



**United Nations  
Environment  
Programme**

Distr.  
GENERAL

UNEP/OzL.Pro/ExCom/75/84\*  
19 November 2015

ORIGINAL: ENGLISH



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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Seventy-fifth Meeting  
Montreal, 16 – 20 November 2015

**REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR**

\* Re-issued for technical reasons on 19 November 2015

## **Introduction**

1. The Production Sector Sub-group was reconstituted at the 75<sup>th</sup> meeting of the Executive Committee. The Sub-group consisted of the representatives of Australia, Bahrain, Brazil, Egypt, Grenada, India, Italy, Japan, Sweden, and the United States of America, with Australia acting as facilitator. Representatives of UNDP, UNIDO and the World Bank were also present as observers.

### **Agenda item 1: Adoption of the Agenda**

2. The Sub-group adopted the provisional agenda contained in document UNEP/OzL.Pro/ExCom/75/SGP/1 and agreed to discuss, under agenda item 6 “Other matters”, the request for project preparation for stage II of the HCFC production phase-out management plan (HPPMP) for China (UNEP/OzL.Pro/ExCom/75/32).

### **Agenda item 2: Organization of work**

3. The Sub-group agreed to commence its work by addressing agenda item 4 “HCFC production phase-out management plan (HPPMP) for China” followed by agenda item 5, “Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in Mexico”.

### **Agenda item 3: HCFC production sector guidelines**

4. Due to a lack of time it was agreed to postpone further discussion of the guidelines to the next meeting.

### **Agenda item 4: HCFC production phase-out management plan (HPPMP) for China**

#### **(a) 2014 verification report of the HCFC production**

5. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/75/SGP/3 and said that the verification report had concluded that the Government of China was in compliance with its control targets for HCFC production and consumption in 2014. The report had also confirmed that the Jiangxi Yingguang plant, which had not been included in either the original technical audit or the request for stage I of the HPPMP, had no HCFC production in 2014 and would not be eligible for a quota to produce HCFC-22 for ODS use, it could only produce HCFC-22 for feedstock. She said that the World Bank had also confirmed that there would be no further revision of the verification report.

6. One member said that at the previous meeting of the sub-group the Secretariat had been requested to review the work being carried out relating to paragraph 10 of the Agreement between the Government of China and the Executive Committee for the phase-out of production of HCFCs (Annex XXVI of UNEP/OzL.Pro/ExCom/71/64) and to report back to the Executive Committee when the 2015 and 2016 tranche progress reports were presented<sup>1</sup>. He said that the report should provide information on the associated by-products, and especially address the issue of CTC as a by-product of the production process. He also asked what had happened to the ODS associated with the equipment in the production lines that had been dismantled.

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<sup>1</sup> Pursuant to the agreement China should make its best efforts to manage HCFC production and associated by-product production in HCFC plants in accordance with best practices to minimize associated climate impacts.

7. The representative of the Secretariat said that when a plant was shut down, the system was purged to collect the ODS in the system. The stock of ODS in the plant was closely monitored and was generally sold for ODS use.

8. Another member asked for clarification on the differences between the HCFC export data recorded at the plants and the data reported by the Export/Import office and noted that a new system had recently been put in place to monitor and manage HCFC exports. She asked what system would be used for 2015, how the discrepancies in the data could be reconciled, and whether the Secretariat could provide a list that contained all the original plants and which indicated that changes that had taken place at the plant level since the approval of the HPPMP. The list was subsequently provided.

9. The representative of the World Bank explained that one reason for the discrepancies was that export documents were only required to list the name of a single supplier although there may in fact have been a number of different suppliers. He also explained that under the new system customs export declarations would no longer be returned to exporters and so other methods would need to be used to verify their exports. He also said, with respect to by-products, that while some plants did use chloroform as an input into the production process that was a separate issue from the by-products addressed under paragraph 10 of the Agreement and the Bank had no additional information to provide on that.

10. The representative of India, speaking on behalf of the Government of China, said that the discrepancies were not of great concern at the global level as the records of the manufacturers could still be tracked and the records of the importing countries would match the records of exports to those countries from China.

11. A representative of the Secretariat said that the requested information relating to paragraph 10 of the Agreement was addressed in the verification report and 2015 progress report documents for HFC-23, for which the rates of incineration had been tracked and new information about the Government's programme to incinerate HFC-23 had been provided.

12. Following informal discussions the Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the verification report on the HCFC production sector for China, which indicated that China had remained within the maximum allowable production and consumption targets for 2014;
- (b) Request the World Bank and the Government of China to examine the differences between the Customs data and the data reported by the following producers: Zhejiang Yongpeng, Zhejiang Sanmei, Zhejiang Juhua and Zibo Luxuan, and to report back to the Executive Committee in the 2015 verification report to be conducted in 2016; and
- (c) Allow the consideration of the funding tranche of the 2016 annual implementation programme of stage I of the HCFC production phase-out management plan for China at the 75<sup>th</sup> meeting.

**(b) 2016 annual tranche 2015 progress report**

13. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/75/SGP/4 which noted the progress in the implementation of quotas and plant closures, addressed the changes in ownership of one plant, and reported on the activities of project management unit. It also reported on the efforts to reduce adverse climate impacts through subsidies for the incineration of the HFC-23 by-products.

14. In response to a query as to how the redistribution of quotas would affect the terms of the Agreement with the Executive Committee, the representative of the Secretariat said that China was allowed to produce up to the amount allowed under the Agreement between the Government of China and the Executive Committee. She further clarified that any changes in the quotas would depend on whether there was a shortage of supply to meet the global demand for HCFCs when synchronizing the phase-out of production with the phase-out of consumption.

