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

Addendum

PROJECT PROPOSAL: VENEZUELA

This document is issued to report on the conclusions of the discussions on the outstanding issues concerning the project proposal: National CFC phase-out plan (first tranche).

- **Add** the following paragraphs 16(bis), 16(ter), 16(quarter) and 16(quinqies) to the comments and 17(bis) to the recommendations.
- **Add** the draft Agreement between Venezuela and the Executive Committee of the Multilateral Fund for the phase-out of ozone depleting substances (Annex I).

16(bis). Subsequently, the Secretariat discussed the estimated national CFC demand in Venezuela for the period 2003-2006 and different scenarios for CFC reduction in Venezuela in light of the factors noted in paragraph 10 above. Following the discussions, UNIDO developed a phase-out scenario based on an estimated level of national domestic demand of 1,650.3 ODP tonnes in 2004, to be used as the starting point and the basis for formulating the reduction schedule in the draft Agreement. Under this scenario, total national demand will progressively diminish until 2010 with residual CFC demand of 110 ODP tonnes in 2010 to be used for the refrigeration servicing tail. In 2007 and 2008, the national domestic demand will exceed the Montreal Protocol CFC reduction target by 267.4 ODP tonnes and 17.4 ODP tonnes respectively, which will be covered by the stockpile accumulated in the preceding years. Venezuela will achieve the 85% reduction target in 2007 and total phase-out in 2008 according to its Article 7 consumption data (production + import – export). The production sector closure project is under discussion between the Government of Venezuela and the World Bank. However, the Government of Venezuela, through UNIDO, has indicated formally that the industry is prepared to offer early closure of production (low production in 2007 and zero production in 2008), and that the phase-out of consumption in the current proposal is consistent with the plans for the production sector. Imports will be banned in 2004.

16(ter). The Secretariat discussed with UNIDO the issue of the annual level of stockpiling which is included for information in the Plan and the draft Agreement. The stockpile varies from 2,335.2 ODP tonnes in 2006 to 949 ODP tonnes in 2010. The Secretariat anticipated that the level of stockpiling would be consistent with the domestic demand of the country, including the servicing tail beyond 2010. The proposed closing balance of stockpile in 2010 is 949 ODP tonnes, which exceeds the potential cumulative demand in 2010 (110 ODP tonnes) and subsequent years for the refrigeration servicing tail. UNIDO explained that the level of stockpile was estimated taking into consideration the volatile nature of the national economy in Venezuela with a perspective to recovery, and that there is a substantial servicing tail in Venezuela the size of which is difficult to determine. UNIDO also advised that:

- The industry has started to introduce production of an alternative refrigerant blend (HCFC based) and if this endeavour succeeds the aggressive marketing of the new product will accelerate conversion of CFC based refrigeration equipment;
- It is expected that with the shrinking demand the market forces will lead to reduction of the stockpiles in view of their high costs, and
- The production sector closure agreement might also influence the level of closing stocks. The actual level of stockpile might however be reduced through a series of measures to be undertaken by the Government, industry and market.

16(quarter). The total level of funding requested by UNIDO is US \$6,240,554 with overall cost-effectiveness of US \$5.96/kg.

16(quinquies). The Secretariat noted that the disbursement schedule in the draft Agreement requires disbursement of all requested resources in 2004 - 2007 while about 48% of the total ODP phase-out is scheduled in last three years 2008 - 2010. Such a disbursement schedule is unusual for national CFC phase-out plans approved so far in which funding is distributed across each year of the project. However, UNIDO indicated that earlier disbursement of resources was needed to enable the agency and the Government of Venezuela to initiate phase-out activities as

early as possible given the significant lead time required for successful implementation of CFC phase-out activities in the refrigeration servicing sector. A draft Agreement with a similar disbursement schedule was presented at the 41st Meeting as part of the proposal related to the National CFC Phase-out Plan in Venezuela.

RECOMMENDATION

17(bis). On the basis of the Secretariat's comments the Executive Committee might consider whether to:

- (a) Approve in principle the national CFC phase-out plan for Venezuela at a total level of funding of US \$6,240,554 plus agency support costs of US \$468,042 for UNIDO, in accordance with the draft Agreement between the Government of Venezuela and the Executive Committee;
- (b) Also approve US \$1,895,062 plus support costs of US \$142,129 for UNIDO for implementation of the first tranche of the national phase-out plan.

