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EXECUTIVE COMMITTEE
OF THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-seventh Meeting
Montreal, 24-26 March 1999

Corrigendum

PRODUCTION SECTOR

This corrigendum is being issued to:

1. Replace Part II in the cover sheet with the following:
 - Part II: (a) Cover letter from the Facilitator of the Subgroup on Production Sector
 - (b) 12 March Consensus Agreement for the China Production Sector. Proposal by Canada, China, Italy and the United States
 - (c) 12 March Draft Agreement for the India Production Sector. Proposal by Canada, Italy and the United States
2. Replace Part II of document UNEP/OzL.Pro/ExCom/27/45 with the attached.

PART II (a)

Cover letter from the Facilitator of the Subgroup on Production Sector

March 12, 1999

Dr. Omar El Arini
Chief Officer
Multilateral Fund
1800 McGill College Avenue, 27th Floor
Montreal, Quebec
H3A 3J6

Dear Dr. El-Arini:

On 19 February, 1999, the United States submitted, on behalf of Canada, Italy and the United States, a proposed agreement on the production sector in China. On 9 March 1999, China held a meeting with Canada and the United States to discuss a compensation figure and agreement that both China and the proposers might come to agreement on. I am pleased to report that this meeting concluded very favorably. China, together with Canada, Italy and the United States (the Article 2 members of the Production Sector Subgroup) have agreed to put forward a proposal for USD \$150 million to compensate China for the closure of its CFC production capacity. In the course of the discussions with China, the terms of the original proposed agreement submitted on 19 February were slightly revised, and there was agreement to put forward this consensus document. A revised agreement document is attached. The revised agreement document will be presented to the Production Sector Subgroup, and we trust, formally proposed to the Executive Committee for adoption at its 27th meeting.

In the United States' letter of February 19, 1999, it was also noted that a proposal for India would be forthcoming. That proposal is being forwarded today by the United States under separate cover. We would greatly appreciate it if you could put both the China agreement document, and the India proposal on the website for review by members of the Executive Committee.

Sincerely,

Signed by Ms. Jacinthe Séguin

Att.

c.c. Members of the Subgroup

PART II (b)

**12 March Consensus Agreement for the China Production Sector
Proposal by Canada, China, Italy and the United States**

**12 March 1999 Consensus Agreement for the China Production Sector
Proposal by Canada, China, Italy and the United States**

The Executive Committee decides to approve in principle a total of US \$ 150 million in funding for the phased reduction and closure of the entire CFC production capacity in China. This is the total funding that would be available to China from the Multilateral Fund for the total permanent closure and dismantling of all capacity for the production of Group I Annex A and Group I Annex B CFCs, and/or the development of capacity to produce alternatives to these CFCs. The agreed level of funding would be paid out in installments in the exact amounts specified in paragraph b, and on the basis of the following understanding:

a. By this approval, China agrees that in exchange for the funding level specified in paragraph b, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the following schedule:

Total CFC production in China will not exceed the following levels in the following years:

44,931 MT in 1999;	40,000 MT in 2000;	36,200 MT in 2001;
32,900 MT in 2002;	30,000 MT in 2003;	25,300 MT in 2004;
18,750 MT in 2005;	13,500 MT in 2006;	9,600 MT in 2007;
7,700 MT in 2008;	3,200 MT in 2009; and,	0 MT in 2010*

* save for any CFC production that may be agreed by the Parties to meet essential uses for China.

b. In order to facilitate China finalizing work on their allocation system, meeting their 1999 CFC reduction target, and working toward the other reduction targets included in paragraph a, the Executive Committee decides at its 27th meeting to provide US \$20 million in funding during 1999 as follows: US \$ 10 million to be made available upon Executive Committee approval of this agreement; and, US \$10 million to be made available upon satisfactory verification that China has dismantled and destroyed primary CFC production equipment from the following 14 CFC plants representing over 22,500 tonnes of capacity:

