

Annex XXVII

AGREEMENT BETWEEN THE GOVERNMENT OF CHINA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE REDUCTION IN PRODUCTION OF HYDROCHLOROFLUOROCARBONS IN ACCORDANCE WITH STAGE II OF THE HYDROCHLOROFLUOROCARBON PRODUCTION SECTOR PHASE-OUT MANAGEMENT PLAN

1. This Agreement represents the understanding of the Government of China (the “Country”) and the Executive Committee with respect to the total phase-out of production of the hydrochlorofluorocarbons (HCFCs) for controlled uses, as set out in Appendix 1-A (“The Substances”), and the reduction in production of The Substances to a sustainable level of 8,292 ODP tonnes by 1 January 2026 in compliance with the Montreal Protocol schedule.

Framework agreement for total phase-out

2. The total compensation for the entire China HCFC production sector for phasing out HCFC production for controlled uses in accordance with the Montreal Protocol phase-out schedule shall not exceed US \$385 million, inclusive of all project costs, excluding agency support costs, with the allocation of payments beyond Stage II to be addressed in future stages.

3. The total amount of phase-out to be achieved under the HPPMP is 445,888 metric tonnes (mt), based on the verified 2010 ODS production data of: 310,000 mt of HCFC-22, 98,711 mt of HCFC-141b, 33,957 mt of HCFC-142b, 2,819 mt of HCFC-123 and 401 mt of HCFC-124.

4. Appendix 1-A to this Agreement establishes a starting point for aggregate reduction in HCFC production eligible for funding of 30,180 ODP tonnes (445,888 mt).

5. The Country agrees that funding for Stage II and beyond should be used to prioritize total permanent closure and dismantling of production lines.

6. The Country agrees:

- (a) To retire an additional 24 per cent of the production capacity that was established as of 2010 beyond the total tonnage of 445,888 mt as mentioned in paragraph 3 above (i.e., 552,901 mt) to take into account average utilization of HCFC production capacity;
- (b) That the 552,901 mt includes all production lines based on the list of HCFC production plants, as specified in the addendum to the HPPMP noted by the Executive Committee in its decision 74/55, namely: (i) those lines producing HCFCs solely for controlled uses that will be closed and dismantled; and (ii) other lines producing for both controlled uses and feedstock uses that will be retired as needed to achieve the target in paragraph 6(a); and
- (c) That the capacity closure and retirement strategies would be further defined, monitored and updated in future tranche implementation work plans and progress reports.

7. The Country agrees to ensure that any funds in the possession of the Foreign Environmental Cooperation Center/Ministry of Ecology and Environment (FECO/MEE) will return a reasonable rate of interest, and that any interest will be offset in future tranches with the reporting requirements of FECO/MEE and the World Bank pursuant to decision 70/20(c) on the reporting on disbursement.

8. The Country will not provide funding in Stage II or beyond for the production line which produced chlorofluorocarbons (CFCs) in Zhejiang Juhua Fluoro-chemical Co. Ltd. in 2010.

9. The Country agrees to ensure that any plant does not redirect any phased out HCFC production capacity for which compensation was provided toward feedstock, subject to a penalty to be specified in the Agreement for each stage of the HPPMP.

10. The Country agrees to coordinate with its stakeholders and authorities to make best efforts to manage HCFC production and associated by-product production in HCFC plants in accordance with best practices to minimize associated climate impacts. The budget and activities for such coordination will be included in the tranche implementation work plan and progress report.

11. The Country agrees to optimize the implementation of the HPPMP and its addendum, including associated monitoring and reporting, in order to minimize environmental and climate impacts as much as possible, including by giving priority to HCFC production closure to achieve the HCFC reduction targets set forth in Decision XIX/6 of the Nineteenth Meeting of the Parties to the Montreal Protocol.

