

Carbon Market Insights

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/ Carbon Market Insights is a semi-annual brief that delivers practical, data-driven analysis on carbon markets in Southeast Asia, focusing on Indonesia, the Philippines, and Viet Nam. It combines real-world market pricing with expert analysis to provide actionable guidance on carbon taxes, emissions trading, and the impacts of global border carbon adjustments.



/ About This Issue

This edition analyzes how international carbon pricing and the launch of the European Union's Carbon Border Adjustment Mechanism affect Southeast Asian exports. It provides a deep dive into Indonesia's 2026 carbon market framework and examines the growing use of Article 6 to facilitate international carbon trading across the region.



ARTICLE 1.

International and Regional Developments in Carbon Pricing

Box 1. Summary of international and regional carbon pricing updates

- Carbon pricing has become mainstream globally, with 43 carbon taxes and 38 emissions trading systems (ETSs) in force covering over 23% of global emissions; markets are expanding in scope and generating significant revenues, though price signals remain uneven and volatility persists across major systems.
- Canada now solely relies on industrial carbon pricing following the withdrawal of the consumer fuel charge. The federal Output-Based Pricing System (OBPS) applies to large emitters, setting emissions-intensity benchmarks and allowing facilities to trade surplus credits or pay a fixed charge on excess emissions. Several provinces operate their own systems in place of the federal backstop.
- Asian carbon markets are expanding but face oversupply and low prices: ETSs in China and South Korea are undergoing reforms to tighten allowance allocation and stabilize market prices, while Japan's GX ETS introduces price corridors and a transition plan to a mandatory phase.

International Developments in Carbon Pricing

Carbon pricing has become a mainstream climate policy tool. By the end of 2025, 43 jurisdictions had implemented a carbon tax (World Bank, 2025), and 38 ETSs were in operation globally. Together, these ETSs cover approximately 12 gigatonnes (Gt) of CO₂e, representing more than 23% of global greenhouse gas (GHG) emissions. An additional 11 ETSs are currently under development, with nine more under consideration. Across all carbon pricing instruments (ETS, carbon tax, or fuel excise tax), a total of 79 countries now apply some form of carbon pricing, collectively covering around 82% of global GHG emissions (Mior, 2025).

Carbon markets are generating significant fiscal flows. In 2024 alone, ETSs raised approximately USD 70 billion, bringing total revenues since 2007 to nearly USD 373 billion.



These revenues can be used to support climate mitigation, energy transition measures, and social compensation mechanisms (International Carbon Action Partnership [ICAP], 2025b). Nevertheless, across those mechanisms, the price signal remains uneven. In 2023, only 16% of emissions faced more than EUR 30/tCO₂e, and 11% exceeded EUR 60/tCO₂, up 13% and 7%, respectively (Mior, 2025; Organisation for Economic Co-operation and Development [OECD], 2025).

In terms of economic and population coverage, jurisdictions operating ETSs account for 58% of global GDP, and almost one third of the world's population is covered by an ETS (ICAP, 2025a).

Carbon pricing continues to expand in scope and design. ETS coverage is deepening across electricity and industry while extending into shipping, buildings, transport, and agriculture. An increasing number of systems now operate on intensity-based models rather than using the cap-and-trade approach (Mior, 2025).

Table 1 presents the Q4 2025 price ranges for carbon allowances across major ETSs. The subsequent section provides a more detailed explanation of recent price developments and the key drivers shaping these markets.

Table 1. Price comparison of carbon allowances in Q4 of 2025

| Carbon allowances | Price in original currency | Price converted to USD |
|--|----------------------------|------------------------|
| European Union Allowance (EUA) | EUR 74.5–88.5/t | USD 87.2–103.6/t |
| United Kingdom Allowance (UKA) | GBP 54.0–67.9/t | USD 72.4–91.0/t |
| California Carbon Allowances (CCA) ¹ | USD 29.3–33.9/t | USD 29.3–33.9/t |
| Regional Greenhouse Gas Initiative Allowance (RGA) | USD 21.9–29.1/t | USD 21.9–29.1/t |
| China Emission Allowance (CEA) | CNY 51.2–74.6/t | USD 7.4–10.7/t |
| Korean Allowance Unit (KAU) | KRW 10,300.0–11,000.0/t | USD 7.2–7.7/t |

Sources: Carbon Pulse reporting based on ETS exchange data (Q4 2025); currency conversion by authors.

European Union Emissions Trading System (EU ETS)

EUA prices rose from around EUR 76/t in early October to EUR 88.54/t by 23 December (USD 87.2–103.6/t). After trading in a narrow EUR 76–80/t range in October, prices broke above EUR 81/t in early November alongside higher volumes, signalling stronger buying interest. Trading activity intensified further in late November and early December, with several sessions above 45 megatonnes (Mt). Despite thinner liquidity during the Christmas period, prices remain elevated above EUR 88/t, suggesting that the market closed the year with strong bullish momentum. The Q4 upswing in EUA prices was primarily driven by

¹ Carbon allowances under the Western Climate Initiative (WCI).



expectations of upcoming tighter EU climate targets for 2040 (European Commission, 2025a) which would imply a more restrictive cap and greater long-term scarcity of allowances.

United Kingdom Emissions Trading System (UK ETS)

UKA prices increased from about GBP 56/t in early October to around GBP 67–68/t by late December (GBP 72.4–91/t). Throughout October, prices moved within a narrow range of GBP 54–57/t, providing little hint of market direction. In November, prices rose slightly toward GBP 58/t, but trading volumes were moderate. In early December, the price gap between UKAs and EUAs widened to nearly GBP 20/t, with UKAs trading at an approximate 15% discount on average during Q4 compared to EUAs. From mid-December onward, prices rose sharply to nearly GBP 68/t, and the gap with EUAs narrowed to around GBP 11–13/t. UKA prices reached their annual peak at the end of December, mainly driven by recent policy signals regarding the forthcoming EU–UK ETS linkage. Meanwhile, trading volumes remained low due to year-end holiday impacts.

WCI

The WCI market saw the prices of California Carbon Allowances start October near USD 31.37/t, peaking at USD 32.72/t mid-month before a steady decline to USD 29.28/t by early December. Later, Q4 followed a downward price trend due to the passing of the 2025 interim compliance deadline (1 November), which represents a 12% reduction in the allowance surplus. Daily trading volumes were highly variable, often hovering between 5,000 and 12,000 units, though they spiked significantly to over 38,000 units on December 1 as the market reacted to end-of-year positioning. Approximately 202 MtCO₂e were retired to meet interim surrender obligations. These were primarily acquired through government-run quarterly auctions, such as the November 2025 event, or via secondary market trading (Rafael, 2025).

Regional Greenhouse Gas Initiative

RGA prices surged to historic highs, reaching a record USD 29.35 per short ton (st) on December 1, surpassing WCI prices for the first time in history. Colder-than-average winter temperatures in Northeast America spiked electricity demand, serving as a bullish factor in RGA prices. Additionally, political developments, specifically Democratic gubernatorial wins in New Jersey and Virginia, bolstered market confidence in the program. Trading volumes remained robust, highlighted by outcomes of the December 3 auction, which sold over 15.2 million allowances at a clearing price of USD 26.73/st, a significant increase from the previous quarter. These auction results confirm that demand for RGAs is outpacing supply under the program's tightening emissions caps.

Canadian Developments on Carbon Pricing and Lessons Learned

From 2019 to 2025, Canada applied a dual carbon pricing approach at the national level, combining a consumer fuel charge with industrial carbon pricing for large emitters.

