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

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

**Introduction**

1. The Production Sector Sub-group was reconstituted at the 74<sup>th</sup> meeting of the Executive Committee. The Sub-group consisted of the representatives of Australia, Bahrain, Brazil, Egypt, Grenada, India, Italy, Japan, Sweden, and the United States of America, with Australia acting as facilitator. Representatives of UNIDO and 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/74/SGP/1 and agreed to discuss the issue of project preparation for stage II of the HCFC production phase-out management plan (HPPMP) for China under agenda item 4 “HCFC production phase-out management plan (HPPMP) for China”.

**Agenda item 2: Organization of work**

3. The Sub-group agreed to commence its work by addressing agenda item 4 “HCFC production phase-out management plan (HPPMP) for China” and to address agenda item 3, “Draft HCFC production sector guidelines” after agenda item 6, “Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in Mexico”.

**Agenda item 3: Draft HCFC production sector guidelines**

4. Due to a lack of time it was agreed to postpone further discussion of the guidelines to the next meeting.

**Agenda item 4: HCFC production phase-out management plan (HPPMP) for China**

**(a) Addendum to the HPPMP**

5. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/74/SGP/3 which included comments by the Secretariat on the Addendum to the HPPMP with respect to the need to continue the verification of, and the cost implications for the Jiangxi Yingguang Chemical facility.

6. Clarification was sought on the process of the vertical integration of plants for feedstock use that would preclude production for controlled uses. More information was also sought on the relocation of the Changshu 3F plant and whether any other plants might relocate as well. The Changshu 3F plant would have the same production capacity. It was asked what impact that would have on the agreement to change the level of production to be closed or made idle. It was also asked how the issue of the by-products of production was being addressed and how changes in ownership, or in the names of the corporations, would be taken into consideration.

7. A representative of the Secretariat said that if the capacity had not been for feedstock originally then it would need to be made idle or destroyed. Current regulations in China required that those companies established after 2010 had to be vertically integrated to ensure that the HCFCs being produced were only for feedstock use. He also said that the Changshu 3F plant had been relocated in 2010 and that this had been indicated in the technical audit report. That relocation had meant the replacement of several production lines into a single line. The representative of the World Bank explained that it would be necessary to confirm that through the verification of the decommissioning of the plant and that production at the new facility had taken place according to the guidelines.

8. With respect to the effect of changes in ownership and the names of companies, the representative of the World Bank said that changes in names of the companies would be reported using numbers that had been assigned to the companies. Before any contract for closure or reduction was signed, the ownership would be confirmed. He also reported that there was another facility, plant 23 in the Nexant Report, that had temporarily stopped operating and would be reopened once an environmental impact assessment had been completed.

9. Following informal discussions the Production Sector Sub-group recommends that the Executive Committee take note of the Addendum to the HCFC production phase-out management plan (HPPMP) for China as contained in document UNEP/OzL.Pro/ExCom/74/SGP/3.

**(b) 2015 annual tranche and 2014 progress report**

10. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/74/SGP/4 which included comments by the Secretariat on the 2014 progress report and the 2015 annual implementation programme of the HPPMP for China (stage I, third tranche). She made two corrections to the document: the total 2013 verified production had been 26,603 ODP tonnes and not 28,623 ODP tonnes, and the data provided under the production reduction had been based on the final quota for 2014 and not the preliminary data as stated.

11. In response to a question on the total phase-out that had been agreed to and the amount of phase-out implemented, the representative of the Secretariat said that the phase-out was due to quota reduction and plant closure. Additional information on the amount of the phase-out being implemented, broken down by the substances being phased out, was provided to interested members of the Sub-group.

12. In relation to a question on technical assistance activities the representative of the World Bank said that once proposals for activities had been developed the relevant contracts would be awarded. From the operational point of view it was part of the implementation of the contract but additional information

could be requested from the Foreign Economic Cooperative Office of the Ministry of Environmental Protection of China on the scope of the work and the outcomes achieved.

13. In response to a question on the verification of ownership the representative of the Secretariat explained that verification of changes in ownership would require verification at the headquarters of each of the companies concerned and entailed a great deal of additional work. That had not been thought necessary as the World Bank verified the issue of ownership when the contracts of closure or quota reduction were signed.

