LEGAL UPDATE

HOW COMPANIES CAN INCORPORATE CARBON CREDITS INTO THEIR DECARBONISATION PLANS

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Introduction

1. On 20 June 2025, the National Climate Change Secretariat, the Ministry of Trade and Industry, and Enterprise Singapore jointly released draft guidance on how companies can incorporate carbon credits into their decarbonisation plans ("**Draft Guidance**"). Feedback on the draft guidance was welcomed during the public consultation period from 20 June 2025 to 20 July 2025.

2. Companies may purchase carbon credits not only to comply with mandatory emissions targets, but also voluntarily as well. This Draft Guidance strives to promote participation in the **voluntary carbon market** ("**VCM**") through offering recommendations to increase its credibility and effectiveness in achieving environmental impact.

The Draft Guidance

Choice of carbon credits

3. For carbon markets to achieve their intended environmental impact, carbon credits must be of high environmental integrity. The Draft Guidance highlights Singapore's International Carbon Credit (ICC) framework, under which carbon credits must meet seven principles to be classified as having high environmental integrity. Although these requirements were originally targeted at companies that must meet mandatory emissions targets, it was recognised in the Draft Guidance that these principles would serve as a helpful guide on what constitutes a high-quality carbon credit in the VCM as well. These seven principles are that the carbon credits are:[1]

    a. **not double-counted** — not counted more than once;

    b. **additional** — exceed what is required by law or any regulatory requirement of the host country and what would otherwise occur in a business-as-usual scenario;

    c. **real** — quantified based on a realistic, defensible, and conservative estimate of the amount of emissions that would have occurred in a business-as-usual scenario;

[1] These seven principles under Singapore's International Carbon Credit (ICC) framework are summarised at [2.1.1] of the Draft Guidance.

d. **quantified and verified** — calculated in a manner that is conservative and transparent, and measured and verified by an accredited and independent third-party verification entity;

e. **permanent —** representing emission reductions or removals that are irreversible or, if there is a risk that they are reversible, are covered under measures to monitor, mitigate, and compensate any material reversal;

f. **not causing any net harm** — not generated through projects or programmes that violate any applicable laws, regulatory requirements, or international obligations of the host country; and

g. **not causing any leakage** — not causing a material increase in emissions elsewhere, or, if there is a risk of a material increase in emissions elsewhere, sold with measures in place to monitor, mitigate, and compensate any such material increase.

4. Companies may also refer to **global meta-standards** to assess the quality of carbon credits as well, including the Integrity Council for Voluntary Carbon Market (ICVCM)'s Core Carbon Principles (CCP) and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)'s Eligible Emissions Unit Eligibility Criteria. However, companies are still encouraged to **conduct their own due diligence** to ensure that they are purchasing high-quality credits, since carbon credit quality and the risk of failure can differ across projects.

5. To **prevent double-counting**, companies may acquire high-quality credits that have been registered with a reputable registry, claim only credits retired in their name, and claim credits only once in their value chain e.g., when there are multiple entities in the same corporate group.

6. Lastly, buyers should beware of the **vintage** of a carbon credit. They should purchase and retire credits issued within their commitment periods, so that the credits are based on up-to-date methodologies and baselines.

<u>Use of carbon credits</u>

7. Before even considering the use of carbon credits as part of their decarbonisation plans, companies should **first identify feasible abatement measures to reduce their emissions**. Companies may use (a) tools to identify mitigation potential; (b) marginal abatement cost curve tools to identify and prioritise cost-effective abatement measures; (c) energy audits; and (d) benchmarking studies to understand industry norms and best practices.

8. To manage the uncertainty in predicting the emissions impact and business risks, companies are also recommended to consider the quality and risk of credits **as a portfolio**. Companies may rely on **labels and carbon project ratings** when evaluating the quality and risk of credits for each project, and may also consider the **use of insurance**.

9. To increase credibility and accountability and build trust with investors and consumers, companies are also encouraged to **transparently disclose their use of carbon credits**, including the volume of credits, type of credits, project location, registry at which the credits are held, purpose of use, and third-party ratings if available. In this regard, Singapore is working towards implementing climate reporting requirements aligned to the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB).

10. Companies may consider applying for government support to receive assistance in measuring, planning for, and adopting decarbonisation solutions. Some examples include Enterprise Singapore's Enterprise Sustainability Programme (ESP) and EDB's Resource Efficiency Grant for Emissions (REG(E)).

Commentary

11. While the VCM is meant to offer greater flexibility than the compliance market, these recommendations would play a key role in raising the standards and attractiveness of the VCM through boosting the credibility and effectiveness of carbon credits. Companies may adopt these best practices to ensure that their corporate social responsibility targets go towards achieving the intended environmental impact.

12. If you have any queries relating to this area of law, please do not hesitate to contact the partners in our ESG Practice Group.

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