

CARBON CREDIT REGISTRATION PROCEDURES IN THE VOLUNTARY MARKETS



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Carbon credits play a crucial role in the global endeavor to mitigate carbon emissions by serving as a quantifiable metric for greenhouse gas reduction. Each carbon credit corresponds to the reduction of 1 tonne of carbon dioxide equivalent (CO₂e) emissions. These credits are transferrable assets within the carbon market, encouraging individuals, corporations, and governmental entities to assume accountability for their carbon footprints. In the voluntary market, carbon credits are generated through a rigorous process encompassing project development, validation/verification, registration, issuance, trading, and retirement of carbon credits. This research aims to explore the procedure of carbon credit issuance under the voluntary market and Vietnamese legislation. Specifically, the research will delve into the specifics of how the carbon credit project registers under the VCS and GS standards.

1. General Information about Carbon Credit and Carbon Projects¹

Achieving net zero and carbon neutrality necessitates offsetting or reducing emissions equivalent to those generated.

The main sources of carbon emissions encompass fossil fuel combustion for energy, industrial processes, transportation, deforestation, and agriculture. Identifying these sources helps pinpoint areas where carbon offset initiatives can have a substantial impact.

Carbon offset initiatives, ranging from reforestation projects to renewable energy installations and methane capture from landfills, aim to diminish, prevent, or remove greenhouse gas (GHG) emissions. They generate carbon credits corresponding to their emission reductions, which are employed to offset emissions and minimize carbon footprints.

Certain carbon offset projects extend beyond emissions reduction, delivering social and environmental benefits to local communities. For instance, a reforestation effort can enhance biodiversity, support livelihoods, and safeguard watersheds.

Carbon offset projects transcend geographical boundaries, addressing emissions and sustainability challenges worldwide. For example, a wind energy project in

¹ For further details, kindly refer to the following Outlook document available at: https://vtn-partners.com/data/uploads/2023/08/230802-VTN_Carbon-Credit_Vietnam-Outlook-2.pdf

Vietnam can offset emissions from a U.S. manufacturing facility, highlighting the collaborative nature of the global carbon market.

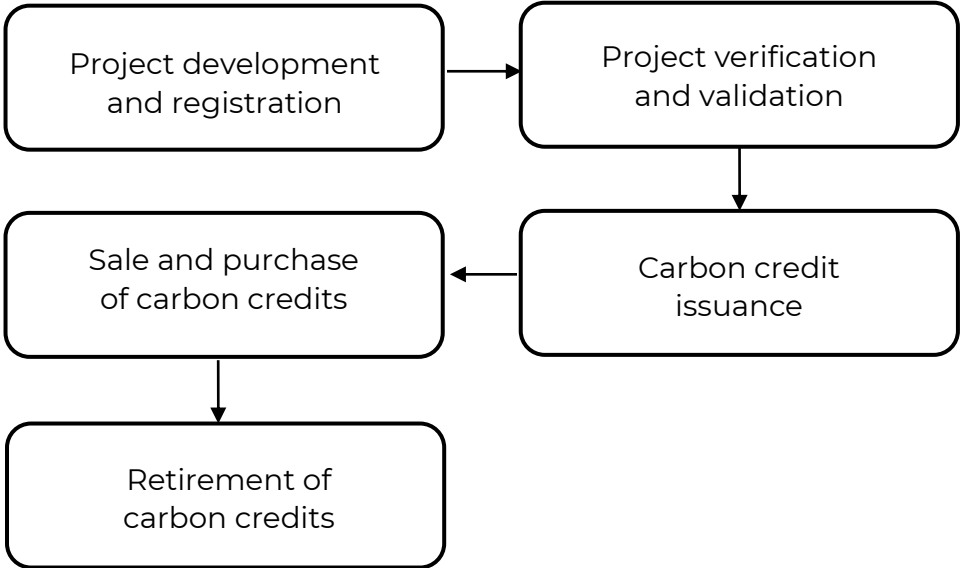
Carbon credit trading occurs in both compliance and voluntary markets. Compliance markets are mandated by regulatory bodies, with entities subject to emissions limits purchasing credits to meet their obligations. Voluntary markets enable individuals and organizations to voluntarily buy credits to offset their emissions and demonstrate their commitment to sustainability.

