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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-sixth Meeting
Montreal, 2-6 November 2020
Postponed to 8-12 March 2021[1]

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. In 2020, due to the extraordinary situation resulting from the COVID-19 pandemic, the Executive Committee agreed to postpone its 85th and 86th meetings[2] to March 2021. To ensure continuity of compliance-related activities in Article 5 countries, the Committee implemented, on an exceptional basis and without setting a precedent, an intersessional approval process (IAP) for both meetings, to consider certain documents, reports and projects that were submitted to those meetings.

2. As part of the contingency plan for the 85th and 86th meetings agreed by the Executive Committee, the Sub-group on the Production Sector for 2020 met virtually on 1 December 2020. The meeting was attended by the Sub-group consisting of Australia (facilitator), Bahrain, Chile, India, Suriname, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America, and representatives of the World Bank and the Government of China as observers. Initial discussions were held on the updated 2018 verification report for the production sector in China and a revised proposal for stage II of the HCFC production phase-out management plan (HPPMP) for China.[3] A summary of the Sub-group's discussions during that meeting is contained in Annex XLII of document UNEP/OzL.Pro/ExCom/86/IAP/3. The present report incorporates the content of the virtual meeting held in December 2020.

*Reissued for technical reasons on 9 April 2021

[1] Due to coronavirus disease (COVID-19)
[2] Originally scheduled from 25 to 29 May 2020, and from 2 to 6 November 2020, respectively.
[3] On 28 October 2020, the Secretariat sent to members of the Sub-group on the Production Sector for 2020 the documents related to those two agenda items and the draft agenda for the Sub-group on the Production sector.

3. Due to the evolution of the pandemic, the postponed 85th and 86th meetings could not be held in March 2021. In line with the procedures for the extended IAP established for the 86th meeting, the Executive Committee agreed to hold virtual meetings for the Sub-group on the Production Sector to continue discussing matters related to the HPPMP of China and other outstanding issues of the agenda of the meeting of the Sub-group.

4. Accordingly, the Sub-group on the Production Sector was reconstituted in 2021, and held two virtual meetings on 29 and 31 March 2021. The Sub-group constituted in 2021 consisted of the representatives of Armenia, Australia, China, Paraguay, Suriname, Switzerland, the United Kingdom of Great Britain and Northern Ireland, and the United States of America, with Australia acting as facilitator. The Chair of the Executive Committee and the World Bank were also present as observers.

Agenda item 1: Opening of the Meeting and adoption of the agenda

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

6. In response to a question about how the discussion from the December 2020 and March 2021 meetings would be reflected in the report of the Sub-group to the Executive Committee, the representative of the Secretariat clarified that the summary of the December 2020 meeting would either be incorporated into the Sub-group report or included as an annex to that report. The report would then be posted to the website for the 86th meeting. The facilitator would then present the report, including recommendations, to the Executive Committee for its consideration during their meeting to be held on 9 April 2021.

7. Following comments from one member regarding her wish to make overarching comments on monitoring, reporting and verification in relation to a number of agenda items, the Sub-group adopted the provisional agenda as set out in document UNEP/OzL.Pro/ExCom/86/SGP/1.

Agenda item 2: Organization of work

8. 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 84/95)

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) Updated 2018 verification report of the HCFC production sector in China (decision 84/93(b))

10. The representative of the Secretariat introduced documents UNEP/OzL.Pro/ExCom/86/SGP/3 and Add.1. He advised that the World Bank had reported the 2021 verification exercise would be carried out in two phases. The virtual phase of the verification, which involved on-line meetings with producers, had begun on 18 March 2021. The second phase of on-site visits would begin in 2021 once COVID-19-related travel restrictions had been lifted, and would also include the one-time verification of the enterprise Suqian Kaier pursuant to decision 84/93(b). The Secretariat also advised his understanding that Suqian Kaier was still considering moving its facility to another location given that all operations at the enterprise had ceased following an order from the local Ecology and Environment Bureau.

