National Guidance on Forest Carbon Market

Ministry of Energy and Natural Resources

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1. 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 require carbon offsets to fulfil their target. Due to this, there is a sudden surge in demand for carbon offsets globally, in particular for forest carbon offsets. Several state governments have been approached by various parties wishing to engage in forest carbon offsets in Malaysia.

2. Purpose of the Guidance

The National Guidance on Forest Carbon Market is not a legally binding document. It is intended to be a point of reference for any state or entity planning to engage in forest carbon related activities. Additionally, the guidance identifies the roles and functions of the various actors involved in forest carbon projects in Malaysia.

This will ensure no double counting takes place when accounting for the forest sector's emission reductions, which 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 adjustments for anthropogenic emissions by sources and removals by sinks.

3. Institutional arrangement

3.1 The state government's responsibilities

The following shall be reported to the National Steering Committee on REDD Plus (NSC REDD Plus), coordinated by the Ministry in charge of forestry:

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.

3.2 Responsibilities of the Ministry in charge of forestry

a) Secretariat to the National Steering Committee on REDD Plus (NSC REDD Plus) and the National Technical Committee on REDD Plus (NTC REDD Plus);

b) Provide guidance on forest carbon market as appropriate;

c) Maintain a Registry to track forest carbon projects;

d) Undertake corresponding adjustments for REDD Plus reporting; and

e) Any other requirements agreed under Article 6 of Paris Agreement

3.3 Responsibilities of the Ministry in charge of climate change

a) Verify no double counting occurs when reporting of NDC progress and achievement;

b) Undertake corresponding adjustments consistent with UNFCCC's decisions on Article 6 of Paris Agreement;

c) Any other requirements agreed under Article 6 of Paris Agreement;

d) Maintain Malaysia's NDC in accordance with Article 4 paragraph 2 of Paris Agreement and decision 4/CMA.1 under the UNFCCC;

e) Ensure Malaysia's participation in the Article 6 of Paris Agreement contributes to the implementation of Malaysia's NDC and long-term low GHG emission development strategy; and

f) Ensure that Malaysia's use of the mechanism developed under Article 6.4 of Paris Agreement does not lead to an increase in emissions within and between NDC implementation periods.

4. Jurisdictional or project level carbon offset

4.1 Scope

a. The UNFCCC decisions on Articles 6 and 13 of the Paris Agreement should be considered for any forest carbon project;

b. The Intergovernmental Panel on Climate Change (IPCC) principle on transparency, completeness, consistency and accuracy shall be adhered to; and

c. The carbon project maintains consistency in activity data, emission factors and activities reported in National GHG Inventory for the Land Use, Land Use Change and Forestry (LULUCF) Sector.

5. Requirements to enter into voluntary carbon markets at state level

5.1 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; and

iv. 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 and shall be environmentally sound;

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

5.2 Key Requirements

5.2.1 Carbon accounting

i. Data and estimation methodologies used for baseline development and accounting should be consistent with the National GHG Inventories;

ii. National GHG Inventory for LULUCF 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. The State government shall ensure that no double counting.

5.2.2 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.

5.2.3 Nesting or corresponding adjustments

i. The activities shall be subject to all national and state laws, regulations and policies;

ii. 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;

iii. 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

iv. The state government shall explain the approach(es) used in aligning the project baseline with the existing FRL in a transparent manner, including the gases covered.

5.3 Validation and verification

An independent entity shall be appointed by the state government to undertake these processes. They shall follow the requirements stipulated in the standard adopted.

5.4 Monitoring

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

5.5 Issuance

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

5.6 Renewal

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

6. Registration of project and reporting

6.1 Registration

i. When the outcome of the validation is positive, the state government shall submit the relevant information to the NSC REDD Plus.

6.2 Reporting requirement

The state government shall report the following information to the NSC REDD Plus:

- Account name, serial number of the units issued, pending account, holding account, retirement account, cancellation account, and account for mandatory cancellation for buffer as well as a holding account each public or private entity authorized.

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. Nesting or Corresponding Adjustment

   An accounting system 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.

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.