German interest in PHL to grow pool of RE investors

By John Victor D. Ordoñez *Reporter*

RENEWABLE ENERGY (RE) tie-ups with Germany raise the prospect of leading-edge technology and financing being introduced to the solar and offshore wind sector, industry officials said.

"Germany can provide financing and technology for the deployment of RE," Michael O. Sinocruz, director of energy policy and planning at the Department of Energy (DoE), said in a Viber message.

"Germany has good technology for solar and wind," he added.

Last week, German Foreign Minister Annalena Charlotte A. Baerbock said her country is seeking to enter into RE and raw materials agreements with the Philippines this year.

German companies see the Philippines as an attractive location to explore RE ventures, she said.

"Germany and the Philippines are also key countries in global climate protection initiatives, especially since the Philippines is vulnerable to climate catastrophes," she said.

The government has RE tie-ups in the pipeline with Japan, Denmark and Singapore, among others, Mr. Sinocruz said.

"Germany should be able to provide expertise on further expanding our renewable footprint, as it remains a global leader in the transition to a low emission environment," Terry L. Ridon, a public investment analyst and convenor of the think tank InfraWatch PH said in a Facebook Messenger chat.

The government should identify locations for potential solar and wind farms as the Philippines tries to boost RE's contribution to its energy mix, he added.

The Philippines aims to increase the share of RE in the power generation mix to 35% by 2030 and to 50% by 2040. Renewables currently account for 22% of the Philippine energy mix.

As of October, the DoE has awarded at least 1,300 RE contracts with a total potential capacity of 130,880.8 megawatts.

The Philippines has potential offshore wind resources of 178 gigawatts, with large parts of the coast having wind that can power turbines, the Board of Investments (BoI) has estimated.

Wind project is expected to help the government achieve its target of producing 15.3 gigawatts of clean energy by 2030 under the Philippine Development Plan.

On Dec. 21, the BoI issued a certificate of endorsement to Ivisan Windkraft Corp. for its 450-megawatt Frontera Bay Wind Power Project off Cavite, which is poised to become the Philippines' first offshore wind project.

Minimal Government Thinkers founder Bienvenido S. Oplas, Jr. said the government should not rely too heavily on Germany to pursue its RE goals since the Philippines is facing its own problems with energy prices, a problem which arose in Germany when it retired its coal-fired plants and chose to rely on Russia for its gas supply.

"Right now, Germany is in a spiral of rising energy prices, growth deceleration and deindustrialization," he said in a Viber message.

