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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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Item 10(c) of the provisional agenda¹

**ADDITIONAL ANALYSIS OF THE ISSUE OF HFCs CONTAINED IN IMPORTED
PRE-BLENDED POLYOLS IN THE POLYURETHANE FOAM SECTOR
IN ARTICLE 5 COUNTRIES (DECISION 95/88(b))**

Introduction

1. At the 93rd meeting, the Executive Committee requested the Secretariat to prepare a brief note for consideration at the 95th meeting on the issue of HFCs contained in imported pre-blended polyols in the polyurethane (PU) foam sector in Article 5 countries on the basis of past practices.

2. At the 95th meeting, the Secretariat presented the requested document,² which is also a background document for this meeting, proposing to use 2020–2022 as reference years for all Article 5 countries to account for the import and export of pre-blended polyols containing HFCs and for the funding of eligible enterprises using imported pre-blended polyols containing HFCs. In considering the document, several Executive Committee members indicated *inter alia* that group 2 countries would have difficulties in collecting data on the amount and type of HFCs imported in pre-blended polyols for the period 2020–2022 or preparing a list of PU foam enterprises established prior to 1 January 2020 that used imported polyol systems. Another concern raised was that the reference years proposed would exclude eligible enterprises in group 2 established after 2022, but before the cut-off date of 1 January 2024. While the Secretariat's efforts to adapt the principles applied for pre-blended polyols during the HCFC phase-out were appreciated, potential data issues for some countries were acknowledged. Other comments included support for sector-specific considerations in Appendix 8-A of Agreements, questions about the appropriateness of funding principles for pre-blended polyols containing HCFC-141b given global changes due to the coronavirus disease pandemic, and a request to strengthen the document to address the challenges faced by Article 5, group 2 parties.

3. Informal discussions were held on the margins of the meeting to guide the Secretariat on the areas that would require further analysis to facilitate continued consideration of the document. Subsequently, the

¹ UNEP/OzL.Pro/ExCom/96/1

² UNEP/OzL.Pro/ExCom/95/88

Executive Committee requested the Secretariat to provide additional analysis at the 96th meeting on the effect of using years other than 2020–2022 as reference years for the import and export of pre-blended polyols containing HFCs for Article 5, group 1 and group 2, countries, including on the cut-off date for the enterprises, keeping in mind the principles mentioned in paragraphs 15 and 16 of document UNEP/OzL.Pro/ExCom/95/88.

Alternative reference years for the import and export of pre-blended polyols containing HFCs

4. When the Executive Committee considered funding the phase out of HCFC-141b contained in imported pre-blended polyols used in the PU foam sector, because HCFC-141b contained in polyols are considered a product and their exports are not deducted from the country's HCFC consumption, there was a risk of double-funding the phase-out of HCFC-141b in pre-blended polyols in both the exporting country and the importing country. To avoid this, referencing the same years for all countries (2007–2009) was used as a key principle. For countries importing HCFC-141b in pre-blended polyols, the average consumption during reference years was added to their starting point, while countries exporting HCFC-141b contained in polyols were requested to deduct from their starting point the average exports during the same years.

5. One of the main differences between the HCFC phase-out and the HFC phase-down is that Article 5 countries are divided in two groups, with different baseline years for consumption and reduction schedules. However, using different reference years for the imports and exports of HFCs in pre-blended polyols could lead to potential over- or underfunding, especially in cases when a group 1 country exports polyols containing HFCs to a group 2 country, or vice versa. The simplest and most reliable way to ensure equity across countries and avoid double-funding HFCs in pre-blended polyols is to use the same reference years for all countries (whether they are in group 1 or group 2), as done for HCFC-141b in pre-blended polyols.

6. Another principle taken into consideration to select reference years for HCFC-141b contained in imported pre-blended polyols was to use the past rather than future years to avoid the potential incentive to increase consumption if the years were established in the future. To follow this principle for HFCs, it was not possible to use the baseline years for group 2 countries, since at least two of those (2025 and 2026) are future years.

7. In selecting years other than 2020–2022 as the reference for the import and export of pre-blended polyols containing HFCs for Article 5, group 1 and group 2, countries, and still following the principles of selecting the same past years for all countries, using the years 2022 to 2024 could constitute an equitable reference for all countries, as they are all past years and include at least one baseline year both for group 1 and group 2 countries (2022 and 2024, respectively).

8. Similarly, the revised reference years of 2022 to 2024 will allow the accounting and funding of all eligible enterprises and installed capacity before 1 January 2020 for group 1 countries and before 1 January 2024 for group 2 countries and would address the concern that 2020 to 2022 would not allow the inclusion of eligible enterprises in group 2 countries established after 2022 but before the cut-off date of 1 January 2024.

9. For these reasons, using reference years of 2022 to 2024 appears optimal to maintain equity amongst Article 5, group 1 and group 2, countries. Accordingly, the principles established in document UNEP/OzL.Pro/ExCom/95/88 have been maintained, including relevant updates on the reference years presented in paragraphs 13 and 14 of the present document.

Update on the use of HFCs contained in imported pre-blended polyols in proposed reference years

10. As of the time of issuance of the present document, only few countries had reported the 2024 country programme (CP) implementation reports. An analysis of the CP data for 2022–2023 revealed that, among the 120 countries that submitted HFC data, 37 reported the use of HFCs in the PU foam sector.

Of these, 22 countries—all from group 1—reported the use of HFCs contained in imported pre-blended polyols in the PU foam sector.

