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POLICY BRIEF

Implementing Carbon Pricing in Southeast Asia

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Introduction

Greenhouse gas emissions in Southeast Asia are increasing rapidly. Indonesia's carbon dioxide (CO_2) emissions from fossil fuels and industry totalled 812 million tonnes in 2024, up from 281 million in 2000 (Our World in Data, 2025). Emissions from the Philippines and Viet Nam are smaller, at 175 million tonnes and 371 million tonnes, respectively, but both have increased dramatically over the last 20 years. Emissions in the Philippines have almost doubled over the period, while those in Viet Nam have increased almost seven-fold, driven primarily by sustained economic growth and a sharp increase in coal use in the energy mix. These trends highlight the urgent need to deploy effective economic frameworks and policy instruments to support the efforts of countries in the region in achieving their nationally determined contributions under the Paris Agreement.

Carbon pricing (of various forms) has been shown to significantly reduce carbon emissions (Vrolijk & Sato, 2023), particularly when combined with other effective policies. Stechemesser et al. (2024) show that emissions reductions have been most effective when carbon pricing has been combined with other policies. For example, the United Kingdom's emissions dropped due to a combination of a minimum carbon price, subsidies for renewable energy, and a coal phase-out plan. In general, placing a higher price on carbon results in lower consumption, more efficient fossil fuel use, and a switch to non-fossil forms of energy.

Carbon pricing can pose significant political and social challenges, particularly in economies where energy systems remain highly dependent on fossil fuels. International experience to date shows that putting a price on carbon is often unpopular since it entails paying higher prices for fossil fuels (Mildenberger & Stokes, 2020). In energy systems that are highly dependent on fossil fuels, this can increase the cost of energy, which can be politically sensitive. However, much depends on the design of the carbon pricing system and on ensuring that it is consistent with the underlying context to avoid major price and livelihood shocks.

Southeast Asian countries have been exploring effective ways of introducing carbon pricing in their economies. In 2023, Indonesia launched IDXCarbon, the country's first official carbon exchange (Fondén et al., 2025). The Philippines is evaluating the feasibility of introducing an emissions trading system (ETS). In Viet Nam, the Ministry of Agriculture and Environment announced its plan to pilot an ETS starting in June 2025, with the target of full operation by 2029.

Emissions Ambition for Sustainable Economies (EASE) in Southeast Asia (Canada Global Affairs, 2026) is a CAD 15 million project that runs from 2024 to 2029, implemented by the International Institute for Sustainable Development, with the goal of reducing greenhouse gas (GHG) emissions through inclusive carbon pricing policies that support equitable, low-carbon development. Specifically, the project is working on (i) domestic carbon markets, including ETSs, social impact assessments, just transition, and gender equality and social inclusion aspects; (ii) fiscal policies, such as revenue recycling and environmental taxes; and (iii) international trade implications, including addressing competitiveness concerns, complying with border carbon adjustments (BCAs), and identifying trade opportunities.

This brief reports on efforts to introduce carbon pricing in Indonesia, the Philippines, and Viet Nam. It summarizes the current status of carbon pricing, including the most recent developments; discusses the challenges; and highlights the opportunities for making progress.

Indonesia

Current Status and Recent Developments

The legal and regulatory environment for carbon pricing in Indonesia is well advanced. The basic laws and regulations are already in place, including the following:

- Law No. 7 of 2021 on Harmonization of Tax Regulations introduces a carbon tax (although the carbon tax has not yet been implemented) (Republic of Indonesia, 2021).
- Presidential Regulation No. 110 of 2025, which was released in October 2025, replaced the earlier Regulation 98/2021 on carbon pricing in Indonesia. The new regulation marks a significant development in the country's ETS, aligning it more closely with global carbon market practices (Republic of Indonesia, 2025).
- Minister of Environment and Forestry Regulation No. 21 of 2022 (Republic of Indonesia, 2022b) provides detailed procedures for implementing carbon pricing, including guidelines for carbon trading, emission-reduction incentives, and the application of carbon taxes. It also establishes the National Registry System for Climate Change Control (SRN PPI) to monitor and record carbon-pricing activities and emission reductions. This regulation is expected to be updated soon, following the release of Presidential Regulation No. 110 of 2025.
- Minister of Energy and Mineral Resources Regulation No. 16 of 2022 (Republic of Indonesia, 2022a) specifies carbon-pricing procedures for the power plant subsector, particularly coal-fired power plants (CFPPs). It outlines emission allowances and trading mechanisms.

