

Establishing a legal framework for carbon tax in Vietnam under the impact of the *EU–Vietnam Free Trade Agreement*

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Abstract: Vietnam is among the countries most vulnerable to climate change, facing critical challenges, such as rising sea levels, increasing frequency of extreme weather events and substantial greenhouse gas emissions from fossil fuel consumption. In response, Vietnam has committed to achieving net-zero emissions by 2050 and is actively exploring carbon-pricing mechanisms. In this context, the implementation of a carbon tax has emerged as a key market-based instrument to internalize the external costs of carbon emissions, incentivize industries to adopt cleaner technologies and drive a transition towards a low-carbon economy. This approach not only aligns with global sustainable development goals, but also strengthens Vietnam’s competitiveness in international markets, where low-carbon products are increasingly prioritized.

Given the current dynamics of economic cooperation with the European Union under the *EU–Vietnam Free Trade Agreement (EVFTA)*, it is imperative for Vietnam to thoroughly learn the EU’s Carbon Border Adjustment Mechanism (CBAM), which prevents “carbon leakage” by imposing a carbon price on imports of certain goods from countries with less stringent environmental regulations. Critical analyses of the CBAM rules can serve as a basis for Vietnam to design and implement a carbon tax system that effectively addresses sustainable development goals.

Keywords: *carbon leakage, carbon pricing, carbon tax, CBAM, EVFTA*

1. The general context of the formation of carbon tax in Vietnam under the impact of the *EVFTA*

Climate change refers to significant alterations in global climate patterns, predominantly resulting from human activities that modify the composition of the Earth's atmosphere, complementing the natural climatic variations observed over comparable time periods. This definition was established at the United Nations Conference on Environment and Development, held in Rio de Janeiro in 1992.

It is widely recognized that climate change significantly impacts the quality of life, human health (Sheffield *et al.*, 2014) as well as national economies. Both the international community and individual nations need to make efforts to combat climate change. Among the various mitigation strategies, reducing greenhouse gas emissions is paramount (Švikruhová, Zábajníková and Kapsdorferová, 2023). One particularly effective measure is the implementation of a carbon tax levied on the carbon content of fuels or the CO₂ emissions produced from burning fossil fuels (Zimmer, 2008).

Economists widely agree that carbon tax is one of the innovative instruments that provides effective ways to curb climate change with minimal adverse economic effects. It is believed to be an efficient tool for mitigating climate change, one that is easy to implement, manage and supervise by the state (Kerr, 2010), increasing producers' interest in their choice of raw materials or the location of business establishments (Zimmer, 2008). It also generates more financial resources for the state to invest in constructing infrastructure to respond to climate change.

Regardless of the above advantages, opposition to the application of a carbon tax persists because it is argued that energy taxes in general, and carbon taxes in particular, will not be effective given that most taxes are ineffective (Christian, 1992), as they will increase social costs and constrain employment opportunities. Despite the above objections, it is clear that carbon taxes have impacted the response to climate change (Aldy and Stavins, 2011) and have been adopted in many countries because of their "predictability and transparency" (Kerr, 2010). They have been effective as consumers themselves begin to realize their responsibility to society through their choice of goods and services offered by socially conscious enterprises (Nguyet, 2021). This has been demonstrated in over 35 countries and territories in Europe and Asia that have implemented and adopted carbon taxes (Metcalf,

2021). The number of carbon pricing instruments in operation worldwide is now 75 (World Bank, 2024).

Table 1: Greenhouse gas emission levels of countries in Southeast Asia (Source: Worldometer, 2023.)

	Country	CO ₂ emission (tonnes, 2022)	1-year change	Population (2022)	Per capita	Share of world
6	Indonesia	692,236,110	13.14%	278,830,529	2.48	1.80%
18	Vietnam	327,905,620	-2.90%	99,680,655	3.29	0.85%
22	Thailand	282,445,820	2.23%	71,735,329	3.94	0.73%
23	Malaysia	277,531,770	6.50%	34,695,493	8.00	0.72%
24	Taiwan	275,573,980	-4.52%	23,420,111	11.77	0.72%
57	Singapore	53,439,690	-2.96%	5,649,885	9.46	0.14%
66	Myanmar	37,394,010	0.73%	53,756,787	0.70	0.10%
72	Hong Kong	32,439,160	-5.74%	7,465,915	4.34	0.08%
89	Laos	20,125,910	-0.44%	7,559,007	2.66	0.05%

