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DRAFT GUIDELINES FOR THE PREPARATION OF HCFC PHASE-OUT MANAGEMENT PLANS INCORPORATING HCFC SURVEYS (DECISION 53/37 (H))

INTRODUCTION

1. This document, containing draft guidelines for the preparation of HCFC phase-out management plans (HPMPs), has been prepared by the Secretariat in cooperation with the implementing agencies in response to decision 53/37. Through decision 53/37 the Secretariat was directed to, "work with the implementing agencies to examine the existing guidelines for country programmes and sector plans and propose draft guidelines to the 54th Meeting for the preparation of HPMPs incorporating HCFC surveys, taking into consideration comments and views relating to such guidelines expressed by Executive Committee members at the 53rd Meeting and the submissions to the 54th Meeting." Decision 53/37 further directs that, "the Executive Committee would do its utmost to approve the guidelines at its 54th Meeting". Finalizing interim guidelines for HPMPs at the 54th Meeting would allow funding for the preparation of national plans to be approved at the 55th Meeting.

2. In preparing this document the Secretariat has also considered other aspects of decision 53/37, in particular, the legal pre-requisites in sub-paragraph (c) and the presumption in sub-paragraph (d) that the Secretariat will take into account, for HCFCs, existing policies and guidelines of the Multilateral Fund. Decision XIX/6 of the Nineteenth Meeting of the Parties was also taken into account (Annex I).

3. The comments and views of Executive Committee members and the implementing agencies have been taken into consideration in the development of this document and have been organized under relevant policy issues, which are each considered and followed by a recommendation from the Secretariat. Following the 53rd Meeting, the Secretariat received comments and views from Australia/Canada, China, the Czech Republic, Mexico, Germany, Japan, Sweden, the United States of America, and Uruguay. Comments from Executive Committee members are attached in Annex II.

4. This document contains three parts. Part I addresses the timing and the general approach to adopting guidelines for the development of HPMPs. Part II covers policy issues that are related to the development of the guidelines. Part III outlines specific activities that should be undertaken with respect to data collection, preparation, consultation and finalization of draft guidelines for the preparation of HPMPs.

PART I: TIMING AND APPROACH TO THE DEVELOPMENT OF GUIDELINES FOR HCFC PHASE-OUT MANAGEMENT PLANS

Timing

5. Views expressed during the discussion at the 53rd Meeting indicated that Article 5 countries might need to take action as soon as possible to develop national HPMPs and begin (and accelerate, as possible) HCFC phase-out in order to achieve the 2013 freeze.

6. To appreciate the scope of the phase-out work that may have to be undertaken to ensure that countries achieve the 2013 freeze and 2015 reductions for HCFCs, the Secretariat reviewed Article 7 and country programme HCFC data. HCFC consumption is largely attributed to three substances (HCFC 141b, 142b and 22). The data also indicate that most of the HCFC

consumption is attributable to seven Article 5 countries (excluding those that do not seek funding from the Multilateral Fund)[1], each with a consumption of over 360 ODP tonnes. Moreover, Article 7 data further show that growth rates have fluctuated from 4 per cent to 34 per cent over the past five years, with an average annual growth rate of 18 per cent during the period. Therefore, it is difficult to assess the rate at which consumption will continue to grow in Article 5 countries, in particular due to the accelerated control measures agreed by the Parties in September 2007. Although more work is required to develop a methodology to forecast rates of growth, based on their experience and the surveys that were undertaken, implementing agencies have indicated growth rates from 8 to 10 per cent. Annex III presents the consumption and production data reported under Article 7 for the years 2001 to 2006, and includes projections based on an average annual growth assumption of 10 per cent for demonstration purposes. Using these figures the difference between the projected 2012 consumption and the projected baseline indicates a hypothetical level of phase out required to meet the freeze.

7. Presuming an average 10 per cent annual growth[2] from the actual consumption in 2006 until the freeze in 2013, Article 5 countries eligible for Fund support would need to phase out an additional 9,600 ODP tonnes of HCFC consumption in 2012 to meet the freeze. This would amount to an equivalent of about 137,000 metric tonnes, which demonstrates the magnitude of the phase-out required to comply with the first control measure. For the production sector, about 10,000 ODP tonnes would need to be phased out which amounts to around 153,000 metric tonnes.

8. Assuming that the average implementation period of an individual Multilateral Fund phase-out project is maintained at the historic level of 35 months, interventions would need to be approved by early 2010 in order to enable countries to meet the freeze in 2013. In addition, as the preparation of country programmes, RMPs and/or TPMPs under the Fund has typically taken over 15 months, the data in Annex III reinforce the need to consider the near term approval of guidelines for HPMPs so that these plans can be developed as soon as possible. Timely action may help ensure that the 2013 freeze and the 10 per cent reduction in 2015 are met in a cost-effective manner. It would also facilitate the continuation of the phase-out activities in the servicing sector that have already been funded.

A Staged Approach

9. At present there are a suite of non-ODP alternatives available for several HCFC uses. Those alternatives vary in key respects including availability, maturity of the technologies, cost-effectiveness, energy efficiency, and other environmental considerations. Therefore, some Article 5 countries face significant uncertainties with respect to future technologies. Given these factors and taking into account the need for a timely response as a result of decision XIX/6, it is believed a staged implementation is the best approach with regard to the HPMPs. This would consist of developing both an overarching programmatic view of the entire phase-out process,

[1] Republic of Korea, Singapore, and the United Arab Emirates.

[2] Based on the average annual growth rate of 18 per cent reported in Article 7 data from 2002 to 2006, Article 5 countries would need to phase out 23,315 ODP tonnes of consumption and 24,178 ODP tonnes of productions in 2012 to meet the freeze.

and a comprehensive plan with specific HCFC phase-out activities for meeting the initial freeze and the 10 per cent reduction step.

10. In terms of the broad view, countries could develop a long-term strategy that provides an overall direction and includes a list of critical actions the country expects to undertake to achieve the HCFC phase-out. Such an approach could be outlined in sequential stages that would provide a sufficient lead time for remaining policy issues to be resolved at both the Fund and national levels. In this regard, and given the existing uncertainty in the course of technological development, the long-term strategy could include options and be subject to periodic review and updating on the basis of, *inter alia*, the development of substitutes and alternatives.

11. Second, within this overarching strategy, countries could elaborate a concrete approach to stage one of their HPMP, which should address specifically and comprehensively how they intend to meet the initial HCFC controls in 2013 and 2015. Stage one would identify specific activities and/or projects and any indicative costs, if possible, bearing in mind that costs may have to be adjusted in the future once guidelines on incremental costs for HCFC investment projects have been agreed upon.

12. The current status of the technology for HCFC replacements is addressed in the preliminary document on the Analysis on All Relevant Cost Considerations Surrounding the Financing of HCFC phase-out (UNEP/OzL.Pro/ExCom/54/54). In summary, that document indicates that some technologies are currently available to replace certain types of HCFC uses in the short term, with varying environmental impacts (including on climate change), while other technologies might lack availability or applicability on a global basis as yet, but may do so in the near future. It is essential that the first stage of the HPMP is developed taking into account the most cost-effective and sustainable HCFC phase-out technologies at the time of the preparation of the HPMP, as well as considering a full range of potential technological options. A staged approach to the implementation of HPMPs would have the benefit of limiting growth and of eliminating HCFC uses in the near term in areas where substitute technologies are readily available and cost-effective.

13. Given the relative maturity of and experience with some alternatives, phase-out activities may be carried out in the short term in sub-sectors with already proven substitute technologies. While it might be useful to employ some pilot projects to test these technologies and accumulate experience both for the countries as well as for the future activities of the Multilateral Fund, the fact that these pilot projects can be expected to take an average of 35 months to be completed should not delay the approval of plans that address proven technologies. Since pilot projects would contribute towards the reduction in HCFC consumption of to meet the freeze level in Article 5 countries, they should be presented as part of the overall and short-term strategy within the HPMP. Stage two of the HPMP plan would address consumption/production of HCFC beyond the requirements of meeting the freeze and 10 per cent reduction. It is expected that some countries may wish to phase-out HCFC consumption earlier than required by the control measures, and might decide that stage two would address all remaining consumption.

14. In the production sector, phase-out activities could focus in the first instance on ODS whose use is targeted for early phase-out. It might be possible, as in the consumption sector, to target the phase-out of production with an emphasis on HCFCs with the highest ODP. Drawing

upon experiences with CFC phase-out, it was suggested at the 53rd Meeting that the phase-out of HCFC production should be addressed in parallel with the consumption phase-out. The phase-out of HCFC-22 production has a direct impact on the HCFC-22 consumption required in the manufacturing and servicing sectors, and therefore its timely phase-out is also important. On this basis HPMPs should also include information on facilities, the dates they were established, and the resulting eligibility of countries with such facilities to receive certified emission reduction units (CERs) for HFC-23 incineration under the Clean Development Mechanism (CDM).

15. For countries with both HCFC servicing and manufacturing uses, additional sector performance-based plans could be considered as part of the second or subsequent stages of the HPMP, based on advances in technology. This is particularly important for countries with high levels of HCFC consumption across several sectors. In addition, initial measures such as those applied to countries with only a servicing sector will also be necessary. In this regard, it is understood that in countries with HCFC use in sectors other than servicing, a final stage might be contingent upon the development of cost-effective and environmentally-acceptable technologies. Nevertheless, there may be instances where countries in this category would be prepared to accelerate HCFC phase-out based on the nature of the HCFC use in their country, and the availability of preferred alternatives. On the other hand, some countries may only be able to address a specific sector or sub-sector during stage one of their HPMP.

16. For the estimated two-thirds of Article 5 countries with HCFC consumption only in the servicing sector, stage one would likely be based on similar interventions to those that are included in RMPs, TPMPs and NPPs, including the adaptation of existing regulatory frameworks to address HCFCs, replacing/retrofitting HCFC-based equipment, additional customs and refrigeration technician training and certification, incentive programmes to replace/retrofit equipment, and requirements for project management units/capacity building. If considered necessary to achieve compliance, stage one might also consider an early ban (partial or complete) on the importation and/or sale of new and/or second-hand HCFC based refrigeration and air conditioning systems. Where relevant, solvent, aerosol and fire-fighting equipment (when economically viable and technically feasible) should also be addressed. Stage one should also consider the development of an overall approach to public awareness and stakeholder consultations, drawing upon the experiences gained when CFCs were being phased out.

17. Where a country is ready for a total HCFC phase-out it would have the option of either completing the full phase out of the remaining 90 per cent of the baseline in a comprehensive second stage approval process or planning for the total phase-out in a number of stages that best suit its individual circumstances and its ability to effectively curtail and monitor HCFC production and consumption reductions. This assumes that a country is willing to commit to an accelerated HCFC phase-out at a date ahead of that required under the Montreal Protocol, similar to what happened for many countries during the phase out of Annex A and B chemicals.

PART II: SUMMARY OF POLICY ISSUES RELATED TO HCFC PHASE-OUT MANAGEMENT PLANS

18. This section addresses policy issues related to HPMPs that are relevant for developing guidelines.

Review of relevant guidelines and classification of types of HCFC Phase-out Management Plans

19. Country programme guidelines (Annex III) adopted at the 3rd Meeting of the Executive Committee might be applicable as a basis for developing HPMPs. A completed country programme included a comprehensive overview of ODS consumption and production, the legislative and institutional infrastructure in the country to facilitate the phase-out, a comprehensive strategy and action plan including a list of potential projects and estimate costs for the country to achieve the required phase-out. The approval by the Executive Committee of the full country programme and all its elements, however, did not constitute a commitment from the country to meet its phase out targets, nor did it mean that the funds suggested in the country programme for the identified activities have been approved, or that the country would be held to the reported consumption. In contrast, for subsequent phase-out plans such as NPPs, SPPs, RMPs and TPMPs, the approval of the Executive Committee has been tied to reported (and agreed upon) ODS consumption, funds have been guaranteed, and performance targets set, by which a country committed itself to meet specific phase-out obligations.

20. The format and content of NPPs and SPPs and their corresponding agreements also provide precedents that could be used by Article 5 countries to develop HPMPs for the manufacturing and servicing sectors. In that regard, the agreement contained in NPPs and SPPs between the Executive Committee and recipient countries has been the basis for national commitments (decisions 38/65 and 46/37) to meet annual target reductions in consumption and/or production. Meeting these targets provide the basis for the release of subsequent tranches of funding, or allows a penalty to be imposed if the targets are not met.