14. It was also explained that although future plant closures or reductions had no effect on the disbursement of the 2015 tranche of funding, or future tranches of funding, but the verification process of those plant closures or relocations could have an effect on the next tranche of funding. The Addendum clarified the eligibility of such plants but that eligibility could be reviewed when the Executive Committee considered the progress reports, the verification reports, or the request for the next tranche of funding. So far only one plant had been identified as ineligible under the Agreement, a swing plant; and the Government of China had decided not to fund the closure of a foreign owned plant.

15. The representative of the World Bank explained that amount of interest accrued for 2014 included the interest accrued for both the production and the consumption sectors and as that amount of accrued interest could not be separated from those two sectors, he asked whether the entire amount should be deducted from 2015 tranche for the HPPMP for China. He said that the amount in question was only an estimate and the actual amount of accrued interest for the HPPMP would be available in June 2015. The representative of the Secretariat said that it was unfortunate that the interest had been reported jointly for the production and consumption sectors, but the Agreement required that the accrued interest be deducted and therefore the deduction of the estimated amount might be the only way to comply with the Agreement. It was suggested, however, that it might be possible to deduct the accrued interest from the 2016 tranche of funding.

16. The representative of the Secretariat further explained that while it was foreseen that the 2016 tranche of funding would be submitted to the 75<sup>th</sup> meeting, if that did not occur and the tranche was actually submitted during 2016, then the accrued interest for both 2014 and 2015 would be deducted from the next tranche request.

17. In relation to the proposed recommendation seeking clarification of the project management unit costs for the production sector, it was also explained that the Foreign Economic Cooperative Office was authorized to collect the project management unit costs which were then globally pooled to cover operational and management expenses, which was the most efficient and cost-effective way to address project management unit costs. However, that also meant that it could not provide a breakdown of those costs by project.

18. One member observed that while a breakdown of costs was not generally required it seemed that it would be useful in this particular case considering that project management unit costs were on the order of US \$1 million. He asked whether it might be possible for the Foreign Economic Cooperative Office to provide its own internal accounting of the project management unit costs even when that had not been broken down by projects. Another member pointed out, however, that the accounts of the Foreign Economic Cooperative Office of the Ministry of Environmental Protection of China were already reviewed by the national accounting office and met international standards.

19. Following informal discussions the Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the 2014 progress report and the 2015 annual implementation tranche as contained in document UNEP/OzL.Pro/ExCom/74/SGP/4;

- (b) Approve the 2015 tranche of the HCFC production phase-out management plan (HPPMP) for China, and the corresponding 2015 tranche implementation plan, in the amount of US \$24 million, plus agency support costs of US \$1.344 million for the World Bank on the condition that the Treasurer would deduct the interest accrued from the 2014 tranche from the 2016 tranche after the audit report provides the final accounting of interest accrued in 2014;
- (c) Request China, through the World Bank, to provide in future tranche progress reports a detailed description of the activities conducted by the project management unit related to the production sector in the relevant time period and the types and estimates of the costs covered by the project management unit;
- (d) Note that the World Bank would include in its 2014 verification report to be conducted in 2015:
  - (i) The Jiangxi Yingguang Chemical Co. Ltd plant as a one-off verification and report on the production facility, its production of feedstock and whether there had been production of ODS use, and the extent to which the plant had been vertically integrated into downstream product production in order to determine whether the facility is dedicated to feedstock production only; with the understanding that the inclusion of this plant in that verification report does not preclude the eligibility of this plant for compensation with respect to the cut-off date;
  - (ii) The verification that the unused equipment from the previous plant for Changshu 3F had been dismantled and destroyed and report back to the Executive Committee at the time of the submission of the 2016 tranche request so that it might determine whether the relocated plant would maintain its eligibility for funding; and
- (e) Request the Secretariat, based on information from the World Bank, to review the work being carried out related to paragraph 10 of the Agreement and provide its review at the time that the 2015 and 2016 tranche progress reports are presented to the Executive Committee, recognizing the efforts of the Government of China with regard to paragraph 10 of the Agreement between the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol and the Government of China for the phase-out of production of hydrochlorofluorocarbons required by the Montreal Protocol (the Agreement), as contained in Annex XXVI of document UNEP/OzL.Pro/ExCom/72/71.