With Vietnam’s current greenhouse gas emissions standing fairly high (18th worldwide and 2nd in Southeast Asia) based on the data provided in Table 1, the urgency of designing and adopting measures focusing on reducing greenhouse gas emissions to tackle climate change problems and ensure sustainable economic development for the country cannot be overstated (Tin, 2020). The Vietnamese government has been actively exploring carbon pricing mechanisms, including the implementation of a carbon tax. One of the most pressing issues for Vietnamese policy-makers is preventing “carbon leakage”, where emissions shift to countries with less stringent policies. As noted by Aldy and Stavins (2011), such leakage can undermine global emission reduction efforts.

Robust economic and trade cooperation with the European Union—a leading partner in climate change mitigation and green transition—is viewed as a valuable opportunity for Vietnam to reform and enhance its environmental protection and sustainable development policies. Vietnam has actively negotiated and reached agreements with the EU concerning environmental sustainability and trade requirements within the framework of the *EU-*

Vietnam Free Trade Agreement (EVFTA). Accordingly, the Preamble of the *EVFTA* specifically states that the parties are

determined to strengthen their economic, trade and investment relationship in accordance with the objective of sustainable development, in its economic, social and environmental dimensions, and to promote trade and investment under this Agreement in a manner mindful of high levels of environmental and labor protection and relevant internationally recognized standards and agreements (European Union, 2016).

The objective of sustainable development and environmental protection are essential factors for cooperation within the *EVFTA* framework. This content is further concretized in accordance with the provisions of Chapter 13 of the *EVFTA*, titled ‘Trade and Sustainable Development’. The chapter aims to promote sustainable development by addressing trade-related aspects of labor and environmental issues, including climate change (Duong and Trang, 2024) and emphasizes the importance of upholding high levels of environmental protection, conforming to international standards and fostering cooperation between the parties to achieve sustainable outcomes. Specifically, Article 13(6)(1(a)) of the *EVFTA* mandates that the parties consult and share information and experiences on priority or mutual interest areas, including best practices and lessons learned in designing, implementing and operating mechanisms for carbon taxation.

This article explores the need to establish a carbon tax framework in Vietnam in light of the *EVFTA* and the EU’s CBAM. While financial instruments used to influence human behavior regarding the environment are not the focus of this analysis, the study attempts to explain the positioning of the carbon tax in Vietnam’s tax system, identify the key design features for this type of tax and propose a legal framework aligned with EU practices and international standards. Employing a doctrinal methodology, the study outlines the regulatory requirements for developing a carbon tax under the *EVFTA*. Additionally, it uses data collection methods to analyze secondary data on Vietnam’s greenhouse gas emissions, synthesizes existing research on carbon taxation and examines the EU’s carbon pricing mechanisms. The objective of this article is to construct a well-founded argument advocating for a legal framework for carbon taxation in Vietnam.

2. The impact of the EU's CBAM on the formation of Vietnam's carbon tax

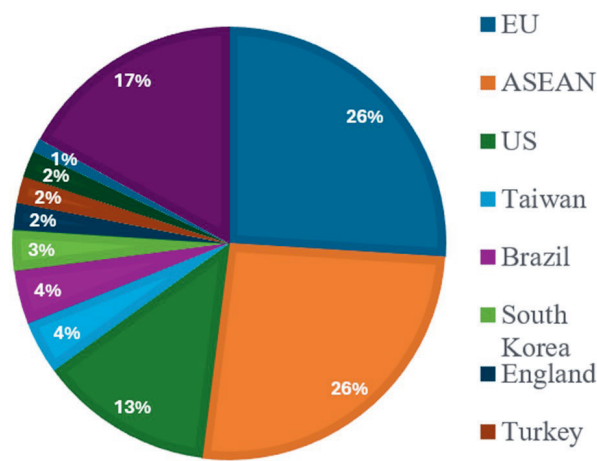
Currently, the EU and its Member States have been applying two types of carbon control policies—the emissions trading system (EU ETS) and the carbon tax (Ramadhani and Koo, 2022)—to solve the problem of emissions from carbon products affecting the environment. However, if other countries do not apply comparable measures to work together to protect the environment, as mentioned above, it will easily lead to “carbon leakage”. Therefore, the EU has applied the Carbon Border Adjustment Mechanism to reduce “carbon leakage” as well as ensure the competitiveness of businesses in the EU.

