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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Fifty-fourth Meeting  
Montreal, 7-11 April 2008

**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  
2008 annual programme

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## PROJECT DESCRIPTION

### 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 subsequently approved the 2003 to 2007 annual programmes at a total cumulative level of US \$6.3 million. The successful implementation of the phase-out plan has reduced the CFC production at the sole CFC producer Fábrica de Implementos Agrícolas (FIASA) from 3,020 mt in 2002 to 1,645 mt in 2006 as verified by the World Bank.

2. Further, the Executive Committee at its 53<sup>rd</sup> Meeting in 2007 approved the Agreement to accelerate CFC production phase-out in Argentina according to the revised production phase-out and funding schedule as shown below. The Committee released at that Meeting the additional US\$2.3 million plus the associated support cost for the accelerated production closure.

Table 1. Production targets

Description	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Target under current agreement	3,020	3,020	3,020	1,647	1,647	686	686	686	0
2. Verified production	3,015	3,018	3,016	1,645	1,645	-	-	-	-
3. Proposed production under APP						686	0	0	0

Table 2. Funding

Description	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Funding under current agreement	0.5	3.5	0.0	0.3	2.0	0.0	1.0	1.0	0.0
2. Support costs under Existing Agreement	0.020	0.110	0.090	0.120	0.100	0.120 <sup>(1)</sup>	0.120	0.047	0.0
3. Total adjusted funding for the APP						2.3 <sup>(2)</sup>	1.0	1.0	0.0
4. Programme support costs for the APP						0.173 <sup>(3)</sup>	0.0	0.0	0.0
5. Total funds to be released to the country and I.A.						2.593	1.12	1.047	0.0

Notes:

<sup>(1)</sup> The programme support cost of \$0.12 million for 2007 will be released as part of the 2007 work program.

<sup>(2)</sup> Adjusted funding for the APP is equal to \$2.3 million for not producing 1372 mt of CFCs in 2008 and 2009. This funding amount will be released in full by the Executive Committee at the 53<sup>rd</sup> Meeting. For the remaining tranches for 2008 and 2009, funds will be released at the first meeting of the year as per the terms and conditions stipulated in the original Agreement between Argentina and the Executive Committee.

<sup>(3)</sup> Programme support costs are equal to 7.5% of the \$2.3 million.

3. The World Bank is submitting to the 54<sup>th</sup> Meeting the verification report on the 2007 CFC production at FIASA and requested the release of the 2008 funding tranche of US \$1.0 million as well as US \$0.12 million in support costs for the World Bank. The verification report is not attached but could be made available upon request.

## **Verification report of the 2007 CFC production at FIASA**

4. The verification was carried out in October 2007 by a team consisting of a financial accountant and a technical consultant. In addition, the World Bank also provided an update on the status of the CFC production closure at FIASA between November and December 2007 after the verification had taken place in October.

5. The financial audit was conducted before the technical audit. Prior to undertaking on-site auditing, the financial consultant requested and received from the company information needed for the audit, which included:

- Daily production reports and monthly summaries of CFC-11/CFC-12 and HCFC-22 production;
- CTC movement card and dispatch note;
- Sales invoices for ODS products;
- Sales invoices for raw materials;
- Customs clearance and suppliers invoices for purchase of ODS products;
- Custom clearance and suppliers invoice for purchase of raw materials; and
- Value added tax books, with data on VAT sales, purchases, inventory and balances.

6. The financial consultant also had available the certified physical inventory of the company, which had been carried out by the public accountant, Marcos Leopoldo Vera. It is mandatory under the tax law of the country to certify the company's inventory balance with the National Fiscal Authority, an exercise that is implemented once a year by an independent licensed accountant.

7. The technical consultant used the results of the financial audit as well as data provided by the enterprise prior to his visit to the plant. He had access to the daily production logs, monthly summaries of CFC and HCFC production and raw material consumption, daily report on tank levels of CFC and CTC, daily packaging reports, daily inventory control records for CFCs, and sales records. He confirmed production quantities and raw material consumption from production logs, verify sales and procurements of ODS products against financial records, verify the inventory of CFC and CTC at the beginning and end of the year against financial records, and verify the final stock of CTC in the plant at the closure of the CFC production. He calculated the daily total production of CFCs and HCFCs to make sure that it did not exceed the maximum capacity of the plant on a daily basis. He examined the consumption ratio of CTC and HF to the CFC and HCFC-22 output to confirm their consistency with the past records of the plant.

