



**United Nations
Environment
Programme**



Distr.
Limited

UNEP/OzL.Pro/ExCom/30/30
27 February 2000

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirtieth Meeting
Montreal, 29-31 March 2000

PROJECT PROPOSAL: INDIA

This document includes the comments and recommendations of the Fund Secretariat on the CFC Production Sector Gradual Phase-out Project – 2000 Annual Programme

India CFC Production Sector Gradual Phase-out Programme

2000 Annual Plan

DESCRIPTION

1. At its 29th Meeting in November 1999, the Executive Committee approved in principle a total of US \$82 million to fund the phased reduction and cessation of the entire CFC production in India. Implementation would cover a period of 10 years with annual disbursement established against ODS reduction targets. The World Bank, the implementing agency chosen to implement the sector programme was required to submit an annual work plan to the first meeting of each year during the period of implementation..

2. Accordingly, the World Bank submitted for approval at the 30th Meeting the 2000 annual plan for the implementation of the India CFC production sector gradual phase-out programme. The submission included the planned objectives, activities to be carried out, and a request for disbursement according to a schedule. Of particular interest, are the policy initiatives which are being proposed to implement the production phase-out: a tradable production quota system to be managed by the ozone cell, Ministry of Environment and Forests, and the ODS (regulation) Rules under the environment protection act which is intended to tract the production, sale and consumption of all ODSs.

COMMENTS

3. The conditions and disbursement schedule in section G of the annual plan requests 80% of the year 2000 tranche (US \$11 million) be disbursed by July 2000 without the results of the implementation of 1999 reduction target being independently audited. According to the proposed schedule, the result of performance audit for 1999 would not be available until the second meeting of the Executive Committee in 2000.

4. The request may not be in line with the stipulation included in the Consensus Agreement:

“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.

Payments noted in this paragraph (other than the initial tranche for 1999) are conditional 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.” (para. (b) of the Consensus Agreement 29/65 annex VI)

5. Therefore, following the terms of the Consensus Agreement, disbursement for the 2000 annual programme may not be made until the result of the independent audit of the 1999 target became available, and that according to the proposed schedule would be in July 2000, after the second meeting of the Executive Committee.

RECOMMENDATIONS

1. The Executive Committee may wish to note that the approval of the Consensus Agreement took place only at the end of November 1999, which did not leave enough time to verify the 1999 reduction target and report the result to the first meeting in the year 2000.
2. Therefore, considering the special situation with regard to the implementation of the 1999 Work Programme and the need to disburse funding to the implementation of the year 2000 annual programme, in as quickly a manner as possible during the year, the Secretariat recommends that the Executive Committee could use the intersessional approval procedure by which the World Bank could submit the verified result of the implementation of the 1999 Work Programme as soon as it is available to the Secretariat who will distribute the inspection report to the members of the Executive Committee for approval on a non-objectionable basis. Disbursement could happen right after the procedure is completed.

INDIA

CFC PRODUCTION SECTOR GRADUAL PHASEOUT PROJECT

2000 ANNUAL PROGRAM

February 1, 2000

Table of Contents

	Page No.
A: INTRODUCTION.....	1
B: PHASEOUT SCHEDULE AND STRATEGY.....	1
C: OBJECTIVES OF 2000 ANNUAL PROGRAM (JANUARY 1 TO DECEMBER 31)	2
D: PROGRAM ACTIVITIES DURING THE YEAR 2000	3
E: ENTERPRISE-LEVEL ACTIVITIES	4
F: TECHNICAL ASSISTANCE (TA) ACTIVITIES.....	4
G: 2000 SCHEDULE OF ACTIVITIES AND DISBURSEMENTS	5



INDIA: CFC PRODUCTION SECTOR GRADUAL PHASEOUT PROJECT 2000 ANNUAL PROGRAM

A. Introduction

1. India's proposal for a CFC production Sector gradual phaseout project was approved at the 29th meeting of the ExCom in Beijing on November 26, 1999, as described in MLF document no. UNEP/OzL.Pro/ExCom/29/L. Beginning in 1999, India is required to adhere to annual CFC production ceilings as indicated in Section B below. Adherence to the Program will lead to a total payment to India of \$82 million, subject to conditions that have been agreed between India and the ExCom, to be paid out in annual tranches as also indicated in Section B. The first payout of \$12 million will be made to India after the Grant Agreement indicating the terms for the project is signed between India and the World Bank.

2. The total payment of \$82 million to India includes an allocation of \$2 million towards technical assistance activities. For the 1999 grant, the total provision for technical assistance will be based on a pro rata proportion of the tranche based on this provision, or approx. \$300,000.

3. This Annual Plan is prepared based on data and information provided by India during previous Bank missions, as well as discussions in India with the Ozone Cell, Ministry of Environment and Forests, and with representatives of industry, in December 1999.