The CBAM is designed to levy charges on imports based on carbon emissions produced during manufacturing. Initially targeting sectors such as iron and steel, aluminium, cement, fertilizers and electricity, the CBAM aims to prevent “carbon leakage”, a situation in which companies might relocate production to countries with less stringent emission regulations. Therefore, it significantly impacts export-oriented countries like Vietnam.

According to statistics, Vietnam's export turnover to EU countries in 2022 and 2023 reached 46.8 billion US dollars and 58.6 billion US dollars, respectively (Truc, 2024), while in 2024, Vietnam's trade surplus to the EU was 35.4 billion USD (Ngoc, 2025). In the first five months of 2024, Vietnam's steel exports to the EU accounted for 24% of total export pressure (Table 2). This shows that the EU is a very important market for Vietnamese steel. Vietnam's steel industry has an average CO₂ emission of 2.51 tonnes of CO₂/tonne of crude steel, which is above the global average of 1.85 tonnes of CO₂/tonne of crude steel (Ministry of Industry and Trade, 2022). Therefore, steel and commodities such as aluminium, cement and chemicals exported from Vietnam to Europe will be subject to CBAM.

If Vietnam does not have the tools to adapt to CBAM, Vietnam's steel, cement and aluminium products exported to the EU will be subject to certain market barriers. At that point, there are essentially only two solutions to address the problem: Vietnamese exporters would have to buy carbon certificates to offset the carbon emissions associated with their production processes, or Vietnamese enterprises would need to upgrade their technologies and utilize alternative raw materials to reduce carbon emissions, thereby aligning with the EU standards. This would immediately lead to an increase in the cost of production and, eventually, in the selling price of export goods.

Table 2: Top 10 steel export markets of Vietnam in the first 5 months of 2024 (Source: Vietnam Steel Association, 2024.)



Should the CBAM extend beyond its current focus or if other trading partners adopt similar mechanisms, Vietnam’s exports could face increased pressure, which would significantly impact the national economy. This scenario underscores the necessity for Vietnam to explore effective solutions, with the implementation of a carbon tax emerges as a viable strategy. Some may oppose carbon pricing policies, arguing that they would increase production costs and thus reduce the overall price competitiveness of Vietnamese businesses. However, in a global context which increasingly emphasizes environmental protection and sustainable development, implementing such policies is essential for Vietnam to strengthen its integration into global supply chains. Adopting carbon pricing not only helps Vietnamese manufacturers meet international environmental standards, but also drives technological innovation, enhances efficiency and therefore reduces long-term costs.

Implementing a carbon tax in Vietnam would promote a greener environment as well as ensure effective market access to the European Union, thereby maintaining competitiveness in this crucial market. Moreover, establishing a carbon tax could serve as a catalyst for Vietnam’s transition to a low-carbon economy, thus encouraging industries to adopt cleaner technologies and practices. This proactive approach would consolidate Vietnam’s position in international trade, especially as more countries are implementing measures to combat climate change.

3. Developing a legal framework for carbon tax in Vietnam

Designing a carbon tax system, as analyzed above, is essential for Vietnam in light of its current economic integration. Such a system must not only aim at mitigating climate change but also support sustainable economic growth and integration into the global economy. Drawing upon the EU practices, the legal framework for Vietnam's carbon tax should address the following issues.

3.1 Positioning the carbon tax in the national tax system

The carbon tax, in theory, is a component of the environmental tax that aims to impact the use of fossil fuels to reduce carbon emissions and protect the environment. In Sweden, carbon tax has been added to the energy tax since 1991. In France, the carbon tax is not a standalone tax but is added to the energy consumption tax, which is a domestic tax collected from the consumption of energy products (Duong and Hien, 2022). According to the author, this approach is logical because instead of separating the regulation with a special tax, it is possible to include a carbon tax as an additional tax in the existing taxes, which will make it simpler to enforce and apply.

