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

PROJECT PROPOSAL: KUWAIT

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) UNEP and UNIDO

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS
Kuwait

(I) PROJECT TITLE	AGENCY	MEETING APPROVED	CONTROL MEASURE
HCFC phase out plan (Stage I)	UNEP (lead), UNIDO	66 th	39.2% by 2018

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2013	414.67 (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					0.06				0.06
HCFC-141b		72.05				3.85			75.9
HCFC-141b in imported pre-blended polyol		58.30							58.30
HCFC-142b		78.00							78.00
HCFC-22		44.28		24.20	189.75				258.23

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	418.6	Starting point for sustained aggregate reductions:	429.24
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	239.15	Remaining:	190.09

(V) BUSINESS PLAN		2015	2016	2017	2018	Total
UNIDO	ODS phase-out (ODP tonnes)	80.9	25.5	0.0	22.2	128.5
	Funding (US \$)	3,600,586	1,133,958	0	989,000	5,723,544
UNEP	ODS phase-out (ODP tonnes)	8.1	8.0		2.3	18.5
	Funding (US \$)	377,301	371,703		108,600	857,604

(VI) PROJECT DATA		2012	2013	2014	2015	2016	2017	2018	Total	
Montreal Protocol consumption limits		n/a	418.6	418.6	376.74	376.74	376.74	376.74	n/a	
Maximum allowable consumption (ODP tonnes)		n/a	415.6	336.81	338.98	297.87	296.17	254.51	n/a	
Agreed funding (US \$)	UNEP	Project costs	277,000	0	337,000	0	332,000	0	97,000	1,043,000
		Support costs	33,126	0	40,301	0	39,703	0	11,600	124,730
	UNIDO	Project costs	3,537,450	0	3,349,382	0	1,054,845	0	920,000	8,861,677
		Support costs	265,309	0	234,457	0	73,839	0	64,400	638,005
Funds approved by ExCom (US \$)	Project costs	3,814,450	0	0	0.0	0.0	0.0	0.0	3,814,450	
	Support costs	298,435	0	0	0.0	0.0	0.0	0.0	298,435	
Total funds requested for approval at this meeting (US \$)	Project costs				3,686,382				3,686,382	
	Support costs				274,758				274,758	

Secretariat's recommendation:	For individual consideration
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PROJECT DESCRIPTION

1. On behalf of the Government of Kuwait, UNEP 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), at a total cost of US \$3,961,140, consisting of US \$337,000, plus agency support costs of US \$40,301 for UNEP, and US \$3,349,382, plus agency support costs of US \$234,457 for UNIDO¹. The submission includes a progress report on the implementation of the first tranche and the tranche implementation plan for 2015 to 2016.

Report on HCFC consumption

HCFC consumption

2. The Government of Kuwait reported an estimated consumption of 336.17 ODP tonnes of HCFC in 2014. The 2010-2014 HCFC consumption is shown in Table 1.

Table 1. HCFC consumption in Kuwait (2010-2014 Article 7 data)

HCFC	2010	2011	2012	2013	2014*	Baseline
Metric tonnes						
HCFC-22	5,234.00	4,432.00	4,687.4	4,731.8	3,373	4,735.5
HCFC-123	25.0	3.0	4.8	2.3	2.72	14.0
HCFC-141b	667.00	682.00	693.4	690.9	728.56	683.5
HCFC-142b	1,190.00	1,214.00	1,322.6	1,205.8	1,083.51*	1,272.0
Total HCFC (mt)	7,116	6,331	6,708.2	6,630.8	5,188	6,705
HCFC-141b in imported pre-blended polyols***	182.0	170.0	450.0	530.0		96.73**
ODP tonnes						
HCFC-22	287.87	243.76	257.81	260.25	185.51	260.45
HCFC-123	0.50	0.06	0.10	0.05	0.16	0.28
HCFC-141b	73.37	75.02	76.27	75.99	80.14	75.19
HCFC-142b	77.35	78.91	85.97	78.38	70.43	82.68
Total HCFC (ODP tonnes)	439.09	397.75	420.15	414.67	336.17	418.6
HCFC-141b in imported pre-blended polyols***	20.02	18.7	49.5	58.3		10.64**

* Estimated data as submitted by UNEP, not yet reported under CP data nor Article 7

** Starting point according to the Agreement between the Government and the Executive Committee

*** Not reported yet for 2014

3. The Government of Kuwait has set a stricter phase-out schedule under its Agreement with the Executive Committee than that of the Montreal Protocol. The estimated consumption of 2014 (336.17 ODP tonnes) is within the maximum allowable limits for 2014 (336.81 ODP tonnes) under the Agreement.

