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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-second Meeting  
Montreal, 29 November - 3 December 2010

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

1. The Production Sector Sub-group was reconvened at the 62<sup>nd</sup> Meeting of the Executive Committee. The Sub-group consisted of Canada, Colombia, India, Switzerland, and the United States of America. Representatives from UNDP, UNEP, UNIDO and the World Bank were also present as observers. Mr. Philippe Chemouny was the convenor.

#### **Agenda item 1: Adoption of Agenda**

2. The Sub-group considered the draft agenda proposed by the Secretariat. A copy of the agenda is found in Annex I.

#### **Agenda item 2: Organization of work**

3. The Meeting agreed to address initially agenda item 5, Work to-date on remaining elements of a final decision with respect to the HCFC production sector, but also to leave time to address the other substantive items in agenda items 3 and 4.

#### **Agenda item 3: Request for replenishing the sub-account for the technical audits of the ODS Production Sector**

4. The Chief Officer presented the Secretariat's request to replenish the sub-account for production sector audits. During the discussion, it was noted that the terms of reference for the technical audits had been approved, and with the authorization to proceed with the audit, the Secretariat would prepare a bid package for UNEP Nairobi's contract office to process. The Meeting agreed to replenish the sub-account for production sector technical audits with the understanding that any funds not used for technical audits would be returned to the Fund for reprogramming.

#### **Agenda item 4: Request for authorization to carry out the technical audit of the HCFC Production Sector in China**

5. The Sub-group explored the possibility of addressing only those facilities that would be included in China's initial funding proposals suggesting that other facilities might be addressed in the future. Representatives of China were asked to explain their vision of the production sector phase-out. They indicated that they expected some production facility closure, but mainly the use of tradable quota permits for both the domestic and export markets. It was suggested that technical audits may not be needed initially for the HCFC producers involved in HCFC production for feedstock use only. It was agreed that detailed technical audits may not be needed for all plants, particularly those producing for feedstock only and that this should be taken into account in this requests for proposals for technical audits. The Meeting agreed to authorize the Secretariat to initiate the process for a contract for the technical audit of the HCFC production sector in China.

#### **Agenda item 5: Work to-date on remaining elements of a final decision with respect to the HCFC production sector**

6. The Meeting agreed to consider the guidelines for the HCFC production sector following a brief presentation of the Secretariat on the work done to-date. The Sub-group began to address the recommendations that had been agreed in principle at previous Meetings. In respect the recommendation to adopt elements of decision 19/36 for the HCFC production sector, the Sub-group focused on paragraph (a)(vii) which states that "the environmental clean-up of the ODS-producing facility should not constitute

an incremental cost.” It was recognized that due diligence should be exercised with respect to any future land use of closed production facilities and that World Bank grant agreements required this. However, it was also recognized that such clean-up costs should not be included in calculating the funding of HCFC production phase-out. At the same time, the Sub-group was of the opinion that countries may wish to use the flexibility clause of agreements to fund clean-up on the understanding that any such use of funding approved in principle in agreements would be identified in annual work programme requests in advance of using the funds for a non-incremental cost.

#### **Agenda item 6: Other matters**

7. There were no issues addressed under this agenda item.

#### **Recommendations**

8. In light of the discussion above, the Production Sector Sub-group recommends that the Executive Committee considers:

- (a) Noting:
  - (i) The preliminary data on the HCFC producing plants submitted by the World Bank on behalf of the Government of China;
  - (ii) The Sub-group's agreement in principle with respect to adopting the practices and procedures laid out in paragraphs (a) to (d) of decision 19/36 of the Executive Committee for the HCFC production sector while replacing paragraph (a)(vii) with “the environmental clean-up of the ODS-producing facility should not be included in calculating the funding of HCFC production sector phase-out; however, it should be done in an environmentally responsible manner”.
- (b) Replenishing the sub-account for technical audits to cover technical audits of the HCFC production sector with the understanding that any funds not used for technical audits would be returned to the Multilateral Fund; and
- (c) Authorizing the Fund Secretariat to initiate the process for a contract for the technical audit of the HCFC production sector in China taking into account that detailed technical audits may not be required for all plants.

**Annex I**

**AGENDA**

1. Adoption of the agenda.
2. Organization of work.
3. Request for replenishing the sub-account for the technical audits of the ODS Production Sector, document UNEP/OzL.Pro/ExCom/62/SGP/2.
4. Request for authorization to carry out the technical audit of the HCFC Production Sector in China, document UNEP/OzL.Pro/ExCom/62/SGP/3.
5. Work to-date on remaining elements of a final decision with respect to the HCFC production sector, document UNEP/OzL.Pro/ExCom/62/SGP/4.
6. Other matters.
7. Adoption of the report.
8. Closure.