In Vietnam, the current *Law on Environmental Protection Tax (LEPT)* also aims at the reduction of air pollution by imposing taxes on goods that have a negative impact on the atmosphere. The environmental protection tax (EPT) is currently imposed on goods that release CO₂ upon consumption and negatively impact the environment, such as gasoline, diesel, and coal. While this approach aligns with the principles of carbon tax, aiming to reduce greenhouse gas emissions by taxing products based on their carbon content, the EPT is not inherently a carbon tax because its tax rate is determined not based on the amount of CO₂ emissions released into the atmosphere by the goods. Instead, the existing EPT imposes fixed rates on specific goods without directly reflecting their actual environmental impact in terms of carbon emissions. This results in an ineffective pricing mechanism, where some highly polluting activities are under-taxed, whereas others may be overburdened. Meanwhile, the carbon tax is designed to price the CO₂ pollution costs that goods impose on the environment, compelling individuals and businesses to bear financial responsibility for the negative impacts they cause, while also encouraging the use of environmentally friendly products.

To enhance the effectiveness of the *LEPT* in addressing carbon dioxide air

pollution, Vietnamese legislators should consider adjusting the tax calculation methods to align with those of the carbon tax currently implemented in most European countries. This approach would not only provide a more accurate reflection of the environmental impact of each product but also encourage the use of cleaner, more environmentally friendly energy sources.

Integrating carbon tax into the existing EPT framework is a feasible strategy. This integration would streamline tax administration and enforcement, leveraging the established legal and institutional structures of the EPT. Countries such as France and Sweden have successfully implemented carbon-based taxation by directly pricing CO₂ emissions per tonne during the last decade. For instance, France introduced its carbon tax in 2014 at 7 euros per tonne of CO₂, gradually increasing it to 44.60 euros per tonne by 2018 (Fabre and Douenne, 2022); while Sweden introduced its carbon tax in 1991, initially set at 250 Swedish krona per tonne of CO₂ (approximately 27 euros at that time), and progressively raised it to 930 Swedish krona (approximately 114 euros) by 2007 (Cheung, 2024). The carbon tax policy has significantly reduced fossil fuel consumption in these countries. Vietnam can adopt and tailor these best practices when reforming its EPT, ensuring that the tax structure is fair, effective and aligned with global climate policies.

3.2 Determining the subject to carbon tax

An important goal of carbon taxes is to reduce greenhouse gas emissions by working to limit the use of potentially high emissions. In Sweden, according to Article 1, Chapter 2 of the *Energy Tax Act*, taxable fuels include gasoline, oil (light oil, heavy oil, kerosene, except crude oil), coal and natural gas.¹ In France, gas, oil, coal and transportation fuels are taxable by the carbon tax (Rocamora, 2017). This shows that the main group of objects identified as subject to the carbon tax are fossil fuels that, when used, create a high amount of CO₂. A comparison of these carbon-taxable objects with the taxable objects of the current *Environmental Protection Tax Law* also reveals certain similarities. Therefore, when defining the taxable objects of a carbon tax, it is essential to identify fossil fuels as the primary goods subject to taxation. This distinction is crucial because fossil fuels are the largest source of CO₂ emissions in Vietnam. Accordingly, CO₂ has consistently been the dominant greenhouse gas emitted by the energy sector and industrial processes, accounting for 88.563% and 99.897%, respectively (Ministry of Natural Resources and Environment, 2020).

¹ Natural gas is a mixture of combustible gases, composed mostly of hydrocarbons.

Therefore, prioritizing carbon taxation on fossil fuels with high CO₂ emissions is a key consideration for the international community. In addition, taxing other greenhouse gases is less practical at this stage in developing countries such as Vietnam. While it is true that other greenhouse gases (such as methane, nitrous oxide and fluorinated gases) contribute to climate change, imposing a tax on them may not be as effective in the current period (Alharbi, 2019). Measuring methane and nitrous oxide emissions requires specialized equipment. Given the high costs and technical challenges, implementing a taxation system for these emissions may not yet be feasible in Vietnam.

Globally, there are two main approaches to calculating carbon taxes, depending on a country's policy perspective: taxing carbon at the source, which is applied to fossil fuel suppliers, based on the carbon content of fuel sales, and taxing the final emitter, imposed at the point of energy consumption, where CO₂ emissions occur (Aldy and Stavins, 2011). Under the first approach, adopted by many EU Member States, refineries and importers of petroleum products would have to pay taxes based on the carbon content of their gasoline, diesel fuel or oil. The advantage of this method is that emissions from fuel combustion can be determined using standardized carbon emission factors (United Nations, 2021). This method incurs low tax management costs but does not ensure the principle of fairness (Hemels, 2014), as emissions for the same fuel may vary depending on modern technologies. In the second approach, which is currently only available in Chile, Singapore and South Africa, a carbon tax would regulate the amount of emissions. In theory, this method ensures fairness when collecting taxes based on the amount of gas emitted by users. However, this method requires a system of equipment to measure emissions accurately, which increases the cost of the tax collection process.

