

# Tapping potential of South-east Asia's carbon market

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Singapore and Indonesia signed a memorandum of understanding on cooperation on climate change and sustainability in March to strengthen collaboration in carbon markets, and financing for ecosystem conservation and restoration projects.

This tie-up could serve as the first of many, and a template for Asean and Asia to embark on the multilateral harmonisation of carbon market regulations.

A bespoke regional carbon market mechanism that considers South-east Asia's unique ecosystems and economic diversity is needed.

Tapping South-east Asia's carbon markets holds huge potential – the inherent economic benefit of the region's biodiversity was estimated to be worth US\$2.19 trillion (S\$3.03 trillion) by the Academy of Sciences Malaysia in a report out this month, taking into account the value of the area's

forests in soaking up carbon and providing natural resources, among others.

The clearest economic potential of biodiversity is as a source of carbon credits – permits to emit a set amount of carbon dioxide or other greenhouse gases (GHG).

Carbon credits enable organisations to compensate for their carbon footprint through supporting efforts that reduce emissions or remove GHG from the atmosphere.

The issue of making the most of the region's carbon market potential is timely, as the ninth Singapore Dialogue on Sustainable World Resources is being held next Tuesday. Participants will discuss the prospects for carbon markets in Asean, as well as the financing mechanisms needed to support forest and carbon projects.

How are countries in this part of the world going into the carbon offset market, and what are the challenges?

## CREDITS FROM OUR FORESTS

Firstly, though, how do carbon credits work? Credits can be generated in many ways, ranging from renewable energy to the use

of carbon capture technology.

In the South-east Asian context, the most promising method is via nature-based solutions, where credits are generated by projects conserving or restoring ecosystems.

The trading of carbon credits, through a carbon market, in turn drives investments in such projects, spurring efforts in sustainability.

South-east Asia's forests are huge carbon sinks as their trees remove carbon dioxide from the atmosphere. This has been recognised as a means of carbon credit generation.

This is a growing market; the Taskforce on Scaling Voluntary Carbon Markets, a private-sector initiative, estimates that worldwide demand for carbon credits could increase by a factor of 15 or more by 2030, creating a market worth over US\$50 billion.

Such forest projects provide a means of achieving net zero targets, while providing market incentives to keep ecosystems intact. This, in turn, reduces deforestation and consequently, the threat of trans-boundary haze in the Asean region.

## EFFORTS BY INDIVIDUAL COUNTRIES

Singapore has long seen the economic potential in growing a carbon trading economy.

The country has taken steps to encourage carbon trading by announcing an increase in its carbon tax and allowing Singapore-based businesses to offset 5 per cent of their taxable emissions from 2024.

Singapore is now home to more than 70 companies developing

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carbon services, and that number is set to grow. As a financial and trading hub, Singapore is well-positioned to work with partners to help the region transition from a commodity-based economy to a climate-based one.

Thailand was an early mover in voluntary carbon offsetting and is currently developing a legislative framework to establish and scale a national carbon trading mechanism.

Vietnam, the source of much investor attention, plans to start carbon pricing this year. This comes on top of efforts in attracting green finance to transition energy reliance away from carbon-intensive coal power.

Malaysia, which has committed to reducing 45 per cent of its greenhouse gas emissions by 2030, is set to launch a voluntary

carbon market for businesses by the end of this year. Sarawak has already amended its laws to grant operating licences to forest carbon projects, the first jurisdiction in Malaysia to do so.

Indonesia, the biggest economy in Asean, has set a legally binding target for its forest and other land use sector – which accounts for about half of the country's emissions – to become a net carbon sink by 2030.

To achieve this, Indonesia will introduce a carbon tax this year, starting with the coal-fired power sector.

Additionally, Indonesia is moving swiftly on carbon trading mechanisms aligned with international benchmarks. This involves creating a national registry of carbon projects and a system of government-certified carbon credits for organisations to offset their emissions.

President Joko Widodo, who sees ending haze air pollution from forest fires, and fostering carbon neutrality, as legacies of his administration, is likely to intensify carbon and climate action initiatives in the remaining 20 months of his term.

## CHALLENGES AMID OPPORTUNITIES

One issue is that of the carbon credits themselves – critics such as Greenpeace and Friends of the Earth say they encourage a culture of climate pollution and do not address the main sources of carbon emissions, such as fossil fuel usage.

And earth.org, a global environmental think-tank, points out that carbon offsets that rely on land use in developing countries

can end up transferring the burden of reducing emissions from wealthier countries to those already feeling the impact of the climate crisis.

“Greenwashing” is a problem, too – where a company publicly touts that it has measures showing it cares for the environment, but in reality fails to do enough to reduce its emissions, or double-counts carbon credits, or invests in non-verified credits.

In Asean itself, there is also the balancing act on the ground: Unlocking the full potential of the region's biodiversity requires trust and collaboration between policymakers and private sector enterprises.

Another challenge is that of entrenching sustainability initiatives and ensuring they achieve the necessary scale.

There is a great deal of potential in carbon markets to achieve multi-fold objectives – twinning economic recovery with climate ambitions and achieving biodiversity conservation.

Current sustainability commitments and developments in Asean show that there is no better time to entrench momentum into institutions, fostering lasting cooperation and trust between governments, businesses and communities.

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