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Commodities in Asia | Episode 7
Peter Zaman, Partner, HFW Singapore

Our *Commodities in Asia* series rolls on this week with Peter Zaman. Peter is a Partner at HFW in Singapore and has been practicing law in climate finance and the environmental markets since 2004. SmarterMarkets™ host David Greely sits down with Peter to discuss what's been happening in the carbon markets this year, how it's been affecting countries and companies in Asia, and the change in mindset that we all need to find the path forward.

Peter Zaman (00s):
Shipping and aviation are two examples of areas where we still haven't figured out what our alternative to being able to fly and transport goods by ships is going to be. There is no zero carbon solution for any of those. So the reality is we're not as a planet, let alone a country or let alone industry, in a position where we can deliver on a 1.5 degree objective. We're just not ready for it. But are we going to actually say therefore we're not gonna be able to meet 1.5, let's just settle for 2? Nobody's gonna say that. The pragmatics should say it because otherwise what you're doing is you're setting yourself up for a failure because we cannot achieve 1.5 degrees, but nobody wants to admit that.

Announcer (42s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
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David Greely (01m 21s):
Welcome back to Commodities in Asia on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Peter Zaman. Peter is a Partner at HFW in Singapore and has been practicing law in climate finance and the environmental markets since 2004. We'll be discussing what's been happening in the carbon markets this year, how it's been affecting countries and companies in Asia, and the change in mindset that we all need to find the path forward. Hello Peter, welcome back to SmarterMarkets.

Peter Zaman (01m 51s):
Hey Dave, thanks for having me back.

David Greely (01m 53s):
Absolutely. You know, it's the Thanksgiving holiday here in the United States and as always I'm very thankful to be able to catch up with you on what's happening in the carbon markets and you know, as we're in the end of November, looking back over the year, to me it's felt like a tale of two markets with voluntary carbon markets beset by many challenges and compliance markets meanwhile, pushing ahead, albeit slowly. So I was curious for your perspective, Peter, you know, what's been happening this year?

Peter Zaman (02m 20s):
Well, first of all, Happy Thanksgiving to you and to all of your listeners, particularly if you are spending the weekend listening to this. Yeah, I mean 2023, I can't believe it's still already over. It's gone so, so quickly, but a lot has happened, as you say, I think, I think it's right. I mean if you divide the 2023 developments as being voluntary and compliance distinct, I think you would say that the voluntary markets struggled because it's lost demand more than anything else. I don't think supply necessarily has disappeared, but definitely demand has disappeared, probably down to about a combination of number of factors, increased inflationary costs, has taken speculative capital outta the market. I think that's taken away some of the demand. I think on the supply side, the criticisms of some of the methodologies and some of the standards has shaken confidence a little bit in the integrity associated with some the voluntary carbon units.

Peter Zaman (03m 17s):
And I think of the buy side corporations who have otherwise thought they've been doing good things either for CSR purposes or ESG purposes are being attacked for doing so. So greenwashing allegations being thrown at them, even if they don't stick, they throw them at them and, and that scares away the corporations you know, I learned a new term this year, green hushing, I mean that term didn't exist until last year So yeah, all of these things are happening in the voluntary space and you know, they have negative repercussions on the compliance side. I think you're right. I mean the EU has introduced shipping as a new international shipping emissions to as a new sector in the EETS and that's brought in a whole raft of global market participants who know nothing about the EETS and are desperately scrambling to understand how it works.

Peter Zaman (04m 04s):
I think the EU commission in introducing shipping didn't understand the complexity of the shipping market. They thought they would do what they did with aviation and, and try and just drag them into the system and they are coming into the system. But it's not easy because shipping as an industry is designed around a lot of different things, but avoiding liability and avoiding tax seem to be some of the main drivers as to how they're structured. So essentially a lot of SPVs are now compliance entities for the EETS and I'm not sure the EETS appreciates that 'cause what's the point? Making an SPV your compliance entity anyway, but that's, that's how the EU commission have I think, bit enough more they more than they can chew. But of course they've also introduced CBAM, which is an attempt to try and protect EU industries within the EU by saying imports into the EU of fertilizer, cement, steel, iron are all gonna be taxed at the border depending on whether or not you have a local carbon price, you might get some kind of discounted treatment from the border price, otherwise you're paying EV allowance prices, which is essentially an exportation of the EU price to the rest of the world.

Peter Zaman (05m 16s):
So I think there's a lot of people, particularly those who are in Southeast Asia or Asia, Asia Pacific who are big importers or exporters of those products into the EU are scratching their heads wondering where did this come from. Why does it apply to me and I think that's another phenomena we're gonna see play out a lot more in the sort of beginning of 2024 as people start doing their reporting obligations on the CBAM and, and that's a big thing and I suppose I think of Article six as a hybrid between the compliance markets and the voluntary markets because if you take Article 6.2 as your basis, then a lot of the voluntary methodologies and standards will have a role to play under Article 6.2 and therefore I think of that even though it mows are compliance instruments and therefore voluntary markets are playing a role in delivering a compliance instrument.