11. The Sub-group requested the World Bank for an update on the Government of China's review of whether to revise the 2014 and 2015 HCFC production reported under Article 7 of the Montreal Protocol

to reflect production of HCFCs at lines established after 2010 that might have been inadvertently omitted from the country's Article 7 reporting. The representative of the World Bank advised the Sub-group that the review had not yet been completed.

12. Discussion on the Government of China's reporting of the production data covered measures that could be taken to ensure that all feedstock data would henceforth be included in Article 7 reporting, and the status of production data reporting for 2013, 2014 and 2015. The Government of China had used the verification reports as the basis for reporting its Article 7 data; HCFC production for feedstock use by lines established after 2010 were in general not included in the verification, which is why that HCFC production was inadvertently not included in the data reported under Article 7. The unreported production related to feedstock use only and therefore did not affect compliance with the targets specified in the Agreement between the Executive Committee and the Government of China for the stage I of the HPPMP. It was suggested that the Secretariat should be requested to report to the Sub-group on the Production Sector on the result of the Government's review of the HCFC production data reported under Article 7.

13. A discussion on HCFC production lines that were vertically integrated with downstream production facilities noted that those HCFC producers were required to submit their production data to the Ministry of Ecology and Environment (MEE) and that the Government of China had established the requirement that feedstock production lines would need annual permission to ensure that all feedstock data would be part of the country's Article 7 reporting.

14. On the matter of production from enterprises not listed in the Addendum to China's HPPMP, the Secretariat informed the Sub-group that, with the exception of one production line, all HCFC production lines established after 2010 had been independently verified as having HCFC production integrated with downstream manufacturing, thus minimizing the risk of diversion to controlled uses. This meant that, except for the lines for which a one-time verification was still pending, no future verification was required. In addition, all of the verified HCFC-22 production lines had incineration facilities for the destruction of HFC-23, and information on HFC-23 by-product generated by those feedstock lines had been included in verification reports beginning in 2018. It was pointed out during the discussion that, even though only 0.2 per cent of HFC-23 by-product had been vented in 2017 and 2018, the amount of HFC-23 by-product destroyed varied over the years and there was no data on HFC-23 management prior to 2013. Furthermore, the incentive system that had been put in place by the Government of China to establish and use incinerators for the destruction of HFC-23 had ended on 31 December 2019.

15. As agenda item 4(c) addressed HCFC production for feedstock uses, the Sub-group agreed to include a recommendation related to reporting the outcome of the Government's review of HCFC production reported under Article 7 for 2014 and 2015 under that agenda item.

16. The Sub-group on the Production Sector <u>recommends</u> that the Executive Committee:

(a) Note that the World Bank had not yet been able to undertake the updated 2018 verification in China requested by decision 84/93(b) given the COVID-19 pandemic; and

(b) Agree that the World Bank would undertake the verification referred to in sub-paragraph (a) as part of the 2019 and 2020 verification of the HCFC production sector in China to be conducted in 2021, and would submit that report to the last meeting of 2021.

(b) Stage II of the HCFC production phase-out management plan (decision 84/69(b))

17. The representative of the Secretariat introduced documents UNEP/OzL.Pro/ExCom/86/SGP/4, Add.1 and Add.2. The revised stage II of the HPPMP proposal submitted to the 86th meeting of the Executive Committee would phase out 71.5 per cent of HCFC production baseline in China by 2026. The total funding amounted to US $67 million, plus agency support costs for the World Bank, consisting of the US $23 million approved under decision 81/71, and two funding tranches of US $22 million each that

would be requested at the last meetings of the Committee in 2022 and 2024. Progress had been made on the programme of work funded with the US $23 million previously approved, and a quota had been issued for 2020 at the level of 65 per cent of the production baseline in compliance with the Montreal Protocol. In line with decision 73/72(c), the Government of China had also provided relevant information on two newly established production lines for feedstock uses.

