



Comment on the baseline methodology for HFC 23 reduction from HCFC 22 production (AM 0001)

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I General procedural issues

- An approved baseline methodology has gone through *intensive comment periods* by desk reviewers and the general public. Revisions should be an exception and only be done in case of decisive new information coming up.
- The suspension of an approved baseline methodology by the CDM Executive Board *without any prior notice* is a dangerous precedent. CDM participants will now fear that anytime methodologies can be changed. As preparation of a PDD and its validation is a lengthy and costly process, it is obvious that the risk of a methodology change before submission of a project for registration will reduce the willingness to embark on development of a CDM project.
- A second problem of the process leading to putting AM 0001 on hold was that it involved comments by Dupont and the Swiss government that were *not publicly available* before and after the decision. The issue was also not discussed during the webcast EB meeting but at an informal side meeting. So the arguments could not be evaluated by the interested public.
- The opening of the public comment period after the putting on hold of AM 0001 is welcomed but does not remedy the problems listed above

II Evaluation of AM 0001 and the concerns of the opponents of HFC-23 reduction projects

- In contrast to many other CDM project categories, the *additionality* of HFC-23 reduction projects is beyond doubt as the destruction technology is costly, host country regulation is absent and there is no market value of HFC-23.
- If HFC-23 reduction projects have *low GHG mitigation costs*, this is only positive and shows that the CDM operates exactly as a market mechanism should do: it identifies and implements cost-effective options. The Swiss concern that HFC-23 projects “could capture 50% of the global CDM market share and put carbon offset prices under pressure” and thus crowd out renewable energy projects is completely off the

mark. The CDM is not a renewable energy subsidy mechanism! The CDM Executive Board should not become a central planner that defines “good” (=expensive) CDM options. Let the market play freely – we will need all cheap GHG reduction options that are developed by creative minds to persuade policymakers that strong GHG emission reductions are feasible in the long term.

- The argument raised by EB members that CER revenues would encourage increased production of HCFC-22 and thus cause leakage does ***apply to all CDM project technologies that involve production of a good or service whose use leads to emissions***. The additional revenues from CERs make the producer more competitive and thus likely that he captures a higher market share. Do we want to limit the CDM to technologies that do not involve production of a good or service? In my view, the sustainable development benefit of a CDM project consists mainly in the increased availability of goods and services to people in developing countries. Do we deny these people the benefits of cheaper air-conditioning due to cheaper HCFC-22? It is however justified to ***avoid that revenues from CER sales lead to a situation where HCFC-22 is just being vented or given away for free or at a nominal price***. Therefore, the ***amount of CERs should be capped*** once the following situation arises: ***HCFC-22 production volume * HCFC sales price < CER volume * CER price***. This would have to be monitored ex post.
- The Swiss assertion that there “is a considerable risk that HFC-23 projects contribute to the grounding of the sustainable development objectives targeted through the CDM mechanism” does not take into account that the ***check of the contribution of a CDM project to sustainable development is the prerogative of the host country***. So a host country DNA can decide not to approve HFC-23 reduction projects or to tax them heavily as currently discussed in China.
- The CDM cannot resolve problems such as the phase-out schedule of HCFC-22 that have to be resolved within the framework of the ***Montreal Protocol regime***.
- If HCFC-22 is ***not covered as a greenhouse gas under the Kyoto Protocol***, this cannot be remedied by a prohibition of HFC-23 reduction projects under the CDM. It has to be resolved by the COP/MOP. If only the CDM (and later JI) covers non-Kyoto greenhouse gases, we have severe issues of compatibility and an inefficient outcome
 - Non-Kyoto greenhouse gas reduction is not attractive in Annex B countries but in CDM and JI projects
 - Where do we draw the borderline of covered gases (only gases listed with reliable GWPs in the IPCC Third Assessment Report, any gases that are suspected to have greenhouse impacts)?
- The possibility to use a HFC-23 production rate of up to 4% of HCFC-22 production (IPCC default) as the baseline is a problem as it could lead to a sloppy operation of the HCFC-22 plant to maximize the HFC-23 rate. So the baseline HFC-23 production rate should be defined by the ***rate of the plant in 2002***, i.e. before the CDM became relevant for that technology. For new plants, the ***average rate of new plants worldwide in the last 5 years*** should be used (comparable to build margin in electricity sector).

III General issues regarding the entire CDM

- Large and cheap GHG reduction options should *not be burdened with artificial barriers to increase their CER generation cost*
- The *use of CER revenues to expand production of goods and services is fully legitimate* and should not be treated as leakage as long as the good is not becoming a “bad”.
- There will be *other technologies* coming up facing the same questions (N₂O abatement from adipic and nitric acid production, reductions of industrial gases from aluminium production).

IV Recommendations

1. Approved methodologies should *not be revised / put on hold* by the EB *without prior notice*. This notice should be given at least one month before the session of the EB deciding about revision / putting on hold. At the time of the notice, public comments have to be invited for 15 working days and published on the EB website after closure of the period
2. The EB has to *publish all comments* that ask for revision / putting on hold of an approved methodology if these comments are submitted outside a regular public comment procedure
3. Revisions /putting on hold of a methodology should *not affect projects that have started their public comment period for validation*. Such projects can be submitted indefinitely for registration with the old methodology.
4. AM 0001 should be amended regarding the HFC-23 baseline production rate:
 - a. *Existing* HCFC-22 plants should use the *HFC-23 production rate of 2002*
 - b. *New* HCFC-22 plants should use the *average rate of all plants worldwide that started production in the previous 5 years*
5. *Increase of production of a good or service due to an improved competitive situation generated by CER revenues* should *generally not be assessed as leakage* under the CDM. To avoid that revenues from CER sales lead to a situation where a product is just being dumped or given away for free at a nominal price, the *amount of CERs should be capped* once the following situation arises: *Production volume of good/service * sales price < CER volume * CER price*. This would have to be monitored ex post. Data on sales and CER price would only be communicated to the verifier to protect commercial confidentiality.
6. CDM covers only the *greenhouse gases listed in Annex A to the Kyoto Protocol* (the Kyoto basket)