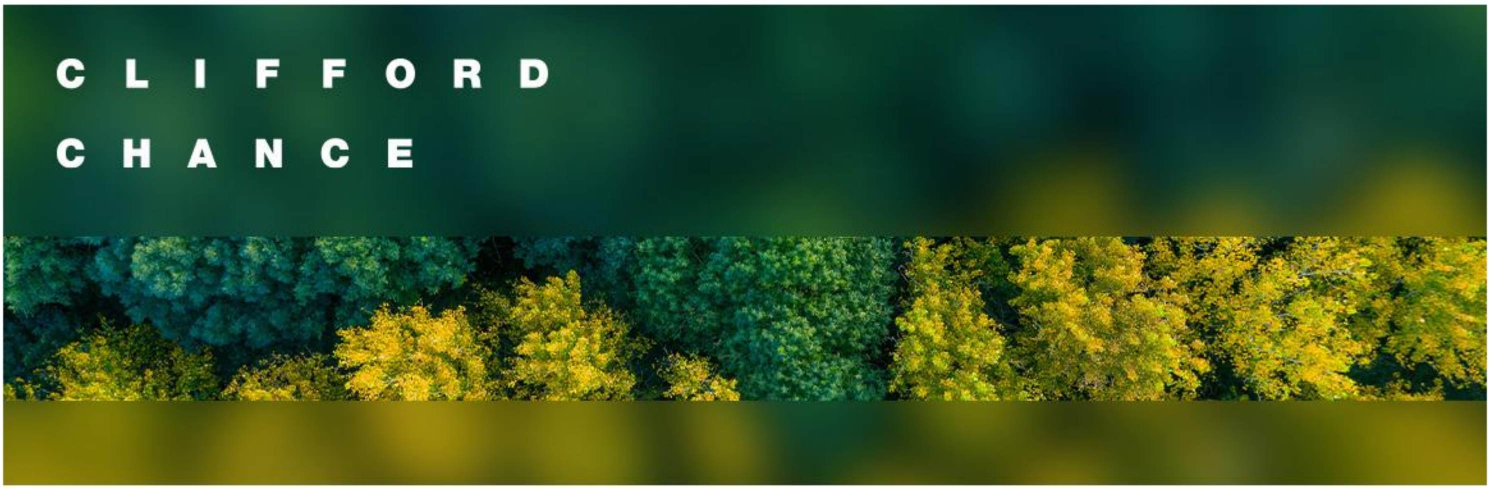

SINGAPORE CARBON INITIATIVES: THE FUTURE OF SINGAPORE'S VOLUNTARY CARBON MARKET

Singapore is positioning itself as a regional carbon trading hub for Asia-Pacific. The country is building up its carbon markets and developing mechanisms that will impact carbon trading. A core element of the strategy historically has been the voluntary carbon markets.

In this briefing, we consider what the role of the voluntary carbon market in Singapore will be when Article 6 mechanisms have been put into operation and look at recently published draft guidance on how companies in Singapore can voluntarily use carbon credits as part of a credible decarbonisation plan. The draft guidance provides a glimpse of the potential future of the voluntary carbon market in Singapore and could be important to scaling Singapore's carbon markets as a whole.

SCALING CARBON MARKETS

Beyond Singapore, the Clifford Chance team has conducted an in-depth analysis on what is required to scale the **global** carbon markets. Our conclusions have been published in a landmark report which explores recent developments concerning the Paris mechanisms and the global VCM, and makes recommendations for actions that need to be taken if they are to reach their full capabilities. The report, released on 10 June 2025, was prepared in collaboration with the City of London Corporation and the UK Carbon Markets Forum, and builds on previous reports published in 2022 and 2024. This briefing will touch on aspects of our 2025 report, Scaling the Carbon Markets: a way forward for the VCM and Paris Mechanisms.

PARIS MECHANISMS AND THE VCM – GENERAL

We note two key Article 6 mechanisms:

- Article 6.2 – on establishing a mechanism that enables countries to transfer internationally recognised mitigation outcomes (ITMOs) to help the recipient country achieve their Nationally Determined Contributions (NDCs); and

- Article 6.4 – on establishing a Paris Agreement crediting mechanism by which projects can generate and trade Article 6.4 carbon credits under the auspices of the Article 6.4 Supervisory Body.

The explosive growth in the voluntary carbon market (VCM) across 2021 and 2022 can be attributed to several factors. One important reason was optimism that these Article 6 mechanisms would be put into operation in the near future, and in the meantime the VCM presenting an opportunity for carbon market stakeholders to take immediate climate action.

As readers will be aware, the VCM did not maintain that sharp upward trajectory, due to concerns about legal uncertainty, integrity, transparency and standardisation. Much industry attention and effort has been directed to address those concerns – indeed, with some success.

