

Key Findings and Policy Recommendations for the Design and Operation of the ETS in Vietnam

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- **Insights and findings** accumulated from the [studies, surveys, and training sessions](#) conducted under this assignment have allowed inferring lessons learned and recommendations for the future design and implementation of Vietnam's ETS.
- **Sources** drawn on to provide [insights and findings](#) include:
 - International review of carbon market status and trends, comparative survey of ETS design choices, and best practices regarding use of carbon credits for offsetting;
 - a [national survey](#) conducted in December 2023.
- **Insights** accumulated from the [training sessions](#), including the pre- and post-training course surveys conducted with participants, include:
 - [Lessons learned](#) and improvement for each training;
 - Improved [design and organization](#) of ETS training courses;
 - Interests, concerns, and [feedback expressed](#) at the training sessions;
 - Experiences and lessons gained over the [simulations](#).
- On this basis, the **following recommendations** for [ETS design and appropriate policies](#) for ETS operations to the government of Vietnam have been formulated.

Defining Policy Objectives:

- **Insights:** Stakeholders emphasized the **need for clarity** in Vietnam's **long-term ETS goals** – i.e. whether these will prioritize cost-effectiveness, market integration, or industrial competitiveness – and **alignment with national mitigation targets**. Policymakers stressed unifying objectives for **coherent policy development** and broader **stakeholder acceptance**.
- **Recommendations:** Emitters should plan **compliance strategies**, anticipating **changes in investment** and operations. Establish a **multi-stakeholder group**, including policymakers, emitters, civil society, and academics, for **ongoing dialogue**. Launch continuous **media outreach** to bolster ETS awareness and policy rationale.

Scope and Coverage:

- **Insights:** Determining sectors and sources entails **balancing environmental benefits with economic feasibility**. Stakeholders want **transparent criteria** for inclusion and **clarity** on potential participants (e.g., compliance entities, offset project developers, market intermediaries), alongside improved understanding on the **benefits and risks of allowing participation by intermediaries**.
- **Recommendations:** Conduct **quantitative assessments** of each sector's emissions, abatement cost, and technology pathways, prioritizing **heavy industry and power**. Analyze coverage thresholds (e.g., 70–90% of emissions) to optimize allowance prices, manage compliance, and achieve **broad mitigation at minimized overall costs**.

Setting the Cap:

- **Insights:** Policymakers emphasize the need for **robust methodologies** to set and adjust caps **in line with national goals**. Emitters require **clarity on implementation**, **feedback opportunities**, and how caps evolve with **sectoral mitigation targets**.
- **Recommendations:** **Combine top-down and bottom-up data** to identify balanced caps, reflecting sectoral emissions, mitigation potential, and existing mitigation targets. Incorporate **mechanisms for periodic cap revisions** to accommodate evolving policy priorities and market conditions.

Allocating Allowances:

- **Insights:** Stakeholders highlight the importance of **fair and transparent allocation** – whether free, benchmarked, or auctioned – and the **competitiveness implications**. Policymakers aim to study **international best practices** and potential **CBAM synergies**. Emitters want **clarity on costs** and planning requirements that each method entails.
- **Recommendations:** Adopt **phased transitions from free allocation to auctioning**, using thorough **economic impact studies** to address competitiveness and windfall profit risks. Draw on lessons from global ETSs to limit **protracted reliance** on generous grandfathering or benchmark-based allocation.

Insights:

- Policymakers emphasize the need for **clear offset guidelines**, covering domestic and international credits, and their **role in ETS compliance**. They also require **clarity on eligibility criteria and usage rules**.
- Emitters seek to understand how **offset projects within the ETS boundary** – such as on-site renewables – can generate credits if electricity is fed into the grid, and how this impacts **compliance costs** and carbon footprints.

Recommendations:

- **Analyze offset rules** in other ETSs to decide whether – and how – to include credits.
- **Assess impacts** on allowance demand, price dynamics, and fiscal considerations, ensuring consistency with evolving global frameworks.
- Establish **clear restrictions** on offsets (e.g., qualitative or quantitative limits) to safeguard environmental integrity.
- **Align offset rules** with CBAM objectives and existing crediting systems for effective market integration.

Insights:

- Policymakers need **robust MRV systems** and **enforcement mechanisms** to safeguard market integrity and compliance.
- Emitters must **understand reporting obligations**, **verification processes**, and **penalties** for non-compliance, ensuring **alignment with domestic and international standards** such as CBAM or CSRD/CSDDD.

