SM188 | 8.3.2024
Summer Playlist 2024 | Episode 4
Peter Zaman, Partner, HFW Singapore

We continue our Summer Playlist this week with Peter Zaman. Peter is a Partner at HFW in Singapore and has been practicing law in climate finance and environmental markets since 2004. David Greely sits down with Peter to talk about the state of play in carbon markets. They discuss what the SBTi statements this week, the uncertainties facing CORSIA participants, and the EU's new methane regulation tell us about how the disputes over the right approach to addressing carbon emissions are having practical consequences on our ability to make meaningful progress – and what we need to be doing next.

Peter Zaman (00s):
The Paris Agreement, it was designed at a time when what I would call peak globalization. 10 years on, we look at the Paris Agreement and we say, well, it was designed around a globalized world, but we don't really have a globalized world anymore. So how is that gonna work? Did we foresee de-globalization when the Paris Agreement was being negotiated? Probably not. Is that what we have today? Yes, that's the reality.

Announcer (24s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
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David Greely (01m 07s):
Welcome back to our Summer Playlist 2024 on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Peter Zaman. Peter is a Partner at HFW in Singapore and has been practicing law in climate finance and environmental markets since 2004. We will be discussing the state of play in carbon markets and what the SBTi statements this week, the uncertainties facing CORSIA participants, and the EU's new methane regulation tell us about how disputes over what constitutes the right approach to addressing carbon emissions are having practical consequences for our ability to make meaningful progress and what we need to be doing next. Hello Peter, welcome back to SmarterMarkets.

Peter Zaman (01m 50s):
Thanks, Dave. Thank you for having me back.

David Greely (01m 52s):
Oh, it's always good to have you back. You know, I was looking forward to talking with you because when I read the Carbon market headlines this week, they are dominated by the Science-based Targets initiative sticking for now at least with its restrictive stance on the use of carbon credits to meet corporate net zero targets and also describing carbon credits as being quote mostly ineffective and I thought about that sweeping statement. Carbon credits are mostly ineffective in contrast to the many nuanced and some might say weedy conversations that you and I have had over the years on these markets. And I thought to myself, what's going on here. Obviously carbon credits are part of the Paris agreement, they're part of the EU Emissions Trading scheme. So is the criticism about the voluntary carbon markets, but then shouldn't the discussion be about methodologies and accounting and which methodologies are used and how the offset accounting is done? And the thought entered my mind is this really an ideological disagreement masquerading as a technical argument and that might be too loaded. A question to start off with Peter, so I think I will ask you instead, what do you make of SBTi's decision and statements on carbon credits this week?

Peter Zaman (02m 58s):
Talk about starting the conversation with a loaded topic. Their position in reality is no different than it has been in the past, right and I think that's probably my main takeaway 300 pages of materials, a lot to digest in 24 hours. So I can't promise you that I have digested everything but the thrust of it seems to be we are sticking to what we said and always have said is our approach with a few little bit of

stuff along the edges along like talking about using insetting opportunities as opposed to offsetting opportunities. But I think I will pick you up on your use of the word carbon credit and clarified by saying I think we are predominantly talking about carbon offsets when we talk about voluntary markets and voluntary corporate decarbonization goals. Now, voluntary corporate decarbonization goals need carbon offsets because what they are trying to do is they are essentially saying there are unavailable tons that represent one ton of emissions in my culprit value chain that I just cannot do anything about either because they're outside my control, i.e., they are my scope three emissions and therefore I have no choice but to try and use a minus one GHG offset to neutralize the impact of my plus on emission.

