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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-third Meeting
Paris, 9-13 November 2014

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Production Sector Sub-group was reconstituted at the 73rd meeting of the Executive Committee. The Sub-group consisted of the representatives of Australia, China, Italy, Japan, Nicaragua, 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/73/SGP/1 and agreed to discuss, under agenda item 6 “Other matters”, Effect on the constitution of the Production Sector Sub-group of the review of the operation of the Executive Committee pursuant to decision 70/23(d).

Agenda item 2: Organization of work

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

Agenda item 3: Draft HCFC production sector guidelines

4. Due to a lack of time it was agreed to postpone further discussion of the guidelines to the next meeting.

Agenda item 4: HCFC production phase-out management plan (HPPMP) for China

(a) Remaining information from the report on 2013 and 2014 annual implementation programmes

5. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/73/SGP/3 which addressed the additional information that had been requested by the Executive Committee pursuant to decision 72/45(d).

6. Members said that it was important to have information of the production of ODS for feedstock in plants established after 2010 as production of HCFCs in those facilities could have an effect on China's compliance with its obligations and trigger penalty clauses. It seemed that there was an information gap and it was asked if any such plants had in fact been established.

7. The representative of the Secretariat said that it was unclear whether any such plants existed but if they did their production could be tracked by comparing the Article 7 data that had been received with the data in the verification reports. So far those two sets of data had roughly corresponded and explanations had been given for any differences between those sets of data.

8. The representative of the World Bank said that China had put a regulatory system in place that was similar to that which had been established to address CFCs. Heavy penalties had been created which would be levied on those enterprises that exceeded their quotas. A fine of one million RMB had been set, the illegally produced chemicals confiscated and the facilities that had produced the chemicals destroyed. Given those heavy sanctions, it was not expected that enterprises would risk the illegal production of HCFCs. Additionally, because of the quotas that had been established, it was expected that other producers would quickly inform the authorities in China of any competitor who illegally produced and sold HCFCs.

9. The representative of the World Bank also confirmed that no new plants or production lines had been built for the production of HCFCs after 2010, and that the proposed plant, mentioned in the Nexant technical audit report, and referred to by one of the members of the Sub-group, had not in fact been built. He said that after 2010 the Government of China had not, and would not, issue any clearance for the production of HCFCs for controlled uses. It would only allow the production of HCFCs for feedstock as part of an integrated facility. Existing plants would not be granted any additional capacity expansion unless it was part of an integrated plant. The representative of China added that the feedstock produced in the integrated facilities of the new plants or production lines would not be stored in tanks but would instead be used as part of a continuous production process connected by pipelines.

10. In response to a question as to whether the regulations required that the feedstock in the integrated facilities could only be used in that continuous production process, the representative of the Government of China explained that it was required as part of the approval process. It was not thought that producers would violate that requirement because of the penalties that would be imposed on them. Although no new production facilities for feedstock had been established after 2010 such facilities might be established in the future. She stressed that there was also no obligation to report on that to the Executive Committee. It was not verified by the World Bank, and as any new plants would not be funded by the Multilateral Fund, and therefore no such verification process was required. The regulations were clear: HCFCs were banned for controlled use and no quota would be issued for that. In her view, the question of possible illegal production did not raise an issue of compliance as the situation was similar to that of the illegal import of chemicals, which the Parties did not treat as a compliance issue.

11. One member did not agree that the situation was similar to the illegal import of chemicals and said that although that the regulatory process that had been established by China was robust it was still necessary that the Executive Committee was informed about any new facilities for the production of feedstock.

12. The Production Sector Sub-group recommends that the Executive Committee:

- (a) Note with appreciation the submission by the World Bank on behalf of the Government of China the remaining information requested by the Secretariat related to the 2013 progress report for the HCFC production phase-out management plan activities funded by the Multilateral Fund; and
- (b) Also note that no new HCFC production plants or lines had been established for ODS or feedstock between 2010 and the 73rd meeting of the Executive Committee; and
- (c) Request the Government of China to notify the Executive Committee if any additional HCFC production lines were established in China beyond those covered in the Agreement.

