

**V I L A F**

VIETNAM INTERNATIONAL LAW FIRM

# Vietnam's Legal Framework for Sustainable Development

*A summary of the latest legal developments in ESG, REC and Carbon Credits*

## Introduction

Vietnam is one of the countries that has committed to achieving Net Zero emissions by 2050, as pledged at COP26. To support this goal, the country is actively working on developing a comprehensive legal framework to foster the growth of Environmental, Social, and Governance (ESG) standards, Renewable Energy Certificates (RECs), and Carbon Credits (CCs). These are key instruments for promoting sustainable development and reducing greenhouse gas emissions in various sectors. This article provides an overview of the latest legal developments in these areas, highlighting the progress and changes that are shaping Vietnam's approach to sustainable development.

## ESG Principles in Vietnam's Legal Documents

ESG principles refer to the environmental, social, and governance aspects of a business that affect its performance, reputation, and impact on society. ESG principles are increasingly recognized as important factors for investors, customers, employees, and regulators. In Vietnam, ESG considerations are indirectly mentioned across various legal documents, such as the Law on Environmental Protection 2020, the Law on Securities, and the Labor Code. However, there are also some notable legal documents that directly mention the need for applying

the ESG model, such as Decision No.167/QĐ-TTg of Prime Minister on 08 February 2022 and Circular 13/2023/TT-BKHĐT issued by the Ministry of Planning and Investment on 12 December 2023. These documents provide the definition of ESG, introduce tools for evaluating ESG performance, and support private sector enterprises with sustainable development.

Moreover, ESG information has become a mandatory component of annual reports disclosed by public companies, according to Circular 96/2020/TT-BTC issued by the Ministry of Finance. For other types of enterprises, disclosing ESG information is voluntary, but it may help them attract foreign investors who prefer to invest in enterprises committed to sustainable practices. It is expected that more regulations will be adopted to encourage the adoption of the ESG model among enterprises in Vietnam, and enterprises should stay informed about these developments and keep up with the latest information on ESG applications.

### **Development of the RECs Market in Vietnam**

RECs are certificates that represent the environmental benefits of generating electricity from renewable energy sources, such as solar, wind, hydro, or biomass. RECs can be traded separately from the electricity itself, creating a market for renewable energy producers and consumers. RECs can help enterprises meet their renewable energy targets, reduce their carbon footprint, and demonstrate their social responsibility. The RECs market is growing globally, but in Vietnam, the legal framework and policies are still in development. Currently, there are no specific regulations or legal structures in place to support the RECs market. The Ministry of Industry and Trade is responsible for developing a RECs system in Vietnam that meets international standards and completing the research for designing RECs and the carbon market. However, as of August 2023, this effort has reached only the stage of assessing policy, legal, and institutional frameworks to support the RECs market. No further legal update about the RECs has been released. Therefore, most enterprises that need RECs will voluntarily acquire them by registering with the International RECs Standard or other authorized international RECs issuers. This may hinder the full potential development of the RECs market in Vietnam and make the market less attractive to foreign investors. Therefore, it is crucial to accelerate the research and development of legal policies related to RECs, ensuring they are carefully crafted and aligned with international standards.

### **Development of the CCs Market in Vietnam**

CCs are certificates that represent the reduction or removal of greenhouse gas emissions from a certain activity or project. CCs can be traded on a market, creating an incentive for enterprises to reduce their emissions and invest in low-carbon technologies. CCs can also help enterprises meet their emission reduction targets, comply with environmental regulations, and enhance their reputation.

Vietnam is one of the countries that has signed the Paris Agreement, which aims to limit the global temperature rise to well below 2°C above pre-industrial levels. To achieve this goal, Vietnam has pledged to reduce its greenhouse gas emissions by 9% by 2030 compared to the business-as-usual scenario, and by 27% with international support. To support this commitment, Vietnam has issued Decree 06/2022/ND-CP on 7 January 2022, which establishes general terms and principles for reducing greenhouse gas emissions, process, and templates for certifying CCs and other related regulations.

The Ministry of Natural Resources and Environment is authorized to certify the CCs to be traded on the CCs market. However, Decree 06 does not provide specific regulations on how to price CCs in the market, the standards for verifying and certifying the CCs, or other guidelines for trading CCs. Therefore, the Prime Minister has issued Directive No. 13/CT-TTg on 02 May 2024, which assigns the responsibilities of relevant authorities in the process of advancing the CCs market. The Ministry of Natural Resources and Environment is tasked with developing a national registration system for CCs and creating CCs for pilot implementation and development of domestic CCs market, international exchange. The Ministry of Industry and Trade is tasked with analyzing the legal regulations and the current international experiences in the trade and exchange of CCs and reporting to the Prime Minister no later than 30 September 2024. The Ministry of Natural Resources and Environment will also collaborate with other ministries and relevant authorities to draft a new decree to amend and supplement Decree 06 and submit it to the Government no later than 30 July 2024. This new Decree is hoped to offer more detailed regulations concerning the development of the CCs market in Vietnam.

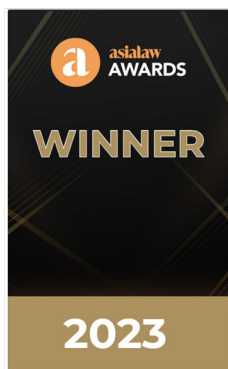
With the positive shift in policies and the legal framework, it is anticipated that the CCs market will see significant development by 2028. As legislators continue to review, supplement, and refine the legal system governing CCs business activities, enterprises should start familiarizing themselves with CCs regulations. This preparation will ensure they are ready to participate effectively when the CCs market becomes fully operational.

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