Peter Zaman (06m 05s):
Art under Article 6.2, Article 6.4 clearly is a, is a compliance market directly in its own right. But because you can use Article 6.4 units for course and in the voluntary space there is that crossover. So I put article six somewhere in the middle and as you will know, there's been a lot of rollout of Article 6.2 bilateral arrangements and frameworks beyond what existed last year with the efforts of Switzerland. And now other countries are pushing it, many of them in in Asia Pacific, including Singapore. And we haven't had any real finalized ones yet. We've had lots of MOU stage progress on that, but we expect finalized ones to be announced maybe in the lead up to COP 28. So yeah, plenty going on.

David Greely (06m 47s):
Plenty and you've, you've laid out plenty in front of us, so I'd like to dig into some of those topics in a little bit more detail with you specifically. Maybe we start off with the drying up of demand in the voluntary carbon markets and I'm curious how this is affecting Asian companies and countries in particular and on your side of the globe, are the companies mostly net buyers or sellers in the voluntary carbon markets?

Peter Zaman (07m 12s):
Yeah we're very lucky Dave, in that even though we sit in Singapore, we actually act serve and you know, work with clients across the markets. So we often deal with buyers from Europe and sellers from Asia and sometimes vice versa. So I think the truth to Asia Pacific's role in the voluntary carbon market is predominantly as a origination supply source and I think the origination supply source exists. I think obviously if you think about what the role of the voluntary carbon market is, it's to deliver carbon finance from countries and corporations that are otherwise emitting the greenhouse gases or taking on the responsibilities through their various pledges to do something about it to the countries that are actually able and can afford to achieve carbon abatement and mitigation at a more cost effective basis. So there is a transference of climate finance or carbon finance from what I call the global north to the global south.

Peter Zaman (08m 09s):
And actually many of the global south countries exist in Asia Pacific. So when you think about the role of APAC, I predominantly think of it as a supply source for voluntary carbon credits. But if there's no buyer demand for these credits, then where is the money gonna come from and why would that carbon finance therefore flow from the global north to the global south and the voluntary carbon markets are struggling because with no buyers buying it, buying voluntary carbon units, there is essentially no reason for that finance to flow. So there is a clear blockage of that finance right now in the absence of buyer demand. So when people ask me what is the most fundamental thing we can do to try and fix the issues with the voluntary carbon markets, I always say you've got to unblock the buyer demand. And if you go back to what I said earlier on, the buyer demand is predominantly arising because corporations think they're doing good things and then people attack them nonetheless.

Peter Zaman (09m 03s):
And therefore you've got to overcome the challenges that are leading up to that kind of action being one that scares the corporations from doing something and you know, there aren't a number of initiatives out there including what the VCMI are doing, but we can get stuck into that separately if you want to and I suppose the other thing I would say is that there's been historically a lot of common projects which have existed under pre Paris agreement legal environments and as you know from previous conversations on Article 6, one of the consequences of Article 6 is that countries have to pass national frameworks and these national frameworks talk about how they will authorize Article 6 activity, but they, the, all of those countries who are passing those frameworks will also say, by the way, any GHG mitigation activity in my jurisdiction now has to be approved by me.

Peter Zaman (09m 53s):
Then you get into the problem of these countries either not having the frameworks or still in the process of being implementing the frameworks and then you get to examples of Indonesia where the frameworks are already in place and Indonesia says, oh, but I can't make up my mind, do I need these credits to meet my own NDC, therefore can I afford to export them I'm not sure and I think those kind of challenges are also an obstacle to some of the supply opportunities coming out of APAC. It's a time-limited problem because the countries will need to resolve and put their networks in place and they're coming, these frameworks will come and these frameworks once they are in place, should start unblocking some of the supply flow at least as a regulatory risk for any project developer.

David Greely (10m 36s):
Yeah and with this blocking of the, the supply of carbon finance and the demand for carbon projects, do you think this is more of a temporary pause while we transition to an Article 6 world or is there something more behind the pullback in climate finance we've seen this year?

Peter Zaman (10m 51s):
I think if you look at your question from the perspective of the host country, from a host country's perspective, yes this is a transition from what I would call a pre Paris agreement, Kyoto framework to a Paris agreement framework and that in that transition, these countries are struggling. So you can't underestimate how difficult it is for a country who's never had to collect information about the sources of its emissions, find a way to harmonize the data collection under IPCC rules and requirements and then find a way to report that in a way that enables them to meet their Paris agreement reporting obligations that they've taken on and for the first time since 2021. Contrast that to what countries who under the period of protocol, there are only about 38 or 40 countries who have been reporting their greenhouse gas information and doing the accounting for 20 plus years.

Peter Zaman (11m 49s):
And for them doing an NDC is something they can take in in their stride because they have the data, they understand how to look at the data and they understand what the data means. When you're dealing with a country, including those in Asia Pacific who have never had to handle that data, use the data, let alone analyze the data, and yet are being told you must produce an NDC by certain dates and in that NDC you must taken a lot of commitments. The truth is a lot of people took on NDCs commitments without understanding how they were gonna deliver them and they certainly didn't have a plan of action that would say, if I do X, Y and Z I lead to this amount of reduction and therefore this is how I achieve my objective. So what you're seeing in a lot of countries today, particularly those global south countries who have the less, have less capability than the global north countries in terms of capacity building and capability to do these analysis, you're seeing a lot of hesitation and uncertainty about what to do.