Based on the above analysis, it is proposed that Vietnam's carbon tax be initially applied to crude oil, oil products, gaseous hydrocarbons (gas) and coal. This approach, which taxes carbon at the raw material stage, ensures efficiency, aligns with the current LEPT and minimizes administrative costs. While it may not fully ensure fairness, it is a practical and feasible approach for integration into Vietnam's tax system. As the economy grows and tax administration improves, Vietnam can gradually transition to taxing fossil fuel users, thereby enhancing fairness and improving the effectiveness of emission reduction efforts.

3.3 Identifying carbon taxpayers

Legislators prioritize administrative simplicity and efficient tax collection when determining the taxpayers. A key taxation principle ensures that the system is enforceable and effective in terms of compliance and revenue generation. When taxing specific goods, governments typically designate importers and producers as primary taxpayers as they act as control points in the supply chain. In carbon taxation, many countries have adopted this approach to enhance efficiency and enforceability. The EU's CBAM, for instance, requires importers of regulated goods to pay carbon tax (Articles 4 and 5). This simplifies tax administration by targeting a limited number of entities rather than by tracking numerous end-users. By consolidating taxation at the earliest stage in the supply chain, governments ensure efficient collection, reduce administrative burden and strengthen oversight. This principle is widely applied in environmental tax systems, reinforcing accountability and compliance.

Therefore, it is recommended that when introducing a carbon tax in Vietnam, taxpayers should be identified as entities engaged in the exploitation, production and importation of goods subject to the tax for the following reasons:

- a) These activities mark the first appearance of fossil fuels in Vietnam, making them available for use and carbon emissions. Targeting taxation at this stage minimizes administrative costs and simplifies tax procedures for the state.
- b) This approach aligns with Article 4 of the *LEPT*, ensuring that the introduction of a carbon tax does not alter the existing tax collection framework. By maintaining consistency with the current system, this method provides greater convenience for taxpayers, while supporting effective enforcement.

3.4 Establishing the carbon tax calculation method

The carbon tax calculation method applied in many countries is based on the absolute tax rate per tonnes of CO₂. The application of absolute tax rates is quite appropriate and also simple for calculating carbon tax because at that time, the state will determine the volume of fossil fuels, emission coefficients and absolute tax rates. Based on the success of European countries, Vietnam may consider using the same emission factor as the parameter for calculating

the carbon tax rate for specific goods. Accordingly, it is suggested that the carbon-based tax formula be defined as follows:

Carbon tax amount = [(**Volume of taxable object** × **Emission coefficient**) – **Amount of emissions** obtained by taxpayers through the carbon credit market)] × **Absolute tax rate per tonne of CO₂**

The *volume of the taxable object* will depend on which unit the taxable object is measured in (litres, kilograms or tonnes).

The CO₂ greenhouse gas *emission coefficient* is a parameter that indicates the amount of CO₂ emitted into the environment from a certain unit of energy consumption or production. The introduction of this coefficient aims to simplify the calculation of emissions from different energy sources, thereby making it more convenient for entities to manage and control greenhouse gas emissions accurately and transparently to serve their activities. Vietnam has already issued ‘Decision 2626/QĐ-BTNMT of the Ministry of Natural Resources and Environment’, dated October 10, 2022, to announce the list of emission coefficients for the greenhouse gas inventory. Therefore, this emission factor can be used as the basis for calculating carbon tax.

The *absolute tax rate* refers to the specific amount taxpayers must pay per tonne of CO₂ emitted from the fuel they exploit, produce or import, based on estimated emissions during use. This tax rate should not be fixed but rather follow a structured roadmap, increasing over time. Gradual adjustments will allow the tax to influence market prices, making both producers and consumers aware of the rising costs. Consequently, manufacturers will be incentivized to seek cleaner, low-carbon alternatives to remain competitive and encourage a shift towards sustainable energy sources.

