



Office of
the Prime Minister

Contribution to the Carbon Credit Trading Bill 2022

**HON. PHILIP DAVIS QC, MP PRIME MINISTER & MINISTER OF FINANCE
COMMONWEALTH OF THE BAHAMAS**

14TH JULY 2022

Madam Speaker,

Today is a monumental day for the people of The Bahamas as we table the Carbon Credit Trading Bill, 2022. We are making history and positioning our country as the first country that will sell Blue Carbon Credits, as it relates to sea grass, on the Carbon Market.

These ocean-based credits will allow the government to tap into a completely new source of revenue that will undoubtedly benefit the Bahamian people as the funds will assist which the financial challenges we face as a result of climate change. The world will now mark the manner of our bearing as we embrace the mantle of global leadership with this transformative initiative.

For anyone who has been paying attention, it should come as no surprise that we have positioned ourselves as world leaders on this issue. Since coming into office, my administration has made it a priority for The Bahamas to be a leading voice on the perils of climate change and how the world can better respond to the plight of Small Island Developing States like ours.

We contribute the least to the problem, yet we are facing the greatest threat as a result of increasing global temperatures and rising sea levels.

If we are going to be the most impacted, it only makes sense that our voices should be heard at the decision-making table.

There were those who may have doubted the ability of The Bahamas – with its population

of roughly 400,000 people – to be respected as a leading voice on the world stage. I don't blame the doubters for lacking imagination.

You see, Madam Speaker, compared to the juggernauts that are the global superpowers, it is easy to believe that our contribution would be inconsequential. After all, why should they listen to little old us?

But I've never stopped believing that we bring unique insights to the table that will only bring value to the global conversation.

In life, there are those who choose to focus on the enormity of the obstacles they are facing and there are those who focus on overcoming those obstacles. They say that a man who is focused on problems only sees problems, while a man who is focused on opportunities sees opportunity everywhere.

My administration prefers to see the opportunities within each challenge. We dare to dream big and aim high because we know what Bahamians are capable of.

I am a firm believer in the inherent greatness of the Bahamian people. The evidence of this greatness is all around us. Just take a look at the Bahamian entrepreneurs making waves here and abroad. Look at the countless Bahamians who have climbed the corporate ladder at multinational corporations and institutions.

Not to mention the sports and entertainment world – on a per capita basis, I don't think there is any other country on this earth that has more athletic and creative talent than The Bahamas.

When it comes to building world-class industries, we have done that as well. Look no further than our dominant tourism industry and region-leading financial services industry. In recent years, we have developed among the world's best legislative frameworks for digital assets and launched the world's first-ever Central Bank Digital Currency. Our Bahamian experts did that.

So, Madam Speaker, the fact that we are here today for yet another defining achievement, should not surprise anyone. We may be a small country but we have always accomplished big things. We have always punched above our weight class and people the world over have marveled at our indomitable spirit and ingenuity. As the young people say "242 to the world!"

The reality is that we have no choice but to continuously innovate our way to success. The world is changing at a rapid pace and to be stagnant is to be left behind. This is why it is now more important than ever for us to speak up and speak loudly on the world stage because the actions and inaction of world leaders are having direct and consequential impact on our people.

COVID-19 exposed the vulnerabilities of our national development and economic models – it is clear that we must diversify our economy, better leverage technology to strengthen our systems, and invest holistically in the physical, financial, intellectual, and emotional well-being of our people.

And we are not talking about a few tweaks here and there either. We are talking about a complete reframing and reimagining of what success means for The Bahamas in the mid-21st century.

We are not here to preserve the status quo. Nor are we here to conduct business-as-usual. My administration's goal is to govern with unprecedented integrity while empowering Bahamians at all levels of our society in a more prosperous, diversified, and equitable economy.

For four long and difficult years, the Bahamian people suffered under the lackluster leadership of the previous administration, which brought the country down to new lows with the worst display of arrogant, out-of-touch, and haphazard leadership we have ever witnessed.

As we emerge from those dark days, we do so with a sense of urgency, knowing that the time for change was yesterday. We have no time to waste in executing our agenda and actualizing our vision for a new day in The Bahamas.

