

**United Nations  
Environment  
Programme**Distr.  
LIMITEDUNEP/OzL.Pro/ExCom/44/72  
2 December 2004

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Forty-fourth Meeting  
Prague, 29 November-3 December 2004

**REPORT OF THE SUBGROUP ON PRODUCTION SECTOR**

1. The Executive Committee's subgroup on the production sector met during the 44<sup>th</sup> Meeting of the Executive Committee in November 2004, in Prague and was attended by representatives of Bangladesh, Canada (facilitator), China, Cuba, Japan, Mauritius, United Kingdom and United States of America. Representatives of the World Bank and UNIDO attended as observers. The subgroup considered an agenda which included the proposal for accelerating the phase-out of CFC and halon production in China, the resumed discussion of the proposal for the CFC production phase-out in Venezuela and a request from the Secretariat for a supplementary budget for the technical audit account.

2. The Chief Officer first briefed the meeting on the activities that had taken place since the 43<sup>rd</sup> Meeting in the ODS production phase-out sector. The Secretariat circulated clarifications to members of the subgroup prepared by the consultant for the technical audit on the CFC production in Venezuela regarding parameters he had used in calculating the alternative compensation scenario for the CFC production closure proposal. The Secretariat also distributed at the meeting, additional information on the sensitivity of the fund discount rate on the cost of compensation. The field audit of the methyl bromide producers in China had been completed and the report was being prepared by the consultant. The Chief Officer advised that the report could be cleared by the members of the subgroup intersessionally if so desired and that would enable UNIDO to start preparing the investment at an earlier date. The Secretariat was ready to conclude the contract with the consultant to carry out the technical audit of the ODS production sector in Romania once the account for the technical audit was replenished at this Executive Committee meeting.

3. The subgroup then heard a presentation by the World Bank on the proposal for accelerating the phase-out of the production of CFCs and halons in China. A number of

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comments were made by members of the group, including requests to reflect, in the draft agreement for the accelerated phase-out proposal:

- The need to ban the exports of CFCs and halons from China;
- Legal penalties for illegal production of CFCs and halons, similar to the regime for controlling the illegal trafficking of ivory in China;
- The extension of condition E in the current agreement of the halon sector plan;
- The adequacy of funding to be allocated for capacity building for the accelerated phase-out project, and;
- The need for the World Bank as the lead agency to undertake the verification of the aggregate CFC and halon production and consumption, including the import and export of these substances. The representative of Bangladesh expressed concern over the disruption of supply of CFCs from China and the potential higher cost of imports from alternative sources resulting from the accelerated phase-out of CFC production in China. He advised that the demand of the country would be as follows:

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Total</b>
	(in MT)				
CFC	85	75	50	0	210
CTC	5	5	5	0	15
YCA	7	7	7	4	25

4. The Subgroup later received the revised agreement which addressed the concerns expressed by its members and decided to approve the proposal for the accelerated phase-out of the CFC production and halon 1301 in China. The activities and funding of the capacity building under the project would be further considered in the process of implementation.

5. The subgroup then heard a presentation from the representative of Venezuela on the additional information they had distributed to the subgroup including different cost scenarios based on different CFC production baselines. The group then reviewed the different compensation scenarios which were constructed using various baselines, discount rates, and CFC prices. The subgroup finally agreed on the level of the compensation, which included a premium for encouraging the country to accelerate the phase-out of CFC production to 2007.

6. The subgroup also reviewed the request of the Secretariat for supplementing the budget for the account of the technical audit and agreed to replenish the account by the amount requested by the Secretariat.

7. The Subgroup recommended that the Executive Committee may wish to:

- (a) Approve in principle the Agreement for the accelerated phase-out of CFC and halon 1301 production in China (attached) at a funding level of US \$10 million

and the associated cost of US \$750,000 for implementation by the United States of America;

- (b) Approve the first tranche of US \$5 million and the associated support cost of US \$375,000 at this meeting, and credit US \$5 million plus agency support cost of US \$375,000 against the 2004 bilateral contribution of the United States of America;
- (c) Approve in principle the Agreement for the Venezuela production sector (attached) at a total funding level of US \$16.5 million for implementation by the World Bank and the first tranche of US \$3.3 million and the associated agency support cost of US \$251,000;
- (d) Approve US \$60,000 to supplement the Secretariat's account for the technical audit.



**AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE  
EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND  
FOR THE CFCS/CTC/HALON ACCELERATED PHASE-OUT PLAN IN CHINA**

1. This Agreement represents the understanding of The Peoples Republic of China (the "Country") and the Executive Committee with respect to the Accelerated Phase-out Plan (APP) of production and controlled use of ozone depleting substances in the sectors set out in Appendix 1-A (the "Substances") by July 1, 2007 for CFC production and consumption and by January 1, 2010 for Halon 1301, in compliance with Protocol schedules. This Agreement supplements the Agreements between the Executive Committee and China entered into (1) at the 23<sup>rd</sup> Meeting for phase-out of Halon in Halon sector, (2) at the 27th Meeting for the phase-out of CFC production in China, and (3) at the 35th Meeting for the phase-out of CFCs in the polyurethane foam sector in China.
2. The Country agrees to phase-out the production and the controlled use of the Substances in accordance with the annual phase-out targets set out in row 1 to 9 of Table 1 in Appendix 2-A (the "Targets") of this Agreement. The other conditions in the existing agreements on phase-out of the Substances for the different sector plans in China will not be changed with one exception for the Halon Sector Plan<sup>1</sup>, and sector annual programs will be prepared. 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 production and controlled use of phase-out of CFCs and Halon-1301.
3. Subject to compliance 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 2,3,5,6,7,8,9, and 10 of Table 2 in 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 production limits for each Substance as indicated in row 1,5 and 7 and consumption limits as indicated in row 2,3,6 and 8 in Appendix 2-A. It will also accept independent verification by the relevant Implementing Agency of achievement of these production limits as described in paragraph 8 of this Agreement.

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<sup>1</sup> Condition E "China also agrees that, after full conversion, that at least 3.59 million extinguishers produced in China will, in 2005, be either CO2 extinguishers or extinguishers using a technology that is at least as expensive. If that is not the case, funding will be requested to be refunded based on a rate of US \$3.08 per unit shortfall of CO2 or equivalent fire extinguishers. " in the general conditions of the Halon Agreement at the 23<sup>rd</sup> ExCom Meeting will be waived. Instead, in case of any shortfall, the equivalent amount of this refund will remain in China for capacity building to help China to comply with the Montreal Protocol commitments for activities in the China Convention Compliance Center.

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 these Targets has been independently verified as described in paragraph 8;
- (c) that the Country has substantially completed all actions set out in the last Annual Implementation Programme; and
- (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 8.

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 have the flexibility to reallocate the approved funds, or part of the funds according to the evolving circumstances to achieve the goals prescribed under this Agreement. Reallocations which are considered as major changes should be accounted for in the verification report and reviewed by the Executive Committee.

8. 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 fulfill the obligations under this Agreement. The Country also agrees to establish policies and enforcement mechanisms to control illegal ODS related activities as set out in Appendix 9-A. The World Bank (the “Lead IA”) has agreed to be the 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 programme of the Multilateral Fund. The Executive Committee agrees, in principle, to provide the Lead IA with the fees set out in rows 3, 6, 8 and 10 of Table 2 in Appendix 2-A.

9. Should the Country, for any reason, not meet the Targets for the elimination of the Substance 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 installment 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 reductions in production or/and consumption not achieved in any one year.

10. 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 production sector projects or any other related activities in the Country.

11. 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 by the Lead IA to information necessary to verify compliance with this Agreement.

12. 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 common names of the ODS to be phased out under the Agreement will be listed here.

