



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/74/19
17 April 2015

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-fourth Meeting
Montreal, 18-22 May 2015

PROJECT PROPOSAL: ARGENTINA

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

Phase-out

- HCFC phase-out management plan (stage I, second tranche) Italy/UNIDO/World Bank

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

Argentina

(I) PROJECT TITLE	AGENCY	MEETING APPROVED	CONTROL MEASURE
HCFC phase out plan (Stage I)	IBRD, Italy, UNIDO (lead)	66 th	17.5% by 2017

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2013	246.2 (ODP tonnes)
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(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)								Year: 2013	
Chemical	Aerosol	Foam	Fire fighting	Refrigeration		Solvent	Process agent	Lab use	Total sector consumption
				Manufacturing	Servicing				
HCFC-123			2.3		0.2				2.6
HCFC-124					1.5				1.5
HCFC-141b	8.5	42.2	1.2	27.2	13.2	0.7			93.1
HCFC-141b in Imported Pre-blended Polyol		41.7							41.7
HCFC-142b	0.0	1.2			8.6				9.7
HCFC-21									
HCFC-22	8.5	0.2		12.1	167.9				188.7

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	400.7	Starting point for sustained aggregate reductions:	377.51
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	83.53	Remaining:	293.98

(V) BUSINESS PLAN		2015	2016	2017	Total
UNIDO	ODS phase-out (ODP tonnes)	4.6	0.0	1.8	6.4
	Funding (US \$)	338,208	0	134,375	472,583

(VI) PROJECT DATA			2010	2011	2012	2013	2014	2015	2016	2017	Total	
Montreal Protocol consumption limits			n/a	n/a	n/a	400.70	400.70	360.63	360.63	360.63	n/a	
Maximum allowable consumption (ODP tonnes)			n/a	n/a	n/a	400.70	400.70	360.63	360.63	330.58	n/a	
Agreed funding (US\$)	IBRD	Project costs			914,612						914,612	
		Support costs			68,596						68,596	
	Italy	Project costs	300,000									300,000
		Support costs	39,000									39,000
	UNIDO	Project costs	8,435,542		685,388		314,612				125,000	9,560,542
		Support costs	632,666		51,404		22,023				8,750	714,843
Funds approved by ExCom (US\$)	Project costs	8,735,542*	0	1,600,000	0			0.0	0.0		10,335,542	
	Support costs	671,666	0	120,000	0			0.0	0.0		791,666	
Total funds requested for approval at this meeting (US\$)	Project costs	0	0	0	0			314,612	0	0	314,612	
	Support costs	0	0	0	0			22,023	0	0	22,023	

*Approved at the 61st Executive Committee meeting

Secretariat's recommendation:	For blanket approval
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PROJECT DESCRIPTION

1. On behalf of the Government of Argentina, UNIDO as the lead implementing agency, has submitted to the 74th meeting a request for funding for the second tranche of stage I of the HCFC phase-out management plan (HPMP)¹ at the amount of US \$314,612, plus agency support costs of US \$22,023 for UNIDO only. The submission includes a progress report on the implementation of the first tranche, the verification report on HCFC consumption and the tranche implementation plan for 2015 to 2017.

Report on HCFC consumption

HCFC consumption

2. The Government of Argentina reported a consumption of 246.20 ODP tonnes of HCFC in 2013 and estimated a consumption of 258.23 ODP tonnes for 2014, which are below the allowable consumption of 400.7 ODP tonnes. HCFC consumption for 2010-2014 is shown in Table 1.

