



**United Nations
Environment
Programme**



Distr.
GENERAL

UNEP/OzL.Pro/ExCom/56/62
9 October 2008

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-sixth Meeting
Doha, 8-12 November 2008

STUDY ON FINANCING THE DESTRUCTION OF UNWANTED ODS

1. At its 54th Meeting, the Executive Committee decided through decision 54/10 to endorse the 2008-2010 business plan of the World Bank and the preparation of terms of reference for a study on how to develop a strategy to obtain funding through voluntary carbon markets for the destruction of unwanted ODS, which would also include a methodology for the validation and verification of ODS disposal, on the understanding that the World Bank would:

- (a) Cooperate closely with Members of the Executive Committee and the implementing agencies and invite them to contribute to the development of the terms of reference;
- (b) Submit the draft terms of reference to the Executive Committee for consideration at its 55th Meeting; and
- (c) Submit the final study to the Executive Committee for consideration at its 56th Meeting.

2. In response to decision 54/10, the World Bank co-ordinated with a large number of stakeholders on the terms of reference for such a study, and submitted a funding request to the 55th Meeting of the Committee.

3. The 55th Meeting of the Executive Committee decided through decision 55/34 to approve terms of reference for the study on how to develop a strategy to obtain funding through voluntary carbon markets for the destruction of unwanted ozone-depleting substances, together with the associated funding. These terms of reference are contained in Annex I to this document.

4. The World Bank has indicated to the Secretariat that a short presentation regarding the status of the study could be provided during the 56th Executive Committee, since the approval of funds only in July did not allow for sufficient time to commission and complete the study. Consequently, the World Bank was also not in the position to submit relevant documentation to the Secretariat in time for distribution to the Executive Committee.

5. The Executive Committee might wish to commence its consideration of the subject in light of the presentation to be provided by the World Bank at the 56th Meeting.

Annex I

ELEMENTS OF TERMS OF REFERENCE FOR A STUDY ON FINANCING THE DESTRUCTION OF UNWANTED ODS

Purpose

1. Both developed and developing countries have or are in the process of eliminating the production and consumption of the most potent ozone depleting substances (ODS) that fall under the control of the 1987 Montreal Protocol. However, the definition of ODS consumption – import plus production minus export – means that the Protocol does not control ODS existing in stockpiles and banks in countries (whether it be in equipment or cylinders). This includes unwanted ODS that no longer can be recovered or used.
2. As the complete phase-out date for Annex A and B chemicals is approaching, an increasing number of CFC equipment and products are being decommissioned. ODS from these outdated products, if left unmanaged, could place an increasing threat to the ozone layer protection. Since these chemicals also have high Global Warming Potential (GWP) in comparison with carbon dioxide, it is concomitant threat to the climate. In responding to this threat, the Parties to the Montreal Protocol and the MLF have in the recent years increased their efforts to prevent releases of these unwanted ODS to the atmosphere. The MLF Secretariat convened an “Experts Meeting to Assess the Extent of Current and Future Requirements for the Collection and Disposition of Non-Reusable and Unwanted ODS in Article 5 countries” on 13 – 15 March 2006, and there have been a series of regional for a held on different aspects of the disposal and destruction issues, involving Article 5 countries, the Secretariat, bilateral and implementing agencies. A study for effective options to manage unwanted ODS has been commissioned by the MLF. The draft report of the study was presented at the 54th Meeting of the MLF Executive Committee. The MLF Executive Committee has consequently endorsed a proposal by the World Bank to conduct a study on how to develop a strategy to obtain funding through voluntary carbon markets for destruction of unwanted ODS, which would also include a methodology for the validation and verification of ODS disposal.

Background

3. Article 5 countries are currently in the compliance period of the Montreal Protocol and are expected to completely phase out the production and consumption of CFCs, halons and CTC by 2010. As these countries advance in implementation of MP obligations, they are increasingly faced with the reality long understood in non-Article 5 countries – that banks of ODS will have accumulated and continue to exist, posing an ongoing threat to the environment. This is particularly the case for ODS that cannot be recovered nor reclaimed either for technical reasons or in a cost-effective manner.
4. Unwanted ODS and the need for destruction capacity or choices has consequently become an increased subject of debate in meetings of the Parties and the MLF Executive Committee. Both bodies commissioned the development of terms of references for studies on environmentally sound destruction of ODS. In 2006, the Parties requested the Executive Committee to conduct one study on the collection and treatment of unwanted ODS in both Article 5 and non-Article 5 countries. This study is expected to be finalized for the July 2008 Open-ended Working Group Meeting.
5. The environmental risks of emissive uses of ODS extend beyond the ozone layer. At the 19th Meeting of the Parties, in September 2007, the Parties adopted a decision that acknowledges the direct link between ODS and adverse effects on the climate. In particular, the Parties asked that the MLF

give priority to projects that focused on alternatives that minimized other impacts to the environment, including on the climate.