The government withdrew the consumer fuel charge earlier in 2025. The decision to remove the consumer-facing carbon pricing resulted in part from public opposition, which has been



tied to the issue of clearly communicating the benefits of the policy (Cosbey, 2025; Logg-Scarvell, 2025). This is a key lesson from Canada's experience. Switzerland offers a useful contrast: its government publicly itemizes how carbon revenues are recycled—through visible rebates on energy bills and targeted support for clean-energy investments—helping citizens see a direct return on what they pay and maintain strong public acceptance of the policy (Cosbey, 2025).

Industrial Carbon Pricing in Canada

With the elimination of the fuel charge, industrial carbon pricing is now Canada's sole form of carbon price. It applies to industrial facilities in select sectors with emissions over a threshold volume. Under most of Canada's industrial carbon pricing systems, the government sets emission intensity benchmarks for each sector or facility within a sector. Companies emitting below their benchmark earn surplus credits that they can sell or bank for future compliance, while those exceeding their benchmark must purchase credits, submit eligible offsets, or pay an excess emissions charge (Cosbey, 2025). Hence, the Output-Based Pricing System (OBPS) combines elements of both a carbon tax and an ETS by allowing facilities either to trade credits or pay a fixed price for allowances linked to their amount of emissions. A fixed price per tonne of emissions is multiplied by the number of emissions exceeding the allowed level. In this way, the "headline price" acts as a price ceiling because entities would adopt trading if it could be done at a level below this fixed charge.

The federal OBPS acts as a backstop in jurisdictions without an equivalent system of industrial carbon pricing—currently, 4 of Canada's 13 provinces and territories use the OBPS (Wang et al., 2026). Four provinces (Alberta, British Columbia, Quebec, and Ontario) have chosen to implement pricing at the provincial level rather than adhering to the national system. This model allows the national government to pursue consistency in ambition while giving provinces and territories flexibility in design and administration; this is required in Canada due to the division of legal authority between different levels of government. A federal equivalency review, scheduled for 2026, will reassess whether provincial programs remain aligned with federal benchmarks and may introduce tighter national standards and reporting requirements (Wang et al., 2026).

Provincial Systems

Three of the four provincial systems in Alberta, British Columbia, and Ontario use an intensity-based emissions cap similar to the federal OBPS. In contrast, Quebec stands out as the only cap-and-trade system in Canada (directly linked to California's much larger market via the WCI) that imposes an economy-wide emissions cap through market linkage and auctions.

Alberta and British Columbia allow various compliance options—trading credits, purchasing offsets, or paying a direct charge to the compliance body—although their offset thresholds differ significantly. Ontario, by contrast, bans offsets entirely under its Emissions Performance Standards program. Facilities can bank unused credits for several years, but are not allowed to borrow from future periods. While this flexibility reduces compliance costs, it can also dampen credit demand when combined with lenient benchmarks—contributing to an oversupply and weakening the carbon price signal, as observed in Alberta and British Columbia (Wang et al., 2026).



In terms of prices, Canada had a high headline carbon price of CAD 95/t (USD 70.19/t) in 2025, which is scheduled to increase to CAD 170/t (USD 125.61/t) by 2030. Alberta carbon pricing froze its headline price at CAD 95/t in June 2025. In November 2025, Alberta and the federal government agreed to raise the effective price to CAD 130/t, though details and timing remain unclear. Carbon pricing systems in British Columbia and Ontario remain aligned with the federal trajectory, with compliance prices at CAD 95/t in 2025 and scheduled increases thereafter. Quebec Cap-and-Trade has a 2025 minimum auction reserve price of CAD 24.73/t (USD 18.27/t), while the November 2025 average settlement price was CAD 39.64/t (USD 29.29/t), down from a February 2024 peak of CAD 56.61/t (USD 41.83/t) (Wang et al., 2026).

Strong Points and Areas for Improvement

Several features of Canada's carbon pricing system have worked well. Clear institutional roles have improved coordination and accountability, with environment ministries handling measurement, reporting, and verification (MRV) and compliance, and finance ministries managing revenues and the transition fund.

At the same time, Canada's experience highlights areas for refinement. Generous emissions benchmarks under the federal OBPS—and in several provincial systems that mirror it—have reduced compliance strictness, allowing many facilities to meet targets without significant additional abatement. This has reduced prices and slowed decarbonization progress. Tightening benchmark stringency could reinforce the environmental integrity of Canada's framework while preserving the flexibility that has supported its durability.

Regional Developments in Carbon Pricing

Carbon pricing has evolved to varying stages of development across Asia. Implemented in 2015, South Korea's ETS was the first national compliance carbon market in the region, following a cap-and-trade principle with absolute emission caps tightened annually. In comparison, China's national ETS—the world's largest ETS in terms of emission coverage—began operating in July 2021. The intensity-based approach of China's ETS, which caps emissions per unit of production, serves as a flagship model for carbon markets in developing countries with rising emissions, such as Viet Nam and Indonesia, and future ETSs in India and the Philippines.

In both South Korea's and China's ETSs, an oversupply of allowances has kept prices low and limited trading activity largely to compliance purposes (Carbon Market, n.d.). Due to the completion of compliance at the end of August, trading activity over the Korea Exchange—the trading platform of South Korea's ETS—declined by over 50% compared to Q2, with a total of 6.5 million KAUs transacted. Following the introduction of a new vintage (KAU25), allowance prices increased slightly, albeit remaining at a low level (KRW 10,300/t, or USD 7/t) (Carbon-i, 2026). In comparison, throughout 2025, CEAs averaged above CNY 73/t (USD 10.5/t), representing a 20% year-on-year decline. Driven by the year-end compliance deadline, a total of 136.5 million CEAs were transacted on the Shanghai Environment and Energy Exchange during Q4, contributing 58% to the total annual trading volume.



Both systems are taking steps to address this issue of allowances surplus. In mid-November, South Korea released its long-awaited fourth allocation plan (2026–2030), which introduces a roadmap for reducing free allocation for included sectors toward 2030. To tackle oversupply and prevent significant price volatility, the South Korean government decided to increase the banking limits and introduce a market reserve to manage the volume of available allowances—a mechanism similar to the EU ETS Market Stability Reserve. Also in November, China released a detailed allocation plan for newly included industrial sectors, clarifying methodologies to prevent oversupply in these sectors (Ministry of Ecology and Environment, 2025). Under this framework, allowances for steel, cement, and aluminum smelting entities will be determined based on verified emissions and each entity’s carbon emission intensity coefficient—an indicator of how its emission intensity compares to the industry benchmark.

In Japan, a national emissions trading system—the Green Transformation ETS (GX-ETS)—was launched in 2023 and has a base-and-credit design. Trading on the Japan Exchange (JPX) has so far been limited, with credit prices varying widely across different types of credits. Throughout Q4, above 38,000 credits changed hands, up to 80% of which were J-Credits from energy saving and renewable energy (power) projects. By the end of 2025, around 1 million credits had been traded on the JPX, with prices varying from JPY 1,500/t to JPY 9,900/t (USD 9.5–63/t) (JPX, 2025).

Japan’s GX-ETS will remain voluntary until March 2026, when it is set to transition to a mandatory cap-and-trade scheme (ICAP, 2025c). On December 19, the Japanese government announced the introduction of upper and lower price limits for its ETS’s mandatory phase. For 2026, the upper and lower limits were set at JPY 4,300/t (USD 27.2/t) and JPY 1,700/t (USD 10.7/t), respectively (Pandey, 2025c). These price limits are expected to support market competitiveness and reduce the risk of significant price volatility caused by economic shocks. Japan is continuing to develop further market rules and design elements for its GX-ETS, including cap and benchmark settings. Currently, only credits from the domestic J-Credit program and bilateral Joint Crediting Mechanism are recognized as eligible for compliance with Japan’s GX-ETS.

