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EXECUTIVE COMMITTEE OF
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SECOND-STAGE CONVERSIONS AND DETERMINATION OF CUT-OFF DATE FOR INSTALLATION OF HCFC-BASED MANUFACTURING EQUIPMENT

Background

1. At its 56th Meeting, the Executive Committee continued its deliberations on policy relating to determination of the cut-off date for installation of HCFC-based manufacturing equipment and second-stage conversions (i.e., replacement of HCFC-based equipment that had been installed with the assistance from the Multilateral Fund). As no agreement was reached, the Committee decided to continue its deliberations on these issues at its 57th Meeting, in light of the mandate provided by the 19th Meeting of the Parties and the information contained in document UNEP/OzL.Pro/ExCom/56/58 (decision 56/65).

2. The Secretariat has prepared this document in response to decision 56/65. The paper first presents an analysis of the outstanding issues on the cut-off date and second-stage conversion that the Executive Committee will need to address. It also contains a discussion on two additional issues: the starting points for aggregate reductions in HCFC consumption as stated in the HPMP guidelines, and how to account for the phase-out of HCFCs from approved projects against the consumption identified in the HPMP. The paper concludes with a set of recommendations for the Executive Committee's consideration.

3. For the benefit of members of the Executive Committee this paper presents, in Annex I, a summary of the previous policy papers addressing HCFC consumption since the adoption of decision XIX/6, an overview of decisions adopted by the Committee on this matter, and an overview of HCFC consumption in Article 5 countries. It also presents an overview of the concept of the starting point for aggregate reductions in consumption established by the Executive Committee in the framework of the strategic planning of the Multilateral Fund. Views expressed by members of the Executive Committee in regard to cut-off dates, second stage conversion and other general views on HCFC phase-out are presented in Annex II.

4. The Executive Committee may wish to consider the background information presented in Annexes I and II during its deliberations on the outstanding HCFC policy issues presented below.

Outstanding policy issues on HCFC phase-out for immediate consideration

5. Apart from the cut-off date, second conversions and starting points, there are still a number of outstanding policy issues on HCFC phase-out to be addressed, such as prioritization of HCFC phase-out technologies to minimize other impacts on the environment; co-financing from other funding mechanisms in order to achieve additional climate benefits; premature retirement of HCFC-based equipment post 2015; and calculation of operating costs/savings from HCFC projects and the establishment of cost-effectiveness thresholds. Of these issues, the cut-off date and second-stage conversions, which are only relevant for Article 5 countries with HCFC manufacturing facilities, appear to have the highest degree of urgency. Resolution of these issues would facilitate and expedite the preparation and submission of HPMPs and stand-alone demonstration and phase-out projects.

Cut off date

6. The issue of the cut-off date for installation of HCFC-based manufacturing equipment was contained in the document on options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities (paragraphs 32 to 35 of document UNEP/OzL.Pro/ExCom/53/60). The paper proposed three possible cut-off dates: the day before the 53rd Meeting of the Executive Committee (25 November 2007); 31 December 2009 (the end of the first year of the two years for calculating the baseline); and the date on which substitutes became available.

7. Further to a discussion, in which a wide range of options were proposed, the Executive Committee suggested that members submit their views on the matter to the Secretariat and that the Secretariat makes those submissions available at the 54th Meeting to facilitate further consideration of the matter (the views expressed by members of the Executive Committee are presented in Annex II to this

paper). Although no agreement was reached on these issues, the following cut-off dates were proposed by the Committee (decision 53/37(k)):

(a) 2000 (cap on HCFC production/consumption in one major country);

(b) 2003 (Clean Development Mechanism);

(c) 2005 (proposal for accelerated phase-out of HCFCs);

(d) 2007 (19th Meeting of the Parties);

(e) 2010 (end of the baseline for HCFCs);

(f) Availability of substitutes.