21. Paragraph 16 above outlines possible interventions to meet HCFC phase out for countries with only servicing needs. Both the guidelines for RMPs and RMP updates (decision 31/48) contain commitments for countries to meet the freeze and up to the 85 per cent reduction in CFCs by the end of 2007. Low volume consuming (LVC) countries received funding for either RMPs and/or TPMPs that addressed CFC phase-out in the refrigeration and air conditioning sector. Therefore, elements of the TPMP guidelines (decision 45/54) might also be relevant to the development of HPMPs.

Legal and Regulatory Framework

22. One key aspect related to developing a HPMP and enabling compliance with the Protocol in both Article 5 and non-Article 5 countries is the existence in countries of an appropriate legal and regulatory framework. Indeed there is an obligation for the Parties to the Montreal Amendment under Article 4b that requires countries to establish an ODS licensing system, covering also HCFCs. Effective controls are in place only upon the implementation of these licensing systems which should include controls with respect to the import of HCFCs and

HCFC-based equipment. It is vital for any Article 5 Party that has not yet included HCFCs in its licensing system to do so as a matter of urgency to enable the freeze in 2013 and the subsequent control measures to be met. The establishment of a licensing system should also include a comprehensive monitoring and control system.

23. Countries should be encouraged to include or revise their current licensing systems to accommodate the adjustments adopted at the XIVth Meeting of the Parties during the development of the overall HPMPs. As the funding for the full HPMP implementation is likely to be provided only subsequent to an update of current regulations to include HCFCs, the Executive Committee could require the availability of an appropriate licensing system for HCFCs to be in place as a condition for the approval of funding for HPMP implementation, consistent with current guidelines for TPMPs.

Starting point for aggregate sustained reductions of consumption

24. The Executive Committee established the concept of a starting point for aggregate sustained reductions in consumption in the context of strategic planning for CFC consumption phase-out at its 35th Meeting in December 2001 (decision 35/57)[3], two years after the CFC baselines had been established. In this decision, each country was given the choice to use either their baseline or latest consumption as the aggregate level against which remaining future consumption reductions would be measured providing a level for remaining CFC consumption that could be funded. HCFC baselines under the Montreal Protocol will be established in 2011 calculated based on the average national consumption in 2009 and 2010 following decision XIX/6.

25. For Article 5 countries with CFC consumption remaining only in the servicing sector (LVCs), the commitment under the RMP was to meet the reduction steps in 2005 and 2007 regardless of the country's choice of a level of consumption for aggregate sustained reductions. This paper assumes new categories of countries, those countries with servicing needs only and those with both servicing and manufacturing uses rather than LVC and non-LVC. Therefore during the development of the HPMPs, the types of interventions necessary will be based more on the specific use of HCFCs in the country rather than the volume of consumption. As it is expected that countries with only servicing needs may have difficulty in achieving the freeze, the performance-based system for HPMPs might rely on the completion of activities in the HPMP to enable the annual release of funding tranches. This would also help to ensure that use of HCFCs in servicing does not grow unabated following the baseline period.

26. For Article 5 countries with both manufacturing and servicing sectors, individual sector agreements or a national phase-out plan also contained commitments to reduce consumption and/or production according to a phase out schedule approved by the Executive Committee in agreement with the countries that was either consistent with or ahead of the control measures under the Montreal Protocol. To ensure sustained reductions, sector agreements and NPPs

[3] In connection with the decisions taken to establish the starting point from which future CFC reductions would be taken, additional funding related to CFCs was approved for country programme updates, and institutional strengthening was increased by 30 per cent to address the increased requirements of countries to implement the country-driven approach for CFC phase-out.

require a starting point from which future reductions would be made. Using a similar approach, HPMPs for countries with manufacturing sectors may be submitted for approval either after the baseline consumption is determined in 2011 or with a starting point for sustained reductions of aggregate consumption, which may be the latest HCFC consumption prior to the approval of the HPMP or the submission of the first project for which a specific amount of HCFC phase-out is calculated.

Additional areas to be addressed in HCFC Phase-out Management Plans

27. As mentioned above, the existing guidelines and formats for country programmes, RMPs/TPMPs, NPPs and SPPs are useful for developing guidelines for HPMPs. However, there are additional issues related to HCFC phase-out that should also be taken into account, which are not currently included in existing Executive Committee guidelines or where the Executive Committee has yet to resolve relevant policy issues. These additional issues are discussed in the following paragraphs.

Costs Considerations and Stage-One Action Plans

28. At its 54th Meeting, the Executive Committee will consider a preliminary document on relevant cost considerations surrounding the financing of HCFC phase-out (UNEP/OzL.Pro/ExCom/54/54). Although the final guidance from the Executive Committee on costs may not be completed at the 54th Meeting, the development of stage one of the HPMPs should include estimates of the costs of activities proposed that are advanced enough to enable a determination of funds required for implementation of a stage one-based performance agreement. The costs of the activities contained in plans for stage one should not only consider existing guidelines approved for CFCs and other ODS but should also indicate the total costs and all sources of funding including, but not limited to, resources from the Multilateral Fund. Information should also be provided for current HCFC-consuming enterprises that may have converted from CFCs to HCFCs. As the HCFC guidelines are further elaborated, the HPMPs under development should take into account the most recent guidance from the Committee. HPMPs might also include one or more alternative cost scenarios provided the assumptions used for these scenarios and their component costs are presented in sufficient detail to enable a thorough review.

Climate change benefits and technologies

29. During the 53rd Meeting, it was noted that the HPMPs should capture the spirit of decision XIX/6 with respect to addressing the benefits for the climate when looking at alternatives. Therefore, although the current guidelines with respect to cost-effectiveness thresholds are based on ODP values, the HPMPs should also address the potential of maximizing the benefits of using alternatives that have lower global warming potential (GWP) taking into account energy efficiencies, equipment and climate circumstances.

30. In further written comments, some members suggested that a conversion policy that would discourage the use of HCFC alternatives with high GWP could be considered. It was also proposed that strategic activities that the Fund could support be identified between now and the establishment of the baseline (at the end of 2010). These activities might include, *inter alia*,

demonstration projects with no or very low GWP technology, effective energy conservation measures, establishing the necessary framework for management, monitoring and awareness building in the HCFC sectors, and continuing complementary training and capacity building activities in relevant sectors. The paper on cost considerations addresses some aspects of the GWP, pertinent to proposed technological alternatives and sources of potential co-financing. The choice of technologies should also take into consideration paragraph 15 of decision XIX/6 to ensure that environmentally-safe substitutes and related technologies are transferred to Article 5 countries under fair and most favourable conditions.

Sources of funding and financial incentives

31. One of the issues addressed in paragraph (i) of decision 53/37 was the need to consider financial incentives and opportunities for co-financing, which could be relevant for ensuring that HCFC phase-out results in benefits in accordance with paragraph 11(b) of decision XIX/6. That paragraph addresses, "substitutes and alternatives that minimize other impacts on the environment, including on climate, taking into account global-warming potential, energy use and other relevant factors such as health, safety and economic considerations".

32. The Executive Committee has, in the past, enabled grant funds from beneficiary enterprises and other financial institutions to be used for co-financing as a means to allow Fund resources to be employed as seed money. Most recently, the Executive Committee approved chiller demonstration projects on the basis that Fund resources, which were provided on a grant basis, would be co-financed through other funding sources such as the Global Environmental Facility or new funds related to climate change, to energy conservation, or from other sources. The funds allocated for the demonstration projects served as seed money allowing countries to gain experience in accessing other non-Multilateral Fund sources of funding.

33. Moreover, alternative forms of incentive programmes particularly in the end-user sector have been developed as part of RMPs and TPMPs. Therefore, HPMPs should also address the extent to which the benefits beyond those associated with the ODP value of phasing out HCFC could be addressed through financial incentives and opportunities for co-financing and how such programmes could be implemented.

Institutional arrangements

34. Decision 53/37 paragraphs (e) and (f) directs that:

> "That institutions and capacities in Article 5 countries developed through Multilateral Fund assistance for the phase-out of ODS other than HCFCs should be used to economize the phase out of HCFCs, as appropriate;
>
> That stable and sufficient assistance from the Multilateral Fund would be provided to guarantee the sustainability of such institutions and capacities when deemed necessary for the phase-out of HCFCs;"

35. Since the inception of the Fund, the majority of Article 5 countries have established, as part of capacity building and in addition to National Ozone Units (NOUs), different groups

supporting the phase out of ODS, including associations of refrigeration technicians. Where they exist, the roles and responsibilities of these groups, as well as of the NOUs and how they could contribute to the phase-out of HCFCs should be examined and the means by which this is done should be included in the HPMPs. Further, stable and sufficient financial assistance from the Multilateral Fund should be provided to guarantee the sustainability and capacities of institutions such as NOUs, when deemed necessary for the phase-out of HCFCs. This issue will be considered in a paper due for submission to the 55th Meeting.

PART III: PRELIMINARY FORMAT FOR HCFC PHASE-OUT MANAGEMENT PLANS

36. There is an overall understanding of the need for countries to develop over-arching national strategies to implement the phase out of controlled substances, in this case, HCFCs. At the same time, there is also an understanding that the compliance period for HCFC is long and that it may be too early for a final plan to be prepared. In developing the HPMP, countries and agencies should bear in mind that the objective is to have a document that provides an overall strategy for achieving compliance by each Article 5 country concerned and, (at a minimum and as a primary goal), to define specific activities necessary to achieve the control measures in 2013 and 2015. Countries are encouraged to look at a staged approach to HCFC phase-out management as described in paragraphs 12-22 above.

37. Recognizing that situations in countries vary and their needs are different, the following indicative outline is proposed with the purpose of providing general principles and procedures that should be followed in developing national HPMPs. The indicative outline also attempts to set standard procedures for the preparation of these plans while at the same time, leaving enough room for countries and agencies to expand and adapt their plans to suit their specific needs.

Indicative Outline and contents of the HCFC Phase-out Management Plans

General Information

38. This section should include general information, such as name of country; classification of country (e.g., HCFCs used in servicing only, country using HCFCs both in servicing and manufacturing), specify the controlled substances covered by the measures proposed in the plan; sector(s) covered and duration of the proposal. It should also contain the following information:

(a) A brief country background;

(b) A brief review of activities undertaken so far on CFC phase-out, focusing on lessons learned and how these can be used for the phase out of HCFCs;

(c) Brief information summarizing the ratification of the Montreal Protocol and its amendments, particularly the Copenhagen, Beijing and Montreal Amendments including, as necessary, the identification of steps/action plan needed for ratification; and

(d) A brief summary review of projects funded under the Multilateral Fund for CFC compliance and for other substances including the implementation of RMPs, TPMPs and/or NPPs, where applicable to HCFCs.

Description of existing policy/legislative/regulatory and institutional framework

39. It is important to provide background information on the current ODS regulations in the country, the extent of the existing licensing systems, and whether there are specific regulations that govern the import/export of HCFCs or HCFC-dependent equipment. Basic information needed in this section should include:

(a) A description of the basic ODS legislation and the existing licensing system in place (including, *inter alia*, how it operates, required licenses for import/export, registration of importers/exporters, the existence of a quota system);

(b) Information on how policies related to HCFCs, if any, are being implemented at present (i.e., requires registration of importers and a license to import/export but no quotas are set);

(c) A description of stakeholder involvement in the policy and regulatory regime. For instance, this component should cover when policy interventions such as equipment bans are being considered. In that regard, it should be noted that consultations are needed to ensure the stakeholders' agreement and buy in. How these consultations, if any, are undertaken could be described here;

(d) Information on bans of currently controlled ODS-dependent equipment and the relevant regulations for HCFC dependent equipment, describing how the bans operate or could operate and the time frame for implementation;

(e) A description of other government initiatives in response to the Protocol's accelerated phase out of HCFCs; and

(f) A list of any Multilateral Fund CFC projects that have been replaced with HCFCs, including the status of the project and contact details of the enterprise.

Data collection and surveys

40. Decision 53/37 (h) refers to "… HCFC management plans incorporating HCFC surveys…" In the development of HPMPs, data and information need to be gathered to provide an overall view of the HCFC sector. A framework could be developed to store data collected on HCFCs in the form of a centralised database, which could be maintained by the NOUs, and that could be employed as a tool to effectively manage the information gathered for the HPMP.