Annex A:	Group I	CFC-11, CFC-12, CFC-113, CFC-114, CFC-115
Annex A	Group II	Halon 1301
Annex B	Group I	CFC-13
Annex B	Group II	CTC

### Appendix 2-A. The targets, and funding

**Table 1: ODS Phase-out Targets**

(ODP tones)	Baseline	2004	2005	2006	2007	2008	2009	2010
<b>CFCs<sup>1</sup></b>								
Montreal Protocol Reduction Schedule (Production)	47,004	47,004	23,502	23,502	7,050.6	7,050.6	7,050.6	0 <sup>2</sup>
Montreal Protocol Reduction Schedule (Consumption)	57,819	57,819	28,910	28,910	8,673	8,673	8,673	0 <sup>2</sup>
1. Max allowable CFCs production		25,300	18,750	13,500	7,400 <sup>3</sup>	550	550	0 <sup>2</sup>
2. Max allowable CFCs total consumption		25,300	18,750	13,500	7,400	550	550	0 <sup>2</sup>
3. Max allowable CFC-11 consumption limit in PU Foam Sector		10,500	9,000	7,000	400	0		
4. Max. allowable net CFC exports <sup>4</sup>		NL <sup>5</sup>	NL <sup>5</sup>	400	200	100	50	0
<b>CTC</b>								
Montreal Protocol Reduction Schedule (Production)	29,367.4		4,405	4,405	4,405	4,405	4,405	0
Montreal Protocol Reduction Schedule (Consumption)	55,903		8,385	8,385	8,385	8,385	8,385	0
5. Max allowable sum of production and imports of CTC <sup>6</sup>		54,857	38,686	32,044	22,724	12,768	13,415	12,217 <sup>7</sup>
6. Max allowable CTC as CFC feedstock		39,306	28,446	21,276	11,396	847 <sup>8</sup>	847 <sup>8</sup>	0 <sup>9</sup>
<b>Halon</b>								
Montreal Protocol Reduction Schedule (Production)	40,993	40,993	20,497	20,497	20,497	20,497	20,497	0
Montreal Protocol Reduction Schedule (Consumption)	34,187	34,187	17,094	17,094	17,094	17,094	17,094	0
7. Max allowable Halon 1301 production		2000	2000	1000	1000	1000	1000	0
8. Max allowable Halon 1301 consumption and export <sup>10</sup>		1500	1500	1000	1000	1000	1000	0
9. Max. allowable net halon 1301 export		NL <sup>5</sup>	NL <sup>5</sup>	20	20	10	10	0

Note:

1. CFCs include Annex A Group I and Annex B Group I.
2. Except for essential uses as agreed by the Parties.



3. Production based on the MP plus 10% allowed for basic domestic needs.
4. Net exports defined as exports-imports
5. Not limited (NL): No limits on export/import of CFCs
6. Not including CTC production for non-ODS feedstock.
7. 12,217 equals 11,997 (Row 2) plus 220 (Row 4) in the existing agreement for CTC/PA phaseout (Phase I).
8. Estimated CTC production (770 MT) used as CFC production (550 MT CFCs) to meet MDI consumption. In case of import of MDI quality CFC, the national production of CFC and CTC will reduced accordingly to ensure that the national consumption for CFC and CTC stay within the agreed consumption levels.
9. Not including CTC as CFC feedstock for CFC production for essential use
10. For consistency with the Halon 1301 production phaseout, China will limit use of Halon 1301 to military and essential use (to be approved by the Parties) and limit export Halon 1301 to Article 5 countries as given in the table below (include essential uses).