Country programme (CP) implementation report

4. The Government of Kuwait reported sector HCFC consumption data for 2013 under CP implementation report which is consistent with the data reported under Article 7.

¹ This tranche should have been submitted in 2014.

Progress report on the implementation of the first tranche of the HPMP*Legal framework*

5. A new environmental Law 42 was enacted in October 2014, introducing an updated HCFC quota system starting from January 2015. The Environment Public Authority of Kuwait (EPA) is controlling imports of HCFCs through the quota system which became operational since 2000. Updated by-laws and procedures for ODS will be issued by October 2015.

6. The implementation of the quota system is done in close collaboration with the custom authorities who will only allow import or export if the appropriate EPA/national ozone unit (NOU) approval is provided with proper documentation.

Manufacturing sector

7. Two extruded polystyrene (XPS) foam enterprises (Gulf and Isofoam) have started with the plan to convert all four lines during the second tranche as shown in Table 2. It was initially foreseen to complete one line at each enterprise by 2014.

Table 2. Status of the conversion projects at Gulf and Isofoam

Milestone	Status	Date
Issuance of invitations to bid	Completed	August 2014
Evaluation of tenders	Completed	November 2014
Issuance of purchase order	Completed	January 2015
Engineering design	Completed	March 2015
Main equipment delivery	Expected	November 2015
Custom clearance	Expected	December 2015
Commissioning, start up	Expected	January 2016
On-the-job training	Expected	January 2016

8. In the polyurethane (PU) foam sector technical assistance activities have started with a workshop planned to take place towards the second quarter of 2015.

Refrigeration servicing sector

9. Fifteen refrigerant identifiers were supplied to customs and trade authorities by the end of 2013. The training of customs officials will commence in May 2015. The development of the e-licensing system to support the country's licensing and import quota regulations has been initiated through a bidding process. The work on the system is planned to take one year, including the testing period.

10. A working group has been established and a work plan approved for the activities related to the review and update of relevant national standards and codes for labelling, use of ammonia and hydrocarbons (HC) in installations, servicing ammonia and HC equipment, and handling and disposal of refrigerant cylinders. A feasibility study and guidelines for the establishment of a reclamation centre will be concluded by September 2015.

11. The process for technician certification, training for service technicians, and preparing a study for long-term options in air conditioning in Kuwait will also commence in May 2015.

Project implementation and monitoring unit

12. The EPA formed a special Project Management Team (PMT) to undertake the responsibility for the implementation of the HPMP.

Level of fund disbursement

13. As of March 2015, of the US \$3,814,450 so far approved (US \$277,000 for UNEP and US \$3,537,450 for UNIDO), US \$264,246 (7 per cent) had been disbursed only by UNIDO. The balance of US \$3,550,204 will be disbursed in 2015 (Table 3).

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

Agency	First tranche	
	Approved	Disbursed
UNEP	277,000	0
UNIDO	3,537,450	264,246
Total	3,814,450	264,246
Disbursement rate (%)		7

Implementation plan for the second tranche of the HPMP

14. In addition to the remaining activities to be completed with the funds received under the first tranche, the following activities will be implemented:

- (a) Conversion of the second line at the two XPS foam enterprises, Gulf and Isofoam, and conversion at Al Masaha Company (UNIDO) (US \$2,706,000);
- (b) PU foam investment projects targeting two enterprises (Kuwait Polyurethane Industry Co and Kirby Building Systems). Two workshops will also be conducted as a part of the technical assistance to the spray foam users (UNIDO) (US \$643,382);
- (c) Training for 500 officers from customs, trade and environment authorities (UNEP) (US \$25,000);
- (d) Establishment of the National Certification Centre, including the supply of training equipment, and training and certification of 500 technicians (this is in addition to 150 technicians, still to be trained and certified with the funds from the first tranche). Relevant national standards and codes will be further developed and updated (UNEP) (US \$220,000);
- (e) An awareness programme on low-global warming potential alternatives to HCFCs targeting large end-users, buildings owners, consultants and decision-makers (UNEP) (US \$20,000); and
- (f) Continuation of the operation of the PMT (UNEP) (US \$72,000).