8. The issue of the cut-off date was also considered by the TEAP Replenishment Task Force established by the Parties to the Montreal Protocol[1]. In its report, the Task Force indicated that if the cut-off date was closer to the 2009-2012 period (e.g., 2005-2007), there would be a sufficient number of eligible HCFC installations to achieve the freeze and the first 10 to 20 per cent reduction levels in HCFC consumption.

9. Adopting a decision on an eligible cut-off date for installation of HCFC-based manufacturing equipment is very important as it would have major consequences in the preparation of HPMPs by Article 5 countries. For countries with HCFC consumption in the manufacturing sector, the cut-off date is directly associated with the starting point for aggregate reduction in HCFC consumption. In the absence of a cut-off date, a large number of HCFC-based manufacturing enterprises are uncertain about their funding eligibility. Furthermore, several cost scenarios based on different potential cut-off dates would have to be analyzed during the preparation of HPMPs (i.e., at least six different cut-dates have been proposed, including the current policy for a 25 July 1995 cut-off date).

Second-stage conversions

10. The issue of second-stage conversions was also presented in the document considered at the 53rd Meeting (paragraphs 36 to 42 of document UNEP/OzL.Pro/ExCom/53/60). The paper recommended that, in the process of developing HPMPs, implementing agencies and the Ozone Units should include a survey of the enterprises that had converted to HCFCs with the assistance of the Fund, indicating in particular the year of the conversion, the technology currently used, the capacity at the time of conversion, the level of HCFC consumption in the previous years, and the replacement technology and planned timing for the next conversion.

11. During the ensuing discussions, some members said that the agreement by the Parties to accelerate the phase-out of HCFCs had been conditional on the agreement to fund second-stage conversions. Other members said that while it might be necessary to provide some level of assistance. As for the issue of cut-off dates, members submitted their views on second-stage conversions to the Secretariat, which were made available to the 54th Meeting (the views expressed by members of the Executive Committee on this issue are presented in Annex II to this paper).

12. The issue of second-stage conversions was also considered by the TEAP Task Force on Replenishment. In its report, the Task Force noted that the level of funding for HCFC phase-out depends very much on how many pieces of equipment, or the number of enterprises in an Article 5 country that can be considered for support by the Multilateral Fund. If the number of operations is relatively small, it is questionable whether second conversions (i.e., the funding of the conversion away from HCFC

[1] Executive summary of the supplemental report of the TEAP Replenishment Task Force (UNEP/OzL.Pro.20/6).

previously supported by the Multilateral Fund) would play any role in the determination of the funding requirement for the first HCFC reduction steps. In its analysis, the Task Force analyzed information on CFC-11 conversion projects in various countries. In China, the Task Force noted that between 10 to 15 per cent of the expected HCFC-141b baseline consumption was in manufacturing enterprises that have been converted from CFC-11 to HCFC-141b, whereas in other large HCFC consuming group countries (categorized as Group 2 in the Task Report[2]) the level was 35 per cent. This implies that a large number of operations can be selected for the first 35 per cent reduction (up to 2020), that do not fall within the second stage conversion issue.

13. As in the case of the cut-off date, resolution on the issue of second-stage conversions is also important. During the preparation of their HPMPs, Article 5 countries would have to analyze two scenarios, one assuming that manufacturing plants converted to HCFCs through the Fund would be eligible for funding and the other assuming that they would not be eligible. This could have potential repercussions on the content and quality of the strategy and plan of action to achieve compliance with the 2013 and 2015 phase-out targets. It could also have an impact on the costs of the phase-out plans. This is based on the consideration that if second-stage conversion is not eligible for funding, the country would need to phase out HCFCs from other eligible manufacturing plants most probably of smaller capacity, if available, and/or from the servicing sector. Furthermore, in those Article 5 countries that have a relatively small number of HCFC-based manufacturing plants and, therefore, low levels of HCFC consumption[3], the decision on the eligibility or otherwise of second-stage conversion could have a major impact.