41. In undertaking the survey, there should be a description of the methodology for collecting and validating the data, including the name of the institutions involved and the sources of data. Surveys should be as comprehensive as possible, and should follow the chain of ODS supply from the time when the substance is ordered and imported into the country and passed to

distributors, consumers (where applicable) and manufacturers. Data sources and references may include, but are not limited to, customs services, industry associations, use data from industries, enterprise surveys, and data from compressor manufacturers. Funding should not be provided for surveys in countries that have already received such funding to avoid double-counting.

42. While it may not be easy to gather information for each facility that uses HCFCs for manufacturing purposes or each HCFC user, countries are encouraged to provide basic information for known manufacturing establishments using HCFCs. Methods of estimating the needs of several small- and medium-sized enterprises (SMEs) that account for a small amount of consumption should be devised. This should be based on the actual consumption information gathered as part of the country programme reporting process, and will be essential in developing HPMPs. The consumption data gathered would need to be verified at plant level prior to approval of stage one funding or future stages of the plan. Moreover, information from foam projects approved for the conversion from CFC to HCFC should provide important information.

43. The following information should be included in the data submitted as part of the plan:

(a) A description of survey methodology and approach;

(b) An HCFC supply scenario;

(i) Production (including the identification and description of swing plants, and a description of new production plants);

(ii) Imports;

(iii) Exports;

(iv) Levels of HCFCs in blends and as feedstock.

(c) HCFC use/consumption

(i) Levels of HCFC consumption;

(ii) Sectoral distribution and description of sectors; and

(d) Information on established HCFC infrastructure, looking particularly at those plants that may have been funded under the MLF for conversion to HCFCs, or those plants that have converted on their own. This will assist in establishing information on the extent of HCFC use in the country and the types of potential interventions that may be necessary for phase out.

(e) Forecasts for HCFC use (refer to the proposed accelerated phase out schedule for timetable, include unconstrained demand up to baseline date, and beyond);

(f) Validation of data provided in the survey; following existing Executive Committee guidelines, and

(g) Availability of alternatives to HCFCs and prices.

Strategy and plan for the implementation of HCFC phase out

44. The HPMP should describe the overall strategy that will be followed to achieve the targets to meet complete phase out of HCFCs. This should include a discussion of policy instruments needed to reduce the supply of HCFCs such as import quotas and price controls as well as the country's plan for their implementation/enforcement of the short-term alternatives, access to alternative supplies, and for coordinating its plan with the country's climate change, chemical management, and energy policies. The steps to be taken to gradually curtail HCFC demand (such as completing the conversions of manufacturing industries while simultaneously planning to address demand in the refrigeration servicing sector, and legislation with regards to goods containing HCFCs) should also be covered. This section should also identify any national legislation that may prohibit or restrict specific non-HCFC alternatives.

45. As described in paragraphs 12 to 22 above, the strategy could be developed on the basis of a staged approach. For these purposes it is important that the immediate interventions that may constitute stage one, and are needed to meet the freeze on HCFC in 2013 and the 10 per cent reduction in 2015, should be elaborated and described in detail. To the greatest extent possible, this should include the total funding required. While the second and other subsequent stages are indicative at this stage, it would also be helpful if some cost calculations on how much these further stages will consequently cost could be provided in the plan bearing in mind that the country's commitment and possible funding will, at the outset, only be available for the first stage. Assumptions for such calculations should be included.

46. The strategy should describe a time frame for the implementation of the planned activities based on the country's actual needs and its current consumption situation. This would also include an assessment of how much immediate reduction in HCFC consumption can be achieved with little investment but with targeted institutional activities that may be carried out.

47. For refrigeration servicing, the proposal should describe the strategy to reduce the dependence on HCFCs. This strategy could include measures such as legal and economic incentives and disincentives; training; public awareness activities; import controls and other sector-specific initiatives. Recovery and recycling initiatives based on previous experience should also be included, with a view to proposing specific activities considering the lessons learned from the past.

48. The Executive Committee has provided assistance for the establishment of NOUs, development of national legislation and regulations, licensing systems, and recovery and recycling for CFCs. From results gathered during the survey, it should also be possible to establish how the existing system can be used to facilitate HCFC phase-out, and this information should be included as part of the overall phase out plan. These plans should also contain a summary review of the implementation of the relevant RMP, TPMP, NPP or SPPs and other projects and activities of the Multilateral Fund. A description of additional actions/activities and estimated costs that might be needed to re-orient NPPs/TPMPs from CFCs to addressing HCFCs should also be included.

49. The items below provide indicative guidance on the specific section of the plan and what it should contain:

(a) Description of planned activities:

(i) Institutional activities -- including industry actions;

(ii) Investment projects; and

(iii) Capacity building--including policy analysis and review and awareness raising activities necessary.

(b) Timetable for implementation including reductions proposed;

(c) Management of HCFC supply and demand;

(d) Specific activities for the servicing sector; and

(e) Specific capacity building activities for countries without HCFC consumption.

Cost calculation

50. Paragraph 34 provides guidance on how costs can be examined, considering certain policy issues that remain to be resolved. It must be noted that the expectation for a preliminary detailed costing should cover stage one of the HPMP, as described above.

51. As an overall principle to be used in examining industry conversions, and consistent with the historic practice, data should be provided on the number of enterprises, sectors/sub-sectors involved, enterprise ODS consumption and baseline equipment, date of installation of production capacity, production levels where appropriate. It should also examine the level of exports to non-Article 5 countries and share of multinational companies if dealing with the manufacturing sector, possibly on an enterprise-by-enterprise basis. HPMPs should explore all possible alternatives for each industry sector and conversion, and provide cost comparisons, to the greatest extent possible.

52. An additional section related to co-financing should be included identifying opportunities for synergies with other funding mechanisms. The HPMP should include a section in which country and relevant implementing agency or agencies could provide their proposal for potential resource mobilization with an aim to improve the cost-effectiveness of the contribution from the Multilateral Fund.

53. For refrigeration servicing, data provided should include estimated number of workshops in the country and a separation into groups (large, medium, small, informal), the typical baseline equipment and education for each group, estimated number of technicians currently working in refrigeration servicing, estimated average consumption of HCFCs per workshop of each group per year, equipment needs for each group and justification, including an estimate of the amount of ODS to be recovered annually, if relevant and other details. Similar information should be provided for other relevant sectors.

54. Other non-investment activities should consider elements from decision 35/57 particularly in the areas of awareness-raising and training, and these activities should be treated as components of the overall phase out management plan. The framework should include an approach to building public awareness through a focus on HCFC stakeholders, such as industry associations, to disseminate information regarding the HCFC phase-out. It is also important to build awareness among, *inter alia*, investors, equipment and building owners, and equipment vendors. Public awareness could be encouraged through national conferences, training workshops, a dedicated website, stakeholder consultations and technical publications

Project coordination and management including monitoring and evaluation

55. There should be a description of the management structure for the implementation of the HPMP, in particular how stage one will be implemented. Annex VIII of document 45/46, which led to decision 45/54 on TPMPs, may be used as a basis for overall terms of reference for a project management unit. This should include a clear indication of the roles to be assumed by government bodies, industry bodies, academic institutions and consultants. Accountability for the management of the plan implementation is of paramount importance. Thus a designation of a government entity to which the management body would be held accountable needs to be indicated, as well as the responsibility and decision-making capacity and reporting responsibilities of the different parts of the management structure.

56. There should also be a discussion on the level of involvement of the relevant implementing agency in the management and implementation of the HCFC phase-out proposal. A lead agency needs to be designated, if necessary, in countries where multiple agencies operate, and the role and responsibility of each has to be clearly defined.

57. There should be a clear description of the financial and substantive oversight to be exercised over the HPMP. This should include the name of institutions involved, their specific roles and responsibilities, and the type and frequency of reporting.

58. There should be also be adequate opportunities to ensure independent confirmation of the achievement of the performance targets specified in the plan, including a periodic evaluation to be included in the Monitoring and Evaluation Work Programme of the Fund. The plan should also account for possible costs of verification of performance targets.

Production sector

59. Information required for the production sector sub-group's deliberations indicated in decision 53/37 paragraph (g) should also be covered in the HCFC phase-out management plans, where applicable. Any decisions taken with respect to the production sector should be taken into account prior to submission of the HPMP that would include a sector plan for the production sector, as relevant.

Submission requirements and deadlines

60. The submission requirements for HPMPs should be similar to those for RMPs/TPMPs/NPPs/SPPs with respect to agreements and review periods. Similarly, reporting,

verification, monitoring, verification and evaluation guidelines for RMPs/TPMPs/NPPs/SPPs and individual projects should apply to HPMPs. HPMPs should be submitted 14 weeks in advance of Executive Committee meetings for review by the Fund Secretariat.

RECOMMENDATIONS

61. The Executive Committee may wish to consider requesting that:

(a) Countries adopt a staged approach to the implementation of an HCFC phase-out management plan (HPMP), within the framework of their overarching-strategy;

(b) As soon as possible and depending on the availability of resources, countries employ the guidelines herein to develop, in detail, stage one of the HPMPs, which addresses how countries will meet the freeze in 2013 and 10 per cent reduction in 2015, with an estimate of related cost considerations and applying cost guidelines as they are developed;

(c) The elaboration of stage one of the HPMP, and subsequent stages, should be developed as follows:

(i) For countries with consumption in the servicing sector only should;

a) Be developed consistent with existing guidelines for the preparation of RMPs/RMP updates as per decisions 31/48 and 35/57; and, if applicable, the preparation of TPMPs as per decision 45/54;

b) Contain commitments to achieve the 2013 and 2015 HCFC control measures and include a performance based system for HPMPs based on the completion of activities in the HPMP to enable the annual release of funding for the HPMP;

(ii) For countries with manufacturing sectors using HCFCs, HPMPs should;

a) Be developed and contain a national performance-based phase-out plan (NPP) or one or more SPP(s) or substance-based phase-out plan consistent with decision 38/65 addressing consumption reduction levels sufficient to achieve the 2013 and 2015 HCFC control measures and provide starting points for aggregate reductions along with annual reduction targets;

(d) For countries that choose to implement projects in advance of the completion of the HPMP;

(i) A starting point for aggregate reductions should be established with the approval of the first project that will result in a phase-out of HCFC that should count against the plan;

(ii) If using the individual project approach, the submission of the first project should provide an indication of how the demonstration projects relate to the HPMP and an indication of when the HPMP would be submitted;

(e) The Executive Committee may wish to consider providing funding for assistance to include HCFC control measures in legislation, regulations and licensing systems as part of the funding of HPMP preparation as necessary and require confirmation of the implementation of the same as a prerequisite to funding implementing of the HPMP;

(f) In cases where there are multiple implementing agencies in one country, a lead agency should be designated to coordinate the overall development of stage one of the HPMP;

(g) HPMPs should contain cost information at the time of their submission that is based on, and addresses:

(i) The most current HCFC cost guidelines at the time of submission;

(ii) Alternative cost scenarios based on different potential cut-off dates, for new capacity if a specific cut-off date has not yet been decided, for funding eligibility of manufacturing facilities as specified in decision 53/37 paragraph (k), as well as the current policy of a 25 July 1995 cut-off;

(iii) Alternative cost scenarios for the operational and capital costs for second conversions;

(iv) The incremental costs of banning import and supply to the market of HCFC dependent equipment once proven alternatives are commercially available in the country and the costs associated with the servicing sector;

(v) Cost and benefit information based on the full range of alternatives considered and associated ODP and global warming potential (GWP) benefits;

(vi) Options for the mobilization of additional resources outside the Multilateral Fund to maximize the climate benefit of the contribution of the Multilateral Fund;

(h) HPMPs should address financial incentives and opportunities for co-financing including how such programmes could be implemented;

(i) HPMPs should address:

(i) The use of institutional arrangements mentioned in decision 53/37 paragraphs (e) and (f);

(ii) The roles and responsibilities of associations of refrigeration technicians and other industry associations and how they could contribute to HCFC phase-out; and

(j) HPMPs should, at a minimum, fulfil the data and information requirements listed in the indicative outline for the development of HPMPs, as set out in paragraphs 42 to 66 of the present document.