6. Thus alongside the increasing calls from Article 5 countries for assistance to manage their unwanted ODS accumulating in equipment, ports, reclamation centers, etc., the Implementing Agencies have been considering innovative approaches to financing ODS disposal/destruction under the climate change regime. Voluntary carbon markets provide an opportunity for generating financing for ODS destruction as they are not bound to compliance markets and because ODS, that can have extremely high GWPs would be an attractive source of emission reduction credits. To date, only one market exists that issues credits for ODS destruction, the Chicago Climate Exchange (CCX); however, other markets such as those adopted the Voluntary Carbon Standard 2007 (VCS) are not necessarily restricted to the six (6) Kyoto gases and therefore could potentially become markets for destruction of unwanted ODS if a methodology was proposed and approved.

7. Comparative analyses on the voluntary markets report that over the last few years, about a dozen of voluntary markets have been developed, each presenting different standards and focus areas. Some markets closely mirror the standards of the compliance markets, while other adopted less stringent rules and flexible approaches in order to reduce the administrative burdens, the transaction costs and enable to generate as many credits as possible on the market. These comparative studies have not so far looked specifically at how different markets actually, or potentially, address GHGs that are not directly controlled by Kyoto. In particular, there is a need to look at elements such as the project cycles, the rules for acceptability of new project types and new methodologies approval, the countries eligible for offset projects to determine how the special issues/requirements surrounding ODS and the Montreal Protocol can be incorporated on the one hand, and on the other, what considerations countries must take into account when exploring opportunities for financing through existing markets such as CCX.

Objectives

8. At its 54th Meeting, the Executive Committee endorsed a proposal in the World Bank's 2008-2010 Business Plan to conduct a study on ODS destruction. According to the proposal, the Bank plans to 1) describe opportunities for funding through voluntary carbon markets for destruction of unwanted ODS and which would 2) include a methodology for validation and verification of ODS disposal and 3) develop specific case studies.

9. As per Decision 54/10(d) these Terms of Reference are being developed in collaboration with Executive Committee members, the MLF Implementing Agencies and the World Bank.

Scope of Work

10. The study will approach voluntary carbon market opportunities from a concrete, simple, and workable perspective around a specific investment vehicle. The study should elaborate on the structure and operational procedures for proposed unwanted ODS disposal projects that maximize the amount of ODS destroyed.

11. The Consultant will be responsible for 1) researching and developing universal but flexible approaches, or strategies for companies of Article 5 countries to access funding through voluntary carbon markets and for 2) proposing corresponding disposal methodologies, based on best practice from existing approaches and illustrated through case studies (where applicable).

12. In order to inform this work, the Study should include a short and concise analyses on voluntary carbon markets, rules of voluntary markets and other carbon markets, as well as dedicated work on ODS destruction (options, costs, assessment of the scale/existing banks). See Annex I for a list of minimum works to draw from. The Study will include elements that are expected to be validated including operational efficacy of ongoing case studies (under e.g., CCX). The Study will explore, in consultation with stakeholders, NOUs in key Article 5 countries, additional opportunities to launch pilot projects in other Article 5 countries.

Elements of the Study

- Develop and/or adopt a select number of emission reduction methodologies to be used for the disposal of unwanted ODS;
- Utilize practical experiences from existing and/or planned ODS emission reduction projects in Article 5 and non-Article 5 countries in shaping the design of the strategy and methodologies;
- Generate robust, transparent and homogeneous emission reductions from disposal of unwanted ODS; and
- Explore how to capitalize on the credibility of the Montreal Protocol Institutions including the Multilateral Fund Secretariat, the Ozone Secretariat, and the UNEP TEAP.

Process/Project Approach

- Examine (comparative analysis) the Clean Development Mechanism (CDM) and possibly Joint Implementation (JI), the rules sets in various voluntary markets, including any market to date that has ODS destruction projects in its portfolio of emission reduction projects, with a view to determining and comparing:
 - Market scope, volume, share, growth
 - Management structure and stakeholders
 - Transaction cost (\$ per t CO₂e), price of offsets
 - Transaction units
 - Type/ categories of projects eligible
 - Restricted or not to the Kyoto gases
 - Project cycle and actors involved at each steps
 - Average time required before the generation of credits
 - Quality controls systems, including verification/ validation mechanisms, frequency, third party review requirements
 - Transparency of the system (e.g. on elements such as the decision making process, transactions, etc.)
 - Process for the approval of project activity
 - Countries eligible for offset projects
 - Rules for new methodology approval
 - Degree of flexibility in the voluntary markets for adapting methodologies/approaches and for introducing new project types
 - Additionality requirements and/or criteria used to demonstrated that the project activity is not the baseline, including the use of investment analyses, barriers analyses, sectoral benchmarks

- Registry of emissions and/or control processes put in place to avoid double counting of emission reduction.

