

PROTOTYPE - FACT SHEET

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TITLE:

Climate Incentives for Manufacturing (CLIMA): Designing Incentives for Energy Efficiency in Cement, Paper, and Plastic Industries

Mission statement

The prototype idea aims to

Promote energy efficiency in cement, paper, and plastic industries through the use of fiscal incentives:

1. Review the current energy efficiency and regulatory mechanisms for these industries
2. Design energy efficiency incentives for the three industries to be coordinated with the Department of Energy and for implementation by the Philippine Board of Investments

Briefly describe your prototype idea

The proposed idea entails a stock taking of the existing regulatory and incentive mechanisms to promote energy efficiency in industrial production. These would cover specific legislations and incentives being granted by investment promotion agencies such as the Board of Investments, Philippine Economic Zone Authority, and others. Current incentives include tax reduction, income tax holiday, and duty free importation of capital equipment. The review would create an inventory of existing incentives implemented by various government agencies and carry out an evaluation of their impact on energy efficiency and the environment. Based on the analysis, recommendations to the Board of Investments will be formulated covering new fiscal incentives and/or non-fiscal support such as crafting energy efficiency standards, conducting energy audits, and implementing

awareness programs in coordination with the Department of Energy, DTI- Bureau of Product Standards, and the private sector. The initial assessment of the effectiveness of existing incentive schemes is important in order to properly design new fiscal and/or non-fiscal incentives.

Various instruments applied in numerous countries include grants and subsidies like energy efficiency loans and innovative funding mechanisms like guarantee funds, revolving funds, and venture capital; tax relief such as accelerated depreciation, tax rebates, deductions, and exemptions for purchase of energy efficient technologies; and other energy efficiency schemes like voluntary agreements.

In the case of the Philippines, the proposed fiscal scheme would be both time-bound and performance-based in order to effectively change the behavior of firms and encourage the use of energy efficient practices. This would entail incentives like income tax holiday (ITH) to be provided based on the energy efficiency improvements to be gained by upgrading to more energy efficient machinery and equipment. The mechanism intends to reward more efficient firms such that the higher the efficiency gains, the higher the support that would be provided. For instance, an efficiency gain of 50% could be eligible for up to 6 years ITH while a 25% improvement could enjoy only 2 years ITH.

Based on the results of the implementation of this prototype, future work could focus on replicating or recalibrating the same framework to cover other energy intensive industries.

2

Target group

Firms in the cement, paper, and plastic industries since these are among the top energy intensive industries in the Philippines.

Potential partner(s) for implementation

Department of Energy, industry associations from the three industries, international development agencies like GIZ and UNIDO, and banking sector (Development Bank of the Philippines, Bank of Philippine Islands).

Key challenges and opportunities

Challenges:

- Limited awareness and appreciation of the link between energy efficiency, cost savings, improved productivity among industries as well as industrial energy efficiency programs of the government
- Limited coordination among government agencies and regulators that are mandated to implement regulations and formulate policies and programs on industrial energy efficiency

- Limited technical capacity among government agencies tasked to implement and monitor policies and programs on industrial energy efficiency
- Limited fiscal instruments available and the formulation and implementation of new fiscal incentives would require Executive Order to be approved by the President while enactment of new legislations would require approval by Congress both of which would require time.

Opportunities:

- The new industrial policy being implemented by the Department of Trade Industry aims to upgrade Philippine industries and make them globally competitive. The greening of industry roadmaps is one of the strategic actions identified by the Manufacturing Industry Roadmap. Through the support of GIZ, green policies have been incorporated in six industries including **paper and plastic**. This process presents a good opportunity to focus on the integration of energy efficiency in the Manufacturing Industry Roadmap.
- The Board of Investments is currently reviewing the Investment Priorities Plan (IPP) 2014-2016 and the Prototype's recommendations could be included in the IPP 2017-2019
- The effective implementation of energy efficient measures is important in reducing high power costs in the Philippines which is a major constraint currently faced by industries.
- This initiative will complement the existing environmental regulations and energy efficiency measures to support the Philippine commitment under the 2015 Paris Agreement to reduce emissions by 70% by 2030.

3

Next steps

- Formation of the team to conduct the study, the core team will be led by the Office of the Assistant Secretary, 1 consultant, 1 research assistant, and 1 BOI technical staff
- Presentation to and discussions of the prototype with the Board of Investments Investment Priorities Plan team (BOI-IPP)
- Approval of the prototype by the BOI-IPP team (led by the Office of the Executive Director) for inclusion in the IPP Consultation Program Agenda by end of April 2016
- Evaluation of impact of the existing regulatory and incentive mechanism on energy efficiency from May-July 2016: (i) data collection on the existing incentive schemes, company recipients, energy consumption and intensity; and (ii) impact analysis on the impact of incentives on energy efficiency
- Design incentives to encourage energy efficiency (July – 1st week August 2016)

- Stakeholder consultations (public) by 2nd week of August 2016: industries, banking sector, Finance, Environment, and Energy Departments, academe, energy efficiency providers, equipment manufacturers & suppliers, international development agencies like GIZ, WB-International Finance Corporation, and UNIDO
- Refinement and finalization of proposed incentives scheme (3rd week August-mid-September 2016)
- Submission of detailed recommendations to the Board of Investments for inclusion in the Specific Guidelines of the IPP 2017-2019 by mid-September 2016. Note that based on the IPP schedule, the IPP 2017-2019 should be submitted and approved by the DTI Secretary by the second week of October 2016; endorsement to the Office of the President by November 2016 and implementation by January 2017