**(c) China HPPMP project preparation**

20. One member recalled that at its 73<sup>rd</sup> meeting the Executive Committee had decided in decision 73/27(c)(ii)a. to remove project preparation activities from stages I and II of the HPPMPs but also that in decision 73/51, the Executive Committee had agreed that the Sub-group on the Production Sector would consider whether there was a need for funding for preparation for stage II of the HPPMP for China. He asked what activities were being contemplated as part of project preparation for stage II of the HPPMP.

21. The representative of the World Bank said that it would prepare a detailed plan for stage II project preparation for the period 2016 to 2020 and, given the difficulty of planning that far ahead, a tentative plan for the period 2021 to 2030. It was proposed to examine the synergies between the production and consumption sectors to ensure that there was neither an over nor under supply of HCFCs.

That would require consultation with both those countries importing HCFCs from China and stakeholders within the country with regards to both production and consumption. It would also be necessary to update government policies and other operational documents. However, it was not thought that it would be necessary to conduct another survey as much of the information would be available from the verification reports. He said that any project preparation funding would be requested at the 75<sup>th</sup> meeting.

22. It was observed that the production sector was important as China was using controls in the production sector to control the consumption sector and, in order to achieve that, the long-term planning was needed. That would also aid industry in its planning and its preparation for the various bidding processes.

23. One member observed that the discussion had been helpful and had indicated that no new survey was required. He indicated that he expected that the level of funding for project preparation for stage II of the HPPMP should be lower than the amount proposed initially in the business plan at the 73<sup>rd</sup> meeting of the Executive Committee. He also indicated that he would be interested in considering funding for the period beyond 2020 in stage II of the HPPMP. Another member indicated that it might be useful to do that in periods of five years. Although long-term planning was less certain it could demonstrate how paragraph 10 of the Agreement was being addressed in stage II of the HPPMP.

24. The Facilitator then concluded the deliberation on the agenda item.

**Agenda item 5: Format for submission of annual implementation plans and progress reports for an HPPMP**

25. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/74/SGP/5 which provided an update of the draft Format for future submission of annual implementation plans and progress reports for the HPPMP for China.

26. The Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Take note of the Format for submissions of annual implementation plans and progress reports for an HCFC production phase-out management plan (HPPMP), as contained in document UNEP/OzL.Pro/ExCom/74/SGP/5; and
- (b) Request the World Bank to use the Format contained in Annex I of document UNEP/OzL.Pro/ExCom/74/SGP/5 when preparing the submission of the progress reports and tranche implementation plans for the HPPMP for China.

**Agenda item 6: Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in Mexico**

27. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/74/SGP/6 which presented preliminary data and costs estimates for a technical audit of the HCFC production sector in Mexico. While the technical audit budget would be approximately US \$90,000 if the two production lines were audited, the eligibility of the request depended of the CFC agreement and whether the 4,154 metric tonnes of HCFC-22 that were produced at the time of request for funding the CFC production phase-out Agreement, and not included therein, was eligible for funding.

28. One member said that according to her interpretation of the Agreement the technical audit was not eligible for funding. Another member supported that view but asked for additional information on whether the production line producing HCFC-22 remained closed and when it would come back into production, the remaining plant lifetime, and the amount of funding received from the Clean Development Mechanism (CDM). He also asked whether any other compensation had already been

received for the line and, considering that the line had been in production since 1961, whether it had been audited in the past.

29. The representative of UNIDO said that some compensation had been received under the CDM and that the line had produced HCFCs before it had been temporarily closed. It would soon reopen. Although the line did date from 1961 it had been refurbished several times and the last upgrade of the line had taken place in 2007

30. Due to a lack of time it was agreed to postpone further discussion of the Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in Mexico to the next meeting. It was agreed that the next time the sub-group met, it would need to ensure that sufficient time was made available to it to discuss this agenda item.

**Agenda item 7: Other matters.**

31. No other matters were raised by the members of the Sub-group.

**Agenda item 8: Adoption of the report.**

32. The present report was reviewed by the facilitator.

**Agenda item 9: Closure.**

33. The Sub-group on the Production Sector's deliberations closed at 12.40 pm on Thursday 21 May 2015.

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