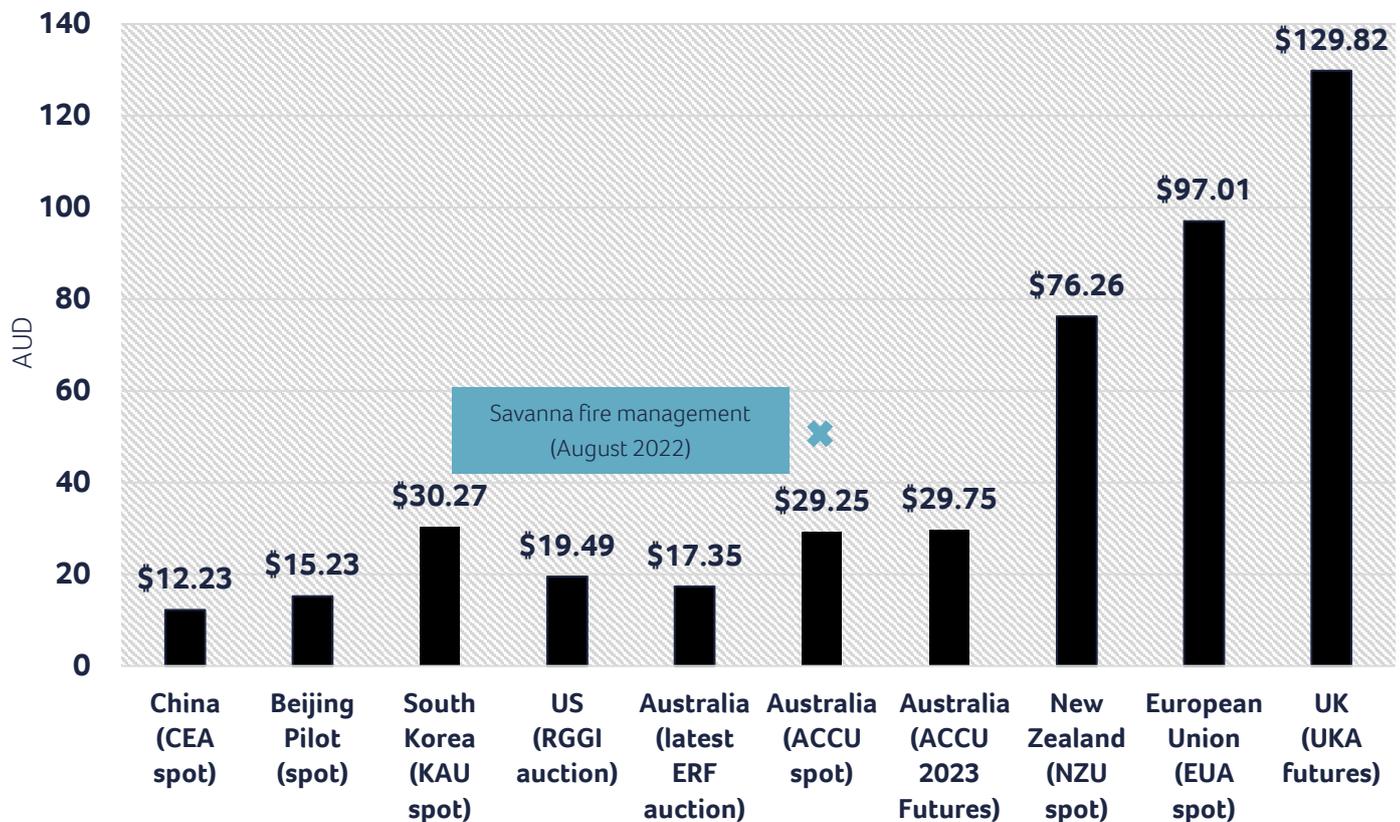


Global Carbon Prices



Sources: Carbon Pulse | CER | Jarden | ICE | KRX | Comtrade

Price dates: China ETS (9/9/22), South Korea (10/8/22), Aus Spot (9/9/22), RGGI (9/9/22), EU (9/9/22), UK (12/9/22) | Aus Futures (12/9/22) | Beijing (8/9/22) | Aus Auction, New Zealand (9/9/22)