Peter Zaman (04m 24s):
So the idea of using a carbon credit represented biocarbon offset is the accounting equivalent of plus one minus one neutralizes me to zero and the issue is for hard to abate emissions, whether it's, you know, hard to abate emission sectors like aviation or shipping or whether or not it's hard to abate emissions in the regular complex of corporate GHG accounting. Main question is how far can you push the ticket right and if you think about scope one emissions being within the control of the corporate entity scope two emissions being somewhat within their control in some cases because they can choose their supplier of power, then that's not always the case that they have a choice and thirdly, you get into Scope 3 where they have no control whatsoever to insist that your scope three emissions have to be decarbonized entirely is the equivalent of saying you basically have to stop your supply chain entirely, which is not really pragmatic or you need to change your supply chain entirely.

Peter Zaman (05m 35s):
Which again is often not very pragmatic and if you are gonna change your supply chain entirely at what cost, you know, nobody recalls their mobile phone anymore, they just throw it up and get a new one and that's because we would live in a world where the cost of producing buying a new mobile phone is often cheaper than having it repaired. and that basically is a reflection of the fact that we live in low cost supply chain solutions. So the products and the commodities that we use to in order, in order to supply the way we live is now designed in a globalized world against the lease cost production source. So if you start looking at a scope three decarbonization agenda that says you can only use certain types of zero emission supply sources, you are essentially saying to every consumer who is going to pick up the bill that you are gonna bear the cost of an SBTi commitment.

Peter Zaman (06m 33s):
Now if SBTi's commitment therefore are absolute because they don't allow or recognize wiggle room necessary for companies who have done their best but just haven't been able to sort of commit suicide by going down net zero commodity supply chains, then you Are left with a world in either which companies walk away from SBTi because they're too hard to commit and too hard to achieve or somebody who is signing up to SBTi is forced to pass on the cost to the consumer or is non-competitive in its product, operate the market And that's the consequence of a hard line approach that SBTi I think unfortunately is adopting. So really for me, the question is not that I Am surprised with what SBTi has said, I think the question really is now what will corporates do because corporates have a choice. It's a voluntary program, they can walk away from SBTi, like ANZ has done BCP and whole loft of other very well-known or reputable companies have done or they can stick it out.

Peter Zaman (07m 39s):
But if the new are going to stick it out, the question is to what end because it seems to me that with the lack of flexibility in the SBTi approach, what you are doing as a corporate is essentially either signing up to it knowing fully well you will never be able to achieve it and therefore you are doing it for brand recognition for labeling purposes or something else or you are doing it as a means to setting yourself up for failure compared to everybody else in the corporate world who isn't signing up to SBTi and I don't see any board of a company voluntarily say that committing suicide in that manner is a sensible way forward and that's kind of where I see the dilemma or the consequence following from the SBTi position and it's a relatively hardcore position.

David Greely (08m 25s):
Yeah and we need to all be prepared to do hard things but we can't be asking people to do impossible things or as you said, you know, committing corporate suicide and SBTi has no enforcement power. It has had a lot of influence. So I am curious, you know, when you look at the stance they are taking now and the options available to corporates who have made or are contemplating making voluntary commitments, what do you think the implications of their staying with their stance this week on voluntary carbon markets, what will the implications be on the markets and on s SBTi's place in them?

Peter Zaman (08m 59s):
Let's deal with the markets first. Voluntary carbon credit demand has been on the wane for quite some time. I mean it's not something that's happened overnight, it's happened progressively over the course of the last 18 months and if you think about it from the perspective of a project developer or an originator of voluntary carbon credits, if there is no demand, that means there is no flow of climate finance moving from the corporate world into the projects that need to be supported. So the reality is the procrastination by SBTi on making it has got to the point where 18 months, two years down the line, we are in a position where the flow of carbon finance is either stopping entirely or has stopped already and if you think about the role of the intermediaries or the project developers who are in that change trying to generate the opportunity of carbon offsets, it basically means for them a cutting off of financial flow that they need in order to fund the activities.