Peter Zaman (12m 45s):
And I don't think it's helped by the fact that in the capacity building efforts that we have seen so far, there has been an inconsistency in the communication around what the point of corresponding adjustment is and certainly what the cost of a corresponding adjustment is and I think the mixed messages that the countries are receiving from their advisors, from the market, from the industry have left them pretty confused to the point where they're too hesitant to make a decision because they can't make a wrong decision because at the end of the day they're government officials and there is a history of there being clear cut consequences of signing up to things that you don't understand and then receipt realizing afterwards that you shouldn't have done so and you know, I'm, you've heard me talk about this in the past in the context of the outside NDC, inside NDC distinctions and in particular that fact that corresponding adjustment applies to outside NDC activities as well.

Peter Zaman (13m 40s):
So that error, which I think happened is not an error that they can overcome because I don't see the Article 6.2 rules being rewritten easily, but I think they're stuck with it and of course now they have to appreciate the consequences of being stuck with it and I think that that has been a cause of some of the blockage. So is that a blockage on the supply side or is there a bigger blockage on the demand side and I think for me the demand side blockage is the bigger issue because there are plenty of countries that are very happy to sell because some of their frameworks are already in place. I mean if you think about how many bilateral arrangements Singapore is putting in place right now as a country looking to buy Article 6 credits, the carbon finance flow will flow as soon as those frameworks are done.

Peter Zaman (14m 22s):
And that's just a matter of time and from what I understand, the methodologies that they're agreeing to under which the supply will happen is, is relatively a well-trodden path 'cause Singapore knows the methodologies and the standards they're comfortable with. It's just a question of whether or not the countries selling countries existing NDC and their priorities match up with the criteria that Singapore wishes to apply and that's a similar principle that will apply across any buying country's relationship with any selling country. So all of that will play out, but that's not the main blockage. I think the main blockage is, is their demand. So Singapore carbon tax is a good example of something we are seeing now generating demand for Article 6 credits because Singapore carbon tax has, even though it's $5 today is going to be $25 very soon and it'll be up to $40 very soon after that.

Peter Zaman (15m 15s):
And because it's sending a price signal, those price signals can allow selling countries to work out from a cost perspective what kind of price they can reasonably expect to sell and if you send a price signal like Singapore is doing through its carbon tax, any other buying country will be in competition with Singapore to match that price because the seller country will say, well I have a choice of selling it to Singapore or to Japan. If Japan's not paying me 40 bucks, I'm gonna sell it to Singapore. So you, these are good things, right. You're sending a price signal, you're pushing up the carbon price, but it doesn't change the bigger dilemma that I think ultimately we are gonna face under Article 6, which is there are so many more selling countries than there are buying countries, America, Europe, the UK these are all examples of countries who have potentially large demand in order to meet their NDCs for Article 6 credits.

Peter Zaman (16m 09s):
But they've currently said that they're not interested in supporting Article 6 for those purposes yet those are the people heavily influencing the negotiation around the rule book even though they're not showing up for the party. So what you do have therefore is very much of what I call a buyer's market today because there's only a handful of them and there are many, many more sellers. So the buyers can then play the sellers off against each other as a result of that, which is why we are now seeing countries where corresponding adjustment prices should be in the ranges of the $20 plus, but they're selling them at $5 and why because they recognize that they are in competition with other countries and if they hold to their true cost of the corresponding adjustment, then they're not gonna get any money at all but all they're doing when they do that is that they're taking on a cost that they still have to pay, but they just defer the cost for their next NDC.

Peter Zaman (16m 59s):
So again, it goes back to this question about is Article 6 going to support the revenue of carbon finance moving from the global north to the global south but if there are only a handful of buying countries, then the answer to that has to be no. So if all of that is true, then isn't that exactly why we need the voluntary markets because then the voluntary markets can step in and make up for the shortcomings of the Article 6 markets, which would be great except for the fact that we've scared away all the voluntary market demand and we've persuaded people wrongly in my view, that you can't have a good voluntary market credit unless there is a cross

money adjustment attached to it. So what you're doing is you're tainting the voluntary markets with all of the problems of the Article 6 markets which is the corresponding adjustment cost.

Peter Zaman (17m 45s):
And you're therefore saying to the host country that it makes no difference to you whether or not you sell voluntary or you sell it most because the cost of corresponding adjustment fuse more or less the same. So what you can't get in the Article 6 markets, we are going to make sure you don't get in the voluntary markets either. So we've exported the, the blocker that has been introduced to carbon finance from the global north for the global south in the Article 6 rule book unnecessarily in some instances into the voluntary market. So then the question is, is it justified that the voluntary market requires a corresponding adjustment because if it doesn't have it, then the carbon credit lacks integrity. Well there are many, many reasons why I disagree with that position, but the biggest argument that people have said and used to argue why you need a corresponding adjustment for voluntary carbon credit is what's called displacement.

Peter Zaman (18m 35s):
That if you allow voluntary carbon finance to flow into countries who are going to carry out these activities pursuant to their NDC, then you financing that activity is displacing them spending the money that they could be spending elsewhere to do additional mitigation activity and actually that may be true to the extent that the action, the mitigation action you're financing happens to sit inside your NDC. But if there are activities that sit outside your NDC and because of common but differentiated responsibilities and the principle that that's enshrined in Article 4 of the Paris Agreement countries will all have NDCs but not necessarily the same NDC and not necessarily the same targets. There are gonna be countries that have NDCs with outside ND C areas and for those areas to say that you are displacing the activity that would be carried out because you're financing it in the voluntary market is wrong because only if the activity were inside the NDC doesn't that argument ring true?

