

	CDM: Response form for Request for revision of approved methodologies (version 01.1)	
<i>Date of Meth Panel meeting:</i>	22 - 26 June 2009	
<i>Title and number of Request for revision</i>	Amendment to expand applicability to new adipic acid facilities AM_REV_110	
Summary of the query:		
Please use the space below to summarize the request for revision on the related approved methodologies.		
<p>This request for revision builds on and complements PP's earlier submission AM_REV_0088. It aims to align the proposed revision with guidance adopted by MP-34 (Annex 11).</p> <p>The Panel's Guidance Note requires addressing possible leakages related to a shift of AA production from Annex 1- to Non-Annex 1 countries, either by developing a method to conservatively calculate emission reductions or providing a detailed explanation on why the above issues are not relevant for the underlying project activity.</p> <p>In the initial submission of AM_REV_0088, project proponent provided for several safeguards to minimize the risk of such leakages, especially (i) the requirement to discount CERs for AA exported to the Annex I region, and (ii) by ensuring that CER revenues cannot be used to lower the sales price of AA below the cost of production.</p> <p>The project proponent suggests the use of a discount procedure: After the first five years of the crediting period, the cap on the baseline emissions is reduced by 90%, from 0.25 to 0.025 t N₂O /t AA. The discount derives from the following principles:</p> <ul style="list-style-type: none"> • Discount level: The level of the discount should be high enough to offset the maximum leakage which can be expected in a "realistic worst case" scenario; • Rapid payback: The discount should be applied only after a certain grace period; • Incentive for maximum abatement efficiency: The discount should be applied to the cap on baseline emissions, • Sustained incentive for long-term abatement. 		

Recommendation by the Meth Panel:

(a) Please use the space below to provide amendments /changes (in your expert view, if necessary).

Applicability conditionsCondition 1

Applicability condition 1 would not be necessary. There is little variation in the technologies used to produce adipic acid, thus it is not expected that a new plant will use a radically different technology.

Condition 2

The outcome of this assessment would depend to a large extent on the assumptions made for the forecasts for the price of adipic acid and the prices of the feedstock. It would also be preferable to determine RRoE based on CAPM model instead of deriving it from the cost of debt.

Condition 3

The project proponent shall justify why plants which started commercial production before 31 December 2008 obtain a “preferential treatment” for the demonstration of condition (3). This applies also to condition (2).

Condition 4

The market for adipic acid is highly segmented as adipic acid is a basic chemical building block used in many different applications and end uses (see consultant report). So it seems virtually impossible to trace CER-advantaged material with a reasonable degree of certainty.

The proposed procedure seems therefore not easily applicable in practice.

Emission factors

The suggestion to use differentiated emission factors during the crediting period would need further justification. For instance if the plant would stop production for any reason after a couple of years, some over-crediting could take place.

Discounting of CERs

The suggestion to discount the amount of CERs to account for possible displacing of imports from annex I existing adipic acid facilities goes in the right direction. Nevertheless it does not encompass two additional possible negative side effects:

- Possible displacement of imports from non Annex I plants with an abatement system;
- Possible displacement of “adipic acid intensive” productions (PA66, plastics, etc.) from existing annex I plants to new plants located in non Annex I countries as a consequence of adipic acid production subsidized through the CDM.

Proposal by the Meth panel

The project proponents provided some interesting approaches to deal with possible negative side effects of the inclusion of new adipic acid facilities in the methodology AM0021. Some nevertheless appear to be difficult to implement in practice; therefore it is suggested to work on the basis of the project proponents' proposal to adjust the cap on the amount of specific N₂O production in the baseline situation.

The Meth Panel recommends as a simple solution for new plants using a fix baseline emission factor of 0.05tN₂O/tonAA produced. The reasons to use this value are the following:

- Inclusion of primary nitrous oxide abatement (corresponding to a destruction rate of 90%) shall be considered as business as usual technology which should be part of any new adipic acid plant;
- The emission factor as defined above still provides enough revenue to cover the investment and operating costs of a primary abatement unit; according to the consultant's report, the CDM benefits associated to a destruction rate of 90% of N₂O emissions in a standard one stage destruction unit would still represent two to three times the cost of the abatement;
- The emission factor does not remove the incentive to reach a maximum N₂O destruction efficiency. There is still an incentive to implement two stages destruction processes which could destroy almost 100% of the emissions;
- Reducing the amount of CERs in such a way would drastically limit any incentive to displace any direct or indirect production from other sources.

(b) Please use the space below for providing guidance, as per Para 93 of EB25 Report, on what type of projects need to revise the PDD as a consequence of the suggested revision, if the recommendation is to revise the methodology.

The recommendation is not to revise methodology.

A new request for revision should address the issues raised above and use a cap emission factor value of 0.05tN₂O/tonAA for all the crediting period.

Answer to authors of the request for revision by the Meth Panel :

Please use the space below to provide an answer to the authors of the above query

See above.



Signature of Meth Panel Chair

Date: 26/06/2009

(Philip Gwage)



Signature of Meth Panel Vice-Chair

Date: 26/06/2009

(Pedro Martins Barata)

Information to be completed by the secretariat

F-CDM-AM	AM_REV_0110
Name of the authors of the query:	SGS
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