(b) 2013 verification report of the HCFC production.

13. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/73/SGP/4 which contained the 2013 verification report for the HCFC production and consumption sectors in China.

14. One member asked why the Government of China was being encouraged to request the producers in the HCFC production sector to take action on export-related documents and sales contracts. The representative of the World Bank explained that HCFC producers were being encouraged to do so because if they did not produce those export-related documents their production would be treated as only being production for domestic purposes and deducted from their domestic quotas. The producers had a financial incentive to produce such export related documents for each shipment exported out of the country.

15. Another member asked what further actions the Government of China would undertake to address the issue of the production of HFC-23 as a by-product of HCFC-22 production. He said that while progress had been made, and China had consulted with stakeholders on the issue, it still remained true that only one third of the HFC-23 that was produced as a by-product of HCFC-22 was being captured and destroyed.

16. The representative of China said that the meeting with the stakeholders was an example of some of the actions that her Government was taking to reduce the production of HFC-23 as a by-product of HCFC-22. That policy decision had already been approved by the Council of State but a number of different ministries were involved in the process and so the action plan to address the issue was still under development. She also said that the data on HFC-23 being reported in the verification report was not verified data, or data supplied by the Government of China. It was an estimate by the World Bank and should therefore not be released by the Executive Committee as it was not verifiable.

17. Following its deliberations, the Production Sector Sub-group recommends that the Executive Committee:

- (a) Note the verification report of the HCFC production and consumption sectors for China indicating that China had met the maximum allowable production and consumption targets for 2013;
- (b) Encourage the Government of China to request HCFC producers in China in future verifications to:
 - (i) Provide export-related documents for each shipment claimed as an export; and

- (ii) Specify the use of HCFC sales in sales contracts; and
- (c) Allow the submission of the funding tranche of the 2015 annual implementation programme of stage I of the HCFC production phase-out management plan for China to the 74th meeting.

(c) Addendum to the HPPMP

18. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/73/SGP/5 which addressed the issues raised in decision 72/44 with respect to the information included in the Addendum.

19. The representative of China reported that according to the HPPMP for China, in order to achieve the 10 per cent reduction target in 2015, the production sector of China had to phase out at least 32,135 metric tonnes of HCFC. Following the principle of “prioritizing production closure, transparency and fair competition”, the Foreign Economic Cooperation Office, Ministry of Environment Protection of China (FECO/MEP) and the World Bank had worked together and developed an implementation programme and bidding plan for HCFC production line closure. Through an open bidding process, with the principle of adopting the lowest price, five enterprises had won the bidding, including three HCFC-141b production lines and two HCFC-22 production lines. Based on the compensation method, and the bidding price, the compensation for the above-mentioned enterprises totalled approximately US \$75 million. The closure of the five production lines would result in the phase-out of 58,864 metric tonnes of HCFC production and the reduction of HCFC production capacity by 88,000 metric tonnes. The environmental benefit of China’s HCFC production closure would yield a direct reduction of 4,647 ODP tonnes of HCFC production per year as of 2015 and the elimination of over 93 million tonnes of carbon dioxide equivalents in greenhouse gas emissions per year including elimination of about 15 million tonnes of carbon dioxide equivalent emission reduction from the by-product of HCFC-22

20. One member said that it would be important for the Sub-group to have more time to consider the information in the Addendum and suggested that further discussion of the document be deferred until the next meeting of the Sub-group.

21. Another member expressed his satisfaction with some of the activities reported on in the Addendum. He also agreed that it would be important for the Sub-group to have more time to consider the information that it contained. However, he expressed concern that the Addendum showed that there were discrepancies in feedstock production data between the Nexant technical audit report and the verification by the World Bank which had resulted in the removal of three plants of the list of those plants for closure. He asked for clarification as to how those production facilities would be addressed as it could have a significant impact over time. Although one of the three plants was included among the five plants to be closed, the remaining two had reported capacity production of some 55,000 metric tonnes of feedstock.

