

ANNEX IV

AGREEMENT FOR ODS PHASEOUT IN CHINA'S SOLVENT SECTOR

The Executive Committee decides to approve in principle a total of US \$52 million in funding for the phased reduction and complete phaseout of consumption of trichlorotrifluoroethane (CFC-113) and 1,1,1 trichloroethane (TCA), as well as the consumption of carbon tetrachloride (CTC) used as cleaning solvents in China. This is the total funding that would be available to China from the Multilateral Fund for the total elimination of solvent use of these ozone-depleting substances (ODSs) in China. The agreed level of funding would be paid out in installments in the exact amount of U.S. dollars specified in Paragraph b, and on the basis of the following understanding:

a. By this approval, China commits that in exchange for the funding level specified in Paragraph b, it will eliminate its total non-exempt CFC-113 and TCA consumption, as well as its total CTC consumption for solvent use in accordance with the following schedule. Total non-exempt CFC-113 and TCA consumption in China, as well as the total consumption of CTC in the solvent sector in China will not exceed the following levels for specific chemicals in the following years:

Table 1 Consumption Control Targets for ODS Solvents (tonnes ODP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CFC-113	3300	2700	2200	1700	1100	550	0 ¹	0 ¹	0 ¹	0 ¹	0 ^{1,2}
TCA	621	613	605	580	502	424	339	254	169	85	0 ³
CTC	110	110	110	55	0 ¹	0 ¹	0 ¹	0 ¹	0 ¹	0 ¹	0 ^{1,2}
Total	4031	3423	2915	2335	1602	974	339	254	169	85	0

¹save for consumption of these ODS for feedstock and process agent uses.

² save for any CFC-113 consumption or CTC solvent consumption that may be agreed by the Parties to be essential for China after 2010.

³save for any TCA solvent consumption that may be agreed by the Parties to be essential for China after 2015.

b. To facilitate China finalizing work on its allocation system, meeting its 2000 phaseout target, and working toward the other reduction targets included in Paragraph a, the Executive Committee decides at its 30th meeting to provide US \$6.750 million to be made available upon Executive Committee approval of this agreement. An additional US \$6.955 million will be made available in January 2001, for the period January 2001 through December 2001, upon satisfactory verification that China has finished the bidding process for phaseout in 2001, to be reported at the 32nd Meeting of the Executive Committee.

The Executive Committee also agrees in principle that the funds will be provided on the basis of annual work programs (with the exemption of the biannual work programme for 2000 and 2001) submitted in accordance with and in the exact amounts contained in the following schedule:

Table 2 Annual Programme Actual Amounts (US\$ 1,000s)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
CFC113	4800	4800	4050	3600	3600	3600	3300	4000	0	0	0	31750
TCA	1450	1455	1455	1455	1455	1455	1455	1455	1455	1455	1455	16000
CTC	0	0	325	200	200	325	0	0	0	0	0	1050
TA	500	700	500	500	300	300	300	25	25	25	25	3200
Total	6750	6955	6330	5755	5555	5680	5055	5480	1480	1480	1480	52000

Payments noted in this Paragraph (other than the initial tranches for 2000 and 2001) are conditioned upon completion of the agreed consumption decreases noted in Table 1 of Paragraph a being verified and maintained, and upon China meeting the other requirements of this agreement. For example, payment for the implementation of the 2003 work programme will be conditioned on satisfactory verification that China had, at a minimum, achieved its cumulative reductions up to the end of 2001 as in Table 1.

c. China agrees to ensure accurate monitoring of the phaseout, and to provide annual reports at the last calendar year meeting of the Executive Committee, consistent with their obligations under the Protocol and this agreement. To ensure that production and import of CFC-113 and CTC specifically for exempted feedstock use and process agent use are not diverted to solvent use, China agrees to prepare annually a list of the quantities purchased of these ODSs by specific plants for these exempted uses and to ensure that such production and/or import is not diverted to solvent use. In addition, China agrees that the annual production and import of these specifically exempted substances will not exceed 10 ODP tonnes of CFC-113 for feedstock, 66,000 ODP tonnes of CTC for feedstock and 5,500 ODP tonnes of CTC for process agent uses. China also agrees to allow for independent technical audits administered by the implementing agency, and in addition, as may be directed by the Executive Committee to verify that annual ODS solvent consumption levels agreed in Paragraph a and conditions in Paragraphs c related to ODS diversion from exempted feedstock and process agent use are actually being met.

d. The Executive Committee wishes to provide China with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in Paragraph a. Accordingly, while China's country programme, country programme update, sector strategy or other ancillary production related documentation discussed during the preparation of this agreement may have included estimates of specific funds that were thought to be needed for specific items, 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 any manner that China believes will achieve the smoothest possible ODS solvent consumption phaseout possible, consistent with operational procedures as agreed between China and the United Nations Development Programme (UNDP) in the Plan, Annual Programmes and

the Project Implementation Manual. In the Executive Committee's acknowledgement of the flexibility available to China in achieving a complete ODS solvent consumption phaseout, it is noted that China is committing to contribute the necessary level of resources for the implementation of the Plan and for the reductions in Paragraph b of this agreement.

