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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-fourth Meeting
Montreal, 16–20 December 2019

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Sub-group on the Production Sector, which had been reconstituted at the 83rd meeting of the Executive Committee, met three times in the margins of the 84th meeting. The Sub-group consisted of the representatives of Argentina, Canada, China, France, Grenada, the Niger, Norway and the United States of America, with Canada acting as facilitator. Representatives of the World Bank were also present as observers.
2. The facilitator noted that additional information had been made available to the Secretariat after the issuance of documents for the production sector. While some of that information could be provided to the Sub-group verbally, the Secretariat had also prepared an addendum to document UNEP/OzL.Pro/ExCom/84/SGP/3 to further clarify the information to be considered by the Sub-group. The facilitator sought agreement from the Sub-group that the Secretariat be requested to issue the addendum.
3. Several members said that all information of relevance to the deliberations of the Sub-group should be issued in a timely manner. One member encouraged implementing agencies and countries to assist in that regard by providing all relevant information to the Secretariat in accordance with the deadlines for the issuance of documents.
4. The Sub-group agreed to accept the addendum to document UNEP/OzL.Pro/ExCom/84/SGP/3 for consideration under agenda item 4.

Agenda item 1: Adoption of the agenda

5. The Sub-group adopted the provisional agenda as set out in document UNEP/OzL.Pro/ExCom/84/SGP/1.

Agenda item 2: Organization of work

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

Agenda item 3: Draft guidelines and the standard format used for the verification of ODS production phase-out (decision 83/70(b))

7. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/84/SGP/2. She noted that the Secretariat had sought the Executive Committee's guidance on the purpose of the operational records to be retained for a vertically integrated line, as requested in decision 83/70(b)(v), and whether those records were to be retained for review by the verification team or by the Government concerned. Proposed text regarding those retained records was presented in square brackets in the updated guidelines, for consideration by the Sub-group.

8. The representative of the Secretariat also noted that, as would be further discussed under agenda item 4, there might be merit in considering whether, for verification of feedstock production lines where multiple such lines had been established, to follow a similar approach as for the consumption sector in low-volume-consuming countries. For example, the Secretariat could each year randomly select a single such feedstock production line to be included in the subsequent verification report, and allocate additional funding (to be determined) for that purpose. The selection of that feedstock production line would be independent of whether the line was vertically integrated or not.

9. 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 draft guidelines and the standard format used for the verification of ODS production phase-out to a future meeting of the Executive Committee.

Agenda item 4: China HCFC production sector

(a) 2018 verification report of the HCFC production sector

10. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/84/SGP/3.

11. She reported that the newly established five lines at four producers for feedstock production were vertically integrated with downstream production using HCFCs as feedstock. However, one HCFC-142b production line had a pipeline connection to a storage tank and the packaging station. It was suggested that that production line be included in the 2019 verification, to be conducted in 2020, to verify that there was no redirection of the HCFC-142b produced in that line to controlled use.

12. She also reported the destruction of the key equipment from the HCFC-22 line at Shangdong China Fluoro Technology Co. Ltd and the HCFC-142b line at Zhejiang Sanhuan. The verification report had included national information on the management of HFC-23 by-product generated in all HCFC-22 feedstock production lines established after 2010. In 2018, 99.8 per cent of the HFC-23 generated at all HCFC-22 production plants, including the integrated facilities, had been incinerated or collected, stored and sold, and 0.22 per cent had been vented. The average HFC-23 by-product generation rate had been 2.31 per cent of the HCFC-22 produced.

13. She stated that the World Bank had reported the establishment of three new HCFC-142b feedstock production lines at two producers. It was suggested that, in the 2019 verification to be conducted in 2020, those new lines be verified, on a one-time basis, to ensure that they were vertically integrated with downstream production, and that all HCFC-142b produced would be channelled to feedstock use.

14. She further reported the verification of the production of CFC-11/CFC-12 in 2014, as requested in decision 71/50(c), and confirmed that the production of CFCs in that year had been within the limits approved by the Parties.

15. Finally, she reported that after issuance of the production sector documents, additional information had been received on one feedstock producer. Following previous practice, it was suggested that

verification of the feedstock production line at Suqian Kaier be included, on a one-time basis, in the 2019 verification, to be conducted in 2020, to confirm that the line has been vertically integrated with downstream production using HCFC-22 as feedstock. In addition, the World Bank would collect information on the enterprise's HFC-23 by-product management, in line with decision 82/87(b)(iii).

16. Following that introduction, one member said that the recommendation under the present sub-item only needed to take note of the 2018 verification report of the HCFC production sector in China, and did not need to consider the 2019 verification exercise to be conducted in 2020.

