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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-second Meeting
Montreal, 12-16 May 2014

**CRITERIA FOR FUNDING HCFC PHASE-OUT IN THE CONSUMPTION SECTOR FOR
STAGE II OF HCFC PHASE-OUT MANAGEMENT PLANS (DECISION 70/21(d))****Background**

1. At their 19th meeting (September 2007), the Parties agreed to accelerate the phase-out of HCFCs through an adjustment to the Montreal Protocol, and gave a mandate to the Executive Committee to develop funding guidelines to assist Article 5 countries to meet their commitments in accordance with the adjusted schedule (decision XIX/6). At its 53rd meeting (November 2007), the Executive Committee started discussions on policies for phasing out HCFCs in the consumption and production sectors¹, which continued over several meetings and concluded with the adoption of policies and guidelines to address the mandate given by the Parties.
2. Of particular importance were the criteria for funding HCFC phase-out in the consumption sector in Article 5 countries (decision 60/44) adopted at the 60th meeting (April 2010). The criteria set out in decision 60/44 covered the determination of the cut-off date for installation of HCFC-based manufacturing equipment, the starting point for aggregate reductions in HCFC consumption, second-stage conversions², and eligible incremental costs of HCFC phase-out projects.
3. The criteria for funding HCFC phase-out in the consumption sector as adopted in decision 60/44 and further elaborated with decisions and guidelines subsequently adopted by the Executive Committee, allowed the submission and approval of stage I of HCFC phase-out management plans (HPMPs) for 138 Article 5 countries (out of 145 countries³), that will result in the phase-out of 7,840 ODP tonnes of HCFCs (i.e., approximately 24 per cent of the starting point for aggregate reductions in HCFC

¹ Decision 53/37 includes options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities.

² Second-stage conversion refers to the conversion of enterprises which have already received financial and/or technical assistance from the Multilateral Fund for converting from CFC-based to HCFC-based technologies.

³ The Article 5 countries with an outstanding HPMP are: Botswana, Democratic People's Republic of Korea, Libya, Mauritania, South Sudan, Syrian Arab Republic and Tunisia. The HPMPs for Democratic People's Republic of Korea and Syrian Arab Republic were submitted to the 68th meeting but deferred. The HPMPs for Libya and Tunisia have been submitted to the 72nd meeting; however, the HPMP for Libya was subsequently withdrawn by UNIDO as the country has not yet an operational licensing and quota system.

consumption) and over 290 ODP tonnes of HCFC-141b contained in imported pre-blended polyols (i.e., consumption not reported under Article 7 of the Montreal Protocol).

Policy papers requested by the Executive Committee

4. At the 69th meeting the Secretariat was requested to prepare an information document for the 70th meeting to assist the Executive Committee in reviewing the criteria for funding HCFC phase-out in the consumption sector adopted by decision 60/44, including an analysis of the cost-effectiveness of projects approved so far, as well as the division of costs between incremental operating costs and incremental capital costs (decision 69/22(b)). The Secretariat was also encouraged to consider options to ensure that the level of funding for the first year of stage II would meet the 20 per cent disbursement threshold; and subsequent tranches were considered in light of the need for cash and the likelihood of reaching the disbursement threshold (decision 69/24(d)).

5. Pursuant to decision 69/22(b) and 69/24(d), the Executive Committee considered document UNEP/OzL.Pro/ExCom/70/52 at its 70th meeting. During the discussion several members said that the guidelines in decision 60/44 and subsequent policy decisions had served well in assisting Article 5 countries to prepare their HPMPs. One member said that there was merit in applying the existing guidelines to stage II, and dealing with any policy or other issues as they arose, in a continuous process of review. However, a number of members disagreed with that approach, saying that the guidelines needed to be comprehensively updated on the basis of previous and continuing experience. As a first stage, data should be gathered on the incremental capital and operating costs of completed projects, so that any revision of the guidelines could be based on actual costs, rather than estimated costs. Some members said that there was little scope to update the criteria using additional data, and the limited, case-specific data thus far available could prove to be inadequate for drawing useful lessons for future project formulation. It was stressed that additional information might not provide a basis for making comparisons with the approvals of stage I of HPMPs for various reasons including the lack of cross-checking of the data, possible changes to the configuration of the converted enterprise, and possible upgrades and expansions in the technology. Several members opposed any revision to the present guidelines, and asserted their preference for a process whereby the Secretariat compiled the requested data on existing HPMP investment projects as a prerequisite for the formulation of stage II guidelines. Subsequently, the Executive Committee *inter alia* requested bilateral and implementing agencies to submit to the Secretariat information regarding incremental capital and operating costs incurred under stage I of HPMPs, and the Secretariat to include this information in a revised document to be submitted to the 71st meeting. The Committee also deferred discussion of the criteria for funding HCFC phase-out in the consumption sector for stage II HPMPs to the 72nd meeting, with the goal of reaching agreement on such criteria at that meeting (decision 70/21).

