



Commissioner Connie Hedegaard
Directorate General for Climate Action
European Commission

2 September 2010

Call for stakeholder input: Quality restrictions on the use of credits from industrial gas projects in the post-2012 EU ETS.

Design aspects: N₂O abatement CDM-projects at nitric acid plants

Dear Commissioner Hedegaard,

firstly we want to thank you for giving us the opportunity to provide you with a statement as response to your call for feedback in terms of applying restrictions for industrial gas projects in the post-2012 EU ETS. CARBON Climate Protection is a project development and investment company, which designed CDM methodologies and successfully operates several CDM projects in various fields, inter alia UNFCCC Reference No. 490 and 765 (both N₂O – nitric acid).

In this letter we want to point out the quality differences in terms of industrial gas projects from a project developer's point of view.

Introduction

Nitric acid (HNO₃) is mainly used as an intermediary processed product for the production of fertilizers and other special chemicals. Nitric acid plants are always part of greater chemical complexes, where the nitric acid is further processed. The investment in and financial performance of such a chemical complex cannot by far be refinanced by revenues out of a CDM/JI project, but is depending highly on the international market prices of its final products (such as fertilizer).

In contrary to that, projects with regards to N₂O abatement from adipic acid plants and other than N₂O industrial gas projects can be kept operational by the sole income stream out of CDM/JI revenues. This became obvious during the recent economic crisis, when adipic acid plants with CDM projects were producing near to 100 % of design capacity, while e.g. European adipic acid plants without CDM benefits slashed production down to 60 %.



Regulations for existing CDM projects at nitric acid plants

Currently, there are two methodologies available that are applicable for N₂O abatement at nitric acid plants. Both methodologies (AM0028, AM0034) are solely applicable for nitric acid plants, which have started operation before 31 December 2005.

For the time beyond 2012, it is expected that without a continued mechanism N₂O abatement systems will be subject to area-wide shut-offs. This is a likely scenario, because on one hand the introduction of N₂O regulations in developing countries is not expected, and on the other hand, the operation of specific N₂O abatement systems at nitric acid plants generates significant running costs (exchange of catalyst, reducing agent input, maintenance, replacement investments, measuring equipment, etc).

In order not to risk an immediate jump of N₂O emissions from existing CDM projects in developing countries after 2012 the CDM mechanism for existing N₂O projects at nitric acid plants should be continued, where the running costs for the operation of the abatement systems are covered and existing projects won't be discriminated.

New nitric acid plants

Worldwide several new nitric acid plants, embedded in new chemical complexes, have started operation since 31 December 2005 or will start operation in the upcoming months. Those nitric acid plants are emitting significant amounts of N₂O or will do so in the near future. At present no methodology is available, which would allow implementing N₂O abatement projects for those plants. CARBON Climate Protection made efforts to reach acceptance for revised as well as entirely new designed methodologies for new nitric acid plants for the past two years, unfortunately without any success up to now.

In this context, it should be noted once again that the investment decision for a new nitric acid plant is not driven by the likelihood of receiving CDM credits in the future. The investment of several hundred million Euros for such a new chemical complex cannot, even not to a modest extent, be returned by CDM revenues. The investment decision is made due to increased demand on the market for the end product solely, in the majority of cases fertilizers.

Final statement

We would like to underscore the importance of differentiating the project types, when it comes to industrial gas projects. N₂O abatement projects at nitric acid plants have earned significant environmental integrity in the host countries in the past years of successful operation and do not affect the end product market compared to N₂O projects at adipic acid plants and other than N₂O industrial gas projects. Therefore existing N₂O projects at nitric acid plants should be rewarded in a way that would allow operation beyond 2012 as well as the basis for new projects in the field of N₂O abatement at nitric acid plants should be created.

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We hope that all aspects of the issue have been transparently presented and that – based on the information available – no quality restrictions to use carbon credits from N₂O abatement projects at nitric acid plants will be applied in the post-2012 EU ETS.

In case you have any further question please don't hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink, appearing to be "F. Heilig". The signature is somewhat abstract and stylized.

- Ferdinand Heilig -

Managing Director

A handwritten signature in blue ink, appearing to be "T. Gulden". The signature is more legible than the one on the left.

- Thomas Gulden -

Managing Director