



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/54/49
7 March 2008

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fourth Meeting
Montreal, 7-11 April 2008

PROJECT PROPOSAL: VENEZUELA

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

Production

- National CFC production closure plan (fifth tranche) World Bank

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VERIFICATION OF 2007 CFC PRODUCTION IN VENEZUELA AND THE 2008 ANNUAL IMPLEMENTATION PROGRAMME

Introduction

1. The Executive Committee at its 44th Meeting in 2004 approved in principle a total of US \$16.5 million for the implementation of the Agreement for the Venezuela CFC production Sector, and disbursed the first tranche of US \$3.3 million to the project. Subsequently the Executive Committee further approved the 2005, 2006 and 2007 annual work programmes which brought the total disbursement to US \$15.45 million as at the end of 2007. By the end of 2006, Produven, the sole CFC producer in Venezuela terminated its CFC production and refitted its facility for the production of HCFC-22. The main elements of the Agreement are presented in Table 1.

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	0.2475	0.6075	0.1312	0.1725	0.0787	1.2375

(*) Labour compensation will be paid according to the requirements of the Venezuelan laws, and will be absorbed by PRODUVEN.

2. The World Bank is submitting to this Meeting, on behalf of the Government of Venezuela, the request for the release of the 2008 tranche of US \$1.05 million and the associated support cost of US \$78,700. In accordance with the terms of the Agreement, which requires an independent verification of the achievement of the target in 2007, the World Bank has provided a report on the verification of the CFC production at Produven in 2007 to confirm the sustained closure of CFC production at the plant. The World Bank's submission also includes a proposed 2008 annual work programme. The verification report of the 2007 CFC production and the 2008 work programme are not attached but could be made available upon request.

Verification of the 2007 CFC production at Produven

3. The verification was carried out in February 2008 by Mr. Juan Reinhart, a technical consultant who had some experience related to CFC production.

4. The auditor used the recommendations from the previous year's verification conducted by Mr. Vogelsberg to ensure that the recommended actions had been implemented to permanently close down the CFC production. Specifically the auditor checked the access of the plant to CTC, the key feedstock for CFC production, the dismantling of the CFC production related equipment, the consumption of HF, the common raw material for the production of CFC and HCFC-22 and the balance of the remaining inventory of CFCs and CTC from the level at the end of 2006.

5. The verification confirmed that there was no importation of CTC in 2007 by checking the inventory and the certification from the Government that there was no request from the plant in 2007 for the import of CTC. There was no CTC production locally and CTC imports required a

license from the Government. There was a request from the plant for exporting the remaining inventory of 127 mt of CTC, but the plant had not found an importer yet. As a result there was still an inventory of 127 mt of CTC at the plant. To confirm that the HF consumption only went for the production of HCFC-22, the auditor examined the records of the production of HCFC-22 and the ratio of HCFC-22 to HF consumption and found the ratio was within industry norms. The auditor also looked at the consumption of chloroform and the consumption ratio of chloroform to HCFC-22 production to reconfirm the level of HCFC-22 production. The auditor examined the financial and operational books and found that there was no production of CFCs in 2007.

6. The auditor examined the sales invoices and the value added tax books to determine the sale of CFC-11 and CFC-12 in 2007. After the sales that took place in 2007, the remaining CFC inventory at the plant stood at 697.1 mt of which 1.4 mt was CFC-11.

7. The auditor certified that some of the equipment such as a decanter, pumps and some piping had been dismantled while most of the equipment in the plant had been retained and refitted for the production of HCFC-22, since the plant was designed as a swing operation for producing both CFCs and HCFC-22.

8. There are a number of annexes to the verification report. Among them are: Annex I containing the details and rationale for the steps taken in closing down the CFC plant; Annex II is the presentation of the plant closure data in the format approved by the Executive Committee; Annex III contains the photos showing the pieces of equipment that were dismantled or refitted; and Annex IV includes data by month on the consumption of HF and chloroform, the production of HCFC-22 and the HF/HCFC-22 and chloroform/HCFC-22 ratio.

9. The results of the verification showed that Produven did not produce any CFCs in the year 2007 and only produced HCFC-22.

The proposed 2008 work programme

10. The proposed 2008 work programme focuses on monitoring and sustaining the permanent cessation of CFC production at the plant. This will be achieved through the continuation of the policy on the control on the import of CTC, and the verification of the CFC plant as has been done so far to ensure the permanent cessation of the CFC production in 2008-2009.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

11. The verification provides evidence and assurance that there was no CFC production in 2007 and that dismantling of some equipment took place. The plant only produced HCFC-22 in that year.

12. However it is important to note that the only assurance that the swing plant will not revert to CFC production is to deny the plant access to CTC, the key feedstock for CFC production.

Therefore it is vital that the Government continues to implement the existing licensing control over the import of CTC in a diligent manner. It is expected that the World Bank will continue to implement the verification of the sustained CFC production closure and report to the Executive Committee in 2009.

RECOMMENDATIONS

13. The Secretariat recommends that the Executive Committee:
 - (a) Takes note of the verification report of the CFC production at Produven in Venezuela for the year 2007;
 - (b) Approves the 2008 funding tranche at US \$1.05 million and the support costs at US \$78,700 for the World Bank; and
 - (c) Requests the World Bank to continue the verification of the Produven facility in 2009 to ensure the permanent closure of the CFC production capacity at the plant.