22. The representative of the World Bank explained that the discrepancy had only been revealed because the World Bank had checked the financial records of the companies during its verification process in 2013 to substantiate feedstock sales. That was not done during the Nexant technical audit. He also confirmed that the World Bank had verified and not estimated the sales of feedstock for 2010 for those three plants.

23. One member said that although there were also other data errors in the Nexant technical audit report it was still a useful point of reference. Given that the bidding process had already been completed it would be difficult for the Government of China to include the two plants mentioned in the list of those for closure without their consent but that issue could be addressed later during stage II of the HPPMP.

24. The Production Sector Sub-group recommends that the Executive Committee to note that the Sub-group had agreed to continue its discussion of the Addendum at its next meeting.

Agenda item 5: Format for submission of annual implementation plans and progress reports for an HPPMP

25. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/73/SGP/6 and presented the proposed format that had been developed jointly by the Secretariat and the World Bank. The format is contained in annex I of the present report.

26. Several members pointed out that according to decision 69/28(e)(viii) China had agreed to coordinate with its stakeholders and authorities to make its best efforts to manage HCFC production and associated by-product production in HCFC plants in accordance with best practices to minimize associated climate impacts and it was asked why that had not been addressed in the format.

27. The representative of the Secretariat explained that the format in Annex I of the document focused on the areas where inadequate information had been provided in the submission of the 2013 progress report. Sufficient information had been provided in that submission in other areas, including the climate impact of implementation. In addition the guide for the presentation of tranches of HCFC production phase-out management, which was in annex II of the document, provided such guidance.

28. One member said that the relevant sections of those annexes were unclear on the issue of whether the by-products were included and another member said that a reference to best practices had to be included as well. Pursuant to decision 69/28(e)(ix) China had agreed to optimize the implementation of the HPPMP in order to minimize environmental and climate impacts as much as possible, including by giving priority to HCFC production closure to achieve the HCFC reduction targets set forth in decision XIX/6.

29. It was suggested that it would be useful to give the Government of China some flexibility to decide on how to achieve those aims and to allow it to work with the World Bank and the Secretariat to revise the format and the guide, which could then be reconsidered at the next meeting of the Sub-group. However, the representative of the World Bank suggested that it would use the present draft of the format and guide on an interim basis to prepare the next request for a tranche of funding for the HPPMP. It would in any case be useful to see how the guidelines worked in practice so that they could be adjusted and improved based on practical experience with using them.

30. The representative of China reminded the meeting that China only had the obligation to coordinate with the stakeholders and make its best efforts to manage HCFC production and the associated by-product production. No targets had been set and no funding allocated for that activity. However, the World Bank and China could provide the information requested on a voluntary basis. Another member disagreed with that view and said that there was a clear agreement by China to take action on best practices and to minimize the associated environmental and climate impacts as much as possible.

31. The Production Sector Sub-group recommends that the Executive Committee:

- (a) Take note of the draft format for progress reports and annual implementation plans for the HPPMP for use in future submissions contained in Annex I of the present document;
- (b) Further note that the World Bank would use the draft format on an interim basis when preparing any submissions for the 2015 tranche of funding related to the HCFC production phase-out management plan for China to be submitted to the 74th meeting of the Executive Committee; and

- (c) Request the Secretariat to present an updated format for progress reports and annual implementation plans for the HPPMP to 74th meeting that took into consideration the lessons learned by the World Bank when using it on an interim basis.

Agenda item 6: Other matters.

The effect on the constitution of the production sector sub-group of the review of the operation of the Executive Committee pursuant to decision 70/23(d)

32. The Sub-group did not address this issue because the Chief Officer informed the Sub-group that a contact group was going to address the issue.

Agenda item 7: Adoption of the report.

33. The present report was reviewed by the facilitator.

Agenda item 8: Closure.

