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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fifth Meeting
Bangkok, 14-18 July 2008

**REPORT ON IMPLEMENTATION OF APPROVED PROJECTS WITH SPECIFIC
REPORTING REQUIREMENTS**

Introduction

1. The Secretariat has received two submissions, where specific reporting was required for consideration by the Executive Committee:

- (a) China: Verification of CFC imports and exports for the year 2007 (World Bank)
- (b) Democratic People's Republic of Korea: Plan for terminal phase-out of CTC (UNIDO)

China: Verification of CFC imports and exports for the year 2007 (World Bank)

Project description

2. As part of the obligation assumed under the Agreement between China and the Executive Committee for the CFCs/CTC/Halon accelerated phase-out plan, China is committed to limiting its CFC net export to no more than 200 ODP tonnes in 2007. To confirm that, the World Bank engaged a consultant to verify the import and export of CFCs in China and has submitted the results to the 55th Meeting.

3. The verification was carried out by a local consultant as part of the CFC verification team. The auditor took the following steps in conducting the verification:

- (a) To collect and review the records of issued quota approval documents for export of CFCs in 2007 generated from the database of ODS Import and Export Management Office (IEMO) (an intergovernmental body with participation from Ministry of Environment Protection (MEP), Ministry of Commerce and the General Administration of Customs);
- (b) To visit the six CFC producers, the only authorized CFC exporters with effect from 2006 and review the export information collected on the amount of export, the country of destination and the export date recorded in the custom declaration documents for each export transaction within the year 2007;
- (c) To summarize the amount of export by each CFC producer recorded in the corresponding custom declaration and check with the financial accounting record of the producer; and
- (d) Compare the export information collected from all customs declaration documents with the information from the database of the Ministry of Commerce as well as the General Administration of Customs. The comparison of data from different sources showed that data from the customs declaration documents were the most complete and reliable and as a result adopted as the basis for the verification.

4. The findings of the auditor are presented with data both from the IEMO and Customs as follows:

Data Source	National CFC Export	CFC Export for MDI Uses*	CFC Export for Feedstock Uses**	National CFC Import	National CFC Net Export
IEMO	556.179	319	200	0	37.179
Custom Declaration	525.989	306	200	0	19.989

* In accordance with the decision of Executive Committee, the exports to non-Article 5 countries for MDI uses are to be exempted from the national net CFC exports.

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5. The auditor concluded that the national CFC net export in 2007 was 19.989 ODP tonnes that is 180.011 ODP tonnes lower than the maximum allowable net CFC exports of 200 ODP tonnes as specified in "Agreement between China and the Executive Committee of the Multilateral Fund for the CFCs/CTC/Halon Accelerated Phase-out Plan in China". Approximately 500 ODP tonnes of CFCs were exported to non-Article 5 countries either for MDI production or process agent use, and these sales were supported by documents from the importing countries for the intended uses. The attachments to the report include a list of all the export transactions, with data on quota approval number, name of the exporter, export amount approved, country of destination, amount actual exported, date of export, and total actual amount export to a country of destination.

Secretariat's comments

6. By undertaking the verification of the CFC imports and exports in China in 2007, China and the World Bank have fulfilled one of the obligations under the accelerated CFC phase out plan. The verification was done with collection of data from various sources for the purpose of validation, and the results show that the Government has a functioning license control system over its CFC imports and exports and the actual imports in 2007 stayed below the limit set in the accelerated phase out plan.

Secretariat's recommendation

7. The Secretariat recommends that the Executive Committee takes note with appreciation the verification of China's CFC import/export in 2007 submitted by the World Bank.

Democratic People's Republic of Korea: Plan for terminal phase-out of CTC (UNIDO)

8. The 52nd Meeting of the Executive Committee, in its decision 52/40, had requested UNIDO to provide a status report on the progress achieved with the activities at the 2.8 Vinalon Factory Complex and the Sinuiju Chemical Fibre Complex to the 54th Meeting. This report was provided with some delay, in parallel with a tranche request to the 55th Meeting (document UNEP/OzL.Pro/ExCom/55/29).

