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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-fifth Meeting
Montreal, 29-31 July 1998

**REPORT OF THE 6TH MEETING
OF THE EXECUTIVE COMMITTEE'S
SUBGROUP ON THE PRODUCTION SECTOR**

1. In accordance with decision 24/61 of the 24th meeting of the Executive Committee, the Subgroup on the Production Sector held its 6th meeting on 26 July 1998 at the offices of the Multilateral Fund Secretariat in Montreal, Quebec. The meeting was attended by representatives of the following countries: Canada, China, Costa Rica, Italy, and the United States. India attended as an observer. Canada acted as Facilitator of the meeting.

2. The Chief Officer informed the meeting that, since the Subgroup's 5th meeting, preliminary data on the CFC production sector had been received from India, and therefore the technical audit in India would be carried out simultaneously with that in China, which had earlier submitted its data. He also gave the meeting an update on the progress made in the arrangements for the technical audits to be carried out in China and India: the Secretariat had selected a firm and had recommended it to the Contract Committee of the United Nations Office in Nairobi (UNON) for its approval as required by United Nations financial rules. The Secretariat had learned informally that the Contract Committee had met and had endorsed the Secretariat's recommendation, but was still awaiting written confirmation in order to allow the consultant to begin work. The consultant would finalize technical audits of all plants in China and India simultaneously over a period of 20 weeks. He added that the same terms of reference applied to the technical audits in both countries. The Subgroup would receive an interim report and, after completion of the technical audits, the consultant would furnish a full report covering every plant in each country, as well as an executive summary.

3. The Subgroup noted that the results of the audits could be expected some time during the first quarter of 1999. It discussed ways in which the procedure could be speeded up in order to help China and India to meet the 1999 freeze. As China had already submitted a draft sectoral strategy and had received approval for project preparation funding at the 24th meeting of the Executive Committee for an umbrella project for closure of CFC-producing plants, the Subgroup recommended that the following approach be adopted for consideration of project-related requests at this time:

- (a) Requests for project preparation funds could be forwarded to the Subgroup for submission to the Executive Committee once preliminary production data and the draft sectoral plan for the country had been submitted;
- (b) With regard to the project proposal for which China had received preparation funds, the Subgroup requested China that, if it were predisposed to submit an innovative project proposal prior to the final receipt of the audited data, it could informally submit such a project proposal to the Subgroup Facilitator for circulation to members of the Subgroup with a view to obtaining specific comments on the proposal and expressing an opinion on whether the project was formulated in a way that it could possibly be reviewed by the Sub-Committee on Project Review at its meeting in Cairo in November 1998;
- (c) If the Subgroup Facilitator determined, after reviewing the comments, that there might be a possibility of the Sub-Committee on Project Review reviewing the project, the Facilitator would make the specific comments on the proposal

available to the Sub-Committee on Project Review. If the Sub-Committee on Project Review decided to review and recommend approval of the project, it was understood that final approval would likely be subject to confirmation of the figures therein by the technical audit and the presentation of a final sectoral strategy;

- (d) Other CFC-producing Article 5 countries wishing to request funds for project preparation must meet the requirements laid down in earlier decisions of the Executive Committee in this regard, submit the data and a draft sectoral strategy according to the approved format so that the procedure outlined for China could be followed in their case as well.

4. In general, it was felt that project preparation for the CFC production sector should be better structured and justified, taking into consideration the information contained in the appendix to the draft guide on funding closures (including gradual closures of ODS-producing plants), than that of the consumption sector so as to reduce unrealistic expectations.

5. The Subgroup noted that, as a result of its previous discussions, there was agreement on the majority of the parameters to be used to assess compensation for closure of an ODS-producing facility. Two important issues nevertheless remained outstanding: whether or not to allow for growth of the baseline production level and, if so, what percentage should be used; and the eligibility date of commencement of commercial production at a plant. The Subgroup was unable to reach agreement on those two issues and decided to inform the Executive Committee accordingly. It further decided to reconsider this issue when the information from the first two technical audits was made available in the first quarter of 1999, taking into consideration any draft project proposal it would review during the year.

6. With regard to swing plants, it was pointed out that, if a plant turned to manufacturing HCFCs after receiving funds to close down its CFC production line, it should not be eligible to receive further funding at a later stage for closure of HCFC production. The Subgroup did not reach a decision on how to deal with eligible costs for swing plants. It agreed that, for swing plants, determining appropriate funding levels was an important issue that would have to be studied further.

7. The Subgroup agreed to provide to the Facilitator comments identifying outstanding issues and how progress could be achieved on those issues in preparation for the next Subgroup meeting or informal discussion within the margins of the 26th Executive Committee Meeting in Cairo.