

**CARBON CREDIT**  
and  
**CARBON MARKET**  
**VIETNAM LAW OUTLOOK**



For more information, please contact VTN's key persons below:

**NGUYEN THANH NGHIEP**

Partner

+84 982 450 996  
nghiep.nguyen@vtn-partners.com

**NGUYEN HUNG HA**

Managing Partner

+84 365 888 396  
ha.nh@vtn-partners.com

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## **Abbreviations**

AR: Assessment Report

CDM: Clean Development Mechanism  
CTX: Carbon trading exchange

ETS: Emission Trading Systems

GHG: Greenhouse gas

GS: Golden Standard

IPCC: Intergovernmental Panel on Climate Change

JI: Joint Implementation

KP: Kyoto Protocol

MRV: Measurement, Reporting, and Validation

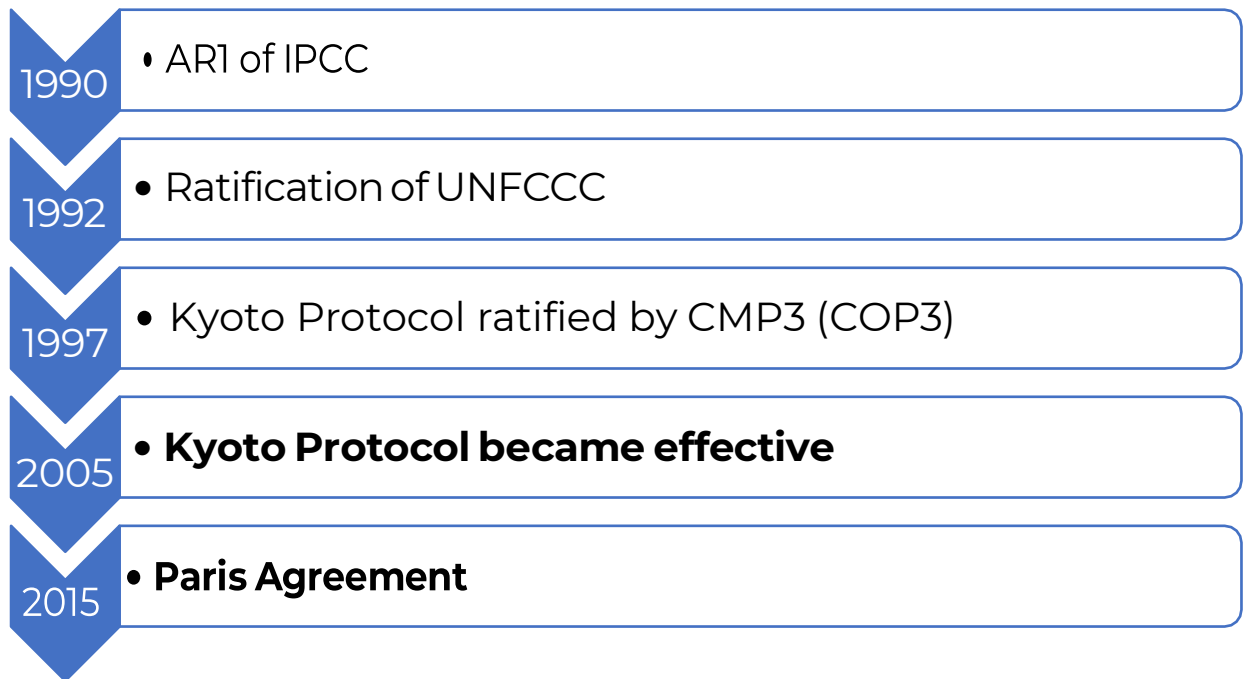
UNFCCC: United Nations Framework Convention on Climate Change  
VCS: Verified Carbon Standard

VCU: Verified Carbon Unit

VVB: Validation and Verification Body

## 1. Overview

### 1.1. Carbon Credit and Carbon Offset: History



The Kyoto Protocol (1997) and the Paris Agreement (2015) are key international agreements aimed at setting global targets for CO<sub>2</sub> emissions reductions. Together with new regulations coming into effect, businesses are increasingly pressured to find ways to lower their carbon footprint. A common approach involves leveraging carbon markets, which commodify CO<sub>2</sub> emissions by assigning them a price.

In carbon markets, emissions are classified into two categories: carbon credits and carbon offsets, both of which can be bought and sold. This market-based approach offers a practical solution to the complex challenge of reducing global emissions.

### 1.2. Carbon Credit - Definitions

**Carbon credit** is defined as a commercially tradable unit that represents the right to emit 01 metric ton of CO<sub>2</sub> or GHG (Article 3.35 Law on Environmental Protection). When a company buys carbon credit, they gain permission to generate one ton of CO<sub>2</sub> emissions.

**Carbon allowance** means the amount of GHG emissions caused by a country or entity for a specified period of time, expressed as ton of carbon dioxide (CO<sub>2</sub>) or ton of carbon dioxide equivalent (CO<sub>2</sub>)<sup>1</sup>.

**Carbon offset** is an instrument representing the reduction, avoidance, or sequestration of one metric ton of carbon dioxide or GHG equivalent from the atmosphere. They flow horizontally, trading carbon revenue between companies. When one company removes a unit of carbon from the atmosphere as part of its

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<sup>1</sup> Article 3.33 Law on Environmental Protection

normal business activity, it can generate a carbon offset. Other companies can then purchase that carbon offset to reduce their own carbon footprint.

The terms are sometimes used interchangeably, and carbon offsets are often referred to as “offset credits”.

