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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Ninety-second Meeting
Montreal, 29 May to 2 June 2023
Item 15 of the provisional agenda¹

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Sub-group on the Production Sector met on 31 May and 2 June 2023 in the margins of the 92nd meeting of the Executive Committee of the Multilateral Fund. It consisted of the representatives of Australia, Brazil, China, Cuba, Finland, Italy, Kenya, and the United States of America, with Australia acting as facilitator. Representatives of the World Bank were also present as observers.

Agenda item 1: Adoption of the agenda

2. The facilitator of the Sub-group welcomed the participants.

3. The Sub-group adopted the provisional agenda as set out in document UNEP/OzL.Pro/ExCom/92/SGP/1, as orally amended to omit consideration of the item on draft HCFC production sector guidelines (decision 91/72), and to include consideration of items on HFC production sector guidelines and emissions of HFC-23 as a by-product of HCFC-22 production under other matters.

Agenda item 2: Organization of work

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

Agenda item 3: The 2020–2021 investigation of HCFC dealers in China (decision 91/71(b)(ii))

5. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/92/SGP/2, presenting the 2020–2021 investigation of HCFC dealers in China (decision 91/71(b)(ii)). She said that the report had been submitted in response to decision 91/71(b)(ii). The purpose of the investigation had been to gain a full understanding of HCFC dealers and their sales of HCFCs; investigate whether there was any

¹ UNEP/OzL.Pro/ExCom/92/1

reselling of HCFC feedstock as controlled use by dealers; forecast dealer sales of HCFCs in 2022–2024; and provide suggestions to further strengthen the management of HCFC purchases and sales by dealers. It was noted that the investigation had not discovered any resale of HCFC feedstocks for controlled uses, and a robust system appeared to be in place to manage sales of HCFCs to ensure that there was no diversion from feedstock to controlled use. The report set out five recommended measures to improve the management of HCFC sales at dealers.

6. In the ensuing discussion, appreciation was expressed to the Government of China and the World Bank for the report on the investigation of HCFC dealers in China. One member, noting that the investigation mainly targeted the domestic market, requested information on how the export of HCFC feedstock from dealers was managed. The representative of the Secretariat responded that export monitoring was conducted in line with national regulations in China, whereby prospective exporters applied to the import–export office for approval, following which the customs department would issue a licence and customs declaration. Producers needed to provide evidence that the sale was for feedstock or controlled use. Such evidence could be a sales contract from the producer or statements from importers on the nature of the import, and relevant data were recorded by the import–export office. The representative of the World Bank added that the independent verification by the World Bank obtained export records from producers and cross-checked that information with the data provided by the import–export office in order to ensure consistency. Any discrepancies arising had decreased noticeably over the previous few years and were now minimal.

7. On the matter of the five recommendations set out in paragraph 21 of document UNEP/OzL.Pro/ExCom/92/SGP/2, several members sought clarification on the way forward, including what form the follow-up and response by the Government of China would take, and how any developments would be reported. The representative of China said that the investigation report had put forward very helpful suggestions that would be considered by the Government in managing domestic sales of ozone-depleting substances (ODS). The Sub-group considered possible changes to the recommendation proposed by the Secretariat, including the need to ensure that the recommendations contained in the report took into consideration the institutional framework and applicable Government roles in ODS management.

8. Subsequently, following informal consultations by members of the Sub-group, a revised draft recommendation was considered by the Sub-group.

9. The Sub-group on the Production Sector recommended that the Executive Committee:

- (a) Take note of the report on the investigation of HCFC dealers in China in 2020 and 2021, submitted by the Government of China through the World Bank; and
- (b) Invite the Government of China, through the World Bank, to include information on activities the Government had undertaken or would undertake towards implementation of the recommendations contained in the investigation report in the progress report of the second tranche, when the third tranche of the HCFC production sector phase-out management plan was submitted.

Agenda item 4: Draft guidelines and the standard format used for the verification of ODS production phase-out

10. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/92/SGP/3, presenting the draft guidelines and the standard format used for the verification of ODS production phase-out. He said that the document included relevant information on ways to better define vertical integration, and also included changes to the draft updated guidelines requested in decision 83/70(b) and arising from the Secretariat’s intersessional consultations with the World Bank. The document also

included, among the recommendations set out in paragraph 19, a proposed definition of a “vertically integrated facility.”