- Financial Services Authority (OJK) Regulation No. 14 of 2023 (Republic of Indonesia, 2023) governs carbon trading through carbon exchanges, establishing the framework for Indonesia's domestic carbon market.

Several ministries are preparing their own carbon reduction roadmaps. The ministries of Finance, Industry, Environment, Forestry, Transport and Energy, and Mineral Resources have all been asked to develop carbon reduction roadmaps.

Indonesia launched the IDXCarbon to trade carbon credits in 2023. Transactions on IDXCarbon were initially limited to domestic trade. However, since the new administration took office in 2024, there have been significant efforts to implement the necessary mechanisms for trading carbon credits on the international voluntary market and the global crediting mechanism under Article 6 of the Paris Agreement. Following the first international transactions on IDXCarbon in January 2025, Indonesia lifted the moratorium on international credit sales and signed mutual recognition agreements with Gold Standard in May, with the Global Carbon Council and Plan Vivo in September, and with Verra in early October.

The carbon tax has still not been implemented. Although the legislation provides for the application of a small IDR 30,000/tonne (USD 2/tonne) carbon tax on emissions, its implementation has been repeatedly delayed, and it is not yet in force.

An ETS has been implemented to regulate emissions from the power sector. The regulation requires power plants whose emissions intensity exceeds a threshold set by the government to purchase a different type of carbon credit (PTBAE-PU–or "technical limit on the emissions of economic actors"[1]) from plants whose emissions intensity is below this threshold. In 2023, the ETS covered 99 CFPPs. In 2024, the coverage was expanded to 146 CFPPs, representing 38% of Indonesia's power generation capacity (Fondén, 2025). In the second (2025–2027) and third phases (2028–2030) of implementation, the government plans to include gas-fired power plants and, starting in 2027, all fossil fuel power plants, including captive power plants (Fondén, 2025).

Plans also exist to expand the sectoral coverage of Indonesia's ETS. Starting in 2027, the government plans to include nine further industries in the ETS: cement, textiles, steel/metal, paper pulp, ceramics and glasses, food and beverage, fertilizers, transportation means, and chemicals.

Building the credibility of the carbon market will be key. The government is placing considerable emphasis on building the necessary systems to enable international trading in Indonesian carbon credits. However, only very low volumes have been traded to date. The launch of international carbon trading in the IDXCarbon on January 20, 2025, consisted of only five offers: a micro-hydro plant, a steam-heat recovery plant, and three gas-fired plants, which together claimed emissions reductions of a modest 1.78 million tonnes of carbon (and, of these available credits, nine international buyers purchased merely 41,822 tonnes) (RE Energy, 2025).

Making the ETS effective. The Ministry of Energy and Mineral Resources, in conjunction with the utility PLN, has introduced a mechanism for measuring carbon emissions from

[1] PTBAE-PU = Persetujuan Teknis Batas Atas Emisi–Pelaku Usaha.

all power plants. This is an important step in implementing the ETS. However, current allowances are set at very high levels, with the upper limits of emissions set for each of the four types of power plants included in the ETS exceeding the average emission intensity of CFPPs in Indonesia (Mutya, 2025). So far, no PTBAE-PUs have been exchanged on the IDXCarbon, while CFPPs are allocated with allowances that they have earned for being below the thresholds.[2] Thus, current thresholds dampen compliance demand.

