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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Forty-fourth Meeting  
Prague, 29 November – 3 December 2004

**PROJECT PROPOSAL: ARGENTINA**

This document consists of the comments and recommendations of the Fund Secretariat on the following project proposal:

Production

- Strategy for gradual phase-out of CFC-11 and CFC-12 production: World Bank  
2004 annual work programme

## Background

1. The Executive Committee at its 38<sup>th</sup> Meeting in 2002 approved, in principle, a total of US \$8.3 million for the implementation of the Agreement for the Production Sector in Argentina, and disbursed the first tranche of US \$0.5 million for the project. The annual CFC production limits and the funding tranches are set out in the following table.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Max, allowable production (metric tonnes)	3,020	3,020	3,020	1,647	1,647	686	686	686	0*	
MLF funding \$ million	0.5	3.5	0	0.3	2	0	1	1		8.3
Agency fees \$ million	0.02	0.11	0.09	0.12	0.10	0.12	0.12	0.047		0.727

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

2. In accordance with the terms of the Agreement which requests independent verification of the achievement of the annual production targets, the World Bank submitted to the 43<sup>rd</sup> Meeting in July 2004 the verification of CFC production in 2002 and 2003 by FIASA, the sole CFC producing plant in Argentina. The verification concluded that FIASA had produced 3,015 ODP tonnes of CFC in 2002 and 3,018 ODP tonnes of CFC in 2003, both of which were below the target of 3,020 ODP tonnes as established in the Agreement.

3. The World Bank is submitting the 2004 annual work programme and requesting the release of US \$3.5 million for the 2003 and 2004 tranches and associated support cost of US \$110,000 for 2003 and US \$90,000 for 2004. The World Bank has also submitted a reply to the comments of the Secretariat on the verification report of the 2002 and 2003 CFC production at FIASA which was submitted to the 43<sup>rd</sup> Meeting. The 2004 work programme and the reply from the World Bank are attached.

### 2004 annual work programme

4. The 2004 annual work programme includes the target for the CFC production by FIASA, the policy to be enacted by the Government for implementation of the CFC production phase-out plan and the technical assistance activities planned for the year 2004. The CFC production target for 2004 is 3,020 ODP tonnes, which is consistent with the target in the sector plan. The Government is ensuring the achievement of the target by instituting the production cap, which is supported legally by National Law No. 24.040/1991, which established controls on the production and sale of ODS. In addition, the Government will introduce from 1 January 2005 the national ODS import and export licensing system, which will set up a registry of ODS importers and exporters and allocate annual quotas to be managed by the Secretariat of Environment and enforced by the Customs.

5. The 2004 annual programme planned a number of technical assistance activities to support the sector plan and includes training the government staff to manage the national phase-out plan, exploring alternative business opportunities for FIASA and carrying out public

awareness campaigns. However none of these activities has been implemented because the Sub-grant agreement has not been signed between the Government and the World Bank.

6. For monitoring the implementation of the sector plan, the project implementation unit at the Secretariat of Industry and Commerce (UEPRO) will assign a professional on a part-time basis to visit FIASA to verify the production logs once a month.

7. Of the total funding of US \$8.3 million, US \$7.8 million would be paid to FIASA as compensation and the balance of US \$0.5 million would be used for managing the programme and carrying out technical assistance activities. The US \$3.5 million from the 2004 programme would be the first tranche to be paid to FIASA, which would be disbursed to the plant once the Sub-grant agreement is signed. Annex I has 4 tables with details on the various components of the 2004 programme.

### **Comments of the Secretariat**

4. The submission sets a CFC production target which is consistent with the target in the Agreement. The existing policy for controlling ODS production and the new import/export licensing system to be enacted in 2005 provide good support for the enforcement of the production control. The monthly monitoring exercised by EUPRO should provide assurance that the production cap is adhered to by the enterprise and production records maintained.

5. The project has been experiencing some delay in getting the sub-grant agreement signed although it is reported that it would be signed prior to the 44<sup>th</sup> Meeting.

### **Recommendations**

15. The Secretariat recommends that the Executive Committee may wish:

- (a) To take note of the reply of the World Bank to the comments on the verification of the 2002 and 2003 CFC production at FIASA of Argentina.
- (b) To approve the 2004 annual work programme for the CFC production phase-out plan in Argentina at the level of US \$3.5 million and the associated support cost of US \$200,000 for the World Bank for 2003 and 2004.

