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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-eighth Meeting
Rome, 20-22 November 2002

**REPORT OF THE EXECUTIVE COMMITTEE'S SUB-GROUP
ON PRODUCTION SECTOR**

1. The Executive Committee's Sub-group on the Production Sector met on the 20 and 21 November 2002 in Rome during the 38th Meeting of the Executive Committee, and was attended by representatives of Burundi, Canada, China, Colombia, El Salvador, France, and the United States of America. The representatives of UNIDO and the World Bank attended the meeting as observers. Mr. Wakim, President of Wakim Consulting, the firm which carried out the technical audit in Mexico was invited to attend as observer. The representative of Canada facilitated the meeting.
2. The meeting had on its agenda, among other things, the final report on the technical audit of the CFC production sector in Mexico, strategy for gradual phase out of CFC-11 and CFC-12 production in Argentina, and a request from the Secretariat a supplementary allocation to the account for production technical audits.
3. The Chief Officer first briefed the Sub-group on the developments in the production sector since the 37th meeting of the Executive Committee. The Secretariat concluded the bidding for contracting work for the CTC/TCA audits in India and China and had already awarded the contract for the Indian audit after the country provided the breakdown data on the CTC production between feedstock and other uses. The Secretariat received during this week similar data from China and would proceed to awarding the contract as soon as possible. The Chief Officer also informed that data collection through questionnaire was completed for the Venezuela audit and would be followed by a field visit soon by the consultant.
4. For the final audit report on the Mexican CFC production sector, the Sub-group heard a brief presentation from Mr. Wakim, President of Wakim Consulting, the firm which carried out the audit, and was later informed by El Salvador that the Mexican Government was going to

submit to the Secretariat its comments on the audit report. In the meantime the Government was ready to prepare the CFC production closure project. It was noted that it would have been better if these comments from Mexico had been received earlier so that the consultant could have provided his views on such comments.

5. The Sub-group recommended:

- To take note of the final report on the technical audit of the CFC production sector in Mexico,
- To request the Secretariat to send to members of the Sub-group the comments of the Government of Mexico on the audit report as well as the response of the consultant to the comments,
- To request UNIDO to take fully into account the findings of the audit report in preparing the CFC closure project.

6. During the session on 21 November 2002, the Sub-group received from the World Bank a draft agreement between the Executive Committee and the Government of Argentina on the phase out of the CFC production in Argentina. After reviewing the draft agreement, the Sub-group recommended to approve the Agreement for the Argentina Production Sector (attached) at a funding level of US \$8.3 million.

7. With regard to the request of the Secretariat for further replenishing the account for the technical audit of the production sector, the Sub-group recommended to approve US \$100,000 to enable the Secretariat to meet the commitments and planned commitment under this account.

AGREEMENT FOR THE ARGENTINA PRODUCTION SECTOR

1. The Executive Committee decides to approve in principle a total of USD8.3 million in funding for the phased reduction and closure of the entire CFC production capacity in Argentina. This is broken down with US \$7 Million to production closure, US \$800,000 for labour compensation and US \$500,000 for the project management unit.
2. This is the total funding that would be available to Argentina 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.
3. The agreed level of funding would be paid out in installments in the exact amounts specified in table 1, and on the basis of the following understanding:
 - (a) By this approval, Argentina agrees that in exchange for the funding level specified in table 1, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the allowable production in the same table:

Table 1

| Year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------|------|------|------|------|------|------|------|-------|------|
| Max, allowable production | 3020 | 3020 | 3020 | 1647 | 1647 | 686 | 686 | 686 | 0* |
| MLF funding US \$ million | 0,5 | 3,5 | 0 | 0,3 | 2 | 0 | 1 | 1 | |
| Agency fees US \$ million | 0,02 | 0,11 | 0.09 | 0,09 | 0.10 | 0.09 | 0.12 | 0.017 | |

(*) save for any CFC production that may be agreed by the Parties to meet essential uses for Argentina

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 above. The funds are to be approved at the first meeting each year. The Bank will disburse the funds following its rules for procurement;

- (b) Argentina agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. Argentina 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 annual CFC production levels agreed in table 1 and plant dismantling or destruction;
- (c) The Executive Committee wishes to provide Argentina with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in

paragraph (a). Accordingly, while Argentina's country program, 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 and the mode of implementation included in the Argentina project proposal, the funds provided to Argentina pursuant to this agreement may be used in any manner that Argentina believes will achieve the smoothest possible CFC production phase out.

- (d) Argentina agrees that the funds being agreed in principle by the Executive Committee at its Thirty Eighth 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 that use existing CFC infrastructure. It is also understood that aside from the agency fee referred to in paragraph g below and reflected in table 1, Argentina, 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.
- (e) Argentina understands that if the Executive Committee meets its obligations under this agreement, but Argentina does not meet the reduction requirements outlined in paragraph 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 table 1 until the required reduction has been met or the required dismantling has been completed. In addition, Argentina 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 tons 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 obligations by both Argentina and the Executive Committee.

- (f) The World Bank has agreed to be the implementing agency for this project. The fee for the project will be at 9% for project investment and labour costs * distributed during that time period, while 5% fee will be applied to the project management unit. As the implementing agency during that time period, the World Bank agrees to be responsible for:
- (i) Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met;
 - (ii) Ensuring that technical reviews undertaken by World Bank are undertaken by the appropriate independent technical experts such as the OORG;
 - (iii) Assisting Argentina in the development of its annual work program which incorporates achievements in previous annual programs;
 - (iv) Carrying out supervision missions as required;
 - (v) Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the program and accurate, verified reporting of data;
 - (vi) Incorporating its work into the existing agreement between Argentina and the Bank;
 - (vii) Ensuring that disbursements are made to Argentina based on agreed performance targets in the project, and the provisions of this agreement;
 - (viii) 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.
- (g) 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.

*(3% of this amount will be provided to the local financial agent)