1. Shandong Dongyue Chemical Co. Ltd.: 1 CFC 12 line of 5000 MT capacity (9)(A3) (numbers are China-Bank/SRI plant numbers)
2. Hunan Yiang Chlor-Alkali Chemical Co. Ltd. 1 CFC 12 line of 1,000 MT capacity (16)(C2)
3. Inner Mongolia Baotou Chemical Plant #1: 1 CFC 12 line of 700 MT capacity (17)(C5)
4. Jiangsu Jianhu Phosphine Fertilizer Plant: 1 CFC 12 line of 500 MT capacity (18)(C1)
5. Sichuan Zigong Fujiang Chemical Plant: 1 CFC 11 line of 1500 MT capacity and 1 CFC 12 line of 1000 MT capacity (19)(B4)
6. Zhejiang Linhai Jianxin Chemical Plant: 1 CFC 12 line of 800 MT capacity (20)(B9)
7. Guangdong Huiang Chemical Plant: 1 CFC 11 line of 1000 MT capacity and 1 CFC 12 line of 3000 MT capacity (23)(A14)

8. Henan Hebi Chemical Plant #1: 1 CFC 12 line of 1500 MT capacity (25)(A1)
9. Hebei Longwei Floro-Chem Plant #1 - 2 CFC 12 lines of 1080 total MT of capacity (26)(C3)
10. Guizhou Wiling Chemical Plant: 1 CFC 12 line of 1500 MT of capacity (27)(C4)
11. Guangdong Zhaoqing Chemical Co. Ltd.: 1 CFC 12 line of 500 MT capacity (28)(A15)
12. Shaanxi Shanzhou Chemical Plant: 1 CFC 12 line of 2000 MT capacity (30)(C6)
13. Shanghai Shuguang Chemical Plant 1 CFC 12 line and 1 CFC 113 line of 1000 MT total capacity (32)(A12)
14. Zhejiang Linhai Shuiyang Chemical Plant: 1 CFC 12 line of 500 MT of capacity(35)(B10)

The Executive Committee has also agreed in principle that it will continue to provide funds on the basis of annual programmes submitted in accordance with the following schedule:

Annual Programme	Actual amounts (US \$ Millions) To be paid*
1999	\$20
2000	\$13
2001	\$13
2002	\$13
2003	\$13
2004	\$13
2005	\$13
2006	\$13
2007	\$13
2008	\$13
2009	\$13

* Funding may be sought at or before the first meeting of the designated year.

Payments noted in this paragraph (other than the initial tranche for 1999) are conditioned upon completion of the agreed production decreases noted in paragraph a being independently verified and maintained, and China meeting the other requirements of this agreement. For example, payment in 2003 will be conditional on satisfactory verification that China had, at a minimum, sustained its required 2001 reduction through 2002. Finally, China agrees that in addition to the plant closures specifically noted in this paragraph, within 18 months of any of its existing CFC plants ceasing production of CFCs, that it will take action to ensure that such plants are incapable of producing CFCs in the future, and that key CFC production components are dismantled and destroyed. Notwithstanding this provision, China may, in a verifiable manner,

convert related equipment and infrastructure to uses other than the production of ozone depleting substances.

c. China agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. In order to ensure that HCFC production is not diverted to production of CFCs, China agrees to prepare annually a list of plants producing HCFCs and ensure that such production is not diverted to CFC production. China also agrees to allow for independent technical audits administered by the implementing agency, and in addition, as may be directed by the Executive Committee to verify that annual CFC production levels agreed in paragraph a and conditions in paragraphs b and c related to plant dismantling, destruction or HCFC diversion are actually being met.

d. The Executive Committee wishes to provide China with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in point a. Accordingly, while China's country programme, sector strategy or other ancillary production related documentation discussed during the preparation of this agreement may have included estimates of specific funds that were thought to be needed for specific items, the Executive Committee is of the understanding that during implementation, as long as it is consistent with this agreement, the funds provided to China pursuant to this agreement may be used in any manner that China believes will achieve the smoothest possible CFC production phase out possible.

