

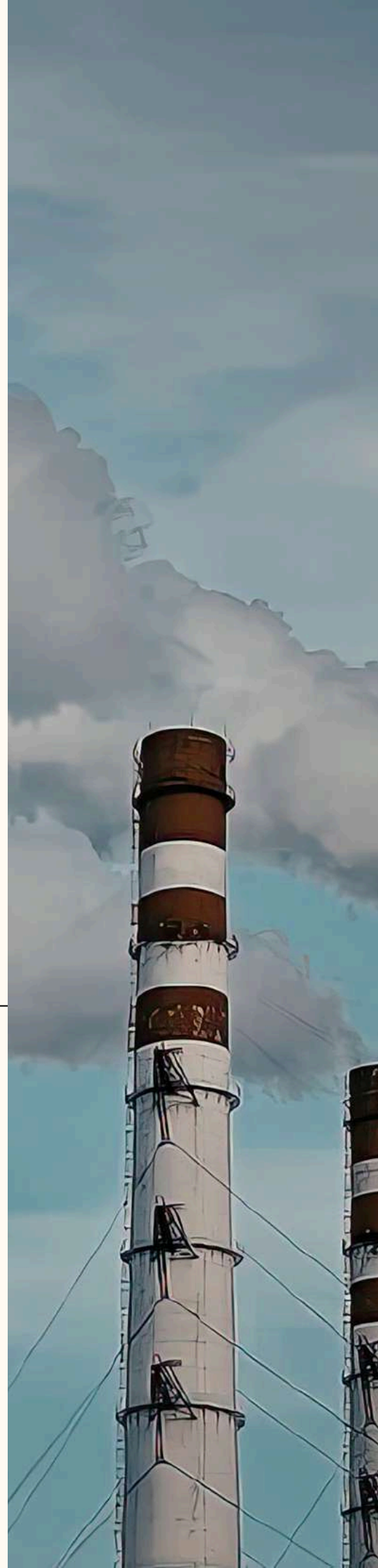
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The Price of Air: How Malaysia is Putting a Market on Emissions

The world has been talking about carbon markets for decades, but Malaysia has just moved from talk to action.

Climate change presents substantial risks to Malaysian society, economy, infrastructure and natural ecosystems. In response, the Ministry of Natural Resources and Environmental Sustainability (“NRES”) has released the National Carbon Market Policy (“NCMP”), a comprehensive policy framework that fundamentally changes how Malaysian businesses, project developers, investors and government bodies will interact with greenhouse gas emissions and carbon credits.

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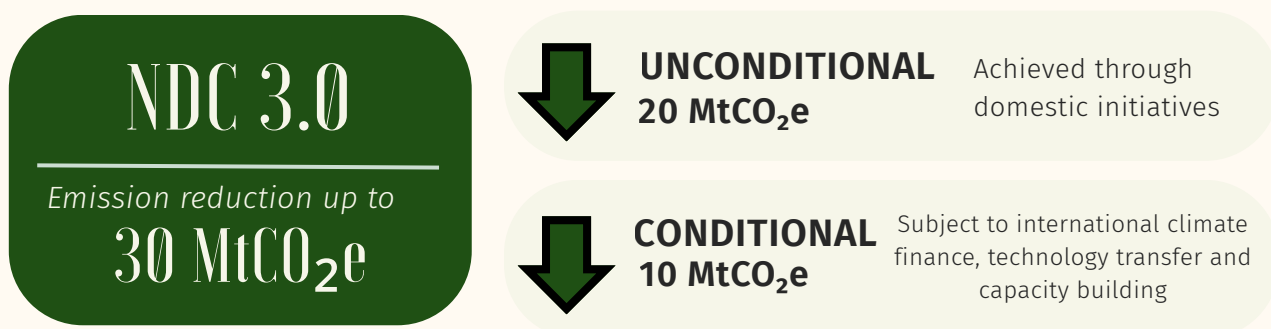


The National Climate Change Policy 2.0 (“**NCCP 2.0**”) sets out the country's roadmap to a cleaner and greener economy, with the NCMP as one of its centrepiece tools. In practical terms, this means using market forces to drive down emissions faster, partly by allowing carbon credit revenues to help fund projects that would otherwise struggle to attract investment.