Peter Zaman (19m 38s):
But we've not tried to make that differentiation. We've basically swept everything under the same rug by saying any voluntary carbon credit without a corresponding adjustment is bad and that's not true. So even if you took the best of their arguments and you tried to rationalize it, it doesn't stand up to rationale a thought but then we see not instead of people challenging the logic or the rational for why that statement is being made, people are saying, well you know what, I'm too lazy to have that conversation. So I'm just gonna run from the conversation and I'm gonna say, you know what, let's forget corresponding adjustment. We're just gonna hide it under a mitigation contribution claim argument. What the hell is that. I mean, when I think about the nature of what drives voluntary carbon market demand, it's relatively simple. I have emitted one ton of carbon I wish to compensate for the cost of that one ton.

Peter Zaman (20m 28s):
I need to find a minus one, which is the accounting treatment that you apply to a carbon reduction or carbon removal and if those two numbers neutralize each other, then I've probably neutralized some of the harm that I've done and if that's the concept of offsetting, which is exactly what's enshrined in the Article 6 rule book, which is enshrined in international treaties like IKO and adopted for Corsea and corporates are wishing to do the same thing, why is that necessarily suddenly a bad thing. It wasn't bad 18 months ago, but now it seems to be disastrous to say that you're trying to offset your, your carbon footprint and therefore we are running from the question of why is that bad and instead we are saying, you know what, we're gonna mitigation contribution claim, but that way we're not gonna, we are gonna do all the things that we would do with an offset.

Peter Zaman (21m 11s):
We're just gonna not say we are neutralizing our carbon footprint. Well if you're not neutralizing your carbon footprint, why are you buying these things because you're doing good and you're a good corporate citizen. Okay, well that's fine but then I'm just using my corporate CSR budget. I mean we want to move carbon finance from even in the voluntary space, from the global north to the global south to the mainstream and the, the amount of investment that needs to go to the global south is so large that CSR budgets are not gonna cut it. You need corporate action to, to make it part of their main business. It has to be part and parcel of how they go about doing business. You need the cost of carbon to be internalized to the point where it's the internal cost of carbon that the companies have, which is being used for these purposes, not your CSR budget.

Peter Zaman (22m 00s):
And yet that's what we are doing. We're pushing to say, well at least you'll use the CSR budget for mitigation contribution claims and frankly, I don't need the voluntary markets for that. If I want write a charitable check to a country to help them meet their NDCs, I'll go

and do that. I don't need the voluntary market to tell me why I should go and do that. So I don't believe mitigation contribution claims, whether the beyond value chain one argued or proposed by the SBTI or VCMIS corporate claims guidelines, I don't think any of them are really gonna get there because there's no accounting benefit to the corporate who's making a mitigation contribution claim. And if there's no accounting benefit, then you're limited to the CSR world. And for the reason I just mentioned, I just don't think that's the answer. I've been having a rant so I'll stop there.

David Greely (22m 43s):
No, your rants making me think and you know, one of the things that I've heard a lot over this year is people on the, in the voluntary markets looking to Article 6 as kind of the answer to the voluntary carbon markets problem, that we need someone to step in and say that this credit has integrity, that it's quality, that it qualifies as an offset. If we can get the voluntary markets under the Article 6 framework, we'll have that demand will come back and we can move forward. So I think there's been that point of view that hope in a sense, but when I hear you talk about it, then I also hear that, well, you know, if you look at things from the, the compliance market standpoint or like the NDC Article 6 side, we're asking a lot of countries in the global south to be able to deal with the level of bureaucracy, the level of needing to do the carbon accounting, the greenhouse gas accounting, that in one sense for them, the voluntary carbon markets were probably a much more straightforward path to getting that carbon finance.

David Greely (23m 48s):
So looking at it from both sides, are we making it too hard you know, we, this is something that we need to take action on. We need to get the money flowing, we need to get these projects moving. We need people to be reducing their emissions footprint on their own as well and are we making it too hard and kind of always hanging this carrot out there of in another year something will happen, you know, quote something and then we'll know what to do because it, it doesn't, it seems like there's no easy answer out there right now listening to you?

Peter Zaman (24m 20s):
I speak to clients about themes like this on a daily basis and I can tell you that every person is scratching their head wondering what the hell happened and the reason they're doing that is because everything that they understood about the way in which voluntary carbon markets operates has essentially been turned on its head and you get to the point where you say, well hang on a second, just like Green Hushing wasn't a thing five minutes ago. Where did this come from. I've never heard that term before. Are people just making this up and there is an element of course buyer beware, but there's also an element of buyer becoming more aware and of course if you then take the view that the interest in the climate change challenge has attracted more attention from academia, more attention from NGOs, more attention from significant intellectuals as well as from financial institutions.

Peter Zaman (25m 15s):
It's only right to say that the market would face scrutiny. But there's a difference between criticisms for the sake of criticism. There's a difference between saying that I want to be constructive but I want the market to continue and there is a big difference between saying, you know what this offset thing that you've been doing for the last 20 years that's completely rubbish. Let's just throw it out and start from scratch and I think I'm very happy with the criticism. I'm very okay with people challenging what has happened before, but I'm not okay with the idea that we are just gonna throw everything we've done in the last 20 years out and then start from scratch and by the way we are gonna bet on this new thing that nobody's ever heard of at least 20 years ago, didn't hurt hear of it and nobody can afford it and nobody can knows how to deliver it.