Annex I**DRAFT AGREEMENT BETWEEN VENEZUELA AND
THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND
FOR THE PHASE-OUT OF OZONE DEPLETING SUBSTANCES**

1. This Agreement represents the understanding of Venezuela (the “Country”) and the Executive Committee with respect to the complete phase-out of controlled use of the ozone depleting substances set out in Appendix 1-A (the “Substances”) prior to 1 January 2010, in compliance with Protocol schedules.
2. The Country agrees to phase out the controlled use of the Substances in accordance with the annual phase-out targets set out in row 1 of Appendix 2-A and this Agreement. The annual phase-out targets will, at a minimum, correspond to the reduction schedules mandated by the Montreal Protocol. The Country accepts that, by its acceptance of this Agreement and performance by the Executive Committee of its funding obligations described in paragraph 3, it is precluded from applying for or receiving further funding from the Multilateral Fund in respect to the Substances.
3. Subject to compliance with the following paragraphs by the Country with its obligations set out in this Agreement, the Executive Committee agrees in principle to provide the funding set out in row 7 of Appendix 2-A (the “Funding”) to the Country. The Executive Committee will, in principle, provide this funding at the Executive Committee meetings specified in Appendix 3-A (the “Funding Approval Schedule”).
4. The Country will meet the consumption limits for each Substance as indicated in Appendix 2-A. It will also accept independent verification by the relevant Implementing Agency of achievement of these consumption limits as described in paragraph 9 of this Agreement.
5. The Executive Committee will not provide the Funding in accordance with the Funding Disbursement Schedule unless the Country satisfies the following conditions at least 30 days prior to the applicable Executive Committee meeting set out in the Funding Disbursement Schedule:
 - (a) That the Country has met the Target for the applicable year;
 - (b) That the meeting of the Target has been independently verified as described in paragraph 9;
 - (c) That the Country has substantially completed all actions set out in the last Annual Implementation Programme;
 - (d) That the Country has submitted and received endorsement from the Executive Committee for an annual implementation programme in the form of Appendix 4-A (the “Annual Implementation Programmes”) in respect of the year for which funding is being requested.

6. The Country will ensure that it conducts accurate monitoring of its activities under this Agreement. The institutions set out in Appendix 5-A (the “Monitoring”) will monitor and report on that monitoring in accordance with the roles and responsibilities set out in Appendix 5-A. This monitoring will also be subject to independent verification as described in paragraph 9.

7. While the Funding was determined on the basis of estimates of the needs of the Country to carry out its obligations under this Agreement, the Executive Committee agrees that the Country may use the Funding for other purposes that can be demonstrated to facilitate the smoothest possible phase-out, consistent with this Agreement, whether or not that use of funds was contemplated in determining the amount of funding under this Agreement. Any changes in the use of the Funding must, however, be documented in advance in the Country’s Annual Implementation Programme, endorsed by the Executive Committee as described in sub-paragraph 5(d) and be subject to independent verification as described in paragraph 9.

8. Specific attention will be paid to the execution of the activities in the servicing sector, in particular:

- (a) The Country would use the flexibility available under this agreement to address specific needs that might arise during project implementation;
- (b) The recovery and recycling programme for the refrigeration service sector would be implemented in stages so that resources can be diverted to other activities, such as additional training or procurement of service tools, if the proposed results are not achieved, and will be closely monitored in accordance with Appendix 5-A of this agreement.

9. The Country agrees to assume overall responsibility for the management and implementation of this Agreement and of all activities undertaken by it or on its behalf to fulfil the obligations under this Agreement. UNIDO (the “Lead IA”) has agreed to be the lead implementing agency in respect of the Country’s activities under this Agreement. The Lead IA will be responsible for carrying out the activities listed in Appendix 6-A including but not limited to independent verification. The Country also agrees to periodic evaluations, which will be carried out under the monitoring and evaluation work programmes of the Multilateral Fund. The Executive Committee agrees, in principle, to provide the Lead IA with the fees set out in row 8 of Appendix 2-A.

10. Should the Country, for any reason, not meet the Target(s) for the elimination of the Substances in all the Sectors or otherwise does not comply with this Agreement, then the Country agrees that it will not be entitled to the Funding in accordance with the Funding Disbursement Schedule. In the discretion of the Executive Committee, funding will be reinstated according to a revised Funding Disbursement Schedule determined by the Executive Committee after the Country has demonstrated that it has satisfied all of its obligations that were due to be met prior to receipt of the next instalment of Funding under the Funding Disbursement Schedule. The Country acknowledges that the Executive Committee may reduce the amount of the Funding

by the amounts set out in Appendix 7-A in respect of each ODP tonne of the reductions in consumption* not achieved in any one year.

