



Developing a scheme for the development of the carbon market in Viet Nam

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The carbon market is considered one of the important tools in reducing greenhouse gas (GHG) emissions at low costs to businesses and society, promoting the development of low-emission technology, contributing to improving competitiveness of businesses and contributing to achieving net zero emissions in Vietnam by 2050. The Scheme for the Development of the Carbon Market in Viet Nam is developed to assign tasks to Ministries, sectors and local authorities associated with specific progress and deadlines to implement legal regulations on organization and development of the domestic carbon market.

Climate change has become an irreversible trend, the biggest challenge for humanity, and has been affecting all aspects: global economics, politics, diplomacy, and security. Each country must proactively adapt to limit negative impacts, and at the same time have the responsibility to reduce GHG emissions according to Nationally Determined Contributions (NDCs) to implement the Paris Agreement on climate change from 2021 onwards to hold the increase in global average temperature at 1.5°C by the end of this Century compared to the pre-industrial global average temperature.

Achieving net zero emissions by 2050 is an inevitable development goal for the world, mainly through strong energy transition and low-emission development. This is also the new “rule of the game” for global trade and investment that has been established since the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26). To achieve the goal of reducing GHG emissions, in addition to applying advanced, low-emission technology, and many countries apply carbon pricing tools. Commonly applied carbon pricing tools are carbon taxes, GHG emission quota trading systems (domestic carbon market), and carbon credit mechanisms. To date, there are about 70 countries and territories in the world applying carbon pricing tools. These carbon pricing tools control about 23% of total global emissions in 2023.

Viet Nam sent the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat its NDC in 2015 and the first updated NDC in 2020. At the COP26 at the end of 2021, Viet Nam became one of the signatories of Global Methane Pledge and committed to reduce methane emissions by 30% by 2030 compared to the base year of 2020; signed the global coal to clean power transition statement, the Glasgow Leaders' Declaration on Forests and Land Use to prevent and reverse deforestation and land degradation by 2030; joined the Global Adaptation Action Coa-

lition to mobilize resources for climate change adaptation. In particular, Prime Minister Phạm Minh Chính has declared to achieve net zero emissions by 2050. To concretize these statements, Viet Nam sent the UNFCCC Secretariat the second updated NDC on 8th November 2022 at the COP27 in Egypt.

Viet Nam identifies the carbon market as one of the effective carbon pricing tools in implementing activities to reduce GHG emissions, contributing to its commitment to reduce GHG emissions under the NDC and especially contributing to achieving net zero emissions by 2050.

REGULATIONS ON THE ORGANIZATION AND DEVELOPMENT OF THE CARBON MARKET IN VIETNAM

Create financial mechanisms and policies to form and operate the carbon market in Vietnam, the Law on Environmental Protection (LEP) 2020 stipulates the organization and development of the carbon market as a tool to promote the reduction of domestic GHG emissions, as a part of the contribution to GHG emission reduction committed by Vietnam when participating in the Paris Agreement on climate change. In particular, the Law stipulates that domestic carbon market includes activities of exchanging GHG emission quotas and carbon credits obtained from the mechanism of exchanging and compensating domestic and international carbon credits in accordance with the provisions of international laws and treaties to which the Socialist Republic of Viet Nam is a member. Establishments that emit GHG must conduct inventory of GHG in the list of allocated GHG emission quotas and have the right to exchange, buy and sell in the domestic carbon market.

To detail the implementation of the LEP 2020 on GHG emission reduction and ozone layer protection, on 7th January 2022, the Government issued Decree No. 06/2022/NĐ-CP. The Decree stipulates participants, development roadmap, and time to deploy the domestic carbon market; confirms that carbon credits are traded in the domestic carbon market exchange; stipulates the exchange of GHG emission quotas and carbon credits in the domestic carbon market exchange; stipulates documents, order and procedures for project implementation according to the carbon credit exchange and offset mechanism; stipulates responsibilities of agencies in developing carbon market. Roadmap to develop the domestic carbon market includes 2 stages:



(1) Period from now until the end of 2027: Focus on developing regulations on carbon credit management, activities of exchanging GHG emission quotas and carbon credits; guide the implementation of domestic and international carbon credit exchange and offset mechanisms in accordance with the provisions of international laws and treaties; pilot carbon credit exchange from 2025; develop regulations for operating the carbon credit exchange; implement capacity building and awareness raising activities; stipulate the principles of activities of exchanging GHG emission quotas and carbon credits in the market as well as the organization and operation of the domestic carbon market;

(2) Period from 2028: Organize the operation of an official carbon credit exchange; stipulate activities of connecting and exchanging domestic carbon credits with the carbon markets of regional countries and the world carbon market.