Madam Speaker,

In our Blueprint for Change, we made a commitment to better manage and leverage our natural resources for the benefit of the Bahamian people.

One of the key pledges we made was to secure Carbon Credit payments for our natural resources in recognition of the fact that we, along with our Caribbean neighbours, are a major carbon sink for the world. It only follows that we should benefit from our role in cleaning the Earth's atmosphere and absorbing the greenhouse gases being produced by global superpowers.

Marine ecosystems like seagrass beds, mangroves and salt ponds are capable of storing more carbon per square mile than their terrestrial counterparts (trees). The 1,600 square

miles of mangroves and other marine ecosystems in The Bahamas are perhaps our most valuable resource. In analyzing their role as carbon sinks, we are still in the process of determining what their monetary value is, but early indications suggest that they may be quite valuable.

Ironically, the very systems that protect us from climate change are also being threatened by climate change as more frequent hurricanes and storms increase the likelihood that damage will be done to our coastal ecosystems.

Our first use of any revenues generated from Carbon Credits would be to ensure the survival of these vital systems so that they continue to protect future generations of Bahamians.

I want the Bahamian people to understand what a novel undertaking this is.

Carbon Credits themselves are a relatively new concept for the world – with 2021 being a year of increased interest and growth for carbon markets. This is something that most of the world has just started paying major attention to in the past year.

If Carbon Credits are considered “fairly new” then the notion of Blue Carbon Credits is “brand new.” The Bahamas will be the first country to put all the pieces together in terms of getting our marine resources valued as carbon sinks and monetizing that value in the carbon markets. No other country can lay claim to that feat.

Our greatness is on display for the world.

I also want the Bahamian people to be aware of how exciting this development is. We are talking about a high-growth global market that is still in its infancy but is projected globally to be worth possibly a few hundred billion by 2050. The Bahamian government had a duty to ensure that it does not miss out on this opportunity for revenue generation and that we claim our piece of the pie. In fact, we ensured that we got in early to maximize our revenue-earning potential – we will be first in line when it comes to Blue Carbon Credits.

Madam Speaker,

In January of this year, the Cabinet first established a Committee to propose a legal and regulatory framework to manage Carbon Credits, as well as explore the viability of monetizing Carbon Credits within The Bahamas.

The Committee is headed by the Attorney General and includes the Minister of Works, Minister of the Environment, Minister of Economic Affairs, the Financial Secretary and a technical team from the Office of The Prime Minister. This Committee, through the Office of the Attorney General, produced the Climate Change and Carbon Markets Initiative Bill, which was debated in late April and is now in force.

That Act essentially did three things:

It ensured we lived up to our obligations to reduce greenhouse gas emissions and remained compliant with our Nationally Determined Contributions (NDC);

It ensured that we adhered to our commitments under the Paris Agreement;

And it established the market framework to trade Carbon Credits.

Most importantly, the Act allows for The Bahamas to trade Carbon Credits through:

1. Multi-lateral or bi-Lateral trading agreements;
2. Trading with a private entity;
3. Or trading in the voluntary market.

The Cabinet Committee, through the Office of the Attorney General, has now produced The Carbon Trading Bill, which builds on the foundation of the Climate Change and Carbon Markets Initiative Act and proposes a complete legislative framework to regulate and manage the trade of carbon credits.

Madam Speaker,

I am extremely proud of the quick pace at which we have advanced our legislation to put us at the forefront of the emerging market of carbon credits and I want to personally thank the Attorney General and his team at the Office of the Attorney General, as well as the Ministers of Work, Economic Affairs, and Environment, as well as the Financial Secretary and other committee members who worked hard to bring us to this point.

The world is watching and marveling at our ability to innovate and be at the cutting edge as we lead the way in establishing a framework for Blue Carbon.

The Carbon Trading Bill we are debating today proposes to:

Register and regulate businesses wishing to operate and do business in the carbon credit space;

Register and Regulate Carbon Trading Exchanges;

It also sets a rigorous framework for the verification and accreditation requirements to list a carbon credit on the exchange such that the carbon credits verification body must be recognized as adhering to international standards or recognized by the International Accreditation Forum;

And it permits a carbon credit to be linked to a digital asset under the DARE Act or other financial instruments like an option, swaps and futures contracts.