In the voluntary carbon market, carbon credits are often categorized by their project type, including forest conservation, renewable energy, waste management, and others, each offering a distinct approach to combating emissions.

Carbon offsetting mechanisms are essential because not all emissions can be immediately eliminated. By supporting carbon offset projects, individuals and organizations can take immediate steps toward climate neutrality while concurrently working on emission source reduction.

2. Procedure for carbon credit registration under voluntary markets

2.1. Carbon credit life cycle



The diagram above provides an illustration of the life cycle stages of carbon credits in the voluntary market, encompassing their creation, issuance, and retirement. To elaborate, the procedural sequence for these stages is as follows:

Stage 1: Project development and registration

Creating Carbon Projects and Their Lifecycle:

Carbon credit initiatives begin with project developers who craft and execute projects with the goal of reducing GHG emissions. These projects can encompass various areas such as reforestation, renewable energy installations, methane capture, or sustainable agriculture. Each project adheres to specific methodologies or protocols tailored to its emissions reduction potential.

Project developers document project activities within a Project Design Document (PDD), employing internationally recognized methodologies and carbon certification standards like the Verified Carbon Standard (VCS), and the Gold Standard (GS).

Following project design, the PDD undergoes approval by a certifying body and is registered with an accredited registry, such as Verra. The registration and certification process varies depending on the chosen registry. Subsequently, the project developer proceeds with project development according to the PDD, closely monitoring progress and execution. For reforestation projects, this includes planting and maintaining thousands to millions of trees to capture the targeted emissions.

Establishing Emission Baseline:

Prior to project verification, it is essential to set an emissions reduction baseline. This baseline serves as the reference scenario in the absence of any recognized intervention, against which the impact of the carbon project is assessed. It offers a projection of emissions expected without the project, offering a benchmark for evaluating the project's efficacy.

Stage 2: Project verification and validation

Following project development, the verification and validation stage ensues, guaranteeing the credibility of carbon credits generated by the project. Two key entities are involved: the **independent third-party auditor** and the **carbon rating agency**.

An Auditor

An independent verification and validation body (VVB) scrutinizes the project's claims regarding emissions reduction, comparing project emissions to the baseline emissions. This assessment involves validating the project's baseline scenarios, monitoring procedures, and emissions reduction calculation methodologies. It encompasses both desk reviews and on-site visits to confirm alignment with carbon

certification program requirements, such as Verra's VCS. Approval by the carbon certification standard is a prerequisite for project registration.

Once the project passes validation, the VVB issues a report and statement confirming compliance with the chosen carbon certification standards, which the certifier then reviews holistically.

Carbon Rating Agency

Carbon rating agencies employ various frameworks, such as BeZero's alphabetic scale (AAA, AA, A) or Sylvera's A to D scale, to evaluate the impact of offsets. They assess the likelihood of issued carbon credits achieving their intended reductions, ensuring credit quality. Eligibility criteria typically include factors like carbon score, additionality, and permanence.

Supplementary Criterion and Durability

A pivotal criterion for carbon credit issuance is additionality, meaning the project's emissions reductions must genuinely exceed what would have occurred without the project. This ensures that carbon credits authentically represent emissions reductions that would not have transpired otherwise.

Ensuring the durability of emissions reductions is another vital facet of carbon credit verification. Permanence entails assuring the long-term sustainability of emissions reductions and addressing risks of reversal like deforestation or the discontinuation of renewable energy initiatives.

The Verification and Validation Process

Verification and Validation guarantee the integrity of project data and adherence to carbon standards. Verifiers validate project eligibility, assess data accuracy, and confirm emissions reduction calculations, potentially involving site visits. Upon successful verification and validation, the project becomes eligible for registration.