Peter Zaman (10m 00s):
So that's the market side of it and now the more practical side of it is the fact that we are running up against the clock in terms of how we meet the 1.5 degree target. We are running out of time. We have got the last decade of 2010 to 2020 that's been caused by us battening Kyoto Protocol and replacing it with the Paris Agreement. We haven't necessarily done anything in those lost 10 years to now be in a position to make up time and countries who wish to make up that time by putting in very, very rigid and fast paced new legislative developments mandating and forcing GHG emission controls in their country do run the risk of essentially being very, very unpopular very, very quickly. So what we have got now is this difference between how much can a country do at the government level and still remain electable versus what you can do to make up for their shortcoming by encouraging voluntary corporate activity.

Peter Zaman (11m 05s):
The original idea behind corporate voluntary activity was that it would be a voluntary effort by the corporate sector to make up the shortfall of what the state's ambition is unable to do in the consistency of a 1.5 degree goal. But instead of trying to encourage the corporate to take on a role, a greater role, we have seen the opposite happen. We have seen them being scared away by accusations of greenwashing words like green hushing have actually become part of the vocabulary because we got to the point where corporates are too scared to say they are doing anything good because the minute they try and do anything good, somebody comes and slaps them with some kind of allegation lawsuit or at least very, at the very least some kind of journalistic expose. And the consequence of all of that is if I am doing this voluntary at the level of a corporation, it is voluntary and if it is voluntary I can choose to do nothing.

Peter Zaman (12m 05s):
And in fact that's what the nature of voluntary efforts when they are pushed to their absolute limits by rigidity and inflexibility will do, they will take those corporates and encourage them to say better to do nothing than be beaten about reputationally. So I fear that one of the biggest practical consequences of all of this is not only are you killing off the supply or potential for supply of carbon offsets by lacking in not giving clarity to the market as to whether or not demand for these credits is there and the demand side of the equation is now being if you will limited or reduced or restricted by the positions adopted by influential organizations like the SBTi. You are absolutely right to say that they are not an enforcement body, they are not a regulator and people can walk away from it anytime they want to. The question I think that corporations will be asking themselves now is why should we not walk away?

David Greely (13m 10s):
You said a word that really resonates with me, which is procrastination. You know, it almost seems like it's easier to say you will do something really good someday than do something good but not perfect today and of course as you said, you know, 1.5 is rapidly moving towards the rear view mirror and two might be the more realistic target going forward. So I am curious, when you talk with people in the markets, your clients, other people active in trying to wrestle with this carbon emissions challenge that we all have, are you seeing incremental but meaningful progress being made across whether it's voluntary markets, compliance, regulatory and dealing with carbon emissions. How do you see the state of play in these markets because when I kind of see sweeping headlines like the ones this week, sometimes it almost feels like what are we really back at square one where we are just trying to decide if things are effective or ineffective and of course that's not true, but where do you see the state of play right now?

Peter Zaman (14m 13s):
We spent the best part of the 2004 to 2010 period of the Kyoto Protocol of 2012 years of the protocol trying to understand how to use carbon units and how to price carbon units as a means to incentivize behavior. I mean if you think about new UES today, that's essentially the personification of that concept but what we are trying to do now is we are measuring what we did back in 2004 to 2012 as if you will, our very first attempt at trying to do that and we are criticizing it in 2022 to 2024 by saying what you did back in 2008 was crap and I think to a certain extent there is a lot of merit to identifying why there are just criticisms that are applicable to the efforts in

the carbon offsetting space. But we are in practical terms 20 years now of having done that and learning lessons and continuing to learn lessons.

Peter Zaman (15m 20s):
And we have been tweaking the rules that we have been understanding MRV processes better. We have been working out how to use technology as it needs to ensuring accuracy of data better and all of that learning, all of that experience is about to be thrown out and replaced with something which we have never done before. We are investing in a technology that is now very expensive you know, some will say that the cost of a proper technologic based permanent removal is a thousand dollars a ton today with hope, and I emphasize the word hope, that by 2030 because of growth and scale that might come down to $400 a ton now at $400 a ton for a removal credit as being the only sanctions type of offset unit that the world can use. Well how many countries are gonna be able to afford that. If you went to the United States even today as one of the most successful and high earnings per capita countries and you said to them the cost of your carbon footprint per ton is $400 and we expect you to pay for that.

