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4<sup>th</sup> October 2006

The Chairman  
Executive Board,  
**UNFCCC**

Dear Sir,

Subject: Clarification on the request for review for "Destruction of HFC-23 at Refrigerant (HCFC-22) manufacturing facility of Chemplast Ltd" (Reference number: 0499)

This has reference to request for review raised by Executive Board members for the project "Destruction of HFC-23 at Refrigerant (HCFC-22) manufacturing facility of Chemplast Ltd" (Reference number: 0499).

We enclose our clarifications for the comments raised for your consideration. We trust this fully answers your queries.

Yours faithfully,



N Krishnamoorthy  
Executive Vice President – Commercial

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### **Reasons for Request for review:**

- 1. A comment received by Carbon Watch raises serious questions regarding the additionality of the project activity: "(...) What this suggests/ point to is the possibility of the baseline scenario being the discontinuation of production of HCFC22 (and thus the emissions of HFC23), the proposed HFC23 incineration results in a scenario which is no different from the BAU. On the contrary as the incineration does not reduce 100% of the HFC23 emission, it in fact increases GHG emissions." Considering that in the response to the above comment the DOE states that "(...) As per the Montreal Protocol, India and refrigerant manufacturer's like CSL are committed to phase out of CFC productions. (...)", and the DOE states in section 3.2 of the Validation Report that "Though in business from 1989, since June 2004, CSL has outsourced the production of refrigerant gases as part of CSL's revamping strategy. Production of HCFC is now expected to be revived along with the implementation of the project activity in 2007", this should be further clarified.*
- 2. Differently from what is defined in AM0001/ver.03, the amount of natural gas (Q\_NGy) used by destruction process is not monitored. It is not explained in PDD whether the destruction process doesn't use natural gas. Methodology says "If a different fuel, such as liquid petroleum gas (LPG), is used for the incineration process, the variables Q\_NGy and E\_NGy are replaced with variables for the quantity of fuel used and emission coefficient for that fuel. Please clarify.*
- 3. Only final figures are presented for baseline, project and leakage. Initial activity data (such as electricity consumed kwh, data for calculation of leakage, etc) for emission calculations are not provided.*
- 4. The PDD states in Section C that the starting date of the project activity is "15/10/2005 (PDD development started). Incineration plant is expected to start operation by March 2007". However, the starting date of the crediting period is stated as 01/10/2006. The crediting period cannot start before plant operation. Please correct it.*

### **Reply from Project proponent:**

- 1- Project promoters had provided a detailed response to comment received during the Global Stakeholder Consultation process, including sharing of confidential internal documents to the DOE. However, due to some technical problem, the content of this file is not visible (only pdf icon is visible) in the validation report provided by DOE. We are enclosing this clarification report for your reference.*





The main reasons why discontinuation of HCFC22 production is not a baseline are as follows

- a. CSL has not exited from the refrigerant gases market. Production is outsourced temporarily only to revamp the existing plant which could meet growing HCFC22 demand in India. This could be verified from the fact that CSL continues to market HCFC22 (Brand name METTRON) during the period in which production has been outsourced. For ready reference, we enclose a sample copy each of two invoices raised by CSL – one in May 2005 which is well before we commenced preparation of the PDD and one as recently as September 2006 - which would clearly prove that CSL continues to be in HCFC 22 business.
- b. Even during this period, CSL continued to source raw material and packing material on its own and provided these to the out sourcing unit only for conversion. This is purely on account of the temporary nature of this arrangement and CSL's need to maintain long term relationship with such raw material suppliers when it reverts to production at its own unit. This clearly shows that outsourcing was done temporarily (short term contract) for plant revamp and not as a long-term business decision.
- c. The production of refrigerant gases on an outsourced basis for the year ended 31<sup>st</sup> March 2006 is accounted for in CSL's balance sheet for the corresponding period – scanned copy of relevant pages attached. This would again prove that CSL continues to be in this business.