In terms of carbon taxes, Japan has applied one since 2012 at a low rate (JPY 289/t, or USD 1.8/t) and plans to strengthen it beginning in 2028. Singapore is the only country in Southeast Asia with a fully implemented carbon tax (Ministry of Sustainability and the Environment, 2024).

The regional carbon pricing debate centres on balancing climate ambition with economic growth, while managing the political sensitivity of rising electricity and fuel costs and concerns about competitiveness. At the same time, public demand for climate protection is increasing, particularly in Southeast Asia, where climate risks are already visible. In this context, governments increasingly present carbon pricing as both a “polluter-pays” instrument and a revenue source (Febiola et al., 2023; Zafarullah & Mehnaz, 2025) and emphasize revenue recycling to shield vulnerable households and sectors, as well as reinvestment in green development, adaptation, and new economic opportunities.



ARTICLE 2.

Border Carbon Adjustments (BCAs) and Article 6 Update Brief

Border Carbon Adjustment Update Brief

Box 2. Summary of BCA updates

- The EU Carbon Border Adjustment Mechanism (EU CBAM) entered its definitive phase in January 2026.
- Economy-wide exposure to border carbon adjustments for Indonesia, Viet Nam, and Philippines remains low, but sectoral exposure is significant in iron and steel, aluminum, and cement.
- High default emissions intensity values imply potentially significant EU CBAM liabilities unless mitigated through domestic decarbonization accompanied by emissions measurement and verification.
- Close monitoring of global BCA policy developments will be important. Planned extensions of EU CBAM to downstream, metal-intensive products could materially increase exposure for manufactured exports from Southeast Asia.

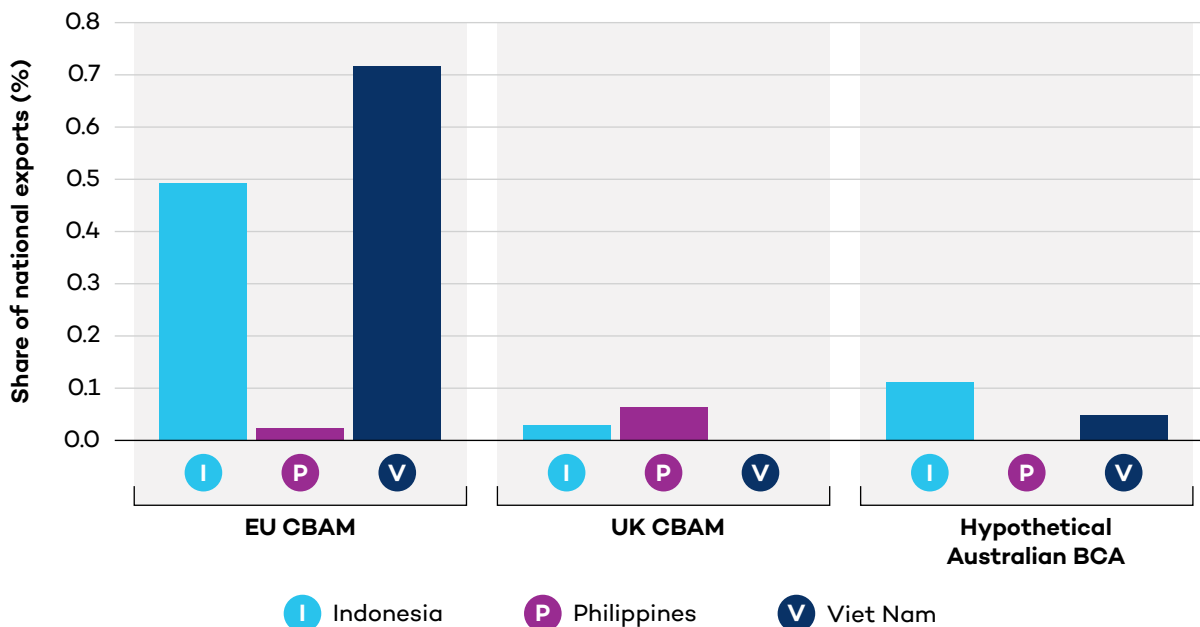
BCAs are now a reality, with the EU CBAM entering its definitive phase in January 2026. It aims to apply the same carbon cost to imported products as that faced by EU producers of the same good. The motivation is to address “carbon leakage,” where emissions reductions in one jurisdiction are offset by increases elsewhere. The EU CBAM covers emissions-intensive and trade-exposed upstream goods in sectors including steel, aluminum, cement, fertilizers, hydrogen, and electricity (European Commission, 2026).

Other governments are planning, or at least considering, similar measures. The United Kingdom is set to implement its CBAM in 2027. Australia’s government commissioned a “Carbon Leakage Review” that described a possible BCA favourably. Chinese Taipei, Canada, and Türkiye have also shown interest in such mechanisms.



For Indonesia, Viet Nam, and the Philippines, the direct economic impact may look modest on paper. Less than 1% of total exports from each country falls under the scope of the EU CBAM. Exposure to the UK CBAM or a hypothetical Australian BCA are even smaller (Figure 1).

Figure 1. BCA-covered goods, as a percentage of national exports, 2022



Source: IISD's calculations based on BACI trade data (Centre d'Études Prospectives et d'Informations Internationales, 2024, Department of Climate Change, Energy, the Environment and Water, 2024; EU, 2023; HM Revenue & Customs, 2025).

