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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-second Meeting
Montreal, 3-7 December 2018

Addendum

**DEVELOPMENT OF THE COST GUIDELINES FOR THE PHASE-DOWN OF HFCs IN
ARTICLE 5 COUNTRIES: DRAFT CRITERIA FOR FUNDING
(DECISION 81/67(f))**

1. This addendum is issued¹ to present the deliberations of the preparatory segment of the Thirtieth Meeting of the Parties under agenda item 4(c) on issues related to progress by the Executive Committee of the Multilateral Fund in the development of guidelines for financing the phase-down of HFCs.
2. In opening the sub-agenda item 4(c), the Co-chair invited the Chair of the Executive Committee to give a presentation on the progress achieved by the Executive Committee in the development of cost guidelines for HFC phase-down. Subsequently, the Parties discussed the matter and adopted decision XXX/4.
3. The text of the deliberations presented below has been extracted from the report of the meeting contained in document UNEP/OzL.Pro.30/L.1; the text of decision XXX/4 is presented at the end of the extract of the Parties' deliberations.
4. At its 82nd meeting, the Executive Committee may wish to take into consideration the information contained in the present document during the discussions on the development of cost guidelines for the phase-down of HFCs in Article 5 countries.

¹ As indicated in paragraph 24 of document UNEP/OzL.Pro/ExCom/82/67

Extract of deliberations under agenda item 4 (c) of the Meeting of Parties

“C. Progress by the Executive Committee of the Multilateral Fund in the development of guidelines for financing the phase-down of hydrofluorocarbons (decision XXVIII/2)

31. Introducing the sub-item, the Co-Chair drew attention to the background information set out in paragraphs 25 to 30 of the note by the Secretariat on issues for discussion by and information for the attention of the Thirtieth Meeting of the Parties to the Montreal Protocol (UNEP/OzL.Pro.30/2) and the report of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol to the Thirtieth Meeting of the Parties (UNEP/OzL.Pro.30/10). He recalled that, in paragraph 10 of decision XXVIII/2, the parties had requested the Executive Committee to develop, within two years of the adoption of the Kigali Amendment, guidelines for financing the phase-down of HFC consumption and production and to present those guidelines to the meeting of the parties for parties' views and input before their finalization by the Executive Committee.

32. The Chair of the Executive Committee, Mr. Mazen Hussein, and the Chief Officer of the Multilateral Fund, Mr. Eduardo Ganem, gave a presentation on the progress achieved on the funding guidelines. Mr. Ganem recalled that the Executive Committee had discussed matters arising from the Amendment that were relevant to it at its meeting immediately following the adoption of the Amendment, at a subsequent special four-day meeting and at each of its meetings since.

33. At the Twenty-Eighth Meeting of the Parties, when the Amendment had been adopted, 17 parties not operating under paragraph 1 of Article 5 (non-Article 5 parties) had announced one-off voluntary contributions to the Multilateral Fund to provide fast-start support for the implementation of the Amendment. Those contributions had all since been received and totalled \$25.51 million, of which \$23.11 million had been disbursed to date. That amount included \$15.15 million for enabling activities in 109 countries, and \$7.54 million for HFC investment projects, which would phase out 681,541 CO₂-equivalent tonnes of HFCs.

34. In 2015, the Executive Committee had decided to fund surveys of the consumption and production of HFCs and other alternatives to ozone-depleting substances. By the time of the eightieth meeting of the Executive Committee, in 2017, that data had been made available for 119 countries. Bilateral and implementing agencies had been requested to use the findings and lessons from the surveys when assisting countries in implementing enabling activities, with particular attention to strengthening HFC data collection and reporting, which would assist countries in establishing their HFC baselines.

35. In decision XXVIII/2, the parties had requested the Executive Committee to fund various enabling activities in relation to HFC phase-down. The Committee had adopted criteria for providing that funding, including a letter from the Government indicating its intention to ratify the Kigali Amendment as early as possible, if it had not already done so; a statement that the implementation of enabling activities would not delay the implementation of HCFC phase-out projects; and a deadline for completion of the activities of 18 months, which could be extended by up to 12 months, if needed. Funding for the preparation of national implementation plans to meet initial HFC reduction obligations could be provided, at the earliest, five years prior to those obligations once a country had ratified the Amendment.