e. China agrees that the funds being agreed in principle by the Executive Committee at its 27th meeting for complete closure of its CFC production capacity is the total funding that will be available to it to enable its full compliance with the CFC production phase out requirements of the Montreal Protocol, and that no additional Multilateral Fund resources will be forthcoming for related activities including the development of infrastructure for the production of alternatives, the import of alternatives, or the eventual closure of any HCFC facilities. It is also understood that aside from the agency fee referred to in para g below, China and the Multilateral Fund and its implementing agencies and bilateral donors will neither provide nor request further Multilateral Fund related funding for the accomplishment of the total phase out of CFC production in accordance with the schedule noted above and the terms of the strategy being approved. This includes but is not limited to funding for employee compensation and all technical assistance including training.

f. China understands that if the Executive Committee meets its obligations under this agreement, but China does not meet the reduction requirements outlined in point a, and the other requirements outlined in this document, the implementing agency and Multilateral Fund will withhold funding for the subsequent tranche of funding outlined in paragraph b until such time as the required reduction has been met or the required dismantling has been completed. In addition, China understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the CFC production closure on the basis of US \$1000 per ODP tonne of reductions not achieved in any year of this agreement.

g. The World Bank has agreed to be the implementing agency for this project for the first [three] years at a fee of [9%] of project costs distributed during that time period. As the implementing agency during that time period, the World Bank agrees to be responsible for: 1. Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met; 2. Ensuring that technical reviews undertaken by

World Bank are undertaken by the appropriate independent technical experts such as the OORG;

3. Assisting China in the development of its annual work programme which incorporates achievements in previous annual programmes;
4. Carrying out supervision missions as required;
5. Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the programme and accurate, verified reporting of data;
6. Incorporating its work into the existing agreement between China and the Bank;
7. Ensuring that disbursements are made to China based on agreed performance targets in the project, and the provisions of this agreement;
8. Independently verifying for the Executive Committee that dismantling of CFC production lines is done appropriately by ensuring that the reactor, distillation towers, receiver tanks for finished products, and control and monitoring equipment are dismantled and rendered unusable for future ODS production, and are disposed of.

h. The funding components of this decision shall not be modified on the basis of future Executive Committee decisions that may affect the funding of the CFC production sector or any related activity.

i. In light of the fact that the closure of CFC production capacity in China will make CFCs more scarce, and that recycled CFC will be important to ensuring that CFC is available to meet continuing servicing needs in China, China will endeavor to preserve its recycled/reclaimed CFCs for its own use.

PART II (c)

**12 March Draft Agreement for the India Production Sector
Proposal by Canada, Italy and the United States**

12 March 1999 Draft Agreement for the India Production Sector
Proposal by Canada, Italy and the United States

The Executive Committee decides to approve in principle a total of US \$[52.8] million in funding for the phased reduction and closure of the entire CFC production capacity in India. This is the total funding that would be available to India from the Multilateral Fund for the total permanent closure and dismantling of all capacity for the production of Group I Annex A and Group I Annex B CFCs, and/or the development of capacity to produce alternatives to these CFCs. The agreed level of funding would be paid out in installments in the exact amounts specified in paragraph b, and on the basis of the following understanding:

a. By this approval, India agrees that in exchange for the funding level specified in paragraph b, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the following schedule:

Total CFC production in India will not exceed the following levels in the following years:

[] MT in 1999;	20,706 MT in 2000;	18,824 MT in 2001;
16,941 MT in 2002;	15,058 MT in 2003;	13,176 MT in 2004;
11,294 MT in 2005;	7,342 MT in 2006;	3,389 MT in 2007;
2,259 MT in 2008;	1,130 MT in 2009 and,	0 MT in 2010*

* save for any CFC production that may be agreed by the Parties to meet essential uses for India.

b. In order to facilitate India finalizing work on their implementation system, meeting their 1999 CFC reduction target, and working toward the other reduction targets included in paragraph a, the Executive Committee decides at its 27th meeting to provide [US \$7 million] in funding to India during 1999.