Global Climate Policy Update

Internationally:

- G20 members** acknowledge the role of carbon pricing as part of policy levers to foster the transition towards sustainable investment in a High-Level Breakfast Discussion on Climate Mitigation. As the G20 President for 2022, Indonesia is implementing a hybrid cap-trade-and-tax system to regulate carbon emissions from coal-fired power plants. The current carbon price floor proposed is Rp 30/tCO₂e (AUD 2.90/tCO₂e).
- Bonn Climate Change Conference** concluded in June 2022 with developing countries calling for greater action and support on adaptation and loss and damage. In addition, the Egyptian Presidency has made it clear that climate finance will be prioritised at COP 27 in November 2022. At the COP, we will likely see a strong focus on methods that leverage private sector investment to fund climate solutions across both mitigation and adaptation fronts.
- Article 6.4 Supervisory Body** met in Bonn, Germany from 25 to 28 July for the first time. The Supervisory Body agreed on several procedural rules, leaving structural matters (e.g. share of proceeds) for further discussion at the second meeting, which will be held September, also in Bonn. Article 6.4 will replace the Clean Development Mechanism (CDM) that previously operated under the Kyoto Protocol. Article 6.4 will enable all countries to utilise carbon markets to enhance their climate ambition (see CMI's COP26 Article 6 Explainer).

Policy & Market Tracker

46 National¹
Carbon Pricing Schemes

36 Sub-National¹
Carbon Pricing Schemes

194 Parties²
Ratified Paris Agreement

\$84 Billion¹
Total Value of Carbon Pricing Mechanisms

- While Article 6.4 is expected to commence operation by 2024, more technical issues still need to be clarified, including rules regarding how projects registered under the CDM can be transitioned into the new framework. The Supervisor Body has signalled that some of the methodologies used under the CDM program will be revised in the post-Paris era.
- The **World Bank** has completed three simulations to test the Climate Warehouse platform, a free-to-access metadata layer that will harmonise registry data to enhance transparency and environmental integrity of carbon credits. Projected to be launched in mid-October, the platform will use blockchain technology to connect different registries and track their carbon credits to prevent double counting.
- The **UNFCCC Standing Committee on Finance** will organise a Forum on Finance for Nature-based Solutions (Part II) from 26 to 28 September in Cairns, Australia. This forum will provide a platform for stakeholders to discuss issues around climate mitigation and adaptation based on scientific principles of nature-based solutions, country experiences in accessing climate finance, finance gaps, and ways to mobilise action to scale up nature-based solutions.

In Europe:

- **The EU's** Fit for 55 climate policy reform can become law by the end of this year, according to European Commission's Climate Chief Frans Timmermans. The policy package aims to align the Bloc's climate, energy, and transport-related legislation with its 2030 55% emissions reduction target, and carbon neutrality 2050 goal.
 - Once legislated, the 2030 emissions reduction target of the EU ETS will be ratcheted up from 43% to 61%, using 1990 levels as a baseline. As a result, the yearly reduction rate of the emissions cap will be increased from 2.2% to 4.2%. The revised scheme will also cover the maritime sector.
 - Potential changes affecting the global carbon market industry include a Carbon Border Adjustment Mechanism (CBAM) that applies tariffs to a range of carbon-intensive imported products (cement, aluminium, fertilisers, electric energy production, iron and steel), pressuring trading partners to initiate or reform the integrity of their carbon pricing systems to avoid the charges.
- **Austria** launched a national ETS in July 2022 for sectors not covered by the EU ETS, such as buildings, transport, small industry, waste and agriculture. The national ETS will impose a fixed price of EUR 30/tCO₂ in 2022, gradually increasing it to EUR 55/tCO₂ in 2025. However, trading is not yet allowed, and regulated entities will have until the end of June each year to surrender allowances to cover the reported emissions of the prior year.
- **Switzerland** entered into a bilateral agreement with Thailand, enabling the latter to supply carbon credits to help meet the Swiss NDC to cut emissions by 50% below 1990 levels by 2030. In the past year and a half, the country has concluded similar agreements with Dominica, Georgia, Peru, Senegal and Vanuatu to secure around 35 million tonnes of carbon credits over 2022-2030. These agreements fall under Article 6.2 of the Paris Agreement, which requires corresponding adjustments to prevent double claiming of carbon credits.

