

VCS Module

VMD0048

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**ACTIVITY METHOD FOR THE  
DETERMINATION OF ADDITIONALITY  
FOR RECOVERED AND STOCKPILED  
ODS REFRIGERANT PROJECTS**

Version 1.0

30 November 2017

Sectoral Scope 11

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## 1 SOURCES

The following have informed the development of this module:

- 1) Climate Action Reserve (CAR) methodology *Article 5 ODS Project Protocol, Version 2.0, June 27, 2012*
- 2) Climate Action Reserve (CAR) methodology *U.S. ODS Project Protocol, Version 2.0, June 27, 2012*
- 3) ICF International's Study on the Collection and Treatment of Unwanted Ozone-Depleting Substances in Article 5 and Non-Article 5 Countries, May 2008
- 4) ICF International's Study on Financing the Destruction of Unwanted Ozone-Depleting Substances through the Voluntary Carbon Market, February 2010

## 2 SUMMARY DESCRIPTION OF THE MODULE

This activity method is intended for use in conjunction with VCS methodology *VM0016 Recovery and Destruction of Ozone-Depleting Substances (ODS) v1.1*. This module identifies a positive list of activities that are deemed additional. Project activities that meet the applicability conditions of this module are considered additional and do not require further demonstration or assessment of additionality.

## 3 DEFINITIONS

In addition to the definitions set out in VCS methodology *VM0016 Recovery and Destruction of Ozone-Depleting Substances (ODS) v1.1*, the following definitions apply to this module.

### **CFC refrigerant**

A class of ODS that was phased out of production under the Montreal Protocol. CFC refrigerants eligible for destruction are given in Annex A of Annex I to the VCS methodology *VM0016 Recovery and Destruction of Ozone-Depleting Substances (ODS) v1.1*.

### **Collection**

The process by which CFC refrigerant is obtained by the project proponent from a third-party source

### **Consumer Quantity CFC**

Stockpiled CFC refrigerant in an external container with a capacity less than or equal to 250 pounds and not in the possession of the original manufacturer. Consumer quantity CFC may exist in stockpiles totaling more than 250 pounds, provided no single container capacity exceeds 250 pounds.

### **Recovered CFC refrigerant**

CFC refrigerant that has been recovered, as the term is used in VCS methodology *VM0016 Recovery and Destruction of Ozone-Depleting Substances (ODS) v1.1*, and for which the project proponent can document the system from which the CFC refrigerant was recovered.

## **4 APPLICABILITY CONDITIONS**

This activity method applies to project activities that recover and/or collect, and then destroy, CFC refrigerant that otherwise would remain in the commercial ODS refrigerant market and/or be stored in stockpiles.

Project proponents may collect eligible CFC refrigerant from a variety of sources, including but not limited to, individuals, private companies, organizations, and/or government agencies, including government-confiscated or otherwise controlled CFC refrigerant that is not mandated for destruction.

The positive list below distinguishes between stockpiles of consumer quantity CFC and recovered CFC refrigerant, both of which face barriers to centralized collection and management and, as a result, risk being released into the atmosphere over time.

In addition to the applicability conditions set out in the revised VCS methodology *VM0016 Recovery and Destruction of Ozone-Depleting Substances (ODS) v1.1*, this module is globally applicable under the following conditions:

- 1) The project activity consists of the collection and destruction of recovered CFC refrigerant in any quantity; or
- 2) The project activity consists of the collection and destruction of CFC refrigerant that meets the definition of consumer quantity CFC.

This module is not applicable under the following conditions:

- 1) The project activity consists of the destruction of CFC refrigerant collected from, or as part of, a product stewardship scheme or other program that creates incentives or mechanisms that result in CFC destruction as an industry common practice (see Appendix A for additional detail). At validation, the project proponent must provide a description of any schemes or programs designed to incentivize ODS destruction in the country(ies) in which the CFC refrigerant is collected. Schemes or programs that incentivize only the collection or reclamation of CFC refrigerants—and not its destruction—need not be discussed.