The above formula proposes that taxpayers could be allowed to deduct the emissions they obtain through the carbon credit market before calculating taxes to create a new link between the carbon tax and the carbon credit market and consider calculation when paying a carbon tax. Depending on the carbon index price of the carbon credit market, taxpayers can choose to either pay carbon tax or buy carbon credits to minimize the amount of carbon tax payable to the state. This deduction will create conditions for Vietnam’s fledgling carbon credit market. However, when applying this regulation, planners should note the following:

- a) There will be no carbon tax refund if the carbon tax amount is negative owing to the carbon credit deduction. Because the nature of the cash

flow in the carbon credit market is not included in the state budget, in principle, the state cannot use money from the budget to reimburse carbon tax.

- b) It is necessary to calculate carbon credit and regulate the carbon credit market more strictly to prevent the undervaluation of carbon credits and taxpayers from taking advantage of buying carbon credits at a much lower price to avoid paying carbon tax. This requires the development of carbon tax rates and the valuation of carbon credits based on the exchange of information and mutual control to improve the effectiveness of this regulation.

To achieve the aforementioned general objectives, Vietnamese lawmakers need to supplement the components of the *LEPT* as proposed. This would help to clearly define taxable objects and tax bases, providing transparency and consistency in tax implementation. Additionally, it would enable the government to develop effective carbon tax strategies while providing businesses with a clear roadmap for transitioning their production processes towards more sustainable practices.

The experience of European countries shows that clearly defining taxable objects and tax calculation methods provides a solid foundation for the mid- and long-term development policies of the government and businesses. European countries have adopted diverse carbon tax strategies to curb greenhouse gas emissions, while minimizing economic disruptions. Hence, many of these strategies involve gradual increases in tax rates, allowing businesses and households to adjust over time. Table 3 below demonstrates how some European nations have effectively scaled up carbon taxation over the last few decades.

Table 3: Carbon taxes rates and adoption year in selected European countries (Source: Rocamora, 2017; World Bank, 2024.)

Country	Year of entry into force	Initial tax rate (€/tCO ₂)	Tax rate in 2018 (€/tCO ₂)	Tax rate in 2024 (€/tCO ₂)
Sweden	1991	27	114	134
Denmark	1992	5	22.8	24.37
Ireland	2010	15	20	63.5
UK	2013	19	20	20.46
France	2014	7	44.6	44.6

Finally, to prevent overlapping taxation, it is essential to remove fossil fuel products from the original taxable objects of other laws, such as excise taxes (e.g., fuel duties and energy taxes) and value-added tax (VAT) applied to fuel sales. As these tax systems often serve different policy goals, they can unintentionally overlap, causing fossil fuel products to be taxed multiple times at different points in the supply chain. If fossil fuel products are taxed multiple times under different tax regimes, this can lead to a number of economic and policy challenges, including (a) increased costs for consumers and businesses, which can lead to inflationary pressures, disproportionately affecting lower-income groups; and (b) reduced predictability for investors (it is difficult to anticipate the true cost of carbon) thus affecting investment in low-carbon alternatives. The government should reclassify these goods under a carbon tax regime, ensuring the avoidance of double taxation while prioritizing the overarching objectives of the *LEPT*.

4. Conclusion

The introduction of a carbon tax is a crucial step for Vietnam as it is integrating into the global economy and pursuing sustainable development. This initiative reflects the nation's commitment to a greener future and aligns with the international environmental standards. However, the design and application of such a tax require meticulous planning to minimize "carbon leakage", the phenomenon where companies relocate production to countries with less stringent emission regulations, and to maintain a competitive environment for investors.

Drawing from the lessons learned from EU Member States can provide valuable insights for Vietnam. The EU's experience in implementing carbon pricing mechanisms, such as the Emissions Trading System and the Carbon Border Adjustment Mechanism, offers practical examples of balancing environmental objectives with economic competitiveness. For instance, the CBAM aims to prevent carbon leakage by levying charges on imports based on their carbon content, thereby encouraging trading partners to adopt similar carbon pricing measures. By studying these approaches, Vietnam can develop a carbon tax framework that not only meets its environmental goals but also ensures a level playing field for domestic industries in the international market. This strategic move will enhance Vietnam's position in global trade and contribute to the global effort against climate change.

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