The Executive Committee has also agreed in principle that it will continue to provide funds on the basis of annual programmes submitted in accordance with the following schedule:

Annual Programme

Actual amounts (US \$ Millions)
To be paid

1999	\$7
2000	\$4.58
2001	\$4.58
2002	4.58
2003	\$4.58
2004	\$4.58
2005	\$4.58
2006	\$4.58
2007	\$4.58
2008	\$4.58
2009	\$4.58

Payments noted in this paragraph (other than the initial tranche for 1999) are conditioned upon completion of the agreed production decreases noted in paragraph a being independently verified and maintained, and India meeting the other requirements of this agreement. For example, payment in 2003 will be conditional on satisfactory verification that India had, at a minimum, sustained its required 2001 reduction through 2002. Finally, India agrees that in addition to the plant closures specifically noted in this paragraph, within 12 months of any of its existing CFC plants ceasing production of CFCs or HCFCs, that it will take action to ensure that such plants are incapable of producing ozone depleting substances (ODS) in the future, and that key ODS production components are dismantled and destroyed. Notwithstanding this provision, India may, in a verifiable manner, convert related equipment and infrastructure to uses other than the production of ODS.

c. India agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. In order to ensure that HCFC production is not subsequently diverted to production of CFCs, India agrees to prepare annually a list of plants producing HCFCs and ensure that such production is not diverted to CFC production. India also agrees to allow for independent technical audits administered by the implementing agency, and in addition, as may be directed by the Executive Committee to verify that annual CFC production levels agreed in paragraph a and conditions in paragraphs b and c related to plant dismantling, destruction or HCFC diversion are actually being met.

d. The Executive Committee wishes to provide India with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in point a. Accordingly, while India's country programme, sector strategy or other ancillary production related documentation discussed during the preparation of this agreement may have included estimates of specific funds that were thought to be needed for specific items, the Executive Committee is of the understanding that during implementation, as long as it is consistent with this agreement, the funds provided to India pursuant to this agreement may be used in any manner that India believes will achieve the smoothest possible CFC production phase out possible.

e. India agrees that the funds being agreed in principle by the Executive Committee at its 27th meeting for complete closure of its CFC production capacity is the total funding that will be available to it to enable its full compliance with the CFC production phase out requirements of the Montreal Protocol, and that no additional Multilateral Fund resources will be forthcoming for any related activities including the development of infrastructure for the production of alternatives, the import of alternatives, or the eventual closure of any HCFC facilities. It is also understood that aside from the agency fee referred to in para g below, India and the Multilateral Fund and its implementing agencies and bilateral donors will neither provide nor request further Multilateral Fund related funding for the accomplishment of the total phase out of CFC production in accordance with the schedule noted above and the terms of the strategy being approved. This includes but is not limited to funding for employee compensation and all technical assistance including training.

f. India understands that if the Executive Committee meets its obligations under this agreement, but India does not meet the reduction requirements outlined in point a, and the other requirements outlined in this document, the implementing agency and Multilateral Fund will withhold funding for the subsequent tranche of funding outlined in paragraph b until such time as the required reduction has been met or the required dismantling or other activity has been completed. In addition, India understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the CFC production closure on the basis of US \$1000 per ODP tonne of reductions not achieved in any year of this agreement.

g. The [World Bank] has agreed to be the implementing agency for this project for the first two years at a fee of [9%] of project costs distributed during that time period. As the implementing agency during that time period, the World Bank agrees to be responsible for: 1. Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met; 2. Ensuring that technical reviews undertaken by World Bank are undertaken by the appropriate independent technical experts such as the OORG; 3. Assisting India in the development of its annual work programme which incorporates achievements in previous annual programmes; 4. Carrying out supervision missions as required; 5. Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the programme and accurate, verified reporting of data; 6. Incorporating its work into the existing agreement between India and the Bank; 7. Ensuring that disbursements are made to India based on agreed performance targets in the project, and the provisions of this agreement; 8. Independently verifying for the Executive Committee that dismantling of CFC production lines is done appropriately by ensuring that the reactor, distillation towers, receiver

tanks for finished products, and control and monitoring equipment are dismantled and rendered unusable for future ODS production, and are disposed of.

h. The funding components of this decision shall not be modified on the basis of future Executive Committee decisions that may affect the funding of the CFC production sector or any related activity.

i. In light of the fact that the closure of CFC production capacity in India will make CFCs more scarce, and that recycled CFC will be important to ensuring that CFC is available to meet continuing servicing needs, India will endeavor to preserve its recycled/reclaimed CFCs within its country for its own use.