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**STRATEGY FOR GRADUAL PHASEOUT OF  
CFC-11 & CFC-12 PRODUCTION IN  
ARGENTINA**

**2004 ANNUAL PROGRAM**

OPROZ / UEPRO  
AND

THE WORLD BANK

**September 2004**

## 1. DATA

<b>Country</b>	Argentina		
<b>Year of plan</b>	2004		
<b>No. of years completed</b>	1		
<b>No. of years remaining under the plan</b>	6		
<b>Total ODS to be phaseout through the Strategy for Gradual Phaseout of CFC -11 &amp; CFC -12 Production in Argentina</b>	CFC – 11 + CFC – 12: 3020		
	ODS 3:		
	ODS 4:		
<b>ODS Production for the Previous year (MT)</b>		Target	Actual
	CFC	3,020	3.018
	ODS 2		
	ODS 3		
	ODS 4		
<b>CFC production independently verified</b>	Yes		
<b>Target ODS Consumption for the year of the plan (MT)</b>	CFC : 3,020 MT		
	ODS 2		
	ODS 3		
	ODS 4		
<b>Total MLF funding approved for the Plan</b>	US\$ 8.3 Million		
<b>Total funds released so far</b>			
		Funding	Disbursed (*)
<b>Total funding disbursed on annual plans</b>	Year 1	500,000	0
	Year 2	3,500,000	0
	Year 3	0	0
	Total	4, 000,000	0
<b>Level of funding requested for this AP</b>	US\$ 3,500,000		
<b>Lead implementing agency</b>	The World Bank		
<b>Co-operating agency (ies)</b>	UEPRO		
	OPROZ (Secretariat of Environment and Sustainable Development)		

(\*) No disbursements have taken place due to the delays in the Signature of the Sub Grant Agreement between the Government of Argentina ( GOA) and FIASA.

## A: INTRODUCTION

**Provide a brief general overview on the status of the implementation of the NOPP/SOPP and recent progress, new initiative, achievements etc.**

- 1 In compliance with the Montreal Protocol, the Government of Argentina (GOA) should fulfill the obligations on phasing-out CFC-11&12 production by 2010. The CFC Production Phase-out Plan for Argentina was approved at the 38th meeting of the Executive Committee (ExCom) of the Multilateral Fund for the implementation of the Montreal Protocol and involves a sole production facility at Frio Industrias Argentinas S.A. (FIASA). The table below summarizes the phase out schedule as per the Agreement between the ExCom and the GOA:

**Table1: Phase-out schedule as per the Agreement with ExCom:**

Year	CFC-11 and CFC-12		MLF funding (in Mill USD)	
	Target	Actual	Project funding	Support costs
2002	3,020	3,015	0.5	0.02
2003	3,020	3,018	3.5	0.11
2004	3,020		0	0.09
2005	1,647		0.3	0.09
2006	1,647		2.0	0.10
2007	686		0	0.09
2008	686		1.0	0.12
2009	686		1.0	0.017
2010	0		0	0
<b>Total</b>	<b>3,020</b> <b>(Total impact)</b>	<b>3,020</b> <b>(Total impact)</b>	<b>8.30</b>	<b>0.637</b>

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

- 2 The World Bank has submitted the reports of the independent external audits for the years 2002 and 2003, proving the accomplishment of the proposed maximum production targets for that period.
- 3 Argentina will maintain its maximum CFC production level as agreed for 2004 of 3,020 MT, and will reduce its production (1,647 MT) by 2005.
- 4 The Subgrant Agreement (SGA) between the GOA and FIASA is expected to be signed before the 44<sup>th</sup> ExCom meeting.

## **B: 2004 ANNUAL PROGRAM**

### **1. STATUS OF IMPLEMENTATION 2004 ANNUAL PROGRAM**

In accordance with the phase out schedule agreed with ExCom, the GOA has complied with the maximum production caps for the years 2002 and 2003. OPROZ though UEPRO has implemented a monitoring system to support its surveillance activities over FIASA's production. During the first semester of 2004, no activities linked to the TA component were undertaken due to fact that the SGA with the enterprise has not yet been signed.