In short, carbon is no longer just an environmental issue. It is quickly becoming a commercial and regulatory reality for businesses across Malaysia.

Malaysia's Big Promise: The Emissions Target

Before diving into the mechanics, it helps to understand why this policy exists. Malaysia has made a significant pledge to the world.



Malaysia intends to achieve an absolute reduction of 15-30 million tonnes of CO₂ equivalent by 2035 from the peak level between 2029 and 2034. In this context, carbon markets and the use of offsets play an important role in mobilising international carbon finance and investment, particularly to support the conditional elements of Malaysia's Nationally Determined Contributions (“**NDC**”).



So What Exactly Is a Carbon Market?

Think of a carbon market as a marketplace, but instead of buying and selling goods, participants trade carbon credits. Each credit represents one tonne of CO₂ emissions that has been reduced, avoided or removed from the atmosphere.

1. CARBON CREDIT PROJECT SET UP

Carbon credits are generated when a project is certified by a recognised standard as having reduced or removed carbon emissions.

Each credit represents a tonne of CO₂ that the project is calculated to reduce or remove

2. CARBON CREDITS ISSUED

Once the credits are issued, the project developer can sell them to a buyer directly, via an exchange or via a retailer. In some cases, the developer may have already pledged some or all of the credits to an investor in the project.

6. CREDITS RETIRED

Carbon credits effectively cease to exist after they have been retired.

5. CREDITS BOUGHT

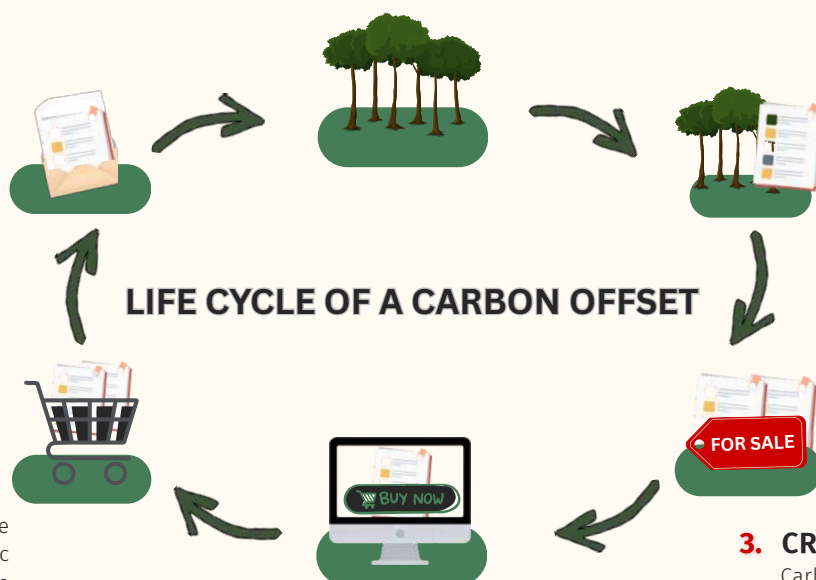
Carbon credits are logged in electronic registries to guarantee ownership and prevent them from being retired more than once.

4. PARTICIPANTS BUY/SELL

Market participants buy and sell credits, from projects, retailers or exchanges. Financial players may hold credits before reselling them to the market hoping to make a profit, while offsetters generally purchase credits with a view to retire the credits straight away.

3. CREDITS PUT UP FOR SALE

Carbon offsets can be purchased by financial players or an "offsetter," such as individuals, companies or other organisations seeking to counterbalance its CO₂ emissions.



Buyers of carbon credits channel finance to project developers, who utilise the revenue from carbon credit sales, to achieve financial viability for projects that would otherwise not be feasible.