However, given the route for full implementation of Article 6 was agreed at COP29, with Article 6.4 carbon credits based on the Article 6 Paris Agreement Crediting Mechanism potentially being issued as soon as 2025 or 2026, the big question is what role the VCM can or should have in the future to help carbon market stakeholders achieve their climate commitments.

In our view, the VCM still has an important role to play. As stated in our 2025 report:

The VCM both directs funding into projects with considerable climate and sustainable development benefits and, despite progress in operationalising the Paris mechanisms, many companies and governments will still be looking to the VCM to ensure they meet their net zero targets, at least while they wait for the first Article 6.4 projects to go live (which is expected in mid-late 2025 at the earliest).

[…]

Ultimately, the nascent Paris mechanisms and the VCM are both key market tools to direct finance to climate mitigation action, and they can and should co-exist in the carbon market ecosystem. This is particularly important because whilst some projects will be ready to go through relatively quickly (i.e. projects transitioning from the Clean Development Mechanism…established under the Kyoto Protocol) it will take time to incorporate all types of projects and deliver credits to the market.

PARIS MECHANISMS AND THE VCM – SINGAPORE

The Singapore market is evolving when it comes to Paris mechanisms and VCM, with Singapore for several years already having positioned itself as a hub for carbon services and trading. There is existing infrastructure in place that is facilitative and supportive of the VCM – such as its four active carbon exchanges and the highest concentration of carbon services and trading firms in Southeast Asia. Whether Singapore's commitment to carbon markets ends up being tied closer to Paris mechanisms rather than the VCM remains to be seen, but there are some early indicators.

Indicator 1 – Singapore Draft Voluntary Carbon Market Guidance

On 20 June 2025, the Singapore National Climate Change Secretariat (NCCS), the Singapore Ministry of Trade and Industry (MTI) and Enterprise Singapore (EnterpriseSG) jointly issued draft guidance on how companies can voluntarily use carbon credits as part of a credible decarbonisation plan. It is also a call to action. The public consultation period is open until 20 July 2025 and can be found here: Public Consultation on the Draft Voluntary Carbon Market Guidance.

As a high-level summary, the guidance sets out three steps for companies to take in their decarbonisation journey:

- To measure and report their baseline emissions – in other words, the starting level of base year emissions from which their decarbonisation efforts will be measured against.
- To put together a credible decarbonisation plan – with best practice including having a comprehensive emissions inventory and reduction strategies across all emissions scopes that are subject to periodic review and update, with data and progress being publicly disclosed.
- To implement the initiatives set out in their decarbonisation plans, prioritising actual emissions reductions that are feasible, and that each company "should then consider the use of carbon credits to address its remaining emissions and meet its interim net emissions targets".

Also notable is how the guidance emphasises the importance of companies purchasing high-quality carbon credits. It offers the Eligibility Criteria (and global meta-standards such as the ICVCM's Core Carbon Principles) as a reference point to help companies assess what a high-quality carbon credit looks like, while recognising that many carbon credits in the VCM are not benchmarked against Article 6 or Singapore's ICC Framework. The guidance therefore recommends that companies should conduct their own due diligence to ensure carbon credits that they purchase are of high quality.

Importantly, the following is included in the guidance:

the Singapore Government supports companies' participation in well-functioning carbon markets, and voluntary use of high-quality carbon credits as part of a credible decarbonisation plan.

This, and indeed the guidance itself, is strong and explicit support for companies to engage with the VCM in their decarbonisation plans, which the guidance further recognises as playing an important role in (i) financing decarbonisation projects and (ii) addressing hard-to-abate emissions.

Indicator 2 – the Singapore Carbon Tax

We have looked at the Singapore Carbon Tax and Singapore's Article 6 collaboration, particularly its Implementation Agreements, in previous briefings (Singapore Carbon Initiatives: The Carbon Tax and the Eligibility List and Singapore Carbon Initiatives: Implementation Agreements and the First Nature-Based Carbon Credit Tender).

Article 6 collaborations are naturally very much driven by Paris mechanisms. On the other hand, while a carbon tax – as a carbon pricing mechanism – does not inherently engage with Paris mechanisms or the VCM, the Singapore Carbon Tax does. This is because the Singapore Carbon Tax permits entities to offset 5% of their taxable carbon emissions by using carbon credits that satisfy Singapore's International Carbon Credit Framework (ICC Framework).[1]

[1] In recognition of the constrained supply of ICCs for emissions year 2024, the Singapore National Environment Agency announced on 1 June 2025 that taxable facilities will be allowed to roll over their unutilised ICC offset limit, of up to 5% of taxable emissions in 2024, to emissions year 2025. In other words, if no offset was used in emissions year 2024, a taxable facility could offset up to 10% of its taxable emissions in emissions year 2025.