Starting point for aggregate reductions in HCFC consumption

14. As in the case of CFC phase-out, the starting point for aggregate reductions in HCFC consumption will be more relevant for countries with consumption in both the manufacturing and servicing sectors. As required by the adopted guidelines, HPMPs in these countries should provide the starting point for aggregate reductions in HCFC consumption, and should contain a performance-based phase-out plan aimed at achieving sufficient reduction in the levels of HCFC consumption to meet the 2013 and 2015 control measures. In cases when Article 5 countries decide to submit demonstration and/or investment projects to address HCFC consumption in advance of finalizing their HPMPs, the quantity of HCFC to be phased out under those projects will be deducted from the starting point (decision 55/43 (b)).

15. Article 5 countries with HCFC consumption only in the servicing sector will commit to meeting the 2013 and 2015 control measures through implementation of their HPMPs[4]. Similar to countries with HCFC consumption in the manufacturing sector, the release of funding tranches would follow a performance-based system (i.e., verified completion of activities in the HPMP for the previous year), to ensure that HCFC consumption does not grow unabated.

16. The starting point for aggregate sustained reductions in CFC consumption was adopted three years after the CFC baselines were known (i.e., 1998) and almost two years after the CFC freeze compliance target (July 1999) entered into force. However, HCFC baselines under the Montreal Protocol will be calculated only in late 2011, once the 2010 HCFC consumption has been reported to the Ozone Secretariat. It is expected that by the time HCFC baselines are calculated, the majority (if not all) Article 5 countries will have an HPMP approved and under implementation. Due to the uncertainties regarding the establishment of the starting points for aggregate reductions in HCFC consumption in the absence of established HCFC baselines, the Executive Committee would wish to clarify the following points:

[2] Group 2 comprises the 17 larger Article 5 Parties with consumption of 120 – 1200 ODP tonnes (i.e., 2,000 to 14,000 metric tonnes).

[3] About 25 Article 5 countries with less than 10 enterprises and HCFC-141b consumption below 22 ODP tonnes (200 metric tonnes) in 2006.

[4] HPMP will be consistent with existing guidelines for the preparation of RMPs/RMP updates (decisions 31/48 and 35/57) and, if applicable, with TPMPs (decision 45/54).

(a) In calculating starting points for aggregate reductions in HCFC consumption, could Article 5 countries choose between the most recent reported HCFC consumption or the average of the consumption forecast for 2009 and 2010, excluding HCFC consumption from manufacturing enterprises that would not be eligible for funding as a result of the Committee's decisions on the cut-off date and second-stage conversion;

(b) Would unconstrained growth of HCFC consumption in 2011 and 2012 be allowed in the calculation of the starting point? During the phase-out of CFCs, unconstrained growth of CFCs was allowed between 1995 and July 1999 for CFC-based manufacturing enterprises that were established prior to 25 July 1995. This is another important reason for establishing the cut-off date for installation of HCFC-based manufacturing equipment;

(c) Would the agreed starting points for aggregate reductions in HCFC consumption be adjusted downward in cases where calculated HCFC baselines based on reported Article 7 data are lower than the starting points (for countries that submit phase-out projects in advance of submission of their HPMPs, the level of HCFC consumption associated with the project will not have an effect on the calculation of their baselines since the average implementation time of projects is about 3 years);

(d) For those Article 5 countries that submitted projects in advance of completion of their HPMP, should starting points be established at the first submission of an HCFC demonstration and/or investment project or should they only be established with the submission of the HPMP.

Recommendation

17. In light of the mandate provided by the 19th Meeting of the Parties to the Montreal Protocol, and the information given above, the Executive Committee may wish to:

(a) Consider a cut-off date for installation of HCFC-based manufacturing equipment, after which incremental costs for the conversion of such equipment would not be eligible for funding;

(b) Consider whether or not to provide additional funding for the second conversion of enterprises that were converted from CFC to HCFC technology through the Multilateral Fund;

(c) Clarify the issues regarding the starting points for aggregate reductions on HCFC consumption as described in paragraph 16 of the present document.