**Table 2: Multilateral Fund Support (in US\$ thousands)**

	2004	2005	2006	2007	2008	2009	2010
<b>CFC production sector</b>							
1. Total annual funding in the existing agreement for CFC production phaseout	13,000	13,000	13,000	13,000	13,000	13,000	-
2. Total adjusted annual funding for the APP	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>	<b>24,000</b>	<b>7,500</b>	<b>7,500</b>	-
3. Program support cost (7.5%)	975.00	975.00	975.00	1.800	562.5	562.5	-
<b>Foam sector</b>							
4. Total annual funding in the existing agreement for the PU foam sector	10,903	10,903	3,320	2,676	1,767	1,767	-
5. Total adjusted annual funding for the APP	<b>10,903</b>	<b>10,903</b>	<b>3,320</b>	<b>2,676</b>	<b>1,767</b>	<b>1,767</b>	-
6. Program support cost as per the existing agreement for the foam sector plan	961.27	961.27	282.80	240.84	159.03	159.03	-
7. Agreed new funding for the APP <sup>1</sup>	<b>5,000</b>	<b>5,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	-
8. Agreed program support cost for the APP (7.5%)	375.00	375.00	0	0	0	0	-
<b>9. Total agreed funding</b>	<b>28,903</b>	<b>28,903</b>	<b>16,320</b>	<b>26,676</b>	<b>9,267</b>	<b>9,267</b>	-
<b>10. Total agreed support cost</b>	<b>2,311.27</b>	<b>2,311.27</b>	<b>1,257.80</b>	<b>2,040.84</b>	<b>721.53</b>	<b>721.53</b>	-

1. This finding request includes only compensation for early phase-out of CFC and Halon 1301, and some capacity building activities. It excludes fund request for early phase-out of CTC which would be requested separately in the CTC/PA II sector plan which is under preparation.

### Appendix 3-A. Funding approval schedule

1. Funding will be considered for approval at the first meeting of the calendar year of the Annual Implementation Programme.

### Appendix 4-A. Format of Annual Implementation Programme

#### 1. Data

	Country	
	Year of plan	
	# of years completed	
	# of years remaining under the plan	
	Target CFC/CTC/Halon 1301 production of the preceding year	
	Target CFC/CTC/Halon 1301 production of the year of plan	
	Target CFC-11 consumption of the preceding year in the foam sector	
	Target CFC-11 consumption of the year of plan in the foam sector	
	Level of funding requested	
	Lead implementing agency	

#### 2. Targets

Indicators		Preceding year	Year of plan	Reduction
Supply of ODS	Production (CFCs/CTC/Halon 1301)			
	Import (CFCs/CTC)			
	<b>Total (1)</b> (CFCs/CTC/Halon 1301)			
Demand of ODS	Foam (CFC-11)			
	CFC feedstock (CTC)			
	Halon 1301			
	<b>Total (2)</b> (CFCs/CTC/Halon 1301)			

#### 3. Industry Action

Sector	Production preceding year (1)	Production year of plan (2)	Reduction within year of plan (1)-(2)	Number of projects completed	ODS phase-out (in ODP tonnes)
CFCs					
CTC					
Halon 1301					
Total					

Sector	Consumption preceding year (1)	Consumption year of plan (2)	Reduction within year of plan (1)-(2)	Number of projects completed	ODS phase-out (in ODP tonnes)
Foam					
Total					

**4. Technical Assistance**

Proposed Activity: \_\_\_\_\_  
 Objective: \_\_\_\_\_  
 Target Group: \_\_\_\_\_  
 Impact: \_\_\_\_\_

**5. Government Action**

Policy activity planned	Schedule of implementation
Policy control on ODS production, consumption, import and export	
Public awareness	
Others	

**6. Annual Budget**

Activity	Planned expenditures (US \$)
Total	

**Appendix 5-A. Monitoring institutions and roles**

1. The Government of China agrees to ensure accurate monitoring of the ODS phase-out under this Agreement. The ODS production and consumption figures provided under this agreement will be consistent with China’s reports to the Ozone Secretariat under Article 7 of the Montreal Protocol. The Government of China also agrees to allow independent verification conducted by the World Bank, and in addition, external evaluation as may be directed by the Executive Committee, to verify that annual ODS production levels correspond to those agreed. Verification of CFC-11 consumption in the foam sector will be done according to the existing agreement for the PU foam sector.