B. Phaseout Schedule and Strategy

4. India's agreed CFC production limits under the project are ahead of the phaseout obligations under the Montreal Protocol. Production of Annex A CFCs in 1999 (CFC-11 and CFC-12 only, since other CFCs are no longer in production) are not to exceed the 1999 production freeze level of 22,588 MT ODP. Production is planned to be reduced on a linear basis (at approx. 1,883 MT per year) to reach the required level of 50 percent of the freeze level by 2005, or 11,294 MT ODP. There will be a further linear reduction to achieve the limit of 15 percent of production by 2007, and again to completely stop production of CFCs by January 1, 2010. Details of annual production, and of performance-based tranche payments, are provided in Table I below. India has full flexibility to determine the deployment of grant resources towards achieving the phaseout, and there are no separate targets assigned for CFC-11 and CFC-12.

TABLE I: ANNUAL PRODUCTION PHASEOUT TARGETS AND ANNUAL GRANT TRANCHES

CY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Production Ceiling (ODP MT)	22,588	20,706	18,824	16,941	15,058	13,176	11,294	7,342	3,389	2,259	1,130	0
Grant Tranche (\$ million)	12	11	11	6	6	6	6	6	6	6	6	0
<i>Of which T.A. *</i>	0.29	0.27	0.27	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.12	

*: rounded off; the total TA payout over the project is \$2 million.

5. The complete phaseout of the sector will take place in three phases after the freeze in 1999: reduction to 50 percent of the freeze level in 2005, to 15 percent in 2007 and to 0 by January 1, 2010. As none of the four plants manufacturing CFCs in India are currently scheduled for closure, the achievement of project bench-marks will be based on monitoring of production levels at each of the enterprises. The individual 1999 (calendar year) production limits, and the quotas assigned to each of the enterprises in 2000, are summarized in Table II below. The quotas assigned for 2000 are contingent on the verification and confirmation through production audit that the 1999 production limits were met.

TABLE II: PRODUCTION QUOTA FOR 1999 & 2000 FOR EACH ENTERPRISE

(Metric Tons)

Company Name	1999	2000
SRF Limited	6270.795	6145.863
Gujarat Fluorochemicals Ltd.	7482.461	7481.720
Navin Fluorine Industries	7334.873	5248.997
Chemplast Sanmar Ltd.	1499.871	1829.420
TOTAL	22,588	20,706

6. The verification of production levels will be carried out through the following mechanisms:

(i) India has agreed to freeze production in 1999 at 22,588 MT. A production audit to establish that the 1999 level of production was achieved, will be conducted and a report submitted to the second meeting of the ExCom in 2000.

(ii) The Government of India will establish a tradable production quota regulation, and will allocate individual enterprise quotas under this regulation to meet the annual targets.

(iii) The verification of production phasedown in any particular year will depend largely on how India intends to meet the production targets for that year, and could vary from inspection of total closure of all CFC production to staged reduction of CFC production leading to eventual closure, with continuing HCFC production. No closure is planned for the immediate future, and for verification of 1999 and 2000 production the Bank's audit team will carry out rigorous monitoring of an auditing nature, including inspection of records of raw material purchases, product tonnage released for sale, export licences, domestic sales, inventories, quota licences and other data to ensure correlation with quotas.

C. Objectives of the 2000 Annual Program (from January 1 to December 31)

7. As indicated in Table II above, aggregate production of CFC in India will be a maximum of 20,706 MT ODP for the year 2000. At the end of 2000, India would have phased out an additional 1,882 MT of CFC production, measured from the actual national CFC production level in 1999.

8. The following expenditures will be incurred during 2000:

1999 Grant

- (a) Approximately \$ 11.7 million will be paid out as compensation to the four CFC producers.
- (b) Approximately \$ 300,000 will be provided for technical assistance activities, including establishment of a project management unit (PMU) for monitoring implementation of the project.

2000 Grant

Approximately \$ 11.0 million will be paid out as compensation to the four CFC producers.

D. Program activities during the year 2000

Policy actions

9. India already has in place a comprehensive policy package on fiscal incentives for use of non-ODS substances, and on regulations relating to exports and imports (as described in detail in the Bank project document submitted to the 27th ExCom). The following additional policy measures which are considered necessary to implement the first Annual Program and to meet the targets of the total CFC production phaseout in India will be introduced by the Government:

- (a) As indicated above, a tradable production quota regulation will be introduced. This is one of the most important policy measures that the Government is introducing for the phaseout of CFC production. A draft regulation has already been prepared by the Government and is ready for promulgation. The production quota regulation will establish control on CFC production at the national level, set up a licensing system for production of CFCs, and establish penalties for violations. This regulation is a key policy instrument for accomplishing CFC phaseout. It also offers CFC producers some flexibility, as the regulation allows producers to trade their quota among themselves, subject to prior approval of trading proposals by the Ozone Cell, Ministry of Environment and Forests.
- (b) ***The ODS (Regulation) Rules*** under the Environment Protection Act, which will work to regulate and record production, sale and consumption of all ODS, are also expected to be promulgated in the year. These rules will substantially strengthen the overall monitoring arrangements in place.

E. Enterprise-level activities

10. All the four enterprises will continue to produce CFCs in 2000 under the established quotas, which will be assigned by the ozone Cell to the producers based on agreed proportions of the national total quota. Through the production quota systems described above, enterprises will have the flexibility to transfer production quotas between eligible enterprises with the approval of the PMU/Ozone Cell.

