PANORAMIC

CLIMATE REGULATION

Malaysia

LEXOLOGY

Climate Regulation

Contributing Editors

James M Auslander and Brook J Detterman

Beveridge & Diamond PC

Generated on: June 3, 2025

Contents

Climate Regulation

Contributors

Malaysia

Lee Hishammuddin Allen & Gledhill

Kerryn Toh	ryn@lh-ag.com
Joyce Ong Kar Yee	oky@lh-ag.com
Rona Arissha	rona@lh-ag.com

MAIN CLIMATE REGULATIONS, POLICIES AND AUTHORITIES

International agreements

Do any international agreements or regulations on climate matters apply in your country?

Malaysia has demonstrated its commitment to combating climate change since the 1980s by ratifying the Montreal Protocol on Substances that Deplete the Ozone Layer on 29 August 1989. The nation has since ratified several key amendments to the Protocol, including the latest Kigali Amendment (2016), reflecting its proactive stance on climate protection.

On 13 June 1994, Malaysia ratified the United Nations Framework Convention on Climate Change (1994) (UNFCCC), aligning itself with international efforts to tackle climate issues. This was followed by the ratification of the Paris Agreement on 16 November 2016, where Malaysia pledged to reduce its carbon intensity by 45 per cent by 2030 compared to 2005 levels.

These international agreements are not legally binding but demonstrate Malaysia's adaptation to global standards in addressing local climate challenges.

Law stated - 5 January 2025

International regulations and national regulatory policies

How are the regulatory policies of your country affected by international regulations on climate matters?

Malaysia is proposing to enact a legislation on climate change and has sought public feedback on the draft climate change bill. The proposed draft integrates mandates from both the Paris Agreement and the UNFCCC by including provisions such as reporting obligations on greenhouse gas emissions to ensure alignment with UNFCCC requirements.

Additionally, measures to achieve Malaysia's Nationally Determined Contribution (NDC) under the Paris Agreement have been embedded within the 12th Malaysia Plan and the National Energy Policy 2022–2040, reinforcing the nation's commitment to sustainable development and emissions reduction.

Law stated - 5 January 2025

Main national regulatory policies

Outline recent government policy on climate matters.

The National Policy on Climate Change 2.0, published by the Ministry of Natural Resources and Environmental Sustainability on 30 September 2024, outlines Malaysia's strategic approach to achieving its climate goals. Key objectives include:

- Attaining net-zero greenhouse gas emissions by 2050 and fulfilling current and future NDCs, alongside other international obligations.
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Mainstreaming climate action into decision-making processes to enhance socio-economic well-being and strengthen stakeholder accountability.

- Facilitating the implementation of climate action by integrating responses into national policies, plans, and programs.
- Promoting risk-based planning to build climate resilience, mitigate negative impacts, and capitalise on opportunities presented by climate change.

In addition, the Ministry of Economy released the National Energy Policy 2022–2040 a framework for transforming Malaysia's energy landscape through a structural shift toward cleaner energy sources, increased adoption of renewable energy, and a substantial reduction in carbon emissions.

Law stated - 5 January 2025

Main national legislation
Identify the main national laws and regulations on climate matters.

Malaysia does not currently have specific legislation addressing climate change in force. However, existing climate-related legislation includes:

- Renewable Energy Act 2011 (Act 725) (last amended on 28 July 2023)
- Environmental Quality Act 1974 (Act 127) (last amended on 6 June 2024)
- Energy Efficiency and Conservation Act 2024 (Act 861)

Law stated - 5 January 2025

National regulatory authorities
Identify the national regulatory authorities responsible for climate regulation and its implementation and administration. Outline their areas of competence.

Previously, the Natural Resources, Environment, and Climate Change Ministry (NRECC) oversaw matters related to natural resources, environmental management, and climate regulation. Following a Cabinet reshuffle on 12 December 2023, the NRECC underwent restructuring. The newly established Natural Resources and Environmental Sustainability Ministry now leads Malaysia's climate change agenda.

Complementing this effort is the Malaysian Green Technology and Climate Change Corporation (MGTC), an agency under the purview of NRECC. MGTC is tasked with advancing the nation's green growth, driving climate change mitigation efforts, and promoting green lifestyles.