Stage 3: Carbon credit issuance

After successful validation and verification, the certifier can commence the issuance of carbon credits, which may assume different names depending on their registration location. In the case of Verra's VCS, they are referred to as Verified Carbon Units (VCU), while under the Gold Standard, they are termed Verified Emission Reduction (VER). Each VCU/VER signifies one metric ton of carbon CO₂e emissions and is assigned a unique serial number for continuous tracking within the project database.

Ownership, sales, and retirement records of carbon credits are maintained in the carbon registry. Following verification, these credits are allocated to the project developer's account based on the verified emission reductions and are then prepared for sale. This pivotal stage represents the culmination of extensive effort, meticulous planning, and a dedication to emissions mitigation. Throughout the crediting period, carbon credits can continue to be generated and issued, with ongoing monitoring and reporting obligations for the project.

Stage 4: Sale and purchase of carbon credits

Carbon credits are accessible to both buyers looking to reduce their carbon footprint and speculative investors, obtainable either directly or through intermediaries like brokers, traders, and exchanges. Transactions are duly recorded in the registry.

Major carbon exchanges, such as Carbon Trade Exchange (CTX), Xpansive, Toucan Protocol, AirCarbon Exchange (ACX), Climate Impact X (CIX), and Viridios AI, provide a transparent marketplace with daily and weekly carbon prices, ensuring credit credibility and facilitating access to carbon offset opportunities.

Carbon credit pricing varies based on project type, location, co-benefits, and market supply and demand. Carbon taxes and Emissions Trading Systems (ETS) predominantly influence pricing in the compliance market, and understanding these mechanisms aids informed investment decisions.

Buyers in the carbon market significantly support emissions reduction projects and environmental stewardship. Their purchase of carbon credits directly finances projects with positive environmental impacts, fostering sustainability and making carbon credits a potent catalyst for environmental change.

Stage 5: Retirement of carbon credits

While carbon credits are tradable, their primary function is to offset emissions. Once a company decides to use a carbon credit for emission reduction, it undergoes retirement. This entails the registry invalidating the credit, permanently removing it from circulation, and rendering it ineligible for further trading or offsetting. Retirement safeguards against multiple claims on the same emissions reduction, preventing double counting and upholding the carbon market's integrity.

Transparency and accountability are paramount throughout the carbon credit lifecycle. Rigorous validation and verification processes are crucial to confirm the authenticity of emissions reductions. This integrity ensures that the carbon credit market effectively supports emissions reduction efforts, contributing to the fight against climate change.

2.2. Detailed instructions on carbon credit registration under VCS and GS

a) The VCS Project registration process²

Step 1: Choose a Methodology

A methodology sets out detailed procedures for quantifying the GHG emission reductions of specific project activities. VCS offers a range of pre-approved methodologies for projects in energy, mining, forestry, agriculture, waste disposal, and other sectors. Projects may choose a methodology approved through the VCS Program or another approved program like the United Nations Clean Development Mechanism (CDM) or the Climate Action Reserve (CAR). Project proponents should ensure the methodology's applicability conditions are appropriate to the project location, activities, technologies, and other specific circumstances.

Project proponents may also develop a new methodology for VCS approval if a current preapproved methodology does not meet their needs. New methodologies must undergo a stringent assessment process to ensure all VCUs complete list of pending and approved methodologies is available on the VCS website www.v-c-s.org

Step 2: Describe and List Project

Project proponents must create a project description to demonstrate a project meets all the requirements of both the VCS Program and the applied methodology. The project description may be written after project implementation as long as the project validation is completed within the project's public comment period in the VCS Standard.

Project proponents must also list their project description on the VCS Project Pipeline, a section of the VCS Project Database for forthcoming projects. As part of this process, project proponents must open an account with one of two VCS registry operators (APX or Markit), both of which are directly linked to the VCS Project Database. This allows projects to choose a preferred registry operator while still ensuring that all projects, documents, and VCUs are transparently listed in the searchable database. Pipeline projects can progress to project registration after completing validation.