18. Document UNEP/OzL.Pro/ExCom/86/SGP/4/Add.2 contained an update on the level of disbursement of the US $23 million, as well as a list of the HCFC production facilities established after 2020, which had been provided by the World Bank subsequent to the virtual meeting held in December 2020. Regarding funding of US $23 million, since only 80 per cent of the total amount had been transferred to China pending the approval of the updated 2018 verification, the World Bank was proposing to advance US $800,000 from the remaining 20 per cent to enable the Government to conduct priority technical assistance activities in 2021. The representative of the Secretariat highlighted the relevance of the technical assistance activities.

19. In response to the request for an estimate of future funding requirements for the HPPMP after 2026, the representative of the World Bank advised that while the Government was not yet in a position to provide such an estimate, the Government was open to discussing the funding ceiling for production sector activities previously agreed of US $385 million.

20. The Sub-group had detailed discussions on the changes proposed by the Secretariat to the penalty clause for redirection to feedstock uses in the draft Agreement for stage II of the HPPMP for China. The representative of the Secretariat explained that the proposed change was intended to clarify the language in the Agreement and was consistent with the framework Agreement in stage I. Moreover, the change reflects the practice under the HPPMP that only production capacity for which compensation had been provided would not be allowed to be used for feedstock production. The representative of the Secretariat further explained that as the Government of China was undertaking additional reductions with less funding than had been originally anticipated, such reductions might also include voluntary reductions by HCFC producers. Such voluntary reductions, if any, would not be subject to a penalty for redirection for feedstock uses.

21. One member expressed concern that revised wording would make the penalty clause less clear-cut to implement and report on, because it would only apply to the partial capacity of a production line, rather than to an entire line or facility. It was difficult to know, for example, what part of a given production line had been compensated for reducing capacity for controlled uses. The representative of the Secretariat explained that all HCFC production facilities, regardless of whether they had received compensation from the Multilateral Fund, were only allowed to produce the maximum amount specified by the quota for controlled uses, which was set annually. Any excess capacity beyond the quota and that had not been compensated could be used for feedstock production.

22. Following clarification provided in informal talks with the Secretariat and representatives of other interested delegations, one member of the Sub-group expressed the view that, while not ideal, the wording on the redirection of feedstock in the draft Agreement could be accepted as proposed. It was the member’s view that the wording “compensated capacity” significantly loosened the restriction against redirecting production toward feedstock. However, from an implementation perspective and given historic practice and the limited time available to the Sub-group at the present meeting, it would be problematic to propose stricter language. Therefore, the proposed language would be acceptable as long as there was careful tracking of the capacity reduced, and the capacity that had not been compensated and could be used for feedstock production. Consequently, it was necessary for the annual reports on HPPMP implementation to provide information on the capacity compensated for phase-out, the capacity not compensated but reduced, and the total capacity that could be used for production for feedstock uses, as well as information on any redirection of capacity toward feedstock that had taken place.

23. In relation to whether the new wording would affect the existing 24 per cent idle capacity retirement provision, whether that idle capacity had been compensated and whether the penalty clause would apply in that case, the Secretariat explained that the redirection penalty only applied to the quota reduction and not to plant closures, as closed idle capacity could not be redirected to feedstock production.

24. Also on the matter of compensation, one member asked whether there had been any cases in which a plant that had production for ODS consumption achieved reductions by shifting its capacity to feedstock production without compensation from the Multilateral Fund. The Secretariat confirmed that the reductions in HCFC production in stage I, and those achieved under the US $23 million approved at the 81st meeting, had been compensated and there had not been any reduction through redirecting to feedstock production.

25. The member expressed concern about the substantial growth in HCFC-22 production for feedstock uses, with the decreasing production for controlled uses being matched by increasing production for feedstock uses, and asked whether there were provisions in the Government of China's regulatory regime that could prevent a vertically integrated facility to use some of the HCFC-22 production for controlled uses while the rest went to the downstream facility. The representative of the Secretariat explained that the Government of China managed the establishment of new production lines for feedstock use through the environmental impact assessment (EIA) process, and only approved lines integrated with downstream feedstock production. Any process changes, such as that mentioned, would also have to go through the EIA process. In addition, the Government was considering a review of the Circular on Management of Establishment of ODS Production and Consumption Facilities issued 2018 based on management practices and experiences gained since its issuance to improve the process.