36. To date, \$17.2 million had been approved for enabling activities in 119 Article 5 countries (including 6 Article 5 Group 2 countries), and proposals for an additional \$1.6 million for activities in 11 Article 5 countries (including 2 Article 5 Group 2 countries) had been submitted for

consideration at the eighty-second meeting of the Committee, to be held in Montreal, Canada, from 3 to 7 December 2018. A further \$950,000 for enabling activities in 6 Article 5 parties had been included in the 2019 business plan. To date, 35 Article 5 Group 1 countries had ratified the Amendment; for those countries, funding requests for the preparation of national implementation plans could be received as early as 2019.

37. In decision XXVIII/2, the parties had also directed the Executive Committee to increase institutional strengthening support in the light of the new commitments related to HFCs under the Amendment. Considering the relevance of institutional strengthening for the implementation of the Montreal Protocol, and the number of decisions adopted on that issue, the Committee decided to consider increasing funding for institutional strengthening at a future meeting.

38. Many elements of decision XXVIII/2 had been included in the draft template of the guidelines for funding the phase-down of HFCs, but a number needed further discussion. Those included all aspects of the refrigeration servicing sector and the methodology for determining the starting point for sustained aggregate reductions in HFC consumption, which would be discussed at the eighty-second meeting of the Committee. In relation to the latter issue, the Committee would also consider the prioritization of technical assistance and capacity-building to address safety issues associated with low-GWP or zero-GWP alternatives. Also requiring further discussion were the levels of eligible incremental costs and cost-effectiveness thresholds in different manufacturing sectors, where the Committee had decided to approve a limited number of investment projects, under various conditions, in order to generate detailed information on the incremental capital and incremental operating costs, given the limited experience so far in phasing out HFCs. To date, \$12.4 million had been approved for seven investment projects in six countries, and proposals totalling an additional \$3.9 million for five projects in five countries had been submitted for consideration at the eighty-second meeting of the Committee. Another \$15.6 million for five projects had been included in the 2019 business plan.

39. Elements of decision XXVIII/2 that had not yet been included in the draft template of the cost guidelines and remained under discussion included HFC-23 by-product control. HCFC-22-producing parties had been invited to provide information on the quantities of HFC-23 generated and their experience in controlling and monitoring it, and countries wishing to close HCFC-22 production swing plants had been invited to submit preliminary data on their production facilities. A report on options and costs related to the control of HFC-23 by-product emissions in Argentina, including shipping HFC-23 for destruction, and a document on cost-effective options for controlling HFC-23 by-product emissions, including the costs of closing HCFC-22 production, would both be considered by the Committee at its eighty-second meeting.

40. Another element needing further discussion was energy efficiency, which the Committee would discuss in the light of the parties' deliberations at the current meeting in relation to the relevant report of the Technology and Economic Assessment Panel. A further element was the disposal of HFCs, for which the Committee had decided to consider issues related to funding the cost-effective management of stockpiles of used or unwanted controlled substances, including through destruction, in the light of the paper on the disposal of ozone-depleting substances that would be discussed at the Committee's eighty-second meeting.

41. Lastly, he said, in relation to the status of HCFC phase-out, that 27 demonstration projects for conversion from HCFCs to low- or zero-GWP technologies had been approved between November 2008 and May 2016, with total funding of \$27 million. Stage I HCFC phase-out management plans had been approved for 144 countries and stage II plans had been approved for 32 countries; total funding for the plans of \$1.36 billion had been approved in principle, of which

\$805.33 million had been disbursed. Over 19,500 ODP-tonnes of HCFCs would be phased out once those plans had been completed, representing 60.5 per cent of the starting point. Most of the foam manufacturing sector and a large portion of the air-conditioning manufacturing sector were being converted, mainly to low-GWP alternatives. All countries were addressing the refrigeration servicing sector. One phase-out plan for HCFC production had been approved, accounting for about 95 per cent of total HCFC production in Article 5 parties.