	<b>Carbon Credit</b>	<b>Carbon offset</b>
<b>Subject of issue</b>	<i>Government</i>	<i>Independent third-party bodies</i>
<b>Ways of obtaining</b>	<i>Government's emission quotas</i>	<i>Carbon projects: Reforestation, forest management, renewable energy, wetland restoration, etc<sup>2</sup></i>
<b>Place of trading</b>	<i>Generally in compliance market</i>	<i>Generally in the voluntary market</i>
<b>Validators</b>	<i>The Government</i>	<i>Independent third-parties</i>
<b>Carbon Validation</b>	<i>Article 6.4 mechanism</i>	<i>GS, VCS, Plan Vivo, etc.</i>

### 1.3. Carbon Credit Vintage

A carbon credit’s “vintage” is the year an emission reduction occurred or the offset was issued. The vintage of a carbon credit can have an impact on its quality and pricing. Generally speaking, the older the vintage, the cheaper the price per credit will be.

Carbon credit vintage matters for a number of reasons. The protocols and monitoring methodologies have improved over time and have become much more rigorous, so the quality of carbon credit has generally gotten better—there’s typically more confidence in a ton of carbon that’s been registered more recently. For older vintages, we cannot confidently say that the carbon credit really represents a metric ton of CO<sub>2</sub>, as verified. While that may have been true at the time of verification, perhaps new standards in use would not agree.

Older vintages may trigger quality concerns when the carbon credits remain unsold for a long time. Additional concerns arise if the developer has not gotten the credits verified by third parties and has a large number of unsold credits.

There’s the risk when buying up older vintage credits that they may not be effectively reducing emissions as intended if the project does not meet current quality criteria.

### 1.4. Carbon Market

#### 1.4.1. Compliance and Voluntary Market: Definitions and Differences

In a nutshell, carbon markets are trading systems in which carbon credits are sold and

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<sup>2</sup> More details in Section 11

bought. Companies or individuals can use carbon markets to compensate for their GHG emissions by purchasing carbon credits from entities that remove or reduce GHG emissions.

**Compliance market** is driven by the government’s mandated caps on GHG emissions. Compliance carbon markets are marketplaces through which regulated entities obtain and surrender emissions permits (allowances) or offsets in order to meet predetermined regulatory targets. In the case of cap-and-trade programs, participants – often including both emitters and financial intermediaries – are allowed to trade allowances in order to make a profit from unused allowances or to meet regulatory requirements<sup>3</sup>.

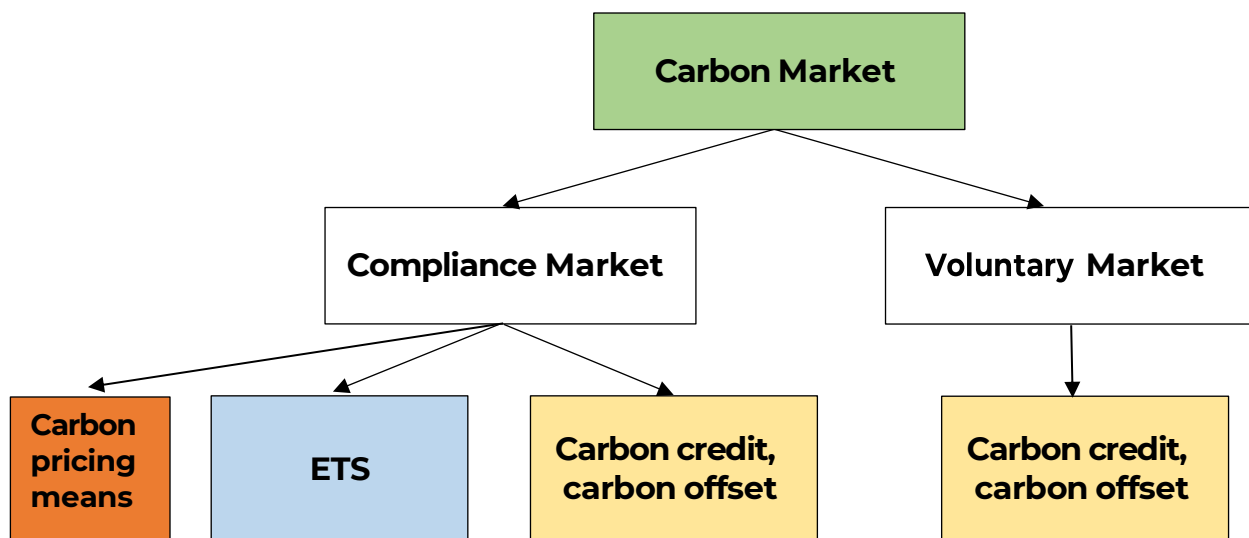
**Voluntary market** encompasses all transactions of carbon offsets that are not purchased with the intention to surrender into an active regulated carbon market. It does include offsets that are purchased with the intent to re-sell or retire to meet carbon neutral or other environmental claims. Voluntary demand for carbon offsets is driven by companies and individuals that take responsibility for offsetting their own emissions, known as purely voluntary buyers, as well as entities that purchase pre-compliance offsets before emissions reductions are regulated. Purely voluntary offset buyers are driven by a variety of considerations related to corporate social responsibility, ethics, and reputational or supply chain risk. Pre-compliance buyers speculatively procure offsets before a compliance carbon market start date, hoping to obtain a lower price than what the same offset may eventually fetch in the compliance program<sup>4</sup>.

	<b>Compliance/Regulated/Compulsory market</b>	<b>Voluntary market</b>
<b>Compliance</b>	The carbon market is established through the obligations of the countries that have signed and ratified the KP, so projects under the KP mechanisms are also considered as a contribution to the compliance carbon markets.	The carbon market permits facilities to offset their inevitable extra GHG emissions by buying carbon credits created by applicable projects.

<sup>3</sup> <https://www.ecosystemmarketplace.com/marketwatch/carbon/>

<sup>4</sup> Id.

