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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-seventh Meeting
Montreal, 30 March-3 April 2009

PROJECT PROPOSAL: ARGENTINA

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

Production

- Strategy for gradual phase-out of CFC-11 and CFC-12 production: 2009 annual programme World Bank

PROJECT DESCRIPTION

Background

1. The Executive Committee at its 38th Meeting in 2002 approved, in principle, a total of US \$8.3 million for the implementation of the Agreement for the Production Sector in Argentina, and subsequently approved the 2003 to 2007 annual programmes at a total cumulative level of US \$6.3 million. The successful implementation of the phase-out plan has reduced CFC production at the sole CFC producer Frio Industrias Argentina S.A. (FIASA) from 3,020 metric tonnes in 2002 to 1,645 metric tonnes in 2006, as verified by the World Bank.

2. Further, the Executive Committee at its 53rd Meeting in 2007 approved the Agreement to accelerate CFC production phase-out in Argentina according to the revised production phase-out and funding schedule as shown below. The Committee released at that Meeting the additional US \$2.3 million plus the associated support cost for the accelerated production closure.

Table 1

Production targets (ODP)

Description	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Target under current agreement	3,020	3,020	3,020	1,647	1,647	686	686	686	0
2. Verified production	3,015	3,018	3,016	1,645	1,645	-	-	-	-
3. Proposed production under APP						686	0	0	0

Table 2

Funding (US \$000\$)

Description	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Funding under current agreement	0.5	3.5	0.0	0.3	2.0	0.0	1.0	1.0	0.0
2. Support costs under Existing Agreement	0.020	0.110	0.090	0.120	0.100	0.120 ⁽¹⁾	0.120	0.047	0.0
3. Total adjusted funding for the APP						2.3 ⁽²⁾	1.0	1.0	0.0
4. Programme support costs for the APP						0.173 ⁽³⁾	0.0	0.0	0.0
5. Total funds to be released to the country and I.A.						2.593	1.12	1.047	0.0

Notes:

⁽¹⁾ The programme support cost of US \$0.12 million for 2007 will be released as part of the 2007 work programme.

⁽²⁾ Adjusted funding for the APP is equal to US \$2.3 million for not producing 1,372 metric tonnes of CFCs in 2008 and 2009. This funding amount will be released in full by the Executive Committee at the 53rd Meeting. For the remaining tranches for 2008 and 2009, funds will be released at the first meeting of the year as per the terms and conditions stipulated in the original Agreement between Argentina and the Executive Committee.

⁽³⁾ Programme support costs are equal to 7.5% of the US \$2.3 million.

3. On behalf of the Government of Argentina, the World Bank is submitting to the 57th Meeting the verification report on the 2008 CFC production at FIASA and requested the release of the 2009, and final, funding tranche of US \$1.0 million as well as US \$47,000 in support costs for the World Bank. The verification report is not attached but could be made available upon request.

Verification report of the 2008 CFC production at FIASA

4. The production closure at FIASA was verified in October 2007 and reported to the 54th Meeting of the Executive Committee. This verification covers the period from October 2007 to December 2008 and was carried out in January 2008 and 2009 by a financial accountant.

5. Prior to undertaking on-site auditing, the financial consultant requested and received from the company information needed for the audit, which included:

- (a) Daily production reports and monthly summaries of CFC-11/CFC-12 and HCFC-22 production;
- (b) CTC movement card and dispatch note;
- (c) Sales invoices for ODS products;
- (d) Sales invoices for raw materials;
- (e) Customs clearance and suppliers invoices for purchase of ODS products;
- (f) Custom clearance and suppliers invoice for purchase of raw materials; and
- (g) Value added tax books, with data on VAT sales, purchases, inventory and balances.

6. As was the case last year, the financial consultant also had available the certified physical inventory of the company, which had been carried out by the public accountant, Marcos Leopoldo Vera. It is mandatory under the tax law of the country to certify the company's inventory balance with the National Fiscal Authority, an exercise that is implemented once a year by an independent licensed accountant.

7. The consultant verified the daily production logs, monthly summaries of CFC and HCFC production and raw material consumption and sales records. He confirmed production quantities and raw material consumption from production logs, verified sales and procurements of ODS products against financial records, and verified the inventory of CFC, CTC, and HF at the beginning and end of the year against financial records.

8. As indicated last year, both CTC and HF are imported and the Government requires a pre-approved license for the import of CTC. Government inspections of imports take place at the port of entry to confirm that the amount is within the permit issued. The auditor reported that all the CTC tanks in the plant had been emptied and were being reconditioned for containing chloroform for HCFC-22 production. The control panel for CFC production had been disconnected and removed from the control room as specified in the revised Agreement.

2009 annual work programme

9. The 2009 annual work programme will focus on ensuring the sustained closure of the CFC production at FIASA, which includes monitoring and verification at the plant level and control of CTC imports at the Government level. The technical assistance component will include support to strengthen local capacity, public awareness, and a production audit of FIASA for 2009.

SECRETARIAT'S COMMENTS AND RECOMMENDATIONS

Comments

10. The Secretariat noted in its report to the 54th Meeting that, after the 2007 CFC production campaign, the FIASA plant shut down its CFC production and had refitted itself for producing HCFC-22. Since the plant was designed to produce both CFCs and HCFCs, dismantling the equipment in the control room would not totally remove the possibility to produce CFCs again. The only chance of preventing such a swing plant from reverting back to CFC production was to deny its access to CTC, the key raw material for CFC production. As at the end of 2007 an inventory of 335 metric tonnes of CTC was left at the port, but had been removed from the plant. As reported in 2008, since the plant did not produce CTC and relied entirely on imports, and the Government had introduced quite effective controls on the licensing of CTC imports since 2004, there was a guarantee of sustaining the CFC production closure through the control of CTC imports.

11. In approving the 2008 tranche at its 54th Meeting, the Executive Committee requested the Government of Argentina and the World Bank to continue monitoring the situation at FIASA, including carrying out a verification in 2009 and controlling its access to the supply of CTC, to ensure the sustained closure of CFC production. The World Bank indicated that the Government had already banned imports of CTC, and the stockpile of CTC at FIASA was closely monitored by the Government.

12. The verification report indicated that 329 metric tonnes of the 335 held at the port had been sold. It identified a final inventory of 3.66 metric tonnes but also an inventory difference of 2.8 metric tonnes of CTC. The World Bank indicated that all of the 3.66 metric tonnes has been sold and shipped to Mexico.

13. As noted in Appendix 2 of the Agreement (UNEP/OzL.Pro/ExCom/53/67, Annex XXVI), Argentina will continue on-site monitoring of the production of CFCs until 2010. The Secretariat has requested verification reports for the two years following the complete phase-out in the production sector. The Executive Committee may wish to request the Government of Argentina and the World Bank to submit a verification report and information on the control of the supply of CTC to the first meeting of 2010.

RECOMMENDATIONS

14. The Secretariat recommends that the Executive Committee:
- (a) Notes the verification report of the 2008 CFC and HCFC production at FIASA, Argentina;
 - (b) Approves the 2009 annual work programme of the Argentina CFC production closure project at the level of US \$1.0 million and US \$47,000 as support cost for the World Bank; and
 - (c) Requests the Government of Argentina and the World Bank to submit a verification report and information on the control of the supply of CTC to the first meeting of 2010.