Regarding participants in the domestic carbon market, including:

- Establishments in the list of sectors, establishments that emit GHG must conduct GHG inventory issued by the Prime Minister with Decision No. 01/2022/QĐ-TTg dated 28th January 2022. The list is updated every two years according to the criteria stipulated in Decree No. 06/2022/NĐ-CP. These are establishments with annual GHG emissions of 3,000 tons of CO₂ equivalent or more or in one of the following cases: (1) Thermal power plants, industrial production establishments with total annual energy consumption of 1,000 tons of oil equivalent (TOE) or more; (2) Freight transportation companies with total annual fuel consumption of 1,000 tons of oil equivalent or more; (3) Commercial buildings with total annual energy consumption of 1,000 tons of oil equivalent or more; (4) Solid waste treatment establishments with annual operating capacity of 65,000 tons or more.

- Organizations participating in the implementation of domestic and international carbon credit exchange and offset mechanisms in accordance with the provisions of international laws and treaties to which the Socialist Republic of Viet Nam is a member.

- Other organizations and individuals related to investment activities and trading of GHG emission quotas, carbon credits in the carbon market.

Regarding the allocation of GHG emission quotas:

- Based on the goals and roadmap to reduce national GHG emissions and the results of the GHG inventory in the most recent inventory period of establishments emitting GHG that must conduct GHG inventory in the list of GHG emissions issued in Decision No. 01/2022/QĐ-TTg dated 18th January 2022 of the Prime Minister, the Ministry of Natural Resources and Environment (MONRE) submits to the Prime Minister for promulgation of total GHG emission quota, reserve and auction quota rates for the period 2026 - 2030 and annually.

- Based on the results of inventory of the national GHG, of the sectors and of the GHG emitting establishments themselves that must carry out GHG inventory on the list issued in Decision No. 01/2022/QĐ-TTg dated 18th Janu-

ary 2022 of the Prime Minister, the MONRE presides and coordinates with Ministries managing relevant sectors to develop and promulgate GHG emission norms per product unit for all types of production and business establishments, organize the allocation of GHG emission quotas to establishments for the period 2026 - 2030 and annually.

Regarding implementation of programs and projects under the carbon credit exchange and offset mechanism:

The Decree stipulates that organizations wishing to develop and implement programs and projects in the territory of Viet Nam according to the carbon credit exchange and offset mechanism within the framework of the UNFCCC, international treaties and agreements that the Socialist Republic of Viet Nam is a member, submit documents under the guidance of the MONRE. The MONRE organizes the evaluation and sends a notification to the organization regarding the decision to approve or disapprove the program or project within a maximum of 38 working days.

Organizations implementing programs and projects under the carbon credit exchange and offset mechanism outside the framework of the UNFCCC, international treaties and agreements to which Viet Nam is a member in the territory of Viet Nam are responsible for sending registration information and annually provide information on implementation status to the MONRE.

In recent times, many carbon credit exchange and offset mechanisms have been implemented such as the Clean Development Mechanism (CDM) within the framework of the Kyoto Protocol, and the Joint Crediting Mechanism (JCM) within the framework of cooperation on low carbon growth between Viet Nam and Japan, a number of voluntary mechanisms. In the near future, Viet Nam will implement carbon credit exchange and offset mechanisms according to Article 6 of the Paris Agreement.

To date, there have been nearly 300 programs and projects under the CDM registered by the United Nations and implemented in Viet Nam, of which about 150 programs and projects have been granted more than 40.2 million carbon credits and traded in the world carbon market. There are 14 projects under the JCM of cooperation with Japan. Projects are focused on activities of energy efficiency and saving in the sectors of industry, agriculture, waste treatment...