Madam Speaker,

We are exploring the opportunity of establishing a Carbon Exchange in The Bahamas with FTX, where we will trade our carbon credits. This will be an independent exchange and separate from the FTX Cryptocurrency Exchange. I will say more about this development as those discussions advance.

The Cabinet Committee was also tasked with advising Cabinet on the management and monetizing framework for the Carbon Credits and was responsible for analyzing three

unsolicited proposals from entities proposing to manage our carbon credits and be appointed as the Project Management Company for the Carbon Credits pursuant to section 6 of the Climate Change and Carbon Markets Act 2022.

Carbon Credits themselves are an emerging market and we will be the first in the world to benefit from blue carbon credits. There are always inherent unknowns and risks to being the first to do something. From the government's perspective, it is necessary to bring on a partner to assist with navigating the complex landscape of carbon markets, which requires knowledge of the valuation of natural resources, monetization of those resources, the creation of high-value, high-quality carbon credits, and the responsible sale of those credits on the carbon market, among other areas in which experience and expertise ensure that this will be a successful venture.

After the review of said proposals was completed, in accordance with the Committee's recommendation, the Cabinet selected the Project Management proposal by the NGO Beneath the Waves, operating under the Bahamian company Carbon Management Ltd. The government entered into a Heads of Agreement with Carbon Management Ltd. for several compelling reasons:

First of all, the scientists at Beneath the Waves have been doing shark research in the Bahamas for over 10 years and had identified what is now considered to be the largest seagrass meadow in the world in Bahamian waters. They are already familiar with The Bahamas and, as scientists, they have a vested interest in our marine resources beyond their monetary value. They are truly passionate about conserving the marine environment;

The company also demonstrated the capacity to utilize cutting-edge science and technology, such as remote sensing, aerial imaging and environmental DNA, to accurately measure carbon sequestration;

Their team has additional strengths. They established a dynamic team of distinguished scientists like Dr. Austin Gallagher, as well as the leading seagrass scientist in the world, Dr. Carlos Duarte. This gives you an idea of the caliber of professionals who will be working along with our local experts to drive this initiative.

The team includes notable Bahamian financial professionals, Anthony Ferguson and Antoine Bastian, who have extensive experience in the securities industry and capital markets arena. They possess the expertise to financially engineer and structure the Carbon Credits and to create a network to effectively market, sell and monetize Carbon Credits;

Like I said earlier, Beneath the Waves has a demonstrated stake in The Bahamas beyond the monetary value of our natural resources. To that end, they have already developed plans for a strategic education and capacity-building program through the University of The Bahamas, BAMSI and BTVI, which will ensure that no less than 5 students per institution will be involved in research and verification activities on an annual basis. So, we will not only be the first in the world to take advantage of blue carbon credits, we will also be creating an entire population of Bahamians who will be among the first people with real world experience in this area. We fully anticipate that this capacity building will allow

Bahamian marine scientist to travel the world over on other blue carbon verification projects ;

The group has already completed its scientific research on the first plot of sea grass, which measures 5,000 square kilometers and is set to submit those findings to environmental verification group Vera for verification;

Of the three proposals received, Beneath the Waves also offered the most attractive management fee of 15% for its end-to-end solution. So, we are working with a world-class team of experts at a very attractive rate compared to the alternatives;

They have also proposed that the government own 49% of the Bahamas-based Management company, Carbon Management Ltd., with 2% being held by local NGOs.

I want to be clear: this Heads of Agreement ensures that the government not only receives 85% of any potential revenue, but we also receive 49% of the Management company's downstream revenue from fees and any other revenue derived by the management company by the sale of carbon credits in the secondary markets.

To restate that point in another way: the government will directly receive 85% of the initial revenue generated but the revenue earning potential does not end there. The government will also jointly own 49% of the management company itself, in conjunction with Beneath

the Waves and local NGOs, and will be entitled to its share of revenues from activities related to that enterprise.

Essentially, the government is vertically integrated in all revenue streams in the primary and secondary capital markets, thereby maximizing any financial benefit for the people of The Bahamas. This kind of agreement and the level of government equity participation is unprecedented in the Bahamas. This is how the New Day government works on behalf of the Bahamian people.