26. On the matter of verification reports, the representative from the Secretariat confirmed that future verification reports would include the production lines established after 2010, with confirmation that they had been established only for feedstock uses, and that they had sufficient incineration capacity to destroy HFC-23 by-product. The representative explained that, in line with decision 82/70, the World Bank include information on production by the lines established after 2010, including national information provided by the Government of China on the management of HFC-23 by-product. The representative of the World Bank emphasized that vertically integrated facilities established after 2010 were verified on a one-time basis, and that production data for those facilities would be reported through the Government of China's online system and would be checked by the Government.

27. As no verification was due to be submitted at the 86th meeting, the Secretariat included recommendations regarding production verification in the document for stage II of the HPPMP. The paragraph of the recommendation that specified a number of newly-established enterprises for one-time verification (paragraph (e)(i)), was confirmed by the Secretariat to be comprehensive. The complete list of all of the HCFC production facilities established after 2010 had been provided in document UNEP/OzL.Pro/ExCom/86/SGP/4/Add.2. The details of each production line's HFC-23 incineration capacity and HCFC-22 production capacity had not been published in the relevant table to avoid the disclosure of confidential information, but those details were available to members of the Sub-group upon request.

28. The representative of the Secretariat further explained that by the time the next tranche of the HPPMP was requested, the Sub-Group would have before it the outcomes of the 2021 verification exercise showing data for 2019 and 2020, as well as the 2022 verification exercise showing the 2021 data. That represented three years' worth of data on production and on the management of HFC-23 by-product, including for lines established after 2010. It was mentioned that the Government had been making good-faith efforts and had started to implement the HPPMP even though the stage II had not yet been approved.

29. On the subject of technical assistance, a question was asked about planned technical assistance for regulatory support, the monitoring of feedstock uses and the facilitation of the transition to non-HCFC alternatives, whether that included not-in-kind solutions, and destruction of dismantled equipment from

production closure. The representative of the Secretariat explained that the details of the technical assistance would be submitted in the tranche implementation plans in 2022 and 2024. The current regulatory support and monitoring system on feedstock use would continue to be implemented. With regard to feedstock monitoring, she noted that the technical assistance for feedstock investigations was conducted every two years under stage I and would be undertaken annually under stage II of the HPPMP. Destruction of equipment from production lines that had been closed was independently verified and documented, in line with the guidelines for verification of production. In response to a question by one member of the Sub-group, the representative of the Secretariat explained that, as noted in document UNEP/OzL.Pro/ExCom/86/SGP/4/Add.1, the reactor for one production line established after 2010 had not been rendered unusable as the enterprise had not received compensation, and had never produced HCFCs; in that case, the reactor had been removed and installed in a new HFC-227ea production line.

30. The control of HFC-23 emissions was highlighted as being important to the evaluation of compliance with paragraph 10 of the Agreement between the Government of China and the Executive Committee. In this connection, the Government of China's use of an independent mechanism to verify the destruction of HFC-23 by-product as part of the incentive scheme had played an important role in reporting HFC-23 data up until the expiry of the scheme in December 2019. Assurance was sought that the effective control of HFC-23 by-product achieved by the Government of China would be sustained. One member explained that although no mandatory policy on the management of HFC-23 emissions was in place, the MEE had urged producers to continue to incinerate HFC-23 by-product and it was expected that they would continue to do so. Regular inspections of feedstock production facilities would also continue to take place.

31. A number of comments were made regarding the Government of China's implementation of measures to control HFC-23 by-product emissions through the expired incentive scheme. Some members expressed the desire to recognize the Government of China's achievements while ensuring that they were sustained and reported. One member suggested amending paragraphs 10 and 11 of the draft Agreement to address monitoring, reporting, and verification, and to strength those aspects in general. The facilitator reminded the members of the Sub-group that the language in the draft Agreement for stage II of the HPPMP had been negotiated carefully, and asked them to keep that in mind when proposing any new language.