42. During the ensuing discussion, many of those who spoke expressed appreciation for the comprehensive presentation by the Chief Officer of the Multilateral Fund, and commended the progress achieved thus far by the Executive Committee of the Multilateral Fund in the development of guidelines for financing the phase-down of HFCs.

43. Several representatives sought clarification of how the financing modalities would actually function. One representative, referring to the decision taken at the eighty-first meeting of the Executive Committee that the regular contributions to the Multilateral Fund were to be used in the event that no more funding under the additional voluntary contributions was available to fund enabling activities, asked what impact such a use of the regular budget might have on the funding of continuing activities to phase out HCFCs. The Chief Officer responded that the issue was carefully considered in relation to the business plan of the Multilateral Fund, and that priority was given in the disbursement of the regular budget to those activities that enabled Article 5 parties to comply with their obligations under the Montreal Protocol.

44. Referring to the timing and sequence of activities and funding under the Kigali Amendment, one representative asked whether countries that had ratified the Amendment could submit requests for funding for the implementation of phase-down projects in parallel with any enabling activities they were continuing to undertake, or whether they had to wait for the completion of the enabling activities before submitting such requests. Another representative sought clarification of the relationship between the timing of funding of national implementation plans and the date of ratification of the Kigali Amendment. Yet another drew attention to the problems faced by countries that wanted to access funding for activities under the Kigali Amendment but were encountering delays in their internal government processes for ratification. The Chair of the Executive Committee responded that those matters were on the agenda for discussion at the eighty-second meeting of the Committee. In response to a query about opportunities for parties to further review progress made and to provide inputs through their regional representatives on the Executive Committee, the Chair of the Executive Committee said that it was normal procedure for the members of the Committee to reflect the views of the regions they represented during discussions of key issues.

45. A number of representatives stressed the need for the Executive Committee to maintain or accelerate its progress in developing the guidelines. One representative highlighted the urgency of undertaking assessments of those phase-down projects that were currently under way in order to assist industry in its future planning; those assessments should take account of current HFC use and future trends, as well as the actual situation in developing countries. One representative highlighted the importance of cost-effectiveness when considering both HCFC phase-out and HFC phase-down in the servicing sector and in the commercial and domestic air-conditioning sectors. Another representative expressed concern that the guidance on energy efficiency had yet to be completed, given that investment projects were already under way in a number of countries. One representative, speaking on behalf of a group of countries, said that while the information papers prepared by the Fund Secretariat had been of great assistance in developing the guidelines, a number of outstanding issues remained, to be resolved at forthcoming meetings of the Executive Committee.

46. A number of representatives reflected on the current progress made in relation to the overall scale and schedule of the task envisaged, from the adoption of decision XXVIII/2 in October 2016 to the finalization of the financing guidelines within two years of the adoption of the Kigali Amendment. There was general agreement that the progress to date had been encouraging, and that the Executive Committee needed to be given the time to develop the most appropriate and effective guidelines possible, although some representatives said that firmer guidance was required on the actual time frame. Another representative said that data derived from stand-alone investment projects would be helpful in finalizing the guidance on incremental costs; the Executive Committee should therefore be afforded the time needed to work through complex material and gather the required information, taking account of the fact that for most countries the freeze did not start until 2025 or later.

47. One representative said that the guidelines, once developed, would for many years provide the parameters for financing HFC phase-down activities in all Article 5 parties, and it was thus important to proceed carefully. Missing information needed to be provided, especially on the costs of adopting HFC alternative technologies in different Article 5 parties and in different regions. Once that information was available, the guidelines would be developed through a process of negotiation between the members of the Executive Committee, who represented wider geographical regions. With respect to the timing of HFC-related activities, he recalled that the finalization of the guidelines on HCFCs had not been a condition for starting to approve projects, and the evolution of HFC phase-down under the Kigali Amendment had been similar, with a number of enabling activities and stand-alone projects already being implemented. Project funding could therefore operate in parallel with the development of the guidelines, at least in the early years of control measures.

