



Prospects for the Carbon Credit Market in Vietnam and its Impact on Japanese Companies

1. Introduction

Under the policy of achieving virtually zero greenhouse gas ("GHG") emissions ("carbon neutrality") by 2050¹, the Vietnamese government, in Decree No.06/2022/ND-CP ("Decree No.06") based on the Law on Environmental Protection 2020 (No.72/2020/QH14), lays out a roadmap for establishing a carbon credit market in Vietnam. According to Decree No.06, the carbon credit market by the Vietnamese government is expected to be officially launched in 2028 after a pilot operation from 2025 to 2027². In addition, legal developments have recently been underway, including the publication of a draft amendment to Decree No.06 and the Prime Minister's Decision No.13/2024/QĐ-TTg ("Decision No.13") on the GHG inventory obligations. Thus, this article explains the outlook of the carbon credit market in Vietnam and its impact on Japanese companies.

2. Classification of Carbon Credits

As a premise, carbon credit schemes fall into two categories: UN/government-initiated schemes and private sector-initiated schemes. UN/government-initiated schemes or mandatory schemes are operated based on agreements at the United Nations, bilateral treaties, or regulations of the governments (see figure below). The private sector-initiated schemes or voluntary schemes are developed based on agreements between private entities. Since the governing law and applicable laws differ according to these classifications, it is necessary to pay attention to which scheme to use.

¹ JETRO Hanoi Office, Overseas Research Department, "Vietnam's Efforts to Become Carbon Neutral" (May 2022), p. 12.

² Article 17 of Decree No.06.

As shown in the following URL, it has been reported that an exchange has already been established in Vietnam for the corporate-driven voluntary credit market (<https://en.vietnamplus.vn/vietnams-first-voluntary-carbon-exchange-launched-post268829.vnp> (last viewed on January 29, 2025)).

Entity		Example	Governing Law, Applicable Laws
UN/Government	Agreements at the United Nations	Kyoto Mechanism Credits	Conventions, Domestic Laws and Regulations
	Bilateral treaties	Joint Crediting Mechanism (JCM)	Bilateral Treaties and related domestic guidelines
	Regulations by governments	J-Credit (Japan), CCER (China)	Relevant domestic laws and regulations
Private sector		VCS, Gold Standard	To be determined by the Articles of Incorporation

Source: Ministry of Economy, Trade and Industry of Japan, "Outline of Carbon Credit Report" (Reference data 4), page 16)³

3. Overview of the expected Vietnamese carbon credit market

In general, there are two approaches to designing carbon credit schemes: "Cap & Trade scheme" and "Baseline & Credit scheme".

"Cap & Trade scheme" is a system in which Emission Caps are set for each particular organization or facility, and when actual emissions exceed the Emission Caps, they must purchase carbon credits from the companies that keep their emissions below the Emission Caps to offset the excess emissions⁴.

On the other hand, the "Baseline & Credit scheme" is a scheme that certifies units of emissions reductions and carbon removals/sequestrations (carbon credit) generated through projects such as boiler renewal, the introduction of solar power generation facilities, and forest management, etc. through MRV process (measurement, reporting, and verification), and enables trading between countries and companies of the carbon credit⁵.

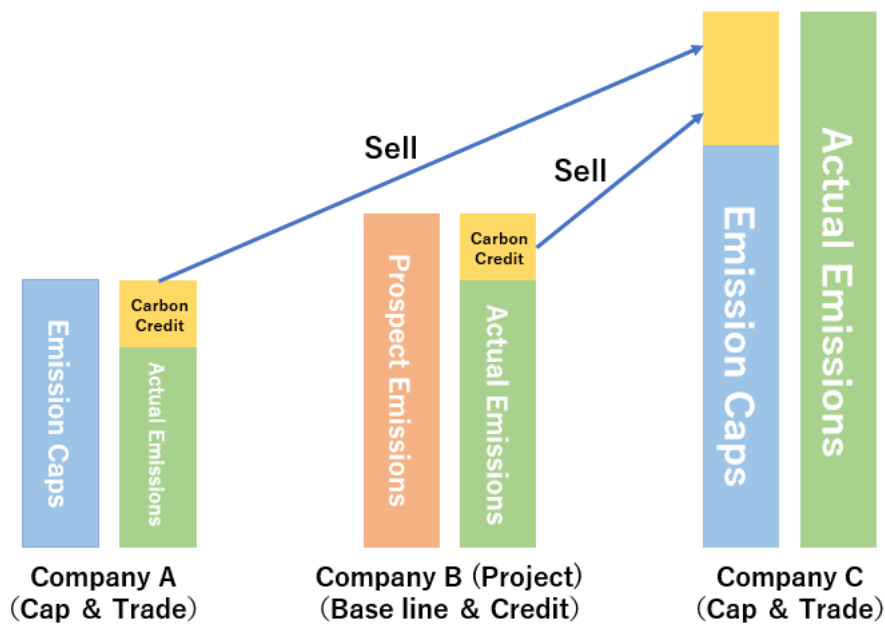
Although Vietnam is currently developing schemes based on the "Cap & Trade scheme", Decree No.06 encourages the purchase of carbon credits under the "Baseline & Credit scheme", however, on a limited basis as a complement to Emission Caps (Article 8 and 19.3.d of Decree No.06). It is expected that the scheme will be a mix of both systems.