Annex I

ADJUSTMENTS TO THE MONTREAL PROTOCOL WITH REGARD TO ANNEX C, GROUP I, SUBSTANCES (HYDROCHLOROFLUOROCARBONS (DECISION XIX/6 (2007))

"The Parties agree to accelerate the phase-out of production and consumption of hydrochlorofluorocarbons (HCFCs), by way of an adjustment in accordance with paragraph 9 of Article 2 of the Montreal Protocol and as contained in annex III to the report of the Nineteenth Meeting of the Parties,[6] on the basis of the following:

1. For Parties operating under paragraph 1 of Article 5 of the Protocol (Article 5 Parties), to choose as the baseline the average of the 2009 and 2010 levels of, respectively, consumption and production; and

2. To freeze, at that baseline level, consumption and production in 2013;

3. For Parties operating under Article 2 of the Protocol (Article 2 Parties) to have completed the accelerated phase-out of production and consumption in 2020, on the basis of the following reduction steps:

(a) By 2010 of 75 per cent;

(b) By 2015 of 90 per cent;

(c) While allowing 0.5 per cent for servicing the period 2020–2030;

4. For Article 5 Parties to have completed the accelerated phase-out of production and consumption in 2030, on the basis of the following reduction steps:

(a) By 2015 of 10 per cent;

(b) By 2020 of 35 per cent;

(c) By 2025 of 67.5 per cent;

(d) While allowing for servicing an annual average of 2.5per cent during the period 2030–2040;

5. To agree that the funding available through the Multilateral Fund for the Implementation of the Montreal Protocol in the upcoming replenishments shall be stable and sufficient to meet all agreed incremental costs to enable Article 5 Parties to comply with the accelerated phase-out schedule both for production and consumption sectors as set out above, and based on that understanding, to also direct the Executive Committee of the Multilateral Fund to make the necessary changes to the eligibility criteria related to the post-1995 facilities and second conversions;

6. To direct the Executive Committee, in providing technical and financial assistance, to pay particular attention to Article 5 Parties with low volume and very low volume consumption of

[6] UNEP/OzL.Pro.19/7.

HCFCs;

7. To direct the Executive Committee to assist Parties in preparing their phase-out management plans for an accelerated HCFC phase-out;

8. To direct the Executive Committee, as a matter of priority, to assist Article 5 Parties in conducting surveys to improve reliability in establishing their baseline data on HCFCs;

9. To encourage Parties to promote the selection of alternatives to HCFCs that minimize environmental impacts, in particular impacts on climate, as well as meeting other health, safety and economic considerations;

10. To request Parties to report regularly on their implementation of paragraph 7 of Article2F of the Protocol;

11. To agree that the Executive Committee, when developing and applying funding criteria for projects and programmes, and taking into account paragraph 6, give priority to cost-effective projects and programmes which focus on, *inter alia*:

(a) Phasing-out first those HCFCs with higher ozone-depleting potential, taking into account national circumstances;

(b) Substitutes and alternatives that minimize other impacts on the environment, including on the climate, taking into account global-warming potential, energy use and other relevant factors;

(c) Small and medium-size enterprises;

12. To agree to address the possibilities or need for essential use exemptions, no later than 2015 where this relates to Article 2 Parties, and no later than 2020 where this relates to Article 5 Parties;

13. To agree to review in 2015 the need for the 0.5 per cent for servicing provided for in paragraph 3, and to review in 2025 the need for the annual average of 2.5 per cent for servicing provided for in paragraph 4 (d);

14. In order to satisfy basic domestic needs, to agree to allow for up to 10% of baseline levels until 2020, and, for the period after that, to consider no later than 2015 further reductions of production for basic domestic needs;

15. In accelerating the HCFC phase-out, to agree that Parties are to take every practicable step consistent with Multilateral Fund programmes, to ensure that the best available and environmentally-safe substitutes and related technologies are transferred from Article 2 Parties to Article 5 Parties under fair and most favourable conditions."

Annex II

VIEWS OF COUNTRIES

SUBMITTED BY THE GOVERNMENTS OF AUSTRALIA AND CANADA

Joint Submission

Elements the Secretariat should consider in the draft guidelines for the preparation of HCFC national management plans

As suggested in Decision 53/37 (h), the guidelines for the preparation of HCFC national management plans should draw on both the existing *guidelines for country programmes* and the *guidelines for the preparation, implementation and management of performance-based sector and national ODS phase-out plans*. However, they should also be innovative and flexible to take into account of the fact that the phase-out of HCFCs in Article 5 countries poses unique challenges, some of which are yet to be fully understood.

While it is useful for the Executive Committee to be guided by experience, it is important that this experience does not result in imposing principles and procedures which may constrain an Article 5 country's ability to address HCFCs in a manner which best suits its particular national circumstances. Given that these circumstances may change considerably between 2008 and the 2030 97.5% reduction target, and that new HCFC substitutes are likely to become available during this 22-year period, the guidelines for the preparation of HCFC national management plans should encourage innovation, and provide for periodic revision and updating of the management plans. This means that it may be too early, at this stage, to adopt guidelines for the preparation of long-term detailed plans, under which countries would commit themselves to meeting specific targets over a 22-year period, in exchange for defined tranches of funding.

While the requirement for flexibility and innovation can be readily understood, it needs to be balanced by the recognition that compliance with the relatively near-term targets of the 2013 HCFC freeze and 2015 10% reduction step will require that specific activities are implemented in Article 5 countries in the near-future. In order for these activities to be effective, and to ensure the continued equitable treatment of all Article 5 countries under the Multilateral Fund, the guidelines for the preparation of HCFC national management plans should be sufficiently comprehensive and universally applicable in their nature.

To ensure an appropriate balance between flexibility and innovativeness on the one hand, and comprehensiveness and universality on the other, Canada suggests the guidelines define a framework for countries to develop both **a long-term strategy** (along the lines of a Country Programme) identifying generally the main actions the country expects to undertake in order to fully comply with the HCFC phase-out schedule, and within this strategy, a specific **HCFC phase-out management plan** for addressing primarily the 2013 freeze and the 2015 10% reduction step. Only the phase-out management plan component of the strategy would have specific costs attached to it and be considered for funding by the Executive Committee.

As the 2015 reduction step approaches, countries would revise their long-term strategies, taking into account their evolving national circumstances and the availability of HCFC substitutes, and design new phase-out management plans to address the subsequent HCFC phase-out target(s) (i.e. at least the 2020 35% reduction step). In other words, the guidelines need to define an approach, wherein a long-term strategy is continually updated, while specific phase-out plans are developed, approved by the Executive Committee and implemented in phases. A phased implementation approach would allow eliminating those HCFC uses where substitute technologies are more readily available and cost-effective.

In defining the framework for the proposed long-term strategies and short-term phase-out plans, the guidelines should or could take the following ideas into account:

(a) outlining the key elements a country should consider when developing an HCFC survey, on the understanding that the survey would:
    (i) confirm current overall HCFC consumption levels;
    (ii) determine HCFC consumption in each relevant sector;
    (iii) forecast future HCFC consumption (i.e. up to at least 2015);

(b) providing guidance to the country for setting a national consumption ceiling, if possible, prior to the establishment of the baseline - this would help in limiting the liability of the Multilateral Fund and provide Article 5 countries with a decreased liability with respect to assisting their enterprises transition to alternatives;

(c) ensuring that the long-term national strategy is sufficiently flexible to be updated on a periodic basis (for example, every 4 years), and that it takes into account the requirements of MOP Decision XIX/6, paragraph 11 (i.e. emphasis on cost-effective projects, phasing out HCFCs with higher ODPs, selecting substitutes that minimize other environmental impacts, etc.).

(d) ensuring that the HCFC management plans provide a range of options for the country to meet the 2013 and 2015 targets, and highlight in particular the **most cost-effective option**, taking into consideration the following:

    (i) the comparative cost-effectiveness of taking action in different sectors to meet the 2013 and 2015 targets, principally, the refrigeration servicing sector, refrigeration manufacturing sector and/or foam sector;

    (ii) the comparative cost-effectiveness of transitioning to different available HCFC alternatives in the sectors identified for action;

    (iii) the extent to which HCFC reductions could be made by first targeting those enterprises wherein HCFC manufacturing capacity is nearing its end of life – it is more cost-effective to assist an enterprise which is already planning to replace a significant part of its capital equipment than one with relatively new capital

equipment, as the main project costs would then consist of technical assistance and operating costs of HCFC substitutes;

(e) ensuring that countries prioritize the development and adoption of appropriate HCFC legislation to ensure compliance with the Montreal Protocol; such legislation could include not only HCFC import controls, but also controls on the import of HCFC-based equipment, particularly in countries wherein HCFC consumption is principally associated with servicing imported equipment. The HCFC national management plans should consider the extent to which the HCFC freeze can be met by avoiding HCFC growth through effective implementation of such legislation.

The Executive Committee should aim to finalize at least interim HCFC guidelines by its 54th Meeting, so that funding for preparation of national plans could be approved at 55th Meeting.

Cost considerations to be taken into account by the Secretariat in preparing discussion document

Currently, the Executive Committee has relatively little information on which to base the determination of cost-effectiveness thresholds that could be applied to fund HCFC phase-out projects. Furthermore, even if more extensive information on the cost of phasing out HCFCs in Article 5 countries were available, it is likely that these costs would vary over time, as the situation regarding HCFC substitutes is certain to change significantly over the next two decades.

Canada does support the Executive Committee consulting technical experts with respect to this issue, with a view to eventually developing, if not cost-effectiveness thresholds, at least some cost norms to provide some broad parameters for estimating the costs of HCFC phase-out. However, as a parallel approach, Canada also believes that the Executive Committee could move forward with consideration of financing of an initial, small representative group of proposed national plans, prepared on the basis of the guidelines discussed above. Consideration of funding for such plans, prior to finalizing cost norms (or cost-effectiveness thresholds) would enrich the analysis, as it would ensure that discussion on costs takes into account practical examples of HCFC use in some Article 5 countries, as well as the proposed costs and strategies for phasing HCFC consumption in different sectors.

Once costs for this initial group of proposed national plans are agreed to, the Executive Committee could then finalize some cost norms or cost-effectiveness thresholds, which would provide the Secretariat with the guidance it needs to recommend funding levels for all the other national plans proposed.

It should be understood that, under this proposed approach, Article 5 countries which are not included in the small group, would **not** need to wait until the initial set of national plans are actually implemented in order to have their national plans considered. As soon as the Executive Committee reaches agreement on funding levels for the small group of national plans, all other plans would immediately be considered for funding. Therefore, this approach should not be confused with a “pilot project” approach, which was used sometimes in the case of the phase-out of CFCs. In Canada’s view, the proximity of the HCFC freeze would not allow sufficient time

for a "pilot project" approach. Moreover, provided that countries have developed well-thought out national and sectoral plans/ strategies, pilot projects are unlikely to be necessary anyway.

In order to ensure that the small group of national plans is as representative as possible, the Executive Committee could consider selecting plans from two high-volume consuming countries, two medium-volume consuming countries, two low-volume consuming countries, and two very-low volume consuming countries.

The following suggests a tentative timetable for finalizing cost norms and approving the national plans (assuming three Executive Committee meetings per year):

- Executive Committee 55: start approving preparation of national HCFC phase-out plans

- Executive Committee 58 and 59: review and determine costing of initial group of national plans – finalize cost norms and approve funding for initial group of plans

- Executive Committee 60: start approving national plans for all remaining countries

This means that phase-out plans could begin to be approved for most countries by early 2010, which should provide sufficient time for countries to meet 2013 and 2015 targets.

Cut-off date for funding eligibility

Canada considers that the cut-off date for funding eligibility of HCFC facilities should be a date in the past. This would provide certainty for both Article 5 and non-Article 5 countries with respect to their liabilities and provide a base that can be technically reviewed effectively and on which our forward liabilities can be easily calculated. Furthermore, while the acceleration of the phase-out of HCFCs was agreed to in 2007, all Parties have known that HCFCs were due for phase-out since the 1992 Copenhagen amendment, and have had the opportunity to tailor their domestic regulatory regimes in consequence.

