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Subject: Comment to UNFCCC-CDM on: AM0001 "Incineration of HFC 23 waste
streams"

Dear Sir/Madam,

Our comments on methodology for CDM projects for HFC 23 are as follows:

- Possible alternative approaches to assessing the baseline scenario for destruction of HFC 23 in the HCFC 22 industry;

On determination of baseline:

Comments on page 3, on the methodology for establishing the baseline for HFC-23. A reference quantity for the baseline is the "production of HCFCs" during the year at the plant where the HFC-23 waste originates (Q_HCFCy). There is a risk that plant managers could increase the production of HCFC-22 during the reference year to increase the baseline. The methodology does not seem to have a procedure to prevent this risk. One suggestion could be to take several years (maybe agree on historical records for years before a project is approved) to measure the reference baseline. This remark is inspired by the experience of the Montreal Protocol. HCFC-22 being an ozone-depleting substance and a greenhouse gas, it would be counterproductive to have a project conducive to increased HCFC production/emission (even temporarily).

- Common practices in this industry, complementing previously available information;

On revenues through sales of HFC-23 CERs:

The revenue and profits generated through HCFC-22 are about USD 3,300 and USD 1,000 per ton respectively (assuming profit margin of 33% of sales revenue). If HFC-23 is sold at a price of USD 3 per ton of CO₂, 3 tons of HFC-23 generated will result in about USD 100,000 as revenues and about USD 80,000 as profits (assuming 20% of the revenues generated will be incurred in costs). This will, hence, translate to a per ton profit of USD 800. This implies profits through sale of CERs generated through HFC-23 decomposition route will almost be equal to profits generated through HCFC-22 production.

- Possible impacts of such project activities on the supply and demand of HCFC 22:

The adoption of the methodology is positive. However, some risks are to be taken into account due to the impact on the HCFC-22 market:

Lack of incentive in developing countries from reducing HFC-23 generation levels through HCFC-22 production. There may also be an interest in increasing HFC-23 levels in the HCFC-22 production facilities.

Lack of incentive for reducing HCFC-22 production levels. This can serve as a threat to Montreal Protocol controls on HCFC-22 and any specific measures taken by non-Article 5 countries under the Montreal Protocol to phaseout HCFC-22 production and consumption.

Shift in production of HCFC-22 to developing countries. Though HCFC-22 is controlled under the Montreal Protocol, there are no strict measures to reduce HCFC-22 production in developing countries. Some developing countries are still looking at expanding production of HCFC-22 capacities. Further, any HCFC-22 production for feedstock purposes (which is out of controls under the Montreal Protocol) also may shift to developing countries like India and China.

Crowding out behavior of carbon credits. Given the GWP multiplier of HCFC-22, HFC-23 decomposition project can crowd out market for carbon credits. For example, if China produces about 200,000 tons of HCFC 22 and is estimated to generate 3% of HCFC-22 production as HFC-23, this will translate to 6,000 tons of HFC-23 production implying 70 Million tons of CO2 credits. This can result in substantial credits being generated from single individual enterprises producing HCFC-22 and not result in translation of benefits of CDM to other sectors (especially in biomass based energy, renewable energy, non-conventional energy, energy efficiency etc.) Such adverse effects can be controlled by measures to limit credits purchased from HFC -23 from countries or discounting the quality of credits (i.e., say 35% discount on credits generated from these projects as achievable credits etc.), redefining methodology to cater to HFC-23 generated from HCFC-22 production for feedstock use etc. These measures, however, need to be negotiated under international trading and negotiations mechanisms.

- **Possible potential for the integrated thermal destruction:**

Need to integrate work under CDM with other international or national treaties

It is important to find out if the same incinerator under CDM could be used for the destruction of CFCs and other banned chemicals (POPs, Pesticides and ODS) . The owner and technology partner should be required to investigate this option. It may be environmentally cost effective solution if owner is required to investigate collateral incineration possibility and report back as obligation before the approval of the project.

Please contact us for any further information or clarification.

Rajendra Shende, **Head**

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