12. The penalty is US \$1.10 per kg/year of production in excess of the level required in this Agreement. In addition, the Country agrees that any HCFC production plant that redirects any phased out HCFC production capacity for which compensation was provided to feedstock will be subject to the penalty to be specified in the Agreement of each stage of the HPPMP.

Stage II of the HPPMP

13. Stage II of the HPPMP for the Country is approved in principle at a total funding of US \$67 million to meet the 71.5 per cent reduction of the HCFC production baseline for compliance, inclusive of all project costs, excluding agency support costs, according to the payment schedule as specified in rows 2.1 to 3.3 of Appendix 2-A.

14. Stage II of the HPPMP will result in a sustained level of production of 8,292 ODP tonnes by 2026 (28.5 per cent of the baseline) in compliance with Montreal Protocol schedules.

15. The Country agrees to meet the annual production limits for The Substances set out in row 1.2 (“Maximum Allowable Total Production of Annex C, Group I, the Substances”) of Appendix 2-A (“The Targets, and Funding”) to this Agreement, as well as in the reduction schedule for all substances mentioned in row 1.1 of Appendix 2-A.

16. Subject to compliance by the Country with its obligations set out in this Agreement, the Executive Committee agrees, in principle, to provide the funding set out in row 3.1 of Appendix 2-A (“The Targets, and Funding”) to the Country at the Executive Committee meetings specified in Appendix 3-A (“Funding Approval Schedule”).

17. The Country accepts that, by its acceptance of this Agreement and fulfilment by the Executive Committee of its funding obligations for stage II described in paragraph 16 above, it is precluded from applying for or receiving further funding from the Multilateral Fund in respect to any production of each of the substances that exceeds the levels defined in rows 4.1.3, 4.2.3, 4.3.3, 4.4.3 and 4.5.3 of Appendix 2-A.

18. The Country agrees to implement this Agreement in accordance with stage II of the HPPMP submitted, and as modified by this Agreement with respect to funding levels and other conditions of approval specified in decision 86/99 of the Executive Committee, the addendum to the HPPMP, and the application of the flexibility clause as specified in paragraph 20 below as informed or requested in annual implementation work plans and progress reports. In accordance with sub-paragraph 19(b), the Country will

accept independent verification of the achievement of the annual production limits set out in row 1.2 of Appendix 2-A. The aforementioned verification will be commissioned by the lead implementing agency.

19. The Executive Committee will not provide the funding in accordance with the Funding Approval Schedule unless the Country satisfies the following conditions at least twelve weeks in advance of the applicable Executive Committee meeting set out in the Funding Approval Schedule:

- (a) The Country has met the targets set out in row 1.2 of Appendix 2-A for all relevant years. Relevant years are all years covered by the Agreement including the year in which this Agreement was approved;
- (b) The achievement of these targets has been independently verified and the verification report will be submitted to the Secretariat at least eight weeks in advance to the Secretariat of the relevant Executive Committee meeting, unless the Executive Committee decides that such verification is not required;
- (c) The Country has submitted: annual implementation reports in the format in Appendix 4-A (“Format of Implementation Reports and Plans”) covering each previous calendar year and confirming that the conditions set out in paragraphs 6 to 12 of this Agreement have been met where applicable; has achieved a significant level of implementation of activities initiated with previously approved tranches; and the rate of disbursement of funding available from the previously approved tranche exceeded 20 per cent; and
- (d) The Country has submitted an annual implementation plan in the format in Appendix 4-A covering each calendar year up to and including the year for which the funding schedule foresees the submission of the next tranche or, in case of the final tranche, until completion of all activities foreseen.