Peter Zaman (26m 02s):
And by the way, it's a kind of a pie in the sky moment right now, but we still think it's better than what we've had before and we're gonna throw all of our resources behind that. I'm referring to removals of course, and I don't say that removals are bad. I think removals have a definitely a role to play and they're an important role to play, but they are also something that are even according to the IPCC a role that needs to be played for 2050, it's not a role that must be played today. True. We need to scale it up and we are starting from a low baseline. So obviously it takes time to build it up, but you don't do that at the cost of reductions. The IPCCs also made it clear that we can't stop reducing our emissions just because we are gonna throw everything into the removals bucket in 2050 onwards.

Peter Zaman (26m 47s):
And therefore the real challenge for us is how do we remove emissions today whilst building up and scaling up our removals capability how do we reduce emissions today and build up our removals capability to be ready for it by the time that we hit net zero in 2050 and I

think that thing recognizes that you have to take what you have learned for the last 20 years and put it to use. You can't just say, I'm gonna pretend like at all of that 20 years of experience and knowledge is worth nothing because it's taught me something that it doesn't work. I'm just gonna throw all of that away and I'm just gonna bet on something in the future that is untried and equally untested. I absolutely assure every person I speak to who is talking up removals today is that there are lots of questions about removals that you haven't yet even thought about.

Peter Zaman (27m 39s):
Just the way with the benefit of hindsight, we can look back at reductions and say, you know what, there's a whole bunch of things you guys didn't think about 20 years ago, but we, we, with the benefit of hindsight are now able to tell you got wrong. I can assure you that in 20 years' time somebody will be saying that about removals as well and that's because we have to learn through experience, but the experience isn't wasted and can't be wasted because we don't have the time to, or the luxury of time to say, you know what, we're just gonna start with something brand new maybe that will work better. You've got to take what you've got and you've got to build back with it and you've got to use it to the best of your ability. So to your point, are we going to necessarily fix things in a year?

Peter Zaman (28m 20s):
I think the answer to that is no, not unless there is a radical change in the destructive nature of the conversation we are having with people about removals versus reductions. The role of offsets the notion that we should be critical of companies who are voluntarily doing stuff, stuff they're not obliged to do, but voluntarily doing stuff and then say to them, how dare you voluntarily do stuff because what you're doing is absolutely not what you're supposed to be doing and what I tell you to do must be what must be what you do because only what I say is good enough. And my point is they're doing it voluntarily. They're probably doing a lot more than you are doing and in fact the contribution that they're making probably is much greater than the contribution you could individually make 'cause they're a large corporation doing it at scale.

Peter Zaman (29m 07s):
So why don't you appreciate the efforts that they're doing. Why don't you encourage them to do more rather than scare them into doing nothing because that's the effect of what you've achieved. So is that really the healthiest way for us to be doing this and I think that's the, call it the pragmatic in me asking the question because from an ideological perspective, of course you can say extremely righteous things about some things and equally you can say equally villainous things about other things but really the truth is, most of us who live in the world live in this probably middle ground area where we're perfectly happy to say we'll do the best we can. It may not be as good as you want it to be, but it's certainly a lot better than doing nothing and my worry is that we are leading towards either do this or do nothing at all and I don't think that's gonna help us.

David Greely (29m 52s):
No, not at all and maybe I should ask you, you know, you'd, you'd mentioned a little bit earlier CBAM being launched this year and the shipping sector being brought into the EU ETS. So in terms of that kind of incremental progress building on something that's gone before that kind of philosophy, how is that working and do you see that as good for carbon markets?

Peter Zaman (30m 13s):
So CBAM is a very, very interesting one because I don't think it's so much about carbon markets as it is about politics and I say this with the experience of what has happened over the course of the last couple of years. So you, you need to take a step back and ask yourself what is CBAM really there for and the answer on the face of it is it's there to stop companies who are producers of these products inside the EU from suffering from anti-competitive challenges where countries and exporters who are outside the EU can produce the goods at a lower carbon cost than they have and this is because companies inside the EU have to, or historically have had to pay the EU allowance price even though they've benefited from free allocation as a protectionist measure. What the EU has done with its fit for 55 packages to say my fit for 55 package requires me ultimately to decarbonize within the EU.

Peter Zaman (31m 10s):
I can't be decarbonizing if I'm going to be giving away free allowances and continuing to protect these sectors. But at the same time, I can't have these sectors therefore exposed to international carbon price competition when the competitors outside the EU do not pay a similar carbon price. So what I'm gonna do is I'm gonna impose a tax at the border for imports and if the country is that those imports are coming from don't have a similar carbon price, they'll have to pay the top up. So Indonesia exports steel to the EU, Indonesia has a carbon price roughly about $2, the EU carbon prices €85. There's a big difference between them all of that money should now be paid

to the EU as a consequence of Indonesia's carbon price not being high enough. Now if you're Indonesia, you're saying actually that's quite interesting. The EU is gonna keep money from my corporations because they're selling to the EU.