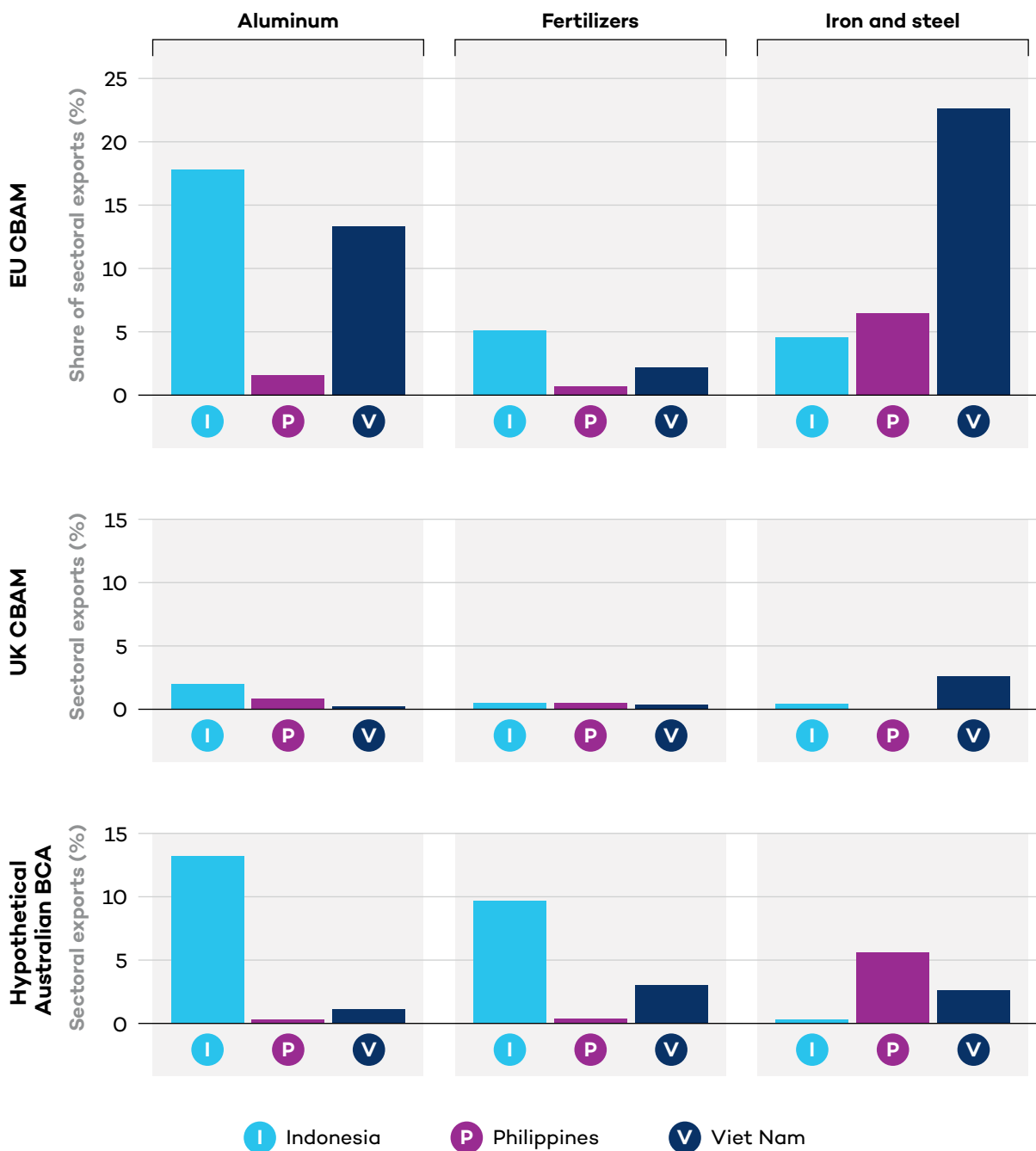
When looking at single industries, however, the exposure may be significant. In Viet Nam, for example, more than one fifth of iron and steel exports went to the EU in 2022 (Figure 2). For Indonesia, EU-destined product accounted for almost 20% of aluminum exports in the same year.² The United Kingdom's mechanism, starting a year later, poses a smaller potential impact for the region overall. A potential Australian BCA could be significant for Indonesia at the sectoral level, particularly for cement.

Domestic policy makes a difference. Carbon pricing systems are intended to encourage emissions reductions, which will reduce liabilities under BCAs in foreign markets. Furthermore, the EU CBAM is designed to avoid "double carbon pricing," so any explicit carbon price already paid at home is to be deducted from the bill at the border. From this perspective, Viet Nam's plan to roll out a domestic carbon market under a pilot phase from 2025 and Indonesia's plan to extend its ETS to steel and cement can meaningfully lower BCA liabilities in the medium run.

² All figures relating to exposure to BCAs are IISD's calculations based on BACI trade data (Centre d'Études Prospectives et d'Informations Internationales, 2024, Department of Climate Change, Energy, the Environment and Water, 2024; EU, 2023; HM Revenue & Customs, 2025).



Figure 2. BCA-covered goods, as a share of sectoral exports in each country, 2022



Source: IISD’s calculations based on BACI trade data (Centre d’Études Prospectives et d’Informations Internationales, 2024, Department of Climate Change, Energy, the Environment and Water, 2024; EU, 2023; HM Revenue & Customs, 2025).

Finally, exporters who are able to measure, report, and verify their production emissions according to EU requirements will have a competitive advantage over those who do not. If actual emissions are not measured and reported under CBAM, the importers will have to apply default emissions intensity values that have been defined by the European Commission



for a list of products and countries. These default values are high: by 2028, default values will carry a 30% “mark-up” or penalty over the average emissions intensity.

Looking Ahead

Under the reform proposed by the European Commission on December 17, 2025, the EU CBAM would be extended to around 180 downstream products, notably steel- and aluminum-intensive manufactured goods such as machinery, equipment, and selected transport-related components. While this proposal has not been adopted, some extension of EU CBAM is likely (European Commission, 2025b). IISD preliminary calculations suggest that such an extension would increase export exposure (expressed as a share of exports that may be covered) by 0.17 percentage points for Viet Nam, 0.05 percentage points for Indonesia, and 0.12 percentage points for the Philippines, indicating that downstream coverage could meaningfully increase the region’s exposure to CBAM.³

Article 6 Update Brief

Box 3. Summary of Article 6 updates

- Recent developments show that Article 6.2 has advanced further in implementation than Article 6.4, with over 100 bilateral agreements and active purchasing countries expanding cross-border transactions.
- Technical work under Article 6.2 is progressing, with new standardized methods supporting broader sectoral coverage.
- While Article 6.4 has begun transitioning Clean Development Mechanism (CDM) projects and adopted its first methodology, its implementation remains in an early phase, with market uncertainty, slow methodological development, and concerns on the integrity of the transitioning activities.

Article 6 of the Paris Agreement establishes both market-based mechanisms and non-market approaches to support countries in meeting their nationally determined contribution (NDC) targets. Market-based mechanisms seek to unlock climate finance through international carbon markets under Articles 6.2 and 6.4, while non-market approaches articulated in Article 6.8 include financial support, technology development and transfer, and capacity building (United Nations Framework Convention on Climate Change [UNFCCC], 2026).

Article 6.2 Update Brief

Article 6.2 of the Paris Agreement provides a framework for voluntary cooperation among countries through the bilateral or plurilateral transfer of carbon credits, known as internationally transferred mitigation outcomes (ITMOs). These transfers allow countries to work toward their NDC targets using carbon credits from other countries. Parties are required

³ IISD preliminary calculations based on 2023 trade data (Eurostat, 2025). Note: these products would fall under the EU CBAM only if they contain aluminum or steel. Because trade statistics do not allow identification of the material content of these products, the figures above should be interpreted as upper-bound estimates.



to implement corresponding adjustments—accounting adjustments to their emissions balances upon the initial transfer and subsequent utilization of ITMOs. This ensures that a single mitigation outcome is not attributed to multiple NDCs, thereby preserving the environmental integrity of cooperative approaches under Article 6.2 (UNFCCC, Decision 2/ CMA3, 2021) (UNFCCC, 2022).

In 2025, the implementation of Article 6.2 has gradually progressed. Data from the United Nations Environment Programme (UNEP) Copenhagen Climate Centre (CCC) (2025) indicate that more than 100 bilateral agreements, memoranda of understanding, or similar arrangements have been announced or formalized. Japan, Singapore, Switzerland, and South Korea have emerged as the primary purchasing countries, sourcing ITMOs predominantly from other Asian countries and, to a lesser extent, from Africa (UNEP CCC, 2025) [see Table 2]. Identified projects are mostly concentrated in solar energy, industrial energy efficiency, energy services, and transportation (UNEP CCC, 2025).

Some examples of these developments include Singapore formalizing a bilateral agreement and a memorandum of understanding with Mongolia and Malawi in October and November, respectively (Clark, 2025; ESG News, 2025). Singapore also began implementing its cooperative approaches with Bhutan, Thailand, and Peru between August and November 2025 (Gupte, 2025; Kuo, 2025; Pandey, 2025d). In addition, Norway inked an agreement with Indonesia for renewable energy credits in November 2025 (Singh, 2025a).

Table 2. Number of bilateral agreements by buying countries

| Countries | Number of bilateral agreements |
|----------------------|--------------------------------|
| Japan | 31 |
| Singapore | 27 |
| Switzerland | 19 |
| Republic of Korea | 11 |
| Sweden | 6 |
| Norway | 6 |
| Australia | 2 |
| Kuwait | 1 |
| Liechtenstein | 1 |
| Monaco | 1 |
| United Arab Emirates | 1 |
| Total | 106 |

Source: UNEP CCC, 2025.



