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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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Item 11(a)(i) of the provisional agenda¹

**ANALYSIS OF THE LEVEL AND MODALITIES OF FUNDING
FOR HFC PHASE-DOWN IN THE REFRIGERATION SERVICING SECTOR**

This document consists of:

- A note by the Secretariat referring to the discussions that took place at the 91st meeting of the Executive Committee
- Two annexes:
 - Draft recommendation as discussed by the Executive Committee at its 91st meeting
 - A record of previous proposals made during the meetings of the Executive Committee regarding the levels and modalities of funding

¹ UNEP/OzL.Pro/ExCom/92/1

Note by the Secretariat

Introduction

1. In the course of developing its cost guidelines for HFC phase-down, the Executive Committee requested the Secretariat to provide an analysis of the level and modalities of funding in the refrigeration servicing sector, including any opportunities for the integrated implementation of HFC phase-down and HCFC phase-out activities.² Taking into account the preliminary report on all aspects related to the refrigeration servicing sector that support HFC phase-down³ and guidance from the Executive Committee, the requested document was prepared and considered at the 88th meeting.⁴

88th meeting

2. At the 88th meeting, the contact group established to discuss the matter identified several issues that needed further attention, including challenges to the implementation of HCFC phase-out and HFC phase-down in the refrigeration servicing sector and the possibly premature discussion of the modalities and levels of funding in the absence of the relevant cost guidelines. As no agreement was reached, the Executive Committee decided to pursue discussions at its 89th meeting.⁵

89th meeting

3. At part I of the 89th meeting, the Executive Committee continued its discussions on the matter,⁶ achieving *inter alia* the following outcomes:

- (a) Agreement to discuss the third funding modality proposed by the Secretariat⁷ as the basis for establishing an overall level of funding allocated to the servicing sector for all countries;
- (b) A common understanding of the need to capitalize on existing infrastructure, with several Article 5 Parties emphasizing the additional effort and activities entailed by HFC phase-down, and the need to account for it in the agreed funding;
- (c) A request to the Secretariat to categorize non-low-volume-consuming (non-LVC) countries by consumption and needs, and to suggest corresponding funding levels for further discussion at part II of the 89th meeting; and
- (d) Temporary use of HCFC baselines as a proxy for HFC consumption when considering funding; and to review and adjust funding levels, possibly in 2025, once HFC baselines were known.

4. Following the Committee's request,⁸ the Secretariat prepared and submitted an additional document to part II of the 89th meeting, expanding on the third modality of funding under discussion.⁹ The document categorized non-LVC countries into four groups based on their levels of HCFC consumption and

² Decisions 83/65(b) and 84/86(b)(ii)

³ UNEP/OzL.Pro/ExCom/82/64

⁴ The analysis was requested for the 85th meeting; because of the COVID-19 pandemic it was prepared for the 86th meeting (UNEP/OzL.Pro/ExCom/86/89) and its discussion was deferred to the 88th meeting (online), when it was considered as document UNEP/OzL.Pro/ExCom/88/72.

⁵ Decision 88/76

⁶ Based on document UNEP/OzL.Pro/ExCom/89/8 (reissued document UNEP/OzL.Pro/ExCom/88/72).

⁷ Paragraphs 45-52 of document UNEP/OzL.Pro/ExCom/89/8

⁸ Paragraph 44 of document UNEP/OzL.Pro/ExCom/89/15

⁹ UNEP/OzL.Pro/ExCom/89/8/Add.1

manufacturing, proposed different levels of funding for each group, and discussed several cases requiring individual modalities of funding.

5. At part II of the 89th meeting, a member recognized that the graduated levels of funding proposed in the document would ensure tailored assistance options to different types of non-LVC countries. Other members expressed the view that HFC reductions in the refrigeration servicing sector would require additional funding due to the existing equipment obsolescence, inflation, growing costs, fluctuating numbers of technicians, measures to address flammability of refrigerants with low global-warming potential (GWP), and the need for capacity building throughout the complete refrigerant supply chain. One member expressed the need for flexibility due to economic slowdown during the COVID-19 pandemic translated into artificially low consumption in the baseline years that were to become a reference for the starting point for sustained reductions in HFC consumption. A group of countries provided a proposal based on their HFC use up to 2021 in CO₂-equivalent tonnes and suggested that funding be calculated based on HFC emissions in CO₂-equivalent tonnes. As the contact group established to discuss the matter did not reach agreement, the Executive Committee agreed to continue the discussions at the following meeting.

