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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-sixth Meeting
Montreal, 16-20 April 2012

PROJECT PROPOSAL: CROATIA

This document consists of the comments and recommendation of the Fund Secretariat on the following project proposal:

Phase-out

- HCFC phase-out management plan (second, third and fourth tranches)

UNIDO/Italy

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

Croatia

(I) PROJECT TITLE	AGENCY
HCFC phase out plan (Stage I)	Italy, UNIDO (lead)

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2010	3.3 (ODP tonnes)
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(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)							Year: 2010		
Chemical	Aerosol	Foam	Fire fighting	Refrigeration		Solvent	Process agent	Lab Use	Total sector consumption
				Manufacturing	Servicing				
HCFC-123					0.0				0.0
HCFC-124									
HCFC-141b									
HCFC-142b					0.1				0.1
HCFC-22					3.1				3.1

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	4.0	Starting point for sustained aggregate reductions:	7.5
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	0.0	Remaining:	0.0

(V) BUSINESS PLAN		2011	2012	2013	2014	2015	2016	Total
UNIDO	ODS phase-out (ODP tonnes)		1.9	0.7			0.4	3.0
	Funding (US \$)	0	279,500	107,500	0	0	64,500	451,500

(VI) PROJECT DATA			2009	2010	2011	2012	2013	2014	2015	2016	Total
Montreal Protocol consumption limits			n/a	n/a	n/a	n/a	3.95	3.95	3.56	3.56	n/a
Maximum allowable consumption (ODP tonnes)			6.60	6.60	6.60	3.30	3.30	0.00	0.00	0.00	n/a
Agreed Funding (US\$)	Italy	Project costs	0	210,000	0	0	0	0	0	0	210,000
		Support costs	0	27,300	0	0	0	0	0	0	27,300
	UNIDO	Project costs	271,150	180,000	0	260,000	100,000	00	0	60,000	871,150
		Support costs	20,336	13,500	0	19,500	7,500	0	0	4,500	65,336
Funds approved by ExCom (US\$)	Project Costs		271,150	390,000	0	0	0	0	0	0	661,150
	Support Costs		20,336	40,800	0	0	0	0	0	0	61,136
Total funds requested for approval at this meeting (US\$)	Project Costs		0	0	0	420,000	0	0	0	0	420,000
	Support Costs		0	0	0	31,500	0	0	0	0	31,500

Secretariat's recommendation:	Individual consideration
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PROJECT DESCRIPTION

1. On behalf of the Government of Croatia UNIDO, as the lead implementing agency, has submitted to the 66th meeting of the Executive Committee a request for funding for the second, third and fourth tranches of the HCFC phase-out management plan (HPMP) at a total cost of US \$420,000, plus agency support costs of US \$31,500 for UNIDO. The submission also includes a progress report on the implementation of the first tranche of the HPMP and annual implementation plans for 2012 and 2013.

Background

2. The HPMP for Croatia was approved on an exceptional basis by the Executive Committee at its 61st meeting, to completely phase out HCFC consumption in the country by 1 January 2016, the date of accession of Croatia to the European Union (EU). Total funding of US \$1,081,150, plus agency support costs of US \$92,636 was approved in principle, noting that US \$271,150, plus agency support costs of US \$20,336 for UNIDO had been approved at the 59th meeting, and that US \$210,000, plus agency support costs of US \$27,300 for Italy had been approved at the 60th meeting for the complete phase-out of HCFC-141b in the foam manufacturing sector. At the 61st meeting, the Executive Committee approved US \$180,000 plus agency support costs of US \$13,500 for UNIDO for implementation of the first tranche of the HPMP.

Progress report on the implementation of the first tranche of the HPMP

3. Activities contained in the HPMP focus on the conversion of two foam enterprises and on refrigeration servicing, which are the only sectors using HCFCs in Croatia.

4. The project for the phase-out of 17.73 mt (1.95) ODP tonnes of HCFC-141b used for the manufacturing of polyurethane rigid foam at Pavusin, approved at the 59th meeting, will be cancelled at the 67th meeting, as mutually agreed by the Government of Croatia and UNIDO, given that the enterprise could not implement the conversion due to financial difficulties resulting from the economic crisis in past years. Of the total amount approved, only US \$2,162 was disbursed. There are no further obligations on the project.