	<p>Facilities that are subject to GHG inventory development participate in trading, transferring emissions quotas, and carbon credits.</p> <p>The mitigation of GHG emissions is in accordance with national, regional, or international regulations.</p>	
<b>Purpose</b>	Markets for carbon credits created by the need to comply with a regulatory act.	<p>Corporations, governments, and individuals volunteer to offset their emissions by purchasing carbon credits:</p> <ul style="list-style-type: none"> <li>- Environmentally conscious;</li> <li>- Investment potential.</li> </ul>
<b>Operation</b>	<p>Generally run by ETS (cap-and-trade programs): carbon credits are allocated or auctioned to companies which can then trade credits to comply with the cap on their emissions. Companies with low emissions level can sell their extra credits to larger emitters</p>	<p>Implementing projects to avoid, reduce, and remove GHG emissions that include: Reforestation, forest management, renewable energy, wetland restoration, etc</p>
<b>Regulators</b>	Government	Independent standards bodies
<b>Validators</b>	Government, regulators	Independent standards bodies



### 1.4.2. Operation of Carbon Market

#### (a) Compliance Market

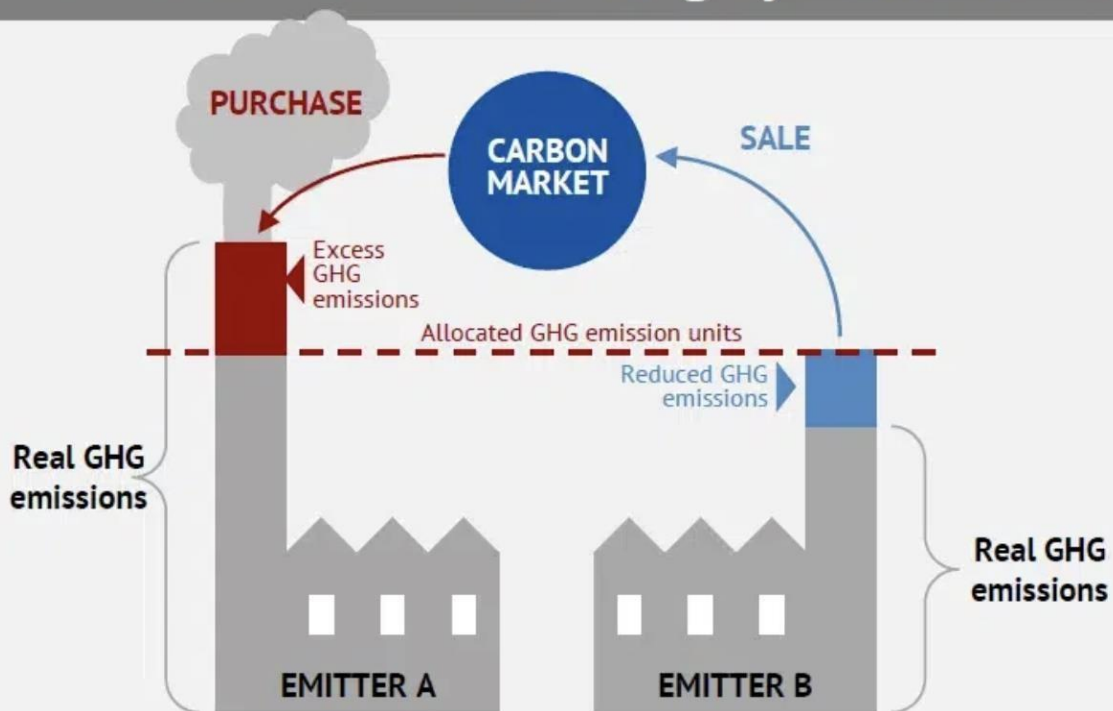
When it comes to the regulatory market, each company operating under a cap-and-trade program is issued a certain number of carbon credits each year. Some of these companies produce less emissions than the number of credits they are allotted, giving them a surplus of carbon credits.

On the flip side, some companies (particularly those with older and less efficient operations) produce more emissions than the number of credits they receive each year and can cover. These businesses are looking to purchase carbon credits to offset their emissions because they are obligated to carry on.

To illustrate: Company 1 and Company 2, are only allowed to emit 300 tons of carbon. However, Company 1 is on track to emit 400 tons of carbon this year, while Company 2 will only be emitting 200 tons. To avoid a penalty comprised of fines and extra taxes, Company 1 can make up for emitting 100 extra tons of CO<sub>2</sub>e by purchasing credits from Company 2, which has extra emissions room to spare due to producing 100 tons less carbon this year than they were allocated.



# How an emission trading system works



- Allowances are either freely allocated or auctioned, and then may be traded.
- The supply and demand for these allowances establishes a market price.
- Emitters can also choose to “bank” allowances and hold them for use in future years.
- Emitters with an insufficient amount of allowances required for their industry at the end of the reporting period incur penalties.

Figure: Carbon Cap and Trade Diagram (Carbon Streaming Corporation, Compliance credits)

## (b) Voluntary market

Companies in this marketplace have the opportunity to work with businesses and individuals who are environmentally conscious and are choosing to offset their carbon emissions because they want to. It might be an environmentally conscious company that wants to demonstrate that they're doing their part to protect the environment. Or it can be an environmentally conscious person who wants to offset the amount of carbon they are putting into the air when they travel, for instance.