While the cut-off date should be in the past, Canada believes that the current cut-off date of July 1st, 1995 is not appropriate in the case of HCFCs, because at that time, HCFC alternatives were not readily available for all applications in Article 5 countries. In addition, the Parties clearly intended that the Executive Committee select a cut-off date after 1995, when it decided, in Decision XIX/6, to direct the Executive Committee "to make the necessary changes to the eligibility criteria related to post-1995 facilities".

Canada suggests that the most preferable cut-off date is 2004. By 2004, alternatives to most uses of HCFCs were clearly available. 2004 is the year when non-Article 5 Parties were mandated, under the Montreal Protocol, to achieve their first reduction in HCFC consumption (i.e. 35% reduction). The fact that non-Article 5 Parties easily achieved or exceeded this reduction suggests that there was little need to establish new HCFC manufacturing capacity by that time.

Furthermore, under the Kyoto's Protocol Clean Development Mechanism (CDM), any HCFC-22 production capacity established after 2004 is considered not eligible to receive HFC-23 destruction credits. Since this cut-off date under the CDM was selected to remove any perverse incentive increase HCFC-22 production, it can be argued that it was a signal for the markets in Article 5 Parties to constrain growth. Aligning the CDM and MLF eligibility cut-off dates and restricting access to MLF funds to firms that began (or expanded) operations after the end of 2004 would establish clear liabilities for the MLF and producers of HCFC-22.

Second-stage conversion

In Decision XIX/6, the Parties also directed the Executive Committee to make the necessary changes to the eligibility criteria related to second-stage conversions. While this suggests that the Executive Committee should consider providing assistance to firms which converted to HCFCs with MLF financing, it does not oblige the Executive Committee to cover the entire costs associated with the conversions of such enterprises. In fact, full funding may not be justified for the following reasons:

- almost all MLF-assisted transitions to HCFCs were in the foam sector, where in many cases drop-in substitutes to HCFCs can be used in existing manufacturing equipment, making conversion unnecessary;

- the enterprises concerned signed letters committing to phasing out HCFCs without further assistance from MLF - the fact that this phase-out schedule has now been accelerated does not completely invalidate this commitment; at the most, it could be argued that it obliges the MLF to pay for the incremental costs associated only with the acceleration of the phase-out;

- since the majority of MLF foam projects were implemented prior to 2002, a significant portion of the manufacturing capacity installed will need to be replaced anyway by the time Article 5 Parties have to achieve their first HCFC reduction (i.e. 2015)

For these reasons, Canada believes that the principal role of the MLF with respect to second stage conversion should be to provide:

(1) training and technical assistance to make basic adjustments to existing foam manufacturing equipment, if needed, to ensure such equipment can function effectively and efficiently with substitutes when possible;

(2) funding for additional safety-related costs associated with the use of substitutes, mainly when hydrocarbons are selected as alternatives to HCFCs, and

(3) funding to cover the operational costs of using HCFC substitutes for the traditional 2-year period.

SUBMITTED BY THE GOVERNMENT OF CHINA

China's Views on Some Issues Concerning HCFC

I. The HCFC phase-out management plans

Viewing the complication of the phase-out of HCFC and based on previous experience from the phase out of other ODs (especially CFCs), we would suggest that the MLF consider the phase out of HCFC in the majority of Article 5 countries could include the following stages:

1. The Country Program and Sector Plan development stage
To meet the targets set in the Adjustment regarding the accelerated phase-out of HCIT, the Article 5 countries now urgently need to set up their action plans based on national surveys on HCFC production and consumption and research and study on substitute technologies and relevant polices. Therefore, we suggest that the MLF should first approve the projects of the development of country programs and sector strategies as scan as possible, so that the Parties could have their guiding programs in 1-2 years. We also support the inclusion of the national surveys into the development of HCFC phase-out management plans to save time and increase efficiency.

2. Implementation of projects prioritized in the management plans

The duration of this stage may last from 2009 to 2012. In this stage, the main target of the Article 5 countries is to slow down the increase of the production and consumption of HCFC through implementation of the projects prioritized in the country programs and sector strategies, so that they could successfully freeze the production and consumption HCFC at the baseline level in 2013.

In the consumption sectors, phase-out activities could be carried out in sub-sectors with mature substitute technologies in the form of individual project, umbrella project or sector plan. For those sectors unsuitable to implement real phase out projects in this stage, we suggest that demonstration projects could be carried out to test technologies and accumulate experience for future activities. In the production sectors, the substances that need to be frozen or eliminated first could be identified and relevant phase-out activities could be implemented in the form of sector plans. Meanwhile, individual countries should make relevant industrial adjustment policies and quota management systems, and strive to develop suitable substitutes.

3. Large scale implementation of country programs and /or sector plans
After the first two stages, the countries have accumulated abundant experience, and large scale implementation of the country programs and/or sector plans could be carried out to realize the reduction targets.

11. Cut-off date for funding eligibility
We think the following several dates could be considered as the cut-off date for funding eligibility:

1. December 31, 2009.
This marks the end of the first year of the two years for calculating the baseline, and the production capacity which is in existence by then should have contributed to the baseline and consequently be considered as eligible for funding for phasing out HCITC consumption and production.

2. December 31, 2008.
As the Adjustment regarding the accelerated phase-out of HCFC has just been approved for a couple of months, the Article 5 countries need some time to make and issue relevant policies to the industry. And generally speaking, this process takes about 1-2 years. Therefore, December 31, 2008 could be a reasonable date for cut-off for funding eligibility.

3. September 17, 2007.
We think the date when the Adjustment was approved could also be considered as one choice. However, as there are some production installations whose establishment is approved by the national government but which are not in production by then, we strongly believe that this kind of production capacity should hot be excluded for funding in this choice.

III. Second-stage conversions
As we reiterated at the 53rd Meeting of the Executive Committee, we regard the funding for the second-stage conversions an issue of principle which has been agreed by all Parties, and think that the MLF should of course fund the second-stage conversions.

The conversion h m CFC to HCFC in most enterprises was the only choice they could make under the circumstances f that time. These enterprises have made great investment themselves in the conversion, and were expecting to: use these installations for the future years. However, due to the accelerated phase-out of HCFC, the enterprises will surely suffer great loss. If government ask the enterprises to bear all the loss themselves, they are very likely to be malcontent with the government, &td their opinion will also probably have bad influence on other enterprise, i.e., to make them worry and reluctant to participate in future projects organized by the Governments. And this will pose great obstacles in the future phase-out efforts of the governments of the Article 5 countries.

The above mentioned points represent China's views on the issues relevant to HCFC in the Decision 53/37. China has enjoyed fruitful cooperation with the MLF for 20 years, and China hope to continue this cooperation in the phase-out of HCFC, thus to make continuous contribution to the protection of the ozone layer.

SUBMITTED BY THE GOVERNMENT OF CZECH REPUBLIC

Comments of the Czech Republic

(i) Elements the Secretariat should consider in the draft guidelines for the preparation of national HCFC phase-out management plans.

One important element that should be considered for any criteria and guidelines resulting from them is the question of existing of licensing systems for HCFCs according to the Montreal Amendment.

With respect to the question of HCFC surveys, we associate ourselves with the recommendation of the Secretariat's recommendation as written in paragraph 18 of the document UNEP/Ozl.Pro/ExCom/53/60, notably with the first recommendation of incorporating the HCFC surveys into the national HCFC phase-out management plans. These two types of activities seem very closely linked together and it could be useful to somehow merge them within the national phase-out plan framework.

One of the most important elements which should be taken into account is the question of climate benefits of HCFC phase-out. The whole process of establishing any criteria and guidelines for phase-out plans and projects should be designed and adopted with a careful consideration of any potential detriments to the climate protection resulting from implementation of, high GWP alternatives. We should strive to implement as low GWP potential as possible and practicable. When establishing any cost-effectiveness criteria for phase-out projects we should bear this crucial criterion in mind as well.

(ii) Cost considerations to be taken into account by the Secretariat in preparing the discussion document referred to in paragraph (i) above.
We do not have any specific recommendation in this regard. We believe that the cost considerations in the guidelines will eventually result from the consultations with technical experts that are mentioned in the paragraph i) of the decision 53/37.

(iii) Cut-off date far funding eligibility
We believe it would be advisable to link the cut-off date with the year of introduction of the CDM mechanism what would be 2003 as the large portion of the high growth in HCFC market is caused by the inappropriate incentive created by CDM while phase-out date for HCFC was already established in the Montreal Protocol. The: MLF should not finance growth of HCFC production and consumption that resulted from that action.

The latest cut-off date possible is definitely 25 November 2007 what corresponds with a preceding logic for establishing a cut-off date for CFCs (paragraph 32 to 34 of UNEP/Ozl.Pro/ExCom/53/60).

Consideration of any later cut-~off date seems unacceptable. That way the MLF would finance HCFCs introduced after the time when the decision for supporting their substitution was taken already.

(iv) Second stage conversions

We believe that second stage conversions should be financed to certain extent. because the language of the decision of the Parties XlX/16 simply expresses a change of policy in this regard and this change play4 and important role in reaching an agreement an HFCF , accelerated phase-out. We therefore think that it is necessary to support second stage conversions and to determine an adequate criteria and cut-off date for such support.

It would be very useful to gather the information on all projects and plants that have been subject to MLF support with use of introducing an HCFC production or consumption including the year of conversion. That way the Executive Committee would be able to see how big the problem is and what time scale and amount of ODP is involved. That could subsequently enable the ExCom to determine what changes to its second stage conversion policy and eligibility criteria are necessary and how to address the paragraph 5 of the decision of the Parties XlW6.

More strict criteria for second stage conversions compared to facilities not yet financed are in our view at least worth considering.

SUBMITTED BY THE GOVERNMENT OF GERMANY

Germany's response to Executive Committee Decision 53/37:

(submitted to the MLFS on 15 January 2008 to be forwarded to the 54th ExCom)

At the Fifty-third Meeting of the Executive Committee (Montreal, 26-30 November 2007, the Committee addressed a discussion paper prepared by the Secretariat on options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities and decided, among others:

(I) As a matter of priority, and taking into account paragraphs 5 and 8 of decision XlX/6 of the Nineteenth Meeting of the Parties, to invite Executive Committee Members to submit their views on the following issues to the Secretariat, by 15 January 2008, with the understanding the Secretariat would make the submissions available to the 54th Meeting:

(i) Elements the Secretariat should consider in the draft guidelines for the preparation of national HCFC phase-out management plans;

- ***Ensure performance based funding.***
  Maintain the principle of funding aggregated ODP reductions analogue to the Executive Committee decision 35/57 for all HCFC projects. Any agreed early funding (before the HCFC baseline established on the average of the 2009/2010 consumption) should be deducted from the final funding baseline. Limit early funding to a percentage of a country's latest reported HCFC consumption.

- ***Eliminate potential for gaming and perverse incentives.***
  Review and apply lessons learnt through establishing the CFC funding baseline. Explore possibilities/mechanisms to identify and sanction over reporting, gaming of enterprises and excess production during baseline assessment and respectively the assessment of funding baselines.

- ***Existing guidelines and procedures.***
  HCFC should be included in the existing "Guidelines for the preparation, implementation and management of performance-based sector and national ODS phase-out plans".

- ***Discourage use of HCFC alternatives with high GWP.***
  As a general principle not to use gases covered by the Kyoto Protocol (except CO2). Preference should be given to alternatives with close to 0 GWP. Pre-freeze (pre-2013) project approvals should be limited to close to 0 GWP alternatives.

- ***Preparation of Management Plans.***
  The preparation of a country's HCFC Management Plan should incorporate a country program update containing an action plan to meet the 2013 freeze and the first reduction step in 2015, including needed legislative and regulatory measures;

- ***Pre-freeze (2013) HCFC activities.***
  Strategic activities that could be considered for funding by the MLF between now and the establishment of the baseline at the end of 2010:
    - demonstration projects with no/very low GWP technology
    - effective conservation measures with long term effects
    - establishing necessary frameworks for management, monitoring and awareness building in the various HCFC applying sectors as initial part of the HCFC Management Plans (provided that additional funding for project management in addition to the institutional strengthening project is justified).
    - continue complementary training and capacity building activities in relevant sectors

- ***Incorporation of earlier funded capacities.***
  Management plans shall fully consider the possible incorporation of capacities already funded under other ODS phase out measures of the MLF and utilize them for better cost effective HCFC phase out implementation. *(Fund complementary rather than repeated activities.)*

- ***No funding of individual projects in the consumption sector other than demonstration projects.***
  Lessons learnt in the MLF indicate that performance based sector or national phase out plans resulted in a superior impact while providing more flexibility to countries. As a consequence, there should be no return to individual project funding under the HCFC phase out regime.

