

## Annex I

### BACKGROUND OF STAGE II OF THE HCFC PHASE-OUT MANAGEMENT PLAN FOR CHINA (76<sup>th</sup> to 83<sup>rd</sup> meetings)

#### Approval of stage II of the HPMP for China

##### *76<sup>th</sup> meeting*

1. At its 76<sup>th</sup> meeting, the Executive Committee approved in principle:
  - (a) The solvent sector plan for the period 2016 to 2026, for the complete phase-out of all HCFCs in that sector, in the amount of US \$44.8 million, plus agency support costs; and
  - (b) The refrigeration and air-conditioning servicing sector and enabling programme component for the period 2016 to 2020, to reduce HCFC consumption by 734.0 ODP tonnes in that sector, in the amount of US \$20.29 million, plus agency support costs.

##### *77<sup>th</sup> meeting*

2. At its 77<sup>th</sup> meeting, the Executive Committee approved in principle stage II of the HCFC phase-out management plan (HPMP) for China for the period 2016 to 2026 in the amount of US \$500,100,000, plus agency support costs, to reduce HCFC consumption by 37.6 per cent of the baseline by 2020. Stage II included the following sector plans:

- (a) The industrial and commercial refrigeration and air-conditioning (ICR) sector plan to reduce HCFC consumption in the sector by 33 per cent by 2020;
- (b) The room air-conditioning manufacturing and heat pump water heaters (HPWH) (RAC) sector plan to reduce HCFC consumption in the sector by 45 per cent by 2020;
- (c) The polyurethane rigid (PU) foam sector and the extruded polystyrene (XPS) foam sector plan to achieve the total phase-out of HCFCs in these sectors by 2026; and
- (d) The solvent sector plan and the refrigeration and air conditioning servicing sector and enabling programme component, approved at the 76<sup>th</sup> meeting, were components of stage II of the HPMP.

##### *79<sup>th</sup> meeting*

3. At its 79<sup>th</sup> meeting, the Executive Committee approved the Agreement between the Government of China and the Executive Committee for the implementation of stage II of the HPMP, and set the agency support costs for UNDP, UNIDO, and the World Bank at 6.5 per cent, on the understanding that the agency support costs could be reconsidered at the 81<sup>st</sup> meeting, and maintained the level of agency support costs for the bilateral agencies and UNEP in place under the current administrative cost regime.

*82<sup>nd</sup> meeting*

4. At the 82<sup>nd</sup> meeting, on behalf of the Government of China, UNDP, UNEP, UNIDO, the World Bank and the Governments of Germany and Japan submitted requests for the following tranches of stage II of the HPMP, amounting to US \$29,199,492:<sup>1</sup> the second tranche of the PU foam sector plan (US \$10,600,000); and the third tranches of the XPS foam (US \$8,000,000), the ICR (US \$12,000,000), and the solvent (US \$5,549,492) sector plans, and the refrigeration and air conditioning servicing sector and enabling programme (US \$3,850,000). The submission also included an independent verification of HCFC production and consumption in 2017 (submitted by the World Bank); annual implementation reports covering the activities undertaken so far, and annual implementation plans for the activities to be implemented in 2018-2019.

5. After reviewing the documents associated with the third tranche requests for the XPS foam, ICR, solvent and refrigeration servicing sector plans, the Secretariat concluded that all of them had merits to warrant their submission for consideration at the 82<sup>nd</sup> meeting. However, this was not the case for the second tranche of the PU foam sector plan, as no disbursements from the first tranche had taken place at the time of submission.

6. In discussing the tranche requests, several Committee members expressed serious concern at approving additional funding at that meeting given the unexplained emissions of CFC-11 that were reported in East Asia. Pursuant to decision XXX/3<sup>2</sup> more information had been requested on the cause of emissions of CFC-11 and it was suggested that the funding request be deferred until a subsequent meeting when more information was available. At the time, China still held over US \$100 million that had not yet been disbursed to beneficiary enterprises; deferring the funding requests, should have no significant effect. It was important to demonstrate to the international community that the Multilateral Fund took the issue of the illegal emission of CFC-11 seriously, but any decision to defer the funding should be without prejudice to any further actions to be taken by China.

7. Other members said that care needed to be taken, and that any decision to defer the funding requested should not put into jeopardy the 2020 reduction target for China. It was asked whether all of the funds had already been transferred to the Government of China or whether some of them remained with the implementing agencies, and what the effect on them might be if the present request for funding was deferred. The ongoing investigations into the cause of the emissions of CFC-11 meant that the Executive Committee needed to be cautious when reaching conclusions. It could take several years for all the relevant information to be assembled, and it was important to have clarity on what information was required and a timeline for assembling it.

8. Subsequent to deliberations on the issue in the contact group, the Committee decided (decision 82/71):

- (a) To request the Government of China, through the relevant implementing agency, to submit, at the 83<sup>rd</sup> meeting:
  - (i) A review of the current monitoring, reporting, verification and enforcement systems in line with its Agreements with the Executive Committee on the country's HPMP and HCFC production phase-out management plan, including information on the organizational structure and capacity at the national and local levels that demonstrated how the long-term sustainability of the phase-out of HCFCs in the

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<sup>1</sup> The request for the third tranche of the RAC sector plan (US \$18,000,000) was not submitted because the level of disbursement of funds approved for the second tranche had not reached 20 per cent.

<sup>2</sup> Unexpected emissions of CFC-11.

consumption and production sectors was being ensured and on the efforts to address any illegal trade in those substances; and

- (ii) A progress report regarding actions taken with a view to strengthening of legislation on ODS and implementation thereof in China; and
- (b) To consider the requests for funding for the subsequent tranches of stage II at the 83<sup>rd</sup> meeting.

*83<sup>rd</sup> meeting*

9. In response to decision 82/71, UNDP submitted, on behalf of the Government of China, the report of the current monitoring, reporting, verification and enforcement systems and the progress report regarding actions taken with a view to strengthening of legislation on ODS.<sup>3</sup> In addition, UNDP, UNEP, UNIDO, the World Bank and the Governments of Germany and Japan re-submitted requests for third tranches of the XPS foam, ICR, solvent and servicing sector plans and for second tranche of the PU foam sector plan associated with stage II of the HPMP for China.

10. After reviewing the re-submission of the sector plans and associated documents, the Secretariat concluded that all of them had merits to warrant their consideration at the 83<sup>rd</sup> meeting, except the request for the second tranche of the PU foam sector plan, which did not meet the disbursement requirements; accordingly, this tranche request was not submitted.

11. In discussing the tranche requests, one Executive Committee member said that in light of the matter of the substantial increase in CFC-11 emissions from China, her delegation had concerns about the sustainability of reductions in ODS achieved using funding from the Fund, and was unable, at the present time, to support project funding for China; she further noted that there may need to be restitution for the environmental harm caused by the unexpected emissions. Another representative supported that stance, stating that until the matter had been clarified, his country was unable to approve new tranches for the HPMP, as that would undermine the credibility of the Montreal Protocol.

12. Following the discussion, the Executive Committee deferred, to the 84<sup>th</sup> meeting, consideration of the revision of the Agreement for stage II of the HPMP for China and the requests for the third tranches of the XPS foam, ICR, refrigeration servicing, and solvent sector plans under stage II of the HPMP (decision 83/55).

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<sup>3</sup> UNEP/OzL.Pro/ExCom/83/11/Add.1.