### 1.4.3. Major compliance markets<sup>5</sup>

	<b>EU-ETS</b>	<b>USA - California Cap-and-Trade Program</b>	<b>China's Carbon Compliance Market</b>
<b>Year of establishment</b>	2005	2012	2021
<b>Cap</b>	1,386 MtCO <sub>2</sub> e (2024, electricity and heat generation, industrial manufacturing and maritime transport), 28.9 MtCO <sub>2</sub> e (2024, aviation)	280.7 MtCO <sub>2</sub> e (2024)	~5,000 MtCO <sub>2</sub> (2021 and 2022)
<b>Price</b>	Average auction price EUR 83.24 (USD 90.00)  Average secondary market price EUR 83.47 (USD 90.25)	Average auction price USD 32.93	Average secondary market price CNY 68.35 (USD 9.65)
<b>Total entities</b>	2022: 8,640 installations, 390 aircraft operators  The number of regulated shipping companies will become known throughout 2024.	550	2,257 (2021 and 2022)

<sup>5</sup> [icapcarbonaction.com](http://icapcarbonaction.com)

<b>Reduction Targets</b>	<b>By 2030:</b> Reduce net emissions to at least 55% below 1990 GHG levels (European Climate Law) <b>By 2050:</b> Climate neutrality (European Climate Law)	<b>By 2030:</b> 40% reduction from 1990 GHG levels (SB 32) <b>By 2045:</b> Carbon neutrality and 85% reduction from 1990 anthropogenic GHG levels (AB 1279)	<b>By 2025:</b> Reduction in carbon emissions per unit of GDP of 18% compared to 2020 levels (14 <sup>th</sup> Five-Year Plan) <b>By 2030:</b> Peak CO <sub>2</sub> emissions; reduction of CO <sub>2</sub> emissions per unit of GDP by over 65% from 2005 levels ('1+N' policy framework; updated NDC) <b>By 2060:</b> Carbon neutrality ('1+N' policy framework; updated NDC)
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## 2. Carbon Credit Development - General

### 2.1. Carbon Credit Projects

Many different types of businesses can create and sell carbon credits by reducing, capturing, and storing emissions through different processes. These are some popular ways to produce carbon credits:

**Renewable energy projects** have already existed long before carbon credit markets came into vogue. Many countries in the world are blessed with a natural wealth of renewable energy resources. Countries such as Brazil or Canada that have many lakes and rivers, or nations like Denmark and Germany with lots of windy regions. For countries like these, renewable energy was already an attractive and low-cost source of power generation, and they now provide the added benefit of carbon offset creation.

**Energy efficiency improvements** complement renewable energy projects by reducing the energy demands of current buildings and infrastructure. Even simple everyday changes like swapping your household lights from incandescent bulbs to LED ones can benefit the environment by reducing power consumption. On a larger

scale, this can involve things like renovating buildings or optimizing industrial processes to make them more efficient, or distributing more efficient appliances to the needy.

**Carbon and methane capture** involves implementing practices that remove CO<sub>2</sub> and methane (which is over 20 times more harmful to the environment than CO<sub>2</sub>) from the atmosphere.

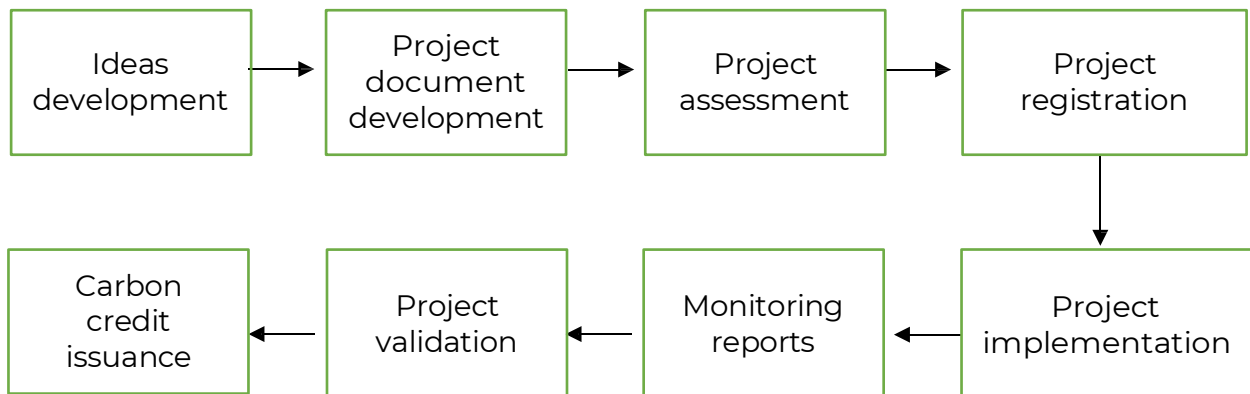
Methane is simpler to deal with, as it can simply be burned off to create CO<sub>2</sub>. While this sounds counterproductive at first, since methane is over 20 times more harmful to the atmosphere than CO<sub>2</sub>, converting one molecule of methane to one molecule of CO<sub>2</sub> through combustion still reduces net emissions by more than 95%.

For carbon, capture often happens directly at the source, such as from chemical plants or power plants. While the injection of this captured carbon underground has been used for various purposes like enhanced oil recovery for decades already, the idea of storing this carbon long-term, treating it much like nuclear waste, is a newer concept.

**Land use and reforestation projects** use Mother Nature's carbon sinks, the trees and soil, to absorb carbon dioxide from the atmosphere. This includes protecting and restoring old forests, creating new forests, and soil management.

Plants convert CO<sub>2</sub> from the atmosphere into organic matter through photosynthesis, which eventually ends up in the ground as dead plant matter. Once absorbed, the CO<sub>2</sub> enriched soil helps restore the soil's natural qualities – enhancing crop production while reducing pollution.

## 2.2. Carbon Credit Project Development Process



- (a) Ideas development: It is a preliminary step to develop a development idea project development (emission reduction activities of the project, scope, etc.)
- (b) Project document development: After assessing the validity, potential, and public consultation on the project, the project document will be arranged based on templates of each carbon standard including financial analysis, technical and benefits of the project.

