



**United Nations  
Environment  
Programme**



Distr.  
GENERAL

UNEP/OzL.Pro/ExCom/74/50  
15 April 2015

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Seventy-fourth Meeting  
Montreal, 18-22 May 2015

**DRAFT CRITERIA FOR FUNDING HCFC PHASE-OUT IN THE CONSUMPTION SECTOR  
FOR STAGE II OF HCFC PHASE-OUT MANAGEMENT PLANS (DECISION 73/64)**

**Background**

1. Based on the criteria for funding HCFC phase-out in the consumption sector adopted in decision 60/44<sup>1</sup>, the Executive Committee has approved stage I of HCFC phase-out management plans (HPMPs) for 140 Article 5 countries<sup>2</sup> (out of 145 countries<sup>3</sup>) and the approval of stage II of an HPMP for one country.

2. In line with decision 60/44<sup>4</sup>, the Executive Committee had discussed the criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs since its 70<sup>th</sup> meeting based on documents submitted between the 70<sup>th</sup> and 73<sup>rd</sup> meetings listed in Table 1.

**Table 1. Policy documents on the criteria for funding HCFC phase-out adopted by decision 60/44**

Meeting (date)	Document title (number)	Decision
70 <sup>th</sup> (July 2013)	Criteria for funding HCFC phase-out in the consumption sector adopted by decision 60/44 (decisions 69/22(b) and 69/24(d)) (UNEP/OzL.Pro/ExCom/70/52)	70/21
71 <sup>st</sup> (November 2013)	Criteria for funding HCFC phase-out in the consumption sector adopted by decision 60/44 (decisions 69/22(b), 69/24(d) and 70/21(c)) (UNEP/OzL.Pro/ExCom/71/57)	

<sup>1</sup> The criteria covered the determination of the cut-off date for installation of HCFC-based manufacturing equipment, the starting point for aggregate reductions in HCFC consumption, second-stage conversions, and eligible incremental costs of HCFC phase-out projects.

<sup>2</sup> Implementation of the approved HPMPs will result in the phase-out of 8,464 ODP tonnes of HCFCs (equivalent to 25.6 per cent of the starting point) and over 290 ODP tonnes of HCFC-141b contained in imported pre-blended polyols (i.e., consumption not reported under Article 7 of the Montreal Protocol).

<sup>3</sup> The Article 5 countries with an outstanding HPMP are: Botswana, Libya, Mauritania, South Sudan and Syrian Arab Republic. The HPMPs for the Syrian Arab Republic was submitted to the 68<sup>th</sup> meeting but deferred.

<sup>4</sup> Decision 60/44 explicitly included a review of the criteria on second-stage conversions “no earlier than the last meeting in 2013”, and of eligible incremental costs for HCFC phase-out projects “in 2013”. However, at the 69<sup>th</sup> meeting (April 2013) the Secretariat was requested to prepare an information document for the 70<sup>th</sup> meeting on this matter (decision 69/24(d)).

Meeting (date)	Document title (number)	Decision
72 <sup>nd</sup> (May 2014)	Criteria for funding HCFC phase-out in the consumption sector for stage II of HCFC phase-out management plans (decision 70/21(d)) (UNEP/OzL.Pro/ExCom/72/39)	72/39
73 <sup>rd</sup> (November 2014)	Draft criteria for funding HCFC phase-out in the consumption sector for stage II of HCFC phase-out management plans (decision 72/39) (UNEP/OzL.Pro/ExCom/73/53)	73/64

#### Summary of the discussion at the 73<sup>rd</sup> meeting

3. Pursuant to decision 72/39, at its 73<sup>rd</sup> meeting the Executive Committee discussed a document containing: an analysis of information submitted by members of the Executive Committee<sup>5</sup>, by topic<sup>6</sup>; a further analysis of information as requested by some members; and the Secretariat's observations for each topic analysed, where relevant. The document also presented the draft criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs, updated with the additional information submitted by members.

4. Following the presentation of the document, several issues were raised by members, including the low level of funding for stage II of HPMPs; the need to have specific funding criteria relevant for stage II of HPMPs, as the situation had evolved and was different from the time when the criteria for stage I were adopted; the need to address the cost of conversion in small and medium-sized enterprises (SMEs); the accessibility of alternative technologies; and the task of seeking to benefit both the ozone layer and the climate simultaneously, pursuant to decision XIX/6.

