Annex XI

AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE PHASE-OUT OF ODS PROCESS AGENT APPLICATIONS (PHASE II)

1. This Agreement represents the understanding of China (the country) and the Executive Committee with respect to the complete phase-out of production and consumption for controlled uses of the ozone depleting substances set out in Appendix 1-A ("The Substance and PA Applications") prior to January 1 of 2010, in compliance with Protocol schedules.

2. The Country agrees to phase out the production and consumption for controlled uses of the Substances in accordance with the annual phase-out targets set out in Appendix 2-A ("The Targets, and Funding") under this Agreement. The annual phase-out targets will, at a minimum, correspond to the reduction schedules mandated by the Montreal Protocol. The Country accepts that, by its acceptance of this Agreement and performance by the Executive Committee of its funding obligations described in paragraph 3, it is precluded from applying for or receiving further funding from the Multilateral Fund in respect to the substances.

3. Subject to compliance with the following paragraphs by the Country with its obligations set out in this Agreement, the Executive Committee agrees in principle to provide the funding set out in row 7 of Appendix 2-A ("The Targets, and Funding") to the Country. The Executive Committee will, in principle, provide this funding at the Executive Committee meetings specified in Appendix 3-A ("Funding Approval Schedule").

4. Consistent with paragraph 3 (b) of Decision X/14 of the Meeting of the Parties, the amounts of CTC used for process agents applications listed in Decision XVII/8, Table A-bis, for each of the years 2006 to 2009 indicated in line 6 of the table in appendix 2A are considered to result in emission levels that are reasonably achievable in a cost-effective manner without undue abandonment of infrastructure

5. In addition to meeting the emission limits for PA I and PA II provided in line 3 and 4 of the Table in Appendix 2A, China further agrees to limit emission levels from any reconfirmed PA applications in Table A-bis of Decision 17/8 and any new potential process agent applications which might be decided by the Parties to the levels indicated in line 6 of the table.

6. The Country will reduce the residual emissions from the process agent applications for the production of chlorinated polypropylene (CPP) and chlorinated ethylene-vinyl acetate (CEVA) addressed in the phase II CTC sector plan to levels that might be agreed in future by the Parties without requesting additional assistance from the Multilateral Fund and the Agreement is entered into without prejudice to the determination by the Parties of maximum residual levels of emissions for process agent applications by Article 5 Parties.

7. If, during implementation of the phase II CTC sector plan, or at any time thereafter, China discovers applications, tonnes of CTC and/or uses (including new process agent categories) of CTC not otherwise explicitly covered in the phase II CTC phase-out sector plan, China commits to phase them out in a manner consistent with the phase-out schedule included in this Agreement at no additional cost to the Multilateral Fund.

8. The Country will meet the production and consumption limits of CTC as indicated in Appendix 2-A. It will also accept independent verification by the relevant Implementing Agency of achievement of these consumption limits as described in paragraph 12 of this Agreement. China also agrees to verify the annual amounts of CTC used for the process agent applications included in the interim Table A-bis of Decision XVII/8 and used as feedstock in the manufacture of non- ODS chemicals as part of its annual progress reporting, using the verification procedures endorsed by the Executive Committee at the 48th Meeting.

9. The Executive Committee will not provide the Funding in accordance with the Funding Approval Schedule unless the Country satisfies the following conditions at least 8 weeks prior to the applicable Executive Committee meeting set out in the Funding Approval Schedule:

(a) That the Country has met the Targets for the applicable year;

(b) That the meeting of the Targets set in row 4 in table in Appendix 2-A has been independently verified as described in paragraph 12; and

(c) That the Country has substantially initiated all actions set out in the last Annual Implementation Programme;

(d) That the Country has submitted and received endorsement from the Executive Committee for an Annual Implementation Programme in the form of Appendix 4-A ("Format for Annual Implementation Programmes") in respect of the year for which funding is being requested.

10. The Country will ensure that it conducts accurate monitoring of its activities under this Agreement. The institutions set out in Appendix 5-A ("Monitoring Institutions and Roles") will monitor and report on that monitoring in accordance with the roles and responsibilities set out in Appendix 5-A. This monitoring will also be subject to independent verification as described in paragraph 12.

