Annex XI

AGREEMENT FOR CFC PHASE-OUT IN THE POLYURETHANE FOAM SECTOR IN CHINA

1. The Executive Committee approves in principle a total of US $53,846,000 (including US $2 million for technical assistance) in funding for the phased reduction and complete phase-out in the consumption of CFC-11 used in the polyurethane foam sector in China. This is the total funding that would be available to China from the Multilateral Fund for the total elimination of CFC use in the polyurethane foam sector in China. The agreed level of funding would be paid out in instalments in the exact amount of US dollars specified in paragraph 2, and on the basis of the understanding set out in this agreement.

2. By this agreement, China commits that in exchange for the funding level specified below, it will eliminate its total CFC consumption in the manufacturing of polyurethane foam in accordance with the phase-out target and CFC-11 consumption limits as indicated in the Table 1 below. CFC consumption phase-out achieved in the polyurethane foam sector in excess of the specified target for a given year will contribute to achievement of the phase-out targets in subsequent years.

Table 1:
Control Targets for CFC-11 Consumption in the Polyurethane Foam Sector in China (ODP tonnes) and Equivalent Funding (US$ '000)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Annual national CFC-11 consumption limit(ODP tonnes)	17,200	15,500	13,100	10,400	7,700	4,130	3,800	300	0	
Annual CFC-11 consumption limit in PU foam sector (ODP tonnes)	14,143	13,830	11,666	9,646	7,164	3,821	3,553	102	0	
Annual CFC-11 phase-out targets in PU foam sector (ODP tonnes)	2,000	2,500	2,500	2,500	600	551				10,651
Total annual funding	9,940	12,570	10,903	10,903	3,320	2,676	1,767	1,767		53,846
Programme Support Cost	886.6	1,115.3	961.27	961.27	282.8	240.84	159.03	159.03		4,766.14
Total cost to the Multilateral Fund	**10,826.6**	**13,685.3**	**11,864.27**	**11,864.27**	**3,602.8**	**2,916.84**	**1,926.03**	**1,926.03**		**58,612.14**

3. The Executive Committee also agrees in principle that the funds for the implementation of the annual programme for any given year will be provided at the last meeting of the Executive Committee in the preceding year, in accordance with the above table for the exact amount listed in the table for that year and on the basis of the implementation programme for the year, subject to the performance requirements contained in this agreement. On this basis, the payment indicated in year 2003 will be provided at the last meeting in 2002, and so on.

4. Payments noted in Table 1, other than the 2002 implementation programme, will be released based on confirmation that: all agreed phase-out targets and consumption limits in Table 1 for the previous year have been achieved; it has been verified that the activities planned for the previous year were undertaken in accordance with the annual implementation programme, and CFC phase-out contracts had been signed amounting to at least 50% of the current year contract targets and 100% of the previous year contract targets. Verification would be contingent upon site inspection of a minimum of 15% of the conversion activities accounting for a minimum of 15% of the CFC consumption of the annual implementation programme to confirm performance. For example, payment in 2003 for the implementation of the 2004 implementation programme will be conditional on satisfactory verification that China had, as a minimum, met all phase-out targets and consumption limits for 2002 and signed phase-out contracts for 50% of the 2003 phase out contract targets and 100% of the 2002 phase out contract targets as specified in Table 1 and as provided in detail in the 2002 and 2003 implementation programmes. Payment in 2004 for the 2005 implementation programme would be released based on confirmation that the 2003 phase-out targets and consumption limits had been met, all 2004 implementation programme activities had been completed and phase out contracts amounting to at least 50% of the 2004 annual programme contract targets and 100% of the 2003 annual programme contract targets had been signed; and so on for future years. In the event that there was a shortfall in the phase-out total of signed contracts against any of the contract targets for the given and previous years, funding equivalent to the deficit would be held back and considered for release by the Executive Committee when all additional contracts had been signed and the targets met.

5. China acknowledges that approval and funding of this project will leave a residual amount of 18,441 ODP tonnes of national aggregate consumption of CFCs that are unfunded (29,092 ODP tonnes of CFC consumption after approved but unimplemented projects are netted out less 10,651 ODP tonnes funded through this project). In addition, China acknowledges that implementation and subtraction of related reductions from the already approved tobacco sector project, solvents sector project and commercial refrigeration sector phase-out projects in accordance with agreements covering those sectors will result in a total level of CFCs remaining unfunded of 6,604 ODP tonnes. (In the commercial refrigeration sector, it is assumed that agreed incremental cost for the remaining projects will be approved at the Thirty-sixth Meeting of the Executive Committee). Finally, China has acknowledged through this project that 1,859 ODP tonnes of current CFC consumption in the foams sector are ineligible for Fund assistance because related capacity was installed after July of 1995. Therefore, China acknowledges that fulfilment of this foam sector project, together with the other projects noted above will leave China with a maximum level of further assistance aimed at reducing a residual of 4,745 ODP tonnes of CFCs.