5. The meeting then agreed to convene a contact group to further discuss the draft criteria for funding stage II of HPMPs. Reporting on the deliberations in the contact group, the facilitator explained that there had been robust discussion and many proposals put forward, including, but not limited to: the efforts required from SMEs; the level of funding for incremental operating costs; the fact that the cost-effectiveness of projects approved to date were at or below the cost-effectiveness thresholds; the cut-off date for eligibility; the date of last conversion; the level of increase in funding required to facilitate the introduction of low-global warming potential (GWP) alternatives; and the level of funding required for the refrigeration servicing sector in low-volume-consuming countries, with a number of participants saying that more funding was required. There was also a prevailing view that all or most of the criteria for stage I were sufficient for stage II, as they had been the result of long negotiations and compromise. The facilitator further reported that there had not been sufficient agreement to be able to adopt the criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs at the 73<sup>rd</sup> meeting.

6. Following the presentation of the facilitator of the contact group, one member stated that it was unfortunate that the guidelines had not been finalized at the 73<sup>rd</sup> meeting. He explained that many Article 5 countries were awaiting the new guidelines in order to be able to propose projects consistent with those guidelines as quickly as possible. He also said that a great deal of information had been exchanged, and that the document to be used for discussion at the 74<sup>th</sup> meeting should reflect the information provided at the 73<sup>rd</sup> meeting. On this basis, it was decided to continue consideration of the draft criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs at its 74<sup>th</sup> meeting (decision 73/64).

<sup>5</sup> In decision 72/39 the Executive Committee *inter alia* invited members to submit to the Secretariat, by 30 June 2014, any additional information they considered necessary to complete that contained in document UNEP/OzL.Pro/ExCom/72/39. Information was received from Australia, China, Japan, Uruguay and the United States of America.

<sup>6</sup> The topics included in the document were: cut-off date, second stage conversions, accelerated phase-out of HCFCs, cost-effectiveness and incremental operating costs, deployment of new emerging technologies and refrigeration and air conditioning servicing sector.

## Draft updated criteria for funding for stage II of HPMPs

7. To facilitate the discussions at the 74<sup>th</sup> meeting, the Secretariat has presented below the criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs, removing the text that is no longer relevant for stage II of HPMPs and including the various proposals presented by members of the Executive Committee for which a consensus had not been reached (text in square brackets). The Executive Committee may wish to continue its deliberations at the 74<sup>th</sup> meeting based on the criteria as set out below:

### *Cut-off date*

- (a) Not to consider any projects to convert HCFC-based manufacturing capacity installed after 21 September 2007 [1 October 2009];

### *Second-stage conversion*

- (b) To apply the following principles in regard to second-stage conversion projects:
  - (i) Full funding of eligible incremental costs of second-stage conversion projects will be considered in those cases where an Article 5 Party clearly demonstrates in its HPMP that such projects are necessary to comply with the Montreal Protocol HCFC targets up to and including the [35.0/67.5] per cent reduction step by [1 January 2020/2025] and/or are the most cost-effective projects measured in ODP tonnes that the Party concerned can undertake in the manufacturing sector in order to comply with these targets;
  - (ii) Funding for all other second-stage conversion projects not covered under paragraph (b)(i) above will be limited to funding for installation, trials, and training associated with those projects;

### *Eligible incremental costs of HCFC phase-out projects*

- (c) To apply the following principles in regard to eligible incremental costs of HCFC phase-out projects to achieve the 2020, [2025 and 2040 (complete phase-out)] HCFC phase-out compliance target[s], subject to a review in 2018:
  - (i) [The current cost-effectiveness threshold values used for CFC phase-out projects in paragraph 32 of the final report of the 16<sup>th</sup> meeting of the Executive Committee (document UNEP/OzL.Pro/ExCom/16/20), to be measured in metric kilograms, and a cost-effectiveness threshold of [US \$7.83/10.96]/metric kilogram for rigid insulation refrigeration foam, shall be used as guidelines during the development and implementation of the second and subsequent stages of HPMPs];
  - (ii) [Article 5 countries will have the flexibility to allocate the approved funding from incremental operating costs to incremental capital costs and to allocate [up to 20 per cent of] the approved funding for incremental capital costs to incremental operating costs, as long as the use of the flexibility does not change the intent of the project [and technology selected] [and the option selected is low-global warming potential (GWP)]. Any reallocation should be reported to the Executive Committee;]

- (iii) Funding of up to a maximum of [25/35] per cent above the cost effectiveness threshold will be provided for projects when needed for the introduction of low-GWP alternatives;