90th meeting

6. At the 90th meeting, the following options were discussed in a contact group: for non-LVC countries adopting a flat rate of US \$3.20 per kg, adopting a flat rate of US \$7.00 per kg, or adopting a graduated approach with the lowest cost-effectiveness set at US \$5.00 per kg. It was also proposed to create a new category of non-LVC countries at the lower-consuming end of the range that could be eligible for additional funding. For LVC countries, the group considered two additional proposals, shown in Annex II to the present document, without any agreement reached. As the discussions in the contact group were inconclusive, the Executive Committee agreed to pursue consideration of the analysis of the level and modalities of funding for HFC phase-down in the refrigeration servicing sector at its 91st meeting.¹⁰

91st meeting

7. At the 91st meeting, Executive Committee members expressed the need to reach a conclusion on the issue, given that Article 5 countries were already preparing their Kigali HFC implementation plan (KIP) project proposals for submission to the Committee and agreed to discuss the matter further in a contact group. The contact group made progress on the text of a draft recommendation but did not reach final agreement on the levels of funding for LVC and non-LVC countries. The contact group agreed to annex the text of the draft recommendation and the working funding tables to the report of the meeting¹¹ and that those documents should also be annexed to the relevant documents to be prepared for discussion at the 92nd meeting. Accordingly, the Executive Committee agreed to continue its consideration of the level and modalities of funding for HFC phase-down in the refrigeration servicing sector at its 92nd meeting, based on *inter alia* the working document on the item including the draft recommendation text in Annex I of the present document and the working funding tables in Annex II.

8. As requested by the contact group, the working funding tables include a record of previously made funding proposals, on the understanding that the negotiations at the 92nd meeting would proceed on the basis of the latest unified proposals from Article 5 and non-Article 5 countries, while also noting that Article 5 countries had been clear that they would be working on the basis of reductions from the HFC baseline.¹²

¹⁰ Paragraph 180 of document UNEP/OzL.Pro/ExCom/90/40

¹¹ UNEP/OzL.Pro/ExCom/91/72

¹² Paragraph 225 UNEP/OzL.Pro/ExCom/91/72

Update on the use of HCFC baseline as a proxy

9. The analysis of the level and modalities of funding for HFC phase-down in the refrigeration servicing sector was first prepared and submitted to the 86th meeting¹³ when no HFC consumption data was available yet for any of the baseline years for group 1 and 2 countries. In the absence of either estimated or established HFC baselines, LVC countries were classified into eight groups according to their HCFC consumption in the refrigeration servicing sector during the HCFC baseline years, and non-LVC countries were divided into two groups (consuming below or above 25,000 mt of HCFCs), and subsequently four groups, based on levels of HCFC consumption in the refrigeration servicing sector.

10. The Secretariat updated the comparison made at the time of the 91st meeting of HCFC baselines against HFC consumption levels reported, as of March 2022, in 2020 and 2021 by, respectively, 105 and 109 Article 5 countries. So far, HFC consumption in 2020 and/or 2021 was found to be below 360 mt¹⁴ in six non-LVC countries, and above 360 mt in 11 LVC countries. It should be noted that HFC consumption patterns in some countries continue to be unclear, and that the data is not sufficient yet to reach conclusions on how HCFC baselines compare to HFC consumption in baseline years.

11. By 30 September 2023, all Article 5 countries that have ratified the Kigali Amendment will have reported their 2022 HFC consumption data, and for those that are in group 1, their HFC consumption baselines will become known. For those countries the use of the HCFC baseline may no longer be necessary.