5. The project for the phase-out of 16.00 mt (1.76 ODP tonnes) of HCFC-141b used for manufacturing polyurethane rigid and integral skin foams at the company Poli-Mix, approved at the 60th meeting, is currently under implementation. The two foam dispensers have been replaced, with installation completed at the end of January 2012. Purchase of additional accessories will be complete in the first half of 2012; incremental operating costs will be paid upon presentation of invoices. The project will be completed by mid 2012. Of the total amount of funding approved, US \$156,000 has been disbursed.

6. Implementation of activities in the servicing sector is on track. Eight national technicians were prepared as trainers; the training materials for technicians were updated; and technical specifications for equipment for the four training centres was completed. The training of 100 technicians will take place in 2012 and 2013. HCFC-based equipment to be retrofitted/replaced was identified (between 80 and 120 systems), with a potential financial scheme prepared. The Ministry of Environment and Nature Protection has initiated discussions with potential sources of co-financing for retrofitting this equipment. Customs training materials were updated; and 131 custom officers were trained.

7. As of 31 January 2012, of the US \$180,000 approved for the first tranche for activities in the servicing sector, US \$143,890 had been disbursed or committed. The balance of US \$36,110 will be disbursed in 2012.

Annual plans for the second to fourth tranches of the HPMP

8. The overarching strategy of the HPMP for Croatia was developed with the objective to completely phase out consumption of all HCFCs by 1 January 2016, which was the expected date of the accession of Croatia to the EU. However, it has been confirmed recently that Croatia will enter the EU by 1 July 2013. As a consequence, the country will have to ban the import and use of virgin HCFCs from 1 July 2013, while the use of recovered/recycled HCFCs will also be banned from 31 December 2014.

9. In order to further accelerate the phase-out of HCFCs, the Government of Croatia is requesting the approval of the three remaining tranches of the HPMP, at a total cost of US \$420,000, at the 66th meeting. Additionally, the Government of Croatia is requesting to reallocate US \$200,000 of the funding approved for the conversion of the Pavusin foam enterprise (to be cancelled at the 67th meeting), to implement three additional demonstration projects for retrofitting refrigeration systems to low-global-warming-potential (GWP) alternative refrigerants.

10. The Government of Croatia commits to implementing the following activities with the remaining funding available under the HPMP: training of 100 refrigeration service technicians and provision of training equipment to four training centres; training of 24 vocational school teachers and installation of new technology demonstration units with natural refrigerants. Training of 120 customs officers on monitoring and control of imports/exports of HCFCs and combating illegal trade of ODS and ODS-based equipment; and implementing the retrofit of commercial refrigeration equipment and chillers (mainly in hospitals) with low-GWP refrigerants. Project implementation and monitoring will continue until HCFCs have been phased out completely.

SECRETARIAT'S COMMENTS AND RECOMMENDATION**COMMENTS**HCFC consumption

11. The HCFC baseline for compliance has been established at 3.95 ODP tonnes, based on the actual consumption reported under Article 7 of the Montreal Protocol for 2009 and 2010, as shown in Table 1.

12. The Secretariat notes that the HCFC consumption of 3.34 ODP tonnes reported under Article 7 of the Montreal Protocol in 2010 was already 3.26 ODP tonnes below the maximum allowable level of 6.60 ODP tonnes stipulated in the agreement between the Government of Croatia and the Executive Committee. This consumption was mainly HCFC-22; small amounts of HCFC-123 were imported for the air-conditioning subsector, while non HCFC-141b has been imported since 2009. Based on preliminary reports received from main importers and exporters, the consumption of HCFCs in 2011 was estimated at 70.00 metric tonnes (mt) 3.85 ODP tonnes of HCFC-22.