6. Pursuant to decision 70/21, at its 71st meeting the Executive Committee considered document UNEP/OzL.Pro/ExCom/71/57, which included, *inter alia*, information provided by relevant implementing agencies regarding incremental capital and operating costs incurred under stage I of HPMPs. The Executive Committee was informed about difficulties that the Secretariat encountered in determining whether all of the costs incurred were eligible incremental costs as per the approved project proposals, and that the agencies also had difficulties in providing the required information. In addition, the number of enterprises for which actual costs had already been paid was very small compared with the enterprises currently under conversion, and did not cover all the alternative technologies selected so far. Based on the additional analysis undertaken, the Secretariat and all the implementing agencies considered that the criteria and guidelines currently in place could continue to be used when submitting new proposals, on the understanding that they could be further developed as new policy issues arose from their review⁴. Subsequently, the Executive Committee took note of the document presented to the 71st meeting.

⁴ Paragraphs 162 to 164 of document UNEP/OzL.Pro/ExCom/71/64.

Concept note prepared for the Inter-agency coordination meeting

7. The Secretariat prepared a concept note on revised criteria for funding HCFC phase-out in the consumption sector in Article 5 countries for the Inter-agency coordination meeting that took place from 11 to 13 February 2014 in Montreal. As presented in document UNEP/OzL.Pro/ExCom/71/57, the concept note made reference to the preparation of stage II of HPMPs based on the criteria and guidelines currently in place, noting that policy issues could be developed as issues arise from their review.

Draft revised criteria for funding

8. For Article 5 countries with HCFC consumption in both the servicing and manufacturing sectors, stage II of the HPMPs would include activities that build upon those sectors that have already been addressed in stage I, based on current advances in alternative technologies to HCFCs. Given the overarching strategy, plan of action and phase-out activities included in approved stage I of countries' HPMPs, it is expected that for approximately 95 Article 5 countries (80 low-volume-consuming (LVC) countries and 15 non-LVC countries), stage II would address the remaining HCFC consumption mainly in the refrigeration and air-conditioning servicing sector.

9. In order to facilitate the discussions by the Executive Committee at the 72nd meeting, the Secretariat updated the criteria as approved by decision 60/44 to *inter alia* reflect the 2020, 2025 and 2040 (complete phase-out) targets (rather than the 2013, 2015, and 2020 specified in the current criteria); the fact that countries' HCFC baselines for compliance have been established (which was not the case when decision 60/44 was adopted); and additional "criteria" adopted by the Committee after the 60th meeting (e.g., establishment of cost-effectiveness thresholds for rigid insulation foam for domestic refrigeration and for aerosol sectors, HCFC-141b contained in imported pre-blended polyols to be included on the starting point for aggregate reductions in HCFC consumption). It is noted that all policies and criteria of the Multilateral Fund will continue to be applied for stage II and subsequent stages of HPMPs.

10. The key elements of the criteria for funding HCFC phase-out in the consumption sector, with relevant changes introduced are set out below⁵.

Cut-off date

- (a) Not to consider any projects to convert HCFC-based manufacturing capacity installed after 21 September 2007;

Second-stage conversion

- (b) To apply the following principles in regard to second-stage conversion projects ~~for the first stage of HCFC phase-out management plan (HPMP) implementation to achieve the 2013 and 2015 HCFC phase-out compliance targets, to be reviewed by the Executive Committee no earlier than the last Meeting in 2013:~~
 - (i) Full funding of eligible incremental costs of second-stage conversion projects will be considered in those cases where an Article 5 Party clearly demonstrates in its HPMP that such projects are necessary to comply with the Montreal Protocol HCFC targets up to and including the ~~35~~ **67.5** per cent reduction step by 1 January ~~2020~~ **2025** and/or are the most cost-effective projects measured in ODP tonnes that the Party concerned can undertake in the manufacturing sector

⁵ "Strike-out text" text is no longer relevant for stage II of HPMPs and should be deleted. "Bold text" indicates new text relevant for stage II of HPMPs.

in order to comply with these targets;

- (ii) Funding for all other second-stage conversion projects not covered under paragraph (b)(i) above will be limited to funding for installation, trials, and training associated with those projects;