Law stated - 5 January 2025

GENERAL NATIONAL CLIMATE MATTERS

National emissions and limits

What are the main sources of emissions of greenhouse gases (GHG) (or other regulated emissions) in your country and the quantities of emissions from those sources? Describe any limitation or reduction obligations. Do they apply to private parties in your country?

According to Malaysia's Biennial Update Report (BUR) 4, submitted to the United Nations Climate Change on 31 December 2022, the total greenhouse gas (GHG) emissions for 2019, excluding the land use, land-use change and forestry (LULUCF) sector, amounted to 330,358.21 Gg CO2 eq (gigagram carbon dioxide equivalent). This total comprised 259,326.11 Gg CO2 eq from the energy sector, 32,853.80 Gg CO2 eq from the industrial processes and product use sector (IPPU), 28,256.59 Gg CO2 eq from the waste sector, and 9,921.71 Gg CO2 eq from the agriculture sector. In comparison, the total GHG emissions for 2016, excluding LULUCF, were 316,833.23 Gg CO2 eq, with the energy sector remaining the largest contributor, accounting for 79.4 per cent of total emissions.

Law stated - 5 January 2025

National GHG emission projects

Describe any major GHG emission reduction projects implemented or to be implemented in your country. Describe any similar projects in other countries involving the participation of government authorities or private parties from your country.

There is a proposed carbon capture project in Malaysia tied to the Kasawari Gas Development Project, located at Block SK316, approximately 200km offshore from Bintulu, Sarawak. This project is being developed by PETRONAS Carigali Sdn Bhd, a wholly owned subsidiary of Malaysia's national oil and gas company, PETRONAS. The project is designed to capture up to 3.3 million tonnes per annum of CO2 and commenced operations in August 2024. Furthermore, an estimated total of 71 to 76 million tonnes of CO2 from the Kasawari project is expected to be reinjected into the depleted M1 field for permanent storage.

PETRONAS is also collaborating with the Abu Dhabi National Oil Company (ADNOC) and UK-based Storegga, to evaluate CO storage capabilities in Malaysia. This partnership seeks to assess the potential for CO2 emissions storage of saline aquifers and to develop carbon capture and storage facilities in the Penyu Basin, offshore Peninsular Malaysia. The goal is to establish a CO2 capture and storage capacity of at least 5 million tonnes per annum by 2030.

Law stated - 5 January 2025

DOMESTIC CLIMATE SECTOR

Domestic climate sector

Describe the main commercial aspects of the climate sector in your country, including any related government policies.

In line with the target of achieving 70 per cent renewable energy in the electricity generation capacity mix by 2050, the Green Technology Tax Incentive, first introduced in 2014, was revised on 24 April 2024. The updated incentive comprises three categories:

- Green Investment Tax Allowance (GITA) for business-related projects;
- GITA for assets acquired for self-consumption; and
- Green Income Tax Exemption (GITE) for solar leasing initiatives.

The GITA permits the deduction of 70 per cent of qualifying capital expenditure incurred against 70 per cent of statutory income, thereby reducing tax liability. Meanwhile, the GITE enables green service providers to exempt 70 per cent of their statutory income from taxation.

Further, Malaysia produces renewable energy certificates (RECs) that satisfy international reporting criteria such as RE100, and Science Based Targets Initiative, and the Carbon Disclosure Project ensuring credibility and traceability. Providers of RECs in Malaysia, such as the Sustainable Energy Development Authority Malaysia (SEDA) and Bursa Carbon Exchange (BCX) have achieved notable milestones.

SEDA is a Qualified Reporting Entity (QRE) for the Tradable Instrument for Global Renewables Registry and the first to be appointed by APX Inc in Malaysia. Additionally, BCX commenced continuous trading of RECs and expanded its product range to include the Global Nature-Based Plus Carbon Contract, Global Technology-Based Carbon Contract and Malaysia Nature-Based Plus Carbon Contract.

Law stated - 5 January 2025

GENERAL GHG EMISSIONS REGULATION

Regulation of emissions

Do any obligations for GHG emission limitation, reduction or removal apply to your country and private parties in your country? If so, describe the main obligations.