Step 3: Validate Project Description

² For a more comprehensive and up-to-date understanding of the Registration and Issuance Process within the VCS framework, please refer to the following link: https://verra.org/wp-content/uploads/Registration-and-Issuance-Process_v4.1.pdf

Project proponents must contract with an approved independent auditor, known as a VVB, to determine whether the project complies with all VCS rules and requirements. All project descriptions must be validated against the VCS rules and project validation reports must be submitted to the VCS registry before projects can be registered.

All VVBs must be accredited by a member body of the International Accreditation Forum (eg, the American National Standards Institute) or approved by an accepted GHG program such as the CDM or Joint Implementation (JI). All VVBs must be approved to audit for the appropriate sector, and they must have signed an agreement with VCS which offers a temporary accreditation program. This is a legacy program not used for more than 5 years, and Verra is confident that there are a sufficient number of VVBs in the market such that this program is no longer relevant.

Step 4: Verify Emission Reductions

Once the project becomes operational, project proponents must follow a monitoring plan that details how to track and report the GHG emission reductions and other data relevant to the project. Project proponents document emission reductions in a monitoring report. A VVB is contracted to verify the reductions claimed in the monitoring report.

Step 5: Issue Verified Carbon Units

Finally, project proponents must submit a request to register their project and issue VCUs into their registry account. Upon receiving these requests, the VCS registry operator reviews the project documents for completeness. Approved projects become eligible for VCUs to be deposited into the project proponent's account.

Each VCU is assigned a unique serial number so it can be tracked across its life cycle in the VCS project database. Project proponents may hold, sell or retire VCUs at their discretion; account holders are free to move VCUs between registry operators at any time. A permanent record of each VCU can always be found in the VCS project database.

b) The GS registration process

Project developers seeking certification under the GS have a variety of avenues available: (i) Inaugurate a new project tailored to comply with GS criteria from its inception; (ii) Transition an existing project, previously certified under the United Nations Clean Development Mechanism (UN CDM) or other established standards, to align with the GS framework; and Obtain GS certification solely for the sustainable

development impacts of a project that has been issued credits under an alternate standard.

The carbon credit registration process under the GS is structured as follows³:

Step 1: Plan Project and Hold Stakeholder Consultation

The project participant prepares a Key Project Information note summarizing the following information: the basic project design validation, Gold Standard safeguards assessments, and impact estimates of climate and sustainable development.

Then, to start the GS certification process, projects must open a registry account and pay the annual registry fee of \$1000.

Step 2: Preliminary Review by Sustaincert

Independent assessment conducted by an accredited validation and VVB. In this review, the project must satisfy all these conditions: “Gold Standard Project Listed” status ownership, VBB payment, a completed PDD, and all relevant supporting documentation supplied for VVB validation.

Then, SustainCERT⁴ reviews documentation and requests clarifications and resolutions of corrective actions where required. In this step, the project must pay the Preliminary Review Fee (\$900) and file the dossier including the following documents: (i) A completed Stakeholder Consultation Report; (ii) Draft Project Design Document (PDD), including Safeguarding Principles Assessment, Estimation of climate and sustainable development impacts, and Monitoring Plan; (iii) A signed GS4GG Cover Letter; (iv) A signed Gold Standard Terms & Conditions; and (v) Approval of the Preliminary Review by SustainCERT results in “GOLD STANDARD PROJECT LISTED” status, giving the project the green light to move forward.

Step 3: Third-party Validation

An accredited VVB conducts an independent assessment of the project. During this phase, project developers are required to compensate the VVB and submit a

³ For a more comprehensive and up-to-date understanding of the Registration Process within the GS framework, please refer to the following link:

https://globalgoals.goldstandard.org/standards/101_V1.2_PAR_Principles-Requirements.pdf

⁴ SustainCERT is the leading global carbon emissions accounting and verification platform for carbon market and corporate value chains, which can be found through the following link: <https://sustain-cert.com/about-us>

comprehensive Monitoring Report (MR) along with all pertinent supporting documents for the VVB's verification process.

