Setting up a National Strategy for CDM

Clean Development Mechanism (CDM) Workshop

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The objective is to develop a detailed CDM Strategy for Malta

- Malta is in a unusual position (along with Cyprus) of being a non-Annex 1 country under the Kyoto Protocol but also a EU country, subject to the EU-ETS allocations.
- As a non-Annex 1 country for the period 2008-2012, there may be some potential to generate and sell emission reductions from CDM projects in Malta.
- However, there may also be potential conflicts between Malta's position as a non-Annex 1 country and a member of European Union, so Malta cannot "double-count" its emission reductions.
- Malta's position post-2012 is a factor in the considering the way forward.

The CDM strategy will :

- Be “implement-able” and pragmatic
- Define a range of cost-effective solutions and approaches
- Provide an understanding of how carbon credits can be monetized and the current state of the carbon market
- Take into account international best practices and best ideas
- Take into account Malta’s unique circumstances and position as a potential CDM intermediary to the Mashreq and Maghreb region
- Be forward-looking in terms of the post-2012 global climate change regime, the future of CDM and Malta’s position as a EU country

Initial Project Plan

- Research (March – mid-April)
  - Post-2012 scenarios
  - Malta’s status in post-2012 regime and as a small island state
  - Status of other countries’ DNAs
  - Malta’s NAP
  - Background and guidance on the CDM process
  - Requirements and process for CER generation and use of a third-party verifier
  - State of the CER market and monetization of CERs
- Consultations in Malta (late April)
  - Assess MEPA readiness and requirements as a DNA
  - Definition of additionality
  - Where emission reductions are currently planned
  - Role and interest within private sector for development of projects
- Draft Strategic Plan (end-May)
  - Define opportunities
  - Identify cost-benefit of various opportunities, including:
    - Establishing Malta as an international “gateway” between Annex 1 and non-Annex 1 countries
    - Developing Malta as a centre of expertise as a DNA within the region
    - Developing a carbon sellers pool, or a carbon forfaiting desk

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Key Findings to Date

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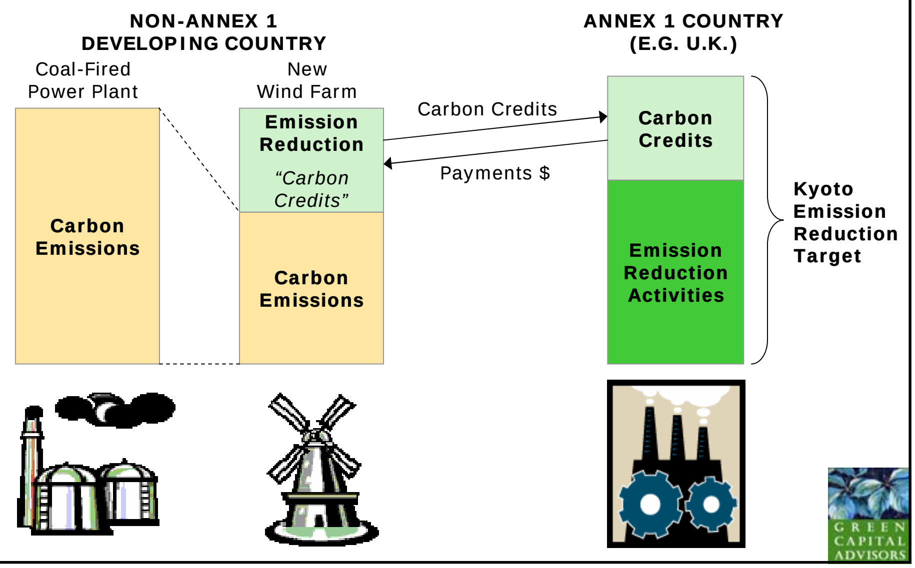
CDM Background and Guidance

- Considerable information on the CDM exists
  - UNFCCC CDM Website
  - World Bank Carbon Finance Unit Website
  - Other Stakeholder Studies and Websites
    - Ministry of Environment, Japan and Institute for Global Environment Studies “CDM and JI in Charts” is one of the more comprehensive single source reports
- Consultations with Malta’s CDM WG will identify specific areas of CDM interest to address

CDM and Carbon Credit Generation



CDM Additionality

- A CDM project is additional if emissions of GHGs by sources are reduced ***below*** those that would have occurred in the absence of the registered CDM project activity.