Malaysia does not currently impose mandatory obligations for greenhouse gas (GHG) emission limitation, reduction, or removal, other than certain general environmental obligations primarily aimed at pollution control and environment protection under the Environmental Quality Act, 1974 (the EQA 1974). However, the country's commitments primarily arise from its participation in global agreements. Malaysia has pledged to reduce GHG emissions per unit of GDP by 45 per cent by 2030, relative to 2005 levels. This commitment includes an unconditional reduction of 45 per cent and covers seven GHGs: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, and nitrogen trifluoride, as outlined in its revised Nationally Determined Contributions submitted to the United Nations Development Programme in July 2021.

Additionally, Malaysia is obligated to submit Biennial Update Reports and National Communications to the United Nations Framework Convention on Climate Change (UNFCCC), detailing national emissions, mitigation efforts and progress toward these commitments.

Further, the National Energy Transition Roadmap (NETR) also laid down flagship catalyst initiatives aimed at accelerating Malaysia's energy transition efforts, among which includes an aim to reduce GHG emissions by more than 10,000 Gg CO2 eq per year. It is expected that the NETR initiatives will deliver 32 per cent reduction in GHG emissions for the energy sector compared to 2019 levels. The Low Carbon Mobility Blueprint 2021-2030 also focused on setting out a framework to reduce GHG emissions from the transportation sector by decarbonizing land transportation.

Law stated - 5 January 2025

GHG emission permits or approvals

Are there any requirements for obtaining GHG emission permits or approvals? If so, describe the main requirements.

Malaysia does not currently require specific permits or approvals for GHG emissions.

However, there are specific standards and limitations that must be adhered to when it comes to GHG emissions, and a licence will be required to contravene the acceptable conditions of pollutants emission.

For example, under the Environment Quality (Clean Air) Regulations 2014 (the Clean Air Regulations), an owner of every new or existing premises shall comply with the specified limit value and technical standards for air pollutants for the operation of such premises. Further, the Clean Air Regulations also impose an obligation on the owner or occupier of a premises involved in specified industries to incorporate measures to reduce the emission of air pollutants to the atmosphere in accordance with the standards as specified under the Clean Air Regulations. No person will be allowed to emit or discharge pollutants in contravention with the acceptable conditions unless such person is licensed.

In the State of Sarawak, the recently enacted Forest (Forest Carbon Activities) Rules 2022 provides for the requirement to obtain a carbon study permit and carbon licence to conduct a proposed forest carbon activity, that is any activity, action, project or groups of activities that lead to the GHG emission reductions which are verified in accordance with the prescribed carbon standard.

Law stated - 5 January 2025

Oversight of GHG emissions

How are GHG emissions monitored, reported and verified?

Malaysia is a member of the Intergovernmental Panel on Climate Change (IPCC) and adheres to the IPCC's guidelines for reporting GHG emissions and climate change actions.

Further, the EQA 1974 also requires that the commencement of certain prescribed activities shall be subject to the obtainment of an environmental impact assessment approval. Any person who intends to carry out such prescribed activities shall carry out an environmental impact assessment which essentially assesses the potential environmental effects of the project, including GHG emissions.

Under the Environmental Quality (Scheduled Wastes) Regulations 2005, a waste generator shall also notify (in the prescribed form) the Director General of Environmental Quality of the new categories and quantities of scheduled wastes that are generated. An inventory (in the prescribed form) of the categories and quantities of scheduled wastes being generated, treated and disposed of shall also be prepared and kept for a period of three years from the date the scheduled wastes were generated. The Regulations also imposes certain responsibilities on the waste generator in relation to the storage, treatment, labelling, disposal, etc of scheduled wastes.

There is also a mandatory reporting requirement for public listed companies under the Listing Requirements of Bursa Malaysia Securities Berhad to include in their annual reports a sustainability reporting. Such reporting should include a narrative statement of the listed corporation's management of material economic, environmental and social risks and opportunities.

Law stated - 5 January 2025

GHG EMISSION ALLOWANCES (OR SIMILAR EMISSION INSTRUMENTS)

Regime
Is there a GHG emission allowance regime (or similar regime) in your country? How does it operate?

Currently, Malaysia does not have a formal greenhouse gas GHG emission allowance regime. The Climate Change Bill introduces a prospective domestic Emissions Trading Scheme (ETS), designed as a cap-and-trade system that limits emissions by allocating credits to companies that emit below a specified baseline. The scheme will set an emissions threshold at the facility level, enabling facilities to manage and trade their greenhouse gas emissions allowances while ensuring compliance with the established emission limits. However, since the Climate Change Bill has not been gazetted, the ETS is not currently in force.