¹³ UNEP/OzL.Pro/ExCom/86/89 (reissued as document UNEP/OzL.Pro/ExCom/87/47)

¹⁴ Annual consumption level of 360 mt is the cut-off point below which a country is considered to be LVC for the purpose of determining funding eligibility for projects.

Annex I

WORKING TEXT ON THE ANALYSIS OF THE LEVEL AND MODALITIES OF FUNDING FOR HFC PHASE-DOWN IN THE REFRIGERATION SERVICING SECTOR

DRAFT RECOMMENDATION

The Executive Committee may wish to consider:

- (a) Noting the analysis of the level and modalities of funding for HFC phase-down in the refrigeration servicing sector, contained in document UNEP/OzL.Pro/ExCom/91/61;
- (b) Applying the following principles with regard to the eligible incremental costs in the refrigeration servicing sector for stage I of the Kigali HFC implementation plans (KIPs), on the understanding that the funding levels specified below would be revised for activities submitted for future KIP stages when activities under HCFC phase-out management plans were completed:
 - (i) Article 5 countries must include in their KIPs, at a minimum:
 - a. A commitment to meeting, without further requests for funding, at least the 10 per cent reduction step in HFC consumption in line with the compliance schedule of the Montreal Protocol, and restricting imports of HFC-based equipment if feasible and if necessary to achieve the compliance schedule and to support relevant phase-~~out~~down activities;
 - b. Mandatory reporting, by the time funding tranches for the KIPs are requested, on the implementation of activities undertaken in the refrigeration servicing sector and in the manufacturing sector, when applicable, in the previous tranche, as well as a comprehensive annual work plan for the implementation of the activities associated with the next tranche; and
 - c. A description of the roles and responsibilities of major stakeholders, as well as the lead implementing agency and the cooperating agencies, where applicable;
 - ~~e.d.~~ [A description of how activities in the servicing sector under KIPs and HPMPs will be coordinated in their implementation including how opportunities for synergies and joint implementation of activities will be undertaken];
 - (ii) Article 5 countries that have a total HCFC consumption baseline of up to 360 metric tonnes (mt) will be provided funding consistent with the level of consumption in the refrigeration servicing sector, as shown in the table below, on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve at least the 10 per cent HFC reduction target;
[Intervention from Canada: Consider the possibility of combining tables in subparagraphs (ii) and (iii)]

<u>[[HFC consumption or, if not available,] HCFC consumption]</u> in servicing in baseline years (mt)	Funding (US \$)
>0 <15	88,125
15 <40	112,500
40 <80	120,000
80 <120	135,000
120 <160	142,500
160 <200	150,000
200 <320	240,000
320 <360	270,000]

~~(ii)~~(iii) Article 5 countries with a HCFC consumption baseline above 360 mt and below 25,000 mt will be provided funding, which will be deducted from their starting point for aggregate reductions in HFC consumption, [at a level up to US \$3.20/metric kg,]/[consistent with the levels shown in the table below,] on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve at least the 10 per cent HFC reduction target;

<u>[[HFC consumption or, if not available,] HCFC consumption]</u> in servicing in baseline years (mt)	Level of funding per country
360 to 1,800	US \$4.80/kg. If this value is lower than that agreed for the largest group in paragraph (b)(ii) above, the country can opt to be funded based on paragraph (b)(ii)
1,800 to 8,000	US \$4.80/kg for the first 1,800 mt US \$4.00/kg for every mt above 1,800
8,000 to 25,000	US \$4.80/kg for the first 1,800 mt US \$4.00/kg for every mt above 1,800 and below 8,000 US \$3.20/kg for every mt above 8,000
Above 25,000	Case-by-case]

~~(iii)~~(iv) Funding for Article 5 countries that have a total HCFC consumption baseline above 25,000 mt will be considered on a case-by-case basis;

- (c) Reviewing the level of funding approved for each country [that received approval for funding prior to its HFC consumption baseline being available] on the basis of their relevant HFC baseline information, [when known] [when reported], [and revising this funding if needed to ensure consistency with paragraph b(ii) and (iii)] ~~[once the HFC baselines are known];~~ and
- (d) Including the principles referred to in subparagraphs (b) and (c) in the draft cost guidelines for the phase-down of HFCs and revising [revisiting] these principles in 2028 for the funding of future stages of the KIPs.