Annex I

BACKGROUND INFORMATION ON THE HCFC POLICY PAPERS CONSIDERED BY THE EXECUTIVE COMMITTEE AND DECISIONS TAKEN ON THESE ISSUES, AND ON THE STARTING POINT FOR AGGREGATE REDUCTIONS IN CONSUMPTION

Introduction

1. At their 19th Meeting, the Parties agreed to accelerate the phase-out of HCFCs, and gave a mandate to the Executive Committee to develop funding guidelines to assist Article 5 countries to meet their commitments in accordance with the adjusted schedule. Since then, the Executive Committee has considered six substantive policy papers[1] and adopted relevant decisions to address the mandate given by the Parties. These policy papers are:

(a) Options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities (UNEP/OzL.Pro/ExCom/53/60);

(b) Draft guidelines for the preparation and implementation of HCFC phase-out management plans (UNEP/OzL.Pro/ExCom/54/53);

(c) Preliminary discussion paper providing analysis on all relevant cost considerations surrounding the financing of HCFC phase-out (UNEP/OzL.Pro/ExCom/54/54, Corr.1 and Add.1). A revised version of the paper with comments submitted by members of the Executive Committee was discussed at the 55th Meeting (UNEP/OzL.Pro/ExCom/55/47);

(d) Cost structure for determining funding levels for preparation of HCFC investment and associated activities (decision 55/13(d)) (UNEP/OzL.Pro/ExCom/56/13); and

(e) Issues related to relevant cost considerations surrounding the financing of HCFC phase-out (decision 55/43(g) (UNEP/OzL.Pro/ExCom/56/58 and Add.1).

2. In addition to the policy papers on HCFCs discussed so far, the Executive Committee has approved funding for the implementation of activities addressing HCFC phase-out. At its 45th Meeting, the Executive Committee approved the funding for HCFC surveys in 12 Article countries, on the understanding that their goal was to enable the establishment of an eligible aggregate level of HCFC consumption in the future against which proposals would be funded (decision 45/6(a)(i))[2]. Following the approval of the HPMP guidelines at its 54th Meeting, the Committee also approved funding for the preparation of HPMPs in 115 Article 5 countries, and for the preparation of several demonstration projects on HCFC alternative technologies. It is expected that funding for the preparation of HPMPs in the remaining Article 5 countries will be approved during 2009.

[1] Policy papers pertaining to the phase-out of HCFC production have been discussed at the 55th (UNEP/OzL.Pro/ExCom/55/45) and 56th (UNEP/OzL.Pro/ExCom/56/57) Meetings. An additional policy paper has been submitted to the 57th Meeting (UNEP/OzL/ExCom/57/61).

[2] HFCF surveys were approved at the 45th Meeting for Argentina, Brazil, Colombia, Indonesia, India, Islamic Republic of Iran, Lebanon, Malaysia, Mexico, Sri Lanka, Syrian Arab Republic, and Venezuela. The HCFC survey for China was approved at the 43rd Meeting.

Policy papers on HCFCs so far considered

3. At its 53rd Meeting, the Executive Committee discussed a paper on options for assessing and defining eligible incremental costs for HCFC consumption and production phase-out activities. The paper addressed issues pertaining to HCFCs, *inter alia*, the legal prerequisite for assessing funding; the applicability of the existing policies and guidelines of the Fund; and the development of surveys and phase-out management plans for HCFCs. The paper also discussed issues relating to funding priority and cost-effectiveness thresholds, the cut-off date for installation of HCFC-based manufacturing equipment and second stage-conversions (i.e., replacement of HCFC-based equipment that had been installed with assistance from the Multilateral Fund), as well as the HCFC production sector.

4. The Executive Committee agreed that the paper was a useful first step for developing the policies and modalities necessary to achieve the 2013 freeze in HCFC consumption. Although the Committee felt that it might take several meetings to reach agreement on all the policy issues involved, it was able to adopt specific decisions on the legal preconditions for assessing funding for HCFC phase-out (ratification of relevant Amendments to the Montreal Protocol), the applicability of existing guidelines and criteria for phasing-out ODS, including definitions for low-volume-consuming countries and small and medium-sized enterprises, and the use of existing institutions and capacities in Article 5 countries (decision 53/37).