2. Since the implementation of this CFC/Halon Accelerated Phase-out Plan consists of the implementation of originally independent phase-out plans of (1) CFC production, (2) CFC consumption in the PU foam sector, and (3) CTC and PA (Phase I), a consolidated reporting of all those plans (see the table as below) is required. Under this CFC/Halon Accelerated Phase-out Plan, the World Bank as lead agency will facilitate a Executive Summary each year on implementation status of the APP and all sector plans active in the year covered by the verification. The list below shows ongoing sector plans with verification obligations.

<b>Sector Plans in China</b>	<b>Implementing Agency</b>
1. Halon Sector Plan	The World Bank
2. CFC Production Sector Plan	The World Bank
3. Foam Sector Plan (CFC-11)	The World Bank
4. Tobacco Sector Plan (CFC-11)	UNIDO
5. Solvent Sector Plan (CFC-113, CTC and TCA)	UNDP
6. CTC and PA Sector Plan (phase I) (CTC and CFC-113)	The World Bank
7. TCA Sector Plan	The World Bank
8. Refrigeration Servicing Sector Plan ( CFC)	UNIDO
9. CTC and PA Sector Plan (phase II) (under preparation)	The World Bank
10. Pharmaceutical Aerosol Sector Plan (under preparation)	The World Bank
11. MDI Sector Plan (preparation to start)	UNIDO

3. In addition to monitoring of the implementation through the responsible agencies as well as the lead agency, the Project Management Office (PMO) affiliated to the China State Environmental Protection Administration (SEPA) as well as other state governments will monitor implementation, being supervised by the China Leading Group of Ozone Layer Protection.

4. The implementation part of the Executive Summary Report to be submitted to the Executive Committee will provide an overall assessment of the ODS production and consumption for the year concerned, using the definition of the Montreal Protocol on production and consumption. This should be based on verification results from cooperating implementing agencies who implement sector plans and should include the verified import and export data on the relevant controlled substances. The release of funding under the existing ODS Phase-out Plans will be subject to the acceptance of the annual implementation programmes of each individual sector plan as part of the consolidated Executive Summary Report.

#### **Appendix 6-A. Role of the lead implementing agency**

1. The Lead IA will be responsible for a range of activities to be specified in the project document along the lines of the following:

- (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 implementation programme
- (c) Assisting the Country in preparation of the Implementation Programme;
- (d) Ensuring that achievements in previous Implementation Programmes are reflected in future Implementation Programme;

- (e) A report on the implementation of the Annual Implementation Programme of the preceding year using the Montreal Protocol definition on production and consumption and the Annual Implementation Programme for the year is to be prepared and submitted to the first meeting of the Executive Committee in each year;
- (f) Ensuring that technical reviews undertaken by the Lead IA are carried out by appropriate independent technical experts;
- (g) Carrying out required supervision missions;
- (h) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the Implementation Programme and accurate data reporting;
- (i) Verification for the Executive Committee that production of the Substances has been eliminated in accordance with the Targets;
- (j) Coordinate the activities of the Coordinating IAs, if any;
- (k) Ensuring that disbursements made to the Country are based on the use of the Indicators; and
- (l) 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 9 of the Agreement, the amount of funding provided may be reduced according to the penalty stipulations in the existing agreements for ODS phase-out in the CFC production, PU foam sector, the Halon sectors.

### Appendix 8-Existing Agreements between China and the Executive Committee of the Multilateral Fund on the phase-out of ODS production and consumption