The carbon credit scheme in Vietnam is illustrated below.

³ https://www.meti.go.jp/shingikai/energy_environment/carbon_credit/pdf/004_s04_00.pdf (last viewed on January 29, 2025)

⁴ Study Group on Environmental Improvement for Appropriate Use of Carbon Credits to Achieve Carbon Neutrality, organized by the Environment and Economy Office, Ministry of Economy, Trade and Industry, "Carbon Credit Report" (June 2022), p.4.

⁵ Previous note, p.4.



(Source: Prepared by the author)

4. Legal System

(1) Key Points in Current Laws and Regulations

a. Establishments obligated to submit GHG emission inventory reports, etc.

Under Decree No.06, establishments that meet the following criteria are obliged to prepare and submit a GHG emission inventory report as a means of collecting information necessary for the Vietnamese government to allocate GHG Emission Caps to each establishment and to fulfill other obligations as described in 4.(1).b below (Article 5.1 and Article 6.1 of Decree No.06).

- Establishments that emit an annual amount of GHGs of 3,000 tons of CO₂ equivalent or more
- Thermal power plants or industrial production establishments consuming a total annual energy amount of 1,000 tons of oil equivalent or more
- Cargo transport companies consuming a total annual fuel amount of 1,000 tons of oil equivalent or more
- Commercial buildings consuming a total annual fuel amount of 1,000 tons of oil equivalent or more
- Solid waste treatment facilities with an annual operational capacity of 65,000 tons or more

Based on this, in January 2022, the Vietnamese government published a list of 1,912 establishments that met the above criteria (Prime Minister's Decision No. 01/2022/QĐ-TTg). In August 2024, an update of the list was announced, listing a total of 2,166 establishments (Decision No.13). As far as we can confirm, these establishments include a certain number of Japanese companies. The list is expected to be updated and adjusted in the future, so even those establishments not currently included in the list must be monitored closely.

b. Obligations

Establishments that meet the criteria described in 4.(1).a of this article and listed by the Prime Minister's Decision ("Establishments") will have the following obligations⁶:

- ① Obligation to formulate a plan to reduce GHG emissions for the period starting from 2026 to 2030 (based on the given Emission Caps), to adjust the plan annually (if any) and submit the plan to the Ministry of Natural Resources and Environment of Vietnam ("MONRE") (Article 13.4.b of Decree No.06)
- ② Obligation to provide information related to GHG inventory, according to the guidance of each Ministry (Article 11.4.a of Decree No.06)
- ③ Obligation to carry out an inventory, prepare and submit a biennial GHG inventory report, based on the standard form, to the provincial-level People's Committee with an initial deadline of March 31, 2025 (Article 11.4.b of Decree No.06)
- ④ Obligation to complete and submit a GHG inventory report as prescribed in ③ to MONRE with an initial deadline of December 1, 2025 (Article 11.4.c of Decree No.06)
- ⑤ Obligation to implement GHG emission reduction measures and measure the results of the implementation of these measures (Article 10.2.a of Decree No.06)
- ⑥ Obligation to submit annual reports of GHG emission reductions to MONRE, the relevant ministries and the relevant specialized agencies' provincial-level People's Committees with an initial deadline of March 31, 2027 (Article 10.3 a of Decree No.06)

c. Penalties

If an Establishment fails to comply with obligations ③, ④, and ⑥ described in 4.(1).b of this article, it may be given a warning or fined VND 60 million to VND 100 million (Articles 6, 45.1 and 45.3 of Decree No.45/2022/ND-CP). In addition, a fine of VND 10 million to VND 20 million may be imposed if inaccurate or false information is provided when submitting reports ③, ④, and ⑥ (Articles 6 and 45.2 of Decree No.45/2022/ND-CP).