5. The Executive Committee also discussed the issues of the cut-off date and second-stage conversions. Although no agreement was reached on these issues, cut-off dates between 2000 and 2010, as well as the date when HCFC substitutes became available, were proposed. Finally, the Committee requested the development of draft guidelines for the preparation of HCFC management plans. This included preliminary analysis on all relevant cost considerations surrounding the financing of HCFC phase-out, such as cost benchmarks/ranges, the applicability of HCFC substitute technologies, financial incentives and opportunities for co-financing.

6. In response to decision 53/37, draft guidelines for the preparation and implementation of HCFC phase-out management plans (HPMP) were considered at the 54th Meeting. The guidelines, as adopted by the Committee, were to be used by Article 5 countries for the development of an over-arching plan to achieve total phase-out of HCFCs in stages allowing, in the first stage, concrete proposals to meet the 2013 (freeze) and 2015 (10 per cent reduction in baseline consumption) control steps, while at the same time allowing countries to propose a subsequent stage, or stages if needed, to manage their HCFC phase-out (decision 54/39). In the context of HPMPs, Article 5 countries were classified in two broad categories: one for countries with consumption only in the servicing sector and another for countries with consumption also in the manufacturing sector.

7. At the time of adoption of these guidelines, relevant policy issues on HCFC phase-out were still under discussion. Therefore, the guidelines called for the inclusion of alternative cost scenarios on different cut-off dates and for second stage conversions. Additionally, the guidelines requested a cost analysis of a full range of possible alternatives to HCFCs, with associated ODP and other impacts on the environment, taking into account global-warming potential, energy use and other relevant factors.

8. The discussion paper analyzing all relevant cost considerations surrounding the financing of HCFC phase-out was considered at the 54th and 55th Meetings. Although the paper did not address eligibility for funding of manufacturing capacity established after a certain cut-off date or second conversion, the Executive Committee decided to allow for the submission of a limited number of HCFC phase-out projects in all sectors so that it could choose projects that best demonstrated alternative technologies and facilitated the collection of relevant project data. This decision was adopted on the understanding that the quantity of HCFC to be phased out would be deducted from the starting point for sustained aggregate reductions in eligible consumption as set by the HPMPs (decision 55/43).

9. The Committee also agreed:

(a) To continue its deliberation on the issues of second-stage conversions and determination of the cut-off date with a view to concluding its considerations prior to submission of HCFC phase-out projects; and

(b) To defer to future meetings consideration of the prioritization of HCFC phase-out technologies to minimize other impacts on the environment; co-financing from other funding mechanisms in order to achieve additional climate benefits; premature retirement of functioning HCFC-based equipment once the 2015 compliance target has been addressed; and policies for the calculation of operating costs/savings from HCFC projects, and the establishment of cost-effectiveness thresholds in 2010.

10. At its 56th Meeting, the Executive Committee continued its deliberations on policy relating to second-stage conversions and determination of the cut-off date for installation of HCFC-based manufacturing equipment. As no agreement was reached, the Committee decided to continue its deliberations on these issues at its 57th Meeting, in light of the mandate provided by the 19th Meeting of the Parties and the information provided in document UNEP/OzL.Pro/ExCom/56/58 (decision 56/65).

Overview of HCFCs

11. The discussion paper analyzing all relevant cost considerations that was discussed at the 54th and 55th Meetings provided a preliminary overview of the magnitude of the future actions required to achieve compliance with the revised HCFC phase-out schedule. From this analysis[3] it was noted that:

(a) HCFC-141b, HCFC-142b and HCFC-22 account for more than 99 per cent of the total consumption of all HCFCs in Article 5 countries. These HCFCs are used mainly in the manufacturing of foam products and refrigeration equipment and in the refrigeration servicing sub-sector;

(b) While there is not yet sufficient data to ascertain precise numbers, about 90 to 100 countries consume HCFC-22 only for servicing refrigeration systems, while 40 to 50 countries also have HCFC-based manufacturing enterprises;