*Starting points for aggregate reductions in HCFC consumption*⁶

- ~~(c) To establish the starting points for aggregate reductions in HCFC consumption, for those Article 5 countries that submit projects in advance of their assessed baseline, at the time of submission of either the HCFC investment project or the HPMP, whichever is first submitted for the consideration of the Executive Committee;~~
- ~~(d) To allow Article 5 countries to choose between the most recent reported HCFC consumption under Article 7 of the Montreal Protocol at the time of the submission of the HPMP and/or the investment project, and the average of consumption forecast for 2009 and 2010, in calculating starting points for aggregate reductions in HCFC consumption;~~
- ~~(e) To adjust the agreed starting points for aggregate reductions in HCFC consumption in cases where calculated HCFC baselines based on reported Article 7 data are different from the calculated starting point based on the average consumption forecast for 2009-2010;~~
- ~~(f) To include in the starting point for aggregate reduction in HCFC consumption the average amount of HCFC 141b contained in imported polyol systems during the 2007-2009 period which had not been counted as consumption under Article 7.~~

Accelerated phase-out of HCFCs

- (c) Projects which accelerated the phase-out of HCFCs beyond the 35 per cent reduction step in 2020 for Article 5 countries that had total consumption above 360 metric tonnes used in both the manufacturing and refrigeration servicing sectors, and that had a strong national level of commitment in place to support the accelerated phase-out, could be considered on a case-by-case basis. Those Article 5 countries should include in their Agreement with the Executive Committee, the level of reduction from their HCFC baseline for compliance by a fixed year.**

Eligible incremental costs of HCFC phase-out projects

- (d) To apply the following principles in regard to eligible incremental costs of HCFC phase-out projects ~~for the first stage of HPMP implementation to achieve the 2013 and 2015~~ **2020, 2025 and 2040 (complete phase-out)** HCFC phase-out compliance targets, subject to a review in ~~2013~~ **2018**:
 - ~~(i) When preparing HCFC phase-out projects in the foam, refrigeration and air conditioning sectors, bilateral and implementing agencies shall use the technical information contained in document UNEP/OzL.Pro/ExCom/55/47 as a guide;~~
 - (i) The current cost-effectiveness threshold values used for CFC phase-out projects in paragraph 32 of the final report of the 16th meeting of the Executive

⁶ The starting point for aggregate reductions in HCFC consumption is established when stage I of the HPMP of an Article 5 country is approved by the Executive Committee.

Committee (document UNEP/OzL.Pro/ExCom/16/20), to be measured in metric kilograms, **and a cost-effectiveness threshold of US \$7.83/metric kilogram for rigid insulation refrigeration foam**, shall be used as guidelines during the development and implementation of the ~~first~~ **second and subsequent** stages of HPMPs;

- (ii) **Article 5** countries will have the flexibility to allocate the approved funding from incremental operating costs to incremental capital costs and to allocate up to 20 per cent of the approved funding for incremental capital costs to incremental operating costs, as long as the use of the flexibility does not change the intent of the project. Any reallocation should be reported to the Executive Committee;
- (iii) Funding of up to a maximum of 25 per cent above the cost effectiveness threshold will be provided for projects when needed for the introduction of low global warming potential (GWP) alternatives;

HCFC phase-out in the foam sector

- (iv) Incremental operating costs for projects in the **polyurethane** foam sector will be considered at US \$1.60/metric kilogram for HCFC-141b and **in the extruded polystyrene foam sector** at US \$1.40/metric kilogram for **HCFC-142b, HCFC-142b/HCFC-22, or HCFC-22**, consumption to be phased out at the manufacturing enterprise;
- (v) For group projects linked to systems houses, incremental operating costs will be calculated on the basis of the total HCFC consumption to be phased out for all downstream foam enterprises;
- (vi) The Executive Committee will consider, on a case-by-case basis, funding higher levels of incremental operating costs than indicated in paragraph (f)(iv) above when required for the introduction of low-GWP water-blown technology **or new emerging technologies based on unsaturated HFCs**;

HCFC phase-out in the refrigeration and air-conditioning manufacturing sector

- (vii) Incremental operating costs for projects in the air conditioning sub-sector will be considered at US \$6.30/metric kilogram of HCFC consumption to be phased out at the manufacturing enterprise;
- (viii) Incremental operating costs for projects in the commercial refrigeration sub-sector will be considered at US \$3.80/metric kilogram of HCFC consumption to be phased out at the manufacturing enterprise;
- (ix) Consistent with decision 31/45 of the Executive Committee, incremental operating costs will not be considered for enterprises categorized under the refrigeration equipment assembly, installation and charging sub-sector;