Peter Zaman (16m 34s):
Whether you ask that of a rich corporation or whether or not you ask that of the individual citizens that pick up the tab eventually that is not an acceptable price and yet what we are doing is we are saying that is the price that we insist everybody pays because it's the only true minus one tunnel that we can count on and all of the other minus one tons that are out there we discount them, we discredit them, we ignore them because we don't believe that the environmental efficacy of them is worth fighting for and that is the thrust of where carbon markets 2.0 today have fallen on its face in that they have now said that we essentially do have to have perfection because without perfection we are not going to achieve the outcomes we want. But for that perfection, we are willing to wait until 2039, which is when we are gonna need the carbon removal tongues to balance out what's left of our exhausted carbon budget or overused carbon budget.

Peter Zaman (17m 35s):
And in the meantime we are just gonna have a wing and a prayer hope that we are gonna get there somehow by 2039 and by the way, discourage you the corporations in the meantime to do what you could have done by reducing your emissions using reduction codes. That's the thrust of where we are. If you take step back from all the noise, from all of the jargon and all of the rubbish that you hear being thrown about between the proponents in favor of me, proponents against the thrust of where we land is exactly there. And my point is $400 a ton for permanent rules is not something the entire world can afford. It's not something even the richest countries can actually afford and the politicians who are designing those frameworks are not being realistic and they're not being honest and think about it this way, it's $400 a ton because you are trying to force speed at which you are trying to do this in a 1.5 degree target world.

Peter Zaman (18m 32s):
The science is telling us we are past 1.5 degrees, we are never gonna get 1.5 degrees. It's pretty much unachievable based on where we are today in terms of how much carbon budget has been burned. But no one is having a conversation about that. In fact they are putting an artificial 1.5 degree number where the world is in fact going to be a 2.2 degree world. So you are, by not accepting the fact that we are away from or never gonna get to 1.5 degrees, you are actually inflating the cost of what your citizens need to pay or should pay in a comparable manner to what other citizens in other parts of the world might land up paying and that creates trade tensions between the countries who are overpaying and the people that they feel are underpay. And that trade tension is gonna play out very, very significantly near the course of the next five years.

Peter Zaman (19m 20s):
As you know, those policies get implemented throughout the world, throw into the mix what happens with a Trump presidency if the Trump presidency turns towards Paris agreement like it did last time and says, you know what, this is all our oaks, let's walk away from the Paris agreement. If that also happens, where do we go at that point. We have no international tool to coalesce people and countries around activity. So the way to think about voluntary carbon markets is it's a hedge against a lot of problems that will follow for countries not doing the right thing. So instead of encouraging corporations to do what they can do, we are demonizing them for doing that. And that is the irony of essentially what has happened in carbon markets 2.0 and the people who've been pushing that are the ones who know that that is the result of what they're doing, but they have their own reasons for doing so. And I don't think those reasons are necessarily rational. So whether they are personal, whether or not they're ideological, I don't know, but they're certainly not rational because the rational thing to do is to deploy every tool you have available to you to deal with what is otherwise a crisis and not ignore the tools that you have spent 20 years developing and put your hope in a basket of tools that you've never really successfully been able to scale. That's just not rational behavior.

David Greely (20m 47s):
I wanted to bring you back to this idea of willingness to pay if it's $400 a ton for a removal credit and I think one area that you have been writing on pretty extensively over the course of this year has been the carbon offsetting and reduction scheme for international aviation CORSIA and I think that's a wonderful use case for willingness to pay right in that airline travel, it's important for business, it's important for people's leisure, it's not heating your home, it's not keeping the lights on. There is some element where there could be flexibility in creating that, okay, maybe I need to pay more because of the very direct connection to emissions with jet fuel for example. And I wonder if you look at that use case and how that's being implemented, could you describe where we are right now in CORSIA, is that an area where you Are saying maybe this is a path forward for a more pragmatic approach and taking some of these tools that we HAVE developed over the past 20 years and implementing them in more of a compliance scheme?