(c) HCFC consumption in 73 countries was below 10 ODP tonnes (360 metric tonnes) in 2006. Twenty-nine other countries either reported zero consumption or did not report any consumption;

(d) Seventy of the 117 Article 5 countries that reported consumption of HCFC-22 in 2006 had consumption below 10 ODP tonnes (182 metric tonnes);

(e) HCFC-141b was used in 40 Article 5 countries, 20 of which had a consumption below 10 ODP tonnes (91 metric tonnes), while HCFC-142b was used only in 19 Article 5 countries, 18 of which had a consumption below 10 ODP tonnes (154 metric tonnes). These levels of HCFC consumption point to a large number of small-and medium sized enterprises among Article 5 countries with respect to HCFCs; and

[3] Information extracted from the document on cost considerations surrounding the financing of HCFC phase-out (UNEP/OzL.Pro/ExCom/55/47). The analysis was based on Article 7 data reported by Article 5 countries to the Ozone Secretariat, on the information contained on the HCFC surveys that were approved for 13 Article 5 countries and those Multilateral Fund projects that converted from CFC to HCFC technologies.

(f) Since the inception of the Multilateral Fund in 1991, the Committee has approved 858 stand-alone investment projects[4] in 47 Article 5 countries where HCFCs have been selected as the technology to replace CFC consumption, partially or totally. The current status of these enterprises, their HCFC consumption and/or whether or not they have converted to non-HCFC technologies, is not known yet. This information will be gathered during the preparation of the HPMPs.

Starting point for aggregate reductions in consumption

12. In the context of the agreement on the strategic planning of the Multilateral Fund, the Executive Committee agreed that further funding must be predicated on a commitment by the country to achieve sustainable permanent aggregate reductions in consumption (decision 35/57). To implement this provision, the Committee established a starting point representing the maximum level of consumption that would be eligible for funding. Each Article 5 country was given the choice to use either its baseline or its latest reported consumption under Article 7 as the starting point. Once the starting point was selected, ODS consumption associated with new funded projects was to be subtracted from the starting point. The resulting number represented the maximum residual ODS that the Fund would pay to reduce. The Executive Committee also agreed to increase by 30 per cent the level of funding for institutional strengthening projects[5].

13. In taking this approach, the Executive Committee acknowledged that:

(a) In exceptional cases, when an Article 5 country selected the latest reported consumption as the option for calculating its starting point, it may agree to adjust the resulting starting point at the first instance a project from that country was considered, to take into account the demonstrated non-representative nature of the last year's level of consumption (demonstrated stockpiling in the last 12-month period and/or economic difficulties in the same period. Illegal imports of ODS would not be considered and should not benefit from Fund assistance);

(b) Future consumption levels could be above or below the calculated levels (i.e., the starting point). However, if the consumption levels were above the calculated levels, such increases in consumption would not be eligible for funding;

(c) Refrigerant management plans (RMP)s, methyl bromide phase-out projects and halon banking projects lead to a specific level of reductions in aggregate consumption relative to Montreal Protocol obligations, and should continue to be handled on that basis; and

(d) Existing Multilateral Fund guidance related to eligibility of projects would be maintained in all respects.

14. Article 5 countries with CFC consumption remaining only in the servicing sector committed, through their RMPs, to achieving at least the 2005 and 2007 CFC reduction steps without further requests

[4] It comprises 491 foam projects, 364 domestic/commercial insulation refrigeration projects and 3 solvent projects. Additionally, foam and refrigeration sectoral phase-out plans and conversion of CFC-12 compressors to HCFC-22-based systems have also been approved in a few Article 5 countries.

[5] A policy paper on options for possible funding arrangements and levels for institutional strengthening beyond 2010 pursuant to decision 53/39 has been submitted to the 57th Meeting (UNEP/OzL.Pro/ExCom/57/63).

for funding, regardless of the starting point (decision 31/48 adopted in July 2000)[6]. Therefore, the aggregate reduction in CFC consumption applied mainly to some 40 Article 5 countries which had reported CFC consumption in both the manufacturing and servicing sectors.

