# Placing Asean on stronger footing in a net-zero future

South-east Asia should take a collaborative approach to strengthening carbon pricing regimes and developing carbon markets. BY SIMON TAY AND MEIXI GAN

Singapore's reputation as a digital tech hub can seed innovations to support carbon offset verification, monitoring of carbon stocks and biodiversity benefits, and market access for engaging in conservation and restoration efforts. BT FILE PHOTO

WITH the dust settled from the 2021 United Nations Climate Change Conference (COP26), efforts in 2022 must turn to the hard work of implementing pledges made by countries and corporations at that meeting.

In Singapore, an early January session of Parliament featured an extended discussion on raising carbon taxes, building carbon markets and creating green jobs.

This signals both the country's green transition ambitions and that it is on a positive trajectory to achieve them. This has elicited 2 kinds of responses.

First, there are concerns about the tax impacting competitiveness. To this, Trade and Industry Minister Gan Kim Yong gave the assurance that the carbon tax increase would be step-by-step and calibrated, "to give companies sufficient time to adapt and stay competitive".

The second response is that the carbon price is too low, and Singapore needs to decarbonise faster. However, the realism is that there are limits to what a small and densely populated country can do.

In this context, we believe it will be increasingly necessary to connect Singapore's ambitions to wider Asean moves. This can lever Singapore's efforts to scale up climate action.

Like many in developing regions of the world, the Asean member states have not been early and strong proponents of action against climate change, even if they have not directly opposed it. But the existential threat that climate change poses to the region has become increasingly clear – a recent example being the devastating rain and floods that swept Malaysia in December.

The region is moving in a positive direction. Efforts have been made by several countries to either embark on or strengthen carbon pricing regimes to shift economic incentives towards low-carbon activity. Regional collaboration can raise collective climate and carbon commitments, while achieving economies of scale and mutual benefits.

What are the key moving parts? What policies and actions are needed? These were covered in the recent Singapore Institute of International Affairs report, *Greening the Road Ahead: Building a Collective ASEAN Climate Community.*

There are priority industries, such as energy and agriculture, in which decarbonisation will make an outsized impact on regional greenhouse-gas emissions. Besides sectoral approaches, however, certain cross-cutting efforts can collectively support the region in raising its climate ambition. Carbon pricing is a first and key step.

### Coordinating carbon pricing

Enacting carbon pricing helps organisations internalise the impact of emitting carbon in their operational decisions. It can also help make a case for conserving natural ecosystems. For instance, the economic value derived from preserving a forest can be compared to that from clearing the land for agricultural or residential use.

A tax is one way of implementing a carbon price. Since 2019, Singapore has imposed a carbon tax on entities that exceed a certain level of greenhouse-gas emissions, covering 80 per cent of the country's emissions. Carbon taxes, if calibrated well, can generate public revenue that can then finance further low-carbon development, or help offset the tax burden for end-consumers. While Singapore's tax rate is now at a low S$5 per tonne of emissions, the government plans to include a revised scheme in the upcoming Budget 2022 announcement.

A few other Asean countries, such as Brunei, Indonesia, and Vietnam, have announced plans to enact carbon pricing. Given the region's trade and economic interconnectedness, Asean countries could consider greater alignment or even harmonisation of carbon prices to maximise benefits. This would reduce "leakage" within the region – a situation where high-carbon activities simply move from one location to another due to differences in carbon policies, resulting in no net reduction in emissions.

With the global shift towards a greener economy, alignment in carbon pricing would also better prepare South-east Asia to manage external developments that may impact us. One example is the European Union's Green Deal policies which include, among other things, a proposed levy on carbon-intensive imports. Having carbon pricing in place across Asean countries would mitigate the impact of such a measure on the region.

### Developing liquid carbon markets

Besides taxation, carbon pricing can also be achieved through emissions trading. This has been a major growth area in recent years. A breakthrough was made at COP26 with the finalisation of Article 6 of the Paris Agreement, which sets rules for international carbon trading. These rules seek to reduce double-counting of carbon credits and the use of older credits that may be of lower quality.

Asean countries such as Indonesia, Malaysia, and Thailand have announced plans to implement carbon emissions trading. In Singapore, the National Climate Change Secretariat is also considering allowing companies to use international carbon offsets which are aligned with Article 6 rules to reduce their carbon tax liabilities.

A positive next step would be to link national schemes so that carbon can be easily traded across borders. Alignment of carbon pricing and certification standards between countries in the region would support this. Cross-border carbon trading would maximise efficiency, transparency and liquidity, compared to having multiple standalone carbon markets with their own rules and standards.

South-east Asia holds great promise for generating high-quality carbon offsets. The region is rich in natural ecosystems that sequester carbon. Research has shown that South-east Asian countries have the highest potential for returns on investment from nature, with Indonesia alone potentially generating more than US$10 billion a year.

Singapore-based Climate Impact X (CIX), a new carbon exchange, is capitalising on the value of these nature-based climate solutions. CIX completed its pilot auction in November 2021 involving 8 forest conservation and restoration projects in Africa, Asia, Central America and South America, where credits representing 170,000 tonnes of carbon were purchased. CIX expects to launch further auctions in 2022.

For the region to succeed in building a carbon market, however, there must be proper oversight for carbon offsets and the projects they come from. These offsets and projects must fulfil certain criteria: the carbon removal or avoidance they represent must not have otherwise occurred or be reversed in the future, and the project should not result in carbon emissions-causing activity simply shifting to another location. These would negate any positive effects.

Offsets can also be considered of higher quality if the projects lead to benefits beyond carbon and climate, such as livelihoods development or biodiversity protection.

In Singapore, efforts are being made to leverage the country's financial sector success to build a trusted carbon trading ecosystem. Likewise, Singapore's growing reputation as a digital technology hub can seed innovations to support carbon offset verification, monitoring of carbon stocks and biodiversity benefits, and market access for landowners engaging in verified conservation and restoration efforts.

### Collaborating towards win-win outcomes

Cross-border cooperation is the key ingredient to maximise the positive effects of carbon pricing and carbon trading. Many Asean member states' climate pledges are contingent on foreign funding. While climate finance from the developed world is crucial given the enormous funding gap, Asean countries can also collaborate within the bloc.

There have been early signs of competition and uncertainty around partnerships in the region. Malaysia's energy ministry decided in late 2021 that it would limit renewable energy exports to Singapore to boost Malaysia's domestic renewables capacity. Likewise, Indonesia announced that carbon credits generated locally would first be used to meet national emissions targets; only excess credits would be released for international trading.

Prioritising domestic climate goals is understandable and often necessary. But climate action need not – and should not – be a zero-sum game. Collaboration can even generate additional revenue for countries to fund domestic sustainability initiatives.

Asean countries have shown willingness to work together, producing outcomes that not only move the region forward but more importantly, are tailored to regional circumstances. A notable example is the Asean Taxonomy for Sustainable Finance released in November 2021. Unlike its European counterpart which uses a more binary classification for sustainable activities, the Asean taxonomy takes a tiered approach that will better allow for transition finance and small and medium-sized enterprise (SME) support, both of which are crucial to the region's development.

Moving forward, South-east Asia should take the same collaborative approach to strengthening carbon pricing regimes and developing carbon markets. In this way, we can work towards an "Asean climate community" with coordinated regional efforts to reduce emissions, leverage green economic opportunities, and promote sustainable livelihoods. Regionalisation can help Asean stay resilient in an increasingly carbon-constrained world and remain a vital part of global value chains.

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