One major observation made by Carbon watch is "*As per the Director's report along with the accounts for the year ended 31<sup>st</sup> March 2005; 'Mettron: In view of the continuous reduction in production volume in line with the Montreal Protocol phase out schedule, the entire production of refrigerant gases has now been outsourced. This has helped the business to reduce its fixed cost substantially*". It is to be noted here that the product under immediate and accelerated phase out under Montreal Protocol is CFC-11/12 and not HCFC-22. Thus, what is referred in the Director's Report attached to the accounts for the year ended 31<sup>st</sup> March 2005 is only relevant to outsourcing of CFC production on a permanent basis and does not have relevance to HCFC-22 production, as Montreal Protocol does not advocate an immediate phase out of this product.

- d. In the overall system of HCFC22 production (and resulting HFC23) there is no effect of outsourcing, even in the brief period of outsourcing.

Initially, CSL was producing its volume of HCFC22 and the outsourcing Plant, its own. In the interim when CSL 's Plant is under revamp, the



outsourcing Plant is manufacturing its own volume plus CSL's volume, which is being marketed by CSL as METTRON. And as this outsourcing is temporary and once CSL's plant is ready after revamp, CSL will once again start producing HCFC22, and the other plant will not be making this volume any longer for CSL. Thus it is clear that the baseline is continuation of HFC23 disposal practice as in the past.

- e. For CSL, refrigerant business has good profitability and also scope for future growth. Revamping is being done essentially for:
    - i. Reorientation of plant to produce HCFC-22 to meet expected growth in demand in India, driven by increasing use of Air-conditioners<sup>1</sup>.
    - ii. Improving raw material consumption norms and material & energy efficiencies so that they are in line with industry best practices
    - iii. Improving HCFC-22 quality to garner larger share of international export market
  - f. Decision to revamp the plant and to outsource production temporarily was taken independent of CDM benefits available for the project activity.
  - g. The project activity meets all eligibility conditions as given in Approved Methodology AM0001 namely at-least three years of operating performance between 2000 & 2004; no regulation for destruction of HFC23.
- 2- The project activity plans to use hydrogen as a fuel for destruction purposes in the incineration unit in place of Natural Gas, and as hydrogen does not have GHG emissions related to its use, its emission factor is not being monitored (PDD section D2.1.2).
- 3- PDD has been revised to include basic data/assumptions regarding baseline, project activity and leakage emissions (section E)
- 4- Project start date has been considered as PDD start date. The project activity has two parts (a) HFC-23 storage facility and (b) incineration unit. The incineration unit is expected to be commissioned in March 2007; however CSL plans to start storing HFC-23 from HCFC-22 production process from November

<sup>1</sup> The dynamics of demand growth is expected to be similar to China, where HCFC-22 demand grew with growing urbanization, rural infrastructure build up etc.





2006 onwards. The credit period shall start from date of start of HFC-23 storage. As this explanation regarding credit period was not clear in the PDD, the clarification has been included in PDD (section A.2). In the revised PDD start date of credit period is 15/11/2006 (changed due to delay in registration process, section C.1.1 and C.2.2.1).

A handwritten signature in black ink, consisting of a stylized 'A' followed by a long horizontal stroke.



**Chemplast Sanmar Limited**

Regd. Office: 9, Cathedral Road, Chennai - 600 086.  
Plant - 1 (Mettron & Caustic Chlor)  
Mettur Dam, Salem District - 636 402, Tamil Nadu.

PA No.	AAACC 3000F
Range	Range 1
Address	Mettur Dam 636 402 A.C. Central Excise Salem II, Salem 636 005
Division	SALEM
RC No.	AAA CC 3000 FXM 001
ECC No.	AAA CC 3000FXM 001
TNGST	3241159 / DL 1.4.95
CST	417739/25.5.90 - Internal Area code : 1 6 9

Invoice No.

Issued under Rule 11, of C. Ex. (No. 2) Rules 200

Ref. No.

Date: 26.05.2005 DOM - CHEMPLAST

Prep Time: 15:53:40

FIFTEEN Hour(s) FIFTY-THREE Minute(s)

Remv. Time: 16:08:40

SIXTEEN Hour (s) EIGHT Minute(s)

**CHEMPLAST SANMAR LTD.,**

3, SANGNA CO-OP HOUSING SOCIETY, GURUKRUPA BUILDING,  
RANDEK ROAD, SURAT 395 009.

DESPATCH FROM JOB WORKER'S FACTORY NAVIN FLUORINE  
UNIT OF POLYOLEFINS RUBBER CHEMICALS LTD  
BHESTAN - SURAT - PIN 395 023.

