



**United Nations  
Environment  
Programme**

Distr.  
GENERAL

UNEP/OzL.Pro/ExCom/75/44  
22 October 2015

ORIGINAL: ENGLISH



---

EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Seventy-fifth Meeting  
Montreal, 16-20 November 2015

**PROJECT PROPOSAL: THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA**

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)

UNIDO/UNEP

**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS**  
**Democratic People's Republic of Korea**

(I) PROJECT TITLE	AGENCY	MEETING APPROVED	CONTROL MEASURE
HCFC phase out plan (Stage I)	UNEP, UNIDO (lead)	73rd	15% by 2018

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2014	79.37 (ODP tonnes)
--	------------	--------------------

(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)								Year: 2014	
Chemical	Aerosol	Foam	Fire fighting	Refrigeration		Solvent	Process agent	Lab use	Total sector consumption
				Manufacturing	Servicing				
HCFC-123									
HCFC-124									
HCFC-141b		16.0							16.0
HCFC-142b									
HCFC-22				10.3	53.1				63.4

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	78.00	Starting point for sustained aggregate reductions:	78.00
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	16.00	Remaining:	62.00

(V) BUSINESS PLAN		2015	2016	Total
UNIDO	ODS phase-out (ODP tonnes)	0.0	2.7	2.7
	Funding (US \$)	0	129,000	129,000
UNEP	ODS phase-out (ODP tonnes)	0.0	0.0	0.0
	Funding (US \$)	0	0	0

(VI) PROJECT DATA			2014	2015	2016	2017	2018	Total
Montreal Protocol consumption limits			78.00	70.20	70.20	70.20	70.20	n/a
Maximum allowable consumption (ODP tonnes)			*	70.20	70.20	70.20	66.30	n/a
Agreed funding (US\$)	UNEP	Project costs	43,500	48,500	90,000	0	20,000	202,000
		Support costs	5,655	6,305	11,700	0	2,600	26,260
	UNIDO	Project costs	123,700	428,180	130,000	0	20,000	701,880
		Support costs	8,659	29,973	9,100	0	1,400	49,132
Funds approved by ExCom (US\$)	Project costs		167,200	0	0	0	0	167,200
	Support costs		14,314	0	0	0	0	14,314
Total funds requested for approval at this meeting (US\$)	Project costs		0	<b>476,680</b>	0	0	0	476,680
	Support costs		0	<b>36,278</b>	0	0	0	36,278

\*The Government of the Democratic People's Republic of Korea estimated a consumption of 80.00 ODP tonnes, which is above the HCFC baseline for compliance.

<b>Secretariat's recommendation:</b>	For individual consideration
--------------------------------------	------------------------------

## PROJECT DESCRIPTION

1. On behalf of the Government of the Democratic People's Republic of Korea, UNIDO as the lead implementing agency, has submitted to the 75<sup>th</sup> 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 \$512,958, consisting of US \$428,180, plus agency support costs of US \$29,973 for UNIDO, and US \$48,500, plus agency support costs of US \$6,305 for UNEP. The submission includes a progress report on the implementation of the first tranche and the tranche implementation plan for 2016.

### Report on HCFC consumption

#### *HCFC consumption*

2. The Government of the Democratic People's Republic of Korea reported a consumption of 79.37 ODP tonnes of HCFC in 2014. The 2010-2014 HCFC consumption is shown in Table 1.

**Table 1. HCFC consumption in the Democratic People's Republic of Korea (2010-2014 Article 7 data)**

HCFC	2010	2011	2012	2013	2014	Baseline
<b>Metric tonnes</b>						
HCFC-22	1,387.4	1,301.0	1,275.5	1,282.6	1,153.1	1,126.2
HCFC-141b	162.0	168.0	171.0	182.0	145.0	145.5
<b>Total (metric tonnes)</b>	<b>1,549.4</b>	<b>1,469.0</b>	<b>1,446.5</b>	<b>1,464.6</b>	<b>1,298.1</b>	<b>1,271.7</b>
<b>ODP tonnes</b>						
HCFC-22	76.30	71.56	70.15	70.54	63.42	62.00
HCFC-141b	17.80	18.48	18.81	20.02	15.95	16.00
<b>Total (ODP tonnes)</b>	<b>94.10</b>	<b>90.04</b>	<b>88.96</b>	<b>90.56</b>	<b>79.37</b>	<b>78.00</b>

3. The reduction in HCFC consumption between 2013 and 2014 is due to the immediate application of the licensing and quota system for imports and production of HCFCs upon approval of the HPMP, which allowed an HCFC consumption level in 2014 below the estimated figure in the plan of action to return to compliance<sup>1</sup>. The estimated consumption of HCFC in 2015 is 70.16 ODP tonnes as reflected in Table 2.