Box 1. Recommendations for the Government of Indonesia

Continue to improve the domestic monitoring, reporting, and verification (MRV) system for carbon credits. The government is already improving the alignment of the domestic system through mutual recognition agreements with major voluntary standards. The Ministry of Environment should continue to improve the quality of the MRV system to enable it to participate in international trades, both official and voluntary.

Complete carbon-pricing roadmaps for additional ETS sectors. In addition to the Ministry of Energy and Mineral Resources, these roadmaps are currently being primarily undertaken by the Ministry of Finance, the Ministry of Industry, the Ministry of Transport, and the Ministry of Agriculture. Publishing these roadmaps would make clear the proposed systems for measuring, capping, and trading carbon in those sectors.

Introduce the legislated carbon tax. The Ministry of Finance is mandated to produce a roadmap for carbon taxation, as well as the implementing regulations. The legislated tax is very low and would therefore have a minimal impact on prices. But it would send an important signal that the government is intent on putting a price on carbon. The government should also explore alternative approaches to revenue recycling to show how the tax can benefit the most stakeholders.

Ensure the carbon tax does not act as a price cap. In Indonesia, the carbon tax is designed to operate alongside the ETS, forming a hybrid cap-tax-and-trade system. Under this framework, regulated entities that fail to meet their ETS compliance obligations are required to pay the carbon tax on excess emissions. To ensure the effectiveness of this hybrid system, the carbon tax rate should be set clearly above the expected ETS compliance cost, so that paying the tax does not become a less expensive substitute for compliance. Without such a price differential, the carbon tax risks functioning as a de facto price cap that weakens incentives to reduce emissions.

Tighten the allowances in the ETS. A database, registration, and trading systems have been put in place to implement the ETS, but the upper limits of emissions are currently set at levels that do not shift the incentives for participants. Tightening the allowances would allow the system to impose meaningful costs on high-emitting plants while benefiting low-emission plants in a way that shifts behaviour.

[2] Banking is permitted within each phase of the ETS.

Study and prepare for the impact of BCAs in Indonesia. The European Union (EU) and the United Kingdom are continuing with plans to implement carbon border adjustment mechanisms (CBAMs), with EU CBAM liabilities accruing as of January 2026. BCAs have implications for Indonesia. The Ministry of Trade and the Ministry of Foreign Affairs should work with industry partners, academic organizations, and development partners to study the implications and develop appropriate responses.

Implement fossil fuel subsidy reform. Reducing fossil fuel subsidies would increase effective carbon prices, reinforcing the government's broader efforts to put a price on emissions. At the same time, subsidy reform presents a key opportunity to raise fiscal resources, particularly given the government's commitment to several major expenditure programs, including free school meals and increased military investment. Such reforms should be carefully designed to minimize impacts on poor and vulnerable households while remaining consistent with Indonesia's wider carbon-pricing and climate policy objectives.

Philippines

Current Status and Recent Developments

Carbon pricing is at an early stage in the Philippines. Its government is contemplating elements of the ETS market design. Several house bills have been submitted to promote carbon-pricing instruments in the Philippines. These draft bills aim to promote investment in the low-carbon economy and to establish a carbon-emission pricing framework and implementation mechanism.

Complementing these legislative developments, the Department of Energy issued the General Framework for Carbon Credits in the Energy Sector in September 2025. It establishes the rules for generating and trading carbon credit certificates from eligible activities, such as coal-plant early retirement, renewable-energy deployment, energy-efficiency measures, and electric-vehicle switching.

These bills point to several points of debate about the design of the carbon-pricing system in the Philippines. Key issues to consider include the following:

- **Sector coverage**: There is a trade-off between coverage of emissions and starting with a small number of high-emission sectors to get a system in place and then expanding later.
- **Allowance allocation**: Providing free allowances is popular and enables a system to be put in place faster, but it can entrench low prices. If some allowances are auctioned, then it is necessary to decide what share is auctioned. If the intention is to raise the share of auctioned allowances over time, there is a trade-off between raising it rapidly, which raises more revenue but imposes higher costs, and increasing it more slowly to build support for the new system.

