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

Addendum

PHASE-OUT STRATEGY FOR THE TOBACCO SECTOR IN CHINA

Introduction

1. The Fund Secretariat and UNIDO concluded discussions on the tobacco sector plan for CFC-11 phase out in China (Sector Plan).

Proposed phaseout strategy

2. The Government of China is proposing a quota system for the implementation of the phaseout CFC-11 consumption in the tobacco sector starting on 1 January 2001 with a complete phase out by 31 December 2006 as shown in Table 1 below:

Table 1. Proposed CFC-11 phaseout schedule for the tobacco sector

	Year						
	2001	2002	2003	2004	2005	2006	2007
CFC-11 consumption (tonnes)	1,000*	880	700	500	300	150	0
Amount to be phased out (tonnes)	90	120	180	200	200	150	150

* Includes 76 ODP tonnes which are not eligible for funding.

Incremental costs

3. The total incremental cost of the Sector Plan proposed for funding by the Multilateral Fund has been calculated at US \$11 million, with a cost effectiveness of US \$11.9/kg. The basis for the calculation of the incremental costs as agreed between the Fund Secretariat and UNIDO is as follows:

- (a) Capital cost calculation was based on the cost of a total of four carbon dioxide-based expansion units, with a total expansion capacity equivalent to the amount of tobacco being currently expanded with CFC. The total capital cost of the four units is estimated at US \$32.85 million.
 - (b) The net operating savings were calculated over a 6-year period on the basis of a consumption of 924 tonnes of CFC-11 and an expansion rate of 90 per cent (instead of 80 per cent as proposed in the Sector Plan). The total net savings realized over the 6-year period (NPV) are estimated at US \$22.85 million.
 - (c) Provision of a technical assistance programme at a cost of US \$1 million.
4. UNIDO's support cost has been estimated at 9 per cent of total project cost.
5. The Government of China, through the State Tobacco Monopoly Administration, will be responsible for installing additional carbon dioxide-based expansion units as indicated in the Sector Plan.

Funding provisions

6. The Government of China is proposing to use the funds provided by the Multilateral Fund to purchase quotas from eligible enterprises. The proposed annual funding (in million US \$) is shown in Table 2 below:

Table 2. Proposed funding (in million US\$)

	<u>Year</u>						
	2001	2002	2003	2004	2005	2006	Total
US\$ for CFC-11 closures	1.7	1.7	1.7	1.7	1.7	1.5	10.0
US\$ for technical assistance	0.3	0.3	0.3	0.1	0	0	1.0
Total (million US\$)	2.0	2.0	2.0	1.8	1.7	1.5	11.0

7. The Government of China is requesting the Executive Committee to consider approving the Sector Plan and funding each annual programme in accordance with the disbursement schedule shown in Table 2 above and the CFC-11 phaseout targets in Table 1.

8. The Government of China, through UNIDO, proposes to submit for the consideration of the Committee at its 32nd Meeting a request for funding of the 2001 annual programme (in the amount of US 2 million). Subsequent annual work programmes will be submitted to the first meeting of the Executive Committee in the year of the work programme. Approval of the 2002 and subsequent annual work programmes will be based on the achievement of CFC-11 phaseout targets and other performance indicators proposed in the Sector Plan.

9. The Sector Plan and the quotas system include remedial actions in the event that the Government of China fails to meet the CFC-11 phaseout targets or other performance indicators proposed in the Plan. (For example, enterprises consuming CFC-11 in excess of established quotas would have their quota for any given year removed and their CFC-11-based expansion unit closed immediately).

Recommendation

1. The Executive Committee may wish to consider approving in principle US \$11 million (excluding agency support cost) for the implementation of the Sector Plan in China, with the CFC-11 phaseout targets indicated in Table 1 above according to the annual funding schedule indicated in Table 2 above.

2. The Executive Committee may also wish to request UNIDO in consultation with the Secretariat to prepare a draft agreement between the Government of China and the Executive Committee governing disbursement modalities, performance requirements and monitoring procedures of the Sector Plan on the basis of the information contained in this document. The draft agreement should be submitted for consideration by the Executive Committee at its 31st Meeting.