

## Input in relation to the approved methodology AM0001.

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Methodologies Panel and the Executive Board should adopt new criteria for approval of CDM projects which takes policy interlinkage perspectives into consideration between the Kyoto Protocol and the Montreal Protocol so that no CDM projects should harm the objectives of the other treaty.

1. Possible impact of such project activities on the supply and demand of HCFC22.

1)

In the intergovernmental negotiations of the Montreal Protocol on potential move up of phase out of HCFCs for Article 5 countries, i.e. developing countries, parties of Article 5 have been strongly opposed to any acceleration of the phase out schedule since 1995, for nearly 10 years.

Considering the political and economic (investment already made etc.) aspects of the HCFC issue mentioned above under the Montreal Protocol from policy inter-linkage perspectives between the ozone and climate regimes, approval of incineration of HFC23 waste streams is likely to add incentives for A5 producer parties of HCFC22 not to agree any earlier date of phase-out of HCFCs, because it is likely that HCFC22 producers will try to make full use of the newly created opportunities to gain new profits from CERs for destruction of the substances which they are supposed to deal with. ( \*The Montreal Protocol allows Article 5 parties to increase the 'consumption' [production + import – export] theoretically as much as they like until 2015 and the phase-out will start in 2016. )

“Report of Basic Research on Projects to Limit HFCs, PFCs and SF6 by Utilizing CDM”, published in March 2004 by Japan Association of Mechanical Industry and Mitsubishi Securities Firm, Co. Ltd points out how high the level of gains this project could bring in to GFL in India. According to the report, the gains from the HFC23 CDM

Project for GFL will be about 15 million US dollars per year if the price of CER is set for 5 US dollars per one CO<sub>2</sub> equivalent t, which is more than twice as much as GFL's annual net profit, 6.4 million US dollars(p.9). Such high profit created by CDM projects of incineration of HFC 23 waste stream, is highly likely to make the opposition by Article 5 parties to acceleration of HCFC phase-out schedule under the Montreal Protocol even stronger. It will also delay a shift to more environment friendly non-halocarbon alternatives in the market. It will also delay the recovery of the ozone layer.

2)

The production and use of HCFC22 as a feedstock for further chemical manufacture is exempted from the regulation under the Montreal Protocol. Any country could increase the production of HCFC 22 as a feedstock as much as she likes. It means that even after 2040, developing countries can continue to produce HCFC22. That is another space for potential increase in production of HCFC22 motivated by CDM projects discussed here.

3)

This project could create a situation where other HCFC22 producers in developing countries wait for CDM projects of incineration of HFC 23 and keep the baseline higher instead of introducing measures to limit the emission of HFC23, because of such a high profit to be created.

2.

It is likely that CDM projects of HFC 23 destruction will distort the market due to the huge amount of CERs created and will disturb other CDM projects such as renewable energy and energy conservation etc.

Attached document No. 4 to the above mentioned report (1-1)) reports the results of the hearings conducted in China by Ministry of Environment, Japan, which says "The government of China has a position that it will not give a high priority to implementing destruction of HFC 23 through CDM. The reasons for that are; China gives priorities to projects on energy conservation and renewable energy; HFC23 CDM projects need further verification in terms of sustainable development; those projects will potentially distort the market because of the huge amount of CERs created and it could create problems for promotion of other CDM projects".

3.

This project has an ethical problem.

Producers of HCFC22, which destroys the global environment, gain a great amount of profit by selling it in the market, and furthermore they gain even more profit by destroying the HFC 23 waste stream. Destruction of HFC 23 waste stream is supposed to be the producers' RESPONSIBILITY which has to be done anyway by them, not the RIGHT. However, here in the CDM projects of HFC23 destruction, recapture and destruction are dealt with as if it were their RIGHT.

4.

To recapture and destroy HFC 23 waste stream has to be done, but it does not necessarily have to be done by utilizing CDM. It could be through other financial mechanisms. The issue here is that problems are likely to occur, including potential leakage issue of HCFC 22, because of the use of CDM, which involves CERs.

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