20. The Executive Committee agrees that the Country may have the flexibility to reallocate the approved funds, or part of the funds, according to the evolving circumstances to achieve the smoothest reduction of production and phase-out of The Substances specified in Appendix 1-A:

- (a) Reallocations categorized as major changes must be documented in advance in an annual implementation plan as described in sub-paragraph 19(d) above and approved by the Executive Committee. The documentation can also be provided as part of a revision to an existing annual implementation plan, to be submitted twelve weeks prior to any meeting of the Executive Committee. Major changes would relate to:
 - (i) Issues potentially concerning the rules and policies of the Multilateral Fund;
 - (ii) Modifications to any clause in this Agreement;
 - (iii) Provision of funding for programmes or activities not included in the current endorsed annual implementation plan involving costs exceeding 30 per cent of the total cost of the previously approved tranche;
 - (iv) Removal of activities in the annual implementation plan involving costs exceeding 30 per cent of the total cost of the previously approved tranche;
- (b) Reallocations not categorized as major changes may be incorporated in the approved annual implementation plan being implemented at that time, and reported to the Executive Committee in the subsequent annual implementation report; and

- (c) Any funds remaining from Stage II of the HPPMP will be returned to the Multilateral Fund upon completion of the last tranche foreseen under this Agreement with the understanding that the funds returned would not be deducted from the maximum level of funding for the overall phase-out.

21. The Country will ensure that it conducts accurate monitoring of its activities under this Agreement. The institutions set out in Appendix 5-A (“Monitoring Institutions and Roles”) will monitor and report on implementation of the activities in the previous annual implementation plans in accordance with their roles and responsibilities set out in Appendix 5-A. This monitoring will also be subject to independent verification as described in paragraph 19(b) above.

22. The Country agrees to assume overall responsibility for the management and implementation of this Agreement and of all activities undertaken by it or on its behalf to fulfil the obligations under this Agreement. The World Bank has agreed to be the lead and sole implementing agency (the “Lead IA”) in respect of the Country’s activities under this Agreement. The Country agrees to evaluations, which may be carried out under the monitoring and evaluation work programmes of the Multilateral Fund or under the evaluation programme of the Lead IA.

23. The Lead IA will be responsible for ensuring coordinated planning, implementation and reporting of all activities under this Agreement, including but not limited to independent verification as per sub-paragraph 19(b) above. The Executive Committee agrees, in principle, to provide the Lead IA with the agency support costs set out in row 2.2 of Appendix 2-A.

24. Should the Country, for any reason, not meet the targets for the phase-out of The Substances set out in row 1.2 of Appendix 2-A or otherwise not comply with this Agreement, the Country agrees that it will not be entitled to the funding in accordance with the Funding Approval Schedule. At the discretion of the Executive Committee, funding will be reinstated according to a revised Funding Approval Schedule determined by the Executive Committee after the Country has demonstrated that it has satisfied all of its obligations that should have been met prior to receipt of the next tranche of funding under the Funding Approval Schedule. The Country acknowledges that the Executive Committee may reduce the amount of the funding by the amount set out in Appendix 7-A (Reductions in Funding for Failure to Comply for Stage II) in respect of each kilogram of reduction in production not achieved in any one year and, in respect of any redirection of phased-out HCFC production capacity for which compensation was provided to feedstock uses by the HCFC production plant, as indicated in the addendum to the HPPMP. The Executive Committee will discuss each specific case in which the Country did not comply with this Agreement, and take related decisions. Once these decisions have been taken, this specific case will not be an impediment to receiving future tranches, as per paragraph 16 above.

25. Funding under this Agreement will not be modified on the basis of any future Executive Committee decision that may affect the funding of any other HCFC production sector projects.

26. The Country will comply with any reasonable request of the Executive Committee or the Lead IA to facilitate implementation of this Agreement. In particular, it will provide the Lead IA with access to the information necessary to verify compliance with this Agreement.

27. Stage II of the reduction in production of HCFCs and the associated Agreement will be completed at the end of the year following the last year for which a maximum allowable total production level has been specified in Appendix 2-A. At that time, should there still be outstanding activities foreseen in the Plan and its subsequent revisions as per paragraphs 19(d) and 20 above, the completion will be delayed until the end of the year following the implementation of the remaining activities. The reporting requirements as per sub-paragraphs 1(a), 1(b), 1(d), and 1(e) of Appendix 4-A will continue until the time of completion of Stage II, unless otherwise specified by the Executive Committee.