Table.1 HCFC consumption in Croatia (Article 7)

HCFC	2008	2009	2010	Baseline
Metric tonnes				
HCFC-123	-	-	0.61	0.31
HCFC-141b	28.00	(2.00)	-	(1.00)
HCFC-142b	2.23	0.81	2.07	1.44
HCFC-22	77.81	85.96	58.00	71.98
Total (mt)	108.04	84.77	60.68	72.73
ODP tonnes				
HCFC-123	-	-	0.01	0.01
HCFC-141b	3.08	(0.22)	-	(0.11)
HCFC-142b	0.14	0.05	0.13	0.09

HCFC	2008	2009	2010	Baseline
HCFC-22	4.28	4.73	3.19	3.96
Total (mt)	7.50	4.56	3.34	3.95

Request for approval of the three remaining tranches

13. The Executive Committee might wish to consider the request by the Government of Croatia for approving the three remaining tranches of the HPMP, at a total cost of US \$420,000, given the accession of Croatia to the EU by 1 July 2013 instead of 1 July 2016 as originally foreseen in the HPMP. Of this amount, US \$60,000 is outside the current 2012-2014 replenishment of the Fund. In doing so, the Committee might wish to note the commitment by the Government to completely phase out its HCFC consumption by 1 January 2014, and the substantial progress achieved so far by the Government of Croatia in the implementation of the HPMP, resulting in levels of HCFC consumption that are much lower than those proposed in the approved Agreement.

Request for the approval of the transfer of funds from the cancelled project

14. Under the flexibility clause of its Agreement with the Executive Committee, the Government of Croatia is requesting to reallocate to activities in the servicing sector US \$200,000 of the funding approved for the conversion of the Pavusin foam enterprise. The Secretariat has reviewed this request in light of decisions adopted on project cancellation and the flexibility clause. Specifically, on project cancellation, decision 29/8 states that reapplication for assistance from the Multilateral Fund for projects that have been cancelled is not allowed in cases of transfer of ownership to a non-Article 5 country or bankruptcy (as in the case of the project for Pavusin). The flexibility clause in multi-year phase-out agreements allows for changes to the scope and nature of the activities foreshadowed in annual work programmes, on which approval in principle of the overall phase-out plan was based. Decision 46/37(f), defines “major change” as, *inter alia*, “issues potentially concerning the rules and policies of the Multilateral Fund”; and “removal of an activity in the annual investment plan, with a cost greater than 30 per cent of the total cost of the tranche”. The flexibility provision in the context of HCFC phase-out was further discussed at the 64th meeting¹. The discussion covered potential changes in approved technologies for phasing out HCFCs, the potential ineligibility of some enterprises in approved HPMPs, and possible implications on funding levels or environmental impact.

15. The activities proposed in the HPMP were designed to assist *the Government* in phasing out the HCFCs being used at the time of its preparation, and included an investment project for phasing out 17.73 mt (1.95 ODP tonnes) of HCFC-141b in the manufacturing of polyurethane rigid foam at Pavusin. This HCFC consumption no longer exists. In other words, if this enterprise had gone bankrupt or did not exist at the time of the preparation of the HPMP, no funding would have been allocated. When the enterprise went bankrupt and ceased operations it also stopped using HCFC-141b, resulting in a corresponding reduction of HCFC consumption at the national level. Furthermore, additional funding was approved to assist the Government in phasing out HCFC consumption in the servicing sector in accordance with relevant decisions by the Executive Committee². Reallocating part of the funding approved for the project for Pavusin (i.e., US \$200,000) will not only contravene decision 29/8 on the cancellation of a project, but will also have the effect of increasing funding above the maximum allowable level for the servicing sector.

¹ The issue on the flexibility clause was presented in the document on the “Overview of issues identified during project review” (UNEP/OzL.Pro/ExCom/64/17).

² The Government of Croatia requested US \$800,000 for the complete phase-out of HCFCs used in the servicing sector, as allowed under decision 60/44 (f) (xii). Given that the total funding was to be provided in a very short period of time (i.e., before 2017), the Executive Committee proposed a total funding of US \$600,000, which was accepted by the Government of Croatia.