11. The funding components of this Agreement will not be modified on the basis of any future Executive Committee decision that may affect the funding of any other consumption or production sector projects or any other related activities in the Country.

12. The Country will comply with any reasonable request of the Executive Committee and the Lead IA to facilitate implementation of this Agreement. In particular, it will provide access to the Lead IA to information necessary to verify compliance with this Agreement.

13. All of the agreements set out in this Agreement are undertaken solely within the context of the Montreal Protocol and as specified in this Agreement. All terms used in this Agreement have the meaning ascribed to them in the Protocol unless otherwise defined herein.

Appendix 1-A: THE SUBSTANCES

1. The ozone-depleting substances to be phased out under the Agreement are as follows.

Annex A:	Group I	CFC-11, CFC-12, CFC-113, CFC-114 and CFC-115
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Appendix 2-A: THE TARGETS, AND FUNDING

	2004	2005	2006	2007	2008	2009	2010
Montreal Protocol Reduction Schedule (ODP tonnes)	3,322	1,661	1,661	498	498	498	0
1. Max allowable total consumption of CFCs ² (ODP tonnes)	3,262.0	1,661.0	1,661.0	400.0	0.0	0.0	0.0
2. Total demand of CFCs (ODP tones)	1,650.3	1,400.5	1,200.5	765.4	515.4	415.4	110.0 ³
3. Reduction from on-going projects ¹ (ODP tonnes)	36	100	200	0	0	0	0
4. New reduction under plan ⁴ (ODP tonnes)	0	0	50	200	435	250	100
5. Total annual reduction (ODP tonnes)	36	100	250	200	435	250	100
6. Stockpile ⁵ (ODP tonnes)	1,634.2	1,894.7	2,355.2	1,989.8	1,474.4	1,059.0	949.0
7. Lead I.A. agreed funding (US \$)	1,895,062	1,631,831	2,071,831	641,831			
8. Lead I.A. support costs (US \$)	142,129	122,387	155,387	48,137			
9. Total agreed funding (US \$)	2,037,191	1,754,218	2,227,218	689,968			
10. Total agency support costs (US \$)	142,129	122,387	155,387	48,137			

¹ Estimated.

² Article 7 data (production – export + import) constitute the target under this Agreement.

³ Save for essential uses.

⁴ Reduction of the demand for virgin CFCs in all consumption sectors from the estimated CFC total demand.

⁵ For information purposes.

* As measured according to Article 7 of the Protocol.

Appendix 3-A: FUNDING APPROVAL SCHEDULE

1. Funding will be considered for approval at the first meeting of the year of the annual plan.

Appendix 4-A: FORMAT OF ANNUAL IMPLEMENTATION PROGRAMME

1. **Data**

Country

Year of plan

of years completed

of years remaining under the plan

Target ODS consumption of the preceding year

Target ODS consumption of the year of plan

Level of funding requested

Lead implementing agency

Co-operating agency

2. **Targets**

Target:				
Indicators		Preceding Year	Year of Plan	Reduction
Supply of ODS	Import			
	Production*			
	Total (1)			
Demand of ODS	Manufacturing			
	Servicing			
	Stockpiling			
	Total (2)			

* For ODS-producing countries

3. **Industry Action**

Sector	Consumption Preceding Year (1)	Consumption Year of Plan (2)	Reduction within Year of Plan (1)-(2)	Number of Projects Completed	Number of Servicing Related Activities	ODS Phase-out (in ODP tonnes)
Manufacturing						
Aerosol						
Foam						
Refrigeration						
Solvents						
Other						
Total						
Servicing						
Refrigeration						
Total						
GRAND TOTAL						

4. **Technical Assistance**

Proposed Activity: _____

Objective: _____

Target Group: _____

Impact: _____

5. **Government Action**

Policy/Activity Planned	Schedule of Implementation
Policy control on ODS import	
Public awareness	
Others	