Annex II

PROPOSED FUNDING LEVELS

The different options of funding levels considered by the contact group for both low-volume-consuming (LVC) and non-LVC countries to reach the 10 per cent reduction step of HFC phase-down in the servicing sector are presented in tables 1 and 2.

Table 1. Proposed funding levels for stage I of the Kigali HFC implementation plan for the servicing sector in LVC countries (US \$/kg)

[HFC consumption or, if not available, HCFC consumption] in servicing in baseline years (mt)	Funding for the HPMP (decision 74/50)	Secretariat proposal (documents 88/72 and 89/8/Add.1)	Cuba proposal (90th meeting)	Article 2 countries proposal (90th meeting)	Revised Article 5 countries proposal (91st meeting)	Revised Article 2 countries proposal in response to Article 5 countries new proposal (91st meeting)	
						,(10% reduction from baseline)	(10% reduction from HFC consumption)
Below 15	58,750	88,125	381,875	75,000	117,500	105,000	117,500
15 to 40	75,000	112,500	487,500	95,000	150,000	130,000	150,000
40 to 80	80,000	120,000	520,000	118,800	160,000	145,000	160,000
80 to 120	90,000	135,000	585,000	133,700	180,000	160,000	180,000
120 to 160	95,000	142,500	617,500	141,000	190,000	170,000	190,000
160 to 200	100,000	150,000	650,000	148,500	200,000	180,000	200,000
200 to 320	160,000	240,000	1,040,000	237,600	320,000 368,000	250,000	320,000
320 to 360	180,000	270,000	1,170,000	267,000	360,000 375,000	280,000	360,000

* In addition to the proposals contained in the table above, at the 89th meeting Guyana proposed to use the CO₂-eq tonne emissions as a basis for funding in the servicing sector.

Table 2. Proposed funding levels for non-LVC countries to meet the ten per cent reduction step in the servicing sector (US \$/kg)

<u>[HFC consumption, or, if not available, HCFC consumption]</u> in the baseline years (mt)	Secretariat graduated approach proposal (document 89/8/Add.1)	Article 2 countries flat rate proposal (90 th meeting)	Article 5 countries proposals (90 th meeting)	Article 2 countries proposals (91 st meeting)		Article 5 countries flat rate proposal (91 st meeting)
				Graduated approach	Flat rate	
360-600 ^{**} 360-800(*)(**)	US \$4.80/kg for the first 1,800 mt	US \$3.20/kg	India: flat rate of US \$7.00/kg Article 5 countries: graduated approach with lowest value at US \$5.00/kg	US \$5.30/kg for the first 800 mt	US \$3.60/kg	US \$6.00/kg
600-1,800 800-1800	US \$4.80/kg for the first 1,800 mt			US \$5.30/kg for the first 800 mt US \$4.80/kg for every mt above 800		
1,800-8,000	US \$4.80/kg for the first 1,800 mt US \$4.00/kg for every mt above 1,800			US \$5.30/kg for the first 800 mt US \$4.80/kg for every mt above 800 and below 1,800 US \$4.20/kg for every mt above 1,800		
8,000-25,000	US \$4.80/kg for the first 1,800 mt US \$4.00/kg for every mt above 1,800 and below 8,000 US \$3.20/kg for every mt above 8,000			US \$5.30/kg for the first 800 mt US \$4.80/kg for every mt above 800 and below 1,800 US \$4.20/kg for every mt above 1,800 and below 8,000 US \$3.40/kg for every mt above 8,000		
Above 25,000	Case-by-case			Case-by-case	Case-by-case	Case-by-case

* If the level of funding is lower than that agreed for the largest group of LVC countries, a non-LVC country can opt to be funded as an LVC country

** New category proposed by one Article 2 member. This category could be eligible for additional funding.