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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

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Production Sector Sub-group was reconstituted at the 72nd meeting of the Executive Committee. The Sub-group consisted of the representatives of Australia, China, Italy, Japan, Mauritius, Nicaragua, Saudi Arabia, Sweden, the United States of America and Uruguay, with Australia acting as facilitator. Representatives of UNIDO and the World Bank were also present as observers.

Agenda item 1: Adoption of the agenda

2. The Sub-group adopted the provisional agenda contained in document UNEP/OzL.Pro/ExCom/72/SGP/1 and agreed to discuss, under agenda item 5 “Other matters”, Proposed technical audit of the production sector facilities in Mexico.

Agenda item 2: Organization of work

3. The Sub-group agreed to commence its work by addressing agenda item 5 “Other matters” and to address item 3, “Draft HCFC production sector guidelines” after agenda item 4, “China HCFC production phase-out management plan”.

Agenda item 3: Draft HCFC production sector guidelines

4. The Sub-group continued its discussion of the HCFC production sector guidelines (UNEP/OzL.Pro/ExCom/72/SGP/2), which it had previously considered on the margins of the, 64th, 65th, 68th, 69th, 70th and 71st meetings. The facilitator noted the Secretariat had suggested several editorial changes to the guidelines, and the Sub-group agreed to incorporate these changes into the document. She then asked the members to address those paragraphs of the guidelines that remained in square brackets.

5. It was agreed to remove the square brackets in paragraph (i) after some text was removed as paragraph (f) already encouraged a synchronized production/consumption phase-out and addressed the issue in the text removed. There was also discussion of the need for monitoring systems in paragraph (h), how robust they should be, whether they should be similar to those used for the verification of CTC phase-out and whether specific mention should be made of the need to monitor facilities that received funding but continued to produce HCFCs for feedstock uses. The representative of the Secretariat explained that once a funded facility phased out ODS production there would still be a need to monitor it to ensure that the country did not inadvertently fall into non-compliance.

6. Due to a lack of agreement on a few issues, and a lack of time, it was agreed to postpone further consideration of the guidelines to the next meeting.

Agenda item 4: China HCFC production phase-out management plan

(a) Addendum to the China HCFC production phase-out management plan (HPPMP)

7. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/72/SGP/3 which contained a recommendation on the proposed Addendum to China's HPPMP. He said that after a review of the Addendum it was considered that further information was needed on: the definition of progress in the implementation of activities initiated with previously approved tranches; the payment schedule for the 2016 tranche; and the definition of the closure, dismantling and retirement of production plants. He also said that there had been a discrepancy between the list of plants in the addendum and those listed in the technical audit by Nexant. It had been agreed between the Secretariat and the World Bank that the tentative list of plants included in the Addendum would be based on information in the Nexant report but that the World Bank would also verify that during its verification of 2013 production.

8. One member said that the monitoring of emissions should not be limited to HFC-23 as other by-products had to be monitored as well. The majority of plants produced feedstock such as CFC-112, CFC-113 and HCFC-133a. Further details on their use were required as CFC-113 and HCFC-133a were intermediate stages in the production of HFC-134a and HFC-125. It would therefore be useful to have a definition of by-products and co-production.

9. More information was also sought on: the distinction between plant closure and dismantling, how co-production was being defined, whether idle capacity could be redirected to other uses, how the idling of 24 per cent production capacity had been addressed in the Addendum, how that idling would be implemented and whether there was any requirement to achieve that idling before 2030. Clarification was also sought as to the milestones to be used in the progress report of the World Bank for some technical assistance projects. It was observed that while it was important to have such milestones the strict application of those milestones should not stop further progress when actual phase-out had been achieved. It might therefore be desirable to prioritise the targets in the definition of progress for the implementation of the HPPMP. It was also asked why there was a discrepancy of 75,000 metric tonnes between the Nexant report and the Addendum.

10. The representative of the World Bank said that co-production occurred when more than one chemical compound or substance was produced during the same industrial process. It was important to ensure that the same ratio between those chemicals was maintained when that production occurred to ensure that no perverse incentives were created during phase-out. However, as phase-out occurred it was expected that the co-production of chemicals would no longer be cost effective. The representative of the World Bank explained that it would continue working on the details to achieve that 24 per cent reduction in capacity.

11. The representative of the Secretariat said that the Addendum had been required because China and the World Bank had not been able to agree to the publication of the list of firms for reasons of confidentiality. While co-production had not been addressed in the HPPMP the World Bank had explained that the co-production of HFC-143a and HFC-125 with HCFCs had always existed at low levels as a by-product of the production lines being addressed. As the production of HCFCs was phased-out the co-production of those HFCs was likely to be discontinued as the amounts being produced were small and would soon become uneconomic. The World Bank would provide information on HFC-23 by-product production in its verification report. The discrepancy between the figures of the World Bank and those of the technical audit by Nexant might be due to the fact that Nexant's had based its figures on information taken from indirect data and sales data and the sales data might not have included all the information subsequently available to the World Bank.