11. While the funding was determined on the basis of estimates of the needs of the country to carry out its obligations under this agreement, the Executive Committee agrees that the country may have the flexibility to reallocate the approved funds, or part of the funds, according to the evolving circumstances to achieve the goals prescribed under this agreement. Reallocations categorized as major changes must be documented in advance in the next annual implementation programme and endorsed by the Executive Committee as described in sub paragraph 7 (d). Reallocations not categorized as major changes may be incorporated in the approved annual implementation programme, under implementation at the time, and reported to the Executive Committee in the report on implementation of the annual programme

12. The Country agrees to assume overall responsibility for the management and implementation of this Agreement and of all activities undertaken by it or on its behalf to fulfil the obligations under this Agreement. The World Bank has agreed to be the lead implementing agency ("Lead IA") in respect of the Country's activities under this Agreement. The Lead IA will be responsible for carrying out the activities listed in Appendix 6-A including but not limited to independent verification. The country also agrees to periodic evaluations, which will be carried out under the monitoring and evaluation work programmes of the Multilateral Fund.

The Executive Committee agrees, in principle, to provide the Lead IA with the fees set out in row 8 of Appendix 2-A.

13. Should the Country, for any reason, exceed the CTC production and consumption limits given in Appendix 2-A or otherwise does not comply with this Agreement, then the Country agrees that it will not be entitled to the Funding in accordance with the Funding Approval Schedule. In the discretion of the Executive Committee, funding will be reinstated according to a revised Funding Approval Schedule determined by the Executive Committee after the Country has demonstrated that it has satisfied all of its obligations that were due to be met prior to receipt of the next instalment of Funding under the Funding Approval Schedule. The Country acknowledges that the Executive Committee may reduce the amount of the Funding by the amounts set out in Appendix 7-A in respect of each ODP tonne of the amount exceeding the Maximum Allowable CTC Production and Consumption limit (Appendix 2-A) in any one year.

14. The funding components of this Agreement will not be modified on the basis of any future Executive Committee decision that may affect the funding of any other ODS sector projects or any other related activities in the Country.

15. The Country will comply with any reasonable request of the Executive Committee and the Lead IA to facilitate implementation of this Agreement. In particular, it will provide the Lead IA with access to information necessary to verify compliance with this Agreement.

16. All of the agreements set out in this Agreement are undertaken solely within the context of the Montreal Protocol and as specified in this Agreement. All terms used in this Agreement have the meaning ascribed to them in the Protocol unless otherwise defined herein.

APPENDIX 1-A THE SUBSTANCES AND PA APPLICATIONS

1. The ozone-depleting substance to be phased out under the Agreement is CTC production and consumption (Annex B, Group II) for the following CTC process agent applications (see decision XV/6 of the Fifteenth Meeting of the Parties (UNEP/OzL.Pro.15/9).

No.	Process agent application	Substance
19	Production of Cyclodime	CTC
20	Production of chlorinated polypropene	CTC
21	Production of chlorinated EVA	CTC
22	Production of methyl isocyanate derivatives	CTC
23	Production of 3-phenoxy bezaldehyde	CTC
24	Production of 2-chloro-5-methylpyridine	CTC
25	Production of Imidacloprid	CTC
26	Production of Buprofenzin	CTC
27	Production of Oxadiazon	CTC
28	Production of Chlordized N-methylaniline	CTC
29	Production of Mefenacet	CTC
30	Production of 1,3-dichlorobenzothiazole	CTC

APPENDIX 2-A THE TARGETS, AND FUNDING

Unit: ODP tonnes

	Baseline (2003)	2006	2007	2008	2009	2010
1. Max allowed CTC production for consumption under the MP	29,367	7,386*	7,386	7,386	7,386	4,471
2. Max allowable CTC consumption as per the Montreal Protocol control measures	55,891	8,383	8,383	8,383	8,383	0
3. Max allowable CTC consumption for Phase I	5,049	493	493	493	493	220
4. Max allowable CTC consumption for Phase II	5,411	6,945**	6,945	6,945	6,945	994[1]
5. Non identified CTC consumption	3,300	945	945	945	945	-
6. Max allowable amount of CTC used in process agent applications listed in the interim table A-bis of Decision XVII/8 and in potential future process agent applications as identified and reported by China in its annual verification reports* **	NA	14,300	14,300	14,300	14,300	0****
Multilateral Fund funding (in US$ thousands)						**TOTAL**
7. MLF Funding for Phase II		25,000	10,000	10,000	1,500	46,500
8. Agency support costs for Phase II		1,875	750	750	112.5	3,487.5