Recommendations:

- **Leveraging Existing Frameworks:** Build on **domestic transparency initiatives**, aligning with **global MRV standards** (e.g., CBAM, ISO 14064) to streamline processes and reduce administrative burdens. This ensures consistency across multiple reporting regimes.
- **Guidance and Capacity Building:** Offer **transparent guidance**, **helpdesks**, and **training** to compliance entities, drawing on international best practices and software tools. This fosters timely capacity building and more accurate data, increasing **stakeholder confidence** in the ETS and supporting effective compliance.
- **Institutional Arrangements:** Establish **clear governance structures** for verification, alongside robust **investment in human resources**. Educating **verifiers** ensures a sufficient, competent pool, enabling credible oversight and efficient ETS operation.

Insights:

- Policymakers are interested in [stability mechanisms](#) – such as price floors, ceilings, and strategic reserves – to [limit volatility and prevent manipulation](#).
- Emitters see these tools as essential for [predictable compliance costs](#) and smoother low-carbon transitions. [Banking and borrowing provisions](#) drew attention for their ability to help entities manage allowances over time, although safeguards are needed to maintain overall system integrity.
- Stakeholders demand [stringent monitoring](#) to prevent market abuse and ensure genuine emission reductions.

Recommendations:

- Facilitate [domestic debate](#) on the importance of stable price levels versus market efficiency, linked to the ETS policy objectives.
- Examine international experiences with [supply- and price-management provisions](#), identifying best practices and trade-offs in various ETS contexts.
- Strive for a [balance](#) between [predictable price signals](#) and [limited governmental interference](#), ensuring that market mechanisms can efficiently allocate resources while maintaining a robust, credible ETS.

Insights:

- Policymakers prioritize **developing robust market infrastructure** – such as registries and trading platforms – to anchor an effective ETS, including clarifying financial intermediaries' roles.
- Emitters seek **guidance** on accessing and leveraging this infrastructure to **fulfill compliance obligations** and **optimize trading strategies**.

Recommendations:

- **Survey existing infrastructure** in other ETS jurisdictions, exploring software providers and successful models for secure, user-friendly systems. Consider **interoperability with international frameworks**, including Article 6 of the Paris Agreement.
- Invest in **reliable domestic infrastructure** (registries, trading platforms, support services), ensuring that design choices reflect Vietnam's needs while maintaining global compatibility.
- Provide **early-phase training** for policymakers, emitters, and intermediaries, facilitating a smooth rollout. **Engaging stakeholders** before full-scale launch builds capacity, fosters trust in the system, and promotes effective ETS operations.

Addressing Competitiveness and Leakage Risks:

- Policymakers must **balance environmental integrity and industrial viability**, ensuring that carbon regulations do not unfairly burden domestic industries. EITE sectors require **clear, data-driven criteria** to target leakage safeguards effectively while reflecting fiscal and environmental trade-offs.
- Informed by other jurisdictions' experiences, policymakers can develop **strategies to mitigate leakage**, especially in light of evolving global climate policies like border carbon measures. Monitoring such international trends will help Vietnam align ETS design with worldwide best practices.

Interaction with CBAM:

- Emitters exporting to CBAM territories (e.g., EU) seek **clarity on overlapping ETS and CBAM obligations**, focusing on emissions calculations, verification standards, and potential cost implications for their goods.
- **Monitor EU CBAM developments** – especially anticipated implementing acts under Article 9 in 2025 – and track global border carbon policy shifts. This awareness helps ensure the Vietnamese ETS framework **is recognized** and facilitates smooth compliance for international trade.

Insights:

- **Simulation Highlights:** The simulation reaffirmed **five essential ETS components** - defining scope, setting caps and allocations, mitigating market volatility, ensuring compliance flexibility, and managing marginal abatement costs. Real-time regulatory changes influenced allowance prices, highlighting the need for **robust monitoring** and **adaptive business strategies**.
- **Price Dynamics and Adaptation:** Participants noted that **auction outcomes** drove secondary market trends, and interventions like cap reductions immediately affected price volatility. Businesses benefiting most were those **that tracked policy shifts and swiftly adjusted their strategies**, underscoring the advantage of proactive, flexible compliance planning.

Recommendations:

- Recommendations revolve around **establishing fixed review periods** – after three, five, or seven years – to evaluate performance and integrate best practices. This approach balances **long-term certainty with opportunities for course correction**, ensuring ETS design evolves in tandem with shifting economic, policy, and technological contexts. Finally, **encourage ongoing stakeholder engagement** and real-world performance metrics to refine system design.



Thank you for all the vital supports!