The phase-out plan includes the following activities:

- (a) Phasing out CFC production by 2010;
- (b) Dismantling FIASA's CFC production facilities;
- (c) Monitoring achievement of each year's production under the maximum cap agreed with ExCom
- (d) Implementation of policy measures and technical assistance activities to support the plan in a sustainable permanent manner

#### **1.1 Policies, regulations etc. and governmental actions and initiatives**

- (e) Import / Export licensing System: In January, 1, 2005, the Government of Argentina will have a National ODS licensing system in place. The system is based on a national registry of ODS importers and exporters and will be located, administrated by the Secretariat of Environment and enforced by the Customs, Quotas will be allocated based on historic import/export volumes, following ODS consumption restrictions established by the Montreal Protocol.



- (f) Annual Production caps in Argentina have been in compliance with the Montreal Protocol phased-out schedules in 2002 and 2003, and has been enforced by the Secretariat of Environment. Legally, the controls are supported by the National Law No. 24.040 /1991 which establishes controls to the production and commercialization of ODS.

## **1.2 Technical assistance activities**

The technical assistance component (\$500,000) will be implemented throughout the project implementation (up to 2010). The following activities will be implemented during 2004:

- *Supporting the GOA to strengthen technical capacity of local staff:* This will include training of GOA staff, plus workshops for various participants in the phase-out program, including training in reclamation and re-cycling;
- *Research for Market Prospects:* This will finance the pre-feasibility evaluation of alternative products/business for FIASA;
- *Public Awareness campaign:* This activity will support the ozone protection communication strategy prepared by OPROZ, and is linked to other activities currently being implemented by OPROZ;

The terms of reference and work schedule will be agreed with World Bank prior to initiating work.

## **1.3 Project Management Unit**

The existing project coordination unit established at UEPRO will continue its activities. However, UEPRO will allocate on a part-time basis one professional staff position from INTI (Instituto Nacional de Tecnología Industrial) for maintaining technical, financial and statistical records to manage this phase-out program. The consultant will visit the plant on a regular basis, at least once every four weeks, to verify production logs.

UEPRO will be provided with computing equipment and technical assistance to keep track of the information collected.

## **1.4. Compensation to FIASA**

The requested US\$3.5 Million is the first tranche of the plan approved for FIASA. Resources will be disbursed once the enterprise and the Government sign the SGA. The total amount of the Sub Grant Agreement is \$7.8 Million and will be disbursed in tranches according to the Agreement between the Executive Committee for the Implementation of the Montreal Protocol and the Government of Argentina. Additional \$500,000 approved by the Executive Committee for the Implementation of the Montreal Protocol are being used in Technical Assistance for the Government as detailed above.

## ANNEX 1

### PROPOSED ACTIVITIES IN THE 2004 ANNUAL PROGRAM

**TABLE 1A: POLICIES AND REGULATIONS**

<b>Proposed policy/regulation</b>	<b>Estimate costs</b>	<b>Ministry/Agency to be in charge</b>	<b>Planned date of effectiveness</b>
Import / Export licensing system		Secretariat of Environment and Sustainable Development	12/31/2004
Production caps		OPROZ / UEPRO	12/1/2004

**TABLE 1B TECHNICAL ASSISTANCE ACTIVITIES AND TRAINING ACTIVITIES**

<b>Name of TA/Training activity</b>	<b>Estimated costs</b>	<b>Duration</b>
Supporting the GOA to strength technical capacity of local staff;	15,000	1 Year
Research for Market Prospects	35,000	2 months
Public Awareness	10,000	1 Year
Facilitating monitoring capabilities and compliance with the agreement between Argentina and the Executive Committee of the MLF.	30,000	1 Year

**TABLE 1C: PROJECT MANAGEMENT UNIT**

<b>Name of activity</b>	<b>Estimated costs</b>	<b>Duration</b>
One professional staff part-time;	7,000	1 Year
Equipment	8,000	One time basis

**TABLE 1D: COMPENSATION TO FIASA**

<b>Name of activity</b>	<b>Estimated costs</b>	<b>Duration</b>
Signature of SGA with FIASA	3,500,000	2004

(\*) The total amount of the Sub Grant Agreement is \$7.8 Million and will be disbursed in tranches according to the Agreement between the ExCom and the GOA.