## 5 PROCEDURES

This module uses an activity method for the demonstration of additionality.

### Step 1: Regulatory Surplus

Project proponents must demonstrate regulatory surplus in accordance with the rules and requirements regarding regulatory surplus set out in the latest version of the *VCS Standard*.

### Step 2: Positive List

The applicability conditions of this module represent the positive list. The project proponent must demonstrate using appropriate documentation that the project activity meets all of the applicability conditions, and in so doing, the project activity is deemed as complying with the positive list. Documentation may include but is not limited to: bills of lading, invoices, receipts, inventory records, contracts, or other signed statements or agreements.

The positive list was established using the revenue streams option (Option C in the *VCS Standard*). See Appendix A for justification of the revenue streams option.

## 6 REFERENCES

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Refrigerant Reclaim Canada. *Frequently Asked Questions*. Available at <http://www.refrigerantmanagement.ca/faq.php>

United Nations Environment Programme. (2012). *Study on Disposal of ODS Collected from Refrigerators and Air Conditioners under the Mexican Efficient Lighting and Appliances Program*. Executive Committee of the Multilateral Fund. Document No. 66, Montreal. Available at: <http://www.multilateralfund.org/66/English/1/66%20Inf.2.pdf>

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United Nations Environment Programme. (2015). *Desk Study on the Evaluation of the Pilot Demonstration Projects on ODS Disposal and Destruction*. Executive Committee of the Multilateral Fund. Document No. 7510, Bangkok. Available at: <http://www.multilateralfund.org/75/English/1/7510.pdf>

United Nations Environment Programme, Ozone Secretariat. *The Montreal Protocol on Substances that Deplete the Ozone Layer, Article 2A: CFCs*. Available at <http://ozone.unep.org/en/handbook-montreal-protocol-substances-deplete-ozone-layer/9>

## APPENDIX I: JUSTIFICATION OF THE REVENUE STREAMS OPTION

More than two decades ago, the world came together to sign the Montreal Protocol and commit to eliminate the production of CFCs and certain other ODS substances. As of January 1, 2010 it is unlawful to manufacture CFCs, halons, methyl chloroform, carbon tetrachloride, methyl bromide, and bromochloromethane around the world, except for some limited production for essential or critical uses otherwise approved by the Montreal Protocol Parties.

While production of these ODS substances is banned, the Montreal Protocol did not provide for the destruction or elimination of existing supplies of ODS substances. CFCs, for instance, may still be used in chillers, air conditioners, and other refrigeration systems and are still prevalent and randomly distributed throughout the world – both in operating equipment manufactured before deadlines to cease production, and on the shelves of repair contractors and others who own or operate older refrigeration or cooling equipment.

According to the Alternative Fluorocarbons Environmental Acceptability Study (AFEAS), well over 53 billion pounds of CFCs were produced globally between 1931 and 2003, not including the significant production of CFCs in countries such as China, Russia, and India. There are still significant stocks of these CFCs distributed around the world. One recent estimate suggests that there are over 4 billion pounds of reachable CFC banks around the world, and there is risk of this material being released into the atmosphere in the coming decades if no action is taken (Heubes, 2015).

CFCs currently in use in equipment and appliances are at risk of being released into the atmosphere during operation and maintenance or at end of product life. Similarly, disposable cylinders and cans containing CFCs that were placed into commerce before the Montreal Protocol's manufacturing prohibition, or that contain reclaimed CFCs and are broadly distributed throughout the world, are at risk of being released as well. These disposable containers exist in consumer quantities, typically 10-14 oz. cans or 30-lb or 50-lb cylinders, and sometimes up to 145-lb or 250-lb tanks. They are often left untended and prone to rusting. Unlike material that is recovered by licensed reclaimers, owners of consumer quantity CFC are often unlicensed individuals or shops who once bought it off-the-shelf, and have no training in proper handling of the material, and no access to proper end of life solutions. Leakage rates from cylinders are reported to be 10 – 12 percent per year (UNEP, 2013).