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

15. UNEP provided the 2014 HCFC consumption which is 336.17 ODP tonnes, only slightly below the 2014 maximum allowable consumption of 336.81 ODP tonnes. UNEP explained that Kuwait set its 2014 quota close to the maximum allowable consumption under the Agreement due to the continued demand in the servicing sector and the challenge faced to achieve a substantial reduction from the delayed investment projects under the first tranche.

16. The Secretariat also noted that the Government of Kuwait, in its Agreement with the Executive Committee, has committed to reduce its HCFC consumption to 297.87 ODP tonnes as compared to 376.74 ODP tonnes allowed under the Montreal Protocol for 2016. UNEP also confirmed the Government's commitment to meet these stricter reduction measures for stage I of the HPMP.

Verification report

17. A verification of the HCFC consumption of Kuwait is required for the year 2014. As of writing this document, the verification report was not received at the Secretariat. UNEP notified that the verification process is ongoing and the verification report is expected to be ready by the end of April 2015. In line with decision 72/19(b), should the verification report not be ready in time for the first meeting of the year, transfer of any approved funds for tranches to the bilateral and implementing agencies would occur only after receipt by the Secretariat of the verification report confirming that, in the year immediately preceding the tranche request, the country had been in compliance with the Montreal Protocol and the Agreement between its Government and the Executive Committee.

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

Legal framework

18. In line with decision 63/17, confirmation has been received from the Government that an enforceable national system of licensing and quotas for HCFC imports and exports is in place and that the system is capable of ensuring compliance with the Montreal Protocol. The HCFC import quota for 2015 has been established at 338.98 ODP tonnes. For subsequent years, the annual quota will be based on the maximum allowable consumption under the Agreement between the Government of Kuwait and the Executive Committee.

Manufacturing sector

19. The Secretariat noted the delay in the start of the conversion of two XPS foam enterprises (Gulf and Isofoam), which showed some progress only in 2014. UNIDO explained that the delays were due to difficulties in coming to agreements with the technical aspects of the project (i.e. equipment bids which were more expensive than the approved funding) which took the last two years to resolve. They also confirmed that technical documents, contracts, equipment specifications, and a work plan with a clear schedule of project completion have been finalized, which would facilitate a speedy implementation of the project. With regard to the delayed disbursement to the enterprises, UNIDO explained that they were due to the required bank guarantees that needed to be provided by the enterprises. These have recently been received, and payments are being processed as shown in Table 4.

Table 4. Payment and completion schedule for the XPS foam enterprises

Description	Date	Amount (US \$)	
		Gulf	Isofoam
1 st payment	April 2015	275,500	315,955
2 nd payment (pre-shipment inspection of equipment)	October 2015	275,500	315,955
3 rd payment (delivery of goods shipping document)	November 2015	1,000,000	1,000,000
4 th payment (receipt and acceptance)	January 2016	178,000	164,590
Total		1,729,000	1,796,500

Refrigeration servicing sector

20. The Secretariat noted that most of the activities foreseen in the refrigeration servicing sector under the first tranche are still to be completed due to delay in signing the contract between UNEP and EPA which only occurred in November 2014. UNEP indicated that the reasons for the delay included

difficulties in coming to an agreement on the detailed implementation work plan and the associated costs, changes of the ODS Officer and Head of the EPA, and changes in UNEP's contracting instruments that required legal clarification to the EPA officials. UNEP further informed that the first payment to the country, equal to US \$158,243, has been processed by UNEP and shall be received by the country shortly, and until then it cannot be shown as disbursement.

Level of fund disbursement

21. The Secretariat noted that as of 31 March 2015 the level of disbursement of US \$264,246 from the funding approved from the previous tranche was below the 20 per cent threshold of disbursement. Therefore, the precondition for the release of the second tranche was not fulfilled.