Table 1. HCFC consumption in Argentina (2009-2014 Article 7 data)

HCFC	2010	2011	2012	2013	2014*	Baseline
Metric tonnes						
HCFC-22	5,865.08	6,581.84	6,528.44	2,574.45	2,904.30	4,859.5
HCFC-141b	1,157.25	1,201.43	1,693.22	827.06	789.24	1,031.1
HCFC-142b	346.80	208.10	306.22	170.37	145.82	268.1
HCFC-123	78.17	106.42	190.57	71.55	77.95	74.7
HCFC-124	54.84	73.83	103.10	51.24	28.56	47.9
HCFC-21	0.00	3.13	2.31	0.00	0.00	0.0
Total (mt)	7,502.13	8,174.75	8,823.86	3,694.67	3,945.87	6,281.3
ODP tonnes						
HCFC-22	322.58	362.00	359.06	141.59	159.74	267.3
HCFC-141b	127.30	132.16	186.25	90.98	86.82	113.4
HCFC-142b	22.54	13.53	19.90	11.07	9.48	17.5
HCFC-123	1.56	2.13	3.81	1.43	1.56	1.5
HCFC-124	1.21	1.62	2.27	1.13	0.63	1.0
HCFC-21	0.0	0.12	0.10	0.00	0.00	0.0
Total (ODP tonnes)	475.19	511.56	571.39	246.20	258.23	400.7

*Not reported yet but verified.

3. HCFC consumption in 2013 and 2014 was already below 35 per cent of the consumption baseline. The decreasing trend in HCFC consumption was due to large imports in 2012 to take provisions for the control measures starting in 2013, slow-down of the economy, conversion of the air-conditioning (AC) manufacturing sector which led to the local producer of HCFC-22 (FIASA) to reduce its production level to almost half, and measures on imports imposed by the Government, which prevented some importers from fulfilling their entire quota. While it is difficult to predict how the demand for HCFCs will evolve, the Government of Argentina and UNIDO consider that consumption may increase but within the targets established by the Montreal Protocol and the Agreement between the Government and the Executive Committee.

Verification report

4. An independent verification report for 2012, 2013 and 2014 confirmed that the Government is implementing a licensing and quota system for HCFC production, imports and exports and that the total consumption of HCFCs for 2012 was 571.3 ODP tonnes, for 2013 was 246.1 ODP tonnes and for 2014 was 258.2 ODP tonnes. The verification also concluded *inter alia* that in 2013 and 2014 Argentina

¹ The second tranche of the HPMP for Argentina was originally planned for submission in 2014.

implemented strict control over import quotas and production levels of HCFCs, that the structure of the regulating system in place allows to successfully achieve the Montreal Protocol targets, and that the laws, decrees, and resolutions in force are articulated and constitute an efficient system to fulfil the agreements to reduce HCFCs.

Country programme (CP) implementation report

5. The Government of Argentina reported sector HCFC use data under the 2013 CP implementation report of 5,002.43 mt (or 337.29 ODP tonnes), which is larger than the HCFC consumption data reported under Article 7 for the same year. This is due to the fact that in 2013 the consuming sectors used stockpiled substances imported in 2012 while the levels of imports and local production of HCFCs were lower.

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

Legal framework

6. The licensing system was modified to include import quotas for HCFC starting 1 January 2013. Other enacted regulations include annual ODS import quota allocation from 2013; a ban on import and production of room AC equipment using HCFC-22; and a licensing system for the import of room AC units incorporated in the ODS licensing system.

7. Customs officers training on updated HCFC control measures was conducted with 206 participants including Customs, Argentina National Gendarmerie, Federal Police, Provincial Police, Prefecture and other institutions. Four refrigerant identifiers were distributed to customs authorities in four provinces to improve substance detection practices.

Manufacturing sector

8. *Conversion of HCFC-22 in room and unitary AC equipment (53.5 ODP tonnes):* Out of the nine enterprises included in the project, six of them (Digital Fuegina, Electro Fuegina, Interclima, Multicontrol, Newsan, and Radio Victoria) were converted and their HCFC-based equipment destroyed. One additional enterprise (BGH) will complete the conversion including the equipment destruction by the end of 2015. The replacement technology was HFC-410A and all of the enterprises, except BGH, are producing HCFC-free AC units since July 2013.