#### *Country programme (CP) implementation report*

4. The Government of the Democratic People's Republic of Korea reported HCFC sector consumption data under the 2014 CP implementation report which is consistent with the data reported under Article 7.

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

5. The first tranche of the HPMP for the Democratic People's Republic of Korea focused on activities where there was no potential violation of any resolution<sup>2</sup> issued by the UN Security Council (UNSC) Committee established pursuant to resolution 1718. It included the conversion of Puhung Building Materials using 63.63 metric tonnes (mt) (7.00 ODP tonnes) of HCFC-141b in spray foam; purchase of ODS identifier kits for custom training, strengthening enforcement measures to control imports and exports of HCFCs; and capacity building for customs officers. These activities would allow the country to return to compliance in 2015.

<sup>1</sup> Recommendation 53/2 (UNEP/OzL.Pro/ImpCom/53/4, section A of Annex I).

<sup>2</sup> The UN Security Council Committee established pursuant to resolution 1718 was consulted before submission of the HPMP to establish whether the equipment or any other services under the HPMP could be provided to the country.

6. It was also agreed that during the first tranche UNIDO would also submit to the UNSC Committee more detailed specifications of the equipment for a second polyurethane (PU) rigid foam project (Pyongyang Sonbong PU Foam, consuming 67.27 mt (7.40 ODP tonnes) of HCFC-141b), as there were items for which additional information had been required by the UNSC Committee in previous consultations. Upon the UNSC Committee's clearance, the second tranche could be requested to convert the foam enterprise.

#### *Legal framework*

7. Upon approval of the HPMP in November 2014, the licensing and quota system for imports and production of HCFC became operational. An annual quota ensuring 10 per cent reduction of the HCFC consumption baseline was issued from 1 January 2015, and import and production activities have been strictly controlled not to exceed allowance limits.

8. As a result of inter-ministerial consultations and with assistance from UNEP and UNIDO, the licensing and quota system was strengthened through screening of the trade registry and cross-checking of information between the authorities involved.

#### *PU foam sector*

9. UNIDO began the equipment procurement process for the conversion of the Puhung Building Materials Factory in January 2015. Equipment shipment was delayed as the size and weight of the equipment would not allow it be transported by air. The equipment is expected to arrive by sea in December 2015. Training, trial production and project completion are expected for the first quarter of 2016.

10. Upon a request from UNIDO for clearance of the equipment for the Sonbong PU Foam Factory, the UNSC Committee indicated that the enterprise is not known to be in violation of the resolutions<sup>3</sup>, and that the export of the equipment required for the conversion was unlikely to be prohibited.

11. Due to a suspension of travel to the country for all international travelers, UNIDO was only able to visit the enterprise in June 2015 and finalize the technical specifications in July 2015. Subject to the approval of the second tranche, the project is expected to be completed by the first half of 2016.

#### *Non-investment activities*

12. Three ODS identifier kits for customs training were procured and delivered to the National Coordinating Committee for Environment (NCCE) in May 2015. Procurement was carried out according to UNIDO rules for decentralized procurement.

13. One customs officer trainer received two-day training in Bangkok; however, additional training has not taken place yet. At the time of reporting UNEP was considering a cooperation agreement with the Customs Department and the Ministry of Environment of Sri Lanka to train custom and enforcement officers of the Democratic People's Republic of Korea between 2015 and 2016. UNEP also reported difficulties in transferring funds for local activities due to the UN resolutions. NCCE agreed to provide logistical support as counterpart funding to the extent possible.

#### *Project implementation and monitoring unit (PMU)*

14. Due to restrictions on fund transfers to the country, a PMU has not been established yet. In the meantime, an informal advisory group has been constituted with the involvement of the NCCE/National

---

<sup>3</sup> Resolutions 1695 (2006), 1718 (2006) and 1874 (2009), 2087 (2013) and 2094 (2013).

Ozone Unit (NOU), UNIDO and UNEP. The group meets at least once a year in the margins of regional network meetings.

15. In June 2015, UNIDO visited several UN and bilateral agencies in Pyongyang to explore options for transferring funds to the country and for organizing in-country activities. As a result, UNIDO established operational relations with the World Food Programme (WFP) which is the channel used by other UN agencies.

