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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-sixth Meeting
Montreal, 2-6 November 2020
Postponed to 8-12 March 2021¹

Addendum

REPORTS ON PROJECTS WITH SPECIFIC REPORTING REQUIREMENTS

1. At the intersessional approval process for the 86th meeting (IAP-86), the Executive Committee decided *inter alia* to approve in principle stage II of the HCFC phase-out management plan (HPMP) for Sri Lanka for the period from 2020 to 2030 for the complete phase-out of HCFC consumption, and to request UNDP to submit the revised verification report on the HCFC consumption for Sri Lanka for 2016 to 2019 to the Secretariat no later than 15 January 2021.²
2. This addendum is issued to include the aforementioned report submitted by UNDP in response to the decision.

Sri Lanka: Report on the verification of HCFC consumption (UNDP/UNEP)

Background

3. At the intersessional approval process for the 85th meeting, the Executive Committee approved the fourth and final tranche of stage I of the HPMP for Sri Lanka, *inter alia* on the understanding that UNDP had committed to submitting the verification report no later than 12 weeks prior to the 86th meeting; subsequently, UNDP submitted the verification report on 22 August 2020.
4. The report confirmed that the Government is implementing a licensing and quota system for HCFC imports and exports. However, the report noted additional consumption of 40.77 metric tonnes (mt) in 2016 and 2.15 mt in 2017 as compared to the consumption reported under Article 7 of the Montreal Protocol; it also noted that 22.9 mt, that had an import license issued in 2017 but arrived into the country in January 2018, were reported as consumption in 2017. The verifier indicated that an analysis of the physical records in Customs and other sources to determine the actual consumption for those years could not be done prior

¹ Due to coronavirus disease (COVID-19)

² Paragraph 184 of UNEP/OzL.Pro/ExCom/86/IAP/3

to the submission of stage II of the HPMP because of the lockdowns caused by the COVID-19 pandemic.³ In order to allow the Government of Sri Lanka and UNDP to complete this review, the Secretariat requested that an updated verification report be submitted no later than 15 January 2021 to enable the consideration of stage II of the HPMP at the postponed 86th meeting scheduled in March 2021.⁴

5. During the IAP-86, one member requested additional information on the submission of the updated verification report, based on which the member recognised the urgent need for providing further assistance to avoid disruption in implementation of further activities and revised the recommendation. The Executive Committee subsequently *inter alia* approved in principle stage II of the HPMP for Sri Lanka, and its first tranche on the understanding that the approved funds would not be transferred to UNDP and UNEP until the Secretariat had reviewed the revised verification report of HCFC consumption for 2016 to 2019 and confirmed that the Government of Sri Lanka was in compliance with the Montreal Protocol and the Agreement between the Government and the Executive Committee for stage I of the HPMP, and in the event of non-compliance, relevant actions would be taken by the Executive Committee at its postponed 86th meeting.⁵

Updated verification report

6. UNDP submitted the updated verification report confirming the import figures for the period 2016-2019 as shown in Table 1.

Table 1. HCFC consumption in Sri Lanka (ODP tonnes)

Year	Country programme report	Article 7	Maximum allowable consumption	Verified consumption
2016	10.54	10.54	12.51	12.74
2017	8.85	8.85	12.51	9.04
2018	9.84	9.84	12.51	9.84
2019	9.91	9.91	12.51	9.91

7. It was noted that the data submitted under the CP implementation report and under Article 7 of the Montreal Protocol were not consistent with the verified consumption for 2016 and 2017. As reported, there were irregular consignments of HCFC-22 in 2016 and 2017 by a registered importer and a non-registered importer. These imports were allowed into the country by the Customs authorities, but without the proper licences. The verification determined that the actual imports in 2016 (12.74 ODP tonnes) were higher than the Montreal Protocol target and the maximum allowable consumption set in the Agreement between the Government of Sri Lanka and the Executive Committee (12.51 ODP tonnes) by 0.23 ODP tonnes (4.18 mt). The verification also confirmed the compliance of the country's HCFC consumption with its targets under the Montreal Protocol and set in the Agreement for 2017 to 2019 and the effective implementation of the HCFC licensing and quota system in the country. The report included several recommendations to strengthen the licensing and quota system,⁶ which UNDP confirmed the country would implement during stage II of the HPMP. UNDP further confirmed that the Government of Sri Lanka has initiated actions to revise the CP and Article 7 data for 2016 and 2017 in accordance with the verified consumption.