- (c) Project assessment: The project assessment will be carried out by a third party authorized by the carbon standards to ensure the project meets the conditions of the carbon standard (validity, addition, etc.)
- (d) Project registration: The completed project document will be submitted to the standards registration portal and after the review period, if the criteria are met, it will be approved to be implemented under the mechanism that corresponds to carbon credit.
- (e) Project implementation and monitoring reports: After successful project registration, the project will be implemented similarly to the registered document and reports will also be made to monitor emission reduction parameters.
- (f) Project validation: Similar to project assessment, project validation will also be carried out by a third party authorized by carbon standards to validate the project's emission reductions.
- (g) Carbon credit issuance: Upon successful validation, the project will be issued based solely on the actual (ex-post) emissions reductions of the project.

### **2.3. Carbon Credit Validation**

To trade carbon credits on the carbon marketplace, entities have to prove the validity of their carbon credits and buyers are in need to know the quality of the carbon credits they tend to purchase. This is where the mechanism of carbon verification and verifiers are significant.

Carbon verification is when a third-party verification organization inspects a carbon offset program and ensures it meets its standards (verification standards). If the program meets the standards, the carbon offset credits are verified, making them safe for consumers to purchase and offset their own carbon footprint.

Examples of the most popular voluntary verification standards:

- The VERRA Verified Carbon Standard (VCS), introduced in 2007, now accounts for 90% of transactions. VCS is often used to develop projects and confirm forest carbon credits generated from new afforestation, reforestation of large timber forests, afforestation of special-use forests and protection forests, restoration of natural forests; reduce emissions from combating deforestation and forest degradation; wetland restoration and conservation. According to this standard, the number of certified forest carbon credits in Vietnam has a high chance of being obtained.
- The ART/TREES (The REDD+ Environmental Excellence Standards) standard, launched in 2021, is used to develop projects, and validate forest carbon credits generated from anti-deforestation, anti-degradation, and reforestation on land have had forests for at least 5 years, or zoning and promoting forest regeneration on bare land (1a, 1b, 1c), poor forests. According to this standard, the number of forest carbon credits earned is

lower than the VCS standard. In October 2020, the Ministry of Agriculture and Rural Development and the Organization for Forest Finance Enhancement (Emergent), which is the trusteeship agency of the Alliance for Emission Reduction through Enhancement of Forest Finance (LEAF), signed a Letter of Intent (LOI) to transfer 5.15 million tons of CO<sub>2</sub>e from forests of the South Central and Central Highlands provinces according to standards ART/TREES.

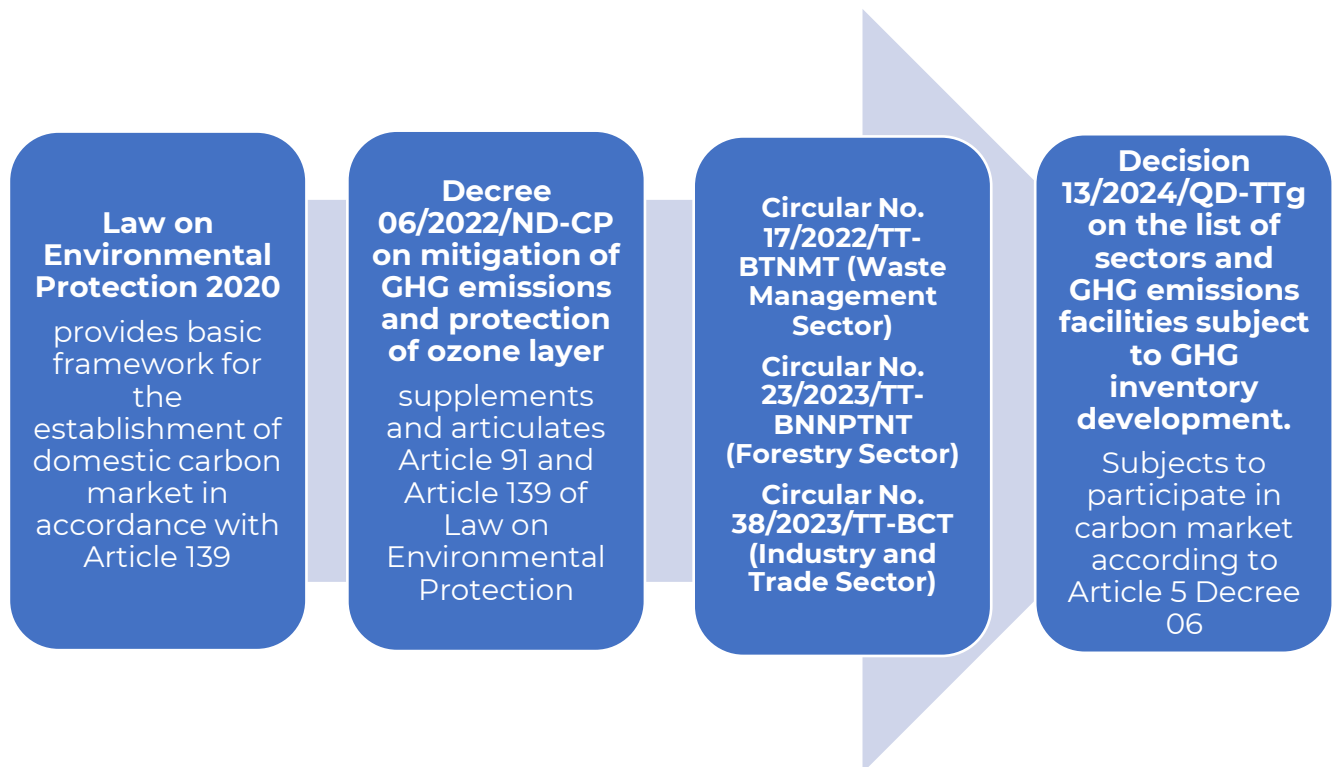
- Gold Standard (Gold Standard - GS) was established in 2003, is used to develop projects and certify forest carbon credits formed from new afforestation on unforested land and long-term reforestation. This is a standard that can be suitable for the afforestation of special-use forests and protection forests in Vietnam. Thus far, to the best of our knowledge, there is no forest carbon credit project applying this standard in Vietnam.

