



[REPORT TASK I.5.1b] POLICIES IN OTHER COUNTRIES AND THEIR APPLICABILITY IN VIETNAM

EXECUTIVE SUMMARY

This report is for the Phase 1 - Design stage of the Nordic Partnership Initiative Pilot Programme for supporting up-scaled climate change mitigation action in Vietnam's cement sector. It forms part of the legal and institutional review that supports the Ministry of Construction in Vietnam in selecting and designing targeted policies for incentivising cement sector emission reduction activities. Following the review of current and planned policies in Vietnam in Task I.5.1a, this report assesses international experiences with setting up regulatory frameworks for reducing energy consumption and greenhouse gas (GHG) emissions in cement sector and evaluates whether they could be used in the context of Vietnam. As recommended in the report for Task I.1.1-I.1.3, the report focusses on the key regulatory measures that underpin emissions reductions in cement sector in the UK and India and based on these international examples, addresses existing policy and institutional gaps for the up-scaled mitigation action in Vietnam. Following a consultation with the Client, a further brief analysis of voluntary programmes in Thailand was undertaken. Recommendations have been provided for the improvement of the legal and institutional framework for uptake of an

effective mitigation action in cement sector in Vietnam, alongside recommendations should Vietnam wish to implement a voluntary mitigation action.

Chapter 1 of the report provides a brief overview of the current and planned policies in Vietnam in relation to greenhouse gas emissions reductions. The chapter draws upon the inputs from Tasks I.1.1-I.1.3 and Task I.5.1a and summarises the key findings.

Chapter 2 provides structured case studies summarising and evaluating the key regulatory measures for energy and greenhouse gas emissions savings in the cement sector in the UK and India. Following the conclusions of Tasks I.1.1-I.1.3, four key policy measures are assessed: the Climate Change Levy (UK), the Climate Change Agreements (UK), the Perform, Achieve and Trade scheme (India) and the Energy Savings Opportunity Scheme (UK). The chapter thereafter provides case studies of three voluntary programmes recently developed in Thailand, namely Thailand Voluntary Emissions Reduction Program, Thailand Carbon Offsetting Program and Energy Performance Certificate Scheme.

Chapter 3 then compares the current and existing measures in Vietnam with the international measures discussed in Chapter 2. The Chapter analyses the applicability of the measures in the UK, India and Thailand in the context of Vietnam and identifies any policy and institutional gaps in the existing regulatory framework, with particular reference to the legislative/regulatory, institutional set up, reporting and verification requirements and enforcement mechanisms.

Chapter 4 provides recommendations for the improvement of the legal and institutional framework in Vietnam in the light of the experiences of the UK and India, alongside recommendations should Vietnam wish to implement a voluntary mitigation action.

Some key findings of the task are listed below:

- The most effective measures for the reduction of energy consumption and GHG emissions in the cement sector internationally fall into four main categories: (1) fiscal instruments such as energy or carbon taxes; (2) target based measures such as energy efficiency targets or emissions trading systems; (3) command and control measures requiring operators of cement plant to undertake specific actions; and (4) energy audits programmes.
- Vietnam’s current policy framework for the regulation of cement plants includes examples of each of the above and therefore provides a good foundation for increasing the level of mitigation from the sector. For each example, there are currently gaps in the regulatory framework – either legislative framework, institutional structure, monitoring and reporting provisions or enforcement - which pose a barrier to achieving the potential emissions reductions.
- **Energy taxes:** in Vietnam, the Law on Environmental Protection Tax provides an incentive on cement sector to reduce its usage of fossil fuels by applying a specific tax rate on the unit of coal supplied to cement plants. This tax regime is supported by an effective regulatory framework but the current tax rate is not sufficient to incentivise energy efficiency improvements. Were Vietnam to decide to raise the tax rates to an effective level, care would need to be taken to ensure this would not affect the competitive position of the cement sector. One option could be to follow the example of the UK Climate Change Agreements (CCAs) which offers energy intense industries (including cement) a reduced rate of tax in return for the agreement of energy efficiency reduction targets with the government. If so, such an agreement based approach would need to be supported by a regulatory framework similar to a target based approach (see below).
- **Binding sectoral targets:** The feasibility of the voluntary Climate Change Agreements and the mandatory market-based mechanism Perform, Achieve and Trade was further explored in the context of Vietnam. The Cement Industry Master Plan provides a potential framework for a target based approach, although it currently does not contain any GHG or energy efficiency targets. Moreover, the Master Plan does not currently have legislative force and is not legally binding on either the government or industry. Therefore, the analysis concluded that the current institutional and legal framework in Vietnam might not support the effective implementation of a target based approach, in particular due to gaps in relation to information provision, institutional set up,

verification and enforcement protocols. Therefore the legal and institutional framework would need to be revised and the international case studies assessed during the study provide good examples.

- Command and control: Similarly, the Cement Industry Master Plan contains objectives which could be achieved by the imposition of direct obligations on the cement plant operators (e.g. to require the use of specific technologies, invest in waste heat recovery, use waste fuels, etc.). Again, the lack of a legislative framework is a significant barrier to the achievement of these objectives. The other essential features of an environmental permitting regime which could incorporate such obligations are similar to a sectoral target approach, namely regulatory institutions, reporting and enforcement.
- Energy audits: Also, the legislation in regards to the energy audits for energy efficiency improvements were briefly considered within the study and the current framework in Vietnam was compared to the recent Energy Savings Opportunity Scheme in the UK. The study found that, if properly implemented, the audit programme can be a valuable 'relative' to the GHG mitigation action. Overall, there exists good legal framework on energy audits in Vietnam that should be able

to support the implementation. During the brief study there were however few aspects identified that could make the current measure more effective.

- The choice of appropriate measure to be used in Vietnam is beyond the scope of this report but it is clear that whatever regulatory measure is selected the basic regulatory building blocks will be the same – a binding legislative framework, appropriate institutional structure, monitoring and reporting provisions and effective enforcement. The international case studies presented in this report provide a useful set of precedents which can be tailored to Vietnam's national context.

Although the effectiveness of the voluntary programmes greatly depends on their design and the level of preparation, international experience has shown that in general voluntary programmes are unlikely to lead to significant emissions reductions. The programmes should therefore be used as a first transitional or preparation stage towards a mandatory mitigation action and they can indeed be useful tools for capacity building and awareness raising ahead of a mandatory scheme. If Vietnam wish to implement a voluntary programme, efforts must be taken to set up a robust institutional framework to ensure the effective operation of the programme and also appropriate rules concerning eligibility, procedures, monitoring, reporting and verification.

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