32. One member stressed the importance to his delegation of HFC-23 by-product management, and while reiterating that the Government of China had acted very effectively in that respect under stage I, the lack of specific measures going forward remained a concern. The Executive Committee was being requested to approve, in principle, the stage II of the HPPMP through 2026, and while HCFC-22 producers were encouraged to continue to destroy HFC-23 by-product, the Executive Committee did not yet have data on such destruction for 2019 and 2020, nor information on the policy measures that might replace the incentive scheme that ended in December 2019. He understood that the Executive Committee would be receiving additional information on HFC-23 by-product control when the tranche request was made in 2022, and noted this information would weigh significantly in his delegation's consideration of approval of the tranche.

33. The representative of China noted the concerns raised in relation to management and control of HFC-23 by-product and welcomed the acknowledgement of the best efforts made by the Government of China under stage I of the HPPMP. She said that the Government would continue those best efforts under stage II, which could hopefully be approved to provide clear guidance to the industry in China to plan the continued HCFC production phase-out. She pointed out control of HFC-23 by-product emissions was a goal for this agreement, but for which there were no monitoring, reporting and verification requirements. The Government of China would have obligations related to HFC-23 once it ratified the Kigali Amendment, but in the meantime was making best efforts to control and report on HFC-23 by-product emissions. The representative of China said that her delegation was not ready to agree to additional obligations related to monitoring, reporting, and verification but that the Government of China wished to remain in close communication with the Executive Committee and provide any updates on measures for the management and control of HFC-23 by-product as soon as new information became available.

34. One member expressed the view that while monitoring, reporting and verification of HFC-23 by-product management was indeed an important issue, it would be resolved with the implementation of the Kigali Amendment, which made confirmation of HFC-23 destruction mandatory. Notwithstanding that monitoring, reporting and verification obligations under the draft Agreement for stage II of the HPPMP related to HCFC-22, the Government of China was reporting on the destruction of HFC-23 under its HPPMP. It took verification very seriously, and additional wording to the draft Agreement to ensure the continuation of current best efforts should be aimed at recognizing what the Government of China was already doing. Another member said progressing with stage II of the HPPMP was a priority, but given the many cross-cutting issues involved in reporting on HCFC-22 production and HFC-23 by-product management, it was of the utmost importance to have very good information on the climate impact, with some quantification beyond "minimizing."

35. Following discussion within the Sub-group, bilateral talks took place in the margins of the meeting. Following those bilateral discussions, it was agreed to recommend approval of the stage II of the HPPMP, in principle, and the remaining paragraphs of the recommendation by the Secretariat, except for the approval of the draft Agreement, for which additional discussion was required. Accordingly, the draft Agreement for stage II of the HPPMP for China, as orally amended by the Sub-group and with square brackets for outstanding paragraphs, would be presented to the Executive Committee for consideration at its 87th meeting.

36. 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), the implementation plan for 2020 to 2022 and the submission of stage II of the HCFC production phase-out management plan (HPPMP) for China;

(b) Approve, in principle, stage II of the HPPMP for China for the period from 2018 to 2026 to reduce HCFC production for controlled uses by 67.5 per cent and 71.5 per cent of its baseline by 2025 and 2026, respectively, in the amount of US $70,752,000, consisting of US $67,000,000, plus agency support costs of US $3,752,000 for the World Bank, and including the sum of US $23,000,000, plus agency support costs of US $1,288,000 for the World Bank, already approved through decision 81/71(b);

(c) Note that US $45,143 of cumulative interest accrued from stage I and stage II of the HPPMP between 2015 and 2019 would be deducted from the second tranche of stage II of the HPPMP when approved, and that this decision supersedes decisions 77/66(b), 80/80(b) and 82/88(c);

(d) Note that the World Bank would undertake the 2019 and 2020 HCFC production verification under stage II of the HPPMP in 2021, and would submit that report to the last meeting of 2021;