## **ANNEX 2**

**Contact Agency/Organization and person in charge of managing the national import/export licensing system.**

### **Secretariat of Environment and Sustainable Development**

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## ARGENTINA: CFC-11&12 PRODUCTION PHASE OUT PROJECT

### Follow up of the 43<sup>rd</sup> EXCOM Meeting – July 2004

In response to document UNEP/OzL.Pro/ExCom/43/26/add.1 prepared by the Multilateral Fund Secretariat for the 43<sup>rd</sup> meeting, the World Bank has the following comments:

#### CFC-11 and CFC-12 Production

**CFC-13 co-production:** Co-production of CFC-13 at FIASA is very low; based on typical co-production percentages for determined CFC-11/CFC-12 output ratios, it has been estimated somewhere between 1.0 - 1.6% of total CFC-11+12 production. As per the maximum production cap allowed under the agreement with ExCom (3020 MT), the maximum output of CFC-13 would fall in the range of 30.2 – 48.3 MT per year, whereas this maximum volume would significantly drop to 15.1 – 19.1 MT in 2005 (cap for CFC-11+12 = 1647 MT), and 6.9 – 11 MT in 2007 (cap for CFC-11 + CFC-12 = 686 MT).

**Monitoring and recovering CFC-13:** CFC-13 has a very low boiling point and it would take a fairly complex condensing system to recover it from the other non-condensable gases that are vented from the refining distillation column. To determine how much CFC-13 is actually co-produced, a careful analysis of the crude product stream would be required. Another possibility would also be to measure the hourly vent rate of non-condensable gases from refining and carry out an analysis on this stream to determine the % of CFC-13; this would give a fairly accurate vent rate for the material.

**CFC-13 disposal:** Once the CFC-13 output is estimated, alternatives for disposal would have to be developed. Disposal of the captured CFC-13 would pose another problem in case it does not reach the standard to be sold as refrigerant grade CFC-13 (traces of CFC-12 and HFC-14 may be found). The installation of a refining vent tail gas incinerator to destroy all traces of fluorocarbons would consequently be a possible alternative; however, the destruction products would be HCl and HF with some serious corrosion problems that can be handled, but likely quite expensive. It is possible that a commercially available molecular sieve could be installed on the vent stream to capture the residual fluorocarbons, but again subject to a high cost.

**FIASA's capacity to deal with CFC-13:** As informed by FIASA and explained by the Bank, the company does not have the capacity to trace, recover or manage the co-production of CFC-13 (an Annex B, group II substance).

Based on information from CFC plants in the United States and China, none of the plants in those countries have CFC-13 recovery facilities; in the case of India, there isn't evidence of recovery or disposal activities. In the United States, China and Russia, CFC-13 was produced in special facilities dedicated to its production rather than attempt to recover it from CFC 11/12 plants. Comparing the highest CFC-13 output in FIASA to the

lowest overall volumes co-produced in any of the alluded countries, the formers potential emissions turn insignificant. Moreover, it does not affect Argentina's compliance with the phaseout agreements for CFC production.

The main concerns about investing in monitoring and recovery activities would be the high costs involved in dealing with such a low concentration by-product in a plant with a very limited remaining lifetime.

Disposing of CFC-13 at FIASA would require additional funding to cover incremental costs, which were not included in the approved closure project in 2002. However, the Bank could estimate the associated incremental costs to be incurred and report back to ExCom for its consideration.

#### The 2004 Annual Program

A work program has been produced in coordination with the Government of Argentina (Attached).

#### CTC Stocks

The consultant that carried out the audit report has informed to the Bank that FIASA does not have the capacity to trace specific components within the reactor. The data provided on the verification report was based on estimates from the percentage of production of CFC-11 and CFC-12 for 2002 and 2003; and it was done to fill out the agreed format for verification audits.

#### Daily CFC Production Records

Daily CFC production records are being stored and filed at the plant since February 18, 2004.

#### Qualification of the Verification Team

The Bank will ensure that the verification team for the CFC Production Verification in 2004 includes a member with financial and accounting background.