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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-second Meeting
Montreal, 3-7 December 2018

REPORT OF THE SUB-GROUP ON THE PRODUCTION SECTOR

Introduction

1. The Sub-group on the Production Sector, which had been reconstituted at the 81st meeting of the Executive Committee, met two times in the margins of the 82nd meeting. The Sub-group consisted of the representatives of Argentina, Canada, Dominican Republic, France, India, Nigeria, Norway, and the United States of America, with Canada acting as facilitator. Representatives of 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/82/SGP/1.

Agenda item 2: Organization of work

3. The Sub-group agreed to follow the organization of work proposed by the facilitator.

Agenda item 3: HCFC production sector guidelines

4. In view of the lack of time the agenda item was not discussed.

Agenda item 4: HCFC production phase-out management plan (stage I) for China

(a) 2017 verification report of the HCFC production sector

5. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/82/SGP/3, and said that as requested by decision 80/79(b)(ii), the verification team had confirmed that the newly established HCFC-142b production lines in Zhejiang Juhua Fluoro-chemical Co. Ltd., and Shandong Donyue Chemical Co. Ltd., were integrated with downstream production facilities, and all the HCFC-142b produced in 2017 had been used as feedstock. Two new HCFC-22 producers, Fujian Sannog and Liaocheng Fuer, had established two lines for feedstock production, both of which had been integrated with downstream tetrafluoroethylene (TFE) production facilities and had established HFC-23 destruction

facilities. The Secretariat suggested to include, on a one-time-basis, the verification of the two newly established HCFC-22 production lines into the 2018 production verification to be conducted in 2019.

6. Since the issuance of the document, the Secretariat had been informed of the opening of two additional integrated facilities, Zhejiang Jusheng Fluorochemical and Inner Mongolia Yonghe Fluorochemical, which produced HCFC-22 and HCFC-142b for feedstock use only, respectively.

7. During the discussions, questions were asked about the verification process, the experts that undertook that verification, whether they were independent auditors, and the inclusion of the HCFC-22 swing plant in the verification process. The representative of the Secretariat said that the verification had been conducted by one technical and one financial expert, both employed by the World Bank, and that they had examined the plant records for HCFC production, sales for controlled and feedstock use, and changes in stock levels; further they had compared the production data from the technical verification with financial records. She also explained that the HCFC-22 swing plant had been included in the verification report, but that the report had not included the two feedstock producers that had been established after 2010, mentioned in her report, and the two new facilities that had been reported on orally, and the one that had been reported to the 74th meeting.

8. There were further queries about the qualifications of the two experts, the methodology used for the technical verification, such as the measurement of by-products and residues, and the instruments used to perform those measurements. The representative of the Secretariat said that the verification usually took three days for each production facility during which the records of the plant's operations were checked, the measurements taken at the plant, the stocks held at the beginning and end of the year, as well as the amounts being held in storage.

9. The representative of the World Bank added that the production was cross-checked with the raw material inputs and product outputs at each line.

10. It was asked when guidelines used for verification of production and consumption had been established and whether they should be revisited. It was also asked how it had been determined which plants to verify, whether all the plants funded by the Fund were verified, how the production of those plants not funded by the Fund was verified and what enforcement mechanisms were in place for them. The representative of the Secretariat explained that the current verification covered the 28 plants funded under the HPPMP, five of which had been closed, and did not cover the five plants established after 2010. It was also explained that the monitoring of the production level and enforcement were conducted by the Government of China. Issues identified during the verification were discussed with the producers and dealers at the annual workshops.

11. In response to a query about the measurement of stored or vented HFC-23 and whether fugitive emissions were monitored, the representative of the Secretariat explained that all facilities currently had incinerators and storage facilities installed, and that most had meters. The amount of HFC-23 vented was calculated to be 26 tons for 2017, a figure which also took into account fugitive emissions.

12. One member said that it would be useful to have additional information on the monitoring of those enterprises that had not received funding from the Multilateral Fund; the Government of China had its own procedures and it would be helpful to know how they were monitored. The representative of the World Bank explained that because the new production lines had only started producing in 2017, their monitoring would be undertaken by the local environmental protection bureau (EPB). FECO had no direct contact with the companies involved and it would need to rely on the voluntary provision of the data by the EPB involved. The data could be obtained through independent verification by the World Bank, which would take place on a one-time basis; or that information could also be included in future progress reports when it was reported by the Government of China.