(e) As part of the verification exercise referred to in sub-paragraph (d) above, request the World Bank to verify, on a one-time basis:

(i) That the newly established production lines for HCFC-22 in Jiangxi Zhongfu Chemical Materials Technology, Jiangxi Lee and Man Chemical Company and Inner Mongolia Yonghe Fluorochemical Co., and for HCFC-142b in Inner Mongolia 3F Wanhao Fluorochemical were vertically integrated with the production of downstream facilities and that all HCFCs produced in the new lines will be channelled to feedstock use;

(ii) When the new HCFC-142b production line at Taixing Meilan had ceased production;

(iii) The closure and dismantling of the new 5,500 mt/year HCFC-142b production line at Inner Mongolia 3F Wanhao Fluorochemical;

(iv) That the pipeline connection between the HCFC-142b production, the bulk storage tank and the product packaging station at Inner Mongolia Yonghe Fluorochemical Co. had been dismantled; and

(f) To request the Secretariat to present the draft Agreement for stage II of the HPPMP, as orally amended by the Sub-group on the Production Sector, for the consideration of the Executive Committee at its 87th meeting.

(c) Final document on the investigation of HCFC feedstock application in China (decisions 83/71(c) and 84/96)

37. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/86/SGP/5. He reported that the investigation, which covered the period from 2014 to 2018, concluded that there was no evidence of diversion from feedstock use to controlled uses. In reviewing the report, the Secretariat had noted issues related to data reporting on the production of controlled substances for feedstock use only, which did not affect the Country's compliance with its targets of production for controlled uses or consumption.

38. The first issue noted by the Secretariat was that the 2018 data reported under Article 7 for HCFC-142b production for all uses and for feedstock uses within China differed from the data contained in the verification report. The Government of China had agreed to clarify its 2018 production and feedstock use reported under Article 7, and to ensure that, in future, all HCFCs would be reported in the year they were produced, not the year they were used, in line with the Article 7 data reporting guidelines.

39. The second data-reporting issue was that the HCFC-133a and CFC-113a production indicated in the 2014-2018 verification reports differed from that reported under Article 7. The Government of China was still examining the reasons for the difference.

40. In order to strengthen monitoring of feedstock production at integrated HCFC production lines established after 2010, the Secretariat recommended that the Executive Committee request the Government of China to inform the Executive Committee if any of the HCFC production lines previously verified as being vertically integrated through a pipeline to the downstream facility were to change its method of transporting HCFC to the downstream facility from pipeline to ISO container. Any such lines, or any new HCFC production lines whose one-time verification determined that it was not vertically integrated by pipe with downstream production facilities would be included in the annual verification undertaken by the World Bank until such time as the HCFC production line only transferred the produced HCFC to its downstream facility by pipe.

41. Finally, as had been discussed under agenda item 4(a), the Government of China was reviewing whether there was a need to revise the 2014 and 2015 HCFC production reported under Article 7 of the Montreal Protocol to reflect production of HCFCs for feedstock uses at lines established after 2010 that may have been inadvertently omitted from the country's Article 7 data reporting. As any such production would be for feedstock uses, the Secretariat had included the matter in the proposed text of a recommendation.

42. During the discussion, one member of the Sub-group welcomed the comment made by the representative of the Government of China on the country's intention to conduct an investigation of HCFC feedstock application annually under stage II of the HPPMP. This was particularly relevant in the context

of increasing demand for HCFC feedstock and the expectation that more feedstock production facilities would be set up in future.

43. One member of the Sub-group requested clarification regarding the switch in transportation method to a downstream facility in vertically integrated plants from a pipe connection to an ISO tank, particularly with regard to the effect of the switch on the destination of the feedstock material. She also asked whether there were cases of HFC-23 by-product being sent to incineration through a pipe that was ending up in tanks instead, and if so, whether there were any control measures. In response, the representative of the Secretariat emphasized that a change of method to transport HCFCs to be used as feedstock materials would not necessarily entail a change of its purposed use as feedstock. He also noted that the Secretariat's review of regulations in China had shown a switch in transportation method to be a possibility in theory, and the language in the recommendation was aimed at ensuring that if such a change took place, the Executive Committee would be informed of it. In relation to HFC-23 by-product, the Secretariat was not aware of transportation of HFC-23 to an incinerator by any means other than by pipe.