(ODP tonnes)	Baseline	2004	2005	2006	2007	2008	2009	2010
<b>CFCs</b>								
CFCs Production	47,004	25,300	18,750	13,500	9,600	7,400	3,200	0 <sup>1</sup>
Annual national CFC-11 consumption limit in the agreement for the FSP)		13,100	10,400	7,700	4,130	3,800	300	0
Annual CFC-11 consumption limit in PU foam sector as per the agreement for the Foam Sector Plan		11,666	9,646	7,164	3,821	3,553	102	0
CFC-11 consumption limit as per the agreement for the Tobacco sector		500	300	150	0			
CFC-113 consumption control targets as per the agreement for the solvent sector		1,100	500	0 <sup>2</sup>				
CFCs consumption limits in I&C refrigeration Sector for manufacturing				0 <sup>3</sup>				
CFCs consumption limits in domestic refrigeration sector for manufacturing					0 <sup>3</sup>			
Max allowable CFC-113 consumption as per the agreement for the PA sector	17.2	14	14	10.8	8.4	0		
Max allowable CFCs consumption in the servicing sector		5,083	4,572	3,790	2,997	2,317	1,786	1,181
<b>CTC</b>								
Max allowable sum of production and net imports as per the agreement for the PA/CTC Sector Plan for CTC <sup>4</sup>	55,903.8	54,857	38,686	32,044	26,457	23,583	17,592	11,990
Max allowable consumption in the 25 PA Applications as per the agreement for the PA/CTC Sector Plan (Phase I)	3,825	5,049	493	493	493	493	493	220
CTC used as feedstock for CFC production as per the agreement for the PA/CTC Sector Plan (Phase I)	N/A	39,306	28,446	21,276	15,129	11,662	5,042	0 <sup>5</sup>
CTC consumption control targets in solvent sector as per the agreement for the Solvent Sector Plan		0 <sup>2</sup>						
<b>Halons</b>								
Halon 1301 Production	40,993	6,000	6,000	1,500	1,500	1,500	1,500	0
Halon 1301 Consumption	/34,187	1,500	1,500	1,000	1,000	1,000	1,000	0
Halon 1211 Production	(production/consumption)	5,970	5,970	0				
Halon 1211 Consumption		5,670	5,670	0				

1. Save for any CFC production that may be agreed by the Parties to meet essential uses for China.
2. Save for any CFC-113 consumption or CTC solvent consumption that may be agreed by the Parties to be essential for China after 2010.
3. Not including CFC consumption in servicing sector.
4. Including CTC production for CFC production and ODS feedstock applications but does not include CTC production for non-ODS feedstock.
5. Excluding CTC as CFC feedstock for CFC production for essential uses.

**Appendix 9-A. Enforcement and penalties related to illegal production, trade and export in CFCs and Halons:**

<b>Year of effectiveness</b>	<b>Actions</b>
Jan, 2005	<ol style="list-style-type: none"> <li>1. China will continue on-site monitoring of the production of CFC until 2010 as currently implemented under the CFC production sector plan.</li> <li>2. China will strengthen monitoring of the halon 1301 production and sales by quarterly on site review of production and sales records until 2010.</li> </ol>
Dec. 2008	<ol style="list-style-type: none"> <li>1. Issuance of a new regulation by the State Council, for a penalty system which constitutes a significant penalty, e.g. confiscation of any sales value in any illegal ODS production activity and a penalty several times of its sales value.</li> </ol>
Dec. 2009	<ol style="list-style-type: none"> <li>1. Update the Air Pollution Prevention and Control Law with the same level of financial penalties as in the regulatory system mentioned above with addition of prison terms for illegal ODS related activities.</li> </ol>





## DRAFT AGREEMENT FOR THE VENEZUELA PRODUCTION SECTOR

1. The Executive Committee at its 44<sup>th</sup> meeting decided to approve in principle a total of US \$16.5 million in funding for the phased reduction and closure of the entire CFC production in Venezuela.
2. This is the total funding that would be available to Venezuela from the Multilateral Fund for the total permanent closure of the production of Group I Annex A and Group I Annex B CFCs.
3. The agreed level of funding would be disbursed in installments in the exact amounts specified in Table 1, and on the basis of the following understanding:
  - a. By this approval, Venezuela agrees that in exchange for the funding level specified in table 1, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the allowable production in the same table:

**Table 1**

Year	2004	2005	2006	2007	2008	TOTAL
Max. annual allowable production (MT)	4,400	2,913	2,913	0	0	10,226
TOTAL MLF grant (US\$ million)	3.30	8.1	1.75	2.3	1.05	16.50
PRODUVEN (*)	3.2	8	1.65	2.2	1	16.05
TA (FONDOIN)	0.1	0.1	0.1	0.1	0.05	0.45
Agency fees	0.251	0.607	0.131	0.249	0.079	1.317