11. The average use of HFCs in imported pre-blended polyols in the PU foam sector between 2022 and 2023 was 818.07 mt, representing 6.5 per cent of the average 12,597 mt of all HFCs used in the PU foam sector during the same period. Possible reasons for the low proportion of HFCs in imported pre-blended polyols used by Article 5 countries are underreporting due to the lack of monitoring of HFCs contained in polyols, and the fact that the PU foam enterprises and systems houses assisted under the Multilateral Fund to phase out HCFC-141b pure and contained in pre-blended polyols transitioned directly to alternative technologies with low global-warming potential. Although the situation in most group 2 countries remains unknown, it is expected to be similar to the results observed in the sample of 120 countries analyzed.

12. The average amount of HFCs exported in pre-blended polyols by Article 5 countries for the period 2022–2023 is 128.16 mt. The difference between this value and the average imports of HFCs in pre-blended polyols by Article 5 countries during the same period can be attributed to imports from non-Article 5 countries, imports from Article 5 countries that have not submitted their CP implementation reports, or imports from Article 5 countries that still do not have a system to monitor exports of HFCs in pre-blended polyols.

Funding the phase-out of HFCs contained in imported pre-blended polyols

13. Key principles followed by the policies established to fund the phase-out of HCFC-141b in imported pre-blended polyols were: to ensure the effective phase-out of HCFC-141b, whether pure or pre-blended, by providing support to eligible PU foam enterprises; to support the sustainability of the phase-out through the adoption of appropriate regulatory measures by Article 5 countries once the projects were completed; to prevent duplication of funding of HCFC-141b phase-out by requiring exporting countries to deduct their exports from their starting points; and to enhance the monitoring of HCFC-141b imports and exports by encouraging Article 5 countries to establish national systems for recording these amounts.

14. Taking these principles into consideration, as well as the observations and relevant information on HFCs presented by the Secretariat in the present document and document UNEP/OzL.Pro/ExCom/95/88, the Executive Committee may wish to consider:

- (a) With regard to imports of HFCs contained in pre-blended polyols, which have not been counted as consumption under Article 7, to request Article 5 countries that wish to seek assistance for the phase-out of such imports:
 - (i) To include in the overarching strategy for their Kigali HFC implementation plans (KIPs) the amount and type of HFCs imported in pre-blended polyols for the years 2022 to 2024 as reported under the country programme implementation reports, the countries from where they are being imported, and:
 - a. For group 1 countries, an indicative list of all polyurethane (PU) foam enterprises established prior to 1 January 2020 that used imported polyol systems, including the amount and type of HFCs contained therein;
 - b. For group 2 countries, an indicative list of all PU foam enterprises established prior to 1 January 2024 that used imported polyol systems, including the amount and type of HFCs contained therein;
 - (ii) If the country already has an approved KIP, to submit with the next tranche request of its KIP the information referred to in subparagraph (a)(i) above;

- (iii) Also to include in their KIPs, or in their next tranche request for those countries with an approved KIP, a sector plan for the complete phase-out of the use of HFCs contained in imported pre-blended polyols, covering the cost and funding schedule, on the understanding that quantities of HFCs contained in imported pre-blended polyols that were not included in the overarching strategy for the KIP or the next tranche request for those countries with an approved KIP would not be eligible for funding. In the cases where the country decides not to request funding for the sector plan for the complete phase-out of the use of HFCs contained in imported pre-blended polyols due to national circumstances, the country could, on an exceptional and case-by-case basis, submit a funding request for that sector plan during the implementation of stage I or a future stage of the KIP, on the understanding that the eligibility of the PU foam enterprises would be determined at the time of the submission of the project, and the maximum funding level would be based on the amount of HFCs contained in imported pre-blended polyol systems as defined in subparagraph (a)(i) above;
- (iv) To include in the sector plan a commitment from the country to put in place, by the time the last foam manufacturing plant has been converted to a non-HFC technology, regulations or policies banning the import and or the use of HFCs, both pure and contained in pre-blended polyols, in the PU foam sector;
- (b) That the maximum level of funding to be approved for each Article 5 country to phase out the import of HFCs contained in pre-blended polyols will be based on the average amount of HFCs contained in imported pre-blended polyols during the 2022–2024 period, on the understanding that this value is separate from the starting point for sustained reductions in HFC consumption and will be reflected separately from the starting point in the Agreement between the country and the Executive Committee;
- (c) That Article 5 countries with eligible enterprises manufacturing pre-blended polyols containing HFCs would be provided with assistance calculated on the basis of consumption of HFCs sold domestically for use by PU foam enterprises from 2022 to 2024, on the understanding that the export of HFCs contained in pre-blended polyols from 2022 to 2024 would be deducted from their starting point for aggregate reductions in HFC consumption at the time of submission of their KIP, or in their next tranche request for those countries with an approved KIP;
- (d) To request Article 5 countries that export HFCs in pre-blended polyols, to inform their exports for the years 2022–2024 at the time of submission of the KIP, in their next tranche request for those countries with an approved KIP, or when requesting funding to phase out HFCs that are used in the PU foam sector; and
- (e) To request Article 5 countries using HFCs, either pure or contained in pre-blended polyols, in the PU foam sector to consider establishing a national system for recording and monitoring the amounts of HFCs contained in pre-blended polyols imported and/or exported (where applicable) to support the ban on imports of pure HFCs, as well as HFCs contained in pre-blended polyols, to be issued once all the foam enterprises have been converted, and to facilitate monitoring of these enterprises to sustain the HFC phase-out.