9. The other two enterprises (Audivic and Foxman² with average consumption of 3.85 ODP tonnes) faced economic difficulties after approval of the project due to, among others, economy slow down and restriction of imports in 2011. The Multilateral Fund assistance cannot be provided until enterprises confirm return to financial solvency and regular operation. Currently Audivic is producing HFC-410A AC units to supply BGH, while Foxman ceased production in 2013.

10. As a result of the project, all HCFC-22 consumption for manufacturing room and unitary AC equipment has been permanently phased out. No license for purchase of HCFC-22 has been issued since January 2013; and import and sales of HCFC-22-based-AC equipment have been banned. Based on information provided by UNIDO, a summary of the status of implementation of projects in this sector, including indicative figures of cost incurred, is presented in Table 2.

² Under the room AC manufacturing investment project approved at the 61st meeting, US \$675,659 was allocated to Audivic and US \$215,496 to Foxman (UNEP/OzL.Pro/ExCom/61/28).

Table 2. Status of implementation of the room AC manufacturing sector conversions

Enterprise	Consumption (ODP tonnes)	Status	Incremental capital cost (US \$)*	Incremental operational cost (US \$)*	Total cost (US \$)*
Audivic	3.4	Not started	-	-	-
BGH	8.9	Completed	553,408	800,026	1,353,434
Digital Fuegina	1.8	Completed	375,414	148,090	523,504
Electro-Fuegina	5.1	Completed	559,170	671,340	1,230,510
Foxman	0.5	Not started			-
Interclima	13.4	Completed	579,717	826,508	1,406,225
Multicontrol	11.2	Completed	376,546	113,422	489,968
Newsan	8.5	Completed	474,053	631,974	1,106,027
Radio Victoria	0.7	Completed	533,748	1,054,653	1,588,401
TOTAL	53.5		3,452,056	4,246,013	7,698,069

*Indicative figures based on totals for information purposes. Figures are still being verified by UNIDO.

11. *Conversion from HCFC-141b in the manufacture of polyurethane (PU) rigid insulation foam for domestic refrigerators at Mabe (18.46 ODP tonnes):* An agreement between the Government and the World Bank for the transfer of funds and implementation of the project was signed on 19 December 2014. Despite the delay in the signature of the agreement, work has taken place since June 2013. With support from the project coordination unit, Mabe procured equipment and started installation of the new production line. No disbursement has taken place up to now, but in accordance with the agreement between the Government and the World Bank, Mabe will be able to receive retroactive funding for activities already started. It is estimated that production with cyclopentane will start in April 2015 resulting in the phase-out of 18.46 ODP tonnes of HCFC-141b.

Refrigeration servicing sector

12. A training manual on good service practices for split AC units was developed and 2,000 copies were printed. The manual included one chapter related to reducing the use of HCFC-141b in flushing during servicing.

13. Twenty-eight trainers and 588 refrigeration technicians (out of the 2,000 targeted for stage I) operating in 25 different cities in the country received training in good service practices in refrigeration. Twelve training kits and 714 tool kits for servicing were purchased and 207 of them have already been distributed to refrigeration workshops. The “Instituto Nacional de Tecnología Industrial” (INTI) was hired to provide logistics and venues for the seminars and delivery of the kits.

14. Additional training courses were organized on good services practices in refrigeration as follows: hydrocarbons (HC) as refrigerants (322 participants); changing compressors in domestic refrigerators with R-600a refrigerant (398 participants); safe handling of HFC-410A; how to build a refrigerant recovery unit (90 participants); alternative refrigerants to HCFCs (155 participants); and refrigeration systems in supermarkets (195 participants). Specific training courses to eliminate the use of HCFC-141b in flushing during servicing will start in 2015 using funds from the second tranche.

Project monitoring and coordination

15. More than 100 industrial stakeholders were informed on the HPMP implementation procedures. The “Oficina Programa Ozono” (OPROZ) (ozone unit) together with the “Asociación Argentina del Frío” (refrigeration association), organized a workshop for supermarket managers and other stakeholders on the

impact of HCFC consumption and the trend to leapfrog high-global-warming-potential (GWP) alternatives.

