



**United Nations  
Environment  
Programme**

Distr.  
GENERAL

UNEP/OzL.Pro/ExCom/59/35  
13 October 2009

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Fifty-ninth Meeting  
Port Ghalib, Egypt, 10-14 November 2009

**PROJECT PROPOSALS: INDIA**

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

Production

- CFC production sector gradual phase-out: 2009 annual implementation programme and the Accelerated Phase-out Plan World Bank

## CFC PRODUCTION SECTOR GRADUAL PHASE-OUT: 2009 ANNUAL IMPLEMENTATION PROGRAMME AND ACCELERATED PHASE-OUT PLAN

### Background

1. On behalf of the Government of India, the World Bank has submitted the 2009 annual programme for the implementation of the India CFC production sector phase-out programme for approval by the Executive Committee at its 59<sup>th</sup> Meeting. It has been submitted at the amount of US \$8.113 million (US \$6 million for the 2009 work programme and US \$2.113 million for the accelerated phase-out supplement) plus support costs of US \$0.45 million, together with the verification report on the implementation of the 2008 annual work programme and an import audit report.
2. The 2009 annual implementation programme had been presented to the 58<sup>th</sup> Meeting of the Executive Committee but the Committee decided to defer the request for the final tranche of the India production closure project pending the submission of Article 7 data for 2008, and the audit report associated with the accelerated production sector agreement. This document is based on document UNEP/OzL.Pro/ExCom/58/35 and provides additional information with request to the submission of Article 7 data and the import audit report.
3. The 2009 annual work programme and the verification report of 2008 CFC production in India are not attached to this document, but could be made available to Members of the Executive Committee upon request. A summary of the submission is provided in Table 1.

Table 1

### SUMMARY OF SUBMISSION

Country	India
Project title	CFC Production Sector Gradual Phase-out
Year of plan	2009
Number of years completed	10
Number of years remaining under the plan	1
Ceiling for 2008 CFC production (in metric tonnes), 2008 annual plan	690 metric tonnes per the APP*
Ceiling for 2009 CFC production (in metric tonnes), 2009 annual plan	0 metric tonnes
Total funding approved in principle for the CFC phase-out plan	\$82 million
Total funding released as of Dec. 2008	\$76 million
Level of funding requested for 2009 Annual Plan	\$6 million
Level of funding for support costs	\$450,000
Level of funding requested for Accelerated CFC Production Phase-out Plan (APP)	\$2.113 million

\*The original amount was 2,259 metric tonnes per the original agreement.

4. The verification was carried out between 28 January and 6 February 2009 by Mukund M. Chitale and Company, Chartered Accountants. The verification report, which included an introduction and an Executive Summary, reported on each of the four CFC producers, and included an annex that defined the molecular weights and formulas for CFCs and HCFCs.
5. The submission fulfils the Agreement between the Government of India and the Executive Committee, which was approved at the 29<sup>th</sup> Meeting and there are no further scheduled payments for this Agreement after the 2009 work programme. However, there remains a scheduled payment of US \$1.057 million with US \$238,000 in support costs for the Accelerated CFC Production Phase-out Plan in 2010.

**2008 Work programme achievement and verification report**

6. The proposed 2009 annual work programme began with a review of the implementation of the 2008 work programme. The review reported on the achievement of the 2008 CFC reduction target that had been set at 2,259 metric tonnes in the Agreement, and was subsequently modified to a maximum of no more than 690 metric tonnes of CFCs at the 54<sup>th</sup> Meeting under the Accelerated CFC Production Phase-out Plan with an agreement text approved at the 56<sup>th</sup> Meeting.

7. On a policy level, the Government issued production quotas and licenses for the export of CFCs. Under the CFC import and export management scheme, it has been reported that a total of four bulk export licenses were issued in 2008 for 1,859 metric tonnes. The actual levels of exports during 2008 however were only 455.6 metric tonnes which was below the requirement of the Accelerated Production Phase-out Plan (1,228 metric tonnes no later than 31 December 2009). None of the CFC producing units imported any new virgin CFCs in 2008.

8. The producers sold 495.8 metric tonnes to MDI producers, which is below the amount allowed (825 metric tonnes) for all CFCs for MDIs. An additional 122.383 metric tonnes of CFCs was sold to the servicing sector. This amount, plus the amount placed on the market by producers (495.8 metric tonnes), does not exceed the total level of CFCs allowed for sale (825 metric tonnes).

9. The submission reported on a number of activities carried out under the technical assistance programme. These included awareness, training, data collection, operation of the PMU, monitoring, information exchange and studies. Of the US \$6 million disbursed from the Fund for the 2008 work programme, US \$4.09 million had been paid to the four CFC producers. This amount reflected 70 per cent of the total allocation for enterprises (US \$5.85 million). The remaining balance was planned to be disbursed after final verification of the 2008 production. Of the US \$213,000 allocated for technical assistance, US \$177,100 had been disbursed.

