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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-third Meeting
Geneva, 5-9 July 2004

REPORT OF THE SUBGROUP ON PRODUCTION SECTOR

1. The Subgroup on the Production Sector was convened on Monday 5, July 2004 during the 43rd Meeting of the Executive Committee and was attended by representatives of Bangladesh, Canada, China, Cuba, Japan, Mauritius, United Kingdom and the United States of America. Representatives from the World Bank and UNIDO were present as observers. The representative of Canada (Mr. Philippe Chemouny) facilitated the meeting.
2. After adopting the agenda of the meeting (attached), the Chairman asked the Chief Officer to update the meeting on the developments in the ODS production sector since the 42nd Meeting.
3. The Chief Officer reviewed the progress of the 6 production sector projects in the pipeline, which had been presented to the Subgroup at its last meeting. The CFC production closure in Venezuela and the TCA production phase-out in China were submitted to this meeting for consideration. The Secretariat requested preliminary data on the CFC, CTC and methyl bromide production in Romania but had not yet received the information, therefore could not proceed to auditing these plants.
4. Additional information on the remaining projects in the pipeline was provided by the World Bank, the representative of the United States of America, and UNIDO. According to the World Bank, the CTC sector phase-out plan (the second phase) would be submitted to the first meeting in 2005. The representative of the United States of America advised that this government was ready to allocate US \$10 million under the bilateral cooperation to enable the acceleration of the CFC production closure project in China provided that the acceleration would not adversely affect CFC consumers and also would not result in unnecessary early abandonment of production equipment. The target for submission was the 44th Meeting of the Executive

Committee and any delay would be communicated to the Secretariat in advance. Regarding the Romanian project, UNIDO informed that it had been following up with the authorities in the country, but asked the Subgroup to authorize the Secretariat to proceed with the technical audit while waiting for the preliminary data so that the audit could proceed as soon as the necessary information was available.

5. Regarding the technical audit of the methyl bromide production in China, the Subgroup noted the need for the technical audit to include the methyl bromide production both for controlled uses and QPS.

6. The Subgroup next heard a briefing from the World Bank on the verification framework for monitoring the implementation of the CTC sector plan in India and noted the progress made so far as well as the intended completion date.

7. The Subgroup heard a brief presentation from the World Bank and the Secretariat on the China TCA production closure project proposal, and noted the significant difference in the assessment of the remaining useful life of the TCA plants in China between the findings of the technical audit and the project proposal, and the resulting financial implications for the calculation of the compensation for the project. In response to a query about the appropriateness of the technical audit consultant providing an alternative scenario on the level of compensation, the Subgroup was informed that the technical audit consultant had never included a calculation of the compensation in his technical audit report, but did so at the specific request of the Secretariat after the project proposal had been presented. This had also been the practice with previous production sector projects. This was usually regarded by the Subgroup as useful additional information.

8. At this point, the Chair decided to adjourn the meeting and reconvene at the same time and same location the following day.

9. The Subgroup resumed its meeting on Wednesday and Thursday, 7 and 8 July 2004. The Subgroup heard a presentation from China on the need to provide adequate compensation for labour displacement after closing down the TCA producing plants under the sector plan, and agreed on a compensation level of US \$2.1 million for the China TCA production closure project.

10. The Subgroup received from the World Bank additional cost scenarios for the Venezuela CFC production closure project and was informed that the World Bank would provide more information on the project to any member of the Subgroup if so requested.

11. Finally, the Chair closed the meeting and called on members of the Subgroup to work informally between now and the next meeting towards reaching a consensus on the Venezuela project at the 44th Meeting of the Executive Committee.

12. The Subgroup recommended that the Executive Committee may wish to:
- (a) Take note of the update by the Chief Officer, the World Bank and the representative of the United States of America on the production sector projects in the pipeline;
 - (b) Authorize the Secretariat to proceed with the technical audit of methyl bromide production in China, and request the Secretariat to include in the terms of reference of the technical audit the collection of data on methyl bromide production both for controlled uses and QPS;
 - (c) Authorize the Secretariat to proceed with the technical audits of the ODS producers in Romania once it receives the preliminary data from the country;
 - (d) Take note of the verification framework for the CTC sector plan of India developed by the World Bank and the Government of India and request the World Bank to submit it to the Executive Committee once it is completed;
 - (e) Request the Secretariat to clarify with the technical audit consultant on the selection of the parameters used in calculating the cost scenario for the Venezuela CFC production closure project and inform the Subgroup of the results;
 - (f) Request the Government of Venezuela to provide through the Secretariat information on the supporting policies that will be enacted to assist in the implementation of the production phase-out project and controlling illegal CFC imports;
 - (g) Approve the China TCA production closure project (Agreement attached) at a total funding level of US \$2.1 million;
 - (h) Request the World Bank to provide the annual audited TCA production report to UNDP to facilitate the verification of TCA consumption under the solvent sector plan in China.
