



**MINISTRY OF ENVIRONMENT & WATER**

**National Guidance on  
Voluntary Carbon Market Mechanisms**

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## **1.0 Background**

The Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 2015. The objective of the Agreement is to strengthen the global response to the threat of climate change. The aim is to keep global temperature rise well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

The Paris Agreement requires all Parties to pledge their efforts through their Nationally Determined Contributions (NDC) and to strengthen these efforts in the years ahead. This includes requirements for all Parties to report biennially on their emissions and removals of greenhouse gases (GHG), as well as their emissions reduction target. Some countries have pledged an ambitious target and would utilize international market mechanisms or international carbon market to trade (buy and sell) carbon credits or purchasing carbon offsets to fulfil their target. Apart from voluntary carbon market at the international level, there were market mechanisms established under the UNFCCC. Due to this, there is a sudden surge in demand for carbon credits and carbon offsets globally.

## **2.0 Purpose of the Guidance**

The National Guidance on International Voluntary Market Mechanisms is a non-legally binding document. It is intended to be a point of reference and to guide any entity planning to engage in voluntary carbon market mechanisms or international carbon market related activities. Additionally, the guidance also identifies the roles and functions of the various actors involved in carbon market mechanisms in Malaysia.

The guidance will ensure no double counting takes place when accounting for the achievement of Malaysia's Nationally Determined Contributions under the Paris Agreement. This includes emissions reduction from the energy (including transport), waste, industrial processes and product use (IPPU), and agriculture, forestry, and land use (AFOLU) sectors. The guidance also will complement the guidance on forestry carbon market developed under the Ministry of Energy and Natural Resources by covering other non-forestry sectors mentioned above.

The emission reduction efforts from all sectors will be reported in the Biennial Update Report (BUR) and / or the Biennial Transparency Report (BTR) to the UNFCCC. Double counting of emission reductions is avoided by undertaking corresponding adjustments for anthropogenic emissions by sources and removals by sinks.

### **3.0 Institutional arrangement**

#### **3.1 The project participant's responsibilities**

Any entity that involves in the development of carbon project or activity in Malaysia (also known as project participants) shall report the following to the Ministry in charge of climate change and National Steering Committee on Climate Change (NSCCC):

- a) Information on the carbon project;
- b) The scope of the activity and the crediting periods;
- c) The project boundary;
- d) The methodology used and baselines developed;
- e) Policy guidance applied to achieve the emission reductions; and
- f) Annual reporting of units generated, sold, retired and cancelled.

For any carbon project related to forestry sector, the project participants will need to report information a) to f) above to the National Steering Committee on REDD Plus (NSC REDD Plus) coordinated by the ministry in charge of forestry.

#### **3.2 Responsibilities of the Ministry in charge of climate change**

- a) Secretariat to the National Steering Committee on Climate Change (NSCCC) or any specific committee established under the NSCCC (with an exception for the NSC REDD Plus which is under the Ministry responsible for forestry);
- b) Provide guidance on carbon market, and propose mechanism on domestic carbon market as appropriate;
- c) Maintain a registry to track all carbon projects;
- d) Verify no double counting occurs when reporting of NDC progress and achievement;
- e) Undertake corresponding adjustments consistent with UNFCCC's decisions on Article 6 of the Paris Agreement;
- f) Report to UNFCCC on Malaysia's participation in market mechanisms under the UNFCCC and voluntary carbon market;

- g) Maintain Malaysia's NDC in accordance with Article 4 paragraph 2 of Paris Agreement and decision 4/CMA.1 under the UNFCCC;
- h) Ensure Malaysia's participation in the voluntary carbon markets contributes to the implementation of Malaysia's NDC and long-term low GHG emission development strategy; and
- i) Any other requirements agreed under Article 6 of the Paris Agreement.

## **4.0 Technical requirements of carbon project**

### **4.1 Scope**

- a) The UNFCCC decisions on Article 6 (market and non-market mechanisms) and Article 13 (reporting and tracking mechanism) of the Paris Agreement shall be considered;
- b) The Intergovernmental Panel on Climate Change (IPCC) principles on transparency, accuracy, completeness, consistency, and comparability shall be adhered to; and
- c) The carbon project maintains consistency in activity data, emission factors and activities reported in National GHG Inventory for all sectors.

### **4.2 Activity design**

- a) The activity shall be designed to achieve reduction of GHG emissions or increase in removals;
- b) The activity shall endeavour to:
  - i. Deliver real, measurable and long-term benefits related to climate;
  - ii. Minimize the risk of reversals and displacements of emission reductions and, where reversals occur, ensure that these are addressed in full;
  - iii. Avoid negative environmental and social impacts;

- iv. Avoid double financing; and
  - v. Establish a robust accounting system.
- c) Shall undergo local and, where appropriate, subnational stakeholder consultations consistent with applicable domestic arrangements in relation to public participation, local communities and indigenous peoples;
- d) Transfer of technology is mandatory, environmentally sound, and applicable for local environment;
- e) The activity shall:
- i. Set a baseline for the calculation of emission reductions and/or removals to be achieved by the activity;
  - ii. Demonstrate the additionality of the activity;
  - iii. Ensure monitoring of emission reductions and/or removals; and
  - iv. Calculate the emission reductions and/or removals achieved by the activity.

