

THE CRITICAL CARBON PRICING FRONTIER

CLIMATE POLICY DEVELOPMENTS IN SOUTHEAST ASIA IN THE NEXT FEW YEARS WILL BE PIVOTAL IN DETERMINING WHETHER THE WORLD ACHIEVES THE PARIS AGREEMENT'S 2°C GOAL – AND IN UNLOCKING REGIONAL GREEN GROWTH OPPORTUNITIES WORTH AN ESTIMATED \$1 TRILLION. NADIA KAHKONEN AND JEFF SWARTZ TAKE A LOOK AT THE PROSPECTS

4.

EXPONENTIAL DEVELOPMENT in Southeast Asia over recent decades has lifted millions out of poverty, but not without consequence. Fuelled largely by coal-fired power plants, this rapid growth has brought with it a slew of widely-reported environmental repercussions for the region. Beyond that, it has also threatened Southeast Asia's prospects of continued development and helped put the wider world at risk of the most serious effects of climate change. Many of these threats are already manifesting.

A recent report by the Health Effects Institute estimated that at least 95% percent of global populations are regularly exposed to unsafe levels of air pollution. Many of these people live in Asia, and with air pollution contributing to an estimated 6 million deaths globally last year, this is a serious issue. As Southeast Asia's ever-increasing population continues to urbanise, maintaining decent air quality is a growing challenge, particularly for the sprawling megacities of the region such as Jakarta and Bangkok.

Air pollution is just one of the many barriers to human health and development apparent across Southeast Asia

Air pollution is just one of the many barriers to human health and development apparent across Southeast Asia. The governments of these countries are aware of the climate threats they face and many are beginning to act, turning climate risks into opportunities. But with the allure of cheap coal from countries like Indonesia, more work is required to kickstart Southeast Asia's transition to a low-carbon, climate-resilient economy.

Carbon pricing to change the course China's long-anticipated announcement of its national emissions trading scheme (ETS) in December last year was a welcome development, and marked a much-needed, radical step up on global climate action. Undoubtedly toxic air pollution, an issue plaguing many of China's booming cities, was one factor driving the development of China's ETS within its existing climate policy blueprint.

Once fully implemented, China will have the world's largest carbon market in terms of cap coverage, and push carbon markets coverage to nearly 50% of global GDP and 25% of total global emissions. The Chinese ETS will hopefully also incentivise its Southeast Asian neighbours to develop and intensify their own carbon policies.

Many Southeast Asian countries are rising to the challenge. The Vietnamese government has plans to develop a carbon market by 2018 as part of its Nationally Determined Contribution (NDC) to the Paris Agreement, while Singapore recently introduced Southeast Asia's first national carbon tax in March this year, and will

begin taxing its biggest emitters \$5 (US\$3.72) per tonne from 2019. Thailand is starting an ETS simulation this year that will run until 2020, and Indonesia has recently launched a voluntary carbon market. All of these countries are also members of the World Bank's Partnership for Market Readiness (PMR), which aims to support capacity building to scale up climate change mitigation policies – including carbon pricing instruments. Leveraging the support of the PMR can help countries prepare their domestic approaches for carbon markets alongside the implementation of their NDCs.

Opportunities from collaboration One lucrative way that Southeast Asian economies can collaborate to reduce carbon emissions and boost economic opportunities would be to establish a regional, voluntary carbon trading arrangement or a 'carbon club'. As many countries in the region are in the early days of testing carbon pricing, a voluntary carbon club would allow them to benefit from a learning-by-doing approach, which would also reduce implementation costs. For instance, a comparable emissions pool and trading scheme in East Asia could save the region an estimated US\$330 billion annually in 2030 – equivalent to 1.4% of the sub-region's projected GDP.

Collaboration can also facilitate knowledge-sharing around pivotal infrastructure-related topics such as carbon offset methodologies and clean technologies, as well as standards to monitor, report and verify (MRV) emissions. Building capacity to implement robust MRV rules would



provide a solid, harmonised foundation for future cross-border ETS links in Southeast Asia, instead of each nation developing separate standards.

