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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Eighty-first Meeting  
Montreal, 18-22 June 2018

**REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR**

**Introduction**

1. The Sub-group on the Production Sector, as reconstituted at the 81<sup>st</sup> meeting of the Executive Committee, met three times in the margins of the 81<sup>st</sup> meeting. The Sub-group consisted of the representatives of Argentina, Canada, Dominican Republic, France, India, Nigeria, Norway, and the United States of America, with Canada acting as facilitator. Representatives of 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/81/SGP/1 and agreed to discuss, under agenda item 5, “Other matters”, the HCFC production sector guidelines, and the issue related to monitoring and verification.

**Agenda item 2: Organization of work**

3. The Sub-group agreed to follow the organization of work proposed by the facilitator. It also agreed to defer consideration of agenda item 4, “Financial reporting format for annual project management unit (PMU) expenditures in the production sector for China” until that issue had first been discussed by the Executive Committee when discussing the format for PMU expenditures for consumption sector in China under agenda item 9(e), Investment projects.

**Agenda item 3: HCFC production phase-out management plan (HPPMP) (stage II) for China**

4. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/81/SGP/2 and the representative of the World Bank made a presentation explaining the revisions that had been made to the proposal.

5. A number of requests for clarification were made with respect to: the basis for the calculation of lost profit, the need to meet basic domestic needs after 2026, feedstock use, the basis for forecasting consumption after 2025, the use of 2016 instead of the agreed 2010 profit rates, as the basis for compensation, and plant lifetime. It was also unclear why basic domestic needs after 2026 had been included when there was no provision for that in the HCFC control measures applicable to Article 5 Parties. Regarding the need for monitoring and the project management unit (PMU) between 2030 and 2040, it

would be important to consider that issue under stage II and not wait until consideration of stage III of the HPPMP. A break-down of the costs for the activities of the PMU and for technical assistance was also required.

6. The representative of the World Bank explained that lost profits were calculated by considering price and demand, but it was difficult to project that into the future. The year 2016 had been proposed as the basis for compensation instead of 2010 as there had been significant changes in both prices and demand. He noted that funding from the Multilateral Fund only covered part of the net present value of the lost profit, with the remainder absorbed by the producers themselves, and that the provision for basic domestic needs arose out of China's desire to have the flexibility to address the needs of its trading partners. It was indicated that the Ozone Secretariat had been approached to inquire whether paragraph 4 of Article 5 of the Montreal Protocol would address the issue.

7. With respect to feedstock, the representative of the World Bank confirmed that there would be no redirection of production for feedstock and said that use for feedstock had been stable with the exception of HCFC-142b which had increased between 2013 and 2016 from 53,000 metric tonnes (mt) to 71,000 mt.

8. The representative of the World Bank provided additional information on the activities of PMU and for technical assistance. Some members observed that there still appeared to be an overlap between project activities and some specific technical assistance activities.

9. Concern was also expressed at the continued "front loading" of the tranches of funding as well as with the overall funding being requested for stage II of the HPPMP, the overlap between activities for the PMU and for technical assistance, and the need for better reporting to avoid duplication of efforts and costs. It was asked what the impact feedstock use would have on the calculation of lost profit. More information was also requested on the possibility for continuous monitoring and verification of the production between 2030 to 2040 and the costs that would be associated with that.

10. The representative of the World Bank said that he would consult with the representative of the Government of China to see what adjustments could be made but also noted that it was important to come to an agreement at the present meeting in order for China to continue to comply with the Montreal Protocol.

11. The Sub-group recommends to the Executive Committee:

(a) To note:

- (i) The submission of stage II of the HCFC production phase-out management plan (HPPMP) for China, which had been considered by the Sub-group on the Production Sector;
- (ii) That the revised proposal submitted by the World Bank addressed several of the issues that had been raised by the Sub-group on the Production Sector in relation to the previous proposals submitted to the 79<sup>th</sup> and 80<sup>th</sup> meetings of the Executive Committee;
- (iii) That other relevant issues, including the calculation of the lost profit, the distribution of funding across tranches, the duration of stage II and subsequent stages, including the 2030–2040 tail-end, and the funding requirements for technical assistance activities and the project management unit, had not, however, been fully addressed and that the Sub-group on the Production sector was consequently unable to recommend consideration of the proposal by the Executive Committee;

