

### **III. Contact group on replenishment**

#### **A. Overview of the summary by the co-chairs**

1. The co-chairs of the replenishment contact group presented their report on the work of the group, which, they noted, had invested over 1,000 person-hours in rich discussions on a wide variety of important and complex issues. The contact group had been mandated to prepare a list of issues for the Technology and Economic Assessment Panel to consider and elaborate on in a report supplementing its replenishment report, in order to assist the Parties in their negotiations on replenishment at the Twentieth Meeting of the Parties. The full list of issues proposed and subsequently agreed by the Open-ended Working Group for consideration by the Panel is set out in section B below.

2. The contact group had, in addition, been asked to consider the issue of the fixed-exchange-rate-mechanism. On that matter, the contact group had discussed the issues surrounding the continuation of the use of the fixed-exchange-rate-mechanism, including whether the continuation should be permanent or for three more years. The Ozone Secretariat was requested to prepare a draft decision containing both options for consideration at the Twentieth Meeting of the Parties.

3. The issues identified for consideration by the Technology and Assessment Panel fell into two broad categories: general issues, and issues related to HCFC. Within the general category, a study of the effect of inflation on all activities was requested. A number of Parties expressed their concern regarding the impact of national currency devaluation against the United States dollar on the costs and implementation of activities supported by the Multilateral Fund. The Panel had also been asked to consider a number of issues related to destruction, and Parties operating under paragraph 1 of Article 5 were requested to provide the Panel with information, by 15 August 2008, on the amount of stocks of contaminated or confiscated ozone-depleting substances that they had ready and waiting for destruction. The Panel was also requested to indicate the additional cost estimates for destruction separately from the estimates of the total replenishment figures.

4. With regard to HCFC-related issues to be considered by the Panel, the matter of HCFC production reduction in order to achieve the freeze had been a subject of much debate in the contact group. Some Parties had expressed concern that, as there was a possibility that the production sector could realize actual reduction by 2011, which might need funding from the Multilateral Fund, and in order not to provide disincentives for the industry for that reduction, that possibility should not be undermined in the forthcoming replenishment. In addition, some Parties expressed the view that there were no additional compliance obligations in respect of the HCFC production sector in the 2009–2011 triennium as reflected in the May 2008 report by the Technology and Economic Assessment Panel replenishment task force.

5. Other HCFC-related matters for consideration by the Panel were Multilateral Fund-related issues, including the implications of various cut-off dates for funding eligibility of HCFC projects for the forthcoming replenishments (and hence second-stage conversions); cost-effectiveness in the consumption sector; climate benefits (business-as-usual scenario and alternative substances, cost and cost-benefits, funding options); a risk analysis of future HCFC growth; reconsideration of figures on demonstration projects; and other issues, including the possible effect of the export rule and the multinational rule on the level of funding.

6. Following the presentation, the Co-Chair of the Open-ended Working Group said that, while the deliberations of the contact group on replenishment had benefited from full interpretation and wide participation, more focused and in-depth discussion might be facilitated at the Twentieth Meeting of the Parties by continuing negotiations with a smaller group comprising 12 representatives from Parties operating under paragraph 1 of Article 5

and 12 representatives from Parties not so operating, and by ensuring balanced regional representation.

**B. Key elements approved by the Open-ended Working Group for the Technology and Economic Assessment Panel to elaborate in a report supplementing its replenishment report**

**1. General**

- A study on the variation of inflation on all activities, assuming several percentages. The Panel should explain the rationale for using those percentages

**2. Institutional strengthening**

- Institutional strengthening funding scenarios that consider needs likely to be encountered in the next triennium in implementing all aspects of the work programme, giving adequate attention to group 4 countries

**3. Destruction**

- An analysis of the costs that might arise in the collection of existing stocks of contaminated or confiscated CFCs and halons, their transport to destruction facilities or redeployment as the case may be, and their destruction. Parties operating under paragraph 1 of Article 5 are requested to provide information to the Panel by 15 August 2008 on the amount of stocks of contaminated or confiscated ozone-depleting substances that they have ready and waiting for destruction

**4. General issue of HCFCs**

- The Panel should take into account the conclusions of the Executive Committee on relevant issues, including production sector issues, in order to achieve the freeze

**5. Multilateral Fund-related issues**

- Estimate of the impact of the cut-off dates of 30 September 2007, 1 January 2004, as well as 1 January 2000 and 1 January 2010 for this replenishment and the next two replenishments, including scenarios for funding different components of second stage conversions, namely, incremental capital costs, incremental operating costs and technical assistance, taking into consideration decision XIX/6

**6. Servicing sector and cost-effectiveness**

- An explanation of how cost-effectiveness factors have been constructed and which effects are being taken into account
- The extent to which the possibility of converting equipment at the end of its useful life will have an effect on the cost-effectiveness figures for the consumption sector and the resulting impact on the funding requirement and the compliance risks and feasibility of the application of this method in project management

**7. Climate benefits**

To the extent possible:

- Provide a business-as-usual scenario based on cost-effectiveness considerations
- Provide an overview of specific alternative substances by sectors and where possible by subsectors

- Where applicable, give cost and cost-benefits of more climate-friendly technologies stating the underlying assumptions. Environmental benefit could be indicated using indicators, including global warming potential reductions and energy use of alternative substance (\$/tonnes CO<sub>2</sub> equivalent)
- Based on the work being carried out by the Executive Committee, provide information on national and international schemes (flexible and/or market mechanisms) for funding emission reductions of HCFC replacements

**8. Baseline operating costs**

- A risk analysis, not including costs, relating to extrapolations of future HCFC growth in group 1 countries, based on an annual growth rate of 9 per cent for the years 2011 and 2012, as an annex to the supplemental report, to help the Parties to foresee the risks that may result from the growth rate used by the Panel in the assumption in its current report
- Additional reference date of 2007 in the analysis

**9. Demonstration projects**

- Reconsideration of its figures taking into account the different applicability of technologies due to climate diversity among countries and to make the corresponding cost adjustments to the remaining HCFC compliance activities

**10. Other issues**

- Consideration of the export rule and the multinational rule of the Multilateral Fund as these may have an effect on the level of funding