

Enhancing Malaysia's competitiveness through Bursa Carbon Exchange and upcoming carbon policy

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Role of carbon markets in global decarbonisation

The global carbon market comprises compliance and voluntary carbon markets, which can promote global decarbonisation by complementing other emissions reduction measures. Regulatory bodies drive compliance markets, while voluntary carbon markets (VCMs) enable companies and individuals to voluntarily participate in carbon trading.

The use of voluntary carbon credits has been gaining traction as companies explore various net-zero pathways, although the market is currently hampered by oversupply and greenwashing criticisms questioning the quality of carbon credits. VCMs are a growing market despite uncertainties, with upcoming frameworks and international standards to bolster confidence in the market and ensure high carbon credit quality. The market value of VCMs was valued at ~US\$2bn in 2021 and is estimated to grow by at least 5 times to US\$10 – 40bn by 2030, according to a report by BCG and Shell¹.

Launch of Malaysia's national VCM

Malaysia launched its VCM called the Bursa Carbon Exchange (BCX), which is the world's first Shariah-compliant carbon exchange in December 2022. It aims to complement existing national efforts to combat climate change, and support Malaysia's ambition to achieve its target of net-zero emissions by 2050.

The launch of the BCX is the first step to broader carbon-related policies in Malaysia such as a carbon tax. Malaysia's New Industrial Master Plan (NIMP) 2030 highlighted plans to develop a carbon tax system and carbon accounting model, to encourage industry players to adopt more sustainable mitigation measures and reduce greenhouse gas (GHG) emissions (*see Global Markets Research report named "Comprehensive & Ambitious Reform Agenda"*).

As the BCX is at its early stages, it may take some time to scale up the supply of carbon credits and streamline the associated administrative processes. To incentivise companies to participate in the BCX as suppliers or buyers, BCX will be waiving its onboarding fee and offering a discount on its trading fee until the end of 2023.

¹ Shell and BCG published a joint report in 2023 on the VCM, specific to 2022 insights and trends. The report highlights market updates, growth possibilities and challenges faced by the market.

Guidance for stakeholders through Malaysia's VCM Handbook

A VCM Handbook, put together by Bursa Malaysia and Green Technology and Climate Change Corporation, was published to provide interested parties with guidance on the VCM mechanism in Malaysia. Other information includes types of eligible projects, VCM project formulation, methodologies, case studies, as well as relevant government incentives.

The focus is on nature-based solutions (NBS) and technology-based solutions (TBS) as the two project types that are allowed to be traded on the BCX currently.

NBS projects comprise two main categories, namely:

(i) Agriculture, Forestry and Other Land Use (AFOLU) projects, which Verra's Verified Carbon Standard (VCS) Program² categorised into six subtypes:

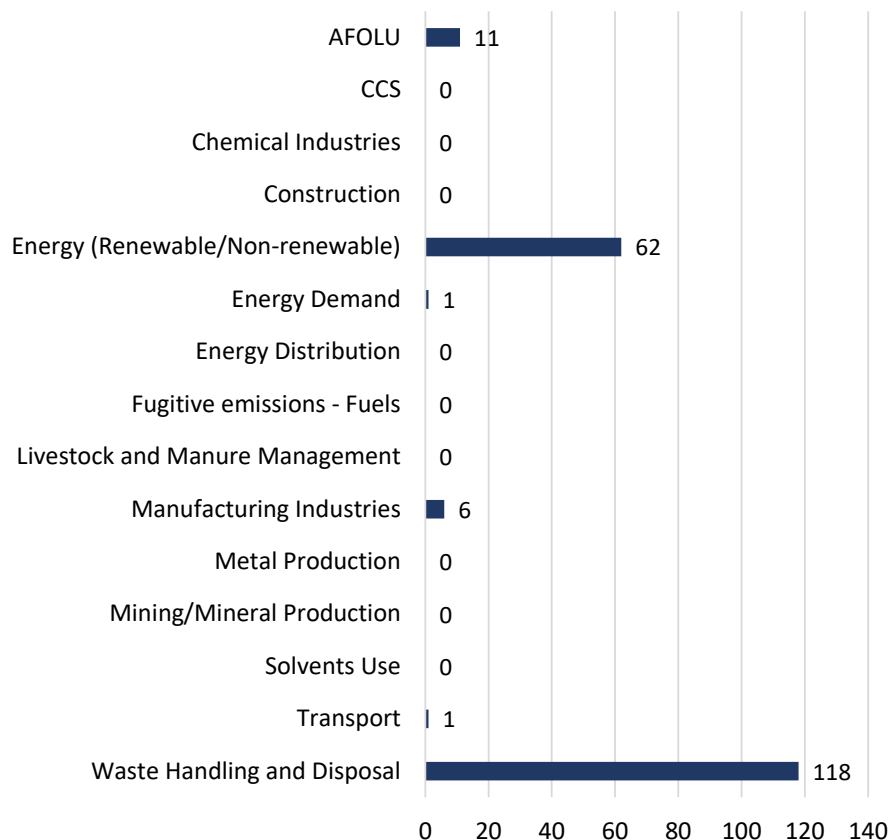
- a. Afforestation, Reforestation and Revegetation (ARR);
- b. Agricultural Land Management (ALM);
- c. Improved Forest Management (IFM);
- d. Reduced Emissions from Deforestation and Degradation (REDD);
- e. Avoided Conversion of Grasslands and Shrublands (ACoGS); and
- f. Wetlands Restoration and Conservation (WRC)

