



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/68/52
6 December 2012



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-eighth Meeting
Montreal, 3-7 December 2012

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

1. Pursuant to paragraph (d) of decision 67/36 the Production Sector Sub-group met in the margins of the Twenty-fourth meeting of the Parties to the Montreal Protocol to continue its discussion of the final technical audit of the HCFC production sector in China and the China HCFC Production Phase-out Management Plan (HPPMP) (Stage I). The report of the intersessional meeting is contained in section A of the present report.

2. The Sub-group also met in the margins of 68th meeting of the Executive Committee to continue its deliberations and the report of those meeting is included in Section B of the present report.

SECTION A: Report of the Intersessional Meeting of the Production Sector Sub-group

3. The intersessional meeting was attended by the representatives of Canada, Finland, India, Japan, Jordan, the United Kingdom of Great Britain and Northern Ireland and the United States of America. Representatives of the United Nations Development Programme and the World Bank were also present. Canada acted as the convener of the Sub-group.

Agenda item 1: Adoption of the Agenda

4. The Sub-group adopted the draft agenda contained in UNEP/OzL.Pro/ExCom/68/SGP-InS/1. A copy of the agenda is found in Annex I of the present report.

Agenda item 2: Organization of work

5. The meeting agreed to address the agenda as presented.

Agenda item 3: Information pursuant to decisions 66/54(i) and 67/36(a) and (b)

6. The representative of the Secretariat presented updated information pursuant to decisions 66/54(i) and 67/36(a) and (b) (UNEP/OzL.Pro/ExCom/68/SGP-InS/2 and Add.1). His report contained five parts:

Part 1: Up-date of the Final Technical Audit Report

7. The representative of the Secretariat presented an update of the information on the final technical audit, which consisted of the draft final report from Wakim Consulting with nine appendices containing: updated presentation slides, the production economics for HCFC-22, HCFC-141b and HCFC-142b; the profit margins and potential compensation for HCFC-22, HCFC-141b and HCFC-142b; the compensation for total phase-out of HCFC-22, HCFC-141b and HCFC-142b for controlled applications in China; and the residual life of HCFC plants in China. One member questioned the data used by the consultant and reminded the Sub-group that she had pointed out difficulties with the consultant's report in the past. The results, as presented, were unreliable and she said that the consultant should have only used the data supplied by the enterprises under review. However, another member pointed out that that the consultant was using a different methodology from that used in the HPPMP and he argued that the approach of the consultant was valid as it included other sources of information besides that supplied by the enterprises.

Part 2: Up-date of the China HPPMP

8. The representative of the Secretariat explained the methodologies used by the consultant and those in the HPPMP. The representative of the World Bank explained the relationship of depreciation and the residual life-time of the plants, as well as the reasons for the differences in accounting for maintenance costs; differences in maintenance costs could vary when that work was done internally within the company instead of using contractors. It was also explained that raw materials made up the bulk of production costs, although one member observed that there were differences in the raw material costs which remained unexplained.

Part 3: Analysis requested pursuant to decision 67/36(a)

9. The Sub-group discussed the analysis presented by the Secretariat and made a number of observations. It was noted that although there was a correlation between the report of the consultant and the HPPMP on the lost profit costs per tonne when calculated on the production cost margin for HCFC-141b and HCFC-142b, there was a discrepancy between the two in the calculation for HCFC-22. Alternatives for lost profit compensation were discussed and different methods of calculating the life-time of the different plants were addressed, as were the cut off dates for that calculation. The effect of refurbishment or conversion of the plants was considered as was the difference between refurbishment and expansion of the plants. Feedstock use and the effect of funding from the Clean Development Mechanism on compensation were raised, and it was observed that plants should be closed in the most cost-effective way. However, one member said that all the enterprises had to be treated fairly.

10. Although it seemed from the report of the consultant that one of the plants had run a production line at a loss, one member indicated that this company was in fact profitable. It was pointed out by one member that the other activities of the plant could compensate for any losses. He also said that while the conversion to other chemicals for feedstock might not be desirable it was technically feasible and needed to be considered. The impact of supply and demand on HCFC production was discussed, as were the merits of funding a ten per cent base line reduction versus compensation for total phase-out. The use of the cost-effectiveness ratios achieved from approved HCFC phase-out management plans (HPMPs), and the funds available through the replenishment processes were also considered during the deliberations of the Sub-group.

Part 4: Administrative and technical issues and lessons learned from CFC production phase-out in China and follow-up to decision 67/36(b)

11. There were no comments by Sub-group members on Part 4 following the Secretariat's presentation of the document.

Part 5: Conclusions and recommendations

12. The Convenor said that the Secretariat should speak informally with the consultant about those issues raised by the Sub-group that required further clarification.