12. He also explained the distinction between plant closure and dismantling and plant retirement. In the case of retirement the equipment associated with the installed capacity would be dismantled but not the reactors and condensers which might be used for allowable feedstock production. Plant closure would entail the dismantling of all capacity.

13. Following informal discussions the Production Sector Sub-group recommends that the Executive Committee request the World Bank, on behalf of the Government of China, to resubmit the Addendum to the HPPMP to the 73rd meeting of the Executive Committee and that it should include, *inter alia*:

- (a) A glossary of terms used in the Agreement and Addendum including *inter alia* definitions for closure, dismantling, retirement, idle capacity, by-products, and co-production;
- (b) A draft preliminary closure strategy including *inter alia*:
 - (i) An overview of the strategy;
 - (ii) A plan for gradual closure, dismantling, and retirement for those plants that would be closed and those likely to be closed prior to 2030 and the relationship to idle capacity and capacity for ODS and feedstock taking into account:
 - a. How funding would be linked to this closure, dismantling and retirement;
 - b. How retirement of the additional 24 per cent of production capacity beyond the tonnage specified in decision 69/28(e)(iii) would be implemented throughout the phase-out;
- (c) The World Bank's verification report should provide estimates of inadvertent emissions of HFC-23 and other by-products; submission of these estimates would not be a condition of approval for tranches in the HPPMP;
- (d) The following definition of progress:

Progress would be considered with a priority of the achievement of reduction targets and compliance. Timely issuance of quotas, bidding, and contracts for enterprises and development of terms of reference, consultant selection, awarding of contracts, and implementation of the annual work plan would also be taken into account; and

- (e) The list of enterprises verified by the World Bank based on 2010 data that are subject to plant closure and dismantling; their ODS production, feedstock and idle capacity; and report the results as part of the World Bank's verification of 2013 production.
- (b) Report on 2013 annual implementation programme, 2014 annual implementation programme and request for the release of the 2014 funding tranche**

14. The Sub-group had before it the report on the 2013 annual implementation programme and implementation of the HCFC production phase-out management plan (stage I, second tranche) (UNEP/OzL.Pro/ExCom/72/SGP/4).

15. Following informal discussions the Production Sector Sub-group recommends that the Executive Committee:

- (a) Approve the 2014 tranche of the HPPMP in China in the amount of US \$23 million and US \$1.288 million in agency support costs for the World Bank;
- (b) Note that funds used in stage I of the HPPMP from the CFC production sector would be reimbursed by funds from the HPPMP;
- (c) Request the World Bank to provide the remaining information requested by the Secretariat in relation to activities funded by the Multilateral Fund as soon as possible; and
- (d) Request the World Bank and the Secretariat to update the format for future submission of annual implementation plans and progress reports for the HPPMP.

Agenda item 5: Other matters

Technical audit of the production sector facilities in Mexico

14. The representative of Nicaragua explained the need for a technical audit of the production sector facilities in Mexico for the preparation of its HPPMP. At that time the relevant swing plant in Mexico had two production lines. Only one of those production lines was associated with the assistance of the Multilateral Fund and Mexico considered that the other line remained eligible for funding. Mexico was therefore requesting a technical audit for the production line that had not received assistance from the Fund.

15. In response to questions as to why the technical audit was only now being requested, and whether the production line was being used for feedstock or controlled uses, the representative of Nicaragua said that Mexico had waited to be sure that its proposal was not governed by the draft HCFC production sector guidelines. He also said that the production lines were for both feedstock and controlled uses, some of which were exported to South America and Asia. The technical audit was required to understand what portion of the production went to other companies from each of those two lines.

16. A member noted that Mexico had already received US \$34 million in compensation under the CFC closure project and questioned whether the proposed technical audit was eligible under the Agreement between the Government of Mexico and the Executive Committee which included a clause in paragraph (d) stating "that no additional Multilateral Fund resources will be forthcoming for related activities including the development of infrastructure for the production of alternatives, the import of alternatives, or the eventual closure of any HCFC facilities that use existing CFC infrastructure".

17. It was observed that several members had not yet had time to review all the relevant documentation and that it would also be necessary to confirm that only one of the production lines was associated with the assistance of the Multilateral Fund. It was suggested that it would also be useful if Mexico were to provide the Secretariat with any additional and relevant information that would aid the Sub-group when considering the request.

18. The representative of the Secretariat explained the usual process for requesting a technical audit. One member then observed that the issue of eligibility of a request for a technical audit would need to be considered by the Sub-group.

19. The Sub-group agreed to continue its discussion of Mexico's request for a technical audit of the production sector facilities in Mexico at its next meeting.

Agenda item 6: Adoption of the report

20. The present report was reviewed by the Facilitator.

Agenda item 7: Closure

21. The meeting of the Sub-group was closed at 5.00 pm on 15 May 2014.
