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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-second Meeting  
Montreal, 29 November - 3 December 2010

**PROJECT PROPOSAL: INDIA**

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

Production

- Accelerated CFC Production Phase-out (second tranche) World Bank

**2010-2011 ANNUAL IMPLEMENTATION PROGRAMME  
AND ACCELERATED CFC PRODUCTION SECTOR PHASE-OUT PLAN**

**Background**

1. On behalf of the Government of India, the World Bank has submitted the 2010 – 2011 annual programme for the implementation of the India CFC production sector phase-out programme for approval by the Executive Committee at its 62<sup>nd</sup> Meeting. It has been submitted at the amount of US \$1,057,000 for the accelerated phase-out, plus support costs of US \$238,000, together with the verification report on the implementation of the 2009 annual work programme and an import audit report. This represents the second and final tranche of the Accelerated CFC Production Sector Phase-out Plan.
2. The 2010 – 2011 annual implementation programme was to be presented to the 61<sup>st</sup> Meeting of the Executive Committee, but the request was deferred to the 62<sup>nd</sup> Meeting pending the availability of Customs records for the import audit report, which is condition for approval of the last tranche per decision 59/18.
3. The 2010 – 2011 annual work programme and the verification report of 2009 CFC production in India, initially submitted to the 61<sup>st</sup> Meeting, have been re-submitted to the 62<sup>nd</sup> Meeting. The third part, the import audit report, is being submitted for the first time to the 62<sup>nd</sup> Meeting. These documents 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	Accelerated CFC Production Sector Phase-out plan
Year of plan	2010 – 2011
Number of tranches completed	1
Number of tranches remaining under the plan	1
Ceiling for 2009 and 2010 CFC production (in metric tonnes)	0 metric tonnes
Total funding approved in principle for the Accelerated CFC Production Sector Phase-out plan (including agency fees)	\$3.408 million
Total funding released as of Dec. 2009	\$2.113 million
Level of funding requested for Accelerated CFC Production Phase-out Plan (APP)	\$1.057 million
Level of funding for support costs	\$238,000

4. The verification was carried out between 17 March and 5 April 2010 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.

**2009 work programme achievement and verification report**

5. The proposed 2010-2011 annual work programme began with a review of the implementation of the 2009 work programme. At its 56<sup>th</sup> Meeting, the Executive Committee approved an Agreement for the Accelerated CFC production phase-out for India. In accordance with this Agreement, the Government of India committed itself to the cessation of CFC production in India as of 1 August 2008. The review reported on the achievement of the 2009 CFC production phase-out target.

6. The Government issued licenses under the CFC import and export management scheme in 2008 for four bulk exports totalling 1,859 metric tonnes. As per the Agreement, India would have to export 1,228 metric tonnes of CFCs by no later than 31 December 2009. The levels of exports during 2008 were 455.6 metric tonnes. The actual levels of exports during 2009 were 659.86 metric tonnes. This results in a total level of exports of 1,115.46 metric tonnes as at 31 December 2009. The difference of 112.6 metric tonnes is accounted for in Table 2 below.

Table 2

**ACCOUNTING FOR 2009 EXPORTS IN THE LIGHT OF THE AGREEMENT**

Difference in actual quantity produced as against the quota	16.1 metric tonnes
Loss declared by the Companies during 2008	13.7 metric tonnes
Loss declared by the Companies during 2009	64.6 metric tonnes
Quantity drawn from the stockpile for domestic sale to MDI	6.5 metric tonnes
Closing stock of CFC as at 31 December 2009	11.7 metric tonnes
<b>Total</b>	<b>112.6 metric tonnes</b>

7. None of the CFC producing enterprises imported any new virgin CFCs in 2009.

8. The producers sold, under licenses issued by the Government, 202.18 metric tonnes to metered-dose-inhalers (MDI) producers, which together with the level of sales in 2008 (namely 495.78 metric tonnes) is below the amount allowed (825 metric tonnes) for all CFCs for MDIs. None of the CFC producers sold CFCs to the servicing sector in 2009.

9. The submission reported on a number of activities carried out under the technical assistance programme. These included awareness, training/capacity building, data collection, operation of the PMU, monitoring, information exchange and studies.

10. A summary of the CFC production by the four producers is shown in Table 3.

Table 3

**SUMMARY OF CFC PRODUCTION BY PRODUCER**

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)	60.71	4.64	0.13	-	769.39	101.47	936.34
Gross production for quota utilization	-	-	-	-	-	-	-
Handling losses (b)	0.39	-	-	-	6.54	-	6.93
Other Loss (c)	-	-	-	-	57.68	-	57.68*
Sales return (domestic) (d)	-	-	-	-	2.05	-	2.05
Sales in 2009 (domestic and exports) (e)	53.35	-	-	-	707.22	101.47	862.04
Closing stock	6.97	4.64	0.13	-	-	-	11.74**
(a)-(b)-(c)+(d)-(e)							

\* The company has claimed that the above loss was on account of storage of material on a prolonged basis.

