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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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SAFETY RELATED COSTS OF HYDROCARBON TECHNOLOGIES

Background

1. In a number of recently submitted projects the claims for eligibility of safety related costs have departed from practices previously followed in regard to incremental costs for safety in relevant sectors of Multilateral Fund operations. In particular, proposed safety costs have increased. These costs have generally been based on the views of experts or enterprises preparing the projects that the proposed system designs are necessary to ensure adequate safety. However, "adequate safety" has not been fully defined or quantified. Also, recent proposals have not taken into account the baseline situation in the particular enterprise.

2. Additionally, in the process of project preparation, individual consideration needs to be given to whether a particular enterprise has the minimum prerequisites to convert to hydrocarbon technology. If hydrocarbon technology is to be used, it may be necessary to identify and cost the measures needed to rectify deficiencies in the baseline situation of the enterprise so that the conversion activity can proceed. Deficiencies in the baseline situation can include poor housekeeping and non-compliance with elementary safety regulations, poor electrical wiring, insufficient level of training of personnel, non-availability of well-maintained fire detecting and fighting equipment, and utilities (hot and cold water, dry air/nitrogen, back up electricity supply), poor condition of production equipment (foaming jigs and machines) and the production environment (deficient equipment maintenance, inappropriate ambient condition of the plant buildings, overcrowding in the production area), etc. Improvements to these items may confer additional benefits not related to conversion or may be related to normal development or upgrading of operation of the enterprise, as well as to the conversion process.

3. At the 22nd Meeting, two domestic refrigeration project proposals involving hydrocarbon technology, did not proceed as a result of difficulties in establishing the eligible incremental cost associated with safety related items.

4. In Decision 22/76, the Executive Committee requested the Sub-Committee and the Secretariat to deal urgently with the question of safety related costs for hydrocarbon projects so that the relevant projects could go ahead.

Current Situation

5. The Fund Secretariat and Implementing Agencies agree that two basic principles should be applied in discussing the technical elements of safety measures for projects using hydrocarbon technologies. These two basic principles are:

- Safety standards should follow international standards, where these are higher than standards in the country concerned. The practical application of established standards should be based on industry norms and practice in European countries where the hydrocarbon based technologies were developed and applied;

- Determination of eligible incremental safety costs should follow the basic principles of the Multilateral Fund. Safety-related costs need to be analyzed according to the nature of the costs and incrementality of each cost item has to be assessed taking into account the baseline situation in a particular enterprise.

6. The Sub-Committee on Project Review was briefed on the issue at its meeting on 18-19 September 1997 and took note of the following views expressed during its discussion:

- “(a) With regard to paragraph 9(a) of the status report, national safety standards must be observed and could be regarded as a minimum. The principle enunciated in that paragraph could be recast to indicate that either national or international standards, whichever were more stringent, should be followed;
- (b) The overriding concern should be to ensure safe conversion in hydrocarbon projects in accordance with the standards agreed to by the Executive Committee;
- (c) That the purpose of the exercise was to indicate what safety measures could, as a general rule, be considered necessary: once standards were agreed by the Executive Committee, the actual measures would vary from plant to plant.”

Need for Further Work

7. The identification of international or national standards is straightforward. However, producing guidance for costing the application of these standards in a way which is consistent with industry norms and practice can be complex. Equally, it is important that such guidance is established, as without guidance, it is not possible to make judgments about the eligibility of costs that are equitable for both enterprises and countries, and that are not reliant on the varying perspectives of individual experts. Without this guidance, implementing agencies preparing projects may make assumptions about eligibility of costs which are inconsistent with rules of the Multilateral Fund and the policies of the Executive Committee. This leads to the creation of expectations which are unlikely to be realised and to unnecessary tension and potential delays in the project preparation and approval process. Similar guidance has been established for refrigeration generally and for some foam sub-sectors in the form of templates. While the output of the safety cost work may not necessarily be in the form of templates, similar principles could apply.

8. The establishment of guidance need not compromise the requirement for project design to take account of the circumstances in individual enterprises. Rather, it establishes benchmarks which apply in the absence of any demonstration of special circumstances.

9. UNDP and the World Bank have already produced draft manuals on the design of safety related components of domestic refrigeration projects. However further work is required to establish the basis in international or national standards for the measures proposed in the manuals, to relate the measures to industry norms and practice in European countries and to remove inconsistencies. Further work is required also to investigate the impact of baseline conditions at enterprises on the activities needed to provide appropriate safety in conversion projects and the eligibility of associated costs.

10. To further this work on the practical application of national or international standards and the impact of baseline conditions, the Fund Secretariat has engaged a consultant to undertake a comprehensive and detailed study on the issue, to be completed by the end of November 1997.

11. The output from the study will be used by the Fund Secretariat and the Implementing Agencies to develop guidelines for estimating safety related costs.

Recommendation

12. The Executive Committee may wish to decide that:

- (a) safety standards should follow international standards, where these are higher than standards in the country concerned. The practical application of established standards should be based on industry norms and practice in European countries;
- (b) determination of eligible incremental safety costs should follow the basic principles of the Multilateral Fund. Safety-related costs need to be analyzed according to the nature of the costs and incrementality of each cost item has to be assessed taking into account a baseline situation in a particular enterprise;
- (c) projects should be prepared and reviewed on the basis of these principles.

13. In addition the Executive Committee may wish to note that:

- (a) guidelines to give effect to the above principles, will be developed by the Fund Secretariat in consultation with relevant implementing agencies and will be submitted to the Executive Committee at its next meeting;
- (b) prior to the availability of the guidelines, projects will continue to be reviewed on a case by case basis taking the principles into account.