In December 2025, Singapore, Brazil, and Switzerland unveiled a new trilateral cooperation accord to encourage investments in initiatives that advance Brazil's NDCs (Tilly, 2025). Other examples include Japan and India, which have started to flesh out their bilateral implementation plans under Article 6.2 (Pandey, 2025d), and Singapore, which has also published pre-approved methods to help its Article 6 cooperation with Viet Nam (Singh, 2025a). These developments signal continued interest from active purchasing countries to expand cooperative approaches.

Alongside this progress on cooperative approaches, technical work has also continued to expand the range of methods that can be used under Article 6.2. Recently, the UN has approved a standardized method for clean cooking initiatives that may support future cooperation in sectors beyond energy and transport (Manuell, 2025).

Following the adoption of crucial decision text on Article 6.2 at COP 29, during COP 30 in Belém, Article 6.2 discussions centred on practical implementation challenges. The Article 6.2 Ambition Dialogue, a dedicated platform for peer-to-peer discussions outside formal negotiations, surfaced concerns on the quality of information disclosed in early Article 6.2 arrangements, including transparency gaps (UNFCCC, 2025a).

Similarly, observer analyses, such as the one from the Carbon Market Watch, noted that while there has been increased focus on implementation, there are still pending transparency and accountability concerns that the recent COP did not fully address (Mair, 2025). Readiness assessments also suggest that many countries are still developing the authorization, tracking, and reporting systems required to operationalize Article 6.2 transfers on a larger scale (Crabb et al., 2025).

In sum, recent developments surrounding Article 6.2 remain incremental, reflecting early-stage experimentation, especially in regions with emerging and developing carbon pricing mechanisms. Nevertheless, enhancing institutional capacity, strengthening transparency, and aligning cooperative approaches with national climate goals are likely to remain priorities among parties to the Paris Agreement as the implementation of Article 6.2 advances.

Article 6.4 Update Brief

Article 6.4 establishes the Paris Agreement Crediting Mechanism (PACM), an international carbon market operated by the UNFCCC, that allows project developers to generate and sell high-integrity carbon credits (referred to as Article 6.4 Emission Reductions, or A6.4ERs). Under the PACM, the seller is typically a private or public project developer, while the buyer can be a government or a private entity purchasing A6.4ERs for compliance or voluntary purposes. This is in contrast to Article 6.2, which involves government-to-government transfers of ITMOs (Sylvera, 2025).

Adopted at the 29th United Nations Climate Change Conference (COP 29), the PACM formally replaces the CDM institutionalized under the Kyoto Protocol (SustainCERT, 2025). Under Article 6.4, eligible CDM activities can be transitioned into the PACM. As of January 15, 2026, a total of 4,766 CDM projects and programs are eligible for transition, representing 1.5 billion tonnes of CO₂e in potential emission reductions (UNEP, 2026). In October 2025, the UNFCCC Article 6.4 Supervisory Body finally approved the first Article 6.4 methodology



for landfill methane gas emissions, marking a key shift from years of negotiation to the start of implementation (UNFCCC, 2025b). The Supervisory Body has also introduced an investment analysis tool requiring project developers to demonstrate additionality by proving that their activities would not be financially viable without revenues from carbon credits (UNFCCC, 2025b).

As part of Article 6.4’s Activity Cycle, proponents must submit “prior consideration notifications” signalling their intent to participate in the PACM before project implementation begins. To date, a total of 1,112 notifications have been submitted, covering 881 projects and 231 programs, with an emission reduction potential of 1 billion tCO₂e per year. Renewable energy projects are the most common, accounting for more than 350 projects; India submitted the highest number of notifications among countries, with over 600 activities (UNEP, 2026).

Table 3. Top countries by number of prior consideration notifications

| Country | No. of prior consideration notifications |
|----------|--|
| India | 649 |
| Brazil | 63 |
| Kenya | 30 |
| Nigeria | 29 |
| Pakistan | 23 |
| Zambia | 21 |
| Viet Nam | 17 |
| Chile | 17 |
| Türkiye | 16 |
| Uganda | 15 |

Source: UNEP CCC, 2025.

This high volume of prior consideration notifications and transitioning CDM activities points to a rapidly expanding supply pipeline under Article 6.4. However, significant concerns remain, particularly on CDM legacy projects and their ability to meet the PACM’s enhanced requirements on additionality, baseline setting, and environmental integrity. Market uncertainty also persists, as buyers and investors continue to face unclear operational rules and delays in the approval of methodologies (Canestrini, 2025; Faecks, 2025). Delivering credible climate-mitigation outcomes under the PACM hinges on the strong oversight by the UNFCCC Article 6.4 Supervisory Body, the establishment of environmental integrity safeguards, and sustained engagement from both host and buyer countries.



ARTICLE 3.

Indonesia Update Brief

Box 4. Summary of Indonesia updates

- Indonesia is the only Southeast Asian country with an operational ETS.
- In 2025, Regulation 110/2025 strengthened the legal framework, formally enabling international carbon trading under Article 6 and introducing a carbon unit registry system. Indonesia has initiated bilateral Article 6 trades and signed recognition agreements with major international standards.
- Allowances are currently allocated for free using output-based benchmarks, and no auctions have been held. Trading on IDXCarbon has so far been limited to domestic offset credits, with no allowance transactions recorded.
- While a carbon tax is legislated under Law 7/2021, its implementation remains postponed.

Indonesia Emissions Profile and Climate Commitments

GHG emissions in Indonesia have risen in recent decades, reaching over 1.3 billion tonnes in 2024 (Emissions Database for Global Atmospheric Research, 2025). Electricity and heat are now the largest non-land use, land-use change, and forestry (LULUCF) source, followed by agriculture, transport, waste, and manufacturing/construction (Ritchie & Rosado, 2025). By fuel, coal dominates in 2022, accounting for 57.5% of Indonesia's total emissions, followed by oil at 32.9%, and natural gas at 9.5%, underscoring the centrality of coal in the energy mix (International Energy Agency [IEA], 2022).

Indonesia's long-term strategy targets net-zero by 2060 or earlier. The 2022 NDC pledges 31.89% unconditional and 43.2% conditional reductions compared to a business-as-usual scenario by 2030, slightly stronger than its 2021 NDC. Indonesia submitted its updated (second) NDC to the UNFCCC by the end of October. According to it, the country might still rely heavily on LULUCF for its achievement of climate targets, meaning headline goals may be met without deep energy/industry decarbonization (Republic of Indonesia, 2025b).



The Indonesian Energy Sector

Electricity demand has roughly tripled in two decades (Setiawan & Setyawati, 2024), driven by economic and population growth (IEA, 2022). Coal dominates the power mix, supplying over 60% of generation, while renewables account for just 8% of electricity generation (Our World in Data, 2024). Industry is the largest consumer, followed by households and commercial/public services (IEA, 2022). The limited financial capacity of Indonesia's state-owned electricity company, Perusahaan Listrik Negara (PLN), constrains its ability to fund the grid upgrades needed to meet rising demand across Indonesia's complex geography (World Bank, 2022).

PLN dominates Indonesia's energy sector under a single-buyer model, purchasing power from independent power producers via long-term power purchase agreements. Retail tariffs remain subsidized by the Ministry of Energy and Mineral Resources (MEMR) to compensate PLN for its costs and prevent public resistance to price hikes. In terms of planning and regulation, MEMR and the National Development Planning Agency set overall energy policy, while PLN drafts the annual Electricity Supply Business Plan for MEMR approval.