### **Consideration of Lacking Revenue Streams**

A GHG project, established through strong protocols and verification procedures, creates an otherwise non-existent incentive to aggregate, collect, and destroy these substances. Indeed, in many parts of the world there is limited or no access to disposal options that prevent the release of ODS to the atmosphere, let alone provide for its destruction. In the absence of a GHG methodology, the financial burden of responsibly destroying consumer quantities of ODS refrigerant rests with the owner of the material, who has virtually no incentive whatsoever to do so and, as a result, losses tend to be especially high (Heubes, 2015). A project proponent seeking to collect, aggregate and destroy this material on behalf of such owners has no other revenue from the project activity apart from the sale of GHG credits.

As explained in the February 2010 Final Report prepared by ICF International for the World Bank and Multilateral Fund titled *Study on Financing the Destruction of Unwanted Ozone-Depleting Substances through the Voluntary Carbon Market* (“*Financing ODS Destruction*”), the cost of collecting and destroying unwanted ODS refrigerants is substantial. It requires a party to collect and consolidate ODS refrigerants from small, disparate sources and aggregate it at a centralized facility; it then requires a party to safely transport the aggregated material to a destruction facility, where it must be sampled and tested in an approved laboratory, before ultimately being destroyed in a specialized, TEAP-certified facility. ICF International estimated that potential costs associated with the collection and destruction of a single tonne of bulk ODS refrigerant (i.e., stockpiled CFC-12) could be as much as US\$127,000 (ICF, 2010, p38). Their report further estimated the total cost of destroying only “easily accessible” and “moderately accessible” banks of unwanted ODS refrigerant—a fraction of the remaining ODS refrigerant stocks around the world—is US\$180 billion (ICF, 2010, p6). Logically, the costs associated with obtaining and destroying “difficult to access” banks is significantly higher.

According to *Financing ODS Destruction*, funding to take on these costs is essentially non-existent. There are currently only a few limited financial incentives or regulatory requirements to destroy ODS substances outside of the carbon market, and CFCs collected through those geographically-limited programs are identified in the table below and excluded from this module. Beyond that, opportunities are limited. The UNEP Multilateral Fund has funded pilot demonstration projects in the past, but these have routinely fallen short due to lacking financial models for ODS management and destruction (UNEP, 2015) as well as other barriers to collection and destruction discussed in more detail below. Additionally, past pilot projects have excluded unused ODS stockpiles, leaving even less incentives for the destruction of these materials (Heubes, 2015). At present, the UNEP Multilateral Fund is not focused on financing the destruction of ODS. Rather, it “provides finance for activities including the closure of ODS production plants and industrial conversion technical assistance, information dissemination, training and capacity building aimed at phasing out the ODS used in a broad range of sectors”.<sup>1</sup> According to *Financing ODS Destruction*, cost is the “primary obstacle” to improved ODS refrigerant management and destruction. Voluntary GHG credits, therefore, are key to unlocking the funds to facilitate the destruction of ODS refrigerant.

Apart from a GHG project, the only other worthwhile revenue-generating option for unwanted ODS refrigerant is to sell it into the refrigerant reuse market. However, as demand for CFCs continues to lessen due to older equipment and appliances being retired, replaced, or retrofitted, the market value will also decrease, making this option less viable. Presumably, this will mean an increased likelihood that CFCs will be abandoned in equipment, appliances, or cylinders, or illegally vented to the atmosphere. This is especially true for ODS refrigerant in consumer quantities. In addition, there are instances of ODS refrigerant being confiscated by government agencies, who then have no mechanism to sell the material back into the refrigerant market or the resources to facilitate its destruction.

Based on this analysis, project proponents do not have available options to receive revenue from the project activities greater than 5% of the project’s capital expenditures apart from the sale of GHG credits,

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<sup>1</sup> UNEP Multilateral Fund website, available at: <http://www.multilateralfund.org/aboutMLF/default.aspx>

and any project meeting the established applicability conditions described in this module will meet the first requirement of Option C: Revenue Streams in the VCS Standard.