(ii) Livestock and Manure Management to achieve reductions in methane emissions produced from livestock enteric fermentation and manure decomposition.

TBS project categories include renewable energy projects and carbon capture and storage (CCS) projects, that many emissions-intensive industries in Asia can explore. This highlights the huge potential for Asia to generate carbon credits through TBS projects. As of 16 May 2023, there were a total of 156 projects registered or requesting for registration in Malaysia (Table 1).

² Verra's VCS Program is a global program and standard for GHG emission reduction and removal projects. It aims to enable the successful development of GHG projects and programs for the creation of high-quality GHG credits.

Table 1: Number and type of carbon projects registered or requesting for registration in Malaysia



Note: Some projects fall into multiple sectoral scopes, leading to a total of 199 projects that fall into the sectoral scopes (as of 16 May 2023). Source: Bursa Malaysia Berhad, Malaysia Green Technology and Climate Change Corporation, OCBC

The majority (~76%) of projects in Malaysia fall under waste handling and disposal, followed by energy (renewable/non-renewable) (~40%) and AFOLU projects (7%). An example of an NBS project registered under AFOLU (Improved Forest Management) is the Kuamut Rainforest Conservation Project located in Sabah, estimated to reduce 543,049 tCO₂e of GHG reductions annually. The project aims to protect and restore the rainforest, enhance the livelihoods of communities in the area, and enable biodiversity in the area to thrive.

Enhancing Malaysia's global competitiveness

Developing a robust carbon market can enable Malaysia to enhance its global competitiveness, especially when global policies and regulations are evolving to become increasingly climate aligned. For instance, the European Union's Carbon Border Adjustment Mechanism (CBAM) will impact Malaysia due to considerable exports of products covered under the regulation to the EU e.g., iron, steel and aluminium. The impact to Malaysia may grow if the scope of products covered under the CBAM expands. Therefore, the launch of the BCX can enable greater climate action and increase Malaysia's competitiveness on an international level.

With plans for the implementation of a carbon tax, it can spur greater sustainability efforts from carbon tax-liable companies if the carbon tax is appropriately priced. This can be an enabler for the transformation of brown sectors to become greener and accelerate the growth of green industries.

What's next?

The BCX is working towards stronger stakeholder participation to build greater carbon credit supply and increase liquidity. There are also product expansion plans to offer renewable energy certificates (RECs) on BCX by 3Q 2024, in response to an increasing number of corporates seeking a platform for RECs transactions. Malaysia, being a country with abundant natural resources, has great potential in creating high-quality carbon credits such as through AFOLU projects. With increasing awareness of VCMs and technical capabilities for project formulation, coupled with government incentives, the number of Malaysia-based projects registered on BCX across both NBS and TBS project types may start to increase.

In Malaysia's journey towards net-zero GHG emissions by 2050, stakeholders can anticipate the implementation of a progressive carbon tax system as part of the country's upcoming carbon policy. Company operations and emissions-reduction measures can better prepare companies for a low-carbon future, especially in anticipation of the carbon tax.

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