The carbon credits that satisfy the ICC Framework are those that satisfy the Eligibility List and, critically, come from projects that have been approved under one of Singapore's Implementation Agreements and thereafter listed on its Implementation Agreement project register – which takes us back to Singapore's Article 6 collaborations.

In other words, an interesting parallel being drawn here. High quality carbon credits deriving from a mitigation activity that is listed on the Implementation Agreement Project Register can be used (i) as an ITMO pursuant to the Article 6.2 mechanism and will be used by Singapore to meet its NDCs and (ii) entities to offset up to 5% of the taxable emissions credits from each such entity's taxable facilities under the Singapore Carbon Tax. For the latter, To the extent an entity has sourced a carbon credit to offset its taxable emissions, and that carbon credit is not an Article 6 carbon credit, that carbon credit will inevitably be sourced from the VCM. However, it will inherently be Article 6-compliant, have been vetted through an Article 6-related process and even have corresponding adjustments applied (which is not a "must-have" feature in the VCM)[2]. Article 6 mechanisms and Singapore's ICC framework have converged.

Overall, this seems to be an endorsement of the VCM for the purposes of the Singapore Carbon Tax, but as a tag-along to Singapore's Article 6 collaborations. A strong upside of this approach is that it encourages the use of high-quality carbon credits – i.e. those issued from projects on the Implementation Agreement project register – not only for the purposes of offsetting carbon tax liabilities, but also by acting as an endorsement of such carbon credits for entities that may want to use those carbon credits as part of, for example, their wider decarbonisation plans. It is unclear what the effect of this will be on the pricing of such high-quality carbon credits, but it is likely that the marker for that pricing will be the Singapore Carbon Tax rate itself (currently SGD25/tCO_2e, to increase to SGD45/tCO_2e in 2026 and between SGD50-80/tCO_2e by 2030).

Indicator 3 – Other Initiatives and Statements

Singapore's ambassadors and government officials have consistently advocated for the role of the VCM (in instances other than the draft guidance referred to in Indicator 1 above) and the importance of reviving and restoring confidence in the VCM. This has included a recognition of businesses using the VCM to achieve net zero, the role of the VCM in unlocking private capital to finance decarbonisation, transition or mitigation projects (to meet the goals of the Paris Agreement), using the VCM to help establish a carbon price, and Singapore's intention to work with partners to shape a well-functioning carbon market (including on the voluntary side).

This advocacy has been combined with action. Other than as already covered by the indicators above, we note the following (non-exhaustively):

- Recent Carbon Markets Coalition – on 24 June 2025, Singapore, UK and Kenya announced the formation of a new government-led coalition to grow carbon markets, which will look to expand to include countries that are sources of high-integrity carbon credits and countries that are sources of demand for such credits. The purpose of the coalition will be to agree

[2] Another interesting take is that this would be a carbon credit from the voluntary carbon market, used for a compliance purpose, which follows a recent global market development of the traditional distinctions between the regulated carbon market (previously associated with compliance) and voluntary carbon market (previously not associated with compliance) being blurred.

on a set of shared principles by COP30 on the corporate use of carbon credits, to provide companies with the confidence to use carbon credits as part of their decarbonisation plans;

- Transition Credits Coalition (TRACTION) – the Monetary Authority of Singapore convenes TRACTION, a coalition designed to develop a new type of carbon credit in the form of transition credits. TRACTION has two pilot projects involving the early retirement of coal-fired plants in the Philippines and replacing them with renewable energy and battery storage. If successful, the goal will be to harness this new market to manage the phase-out of coal in Asia; and
- ASEAN Common Carbon Framework (ACCF) – Singapore, through the Singapore Sustainable Finance Association, is a member of the ACCF, which is seeking to develop an ASEAN Claims Guidance as part of its mission to support the supply of high-quality carbon credits and increase interoperability between carbon markets in ASEAN nations.

KEY TAKEAWAYS

The operationalisation of Article 6 mechanisms will undoubtedly impact the VCM globally, with the Singapore VCM being no exception to this. The key takeaway for readers is there are strong indications that, at least in Singapore, the VCM will continue to play an important role alongside Article 6 mechanisms in the fight against climate change. While it is unclear how the development of Article 6 tools, standards and processes will ultimately influence the Singapore VCM (as suggested above in the dovetailing of the Singapore Carbon Tax, ICC Framework and Article 6 Collaborations), the Singapore Government’s recent draft guidance, together with its ongoing policy initiatives and international collaborations, signals explicit support for the VCM as a legitimate and desirable tool for companies to achieve their decarbonisation objectives, whether or not they are caught by the Singapore Carbon Tax. It is important that clear support for the Singapore VCM continues to be espoused and actively provided to give stakeholders confidence and certainty to engage with the Singapore VCM. In turn, companies should continue to prioritise high-quality credits, conduct robust due diligence and stay attuned to evolving standards and guidance.