I now lay on the table the Heads of Agreement between the Government of the Bahamas and Carbon Management Ltd.

Madam Speaker,

We are now focused on the way forward.

First of all, we should note that this is an emerging market and there is a certain degree of uncertainty, which is normal when you are an early participant in a market. A lot of the rules in relation to the sale of Carbon Credits are still being settled and we expect to have a clearer picture after COP 27 in Egypt later this year.

Here is what we do know:

We have the legislative and regulatory framework in place to trade carbon credits. With the passing of this Bill we can establish an Exchange on which to trade our credits and any

other carbon credits from around the world.

The complete mapping and verification of our seagrass meadows will likely take 5-7 years. It is a complex and detailed process, and we can initially map and verify about 3 to 4 plots a year.

The capital required to map and verify the entire Blue Carbon asset in The Bahamas will be in the region of 50-60 Million dollars. Raising these funds will be the responsibility of Carbon Management Ltd, which, as stated, will be 49% owned by the government, 2% owned by NGOs and the remainder owned by the Beneath The Waves group which includes Bahamian participation.

Every five years, each plot must be re-verified and will go through the same verification process as it did five years earlier. So, the verification is continuous and ongoing to ensure that the sea grass meadows and our other blue carbon assets have not being negatively impacted.

We will also dedicate a sizable portion of whatever funds are collected to the protection of our environment and creating a sustainable future for generations of Bahamians.

Madam Speaker,

We are conducting this process at the highest levels of integrity, responsibility, and scientific rigour. As noted earlier this year, we have already received offers to purchase our blue carbon credits.

I want to note that while we are inclined towards innovation, we also are committed to building this opportunity out the right way. We will engage the carbon markets when the appropriate legislative and regulatory framework is in place, the essential research has been done, and our expert teams on the ground give the signal that we are now open for business.

We are first, not because we are taking shortcuts, but because we had the insight to identify this opportunity early and seize the moment.

There is an issue within the Carbon Market sphere where corporations are buying carbon credits to offset their carbon production and then continuing to behave recklessly in regard to their responsibility as stewards of the environment. The purchased credits are used as a form of justification or license to continue behaving destructively. We in no way want to contribute to this trend. This is what I meant earlier when I said that we must approach this opportunity responsibly. Protecting the global environment is far more important to our continued prosperity as a nation than any money gained from carbon markets.

That said, we are approaching this opportunity with urgency. We have the world's largest seagrass meadow within our waters and we are contributing greatly to the removal and storage of carbon from the atmosphere. Given the way the world is benefitting from our seabeds, which are acting as the garbage collector of the worlds carbon, it is time for us to

receive some benefit for our service to the world so that we can better protect and prepare our people from the threats and impact of climate change.

Madam Speaker,

The world is at a crossroads when it comes to climate change. Inaction will lead to destruction.

From the Bahamian government's perspective, we must do everything we can to inspire action on the global stage while preparing our country to brace for the destructive effects of climate change.

Revenues generated from Blue Carbon Credits will go a long way toward making our nation more resilient to the kinds of storms and flooding that will be more frequent as temperatures and sea levels rise.

Some suggest that we are already seeing the effects throughout New Providence whenever even a moderate amount of rain falls. The terrifying reality is that this is just the beginning if the world does not unite and take serious action to reduce greenhouse gases significantly and invest in climate resilience.

I would like to remind the Bahamian people of the duty we have to take care of our environment. The fight against climate change begins at home. Given the threat posed to our nation, we should all be united as individuals in doing our part to be better stewards of the environment.

You are not too small to make a difference. We are not too small to make a difference. Look at this world-leading legislation that is before us today. It is a testament to our ability to directly make a difference while inspiring others through our actions.

Madam Speaker,

While I acknowledge the huge challenges before us, I can't help but get excited about the opportunities.

The future is bright for The Bahamas because our greatest resource is our people and I know the kind of greatness we are capable of. It is my administration's job to provide the policies and initiatives to empower the people as they lead the way in making a difference. I believe that the Carbon Trading Bill before us is precisely the kind of policy leadership that will foster great changes in this country.

May God continue to bless the Commonwealth of The Bahamas.