

**MARKET-BASED INSTRUMENTS FOR ENVIRONMENTAL PROTECTION:
PILOTING PRESUMPTIVE CHARGE AND EMISSIONS TRADING IN MALAYSIAN SMIs**

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ABSTRACT

The Government advocates expanded use of market-based instruments (MBIs) in high-level planning, including the Seventh and Eighth Malaysia Plans and the National Economic Recovery Plan. The palm oil and rubber mills effluent charge system implemented in 1978 in Malaysia was one of the first (MBIs) in the world that is still functioning today. Another successful use of MBIs for other environmental problems has been limited to the differential pricing on leaded and unleaded petrol, introduced in 1994. User fees charged by treatment facilities for scheduled waste (Kualiti Alam) and centralized wastewater treatment plants at industrial estates (e.g., Bukit Kemuning) can be regarded as recent examples of MBIs. Malaysian documents often refer to all economic instruments as MBIs. Our paper first clarifies the differences between MBIs and other environment-related economic instruments, such as the fiscal and financial incentives. We also highlight the differences between MBIs and "command and control" (CAC) approaches. We review previous studies and reports on Malaysia's experience in the use of MBIs, and finally, assess the feasibility of introducing two new promising MBIs: a presumptive charge on input material containing toxic or hazardous substances for the textiles industry, and an emissions trading system for BOD for food processing industries.