³ Paragraph 7 of UNEP/OzL.Pro/ExCom/86/74

⁴ Paragraph 30 of UNEP/OzL.Pro/ExCom/86/74

⁵ Paragraphs 183 and 184 of UNEP/OzL.Pro/ExCom/86/IAP/3

⁶ Strengthened coordination and information exchange between the national ozone unit (NOU), Department of Import and Export Control (DIEC) and Sri Lanka Customs (SLC) for effective implementation of the licensing and quota system; changes in the format for the application and authorization of ODS imports; more vigilance on possible illegitimate supplies of HCFCs camouflaged through false labelling as HFCs and wrong customs code declarations; and improving the risk analysis criteria by Customs. These recommendations were also included in paragraph 8 of UNEP/OzL.Pro/ExCom/86/31

Secretariat's comments

8. The Secretariat discussed the findings of the verification report with UNDP and subsequently received an official communication from the Government of Sri Lanka recognizing and expressing regret about this unexpected situation, and indicating that legal actions have already been made against the relevant company under the Sri Lanka Customs Ordinance, and that other internal investigations were underway at Sri Lanka Customs for necessary actions. The Government also indicated its commitment to ensuring that these malpractices in imports do not recur in the future by strengthening the reporting mechanism between the national ozone unit (NOU) and the Customs Authorities and appropriate enforcement adjustments as recommended in the verification report. Furthermore, since 2018, a strong monitoring system has been established, and an online licensing and reporting system will be put in place as part of stage II of the HPMP. This is expected to avoid occurrences of imports without licenses.

9. With the verified import of 12.74 ODP tonnes for 2016, and given the country's maximum allowable consumption of 12.51 ODP tonnes for that year, Sri Lanka exceeded the target under the Montreal Protocol and the maximum allowable consumption set in its Agreement with the Executive Committee by 0.23 ODP tonnes (4.18 mt). In accordance with the penalty clause as stipulated in Appendix 7-A of the Agreement for stage I of the HPMP,⁷ the amount of funding provided may be reduced by US \$2,500 per metric tonne beyond the maximum allowable level, resulting in a penalty of US \$10,450, plus agency support costs.

10. Following the above, the Secretariat noted that the Government of Sri Lanka has set up the framework to strengthen their licensing system in order to address potential issues of illegal trade of controlled substances. These specific actions to enhance their enforcement mechanisms demonstrate the Government's commitment beyond the HPMP to ensure compliance with the control measures of the Montreal Protocol and the Agreement with the Executive Committee, and should be taken into account when deciding the penalty to be applied for the country. UNDP has also informed the Secretariat that the country has initiated a request to the Ozone Secretariat to revise the Article 7 data submitted for 2016 and 2017.

11. In response to the condition of approval of the first tranche of stage II of the HPMP, the Secretariat has not sent instructions to the Treasurer to release the withheld funding amounting to US \$458,238, consisting of US \$216,200, plus agency support costs of US \$15,134 for UNDP, and US \$200,800, plus agency support costs of US \$26,104 for UNEP, pending relevant actions by Executive Committee at the postponed 86th meeting.

Recommendation

8. The Executive Committee may wish:

- (a) To note the updated verification report on HCFC consumption for 2016 to 2019 for Sri Lanka, submitted by UNDP and contained in document UNEP/OzL.Pro/ExCom/86/21/Add.2;
- (b) To further note:
 - (i) That the Government of Sri Lanka had initiated actions to revise its country programme and Article 7 data reports for 2016 and 2017 in accordance with the

⁷ In accordance with paragraph 11 of the Agreement, the amount of funding provided may be reduced by US \$2,500 per metric tonne of consumption beyond the level defined in row 1.2 of Appendix 2-A for each year in which the target specified in row 1.2 of Appendix 2-A has not been met (APPENDIX 7-A, UNEP/OzL.Pro/ExCom/62/62 Annex XXI).

verified consumption;

- (ii) With concern that the HCFC consumption in 2016 in Sri Lanka exceeded the target under the Montreal Protocol and the maximum allowable consumption set in the Agreement between the Government of Sri Lanka and the Executive Committee for that year by 0.23 ODP tonnes (4.18 metric tonnes);
 - (iii) That the Government of Sri Lanka has undertaken the necessary steps to return to compliance as noted in the verified consumption for the following years of 2017 to 2019 showing that the country was in compliance;
 - (iv) That the Government was committed to ensuring that the malpractices in imports do not recur in the future by strengthening the reporting mechanism between the national ozone unit and the Customs Authorities and appropriate enforcement adjustments;
- (c) Whether to apply a reduction in funding as per paragraph 11 and Appendix 7-A of the Agreement between the Government of Sri Lanka and the Executive Committee for stage I of the HCFC phase-out management plan (HPMP), calculated at US \$2,500 for each metric tonne of HCFC consumption over the maximum allowable consumption limit, resulting in a penalty of up to US \$10,450, plus agency costs, to the first tranche of stage II of the HPMP;
- (d) To request the Treasurer to release the withheld funding approved for the first tranche of stage II of the HPMP for Sri Lanka in the amount of US \$458,238, consisting of US \$216,200, plus agency support costs of US \$15,134 for UNDP, and US \$200,800, plus agency support costs of US \$26,104 for UNEP.