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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-seventh Meeting
Montreal, 28 November - 2 December 2016

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Production Sector Sub-group continued its deliberations at the 77th meeting of the Executive Committee. The Sub-group consisted of the representatives of Argentina, Austria, Canada, China, Germany, India, Japan, Jordan, Mexico and the United States of America, with Canada continuing to act 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/77/SGP/1.

Agenda item 2: Organization of work

3. The Sub-group agreed to follow the organization of work proposed by the facilitator.

Agenda item 3: HCFC production sector guidelines

4. The Sub-group continued its discussion of the HCFC production sector guidelines (UNEP/OzL.Pro/ExCom/77/SGP/2), which it had previously considered on the margins of the, 64th, 65th, 68th, 69th, 70th, 71st and 76th meetings. The facilitator asked the members to address those paragraphs of the guidelines that remained in square brackets.

5. Following a discussion it was agreed to remove the square brackets from paragraphs (h) and (j), on the understanding that the cut-off date of 21 September 2007 for the establishment of production sector plant capacity eligibility, found in paragraph (j), would not have an effect on the agreed HCFC production phase-out management plan (HPPMP) for China.

6. There was also discussion of the square brackets in paragraph (k) and whether activities in swing plants that had already received CFC closure funding might be eligible for additional support for HCFC production phase-out. It was pointed out that in light of the Kigali Amendment to the Montreal Protocol, it would be important for the Executive Committee to consider balancing the cost-effectiveness of the

phase-out of HCFCs against the phase-out of HFCs. One member suggested that from the perspectives of both the environment and the climate change it made sense to address HFC-23 by closing the facilities producing HCFC-22, including swing plants, as soon as possible.

7. Another member indicated that while there was general agreement that the Kigali Amendment had altered the circumstances, the issue of cost-effectiveness depended on whether the facilities in question were to be closed or not. The plants had already received some compensation and while that did not necessarily preclude further compensation, in light of the new HFC-23 obligation, the issue had to be considered together with the issue of the development of the HFC cost guidelines, and the by-product controls under those guidelines. While other members agreed, some felt that the issue of compensation for swing plants should also continue to be considered under the HCFC production guidelines.

8. The Sub-group on the Production Sector recommends that the Executive Committee continue discussion of the eligibility of swing plants producing HCFC-22 at the next meeting of the Sub-group and consider this issue in the context of its discussions of by-product controls of HFC-23 arising from the Kigali Amendment.

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

(a) 2015 verification report of the HCFC production

9. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/77/SGP/3 which contained the 2015 verification report of the HCFC production sector in China.

10. In response to a query as to whether any of the 13 plants identified in the verification report were producing HCFCs for feedstock uses, the representative of the Secretariat explained that the verification report only covered plants that produced HCFCs for controlled use and that plants that produced HCFCs for feedstock had not been covered in the report.

11. It was also pointed out that the disposal of waste residues containing HCFCs was not limited to selling those residues on the open market; some qualified companies treat the residues and recycle the materials. The representative of the Secretariat explained that the selling of the waste residues was illegal under the national regulations, and one member suggested that the disposal of the waste residue should be in line with both national regulations and best practices.

12. The representative of the World Bank said that it would not be possible to include information on any action taken to address the disposal of waste residues in the 2016 verification report.

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

- (a) Note the verification report of the HCFC production sector for China, considered by the Sub-group on the Production Sector, which indicates that China remained within the maximum allowable production and consumption targets for 2015;
- (b) Request the World Bank:
 - (i) To continue to verify producer's export data through cross-checking with customs export data for individual plant verification;

- (ii) To verify, in the 2016 verification to be conducted in 2017, the closure and dismantling of the HCFC production lines that had signed the contracts for idle capacity closure;
- (c) Encourage the Government of China to ensure that producing enterprises avoid the practice identified in the verification report, of selling waste residues containing HCFCs to the market; and
- (d) Request the World Bank to report to the Executive Committee on the management of waste residues in the context of future verification reports.

(b) 2016 progress report

14. The Sub-group had before it the report on the 2016 progress report for the implementation of the HCFC production phase-out management plan (stage I, fifth tranche) for China (UNEP/OzL.Pro/ExCom/77/SGP/4).

15. In response to a question about the compensation of plants with idle capacity the representative of the Secretariat explained that Zhejiang Yonghe (Teng Xing) Chemical Co. Ltd. had been shut down in 2010 because it had not passed the local environmental assessment. However, its production capacity had been included in the baseline, and the production quota was established on a plant basis rather than by production line. Consequently, the production line might be able to produce again in the future if they could meet the environmental requirements.

16. One member said that production capacity was sometimes greater than the production quota and so therefore, a closure contract might be issued for the same enterprise that continues to receive a production quota. He also explained that the production quotas for 2017 would be the same as those for 2016.

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

- (a) Note the 2016 progress report for the implementation of the HCFC production phase-out management plan (HPPMP) (stage I, fifth tranche) for China considered by the Sub-group on the Production Sector;
- (b) Request the Treasurer to offset future transfers to the World Bank by US \$4,481 representing additional interest accrued by the Government of China up to 31 December 2015 from funds previously transferred to China, and associate the offset of the funds against the first tranche of stage II of the HPPMP for China;
- (c) Request the Government of China, through the World Bank, to submit to the 79th meeting of the Executive Committee:
 - (i) The detailed report on the operation of the project management unit in 2015 as required by decision 74/56(c); and
 - (ii) A report on the progress made and the outcomes achieved in the two technical assistance projects: Research and a study on HFC-23 conversion/pyrolysis technologies and Investigation on reducing HCF-23 by-product ratio using best practices.

Agenda item 5: Other matters

18. No other matters were raised.

Agenda item 6: Adoption of the report

19. The present report was reviewed by the facilitator.

Agenda item 7: Closure

20. The meeting of the Sub-group was closed at 7.20 pm on 30 November 2016.