In the UK:

- **The UK ETS Authority** has concluded a major public consultation on changes to the UK ETS. The consultation covered multiple design elements of the UK ETS, including aligning the scheme's cap with the country's net-zero target by 2050. From 2024, the cap would be tightened to reduce the supply of allowances by 30-50% over 2021-2030. Among the issues discussed were integrating greenhouse gas removals into the scheme, and expanding it to regulate emissions from domestic maritime, waste incineration and energy from waste.

In China:

- **China's national ETS** market celebrated its first anniversary in July 2022, with 194 million Carbon Emissions Allowances (CEAs) worth around ¥8.49 billion (AUD 1.86 billion) traded across all platforms, according to Shanghai Environment and Energy Exchange. The carbon market achieved an outstanding compliance rate of 99.5% for 2019 and 2020, and the current spot price stands at around ¥58.24 (AUD 12.78). New allocations for

2021 are yet to be completed, with delays expected due to dissenting voices against the Ministry of Ecology and Environment (MEE)'s plan to cut CEAs by 8% compared to 2019–20.

- **China's voluntary offsets market** is still under suspension, with no official word from the government on when it will reopen. Despite this, project developers and local governments are pressing ahead to develop innovative carbon projects. For example, in Gansu province, QYH Investment announced its partnership with the local government of Guazhou county to develop grassland management projects targeted at the international market under Verra. On the other hand, the government of Hainan province has issued a plan to roll out a batch of blue carbon projects for its pure marine-based offset exchange, which will be launched later this year.

In the Asia Pacific:

- **In New Zealand**, the spot prices for NZUs have stayed strong following the Climate Change Commission's recommendations to overhaul the scheme and enact more stringent rules. One of the proposed changes is a strong increase in the Cost Containment Reserve price from NZD 78.40 (AUD 70.84) to NZD 171 (AUD 154.51), which has been triggered three times in the last six auctions.
- **Japan and Singapore** have both approached Papua New Guinea for partnerships to purchase carbon credits generated from the country. Japan has signed bilateral agreements with 22 partner nations under its Joint Crediting Mechanism (JCM), while Singapore has signed Article 6 MOUs with Morocco and Colombia.
- **Japan's GX League**, a voluntary baseline-and-credit system, will commence pilot trading on 22 September 2022. Around 120 companies have signed up for participation in the pilot phase. They will be allowed to trade domestically generated J-credits and JCM credits to meet their voluntary emissions targets. Starting in 2024, companies that outperform their targets will be awarded carbon credits.
- **South Korea** has set up an International Reduction Council to manage its involvement in Article 6 of the Paris Agreement. The country aims to purchase 33.5 million offset credits to help meet its NDC and is signing bilateral agreements with four countries: Vietnam, Peru, Myanmar, and Sri Lanka.

In the Americas:

- **The US Inflation Reduction Act** has passed the Senate and the House of Representatives and became law on 16 August. It would inject more than USD 370 billion into climate and energy programs and would enable the US to reduce emissions roughly 42% below 2005 levels by 2030, according to an analysis by the REPEAT Project at Princeton University.
- **The Pennsylvania Commonwealth Court** has entered an injunction to temporarily prevent the State from linking its CO2 Budget Trading Program to the Regional Greenhouse Gas Initiative (RGGI) as the 12th member.
- **The Canadian government** is proposing two options to cap the emissions of the oil and gas sector. The first method is establishing a cap-and-trade system while the second is imposing a higher domestic carbon price on the industry. Both options would limit the number of domestic and international offset credits regulated entities could use to meet their compliance obligations.
- **Chile** has adopted a Climate Change Framework Law with provisions supporting the establishment of market-based instruments. Articles 14 and 15 of the Act empowers the Ministry of the Environment to set up a baseline-and-credit ETS to regulate a range of emission sources.

Sources: World Bank¹, UNFCCC², Carbon Pulse, Ecosystem Marketplace, ICAP, Carbon Brief.