44. One member pointed out that, in the past, the Government of China had always made best efforts to stringently manage feedstock use, and had noted that the transportation method, or connection issue should be part of the investigation of feedstock management. However, in that member's view, the proposed requirement to inform the Executive Committee of any change in connection method in vertically integrated facilities, and to include those facilities in subsequent annual verifications, went beyond the scope of the draft guidelines for the verification of ODS production phase-out, which stipulated one-time verification for vertically integrated facilities, without details on the change of connection methods to downstream facilities.

45. Another member of the Sub-group indicated that the previous practice under the guidelines of not including vertically integrated plants in annual verification reports had been based on the low risk of HCFC being diverted from feedstock to controlled uses because it went directly to the downstream user via a pipe. Changing the transportation method introduced a potential risk of diversion of feedstock to controlled use. Such a change in transport method should therefore be reported to the Executive Committee until such time as it had reverted back to transport directly by pipe. Another member highlighted that the requested reporting did not conflict with the Government of China's existing management of HCFC feedstock production, and reporting changes in transport method should not represent an additional burden, as changes in process were already being monitored by the Government. However, no consensus could be reached on this matter.

46. In relation to the production of HFC-23, members wished to better understand the case of one enterprise that had previously purchased HFC-23 to use as feedstock in its halon-1301 production but had switched to purchasing HCFC-22 to use it as feedstock to produce HFC-23 instead. The representative of the Secretariat explained that the enterprise produced fipronil, and used the halon-1301 for that purpose. The enterprise had decided to purchase HCFC-22 for commercial reasons, which might have changed with the expiry at the end of 2019 of the subsidy provided by the Government of China for the destruction of HFC-23 by-product at HCFC-22 production facilities.

47. In relation to the challenges identified by the 2016-2018 investigation report, there was a discussion regarding the frequent rotation of staff at feedstock users and the need for improved training for management of HCFC production and use. In response to a question about whether the Government of China had plans to strengthen the training of staff, the representative of the World Bank said that there would be an internal review by the Government to see how it could undertake to follow the recommendations in the investigation report. During stage II of the HPPMP, the training issue could be addressed in the regular meetings with producers. It was further pointed out that the Government of China already organized annual training for the local Ecology and Environment Bureaus and HCFC producers on HFC-23 management, and during the training, the MEE emphasized key points for feedstock management, including guidance and instructions for the production process and monitoring. One member acknowledged the existing training for feedstock producers with downstream facilities, and noted that the issue was related

to improving the training of feedstock users who purchased HCFC from producers. He further expressed that an update in the next progress report on the HPPMP on what had been done to strengthen the training of feedstock users would be appreciated.

48. On the matter of China's agreement to clarify its 2018 production and feedstock use reported under Article 7, and to ensure that, in future, all HCFCs would be reported in the year they were produced, not the year they were used, one member of the Sub-group enquired whether the clarification of the data would entail a revision of the reported Article 7 data. The member further stated that, while the situation would be corrected from 2018 onward, there was still the matter of reporting feedstock use going back to 2014. She therefore suggested that a recommendation be made to the Executive Committee to request the Government of China to review and, if necessary, revise previous Article 7 reporting for years 2014 to 2018 to accurately reflect feedstock production during those years. One delegation objected to the inclusion of such a recommendation.

49. In the absence of consensus on the reporting of vertically integrated facilities with changes to the method of transporting HCFC, and on the review of Article 7 data for the years 2014 to 2018, the Sub-group recommends to the Executive Committee that it defer consideration of this agenda item to the 87th meeting.