6. **Annual Budget**

Activity	Planned Expenditures (US \$)
TOTAL	

7. **Administrative Fees**

Appendix 5-A: MONITORING INSTITUTIONS AND ROLES

1. The National Ozone Unit (FONDOIN) monitors the consumption data of all Substances. Inspections at converted companies are foreseen to ensure the non uses of Substances after project completion. The Licensing System will be a tool to monitor and ensure compliance of control measures.
2. The Government has offered and intends to offer continuity of activities and endorsement for the projects through the institutional support over the next years. This will guarantee the success of any activity approved for Venezuela.
3. After the establishment of the countrywide scheme of refrigerant recovery and recycling, the monitoring activity will be initiated to know whether the project is successfully implemented and the target CFC phase out is achieved.
4. Monitoring activity will be done by:
 - (a) Establishing a system to ensure that every recycling and reclamation centre and substantive size service workshop is encouraged or obliged to report data and give information to the recovery and recycling scheme. This may be enabled through forms to be filled by recycling centres and service workshops;
 - (b) Setting up adequate office facilities including a computer system to collect and analyse the data;
 - (c) Regular communication with the regional environmental and industry departments, customs offices, education and training institutions and industry associations;
 - (d) Occasional visits to service workshops, recycling and reclamation centres.
5. Following information will have to be supplied by the recycling and reclamation centres and substantive size service workshops.

CFC quantity

- Number of appliances subjected to refrigerant recovery and type (commercial, MAC, domestic etc.) of these appliances at every service workshop;
- Amount of recovered CFC refrigerants at every workshop;
- Amount of recovered CFC refrigerants sent to the recycling centres at every workshop;
- Amount of recovered CFC refrigerants stored at every workshop;
- Amount of recovered CFC refrigerants received from service workshops at every recycling centre;

- Amount of recycled/reclaimed CFC refrigerants at recycling/reclaim centres;
- Amount of recycled/reclaimed CFC refrigerants returned (sold) to workshops;
- Amount of recycled/reclaimed CFC refrigerants used in workshops and its application;
- Amount of virgin refrigerant by type consumed in workshops and its application;
- Amount of CFC refrigerants, which can not be recycled and are subject to further treatment (e.g., sent to reclaiming plants, or decomposition plants abroad);
- Other data relevant for monitoring the scheme (amount of imported CFC refrigerants etc.).

Cost information

- Cost of recovery at every service workshop and parties who bear the cost;
- Cost of recycling at every recycling centre and parties who bear the cost;
- Price of recycled CFC refrigerants;
- Cost of reclaiming at every reclamation centre and parties who bear the cost;
- Price of reclaimed CFC refrigerants;
- Other financial information relevant to monitoring the recovery recycling and reclamation scheme.

6. Data and information collected will be analysed to check the adequate operations of the scheme.

7. In the manufacturing sector the implementation process and the achievement of the phase-out will be monitored through site visits at enterprise level.

8. UNIDO will perform regular monitoring, verification and auditing of the implementation of the National Phase-out Plan in line with the established procedures of both the Multilateral Fund and UNIDO.

Appendix 6-A: ROLE OF THE LEAD IMPLEMENTING AGENCY

1. The Lead IA will be responsible for:

- (a) Ensuring performance and financial verification in accordance with this Agreement and with its specific internal procedures and requirements as set out in the Country's phase-out plan;
- (b) Providing verification to the Executive Committee that the Targets have been met and associated annual activities have been completed as indicated in the annual implementation programme;
- (c) Assisting the Country in preparation of the Annual Implementation Programme;
- (d) Ensuring that achievements in previous Annual Implementation Programmes are reflected in future Annual Implementation Programmes;

- (e) Report on the implementation of the Annual Implementation Programme of the preceding year and the Annual Implementation Programme for the year are to be prepared and submitted to the first meeting of the Executive Committee of the year;
- (f) Ensuring that technical reviews undertaken by the Lead IA are carried out by appropriate technical experts;
- (g) Carrying out required supervision missions;
- (h) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the Annual Implementation Programme and accurate data reporting;
- (i) Verification for the Executive Committee that consumption of the Substances has been in accordance with the Target;
- (j) Ensuring that disbursements are made to the Country in a timely and effective manner;
- (k) Providing assistance with policy, management and technical support when required.

Appendix 7-A: REDUCTIONS IN FUNDING FOR FAILURE TO COMPLY

1. In accordance with paragraph 10 of the Agreement, the amount of funding provided may be reduced by US \$11,920 per ODP tonne of reduction in consumption[†] not achieved in the year.

[†] As measured according to Article 7 of the Protocol.