Discussions around and the actual implementation of coordinated efforts have been further catalysed by Article 6 of the Paris Agreement. But what exactly would Article 6 mean for Southeast Asian nations?

Governments should look to Article 6 as a key to unlocking the additional investment required to deploy technologies that can help decarbonise the region and enable countries to pursue more ambitious reduction targets cost-effectively. There are several countries (eg, Canada, Switzerland, New Zealand) that plan on using international market mechanisms to meet their NDCs, and this list is expected to grow over time as countries ramp up their targets. Southeast Asia, with its ample opportunities to develop renewable energy in lieu of new coal-fired power stations, is a critically important destination for climate finance. Investment could also help Southeast Asian countries implement additional policy measures to deploy cleaner technologies such as electric public vehicles in cities.

The approaches outlined by Article 6 allow for better public-private cooperation across borders, and countries can point

companies towards specific types of emission reduction activities that work towards their NDCs. Energy efficiency, for example, is the largest source of potential emissions reductions for Southeast Asia up to 2050, but advanced energy technologies like carbon capture and storage and advanced biofuels will be critical in achieving long-term decarbonisation for the region. Public-private collaboration, as well as inter-state cooperation, will be crucial. While the ambitious climate policies needed to boost green growth in these sectors will undoubtedly carry a somewhat hefty price tag, the benefits in avoided climate damage for Southeast Asia far outweigh this initial cost.

The connection between climate change, economic development and poverty is becoming increasingly transparent. Underlying this is the necessity for increased collaboration to mitigate the adverse effects of climate change. The more Southeast Asian countries can cooperate to meet national, regional and global targets, the more climate change mitigation can be achieved.

Local and global companies can benefit from this collaboration by exploring options and markets to develop emission reduction activities that can be eligible under Article 6. However, businesses will need a clear rulebook for Article 6 to be

adopted in order for these investments to begin unlocking the critical climate finance needed.

As a global economic growth powerhouse, Southeast Asia is well placed to provide a roadmap for regional climate action. This region of green growth opportunity is truly the space to watch right now, as emerging public and private efforts to drive down its emissions will not only unlock billions of dollars in green finance – they will be vital in realising a future below 2°C.

Jeff Swartz is Director Carbon Markets and Climate Policy at South Pole. Jeff is an internationally-recognised climate change and carbon pricing expert with experience across the UK, EU, US and China. Prior to directing South Pole's strategy and services on climate policy and carbon markets, Jeff was the managing director at IETA.

Nadia Kahkonen is Head of Communications at South Pole. Nadia is a senior communications professional, passionate about helping corporations tackle the trickiest challenges posed by climate change. Prior to leading South Pole's communications unit, Nadia worked on climate policy, sustainable development and corporate responsibility at the European Commission, CSR Europe, and UNESCO.

(1) Kahkonen, N 2017, 'Research report: Southeast Asia risks losing out on USD 1trillion clean energy opportunity', South Pole news, 13 December, accessed May 2018. (2) Harvey, F 2018, 'More than 95% of world's population breathe dangerous air, major study finds', The Guardian, 17 April, accessed May 2018. (3) Reklef, S, 2016 'Japan, Indonesia issue first carbon offset credits under JCM', Carbon Pulse, 13 May, accessed May 2018 (4) Bloomberg Environment, 2018 'Climate 'Clubs' Can Show Faster Results Than Global Pacts', 4 January, accessed May 2018 (5) Asian Development Bank 2015 'Climate Change Losses for Southeast Asia Well Above Previous Estimate', 7 December, accessed May 2018 (6) Asian Development Bank 2015, ADB Brief: Southeast Asia and the Economics of Global Climate Stabilization, accessed May 2018 (7) Ibid (8) Swartz, J, Kahkonen, N 2018 'Article 6 of the Paris Agreement: What does it mean for businesses?', South Pole, 10 April, accessed May 2018