Progress report

9. The Secretariat reviewed the progress report, submitted by UNIDO, in light of the original project proposals, ODS data reported by the Governments concerned under Article 7 of the Montreal Protocol, and relevant decisions taken by the Executive Committee and the Meeting of the Parties.

10. Some essential parts of the equipment to be delivered under this plan, specifically glass lined reactors, which were manufactured in China by a local company, were deemed by the Chinese authorities to fall under the dual-use restrictions of the International Chemical Weapons Convention, to which D.P.R. Korea has not yet adhered, and so were detained at the Chinese port of Dalian early in 2006. Between March and April 2006 the Chinese Ministry of Commerce again requested from the equipment supplier and UNIDO detailed information on the equipment, for both projects together with a statement that the projects will not infringe the Chemical Weapons Convention. After submission of the requested documents (2 Notes Verbale), the Chinese Ministry of Commerce rejected the issuance of the export permit for the glass lined reactors for D.P.R. Korea. A further delay in shipment of these specific reactors has been resulted in UN Security Council Resolution 1718 (October 2006) coming into affect which, *inter alia*, prohibits export of such equipment to DPR-Korea, since these are considered to fall within the category of equipment with dual-purpose capabilities.

11. UNIDO informed the Secretariat that "during 2007, UNIDO's bureau in China repeatedly sent reminders to the Ministry of Commerce of the People's Republic of China but without response. Finally UNIDO's bureau in China learned in March 2008 that the request was under consideration and was expected to remain so for an indeterminate period of time. The glass-lined reactors could be exported anywhere but not to D.P.R. Korea."

12. UNIDO investigated a number of options to resolve the issue:

- (a) The replacement of glass-lined by stainless steel reactors has been considered, but appeared not to be practical due to the highly corrosive conditions. The option to produce another product with similar characteristics, epoxy resins or polyacrylates, for which glass lined reactors would not be required, is not feasible due to the lack of the necessary feedstock chemicals. Furthermore the D.P.R. Korea's National Coordinating Committee for Environment insists on receiving the glass-lined equipment and reaffirmed it in a Note Verbale submitted to UNIDO on 24 December 2007;
- (b) UNIDO reported that the only realistic chance of delivering the equipment to the beneficiaries would involve a direct petition to the Security Council of the United Nations. This petition is now in preparation. UNIDO is planning to engage the relevant Security Council Committee and, if necessary, to provide briefing on the project in order to secure a shipment authorisation. If such exemption is granted by the UN Security Council, the Chinese authorities may nevertheless not agree to the export because of the separate issue of the provisions of the Chemical Weapons Convention; and

- (c) Should the Security Council refuse the petition, UNIDO will be forced to agree to sale the equipment at lower price. The sale of the glass-lined reactors, at a original cost of US \$347,000 might allow recovery of some funds, but the manufacturer had expressed no interest in the equipment; other possible ways to sell the equipment have not been studied so far.

13. UNIDO pointed out that the consumption of CTC at 2.8 Vinalon Factory and Sinuiju Fibre Complex was terminated in 2006. Both enterprises expect an urgent delivery of the remaining equipment as the interruption of the production put them at serious economic risks.

Annual implementation programme and submission of the sixth tranche

14. Because of the delay in the status report, the annual report and the annual implementation plan, as well as a verification, was submitted in parallel to the submission of the sixth and final tranche of the phase-out plan. The tranche request is described in document UNEP/OzL.Pro/ExCom/55/29, and was recommended by the Secretariat for blanket approval.

Secretariat's comments

15. The issue reported to the 52nd Meeting remains unchanged. The progress report describes a number of possible options on how to move forward in order to support D.P.R. Korea in sustaining their phase-out of CTC. The ways forward proposed by UNIDO appear well considered.

Secretariat's recommendation

16. The Executive Committee may wish to take note of the status report on the progress achieved by UNIDO with the activities at the 2.8 Vinalon Factory Complex and the Sinuiju Chemical Fibre Complex, related to the Plan for terminal phase-out of CTC in the Democratic People's Republic of Korea.