- **Threshold/cap setting**: Choices need to be made between intensity, absolute, and sectoral caps; the initial level at which these caps are set; and the speed with which they are changed over time.
- **Price determination**: One approach is for the government to set a price for allowances (effectively a carbon tax); another is to allow the market to determine the price, in which case, the nature, level, and speed of change of the threshold or cap will be the key determinant of price.
- **Offset use**: Most bills suggest some use of offsets (domestic and international credits). It will be important to be clear about the extent to which offsets are allowed for compliance purposes, since this affects the scheme's efficiency in reducing emissions domestically.
- **Tax incentives**: Tax incentives for investment in low-carbon technologies can be a useful part of the carbon-pricing system but need to be designed to ensure that they incentivize emission-reducing behaviour and to avoid misuse.
- **Reinvestment mechanisms**: There is a balance to be struck between reinvesting revenues into compensatory policies to ensure a just transition and wider investments needed to promote a low-carbon economy.

The choices that are made on these and other dimensions will determine the long-term effectiveness of the carbon-pricing mechanism put in place.

Efforts are underway to strengthen the policy framework for the carbon market. The Philippines is interested in attracting investments in projects (e.g., nature-based solutions, forestry, and mangroves) and using these projects to generate credits that can be sold internationally either under Article 6 or on the private voluntary carbon market (Department of Energy, 2025). The Department of Environment and Natural Resources (DENR) submitted a draft executive order (to be issued by the president) authorizing the DENR to propose enabling laws and policies for the voluntary carbon market and clarifying the responsibilities of various government agencies with respect to the project developers and local government units.

There is also considerable interest in establishing the legal basis for trades under Article 6. Some bills propose linkages between the ETS and the international trade of carbon credits under Article 6. While these can be useful, there is a risk that enterprises prioritize low-cost mitigation projects for the international market and leave high-cost projects for the domestic carbon-pricing scheme, resulting in a more costly decarbonization process for the country.

Discussions are ongoing regarding the designation of the appropriate government instrumentality to oversee the development and management of the carbon registry. The DENR is preparing a draft administrative order (at the DENR level) to regulate the voluntary carbon market in forestry. This would assign the DENR the responsibility for managing the registry for a domestic ETS. It is asking the Asian Development Bank for support on this. In parallel, Maharlika Carbon, a private consultancy firm, has developed a carbon registry for the Climate Change Commission (CCC) and has proposed that this platform serve as the registry for trading carbon credits in the Philippines.

Carbon taxes have less support than ETS systems, in part because of concerns about increased costs. There have been concerns that imposing carbon taxes could render the country's power sector uncompetitive. There are also worries that the high cost of electricity could slow down the country's economic growth (Direktorat Jenderal Pajak, 2025). The reasons for the current high cost of electricity are contested, but the general sentiment is that further taxes would be unhelpful. However, both the government and the private sector are more supportive of carbon pricing when it relates to an ETS. For example, members of the business community have stated that they are receptive to carbon pricing, as long as the bill, once enacted into law, will be fairly implemented and will not unduly increase cost for business and consumers.

While near-term impacts from EU CBAM and other BCAs are likely to be modest, long-term competitiveness impacts should not be overlooked. The economic importance of trade-exposed, emissions-intensive sectors in the Philippines is lower than in some other Southeast Asian nations. Notwithstanding, the Philippines' steel sector has non-negligible exposure to the EU CBAM. Over the long term, the Philippines should consider ways to attract investments into the low-carbon industrial development that will be critical for sustainable competitive advantage in a decarbonizing global economy.

Box 2. Recommendations for the Government of the Philippines

Model alternative approaches to carbon pricing. It is critical that key stakeholders come to a shared vision of what the future legislation on carbon pricing might look like. The government should analyze the pros and cons of different approaches, including their impacts on prices, emissions, and welfare, taking into account alternative ways of recycling revenues.