Peter Zaman (21m 51s):
Thank you for highlighting the work we have been doing in the CORSIA space, particularly the two papers as a third paper coming out soon as well, which is much more focused on sustainable aviation fuels. The takeaway that I would have is there is a danger when you blur the line between what is a voluntary market and what is a compliance market and one of the big challenges that I think CORSIA has faced is its transition from what it calls the pilot phase where essentially it allowed voluntary carbon units to be used by allies to meet voluntary or pilot phase commitments, which were none versus what we are seeing in the first phase of CORSIA where the credits have to be of a certain minimum integrity and grade because there is a concern that international aviation emissions, which are accounted for under the ICAO Treaty when measured or compared against or adjusted against offsets that are generated within countries that are palace green countries using a Paris agreement accounting ledger are capable of being used to double counted or double claim.

Peter Zaman (23m 08s):
That's the concern that has driven the differential treatment to how the same tongues that worked for the pilot phase of CORSIA can no longer be used in the first phase of CORSIA and in order to deal with the perception of this properly, which is when a country enables a carbon offset to be achieved by delivering on the methodology that needs to a minus one abatement, that reflects a reduction on their country's ledger if you will, the accounting balance sheet and when an international aviation ton, which is outside that country's measure outside the Paris agreement measure is then subject to an adjustment because you're taking the plus one from the international aviation emission and neutralizing it or offsetting it with the minus one ton produced by the country. The concern is that that is a claim being made by an airline on the one hand as well as being reported as part of that country's GHG accounting ledger in the country.

Peter Zaman (24m 16s):
And therefore that is some form of double claim. I don't know that that double claim concern justifies what follows next, which is that the tool to address the problem has been to force a country the host country who is allowing the time to being used by CORSIA to require a corresponding adjustment of that country's ending seen balance sheet and the reason why I say that that's not necessarily justified tool is because the idea of corresponding adjustments is a tool that only was ever designed in respect of transfers occurring between two countries who are using Article 6 units under the Paris Agreement to help meet their NDCs. That's the scenario where both countries have to do a corresponding adjustment, one does a plus on their balance sheet and they are using country as a minus in their balance sheet and that's a double counting issue. What you then have is where you use the unit for voluntary purposes or CORSIA purposes where the host country, if it is an Article 6 unit, has to then do a corresponding adjustment and that's the Article 6 rule.

Peter Zaman (25m 29s):
But what the CORSIA tab has done that technical advisory board has done is they have said, you know, these voluntary stuff that we were using in pilot phase, why don't we get the countries who acquire caution on linear adjustment against their voluntary stuff. So now you are blurring the line between what is an Article 6 unit and a tool of corresponding adjustment that is designed around the about a six unit and you are now forcing that tool to be used in something that is not an Article 6 unit. So what you are now doing is you are blurring the line between voluntary and compliance because you're now saying the voluntary time suddenly overnight becomes a compliance time if a host country is willing to bear the penalty of doing a corresponding adjustment. Now that's fine, but you are really blurry the lines there and if you are going to blur the lines, you better well be clear about how corresponding adjusting is going to gonna work.

Peter Zaman (26m 21s):
But we can't be clear about that because it's a tool developed under Article 6 and guess what. Article 6 hasn't been able to be created in any real way to be properly up and running because at COP 28 parties decided that they couldn't agree on how article section worked properly and that's been kicked into the dust at least until COP 29 and maybe even beyond that and this is after the fact that took till COP 26 before we can even agree that Article 6 should be made operational. Now it's operational in theory but not off the running. So we don't actually know how corresponding an adjustments should or should not work and yet we have CORSIA saying that that is the tool in order to deal with this perception that we have about double claim. So you know, you're running way ahead of what the market solutions are capable of delivering.

