AUTHOR: Luanne Sieh SECTION: ESG PAGE: E13 PRINTED SIZE: 471.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 8,172.00 ITEM ID: MY0058922148

20 MAY, 2024

Carbon Credits - What Businesses Need to Know

The Edge, Malaysia

Carbon Credits

– What Businesses Need to Know

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With an increasing number of companies making Net Zero carbon commitments, corporates are exploring a variety of decarbonisation levers to meet those commitments. Carbon credits are one such lever that has been all the rage. According to Morgan Stanley, the market for carbon credits is projected to grow 50-fold within a decade, from nearly $2 billion in 2022 to nearly $100 billion by 2030, and as much as $250 billion by 2050.

However, carbon credits lack widely adopted standards and large centralised marketplaces. This makes it difficult to find, understand, and compare carbon credit projects. Questions about the credibility of credits, including whether they deliver on their promise to reduce greenhouse gases (GHG), whether any such reductions will endure, and whether the project would have occurred even without the sale of carbon credits. Recently, a global corporate was called out for counting discredited carbon credits towards their climate goals, drawing accusations of "bad faith" and "malintent".

So how should companies approach the use of carbon credits to avoid being branded with allegations of greenwashing? Here are the five things we tell our clients:

Understand your main sources of emissions

The essential first step to developing a carbon management plan is to understand the indirect and direct emissions associated with your business. This means emissions from your owned or controlled assets, purchased energy, and value chain emissions, often known as Scope 1,2, and 3. With this data, you can then identify your greatest opportunities for improvement, start to plan your carbon reduction initiatives, and set achievable goals.

Address your operational emissions first..

The Carbon Management Hierarchy helps companies prioritise actions that minimise GHG emissions, focusing on avoidance, reduction, replacement and offsetting. Companies are already reducing emissions and saving cost by changing to LED, upgrading equipment and facilities and process optimisation. However, the ultimate goal for companies is to move towards 100% renewable energy by investing in renewal energy systems and renewable energy credits. Government incentives and financing are available to help this transition.

...Only then buy carbon credits

You cannot buy your way to Net Zero! Corporate carbon mitigation plans that are overly reliant on buying carbon credits rather than making carbon reductions to your own operations and supply chains run the risk of being accused of "buying their way out" and not serious about decarbonisation. The use of carbon credits should be the last option to offset emissions that are hard to abate. For example, the Science-Based Targets Initiative allows only the last 5% -10% emissions to be offset.

Look for quality carbon credit asset

Navigating the voluntary carbon credit market can be intimidating for the uninitiated. There are numerous carbon credit registries, verifiers, marketplace, and standards bodies that provide minimum requirements for carbon projects. Local exchanges, such as Bursa Carbon Exchange, provide a convenient platform to invest in credible carbon credits, as the credits listed have been vetted, or given a rating by an independent carbon credit rating agency such as Verified Carbon Standard and Gold Standard. The Integrity Council for the Voluntary Carbon Market is a good resource to understand attributes of quality carbon assets, and the Voluntary Carbon Market Initiative on credible application of carbon credits.

You can issue carbon credits if...

There are limited credible credits available in Malaysia, and this is increasingly an opportunity for clients in the region to take a position to leverage the local carbon exchange platform. Carbon credits are created from projects that either avoid the generation of GHG emissions or remove GHGs from the atmosphere. These projects include "nature-based solutions" such as reforestation and regenerative agriculture efforts, and "engineered solutions" such as combusting methane emitted from landfills to generate electricity and direct air capture.

CIMB offers its clients free tool and capacity building to help understand their sustainability baseline through GreenBizReady as well as to achieve their sustainability targets through training and advisory services. CIMB Bank is also a collaborative partner of the Bursa Carbon Exchange (BCX) and is exploring carbon credit transactional services on behalf of clients ranging from the trading and retirement of carbon credits, financing carbon project development, as well as potential future trading of other environmental or energy-related attributes through the exchange.