standard, beyond international standards for validation, verification, and monitoring tailored to the country's ecosystems and include mandatory biodiversity and social co-benefits. It should also set up a national registry to track projects and prevent double-counting. Without a comprehensive national voluntary carbon market framework, the market will continue to be plagued by distrust, and the Philippines will struggle to attract high-quality investments and ensure that voluntary actions genuinely contribute to its NDC targets, potentially undermining the integrity of the entire national carbon market strategy.

d. Establishment of a Tool for Valuing the Philippines' Natural Resources and Ecosystem Services

Recently enacted, the Republic Act No. 11995 Philippine Ecosystem and Natural Capital Accounting System (PENCAS Act). Its full and effective implementation is a non-negotiable prerequisite for a scientifically robust ETS. The PENCAS Act moves beyond traditional gross domestic product to account for the economic value of environmental degradation and conservation,

providing the data needed to set accurate carbon baselines, quantify the co-benefits of projects, and inform the resilience cost component of the carbon price (Art. 6, Sec. 24). Crucially, Section 12 of the PENCAS Act explicitly recognizes that nature possesses an inherent and intrinsic value, separate from its economic utility. This principle of the Rights of Nature provides a powerful ethical and legal foundation for ensuring that carbon projects deliver net positive ecological outcomes, outgrowing a narrow focus on carbon measures to uphold holistic environmental integrity (Furigay, 2024). Without the ecosystem-level data that PENCAS mandates, the government and project developers will continue to rely on estimates and international defaults that may not reflect local realities, leading to inaccurate carbon accounting and potentially flawed credit issuance.

Taken together, abandoning the identified supporting policies show that the Low Carbon Economy Investment Bill, in its current form, risks creating a carbon market that legitimizes pollution without ensuring real decarbonization. To move forward, legislators must not only correct the bill's design flaws but also address the absence of supplemental frameworks mentioned. The challenge then is clear: ***how can the Philippines design an emissions trading system that responds to its unique context while avoiding these same shortcomings?***

E. DESIGNING AN EMISSIONS TRADING SYSTEM FOR THE PHILIPPINES

The findings present both opportunities and design considerations for building a just and effective emissions trading system. The proposed Low Carbon Economy Investment Bill incorporates some of these principles, particularly on transparency, but leaves critical gaps in equity, justice, and enforceability. Addressing these weaknesses will be essential to ensure that the system drives real emissions reductions while safeguarding communities and strengthening public trust.

One of the bill's stronger features is its emphasis on transparency. The institutionalization of the Philippine Greenhouse Gas Inventory System (PGHGIS) and the National Integrated Climate Change Database and Information Exchange System (NICCDIES) (Art. 2, Sec. 4 & 8) provides a foundation for open data. This is reinforced by provisions for an online registry of decarbonization pathways (Art. 6, Sec. 37) and the requirement to make Monitoring, Reporting, and Verification (MRV) results and Internationally Transferred Mitigation Outcomes adjustments publicly available (Art. 3, Sec. 11 & Art. 4, Sec. 17b). However, the bill stops short of mandating a concrete access model. Stakeholders suggest mechanisms akin to a Freedom of Information (FOI) framework or Securities and Exchange Commission (SEC) style sustainability reporting platforms to ensure accessibility and corporate accountability.

Additionally, there is a provision in the bill to establish a system for accrediting third-party assessors (Art. 7, Sec. 31 & 32), which also mandates a rigorous verification process with the objective to ensure the integrity and credibility of carbon projects. Requiring this has to align with international accounting standards and strengthen MRV mechanisms. The accreditation system will facilitate both compliance with NDC goals and participation in international carbon markets under Article 6 of the Paris Agreement.

Carbon pricing design, however, remains one of the bill's weakest points. Article 6, Section 24 defines pricing to include both mitigation costs and resilience costs borne by enterprises. Yet because allowances are not tied to a binding, declining cap, the resulting price risks being too low to drive meaningful change. Stakeholders warn that allowing the market alone to dictate the price is risky, as markets are highly volatile. Equity concerns are also apparent: with no safeguard against cost pass-through, enterprises may shift the financial burden to consumers, embedding the price of allowances and carbon credits into goods and services.