11. In the ensuing discussion, a number of issues were raised regarding aspects of the proposed definition of a “vertically integrated facility,” including use of ownership considerations as a criterion for definition rather than technical processes, whether the HCFC production line and downstream facility were co-located, and how the HCFCs were transported between the two. Another member said that the use of the term “legal entity” as a criterion for definition of a vertically integrated facility could present problems in her country, where upstream and downstream facilities could, by law, be owned by separate entities within the same group.

12. The representative of the Secretariat responded that the proposed definition was based on the premise that an enforcement mechanism ensuring that there were no sales of HCFCs outside an enterprise was a more robust characteristic to consider than the mechanism used to transport HCFCs to the downstream facility. In practice, most such enterprises would be based in one location adopting a pipe-to-pipe mode of transport, given the greater cost of transport to other, separate locations. In addition, vertically integrated facilities commonly had storage tanks, which was a common practice in chemical production processes, in which context the method of transportation may not be a useful characteristic of focus.

13. Following some discussion, the Sub-group considered amending the definition set out in the recommendation set out in paragraph 19 of document UNEP/OzL.Pro/ExCom/92/SGP/3 by removing the reference to the facility being owned, operated and controlled by the same legal entity.

14. Subsequently, the Sub-group discussed further changes to the recommendation set out in paragraph 19. One member said that, for consistency across the documentation, the term “ozone-depleting substances” should be used rather than “controlled substances,” and the former term should replace the latter where it occurred. Several members proposed amendments to the text of the draft recommendation, particularly with regard to paragraph (a), on the definition of a “vertically integrated facility,” and paragraph (b), on whether or not to request inclusion of national information on the change in stock level in integrated production facilities that were not subject to annual verification. Relevant text remained bracketed.

15. Members also discussed further the draft updated guidelines and the standard format used for the verification of ODS production phase-out as set out in Annex I to document UNEP/OzL.Pro/ExCom/92/SGP/3. Textual suggestions were put forward by members with regard to paragraphs 3, 9, 15, 17, and 21 of the draft guidelines. The facilitator suggested that further intersessional discussions would aid progress on those matters, and urged members to limit discussions at the next meeting of the Sub-group to those issues, and not to introduce additional issues with respect to the guidelines.

16. The Sub-group agreed to further discuss the matter at its next meeting during the 93rd meeting of the Executive Committee on the basis of *inter alia* the working text discussed during the 92nd meeting.

Agenda item 5: Other matters

(i) HFC production sector guidelines

17. The proponent of the agenda item said that it was timely for the Sub-group to consider whether or not HFC production sector guidelines were needed. The representative of the Secretariat recalled that the matter had been considered previously by the Sub-group on the Production Sector, and noted that in the

past consideration of guidelines by the Executive Committee had typically been preceded by the submission of officially reported production data by relevant Article 5 countries.

18. Noting that only three countries has reported production of HFCs, the Sub-group agreed to consider such projects on a case-by-case basis, rather than developing guidelines for HFC production phase-down.

(ii) Emissions of HFC-23

19. The proponent of the agenda item raised the issue of the disturbing increase in HFC-23 emissions in the atmosphere, as indicated by recent scientific papers on the matter. While it was encouraging that recent projects considered by the Executive Committee, for Argentina and Mexico, addressed the control of emissions of HFC-23 generated in the production of HCFC-22, further mitigation measures were urgently needed. He noted that the business plan for India included preparatory funding for a possible HFC-23 by-product control project, and requested further information on its status. He also recalled a reporting discrepancy with regard to Article 7 data on HFC-23 emissions for China, and looked forward to submission of a report on that matter to the Executive Committee at its 93rd meeting, while also noting the encouraging reporting from China on collection and destruction of HFC-23 under the country's HPPMP.

20. The representative of India confirmed that the business plan did include consideration of HFC-23-related projects, but consultations with stakeholders had not concluded in time to complete internal approval processes at government level. The Government intended to submit a request for preparatory funding to the Executive Committee at its 93rd meeting.

21. Another member concurred that recent data from monitoring networks presented a worrying picture of the growth in emissions of HFC-23, which was the HFC with the highest global warming potential. When measurements had commenced in 2008, concentrations of HFC-23 in the atmosphere stood at around 21 parts per trillion, and had since increased in a linear progression to around 35 parts per trillion. The situation required urgent action under the Montreal Protocol.

Agenda item 6: Adoption of the report

22. The present report was reviewed by the facilitator and submitted to the Chair of the Executive Committee for transmission to the 92nd meeting of the Executive Committee.

Agenda item 7: Closure

23. The meeting of the Sub-group on the Production Sector was closed at 9.00 a.m. on 2 June 2023.