HCFC phase-out in the refrigeration servicing sector

- (x) **Article 5** countries that have total HCFC consumption of up to 360 metric tonnes, **and former low-volume-consuming (LVC) Article 5 countries with HCFC consumption in the refrigeration servicing sector only that was above 360 metric tonnes**, must include in their HPMP, as a minimum:

- a. A commitment to meeting, without further requests for funding, at least ~~the freeze in 2013 and the 10 per cent reduction step in 2015, and if the country so decides, the 35 per cent reduction step in 2020,~~ **and if the country so decides, the 67.5 per cent reduction step in 2025 or the complete phase-out of HCFCs ahead of the Montreal Protocol schedule.** This shall include a commitment by the country to restrict imports of HCFC-based equipment if necessary to achieve compliance with the reduction steps and to support relevant phase-out activities;
 - b. Mandatory reporting, by the time funding tranches for the HPMP are requested, on the implementation of activities undertaken in the refrigeration servicing sector and in the manufacturing sector when applicable, in the previous year, as well as a thorough and comprehensive annual work plan for the implementation of the activities associated with the next tranche;
 - c. A description of the roles and responsibilities of major stakeholders, as well as the lead implementing agency and the cooperating agencies, where applicable;
- (xi) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes will be provided funding consistent with the level of consumption in the refrigeration servicing sector as shown in the table below, on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve the ~~2013 and 2015~~ **2020 and 2025** phase-out targets, and if the country so decides, the ~~2020 phase-out targets~~ **complete phase-out of HCFCs:**

| Consumption (mt)* | Funding up to 2015 (US\$) | Funding up to 2020 (US\$) |
|--------------------------|----------------------------------|----------------------------------|
| >0 <15 | 51,700 | 164,500 |
| 15 <40 | 66,000 | 210,000 |
| 40 <80 | 88,000 | 280,000 |
| 80 <120 | 99,000 | 315,000 |
| 120 <160 | 104,500 | 332,500 |
| 160 <200 | 110,000 | 350,000 |
| 200 <320 | 176,000 | 560,000 |
| 320 <360 | 198,000 | 630,000 |

(*) Level of baseline HCFC consumption in the refrigeration servicing sector

| Consumption (mt)* | Funding up to 2020 (US\$) | Funding up to 2025 (US\$) | Total phase-out (US\$) |
|--------------------------|----------------------------------|----------------------------------|-------------------------------|
| >0 <15 | 164,500 | 317,250 | 470,000 |
| 15 <40 | 210,000 | 405,000 | 600,000 |
| 40 <80 | 280,000 | 540,000 | 800,000 |
| 80 <120 | 315,000 | 607,500 | 900,000 |
| 120 <160 | 332,500 | 641,250 | 950,000 |
| 160 <200 | 350,000 | 675,000 | 1,000,000 |
| 200 <320 | 560,000 | 1,080,000 | 1,600,000 |
| 320 <360 | 630,000 | 1,215,000 | 1,800,000 |

(*) Level of HCFC baseline consumption in the refrigeration servicing sector

- (xii) Former LVC Article 5 countries with HCFC consumption in the refrigeration servicing sector only that was above 360 metric tonnes will be provided funding for phase-out activities at US \$4.50/metric kilogram;

- (xiii) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes **and former LVC Article 5 countries with HCFC consumption in the refrigeration servicing sector only that was above 360 metric tonnes** ~~and that receive funding consistent with the above table~~, will have flexibility in utilizing the resources available to address specific needs that might arise during project implementation to facilitate the smoothest possible phase-out of HCFCs;
- (xiv) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes, used in both the manufacturing and refrigeration servicing sectors, could submit HCFC phase-out investment projects in accordance with prevailing policies and decisions of the Multilateral Fund, in addition to funding for addressing HCFC consumption in the servicing sector;
- (xv) Article 5 countries that have total HCFC consumption above 360 metric tonnes **used in both the manufacturing and refrigeration servicing sectors** should first address consumption in the manufacturing sector to meet the reduction steps in ~~2013 and 2015~~ **2020 and 2025**. However, if such countries clearly demonstrate that they require assistance in the refrigeration servicing sector to comply with these targets, funding for these activities ~~such as training~~, will be calculated at US\$4.50/metric kilogram, which will be deducted from their starting point for aggregate reductions in HCFC consumption;

HCFC phase-out in the ~~aerosol~~, fire extinguisher and solvent sectors

- (xvi) The eligibility of incremental capital and operating costs for HCFC phase-out projects in the ~~aerosol~~, fire extinguisher and solvent sectors will be considered on a case-by-case basis.