16. A seminar on recovery and recycling (R&R) for recycling centres in Argentina, Chile, Colombia, Mexico, and the Philippines was organized in Buenos Aires in March 2012. Based on R&R data collected from recycling and reclaiming centres, technicians and service workshops, a total of 105 mt of HCFC-22 have been recovered and re-used. Technical audits were performed on the delivered recovery equipment and units have been reassigned when they have not been properly used. Awareness activities were also performed, including OPROZ participation with institutional stands at industrial refrigeration sector exhibitions; and distribution of public awareness and training material to technicians, the commercial refrigeration sector and the general public.

17. With regard to reporting and monitoring of HCFC-22 production, quarterly production reports have been produced since July 2013.

Level of fund disbursement

18. As of April 2015, of the US \$11,135,542 so far approved, US \$8,564,814 had been disbursed by UNIDO. The balance of US \$2,570,728 will be disbursed in 2015 (Table 3).

Table 3. Financial report of stage I of the HPMP for Argentina (US \$)

Agency	First tranche	
	Approved	Disbursed
UNIDO (balance of the NPP)*	800,000	765,759
UNIDO	685,388	444,819
World Bank	914,612	0
Subtotal	2,400,000	1,210,578
Disbursement rate		50.4%
Project on domestic AC manufacturing sector (Italy/UNIDO)**	8,735,542	7,354,236
Grand total	11,135,542	8,564,814
Overall disbursement rate		77%

*Balance from the national phase-out plan relocated for activities in the servicing sector as per decision 66/42(h).

**Investment project approved at the 61st meeting and subsumed in the HPMP.

Implementation plan for the second tranche of the HPMP

19. During the second funding tranche of the HPMP, the Government of Argentina will implement the following activities:

- (a) *Foam manufacturing sector (World Bank)(US \$0.00)*: Completion of the conversion of Mabe Argentina to HC-based technology in 2015;
- (b) *Refrigeration servicing sector (UNIDO)(US \$210,873)*: Continuation of technical assistance to reduce the use of HCFC-141b in flushing during servicing; continuation of the technicians training, and distribution of the already purchased 714 kits to trained technicians; and activities to facilitate the introduction of CO₂ and HC refrigerants including workshops on the availability and advantages or disadvantages of such alternatives, a study tour to countries where such alternatives are being produced and/or used; and a technical and economic study on the introduction of new alternatives; and
- (c) *Project coordination and monitoring strategy (UNIDO)(US \$103,739)*: Monitoring the production, imports and exports of HCFCs; monitoring the consumption in different sectors and coordinating all activities related to the second tranche of the HPMP.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

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

Legal framework

20. In response to decision 63/17, the Government confirmed that all relevant legislation has been enacted. The HCFC import quota for 2015 has been established at 142.89 ODP tonnes. For subsequent years, the annual quota will continue to be established based on the import quota requests received and the historic record of importers, which are normally lower than the consumption levels allowed under the Montreal Protocol as there is also HCFC production in Argentina.

Room AC manufacturing sector

21. Regarding the financial situation of Audivic and Foxman, UNIDO clarified that at the time of approval of the project the enterprises were financially solvent; however, at the time of implementation the enterprises underwent a process of re-organization in accordance with the Argentina Bankruptcy Law. In the case of Audivic, the enterprise indicated that they were resolving the issue, but despite periodic follow-up by OPROZ, no feedback from the enterprise returning to solvency and operation has been received. In the case of Foxman, it has not been possible to obtain yet a guarantee of adequate financial performance. No equipment was purchased in the original bid for these enterprises since OPROZ was waiting for demonstration of their financial performance.

22. UNIDO has requested additional time to receive further feedback from the Audivic and Foxman to make a decision about their participation in the project. Upon confirmation of financial solvency, UNIDO will also need to verify again eligibility and baseline production in order to determine if the enterprises can receive financial assistance. As it was not possible to have a final decision by this meeting and the next tranche will only take place in 2017, UNIDO agreed to provide a report on the status of participation of these enterprises in the project by the 77th Executive Committee meeting in 2016. In case the enterprises withdraw from the project, the remaining balance from the funds allocated to their conversions will be returned to the Fund.