Subsequent to this verification, SustainCERT conducts a thorough review of the submitted documentation. Should any queries or issues arise, SustainCERT will request clarifications or resolutions of any required corrective actions. This step is contingent upon the project having received a favorable validation opinion from the VVB. Additionally, project developers must provide an approved PDD, the VVB's Final Validation Report, and all relevant supporting documents. The process is completed upon payment of the Design Review Fee, which amounts to \$1,000.

Step 4: Implementation – Project monitoring

The Project Developer monitors the project according to the approved monitoring plan. Meanwhile, Projects must submit Annual Reports in years when verification does not occur and prepare a Monitoring Report for verification to request issuance of impact statements and/or products.

Step 5: Third-party Verification

An independent evaluation is performed by an accredited VVB. This assessment comprises both an analytical desk review and an on-site field visit. The purpose is to independently verify that the project, along with its environmental and social impacts, complies with the stringent requirements set forth by the Gold Standard.

Step 6: Performance review and certification

An accredited VVB conducts an independent assessment of the project. During this phase, project developers are required to compensate the VVB and submit a comprehensive Monitoring Report (MR) along with all pertinent supporting documents for the VVB's verification process.

Subsequent to this verification, SustainCERT conducts a thorough review of the submitted documentation. Should any queries or issues arise, SustainCERT will request clarifications or resolutions of any required corrective actions. This step is contingent upon the project having received a favorable validation opinion from the VVB. Additionally, project developers must provide an approved PDD, the VVB's Final Validation Report, and all relevant supporting documents. The process is completed upon payment of the Design Review Fee, which amounts to \$1,000.

Upon approval, the project is accorded the prestigious designation of a "CERTIFIED GOLD STANDARD PROJECT," followed by the Gold Standard's formal issuance of certified products and/or SDG impact statements.

3. What legal obstacles exist within Vietnamese legislation for enterprises seeking to engage in carbon credit trading through the voluntary market?

3.1. Current status of the voluntary carbon market in Vietnam

Considering Vietnam's anticipated annual production of around 10.8 million voluntary carbon credits, there is a burgeoning need for streamlined mechanisms for trading and acquiring these credits.⁵ This has prompted ongoing dialogues regarding the potential creation of a domestic carbon credit exchange within the country. It is important to note that Vietnam currently engages exclusively in carbon credit trading within the international carbon market, and as such, there are specific prerequisites and criteria that must be met to establish a domestic carbon trading platform.⁶

In Vietnam, carbon credit projects are largely registered under the GS and VCS standards. Until May 2023, more than 9 million carbon credits have been issued under the voluntary carbon market, of which 70 projects have registered under GS standards and issued more than 7,244,709 credits to the market, 52 projects under VCS standards and issued 2,408,368 credits.⁷

3.2. Challenges in the Vietnamese legal framework governing voluntary carbon market

The voluntary carbon market in Vietnam is currently at a nascent stage, characterized by exploratory activities, feasibility studies, and the initiation of various projects. Presently, there is no comprehensive legal framework governing the voluntary carbon market in the country. According to the "*Development of Carbon Market in Vietnam*" initiative by the Ministry of Natural Resources and Environment, the implementation of a carbon credit exchange is scheduled to commence on a trial basis from 2025 to 2028.

