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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Fifty-ninth Meeting  
Port-Ghalib, Egypt, 10-14 November 2009

**ANALYSIS OF NEW APPROACHES ON SECOND-STAGE CONVERSIONS,  
DETERMINATION OF CUT-OFF DATE AND OTHER OUTSTANDING HCFC POLICY  
ISSUES (DECISION 57/34)**

1. At its 58<sup>th</sup> Meeting, the Executive Committee considered a document presenting an analysis on second-stage conversion, determination of cut-off date and other outstanding HCFC policy issues including, among other things, eligible incremental costs for HCFCs (UNEP/OzL.Pro/ExCom/58/47<sup>1</sup>). The paper noted that the proposed cut-off dates of 2003, 2005 and 2007 appeared to have the widest support, with 2007 as the date that seemed to be more consistent with the underlying principle of technological advances in decision XIX/6 of the Meeting of the Parties. The paper also described two modalities for providing Fund assistance for second-stage conversion projects, as well as methodologies for calculating incremental costs for HCFC phase-out. The issues of cost-effectiveness thresholds, technological upgrades and conversion before the end of the equipment's useful life, as well as the applicability of the LVC country category with regard to HCFCs were also examined in the document, which presented the relevant decisions on those issues and their applicability to HCFC phase-out. The final issue presented was the starting point for aggregate reductions in HCFC consumption.

2. In presenting the paper to the Committee, the Secretariat clarified that the proposed principles for calculating incremental costs would apply only to the first stage of the implementation of HPMPs to meet the 2013 and 2015 HCFC compliance targets. Given that the methodology proposed for calculating incremental operating costs in the foam sector had been based on actual capital and operating costs that had been approved, there was no need to specify a transitional period for applying the costs. The Secretariat also explained that the proposed level of funding for the servicing sector to meet the 2013 and 2015 HCFC targets was based on the level of HCFC consumption in the servicing sector at the country level, and did not imply that ten times the level of funding would be required to achieve the complete phase-out of HCFCs.

3. During the discussion, Members stressed the urgent need to resolve outstanding policy issues linked to HCFC phase-out. Doing so would help reduce the burden of Article 5 countries preparing HPMP activities, and would speed up the HPMP proposal process. The Chair therefore convened a contact group composed of Members only for the purpose of discussing and resolving outstanding issues. The Chair informed the Executive Committee Members that a working document reflecting the conclusions of the contact group would be posted on the intranet. The contact group would be reconvened to continue its deliberations, immediately preceding the 59<sup>th</sup> Meeting of the Executive Committee, on 9 November 2009.

4. In addition to the outstanding policy issues on HCFC phase-out, the contact group was also requested to consider the issue of funding for institutional strengthening projects after 2010 (document UNEP/OzL.Pro/ExCom/57/63) in line with the earlier discussion at the 57th Meeting to examine this in the context of the discussions on funding for HCFC phase-out. Further information on this outstanding issue can be found in document UNEP/OzL.Pro/ExCom/59/53.

5. As agreed at the last Executive Committee Meeting, the conclusions of the contact group presented below were posted on the Secretariat's intranet.

#### **Working document reflecting the conclusions of the contact group**

6. In determining criteria for funding HCFC phase-out in the consumption sector in Article 5 countries, the Executive Committee decided:

##### Cut-off date

- (a) Not to consider any projects to convert to HCFC-based capacity installed after [2005] or [21 September 2007];

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<sup>1</sup>This document is available from the Multilateral Fund website ([http://www.multilateralfund.org/58th\\_executive\\_committee\\_meeti.htm](http://www.multilateralfund.org/58th_executive_committee_meeti.htm)).

Second-stage conversion

- (b) To apply the following principles in regard to second-stage conversion projects for the first stage of HPMP implementation to achieve the 2013 and 2015 HCFC phase-out compliance targets, to be reviewed by the Executive Committee no earlier than the last meeting in 2013:
  - (i) Full funding of eligible incremental costs of second-stage conversion projects will be considered in those cases where an Article 5 Party clearly demonstrates in its HPMP that such projects are necessary to comply with the Montreal Protocol HCFC targets up to and including the 35 per cent reduction step by 1 January 2020 and/or are the most cost-effective projects measured in ODP tonnes that the Party concerned can undertake in the manufacturing sector in order to comply with these targets;
  - (ii) Funding for all other second-stage conversion projects not covered under paragraph (b) (i) above will be limited to funding for installation, trials, and training associated with these projects;

Starting points for aggregate reductions in HCFC consumption

- (c) To establish the starting points for aggregate reductions in HCFC consumption, for those Article 5 countries that submit projects in advance of their assessed baseline, at the time of submission of either the HCFC investment project or the HPMP, whichever is first submitted for the consideration of the Executive Committee;
- (d) To allow Article 5 countries to choose between the most recent reported HCFC consumption under Article 7 of the Montreal Protocol at the time of the submission of the HPMP, and/or the investment project and the average of consumption forecast for 2009 and 2010, in calculating starting points for aggregate reductions in HCFC consumption;
- (e) To adjust the agreed starting points for aggregate reductions in HCFC consumption in cases where calculated HCFC baselines based on reported Article 7 data are different from the calculated starting point based on the average consumption forecast for 2009-2010;

Eligible incremental costs of HCFC-phase out projects

- (f) To apply the following principles in regard to eligible incremental costs of HCFC phase-out projects for the first stage of HPMP implementation to achieve the 2013 and 2015 HCFC phase-out compliance targets, subject to a review in 2013:
  - (i) When preparing HCFC phase-out projects in the foam, refrigeration and air-conditioning sectors, bilateral and implementing agencies shall use the technical information contained in document UNEP/OzL.Pro/ExCom/55/47 as a guide;
  - (ii) The current cost-effectiveness threshold values used for CFC phase-out projects shall be used as guidelines during the development and implementation of the first stage of HPMPs measured in metric kg;