#### Level of fund disbursement

16. As of September 2015, of the US \$167,200 approved so far (US \$123,700 for UNIDO and US \$43,500 for UNEP), US \$58,234 (34.8 per cent) had been disbursed (US \$49,643 by UNIDO and US \$8,591 by UNEP). The balance of US \$108,966 will be disbursed in 2015 and 2016.

#### Implementation plan for the second tranche

17. The second funding tranche of the HPMP will be implemented between December 2015 and December 2016, and the following activities will be undertaken:

- (a) *Conversion of the Pyongyang Sonbong PU Foam Factory (UNIDO) (US \$376,680):* procurement contract by December 2015, equipment delivery by March 2016 and commissioning and start-up by April 2016;
- (b) *Equipment for refrigeration technicians training (UNIDO) (US \$11,500):* request for quotations by November 2015; evaluation of offers by December 2015 and equipment delivery by March 2016;
- (c) *Technicians training workshops (UNEP) (US \$38,500):* One train-the-trainer workshop for 20 master trainers by August 2016 and four training workshops for 160 technicians between September and December 2016;
- (d) *Awareness promotion and public outreach (UNEP) (US \$10,000):* One awareness-raising workshop by December 2016; and
- (e) *Monitoring and evaluation (UNIDO) (US \$40,000):* Establishment of a PMU by March 2016; verification of 2015 HCFC consumption by May 2016; verification of the PU foam equipment installation by July 2016; and mapping of the existing recovery and recycling centres by July 2016.

## **SECRETARIAT'S COMMENTS AND RECOMMENDATION**

### **COMMENTS**

#### Compliance with the Montreal Protocol

18. In June 2014, the Government of the Democratic People's Republic of Korea notified the Parties through the Ozone Secretariat of its possible non-compliance with the control measures for consumption and production of HCFCs for 2013, 2014 and 2015. At its 53<sup>rd</sup> meeting in November 2014, the Implementation Committee, under the non-compliance procedure for the Montreal Protocol, considered the plan of action for returning to compliance prepared by the Democratic People's Republic of Korea, which was subsequently noted at the 26<sup>th</sup> Meeting of the Parties (decision XXVI/15). The schedule for returning to compliance is presented in Table 2.

**Table 2. Schedule for return to compliance by the Democratic People's Republic of Korea (ODP tonnes)**

Year	Max. allowable consumption	Proposed target consumption	Max. allowable production	Proposed target production
2013	78.00	90.60	27.60	31.80
2014	78.00	80.00	27.60	29.00
2015	70.16	70.16	24.84	27.60
2016	70.16	70.16	24.84	24.84
2017	70.16	70.16	24.84	24.84

19. At its 54<sup>th</sup> meeting in July 2015, the Implementation Committee adopted recommendation 54/1, which noted that the Democratic People's Republic of Korea was in compliance with its commitment contained in decision XXVI/15, as shown by the HCFC consumption data reported for 2014.

#### Report on HCFC consumption

20. A verification of the HCFC consumption in 2014 is not applicable as the HPMP was approved in November 2014 and no consumption target was established for that year under row 1.2 of Appendix 2-A of the Agreement. Verification of HCFC consumption will only be required starting in 2015.

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

#### *Legal framework*

21. The Government has already issued HCFC import quotas for 2015 in accordance with its schedule to return to compliance, as presented in Table 3.

**Table 3. HCFC import and production quotas in 2015**

Substance	Import quota (mt)	Production quota (mt)	Import quota (ODP tonnes)	Production quota (ODP tonnes)
HCFC-22	585.00	500.00	32.18	27.50
HCFC-141b	95.00	n.a.	10.45	n.a.
<b>Total</b>	<b>680.00</b>	<b>500.00</b>	<b>42.63</b>	<b>27.50</b>

22. UNIDO also reconfirmed the commitment from the Government to establish the ban on imports of HCFC-141b, both pure and contained in pre-blended polyols, no later than 1 January 2018.

#### *Compliance with the UNSC Committee resolutions, modality of disbursement, organizational structures and monitoring procedures*

23. The Secretariat noted the detailed approach followed by UNIDO to comply with the relevant UNSC Committee resolutions, the modality of disbursement, organizational structures and monitoring procedures. UNIDO had confirmed that the same approach will be followed for the implementation of the second tranche.

24. During the first tranche, UNIDO did not require fund transfers for local activities as it focused on equipment procurement. However, for the second tranche UNIDO will transfer funds via the WFP to implement customs officer and technician training and awareness activities, the mapping of the recovery and recycling network, and the establishment of the PMU.

