



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/42/44
1 March 2004

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-second Meeting
Montreal, 29 March - 2 April 2004

PROJECT PROPOSAL: VENEZUELA

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

Phase-out

- National CFC phase-out plan (first tranche)

UNIDO

PROJECT EVALUATION SHEET VENEZUELA

SECTOR: Phase-out ODS use in all sectors (2002): 1,552.8 ODP tonnes

Sub-sector cost-effectiveness thresholds:

Project Titles:

(a) National CFC phase-out plan (first tranche)

Project Data	Multiple
	National Plan
Enterprise consumption (ODP tonnes)*	1,553
Project impact (ODP tonnes)**	2,032
Project duration (months)***	68
Initial amount requested (US \$)	1,895,062
Final project cost (US \$):	
Incremental capital cost (a)	
Contingency cost (b)	
Incremental operating cost (c)	
Total project cost (a+b+c)	6,240,554
Local ownership (%)	
Export component (%)	
Amount requested for first tranche (US \$)	1,895,062
Cost effectiveness (US \$/kg.)	3.07
Counterpart funding confirmed?	
National coordinating agency	FONDOIN
Implementing agency	UNIDO

Secretariat's Recommendations	
Amount recommended (US \$)	
Project impact (ODP tonnes)	
Cost effectiveness (US \$/kg)	
Implementing agency support cost (US \$)	
Total cost to Multilateral Fund (US \$)	

* Actual reported consumption for 2002.

** Total impact of the national phase-out plan. Based on 2003 estimated consumption. The impact of the first tranche is 0 ODP tonnes.

*** Duration of the plan (Duration of the first tranche is 12 months).

PROJECT DESCRIPTION

Sector background

CFC (Annex A Group I) Consumption and Phase-out Profile

- According to Decision 35/37 Venezuela has selected Option 2 as starting point amounting to:	2,235.9 ODP tonnes
- Maximum remaining consumption of CFCs eligible for funding as at 41 st Meeting (per Decision 35/57, proviso B)	2,044.8 ODP tonnes
- Total CFC consumption in 2002	1,553 ODP tonnes
- Total ODP in on-going projects as of February 2004	504.0 ODP tonnes
- Remaining eligible consumption	1,049.0 ODP tonnes

1. Prior to the 41st Meeting, a CFC Phase-out plan for Venezuela, including a draft agreement was reviewed and agreed between the Secretariat and UNIDO and submitted for consideration by the Executive Committee. A full description of the project including the original project document was presented in UNEP/OzL.Pro/ExCom/41/63. In the course of consideration of the draft agreement by the Executive Committee, it was recognized that an accommodation for a CFC stockpile would need to be included in the draft agreement with Venezuela in order to enable coordination with the proposed phase-out in the production sector and to ensure full consistency with a future production sector agreement. The stockpile would also address the need for continued availability of CFCs, including for the refrigeration servicing tail after 2010. The project was deferred “with the understanding that Venezuela wished to submit it again at a time when the CFC production sector project was clearly understood” (Decision 41/61).

2. On behalf of the Government of Venezuela, UNIDO has reformulated the National CFC phase-out plan (the Plan) to phase out the remaining consumption of 2,032 ODP tonnes of Annex A, Group I controlled substances in Venezuela over the period 2003 – 2010. The consumption remaining to be phased out is based on an estimate of the total CFC demand in 2003.

3. The Plan incorporates information on the change in stockpiling for each year for the period 2001-2009. The change in stockpiling is calculated by UNIDO on the basis of an assumed schedule of reduction in production, which is not provided in the Plan. The following statement is provided in the Plan in this regard: “The CFC production sector has intention to phase out production in 2008 and the Government will not permit any CFC imports, and there will be no supply of CFC from 2008.” The CFC production strategy is being prepared by the Government of Venezuela with the assistance of the World Bank.

4. The majority of the CFC consumption in Venezuela’s national phase-out plan is related to the refrigeration sector. The Plan also incorporates phase-out activities in on-going projects in the foam and aerosol sectors. In 2002, the total reported CFC consumption in Venezuela was 1,438 ODP tonnes. Refrigeration sector consumption was 1,386 ODP tonnes, which corresponds to 96% of the total consumption. In order to assess the effect of the national phase-out plan, the

total CFC demand was estimated for future years, taking into consideration both the implementation of activities proposed in the Plan and on-going projects in all sectors.