Implement the systems needed for a carbon market. Establishing credible mechanisms for MRV for carbon-emission reductions is critical for an effective market. The government should work with development partners to establish the infrastructure, both for the voluntary market and trades under Article 6.

Establish an effective ETS. Implementing an ETS may not necessarily result in higher electricity prices in the long term. Revenues from high-emitting sources can be recycled to ensure greater investment in cheap, low-emission sources, such as renewables. The government should construct a plan for an ETS that shifts incentives while preserving overall affordability.

Public debate and dialogue. There is a lack of general understanding of the potential benefits associated with carbon pricing. The government should promote open, evidence-based debate that shows how carbon pricing might help the Philippines with other important concerns (such as growth, employment, tax revenue, and energy security). This could help shift perceptions on the issue and lay the foundation for progress.

Viet Nam

Current Status and Recent Developments

Viet Nam has made significant progress with the necessary legislation for carbon pricing. The key legislation, Law on Environmental Protection (Republic of Viet Nam, 2020), is already in place. Effective January 1, 2022, this law has established a legal framework for domestic carbon markets, detailing the roadmap and mechanisms for GHG mitigation and carbon market development. Regulations for the domestic carbon market are further detailed in Decree No 119/2025/ND-CP (LuatViet Nam, 2025), released in June 2025. This decree updates a previous 2022 Decree, which provides the legal basis for establishing the national registry system, the development and organization of the pilot operation of a carbon trading platform, the articulation of carbon market design elements, the use of international offset credits, and future ETS linkages at regional and international levels. The new decree provides more specific provisions on fundamental market designs of Viet Nam's ETS and the international transfer of carbon credits under the Paris Agreement. In addition, the government has recently issued circulars that provide guidance on the operationalization of MRV systems in several sectors, including, most recently, the cement sector.

Implementation of Viet Nam's ETS is advancing. The pilot phase of Viet Nam's ETS officially started in mid-2025 and will last until the end of 2028 (VnExpress, 2025). The ETS pilot covers around 150 entities in the power, steel, and cement sectors. A wider group of 2,166 entities from a broader range of sectors is required to conduct an inventory of their emissions. Allowances will be set primarily on the basis of emissions intensity and output and will initially be freely distributed. Initially scheduled for the end of 2025, the commencement of trading under the Hanoi Stock Exchange—the trading platform of Viet Nam's ETS—has been recently postponed to the end of 2026 (VnExpress, 2025).

Domestic capacity to measure, verify, and report on emissions must grow rapidly to keep pace with market development. While MRV responsibilities have been assigned, there are only a small number of people in the country with the necessary UN Framework Convention on Climate Change (UNFCCC) certification to verify emissions.

Viet Nam has prioritized the development of its domestic compliance carbon market while remaining relatively open to the use of voluntary and offset credits. Viet Nam is among a small number of countries that allow a high proportion of offsets to be used for compliance—up to 30%—compared with limits of from 0% to 3%–6% in most other jurisdictions. To date, Viet Nam has completed only one international carbon transaction, reflecting constraints arising from the absence of a comprehensive legal framework governing international carbon trading. This transaction involved the World Bank's purchase of 10.3 million tonnes of emission reductions for USD 51.5 million (Thuy, 2024). Viet Nam's government is currently working to establish the necessary legal basis for international transactions, with the Ministry of Agriculture and Environment preparing a draft decree on international carbon trading. Also, Viet Nam is currently considering retaining 50% of the total credits generated from international transactions to ensure the achievement of overarching national climate objectives.

By 2030, the retention ratio is expected to be reduced to 30%, ensuring that sufficient credits remain available to meet domestic targets (Ly, 2025).

While it is not planning to introduce a carbon tax, Viet Nam is revising its Environmental Protection Tax Law (Tran, 2025). Environmental protection taxes apply to fuels, including gasoline, diesel oil, and coal. However, current tax rates do not reflect the carbon content of fuels, particularly coal. Separately, there are environmental protection fees, which apply to polluting emissions caused by individuals and entities; however, these fees do not currently include GHG emissions.