HCFC phase-out in the foam sector

- (iii) Incremental operating costs for projects in the foam sector will be considered at [US \$xx/metric kg (*as per the values in the table below*)] of HCFC consumption to be phased out at the manufacturing enterprise [for a transitional period of one year] or [two years] or [three months];
- (iv) For group projects linked to systems houses, incremental operating costs will be calculated on the basis of the of the total HCFC consumption of all downstream foam enterprises to be phased out;

HCFC phase-out in the refrigeration and air-conditioning manufacturing sector

- (v) Incremental operating costs for projects in the air conditioning sub-sector will be considered at [US \$xx/metric kg (*as per the values in the table below*)] of HCFC consumption to be phased out at the manufacturing enterprise [for a transitional period of xx months];
- (vi) Incremental operating costs for projects in the commercial refrigeration sub-sector will be considered at [US \$xx/metric kg (*as per the values in the table below*)] of HCFC consumption to be phased out at the manufacturing enterprise [for a transitional period of xx months];
- (vii) Consistent with decision 31/45, incremental operating costs will not be considered for enterprises categorized under the refrigeration equipment assembly, installation and charging sub-sector;

[Party	IOC (US \$/kg)				Cut off date
	HCFC-141b foam	HCFC-142b foam	Air conditioning	Commercial refrigeration	
Article 5	2.40	2.40	8.00	6.50	
Non-Article 5	1.18	1.13	3.51	3.25	2007
Non-Article 5	1.18	1.13	4.00	3.50	2005]

HCFC phase-out in the refrigeration servicing sector

- (viii) Article 5 countries [that have up to 90 percent of HCFC consumption in the refrigeration servicing sector measured in ODP tonnes] must include in their HPMP, as a minimum:
  - a) A commitment to meeting, without further requests for funding, at least the freeze in 2013 and [the 10 per cent reduction step in 2015] or [the 35 per cent reduction by 2020] in the refrigeration servicing sector. This shall include a commitment by the country to restrict imports of HCFC-based equipment if necessary to achieve compliance with the reduction steps and to support relevant phase-out activities;
  - b) Mandatory reporting, by the time funding tranches for the HPMP are requested, on the implementation of activities undertaken in the refrigeration servicing sector in the previous year, as well as a thorough and comprehensive work plan for the implementation of the following tranche’s activities;

- c) A description of the roles and responsibilities of major stakeholders, as well as the lead implementing agency and the cooperating agencies, where applicable;
- (ix) Funding for Article 5 countries that have up to 90 percent of HCFC consumption in the refrigeration servicing sector measured in ODP tonnes will be provided consistent with the table below on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve the 2013 and [2015], or [2020] phase-out targets:

Activities	Level of HCFC consumption in the servicing sector (*)							
	Below 20 m. tonnes (1.1 odp t)	Up to 100 m. tonnes (5.5 odp t)	Up to 300 m. tonnes (16.5 odp t)	Up to 500 m. tonnes (27.5 odp t)	Up to 1,000 m. tonnes (55 odp t)	(***)		
						Up to 5,000 m. tonnes (275 odp t)	Up to 8,000 m. tonnes (440 odp t)	Above 8,000 m. tonnes (440 odp t)
Legislation	10,000	10,000	10,000	20,000	30,000	50,000	50,000	80,000
Customs training	30,000	40,000	50,000	60,000	80,000	120,000	140,000	160,000
Technicians training	40,000	60,000	70,000	100,000	160,000	240,000	300,000	400,000
Technical assistance(**)	50,000	100,000	300,000	500,000	1,000,000	5,000,000	8,000,000	11,000,000
Monitoring (***)	20,000	40,000	90,000	140,000	250,000	1,000,000	1,700,000	2,300,000
<b>Total (in US \$)</b>	<b>150,000</b>	<b>250,000</b>	<b>520,000</b>	<b>820,000</b>	<b>1,520,000</b>	<b>6,410,000</b>	<b>10,190,000</b>	<b>13,940,000</b>

(\*) Figures represent maximum amounts for each group.

(\*\*) For countries with an HCFC consumption above 20 metric tonnes (1.1 ODP tonnes), actual amount should be prorated according to the level of HCFC consumption in the servicing sector.

(\*\*\*) For countries with an HCFC consumption above 20 metric tonnes (1.1 ODP tonnes), actual amount should be calculated as 20 per cent of the total cost of the activities.

(\*\*\*\*) No longer applicable as per sub-paragraph (xi) below.

- (x) Article 5 countries that have up to 90 percent of HCFC consumption in the refrigeration servicing sector measured in ODP tonnes, and that receive funding consistent with the above table, will have flexibility in utilizing the resources available under the refrigeration servicing sector to address specific needs that might arise during project implementation to facilitate the smoothest possible phase-out of HCFCs;
- (xi) Article 5 countries with HCFC consumption in both the manufacturing and refrigeration servicing sectors, and having less than 90 percent of their HCFC consumption in the refrigeration servicing sector measured in ODP tonnes, should first address consumption in the manufacturing sector to achieve the 2013 and 2015 phase-out targets. However, if such countries clearly demonstrate that they require assistance in the refrigeration servicing sector to comply with these targets, funding for these activities, such as training, will be calculated at US\$4.50/metric kg, which will be deducted from their starting point for aggregate reductions in HCFC consumption;

HCFC phase-out in the aerosol, fire extinguisher and solvent sectors

- (xii) The eligibility of incremental capital and operating costs for HCFC phase-out projects in the aerosol, fire extinguisher and solvent sectors will be considered on a case-by-case basis.

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