




KEMENTERIAN SAINS,
TEKNOLOGI DAN INOVASI
MINISTRY OF SCIENCE, TECHNOLOGY AND INNOVATION



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The fall of the forest-based carbon offset: A cautionary tale for Malaysia



By RIMBAWATCH

IN THE past few years, activity on forest-based carbon offsets in Malaysia has exploded. In early 2023, Bursa launched the Bursa Carbon Exchange to facilitate the trade of voluntary carbon offsets. In early 2024, Sabah launched its first forest-based carbon offset project, the Kuamut Rainforest Conservation Project. Sarawak passed an Environmental Bill which provided a legal framework for the trade of offsets from Sarawak-based offsets, followed by a proposal by controversial logging company Samling to establish another project in Marudi.

Petronas and the Malaysia Forest Fund have reportedly partnered to explore forest carbon sites, and companies including Shell, Grab and Malaysia Airlines have made carbon-neutral claims based on carbon offsets. Most recently, AirAsia has announced that they will implement a 'sustainability fee' for carbon offset projects. Further, the government has announced that they are developing a National Carbon Policy to "provide more clarity on carbon trading at the state level".

The spread of junk offsets

One trend in the explosion of forest-based offsets in Malaysia is the overreliance on the Verified Carbon Standard (VCS), or Verra, methodologies, which is the basis of offsets marketed by Bursa, the Kuamut project, the proposed Samling project, Malaysia Airlines and Grab alike. The VCS was criticised in 2023 by a joint investigation by Swiss Material and Zeitgeist, which used data shared by three different scientific studies on the VCS forest methodologies, to find that of the 95 million tonnes of carbon dioxide (CO₂) claimed to be offset by Verra, only 5.5 million tonnes, or 5% of the total, constituted actual emissions reductions. This disparity was mostly attributed to an overestimation of how effective the offset projects would be at reducing deforestation. According to the investigation, "while the (Verra) projects claimed to cover forests the size of Italy, they had only protected an area about the size of Venice", which led to an overestimation of emission savings by an average of 406%.

While VCS had initially rejected the findings of this study, in the months since, the chief executive officer of Verra has stepped down, and VCS confirmed that their existing forest methodologies would be phased out. These findings led to a rise in international scrutiny of carbon offsets, followed by various boycotts, legal cases and regulatory bans, as detailed below.

The international offset boycott

In the wake of this controversy, companies such as Easyjet and Nestle have decided to abandon carbon offsets altogether, while others who continue to claim carbon neutrality through offsets are facing legal action. Notably, in April of this year (2024), the European

Union took action against 20 airlines for the misleading use of offsets, including claims that carbon-neutral fees could neutralise passengers' CO₂ emissions. Delta and Evian are among companies being sued by consumers over their use of carbon offsets to claim carbon neutrality: of the over 50 greenwashing litigation cases filed internationally between 2021 and 2022, the majority were premised upon carbon neutral claims which relied on offsets.

Various international voluntary standards such as the ISO Net Zero Guidelines, the ISO Climate Change Management Standard, the Revised Oxford Offsetting Principles and Voluntary Carbon Markets Integrity Initiative have excluded the use of offsets from projects claiming to avoid carbon by avoiding deforestation, which means that companies adhering to these standards will be unable to purchase Malaysia-based offsets such as the Kuamut Rainforest Conservation Project and proposed Samling project.

Further, the EU, United Kingdom (UK) and United States (US) have taken measures to restrict the use of claims alleging that a product is carbon neutral due to the use of offsets. The EU's Greenwashing Directive strictly prohibits such claims. The UK's Advertising Standards Authority advises against making unqualified carbon neutral assertions, and the Federal Trade Commission in the US has guidelines discouraging deceptive representations regarding carbon offsets.

Down south, Singapore's Eligibility List For International Carbon Credits Under The Carbon Tax Regime excludes any credits using VCS "Sectoral Scope 14" methodologies, which are their methodologies for forest-based projects, therefore excluding Malaysia-based projects such as the Kuamut Rainforest Conservation Project.

Ramifications for Malaysia

Malaysian authorities and carbon offset operators are pushing for the growth of Malaysia's forest-based carbon offset market, perhaps indicating an expectation that this will be a significant source of revenue. Further, corporations operating in Malaysia are responding by increasingly adopting carbon neutral claims based on the use of, primarily forest-based, carbon offsets. Notably, operators and corporations alike are proceeding with adopting the controversial VCS methodology.

However, this article aims to caution these actions, and communicate the fact that carbon offsets remain a risky climate and economic strategy as:

- > Many forest-based carbon offset projects around the world have failed to deliver their claimed climate benefits; and in some cases, emissions benefits have been overestimated by over 400%.
- > In particular, the VCS methodology has been exemplary in producing alleged 'junk offsets' and is discredited by various parties, including Singapore.
- > There is a strong move in other markets, including the EU and Singapore, to transition away from forest-based carbon offsets.
- > Avoided deforestation-based offsets are no longer considered credible by many international voluntary climate standards.
- > The use of carbon offsets, particular forest-based offsets, to claim carbon neutrality, has been widely discredited.

Jurisdictions including the EU and the UK have ruled that making such claims is illegal under their advertising codes, and companies making such claims are increasingly brought to court. Various companies have responded by binning offsets altogether.

RimbaWatch is a regional, independent watchdog conducting research and analysis on climate-related issues. The views expressed here are the writer's own.

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