Nevertheless, businesses may still participate voluntarily in offset projects such as participating in carbon trading. There are voluntary carbon markets in Malaysia where businesses can purchase carbon credits and renewable energy certificates to offset their own GHG emissions. The Bursa Carbon Exchange (BCX) established by Bursa Malaysia Berhad, is Malaysia's first voluntary carbon market and is also the world's first Shariah-compliant multi-environment product exchange.

Law stated - 5 January 2025

Registration
Are there any GHG emission allowance registries in your country? How are they administered?

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Law stated - 5 January 2025

Obtaining, possessing and using GHG emission allowances

What are the requirements for obtaining GHG emission allowances? How are allowances held, cancelled, surrendered and transferred? Can rights in favour of third parties (eg, a pledge) be created on allowances?

There are currently no mandatory requirements in place for obtaining GHG emission allowances in Malaysia.

Law stated - 5 January 2025

TRADING OF GHG EMISSION ALLOWANCES (OR SIMILAR EMISSION INSTRUMENTS)

Emission allowances trading

What GHG emission trading systems or schemes are applied in your country?

The Voluntary Carbon Market (VCM) is an initiative spearheaded by the Ministry of Finance, the Ministry of Environment and Water, and Bursa Malaysia Berhad. The VCM allows companies to purchase voluntary carbon credits from climate friendly projects and solutions to compensate for the emissions and at the same time to finance any carbon mitigation projects.

Law stated - 5 January 2025

Trading agreements

Are any standard agreements on GHG emissions trading used in your country? If so, describe their main features and provisions.

Bursa Malaysia provides both Malaysian and global carbon credit contracts through its Bursa Carbon Exchange platform issued by Verra and the Gold Standard via a standardised contract guaranteeing their credibility and alignment with global best practices. These credits are generated from technology-based projects, such as renewable energy installations, energy efficiency improvements, and carbon capture and storage solutions

and nature-based projects, such as reforestation, conservation efforts, and sustainable land management practices.

Law stated - 5 January 2025

SECTORAL REGULATION

Energy sector

Give details of (non-renewable) energy production and consumption in your country. Describe any regulations on GHG emissions. Describe any obligations on the state and private persons for minimising energy consumption and improving energy efficiency. Describe the main features of any scheme for registration of energy savings and for trade of related accounting units or credits.

According to the Malaysia Energy Statistic Handbook 2020 published by the Energy Commission of Malaysia, the total primary energy production is 109,414 ktoe (kilotonnes of oil equivalent), among which the non-renewables include 62.4 per cent of natural gas, 29.2 per cent of crude oil and 1.5 per cent of coal. The total energy consumption is 64,658 ktoe, among which petroleum products consist of 47 per cent, natural gas of 29.2 per cent, electricity of 20.3 per cent and coal of 2.8 per cent.

The Environmental Quality Act, 1974 (the EQA 1974) is the main governing legislation relating to the prevention, abatement, control of pollution and enhancement of the environment. It is also worth noting that Malaysia is a signatory to the Paris Agreement, which is an international treaty on climate change, and has committed to reduce greenhouse gas (GHG) emissions by 45 per cent in 2030 compared to 2003 levels.

The main legislation governing energy consumption and energy efficiency is the Energy Efficiency and Conservation Act 2024, which was recently gazetted on 26 November 2024.

There is currently no scheme for the trade of accounting units or credits in relation to energy savings. However, in terms of GHG emissions, there are voluntary carbon markets where companies can purchase carbon credits to offset their own greenhouse gas emissions, allowing them to meet their voluntary climate goals. Malaysia's first voluntary carbon market is the Bursa Carbon Exchange, which is also the first Shariah-compliant carbon exchange in the world.

Law stated - 5 January 2025

Other sectors

Describe, in general terms, any regulation on GHG emissions in connection with other sectors.

The EQA 1974 is the main legislation governing the protection of the environment and which aims to regulate GHG emissions generally. For example, the EQA 1974 prescribes certain activities that may have a significant environmental impact. Any person intending to carry out any such prescribed activity shall appoint a qualified person to conduct an environmental

impact assessment and to submit a report to the Director General of Environmental Quality for his approval before such activity can be conducted.