- ***Prevent any possibility for further interim conversions.***

  Propose financial incentives for the early introduction of HCFC alternatives with higher climate and / or other benefits as compared to business as usual conversions (e.g. to HFC). One possibility for such a mechanism could be to allow for different levels of "cost efficiencies" to be considered for the various alternatives in correlation to their associated environmental benefits.

  There is precedent in earlier MP conversion projects when higher cost efficiency levels were allowed for the conversion to HC technology as alternative to CFC.

- ***Production phase out:***
    - In support of the production sector sub group, which shall reconvene on the issue of HCFC-production phase out, an assessment of existing production capacity could be made on the basis of available data, which shows the level of production and HCFC-kind for emissive uses, feed stock and process agents, as well as estimated levels of the by-products HFC-23 and CTC. On the basis of this a further assessment could be attempted to identify production capacity that could be shut down relatively easily thereby maximizing benefits for the ozone layer and the climate.

- Increase in HCFC-feedstock demand may offset HCFC production for emissive uses. Swing plants that have been funded earlier to convert from CFC production should not receive further funding.
- Possible financial incentives for terminal HCFC-production closures should be explored along with mechanisms to ensure that new production capacity will not be created.
- Avoiding production increases until 2010: explore possible measures to avoid (speculative) production increases to artificially inflate the funding baseline (e.g. to develop strategies to shift production to non-emissive uses).

(ii) Cost considerations to be taken into account by the Secretariat in preparing the discussion document referred to in paragraph (i) above;

- ***Maintain Cost Effectiveness (CE) thresholds for business as usual.***
  Whenever there is no added value for the climate, maintain existing sector guidelines on incremental costs calculations and agreed CE threshold values according to decision **ExCom 16/20** paragraph 32c/d for the HCFC phase out.

- ***Providing a climate incentive:***
  In recognition of the consequences of the HCFC phase out as well as the chosen alternatives for the global climate, incremental costs for HCFC conversion that can demonstrate an added benefit to the climate should be eligible for funding above the threshold values under decision 16/20. as part of the total eligible project funding:

  i. in addition to existing sector threshold values (dec. 16/20) above and up to a maximum percentage of the resulting total funding

  ii. in proportion (percentage) to the aggregated GWP value of HCFC's and their alternatives consumed before and after project implementation.

  iii. The existing practice to allow for additional costs for operational safety of HC should be maintained for early conversions.

- ***Depreciation of equipment***
  Amend existing sector guidelines on incremental cost calculation to include the aspect of end of economic life of HCFC capacities. Provide an incentive for early adoption of ozone protecting technologies through consideration of depreciation costs.

(iii) Cut-off date for funding eligibility;

A compromise to determine the cut of date could be based on:

First step: start from the date the MP adjustment in September 2007.

Second step: negotiate how much time should be reasonably allowed for governments to officially notify their concerned industries about the adjustment and its consequences.

In this way enterprises which are legitimately in the process of production capacity increases at the time the adjustment came into force would not unduly be penalized. On the other hand enterprises that may attempt to attract illegitimate funding through last minute production increases could be largely eliminated. This in turn would strengthen the hand of governments as they could deal with their industries as a whole thereby avoiding resistance from individual enterprises due to distinctions that must be perceived as arbitrary.

(iv) Second-stage conversions"

- Records of all MLF funded conversions of enterprises exist. The MLFS should comment on the feasibility of preparing a status report on those enterprises identifying

    a. whether or not the enterprise is still in business, the age of the funded production line and its expected remaining useful commercial life time.
    b. the current status of HCFC-production
    c. other parameters helpful for an informed decision about reasonable eligible incremental costs for a second conversion.

- Consider second funding of installed HCFC capacities in cases

    a. where full economic consideration of already provided assistance for the conversion from CFC to HCFC is given
    b. where enterprises had been specifically converted to HCFC (no further funding will be approved for companies that had received funding for Non-HCFC alternatives)
    c. assistance is provided only for essential investment parts, not for any operational costs reimbursement.

SUBMITTED BY THE GOVERNMENT OF JAPAN

Japan's views on options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities
(Submitted to the 54th Meeting of the Executive Committee in accordance with Decision 53/37)

General comments

- Japan respects the decision XIX/6 of the Meeting of the Parties to the Montreal Protocol which was adopted on the occasion of the 20th anniversary of the adoption of the Protocol and supports the concept that the agreed incremental costs should be covered by the Multilateral Fund to enable Article 5 Parties to comply with their new commitment to the phase-out of HCFCs.
- Members of the Executive Committee are invited to submit their views on four issues with regard to the eligible incremental costs for phasing-out HCFCs under the decision 53/37 of the Executive Committee. Japan would like to submit its final views after a series of documents are published by the Fund Secretariat based on its experience and consultants' expertise for the consideration at the 54th Meeting of the Executive Committee. In general, Japan believes that discussions at the next Meeting of the Executive Committee should be conducted on the basis of the spirit of decision XIX/6 and be led to how we can assure the flexibility and efficiency and maximize the ozone protection benefit taking into account the cost-effectiveness and the impact on climate change.
- With those in mind, Japan submits its tentative views as follows.

Specific suggestions

(i) Elements the Secretariat should consider in the draft guidelines for the preparation of national HCFC phase-out management plans

- In order to implement the paragraph 8 of decision XIX/6 immediately and effectively, the guidelines should include the following elements.
  - Compilation of the information on a legal framework in the recipient country concerned that would assure collecting reliable baseline data on HCFCs, including the implementation of license system for HCFCs and a current scheme for collecting the reporting data on HCFCs under Article 7 of the Protocol;
  - Establishment of methodology for validation of the baseline data, including collecting information on the import data from individual importers and on the shipment for each sector/usage; and
  - Arrangement for differentiating the production and consumption data on HCFCs between emission uses and feedstock uses.
- Japan supports the idea described in paragraphs 41 and 42 of the document UNEP/OzL.Pro/ExCom/53/60, which contributes to the consideration of the assistance for second-stage conversions in an effective manner as well as the consideration of an impact of the assistance for second-stage conversions. This idea should be incorporated into the guidelines

- In order to minimize environmental impacts, the guidelines should require that national HCFC phase-out management plans describe the conversion policy which also contributes to tackling climate change and other environmental issues through, for example, conversions from HCFCs to low-GWP substances and more energy-saving equipment, as mentioned in the paragraph 11 (b) of decision XIX/6.
- The guidelines should include the breakdown of consumption data of each type of the uses and applications at the baseline years and their future consumption forecast in order to develop a concrete strategy for phase-out of HCFCs. The amount of stockpile which is not allocated to any specific use should also be identified.
- The following elements should be included in the guidelines with a view to assuring the flexible implementation of the long-term phase-out activities of HCFCs:
  - Framework which enables plans and/or strategies that can be reviewed in a flexible manner and developed in an optimized form, according to the development stage of substitutes and alternatives. This includes setting shorter time-frame for plans and/or strategies, for example, targeting 10% reduction by 2015 instead of covering the whole compliance period; and
  - Framework which enables accelerated phase-out.
- The following information should be considered in order to utilize expertise obtained and infrastructure made through implementation and/or evaluation of projects:
  - Projects for phasing out CFCs;
  - Surveys on HCFCs in Article 5 countries;
  - Evaluation reports of Refrigerant Management Plans, National Phase-out Plans, etc. if available; and
  - Information on the types and number of the existing recovery & recycling machines and refrigerant identifiers applicable to HCFCs.

(ii) Cost considerations to be taken into account by the Secretariat in preparing the discussion document referred to in paragraph (l) (i) of decision 53/37

- The following elements should be considered in addition to those which were presented to the 53rd Meeting of the Executive Committee by the Fund Secretariat.
  - Deduction of saving of operational costs through the reduction of energy consumption, if the energy efficiency of the equipment improves through conversion; and
  - How to share the costs for replacing HCFC-based chillers and food industry refrigerators with the Global Environment Facility (GEF), given that the energy efficiency of the equipment could be improved by replacement and a part of the replacement costs could be supported by GEF in the focal area of climate change.
- Cost-effectiveness of projects should be evaluated on an ODPt basis in order to be consistent with the spirit of the Montreal Protocol and ensure ozone layer protection.

(iii) Cut-off date for funding eligibility

- Though six options are presented as a result of discussions at the 53rd Meeting, Members of the Executive Committee should continue to discuss on this issue to narrow these options down at the next Meeting, with a view to decreasing burdens of the Technology and Economy Assessment Panel when it considers the level of upcoming replenishment.

(iv) Second-stage conversions

- Japan fully understands the fact that the 19th Meeting of the Parties directs the Executive Committee to make the necessary changes to the eligibility criteria related to second-stage conversions in the paragraph 5 of the decision XIX/8 with the understanding that the Multilateral Fund will cover all agreed incremental costs to enable Article 5 Parties to comply with the accelerated phase-out of HCFCs. As mentioned in (i) above, Japan expects that the idea presented in paragraphs 41 and 42 of UNEP/OzL.Pro/ExCom53/60 concerning second-stage conversions should be realized in order to consider the necessary and effective assistance taking into account the current situation of facilities converted from CFCs to HCFCs through the assistance by the Fund.

(END)

SUBMITTED BY THE GOVERNMENT OF MEXICO

(l) As a matter of priority, and taking into account paragraphs 5 and 8 of decision XIX/6 of the Nineteenth Meeting of the Parties, to invite Executive Committee Members to submit their views on the following issues to the Secretariat, by 15 January 2008, with the understanding that the Secretariat would make the submissions available to the 54th Meeting:

(i) Elements the Secretariat should consider in the draft guidelines for the preparation of national HCFC phase-out management plans;

Conduct surveys to support Art. 5 Parties in establishing their baseline data on HCFCs;

To give priority to the phase-out projects that considers a higher amount of HCFC either in metric tones and ODP tones.

Funding second stage conversion in a case by case basis

(ii) Cost considerations to be taken into account by the Secretariat in preparing the discussion document referred to in paragraph (i) above;

To consider the cost effectiveness in the consumption and production in metric tones, not in ODP tones;

To take into account the cost of technology transfer and the technical support to use the new technology;

(iii) Cut-off date for funding eligibility;

The dates proposed were the following:

2000 (Cap of HCFC production/consumption in one major country);
Not acceptable because during the year 2000 and further years there were several conversions from CFC to HCFC, in this case several companies could be out of funding.

2003 (Clean Development Mechanism);
Not acceptable because this is not for consideration in the Montreal Protocol, because the CDM help to avoid the use of green house gases without considering the substance controlled by the Montreal Protocol.

2005 (proposal for accelerated phase-out of HCFCs);
This date is also not acceptable because the rules for the phase out of HCFC were not established and there were also several companies that were doing the conversion from CFC to HCFC.

2007 (Nineteenth Meeting of the Parties);
Considering the same criteria for the CFC cut off date, **September 16th of 2007** was the date that the parties agreed to accelerate the phase out of HCFC, and then all the companies that consumed before this date are eligible and avoid the installation of new plants after this date.

2010 (end of the baseline for HCFCs);
Not acceptable because with this date we would promote the installation of new companies increasing artificially the consumption of HCFC.

(iv) Second-stage conversions;

The second stage conversion should be considered in a case by case basis, considering the cost of the technology transfer, the incremental costs and technical support to use the new technologies.

SUBMITTED BY THE UNITED STATES OF AMERICA

BACKGROUND

The United States would like to congratulate the global community for its significant progress in phase-out of ozone depleting chemicals. We believe that Article 5 countries have acquired vast experience over the last two decades implementing programs, projects and policies to phase out ODS in accordance with obligations under the Montreal Protocol and with $2 billion worth of assistance from the Multilateral Fund. The challenge of phasing out HCFCs should take advantage of the capacities that Article 5 countries have acquired in implementing their domestic programmes, projects and policies to address the phase-out of other ODS.