(2) Key points in the revised draft

MONRE submitted a draft amendment to Decree No.06 to the Government under the Submission Statement dated 20 August, 2024 ("Draft")⁷. A summary of the Draft is as follows⁸.

a. Assessment of the GHG inventory results and the plan to reduce GHG emissions

The Draft proposes different procedures and requirements to assess the GHG inventory results prepared by the establishments with Emission Caps and those without Emission Caps.

The GHG inventory results of the establishments with and without Emission Caps will be assessed by relevant ministries and provincial authorities.

For establishments without Emission Caps, the plan for reducing GHG emissions will also be assessed together with the assessment of GHG inventory results (Articles 11.6 and 11.6a of Decree 06 as amended and supplemented by the Draft).

⁶ The method of reporting in ③, ④ and ⑥ is indicated in Circular No.17/2022/TT-BTNMT.

⁷ <https://vibonline.com.vn/du-thao/du-thao-nghi-dinh-sua-doi-nghi-dinh-06-2022-nd-cp-quy-dinh-giam-nhe-phat-thai-khi-nha-kinh-va-bao-ve-tang-o-don> (last visited January 29, 2025)

⁸ As of this writing (January 29, 2025), there is no information that this draft has actually been enacted or enforced.

b. Detailed roadmap for allocation of GHG Emission Caps

Decree No.06 stipulates that GHG Emission Caps will be allocated from 2026 to 2030 (Article 7.4.b, Article 12 of Decree No.06).

On the other hand, the Draft proposes the following schedule for the allocation of GHG Emission Caps (Article 12 of Decree 06 as amended by the Draft).

Period	Facilities eligible for GHG Emission Caps allocation	Scheduled time of allotment
2025-2026	Establishments that fall under thermal power plants, steel production facilities, and cement production facilities and designated by the decision of the Prime Minister	Before December 31, 2025
2027-2028	Establishments selected by each ministry and determined by the Prime Minister and the Ministry of Natural Resources and Environment (Phase 1)	Before October 31, 2027
2029-2030	Establishments selected by each ministry and determined by the Prime Minister and the Ministry of Natural Resources and Environment (Phase 2)	Before October 31, 2029

(Source: Prepared by the author)

c. Entities that can participate in the carbon credit market in Vietnam

The Draft organizes the entities that can participate in the carbon credit market in Vietnam as follows:

scheme	Entity
Cap & Trade scheme	➤ Establishments allocated GHG Emission Caps
Baseline & Credit scheme	➤ Organizations and persons based in Vietnam

(Source: Prepared by the author)

d. A registry system

A registry system will be established to manage GHG Emission Caps and carbon credits to be traded on the carbon credit trading exchange (Article 18 of Decree 06 as amended by the Draft).

e. Regulation for the qualification of external/independent assessment agencies and the requirement for the participation of these agencies

Regulation for the qualification of assessment agencies is simplified in the Draft. The assessment agencies are those licensed to engage in verification of conformity service (Article 20.2.a of Decree 06 as amended by the Draft). In addition, the requirement for participation of the assessment agencies is limited, mainly involving the projects participating in carbon credit exchange and offsetting (Article 20.2.b of Decree 06 as amended by the Draft).

(3) Future issues

The carbon credit market is still in its infancy, even from a global perspective, and various institutional and technical issues must be overcome to operate the system. In Vietnam, major challenges include whether business establishments can fulfill their obligations stipulated in Decree No.06 and secure

organizations and human resources to evaluate GHG emissions and GHG emission reductions at their establishments⁹

5. Impact on Japanese companies

If the name of your establishment is on the list in Decision No.1, you are required to prepare and submit a GHG inventory report with the latest due date of March 31, 2025, to implement the measures to reduce GHG emissions. Failure to comply with this obligation may result in sanctions such as warnings and fines.

On the other hand, there is still much uncertainty as to how the carbon credit market will operate, and the schedule stipulated in Decree No.06 may be delayed in the future, depending on the progress of legal developments.

In light of this situation, Japanese companies should prepare for the future operation of the carbon credit market by collecting information on the legal framework and operation of the carbon credit market and considering measures to reduce GHG emissions while complying with their obligations as appropriate.

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⁹ <https://baotainguyenmoitruong.vn/nhieu-y-kien-dong-gop-cho-nghi-dinh-sua-doi-bo-sung-mot-so-dieu-cua-nghi-dinh-so-06-2022-nd-cp-373978.html> (last visited January 29, 2025)

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