28. All of the conditions set out in this Agreement are undertaken solely within the context of the Montreal Protocol and as specified in this Agreement and the Addendum to the HPPMP. All terms used in this Agreement have the meaning ascribed to them in the Montreal Protocol unless otherwise defined herein.

APPENDICES

APPENDIX 1-A: THE SUBSTANCES

Substance	Annex	Group	Starting point (2010) for aggregate reductions in production (ODP tonnes)
HCFC-22	C	I	17,050
HCFC-141b	C	I	10,858
HCFC-142b	C	I	2,207
HCFC-123	C	I	56
HCFC-124	C	I	9
Total			30,180

APPENDIX 2-A: THE TARGETS, AND FUNDING FOR STAGE II OF THE AGREEMENT

Row	Particulars	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	26,210	26,210	18,929	18,929	18,929	18,929	18,929	9,465	9,465	n/a
1.2	Maximum allowable total production of Annex C, Group I substances (ODP tonnes)	22,742	22,742	18,929	18,929	18,929	12,982	12,982	9,465	8,292	n/a
2.1	Lead IA (World Bank) agreed funding (US \$million)	23,000*	0	0	0	22,000	0	22,000	0	0	67,000
2.2	Support costs for Lead IA (US \$million)	1,288*	0	0	0	1,232	0	1,232	0	0	3,752
3.1	Total agreed funding (US \$million)	23,000*	0	0	0	22,000	0	22,000	0	0	67,000
3.2	Total support costs (US \$million)	1,288*	0	0	0	1,232	0	1,232	0	0	3,752
3.3	Total agreed costs (US \$million)	24,288*	0	0	0	23,232	0	23,232	0	0	70,752
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)										7,137.36 ¹
4.1.2	Phase-out of HCFC-22 to be achieved in previously approved projects (ODP tonnes)										1,878.91
4.1.3	Remaining eligible production for HCFC-22 (ODP tonnes)										8,033.74
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this Agreement (ODP tonnes)										7,194.01 ²
4.2.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)										3,663.99
4.2.3	Remaining eligible production for HCFC-141b (ODP tonnes)										0.00
4.3.1	Total phase-out of HCFC-142b agreed to be achieved under this Agreement (ODP tonnes)										1,743.69 ³
4.3.2	Phase-out of HCFC-142b to be achieved in previously approved projects (ODP tonnes)										245.12
4.3.3	Remaining eligible production for HCFC-142b (ODP tonnes)										218.40
4.4.1	Total phase-out of HCFC-123 agreed to be achieved under this Agreement (ODP tonnes)										21.62
4.4.2	Phase-out of HCFC-123 to be achieved in previously approved projects (ODP tonnes)										0.00
4.4.3	Remaining eligible production for HCFC-123 (ODP tonnes)										34.76
4.5.1	Total phase-out of HCFC-124 agreed to be achieved under this Agreement (ODP tonnes)										3.32
4.5.2	Phase-out of HCFC-124 to be achieved in previously approved projects (ODP tonnes)										0.00

¹ Including 85.75 ODP adjustments from EIA capacity and quota reduction for feedstock producers.

² Including adjustments from production rights assigned to HCFC-141b producers.

³ Including adjustments from EIA capacity.

4.5.3	Remaining eligible production for HCFC-124 (ODP tonnes)	5.50
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* The sum of US \$23,000,000, plus agency support costs of US \$1,288,000 for the World Bank was approved at the 81st meeting to reduce HCFC production by 1,188 ODP tonnes as well as for meeting the conditions set out in decision 81/71.