Looking forward, the United States anticipates that there will be efficiencies, structures, and institutions on which to build the HCFC phase-out which will likely result in a decreased need for investment in certain areas of the Article 5 country phase-out HCFCs. In addition, we note that it is likely that there will be a decreased demand on Article 5 capacities as we move forward. Currently, Article 5 countries manage the phase-outs of 11 individual ODSs (CFCs, halons, methyl bromide, carbon tetrachloride, and methyl chloroform) compared to a post 2010 outlook where responsibilities will lie primarily with managing four major HCFCs which are, by in large, used in fewer industrial sectors than all of the other ODSs. These factors suggest the opportunity for cost savings in one area that would free up valuable resources for other important needs.

In recent ExCom history, two funding models have been used. In 2000 – 2002 a shift from a project-by-project funding to a country-driven approach was implemented by the Committee. The country-driven model allowed for the use of, and calculation of "sustained aggregate reductions" from which Article 5 countries would measure performance in their projects. Since adoption of the concept of "sustained aggregate reductions" the Article 5 countries and implementing agencies have adopted wholeheartedly more and more national- and sector-wide phase-out plans that make "sustained aggregate reductions." The concepts of "sustained aggregate reductions" and "sector or national phase-out plans" have become the norm rather than the exception for MLF projects. The "phase-out plan" approach with "sustained aggregate reductions" has proven to be more cost-effective than the project-by-project approach for the end consumption within A5 countries. The United States strongly supports this approach as a way to achieve reductions in a maximum cost-effective manner. At the 53rd Meeting of the Executive Committee, the notion of funding projects outside of the sustained aggregate reductions model was raised. The United States expressed support for the sustained aggregate reduction model and seeks to better understand the compliance basis for the argument to move away from this model from the advocates of such an approach.

Again, in the recent history, the ExCom was presented with the idea of funding CFC chillers projects because remaining CFC consumption in many A5 countries was servicing these large CFC-containing pieces of equipment. The ExCom understood that the projects might actually provide cost savings but wanted to demonstrate the environmental benefits, so chose to support a limited number of demonstration projects that required substantial counterpart funding, before MLF funds could be disbursed. In all cases, the Implementing Agencies and A5 countries created innovative projects that leveraged MLF core funding to acquire additional counterpart

co-financing. In some cases, the projects were so successful that they were either adopted by government, energy-sector quasi-government or private sector institutions to perpetuate the model. In these cases, the MLF funding was seed capital for the development of a revolving fund within the country for projects that had no eligible incremental cost component. Since some HCFC projects are likely to involve energy savings, further consideration of the seed money model may be warranted, again to ensure that funding decisions are made in a manner that is most efficient.

1. Elements the Secretariat should consider in the draft guidelines for the reparation of national HCFC management plans

We recommend that the Secretariat and ExCom build from lessons learned in implementing existing guidelines for the development, submission, and approval of country programmes, RMPs, RMP updates, TPMPs, as well as the recently developed guidelines for country-driven national and sectoral phase-out plans.

The procedures for developing and submitting country programs and country programme updates have evolved since the 3rd meeting of the ExCom. The U.S. believes that guidelines for the HCFC management plans should be even more straightforward than those for country programmes, such that they provide step-by-step procedures that help all Article 5 countries build on the already developed capacities in conducting existing country activities. We also believe that the guidelines for HCFC management plans can build on the ExCom experience with RMPs, RMP updates, TPMPs, and performance-based sector-wide and substance-wide national phase-out plans.

We believe that the submitted HCFC management plan should be a comprehensive action plan that encompasses a timetable for implementing specific activities, and indicates the sources of funding for planned activities. In addition, the U.S. believes that the management plan would be the foundation from which a country would submit for approval a first phase performance-based project – whether it is a sector-wide or substance-wide national phase-out plan (first phase). The experiences of the ExCom and Parties have demonstrated that the country-driven approach must be initiated by Article 5 countries in developing their own comprehensive management plan for addressing HCFCs.

To the extent that past lessons learned are applicable in this situation, our experience suggests that development of the HCFC management plan should be the prerequisite for all types of further funding for HCFCs, and should be directly linked to the submission of a performance-based sector-wide or substance-wide national phase-out plan. We note that the ExCom has sometimes complicated its ability to make decisions by agreeing to language in guidelines that needed to be clearer. In other cases, the ExCom has complicated its ability to make decision by agreeing to exceptions to existing guidelines which raise issues of precedence for how to treat other countries. We therefore wish to see HCFCs guidelines that are very logical and very clear. We also wish, for the sake of fairness amongst all countries, to see ExCom guidelines be applied equally across all Article 5 countries and avoid situations where exceptions need to be carved out.

HCFC management plans should be more extensive in scope than the past practice of country programs. They should include a comprehensive survey of HCFC use, that when completed would identify all uses of HCFCs. In this context, the United States sees much potential value in conducting surveys as they have a direct, compliance oriented function. In creating a comprehensive management plan, ExCom would be identifying the scope of future potentially eligible areas for funding. We believe that the survey could be done with a "mass balance approach" that would trace the use of all quantities of HCFCs produced within and/or imported into the country. The expectation is that the quantities of HCFCs that Article 5 countries have reported for years as consumption to the Ozone Secretariat under Article 7 of the Montreal Protocol could be balanced with all the amounts used in the various sectors. We note that the Montreal Protocol calls on all countries to have implemented an HCFC licensing system as of 1 January 2005 meaning that each country could take their licensing information as the basis for identifying specific quantities used in each separate industrial sector.

Past lessons learned also suggest that accomplishing certain actions early facilitate a smooth ODS phase-out. ExCom should clearly communicate that certain foundation building actions should be taken prior to or in conjunction with receiving financial assistance. Doing so would provide an incentive to governments to ensure that actions beneficial to achieving their phase-outs are taken at the appropriate time. The United States is interested in further exploring whether it makes sense to develop prerequisites for the submission of the funding request for the development of an HCFC management plan in light of the aforementioned rationale. Such possible prerequisites the United States would like to consider include: (1) ratification, (2) an existing and already implemented licensing system specific to HCFCs, and (3) in exchange for the 1st phase of funding a government commitment to meet the 2013 freeze, the 2015 reduction and the 2020 reduction. Additionally prerequisites for the submission of a proposal for a performance-based sector-wide or substance-wide national phase-out plan should be considered. For example, before an Article 5 country can submit a project proposal for a performance-based sector-wide or substance-wide national phase-out plan, there must have been 1 full year of training of customs officers regarding HCFCs that is documents as having reached more than 50% of the customs officers. Doing so would help address illegal trade issues which have been consistently identified by A5 countries as an issue of concern with respect to the CFC phase-out.

As alluded to above, the phase-out of CFCs was greatly enhanced through the widespread implementation of licensing systems and the United States anticipates that the tool will play an equally vital role in the HCFC phase-out. If countries expect to be able to comply with their 2013 freeze under the Montreal Protocol, a pragmatic decision maker would begin implementing a licensing system in the immediate future or have such a system in place already consistent with Protocol commitments. In addition to the benefits of having such a system in place early on, before a management plan is funded, the U.S. believes that the benefits and usefulness of collecting HCFC survey data will be greatly improved by the existence of an already established and implemented HCFC licensing system. Through the licensing system, the national ozone unit will be able to initiate inquires about the companies and sectors to which HCFCs are being sold to characterize national consumption.

We note that the freeze and first reduction step in the HCFC phase-out of developing countries is still many years into the future. However, the United States supports considering the concept of advancing the HCFC phase-out on a voluntary basis and assumes that a number of countries will wish to begin their HCFC reductions as an immediate follow-on to their CFC terminal phase-out thereby maintaining an even stream of assistance and capacity.

2. Cost considerations to be taken into account by the Secretariat in the discussion document

Similar to views stated previously by other government, cost effectiveness is a bedrock approach underlying Multilateral Fund assistance. Developed countries have made significant advancements in phasing out their production and consumption of HCFCs and therefore useful data on cost-effectiveness should be readily available to the Secretariat.

The United States believes that the financial mechanism of the Montreal Protocol was designed to assist Article 5 countries with addressing the global problem of ozone depletion. Article 5 countries have made enormous progress in addressing global ozone layer depletion and the phase-out of HCFCs represent the tail end of the problem. The United States believes that the calculation of agreed incremental costs must be based on the relative impact of HCFCs on the depletion of the ozone layer. Through the history of the operation of the Multilateral Fund, and in the large body of ExCom guidelines, the operation of the Fund has considered Article 5 Party support based on cost-effectiveness considerations of US$ dollars spent per ODP-weighted kilograms phased out. We believe that this practice should not change and that the MLF needs to continue to be similarly cost-effective in addressing the agreed eligible costs for phasing out ODP-weighted tonnes of HCFCs.

One complication is the great likelihood that the costs and therefore cost effectiveness of various technologies will change over time as these technologies mature and grow in the market place. In developing and agreeing to C/E ratios, the ExCom could also agree to a set reduction to take place at a specific time in the future. Many studies have been conducted on the topic of technology and market penetration and such data can yield a highly reliable estimate of the percentage decrease in cost of alternative technologies over time. This approach may merit further consideration.

3. Cut off date for funding eligibility

The United States believes that the year 2000 is the most appropriate and accurate date to use in establishing funding eligibility for a number of reasons.

a) Selecting an historic cut-off date is important to avoid creating a perverse incentive to amp up production/consumption with the expectation of financial assistance. The United States views this as an essential component of any future financial arrangements on CFCs.

b) The year 2000 in particular is most appropriate because some countries already had domestic legislation limiting HCFCs in place by that time. This action indicates that it was technically feasible to take action as of the year 2000 in the Article 5 country context. We believe the year 2000 would appropriately recognize the correct environmental behavior and does not reward those who lagged behind. Alternative technologies were widely available as of the year 2000 and in fact non-article 5 countries had already phased out many tons of HCFCs by that time.

4. Second stage conversions

The United States supports the concept suggested by some countries at the 53rd Meeting that assistance for second stage conversions be focused on training and technical assistance as the Fund has already made significant investments in this area.

As a general matter, in evaluating the issue of second stage conversion, ExCom finds itself in need of further information as to the rationale for such conversions and specific data such as the number of facilities, type of facility, date of first facility conversion etc. to better understand the basis and implications of possible action in this area.

SUBMITTED BY THE GOVERNMENT OF URUGUAY

This text was submitted in Spanish and has been translated. The original Spanish version can be found below the English text.

Elements to be taken into account by the Secretariat in the draft guidelines for the preparation of national HCFC management plans:

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- Approval of financing for preparing the Surveys, deemed to be essential in order to determine each country's situation;

- Examination of all sectors that use HCFCs, for example: **Refrigeration** – fixed air conditioning systems, refrigerated transport, industrial and commercial refrigeration; **Foams** – rigid, flexible, integral skin and others; **Solvents; Services**;

- Compiling and updating the database of projects implemented using Multilateral Fund resources, with updated figures for 2008;

- Definition of the format for presenting national plans – using the document already approved by the Executive Committee for the presentation of national programmes;

- Plant capacity in the country (projects already implemented) to be complemented by new resources/projects: recovery/recycling centres for "passive" treatment in the services sector; training/need to complement training;

- Destruction of impure ODS, management and logistics for the final destination of the equipment replaced and the substances. This priority aims to facilitate the preparation of national plans and should be implemented in 2008;

- Capacity-building projects in schools offering refrigeration courses so that future technicians can already be given training in good practices and environmental responsibility;

- Progressive sectoral phase-out plans, with emphasis on HCFCs with the highest ODP;

- Differential incentives for retrofit, where applicable;

- Plans for transfer of technology for gases with low impact on the climate, with reference to the availability of these new alternatives in each country (mainly in relation to technical training);

- Refunds for initiatives involving technological conversion, collection of gases and the disposal of the equipment replaced for countries that take immediate steps.

Cost considerations:

The cost-effectiveness coefficients to be adopted should take into account the following:

- The studies already conducted by the UNDP in this regard;

- The higher costs caused by the price difference between HCFCs and any substitutes. This means that, in the case of ODP or ODS, the **financing must be sufficient.**

- Transfer of the chosen technology;

- Security items needed for the new technology, bearing in mind the requirement that ODP = zero and GWP = low;

- Provision for the inclusion of final disposal logistics for the HCFC-containing equipment removed from the market and destruction of HCFCs that are contaminated or cannot be used;

- The conversion of CFCs to HCFCs is very different as far as the ozone-depleting potential (ODP) is concerned in comparison with conversion from CFCs to HFCs. For example, CFC 11 (with ODP of 1) to HCFC-141b (with ODP of 0.12) involves a reduction of 0.88. Conversion of HCFC-141b to HFC, on the other hand, only involves a small reduction of ODP;

- Consequently, as the cost of HCFC technology is much lower than the cost of the alternatives, such as HFCs, there is a possibility that the incremental cost will be higher than for the conversion from CFCs.