e. China agrees that the funds being agreed in principle by the Executive Committee at its 30th Meeting for the complete phaseout of its CFC-113 and TCA non-exempt consumption, as well as its complete phaseout of CTC consumption for solvent use are the total funding that will be available to China to enable its full compliance with the ODS solvent consumption phaseout requirements of the Montreal Protocol, and that no additional Multilateral Fund resources will be forthcoming for any related activities including but not limited to the conversion of specific end-users, the development of infrastructure for the consumption of alternatives, the import of alternatives, or the supply of alternatives. It is also understood that aside from the agency fee referred to in Paragraph h below and aside from the conditions in Paragraph f below for the Japanese and French bilateral projects for which the Executive Committee has already approved project preparation, China and the Multilateral Fund and its implementing agencies and bilateral donors will neither provide nor request further Multilateral Fund related funding for the accomplishment of the total phaseout of CFC-113 and TCA non-exempt consumption, as well as the total CTC solvent consumption. This includes but is not limited to funding for employee compensation and all technical assistance including training.

f. It is agreed that the Japanese and French bilateral investment projects to reduce ODS solvent consumption, whose project preparation was approved at the 29th Executive Committee meeting, will be the total involvement of bilaterals in the China Solvent Sector Plan covered by this agreement. China also agrees that, if approved by the Executive Committee, the funding for these Japanese and French bilateral investment projects and the ODP tonnes to be addressed will be deducted from the amounts specified in Paragraphs a and b above in the amount approved by the Executive Committee. It is understood that this will result in reductions in the target consumption of ODS solvents to be reduced for specific years, as well as a reduction in the funding to be provided by the Multilateral Fund for specific years under this agreement. China agrees that the overall cost-effectiveness of this agreement of US \$12.90/kg will be equal to, or better than, the cost-effectiveness without any bilateral involvement.

g. China understands that if the Executive Committee meets its obligations under this agreement, but China does not meet the reduction requirements outlined in Paragraph a, and the other requirements outlined in this document, the implementing agency and Multilateral Fund will withhold funding for the subsequent tranche of funding outlined in Paragraph b until such time as the required reduction has been met. In addition, China understands that regarding all calendar year targets beginning with 2002 in Paragraph a of this agreement, the Multilateral Fund will reduce the subsequent tranche and therefore total funding for the CFC-113 and CTC consumption phaseout on the basis of US \$6,000 per ODP tonne of reductions not achieved in any year and for the TCA consumption phaseout on the basis of US \$15,600 per ODP tonne of reductions not achieved in any year.

h. The UNDP has agreed to be the implementing agency for this project for the first three years at a fee of 10% of funds allocated during that time period in accordance with the provisions of this agreement. The fee for future years will be agreed between the Executive Committee and the implementing agency for the project. Funds for the independent technical audits and independent financial audits shall be agreed to and approved by the Executive Committee separately from the agency fee, on a periodic basis as deemed necessary. As the implementing agency during that time period, the UNDP agrees to be responsible for:

1. Ensuring objective performance and financial verification, in accordance with specific UNDP procedures and other requirements agreed to in the final Plan, and provide this verification to the Executive Committee citing the phaseout targets and associated activities that have been met;
2. Ensuring that technical oversight undertaken by UNDP are undertaken by the appropriate independent technical experts;
3. Assisting China in the development of its annual work programme which incorporates achievements in previous annual programmes;
4. Carrying out supervision missions as required;
5. Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the programme and accurate, verified reporting of data;
6. Incorporating its work into the existing agreement between China and UNDP;
7. Ensuring that disbursements are made to China based on agreed performance targets in the project, and the provisions of this agreement;
8. Objectively verifying for the Executive Committee that CFC-113, TCA and CTC solvent consumption has been completely converted, as per the schedule.

i. The funding components of this decision shall not be modified on the basis of future Executive Committee decisions that may affect the funding of the CFC production sector, TCA production sector, CTC production sector or funding of process agent projects or any related activity. Implementation of this agreement is not contingent on any further action that may be taken on the CFC production sector, TCA production sector, CTC production sector or approved funding of process agent projects or any related activity.

j. Because this is an agreement for funding of reductions and the phaseout of consumption, it is agreed that the consumption target levels listed in Paragraph b will not be met by China through exports and that exports of the ozone-depleting substances in this agreement will be banned 12 months after Executive Committee approval of this agreement.

k. In light of the fact that consumption reductions according to this agreement in newly produced and imported CFC-113 will make CFC-113 more scarce in China, and that recycled CFC-113 could ease these disruptions, China will endeavor to preserve its recycled/reclaimed CFC-113 for its own use.

l. Because this is an agreement for funding the phaseout of solvent consumption, it is agreed that China will establish a solvent use ban to be effective upon January 1st of the year corresponding to the phaseout dates for the specific ODS chemicals as in Paragraph a of this agreement but allowing for limited essential uses as agreed by the Parties as in Paragraph a of this agreement and in accordance with the provisions of the Montreal Protocol.