### 3. Carbon Market in Vietnam

#### 3.1. Legal Framework

In compliance with international and regional regulations on mitigation on GHG emissions, Vietnam has recently promulgated a number of legal documents guiding on the establishment of a domestic carbon market in order to tackle urgent international climate challenges.

These legal guides are demonstrated below:



- (a) Though the Law on Environmental Protection 2014 already mentioned the formation of a domestic carbon credit market and the participation in international emission trading systems, the earlier regulations were

fragmented. Until the Law on Environmental Protection is passed, providing for the first time regulation on the organization and development of the domestic carbon market (Article 139), in which the Ministry of Natural Resources and Environment (MONRE) is tasked with setting total emission quotas for ETS of Vietnam and identify the quota allocation method as well as the carbon offsetting credit mechanisms to be applied in the ETS.

- (b) The Government continues to issue Decree No. 06/2022/ND-CP ("**Decree 06**") on GHG emission reduction and ozone layer protection, which details Article 91 (reduction of GHG emissions) and Article 139 (formulation and development of carbon market) of the Law on Environmental Protection 2020.
- (c) Circular No. 17/2022/TT-BTNMT, Circular No. 23/2023/TT-BNNPTNT and Circular No. 38/2023/TT-BCT stipulating techniques for measurement, reporting, and validating GHG emission reductions and GHG inventory development in the waste management, forestry, industry and trade sectors respectively continues to be promulgated in order to create a premise to achieve GHG emission reduction targets in the fields in the coming time. However, other sectors are still absent. With the issued normative documents, especially Decree 06, it can be considered that the domestic carbon market has gradually been shaped more clearly despite its immature status quo.
- (d) In parallel, the Government issued Decision No. 13/2024/QD-TTg stipulating the list of sectors and establishments that must carry out GHG inventory in the second stage, according to which, 06 sectors and 2166 establishments (instead of 1912 under Decision No. 01/2020/QD-TTg) are obliged to do GHG inventory and will participate in the domestic carbon market. Decision No. 13/2024/QD-TTg is issued to replace Decision No. 01/2020/QD-TTg.

### 3.2. Vietnam Carbon Market Roadmap

Vietnamese government developed a development roadmap and deployment time of domestic carbon market as follows (Article 17 of Decree 06):

*Carbon market roadmap*

2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	...
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<b>Preparation phase:</b> - Formulating carbon credit management regulations, GHG emission quota exchange, and carbon credits; formulating operation rules of the CTX; - Guiding on methods for measurement, reporting, and validation (MRV) - Experimenting with carbon exchange and offsetting mechanisms in potential sectors and provide guidance on the operation of domestic and international carbon exchange and offsetting mechanisms in accordance with law and the international treaties to which the Socialist Republic of Vietnam is a signatory. - Carrying out activities in order to improve capacity and raise awareness about carbon market development.							
				<b>Piloting phase:</b> Establishing and Organizing trial operation of the CTX			
						<b>Operation phase:</b> Organization of official operation of the CTX in 2028 Regulations of carbon credit connected and exchange between domestic, regional, and global carbon market.	

At the time of this edition, the draft of the carbon market scheme is in the drafting and public consultation process. Types of carbon credits allowed to be exchanged and traded on the market include credits obtained from domestic credit-generating programs and projects in accordance with the provisions of law, and programs and projects under the international carbon credit exchange and offset mechanism.

### 3.3. Carbon Credit Certification

Article 18.2 of Decree 06 also regulates the procedure of certifying carbon credit by submitting an application according to Form No. 01 of Appendix V. Within 15 working days, the Ministry of Natural Resources and Environment shall organize verification, issue the certificate, and send a notification to the applicant; if the application is rejected, an explanation must be provided. The certificate of traded carbon credits or emission allowances shall be issued according to Form No. 02 of Appendix V of the Decree.

### 3.4. New and Potential Agreements and Programs



Vietnam has made multi-dimensional efforts to achieve its net zero greenhouse gas emission targets by 2050 as committed at COP26. In 2023, Vietnam set four goals for the energy transition: no new coal-fired power plants after 2030; an increase in renewable energy sources; early access to technologies using new primary energy sources such as green hydrogen and green ammonia; and an improvement of the transmission and distribution infrastructure of the national electricity system. Vietnam is a country with great potential for carbon credit supply.

(a) Just Energy Transition Partnership

The signing of the Just Energy Transition Partnership (JETP) between International Partners Group and Vietnam in December 2022 will support the country's ambitious climate targets and a substantial increase in renewable energies. This further reiterated that the governments, private sector, banks, and all major institutions with a stake in energy have agreed that its negative environmental impacts far outweigh short-term economic gains.

The JETP could create a huge number of carbon credits to unlock rich countries' financial support for the switch from coal to clean energy in emerging economies. Currently in the late stage of development, the JETP – offsetting scheme is linked to the early closure of coal plants and their replacement with renewable energy. The greenhouse gas emissions avoided in the transition would be monetized through carbon credits. Nations or companies will be able to buy them to compensate for their direct GHG emissions in the pursuit of their own climate targets.

At scale, coal-to-clean offsets could rise to dominate the carbon market. Each coal plant closure is expected to generate millions of credits. Fewer than twenty of the world's biggest forest protection offsets produce a similar volume of offsets.

This is a mechanism allowing countries to exchange offsets through bilateral agreements and count them towards their climate goals, or nationally determined contributions (NDCs).