\*\* The company had informed the World Bank during the course of audit that they were in the process of identifying suitable parties outside India for sending this material for incineration.

11. The table indicates the overall results of the verification, with information on the opening CFC stocks, handling losses, gross production, sales return, sales in 2009, 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. 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. There was zero production of CFC in 2009.

13. 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 report also provided a list of data examined. The verification team also held discussions with the plant personnel. Based on their responses, subsequent checks, if found necessary, were conducted on the records.

14. The report provided observations and results of the visit to each plant. It included an overview on the history and technology of the plant, audit methodology, the sales records in 2008 and 2009 and conclusions on the status of compliance with the allocated quota. The verification did not include HCFC-22 production data and data on other products using the same raw materials as CFCs (i.e. HF and CTC).

#### **2010-2011 Work programme**

15. The second part of the submission described the target and activities in the 2010-2011 work programme. Consistent with the Accelerated CFC Production Phase-out Plan, no production quotas will be issued in 2010 and imports and exports would 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.

16. 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, strengthening information exchange on CFC exports, audit of the CFC production and export quantities from stockpiles, support for Article 7 data reporting, development of a monitoring mechanism to ensure conditions provided in the Agreement are met, web-accessed database system for data triangulation and centralized Management Information System (MIS) for cohesive data compilation for ODS, the development of a Monitoring Protocol for monitoring post-2010 phase-out activities, and a study on the impact of CFC production closure on stocks and availability of CTC.

#### **2009 Import Audit**

17. 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.

18. This audit has been undertaken in accordance with 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 the Directorate General for Commercial Intelligence and Statistics (DGCIS) (India Customs) to the auditors. The audit team visited the Ozone Cell to collect and verify the

information available. 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 2009 prepared by Mukund M. Chitale & Co. and submitted in February 2010.

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

### **COMMENTS**

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

19. 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 for both 2008 and 2009. The auditors verified that there has been no reported export of pharmaceutical-grade CFC for non-MDI use.

#### **Imports**

20. The Secretariat enquired about whether the auditors were given access to customs records for verification of import data, as some of the wording used in the report was unclear. The Bank responded that DGCIS provided import and export data to the National Ozone Unit, records of which were then made available to the audit team for review. Based on this review, the audit team confirmed that there were no CFC imports to India for the year 2009.

#### **Exports**

21. CFC exports from India have been reviewed as part of the production audit, as CFC producers are the only entities officially authorized to export CFCs by the Ozone Cell and the Custom Department through the issuance of official export licenses. Furthermore, DGCIS customs records validate CFC exports reported by CFC producers. The reported level of exports by 31 December 2009 was 112.6 metric tonnes below that required by the Agreement as shown in Table 2. Despite the fact that the Government issued licenses for the export of 1,859 metric tonnes to achieve the export level of 1,228 metric tonnes, there was a closing stock of 11.74 metric tonnes. As the export requirement of the Agreement was not achieved, the Executive Committee may wish to consider whether to withhold disbursement pending a report on the disposition of the remaining 11.74 metric tonnes or whether the penalty clause should be applied.

#### **No disbursement of funds**

22. The first tranche of this agreement (US \$2.113 million) has not been disbursed according to the World Bank's report on multi-year agreements (MYAs) with low disbursement. The disbursement of any funds for this agreement is dependent on the Government of India's signature of the grant agreement which is still pending.

#### **Country Programme data**

23. The Secretariat noted that, as of 14 October 2010, the Government of India had not submitted its country programme data, and that, according to decision 52/5 (f), no projects, including the last tranche of the production sector agreement could be approved without such data. The World Bank informed the

Secretariat that it had already raised this issue with the Government of India, and that CP data would be made available as soon as possible.

## **RECOMMENDATIONS**

24. The Executive Committee may wish to consider:

- (a) Noting that the grant agreement for the Accelerated CFC Production Phase-out has not been signed and no funds have been disbursed from the funding approved to-date;
- (b) A status report from the Fund Secretariat on whether country programme data for 2009 has been submitted to enable the consideration of approval and release of funding for the 2010 – 2011 Work Programme;
- (c) Pending the results of the status report mentioned in paragraph b above, approving the 2010 – 2011 Work Programme:
  - (i) At the amount of US \$1,057,000 plus agency support costs of US \$238,000;
  - (ii) With the release of funds being contingent upon a report on the disposition of the remaining stock of 11.74 metric tonnes; and
  - (iii) With or without the application of the penalty clause.

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