Peter Zaman (27m 08s):
You're dumping sovereign risk on airlines or on the standards who are otherwise being asked to ensure that the corresponding justing being done by post country and you are doing so for a perceived risk that is probably not as big a deal as we think it's so you are painting yourself into a corner unnecessarily, almost setting yourself up to fail. Because one of the practical consequences of the country's not being ready for Article 6 purposes is that they don't have a corresponding adjustment framework in place and without a corresponding adjustment framework in place, the tons that are otherwise supposed to be supplied into CORSIA cannot benefit from the corresponding adjustment. So you are in this position where you've painted yourself at the core for no particularly good reason. You are setting yourself up to fail and guess what the people lurking around the corner who are wait waiting for you to fail are the EU who have previously tried to bring international aviation into the EU ETS the way they did with shipping last year.

Peter Zaman (28m 10s):
They did that with aviation back in 2008 and they put this temporary pause on it based on, well if you go and make a success, if a corer then I don't need to have this pause, but I will stop the clock on this pause if CORSIA here doesn't work and guess what we are designing CORSIA doesn't work because we are insisting on lowering the line between what is a voluntary solution and a compliance market solution without necessarily thinking about whether or not the tools are fit for the purpose. So in one sense I feel that corer is almost been set up to fail so that you can be in a position where all of a sudden in two years' time the EEN turns around and says, you know what. They HAVE given you 10 years to sort yourself outsource corer. It's clearly not working, there's no deliverable supply into this market. So that's where I think the unfortunate state of play with Corsair is today. Can it change? Yes it can. Will it change overnight? I don't think so.

David Greely (29m 08s):
And we saw one of those very practical consequences just the past week when the internet continental exchange ICE suspended its December 24, CORSIA eligible emissions units futures contract after a lack of deliverable supply of credit strove traders to close all of their positions in that particular futures contract. Listening to you coming back more and more to that sense at the beginning of the conversation that we are really kind of seeing large disagreements about the type of system we should have playing out in these smaller details. So whether it's between the EU model and the CORSIA approach, whether it's between the voluntary markets and more of a Paris regulatory scheme, it seems like we Are having a lot of these disagreements over what seem like small technical matters, but it's really driven by wanting a different approach to how we do things. A little bit of a fight over systems, between different groups And I guess that brings me a little bit to the European Union model, which is to take its own cap and trade the ETS and try to export its carbon price and expand the scope of its regulations beyond its borders. This began arguably with the carbon border adjustment mechanism. You mentioned international shipping and is now also being expanded through new methane regulation that you HAVE written about. So I was wondering if you could kind of walk us through that approach that the EU is taking and how it's being implemented through these new methane regulations.

Peter Zaman (30m 42s):
So the methane regulation like clan should just mention is in one sense I would hesitate to use the word protectionist because the argument but the EU would say is that it's more a protectionist tool, but in practice it has a protectionist effect and I will explain why what CBAM is otherwise saying is, as we HAVE talked about I think in a previous podcast, is that the EU doesn't necessarily say to a foreign country who is exporting its aluminum to the EU that I expect me to pay me for the carbon cost differential between your country and my country when it comes to aluminum GHG emission tons from production, I expect you to put a price yourself and you will bear that price and in which case I will recognize that you have got a carbon price and therefore I will not have to take your money. I mean that would be the effect of the CBAM policy on the face of it.

Peter Zaman (31m 37s):
But the reality is a country like Indonesia may not be able to bear an €80 over ton carbon price, not on day one, maybe in 2060, maybe in 2070, but in the meantime it can't but the EU CBAM policy doesn't recognize that Indonesia is not the same economy as the EU and therefore came on bear a carbon price, which is the same price as the EU. So it always lands up being the case that for political and other practical reasons, no third country government like Indonesia, my example, will put an €80 ton price on aluminum anytime in the next, I would say five years and therefore for five years the GU will receive a lot of money as a compensation to protect its own industry for the loss of business that will follow to the aluminum sector from carbon leakage. And that's the reality.