Agenda item 5: Draft HCFC production sector guidelines (decision 84/97)

50. 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: Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in India: Hindustan Fluorocarbons Limited

51. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/86/SGP/7, and sought guidance from the Sub-group regarding the funding eligibility of the request submitted by the World Bank on behalf of the Government of India for a technical audit of Hindustan Fluorocarbons Limited (HFL), the only non-swing-plant HCFC-22 producer in India, in light of the determination by the Government of India that the enterprise was not economically viable, and a government order issued for the closure of HFL that was under implementation. The World Bank had submitted preliminary data for the technical audit as required by decision 19/36(a)(i). The World Bank had also submitted work programme amendments to the 86th meeting containing *inter alia* a funding request for the preparation of an HPPMP for India. In line with decision 32/78, the technical audit was a prerequisite for the approval of project preparation funding for projects in the production sector. The Secretariat had reviewed neither the preliminary data, nor the request for project preparation funding, and had requested the World Bank to withdraw the request for the technical audit. The Secretariat sought guidance from the Sub-group on how it should proceed in the context of HFL's economic non-viability and closure, as well as the statement contained in the Agreement between the Government of India and the Executive Committee for CFC production closure to the effect that no further funding would be provided to phase out the production of HCFCs.

52. In response to a request by one member of the Sub-group for clarification about the rationale for submitting the request for a technical audit, the representative of the World Bank and one member of the Sub-group explained that the request had been delayed by unforeseen circumstances. It was that delay that made it seem as though the request for the technical audit and the request for project preparation funding had been made after the decision to close HFL. In fact, HFL was awaiting the technical audit, which was a necessary step before applying for funding to close the facility and dismantle the plant and machinery. The funds were aimed at covering profit loss and sustainable plant closure.

53. The member of the Sub-group went on to explain that HFL was a Government-owned plant, not privately owned. The wording about no further funding for HCFC production plants in the Agreement on

CFC production closure in India did not apply to HFL, as it had never produced CFC and never received funding for CFC phase-out. The decision by the Government of India to close the plant was based on its own determination that the plant might not be able to continue producing HCFCs at the same level. The plant did, however, require funds to confirm the Government's determination through a technical audit, and to close the plant, if necessary. As previously mentioned, those funds could only be obtained subsequent to a technical audit. With regard to the conclusion that HFL was not economically viable, the member stated that the Secretariat had drawn on reports in the media, which could not have the same rigour as a technical audit. The Secretariat had also reported that the Union Cabinet of the Government of India had also concluded that HFL was not economically viable in its 2020 decision to close the enterprise.

54. Some members of the Sub-group pointed out that the key consideration in this matter was the efficient use of available resources according to the mandate of the Multilateral Fund, which was to provide assistance to Article 5 countries to comply with their obligations under the Montreal Protocol. A technical audit was not an efficient use of funds in the context of: the text in the Agreement between the Government of India and the Executive Committee for the CFC phase-out stipulating no further funding for HCFC production in India; HFL's lack of economic viability; and the decision by the Government of India to close the HCFC production plant. The technical audit had been maintained in the business plan while the Executive Committee awaited information, but the Multilateral Fund no longer had an obligation to provide assistance once the decision had been made by the Government of India to close the plant, irrespective of whether that decision was because the plant was going bankrupt or for other reasons. The Multilateral Fund was not responsible for the business decisions of enterprises, a principle that applied equally to all plants and enterprises, not just HFL.

55. Following the discussion, while there was consensus to note the submission of the preliminary data and request for authorization to carry out the technical audit of the HCFC Production Sector in India: Hindustan Fluorocarbons Limited contained in document UNEP/OzL.Pro/ExCom/86/SGP/7, there was no agreement on approving the request for the technical audit of Hindustan Fluorocarbon Limited.

Agenda item 7: Other matters

56. No other matters were raised.

Agenda item 8: Adoption of the report

57. The present report was reviewed by the facilitator.

Agenda item 9: Closure

58. The meeting of the Sub-group on the Production Sector was closed at 10.00 a.m., Eastern Daylight Time, on 31 March 2021.