13. The Sub-group on the Production Sector recommended that the Executive Committee decide:

- (a) To note the Report on the China HCFC production phase-out management plan (Stage I) as contained in documents UNEP/OzL.Pro/ExCom/68/SGP-InS/2 and Add.1; and
- (b) To request the World Bank to provide costs and rationale for the administrative cost functions identified in the agreement and for the project duration to the 69th meeting of the Executive Committee.

Agenda item 4: Other matters

14. No other matters were raised during the intersessional meeting of the Sub-group.

Agenda item 5: Adoption of the report

15. The present report was prepared in consultation with the Convenor.

Agenda item 6: Closure of the meeting

16. The Convenor closed the intersessional meeting at 4.40 pm on Saturday, 17 November 2012.

SECTION B

17. The Production Sector Sub-group met in the margins of the 68th meeting and was attended by the representatives of Canada, Cuba, Finland, India, Japan, Jordan, the United Kingdom of Great Britain and Northern Ireland and the United States of America. Representatives of the United Nations Development Programme and the World Bank were also present. Canada acted as the convenor of the Sub-group.

Agenda item 1: Adoption of the Agenda

18. The Sub-group adopted the draft agenda contained in UNEP/OzL.Pro/ExCom/68/SGP/1. A copy of the agenda is found in Annex II of the present report.

Agenda item 2: Organization of work

19. The meeting agreed to address the agenda as presented, commencing with agenda item 4, modification of China's CFC production sector phase-out plan to permit exemptions for the production of CFCs for essential uses approved by the Parties for 2012 and 2013.

Agenda item 3: HCFC production sector guidelines

20. The representative of the Secretariat presented the text of the HCFC production sector guidelines as they stood after the 65th meeting of the Executive Committee and reminded the Sub-group that it had not had time to discuss them in the margins of either the 66th or the 67th meetings of the Executive Committee.

21. The Sub-group agreed on the wording of several paragraphs, agreed to the deletion of some text, some members suggested deletion of text that had been previously agreed in principle and some new text was suggested. Several members said that the proposal to delete previously agreed text and the insertion of new text meant that it would be difficult to finalize the guidelines during the 68th meeting of the Executive Committee.

Agenda item 4: Modification of China's CFC production sector phase-out plan to permit exemptions for the production of CFCs for essential uses approved for other Parties for 2012 and 2013

22. The representative of the Secretariat reminded the Sub-group that the Twenty-fourth meeting of the Parties had had approved a decision on essential-use nominations for China and Russia Federation to allow the Russian Federation to source CFCs from its suppliers in China for 2013 and that the Russian Federation had sourced the CFC for its 2012 essential-use authorization from China. He noted that pursuant to paragraph c of decision 66/54 the World Bank, as implementing agency for the production sector, would audit the CFC production sector data for China and that funds for the audit would need to be provided to the World Bank.

23. The Sub-group on the Production Sector recommended that the Executive Committee decide to request the World Bank to present to the 69th meeting a request for funding and justification of the cost components for funding of the verification/audit foreseen in decision 66/54.

Agenda item 5: China HCFC production phase-out management plan (Stage I)

24. [Pending]

Agenda item 6: Other matters

25. No other matters were raised.

Agenda item 7: Adoption of the report

26. The present report was prepared in consultation with the Convenor.

Agenda item 8: Closure of the meeting

27. [Pending]

Annex I

**AGENDA OF THE INTERSESSIONAL MEETING OF THE SUB-GROUP ON THE
PRODUCTION SECTOR, GENEVA, 17 NOVEMBER 2012**

1. Adoption of the agenda.
2. Organization of work.
3. China HCFC production phase-out management plan (stage I):
 - (a) Report on updated information pursuant to decisions 66/54(i) and 67/36(a) and (b); and
 - (b) Discussion.
4. Adoption of the report.
5. Closure.

Annex II

**AGENDA OF THE MEETING OF THE SUB-GROUP ON THE PRODUCTION SECTOR,
MONTREAL, 3 – 7 DECEMBER 2012**

1. Adoption of the agenda.
2. Organization of work.
3. HCFC production sector guidelines.
4. Modification of China's CFC production sector phase-out plan to permit exemptions for the production of CFCs for essential uses approved for other Parties for 2012 and 2013.
5. China HCFC production phase-out management plan (stage I).
6. Other matters.
7. Adoption of the report.
8. Closure.