15. The first few years after the adoption of the strategic planning of the Fund, CFC phase-out was primarily achieved through implementation of stand-alone projects, addressing one or a few enterprises. CFC consumption associated with these enterprises was subtracted from the remaining consumption eligible for funding. As the phase-out progressed, CFC consumption was more related to SMEs, resulting in the submission of phase-out plans addressing the remaining eligible consumption in sectoral and/or national plans. These phase-out plans contained commitments to reduce consumption according to a phase-out schedule agreed between the Article 5 country concerned and the Executive Committee (set out in an Agreement), that was consistent with or ahead of the control measures under the Montreal Protocol.

[6] Additional funding was approved for these countries to achieve the complete phase-out of CFCs, through the implementation of terminal phase-out management plans (TPMP), in accordance with decision 45/54.

Annex II

VIEWS OF MEMBERS OF THE EXECUTIVE COMMITTEE ON HCFCS

CUT-OFF DATE FOR FUNDING ELIGIBILITY

Australia and Canada (joint submission)

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.

China

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

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.

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.

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 not be excluded for funding in this choice.

Czech Republic

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.

Germany

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.

Japan

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.

Mexico

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.

Sweden

We suggest 2007 (19th Meeting of the Parties) as a reasonable cut-off date since all Parties should capture the sentiments of the decisions from the 19th Meeting and be well informed about the new requirements. An earlier date might be regarded as unfair as no definite requirements had yet been put forward. For Sectors (and projects) where HCFCs are still being introduced or where the alternatives substitutes are environmentally detrimental (Executive Committee decision 53/37(k)(vi)) consequences and cost for a latter date could be considered as identified in Dec XIX/6.

United States of America

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.

Uruguay

Note from the Secretariat: This text was submitted in Spanish and has been translated into English. The original Spanish version can be found in Annex II of document UNEP/OzL.Pro/ExCom/56/58.

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 CONVERSION

Australia and Canada (joint submission)

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.

China

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 from 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.

Czech Republic

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.

Germany

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.

Japan

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.

Mexico

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.

Sweden

We support funding of second stage conversions and not only technical assistance. As pointed out in paragraph 195 of the Report of the 53rd Meeting of the Executive Committee, the agreement at the 19th Meeting of the Parties to accelerate the phase-out of HCFCs was under the understanding that second-stage conversions shall be funded. We do not believe that Article 5 countries would agree to only get technical assistance. To initiate a desk study to gather information on the companies that have previously received financial support to phase in HCFCs sounds as a good starting point.

United States of America

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.

Uruguay

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.

OTHER GENERAL VIEWS ON HCFCS

Japan

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.

Sweden

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

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

Regarding to items (i) and (ii) we believe that the following elements of incentives should be taken into account in the cost effectiveness thresholds that:

- Minimize environmental impact, in particular impacts on climate, as well as other health, safety and economic considerations (decision XIX/6 paragraphs 9, 10, 11(a)-(c) and 15).

- Costs associated with assistance in particular to the low volume and very low volume A5 Parties. With regards to technical assistance aspects it is of course important to make sure that HCFC work is integrated in the ongoing work to phase-out CFCs and for low volume countries (decision XIX/6 paragraph 6) on immediately. Many countries are still waiting to undertake their training of service technicians; update legislation; establish infrastructure for reclamation etc. Countries and Implementing Agencies should make sure HCFC is integrated as far as possible to avoid double work and unnecessary costs.

- Period for which funding for the HCFC-phase out should be available. To keep the Fund up and running until 2030 or even 2040 may turn out to be uneconomical (incl. Article 2 and Article 5 administrations). What would be a feasible time frame to ask Parties to set a closing date for how long the funding will be available, for instance 2015 or 2020? Taking into account that Parties ought to be well prepared to handle the phase-out of HCFC on their own by then.

United States of America

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.