Market Commentary

'Carbon Markets in Southeast Asia: Opportunities and Challenges in Scaling Up'

Southeast Asia (SEA) is one of the fastest-growing economies in the world. With a population of over 673 million, the region produced nearly 1.75 gigatonnes of carbon dioxide in 2019. As a region, it ranked fourth globally in total carbon emissions after China, the United States and India. At the same time, the region holds tremendous potential to decarbonise through credited action on conservation and restoration of nature-based assets alongside planned

energy transitions. A recent study published in *Nature* found that 58% of SEA's forests threatened by deforestation could be protected via incentive-based carbon projects.

Like the general up-ticking trend observed across the globe, countries in SEA have seen a surge in carbon market activities since Article 6 – the Paris Agreement's rulebook governing carbon markets – was approved at COP 26. This increase in momentum shows that ASEAN member states are increasingly leveraging a collaborative approach to meet their respective nationally determined contributions (NDCs) pledged under the Paris Agreement.

Keeping pace with the latest developments in compliance and voluntary carbon markets in SEA is crucial to stakeholders who wish to expand their assets into the region. This commentary provides insights on key development trends of compliance carbon markets (CCMs) and voluntary carbon markets (VCMs) in SEA before highlighting some of the opportunities and challenges in scaling up emissions reduction/removal and trading activities in the region.

Carbon markets development trends in SEA

Indonesia and Vietnam are leading the pack in terms of CCM development. Both countries have laid out legal foundations to mandate the implementation of a national carbon market by 2024 and 2028 respectively. The Indonesian system will feature a 'cap-trade-and-tax', under which non-compliant entities will be subject to a carbon tax presently proposed at USD 2.10 per tonne. On the other hand, the Vietnamese system is expected to be a pure cap-and-trade mechanism, with thresholds and rules still being established.

On the VCM front, Thailand already has a functioning greenhouse gas crediting system known as Thailand Voluntary Emissions Reduction Program (T-VER). While the system exclusively generates credits for domestic uses (9 million credits were issued over 2020-2021), the Thailand Greenhouse Gas Management Organisation (TGO) is exploring avenues to bring international transactions into the system. Meanwhile, Malaysia has announced its intention to launch a VCM via Bursa Malaysia, the country's national stock exchange, by the end of this year.

Adjacent to Malaysia, Singapore has positioned itself as a global hub for carbon services and trading. In May last year, the country introduced its second emissions bourse – Climate Impact X (CIX) – after AirCarbon, a blockchain-based exchange, was launched in 2019. Additionally, as mentioned above, the island nation has signed MOUs with Columbia, Morocco and Indonesia for close collaborations on carbon markets. It has also approached Papua New Guinea for a potential MOU to procure credits supply for its VCM.

Opportunities and challenges in scaling up carbon markets in SEA

The carbon markets in SEA are still at an early development stage compared with other emissions trading systems in Asian countries such as China, Japan and South Korea. Yet, the region offers an exciting opportunity to potentially create USD 10 billion worth of carbon market activities annually by 2030, as noted by a US-based management consulting firm Bain & Company. Spearheaded by Singapore, ASEAN member states (AMS) are expected to see an expansion of activities around carbon project scoping and development, monitoring and assurance, accreditation, and financial services.

While almost all AMS have expressed their interest in using carbon markets to help meet their climate targets, the efforts to scale up the use of carbon credits in the region are currently hindered by a range of factors, including low project scalability, limited financing, and lack of regulatory environments. Essentially, most AMS are in urgent need of financial and technical assistance from developed nations, as partly evidenced by the framing of the conditional climate targets under their NDCs.

Furthermore, uncertainties surrounding the ‘corresponding adjustments’ requirement by Article 6 have created barriers for potential project developers to invest in the region. For example, Indonesia has temporarily halted the issuance of carbon credits for some forestry projects in Kalimantan and North Sumatra. According to the Indonesian finance ministry, the country would not allow international carbon trading until its own climate targets are met. Following Indonesia's footsteps, India, one of the largest suppliers to the global VCM, has banned the exports of carbon credits. These conservative movements by governments are anticipated to continue until detailed rules are formulated on how to operationalise corresponding adjustments under the Paris Agreement. We expect some detailed rules under Article 6 to be advanced but not necessarily concluded at COP 27 in November 2022.