Strengthening the Multilateral Fund to Maximize Climate Benefits under the HCFC Phase-Out and a Potential HFC Phase-Down Regime

Developing countries have the opportunity to make transitions to HFC-free technologies leading to reduced HFC emissions as well as significant gains in energy efficiency from substantially improved technologies in the refrigeration and air conditioning sectors. The Environmental Investigation Agency (EIA) and Center for Science and Environment (CSE) have come together to help bring a broad and objective set of innovative insights on how to maximize the climate benefits of transitions to low-GWP alternatives at this important moment in the Montreal Protocol.

As part of this ongoing effort, a first workshop was held in Goa, India in February 2015 focused on convening a critical mass of Article 5 voices to understand the challenges and opportunities from existing processes and the potential for adapting them with new ideas. This was followed by a second Workshop in Bangkok in April 2015, with current and former Article 5 and non-Article 5 participants from the Montreal Protocol, along with financial, technical and legal experts. The second workshop addressed the question of how to maximize the climate benefits of the Multilateral Fund (MLF), both within its current efforts to phase out HCFCs and in the future event of an HFC phase-down. Both the workshops were held under Chatham House rules, whereby views are not attributed to individuals.

The two workshops revealed a high degree of common thinking among individuals from Article 5, non-Article 5, and implementing agencies. The following points received broad agreement:

1) An HFC phase-down amendment offers the greatest opportunity for innovations to the financial mechanism in order to optimize the climate benefits of the Montreal Protocol;
2) Under an HFC phase-down, it will be particularly critical to incentivize high energy efficiency of low-GWP alternatives. It is critical that the Parties to the Montreal Protocol and the MLF addresses incentives for energy efficiency under an HFC phase-down regime;
3) There is a need to re-examine 'cost-effectiveness' in order to effectively respond to Decisions XIX/6 and XXI/9 for HCFC phase-out plans and to take into account GWP and energy efficiency in case of an HFC phase-down;
4) There may be some steps that the MLF could take now to increase the climate benefits of the HCFC phase-out, including giving more consideration to energy efficiency and further promoting low-GWP alternatives;
5) LVCs require additional financial incentives to ensure availability and uptake of climate friendly technologies and to maximize climate benefits in the servicing sector;
6) MLF could play the role of a knowledge leader to other regimes and organizations working on the refrigeration and air-conditioning (RAC) sector.

In addition, the following key questions arose from the first two workshops which we outline below for Parties to consider.

MLF process and priority setting:

1. Should the definition of 'incremental costs' be amended to include, for example, technology upgrades, heat pumps and other technology transitions that may be important to maximize climate benefits?
2. Can the MLF do more to address ODS recovery, recycling and destruction under the current HCFC phase-out management plans and should HFC installed base be addressed in the HFC phase-down?
3. Should bilateral implementing agencies offer assistance in financing or finding financing for climate co-benefits? For example, the implementing agencies have programs dealing with energy efficiency; should greater effort be made to interlink the MLF with other internal programs?
4. Should the Terms of Reference of MLF Secretariat and ExCom be re-examined now or as part of a potential HFC phase-down as it shifts from an ODP regime to an ozone and climate paradigm?
5. Given that many of the new technologies have only been recently proven and commercialized, how should the MLF deal with Intellectual Property Right (IPR) issues for refrigerants, components and equipment to accelerate the uptake of low-GWP alternatives?

Incentives for Climate Benefits:

1. Do we need to modify the 25% climate incentive to more effectively promote HCFC transitions to low-GWP alternatives in all sectors, and particularly in small and medium-sized enterprises?
2. As the 25% climate incentive only applies to manufacturing conversions, are there ways to evolve the incentive so that it can be accessed for other MLF funded activities, including new and not-in-kind technologies and servicing activities, particularly in LVCs?
3. Should the MLF consider pilot and demonstration projects to determine safe and effective ways to retrofit the installed base of HCFC and HFC equipment to low-GWP refrigerants?
4. Are there other incentives for countries, industries, or implementing agencies that would advance the goals of Decisions XIX/6 and XXI/9 to promote transitions to climate friendly alternatives?

Not-in-kind Alternatives:

1. How can the MLF most effectively assess and finance not-in-kind technologies?
2. Should TEAP, the MLF Secretariat and/or the implementing agencies be requested to review not-in-kind technologies to assess energy efficiency gains and methodologies to determine the climate impact of these technologies in comparison to the technologies being replaced?
3. Should there be more flexibility in the HCFC phase-out management plans to assist countries in financing the co-benefits available from not-in-kind technologies?

Energy Efficiency:

1. Should the current practice of not providing MLF funding for projects where the energy efficiency savings are predicted to exceed conversion costs be changed, so that initial costs are provided by the MLF and recovered as energy benefits are realized?
2. Could there be more flexibility within HPMPs to address energy efficiency?
3. Can energy efficiency be incorporated into the next replenishment guidelines?
4. At the level of the Parties, should there be more direction to the TEAP on measuring co-benefits, not only from converting HCFCs to low-GWP technologies but also the energy-efficiency gains from changing technologies?

Additional Funds:

1. Is the level of funding, which is the overarching driver of MLF decisions, adequate to facilitate appropriate transitions and are there ways to attract additional funding?
2. Given the availability of climate finance and the significant energy efficiency that can be delivered through MLF-funded transitions, should the MLF have a window to maximize the energy efficiency benefits from any transition, with consideration given to *inter alia* the Global Environment Facility (GEF) and Green Climate Fund (GCF)?
3. Is there a way to use a revolving fund type of approach to finance consecutive energy efficiency projects under the HCFC phase-out and the HFC phase-down?
4. Should the MLF provide additional funding for project preparation to enable implementing agencies to integrate energy efficiency at an early stage and effectively attract co-financing?
5. How can subsidy reform(s) be addressed to facilitate introduction of best available technology while providing ozone protection, climate and other environment benefits?

As independent research-driven NGOs, EIA and CSE will be hosting a series of follow-up discussions to explore the best ways to address these questions and optimize the positive climate impact of the Montreal Protocol.

About CSE: The Centre for Science and Environment is a public interest research and advocacy organization based in New Delhi. CSE researches into, lobbies for and communicates the urgency of development that is both sustainable and equitable.

About EIA: The Environmental Investigation Agency (EIA), based in London and Washington D.C., uses pioneering undercover investigations to expose environmental crimes, and campaigns for solutions to illegal wildlife trade, illegal logging and deforestation, and climate change.