Domestic Carbon Pricing

State of Carbon Pricing Approval

The legal foundation for carbon pricing in Indonesia was established through the Law on Harmonization of Tax Regulations (Law 7/2021), which introduced a carbon tax, and Presidential Regulation No. 98/2021 on the Carbon Economic Value, which set out a framework combining taxation, trading, and offsetting (ICAP, 2023). Building on this framework, the government issued Minister of Environment and Forestry Regulation No. 21/2022, which created the basis for emissions trading in the power sector.

In mid-October, Indonesia issued Regulation 110/2025, replacing Regulation 98/2021, which marks a major step forward in its carbon pricing framework. The new regulation strengthens the country's ETS by aligning it more closely with international carbon market practices, formally enabling international carbon trading under Article 6 of the Paris Agreement, broadening the steering committee to coordinate policy and oversee carbon economic value instruments, and introducing the carbon unit registry system to improve transparency and prevent double counting alongside the existing national registry (Republic of Indonesia, 2025a). While its carbon pricing implementation remains at an early stage, Indonesia has moved further than most peers in Southeast Asia by building a comprehensive legal mandate and core market infrastructure.

In late 2025, the Indonesian Environment and Forestry Ministry released the 2025–2029 Strategic Plan to expand its carbon market and forest-based emission reduction efforts (Pandey, 2025b). The ministry will allocate around 140,000 hectares of forests for carbon market activities, including offsets and result-based payments (Pandey, 2025b). Indonesia also advanced its blue carbon agenda at COP 30, launching a blue carbon action guide and roadmap and calling for greater integration of marine carbon sinks into national climate planning (Singh, 2025c).



However, Indonesia's efforts to market large volumes of credits at COP 30 reportedly generated more modest demand than anticipated, suggesting that international buyers are still assessing the practical implications and integrity of the new system (Global Green Growth Institute, 2025; Singh, 2025b).

Design of the Carbon Pricing System

Indonesia is developing a mixed system combining: (a) an ETS, (b) a legislated but not-yet-implemented carbon tax, and (c) Voluntary and Article 6 trading mechanisms.

The ETS follows a phased roadmap: Phase 1 (2023–2024) covers PLN-connected coal; Phase 2 (2025–2027) adds captive coal/gas; Phase 3 (2028–2030) extends to all fossil plants. As of mid-2025, no auctions have been held, with rules still pending. Instead, all allowances (known as PTBAE-PU) are allocated for free, using output-based benchmarks. One PTBAE-PU is equivalent to 1 tonne of carbon dioxide equivalent. Coal-fired power plants receive PTBAE-PU based on their electricity outputs and predetermined benchmarks for each type of plant. These facilities comply with the scheme by surrendering their allowances ahead of compliance deadlines. They are also permitted to use domestic offset credits from approved Indonesian projects to cover part of their compliance obligation; however, no quantitative usage limit has been specified to date (ICAP, 2025b). Indonesia is moving forward on ETS enforcement mechanisms, in that entities that exceed their emission upper limits or fail to report their emissions can see future allocations reduced (ICAP, 2023). There is not yet a defined framework for using prospective carbon revenues. Officials suggest future funds may support NDCs or reforestation (Siahaan & Frans, 2025). Ownership of carbon credits and other environmental attributes is now spelled out in power purchase agreements (per MEMR 5/2025) rather than defaulting to PLN (ABNR, 2025). This clarity benefits independent power producers and lenders by improving bankability.

Indonesia has legislated a carbon tax in Law 7/2021, but has not implemented it. The introduction of Indonesia's carbon tax, initially scheduled for April 2022, has been postponed due to concerns over global risks and domestic inflation (Argus, 2022). Article 63 of Regulation 110/2025 signalled a renewed focus on a carbon tax, underlining that entities that exceed their emissions cap need to pay a carbon tax.

Work toward enhanced carbon credits is underway. In early 2025, Indonesia initiated the first Article 6 bilateral trades, signalling openness to international carbon market integration (Carbon Pulse, 2025). Subsequently, Indonesia lifted the moratorium on international credit sales and signed mutual recognition agreements with Gold Standard in May, with Global Carbon Council and Plan Vivo in September, and with Verra in early October.

Market Updates

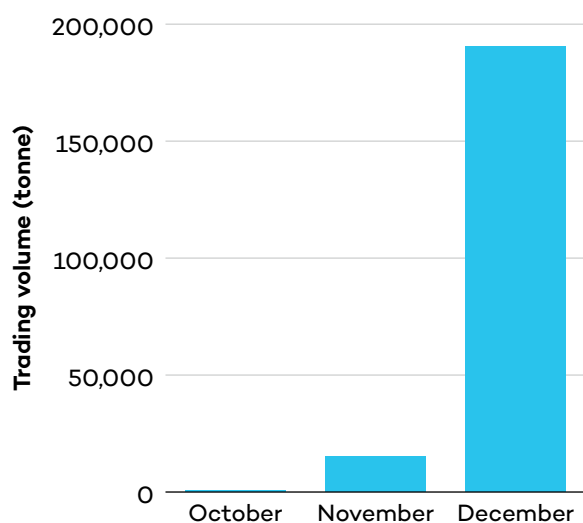
In September 2023, market participants began to trade under the Indonesia Carbon Exchange (IDXCarbon), the carbon trading platform of Indonesia ETS, which facilitates both allowance trading and voluntary carbon credit transactions (ICAP, 2023). Trading activities remain confined to domestic offset credits (SPE-GRKs). No carbon allowance (PTBAE-PU) transactions have occurred to date.



Approximately 205,900 SPE-GRKs were traded during Q4, a substantial increase from 6,700 credits in Q3.

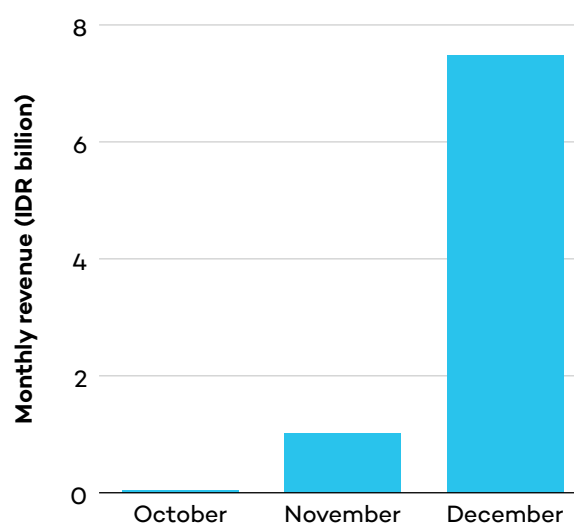
Of the total volume traded in Q4, over 92% was transacted in December, driven by a surge in negotiated transactions (see Figure 3). IDTBS credits—SPE-GRKs generated from technology-based solution projects—accounted for the majority of transactions, with nearly 177,800 credits traded in the negotiated market (IDX Carbon, 2026).

Figure 3. SPE-GRK monthly volume share (Q4 2025)



Source: IDX Carbon, 2026.

Figure 4. SPE-GRK monthly revenue share in IDR (Q4 2025)



Source: IDX Carbon, 2026.

Across 2025, nearly 904,000 SPE-GRKs were transacted, generating an annual revenue of IDR 36.4 billion (USD 2.1 million). While volumes increased toward year-end, the overall market scale remains modest by international standards and reflects the predominantly voluntary nature of trading. Prices have remained stable at around IDR 40,000 (USD 2.4) per credit. No auction activity has been recorded on the platform.