(b) Forest Carbon Partnership Facility

Vietnam has just become the first country in the East Asia Pacific region to receive a payment of over USD51 million based on emission reduction results in 6 provinces in the North Central region from the (FCPF) of the World Bank. In the coming time, Vietnam will continue to transfer to LEAF/Emergent 5.15 million forest carbon credits collected in 11 provinces in the South Central and Central Highlands regions in the period of 2022-2026, with a minimum price of USD10/metric ton. These are positive signals for the commercialization of carbon credits in Vietnam.

(c) Vietnam Low Emission Energy Programme II

The Vietnam Low Emission Energy Programme II (V-LEEP II), which is worth USD 36 million and funded by the US Agency for International Development (USAID), was kicked off in Hanoi on June 3, 2022.

The primary goal of V-LEEP II is to advance the transition of Vietnam to a clean, secure, and market-based energy sector by increasing the deployment of advanced energy systems, improving energy sector performance, and increasing competition in the energy sector.

V-LEEP II will support the domestic carbon market. The coexistence of a carbon market (and more specifically, an emission allowance) can create a dual incentive for companies to reduce emissions, specifically by using V-LEEP II. This approach can help indirectly funnel corporate capital into renewable energy projects, creating the dual benefit of decarbonizing the sector while encouraging the construction of more renewable power.

### **3.5. Statistics and Notable Cases**

Vietnam signed the KP on December 3, 1998, ratified it on September 25, 2002, and Vietnam is not included in Appendix I, so there is no obligation to commit to quantitative emission reductions of GHGs in the prescribed effective time of KP. During this period, Vietnam developed many projects under the CDM mechanism to receive international support in implementing emission reduction measures. This mechanism allows parties to receive credits in the form of “certificates of emission reductions”, abbreviated as CERs (1 CER = 1 ton of CO<sub>2</sub> equivalent)<sup>6</sup>.

According to the database from UNFCCC, as at December 5, 2022, the total number of carbon credit projects under the CDM mechanism in Vietnam is 258 projects. The total amount of CERs issued from CDM projects in Vietnam is 30,736,808 CERs<sup>7</sup>. As listed in the list of CDM activities eligible for transition to Article 6.4 crediting mechanism, Vietnam has 129 projects and programs, 73 of which are renewable energy projects<sup>8</sup>.

In terms of voluntary standards, in Vietnam, carbon credit projects are mostly registered under the Gold Standard (GS) and the Validated Carbon Standard (VCS). As at November 2022, more than 9 million credits have been issued under the voluntary carbon market, of which there are 20 projects registered under GS standards and issued to the market more than 7,047,529 credits, 27 projects. projects according to VCS standards and issued 2,402,415 credits<sup>9</sup>.

For the type of forest project, Vietnam currently has only one project registered under Plan Vivo's voluntary carbon standard - a mechanism that only focuses on forest protection, development, and ecological sustainability of forest-based communities. The project is implemented in Hieu commune, Kon Plong district, Kon Tum province with an area of more than 1,238 hectares of natural forest under the REDD+ mechanism with the goal of forest protection and combined livelihood development for 150 ethnic minority households. M'nam in 3 villages: Dak Lom, Dak Lieu and Vi Chring were successfully registered projects in 2021 but not issued credits.

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<sup>6</sup> [https://cdm.unfccc.int/Reference/Guidclarif/glos\\_CDM.pdf](https://cdm.unfccc.int/Reference/Guidclarif/glos_CDM.pdf)

<sup>7</sup> <https://cdm.unfccc.int/Projects/projsearch.html>

<sup>8</sup> <https://cdm.unfccc.int/Transition/>

<sup>9</sup> <https://gspp.berkeley.edu/research-and-impact/centers/cepp/projects/berkeleycarbon-tradingproject/offsetsdatabase>

## 4. Carbon Credit Development – Vietnam

### 4.1. Article 6.4 Mechanism

The COP 26 conference held in Glasgow, Scotland in 2021 was marked as an important milestone in the development of a mechanism to shape the global carbon credit market. Accordingly, if from 2008 to 2020, the carbon credit market was registered and operated under the CDM, then from 2021 onwards, the Parties agreed to apply Article 6.4 under the Paris Agreement ("**Article 6.4 mechanism**") to implement the purchase and sale of carbon credits and aim at reducing greenhouse gas emissions and sustainable development. Article 6.4 mechanism contains 02 below procedures. Upon being credited in accordance with the Article 6.4 mechanism, the project and program owners who wish to credit its reduction are required to apply for carbon credit recognition under the laws of Vietnam for trading the national carbon credit trading exchange once it goes live.

#### 4.1.1. Transition of CDM Project into Article 6.4 Mechanism

- (a) **Step 1:** Submission of the Conversion Request (by Project Participant)

A project participant seeking transition from CDM to Article 6.4 Mechanism must submit the request on the UNFCCC website by December 31, 2023.

- (b) **Step 2:** Review of the Conversion Request (by Secretariat)

The Secretariat will review the completeness of the information and then publish the request if its information is complete. If the information is incomplete, a modified request must be submitted within 14 days; otherwise, the request will be rejected. After publishing the conversion request on the UNFCCC website, the Secretariat shall promptly notify the Designated National Authority (DNA) of the host Party.

- (c) **Step 3:** Consultation (by Global Stakeholders)

Relevant parties and the Supervisory Body shall submit comments on the CDM project, or PoA (Programme of Activities) and CPA (Component Project of Activity), on the UNFCCC website within 28 days of the request being published. The Secretariat will then publicly disclose comments that meet the requirements on this website.

- (d) **Step 4:** Submission of Approval (by the DNA)

If the conversion process is approved, the DNA of the host Party must submit the approval of the conversion to the Supervisory Body by December 31, 2025.

- (e) **Step 5:** Submission of Additional Documentation (by Project Participant)

If continuing with the CDM, the project participant must submit additional documentation within 6 months of the approval publication. If

converting to another mechanism, modified documentation and verification reports must be submitted within 1 year.