13. The member said that she still would like to see the information recorded in the subsequent independent verification, on a one-time basis, but that it should also be provided in future years through the country's national reporting.

14. The Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the 2017 verification report of the HCFC production sector in China considered by the Sub-group on the Production Sector;
- (b) Request the World Bank, in the 2018 verification exercise to be conducted in 2019:
 - (i) To verify, on a one-time basis, that the newly established production lines in Fujian Sannong, Liaocheng Fuer and Zhejiang Jusheng Fluorochemical for HCFC-22 and Inner Mongolia Yonghe Fluorochemical for HCFC-142b were vertically integrated with the production of downstream facilities and that all HCFCs produced in the new lines would be channelled to feedstock use;
 - (ii) To verify that the key equipment in Shangdong China Fluoro Technology Co. Ltd., that was closed in 2017 had been destroyed; and
 - (iii) To include, in the annual verification report of the HCFC production sector, national information on the management of HFC-23 by-product generated in all HCFC-22 feedstock production lines established after 2010, including the four HCFC-22 production lines the establishment of which had been reported to the Executive Committee at its 74th and 82nd meetings;
- (c) Request the World Bank to include in the annual verification report of the HCFC production sector, national information provided by the Government of China on the management of HFC-23 by-product generated in all HCFC-22 feedstock production lines established after 2010, including the four HCFC-22 production lines the establishment of which had been reported to the Executive Committee at its 74th and 82nd meetings; and
- (d) Request the Secretariat to provide a document to the 83rd meeting for the consideration of the Sub-group on the Production Sector containing a review of the guidelines and standard format used during the verification of ODS production phase-out, as contained in document UNEP/OzL.Pro/ExCom/32/33, and an analysis of those aspects of the guidelines and the standard format where further improvements could be made to support compliance through strengthening the monitoring of the production of ODS and the associated costs.

(b) 2017 progress report

15. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/82/SGP/4.

16. The representative of the World Bank said that the Bank had not yet received the US \$133,146 penalty of to be paid for redirection of 887.64 metric tonnes of compensated HCFC production and suggested that this amount be returned to the Fund to the 84th meeting together with the remaining balances of stage I of the HPPMP being returned.

17. The Sub-group on the Production Sector recommends that the Executive Committee:

- (a) Note the 2017–2018 progress report for the implementation of the HCFC production phase-out management plan (HPPMP) (stage I) for China considered by the Sub-group on the Production Sector;

- (b) Note that the World Bank would submit a project completion report and return the remaining balances of stage I of the HPPMP to the 84th meeting;
- (c) Note that US \$13,076 of interest accrued in 2017 would be deducted from the first tranche of stage II of the HPPMP when approved;
- (d) Note that the return of the penalty in the amount of US \$133,146 associated with redirection of 887.64 metric tonnes of compensated HCFC production capacity towards feedstock production by the Changshu 3F Zhonghao New Chemical Material Co. Ltd; facility, would be included in the balances returned to the Multilateral Fund from stage I of the HPPMP by the World Bank to the 84th meeting in line with decision 80/79(d); and
- (e) Request the Government of China through the World Bank to submit the final progress report of stage I of the HPPMP to the 83rd meeting.

Agenda item 5: HCFC production phase-out management plan (stage II) for China: Remaining issues to be addressed (decision 81/71(d))

- 18. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/82/SGP/5.
- 19. One member, supported, by another, said that because of the unresolved issue of the illegal CFC-11 emissions the explanatory note on stage II of the HPPMP could be noted but guidance on the submission of stage II could not be provided at the present meeting.
- 20. The Sub-group on the Production Sector recommends that the Executive Committee:
 - (a) Take note of the submission of the explanatory note on stage II of the HCFC production phase-out management plan (HPPMP) for China considered by the Sub-group on the Production Sector; and
 - (b) Consider the information contained in the explanatory note in its discussions on stage II of the HPPMP for China.

Agenda item 6: Other matters

- 21. No other matters were raised.

Agenda item 7: Adoption of the report

- 22. The present report was reviewed by the facilitator.

Agenda item 8: Closure

- 23. The meeting of the Sub-group on the Production Sector was closed at 4.00 pm on 6 December 2018.