Interviewees repeatedly warned about the danger of a regressive impact, where low-income households, already spending a larger portion of their income on essentials, would bear the brunt of carbon pricing. Without consumer protections or price control measures, they argued, what should serve as an incentive for producers to innovate could instead function as a de facto consumption tax. In this scenario,

the bill risks undermining its promise of climate-resilient economic development by worsening inequality and eroding public support.

F. SOCIAL AND ECOLOGICAL IMPERATIVES & RISKS

The establishment of an emissions trading system is not only a technical or economic undertaking but also a profound socio-ecological intervention. The proposed Low Carbon Economy Investment bill positions itself as a tool to cut emissions and mobilize investments, yet its current design risks privileging carbon accounting over ecological outcomes. By treating carbon primarily as a tradable commodity, the bill pays lip service to ecological integrity while creating incentives that center on compliance rather than genuine abatement. Carbon commodification alone will not meaningfully reduce emissions in the atmosphere. The legislation must therefore establish mandatory ecological criteria for offset projects, requiring net biodiversity gains and the protection of critical habitats.

Conservation and nature-based solutions must be the primary focus, with carbon credits as a co-benefit, not the driver.

Prioritizing ecosystem integrity ensures healthy, resilient landscapes that sustain biodiversity and human well-being. A potential avenue is the decarbonization taxonomy (Art. 6, Sec. 27), which should explicitly include ecological health as a core principle guiding investments.

For carbon projects to be ethical and sustainable, stakeholders stressed that a significant majority of the financial benefits must flow directly to the communities that are the true stewards of the land and bear the opportunity costs of conservation. The bill contains no mechanism to guarantee that the landowners or indigenous peoples receive a fair share of revenues from projects on their territories, creating the risk of exploitation. Stakeholders recommend a legally mandated benefit-sharing framework that allocates a significant portion of net revenues to communities, ensuring equity and avoiding conflict.

The bill shall include provisions against greenwashing to fully ensure environmental integrity.

Stakeholders also highlight critical gaps in community-level preparedness and equity safeguards. Many communities lack the technical capacity to negotiate fair contracts or navigate complex carbon agreements. The absence of a legal framework defining carbon rights, coupled with weak benefit-sharing provisions, leaves space for intermediaries and "carbon cowboys" to exploit local vulnerabilities.

The effective implementation of an ETS needs the active, empowered, and capacitated involvement of local government units. As the level of governance closest to both communities and ecosystems, local government units (LGUs) are

uniquely positioned to assess project impacts and safeguard constituents. Yet, the bill only assigns LGUs to vague responsibilities of integrating climate change measures and supporting the activities of covered enterprises (Art. 2, Sec. 7 & Art. 9, Sec. 38), without granting authority to approve, monitor, or reject projects based on local climate change action plans or zoning ordinances. Without a massive, nationally-funded capacity-building program and a clear mandate in the law or its implementing rules, LGUs will be unable to perform essential functions to evaluate proposals, monitor compliance, or ensure that promised benefits are actually delivered.

Indigenous peoples face the gravest risks. Projects initiated on ancestral domains carry profound implications for sovereignty, culture, and traditional livelihoods, yet the bill reduces their protection to procedural consultation. While the National Commission on Indigenous Peoples is included in the NDC Steering Committee (Art. 3, Sec. 15), there are no enforceable safeguards or capacity-building provisions in the core articles on offsets. This raises the risk that pressure to generate carbon credits could dilute or override Free, Prior, and Informed Consent. To safeguard rights, the bill's implementing rules must be co-developed with the National Commission on Indigenous Peoples and indigenous peoples leaders, embedding culturally grounded processes, ongoing Free, Prior, and Informed Consent, and pathways for indigenous peoples to own and manage carbon credits themselves. Such provisions would ensure that the transition to a low-carbon economy strengthens, rather than erodes, indigenous rights and ecological stewardship.

IV. CONCLUSION AND WAYS FORWARD

The path forward is not to abandon the concept of carbon pricing, but to fundamentally rethink its feasibility. As one of the world's most climate-vulnerable nations, the Philippines cannot afford a market-based system that legitimizes business-as-usual practices. What is required is a robust mechanism that drives bona fide transformation while protecting vulnerable communities and ecosystems.