17. One member requested information on the source of funding for the 2018 verification process, and for the proposed verification for 2019. The representative of the World Bank said that the cost of the 2018 verification came from the support costs provided to the World Bank as the implementing agency for activities undertaken using the US \$23 million approved by the Executive Committee at its 81st meeting in 2018.

18. The member sought further clarification as to how those funds were allocated to phase-out activities over 2018 and 2019 in order to provide guidance on the appropriate source of funding for verification in those years. The representative of the World Bank explained that the funding of US \$23 million had been used to help China meet its 2018 reduction target, even though the funding had only been approved in June 2018. China employed a bidding process for producers in order to meet the 2018 target, though work still needed to be carried out in 2019, particularly with regard to closure of production by one company and dismantling of the facility, which would require supervision to ensure that the task was undertaken in an environmentally sound manner. The situation was unusual, as normal procedure would be to approve production sector projects on an annual basis, with a one-time verification undertaken for each funding tranche.

19. The member then asked if any of the verifications recommended in document UNEP/OzL.Pro/ExCom/84/SGP/3 related to enterprises that should have been verified in 2018. The representative of the Secretariat replied that the production facility at Suqian Kaier, as a feedstock producer, should have been included in the 2018 verification report. The member then expressed unwillingness to take note of the 2018 verification report of the HCFC production sector in China, due to the failure to verify in 2018 a production facility that should have been verified in that year.

20. Subsequent to a discussion, the Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the 2018 verification report of the HCFC production sector in China; and
- (b) Request the World Bank to submit to the 85th meeting an updated 2018 verification report by including a one-time verification that the production line for HCFC-22 at Suqian Kaier was vertically integrated with the production of the downstream facility.

(b) Preliminary document on the investigation of HCFC feedstock application in China (decision 83/71(c))

21. 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 preliminary document on the investigation of HCFC feedstock application in China to a future meeting of the Executive Committee.

(c) Stage II of the HCFC production phase-out management plan (decisions 81/71, 82/89 and 83/72)

22. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/84/SGP/5.

23. She said that stage II of the HCFC production phase-out management plan (HPPMP) for China had been discussed at the 79th, 80th, and 81st meetings of the Executive Committee. At its 81st meeting, the Executive Committee had noted that as other relevant issues had not been fully addressed in the proposal it was unable to approve stage II of the HPPMP (decision 81/71(a)(iii)). The Executive Committee had further noted that immediate funding would assist the Government of China in moving towards compliance with its 2020 obligations under the Montreal Protocol and, on an exceptional basis, had approved funding of US \$23 million on the understanding that the maximum allowable level of production of HCFCs for 2018 in China would be 22,742 ODP tonnes.

24. The World Bank had submitted to the 82nd meeting of the Executive Committee an explanatory note outlining changes in the proposal to address the issues raised by the Sub-group at the 81st meeting. The Sub-group did not discuss the explanatory note because of the unresolved issue of illegal global CFC-11 emissions. The submission to the 83rd meeting included all the changes proposed in the explanatory note. It proposed:

- (a) That the lost profit be calculated using the 2010 lost profit rates;
- (b) That the remaining available funding, including the remaining balance from stage I, be prorated by substance and equally distributed throughout the phase-out period;
- (c) To completely phase out HCFC-141b by 2026, and to phase out HCFC-22, HCFC-142b, HCFC-123 and HCFC-124 by 2030, with 2.5 per cent of HCFC-22 production remaining for the servicing tail;
- (d) A shorter stage II from 2018 to 2021, stage III from 2022 to 2025, stage IV from 2026 to 2029, and stage V from 2030 to 2040; and
- (e) A budget of US \$2,175,000 (2.26 per cent of the total funding requested) for technical assistance, and 5 per cent of the total funding requested for the project management unit (PMU).

25. The submission to the 84th meeting remained largely the same as that to the 83rd meeting, with minor modifications to reflect the return of US \$133,146 in penalty from Changshu 3F as well as the return of remaining balances from China for stage I of the HPPMP, in line with decision 82/88(d). The total requested funding amounted to US \$74,260,000, as submitted, with a flat distribution of US \$24,753,000 for each of 2019, 2020 and 2021.

26. Based on the calculation by the World Bank for stage II, the Secretariat applied the following assumptions that had previously been proposed to the Executive Committee but were not applied by the World Bank:

- (a) To include the profit loss from HCFC-123 and HCFC-124;
- (b) To incorporate a flat and lower budget for technical assistance and the PMU, in line with stage I;
- (c) Not to differentiate the funding level associated with quota reduction and closure;
- (d) To include the remaining balance from stage I of US \$3,562,553 in the prorated calculation in accordance with decision 80/80(c)(i); and
- (e) To budget an additional US \$400,000 per year for monitoring the sustainability of phase-out and management of the servicing tail by the PMU from 2030 to 2040.