22. However taking into account the disbursement of US \$158,243 by mid-April 2015 by UNEP (as mentioned in para.20) and payments to the two XPS foam enterprises (Gulf and Isofoam) of US \$591,455 by the end of April by UNIDO (Table 4), the level of disbursement from the previously approved tranche would be 26.6 per cent.

Implementation plan for the second tranche of the HPMP

23. In discussing the work plan for the tranche, the Secretariat was concerned about the current request for the second tranche noting the long delays in the implementation of the first tranche and the low disbursement for the two investment projects. It further noted that the investment projects currently being implemented were expected to be completed only in early 2016, and may not contribute in 2015. It also reiterated that the current request does not appear to have met the requirements for tranche submissions under the Agreement.

24. UNEP emphasized that the release of the second tranche of the HPMP was important particularly as the larger phase-out will occur in the manufacturing sector where the conversion of three additional enterprises will be initiated. Preparatory work has started to ensure that upon approval of the second tranche, activities for these enterprises would commence immediately. Activities in the refrigeration servicing sector are being implemented as planned. Any delays in the approval of the tranche would jeopardize the situation of Kuwait, and place it in potential non-compliance with its Agreement with the Executive Committee.

25. As requested, UNEP and UNIDO submitted a disbursement plan for the 2015 tranche, as well as a cash flow for the remaining implementation of stage I, as shown in Table 5.

Table 5. Cash flow proposal for the remaining tranches of stage I of the HPMP in Kuwait

Activity	Funding approved in tranche 1	Future tranches	Project planned cash flow (US \$)					Total cash flow (US \$)	
			2014	2015	2016*	2017	2018		2019
All non-investment components including PMU (UNEP)									
Contract with UNEP for non-investment activities and PMU (including TPMP reallocated funds)	277,000	766,000		330,000	250,000	250,000	150,000	63,000	1,043,000
XPS foam (UNIDO)									
Isofoam	1,754,100	1,909,230	1,754,100	993,000	221,775		500,000		3,468,875
Gulf	1,756,350	1,584,775	1,756,350	863,000	496,230		420,000		3,535,580
Al-Masaha	-	888,920		850,080	38,840				888,920
Sub-total XPS	3,510,450	4,382,925	3,510,450	2,706,080	756,845	-	920,000		7,893,375

Activity	Funding approved in tranche 1	Future tranches	Project planned cash flow (US \$)						Total cash flow (US \$)
			2014	2015	2016*	2017	2018	2019	
PU Foam (UNIDO)									
Kuwait PU	-	359,114		359,114					359,114
Kirby Systems	-	254,268		254,268					254,268
Sub-total PU	-	613,382	-	613,382	-	-	-	-	613,382
Technical assistance for foam sector (UNIDO)									
Technical assistance for foam SMEs	-	50,000			50,000				50,000
Technical assistance for spray foam users	15,000	60,000	4,053	40,947	30,000				75,000
Sub-total servicing	15,000	110,000	4,053	40,947	80,000	-	-	-	125,000
National HCFC reclamation programme (UNIDO)									
Development of national guidelines	11,920		11,920						11,920
Preparation of tender documents, evaluation of bids and equipment supply		218,000			218,000				218,000
Sub-total reclamation programme	11,920	218,000	11,920	-	218,000	-	-	-	229,920
Total	3,537,370	5,324,307	3,526,423	3,360,409	1,054,845	-	920,000	-	8,861,677

* Third tranche will be requested at the last meeting in 2016 instead of originally planned for the first meeting.

Revision to the HPMP Agreement

26. The HPMP for Kuwait was approved at the 66th meeting when the Executive Committee also decided on support costs of future tranches of HPMPs (decision 66/17(c))². The Secretariat has updated Appendix 2-A to revise the agency support costs, and a new paragraph has been added to indicate that the updated Agreement supersedes that reached at the 66th meeting, as shown in Annex I to this document. The fully revised Agreement will be appended to the final report of the 74th meeting.

Conclusion

27. The Secretariat noted that Kuwait was in compliance with the Montreal Protocol in 2013. An updated HCFC quota system is operational since January 2015. Despite the delay in disbursement, Kuwait has shown some progress in both manufacturing and refrigeration servicing sectors. A number of preparatory activities have commenced in the servicing sector. The level of disbursement is less than 10 per cent of the funds so far approved; therefore, the conditions for release of the second tranche have not been met. However, in order to continue conversion activities and to ensure that the country will continue to be in compliance with the more stringent maximum allowable consumption targets established by Kuwait in its Agreement with the Executive Committee, UNEP is requesting that funding under the second tranche be approved.