APPENDIX 3-A: FUNDING APPROVAL SCHEDULE FOR STAGE II

1. Funding for the 2023-2024 and 2025-2026 work plans will be considered for approval at the last meeting of the Executive Committee in 2022 and 2024, respectively, except for the funding tranche for 2018 which has already been approved (decision 81/71).
2. For only those tranches submitted to and approved at the first meeting of the year, funding will be transferred to the Lead IA in full upon approval of the work plan and not more than 30 per cent of this amount could be released to the Country before the approval by the Executive Committee of the verification report of the previous year's production.
3. A final verification report for Stage II will be submitted in 2027 to verify 2026 production. The last tranche of Stage II will be transferred to the Lead IA in full in 2024 upon approval by the Executive Committee.

APPENDIX 4-A: FORMAT OF IMPLEMENTATION REPORTS AND PLANS FOR STAGE II

1. The submission of the Implementation Report and Plan for each tranche request will consist of five parts:
 - (a) A narrative report, with data provided by calendar year, regarding the progress since the year prior to the previous report, reflecting the situation of the Country in regard to phase out of the Substances, how the different activities contribute to it, and how they relate to each other. The report should include ODS phase-out as a direct result of the implementation of activities, by substance, to allow the Secretariat to provide the Executive Committee with information on the resulting change in climate relevant emissions. It will address how the conditions of approval in decision 69/28(e) (paragraphs 4-12 of this Agreement), decision 81/71 and decision 86/99 have been addressed, the actions/activities taken to achieve these conditions and their budgets both in the plan and the progress report. It will identify any redirection of phased-out production capacity for which compensation was provided, as specified in paragraph 3 of the Agreement to production for feedstock use by plant and by plant line where applicable. The report and plan will indicate what capacities are closed and dismantled and the target for the next year. Controlled and feedstock production by plant line, if applicable, should be provided. The report should further highlight successes, experiences, and challenges related to the different activities included in the plan, reflecting any changes in the circumstances in the Country, and providing other relevant information. The report should also include information on and justification for any changes vis-à-vis the previously submitted annual implementation plan(s), such as delays, uses of the flexibility for reallocation of funds during implementation of a tranche, as provided for in paragraph 20 of this Agreement, or other changes. The narrative report will cover all relevant years specified in sub-paragraph 19(a) of this Agreement and may, in addition, also include information on activities in the current year;
 - (b) A verification report on the results of the HPPMP and the production of the substances listed in Appendix 1-A, as per sub-paragraph 19(b) of this Agreement. Unless otherwise decided by the Executive Committee, such a verification shall be provided together with

each tranche request and, as specified in sub-paragraph 19(a) of this Agreement, will provide verification of production for all relevant years for which a verification report has not yet been noted by the Executive Committee;

- (c) A written description of the activities to be undertaken up to and including the year of the planned submission of the next tranche request, highlighting the interdependence of the activities, and taking into account experience gained and progress achieved in the implementation of earlier tranches; the data in the plan will be provided by calendar year. The description should also include a reference to the overall plan and progress achieved, as well as any possible changes to the overall plan that are foreseen. The description should cover the years specified in sub-paragraph 19(d) of this Agreement. The description should also specify and explain in detail such changes to the overall plan. This description of future activities may be submitted as a part of the same document as the narrative report under sub-paragraph (a) above;
- (d) A set of quantitative information for all annual implementation reports and annual implementation plans is to be submitted through an online database; and
- (e) An executive summary of around five paragraphs is to be submitted in order to summarize the information required by sub-paragraphs (a) to (c) above.

APPENDIX 5-A: MONITORING INSTITUTIONS AND ROLES FOR STAGE II

1. The overall monitoring will be the responsibility of the Department of Atmospheric Environment/Ministry of Ecology and Environment and acts as the National Ozone Unit (NOU).

2. The NOU will be responsible for reporting and shall submit, through the relevant authority, the following reports in a timely manner:

- (a) Annual reports on production of each substance set out in row 1.2 of Appendix 2-A for controlled and feedstock uses to be submitted to the Ozone Secretariat;
- (b) Annual reports on progress in implementation of the country programme, to be submitted to the Executive Committee.