This policy analysis demonstrates that the establishment of an ETS represents both an opportunity and a significant governance challenge for the Philippines. While the ETS offers potential for unlocking private capital for emissions reduction, the current legislative language of the Low Carbon Economy Investment Bill contains risks creating a system that legitimizes business-as-usual pollution under greenwashing, exacerbates social inequities, and fails to deliver the real, verifiable emissions reductions the Philippines desperately needs.

The overwhelming reliance on international finance for the NDC underscores a critical lack of domestic regulatory drivers. The bill was meant to address this gap, but instead threatens to simulate it, which will be a non-mandatory framework where compliance is optional and management is incoherent.

Furthermore, the study uncovers a profound disconnect between the legislative process and on-ground realities. The consistent displacing of scientific evidence and civil society input results in policies that are vulnerable to economic pressures and political whims. The preemptive emergence of a volatile market, already plagued by threats from carbon cowboys and community exploitation, signals an urgent need for the state to assert strong, principled regulation, not to codify a free-for-all.

The path forward is not to abandon the concept of carbon pricing, but to fundamentally rethink its feasibility. As one of the world's most climate-vulnerable nations, the Philippines cannot afford a market-based system that legitimizes business-as-usual practices. What is required is a robust mechanism that drives bona fide transformation while protecting vulnerable communities and ecosystems.

PRIORITY RECOMMENDATIONS FOR CRITICAL AMENDMENTS AND NEW PROVISIONS TO THE BILL AND OTHER SUPPORTING ACTIONS

The following points provide concrete guidance and recommendations for legislators, policymakers, and advocates to salvage the potential of the bill and ensure the Philippines' ETS is an instrument of social and environmental integrity and effectiveness, not exploitation.

1. Mandate a Binding, Declining Emissions Cap

1.1. Amend Sec. 22 of the Low Carbon Economy Investment Bill to establish a binding, economy-wide emissions cap that declines consistently with 1.5°C alignment and NDC targets. The Climate Change Commission must be empowered and mandated to set this cap based on scientific assessment and ground truthing, not to be determined based on consolidated sectoral pathways or corporate-submitted plans. The CCC shall also set an emissions limit that aggressively and effectively reduces nationwide emissions aligned with the national emissions reduction and avoidance goals by 2030 or 2050 (development of a nationwide net-zero commitment). This cap must be the central, non-negotiable feature of the ETS.

2. Replace the "Pay-to-Pollute" Fund with a Rigorous Compliance Mechanism

2.1. Amend Sec. 25-26 on Decarbonization Fund and shall be restructured as a restorative mechanism, not a compliance alternative. The bill's proposed *decarbonization taxonomy* must be mandated to exclude projects that degrade natural ecosystems. Eligibility for carbon offsets should be selective on projects demonstrating a net biodiversity gain instead of qualifying commercial monoculture plantations.

2.2. Proposed New Provision on Fund Allocation. Revenues from the fund must be legally mandated to finance community-led mitigation and decarbonization programs in areas most affected by climate impacts or within pollution hotspots, with oversight and support from civil society groups and local government units.

3. Enshrine Equity and Ecological Safeguards as Core Legislative Principles

3.1. Amend Sec. 38 on Local Governments Role to grant LGUs the formal authority to approve, monitor, and reject carbon projects within their

jurisdictions based on their Local Climate Action Plans (LCCAPs) and zoning ordinances.

3.2. Proposed New Provision on Mandatory Co-Benefits. The bill must require that all carbon offset projects demonstrate net positive gains for biodiversity, ecosystem health, and community livelihoods. Commercial monoculture plantations must be explicitly excluded from eligibility.

3.3. Proposed New Provision on Benefit-Sharing Framework. Legally mandate that a majority of financial revenues from carbon credits generated on ancestral domains and private lands flow directly to land stewards, including Indigenous Peoples, local communities, and landowners, preventing exploitation by intermediaries.

4. Strengthen Governance and Transparency

4.3. Amend Sec. 37 on Online Registry by implementing transparent registry systems with real-time public access to emissions data, allowance allocations, credit trades, and status of compliance. This level of radical transparency is a defense against market manipulation and greenwashing.