(\*) Labor compensation will be done according requirements by Venezuelan laws, and will be absorbed by PRODUVEN

The Executive Committee has also agreed in principle that it will provide funds on the basis of annual programs submitted in accordance with the schedule indicated above. The funds are to be approved at the first meeting each year, upon the submission by the World Bank and acceptance by the Executive Committee of the verification of the reduction target in the preceding year specified in Table 1, with the exception of the first tranche, which will be released upon approval of this Agreement.

- b. Venezuela agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. Venezuela also agrees to independent technical audits administered by the implementing agency, and in addition, as

directed by the Executive Committee to verify annual CFC production levels agreed in Table 1 and plant dismantling / retrofitting or destruction.

c. The Executive Committee wishes to provide Venezuela with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in para.1. Accordingly, while Venezuela's country program, sector strategy or other ancillary production related documentation discussed during the preparation of this agreement may have included estimates of specific funds that were thought to be needed for specific items, the Executive Committee is of the understanding that during implementation, as long as it is consistent with this agreement and the mode of implementation included in the Venezuela project proposal, the funds provided to Venezuela pursuant to this agreement may be used in any manner that Venezuela believes will achieve the smoothest possible CFC production phase out.

d. Venezuela agrees that the funds being agreed in principle by the Executive Committee at its Forty Fourth Meeting for complete closure of its CFC production, is the total funding that will be available to it to enable its full compliance with the CFC production phase out requirements of the Montreal Protocol, and that no additional Multilateral Fund resources will be forthcoming for related activities including the development of infrastructure for the production of alternatives, the import of alternatives, or the eventual closure of any HCFC facilities that use existing CFC infrastructure. It is also understood that aside from the agency fee referred to in paragraph g below and reflected in table 1, Venezuela and the Multilateral Fund and its Implementing Agencies and bilateral donors will neither provide nor request further Multilateral Fund related funding for the accomplishment of the total phase out of CFC production in accordance with the schedule noted above and the terms of the strategy being approved. This includes but is not limited to funding for employee compensation and all technical assistance including training.

e. Venezuela understands that if the Executive Committee meets its obligations under this agreement, but Venezuela does not meet the reduction requirements outlined in paragraph a., and the other requirements outlined in this document, the implementing agency and Multilateral Fund will withhold funding for each tranche of funding outlined in table 1 until the required reduction has been met. In addition, Venezuela understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the CFC production closure on the basis of US \$1,000 per ODP tonne of reductions not achieved in any year of this agreement. It is clearly understood that the fulfillment of this agreement depends on satisfactory performance of its obligations by both Venezuela and the Executive Committee.

f. The World Bank has agreed to be the implementing agency for this project. The fee for the project will be at a fee of 7.5% of project costs, distributed during that time period. As the implementing agency during that time period, the World Bank agrees to be responsible for:

1. Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met;
2. Ensuring that technical reviews undertaken by World Bank are undertaken by the appropriate independent technical experts such as the OORG;

3. Assisting Venezuela in the development of its annual work program which incorporates achievements in previous annual programs;
  4. Carrying out supervision missions as required;
  5. Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the program and accurate, verified reporting of data;
  6. Incorporating its work into the existing agreement between Venezuela and the Bank;
  7. Ensuring that disbursements are made to Venezuela based on agreed performance targets in the project, and the provisions of this agreement;
  8. Independently verifying for the Executive Committee that any dismantling / retrofitting of CFC production lines is done appropriately by ensuring that the reactor, distillation towers, receiver tanks for finished products, and control and monitoring equipment are dismantled / retrofitted and rendered unusable for future CFC production, and are disposed of.
- g. The funding components of this Agreement shall not be modified on the basis of future Executive Committee decisions that may affect the funding of the CFC production sector or any related activity.
- h. 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 Montreal Protocol unless otherwise defined herein.