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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-first Meeting  
Montreal, 5-9 July 2010

**Addendum**

**BILATERAL COOPERATION**

This document is issued to include the project proposal “Study on mechanisms and strategies for accounting emission reductions related to HCFC phase-out in the post-2012 climate regime: synergies between Montreal Protocol and the carbon finance in the introduction of alternatives to HCFCs” submitted by Italy and referred to in paragraph 9 of document UNEP/OzL.Pro/ExCom/61/22/Rev.1.

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<b>Project Concept</b>	
<b>Country:</b>	Global
<b>Title:</b>	Study on mechanisms and strategies for accounting ERs related to HCFC phase-out in the post-2012 climate regime: synergies between Montreal Protocol and the carbon finance in the introduction of alternatives to HCFCs.
<b>Project Duration:</b>	24 months
<b>Project Budget:</b>	361,600 (including 13% Agency Support Costs)
<b>Implementing Agency:</b>	Italy

### **Objective**

The main objective of this project is to identify a suitable scheme for the accounting and the rewarding of GHG ERs from HCFC phase-out activities.

Therefore, the proposal aims at designing an operational, financial and architectural scheme that can bring the Montreal Protocol and the carbon finance operating in synergies for the introduction of low-climate impacts alternatives to HCFC.

### **Justification**

The recent adjustment to the Montreal Protocol for the accelerated phase-out of HCFCs agreed in Montreal in the year 2007 (Dec. XIX/6), calls upon the environmental impacts - in particular the impacts on climate - as criteria for the selection of alternatives to HCFCs.

As underlined in many international meetings and fora as well as in scientific publications, over the last few decades the Montreal Protocol has already contributed directly and indirectly to the reduction of the emission of gasses with Global Warming Potential (GWP). Despite they are not controlled under the Kyoto protocol, many ODSs are also powerful GHGs responsible for climate change. Therefore, through the implementation of ODS phase-out activities, in particular CFCs, the Montreal Protocol has significantly reduced the direct emission of greenhouse gases (GHGs). The Montreal Protocol's experience in phasing-out CFCs in fact will result in a GHG emission reduction of 135 billion tons of carbon dioxide-equivalent (GtCO<sub>2</sub>-eq.) by the end of the decade. It has been estimated that this reduction will bring a delay in the climate change by up to 12 years.

If well guided and coordinated, the HCFC phase-out will also be able to provide additional emission reductions and delay in the climate change further.

In particular, two main aspects bring the two influencing each other under the HCFC phase-out activities:

- the HFCs are at the same time one of the most promising HCFC alternatives and a potent GHG currently controlled by the Kyoto Protocol. As indicated in several cost assessment scenario and concrete project proposals and schemes, HFC is usually the most convenient alternative in terms of conversion costs. No-ODP and Low-GWP alternatives can be more expensive than No-ODP alternative with high GWP (like HFC).
- Modern technologies and substances alternatives to ODSs applied in sectors covered under the Montreal Protocol bring benefit in terms of energy efficiency and energy saving leading to indirect reduction of CO2 emissions. Therefore, the indirect-impacts in terms of GHG emission reduction related to HCFC alternatives should be considered and accounted.

In light of the above, it is clear that the ozone and climate regimes, while influencing each other, work in parallel and it becomes necessary to start building a synergy among them. Indeed the language of the Dec XIX/6, paragraph 9 states “To encourage Parties to promote the selection of alternatives to HCFCs that minimize environmental impacts, in particular impacts on climate, as well as meeting other health, safety and economic considerations”.

The Executive Committee of the Multilateral Fund requested the Implementing agencies to submit proposals for the PHASE I of the HCFC phase-out, meaning activities to bring Article 5 Countries in compliance with freeze (by 2013) and 10% reduction (by 2015). In this phase, priority will be given to sectors where low-GWP alternatives are already available and more complex sectors will be left to future discussion and will be addressed in subsequent phases. PHASE II of the HCFC phase-out will be likely discussed by the Multilateral Fund and its ExCom starting from 2013. PHASE II will address further reduction in the HCFC consumption, including sectors where alternative selection would be more complex and difficult. It will be very important to have in place some synergies between the two regimes before that time.

Negotiations on the above are ongoing under the Montreal Protocol and its Multilateral Fund. Furthermore, also at the level of UNFCCC, a hectic discussion on this issue has begun especially in the view of the post 2012 Kyoto Protocol regime. Therefore, setting-up mechanisms to link the HCFC phase-out with the post 2012 Kyoto regime could help in addressing the future HCFC phase-out steps taking in full consideration the climate impacts in the introduction of HCFC alternatives.