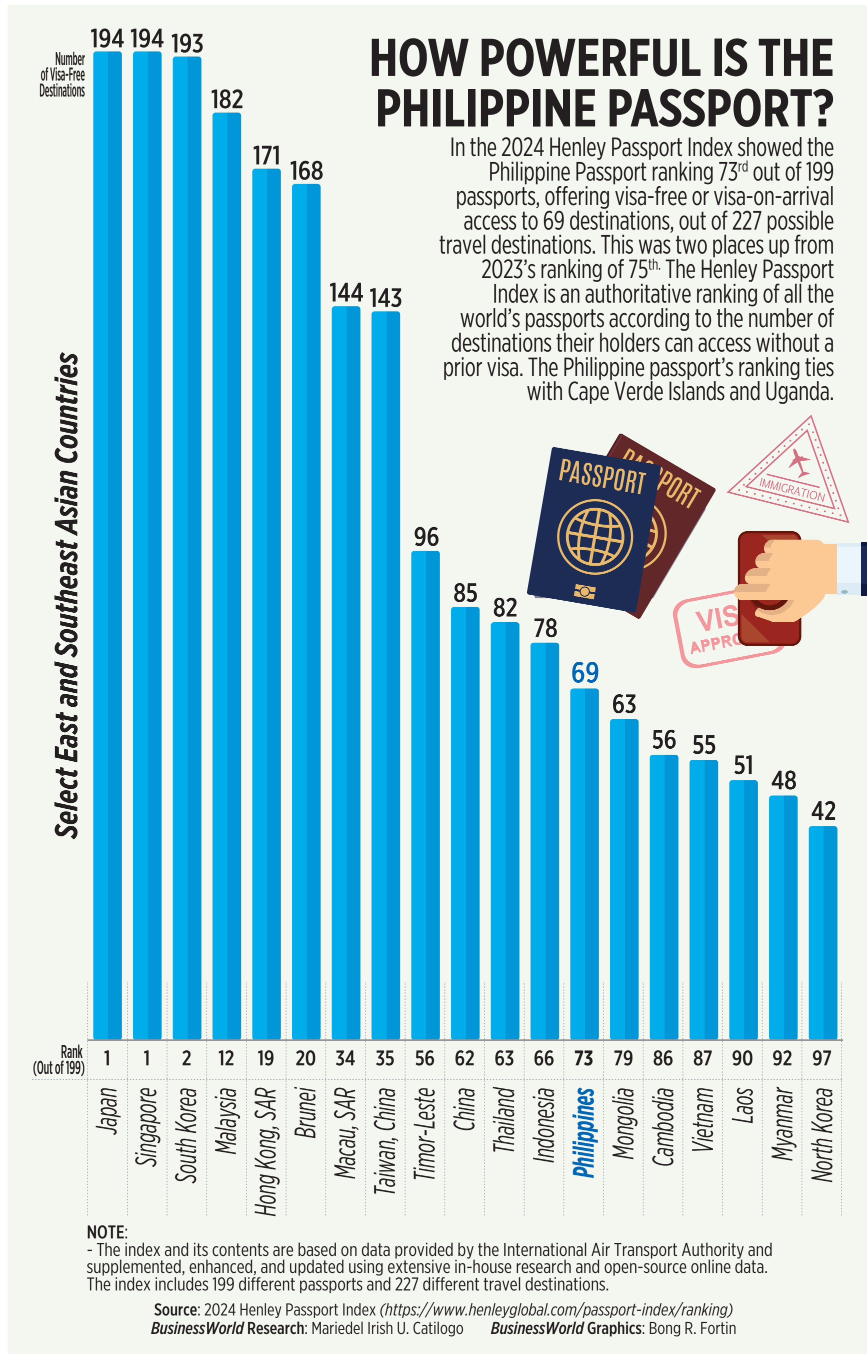
Legislators have been pushing for a bill seeking to ease the process for importing liquefied natural gas (LNG) amid uncertainty surrounding the gas remaining in the Malampaya field.

Senator Sherwin T. Gatchalian said last year that LNG will aid in the transition to RE.

The Malampaya gas field is the country's only indigenous commercial source of natural gas. It is expected to run out of easily recoverable gas using current techniques by 2027.

In May last year, President Ferdinand R. Marcos, Jr. extended the Malampaya Service Contract 38 to Feb. 22, 2039, giving operators a 15-year window to further exploit the field beyond the initial Feb. 22, 2024 expiration date.

The gas field accounts for about 20% of Luzon's electricity requirements.



VAT exemption expires for drugs, equipment used to treat COVID-19

THE Bureau of Internal Revenue (BIR) said capital equipment, drugs, and vaccines for coronavirus disease 2019 (COVID-19) are no longer exempt from value-added taxes (VAT).

In a Revenue Memorandum Circular, the BIR said that the sale or import of all drugs, vaccines, and medical devices specifically prescribed and directly used for the treatment of COVID-19 are now subject to VAT, effective Jan. 1, 2024.

Republic Act No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises Act authorized the VAT exemption on imports and sales of medicine and devices used to treat COVID-19.

The period for exemption ran between Jan. 1, 2021 and Dec. 31, 2023.

The list of items that will now be subject to VAT includes spare parts for capital equipment and raw materials needed in the production of personal protective equipment such as coveralls, gown, surgical caps, surgical masks, N-95 masks, scrub suits, goggles and face shields, surgical gloves, dedicated shoes, and shoe covers for COVID-19 prevention.