Peter Zaman (32m 29s):
And what they are doing with the methane regulation is recognizing that there is an effort to ensure that methane emissions are managed better than they are. There has been a disproportionate focus on CO2 emissions. If you think about what all of the EETS processes have been, they have started out by predominantly trying to regulate CO2 emissions and then they have expanded into other greenhouse gases and CO2 emissions are what we have the most in the atmosphere. But actually methane emission abatement is a very, very powerful thing to do because it has a disproportionate atmospheric effect because methane is so much more environmentally damaging than CO2 emissions and one of the reasons why the US and China have maintained dialogue and cooperation around methane is because they both recognize that that has actually more effect in terms of environmental benefits than talking about CO2 between the two of them.

Peter Zaman (33m 27s):
So the EU's position that they would adopt a approach that therefore controls or tries to control methane emissions is not surprising. But what they are really saying is that we have in the regulations to restrict the sources of emissions associated with methane in coal oil and hill and G production and we think that other countries should adopt standards that are not too dissimilar from others. So the methane regulations like CBAM starts off by saying, I expect MU to deliver to me GHG data associated with production and that's the story for the first two years and then two years later they say, well actually thank you for the data you gave me, but it's not in the MRV standard that I would expect and therefore I would like you to do it to my MRN standard. So you are adding the operational administrative burden on the producer to start supplying that data.

Peter Zaman (34m 24s):
And then it says two years after that that actually, you know what, thank you for that data, but now I want the methane in intensity data rather than just the actual GHG data. So I now need you to report methane intensity and by the way, eight years from now, just be aware I am going to set a methane intensity benchmark, which means that if your benchmark is, if the product that you are selling doesn't fall below this benchmark, then I'm not gonna allow that methane source of product, whether that's oil, coal, or LNG and in which case you are very welcome to sell it elsewhere. So when you start thinking about points that Daniel Rogan, I think made him your most recent podcast with him about how governments are moving away from focusing on decarbonization because they have to recognize security of supply, you are now in the situation where you are painting yourself into a corner again by insisting that only certain types of products can come into the EU that meet the criteria that was settlement.

Peter Zaman (35m 31s):
And by the way, you very well know from past behavior that as soon as push comes to crunch and you have a Ukraine style energy crisis caused by suddenly stopping your source of supply, you are going to roll back on every rule that you have ever written that suits you on the justification of energy security. So why put in a place, a set of rules that has yourself into a corner knowing fully well that when a crisis happens, you are able ignore your own rules, but in the meantime you have force rules on down everybody else's took and that seems to be the, the general direction of how both CBAM works as well as how the methane regulations work. Oh, and by the way, that's not the end of it. You have got the deforestation regulation, you have got the a supply chain due diligence regulation and all of these regulations are more or less designed around the same approach, which is we, the EE believes that our way of doing things is the way the rest of the world has to do it.

Peter Zaman (36m 30s):
And it's, you think you want to supply your own goods into our market and you believe that our market is an important thing for you to send to then by all means you will follow our rules and that basically is more what I describe as a stick because they are saying that it's your condition for market access, then it is a carrot which says I am going to pay you a green premium. By the way, for you being a good corporate producing citizen and producing these things according to my rule, they are not saying for one minute there is a premium attached to being a good corporate supplier. But what that translates to in fact is the price of market access and it's the price that the

supplier has to pay, which ultimately is going to be borne by the citizen because the cost of that EU condition and EU based supply is going to be so much higher than what another country that isn't following the same rules is going to apply. So then you realize that in order to protect the union from that lack of competition, it has no choice but to actually insist on imposing its rules on other countries to avoid that loss of competition and that's when you start seeing the beginnings of trade wars between countries.

