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SOCIAL DEMOCRACY MALAYSIA

PROPOSAL FOR A MALAYSIA CARBON MARKET

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Introduction

There is always a huge outcry when virgin forests are degazetted or cut down for development in Malaysia; the most recent being the Kuala Langat North forest reserve and the Bukit Cerakah. While the Federal government continues towards its goal of 50% national forest cover as part of its climate pledges, it has very little control over the degazettement of forest reserves and encroachment of forest reserves, which fall under the purview of State governments.

As part of a global community, it is crucial to keep the target of net zero emission by 2050 in sight. Our forest sinks are key to achieving this net zero target. The more we allow forests to be cut down for plantations or other forms of development, the harder it will be for Malaysia to reach its net zero ambitions.

While Bursa Malaysia already has a Voluntary Carbon Market, its features do not meet the goals that will incentivise the preservation of our forests and move Malaysia towards a net zero nation, which will be explained further in this paper.

The Proposal

In order to promote the reduction of carbon and other greenhouse gas (GHG) emissions among major emitters in Malaysia, we propose a Carbon Market that will require major emitters to

purchase National Carbon Credit to offset their emissions.

We collectively define major emitters as those responsible for the bulk (~80%) of emissions in Malaysia. This includes power (energy) distributors, petroleum companies and landfill operators. Major emitters will be required to purchase National Carbon Credits based on the amount of GHG emitted.

We use the term Forest Owners to indicate state governments and private entities that own forests-who manage forest reserves and protected areas. Forest owners will be assigned a total number of National Carbon Credits based on the total area of forest they manage, to be traded on the Carbon Market. On the other hand, buyers-major emitters-will use the platform to purchase National Carbon Credits from forest owners, with the price of National Carbon Credits to be floated based on demand. 100% of the payment will be channeled back to the Forest Owner, and a certain percentage of this payment should be reinvested back into the management of forest.

Unlike voluntary carbon credit mechanisms, this market will not require certification that brings with it high upfront costs. Instead, the carbon offsetting value for Land Use, Land Use Change and Forestry (LULUCF) as defined in our national UNFCCC report will be used together with the total area of forest to derive the number of National Carbon Credits for each forest owner.

Our proposal for the calculation is:

$$\text{EMISSION OFFSET/HA} = \frac{\text{TOTAL LULUCF EMISSION OFFSET (Gg CO2)}}{\text{TOTAL AREA OF FOREST IN MALAYSIA (HA)}}$$

$$\text{NUMBER OF NATIONAL CARBON CREDITS} = \text{EMISSION OFFSET/HA} \times \text{TOTAL AREA OF FOREST MANAGED BY FOREST OWNER (HA)}$$

We propose emitters are released from the responsibility of offsetting 100% of their carbon emissions on day one; instead, they will need to offset a ratio of their carbon emissions at present day. This ratio should slowly increase as years go by-towards the end of 2050, the ratio of emissions to sink should be 1:1. With this, emitters will have time to adjust their emissions, balancing the cost of alternative energy sources with expected cost of a carbon credit over time.

Why (an Independent) Carbon Market

Incentives for Industry

The mandatory requirements of this market would provide incentive for major emitters to find ways to reduce their GHG emissions. Reductions will no longer be voluntary as they are today. Energy users can plan their switch to clean energy alternatives as well as energy efficient alternatives towards this goal.

The carbon market that we propose will give various industries foresight into the next 25 years of regulation, enabling them to plan ahead and plan effectively.

Examples of investments that will take time and will need planning ahead are such as

- Building renewable energy power plants, especially non solar power plants for the increase demand for renewable energy purchase, either through TNB or through third party access
- Strengthening the power grid to be able to cope with additional demand for renewable energy by consumers
- Logistic fleet replacement-replacing diesel fleets with electric vehicles or hydrogen vehicles
- Allowing landfills to become obsolete by redirecting waste to energy plants
- Processing agricultural waste via biogas and biomass power plants