*HCFC phase-out in the foam sector*

- (iv) Incremental operating costs for projects in the polyurethane foam sector will be considered at [US \$1.60/between US \$3.89 and US \$6.06/] metric kilogram for HCFC-141b and in the extruded polystyrene foam sector at [US \$1.40/metric kilogram] for HCFC-142b, HCFC-142b/HCFC-22, or HCFC-22, consumption to be phased out at the manufacturing enterprise;
- (v) For group projects linked to systems houses, incremental operating costs will be calculated on the basis of the total HCFC consumption to be phased out for all downstream foam enterprises;
- (vi) [The Executive Committee will consider, on a case-by-case basis, funding higher levels of incremental operating costs than indicated in paragraph (c)(iv) above when required for the introduction of low-GWP technology other than hydrocarbon-based technologies;]

*HCFC phase-out in the refrigeration and air-conditioning manufacturing sector*

- (vii) Incremental operating costs for projects in the air conditioning sub-sector will be considered at [US \$6.30/8.82]/metric kilogram of HCFC consumption to be phased out at the manufacturing enterprise;
- (viii) Incremental operating costs for projects in the commercial refrigeration sub-sector will be considered at [US \$3.80/5.32]/metric kilogram of HCFC consumption to be phased out at the manufacturing enterprise;
- (ix) Consistent with decision 31/45 of the Executive Committee, incremental operating costs will not be considered for enterprises categorized under the refrigeration equipment assembly, installation and charging sub-sector;

*HCFC phase-out in the refrigeration servicing sector*

- (x) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes, and former low-volume-consuming (LVC) Article 5 countries with HCFC consumption in the refrigeration servicing sector only that was above 360 metric tonnes, must include in their HPMP, as a minimum:
  - a. A commitment to meeting, without further requests for funding, at least the 35 per cent reduction step in 2020, and if the country so decides, the 67.5 per cent reduction step in 2025 or the complete phase-out of HCFCs [in line or] ahead of the Montreal Protocol schedule. This shall include a commitment by the country to restrict imports of HCFC-based equipment if necessary to achieve compliance with the reduction steps and to support relevant phase-out activities;
  - b. Mandatory reporting, by the time funding tranches for the HPMP are requested, on the implementation of activities undertaken in the refrigeration servicing sector and in the manufacturing sector when

applicable, in the previous year, as well as a thorough and comprehensive annual work plan for the implementation of the activities associated with the next tranche;

- c. A description of the roles and responsibilities of major stakeholders, as well as the lead implementing agency and the cooperating agencies, where applicable;
- (xi) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes will be provided funding consistent with the level of consumption in the refrigeration servicing sector as shown in the table below, on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve the 2020 and 2025 phase-out targets, [or if the country so decides, later reduction targets]:

[

Consumption (mt)*	Funding (US\$)(**)		
	Up to 2020	Up to 2025	Total phase-out
>0 <15	164,500	317,250	470,000
15 <40	210,000	405,000	600,000
40 <80	280,000	540,000	800,000
80 <120	315,000	607,500	900,000
120 <160	332,500	641,250	950,000
160 <200	350,000	675,000	1,000,000
200 <320	560,000	1,080,000	1,600,000
320 <360	630,000	1,215,000	1,800,000

(\*) Level of HCFC baseline consumption in the refrigeration servicing sector

(\*\*) This represents the maximum funding eligible including funding already provided]

- (xii) Article 5 countries with HCFC consumption in the refrigeration servicing sector only above 360 metric tonnes will be provided funding for phase-out activities at [US \$4.50/6.00/6.30]/metric kilogram;
- (xiii) Article 5 countries that have total HCFC consumption [in the servicing sector only] [of up to 360 metric tonnes] will have flexibility in utilizing the resources available to address specific needs that might arise during project implementation to facilitate the smoothest possible phase-out of HCFCs, [consistent with Executive Committee decisions];
- (xiv) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes, used in both the manufacturing and refrigeration servicing sectors, could submit HCFC phase-out investment projects in accordance with [prevailing] policies and decisions of the Multilateral Fund, in addition to funding for addressing HCFC consumption in the servicing sector;
- (xv) Article 5 countries that have total HCFC consumption above 360 metric tonnes [used in both the manufacturing and refrigeration servicing sectors] [should first address consumption in the manufacturing sector to meet the reduction steps in 2020. However, if such countries clearly demonstrate] that they require assistance in the refrigeration servicing sector to comply with these targets, funding for these activities will be calculated at [US \$4.50/6.00/6.30]/metric kilogram, which will be deducted from their starting point for aggregate reductions in HCFC consumption;

*HCFC phase-out in the aerosol, fire extinguisher and solvent sectors*

- (xvi) The eligibility of incremental capital and operating costs for HCFC phase-out projects in the aerosol, fire extinguisher and solvent sectors will be considered on a case-by-case basis.

-----