10. A summary of the CFC production by the four producers is shown in Table 2.

Table 2

Enterprises	Navin Fluorine Industries			Chemplast Sanmar	Gujarat Fluorochemicals	SRF	Total
	CFC 11/12	CFC 113	CFC 113a	CFC11/12	CFC11/12	CFC11/12	
Opening Stock (a)	113.47	5.62	6.56	36.9	733.2	467.35	1363.1
Gross production for quota utilization	223.6	79.1	69.04	0	246	201.73	828.47
Actual consumption as feedstock (b)	0	80.08	0	0	0	0	80.08
Eligible consumption as feedstock	0	72.5	0	0	0	0	72.5
Excess consumption of CFC113 as per norms	0	6.6	0	0	0	0	6.6
Handling losses (c)	0	0	0	0.01	3.77	0.1	3.88
Conversion loss from CFC 11 to 12 (d)	0	0	0	0	0	9.91	9.91
<b>Production quota utilized</b>	<b>221.36</b>	<b>6.6</b>	<b>0</b>	<b>0</b>	<b>246</b>	<b>199.87</b>	<b>673.87</b>
Net production CFC11/12/113 (e)	221.36	79.1	69.04	0	246	199.87	815.37
Sales return (domestic) (f)	0			0	0.92	0.09	1.01
Sales of 113a (g)			75.47				75.47
Sales in 2008 (domestic and exports) (h)	274.12			36.89	206.96	555.83	1073.8
Closing stock	60.71	4.64	0.13	0	769.39	101.47	936.34
(a)-(b)-(c)-(d)+(e)+(f)-(g)-(h)							

11. The table indicates the overall results of the verification, with information on the opening CFC stocks, handling losses, net production, sales return, sales in 2008, and closing stock. Decision 43/5 allowed the use of net saleable CFC production to measure the achievement of the target in the Agreement for India in years other than 2005 and 2007.

12. Consistent with this, the verification used the gross production level by applying the industry accepted norm of 0.92 per cent to the net saleable production reported by the producers to calculate the gross figures. It concluded that in 2008 the total CFC production in the country was 673.87 metric tonnes, which was about 97 per cent of the 690 metric tonne target in the Accelerated CFC Production Phase-out Plan.

13. Table 3 presents the closing stock analysis for 2008.

Table 3

**CFC PRODUCTION SUMMARY AND CLOSING STOCK ANALYSIS (2008)**

<b>Item</b>	<b>ODP tonnes</b>
(+) CFC produced	673.9
(+) CFC allowed for reprocessing	135
(+) CFC stocks meant for export	1228
(-) Sale to service sector in 2008	122.38
(-) Sale to MDI sector in 2008	495.78
(-) Sale towards exports in 2008	455.64
(-) Conversion and handling losses	13.8
(-) Excess of CFC 113 consumption	13
(=) Stocks as on 31.12.2008	936.3

14. The report described the methodology employed in the verification, which included site visits and a random check of pertinent records for consistency in reported results. The production log books and the laboratory and analytical records were correlated for the sample days to assess whether the records were appropriately maintained for the products that had been produced. Samples from existing stocks were taken for gas chromatography analysis for product identification. The verification team also held discussions with the plant personnel.

15. The report provided observations and results of the visit to each plant. It included an overview on the history and technology of the plant covering: audit methodology and the documentation and records investigated; samplings taken and related results; summary data for 2003 through 2008 on the production quota allocated; operating dates for CFC and in some cases HCFC-22 production, production of CFC-11 and CFC-12 and the percentage of quota fulfilled. The plant-specific report also provided comparative data between 2003-2008 on raw material consumption ratio between feedstock and CFC production and conclusions on the status of compliance with the allocated quota.

16. The verification team noted that all four CFC plants have either already had an HFC-23 destruction facility in operation on their premises, or are in the process of obtaining one in order to access funds from the CDM.

17. Finally, the report provided the results of the verification using the format for verification of ODS production phase-out, which includes a history of the production phase-out programme from the beginning and the results from the latest verification with data broken down by month on the number of operating days, raw material consumption, and CFC production tonnage.

**2008 Import Audit**

18. The import audit was prepared by Mukund M. Chitale & Company, Chartered Accountants, appointed by the World Bank to conduct the Financial Verification of CFC import into India. Mukund M. Chitale & Co. had also undertaken the CFC Production Audit for the calendar year 2008 in January 2009.

19. This audit has been undertaken as per the standard audit methodology utilized by GTZ under the National CFC Consumption Phase-out Plan. Based on the methodology, the Ozone Cell provides data obtained from DGCIS (India Customs) to the auditors. The audit team visited the Ozone Cell to collect

and verify the information available with Ozone Cell. The auditors reported that DGCIS data was not available, and therefore the audit was completed on the basis of information and data available at Ozone Cell, which include the returns submitted by the CFC producers and users, copies of documents evidencing CFC exports out of India, and licenses for CFC imports into India issued by the Ozone Cell, if any. All data were taken from the Technical and Financial Audit of CFC Production Sector Gradual Phase-out Project (ODS III) for Calendar Year 2008 prepared by Mukund M. Chitale & Co. and submitted in February 2009.