8. Both CTC and HF are imported and the Government requires a pre-approved license for the import of CTC. Government inspection on imports take place at the port of entry to confirm that the amount is within the permit issued. The auditor confirmed from the financial records that there was a final inventory of 355.46 mt of CTC stored in the rented tanks at the Buenos Aires Port, which belong to FIASA, at the end of 2007.

9. The auditor reported that all the CTC tanks in the plant had been emptied and were being reconditioned for containing chloroform for HCFC-22 production. A buffer tank, which was used to contain neutralizing agent for CFCs, had been cleaned for recharging neutralizing agent for HCFC-22. The control panel for CFC production had been disconnected and removed from the control room as specified in the revised Agreement.

10. However the auditor stated that none of the dismantling done so far could prevent the plant from swinging back to CFC production because the plant had been designed to swing between CFC and HCFC-22 production, and the only way to prevent it reverting back to CFC production was to deny the plant access to CTC. Since the plant did not produce CTC and relied entirely on imports, and the Government had introduced quite effective controls on the licensing of CTC imports since 2004, there was a guarantee of sustaining the CFC production closure from the control of CTC imports.

11. The auditor reported that the plant had six campaigns producing a total of 625 mt of CFCs and HCFC-22 between the months of July and September, had shut down the CFC production in October 2007 and then refitted its facility for the production of HCFC-22. In terms of measuring the 2007 CFC production against the limit set in the Agreement, the verification concluded that FIASA produced 442.9 mt of CFCs in 2007, which was 64 per cent of the target of 686 mt set in the Agreement. The production was broken down into 91.95 mt for CFC-11 and 350.95 mt for CFC-12. The plant also produced 182.83 mt of HCFC-22 up until October but added another 477 mt of HCFC-22 in the months of November and December.

12. Annex I of the verification report contains the data presented in the format approved by the Executive Committee in the guidelines for verifying ODS production phase-out. It includes the month-by-month production of CFC-11 and CFC-12, the number of days of production, and the consumption ratios of feedstock to CFC and HCFC.

13. Annex II of the verification report presents the report of the financial audit. Annex III of the verification report is the Plant Engineer's explanation on why no component can be removed from the production plant without affecting HCFC production. Annex IV of the verification report contains photos showing the components that were removed or refitted for HCFC production.

### **2008 annual work programme**

14. The 2008 annual work programme will focus on ensuring the sustained closure of the CFC production at FIASA, which includes monitoring and verification at the plant level and control of CTC imports at the government level.

## **SECRETARIAT'S COMMENTS AND RECOMMENDATIONS**

### **COMMENTS**

15. The Secretariat noted that after the 2007 CFC production campaign, the FIASA plant shut down its CFC production and had refitted itself for producing HCFC-22. Since the plant was designed to produce both CFCs and HCFCs, dismantling the equipment in the control room would not totally remove the possibility to produce CFCs again. The only chance of preventing such a swing plant from reverting back to CFC production was to deny it access to CTC, the key raw material for CFC production. The import license control on CTC imports instituted by the Government since 2004 offers the only way to guarantee that. Therefore it is vital that the Government continues in a diligent manner to control CTC imports to ensure the sustainability of the CFC production phase out, including the remaining 355 mt CTC inventory left at the port.

## RECOMMENDATIONS

16. The Secretariat recommends that the Executive Committee:
- (a) Takes note of the verification report of the 2007 CFC production at FIASA, Argentina;
  - (b) Approves the 2008 annual work programme of the Argentina CFC production closure project at the level of US \$1.0 million and US \$120,000 as support cost for the World Bank; and
  - (c) Requests the Government of Argentina and the World Bank to continue monitoring the situation at FIASA, including carrying out a verification in 2009 and controlling its access to the supply of CTC to ensure the sustained closure of CFC production.

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