4.2. Proposed New Provision on Multi-Stakeholder Oversight Body or a legally established independent advisory board with formal representation from civil society, academic institutions, Indigenous Peoples groups, and the private sector. This body would have formal advisory capacity to review the system's performance, integrity, and equity, and to recommend adjustments to the Climate Change Commission.

5. Build Stakeholders' Capacity

5.1. Sustain technical assistance programs for local government units on carbon market governance. The CCC shall partner with the Department of the Interior and Local Government (DILG) and academic institutions, and must roll out a sustained, comprehensive program to train LGU officials on the fundamentals of carbon markets, project evaluation, negotiation, and monitoring. This empowers them to be effective regulators and community advocates.

5.2. Develop indigenous knowledge integration protocols in the MRV system. The National Commission on Indigenous Peoples (NCIP) shall endeavor to lead the development of protocols that respect and integrate indigenous knowledge systems into the entire monitoring, reporting,

verification (MRV) process for projects on ancestral domains. This recognizes Indigenous Peoples not just as beneficiaries but as essential partners and knowledge-holders.

6. Enact Supplemental Policies for ETS Feasibility

6.1. Accelerate passage of the Carbon Rights Bill to clarify property rights and strengthen benefit-sharing mechanisms. The passage of this legislation legally defines carbon as a distinct, tradable property right. This Act must explicitly vest these rights in landowners and indigenous communities within ancestral domains. It must establish standardized, mandatory benefit-sharing agreements if the Low Carbon Economy Investment Bill still lacks the provisions to do so, to prevent conflict and exploitation.

6.2. Enact the National Land Use Act to provide planning coherence for nature-based mitigation projects. The National Land Use Act is critical for identifying and securing priority conservation zones where nature-based or carbon projects would deliver the highest biodiversity and climate mitigation co-benefits. It prevents the perverse outcome where land appropriated for reforestation is later converted for profitable and economic use.

6.3. Institutionalize a Voluntary Carbon Market framework with elevated integrity standards for credit certification. This framework must set stricter validation and verification protocols than international standards, requiring mandatory biodiversity and social co-benefit assessments for all projects. It should also create a national registry to prevent double-counting and ensure the additionality and permanence of all credits generated in the Philippines.