Peter Zaman (32m 06s):
So what are my choices I don't sell to the EU, I sell it to some other country that doesn't have a similar CBAM restriction. Oh, but the UK is not gonna be one of them because the UK's now introduced or is going to introduce their own CA from 2026, but I can sell it to China. So China doesn't have a CBAM, so maybe that's where my steel goes. Or if I do want to sell it to the EU then I just have to recognize that I have to pay this price is the others really my choices and the answer from the EU is no you change your $2 price to a $40 price or a $60 price, do what Singapore's doing right and as a result of which when your exports come, you get a better discount than everybody else at the or rather you pay less taxes when they come in because there's still gonna be some disproportionate price differential between your Indonesian carbon price and my EU carbon price.

Peter Zaman (32m 55s):
And Indonesia says, well yeah, I suppose the benefit of that is that I get to keep that revenue myself. because instead of my exporter paying you the tax, my exporter now pays me the tax. So I'm encouraged to put up a carbon price in Indonesia. That's great in theory because what we do want to do is we do want to encourage carbon pricing. And the question really is though, if you have common but differentiated responsibilities under the principles of the Paris agreement, which then say different countries can meet their commitments under the Paris Agreement at different paces because we recognize that they have different circumstances and they have different capabilities. We all have a common goal, but we don't have to reach the call at the same time. And interestingly enough, we are coming up to the global stock take at COP 28 and of course we are gonna say, well are the existing pledges currently good enough for us to meet the objectives of the Paris Agreement.

Peter Zaman (33m 49s):
To which I suspect everybody already knows the answer is no, but it's the Paris agreement that nonetheless recognizes that it's the EU's job to set a 2050 net zero goal. But India doesn't have to do that. India can do a 2070 net zero goal. So if by definition India has a 2070 window that is different from the Europe's 2050 window, why is it that Indian exporters have to pay the EUS price for carbon. Why is it that CAM doesn't allow and recognize common but differentiated responsibilities as enshrined in the Paris Agreement in the manner in which it deals with exporters from different countries. At the moment it does not make that differentiation. So do I think a common carbon price is capable of being achieved under the Paris Agreement the answer to that is no. We could have done that with the Kyoto Protocol, but we changed from a top-down approach to a bottom-up approach.

Peter Zaman (34m 43s):
And under the bottom-up approach, you have a fragmented carbon price. The European CBAM exercise is the one that will export the EU carbon price to all other parts of the world. Is that necessarily a good thing. I think the answer is it could be as long as it's done in a fair way that recognizes the respective efforts that those countries are obliged to put in under the Paris Agreement versus the ones that they are not obliged to put in. In other words, you have to differentiate between countries in a way that treats the country's circumstances and capabilities for what they are. And presently CBAM doesn't do it and you can see that playing out in the shipping space as well. So if you think of a Singaporean ship owner whose ship is being used for voyages for delivering goods in the EU and you look at a ship owner from a Liberian flag state or from any other country, a least developed country, you can see that the EU ETS doesn't differentiate between how they treat the Liberian flag carrier versus the Singaporean flag carrier.

Peter Zaman (35m 51s):
And you know what common but differentiated responsibilities is not enshrined in the IMO, the International Maritime Organization whose jurisdiction international shipping emissions is. So the EU, by introducing the EETS, bringing the shipping sector for international shipping emissions into the EEETS is first of all encroaching into IMO territory. But they have a history of doing that. They did the same thing with IKO when they brought aviation into the EETS international aviation. So they're encroaching into IMO territory. IMO doesn't have a common but differentiated responsibility distinction. And therefore I guess the EU's argument would be, well we are just doing what the IMO isn't doing and we are doing it in a way that we think is fair and if you don't like it, tough luck. Do something of your own, which is an invitation to the IMO, which they have already recognized to develop their own carbon pricing scheme, which they have said they will do on a carbon intensity basis by 2025, we shall see what that looks like. And if they do introduce that, maybe then we start seeing a fairer allocation or a fairer treatment of how shipping for countries is, is dealt with under the GHG frameworks of the IMO versus the EETS and the Paris Agreement. But at the moment there's no difference in, in the export of the carbon price to any of these particular countries.

David Greely (37m 16s):
Yeah, I wanted to come back to one point, if it requires too much detail, you can wave me off but it sounds like you were saying that within the framework of the Paris agreement, it doesn't allow, I guess for the emergence of kind of the idea of a, a global carbon price and I think that would be surprising to many people because they think, well if you have, you know, if you have the accounting that covers all the countries and then you throw in international shipping, you throw in international aviation, you kind of have, you've got the globe covered in terms of the plus ones and minus ones of emissions and removals and that would then set you up to be able to have a, a price for those emissions and removals. What are we missing there in terms of why that's not enough?

Peter Zaman (38m 00s):
So of course Article 6 is a arrangement that recognizes cooperation between countries in sharing their respective burdens. So the idea of course of Article 6 is that a buying country in a selling country can work together to raise ambition on what they can do. One easy example is if a country can't afford to do something in the absence of support and another country comes in to say No, you guys go ahead and do it, I will support you. That's a way in which both people are now achieving greater ambition because the conditionality attached to the selling country was that I need money. Somebody has stepped in to say here's the money now please do it and that leads to greater ambition that leads to a transfer of finance but again, that's a bilateral arrangement that isn't representative of a common basis for comparing efforts and what do I mean by that?