Revision to the Agreement of the HPMP

16. The HPMP for Croatia was approved prior to the establishment of the HCFC baseline for compliance. Accordingly, in approving the HPMP, the Executive Committee requested the Secretariat to, *inter alia*, update Appendix 2-A (“The targets, and funding”) to the Agreement with the figures for maximum allowable consumption, and to notify the Committee of the resulting levels accordingly (decision 61/41(d)). Based on the data reported by the Government of Croatia under Article 7 and its revised phase-out schedule, a decision by the Executive Committee to approve funding for the three remaining tranches of the HPMP at the 66th meeting would entail revising relevant sections of the Agreement, including a new paragraph to indicate that the revised Agreement supersedes that reached at the 61st meeting, as shown in Annex I to this document. Should the Executive Committee agree to the request by the Government of Croatia the full revised Agreement will be appended to the final report of the 66th meeting.

RECOMMENDATION

17. The Executive Committee may wish to consider:

- (a) Noting the progress report on the implementation of the first tranche of the HCFC phase-out management plan (HPMP) in Croatia;
- (b) Approving the 2012 annual implementation programme associated with the [second tranche] or [second, third and fourth tranches];
- (c) Noting that the Fund Secretariat has updated both paragraph 1 and Appendix 2-A: “The targets, and funding” of the Agreement between the Government of Croatia and the Executive Committee, based on the established HCFC baseline for compliance, and a new paragraph 16 has been added to indicate that the revised Agreement supersedes the Agreement reached at the 61st meeting, as contained in Annex I to the present document;
- (d) Approving funding of [US \$260,000, plus agency support costs of US \$19,500 for UNIDO, associated with the second tranche of the HPMP] or [US \$420,000, plus agency support costs of US \$31,500 for UNIDO, associated with the second, third and fourth tranches of the HPMP], on the understanding that no additional funding would be requested from the Multilateral Fund for the phase-out of ODS; and
- (e) [Requesting the Government of Croatia, with assistance from UNIDO, to submit a completion report on the implementation of the work programme associated with the second, third and fourth tranches of the HPMP no later than the 71st meeting of the Executive Committee].

Annex I

TEXT TO BE INCLUDED IN THE REVISED AGREEMENT BETWEEN THE REPUBLIC OF CROATIA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE REDUCTION IN CONSUMPTION OF HYDROCHLOROFLUROCARBONS

(Relevant changes are in bold font for ease of reference):

1. This Agreement represents the understanding of the Government of the Republic of Croatia (the “Country”) and the Executive Committee with respect to the reduction of controlled use of the ozone depleting substances (ODS) set out in Appendix 1 A (the “Substances”) to a sustained level of zero ODP tonnes from 1 January **2014**, **26** years ahead of the Montreal Protocol phase-out schedule.

16. This revised Agreement supersedes the Agreement reached between the Government of Croatia and the Executive Committee at the 61st meeting of the Executive Committee.

APPENDIX 2-A: THE TARGETS, AND FUNDING

		2009	2010	2011	2012	2013	2014	2015	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	n/a	3.95	3.95	3.56	n/a
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	6.60	6.60	6.60	3.30	3.30	0.00	0.00	n/a
2.1	Lead IA (UNIDO) agreed funding (US \$)	271,150*	180,000	0	420,000	0	0	0	871,150
2.2	Support costs for Lead IA(US \$)	20,336*	13,500	0	31,500	0	0	0	65,336
2.3	Cooperating IA (Italy) agreed funding (US \$)	0	210,000**	0	0	0	0	0	210,000
2.4	Support costs for Cooperating IA (US \$)	0	27,300**	0	0	0	0	0	27,300
3.1	Total agreed funding (US \$)	271,150	390,000	0	420,000	0	0		1,081,150
3.2	Total support cost	20,336	40,800	0	31,500	0	0	0	92,636
3.3	Total agreed costs (US \$)	291,486	430,800	0	451,500	0	0	0	1,173,786
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this agreement (ODP tonnes)								4.27
4.1.2	Phase-out of HCFC-22 to be achieved in previously approved projects (ODP tonnes)								0.00
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)								0.00
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this agreement (ODP tonnes)								0.00
4.2.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)								3.71
4.2.3	Remaining eligible consumption for HCFCs (ODP tonnes)								0.00

(*) Funded at the 59th Meeting of the Executive Committee.

(**) Funded at the 60th Meeting of the Executive Committee.