48. One representative placed high priority on an iterative dialogue between the Executive Committee and the meeting of the parties in the development of the guidelines. The input of the parties was vital in helping the Executive Committee to fill gaps and resolve the outstanding issues, and it behove the Executive Committee to report in detail to future meetings of the parties on the progress made and to seek advice on the way forward. Wide consultation was required in view of the complexity of the task and the multiple alternatives to HFCs that were under consideration. It was therefore important that the parties acted in accordance with the paragraph in decision XXVIII/2 requesting the Chair of the Executive Committee to report back to the Meeting of the Parties on the progress made, as well making their views known through the regional constituencies of the Executive Committee members.

49. One representative said that the present process was similar to that encountered previously when parties had decided to phase out or phase down new groups of substances, and lessons could be drawn from previous experiences of implementing projects involving transitions to various technologies, especially in the case of countries with larger consumption patterns. The progress made thus far in developing the guidelines had been reassuring, and the additional contributions had enabled Article 5 parties to take early action on enabling activities and stand-alone investment projects, with further projects under consideration at the eighty-second meeting of the Executive Committee. The results of those investment projects, and the work on HFC-23 by-product production, would help the Executive Committee as it continued its discussions on the issue. It was vital to support the role of the Executive Committee in developing the guidelines, in accordance with the mandate provided by decision XXVIII/2, taking account of the expertise of its members and its complementary and enabling rules and procedures. In addition, the annual report of the Chair of the Executive Committee to the meeting of the parties provided an opportunity to ensure that the parties were fully informed of the progress made by the Committee in developing the guidelines.

50. Subsequently, the representative of India introduced a draft decision on the matter, set out in a conference room paper, which had been submitted by Argentina, Bahrain, Brazil, India, Lebanon and Saudi Arabia. The draft decision sought to ensure that, in continuing its work to develop the guidelines for financing the phase-down of HFC consumption and production, the Executive Committee of the Multilateral Fund would provide detailed progress reports on the guidelines to the meeting of the parties and enable parties to provide input to the guidelines prior to finalizing them.

51. In the ensuing discussion, many representatives expressed support for the proposed draft decision and stressed the importance of ensuring that the process of developing the guidelines was open and transparent and enabled all parties, in particular those that were not members of the Executive Committee, to provide input into the process, with two expressing the hope that the Executive Committee would consider the suggestions and concerns of all parties and accelerate progress towards the finalization of the guidelines. Several other representatives requested additional time to review the proposed draft decision, with one seeking clarification of whether the intention was to enable all the parties, including those that were members of the Executive Committee and were involved in drafting the guidelines, to provide inputs into the drafting process.

52. [to be completed]

Decision XXX/4: Progress by the Executive Committee of the Multilateral Fund in the development of guidelines for financing the phase-down of hydrofluorocarbons

Recalling decision XXVIII/2, whereby, *inter alia*, the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol was requested to develop, within two years of the adoption of the Kigali Amendment, guidelines for financing the phase-down of hydrofluorocarbon consumption and production, including cost-effectiveness thresholds, and to present those guidelines to the Meeting of the Parties for the parties' views and input before their finalization by the Executive Committee,

Noting that the Chair of the Executive Committee presented to the Thirtieth Meeting of Parties a report by the Executive Committee of the Multilateral Fund on progress in the development of guidelines for financing the phase-down of hydrofluorocarbons,

Recognizing that draft guidelines for financing the phase-down of hydrofluorocarbon consumption and production were presented to the Thirtieth Meeting of the Parties for parties' views and inputs,

1. To request the Executive Committee of the Multilateral Fund to continue its work on developing guidelines for financing the phase-down of hydrofluorocarbon consumption and production, and provide an update on progress on the elements as part of the annual report of the Executive Committee to the Meeting of the Parties;

2. To request the Executive Committee of the Multilateral Fund to present the draft guidelines developed to the Meeting of the Parties for the parties' views and input before their finalization by the Executive Committee.”