Also no longer exempt from VAT are drugs for the treatment of COVID-19 approved by the Food and Drug Administration for use in clinical trials, including raw materials directly necessary for the production of such drugs. **— Luisa Maria Jacinta C. Jocson**

PHL growth expected to pick up in 2024

THE PHILIPPINES is expected to post improved gross domestic product (GDP) growth this year due to robust infrastructure spending, but growth will likely remain below the government's target of 6.5-7.5% due to high interest rates and weak external demand.

Nomura Global Markets Research in a report dated Jan. 12 said GDP may improve to 5.8% in 2024 from an estimated 5.2% in 2023. The research firm kept its growth forecasts unchanged for the Philippines.

"The main growth engine is public infrastructure spending, which is likely to gather momentum after a slow start," Nomura said.

The economy grew 5.9% in the third quarter, accelerating from the 4.3% posted in the second quarter. In the first nine months, economic growth averaged 5.5%, still below the government's 6-7% full-year target for 2023.

Government spending jumped 6.7% in the third quarter, against 0.7% a year earlier and a turnaround from the 7.1% contraction in the second quarter.

Meanwhile, household consumption hit a two-year low of 5%, from 8% a year earlier and 5.5% in the preceding quarter.

"Private consumption is likely to be held back by high interest rates, which should persist for a while, while export growth will likely be modest, given our global growth forecasts," Nomura said. **— Keisha B. Ta-asan**

FULL STORY

Read the full story by scanning the QR code <tinyurl.com/ysonyd7h>

OPINION

How climate risk reporting can turn ambition into action

SUITS THE C-SUITE
BENJAMIN N. VILLACORTE

At the 2023 United Nations Climate Change Conference (COP28), countries agreed to take collective action to move away from fossil fuels. This first-ever consensus aims to put an end to oil, gas, and coal use in energy systems and sets ambitious targets to triple renewable energy and double energy efficiency by 2030 — keeping the 1.5°C Paris Agreement goal within reach.

COP28's bold aspirations toward decarbonization highlight the urgent need for the climate disclosure landscape to evolve rapidly. Climate reporting plays a crucial role in helping us understand whether the whole economy and the sectors and companies within it are moving towards true transition.

This is the first article in a two-part series that will discuss insights from COP28. In this first part, we will discuss insights from the fifth EY Climate Risk Barometer covering current trends in global climate risk reporting, uneven progress within markets and sectors, the adoption of mandatory climate disclosure requirements, and core elements that will shape the reporting landscape.

TRENDS IN CLIMATE RISK REPORTING

The fifth EY Climate Risk Barometer reveals that companies are making progress in climate-related disclosures but fall short of carbon ambitions. This study analyzed 1,500 companies in 51 countries based on two metrics: the number of disclosures made per the recommendations by the Task Force on Climate-Related Financial Disclosures or TCFD (coverage) and the extent and detail of each disclosure (quality).

Climate transparency is clearly on the rise, with the quality score jumping from 44% in 2022 to 50% in 2023. This trend suggests that companies are putting in the time and effort to enhance the information shared with stakeholders. However, the 50% score reflects minimal advances, considering the TCFD has been around for eight years, which some may say has already been ample time for companies to fine-tune their reporting.

Alongside the increase in quality, disclosure coverage saw a steep year-on-year increase. Company scores soared from 84% to 90%. Yet, pressing concerns remain, particularly about the granularity and quality of disclosures and the effectiveness of the regulatory environment in driving genuine action beyond reporting.

Meanwhile, the average score for governance disclosure quality climbed from 46% to 52%, partly due to regulatory pressure — but this is still low. Transition planning remains patchy, with only half of the companies (53%) presenting clear roadmaps. Furthermore, companies continue to focus more on risk than opportunity analysis (77% vs. 68%) despite a slight improvement in the latter.

UNEVEN PROGRESS WITHIN MARKETS AND SECTORS

From a market perspective, Japan, South Korea, the Americas, and most of Europe are leading in disclosure quality. This is unsurprising as these countries and regions can draw on several years of mandatory TCFD disclosures.

On the other hand, while the Middle East and Southeast Asia have made strides in disclosure performance compared to last year, these regions are still lagging. To accelerate progress, governments can adopt mandatory climate disclosure requirements. This can potentially change the currently low scores to a significant extent.