The Environmental Quality (Scheduled Wastes) Regulations 2005 also focuses on regulating the method of generation, disposal, treatment, labelling and storage of scheduled wastes. Further, the Environmental Quality (Control of Emission from Petrol Engines) Regulations 1996 and the Environmental Quality (Control of Emission from Diesel Engines) Regulations 1996 provide that no engine system of any motor vehicle with a petrol engine or diesel engines (as applicable) which emits pollutants shall be installed in excess of the prescribed standard. There is also a similar regulation governing the emission from motorcycles, that is the Environmental Quality (Control of Emission from Motorcycles) Regulations 2003.

That said, in the State of Sarawak, the Forest (Forest Carbon Activities) Rules 2022 was recently enacted under the Forest Ordinance 2015, which provides for the requirement to obtain a carbon study permit and carbon licence to conduct a proposed forest carbon activity, that is any activity, action, project or groups of activities that lead to the GHG emission reductions which are verified in accordance with the prescribed carbon standard.

Law stated - 5 January 2025

RENEWABLE ENERGY AND CARBON CAPTURE

Renewable energy consumption, policy and general regulation

Give details of the production and consumption of renewable energy in your country. What is the policy on renewable energy? Describe any obligations on the state and private parties for renewable energy production or use. Describe the main provisions of any scheme for registration of renewable energy production and use and for trade of related accounting units or credits.

According to the Malaysia Energy Statistic Handbook 2020 published by the Energy Commission of Malaysia, the total primary energy production (renewable energy) consists of 5.7 per cent of hydropower, 0.6 per cent of biodiesel, 0.2 per cent of biomass, 0.2 per cent of solar and 0.2 per cent of biogas. In relation to energy consumption, electricity consists of 20.3 per cent and biodiesel of 0.7 per cent.

In the Twelfth Malaysia Plan, Malaysia has pledged to achieve net-zero emissions by 2050. Consequently, several policies have been issued by the Malaysian authorities to guide the energy transition, including the National Energy Policy 2022-2040 (NEP) and the National Energy Transition Roadmap, which serve to streamline the shift towards an energy system based on clean and renewable energy sources.

One of the first significant programme to incentivise the generation of renewable energy is the feed-in-tariff scheme (FiT), which was established under the Renewable Energy Act 2011. The scheme allows for all electricity generated from a renewable source to be sold to a distribution licensee under a standardised renewable energy power purchase agreement upon approval of the Sustainable Energy Development Authority, and in turn the distribution licensee is then obliged to purchase electricity at a pre-determined price. 'Renewable energy' includes biogas, biomass, small hydropower and solar photovoltaic.

The main licence to be obtained is the installation licence required under section 9 of the Electricity Supply Act 1990 (the ESA 1990) (also known as the S9 Licence). An S9 Licence is generally required for the use and operation of an electrical installation.

In relation to the trade of related accounting units, renewable energy producers may purchase or sell renewable energy certificates, a kind of environmental attribute which is a market-based instrument that represents the green attributes of renewable electricity generation. It is issued when 1 megawatt hour of electricity is generated and delivered to the electricity grid from a renewable energy source.

Law stated - 5 January 2025

Wind energy

Describe, in general terms, any regulation of wind energy.

Windmill installations may require a S9 Licence if the requirements are met.

The FiT Scheme has yet to recognise wind as a renewable energy source given that the definition of 'renewable energy' does not cover wind energy. Nonetheless, the Malaysian government recognises wind as a potential energy source and has laid down numerous action plans to develop more wind projects. One of the action plans set out in the NEP was to conduct studies and identify, among others, wind energy in specific targeted regions. Furthermore, one of the key actions up to 2035 set out in the Malaysia Renewable Energy Roadmap was to explore offshore and onshore wind potential and feasibility of wind energy integration.

Law stated - 5 January 2025

Solar energy

Describe, in general terms, any regulation of solar energy.

Similar to other electricity installations, a S9 Licence will be required for solar installations if the requirements are met. Given that Malaysia is a country blessed with a year-round of sunshine, solar energy is the most-promoted energy source. This can be seen through the several initiatives launched by the government to achieve such expansive use of solar power, including the Large Scale Solar Programme, the Net Energy Metering Programme and the FiT Scheme.