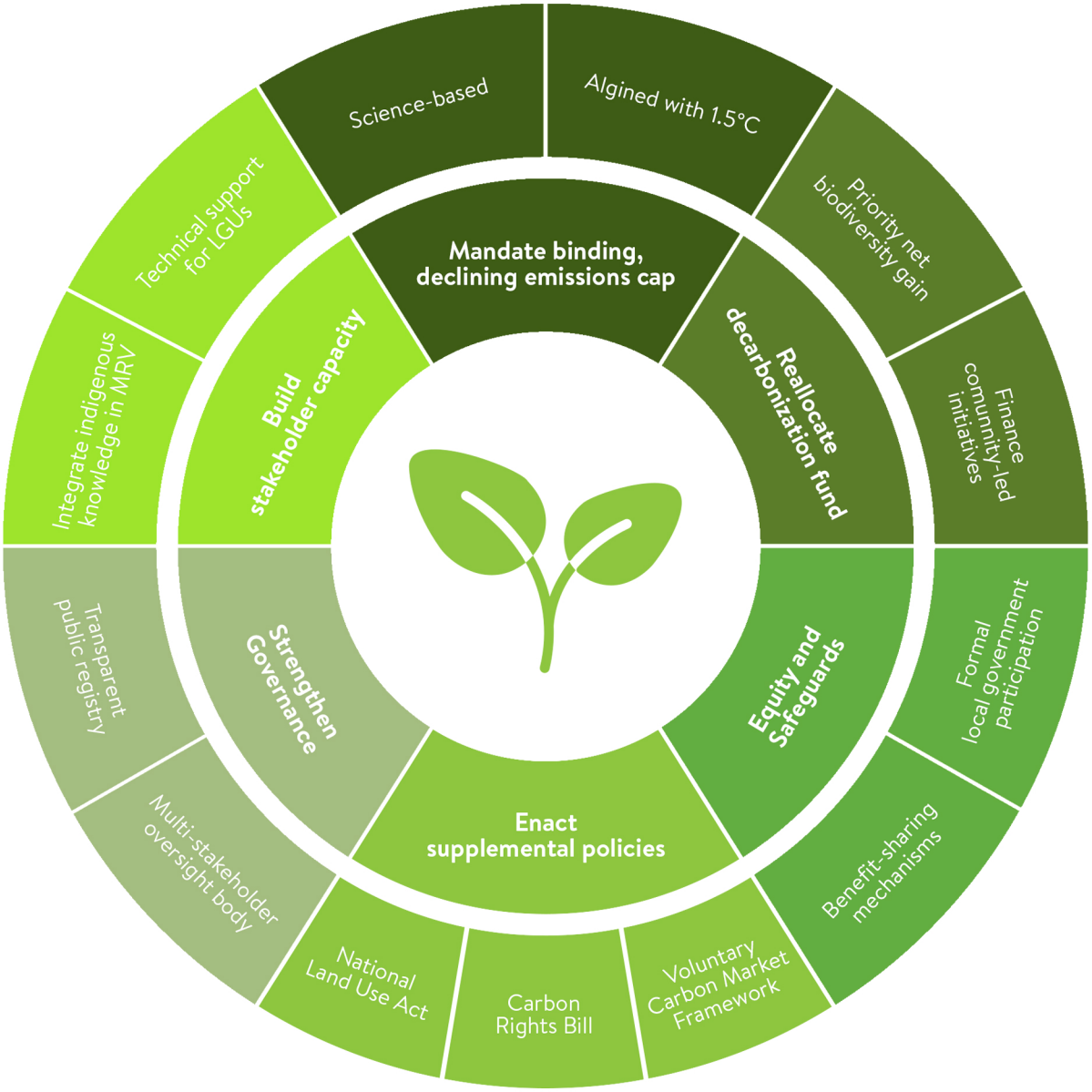

Figure 2. *Summary of Priority Recommendations for Legislative Executive Actions*

The establishment of the Philippines' ETS is a monumental policy undertaking that will define the Philippines' economic and environmental trajectory for decades. The current iteration of the Low Carbon Economy Investment Bill, while well-intentioned, presents a framework that is fundamentally inadequate to meet the urgency of the climate crisis or the NDC commitments.

The opportunity before us is not merely to create a carbon market, but to architect a future-proof economy that is both climate-resilient and socially just. This will require political will of the highest order, and continuing to defer meaningful action while climate impacts intensify is never an option for a nation on the frontlines of a climate emergency.

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ANNEXES

ANNEX A

Thematic Discussions and Standardized Guide Questions

1. Advocacy and Science Influence to Policies

a. How would you describe the current state of engagements of non-government groups in climate policy development in the Philippines?

b. How do you currently engage with policymakers to integrate ecosystem conservation and climate justice into national environmental policies?

2. Carbon Markets

a. Could you share any experiences you've had with any carbon-financed projects in your research or professional capacity? What are some challenges you have observed in these projects?

b. How well do existing GHG emissions accounting methodologies, such as those employed by Verra, Plan Vivo, and Gold Standard, address the specific needs of carbon-financed projects in the Philippines?

3. Low Carbon Investment Bill

a. What are your initial thoughts on the current iteration of the bill?

b. What are challenges and opportunities in the bill where civil society and scientific inputs could be better integrated?

4. Carbon Pricing Mechanism and Emissions Trading System

a. What specific provisions, if any, within the bill outline the involvement of civil society and science community in the development and management of an emissions trading system?

b. What mechanisms should be in the bill to ensure that Philippine ecosystems are not compromised in the pursuit of carbon credits?

ANNEX A

5. Social and Ecological Impacts

a. How would the implementation of an emissions trading system affect local communities?

b. How might the implementation of carbon market initiatives impact indigenous resource management practices in conservation, and what mitigation measures are necessary to address potential conflicts?

ANNEX B

Profile of Respondent Institutions and Organizations

- 350 Pilipinas
- Conservation International Philippines
- Greenpeace Philippines
- Haribon Foundation
- Institute for Climate and Sustainable Cities
- National Research Council of the Philippines
- Oceana Philippines
- Oxfam Pilipinas
- Parabukas
- SUSTAINARUMBLE!
- University of Santo Tomas
- UST College of Science
- University of the Philippines Los Baños - College of Forestry and Natural Resources


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