Notes: 1. provided emissions are accepted by the Parties as eligible, under decision X/14

* The allowed CTC production for consumption includes the additional production of 10% of base level allowed for basic domestic need from 2005 to 2009 and 15% from 2010

** The Bank will verify consumption by companies and applications covered by the PA II Sector Plan (Row 4). The annual verification will cover a random selection of at least 30% of all enterprises covering at least 30% of the PA II consumption,

*** These figures are subject to reconfirmation at the 50th Executive Committee Meeting. The CTC use figures for the years 2007, 2008 and 2009 will be reviewed by the Executive Committee and may be amended. China will verify the annual amount of the CTC amounts used in those applications consistent with the procedures established for CTC feedstock uses and endorsed by Executive Committee at its 48th Meeting.

**** The amount of CTC used will be reduced to zero, or any insignificant levels of emissions which might be approved by the Parties, by January 1, 2010.

APPENDIX 3-A FUNDING APPROVAL SCHEDULE (US$'000)

1. Funding other than the payments in 2006, will be considered for approval at the second meeting of the year of the annual implementation plan. The agreed funding level for each year is shown in row 7 in Appendix 2-A.

APPENDIX 4-A- FORMAT FOR ANNUAL IMPLEMENTATION PROGRAMMES

1. The 2006 AP of the CTC/PA sector plan (phase II) submitted with the PA II Sector Plan is consistent with the agreed format for Annual Programs. This format will be used for following years Annual Implementation Programs

APPENDIX 5-A MONITORING INSTITUTIONS AND ROLES

1. Project Management Officer (PMO) of SEPA is the core organization for monitoring the implementation of the PA II Sector Plan with the responsibility for reporting to the World Bank. The PMO will be responsible for monitoring implementation of policy measures and technical assistance activities and for submitting quarterly progress reports to the Bank.

2. The Domestic Implementing Agency (DIA) will assist PMO in managing implementation of PA II Sector Plan and will submit quarterly reports to PMO.

3. The implementation status of the PA II Sector Plan will be reported to Executive Committee once a year through Annual Implementation Programmes.

4. The Bank will supervise the implementation of AIPs and will have access to any ongoing and completed activities, including random visits to PA enterprises and CTC producers under the PA II Sector Plan.

APPENDIX 6-A ROLE OF THE LEAD IMPLEMENTING AGENCY

1. The Lead IA will be responsible for a range of activities to be specified in the project document along the lines of the following:

(a) Ensuring performance and financial verification in accordance with this Agreement and with its specific internal procedures and requirements as set out in the Country’s phase-out plan;

(b) Providing verification to the Executive Committee that the Targets have been met and associated annual activities have been completed as indicated in the annual implementation programme;

(c) Assisting the Country in preparation of the Annual Implementation Programme;

(d) Ensuring that achievements in previous Annual Implementation Programmes are reflected in future Annual Implementation Programmes;

(e) Reporting on the implementation of the Annual Implementation Programme of the preceding year and preparing an Annual Implementation Programme for the year for submission to the Executive Committee;

(f) Ensuring that technical reviews undertaken by the Lead IA are carried out by appropriate technical experts;

(g) Carrying out required supervision missions;

(h) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the Annual Implementation Programme and accurate data reporting;

(i) Verification for the Executive Committee that consumption of the Substances has been eliminated in accordance with the Target;

(j) Ensuring that disbursements are made to the Country in a timely and effective manner; and

(k) Providing assistance with policy, management and technical support when required.

APPENDIX 7-A REDUCTIONS IN FUNDING FOR FAILURE TO COMPLY

1. In accordance with paragraph 9 of the Agreement, the amount of funding provided may be reduced by US $ 1,000 per ODP tonne of reductions in production and consumption not achieved in the year.