27. Those assumptions would result in an annual funding tranche of US \$24,196,399 for each of 2019, 2020 and 2021.

28. After issuance of the document, the World Bank informed the Secretariat that the exact amount of the funding balance from stage I of the HPPMP that had been returned to the 84th meeting for reprogramming was US \$3,743,699. The return of US \$209,647 support costs and US \$133,146 associated with the penalty from Changshu 3F would not be included in the resources for reprogramming. With this minor adjustment, the total funding for stage II was revised by the Secretariat as US \$72,648,837, and US \$24,216,279 for each of 2019, 2020 and 2021.

29. As reported to the 83rd meeting by the World Bank on the progress of implementation of the activities under the approved sum of US \$23 million, one production line has been closed and production quota for 2019 was reduced to 22,742 ODP tonnes in accordance with decision 81/71(b)(i).

30. Finally, she said that the World Bank had reported that US \$9.2 million had been transferred to Foreign Economic Cooperation Office (FECO) on 31 October 2019, but no funding had been disbursed by FECO to the final beneficiaries by that date.

31. Following the introduction by the Secretariat, one member commented that the remaining balance of US \$3,743,699 from stage I would be added to the funding envelope for HCFC production phase-out for China, but it might not be automatically reprogrammed; the Sub-group would need to make a recommendation on how to use it. He further sought clarification on several issues, including how much of the tranche of US \$23 million approved in 2018 had reached the final beneficiaries, and how much remained with FECO and the World Bank; and how the methodology for establishing the 2020 production quota would ensure that the primary objective of meeting the Montreal Protocol control target was realized. He also said that his delegation was engaged in bilateral discussions with China on a way forward.

32. The representative of the World Bank responded that of the US \$23 million previously approved, US \$17,630,000 had already been committed with the signing of 23 contracts for production quota reduction to meet the 2018 production targets, and one production closure contract. To date, US \$4,093,000 had been disbursed by FECO to beneficiaries.

33. The representative of the Secretariat added that the balance of US \$3,743,699 had been returned to the Multilateral Fund, as had the US \$209,647 agency support costs and US \$133,146 associated with the penalty from Changshu 3F. She further explained that the reduced quota that should have been issued for 2018 was actually issued for 2019, due to the late approval of the US \$23 million. Although one enterprise had exceeded its reduced quota, the overall 2018 production at the country level was below the maximum allowed level requested by decision 81/71(b)(i).

34. Another member, referring to the information provided by the World Bank on the disbursement of the US \$23 million approved in 2018, asked for an update on the expected disbursement of the remainder of the funding, and the disposition of the approximately US \$5.4 million that was presently not committed.

35. The representative of the World Bank responded that according to the disbursement conditions for contracts that FECO had with enterprises for production reduction, the further disbursement of the US \$23 million could be made after the Executive Committee approved the 2018 verification reports. For production closure, some disbursement was pursuant to conducting an environmental assessment and developing a land reclamation plan. The difference between the US \$17,630,000 already committed and the full funding of US \$23 million would cover support costs for the PMU and technical assistance activities. One member commented that that seemed a large proportion to be allocated to the PMU and technical assistance rather than being put towards contracts for reductions in production.

36. The Sub-group considered the recommendation pertaining to the sub-item. On the suggestion that the World Bank submit verification reports on HCFC production to the second meeting of each year until approval of stage II of the HPPMP, the representative of the World Bank said that obstacles to that could include access constraints and limited funding for verifications from the agency support costs. One member proposed that the World Bank only be requested to submit a progress report, and not a verification report. Another member said that the removal of the verification report in the present instance should not prejudice the requirement for verification reports in the future, in line with usual practice. Another member said that the process of verification was dependent on the disbursement of funding to undertake project activities.

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

- (a) Note the progress report on implementation of activities under the US \$23 million approved by decision 81/71(b) and the submission of stage II of the HCFC production phase-out management plan (HPPMP) for China; and
- (b) Request the World Bank to submit a progress report on the activities implemented under the approved sum of US \$23 million approved by decision 81/71(b) to the 86th meeting of the Executive Committee.

Agenda item 5: HCFC production sector guidelines

38. 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

39. No other matters were raised.

Agenda item 7: Adoption of the report

40. The present report was reviewed by the facilitator.

Agenda item 8: Closure

41. The meeting of the Sub-group on the Production Sector was closed at 5.10 p.m. on 19 December 2019.