

Malaysia's Long Road to Carbon Pricing

As world leaders prepare to gather in Antalya, Turkey, for their annual COP climate conference, Malaysia is awaiting the tabling of its National Climate Change Bill (RUUPIN). The legislation is expected to give the federal government the power to regulate greenhouse gas (GHG) emissions, an important step towards meeting Malaysia's 2050 net-zero climate commitment. It has been a long wait, with carbon pricing included in the 2021-2025 12th Malaysia Plan, as well as in several federal budgets tabled since then.

CARBON PRICING BASICS

To arrest the negative consequences of climate change, in 2015 in Paris, 195 countries agreed to reach net-zero emissions by 2050, or soon after. As of 2026, only Iran, Libya, Yemen and the United States are not party to the Paris Agreement.

Reducing emissions to net zero means that the world emits only the amount of greenhouse gas emissions that can be absorbed by carbon sinks such as forests and oceans. Currently, the world is "emissions positive" and we emit around 60 billion tonnes of CO₂-equivalent annually, with cumulative GHG emissions having raised global temperatures around 1.40 C above pre-industrial levels (1850-1900). Although GHG emissions could peak this year, the world has less than 25 years to reach its net-zero target. After 2050 the world could become "carbon negative", with the net-removal of GHG from the atmosphere, slowing down climate change, and hopefully avoiding its worst effects.

Governments basically have two ways to reduce GHG emissions: banning them or imposing a carbon price, under which GHG emitters have to pay. The current consensus is that a pricing scheme is more economically efficient, and governments could set a gradually

shrinking emissions quota and sell permits to emitters. This would incentivise firms to reduce emissions in the least expensive way, thus minimising the economic cost of emission cuts.

In practice, such a system is often politically complicated because there are both winners and losers, and losers have a strong incentive to

organise against carbon pricing. Because almost everything causes some GHG emissions, especially in an economy powered by fossil fuels, a carbon price could also act as a general consumption tax, causing inflation. Carbon pricing could also undermine export competitiveness, by raising the cost of production compared to foreign competitors who do not pay a carbon price.

On the other hand, carbon pricing is needed to attract investment into emissions-reducing technologies by commercial investors. If GHG emission costs are high, then money naturally flows towards projects that reduce them. Without a carbon price, investments in GHG reductions are delayed, thus exacerbating the damage caused by climate change.

MALAYSIA'S CARBON PRICING DANCE

Contrary to what many readers may think, Malaysia already has carbon pricing legislation. In 2023, Sarawak passed its own Environment (Reduction of Greenhouse Gases Emission) Ordinance, opening the door to carbon pricing and the long-term storage of GHGs in depleted oil and gas reservoirs.

In 2022, Malaysia also announced the creation of a voluntary carbon



market, the Bursa Carbon Exchange (BCX). The exchange allows companies to trade "carbon credits", which are rights on projects that reduce or permanently absorb GHGs. Although the exchange is Shariah-compliant and settled in Ringgit, BCX trading volumes remain low. While some large corporations do buy carbon credits to offset their emissions, there appears to be little demand for spot-trading in the absence of a mandatory carbon pricing scheme.

In Budget 2025, Prime Minister and Finance Minister Anwar Ibrahim announced the government's intention to begin implementing a carbon tax for the iron, steel and energy sector, and in April this year, Malaysia launched its National Carbon Market Policy (NCMP). Yet despite this activity, the RUUPIN climate bill has not been tabled, and there is still no official carbon price.

In reality, Malaysia does have a carbon price, but it is negative. In 2023 the OECD calculated that Malaysia subsidises GHG emissions through various fuel subsidies at a rate of €26.52 per tonne. This amount is likely higher today, as Malaysia's fuel subsidies are set to reach RM40 billion this year, exceeding healthcare expenditure. Campaigners, such as former Environment Minister Nik Nazmi, have suggested that removing fuel subsidies would be an important first step in Malaysia's climate change agenda. Why talk about carbon pricing, if the government is burning billions in fuel subsidies every month?

THE POLITICAL CHALLENGES OF CARBON PRICING

Besides the fact that fuel subsidies are popular with a large segment of the electorate, deciding who will pay a carbon price also poses a political challenge.

Given Malaysia's emissions profile, the energy sector would have to pay the most if carbon pricing were imposed. However, these sectors are also dominated by government-linked companies such as Petronas and Tenaga Nasional. By imposing a carbon tax, the government would mainly end up taxing itself. Especially in the case of Petronas, which is expected to pay around RM20 billion in dividends to the government this year (down from RM31 billion last year), imposing a carbon price could cause it to further cut its dividends.

While carbon pricing for the steel industry might seem less controversial, most GHG emissions in the sector come from majority foreign-invested projects, which may have received significant tax incentives from the Malaysian government. One of them, Alliance Steel, is also part of the Malaysia-China Kuantan Industrial Park



(MCKIP), which is a special government-to-government economic collaboration between Malaysia and China. Given this special arrangement, the Malaysian government may be reluctant to impose a carbon tax on these foreign-invested projects. At the same time, a carbon pricing exemption for Chinese investments would also be poorly received by competing steel companies.

FUTURE DIRECTIONS FOR CARBON PRICING IN MALAYSIA

Taken together, Malaysia's official carbon pricing journey will likely start with a low carbon price for certain industrial sectors, although a phasing-out of fuel subsidies could have a much larger impact. Fuel subsidy cuts could incentivise the adoption of electric vehicles, especially by e-hailing drivers, who currently receive up to 800 litres of subsidised petrol.

Depending on how the carbon pricing scheme is structured, carbon pricing could also channel funds to nature-based solutions, such as the Kuamut Rainforest Conservation Project, which is protecting and restoring

833km² of tropical forest in Sabah. State governments with large forest reserves could use carbon credits to protect and restore their natural carbon sinks.

An unanswered question remains around who regulates carbon pricing in Malaysia. While the federal government emphasises collaboration and coordination with state governments, Sarawak passed its climate change ordinance in 2023, while the federal government has yet to propose its own bill. It is plausible that Sarawak and Sabah will try to assert their autonomy in matters related to carbon pricing, as they have also done over oil and gas royalties and federal allocations.

Finally, Malaysia's private sector has been actively investing in renewable energy, and specifically in solar photovoltaics with battery energy storage systems ("PV-BESS"). Under the 2024 Corporate Renewable Energy Supply Scheme (CRESS), large energy users such as data centres can now do direct deals with renewable energy suppliers, helping them cut their energy costs and GHG emissions. In 2025 Malaysia added a

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record 1.4 GW in PV capacity, a more than 30% increase compared to 2024. Any carbon pricing for the energy sector would further increase the cost competitiveness of PV-BESS and could accelerate private investment in the sector. ■

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