### **2009 Work programme**

20. The second part of the submission described the target and activities in the 2009 work programme. Consistent with the Accelerated CFC Production Phase-out Plan, no production quotas will be issued in 2009 and imports and exports will continue to be controlled by a licensing regime. The document noted that either the ODS rules should be amended or the Government of India should issue an interim order to accommodate the requirements of the Accelerated CFC Production Phase-out Plan.

21. Several activities are planned under the technical assistance programme. These include the annual publication of the India Success Story on Ozone Day, the publication of a booklet on CFC production phase-out, support to chiller energy efficiency project, workshops on awareness of CFC production closure, training for customs and border officials, data management on MDIs procured from CFC producers, audit of the CFC production and export quantities from stockpiles, the development of a Monitoring Protocol for monitoring post 2010, and a study on the impact of CFC production closure on stocks and availability of CTC.

## **SECRETARIAT'S COMMENTS AND RECOMMENDATIONS**

### **COMMENTS**

#### **All production, sales and exports requirements achieved**

22. The total level of production is confirmed to be consistent with the Accelerated CFC Production Phase-out Plan, the level of sales of CFCs for MDI production is below the maximum level provided thus far, since the allowance also includes the possibility of sales in both 2008 and 2009. The reported level of exports is also below the maximum level to date as it will also include 2009 exports, and so the amount released into the market is within the allowable limits thus far.

#### **Article 7 data confirms no imports**

23. Decision 58/34 deferred the request for the final tranche of the India production closure project pending the submission of Article 7 data for 2008 and the 2008 import audit report associated with the accelerated production sector agreement. The World Bank informed that the Government of India had submitted its 2008 Article 7 data to the Ozone Secretariat on 24 September 2009 confirming the use of CFC-11, CFC-12, and CFC-113 (as indicated in Table 2 for feedstock), and the level of exports. The data also confirmed no imports.

#### **Data from customs not available to auditors**

24. The Secretariat noted that the import audit report did not provide an audit of imports but was largely a reference to the report that was prepared, with no additional work, to verify the import data.

Moreover, the auditor's report indicated that despite the fact that the methodology requires the Ozone Cell to provide DGCIS (customs) data, no such data had been available to the auditor.

### **Licensing systems in India**

25. In response, the World Bank indicated that the Government of India has an ODS import licensing system which consists of two types of licenses, as detailed below. For both types, the issuing authority is the Directorate General of Foreign Trade (DGFT), and the managing authority is the customs department. Under the Advanced Licensing System, all imports are intended for re-export and are exempted from customs duties. Advanced licenses can only be issued to companies based on confirmed export orders. Hence, import of e.g. 100 mt requires confirmed export orders of products containing levels equal to 100 mt. Such transactions are ear-marked for export and as such are managed by the Customs authorities/DGFT.

26. The Government of India issued an Office Memorandum on 3 June 2008 to the DGFT, requesting it not to issue any licenses to import ODS without the recommendation of the Ministry of Environment and Forests. The custom authorities, CFC producers, MDI manufacturers and others affected by the new Accelerated CFC Production Phase-out Plan were also informed through a similar communication dated 13 June 2008. Before issuance of such a formal notification, the Ozone Cell had had informal communication with the DGFT, advising them not to issue any advanced licenses in 2008. The DGFT has not issued any advanced licenses since January 2008. The Direct Licensing System is managed by the Ozone Cell and covers imports for the consumption of ODS (CFC, CTC, HCFC). The auditors have verified the records of the Ozone Cell and found that no import licenses for CFCs have been issued for 2008.

### **MDI import verification**

27. The Secretariat noted that there had not been any verification of whether the MDI enterprises had received imports of CFCs. The Secretariat also noted that the Committee had required other verification activities to have direct contact with exporters and importers, for example the Committee approved the India CFC servicing sector annual tranche for 2007 with the understanding, that in future verification reports, the agency concerned ensures that information obtained through direct contact with exporters and customs forms part of the verification report. In this respect, the import audit report did not have any direct contact with importers (other than CFC producers).

28. In 2008, the World Bank responded that the review of available records from the five MDI manufacturers indicated that only one imported CFCs through the Advanced Import License in 2008. The other four procured CFCs from the domestic producers. In 2007, some CFCs were imported by MDI manufacturers under the Advanced Licensing system, but not in 2008. These imported CFCs, which reached the port in December 2007, were cleared in tranches based on confirmed export orders during 2008. Moreover, the Bank recalled that the audit methodology for import audits had been approved under the National CFC Consumption Phase-out Plan and that sales from CFC producers to MDI manufacturers in 2008 had been verified as 495.775 mt.

## RECOMMENDATIONS

29. The Executive Committee may wish to consider:
- (a) Approving the 2009 work programme for the CFC production phase-out plan in India at the amount of US \$6 million plus US \$450,000 in agency support costs for the World Bank as well as the US \$2.113 million for the Accelerated Phase-out Plan;
  - (b) Requesting the World Bank and the Government of India to ensure that Customs records are available to auditors for the next import audit report associated with the final funding tranche of the Accelerated Phase-out Plan to be submitted to the 61<sup>st</sup> Meeting of the Executive Committee.

-----