Time limit for eligibility for financing:

Criteria to be met when deciding on the time limit for eligibility

To prevent the establishment of new plants producing HCFC equipment and/or products;

Likewise, to prevent the establishment of new plants producing HCFCs (as occurred with the funds made available under the CDM);

Due regard to be given to those plants which, by the end of 2007, had provided verifiable information on production;

To ensure that technically and economically viable alternatives are available and are in fact being widely used in practice in countries parties to the Montreal Protocol because there are many examples but little equipment on the market;

Users of ODS adopted HCFCs as an intermediate alternative and employ these substances according to the current rules of the Montreal Protocol. Since the Nineteenth Meeting of the Parties, the rules have changed. The majority of the market was aware of this change.

Consequently, any company set up since then would be aware of the fact and therefore could/should bear the cost of its decision to use a substance that harms the environment and which is subject to a clearly-defined timetable for withdrawal from the market.

Accordingly, the cut-off date could be that of the Meeting of the Parties which approved the adjustment to the Montreal Protocol – the Nineteenth Meeting – when the timetable for accelerated phase-out of HCFCs was fixed, or December 2007.

Second-stage conversions:

Companies that converted under Multilateral Fund programmes should have the right to assistance with a second-stage conversion, as provided in paragraph 5 of decision XIX/6: "to also direct the Executive Committee of the Multilateral Fund to make the necessary changes to the eligibility criteria related to the post-1995 facilities and second conversions".

If companies that converted using Multilateral Fund resources are not allowed to take part, this would penalize those companies that showed their faith in the Montreal Protocol and their commitment to change and, furthermore, by altering the rules of the game would cast doubt on the seriousness of the Montreal Protocol, thus making conversion from HCFCs more difficult.

Moreover, in the case of a country in which almost all the industry converted, this would give it little margin to be able to meet the first targets for reducing consumption of HCFCs.

The Secretariat's recommendation that the implementing agencies and the National Ozone Units collect all this information in order to prepare a document that would only be examined in 2009 in order to decide how to proceed would jeopardize the preparation of management plans because there would be no decision on how to deal with these industries.

Furthermore, if the issue is to be re-examined in 2009 (in actual fact, it would start to be examined then), countries would face even greater uncertainties and this could have a negative impact on any transition strategy and on the preparation of national management plans for the phase-out of HCFCs.

With a view to the next replenishment, the Secretariat should provide the TEAP with a full list of companies that have converted to HCFCs with Fund assistance. Although this is historical information, it is valid for giving a first approximation of the companies that should be allowed financing for the total phase-out of HCFCs.

SUBMITTED BY THE GOVERNMENT OF URUGUAY

Original text submitted by the Government of Uruguay

Elementos que la Secretaría debe considerar en el borrador de las directrices para la preparación de los Planes Nacionales de Manejo de HCFCs;

- Aprobación de financiamiento para la elaboración de los "Survey", considerado básico para conocer la situación de cada país.

- Examen de todos los segmentos usuarios de HCFCs, tales como: **Refrigeración** - aire acondicionado estacionario, transporte refrigerado, refrigeración industrial y comercial; **Espumas** - rígidas, flexibles, piel integral y otras; **Solventes, Servicios**;

- Elaboración y actualización del banco de datos de proyectos que han sido implementados con recursos del Fondo Multilateral, con datos actualizados para 2008;

- Definición del formato de presentación del Plan Nacional – utilizar el documento ya aprobado por el ExCom para la presentación de programas nacionales;

- Capacidad instalada en el país (proyectos ya implementados) para complementación con nuevos recursos/proyectos: Centros de Recuperación/Reciclaje para tratamiento de "Pasivo" en el sector de servicios; Capacitación/necesidad de complementar la capacitación;

- Destrucción de las SAO impuras, manejo y logística de destino final de los equipos sustituidos y de las sustancias. Esta prioridad vista a la agilidad de la elaboración del Plan Nacional y debe ser ejecutada en 2008;

- Proyectos de "capacity building" de escuelas que dictan cursos en refrigeración, para que los futuros técnicos, desde ya, obtengan formación en Buenas Prácticas y Responsabilidad Ambiental;

- Planes de eliminación sectorial y gradual, con énfasis en HCFCs de ODP más elevado;

- Incentivo diferenciado al retrofit, en casos aplicables;

- Planes de transferencia de tecnología para gases de bajo impacto en el Clima, con referencia a la accesibilidad a estas nuevas alternativas para cada país (principalmente en relación a la capacitación técnica);

- Restitución para iniciativas relacionadas a la conversión tecnológica, a la recolección de gases y a la disposición de equipos sustituidos para los países que adopten acciones inmediatas.

Consideraciones sobre costos:

Los coeficientes costo-efectividad que se adopten deberán considerar lo siguiente:

- Tener en cuenta los estudios ya hechos por el PNUD sobre este punto.
- los mayores costos que surjan de la diferencia de precios entre el HCFC y los eventuales sustitutos. Esto implica que, se tome ODP o SAO, el **financiamiento debe ser suficiente.**
- Transferencia de la tecnología elegida.
- Ítems de seguridad requeridos por la nueva tecnología, considerando los requisitos de ODP= zero e GWP= bajo;
- Previsión de inclusión de logística de disposición final de los equipamientos que contienen HCFCs retirados del mercado, y destrucción de los HCFCs contaminados o que no puedan utilizarse.
- Comparativamente, la conversión de CFC para HCFC tiene gran variación en potencial de destrucción de la capa de ozono (ODP) que la conversión de CFC para HFC. Ej.: del CFC11 (con ODP 1) para HCFC-141b (de ODP 0,12), hay una reducción de 0,88. Sin embargo, en la conversión de HCFC-141b para HFC, hay poca reducción de ODP.
- En tal sentido, como el costo de tecnología de los HCFCs es mucho más bajo que el costo de sus alternativas, como el HFC, entonces hay una posibilidad del costo incremental ser más grande que el de la conversión de los CFCs.

Fecha límite de admisibilidad de la financiación:

Criterios que se deberían respetar en la elección de la fecha de elegibilidad:

Evitar que se instalen nuevas plantas productoras de equipos y/o productos con HCFC.

Evitar del mismo modo, que se instalen nuevas plantas productoras de HCFC (tal como sucedió como consecuencia de los fondos disponibles por MDL).

Se deberían respetar las plantas que a fines del 2007 hayan informado producción, y que pueda ser verificada.
Asegurar que haya alternativos disponibles que sean técnicamente y económicamente viables y que estén siendo utilizados en un porcentaje considerable en los países Parte del Protocolo de Montreal, realmente en la práctica, porque hay muchos ejemplos pero con pocos equipos en el mercado.

El mercado usuario de las SAO adoptó como alternativa intermediaria los HCFCs y venía actuando con tales substancias de acuerdo con las reglas vigentes del Protocolo de Montreal. Desde la fecha de la 19a Reunión de las Partes dichas reglas cambiaron. El mercado, en su mayoría, tuvo conocimiento de este hecho. Por esa razón, toda empresa que fue establecida a partir de esa fecha dispondría de ese conocimiento, por lo tanto puede/debe asumir el costo de su decisión de usar una sustancia dañosa al medio ambiente y para cuya retirada del mercado fue establecido un cronograma claro.

En tal sentido, la fecha de corte podría ser la misma fecha de la Reunión de las Partes que aprobó el Ajuste al Protocolo de Montreal - la 19a Reunión - donde fue incluido el calendario de eliminación acelerada de los HCFCs, o Diciembre de 2007.

Conversiones en una segunda etapa:

Las empresas reconvertidas en programas del FMPM, deben tener derecho a ser asistidas en una 2da. conversión, tal como lo establece la cláusula 5 de la Decisión XIX/6: “to also direct the Executive Committee of the Multilateral Fund to make the necessary changes to the eligibility criteria related to the post-1995 facilities and second conversions”.

Si no se permite participar a las empresas reconvertidas por el FMPM, constituiría un castigo para aquellas empresas que confiaron en el PM y apostaron al cambio, además, al cambiar las reglas del juego, se pondría en duda la seriedad del PM, pudiendo así, dificultar la reconversión de HCFCs.

Asimismo, en el caso de un país en el cual se ha reconvertido a casi toda su industria, se lo dejaría con poco margen para poder cumplir con las primeras metas de reducción del consumo de HCFC.

La recomendación de la Secretaría referida a que las agencias de implementación y las Unidades Nacionales de Ozono recaben toda esa información para elaborar un documento que recién sería considerado en el 2009 para decidir qué hacer, impediría la elaboración de los planes de gestión por no saber cómo considerar a estas industrias.

Por otro lado, si el tema se volviera a re-examinar en el 2009 (que en realidad se empezaría a examinar en esa fecha), la incertidumbre para los países se alargaría mucho

y podría impactar negativamente en cualquier estrategia de transición y en la elaboración de los planes nacionales de gestión para la eliminación de los HCFC.

La Secretaría debería proporcionar al TEAP, con vistas a la próxima reposición, la lista completa de las empresas que se convirtieron a HCFC con asistencia del fondo. Aunque se trate de información histórica, es válida para tener una primera aproximación de las empresas a las que se debería facilitar financiamiento para la eliminación total de los HCFC.

Annex III

ARTICLE 7 HCFC DATA AND PROJECTIONS (IN ODP TONNES)(1)

HCFCs	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Assumed Baseline/ Freeze	Difference
CONSUMPTION														
HCFC-22	7,535	7,228	7,863	10,188	12,749	12,382	13,621	14,983	16,481	18,129	19,942	21,936	17,305	4,631
HCFC-141B	3,322	4,068	5,482	7,046	5,745	11,157	12,273	13,500	14,850	16,335	17,969	19,766	15,593	4,173
HCFC-142B	81	83	350	334	527	1,903	2,094	2,303	2,533	2,786	3,065	3,372	2,660	712
Other HCFCs	55	62	125	109	178	216	237	261	287	316	347	382	301	81
Total HCFC (3)	10,993	11,440	13,820	17,676	19,199	25,659	28,224	31,047	34,152	37,567	41,323	45,456	35,859	9,597
Growth rates		4%	21%	28%	9%	34%								
Total HCFC (4)							30,278	35,728	42,159	49,747	58,702	69,268	45,953	23,315
CONSUMPTION BY GROUPS OF COUNTRIES														
Largest countries (2)	8,836	9,205	11,461	14,820	16,154	22,453	24,699	27,169	29,885	32,874	36,161	39,778	31,380	8,398
Other countries	2,157	2,236	2,359	2,856	3,045	3,205	3,526	3,878	4,266	4,693	5,162	5,678	4,479	1,199
Total	10,993	11,440	13,820	17,676	19,199	25,659	28,224	31,047	34,152	37,567	41,323	45,456	35,859	9,597
PRODUCTION														
HCFC-22	6,909	7,507	9,249	12,544	14,754	16,853	18,538	20,392	22,431	24,674	27,141	29,855	23,552	6,303
HCFC-141B	1,154	2,246	3,569	4,370	4,786	8,182	9,001	9,901	10,891	11,980	13,178	14,496	11,435	3,060
HCFC-142B	1		234	220	366	1,420	1,562	1,718	1,890	2,079	2,287	2,515	1,984	531
Other HCFCs	-	-	56	37	40	154	169	186	205	225	248	272	215	57
Total HCFC	8,064	9,753	13,108	17,171	19,946	26,609	29,269	32,196	35,416	38,958	42,853	47,139	37,187	9,952
Growth rates		21%	34%	31%	16%	33%								
Total HCFC (4)							31,399	37,050	43,719	51,589	60,875	71,832	47,654	24,178

(1) Article 7 data for all Article 5 countries excluding Republic of Korea, Singapore and United Arab Emirates (as of January 2008).
(2) Seven countries, each with total HCFC consumption above 360 ODP tonnes.
(3) Assumed annual growth rate of 10 percent for both production and consumption projected from actual 2006 HCFC data.
(4) Average annual growth rate based on Article 7 data between 2003-2006 was 18 per cent.