ARTICLE 4.

The Philippines Update Brief

Box 5. Summary of Philippines updates

- Carbon pricing is moving from debate into formal legislation. Legislative appetite was strong in early 2025 with House Bill 11375, which proposed a national “cap-and-invest” framework, passing in the lower house during the 19th Congress.
- The 20th Congress has seen the refile of the system proposed under HB 11375 and additional alternative proposals. Currently pending bills include HB 2055 and HB 3685, which propose a carbon pricing scheme that combines elements of cap-and-trade and cap-and-invest systems. HB 2481 resembles a more conventional cap-and-trade system. If approved, these systems would mark the country’s first dedicated carbon pricing system.
- Energy sector is one-step ahead, with the promulgation of a carbon credits policy, which establishes rules for generating and trading certificates.

Philippines Emissions Profile and Climate Commitments

Carbon emissions in the Philippines have been rising since 2000, primarily driven by the expansion of coal-fired power plants (Ritchie & Rosado, 2025). In 2024, national CO₂ emissions amounted to 175 million tonnes, excluding the LULUCF sector. The three largest sources of GHG emissions are electricity and heat, agriculture, and transport, collectively contributing more than two thirds of total emissions (Ritchie & Rosado, 2025).

The Philippines has not committed to net-zero, either in legislation or as a formal policy commitment (Climate Action Tracker, 2023a). The Philippines has yet to submit its new NDC during COP 30. Its latest NDC sets an ambitious 75% GHG emissions reduction for 2020–2030, comprising 2.71% unconditional and 72.29% unconditional targets. Most of the reductions under the unconditional component (approximately 70%) are projected to come from the transport sector (Government of the Philippines, 2023). Achievement of the conditional target is highly dependent on climate finance, estimated at USD 72 billion, as well as technology transfer and capacity-building support (Esmael, 2025). Financing needs are greatest in the energy sector, with required investments at USD 36.5 billion. Meeting these



investment requirements will require a blended financing approach, drawing on government resources, private investment, and international development assistance.

The Energy Sector of the Philippines

Despite the moratorium imposed on new projects beginning in 2020 (Department of Energy, 2020), coal remains an important part of the Philippines' power sector, with more than 60% share in generation (Department of Energy, 2025a). The share of renewables has stagnated at around 22% over the last decade, though there has been strong growth in added solar capacity recently and accelerated renewable investment momentum (Baker McKenzie, 2025). Looking ahead, the Philippines plans a much larger role for liquefied natural gas in the coming years to reduce reliance on coal (Casey, 2025).

The energy sector operates through a deregulated wholesale electricity spot market (WESM), with the majority of supply covered by long-term bilateral supply contracts. Policy mandates, like the Renewable Portfolio Standards, target 35% renewables by 2030 and 50% by 2040 (Department of Energy, 2022). Compliance is facilitated through the renewable energy market (REM), where renewable energy certificates (RECs), each representing 1 MWh of generation from renewables, are traded. The REM became fully commercially operational in late 2024 (Enviliacne ASIA, 2024).

Energy prices in the Philippines are set through a mix of bilateral contracts and the WESM. This dual market structure creates a key pricing disconnect. Most supply is covered by long-term bilateral agreements between generation companies and distribution utilities. Electricity not covered by these contracts is traded in WESM, where prices are set by bids. While WESM spot prices (which account for about one fifth of total supply) saw a sharp decline in H1 2025 (down over 25%), retail tariffs did not follow this trend as consumer rates were raised in August 2025 (Varadhan, 2025).

Domestic Carbon Pricing

The country has no explicit carbon tax or ETS. Fuel excise taxes under the Tax Reform for Acceleration and Inclusion laws serve as a de facto carbon price, accounting for roughly a quarter of the pump prices for gasoline and diesel and covering about 53.8% of domestic GHG emissions (OECD, 2023). The policy landscape, however, is now shifting toward formal legislation.

Before the close of the 19th Congress, the House approved HB 11375, the Low Carbon Economy Investment Act, on third reading (House of Representatives of the Philippines, 2025). The bill consolidates earlier proposals and proposes a cap-and-invest system requiring large emitters to offset their carbon footprint (Fairatmos, 2025). However, the 19th Congress closed with no action by the Senate on the proposed measure. Since the opening of the First Regular Session of the 20th Congress in July 2025, several House bills (HB No. 2055, 3685, 3820, 6407, 2481) have been filed, seeking to institutionalize a comprehensive carbon emission pricing framework. These largely adopt the ETS framework proposed by HB 11375. An alternative approach was also proposed and captured in the consolidated bills that focuses



more narrowly on an industrial cap-and-trade system and market-driven tradable allowances for the industrial and commercial sectors.

In comparison, HB 2055 and HB 3685 propose a carbon pricing scheme that combines elements of cap-and-trade and cap-and-invest systems. Instead of relying primarily on allowance auctions, covered enterprises would be required to invest an amount linked to a carbon price set by the carbon credit certificates—either within their own operations, in domestic mitigation projects, or through the purchase of domestic or international allowances. Whereas HB 2481 resembles a more conventional cap-and-trade system, with legislators needing to consider key design and implementation issues. HB 6407 contains many provisions similar to HB 2055 and HB 3685, but with further provisions on international credit markets, allowance allocation, financial institutions and tax incentives.

In December 2025, the House Committee on Climate Change approved a consolidated version of these bills and transmitted it to the House Committee on Ways and Means for further deliberation on its fiscal provisions and tax implications.

In the Senate, parallel efforts are underway, and two bills have been filed. Senate Bill No. 166 (the Low Carbon Economy Act) proposes a mandatory ETS (20th Congress, 2025a), while SB 366 (the Energy Transition Act) imposes a carbon tax and establishes a voluntary carbon market for the power sector (20th Congress, 2025b). To date, both bills have remained under committee-level scrutiny to ensure they align with the revenue-generating goals of the 2026 National Budget and to integrate fiscal safeguards imposed by the Department of Finance.

Complementing these legislative developments, the Department of Energy issued the General Framework for Carbon Credits in the Energy Sector in September 2025, through Circular No. DC2025-09-0018. This policy governs the generation and trading of carbon credit certificates from eligible energy sector activities, with each certificate representing 1 tCO_{2e} GHG reduced or removed. Qualifying activities include, among others, the early retirement of coal-fired power plants, renewable energy development, energy efficiency improvements, electric vehicle switching, and biofuels blending. The carbon credit certificates can be traded in domestic (yet to be established), international (e.g., carbon markets under Article 6), and voluntary carbon markets (Department of Energy, 2025b).

As carbon market policies evolve, there is a need to build institutional readiness, clarify interactions with existing instruments, such as RECs, and establish safeguards to prevent double counting, while maximizing climate and development benefits.



ARTICLE 5.

Viet Nam Update Brief

Box 6. Summary of Viet Nam updates

- Viet Nam's national compliance market is in its pilot phase, awaiting the finalization of the allocation plan and trading regulations.
- Carbon trading under ETS has been postponed until the end of 2026. Meanwhile, a draft circular on Viet Nam's ETS national registration system was released in early October.
- The country shows a green light for implementing Article 6 of the Paris Agreement and is working to align its domestic carbon credits with international standards. In early Q4, Viet Nam released the first draft decree on international carbon trading.
- The country has taken steps by implementing environmental taxes on fuels, reducing direct power subsidies, and reforming energy prices.