- The "without-project" scenario is called the ***baseline***

- The project sponsors must show that the emission reductions generated by the project are additional (or ***incremental*** to) those that would have been generated by the identified baseline scenario.

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State of the Carbon Market

- Global Carbon Market estimated to be over $20 b traded in 2006 (QI-III)
- Dominated by EU-ETS
  - CDM market about 10% of total
- Prices are highly volatile
  - Average forward CER price US$10.50 in 2006 (QI-III)
  - Long-term prices will depend on establishment of compliance regime beyond Kyoto 2012 (increasingly likely)
- Monetization of long-term CDM contracts is limited, so financing is a key constraint

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Status of Other CDM Countries in Mediterranean region

- Non Annex 1 countries in Mediterranean region have 16 of 726 projects in the CDM pipeline as at April 1 2007.
  - Cyprus – 2 Wind Energy
  - Egypt – 4 (Wind, Landfill, Industrial EE, N2O Destruction Project)
  - Israel – 5 (Landfill (2), Wind, Industrial EE, Biomass)
  - Morocco – 3 (Solar PV, Wind (2))
  - Tunisia – 2 (Landfill (2))
- EU Members
  - Italy - has an MOU with Cyprus for CDM Projects and a Carbon Fund and may provide electricity to Malta via cable from Sicily
  - Spain – Has a Carbon Fund and is experienced in financing RE projects in the region

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CDM versus EU-ETS

- It is important that, given Malta's (and Cyprus's) unique situation of being in the EU whilst not being an Annex 1 country, clear guidelines are to be established as to which project type's fall under the EU Emissions Trading Scheme (ETS) and which projects can otherwise be eligible for CDM.

- Guidelines would cover the decision criteria as to whether a emission reduction project should count towards EU-ETS or as a CDM

- Critical is the avoidance of double-counting

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Malta's 2008-2012 NAP

- Malta Requested NAP
  - Allowances of 14.78 mtCO2e for the 5 year period / 2.956 mtCO2e per year
  - Allocations of 10.95 mtCO2e to EneMalta / 2.19 mtCO2e per year
  - New Entrants Reserve of 3.83 mtCO2e

- The EC Approved
  - Allowances at **2.143061** mtCO2e per year / 10.715 mtCO2e over 5 years
  - Base is 2005 Verified CO2e of 1.971258 mtCO2e
  - Adjusted base year using the PRIMUS model, GDP and Carbon Intensity Factors

- Malta now faces shortfall in allowances of
  - **812,539** tCO2e/yr
  - **4.062695** mtCO2e for the 5 years period
  - **235,000** tCO2e/yr

The key question is what is the most cost-effective way to fill this gap?

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NAP Options

- Malta can
  - **Revise** its 2008-2012 NAP
  - **Offset** any projected overages in the EC Allowances
  - **Challenge** the EC Decision in order to achieve an increase in allowances approved in EC Nov 2006 Decision, or
  - **Do nothing** and pay EU-ETS penalties

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Critical Issues

- Projects need to be “up and running” very quickly
- Requirements to ensure no ‘double counting’ under EU-ETS directives
- Financing pure private sector or PPP CDM projects can be difficult
- Malta may need to underwrite RE project risks to attract funding
- CDM approval process can be slow and costly
- Role of DNA can be complex and costly requiring capacity building
- The “shelf life” of Malta’s DNA is short
- However, Malta may be able to better position itself for transition to a JI in post 2012 if it has established an experienced DNA ready to lead Malta’s transition from Non-Annex 1 status to JI status

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Preliminary Findings

- It will be very difficult for Malta to preserve its Non Annex 1 Status post 2012 with commitments to meet the EU-ETS reduction targets
- Malta is in a “transition” mode considering both shorter term and longer term strategies to achieve GHG reductions targets regardless of the future outcomes of the Kyoto Protocol
- With the CER market being largely a buyers’ market over the past years, Malta’s position as a possible CDM player for the period 2008-2012, together with Malta’s well-developed financial system, could help to transition Malta into being an significant intermediary in the CDM market.

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Thank You

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