5. According to the Plan, the estimated CFC demand will increase in 2003 - 2006 as compared to 2002. The reason for the estimated increase is that "In 2002, there was a long strike and industrial activity was reduced to the greater extent. Accordingly, the CFC consumption in the year was not representing the normal market situation". In 2007, the estimated demand will exceed the control target established by the Montreal Protocol. However, the CFC consumption to be reported under Article 7 will be consistent with the maximum consumption limits established by the Protocol for Venezuela since the domestic demand will be met from the stockpile. It is expected that the CFC consumption in manufacturing sectors will be phased out by 2007. There will be a remaining demand for virgin CFCs in the refrigeration service sector after 2007. This demand will be reduced with new activities in training, recovery/recycling and retrofitting of refrigeration equipment proposed in the Plan. Venezuela will achieve the 50% reduction target in 2005, the 85% reduction target in 2007 and zero consumption after 2010 in terms of the CFC consumption defined in Article 1 of the Montreal Protocol as Production + Import - Export, which will be reported as per Article 7 of the Protocol.

6. Consolidated information on CFC demand and the proposed CFC reduction schedule is presented in the table below.

Year	2000	2001	2002	2003 estimate	2004	2005	2006	2007	2008	2009	2010
	(in ODP tonnes)										
Montreal Protocol Reduction Schedule	3,322	3,322	3,322	3,322	3,322	1,661	1,661	498	498	498	0
CFC Consumption as Article 7 data	2,706	2,546	1,553	1,410	3,322	1,661	1,661	498	0	0	0
Change in stockpiling	-	248	115	-623	1,239	-172	83	-665	-763	-363	0
Total CFC demand, all sectors	-	2,299	1,438	2,032	2,083	1,833	1,578	1,163	763	363	0
Total reduction by on-going activities, all sectors	-	-	0	36	100	200	0	0	0	0	0
Total reduction by new activities, all sectors	-	-	0	0	0	50	255	415	400	400	363
Total annual reduction, all sectors	-	-	0	36	100	250	255	415	400	400	363
Aerosol sector demand	-	16	16.0	16.0	16.0	16.0	16.0	0.0	0.0	0.0	0.0
reduction by on-going activities	-	-	0.0	0	0	0.0	0.0	0.0	0	0	0
reduction by new activities	-	-	0.0	0	0	0	0.0	16.0	0	0	0
Foam sector demand	-	171	36.0	286.3	186.6	19.1	19.1	0.0	0.0	0.0	0.0
reduction by on-going activities	-	-	0.0	36.4	99.7	167.5	0	0	0	0	0
reduction by new activities	-	-	0.0	0	0	0	0	19.1	0	0	0
Refrigeration sector demand	-	2,112	1,386	1,730	1,880	1,798	1,543	1,163	763	363	0.0
reduction by on-going activities	-	-	0	0	0.0	32.3	0	0	0	0	0
reduction by new activities	-	-	0	0	0.0	50.0	255.0	380.0	400.0	400.0	362.7

7. There is no significant change in the phase-out activities in the present Plan compared to the phase-out plan submitted to the 41st Meeting. The same level of funding is requested for approval at the 42nd Meeting with the following break down:

Project component and activity	Sub total	2003 tranche	2004 tranche	2005 tranche	2006 tranche	2007 tranche
Project management	567,323	-	141,831	141,831	141,831	141,831
Technical support component (including support for the aerosol and refrigeration manufacturing sectors)	416,731	-	366,731	30,000	20,000	0
Foam sector program	201,500	-	201,500	0	0	0
National project for training service technicians	317,900	-	317,900	0	0	0
Supplementary national recovery and recycling project	4,237,100	-	867,100	1,460,000	1,910,000	0
Incentive program for retrofitting and replacement	500,000	-	0	0	0	500,000
TOTAL PROJECT COST	6,240,554	-	1,895,062	1,631,831	2,071,831	641,831
IA Support cost	468,042	-	142,130	122,387	155,387	48,137
Total Grant by MFMP	6,708,596	-	2,37,191	1,754,218	2,227,218	689,968
Business plan 2003 - 2005		1,075,000	968,000	1,613,000	0	0
Sum of requested grant for 2003 - 2005	3,791,409					
Business plan total for 2003 - 2005	3,656,000					

Management component

8. While the Ozone Unit (FONDOIN) is expected to have the overall responsibility for national coordination of the programme, management structures involving agencies and institutions at the national and regional levels are proposed for the management of the implementation of refrigeration sector and for the service sector activities.