Regarding the exchange of GHG emission quotas and carbon credits in the domestic carbon market:

- The Decree stipulates that the exchange of GHG emission quotas and carbon credits is carried out in the carbon credit exchange. Activities in the carbon credit exchange include: auction, transfer, borrowing, payment of GHG emission quotas, and use of carbon credits to offset GHG emissions. Accordingly: (1) Establishments can bid to own additional GHG emission quotas in addition to the GHG emission quotas allocated during the same commitment period; (2) Establishments can transfer unused GHG emission quotas from the previous year to subsequent years within the same commitment period; (3) Establishments can borrow GHG emission quotas allocated for the next year to use in the previous year within the same commitment period; (4) Establishments can use carbon credits from projects under carbon credit exchange and offset mechanisms to offset for GHG emissions that exceed GHG emission quotas allocated in one commitment period. The amount of carbon credits to offset emissions must not exceed 10% of the total GHG emission quotas allocated to the establishments.

- The allocated GHG emission quotas will automatically be revoked by the MONRE when establishments stop operating, dissolve or go bankrupt.

- The State encourages establishments to voluntarily pay back unused GHG emission quotas to contribute to achieving the national GHG emission reduction goal.

- At the end of each commitment period, establishments must pay for GHG emissions exceeding the allocated GHG emission quotas after applying the forms of auction, transfer, borrowing, and use of carbon credits for offsetting. In addition to payment, GHG emissions exceeding the allocated quotas will be deducted from the allocated quotas for the following commitment period.

Regarding carbon credit certification, GHG emission quotas are traded in the domestic carbon market exchange:

To be able to trade in the carbon credit exchange, GHG emission quotas and carbon credits need to be certified. Accordingly, organizations and individuals wishing to have GHG emission quotas and carbon credits certified for transactions shall submit certification requests to the MONRE via the online public service system. The MONRE organizes verification and issues certification to organizations and individuals within 15 working days.

Regarding responsibility for developing the domestic carbon market:

- The Ministry of Finance (MOF) is the agency in charge of developing and establishing a carbon credit exchange and promulgating a financial management mechanism for carbon market operations.

- The MONRE presides and coordinates with line Ministries to organize pilot operation and official operation of the carbon credit exchange to serve the management, monitoring and supervision of the carbon market; regulates activities connecting the domestic carbon credit exchange with regional and world carbon markets; reg-

ulates the implementation of carbon credit exchange and offset mechanisms; develops propaganda materials and carries out capacity building activities for carbon market participants.

- Ministries, ministerial-level agencies, and Provincial People's Committees are responsible for coordinating with the MONRE and the MOF to implement regulations and activities to promote carbon market development; organize dissemination and propaganda on mass media to raise community awareness about the carbon market.

SCHEME FOR THE DEVELOPMENT OF THE CARBON MARKET IN VIET NAM

Specify the roadmap and responsibilities for Ministries, sectors and local authorities associated with specific progress and deadlines to establish and operate the domestic carbon market in accordance with the provisions of the LEP and Decree No. 06/2022/NĐ-CP, the Prime Minister directs the MOF to preside over and coordinate with the MONRE, relevant Ministries and sectors to develop and submit to the Prime Minister for promulgation of the Scheme for the Development of the Carbon Market in Vietnam.

In recent times, the MOF has presided over the development of the Scheme in Viet Nam with the following main contents: Perspectives; target; market model, tasks, solutions; organization for implementation.

The content of the market model will focus on clarifying: Goods in the market; Participants in the market; Market organization; Market management, monitoring and supervision.

Tasks and solutions include 3 groups: Group of tasks and solutions related to developing and perfecting the legal framework; Group of tasks and solutions related to the organization and operation of the domestic carbon market; Group of tasks and solutions related to raising awareness and strengthening capacity. Attached to the Decision approving the Scheme is a list of tasks and solutions for implementing the Scheme for the Development of the Carbon Market in Vietnam.

It is expected that the MOF will submit to the Prime Minister for approval of the Scheme for the Development of the Carbon Market in Viet Nam in the fourth quarter of 2023 ■