### **Common Practice Analysis**

The destruction of ODS refrigerants is not common practice anywhere in the world. However, there have been some efforts in the last two decades to promote the responsible management of unwanted ODS banks. These activities range from funded pilot projects to national product stewardship schemes, taxes, and levies. The relatively small scale and limited reach of these programs highlights the significant hurdles facing these activities.

ICF International reported on a pilot project in Indonesia that began operations in 2007. An existing cement kiln was modified to destroy ODS refrigerant in addition to continuation of its primary operations, which dramatically minimized the costs and financial barriers associated with the project. The majority of ODS destroyed to date has come from large commercial sources where the primary motivation is believed to be internal company environmental initiatives. (ICF, 2010)

ICF International also reported on two planned pilot projects—one in Russia and another in the Middle East (ICF, 2010). However, no additional information could be found to confirm whether these projects materialized.

The United Nations Multilateral Fund supported a multi-phase pilot study in Mexico to evaluate opportunities for ODS refrigerant destruction (UNEP, 2012). Additionally, 15 ODS destruction demonstration projects were funded in other Article 5 countries between 2010 and 2015 (i.e., Algeria, China, Colombia, Cuba, Georgia, Ghana, Lebanon, Mexico, Nigeria, Turkey, central Africa region, and Europe and Central Asia region). The projects had varying levels of success; however, all of them were limited in scale and scope (UNEP, 2013; UNEP, 2015; Heubes, 2015). The report prepared for the German Federal Ministry of the Environment, Nature Conservation, Building and Nuclear Safety identified that further activities are strongly needed in these countries (Heubes, 2015). Therefore, given the limited scope, duration, and success of these pilot projects and the availability of funding or other conditions that significantly offset the project costs, these pilot projects are not considered further as part of the common practice analysis.

ICF International prepared another report in May 2008 titled *Study on the Collection and Treatment of Unwanted Ozone-Depleting Substances in Article 5 and Non-Article 5 Countries*. The report identified existing ODS management programs and procedures in nine countries: Australia, Canada, the Czech Republic, Colombia, Germany, India, Japan, the United Kingdom, and the United States. Australia's and Canada's programs are the only ones that include provisions for ODS destruction. The remaining seven countries that have established ODS management programs and procedures do not include any specific requirements or accommodations for ODS destruction, therefore, they are not considered here further.

The Australian product stewardship scheme is operated as a rebate program by the non-profit, Refrigerant Reclaim Australia (RRA) under a government mandate for the collection and destruction of unwanted ODS refrigerant. The program is open to all refrigeration and air conditioning sectors (i.e.,

commercial, industrial, automotive, household appliances, etc.); however, the rebate offered by RRA inherently incentivizes the recovery of refrigerant from larger systems and there is a notable void in the responsible management of small quantities of ODS refrigerant recovered from household appliances and vehicle end-of-life (ICF, 2008, p67). RRA estimates based on 2014 – 2015 collection data (available on their website) that their program accepted between 15 – 20 percent of all refrigerants available for recovery from automotive, commercial, industrial, and household refrigeration and air conditioning equipment and appliances in Australia. The majority of the remaining refrigerant is recovered for reuse by the technicians and contractors servicing the equipment. There is no nationwide program for recovering ODS refrigerant from vehicles or household appliances at end-of-life. Additionally, the RRA program does not include sources of ODS refrigerant beyond what is recovered by service technicians and contractors in recovery cylinders, i.e., unused or otherwise saleable quantities of ODS refrigerant remain on the market or stored in stockpiles.

The Canadian product stewardship scheme is operated by the Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI) as a voluntary industry-led program. The program does not provide a rebate, but it does accept ODS refrigerant recovered from commercial/industrial stationary refrigeration and air conditioning equipment as well as household window air conditioners on a no-fee basis. Other recovered ODS refrigerant in consumer quantities from the household appliance and automotive sectors requires a disposal fee, and thus does not directly benefit from the incentive program. As such, program participation is primarily seen from the commercial/industrial stationary refrigeration and air conditioning industry. According to the 2008 ICF report, 95 percent of the commercial stationary refrigeration and air conditioning industry participates in the voluntary program. As in Australia, the HRAI program does not include ODS refrigerant beyond what is recovered by service technicians and contractors, i.e., unused or otherwise saleable quantities of ODS refrigerant remain on the market or stored in stockpiles.

