



**United Nations  
Environment  
Programme**



Distr.  
Limited

UNEP/OzL.Pro/ExCom/29/57  
29 October 1999

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Twenty-ninth Meeting  
Beijing, 24-26 November 1999

**REPORT OF THE EXECUTIVE COMMITTEE'S SUBGROUP ON THE  
PRODUCTION SECTOR**

This report is submitted by the Subgroup on the Production Sector on the development in the activities in the ODS production sector since the Twenty-eighth Meeting in July 1999.

1. In line with Decision 28/51, the Subgroup has held two informal meetings in Washington, D.C. during the week of 26 September 1999 to review the revised proposal from Canada, Italy and USA with regard to the Indian discussion paper and for reaching agreement on production sector compensation. The meetings concluded with a draft Consensus Proposed Agreement for the Indian production sector which is attached as Annex I.

2. The Subgroup received from the Secretariat the final audit report of the halon production facilities in India. The technical audit was mounted by the Secretariat in response to a request from the Government of India and was implemented by Stanford Research Institute Consulting (SRIC). The firm was also responsible for the technical audits of the CFC production in China and India.

## Annex I

### 1 October, 1999 Consensus Proposed Agreement for the Indian Production Sector

#### Proposal by the Production Sector Subgroup (Brazil, Canada, China, India, Italy and the United States)

The Executive Committee decides to approve in principle a total of \$82m in funding (net of all taxes, as the Multilateral Fund does not compensate for taxes) for the phased reduction and cessation of the entire CFC production in India and dismantling of the plants following within 18 months of the cessation of production of ODS unless the plants are otherwise put to use producing substances other than ODS. This is the total funding that would be available to India from the Multilateral Fund for the cessation of production of Group I Annex A CFCs, Group I Annex B CFCs, and eventual cessation of production of Group I Annex C HCFCs as per Montreal Protocol phase-out schedule (including future amendments in schedule, if any) and dismantling of the plants following within 18 months of the cessation of production of ODS unless the plants are otherwise put to use producing substances other than ODS. 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 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 29<sup>th</sup> meeting to provide \$12m 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 programs submitted in accordance with the schedule indicated below. The funds are to be approved at the first meeting each year based on performance, and dispensed in as quickly a manner as possible during the year taking into account other fund operational modalities and constraints such as availability of funds and competing project funding priorities.

Annual Programme	Actual amounts (US \$ Millions) To be paid
1999	\$12
2000	\$11
2001	\$11
2002	\$6
2003	\$6
2004	\$6
2005	\$6
2006	\$6
2007	\$6
2008	\$6
2009	\$6

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 within 18 months of any of its existing plants ceasing production of CFCs and 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 any 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 with the exception of \$2m which must be used by the government of India solely to monitor and effectuate full compliance with this agreement and the ODS phase out generally, as long as expenditures are otherwise consistent with this agreement, the remaining 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 29th 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 of the CFC facilities that may convert to HCFC production. 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 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 \$1000 per ODP tonne of reductions not achieved in any year of this agreement. It is clearly understood that the fulfillment of this agreement depends on satisfactory performance of its obligations by both India and the Executive Committee.

g. The World Bank has agreed to be the implementing agency for this project for the first three years at a fee of 8% per annum 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.