34. The meeting of the Sub-group was closed at 9.00 am on 12 November 2014.

Annex I

FORMAT FOR HCFC PRODUCTION SECTOR PROGRESS REPORTS AND ANNUAL IMPLEMENTATION PLANS

Narrative text of the progress report

The progress report should follow the “GUIDE FOR THE PREPARATION OF TRANCHES OF HCFC PRODUCTION PHASE-OUT MANAGEMENT PLANS” (Guide). In addition to the information in the Guide, the following data is specifically required for the production sector. The format for HCFC production sector progress reports and annual implementation plans (the format) consists of two parts. Part I presents the data for progress reports; part II presents the information requirements for annual implementation plans.

Part I: Progress report data

1. Information on overall target and production level of stage X
(section I.3 of the Guide)

As required by the Guide, the progress report should contain narrative observations/explanations as relevant on any significant increase/decrease of the production level, change of stock level, or other related information. It should also explain any deviations of actual HCFC production reductions of the reporting year from the planned reductions and adjustment of reduction strategy (if any) for the next year.

Table 1: Overall Control Targets and Actual HCFC production for ODS use for China by chemical

	2013				2014				2015				
	Planned		Actual		Planned		Actual		Planned		Actual		
	MT	ODP	MT	ODP	MT	ODP	MT	ODP	MT	ODP	MT	ODP	
HCFC-22													
HCFC-141b													
HCFC-142b													
HCFC-123													
HCFC-124													

Table 2: Reduction amounts of HCFCs by chemical in ODP (example provided below is for stage I; subsequent stages will have different reduction amounts)

Year	2013		2015		Total for stage 1	Reduction per HCFC as percentage of overall reductions
Substance	Planned	Actual	Planned	Actual		
HCFC-22						
HCFC-141b						
HCFC-142b						
HCFC-123						
HCFC-124						
Total						

2. HCFC Production sector baseline information; capacity, 2010 and 2013, HCFC production

Table 3a-e: xxxx baseline, Production capacity, 2010 and e.g. for 2013-2015 production for ODS and feedstock use

Ref No	Plants	Line No.	Production Capacity	2010 production		2013 HCFC production		2014 HCFC Production		2015 HCFC Production		Operational status
				ODS use	Feedstock use	ODS use	Feedstock use	ODS use	Feedstock use	ODS use (a)	Feedstock use	
				MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Total											

* Please specify any change in ownership (in brackets) from the enterprise names listed in the addendum to the production sector agreement and indicate in the observations/explanations what percentage ownership resulting from the change is for transnational corporations.

** Operational status means operational and producing (OP), operational but temporarily closed (T-CI), retired and dismantled (R&D), or partially retired and partially dismantled (P-R&D).

*** The data for these plants will be verified in the audit of 2013 production by the World Bank per decision 72/44(d).

3. ODS Production quotas issued

Table 4a-e: xxx ODS Production quota for [chemical]

Ref No	HCFC-22 Plants	Production Capacity	2010 production		Initial quota		Quota trading in xxx		Final quotas for xxx		xxx HCFC production		
			ODS use	Feedstock use	ODS Production	Domestic use	ODS Production	Domestic use	ODS Production	Domestic use	Total	ODS use	Feedstock use
			MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y	MT/y
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
	Total												

* Please specify any change in ownership (in brackets) from the enterprise names listed in the addendum to the production sector agreement and indicate in the observations/explanations what percentage ownership resulting from the change is for transnational corporations.

** Operational status means operational and producing (OP), operational but temporarily closed (T-CI), retired and dismantled (R&D), or partially retired and partially dismantled (P-R&D).