3. The Project Management Unit (PMU/FECO), in close coordination with the NOU, will be responsible to monitor the production data provided by HCFC producers; the establishment of new HCFC production lines; sales and consumption of HCFCs as raw materials for production of other chemicals and as controlled use. The PMU/FECO will also monitor the activities implemented to meet the conditions in paragraph 10 of this Agreement and the compliance with environmental regulations related to the dismantling and disposal of production facilities. The PMU will submit project-related reports to the Lead IA, including detailed reports on the activities undertaken by the PMU and the associated expenditures, in line with decision 81/46.

4. The Lead IA will carry out independent annual verifications at all HCFC producers for which tonnage was included in paragraph 3 of the Agreement. Annual HCFC production will be verified by following the Executive Committee's Guidelines and Standard Format for Verification of ODS Production Phase-out and using the Montreal Protocol's definition of production. The verification reports will be submitted to the Executive Committee in accordance with paragraph 19 of this Agreement.

APPENDIX 6-A: ROLE OF THE LEAD IMPLEMENTING AGENCY FOR STAGE II

1. The Lead IA will be responsible for the overall supervision of the implementation of the stage II of the reduction in production of HCFCs under this Agreement. The Lead IA supervision will include at least the following:

- (a) Ensuring performance and financial verification in accordance with this Agreement and with its specific internal procedures and requirements as set out in the Country's HPPMP and the addendum;
- (b) Assisting the Country in preparation of the implementation plans and subsequent reports as per Appendix 4-A;
- (c) Providing independent verification to the Executive Committee that the targets have been met and associated annual activities have been completed as indicated in the implementation plan consistent with Appendix 4-A;
- (d) Ensuring that the experiences and progress is reflected in updates of the overall plan and in future annual implementation plans, consistent with sub-paragraphs 1(c) and 1(d) of Appendix 4-A;
- (e) Fulfilling the reporting requirements for the annual implementation reports, annual implementation plans and the overall plans, as specified in Appendix 4-A, for submission to the Executive Committee;
- (f) Ensuring that appropriate independent technical experts carry out the technical reviews;
- (g) Carrying out required supervision missions;
- (h) Tracking implementation and use of funds to ensure that they are consistent with all the Lead IA policies and procedures, including safeguard policies, as well as Executive Committee policies and procedures and provisions of this Agreement;
- (i) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the implementation plan and accurate data reporting;
- (j) In case of reductions in funding for failure to comply in accordance with paragraph 1 of this Agreement, to determine, in consultation with the Country, the allocation of the reductions to the different budget items and to the agency support cost of the Lead IA;
- (k) Ensuring that disbursements made to the Country are based on the use of the indicators; and
- (l) Providing assistance with policy, management and technical support when required.

2. After consultation with the Country and taking into account any views expressed, the Lead IA will select and mandate an independent entity to carry out the verification of the results and the production of the substances mentioned in Appendix 1-A, as per sub-paragraph 19(b) of this Agreement and sub-paragraph 1(b) of Appendix 4-A.

APPENDIX 7-A: REDUCTIONS IN FUNDING FOR FAILURE TO COMPLY FOR STAGE II

1. In accordance with paragraphs 12 and 24 of this Agreement, the amount of funding provided may be reduced by US \$1.10 per kg/year of production beyond the level defined in row 1.2 of Appendix 2-A for each year from future funding tranches in which the target specified in row 1.2 of Appendix 2-A has not been met.
2. If any independent annual verification, as stipulated in paragraph 3 of Appendix 5-A to this Agreement, reveals that the phased out HCFC production capacity for which compensation was provided, as specified in paragraph 3 of the Agreement, in any HCFC production plant is redirected to feedstock uses in a given year, the amount of funding may be reduced by US \$0.15 per kg/year of redirected production from future funding.