Buyers in the carbon markets generally fall into two broad categories: **Voluntary** buyers who allow entities to purchase carbon credits as part of corporate sustainability strategies, internal mitigation goals or preparatory efforts for future regulation; and **Compliance** buyers who operate under regulatory frameworks requiring participants to reduce emissions, with the option to use offsets under carbon pricing instruments and cooperative approaches.

The International Backbone: Article 6 of the Paris Agreement

A key piece of the puzzle is Article 6 of the Paris Agreement, the international framework that governs how countries can cooperate on carbon markets.

Article 6 of the Paris Agreement provides for voluntary cooperation among Parties in achieving their NDCs. Paragraph 2 of Article 6 enables this cooperation through internationally transferred mitigation outcomes (“**ITMOs**”) and enables countries to enter bilateral or multilateral arrangements involving ITMOs, while paragraph 4 introduces a mechanism to contribute to mitigation and support sustainable development.

Malaysia has already signed bilateral Memoranda of Understanding (“**MOUs**”) under Article 6.2, such as with Singapore and South Korea, which both facilitate voluntary cooperation through ITMOs to support NDC achievement.

The Four Pillars of the NCMP

Pillar	Focus	What It Means Practically
Pillar 1	High-Integrity Carbon Market	Developing a high-integrity carbon market grounded in robust systems that ensure transparency, traceability and accountability to facilitate participation in international carbon markets.
Pillar 2	Market Ecosystem & Infrastructure	Creating a supportive ecosystem with the institutional, technical and regulatory infrastructure needed for a well-functioning market, including a national carbon registry, standardised MRV system and clear eligibility criteria.
Pillar 3	Carbon Credit Trading	Catalysing carbon trading by improving efficiency and accessibility of market mechanisms, including mobilising finance for carbon projects and strengthening demand for carbon credits.
Pillar 4	Sectoral Decarbonisation Linkages	Strengthening connections between domestic and international carbon mechanisms to unlock market access and improve competitiveness, including integration with potential carbon pricing instruments (“ CPIs ”) and regional cooperation through ASEAN initiatives.

What Gets Built: Key Regulatory Infrastructure

For businesses looking to participate in Malaysia's carbon market, three pieces of infrastructure are being put in place that will matter enormously.

1. The National Carbon Registry

The National Carbon Registry will act as the authoritative repository for all carbon emissions data and assets, ensuring traceability of carbon assets in accordance with the agreed process. It will also manage market-facing functions of the carbon market, including the facilitation of allowance auctions and carbon credit trading.

2. The MRV Framework (Monitoring, Reporting & Verification)

To establish a high-integrity carbon market in Malaysia, a robust MRV system is critical to ensure transparency, credibility and consistent application across sectors and jurisdictions. MRV serves as the structured backbone for tracking and validating greenhouse gas ("GHG") emissions, as well as for quantifying emission reductions from mitigation activities eligible for carbon crediting and compliance offset use.

3. Strict Eligibility Criteria

The policy sets out clear standards that any carbon project must meet to qualify, ensuring that carbon credits are genuine and measurable, to prevent greenwashing and to build trust among domestic and international stakeholders. The key criteria include:

Criterion	Requirements
Additionality	Credits must represent reductions beyond regulatory or business-as-usual scenarios.
Permanence	Reductions must be permanent, with measures to address reversal risks.
No Leakage	Prevent or account for emissions shifted outside project boundaries.
No Double Counting	Prevent multiple claims on the same reductions.
Anti-Greenwashing	Prevent fraudulent claims or unverifiable credits.
Enforcement	Penalties for violations to ensure compliance.

The Government's Current Offering: Forest Carbon Offsets

At present, Malaysia's government crediting programme centres on one key product: forestry-based carbon credits. Additional sectors may be considered in the future, subject to readiness and policy decisions.






The Forest Carbon Offset (“**FCO**”) is a market mechanism that allows the transfer of emissions reduction from forests to the buyers in the form of carbon offsets.

