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**Open-ended Working Group of the Parties to  
the Montreal Protocol on Substances that  
Deplete the Ozone Layer**  
Twenty-sixth meeting  
Montreal, 3–6 July 2006  
Item 8 of the provisional agenda\*  
**Discussion of any proposed adjustments to the Montreal Protocol**

**Proposal by Canada for adjustment of the Montreal Protocol**

**Note by the Secretariat**

The annex to the present note contains a proposal for adjustment of the Montreal Protocol submitted by Canada. The proposal is presented as received and has not been formally edited by the Secretariat.

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\* UNEP/OzL.Pro.WG.1/26/1.

## Annex

### Proposal by Canada for adjustment of the Montreal Protocol

#### Advancing the phase-out of the production of CFCs by Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol to meet the basic domestic needs of Parties operating under paragraph 1 of Article 5: adjustments relating to controlled substances in Annex A.

Recalling Decision XVII/12 of the Parties to address the continuing production of chlorofluorocarbon (CFC) production by Parties not operating under Article 5.1 of the Montreal Protocol to meet the basic domestic needs of Parties operating under paragraph 1 of Parties operating under Article 5 of the Protocol;

Further noting that Decision XVII/12 called for Parties to consider at their Eighteenth Meeting an adjustment to accelerate the phase-out schedules set out in Article 2A of the Protocol for chlorofluorocarbon production to meet the basic domestic needs of Parties operating under paragraph 1 of Article 5;

Recognizing the current Phase-out schedule for production of CFC's to meet the basic domestic needs of Parties operating under paragraph 1 of Article 5 of the Protocol by 2010 as set out in Article 2A ;

Noting that sufficient supplies of CFC's are available from production facilities in Parties operating under paragraph 1 of Article 5 of the Protocol and from recycled and reclaimed stocks to serve the basic domestic needs of Parties operating under paragraph 1 of Article 5 of the Protocol;

*Parties decide to adjust the Montreal Protocol as follows:*

#### Adjustments relating to controlled substances in Annex A

##### A. Article 2A: CFCs

1. Paragraph 8 of Article 2A of the Protocol shall be replaced by the following sentence:

Each Party shall ensure that for the twelve-month period commencing on 1 January 2008 and in each twelve-month period thereafter, its calculated level of production of the controlled substances in Group I of Annex A for the basic domestic needs of the Parties operating under paragraph 1 of Article 5 does not exceed zero.

#### Background paper on the need for Basic Domestic Needs Production in the 2005-2010 period .

The year 2005 marked a key turning point in the evolution of the Montreal Protocol, since it was the first year in which Parties operating under paragraph 1 of Article 5 of the Protocol (Article 5 Parties) were obliged to comply with sustained reductions of several ODS, including a 50% reduction of both CFC and halon consumption, an 85% reduction of CTC consumption and a 20% reduction in methyl bromide consumption. It appears that most Article 5 Parties are successfully meeting these consumption targets due to effective domestic controls and policies, assistance provided through Multilateral Fund projects and reductions of ODS production in China, India, Argentina, Mexico and Venezuela. In 2005, Mexico became the first Article 5 Party to completely stop CFC production with assistance from the Multilateral Fund, an important milestone in the worldwide progress of the Montreal Protocol.

Parties not operating under paragraph 1 of Article 5 of the Protocol (Non-Article 5 Parties) have also done their share by contributing to the Multilateral Fund and reducing CFC production exported to Article 5 countries under the Protocol's Basic Domestic Needs (BDN) provisions. Indeed, in 2003, Italy on behalf of the European Community (EC), announced voluntary cuts in CFC BDN production

from several producers within the EC, and further reductions in the EC were announced at the 17<sup>th</sup> Meeting of the Parties. Since the late 1990s, CFC BDN production from the EC has decreased from a high of about 27,000 ODP tonnes to 13,000 ODP tonnes in 2004. This early trend to reduction is continuing.

While such voluntary cuts in BDN production provide a positive signal, with the Protocol's 2007 85% CFC reduction target and the 2010 CFC phase-out target looming, it is appropriate for Parties to consider whether CFC BDN production phase-out could be advanced. Despite the voluntary cuts that have been made, the TEAP still estimates that in 2005 close to 9,400 ODP tonnes of CFCs will have been produced and exported from a few non-Article 5 countries to Article 5 countries. In 2006, a CFC BDN production of about 8,500 ODP tonnes is expected, while in 2007, 2008 and 2009, production could be just over 3,000 ODP tonnes per year, again according to the TEAP. It has been argued by several Parties, as well as the Environmental Investigation Agency, that BDN production of CFCs has contributed to keeping the prices of CFCs relatively low in many Article 5 countries, thus hampering their efforts to phase out CFC consumption and, in particular, to successfully implement CFC recovery and recycling projects supported by the Multilateral Fund.

While In its 2004 Report on Basic Domestic Needs, the TEAP did not actually recommend adjusting the Montreal Protocol to further reduce or eliminate BDN production, the report did indicate that the data available was inadequate to make any definite conclusions, and it confirmed that no increase in the prices of CFCs resulting from a lack of CFCs could be observed in Article 5 Parties. In other words, CFCs remained relatively plentiful.

The lack of a significant increase in the prices of CFCs should be a source of concern as Parties approach the 2007 and 2010 targets, because the vast majority of CFCs still consumed in Article 5 Parties are for the refrigeration and air conditioning servicing sector. As the experiences of many non-Article 5 Parties demonstrate, a large part of the CFC requirements for this sector can be met by CFCs that are recovered, recycled and reclaimed, as long as there are sufficient price incentives to ensure that such activities are profitable. Indeed, in the early 1990s, most non Article 5 Parties experienced a very sharp increase in CFC prices as production was eliminated within a relatively short period of time. These price increases led to massive efforts to retrofit and replace refrigeration systems to non-CFC alternatives, and facilitated the wide recovery, recycling and reclamation of CFCs. In the case of Article 5 Parties, on the other hand, it is possible that, so long as CFC production is not reduced further, the phase-out of CFCs in the servicing sector will present a much more serious challenge.

Considering these factors, it is likely that the only way to promote a significant increase in the price of CFCs, and thereby facilitate phase-out in the servicing sector, would be an early halt in CFCs produced under the BDN provision. The effect of this proposed adjustment would be to completely cease production by non-Article 5 Parties of Annex A CFCs to meet the basic domestic needs of Article 5 Parties by January 1, 2008, or two years earlier than required under the current Montreal Protocol.