13. For markets covering ODS projects, describe and compare in more details the rules, the methodologies for such projects including elements such as criteria for project eligibility, factors accounted in the calculations of emission reductions including emission reduction offset ration, technical requirements for the destruction facilities, and etc.

14. Based upon the investigation and interviews, the Study will:

- Determine and elaborate on possible concrete, simple and workable modalities/scenarios; options for standardized methodologies including validation and verification of ODS disposal given in light of variables;
- Determine and recommend favorable elements / quality / minimum requirements for eligibility;
- Determine the applicability of existing and potential Article 5 and non-Article 5 markets dealing with unwanted ODS in order to apply to companies of Article 5 countries (market conditions, nature of the regulatory/policy framework, institutional capacity);
- Using the information of the comparative analyses and rules of each market, determine the feasibility for markets that are not dealing with unwanted ODS to include these project type and describe the process that is required;
- Assess predictability and availability of resources from voluntary carbon markets in comparison with other financing modalities, such as the MLF;
- Provide recommendations on key measures to safeguard any leakage of unwanted ODS at each transaction step towards final disposal based on best practice from existing approaches and illustrated through case studies;
- Provide recommendations on capturing additionality and effective marketing of the scheme; and
- Recommend opportunities or potential markets for unwanted ODS management to ensure that financial benefits would be used for covering other costs associated with collection, transportation, extraction, and etc. in order to avoid any perverse incentives.

Financing/Cost Considerations

- Identify possible options, mechanisms and schemes for financing upfront costs (administrative costs, transportation) based on current practice in the voluntary market such as futures market, revolving funds, etc;
- Financing Streams (options/schedule of payments);
- Ranking of candidates for ODS destruction taking into account ODS substances, purity/quality, source, environmental risks (as pertains to cost); and
- Identify any difference in rules and methodologies for project eligibility in voluntary carbon markets with those required by the MLF for funding ODS phase-out.

Disposal Methodology

- Utilize existing CCX case study (Argentina CTC) or any other studies to detail methodology;
- Review based on existing information from other countries, if any, (preferably small consuming countries) to develop case studies to support the development of the methodology; and
- Identify best practice throughout project cycle to ensure optimum results at destruction (from packaging to transport, storage, validation of purity of substance, destruction removal efficiency (DRE), types of facilities/registration and certification, etc)

Tentative Work Plan and Schedule

Task	Tentative Date
Inception Report	October 2008
Draft Report	January 2009
Final Report	March 2009

Appendix I

Background Documents

(To be used as a basis for the study and further data collection)

1. “Final Draft Study on the Collection and Treatment of Unwanted Ozone-depleting Substances in Article 5 and Non-article 5 Countries,” ICF International, March 2008. UNEP/OzL.Pro/ExCom/54/Inf.3.
2. “2002 Report of the Task Force on Destruction Technologies,” (Technology and Economic Assessment Panel (TEAP)) and other related TEAP reports.
3. Report of the Meeting of Experts to Assess the Extent of Current and Future Requirements for the Collection and Disposal of Non-reusable and Unwanted ODS in Article 5 Countries, MLF 2006.
4. Relevant reports of the MP Meetings of the Parties (where ODS destruction had been included in the meeting agenda).
5. Studies with Comparative Analyses of Carbon Markets:

“Making Sense of the Voluntary Carbon Market: A Comparison of Carbon Offset Standards” WWF Germany, March 2008.

“The World Bank State and Trends of the Carbon Market 2007” Capoor and Ambrosi, World Bank, 2008.

"State of the Voluntary Carbon Markets 2008" Hamilton, Sjardin, Marcello, Xu, Ecosystem Marketplace & New Carbon Finance, 2008.
6. Standards and rules of the Kyoto and voluntary markets:

“Voluntary Carbon Standard - Specification for the project-level quantification, monitoring and reporting as well as validation and verification of greenhouse gas emission reductions or removals”, VCS 2007.

CCX rules and protocols for destruction of ODS, available at: <http://www.chicagoclimatex.com/>

CDM rules and protocols, available at: www.unfccc.int.