Sector-wise, companies with the most exposure to transition risk dominated disclosure scores again. Energy leads in both quality and coverage, but its quality performance is greatly matched by financial institutions (e.g., credit bureaus, exchanges, and financial services providers) with a 46% to 54% year-on-year leap. In fact, this year saw changes in quality across the board, with the biggest ones in information technology (IT), real estate, mining, and agriculture.

Companies across all sectors face heightened demand for detailed disclosures of their climate-related risks alongside financial implications. This pressure comes from government regulators, investors, and the public. As such, the shift in scores is linked to stakeholders, putting pressure on businesses heavily reliant on fossil fuels to lay down their decarbonization plans and start making progress. In the case of financial institutions, investors are urging them to reduce their brown lending.

This is good pressure, however, as climate risk management strategies must not be separate from corporate reporting. Businesses must view climate disclosures as a comprehensive, forward-looking effort to understand the anticipated financial impact. Therefore, it should be assessed in the context of the company's value chain and wider market dynamics.

IFRS S1 AND S2

It is worth noting that many companies are embracing comprehensive sustainability reporting frameworks like the Global Reporting Initiative (GRI) Standards alongside the International Sustainability Standards Board (ISSB) disclosure requirements — the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. These standards unveil material climate risks and opportunities, allowing investors, lenders, and creditors to assess companies' governance, strategy, environmental, and societal impacts.

The ISSB offers "transition reliefs" to help companies ease into new sustainability reporting standards. In the first year, companies can prioritize and report only climate-related information and publish disclosures together with their half-year report. They can also hold off disclosing their Scope 3 greenhouse gas emissions, a report that uncovers climate exposure within their value chains.

In this country, the Board of Accountancy (BoA) is laying the groundwork for the adoption of the ISSB disclosure standards with Resolution No. 44. The date of adoption is being determined by the BoA, the Securities and Exchange Commission (SEC), and Financial and Sustainability Reporting Standards Council (FSRSC) — previously known as the Financial Reporting Standards Council. To ensure smooth implementation and evaluation, the FSRSC established the Philippine Sustainability Reporting Committee (PSRC), which is set to issue local interpretation and guidance for IFRS S1 and S2.

3 ELEMENTS AFFECTING FUTURE CLIMATE DISCLOSURES

In addition to companies' disclosure performance against TCFD recommendations, this year's research also included three core elements that will shape the reporting landscape for the next few years. These are:

ISSB preparedness. This refers to the readiness to meet IFRS S2 requirements, marked by changes in 1) Governance: adopting the increased ISSB disclosure requirement and disclosing whether organizations have the necessary skills at the board level to oversee climate-related strategies; 2) Strategy: deepening climate disclosures, both by analyzing detailed scenarios for future impacts and setting value chain emission targets alongside overall emission reduction goals; and 3) Metrics and targets: moving towards disclosing businesses' most significant Scope 3 emissions.

Transition planning. This refers to the move to include concrete transition plans — how companies will adapt and grow as the global economy transitions to net zero — in their business strategy and disclose the details to stakeholders.

Climate risk reflection in financial statements. This refers to the integration of climate risks into financial statements, quantifying potential losses from stranded assets and valuing assets based on their resilience to climate change.

FROM A COMPLIANCE BURDEN TO A STRATEGIC ASSET

It's time to view climate risk reporting as a strategic resource instead of a compliance burden. Instead of using frameworks solely for disclosure, forward-thinking organizations analyze how climate impacts their business strategy. High-risk businesses, such as those in energy and IT, can evaluate risk management and financial impact using these insights to chart resilient growth strategies and identify key vulnerabilities.

By establishing robust data governance structures, they turn climate data into a potent tool that will help them thrive in the face of climate challenges. When companies embrace the spirit of reporting frameworks to drive underlying business changes, they realize financial, customer, employee, societal, and planetary value from the effort.

The next article in this series will discuss strategies from the Ernst & Young (EY) keynote session at COP28. Philippine companies should consider these urgently to move from setting ambitious goals to achieving tangible results that will shape the country's reporting landscape for the next few years.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.

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