Law stated - 5 January 2025

Hydropower, geothermal, wave and tidal energy

Describe, in general terms, any regulation of hydropower, geothermal, wave or tidal energy.

Similar to wind and solar power plants, installation for hydropower, geothermal, wave and tidal energy plants may also be subject to the obtainment of a S9 Licence if such installation falls under the purview of the ESA 1990. Relevant legislation relating to environment such

as the Environmental Quality Act 1974 (the EQA 1974) may also be subject to such power plants where applicable.

Small hydropower plants are covered under the FiT Scheme. As of 5 January 2025, there are limited quota available to be applied under the Scheme for hydropower plants having an installed capacity of up to and including 30MW.

Law stated - 5 January 2025

Waste-to-energy

Describe, in general terms, any regulation of production of energy based on waste.

An environmental impact assessment approval from the Director of Environmental Quality under the EQA 1974 shall be obtained before a construction of specified waste treatment and disposal plants can commence, this would include scheduled waste, solid waste and sewage. Currently there are no national regulatory framework governing waste-to-energy plants in Malaysia. However, waste-to-energy generation has been recognised as one of the initiatives in the Twelfth Malaysian Plan, wherein the government stressed its aim to encourage renewable energy industry players to venture into waste-to-energy projects.

Notwithstanding the absence of a regulatory framework for waste-to-energy projects, the relevant legislations relating to waste management such as the EQA 1974, the Solid Waste and Public Cleansing Management Act 2007 shall be complied with where applicable. Further, it is also one of the key initiatives under the NEP to conduct feasibility studies to identify potential alternative supply sources such as waste-to-energy. In addition, the Green Technology Financing Scheme 4.0 is also available for waste-to-energy plants.

Law stated - 5 January 2025

Biofuels and biomass

Describe, in general terms, any regulation of biofuel for transport uses and any regulation of biomass for generation of heat and power.

The governing legislation for biofuels in Malaysia is the Malaysian Biofuel Industry Act 2007 (MBIA 2007).

A valid licence issued under the MBIA 2007 by the Ministry of Plantation and Commodities (or any person authorised by the same) shall be obtained before, amongst others, the commencement of any construction of biofuel plants or biofuel blending plants, production of any biofuel, importation or exportation of any biofuel.

Law stated - 5 January 2025

Carbon capture and storage

Describe, in general terms, any policy on and regulation of carbon capture and storage.

The construction of gas separation, processing, handling and storage facilities fall under one of the prescribed activities under the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 2015, which requires an environmental impact assessment report to be conducted and submitted for approval from the Director General of Environmental Quality before such construction can be conducted. This is wide enough to cover carbon capture and storage (CCS) projects.

Except for the Land (Carbon Storage) Rules 2022 (Sarawak Carbon Rules) which is applicable in the state of Sarawak, there are no nation-wide CCS legislation governing CCS projects in Malaysia, therefore the prevailing national legislation such as the EQA 1974, the Petroleum Development Act 1974 and other relevant legislation will serve as the regulatory framework for CCS projects.

Law stated - 5 January 2025

CLIMATE MATTERS IN TRANSACTIONS

Climate matters in M&A transactions

What are the main climate matters and regulations to consider in M&A transactions and other transactions?

Depending on the target's industry, environmental due diligence may be conducted to assess the target's compliance with environmental laws and to identify their existing environmental liabilities or past violations. Buyers will generally wish to evaluate the target's carbon footprint and how emissions are measured and reduced.

Further, for public listed companies, it is mandatory under the Listing Requirements of Bursa Malaysia Securities Berhad to include in their annual reports a sustainability reporting, which comprises a narrative statement of the listed corporation's management of material economic, environmental and social risks and opportunities.

Law stated - 5 January 2025

UPDATE AND TRENDS

Emerging trends

Are there any emerging trends or hot topics that may affect climate regulation in your country in the foreseeable future?

In the recent Budget 2025, the Malaysian government announced plans to introduce carbon tax for selected industries such as iron, steel and energy industries by 2026. This effectively puts a price on carbon emissions and incentivise carbon reductions as industries players would be driven to reduce emissions to avoid paying the tax.

The Malaysia's Climate Change Bill is also expected to be tabled in the first quarter of 2025. The Bill aims to set out a comprehensive framework to regulate, implement and enforce initiatives relating to climate change governance at both international and domestic levels.

Law stated - 5 January 2025