Singapore seeks to tame chaotic voluntary carbon market, build confidence

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IVY YIN

SINGAPORE'S carbon market, expected to launch by the end of 2021, could potentially play a vital role in overhauling the voluntary carbon market, which is fragmented and often criticised for not being robust enough to meet what is a lofty goal - to cap the world's CO2 emissions.

The city-state is aiming to bring about much-needed standardisation and transparency to the carbon sector and help discover a reasonable carbon price across Asia's diverse national boundaries.

Unlike the compliance markets that are regulated by governments, voluntary carbon credits are issued based on a wide range of standards, and can technically be sold to any entity in the world with an intention to offset carbon emissions, resulting in divergent trading practices at a variety of price levels.

The voluntary carbon market is also rife with accusations of greenwashing - the use of low quality credits to claim sustainability goals in corporate reports, the issuance of carbon credits with dubious credentials, fraud and low prices that do not reflect the reality of emissions mitigation costs.

Singapore is uniquely positioned to bring structure to this market given its track record in building a commodity trading hub and allowing various market forces like banking, finance, policy and trade to coalesce at a single location.

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The initiative, called Climate Impact X (or CIX), is backed by state investor Temasek, one of the world's largest investment portfolios; DBS, the Singapore Exchange and Standard Chartered.

Singapore aims to resolve what many feel is chaos in the voluntary carbon market and build confidence in future customers. However, there are hurdles in building an integrated marketplace.

The fundamentals must be there before talking about enhancement: transparency and the ability to track and monitor quality of carbon credits to be traded, Sandy Gwee, principal consultant at Nomura Research Institute, said in an interview.

Carbon credits can be purchased from different sources - directly from project developers, from brokers who sell the credits, and from existing commodity exchanges, mainly in North America and Europe.

However, the roles of these market players are often blurred, causing conflicts of interest.

For instance, financiers have both brokering arms and project development arms, which makes them hesitant to disclose information such as implementation risks associated with their in-house projects. Eventually, market transparency is impacted. Things get murkier when multinational corporations get involved.

INCENTIVISING MARKET PLAYERS

Another key challenge will be incentivising market players to trade in Singapore.

Singapore has limited domestic supply of, and demand for, such nature-based carbon credits, so participation from other countries is necessary, said Howie Lee, an economist with OCBC, in an interview.

"First and foremost, it is challenging for Singapore to get other countries in this region to be compliant. The market will have enough liquidity only if this can be achieved," Mr Lee said.

Furthermore, the Asean region includes developing economies heavily reliant on coal, which implies the local carbon ecosystem will be significantly different to that in North America and Europe.

Nomura's Ms Gwee said that both individual countries and international organisations were now tightening environmental regulations, and more companies will need to make voluntary carbon reductions with or without regulations.

"The oil majors have started to spread the net-zero practices down to their local supply chain. If these contractors and suppliers cannot execute such carbon reductions, then they will have to buy carbon credits to fulfil their sustainability scorecards," Ms Gwee said.

Singapore laid the foundation for price discovery with a carbon tax of S$5 per tonne of greenhouse gas emissions in 2019.

"The original intention was to gradually raise the tax from 2023 onwards to between S$10 and S$15 per tonne of emissions by 2030," Ravi Menon, managing director of the Monetary Authority of Singapore, said in a speech in May, adding that the government was reviewing both the post-2023 trajectory and the level of the carbon tax.

"I think the current tax system will remain (after launching the voluntary carbon market)," Mr Lee said, adding that so far, voluntary carbon credits cannot be used to offset obligations under the carbon tax system.

But, the government has indicated the possibility of a hybrid market, especially if it helps to create initial demand and brings in large market makers.

Mr Menon outlined the role of the voluntary market in his speech.

"First, the voluntary market can cater to a wider group of firms and individuals. Emissions trading systems tend to cover sectors with higher emissions and so not all firms participate in the compliance carbon market," he said.

"Second, firms which are already covered in emissions trading systems can tap on the voluntary carbon market to decarbonise further, going beyond their mandatory targets," he added.

At the end of the day, the objective is to grab a share of a growing global marketplace, with global demand for high-quality voluntary carbon credits forecast to increase 15-fold to 2 billion tonnes of CO_2 annually in 2030.

- **The writer is energy transition analyst at S&P Global Platts.**

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