6. The Government of China agrees to ensure accurate monitoring of the phase-out. The Government of China will provide regular reports, as required by its obligations under the Montreal Protocol and this Agreement. Consumption figures provided under this agreement will be consistent with China's reports to the Ozone Secretariat under Article 7 of the Montreal Protocol.

7. The Government of China also agrees to allow independent verification audits as provided for in this agreement, and in addition, external evaluation as may be directed by the Executive Committee, to verify that annual CFC consumption levels correspond to those agreed in Table 1 and that implementation of the sector plan proceeds as scheduled and agreed in annual implementation programmes.

8. The Chinese polyurethane foam sector plan which supports this Agreement, Chinese Country Programme and other related documentation may include estimates of specific funds that were thought to be needed for specific items. Notwithstanding this, the Executive Committee wishes to provide China with flexibility in using the agreed funds to meet the consumption limits agreed in the Table 1. The Executive Committee has the understanding that during implementation, as long as it is consistent with this Agreement, the funds provided to China pursuant to this Agreement may be used in the manner that China believes will achieve the smoothest possible CFC polyurethane foam sector phase-out, consistent with operational procedures as agreed between China and the World Bank in the polyurethane foam sector plan as revised and as indicated in the annual implementation programmes. In the Executive Committee's acknowledgement of the flexibility available to China in achieving a complete CFC phase-out in the polyurethane foam sector, it is noted that China is committing to contribute the necessary level of resources for the implementation of the plan and for achieving the consumption limits in paragraph 2 of this agreement.

9. The Government of China agrees that the funds being agreed in principle by the Executive Committee at its 35th Meeting for the complete phase-out of CFC-11 consumption in the polyurethane foam sector are the total funding that will be available to China to enable its full compliance with the reduction and phase-out as agreed with the Executive Committee, and that no additional Multilateral Fund resources will be forthcoming for any related activities in the polyurethane foam sector. It is also understood that aside from the agency fee referred to in paragraph 11 below, the Government of China, the Multilateral Fund, and its Implementing Agencies, and bilateral donors will neither request nor provide further Multilateral Fund related funding for the accomplishment of the total phase-out of CFCs in the polyurethane foam sector.

10. The Government of China agrees that if the Executive Committee meets its obligations under this Agreement, but China does not meet the reduction requirements outlined in paragraph 2, and other requirements outlined in this document, the Implementing Agency and the Multilateral Fund will withhold funding for subsequent tranche of funding outlined in paragraph 2 until such time as the required reduction has been met. It is clearly understood that the fulfilment of this agreement depends on the satisfactory performance of its obligations by both the Government of China and the Executive Committee. In addition, China understands that regarding all calendar year targets beginning with 2002, in paragraph 2 of this agreement, the Multilateral Fund will reduce the subsequent tranche and therefore the total funding for CFC-11 phase-out in the polyurethane foam sector on the basis of US$ 10,000 per ODP tonne of reduction not achieved in any year.

11. The World Bank has agreed to be the Implementing Agency for the implementation of this Sector Plan which will be completed in 2010. A fee of a total of 9 per cent of the value of investment activities and 5 percent of the value of the technical assistance and support activities has been agreed in accordance with provisions of this Agreement as indicated in Table 1. The

technical assistance and support activities shall be identified in objects of expenditures as per the agreement between the World Bank and the Executive Committee. As the implementing agency, the World Bank would be responsible for the following:

a) Ensuring performance and financial verification in accordance with specific World Bank procedures and requirements as specified in the polyurethane foam sector plan, as revised;

b) Reporting on the implementation of the annual implementation programmes to be included as part of each annual programme starting with the submission for the 2003 annual implementation programme prepared in 2002;

c) Providing verification to the Executive Committee that the control targets listed in Table 1 and the associated activities have been met;

d) Ensuring that technical reviews undertaken by the World Bank are undertaken by appropriate independent technical experts;

e) Assisting China in preparation of annual implementation programmes, which will incorporate achievements in previous annual programmes;

f) Carrying out required supervision missions;

g) Ensuring the presence of an operating mechanism to enable effective, transparent implementation of the programme, and accurate data reporting;

h) Verifying for the Executive Committee that CFC consumption phase-out in the polyurethane foam sector has been completed based on the schedules listed in Table 1;

i) Ensuring that disbursements are made to China based on agreed performance targets in the project and provisions in this Agreement;

j) Providing policy development assistance when required.

12. The funding components of this Decision shall not be modified on the basis of future Executive Committee decisions that may affect the funding of any other consumption sector projects or any other related activities in the country.