Large scale projects reducing relevant amount of GHG emissions at facility level are not available any more. Post-2012 climate regime is thus moving towards a top-down, more programmatic/policy based approach able to address small point sources of emissions. Leveraging on a program to duplicate small and medium projects would provide the necessary economies of scale. Management plans as implementing tools and UNIDO role as managing entity could be a building block in designing, implementing and exploiting these new carbon finance approaches.

A scaled-up market mechanism, forming a hybrid of different proposals, could include the following:

- The scope of the mechanism would expand beyond projects, to address a larger mitigation potential in the host country. This could allow both sector-based and policy-based approaches like sectors covered by the MLF;
- Some support may be given to establish the framework necessary to operate the new mechanism in host countries, including on the measurement, reporting and verification of the activities covered by the mechanism, or on access to certain technologies.

In terms of the structure to be given to these features, Parties are discussing the option of crediting GHG reductions based on nationally appropriate mitigation actions (NAMAs) in developing countries. The general “architectural elements” of NAMAs emerging include:

- unilateral efforts of the developing country alone,
- actions supported and funded by developed countries, and
- mitigation actions eligible for carbon credits.

Support for mitigation action within developing countries could be of different kinds: from the finance of technology acquisition to the technical training of government officials in a specific policy area; however, if the target is mitigation, support should ultimately affect GHG emission performance. In terms of measurement, reporting and verification (MRV) of mitigation support, there is a need to develop a coherent system for tracking origins, flows and end-points of such support.

In countries where CDM continue to be allowed, the access to carbon finance will probably follow existing rules and will be streamlined. In the other countries, should a pledge be made in relation to the introduction of a target (fixed or dynamic), the possibility of crediting any over-achievement of the pledged target could be seen as an additional inducement to developing country participation. This crediting will indeed be rewarded with carbon finance but, in these cases, emission reduction programmes need to be prepared, including the regulatory frameworks and monitoring and verification capacity.

Therefore in advance to carbon finance, grants and technical assistance to establish the domestic policy framework are needed to facilitate the new carbon market mechanisms.

New funding mechanisms are needed to support carbon finance programmes on a larger scale, covering entire sectors or sub-sectors and credit these based on a sector-based benchmark.

Further to that, this proposal has been designed building on the following conditions:

- MLF has the mandate to provide funding and assistance for covering the incremental costs relating to the ODS phase out.
- MLF and IAs have a long history of successful cooperation with A5 countries conversion projects at national and enterprise level (more than 5000 projects have been implemented so far). MLF has been successful in building partnership with A5 countries and in developing a good system to deal with big number of national and individual projects in a very smooth and cost effective manner.
- MLF has been successful in achieving remarkable results in the reduction of GHG emissions as a by-product of ODSs phase out projects. However, the generation of climate benefits from additional efforts is not mandated by the MP and therefore associated costs are not covered by MLF.
- GEF provides funding for projects in the thematic areas of interest, such as those relating to the UNFCCC, UNBDC and UNDCC. Projects aiming at energy saving and increase the energy efficiency are usually funded.
- GEF has limited access/experience in working with individual companies in the private sector especially if they are SMEs. Furthermore, GEF confounding requirements made more complex for developing countries to fully benefit from the GEF, in particular when SMEs are concerned.
- Partnership between the climate funds, GEF and MLF would serve the purposes of both bodies and make use of the strength of each other specifically in the HCFCs phase out era as well as in the destruction of unwanted ODSs, taking into account the decisions of the

- MOP and ExCom to adopt alternatives that generate climate and environment co benefits where applicable.
- Strategies for leveraging funds from the carbon finance could be further explored.

**Project Proposal**

- To develop a concept to define suitable accounting elements of the ERs from HCFC phase-out activities at the national and/or sectoral level able to receive carbon finance reward.
- To propose a financial mechanism - building on carbon finance - for the introduction of alternatives to HCFC that can bring a positive environmental impact in terms of both climate and ozone benefits.
- To develop a concept to structure the architectural elements combining the carbon finance principles and the accounting elements in a post 2012 climate/ozone regime.

**Project budget**

Italy is therefore requesting 320,000 US\$ to work out the above-described methodology and concept.

The concepts and methodologies to be developed could be then used as model for the HCFC phase-out projects in the near future.

**Cost breakdown (in US\$):**

- International Consultants	210,000
- Travel	60,000
- Registration fees and other administrative costs for the registration for new methodologies	50,000
Total	320,000