SECRETARIAT'S COMMENTS AND RECOMMENDATIONS

COMMENTS

9. A phase-out schedule for the original Plan was agreed with UNIDO and included in the draft agreement presented to the 41st Meeting as part of the Plan. The phase-out schedule has been substantially revised. The estimated domestic demand has been increased, starting from 2003 onward. For example, the estimated CFC demand in 2003 has increased by some 600 ODP tonnes compared to the 2002 demand, despite the on-going difficult economic environment in the country. The estimated CFC demand of 1,833 ODP tonnes in 2005 and 1,163 ODP tonnes in 2007 would be higher than the control limits on consumption established by the Montreal Protocol for Venezuela of 172 ODP tonnes and 665 ODP tonnes respectively (although Article 7 consumption will remain within compliance limits). The total 2003-2010 CFC demand exceeds the previously agreed cumulative CFC consumption by 1,916 ODP tonnes for the same period.

10. Future CFC demand in Venezuela will be influenced by the following factors:
 - (a) The conversion, through investment of some US \$12.5 million by the Fund, of all Venezuela's refrigeration equipment manufacturing capacity to non-CFC technology – thus reducing future CFC demand;
 - (b) The availability of recovery and recycling facilities through the implementation of activities funded at some US \$2.4 million for the refrigeration servicing sector;
 - (c) Economic circumstances.

11. The above factors do not appear consistent with the newly estimated increases in demand in the period 2003-2006 in comparison with 2002 consumption as presented in the revised plan.

12. The project for Venezuela was deferred at the 41st Meeting “with the understanding that Venezuela wished to submit it again at a time when the CFC production sector project was clearly understood” (Decision 41/61). Preparation of the production sector project for Venezuela is on-going. It is indicated in the Plan that the intention may be to cease production by 2008 and that the CFC demand after 2008 will be met entirely from the stockpiles accumulated in the previous years. However, no information has yet been presented to the Executive Committee or to the Secretariat about a proposed production phase-out. The Secretariat requested that UNIDO clarify the issue with the World Bank, which is involved in the preparation of the agreement on the production sector in Venezuela.

13. The Secretariat notes that for the purposes of formulating consumption limits to be included in the revised draft agreement (production plus import minus export), UNIDO has assumed that the production limits that will form part of a future production sector agreement will be equal to Venezuela's maximum entitlement for production under the Protocol (i.e. baseline consumption of 5,265 ODP tonnes prior to 2005 and 2,872 ODP tonnes from 2005 to 2007). The maximum Protocol production entitlement for Venezuela is substantially in excess of both recent actual production levels (1,637 ODP tonnes in 2002) and currently reported domestic demand. If these production levels were incorporated into a consumption sector agreement, there would in practice be little if any requirement to constrain domestic use and what would appear to be an impractical level of stockpiling.

14. Taking the above into account the Secretariat is concerned that it may not be possible to formulate consumption limits for a CFC consumption phase-out agreement until more is known about the likely realistic future production limits, other than the Montreal Protocol maximum entitlement. The Secretariat has raised these concerns with UNIDO and will advise the Executive Committee as to what options may be available to progress the consumption sector phase-out agreement.

15. The impact and the cost-effectiveness of the National Phase-out Plan presented in the project document are based on the estimated CFC consumption in 2003 of 2,032 ODP tonnes. The Secretariat has indicated to UNIDO that these figures are not correct since the incremental cost has been based on the 2002 reported data. The total amount of CFC eligible for funding under the Plan is 1,049 ODP tonnes. The cost-effectiveness is US \$5.94/kg ODP.

16. The issues raised above as well as a revised draft agreement between the Executive Committee and the Government of Venezuela are being discussed with UNIDO. Advice on the outcome of these discussions will be provided prior to the meeting of the Executive Committee as appropriate and taking into account the requirements of Decision 41/80.

RECOMMENDATIONS

17. Pending