- (iv) With appreciation, that the Government of China had complied fully with all the conditions set out in the Agreement with the Executive Committee in relation to the reduction in HCFC production in accordance with stage I of the HPPMP and that, as at March 2018, 94.2 per cent of the total funding approved for stage I of the HPPMP had been disbursed to the final beneficiaries;
  - (v) That immediate funding for the production reduction and/or closure of HCFC production lines eligible for funding would assist the Government of China in moving towards compliance with its 2020 obligations under the Montreal Protocol;
- (b) To approve, on an exceptional basis, and without setting a precedent with regard to the overall level of funding of stage II of the HPPMP and the funding tranches therein, the sum of US \$23,000,000, plus agency support costs for the World Bank, on the understanding:
- (i) That the Government of China agreed that the maximum allowable level of production of HCFCs for 2018 would be 22,742 ODP tonnes, and the amount of funding provided may be reduced by US \$1.73 per kg/year of production beyond the above-mentioned level;
  - (ii) That the Government of China would:
    - a. Organize bidding in relation to production closure or quota reduction to reduce 1,188 ODP tonnes of HCFC production in 2018, issue the quota at the reduced level for 2018, and begin to address the sustainability of the phase-out of HCFC production in relation to the environment impact assessment;
    - b. Provide specific technical assistance to support enterprise-level activities, including continued monitoring and verification of each compensated production line;
    - c. Ensure that any compensated plant would not redirect any phased out HCFC production capacity towards feedstock use, subject to a penalty of US \$0.15 per kg of redirected production per year;
    - d. Coordinate with its stakeholders and authorities to make best efforts to manage HCFC production and associated by-product production in HCFC plants, in accordance with best practices to minimize associated climate impacts;
    - e. Optimize the implementation of the activities in 2018 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 out in decision XIX/6;
    - f. Ensure that any funds in possession of the Foreign Economic Cooperation Office of the Ministry of Environment Protection would return a reasonable rate of accrued interest, and that any interest would be offset against stage II of the HPPMP;
- (c) To note that the approved funding of US \$23,000,000 indicated in sub-paragraph (b) above would be deducted from the funding of stage II of the HPPMP; and

- (d) To defer consideration of stage II of the HPPMP and to invite submission of a revised proposal to the 83<sup>rd</sup> meeting pursuant to discussions at the 82<sup>nd</sup> meeting on issues remaining to be addressed indicated in paragraph (a)(iii).

**Agenda item 4: Financial reporting format for annual project management unit expenditures in the production sector for China**

- 12. Due to a lack of time, the Sub-group did not further discuss the item.

**Agenda item 5: Other matters**

**(a) HCFC production sector guidelines**

13. The facilitator reminded the Sub-group that it had agreed at the 79<sup>th</sup> meeting to postpone further consideration of the guidelines pending the results of the discussions on HFC-23 by-product by the Executive Committee and consequently the item had not been included in the agenda of the Sub-group. Two members requested that the item be maintained in the agenda, which was agreed.

14. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/79/SGP/2 and reminded the meeting that only sub-paragraphs (e) and (k) remained in square brackets as they addressed swing plants and that it had been agreed that a discussion of those paragraphs should await the result of the deliberations of the Executive Committee on HFC-23.

15. The representative of India said that the compensation for HCFC-22 swing production plants and the phase-out of HFC-23 were two separate issues. While HFC-23 was a by-product of HCFC-22, and should be addressed in the context of the Kigali Amendment, that did not mean that the issue of HCFC-22 swing production plants needed to be delayed.

16. Other members were of the view that the two issues were interlinked and should be considered together once the Executive Committee had held a more substantial discussion of the issue of HFC-23 by-production emission control.

17. The Sub-group deferred further consideration of the issue until its next meeting.

**(b) Monitoring and verification**

18. One member suggested that it would be useful for the Secretariat to prepare an overview paper that reviewed the past practices of the Multilateral Fund in both verifying plant closure, and the subsequent monitoring to ensure that there were no later emissions of controlled substances.

19. The representative of the Secretariat explained that when a production facility was closed, the key equipment was destroyed and the destruction was verified. After completion of the sector plan, there was no further monitoring of facilities under the Montreal Protocol. Two members stated that their Governments monitored the production facilities in their countries to ensure sustainable phase-out. One member suggested that the Secretariat could ask the countries for that information, noting, however, that such information might not be available as no assistance from the Multilateral Fund was provided after completion of the projects.

20. One member said that the proposed overview paper should show how the Multilateral Fund had addressed the different sectors over the years and the costs of the actions undertaken. Once that paper was reviewed it could be decided whether there was a need to request the Secretariat to seek additional information.

21. The representative of the Secretariat subsequently introduced a draft decision for the consideration of the Sub-group.

22. One member asked why the additional information was being requested, as the monitoring and verification of projects was demanding. If additional information was required then it should be mandated by either the Open-ended Working Group or the Meeting of the Parties and it should apply to all production of ozone depleting substances.

23. Following interventions by a number of members to explain the rationale for requesting the additional information, the member said that he remained uncomfortable with the text of the draft decision and could not agree to it unless it only addressed the reporting requirements already established under the Montreal Protocol. One member proposed to put the draft decision in the square bracket; however this was not agreed by all the members of the Sub-group. Due to the time constraints, the issue was not further considered at the 81<sup>st</sup> meeting.

**Agenda item 6: Adoption of the report**

24. The present report was reviewed by the facilitator.

**Agenda item 7: Closure**

25. The meeting of the Sub-group on Production Sector was closed at 8.30 pm on 21 June 2018.