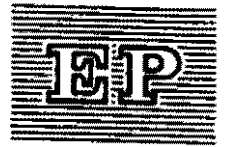




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Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol

Twelfth Meeting
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**MODIFICATION IN THE INDICATIVE LIST OF CATEGORIES
OF INCREMENTAL COSTS UNDER THE MONTREAL PROTOCOL**

(Submitted by the Government of India)

1. Article 10 of the Protocol provides that a financial mechanism shall be set up to enable Article 5 countries to comply with the control measures. Accordingly, the Multilateral Fund has been set up which provides funds to cover incremental costs of the phase out programme. An indicative list recommended by the Executive Committee in its Eighth Meeting was approved by the Second Meeting of the Parties and the same is valid today. A copy of this list is enclosed.

2. It will be seen that incremental cost is admissible to set up facilities - (a) for supply of substitutes, (b) to replace their use in manufacturing as an intermediate good, and (c) to replace them in their end use. In the case of facilities for supply of substitutes of ozone depleting substances (ODS), the incremental cost is admissible for:

- i. cost of conversion of existing production facilities;
- ii. cost arising from premature retirement or enforced idleness of production capacity;
- iii. cost of establishing a production facility for capacities equivalent to capacity lost when plants are converted or scrapped;
- iv. net operational cost;
- v. cost of import of substitutes.

3. For replacing the manufacturing which uses ozone depleting substances as an intermediate good, incremental cost is admissible for, among other items, cost of conversion of existing equipment and product manufacturing facilities.

4. It will be seen that the above arrangement does not provide for:

- i. Incremental cost to provide facilities for production/consumption/end use of ozone depleting substances to cover the rapidly increasing future demand.
- ii. Incremental cost to establish new facilities equivalent to capacity lost when plants are converted or scrapped or where the ODS has end use or is used as an intermediate good. Provision needs to be made to rectify these deficiencies.

These are explained below:

5. Incremental cost to meet future demand:

- i. Though under the Protocol, for Article 5 countries the production and consumption of ODS is to freeze at the level of 1996 (for CFCs and Halons), and a phase out schedule has been prescribed, these countries are being requested not to increase consumption till

1996 and to accelerate the phase out. But in Article 5 countries, the demand for products ODS has been growing very rapidly and this is expected to continue for some time. If only the present facilities/capacities are considered for meeting the incremental cost, the incremental cost of meeting the rising demand will have to be born by the developing countries themselves and this will put an unbearable strain on them. In order to ensure that the Article 5 countries are able to adhere to the date of schedule as provided in the Montreal Protocol, it is necessary to provide funds for them to meet incremental costs for meeting the future demand.

6. Admissibility of existing capacity for computing incremental cost:

The Indicative List of Categories of Incremental Cost, in the case of supply of substitutes, provides for the inclusion of the existing capacities for the purpose of computing incremental costs. This provision is not so clear in the case of manufacturing where ODS is used as an intermediate good or where ODS has end use. It is necessary to clarify that while calculating incremental costs, the existing capacities will be considered in all the three categories i.e. 2(a) supply of substitutes, 2(b) use in manufacturing as an intermediate good, and 2(c) end use.

7. In view of the above, the following modifications are proposed in the Indicative List of Categories of Incremental Costs:

- i. The incremental cost for setting up facilities to meet the future demand during the phase out period for all three purposes covered under paragraphs 2(a), 2(b) and 2(c) of the Indicative List will be eligible for funding.
- ii. At the end of paragraph 2, an explanatory note should be added specifying that while computing the increment costs the existing capacity of the production facilities will be taken into account.