4. HCFC quota reduction contracts and production closure contracts

Table 5a-e: xxx Quota reduction and closure contracts

Ref. No.	Enterprise Name	Production in 2009 (MT)	Production in 2010 (MT)	Baseline (MT)	Reduction under contract (MT)	Contract value (US\$)	Contract No.	Project No.
	Total							

Table 6: Overview on producers with quota reduction and/or production line closure contracts

Ref. No.	HCFC Producers	2013	2014	2015
	HCFC-22	No contracts	Quota Reduction Contract	Closure contract

5. Information on policies and regulations

Table 7: Policies relevant to the HCFC production Phase-out- planned and status of implementation

Policy and regulation	Status of implementation	Date of effectiveness	Comments

6. Technical Assistance Activities

a. Information on technical assistance activities

When planning technical assistance activities, the annual implementation plan should include narrative text which clearly describes the rationale, objective, scope of activities, time frame, expected outcomes and impact of the TA programme. It should also design milestones for each TA to measure progress and the associated funding disbursements. For example, for “Research and study on pyrolysis technology of HFC-23”, these can be defined as 30% payment when awarding the contract, 50% payment when submitting the draft report and 20% payment when receiving the final report. Progress on each TA needs to be measured against the milestones.

Table 8: xxx TA activities: Overview, ONGOING AND COMPLETED TA

Name of TA	Contractor	Contract date	Planned Completion date	Actual completion date	Contract amount	Interim milestones and deliveries		Delivery of final report	Expected outcome and use in the HPPMP
						MS 1	MS 2		
TA-1									
TA-2									
TA-3									

Comments: For each training activities, the number of participants should to be specified under the milestones.

7. Financial reporting

Observations/explanations as relevant:

Table 9: Financial report

Year	2013 Tranche	2014 Tranche	2015 Tranche	Total
	(US\$)	(US\$)	(US\$)	(US\$)

Table 10: Financial report on technical assistance activities

TA Activity	Time frame	Contract amount (US\$)	Disbursements (US\$)	% of contract	Date	Disbursed in reporting year (US\$)	Accumulated disbursement (US\$)	Remaining Balance As of [Date] (US\$)
2013 TA Activities								
			1 st disb.					
			2 nd disb.					
			3 rd disb.					
			4 th disb.					
Total								

Table 11: Financial status of quota reduction closure contracts at enterprise level

Ref No	Producer	Type of HCFC	Type of contract	HCFC reduction amount by contract (MT)	Contract amount (USD)	Contract date	Planned Financial completion date	Actual financial completion date	Disbursement in previous reporting year (US\$)	Disbursement in reporting year (US\$)	Accumulated disbursement (US\$)	Remaining balance (US\$)
		HCFC-22 contracts										
		HCFC-141b contracts										
		HCFC-123 contracts										
		HCFC-124 contracts										

*Quota reduction contract, (RED), Plant Capacity Reduction Contract, (CRC), Plant Closure Contract, (PCLO), HCFC Producer Closure Contract (CLO)

8. Information on climate impact of reporting period (Section I.4.3 of the Guide)

The progress report should include a brief description on the method used for the calculation of the climate impact, specifying alternative technologies/reduction method used for each production line of enterprises.

Table 12: Climate impact of the reporting year (2013) To be update based on 2013, 2014 and 2015 verification results.

Substance	Actual production reduction 2013 compared to 2010		Method of reduction	Climate impact
	MT	ODP		(million tons CO ₂ eq)
HCFC-22			For example: Actual production in 2013 per HCFC compared to 2010 HCFC production [Quota reduction; Converted to HCFC production; Closed and dismantled];	
HCFC-141b				
HCFC-142b				
HCFC-123				
HCFC-124				
Total				

Part II: Annual implementation plan

A detailed description of the activities to be implemented including regulations and project monitoring should be included. Quantifiable information should be included to the extent possible. The milestones and level of funding associated with each proposed activity should be clearly indicated.

In line with the flexibility clause to reallocate approved funds according to the evolving circumstances to achieve the smoothest reduction of production and phase-out of HCFCs in relevant agreements between the Government concerned and the Executive Committee, major changes must be documented. Also, any enterprise that has been included in the HPPMP for closure and which is found to be ineligible under the guidelines of the Multilateral Fund (e.g., due to foreign ownership), will not receive assistance. This information should be included as part of the annual implementation plan.