CLEARANCE FROM JOB WORKER'S FACTORY  
UNDER RULE 4(6) OF CENVAT CREDIT RULES, 2002

PERMISSION GRANTED BY COMMISSIONER OF CENTRAL EXCISE  
SALEM VIDE

IV/16/73/2004-CX POL Dt: 31-03-2006

VALID UP TO: FINANCIAL YEAR 2005-2006

CUSTOMER ORDER No. Ver bal 24.05.2005

SO No. 90226 dt d. 25.05.2005

CUSTOMER 110088 ECC AAA FH 4633 EXD-001

DELIVERY AT

YOUR CST No. \_\_\_\_\_  
YOUR ST No. \_\_\_\_\_

LC/08/049344/1051 DT 1.4.69

FREIGHT  
TO PAY/PAID  
To Pay

DESTINATION  
NEW DELHI

OUR GST No. 2202011646 DT 08/06/04  
CST No. GUJ 99969034 DT 08/06/2004

Transporter	Gross Weight	4,040.00	KG
Vehicle No.	Tare Weight		
LR/RR No. BY LORRY	Net Weight	1,600.00	KG
		2,440.00	KG
Terms of payment	DA Bill No./L.C. No.		
Custom Payment	before 60 days		
Due Date			

PRODUCT CODE	PRODUCT DESCRIPTION	PACK			QUANTITY	RATE		AMOUNT	
		TYPE	UNIT	UM		Rs.	P.	Rs.	P.
100008	METTRON- 22 N 61 KG CYLI NDER		40	TO	2. 440				
					BED				

the goods specified in this bill/cash memorandum is made by us and that the transaction of sales covered by this bill/cash memorandum has been effected by us in the regular course of our business.

ASSESSABLE VALUE  
CENVAT AMT. @  
16.000 % on  
A/R Education  
100.000 % on  
Central sale  
4.00 % on  
Rounding Off

Place.....

INTEREST  
MADE ON

INVOICE  
-ALIF



**Chemplast Sanmar Limited**

Regd. Office: 9, Cathedral Road, Chennai - 600 086.  
Plant - 1 (Mettron & Caustic Chlor)  
Mettur Dam, Salem District - 636 402, Tamil Nadu.

PA No. : AAACC 3000F  
Range : Range 1  
Address : Mettur Dam 636 402 A.C, Central Excise Salem II, Salem 636 005  
Division : SALEM  
RC No. : AAA CC 3000 FXM 001  
ECC No. : AAA CC 3000FXM 001  
TNGST : 3241159 / Dt. 1.4.95  
CST : 417739/25.5.90 - Internal Area code : 1 6 9

Invoice No.

Issued under Rule 11, of C. Ex. (No. 2) 1995

**9435208**

Ref. No.

Date: 27. 09. 2006 DOM - CHEMPLAST

Prep. Time: 18: 25: 07

Eligible Hour(s) TWENTY-FIVE Minute(s)

Remv. Time: 18: 40: 07

Eligible Hour(s) FORTY Minute(s)

**CHEMPLAST SANMAR LTD.,**

NO. 17 & 18, YAMUNA ARCADE,  
ADAJAN, SURAT 395 009.

DESPATCH FROM JOB WORKER'S FACTORY NAVIN FLUORINE  
INTERNATIONAL LTD.  
BHESTAN - SURAT - PIN 395 023.

CLEARANCE FROM JOB WORKER'S FACTORY  
UNDER RULE 4(6) OF CENVAT CREDIT RULES, 2002

PERMISSION GRANTED BY COMMISSIONER OF CENTRAL EXCISE  
SALEM VIDE

LETTER I V/ 16/ 01/ 2001 - CX Pol Dt d. 31-03-2006

VALID UP TO: FINANCIAL YEAR 2006-2007

CUSTOMER ORDER No.

telecon 27. 09. 2006

SO No.

129283 dt d. 27. 09. 2006

CUSTOMER

600566 ECC AAECSC0168AXD001

DELIVERY AT

YOUR CST No.

638228

YOUR ST No.

0760554 / 95-96

AAECSC0168A

FREIGHT  
TO PAY/PAID

To Pay

DESTINATION

CHENNAI

CHAPTER I D : 29034300

Transporter

Vehicle No.