David Greely (37m 43s):
First off, I want to thank you for the conversation. It's always great and I wanted to ask you a question. You have used the phrase a few times in this conversation now, which is painting ourselves into a corner and it seems like there's a lot of examples where either we're painting ourselves into a corner or we're painting someone else into a corner. So I wanted to ask you, when you look around, what is the big thing we need to be doing or focusing on so that we stop painting ourselves into a corner because we do need to make meaningful fast progress here?

Peter Zaman (38m 16s):
I think the challenge has been market mechanisms are good because they are less bureaucratic, they are more nimble and more capable of adapting to circumstances in providing solutions. So private sector innovation has always been capable of addressing a lot of things that government sector policy approach proceeds haven't necessarily been able to approach and policy approaches which are less market orientated, which is a lot of what the stick solution is being thrown out there are have one very clear cut effect, which is they do force you to do things that you didn't otherwise want do. In other words, they take voluntary choice away from you and convert it into compulsion. Now if you legislate compulsive behavior or change in behavior, which is what all of these regulations that decide to do, what you are doing with legislation is you are writing a rule book and therefore you are creating a widget set of formulaic approaches that limit people's choices because, and in, in order to do anything different, they've run the risk of breaching the law.

Peter Zaman (39m 28s):
And if you start breaching the law, then you just have to start paying penalties and that means you don't do it because you have literally got no choice but to comply with the law. Most corporations don't go out there and looking to break the law, they look to comply with the law. So you are leaving yourself with zero flexibility when circumstances happen that you had not counted on when the legislation was passed. You know, if you think about the Paris Agreement, it was designed at a time when what I would call peak globalization. 10 years on, we look at the Paris agreement and we say, well it was designed around a globalized world, but we don't really have a globalized world anymore. So how is that going to work? Did we foresee deglobalization when the agreement was being negotiated? Probably not. Is that what we have today?

Peter Zaman (40m 14s):
Yes, that's the reality. So when you start passing legislation which forces behavior, rather than let market forces impose or change behavior, you do achieve results but you do it in a much more restricted and rigid way and that's the difference, if you will, between maybe the IRA approach in the us, the Inflation Reduction Act and what the EU is doing in terms of mandating or obliging people are doing in a very prescriptive way and that prescriptive way doesn't mean you will, flexibility doesn't need you with adaptability and if it does, it comes at with delay and at a cost and that cost is ultimately born by citizens. So that's why I talk about painting yourself in the corner is a bad thing. But why I also say don't give up faith on market mechanisms because you, in one sense, the flexibility to deal with crisis through the market is what we have historically been doing for all this time and suddenly move away from that without knowing what the alternative is and how the alternative is going to deliver it, I think is a very scary proposition.

David Greely (41m 18s):
Well thanks for taking some time away from your summer to spend with us, Peter, it's always great catching up with you. I did want to ask you before you go, this is our summer playlist series and it's become a bit of a tradition to ask each of our guests what's on their personal beach reading list this summer. So I wanted to ask you, what are you reading this summer, Peter?

Peter Zaman (41m 37s):
Well, first of all, I don't read that much because I feel that my entire job is based on reading all day long. But when I do pick up a book, I do so very with a great deal of sort of thought on topics that I really want to learn all about. So I came across a book published by a historian called Sathnam Sanghera and it's called *Empireworld: How British Imperialism Has Shaped the Globe*. I haven't read it yet. It's on my, as you say, my to-do list for my summer holidays but I am looking forward to sort of seeing how with the prism of, with the ability to look back and seeing the consequences of your actions, what the future tells you that you didn't know at the time you did it, but is a consequence of what you do. And that has, I think, has parallels with the world we are about to walk into right now.

David Greely (42m 25s):
Thanks again to Peter Zaman, Partner at HFW in Singapore. We hope you enjoyed the episode. We will be back next week with another episode of our Summer Playlist 2024. We hope you will join us.

Announcer (42m 38s):
This episode was brought to you in part by Abaxx Exchange, where trading in centrally cleared, physically deliverable LNG and Carbon futures contracts is now underway. Ready for smarter markets. Contact us at onboarding@abaxx.exchange.
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