F. Technical assistance (TA) activities

11. TA activities in the Sector Phaseout Plan will concentrate on: (a) strengthening the overall institutional framework for phaseout; (b) management, monitoring and evaluation capabilities of participating institutions; (c) training of enterprise managers involved in reporting on CFC production phaseout activities; and (d) information exchange. The terms of reference for managing the technical assistance component have been discussed with the Bank, and will form a part of the Grant Agreement that will be signed between the Bank with India. A detailed work program for each TA activity will be agreed with the Bank by June 2000. Main TA activities in 2000 will include:

- (a) *Training of personnel involved in implementation of phaseout activities* -- To implement the phaseout plan effectively, it is necessary to train staff from (i) local state pollution control boards, (ii) customs agencies, (iii) auditors, and (iv) staff from reporting units in the CFC production plants. Training is needed to both to prepare enterprises to report accurately on production bench-marks for the following year and to enable the concerned government officials to properly supervise CFC production and consumption, and to manage the tradable production quota system. This type of training will need to be repeated on an annual basis in the first few years of implementation. This will also include technical advice to the CFC producers with environmental analysis and preparation of Environmental Management Plans for plant closure/conversion, as needed.
- (b) *Development of a Management Information System (MIS) for the CFC Production Phaseout Plan* -- The MIS is considered an important tool in the management and supervision of all phaseout activities, and a basic instrument to generate progress reports on the implementation of the CFC production sector phaseout. It will be used as a monitoring instrument and will also provide auditors with detailed information on CFC production and the overall progress of the program. A computer-based information management center will be established in the PMU.
- (c) *Studies on issues arising out of reduction in CFC production:* As India phases out CFC production and consumption, various new policy requirements are expected to emerge. Initially, monitoring of both imports and exports will become increasingly important to prevent illegal trade. Research on substitute chemicals, on recovery and recycling and design and implementation of public

awareness campaigns would also be taken up. The funding request for such activities in the 2000 Annual Program is only to initiate preparatory work. More funding will become necessary in later years as these issues crystallize, and will be requested as part of specific technical assistance activities in annual programs.

G. 2000 Schedule of Activities and disbursements

12. Disbursements through the year will be conditioned on achievement of specified benchmarks. The proposed schedule of activities and disbursements for the year 2000 is as follows:

1999 Grant

- i. \$12 million after signature of Grant Agreement.

2000 Grant

Conditions for first disbursement - 50 percent

- i. Annual program approved by the Bank and ExCom at the first meeting in 2000.
- ii. Government issues order establishing Quota Regulation system.
- iii. Quotas are allocated for 2000.
- iv. India confirms that CFC production in 1999 did not exceed production target set.

Conditions for second disbursement (after 2nd ExCom meeting) – 30 percent

- i. Production audit for 1999 is conducted and reported at 2nd meeting of ExCom.
- ii. India reports in 1st week of July the Jan. – June performance for 2000 and on performance of annual program
- iii. Any other conditions agreed for the period (Jan. – June) between the Bank and India.

Conditions for third disbursement (early 2001) – 20 percent

- i. Performance audit for 2000 to be conducted in January 2001.
- ii. Bank confirms that progress is satisfactory, or adjusts grant for penalties if any.
- iii. Any other conditions specified in the annual program.

13. The above policy initiatives, enterprise-level and technical assistance activities are summarized in Table III below.

TABLE III: 2000 ANNUAL PROGRAM

CFC production phaseout targets & policy initiatives						
	Funding Requested (\$ million)	Start of Program ¹ (MT ODP)	Phaseout Target (MT ODP)	End of Program ² (MT ODP)	Key Actions Required	Key Dates
CFC (11 & 12) Production	11.7	22,588	1882	20,706	1. Establishment of quota regulations 2. Reduction of production at 4 enterprises 3. Initiation of TA activities to help phaseout. 4. Progress Reporting. 5. Performance audits to verify 1999 production.	1. Early 2000 2. Jan.- December '00. 3. Through '00. 4. 2 reports in '00. 5. Two missions for 1999 and part of 2000 performance.
Policy Initiatives						
Initiatives	Actions Required					Key Dates
Tradable production quota for CFC producers	1. Establish production quota system 2. Establish 2000 annual CFC production quota ; 3. Issue annual production quota to CFC producers for 2000					January-March 2000
Technical assistance activities						
Activities	Funding requested (US\$)	Actions Required			Key Dates	
1. Training	t.b.d.	1. Training on supervision of CFC production, management of CFC production quota system, CFC project implementation manual			By March 2000	
2. MIS development	t.b.d.	1. Set up MIS in PMU			By March 2000	
3. Studies	t.b.d.	Initiate activities for research on production of CFC substitutes, import and export issues, recovery and recycling, and public awareness campaigns.			By March 2000	
TOTAL for phaseout activities	292,680					

2.27.00, L:\CFCProduction\Annual plan 2000.doc

¹ Average production for establishing 1999 baseline level

² Maximum production allocated for calendar 2000