² 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.

RECOMMENDATION

28. The Executive Committee may wish to consider:

- (a) Noting:
 - (i) The progress report on the implementation of the first tranche of stage I of the HCFC phase-out management plan (HPMP) in Kuwait; and
 - (ii) That the Secretariat had updated Appendix 2-A of the Agreement between the Government of Kuwait and the Executive Committee to reflect the change in support costs owing to the new administrative cost regime, and that a new paragraph 16 had been added to indicate that the updated Agreement superseded that reached at the 66th meeting, as contained in Annex I to the present document.
- (b) Approving the second tranche of stage I of the HPMP for Kuwait and the corresponding 2015-2016 tranche implementation plan, at the amount of US \$3,961,140, consisting of US \$337,000, plus agency support costs of US \$40,301 for UNEP, and US \$3,349,382, plus agency support costs of US \$234,457 for UNIDO, on the understanding that the approved funds would not be transferred to UNEP and UNIDO until the Secretariat had reviewed the verification report and confirmed that the Government of Kuwait was in compliance with the Montreal Protocol and the Agreement between the Government and the Executive Committee.

Annex I

**TEXT TO BE INCLUDED IN THE UPDATED DRAFT AGREEMENT BETWEEN THE
GOVERNMENT OF KUWAIT 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. This updated Agreement supersedes the Agreement reached between the Government of Kuwait and the Executive Committee at the 66th meeting of the Executive Committee.

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	2012	2013	2014	2015	2016	2017	2018	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	n/a	418.60	418.60	376.74	376.74	376.74	376.74	n/a
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	n/a	415.60	336.81	338.98	297.87	296.17	254.51	n/a
2.1	Lead IA (UNEP) agreed funding (US \$)	277,000	0	337,000	0	332,000	0	97,000	1,043,000
2.2	Support costs for Lead IA (US \$)	33,126	0	40,301	0	39,703	0	11,600	124,730
2.3	Cooperating IA (UNIDO) agreed funding (US \$)	3,537,450	0	3,349,382	0	1,054,845	0	920,000	8,861,677
2.4	Support costs for Cooperating IA (US \$)	265,309	0	234,457	0	73,839	0	64,400	638,005
3.1	Total agreed funding (US \$)	3,814,450	0	3,686,382	0	1,386,845	0	1,017,000	9,904,677
3.2	Total support costs (US \$)	298,435	0	274,758	0	113,542	0	76,000	762,735
3.3	Total agreed costs (US \$)	4,112,885	0	3,961,140	0	1,500,387	0	1,093,000	10,667,412
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)								81.25
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)								179.25
4.2.1	Total phase-out of HCFC-123 agreed to be achieved under this Agreement (ODP tonnes)								0.00
4.2.2	Phase-out of HCFC-123 to be achieved in previously approved projects (ODP tonnes)								0.00
4.2.3	Remaining eligible consumption for HCFC-123 (ODP tonnes)								0.30
4.3.1	Total phase-out of HCFC-141b agreed to be achieved under this Agreement (ODP tonnes)								75.20
4.3.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)								0.00
4.3.3	Remaining eligible consumption for HCFC-141b (ODP tonnes)								0.00
4.4.1	Total phase-out of HCFC-142b agreed to be achieved under this Agreement (ODP tonnes)								82.70
4.4.2	Phase-out of HCFC-142b to be achieved in previously approved projects (ODP tonnes)								0.00
4.4.3	Remaining eligible consumption for HCFC142b (ODP tonnes)								0.00
4.5.1	Total phase-out of HCFC-141b contained in imported pre-blended polyols agreed to be achieved under this Agreement (ODP tonnes)								0.00
4.5.2	Phase-out of HCFC-141b contained in imported pre-blended polyols to be achieved in previously approved projects (ODP tonnes)								0.00
4.5.3	Remaining eligible consumption for HCFC-141b contained in imported pre-blended polyols (ODP tonnes)								10.64