### **4.3 Key Requirements**

#### **4.3.1 Carbon accounting**

- i. Data and estimation methodologies used for baseline development and accounting shall be consistent with the National GHG Inventory;
- ii. National GHG Inventory methodology guidelines shall be used;
- iii. The 100-year time-horizon global warming potential (GWP) values from the IPCC Fifth Assessment Report shall be applied;
- iv. Maintain consistency in scope and coverage, definitions, data sources, metrics, assumptions and methodological approaches shall be maintained throughout the project implementation; and
- v. Project participants shall ensure that no double counting occur.

#### **4.3.2 Risk and Reversals**

- i. The risk of non-permanence shall be reduced as per the standard followed; and
- ii. The risk assessment will be undertaken based on the standard used.

#### **4.3.3 Application of corresponding adjustments**

- i. The activities shall be subject to all national and state laws, regulations and policies;
- ii. The activities shall apply corresponding adjustment in a manner that ensures transparency, accuracy, completeness, consistency, and comparability by applying the method(s) of corresponding adjustments agreed by the UNFCCC;
- iii. For non-forestry sectors, baselines shall be developed in accordance with the emissions and removals time series reported under the national reports. Baselines development shall correspond with the activity data and the emission factors used in the national GHG inventory reporting;
- iv. For the forestry sector related activities, the following shall be applied:
  - a) The activities shall take steps towards adjusting or nesting within an existing National REDD Plus Forest Reference Level (FRL), where possible, aligning its project baselines with the FRL;
  - b) For activities without a FRL, the activity should develop a baseline aligned to the extent possible with the data, parameters and methods at a jurisdictional level; and
  - c) The project participants shall explain the approach(es) used in aligning the project baseline with the existing FRL in a transparent manner, including the gases covered.

#### **4.4 Validation and verification**

An independent entity shall be appointed by the project participants to undertake validation and verification processes. They shall follow the requirements stipulated in the standard adopted.

#### **4.5 Monitoring**

The project participants shall monitor emission reductions or increase in the removals achieved following the requirements stipulated in the standard adopted.

#### **4.6 Issuance**

The issuance of emission reduction units shall follow the requirements stipulated in the standard adopted.

#### **4.7 Renewal**

The crediting period may be renewed following the requirements stipulated in the standard adopted.

### **5.0 Registration of project and reporting**

#### **5.1 Registration**

- i. When the outcome of the validation is positive, the project participants shall submit the relevant information to the NSCCC or any specific committee established under the NSCCC; and
- ii. For the forestry sector related activities, the project participants shall submit the relevant information to the NSC REDD Plus and also to the NSCCC.

#### **5.2 Reporting requirement**

- i. The project participants shall report the following information to the NSCCC or any specific committee established under the NSCCC:
  - (a) Account name;
  - (b) serial number of the units issued;
  - (c) pending account;
  - (d) holding account;
  - (e) retirement account;
  - (f) cancellation account;
  - (g) account for mandatory cancellation; and
  - (h) holding account each public or private entity authorized.
- ii. For the forestry sector related activities, the project participants shall submit the information i. (a) to (h) above to the ministry in charge of forestry.

## **6.0 Domestic Emissions Trading Mechanism**

### **6.1 Brief description**

- i. Apart from voluntary carbon market, project participants also could consider domestic emissions trading mechanism. The national domestic emissions trading mechanism will support sustainable development and green economy by allowing project participants to develop domestic carbon project and trade the emissions reduction allowances at the domestic level.

### **6.2 Benefits of the mechanism**

The mechanism will provide several benefits to the project participants as follow:

- i. Lesser technical requirements for project participants to develop and implement their carbon project compared to the voluntary carbon market;
- ii. No corresponding adjustment needed for all domestic carbon project since all the emissions reduction allowances are traded within national boundary; and
- iii. Lesser reporting requirement to national authority as the domestic measurement, reporting and verification (MRV) within the mechanism will monitor and track the transactions. This will lower the transaction costs for the generation of emissions reduction allowance.

### **6.3 Current status of the mechanism**

- i. KASA and other relevant ministries are developing the policy and the implementation framework of the domestic emissions trading mechanism. KASA will communicate the development status of the domestic emissions trading mechanism from time to time.

## Definitions

### 1. **Additionality**

Emission reductions will be additional to what would have occurred anyway.

### 2. **Double counting**

The same emissions reductions that are reported by two entities/countries.

### 3. **Double financing**

The same carbon project that is used repeatedly to gain funds from different markets/funders.

### 4. **Emission reductions**

One metric tonne of carbon dioxide equivalent reduced, avoided, removed or sequestered within a carbon project.

### 5. **Corresponding Adjustment**

An accounting method that accommodates activities to reduce emissions at various activity and implementation levels. Emissions reduction at project or jurisdictional level shall be deducted from national level emissions reduction to avoid double counting.

### 6. **Reversal risk**

The risk associated with any physical disturbance within the project area that may result in the project site releasing emissions into the atmosphere, instead of absorbing it as originally planned. This could be due to natural disturbance (fires, floods, draughts, etc.) or human induced disturbance (cancelation of project, encroachment of other activities into the project site, etc.).

### 7. **Unit**

A unit is an amount of mitigation outcomes or emissions reductions transacted from one government / party to another government / party at a specific point in time. It is not being traded by other actors and also not being held in any specific registries.

## **8. Domestic Emissions Trading Mechanism**

Is a market-based program to support GHG emissions reduction at national level by providing economic incentives to the entities in the domestic market for reducing their GHG emissions. Domestic emissions trading mechanism will have two key components: a limit (or cap) on GHG emissions, and tradable allowances equal to the limit that authorize allowance holders to emit a specific quantity of GHG.