An industry-led program in Japan provides ODS refrigerant recovery, recycling, and/or destruction. ODS refrigerants are recovered from household appliances and vehicles at end-of-life as well as from the commercial refrigeration and air conditioning service sector. The costs associated with the program are shared by equipment manufacturers, importers, and consumers. In 2015 approximately 965 metric tonnes of ODS refrigerants were recycled and another 4,800 metric tonnes were destroyed (with CFC refrigerants making up a small portion of both) (OFCP, 2016).

A voluntary product stewardship scheme is also in place in New Zealand. The program collects CFCs, HCFCs, HFCs, and other synthetic refrigerants from the refrigeration and air conditioning industries. The program is operated by a charitable trust that is funded through a wholesale levy placed on imported refrigerant and paid by participating companies. Unwanted ODS refrigerant is collected from industry participants at no charge, aggregated at one of three collection depots, and shipped overseas for destruction. Since 1999 more than 347 metric tonnes of ODS refrigerants have been collected and destroyed by the program. (Recovery, 2016)

There are essential distinctions between the project activities described in this module and the ODS refrigerant destruction programs established in Australia, Canada, Japan, and New Zealand. For one, none of these existing programs readily facilitate the collection of consumer quantity CFC refrigerants,

such as that recovered from household appliances or vehicles, or widely dispersed in disposable cylinders and cans. Nor do the programs prevent the continued use and reuse of CFC refrigerant as an alternative to destruction. Table 1 below describes the essential distinctions in more detail.

**Table 1:** Summary of Essential Distinctions

Country	Extent of Similar Activities	Essential Distinction
Australia	The RRA collects and destroys CFC refrigerants recovered from products by service technicians and contractors. The program primarily serves the commercial and industrial refrigeration and air conditioning sectors. The program does not readily incentivize the collection of small quantities of CFC refrigerant at product end-of-life (e.g., from vehicles, household appliances, etc.) nor from stockpiles of unwanted consumer quantity CFC refrigerants other than service industry recovery cylinders.	CFC refrigerants are collected and destroyed as part of a government-mandated product stewardship scheme, which is an ineligible activity under this module. The RRA program provides a funding mechanism and process to recover and destroy unwanted CFC refrigerants. This framework helps remove certain barriers, particularly in the commercial and industrial refrigeration and air conditioning sectors, but less so for other small quantities of CFC refrigerants. Material collected and destroyed outside of this program is still subject to the additional barriers listed below.
Canada	The HRAI collects and destroys CFC refrigerant recovered by service technicians and contractors from commercial and industrial stationary equipment and household window air conditioners. Other CFC refrigerants collected by service technicians or contractors can be destroyed as part of the program for a fee. As such, the program does not incentivize the collection of CFC refrigerant from other products at end-of-life nor from stockpiles of unwanted consumer quantity CFC refrigerants other than service industry recovery cylinders.	CFC refrigerants are collected and destroyed as part of an industry-led product stewardship scheme, which although voluntary is an ineligible activity under this module. The program provides a small but meaningful financial incentive for the destruction of CFC refrigerants from stationary equipment and household window air conditioners by accepting the material at no cost. CFC refrigerants collected and destroyed outside of this program is still subject to the additional barriers listed below.
Japan	The refrigerant recovery program in Japan collects and destroys CFC refrigerants recovered from commercial, industrial, and	CFC refrigerants are collected and destroyed as part of an industry-led product stewardship scheme, which is an ineligible activity under this