Despite Vietnam's commendable strides in establishing a carbon trading scheme to meet its COP26 pledges through participation in various agreements and carbon market-related projects, and the issuance of Decree No. 06/2022/ND-CP delineating regulations for the evolution of the nation's carbon market, numerous challenges and gaps remain. These can be included as follows:

⁵ <https://vietnamnews.vn/environment/1551316/viet-nam-considers-domestic-carbon-credit-exchange-to-enhance-efficiency-in-green-transactions.html>

⁶ <https://www.vd-office.org/en/forest-carbon-trading-a-huge-opportunity-for-vietnam/>

⁷ <https://gspp.berkeley.edu/research-and-impact/centers/cepp/projects/berkeleycarbon-tradingproject/offsetsdatabase>

(i) Ownership of Carbon Credits:

For carbon credits to have value for their owner, they must be acknowledged and safeguarded as a category of assets, bestowing upon the owner's rights to own, utilize, and transfer. In Vietnam, Article 105 of the Civil Code 2015 defines "property" and includes both movable and immovable assets. However, under the current legal provisions, carbon credits are not recognized as objects, currency, or valuable papers. Consequently, carbon credits can be categorized as "other property" as prescribed by the law.⁸ Therefore, it is essential that legislative advancements be made to unequivocally define the nature of carbon credits as assets, along with establishing clear guidelines on the rights pertaining to their ownership.

(ii) Tax Implications of Carbon Credit Transactions:

The exchange of carbon credits involves monetary transactions, which subsequently brings up considerations related to taxation, such as the applicability of value-added tax or corporate income tax on profits or losses from these transactions. Presently, Vietnam's tax regulations do not offer specific incentives for transactions of carbon credits or for enterprises engaging in the carbon market.

(iii) Transfer of Carbon Credits:

Decree No. 06/2022/ND-CP has been promulgated to facilitate the creation of a domestic carbon market, enabling the exchange of GHG emission quotas and carbon credits within Vietnam.⁹ However, enterprises or investors seeking to undertake carbon projects in Vietnam, in compliance with international market practices or through voluntary measures, are required to proceed on their own accord. It is mandatory for them to inform the pertinent governing body as well as the Ministry of Natural Resources and Environment of their activities.¹⁰ Nevertheless, the decree does not provide detailed regulatory guidance on investment methodologies or the trading processes of carbon credits for international enterprises. This lack of specificity generates a degree of uncertainty for businesses considering participation in Vietnam's carbon market.

(iv) State Management of Carbon Credit Space:

The oversight of carbon credit activities by the state is currently fraught with deficiencies. There are no specific legal mandates covering the inventory,

⁸ Point b, Clause 1, Article 107 of the Civil Code 2015

⁹ Article 16 of the Decree No. 06/2022/ND-CP

¹⁰ Article 22 of the Decree No. 06/2022/ND-CP

monitoring, and supervision of carbon credit transactions, which translates into a lack of public data on total carbon credit reserves, their fluctuation, or trends. Furthermore, the roles and responsibilities of governmental agencies in managing carbon credits have not been distinctly defined or regulated. Addressing these issues is critical for the establishment of a robust and transparent carbon market in Vietnam that can contribute effectively to global efforts in GHG reduction.

4. Conclusion:

In light of the inexorable trend towards forest carbon trading and the substantial opportunity presented by the international carbon market, particularly in the context of the Paris Agreement and its robust global commitments, Vietnam faces a significant challenge due to the lack of a comprehensive legal framework governing carbon trading.¹¹

To harness the potential of carbon sequestration and expand carbon credit trading, Vietnam should consider the following measures: (i) Sustainable management and urban development for carbon trading; (ii) Establishment of a robust carbon pricing and verification system; (iii) Investment in science, technology, and educational innovation; (iv) Implementation of safety measures to facilitate participation in international and voluntary carbon markets; (v) Development of policies concerning payment for carbon credit exchange services; (vi) Formulation of policies pertaining to carbon sequestration and storage services; and (vii) Creation of a national masterplan designating specific regions for various international carbon markets.

By undertaking these steps, Vietnam can position itself to fully capitalize on the opportunities presented by carbon trading and contribute to global efforts to combat climate change effectively.

¹¹ Please refer to the following link:
https://www.cifor.org/publications/pdf_files/OccPapers/OP-238.pdf