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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Eighty-third Meeting  
Montreal, 27– 31 May 2019

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

**Introduction**

1. The Sub-group on the Production Sector, as reconstituted at the 83<sup>rd</sup> meeting of the Executive Committee, met three times in the margins of the 83<sup>rd</sup> meeting. The Sub-group consisted of the representatives of Argentina, Canada, China, France, Grenada, Niger, Norway and the United States of America, with Canada acting as facilitator. Representatives of 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/83/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: Review and analysis of aspects of the guidelines and the standard format used for ODS production verification (decision 82/87(d))**

4. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/83/SGP/2 and said that the Secretariat had focused its review and analysis on the application of the guidelines to confirm ODS production levels in identified production facilities. The identification of potential sources of ODS production and monitoring the sustainability of completed projects would be addressed in agenda item 10 of the 83<sup>rd</sup> meeting

5. In response to a query about the destruction of key equipment in production lines that had been closed and whether equipment from closed lines could be utilized or retrofitted to start producing ODS again, it was explained that the guidelines required the destruction of key equipment, namely the reactors and the distillation columns which were required for the production of controlled substances. The

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destruction process was documented with photographic or video evidence and certified by the relevant authority.

6. With regard to the mechanism established for monitoring feedstock uses, it was suggested that the recommendations should include a definition of what constituted a violation of the mechanism to monitor feedstock use and the penalties associated with such a violation. It was also suggested that once the vertical integration of a production line had been verified, and annual verifications ceased, the owners would be required to retain their process records of inputs and outputs, including the purchase and sales data, for at least three years.

7. The representative of the World Bank sought clarification on the inclusion of a procedure for the verification of HFC-23 by-product emission and said that information on HFC-23 by-product was collected by the producers and that the World Bank had no procedure in place for verifying that information. In addition, this was currently not required as there was no HCFC production in countries that had ratified the Kigali Amendment. The representative of the Secretariat said that while the World Bank did not currently verify that information, in several decisions, the Executive Committee requested the World Bank to include information on HFC-23 in the verification report. In light of the Kigali Amendment and the intention of Parties to ratify the Amendment, the data only being provided by producers might not meet the requirements for verification; consequently, it was being suggested that a sound procedure for verification be developed. One member noted that the Secretariat was only being asked to review the guidelines and procedures and submit them to the 84<sup>th</sup> meeting, at which time those issues will be discussed. Another member said that while he understood the desire to include a procedure for the verification of HFC-23, he noted that the treatment of HFC-23 under the Kigali Amendment was different from that of the other ODS covered by the guidelines. HFC-23 was not being phased out but would be destroyed to the extent possible when generated as a by-product of HCFC-22 production and he suggested that it should be the subject of a separate decision and not included in these guidelines.

8. It was also suggested to add a paragraph to reflect that, when an enterprise that had received funding from the Multilateral Fund was identified as having produced a controlled substance beyond the date of the submission of the project completion report, the relevant Government should implement an independent verification of the sectors in which the controlled substance had been produced and used and then report on the results of that verification to the Executive Committee.

9. A query was raised as to whether HCFCs had been meant by the reference to “controlled substances.” It was explained that the guidelines being discussed applied to all controlled substances for controlled uses and not just to HCFCs. Some members said it was not clear whether it was reasonable to require a verification of a whole sector when there had been an isolated case of illegal production, and if there was a quantity of illegal production above which a violation was constituted. It was also asked if the intent of the suggestion was that if there had been illegal production, the Government concerned would need to inspect the companies that had received funding from the Multilateral Fund to ensure that their production facilities had been dismantled.

10. In response to a query on the added paragraph, the member proposing it said that under the agreements the Governments had committed the sustained aggregate reduction of ODS in the projects that had been funded by the Multilateral Fund and consequently the Governments would need to take action to ensure that, either through a verification or an audit of the sector concerned. Members agreed that the Agreements for phase-out entailed an obligation to ensure the compliance of the country; however, the need for an independent sector wide verification or audit by the Government that would be reported to the Executive Committee was unclear. While Governments had committed to sustainable reductions, it was the understanding of some of the members that once the Agreements had ended there was no further obligation to report to the Executive Committee.