	household products. It is unclear if the program readily incentivizes the collection and destruction of other unwanted consumer quantity CFC refrigerants.	module. Equipment manufacturers and importers heavily subsidize the cost of the program, although consumers do still pay recycling/disposal fees in many cases. As such, the program provides a small but meaningful financial incentive for the destruction of CFC refrigerants. Material collected and destroyed outside of this program is still subject to the additional barriers listed below.
New Zealand	The refrigerant recovery program in New Zealand collects and destroys CFC refrigerants recovered from products by service technicians and contractors. The program primarily serves the commercial and industrial refrigeration and air conditioning sectors. The program does not readily incentivize the collection of small quantities of CFC refrigerant at product end-of-life (e.g., from vehicles, household appliances, etc.) nor from stockpiles of unwanted consumer quantity CFC refrigerants other than service industry recovery cylinders.	CFC refrigerants are collected and destroyed as part of an industry-led product stewardship scheme, which although voluntary is an ineligible activity under this module. The program provides a small but meaningful financial incentive for the destruction of CFC refrigerants from stationary equipment and household window air conditioners by accepting the material at no cost. CFC refrigerants collected and destroyed outside of this program is still subject to the additional barriers listed below.

Outside of such product stewardship schemes or other incentive programs, a number of barriers exist to CFC refrigerant collection and destruction that otherwise prevent project activities from occurring in these countries or elsewhere in the world, including:

- The cost of CFC collection and destruction as described above in the revenue streams section.
- The wide geographic distribution of CFC refrigerant, which makes it difficult to efficiently and effectively collect the material. This is particularly true of consumer quantity CFC.
- In many countries there remains a market for CFC refrigerant for use in old equipment, and the continued use and reuse of CFC refrigerant presents a better and easier financial option for owners of the material in the absence of a carbon market.
- Stockpiles of CFC refrigerant are commonly owned by non-professionals outside of the refrigerant reclamation market. These individuals do not have the knowledge or skill to properly handle the material and no incentive to go to the effort to properly manage or dispose of their material.

- Limited access to commercial destruction technologies. According to the May 2009 ICF International report titled *ODS Destruction in the United States of America and Abroad*, there were 147 destruction facilities operating in 25 countries in 2008. A fraction of these are identified as commercial destruction facilities according to the United Nations Environmental Programme's Division of Technology, Industry, and Economics OzonAction Branch as of 2006 (UNEP 2006). Many countries do not have domestic destruction facilities and need to arrange for the shipment of CFC refrigerant to another country, which can be logistically and legally complex (ICF 2010).
- Government entities may possess stockpiles of CFC refrigerants that have either been confiscated or otherwise collected, but for which there are restrictions on its sale into the refrigerant market or a lack of resources or destruction capacity to have it destroyed.

CFC refrigerant collected from, or as part of, a product stewardship scheme or other program that creates incentives or other mechanisms that result in CFC destruction as an industry common practice is not considered on the positive list and is therefore excluded from applying this module. To demonstrate this, project proponents are required to provide a summary description of the schemes or programs designed to incentivize CFC destruction in the country(ies) in which their project exists. For purposes of clarity, the schemes or programs must result in incentives for destruction. Schemes or programs incentivizing only the collection or reclamation of CFC refrigerants need not be considered. The existence of a product stewardship scheme or other program in a particular jurisdiction does not necessarily disqualify otherwise eligible project activities from occurring in that jurisdiction if the project proponent can sufficiently demonstrate that the CFC refrigerants it collects would not have been included in that program and/or that other essential distinctions exist between the project activities and the existing program. Otherwise, the project proponent cannot use this activity method for the determination of additionality

For the purpose of this module and in accordance with the CDM *Tool for the demonstration and assessment of additionality*, the project activities identified on the positive list are not considered common practice because of the presence of essential distinctions that distinguish them from other similar activities already occurring. In addition, the prevalence of carbon offset protocols and associated performance standards for CFC destruction projects (i.e., Climate Action Reserve's U.S., Article 5, and Mexico ODS Project Protocols; California Air Resources Board's Compliance Offset Protocol for ODS Projects; Quebec's ODS Destruction Protocol; and American Carbon Registry's draft methodology for Destruction of ODS), is further evidence that CFC refrigerant destruction is additional and not common practice.

## DOCUMENT HISTORY

Version	Date	Comment
v1.0	30 Nov 2017	Initial version