15. The representative of the World Bank said it was the Bank's understanding that paragraph 10 of the Agreement only addressed HFC-23 as the by-product of the HCFC production process. However, one member said that that CTC was not a by-product of HCFC production process but was rather a co-product of chloroform. The representative of the World Bank said that it was his understanding that neither China nor the World Bank were being requested to provide any additional documents but would instead supply the Secretariat with the information it required to complete its review as needed.

16. Following informal discussions the Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the 2016 annual implementation tranche and 2015 progress report, considered by the Sub-group on the Production Sector
- (b) Note that 75 per cent of the ownership of producer Pengyou had been transferred to a British company registered in Hong Kong;
- (c) Note that the World Bank would include in its 2015 verification report, to be conducted in 2016, the verification of dismantling of HCFC production facilities in Jiangsu Blue Star and Yantai Zhongrui;
- (d) Approve the 2016 tranche of the HCFC production phase-out management plan (HPPMP) for China, and the corresponding 2016 tranche implementation plan, in the amount of US \$24 million, plus agency support costs of US \$1.344 million for the World Bank, noting that US \$7,200,000 from the fourth tranche would be released at the 75<sup>th</sup> meeting and the remaining balance of US \$16,800,000 would be released in 2016; and
- (e) Request the Treasurer to deduct US \$8,370 of interest accrued from the 2014 tranche as part of the release of the funds to the World Bank.

**Agenda item 5: Preliminary data and request for authorization to carry out the technical audit of the HCFC production sector in Mexico**

17. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/75/SGP/5 which had been before the sub-group at its previous meeting as document UNEP/OzL.Pro/ExCom/74/SGP/6.

18. In response to several requests for clarification on the facility producing HCFC-22, the representative of UNIDO explained that the production of HCFC-22 in 2014 had amounted to 9,214 metric tonnes, of which 5,148 had been exported. The production quota was for the whole of the company's production, although only one of the two lines produced HCFC-22. He also confirmed that although the line had been closed in 2012 it had come back into production in May 2015. The company had two production lines which shared some facilities, and were enclosed in the same building, although each had its own reactor and storage facilities.

19. The representative of Grenada explained, on behalf of the government of Mexico, that at the time of the CFC phase-out agreement one of the two production line had only produced HCFC-22 and had never produced CFC. Consequently it was the position of Mexico that the agreement did not apply to that particular line, especially as its production of HCFC-22 had been deducted from the amounts of ODS for which Mexico had received compensation under the agreement.

20. One member said that on a strict reading of the agreement it was his opinion that the line was not eligible for compensation. That agreement for the CFC production sector in Mexico, as contained in Annex V of document UNEP/OzL.Pro/ExCom/40/50, provided that no additional Multilateral Fund resources would be forthcoming for related activities including the development of infrastructure for the production of alternatives, or the eventual closure of any HCFC facilities, the import of alternatives, or the eventual closure of any HCFC facilities that use existing CFC infrastructure. The fact that the production of HCFC-22 for had been deducted at the time of the agreement could not be seen as an indication that the line was now eligible as a similar deduction had been made in other agreements. Another member said that she agreed with that position, and while she appreciated the position of the Government of Mexico her view had not changed.

21. The facilitator said that there had been no agreement in the sub-group on how to move forward with the preliminary data and the request for authorization to carry out a technical audit of the HCFC production sector in Mexico.

**Agenda item 6: Other matters**

*Project preparation for stage II of the HPPMP for China*

22. The facilitator reminded the sub-group that the Chair of the Executive Committee had asked the sub-group to consider the issue of the request for project preparation for stage II of the HPPMP for China which was contained in the World Bank's amendments to its work programme for 2015 (UNEP/OzL.Pro/ExCom/75/32).

23. The representative of the World Bank said that it was his understanding that the first tranche of funding for stage II of the HPPMP could be submitted up to the 78<sup>th</sup> meeting. He confirmed that project preparation would address phase-out activities to be implemented up to 2020 and that the Bank would continue to apply the approach that it had used under stage I of the HPPMP when addressing paragraph 10 of the HPPMP agreement between the Government of China and the Executive Committee.

24. It was suggested that, in light of the activities that had already taken place, project preparation activities could be more ambitious and extended up to 2030. It was also pointed out that the funding requirements should decrease towards the end of the HPPMP as those producers who were addressed in the latter stages would have already profited from the period during which they had remained in production.

25. The representative of the World Bank explained that while its project implementation model and strategy could be projected up to 2030, the projections for the phase out of chemicals could only be accurately made for a period of up to five years. There were also components of the overarching strategy resulting from the Agreement between the Government of China and the Executive Committee that would need to be addressed, including such issues as idle capacity, additional capacity, and some adjustments to ensure the effectiveness of the implementation procedures. The projections, in part, depended on activities being undertaken in other Article 5 countries and so any projection beyond five years would be likely subject to significant revision.

26. The Sub-group on the Production Sector recommends, in light of decisions 71/23(b) and (c) and 73/27(c)(ii)a, that the Executive Committee approve the request for project preparation for stage II of the HCFC production phase-out management plan (HPPMP) for China at the level of funding of US \$254,650 plus support costs of US \$17,825 for the World Bank, noting that the Government of China would be allowed to submit stage II of the HPPMP in 2016 together with a funding request for the approval of first tranche of stage II not later than the first meeting of 2017, with the understanding that it would include a description of how stage II of the HPPMP would fit into the overarching production sector phase-out plan to 2030.

**Agenda item 7: Adoption of the report**

27. The present report was reviewed by the facilitator.

**Agenda item 8: Closure**

28. The Sub-group on the Production Sector's deliberations closed at 9.55 am on 19 November 2015.

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