#### *PU foam sector*

25. UNIDO visited the Sonbong PU Foam Factory only in June 2015, after the clearance of the equipment had been received from the UNSC Committee, and identified a few additional equipment items (i.e., frequency stabilizer, press for the foaming mould, cutter for the foam panels), which are not

essential for the operation of the already cleared equipment, but require clearance by the UNSC Committee. Accordingly, upon approval of the second tranche, only cleared equipment will be procured, while the additional pieces of equipment will only be procured once UNSC Committee clearance is received.

*Transfer of UNEP's component to UNIDO*

26. As UNEP was unable to transfer funds to the country for implementation of the customs training activities, it proposed to implement the customs training through the Malaysian Customs Academy. However, UNEP encountered difficulties to implement this option and further considered using the Sri Lanka Customs Academy or the Tongji University in China, which were also not feasible option. Given the major constraints in the field faced by UNEP to implement the activities proposed in stage I of the HPMP, all stakeholders agreed to request the Executive Committee to transfer the non-investment component under UNEP's implementation (i.e., customs officers and technician training, awareness raising and public outreach) to UNIDO, noting that UNIDO will be able to organize the training with funds transferred through WFP. Accordingly, UNEP will no longer be the co-operating agency of stage I of the HPMP.

27. The change of the co-operating agency and associated transfer of funds require a review of the Agreement between the Government of the Democratic People's Republic of Korea and the Executive Committee. Accordingly, UNEP would have to return the unspent balance to the Multilateral Fund from the first tranche approved (US \$43,500) in order to be transferred to UNIDO. However, UNEP would be able to return the final funding balance only at the 76<sup>th</sup> meeting. In consequence, the Agreement could only be revised at that meeting.

28. In order to avoid any further delays in the implementation of the activities proposed in stage I of the HPMP, and pending a review of the Agreement at the 76<sup>th</sup> meeting (once UNEP returns the balance of the funding approved at the first tranche), UNIDO is requesting the approval of US \$506,680 with the following distribution:

- (a) US \$428,180 for completion of the conversion of the foam enterprises (as originally proposed in the Agreement);
- (b) US \$48,500 for the training of refrigeration service technicians (as originally proposed in the Agreement for UNEP);
- (c) US \$30,000 of the US \$90,000 originally proposed as the third tranche for UNEP, to continue implementing the training programme for customs officers. This funding is requested at this meeting as the balance approved at the first tranche associated with this activity will be returned only to the 76<sup>th</sup> meeting.

*Change to the Agreement*

29. Based on the request to transfer UNEP's component of stage I of the HPMP for the Democratic People's Republic of Korea to UNIDO, relevant paragraphs and Appendix 2-A of the Agreement would be updated at the 76<sup>th</sup> meeting when the unspent balance from UNEP's component is returned to the Multilateral Fund.

Conclusion

30. Given the quotas for HCFC imports and production established in 2015, improved data cross-checking and strict import controls; the fact that the HCFC consumption in 2014 is below the target established in the country's schedule to return to compliance; the progress of conversion activities, the

UNSC Committee's clearance of equipment needed at Pyongyang Sonbong PU foam factory and resolution of fund transfer and equipment clearance issues, the Secretariat recommends the release of the second tranche request.

## RECOMMENDATION

31. 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 the Democratic People's Republic of Korea; and
    - (ii) The request by the Government to transfer to UNIDO all the phase-out activities included in stage I of the HPMP for implementation by UNEP;
  - (b) Requesting UNEP to return to the Multilateral Fund at the 76<sup>th</sup> meeting the remaining balance from the US \$43,500 plus agency support costs of US \$5,655 approved in the first tranche of stage I of the HPMP;
  - (c) Approving the transfer of the remaining balance from the US \$43,500 approved in the first tranche for UNEP to UNIDO plus the applicable agency support costs;
  - (d) Further approving the transfer from UNEP to UNIDO of funding, approved in principle, of US \$158,500, plus agency support costs of US \$11,095, associated with the second, third and fourth funding tranches of the HPMP; and
  - (e) Requesting the Secretariat to revise the Agreement between the Democratic People's Republic of Korea and the Executive Committee based on sub-paragraphs (b), (c) and (d) above, when the funding request for the third tranche of the HPMP was submitted; and
  - (f) Approving the second tranche of stage I of the HPMP for Democratic People's Republic of Korea, and the corresponding 2016 tranche implementation plan, at the amount of US \$506,680, plus agency support costs of US \$35,468 for UNIDO.
-