Looking ahead, the policy signals future expansion into technology-based sectors, including transport (EV charging and fuel switching), energy (energy efficiency and renewable energy), waste (recovery and recycling, and biomass utilisation) and carbon capture technologies (carbon capture and storage, and carbon mineralisation).



The Five Enablers: What Makes It All Work

Underpinning the four pillars are five cross-cutting enablers, the foundations without which none of the above can function.

	<p>Legislative and Regulatory Framework</p>	<p>Provides a legal basis to govern market activities, ensure compliance and facilitate cross-sectoral collaboration required to achieve Malaysia's climate targets, anchored by the Climate Change Act.</p>
	<p>Governance and Coordination</p>	<p>Ensures the clear delineation of authority among relevant bodies and rigorous oversight on policy implementation.</p>
	<p>Human Capital Development</p>	<p>Equips regulatory authorities, market participants and communities with the skills and knowledge needed to ensure institutional readiness to operate in the carbon market, in alignment with international standards.</p>
	<p>Communication, Education and Public Awareness</p>	<p>Builds public trust and social inclusivity by connecting the public's understanding of carbon market actions to tangible benefits for both the public and industry.</p>
	<p>Finance and Revenue Recycling</p>	<p>Supports funding for carbon market infrastructure through carbon revenues and, where appropriate, government funding or other sources, while ensuring effective use of proceeds, guiding revenue allocation and supporting studies.</p>

Of particular note for businesses, a legislative and regulatory framework is vital to establish a credible and effective national carbon market. It provides the legal basis to govern market activities, ensuring compliance and enabling coordinated climate action across all sectors and jurisdictions. The NCMP is supported by the NCCP 2.0 and the Climate Change Act.

The Climate Change Act, when enacted, will be the anchor legislation that gives legal teeth to everything in this policy.

What This Means for Your Business

Regardless of your sector, the NCMP creates a new landscape of both obligations and opportunities:

Obligations to Watch:

- **Emitters across sectors:** as Malaysia develops its broader carbon-pricing architecture, NCMP provides the foundational governance for authorisation, reporting, tracking and environmental integrity. This enables the appropriate use of offsets within carbon pricing instruments and allows high-integrity carbon credits to interface coherently with future market-based policy instruments such as an Emissions Trading Scheme (“**ETS**”) or carbon tax.
- **International trade exposure:** Malaysia will track and, where appropriate, align with evolving international climate policy settings that could affect interoperability in the international carbon market, including the European Union’s (“**EU**”) Carbon Border Adjustment Mechanism (“**EU-CBAM**”), which is structurally tied to the EU-ETS.



Opportunities to Seize:

- **Project developers** can access both domestic and international climate finance through carbon credit transactions, including via Malaysia's bilateral agreements with Singapore and South Korea.
- **Investors and financiers** have a clearer pathway, as financing Malaysian-based carbon projects is not solely a private-sector opportunity, but also a strategic public investment to support public goods and social equity. The policy also supports instruments such as green sukuk, bonds, ESG funds and grants to mobilise capital.
- **Corporations** can leverage voluntary carbon credit purchases as part of ESG reporting and sustainability disclosures, with the government exploring recognition-based schemes for companies that participate voluntarily.



Key Takeaways

The NCMP is not simply a government policy document, it is a signal that the era of voluntary and ad hoc carbon action in Malaysia is coming to an end. In its place, a structured, legally backed and internationally integrated carbon market is being built.

For businesses, this means:

- **Carbon credits** are becoming a legitimate financial asset, but only if generated and transacted under the right conditions.
- **Compliance obligations are growing**, particularly for aviation, energy-intensive industries and exporters to the EU.
- **Greenwashing risk is rising** as the rules around what constitutes a credible carbon claim become more stringent and legally enforceable.
- **The financing landscape is shifting** with new instruments and institutions channelling capital specifically towards carbon-compatible projects.
- **The legal architecture is still being built** which means the window for businesses to engage proactively and shape their own positioning is now.

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