Refrigeration servicing sector

23. In discussing the training programmes, UNIDO explained that the quality of the services provided by trained technicians is better and several of the most important enterprises request the service of technicians who participated in the training programme. Regarding customs, an e-learning system already developed during the implementation of the national CFC phase-out plan is being updated to include new measures on HCFCs. This system is available to new officers countrywide.

24. UNIDO clarified that retrofits of HCFC-based equipment to flammable substances are not part of the HPMP and are not being promoted in Argentina, and also explained that most supermarket systems are mainly using HFCs as replacement for HCFCs. Trans-critical CO₂ centralized supermarket systems are not standard in Argentina. The first one has now been installed in the south of the country with most of the components imported as they were not locally available. The efficiency of these systems needs to be evaluated for other parts of Argentina where temperatures are higher. The cost of these systems is 30 per cent higher and specific training is required as technicians are not familiar with the technology. Ammonia is used in industrial refrigeration, and as it is only well known by senior experts, young professionals and technicians will be trained to promote its use in other applications.

25. UNIDO also reported that some large end-user enterprises are slowly accepting new HC-based equipment, including Quilmes, one of the largest breweries in the country, which will introduce HC-290 coolers in numerous stores across the country and has announced that it will only buy HC-290 equipment as of 2016. Local commercial refrigeration enterprises are not manufacturing HC-290 coolers but some of them are testing prototypes.

26. OPROZ has produced a number of training materials and courses on safe handling of HC-based systems and HC as refrigerants, as well as a video on how to change a compressor in an HC refrigerator. Pursuant to decision 72/40, UNIDO on behalf of the Government of Argentina, also submitted to the 74th meeting a proposal to demonstrate low-GWP technologies (i.e., trans-critical CO₂ and/or CO₂/low-GWP cascade systems) at the supermarket level. OPROZ will continue to disseminate information on alternatives technologies entering the market.

27. UNIDO reported that although there are alternative cleaning agents to HCFC-141b for flushing refrigeration systems available in Argentina, they are five to six times the price of HCFC-141b. In view of this situation, it was decided for now, just to include a chapter regarding flushing in the refrigeration training manual. Technical assistance to reduce the use of HCFC-141b in flushing during servicing, including training and appropriate cleaning equipment for technicians will be implemented during stage II of the HPMP. Taking into account that there are other uses of HCFC-141b pure that have still not been addressed (e.g., aerosol, solvents), Argentina has not yet determined a date for total phase-out of this substance.

Revision of the HPMP Agreement

28. In line with decisions 66/17(c)³ and 67/15(b)(i), the agency fees for the second and third tranches of the HPMP for Argentina have been adjusted to reflect the new administrative cost regime to UNIDO. Accordingly, Appendix 2-A (“The Targets and Funding”) has been updated, and a new paragraph 16 has been added to indicate that the updated Agreement supersedes that reached at the 66th meeting, as shown in Annex I to the present document. The full revised Agreement will be appended to the final report of 74th meeting.

Conclusion

29. Argentina has an operational HCFC import, export and production licensing and quota system in place. HCFC consumption levels in 2013 and 2014 are already below the consumption baseline and the 10 per cent control measure in 2015. The consumption figures and the strict application of the licensing and quota system are corroborated by the independent verification report. Argentina completed the conversion of seven room AC manufacturing enterprises phasing out 49.61 ODP tonnes of HCFC and continued implementation of a comprehensive strategy in the refrigeration-servicing sector that began under the national CFC phase-out plan. While the formal arrangements for the implementation of the foam project in Mabe had delays, the project implementation has progressed and is scheduled for completion in 2015 with a phase-out of 18.46 ODP tonnes of HCFC-141b. UNIDO and the Government of Italy have disbursed 77 per cent of the approved funds.