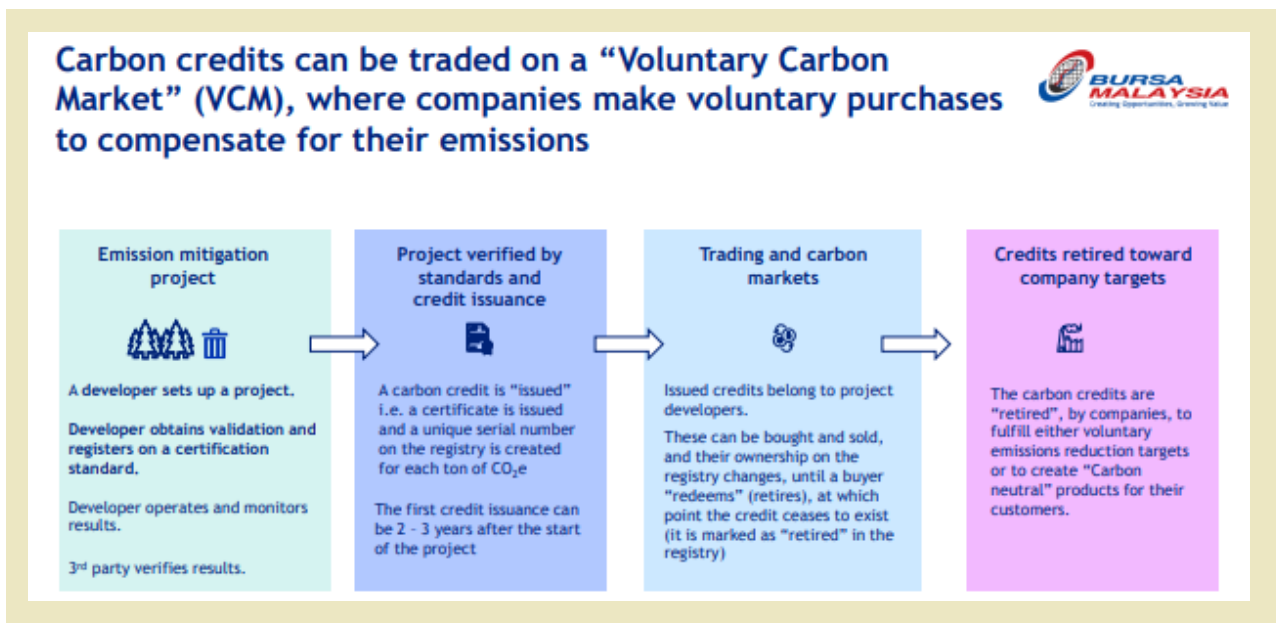
Incentives for State Governments

The carbon market would provide an additional and market-based incentive for forest owners to maintain forests under their jurisdiction. Under the Malaysian constitution, state governments have very few avenues to create income, so land premiums and forest based income form a significant source of revenue, especially in more rural states.

When state governments start receiving steady annual income from the forest, there will be incentive to maintain these forests instead of selling them off for a one-off payment.

Flaws Within The Existing BURSA (VERRA) Carbon Exchange

The Bursa Carbon Exchange, in their own words, is a shariah-compliant multi-environmental product exchange that facilitates the trading of high-quality carbon credits via standardised carbon contracts. Corporations may purchase these credits to offset their carbon footprint while the sale of carbon credits, in turn, will help to finance and drive the management of domestic GHG.



Shortcomings

Additionality Requirement: VERRA-the third party Bursa uses to certify the credit-emphasises “additionality,” meaning carbon credits must stem from projects that would persist barring the support from carbon

credit sales. Unfortunately, this excludes existing, protected forests, although they actively sink carbon. Hence, state governments currently prioritising the environment by gazetted forests, are at a loss of a financing opportunity. This discourages further conservation efforts and penalises responsible environmental stewardship

Minimum Land Area Requirement:

VERRA imposes a minimum project area requirement; excluding smaller initiatives, and potentially overlooking vital conservation contributions by state governments and local communities. This raises concerns about inclusivity and the ability to recognize smaller-scale forest protection efforts. Reducing the diversity of projects eligible for carbon credits and potentially limits the overall impact of the carbon market.

High Consultancy Fees: Most smaller projects like Mangrove Reserves along the Straits of Malacca, become financially impractical due to the high consultancy requirement of the VERRA standard.

A Role For 2 Carbon Markets

Both the existing Bursa market and the proposed market play a role in the ecosystem of necessary climate action. The carbon market that we propose will enable the transfer of funds from emitters to owners of carbon sinks—mainly state governments.

We recognise that there will be international customers who will not recognise our carbon market attributes, demanding corporations to offset their carbon footprint through a more internationally acceptable carbon verification market. In provision for this, the voluntary carbon market may persist, especially for Malaysian corporations who wish to purchase these credits for climate reporting.

A point to take note of is that projects created solely in reflection of the sale of these credits, remain a positive step in the fight against climate change. As such, there is no reason for this incentive to be taken away; it can exist alongside the proposed carbon market.

In the end, the Malaysian Carbon Market that we propose is probably the best way to address the twin goals of preserving our forests and achieving our net zero targets by 2050.

We at Social Democracy Malaysia are dedicated to paving the way for a more socially democratic Malaysia. Our focus is on empowering policy makers with insights that have the potential to shape the nation's future. We believe in the power of progressive policy-making to drive change and create a better tomorrow for all Malaysians.

The principles of Freedom, Justice and Solidarity form the pillars of Social Democracy, and the basis to every structure that enables it.

We hope to achieve these through advocacy on three fronts:

- Climate Action
- Democracy and Governance
- Urban Planning

Social Democracy Malaysia provides policy-makers with the information they need to make informed decisions that will only benefit us all.



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