

# Region can do much to create and sell carbon credits

Haze Outlook 2021 says Singapore can expect to be haze-free this year. Clearer skies are a good backdrop to the efforts to create and sell carbon credits. **BY SIMON TAY AND AARON CHOO**

**A**CCUSATIONS too often accompany the dry season, especially when the problem of trans-boundary haze returns across our region. Accusations are traded not only within Indonesia, which usually suffers the worst of the fires and the heaviest pollution, but also between neighbouring Asean governments.

Businesses too can be implicated, and not only the producers of commodities such as pulp and paper or palm oil. Financial institutions, traders and buyers of resources also face scrutiny on their portfolios and supply chains, including possible investigations from regulators, non-governmental activists and the media.

The prospects for this year will therefore come as good news. Our Haze Outlook 2021 Report concludes that the risk of a severe and prolonged trans-boundary haze incident is low; on a scale of red, amber and green, the signs are that the months ahead will be green.

This is the first time that our annual Haze Outlook predicts such a benign outcome. Back in 2019, the outlook was amber, and indeed there were prolonged periods of haze, with air quality in the region spiking into unhealthy levels.

What has changed for the positive?

Favourable weather assists in keeping fires and haze under control. Meteorological forecasts indicate that while the coming months will be drier than last year, the weather will be less severe than the drought conditions impacting California and other parts of the world.

But weather is not the only factor. What will make the biggest difference are the positive steps taken by the Indonesian government.

President Joko Widodo has emphasised that ending the haze should be a legacy of his administration for the Indonesian people, and a raft of reforms and new policies have followed to meet this challenge. This goes far beyond simply putting out fires when they start and extends to initiatives in underlying land use and development policies and longer-term planning. Indonesia plans to achieve net-zero greenhouse gas emissions as soon as 2045, and conservation and preventing fires will be a major part of that effort.

Policy changes have flowed into institutional commitment by key entities, including the Indonesian Ministry of Environment and Forestry and the Peat and Mangrove Restoration Agency, specially created by the Jokowi administration and now renewed for a second term.

Coordination between agencies and with local governments, and cooperation with resource sector companies, have also been stepped up.

There are good reasons to give credit to Indonesia's efforts, especially taking into consideration the ongoing pandemic and the pressure on the nation's economy.

Singapore's Minister for Sustainability and the Environment Grace Fu did exactly that when speaking at the 8th Singapore Dialogue on Sustainable World Resources in May. She forthrightly credited the relatively haze-free conditions to President Joko Widodo's "strong leadership and determination", and coordination by the Indonesian Ministry of Environment and Forestry under Minister Siti Nurbaya Bakar's guidance.

But a lower risk does not mean Zero risk. What happens next will bear monitoring.

## WHAT NOW, WHAT NEXT?

While commitment to combating the haze and strengthening sustainability continues, there is also an urgent need to create jobs and growth



In 2019, the Marina Bay Sands hotel and resort in Singapore was blanketed by haze from Indonesian forest fires. PHOTO: AFP

due to the downturn caused by the pandemic. Business and investment are the understandable priorities, and environmental protection faces a difficult balancing act.

Consider the Omnibus Law on Job Creation, passed late last year. From the economic perspective, this is to be applauded as an effort to cut through red tape and improve the ease of doing business.

But concerns emerge from an environmental perspective, with a number of Indonesian activists warning that weaker environmental protection could be one unintended consequence of mandating fewer checks.

Another concern emerges from government backing to establish farms across Indonesia to grow rice and other staples.

While this aims to improve food security, non-government organisations (NGOs) and academics fear that these farms could result in natural ecosystems being converted into farmland, as was the case with the Mega Rice Project in the 90s. If so, there can be negative consequences for conservation.

At present, there has been no negative impact on the environment or increase in the risk of haze. But the situation demonstrates how Indonesia and our region as a whole are at a critical juncture, as the region seeks to emerge from the pandemic and also give urgent commitment to climate action.

## CREATING AND SELLING CARBON CREDITS

One key to better outcomes is to approach sustainability and conservation as potential opportunities for investment and business. Globally, market incentives are being created to promote the conservation of natural ecosystems, rather than encouraging their degradation.

Here again, there are positive signs emerging from Indonesia, with efforts to generate carbon credits from conservation in the country. Projects can be verified, certified and sell carbon credits on the voluntary offset market to private-sector investors and corporations. Investments and revenue from the sale of credits can then fund further ecosystem conservation and restoration, to reinforce sustainability.

By placing a monetary value on keeping ecosystems intact, such efforts can potentially stem the use of fire to clear land, changing the risk into an opportunity.

With a vast potential for carbon sequestration in its forests, peatland and mangroves, the country's Coordinating Minister for Maritime Affairs and Investment Luhut Pandjaitan has emphasised Indonesia's future as "carbon credit superpower".

Indonesian regulators are in the process of creating a framework for emissions trading within the country. Consideration must be given to regulating how the private sector can participate.

For instance, at present, the resource companies that manage tracts of land for growing forest commodities are not allowed to generate and sell carbon credits from any conservation efforts they make, if that conservation is on land zoned for production purposes.

Separately, efforts have also been launched to create an international carbon exchange in the form of Climate Impact X (CIX) to begin operations in Singapore later this year.

Potentially, the two efforts can have synergies to cover not only Indonesia but the region as a whole, and to broaden the base of potential investors and buyers of carbon credits.

Much, however, will depend on the precise rules set, especially by the Indonesian authorities, in creating their national market as well as deciding their global commitments for emissions reduction.

There is much that can and should be done to create and sell carbon credits across the region. Our assessment that the risk of a severe haze returning to the region for the coming year is reduced provides a good starting point: the horizon may well be clearer.

But the path ahead for cooperation and investment remains the greater challenge, and also the larger opportunity.

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