11. At the close of the discussions, one member suggested changes to some of the paragraphs that had been agreed, suggesting that it was important to ensure that the revised guidelines that would be considered at the next meeting would not introduce innovative practices and would only be updated in light of the current practice. The representative of the Secretariat explained that the purpose of the exercise was to update the guidelines so that they reflected the practices that had been developed over time, and which were not currently included in the guidelines in their present form.

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

- (a) Note the Review and analysis of aspects of the guidelines and the standard format used for ODS production verification, contained in document UNEP/OzL.Pro/ExCom/83/SGP/2;
- (b) Request the Secretariat to update and submit, for consideration by the Executive Committee at its 84<sup>th</sup> meeting, the draft guidelines and standard format used during the verification of ODS production phase-out funded by the Multilateral Fund contained in document UNEP/OzL.Pro/ExCom/32/33, taking into consideration the current practices and incorporating the following changes:
  - (i) To include the procedure reflecting current practices for verification of controlled substances for feedstock and other exempted uses;
  - (ii) To include in the verification report: a description of the mechanism established and implemented by the Government concerned to ensure that plants provided compensation for phase out of ODS production capacity do not redirect any capacity for feedstock production, if present, towards controlled uses. This shall *inter alia* include monitoring and enforcement procedures, covering relevant national regulations to deal with cases where provisions of the agreement have not been adhered by the enterprise and imposition of penalties, where applicable;
  - (iii) To clarify that all the production capacity of controlled substances should be included in the production verification, irrespective of when the production capacity had been established;
  - (iv) To clarify that, once a production line had been verified to be vertically integrated with downstream production in which the controlled substance was used only as a feedstock, further annual verifications of that line would not be required;
  - (v) To include confirmation that once a vertically integrated line had been identified, the owner would be required to retain the records of that line, including process inputs and outputs and purchase and sales data, for at least three years; and
- (c) Determine, on a case-by-case basis, the additional costs for verification of additional production lines not established at the time of approval of the production phase-out plan.

**Agenda item 4: China HCFC production sector**

**(a) Stage I of the HCFC production phase-out management plan (HPPMP) (final progress report)**

13. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/83/SGP/3 and said that in the last sentence of paragraph 4, the year “2018” should be replaced by the year “2019”. In line with decision 82/88(e), the document contained the final progress report of the HPPMP which included an update on the progress made between September 2018 and March 2019.

14. In response to a query about the remaining funding balance from stage I of the HPPMP, the representative of the Secretariat explained that the remaining balance would be returned to the 84<sup>th</sup> meeting. It was also explained that the three cases of illegal HCFC production, which were more fully described in document UNEP/OzL.Pro/ExCom/83/11/Add.1, had been uncovered through the monitoring and enforcement actions of the local Ecology and Environment Bureaus.

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

(a) Note the final progress report for the implementation of stage I of the HCFC production phase-out management plan for China contained in document UNEP/OzL.Pro/ExCom/83/SGP/3;

(b) Request the Government of China, through the World Bank:

(i) To submit an executive summary of the final report on the investigation of HCFC feedstock applications in China in 2014 and 2015 in the English language by 1 July 2019;

(ii) To conduct the investigation of HCFC feedstock applications in China for the period 2016 to 2018 and to submit the final report in the original language and an executive summary in English by 15 January 2020; and

(c) Request the Secretariat to prepare a preliminary document on HCFC feedstock applications in China for consideration of the Sub-group on the Production Sector at the 84<sup>th</sup> meeting, based on the report and executive summary referred to in sub-paragraph (b)(i) above, and a final document to the 85<sup>th</sup> meeting based on the documents referred to in sub-paragraph (b) above.

**(b) Stage II of the HPPMP (decisions 81/71 and 82/89)**

16. Due to a lack of time to discuss the matter, the Sub-group on the Production Sector recommends that the Executive Committee defer consideration of stage II of the HCFC production phase-out management plan (HPPMP) for China to a future meeting of the Executive Committee.

**Agenda item 5: HCFC production sector guidelines**

17. Due to a lack of time to discuss the matter, the Sub-group on the Production Sector recommends that the Executive Committee defer consideration of the HCFC production sector guidelines to a future meeting of the Executive Committee.

**Agenda item 6: Other matters**

18. No other matters were raised.

**Agenda item 7: Adoption of the report**

19. The present report was reviewed by the facilitator.

**Agenda item 8: Closure**

20. The meeting of the Sub-group on Production Sector was closed at 9.35 p.m. on 30 May 2019.

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