A list of the recommendations made in our 2025 report to scale the global carbon markets, aimed at global market participants within both the Paris mechanisms and the VCM, is annexed to this briefing. The report goes further to assess the progress made towards each of these recommendations. The Singapore outlook benchmarked against these is generally positive, and we are optimistic that this will continue to be the case.

Contact us if you want to discuss carbon markets in Singapore and Asia-Pacific, or globally.

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ANNEX

RECOMMENDATIONS FOR SCALING THE GLOBAL CARBON MARKETS

For the COP to the UNFCCC to:	Finalise the implementation of the Paris mechanisms post-COP29 by ensuring the necessary regulatory infrastructure is in place and operational to support these mechanisms at both UNFCCC-level (e.g. overseeing the development by the Article 6.4 Supervisory Body of methodologies suitable for the Article 6.4 mechanism) and at national level (e.g. the establishment of national Article 6 registries).
	Clarify the role of sovereign credits from REDD+ under the Paris mechanisms. This requires clearly distinguishing the different types of "REDD+" and "emissions avoidance" and the COP should consider ways to align with the VCM on this.
	Issue a decision on whether avoidance credits qualify as ITMOs for the purposes of Article 6.
For governments to:	Demonstrate clear support for VCM activities within their jurisdiction and consider opportunities to engage with the VCM in a strategic manner to help achieve their own national decarbonisation goals. This could include confirming the ability to trade internationally carbon credits generated in their country, regulation or policy statements on use of credits and claims companies can make.
	Demonstrate clear support for the Paris mechanisms within their jurisdictions through policy statements and actions to support the direct or indirect involvement of their country in the mechanisms.
	Continue implementing the Paris mechanisms at a domestic level. For those Parties yet to do so, this may involve establishing a legal framework (or modifying existing legislative or regulatory frameworks) to provide for the Paris mechanisms in-country. For those Parties that already have implemented such legislative changes, they should continue to maintain, and look for opportunities to further develop, these legal frameworks as the Paris mechanisms are finalised.
	To the extent governments wish to secure benefit-sharing arrangements, they should do so by setting clear requirements and parameters for such arrangements in their national regulatory frameworks. Care must however be taken to ensure such arrangements are not overly restrictive or burdensome so to discourage investment.
	Deliver updated NDCs that are "ambitious, comprehensive and robust". In particular, government should aim to identify sectoral targets and pathways, quantify investment needs, provide for whole of government engagement and achieve greater global harmonisation and consistency.
	Consider government-to-government or business-to-government arrangements to formalise their position with respect to the Paris mechanisms and the VCM. Such arrangements can foster greater cooperation amongst Parties and key stakeholders, whilst delivering greater clarity and transparency. Governments should consider what learnings may be taken from such arrangements already in existence.

	Monitor progress by the CMA regarding use authorisations under the Paris mechanisms and consider developing their own clear guidelines for the issuance, scope and rules surrounding use authorisations that align with any such decisions by the CMA.
	Ensure access to the carbon registries needed to facilitate the Paris mechanisms and independent crediting mechanism activities in their country. This may involve developing their own national carbon registry or ensuring access to the UNFCCC international registry. Either way, such efforts should seek to achieve the interoperability of, and technological innovation within, such registries.
	Formalise the legal nature and ownership rights of carbon credits to enhance market certainty and attract broader participation. Such certainty is important if a meaningful secondary market is to develop.
	Consider the role that financial regulators and existing financial regulatory frameworks can have in supporting VCM activities. The market has demonstrated that a certain degree of financial regulatory oversight can help drive a meaningful secondary market, but care must be taken not to over-regulate carbon trading activities.
For VCM governing bodies to:	Develop a proactive communications strategy to highlight the integrity improvements in, and overall benefits of, the VCM to counter prevailing negative perceptions and promote its crucial role in global climate action.
	Issue clear, definitive guidance on corresponding adjustments and double claiming in the VCM to address ongoing uncertainties.
	Continue to develop knowledge-sharing initiatives and enhance capacity building within the VCM. This should include promoting greater collaboration amongst governing bodies, carbon standards and market participants.
For project proponents and buyers to:	Engage early with host governments to ensure project alignment with national climate goals and a shared understanding of expectations, procedures (including use authorisations and the availability of the different carbon trading market mechanisms) and requirements. Consider the role that business-to-government arrangements can play to secure such arrangements.
	Foster increased transparency and information sharing within the VCM to improve overall integrity and encourage greater due diligence on behalf of buyers.
	Engage in the VCM in an informed and discerning manner, for example, by using the emerging carbon credit labelling tools to seek out higher quality carbon credits whilst ensuring that carbon offsetting remains secondary to emission reduction.