Viet Nam Emissions Profile and Climate Commitments

Viet Nam has pledged to reach net-zero emissions by 2050. In its 2022 NDC, the country nearly doubled its 2030 ambition compared to 2020, targeting a 15.8% reduction unconditionally and up to 43.5% with international support (Climate Action Tracker, 2023b). Electricity and heat generation, largely from coal, now dominate the emissions profile, while manufacturing and construction are growing sources. In 2022, coal alone accounted for nearly three quarters of Viet Nam's CO₂ emissions (IEA, 2022). In the lead-up to COP 30, Viet Nam is advancing the update of its NDC (NDC 3.0) (Ministry of Agriculture and Environment, 2025b), further strengthening mitigation targets across energy, agriculture, LULUCF, waste, and industry. Nevertheless, like the Philippines, Viet Nam has yet to submit its new NDC.

The Energy Sector of Viet Nam

Viet Nam is one of Asia's fastest-growing power markets, with an annual electricity demand growth of 10%–12% (International Trade Administration, 2024). At the same time, the



country's power mix has changed sharply over the past two decades. Hydropower, once supplying around three quarters of electricity, now provides only 30%–40%. Coal has risen to about 45% of generation, while gas supplies around 10%. Renewables have grown rapidly, reaching 13% in 2023 (Our World in Data, 2024), making Viet Nam the world's 10th-largest solar producer (Fox, 2022). Wind and solar output increased tenfold between 2015 and 2023, though grid bottlenecks in some provinces have led to curtailment (Ketelsen et al., 2023).

The energy sector remains state-led. The Prime Minister and the Ministry of Industry and Trade set policy, and Viet Nam Electricity (EVN) dominates generation, transmission, and distribution. Under Power Development Plan VIII (PDP8), Viet Nam plans to expand the 500kV transmission system to strengthen links between generation centres and major load hubs, such as Ho Chi Minh City and the Red River Delta (International Trade Administration, 2024).

Domestic Carbon Pricing

State of Carbon Pricing Approval

The Law on Environmental Protection (2020) for the first time provided a detailed legal mandate for the creation of a domestic carbon market. Based on this law, the government issued Decree 06/2022/ND-CP back in 2022. The revised version of this decree, known as Decree 119/2025/ND-CP, provides further updates and details regarding the design and implementation of carbon markets in Viet Nam. These include strengthened MRV requirements and a chapter regarding the international carbon credit mechanism under Article 6 of the Paris Agreement. Prior to the release of Decree 119/2025/ND-CP, several sector-specific circulars have recently been issued to operationalize MRV requirements in sectors including waste management, industry and trade, forestry, transportation, and construction.

Viet Nam's carbon market governance is shared across several ministries, with the Ministry of Agriculture and Environment (MAE) playing the lead role. The Ministry is responsible for setting annual and multi-year allowance caps, managing the national registry, overseeing MRV, coordinating the trading platform, and building capacity for participants. The Ministry of Finance leads on establishing the trading platform and designing financial policies, while line ministries, agencies, and provincial governments support market development in their respective sectors.

While trading on the Hanoi Stock Exchange was initially expected by the end of 2025, the commencement of trading has been postponed to the end of 2026 (VnExpress, 2025).

Based on Decision No. 1162/QD-BNNMT, MAE has approved the Plan for Establishment and Operation of the National Registry System of emission allowances and carbon credits, which assigns the Department of Climate Change to establish and operate the National Registry System, while the Department of Digital Transformation provides information technology infrastructure. Following this, in early October, Viet Nam issued a draft circular regulating the management and operation of the National Registry System, designed to enhance emissions tracking, carbon credit management, and the overall integrity of credits within the MRV system. The circular assigns oversight responsibilities to the Viet Nam



Securities Depository and Clearing Corporation, the MAE, and the Hanoi Stock Exchange, which are expected to coordinate closely to ensure the effective functioning of the registry and the broader ETS.

In 2025 Q4, the MAE released the first draft of a decree on international carbon trading, outlining the rules for implementing Article 6 of the Paris Agreement. The draft provides details on how Viet Nam will apply corresponding adjustments, including a clear methodology to prevent double counting of emissions reductions.

Most recently, the Government issued Decree No. 29/2026/ND-CP dated January 19, 2026, which provides detailed provisions on the organization and operation of the domestic carbon trading exchange. The Decree regulates participant registration, issuance of domestic trading codes, transfer of ownership, depository arrangements, trading procedures, and payment and settlement mechanisms for emission allowances and carbon credits. Together with the development of the National Registry System, this regulatory framework establishes the essential institutional and technical infrastructure required for the operation of Viet Nam's domestic carbon market. In addition, on February 9, 2026, the Government issued a decision approving the overall emission allowance allocation for the pilot period (2025–2026), marking a critical step toward the formal launch of carbon market operations.

Design of the Carbon Pricing System

Viet Nam's carbon market comprises two components: (i) the domestic ETS and (ii) carbon crediting mechanisms (domestic and international trading).

ETS

Viet Nam's ETS will operate in phases and as an intensity-based system similar to those in China and Indonesia. Around 150 entities will be covered in the pilot phase (2026–2028), accounting for about 40% of domestic GHG emissions. This phase regulates emissions from steel, cement, and thermal power (as per Decree 119/2025/ND-CP and Decision 232/QD-TTg). The fully operational phase from 2029 onwards, including allowance auctions and tightened rules for trading and international market participation.

Allowances under Viet Nam's ETS are allocated based on sectoral benchmarks, production growth, and emissions reduction ambition. During the pilot phase, free allowance allocation for covered entities was originally planned by December 31, 2025, based on emissions intensity and output (ICAP, 2025d).

Companies in determined sectors above set emission thresholds must participate and can trade allowances and credits on the Hanoi Stock Exchange. Under Decree 119/2025/ND-CP, participants may use carbon credits to meet up to 30% of their compliance obligations, including credits from international mechanisms under the Paris Agreement.

This offset usage rate (up to 30%) is comparably high relative to many other jurisdictions, where offset limits are typically significantly lower or entirely prohibited.

Domestic MRV capacity remains a constraint, with a limited number of UNFCCC-certified verifiers currently available.



Carbon Crediting Programs

As of March 2025, the country had recorded a substantial number of carbon credit projects, including 274 registered under the CDM, 43 under Verra's Verified Carbon Standard, and 45 under the Gold Standard (Iyer, 2025). Beyond these, Viet Nam has an active renewable energy certificate (REC) market and trades verified emission reductions in the forestry sector.

The country is developing a decree on international trading of carbon credits and mitigation outcomes from Viet Nam, which is expected to set rules for Article 6 transactions. To date, Viet Nam has completed one international carbon transaction, involving the sale of 10.3 million tonnes of emission reductions to the World Bank for approximately USD 51.5 million (World Bank, 2024).

The government is reportedly considering retaining up to 50% of credits generated from international transactions to safeguard national climate targets, with a potential reduction of this retention ratio to 30% by 2030 (MAE, 2025a).

For domestic carbon crediting, Viet Nam released its first draft decree on the carbon absorption and storage service of the forest and a draft standard on domestic forestry carbon credits in June and October 2025, respectively, aiming to facilitate the generation and trading of forestry carbon credits for the domestic ETS and international mitigation purposes. Competent authorities are currently revising that draft, and the official decree is expected to be published in the upcoming months (Vietnam Law, 2025).

Complementary Fiscal and Policy Measures

Viet Nam is not currently planning to introduce a standalone carbon tax. However, the Law on Environmental Protection is under revision. Existing environmental protection taxes apply to fuels (including gasoline, diesel, and coal), though current rates do not reflect carbon content.

Separate environmental protection fees apply to certain polluting emissions but do not currently include greenhouse gas emissions.



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