Viet Nam's progress on carbon pricing is driven by its net-zero commitment. Viet Nam's Prime Minister Pham Minh Chinh announced Viet Nam's commitment to the ambitious target of net-zero by 2050 at the 26th UNFCCC Conference of the Parties (COP 26). Developing its carbon market is part of the country's effort to meet this target. Moreover, Viet Nam launched its Nationally Determined Contribution 3.0 at COP 30 in Belém, Brazil. This further strengthens mitigation targets across energy; agriculture; land use, land-use change, and forestry; waste; and industry.

Another key factor driving carbon pricing is the EU CBAM. The EU CBAM is expected to have a significant impact on Viet Nam's steel sector, which has been sending a significant and growing proportion of its exports to the EU. The Vietnamese government and affected industries are actively following the development of BCA policies globally. Both government and industry will need to continue to exert effort to ensure readiness for BCAs and to influence their design as much as possible to ensure fair treatment of Viet Nam's exports.

Box 3. Recommendations for the Government of Viet Nam

Continue to prioritize the ETS pilot. The government has made strong progress on the legislative foundation of the ETS. It now needs to focus on the practicalities of building a registry, as well as determining and allocating allowances. It also needs to build capacity to undertake MRV of the key facilities to enable it to collect the necessary data to operationalize the ETS.

Extend trade policy analysis. The Ministry of Industry and Trade (MOIT) is developing a comprehensive strategy to address the potential impact of CBAMs on Viet Nam and is keen to understand carbon leakage risks and mitigation options.

Revising the Environmental Protection Tax Law. The government may wish to consider revising the Environmental Protection Law, either to make the environmental protection taxes more closely reflect the carbon content of fuels and/or to include GHG emissions as pollutants liable for the payment of environmental protection fees.

Conclusions and Recommendations for Development Partners

Lessons Learned

Implementing carbon pricing is complex and time consuming. Although some countries have been able to move faster than others, all countries will need time to implement the necessary laws and regulations for the relevant taxes, the ETS, and voluntary and sovereign carbon markets. When exploring different approaches, there is a great opportunity to learn from others' experiences, so that countries that follow do not need to start from scratch.

Carbon pricing should depend on the country's context. The market design of carbon pricing that is appropriate for one country will not be the same as that which is appropriate for another. A key part of designing carbon pricing is to ensure that the system accounts for the local context.

Certain types of carbon pricing are more politically feasible than others. The politics of carbon pricing differ across countries. This suggests a focus on designing and sequencing reforms to ensure their sustainability over the longer term.

It is important to build a public case for carbon pricing. Most people regard the issue as complex and technical and may have negative perceptions about it. It will be important to provide concrete evidence about how carbon pricing can benefit the citizens of Indonesia, the Philippines, and Viet Nam.

Key Recommendations for Development Partners

Provide technical assistance and build the capacity to construct relevant systems. Development partners can draw on the wealth of international experience in designing and operationalizing carbon-pricing systems, such as registries, MRV systems, trading platforms, taxes, and revenue recycling.

Share experience, both positive and negative. Many good practices can be shared (including within Southeast Asia). However, carbon pricing has not always gone well. Development partners should also share the lessons that they have learned from unsuccessful carbon-pricing reforms to help countries avoid missteps.

Ensure alignment with domestic programs. Support from development partners must be well aligned with domestic plans and programs, so that carbon-pricing initiatives are seen as supporting the government in achieving its overall goals.

Understand local sensitivities. Development partners need a good understanding of local sensitivities. They should not push particular technical solutions if they are not consistent with the local political economy.

Adopt a long-term vision. No country has a perfect carbon market, and all countries with effective carbon pricing took a while to get it to function. Development partners should take a long-term perspective and work with government to proceed at a pace that ensures sustainability.

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