(f) **Step 6:** Processing of the Conversion Request (by Secretariat)

The Secretariat will notify the conversion fee. Upon receipt of the conversion fee, the Secretariat will review the completeness and content of the additional documentation. Finally, the Secretariat will provide a summary note and recommendation to the Supervisory Body within 14 days of publishing the additional documentation.

(g) **Step 7:** Request for Review of Conversion Request (by DNA)

The DNA or the Supervisory Body may request a review of the conversion request within 28 days after the content review is completed. The Secretariat will then update the status of the request on the UNFCCC website.

(h) **Step 8:** Finalization of Conversion Request (by Supervisory Body)

The Supervisory Body will approve, approve with modifications, or reject the request. The decision of the Supervisory Body will then be published on the UNFCCC website.

(i) **Step 9:** Compliance with Requirements (by Project Participant)

After participating in Article 6.4 Mechanism, the project activities, PoA, and CPA must comply with all requirements of this mechanism in subsequent steps.

#### 4.1.2. Project Registration under Article 6.4 Mechanism<sup>10</sup>

(a) **Step 1:** Project Design (by Project Participant): Project Participant creates the project and prepares the project design document (PDD)

(b) **Step 2:** Notification of the Project (by Project Participant): Project Participant sends a notification on the UNFCCC website.

(c) **Step 3:** Consultation (by Global Stakeholder): The Secretariat shall publish the PDD submitted to the UNFCCC website by project participants. After that, relevant parties, stakeholders, and UNFCCC-admitted observer organizations may submit comments on the project to the Secretariat. Finally, the Secretariat shall publicly disclose eligible comments on the UNFCCC website.

(d) **Step 4:** Assessment (by the host Party) (according to CMA mechanism: Ministry of Natural Resources and Environment, Department of Climate Change is the designated authority in Vietnam): The secretariat shall inform the host Party of the receipt of the PDD, and request the host

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<sup>10</sup> <https://unfccc.int/sites/default/files/resource/a64-sb008-a06.pdf>

Party (through its DNA), based on the project information contained in the PDD, the implications of hosting the project on the implementation of its NDC (Nationally Determined Contributions).

- (e) **Step 5:** Completion of the Project (by Project Participant): Project Participant shall complete a PDD in accordance with the activity standard, the comments of the Global Stakeholder, and the assessment of the host Party.
- (f) **Step 6:** Validation (by DOE): DOE shall perform validation of the Project based on the PDD, the Modalities of Communication (MoC) statement, and other supporting documents.
- (g) **Step 7:** Registration (by DOE): DOE submits the dossier of Project after validating it to the Secretariat (attached with a request for registration)
- (h) **Step 8:** Inspection (by the Secretariat): The Secretariat shall check the completeness and content of the Project.
- (i) **Step 9:** Review the dossier (if required): The host Party, any other participating Party, or any member of the Supervisory Body (SB) may request a review of the request of registration. The Secretariat shall establish an expert review team to conduct an assessment of the request for registration.
- (j) **Step 10:** Verification and approval (by SB): SB shall verify the assessment results from the expert review team, and SB shall decide to register the Project under the Article 6.4 mechanism. In case, the Parties in Step 9 do not request, the request for registration shall be deemed approved by the SB.

The guiding documents on the procedures for applying the Article 6.4 mechanism came into effect in early 2024. Therefore, at the present stage, Vietnam is making efforts to localize and cooperate to perfect domestic institutions and legal policies related to this issue. Initially, Vietnam also issued Circular No. 19/2023/TT-BTNMT to abolish several regulations on investment procedures under the CDM mechanism.

## **4.2. Emission Allowance Allocation and Crediting**

Based on the total GHG emission allowance of the whole country, the GHG inventory results in the latest allocation period and the GHG emission reduction situation, MONRE will allocate emission allowance to each GHG inventory reporting establishment.

The relevant establishments wishing to recognize its emission allowance will submit an application to MONRE for verification and recognition of the allowance. The result will be a confirmation by MONRE evidencing the number of allowances eligible for trading on the national carbon credit trading exchange.

## **4.3. Registration under Gold Standard**

Developers have multiple options for certifying the project under Gold Standard:

- Originate a project.
- Transition of an existing project from the UN CDM or other standards to Gold Standard.
- Certify the sustainable development impacts of a project issued under another standard.

Process to be certified Gold Standard:

- Step 1:** Project design: 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.
- Step 2:** Preliminary design review: Independent assessment conducted by an accredited validation and verification body (VVB). Then, SustainCERT reviews documentation and requests clarifications and resolutions of corrective actions where required. 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:** Implementation – Project monitoring: Project Developer monitors the project according to the approved monitoring plan.
- Step 4:** Performance review: Independent assessment conducted by an accredited validation and verification body (VVB). Then, SustainCERT reviews documentation and requests clarifications and resolutions of corrective actions where required.
- Step 5:** Performance certification.

#### 4.4. Registration under Gold Standard under Validated Carbon Standard (VCS)

Process to be certified Validated Carbon Standard:

- Step 1:** Open a Verra Registry account.
- Step 2:** Project is listed as under validation: Project proponent requests to list as under validation and submits documents to Verra Registry. Then, Verra Registry will review and create the project record on the Verra Registry, list the project as under validation.
- Step 3:** Project validation and verification: Project proponent submits the documentation to validation/verification body. Then validation/verification body assesses project, GHG emission reductions for verification.
- Step 4:** Registration and issuance request: Project proponent submits the project documents to Verra.
- Step 5:** Project review: The project review is a two-part process consisting of a

completeness review and an accuracy review (undertaken at Verra's discretion) of the project registration, Verified Carbon Unit (VCU) issuance or project crediting period renewal request.

- (f) **Step 6:** Project registration and Initial VCU issuance: Verra Registry creates project and VCU records. Then Verra deposits VCUs into project proponent's account.