LR/RR No.

Terms of payment

Due Date

Gross Weight

Tare Weight

Net Weight

DA Bill No./L.C. No.

8, 585. 00 KG

3, 400. 00 KG

5, 185. 00 KG

PARTY'S TRUCK

Custom Payment within 60 days

OUR GST No.

24220201164 DT. 14. 09. 2005

CST No.

24720201164 DT. 14. 09. 2005

PRODUCT  
CODEPRODUCT  
DESCRIPTION

PACK

TYPE

UNIT

UM

QUANTITY

RATE

Rs.

P.

AMOUNT

Rs.

100008

METTRON- 22  
IN 61 KG CYLINDER

85

TO

5. 185

ED I

BED

We  
Sale

the goods specified in this bill/cash memorandum is made by us  
and that the transaction of sales covered by this bill/cash  
memorandum has been effected by us in the regular course of our  
business.

Place.....

Signed.....

ASSESABLE VAL  
CENVAT AMT. @

16. 000 % on

A/R Educat i o

100. 000 % on

Cent ral sale

4. 00 % on

Bonding Off

INTEREST @ 21% P.A. WILL BE CHARGED IF PAYMENT IS NOT  
MADE ON D

INVOICE  
VALUE

## Schedules forming part of the Accounts for the year ended March 31, 2006

	2005-06		2004-05	
	Quantity MT	Value Rs.Lacs	Quantity MT	Value Rs.Lacs
<b>SCHEDULE 1</b>				
SALES				
Polyvinyl chloride	59376	33552.39	48825	30327.93
Caustic soda	79231	13657.60	75252	10522.76
Chloromethanes	33274	12615.96	32770	12439.74
Trichloroethylene	3081	1514.50	2963	1540.81
Hydrochloric acid	51491	878.38	40444	779.93
Refrigerant gases	1152	2208.11	1288	1811.26
Ethyl silicate	374	323.40	403	392.72
Hydrogen gas	114	122.56	106	111.37
Silicon wafers (in '000 Nos)	1251	1737.20	1240	1422.62
Others		991.19		954.62
		<u>67601.29</u>		<u>60303.76</u>
<b>SCHEDULE 2</b>				
OTHER INCOME				
Share of income from partnership firm		27.38		40.70
Montreal Protocol compensation		1839.80		174.25
Profit on sale of fixed assets (net)		183.49		11.40
Profit on sale of non-trade long term investments		-		431.00
Commission		78.14		67.22
Reversal of provision for asset impairment (net) (Note 8 in Schedule 21)		11.24		-
Liabilities no longer required written back		82.87		69.06
Miscellaneous income		124.69		139.97
		<u>2347.61</u>		<u>933.60</u>



### SCHEDULE 3

#### COST OF GOODS SOLD

	2005-06		2004-05	
	Rs.Lacs	Rs.Lacs	Rs.Lacs	Rs.Lacs
Materials				
Opening stock				
Raw materials	443.08		624.66	
Intermediates	1857.99		2669.09	
Work in process	126.96		132.38	
Finished goods	<u>309.21</u>	2737.24	<u>459.20</u>	3885.33
Add: Purchases				
Raw materials	6134.77		6733.64	
Intermediates	<u>14347.18</u>	20481.95	<u>8281.91</u>	15015.55
Less: Closing stock				
Raw materials	703.96		443.08	
Intermediates	2338.01		1857.99	
Work in process	142.57		126.96	
Finished goods	<u>778.02</u>	(3962.56)	<u>309.21</u>	(2737.24)
Excise duty on closing stock of finished goods	131.50		55.18	
Less: Excise duty on opening stock of finished goods	<u>55.18</u>	76.32	<u>56.80</u>	(1.62)
		<u>19332.95</u>		<u>16162.02</u>
Power and fuel		18924.56		15317.89
Stores		1679.47		1582.12
		<u>39936.98</u>		<u>33062.03</u>

### SCHEDULE 4

#### SALARIES, WAGES AND AMENITIES TO STAFF

Salaries, wages and bonus	4418.05	4100.95
Contribution to provident and other funds	193.55	198.18
Gratuity	131.82	722.47
Staff welfare expenses	33.32	62.31
	<u>4776.74</u>	<u>5083.91</u>