Peter Zaman (38m 56s):
So if you take Article 6.2, Article 6.2 is a series of arrangements that countries agree with each other, what they consider to be an acceptable grade of a carbon ton reduction or mitigation or removal varies from country to country. There's no universal standard. So somebody in a race to the bottom to buy the cheapest IMO could settle for the cheapest methodology or the worst methodology or the most generous baseline and these are within the discretions of the negotiating buying country and selling country. So you will find that not all it are going to be environmentally equal. There are some it MOS that will come from generous baselines. There's some it MOS that will come from less generous baselines. Ultimately the, the determination of what is good enough is a matter for bilateral conversation between parties. So we live in a world where the Paris agreements bottom up approach, which basically says to the countries, I'm not going to impose a single set of rules on you to tell you what to do.

Peter Zaman (40m 00s):
That was the curative protocol. You didn't want that. We threw that out. We now accept that you want to do things at your own pace and your own way and do it in your, with your own freedoms and we'll let you do that. And that's why article six also recognizes because it doesn't prescribe the minimum criteria that has to be met by countries who are negotiating what is good enough to be in TMO Article 6.4 in contrast has a minimum common standard and as you will know from I think the last podcast we did together in the paper we wrote in the subject, we compared the sort of preferences from a private sector perspective of what do I invest in six to a six four and one of the criteria we assessed was environmental integrity and we basically took the view that you've got a better chance of there being more environmental integrity in the six four mechanism than there isn't the six two mechanism.

Peter Zaman (40m 49s):
So at least there will be a consistency in what the quality will be. I think the problem with six two is there's gonna be an inconsistency and as soon as your product varies in quality, you can't have a single price for it because perceptions of the value of that product will change and therefore you can't have a single common price for Paris agreement eligible units coming through the article six framework and that's kind of the reason why I say you can't have a single carbon price and even if you did, 'cause these are ultimately minus ones from a greenhouse gas accounting treatment, they're not the same thing as a plus one because a plus one, which is with the EU allowance carbon price is the aggregated cost of emissions generated in the EU, which is a place where the cost of decarbonization is very high.

Peter Zaman (41m 38s):
The cost of decarbonization in a APAC country is much lower. So actually you can't compare an article six decarbonization price that comes through from an Asian produced IMO with a EU allowance price, which is the cost of decarbonization across aggregated sectors in the EU ETS the plus one is a diametrically opposite thing to a minus one from an accounting perspective and therefore the reason why you say an EU allowance price justifies the price of a global carbon price isn't true. Because if you tried to say, well, what would be the cost of a decarbonized ton in the EU, it would probably be more than a hundred euros. If you look back at the World Bank paper of the mitigation outcome cost of the corresponding adjustment cost of a mitigation outcome in the EU, that number if memory serves right, was an aggregated €145, which means that price is higher than the cost of an EU allowance today. So even the EU allowance price

is not a true cost of a comparison if you want to do an apples against apples of comparison against an TMO. So therein lies the problem of why you can't have a single carbon price through the Paris Agreement.

David Greely (42m 52s):
Got it and while we're lacking a, a single carbon price, while we're, we don't have kind of that full accounting around the world at this point either, you know, we do have this patchwork quilt of compliance markets in different countries that are kind of putting a price out into the world. You've talked a lot about the EU with CBAM, you had also mentioned the Singapore carbon tax as an approach to this and I'm curious to get your thoughts on that because it is a different approach instead of a cap and trade system, it's let's set the price through the tax. How do you think about that and why did Singapore make that choice?

Peter Zaman (43m 28s):
It's very interesting that when I first arrived in 2016 in Singapore and I introduced myself to the Singapore market, at some point I spoke the regulators. The regulators said, oh, you know, something about carbon answered this question to me. Do you think we should have a cap and trade scheme or we should have a carbon tax and I, my answer to them immediately was, you have absolutely no logical reason to put in place a cap and trade scheme because for a cap and trade scheme to work, you need market pricing. You need market price discovery. You don't have enough market participants in the Singapore market that you would be able to create a liquid market with. So your price discovery process through an ETS in Singapore would not work. So the most efficient thing for a small country like Singapore is a carbon tax and that's what they announced. So no surprises there. Frankly, they announced it with a $5 price, which of course was not necessarily out of sync with where the rest of Asian countries were sitting in the carbon price spectrum at that point. What Singapore has done more recently is really quite symbolic in making the announcement that by 2030 it will have a carbon price in excess of 50 Singapore dollars.

Peter Zaman (44 m 52s):
And that is probably amongst the highest carbon prices in anywhere in Asia and in that sense, Singapore has done something quite brave, but Singapore can afford to do it. Singapore is not a global south country. Singapore is a wealthy global north country, and therefore as a global north country, its cost of decarbonization is high. So ultimately it's recognizing that, and therefore even a $50 price is probably a palatable compromise, not a true reflection of the actual cost of its decarbonization. So you get to the point where at some point, inevitably the carbon tax becomes still partially subsidies rather than a true cost of decarbonization in Singapore but carbon taxes, unlike cap and trade prices are an instrument of policy. Carbon prices in a cap and trade system, generally speaking, are determined by the market true.