RECOMMENDATION

30. The Fund Secretariat recommends that the Executive Committee:

- (a) Takes note of the progress report on the implementation of the first tranche of stage I of the HCFC phase out management plan of (HPMP) for Argentina; and

³ To apply the existing administrative cost regime to the first tranche of agreements approved at the 66th meeting and to reconsider the agency fee for subsequent tranches at the 67th meeting.

- (b) Requests UNIDO to report to the 77th meeting on the status of implementation of the conversion of the enterprises Audivic and Foxman included in the room air-conditioning manufacturing project, on the understanding that the remaining funds from the conversion of these two enterprises will be returned to the Multilateral Fund, in case they withdraw from the project.

31. The Secretariat further recommends blanket approval of the second tranche of stage I of the HPMP for Argentina, and the corresponding 2015-2016 tranche implementation plan, at the funding level shown in the table below:

	Project title	Project funding (US \$)	Support cost (US \$)	Implementing agency
(a)	HCFC phase-out management plan (stage I, second tranche)	314,612	22,023	UNIDO

Annex I

TEXT TO BE INCLUDED IN THE UPDATED AGREEMENT BETWEEN THE GOVERNMENT OF ARGENTINA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE REDUCTION IN CONSUMPTION OF HYDROCHLOROFLUOROCARBONS

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

16. The updated Agreement supersedes the Agreement reached between the Government of Argentina and the Executive Committee at the 66th meeting of the Executive Committee.

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	2010	2011	2012	2013	2014	2015	2016	2017	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	400.70	400.70	360.63	360.63	360.63	n/a
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	400.70	400.70	360.63	360.63	330.58	n/a
2.1	Lead IA (UNIDO) agreed funding (US \$)	8,435,542	0	685,388	0	314,612	0	0	125,000	9,560,542
2.2	Support costs for Lead IA (US \$)	632,666	0	51,404	0	22,023	0	0	8,750	714,843
2.3	Cooperating IA (World Bank) agreed funding (US \$)	0	0	914,612	0	0	0	0	0	914,612
2.4	Support costs for Cooperating IA: World Bank (US \$)	0	0	68,596	0	0	0	0	0	68,596
2.5	Cooperating IA (Italy) agreed funding (US \$)	300,000	0	0	0	0	0	0	0	300,000
2.6	Support costs for Cooperating IA: Italy (US \$)	39,000	0	0	0	0	0	0	0	39,000
3.1	Total agreed funding (US \$)	8,735,542	0	1,600,000	0	314,612	0	0	125,000	10,775,154
3.2	Total support costs (US \$)	671,666	0	120,000	0	22,023		0	8,750	822,439
3.3	Total agreed costs (US \$)	9,407,208*	0	1,720,000	0	336,635	0	0	133,750	11,597,593
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)									6.11
4.1.2	Phase-out of HCFC-22 to be achieved in previously approved projects (ODP tonnes)									53.46*
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)									206.63
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this Agreement (ODP tonnes)									23.96
4.2.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)									0
4.2.3	Remaining eligible consumption for HCFC-141b (ODP tonnes)									70.61
4.3.1	Total phase-out of HCFC-142b agreed to be achieved under this Agreement (ODP tonnes)									0
4.3.2	Phase-out of HCFC-142b to be achieved in previously approved projects (ODP tonnes)									0
4.3.3	Remaining eligible consumption for HCFC-142b (ODP tonnes)									14.34
4.4.1	Total phase-out of HCFC-123 agreed to be achieved under this Agreement (ODP tonnes)									0
4.4.2	Phase-out of HCFC-123 to be achieved in previously approved projects (ODP tonnes)									0
4.4.3	Remaining eligible consumption for HCFC-123 (ODP tonnes)									1.57
4.5.1	Total phase-out of HCFC-124 agreed to be achieved under this Agreement (ODP tonnes)									0
4.5.2	Phase-out of HCFC-124 to be achieved in previously approved projects (ODP tonnes)									0
4.5.3	Remaining eligible consumption for HCFC-124 (ODP tonnes)									0.83

(*) Approved at the 61st Executive Committee meeting.