Peter Zaman (45 m 48s):
You can influence it as the policymaker by changing the supply and demand curve, which is kind of what the EETS does with its fit for 55 package by saying that the number of free allocation of allowance is going to reduce the amount of available allowances is going to reduce over time. That's the way in which the policy makers can influence the price of an EU allowance price. But they don't control it. The market dictates that. Contrast that with a Singapore carbon tax as an example, it's a government number. They decide the number is 50 tomorrow they decide the number is 70. And then it's a question for what will the taxpayer accept in that environment. So is there a role for a carbon price absolutely. Whether it's determined through cap and trade market principles or whether or not it's determined as a government setting prices to a carbon tax, both work. It's just that there are different economic drivers and politics that drive the principle as to what the number is and how, how that number was reached and I think that's the difference. So for Singapore, Singapore, carbon tax is a good thing and it works.

David Greely (46m 55s):
And I want to thank you for spending this Thanksgiving holiday with us. Peter, before I let you go though, I feel like I'd be remiss if I didn't ask you your thoughts on COP 28 coming up in Dubai. I wanted to get your thoughts on, you know, your expectations for the event. What deliverables do you think we need from COP this year? What do you think we'll get but I almost wonder, given your rant a little bit earlier in the conversation, more than technical details, do we need a, a change in mindset?

Peter Zaman (47 m 23s):
We definitely need a change in mindset. My expectations for COP 28 are low. We are all going in there very well aware that we are miles off a 1.5 degree target and theoretically to reach our 1.5 degree target, we're supposed to peak global emissions by 2030 and if that's true, then the global stock take has to deliver that. But the practical problem is that to do that, you can't have any more coal. You can't have any more oil, and we have to replace all of that with something alternative. We don't have any alternatives that are of that scale

that can step in and replace them today. Shipping aviation, two examples of areas where we still haven't figured out what our alternative to being able to fly and transport goods by ships are going to be. There is no zero carbon solution for any of those.

Peter Zaman (48m 19s):
So the reality is we are not as an planet, let alone a country or left alone industry in a position where we can deliver on a 1.5 degree objective. We're just not ready for it. But are we going to actually say therefore we're not gonna be able to meet 1.5, let's just settle for two. Nobody's gonna say that the pragmatic should say it because otherwise what you're doing is you're setting yourself up for a failure because we cannot achieve 1.5 degree. But nobody wants to admit that and from my perspective, it's a bit like my father saying to me when I was younger, if you study hard aiming for an A, you probably will get AB. But if you set, if you target AB, you're gonna get AC and I think the 1.5 degree, two degree target thing is a bit like that. We have to aim for 155 degree because otherwise there's no chance we're gonna hit two degrees.

Peter Zaman (49m 07s):
But if we go in there without being honest about the reality of why we are doing what we are doing, we are setting ourselves up for failure and as soon as it failed, then everybody says, oh, this didn't work. I told you it wasn't gonna work. You know, this is rubbish. We're gonna replace the Paris agreement with something else that works. Well, we did that in 2009 when we replaced Kyoto with the Paris Agreement and we had this 10 years of people doing nothing. So that's the reality of how long it takes to put in place an international treaty. So I don't advocate for throwing out the Paris agreement. I advocate for getting people to work together to, for people to collaborate and yet even before we've started COP 28, we know there are people setting it up for failure because you'd want to be able to say, I told you we couldn't have a good cop when we have, you know, the Chairman of AD Nickel or the CEO of ad not running it, how could that even, how could anybody have thought in their right mind that that was gonna work?

Peter Zaman (50m 02s):
Well, to be honest, you haven't given the guy a chance. So you've already gone in there with a presumption that this is gonna fail or, or that they're going in there to drive their agenda, but you haven't sat down and said, but does their agenda make any sense. So you do get the sense that people are going to Dubai expecting a fight. And my point is you can fight, but fight about the things that really are constructive that push things forward. So am I pessimistic about COP 28 Yes, I am because I think people go into fight the rhetoric. People don't fight for proving something that leads to a pragmatic solution and I fear that one of the consequences of that will be lack of cooperation between countries, everybody digging their heels in and nobody willing to actually sit down and have a sensible conversation about, okay, it's all good and well for us to say this is what, this is what we need to do, but let's talk about the reality of how we can do it.

Peter Zaman (50m 58s):
Dave, you and I have had many conversations and you, many of the interviewers on your series of podcasts have all talked about one thing in common, no matter what. We do not yet have the tools or the scale or the preparation needed to meet the 1.5 degree target challenge, let alone a two degree challenge. Carbon finance needs to be raised into the trillions and yet, as you know, people are squabbling over whether or not a hundred billion in climate finance can be capable of being delivered within 10 years of the end of the Kyoto Protocol. I mean, so that love of God, a hundred billion is nothing is a drop in the ocean. Some countries will say, thank you, I'll take that, but it's still a drop in the ocean compared to the trillions. We need to solve the climate crisis if we're serious about it.

Peter Zaman (51m 53s):
But instead of talking about how do we get a trillion dollars of money to move, we are fighting over whether or not $5 million of money will move into the GCF and it's that difference in mindset that I think is holding us back. So yes, I do agree with you. We need a completely new mindset. That doesn't mean to say we need a completely different framework. I think the Paris Agreement can work, but we do need a completely different mindset as to how we focus on what are, what is the most important objective of COP 28 and all the other cops, which is finding a solution to the decarbonization challenge.

David Greely (52m 22s):
Thanks again to Peter Zaman, Partner at HFW in Singapore. We hope you enjoyed the episode. Join us next week as we continue our series Commodities in Asia. We hope you'll join us.

Announcer (52m 36s):
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Announcer (53m 27s):
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