

Annex XIII

**AGREEMENT BETWEEN THE GOVERNMENT OF CHINA AND THE
EXECUTIVE COMMITTEE ON THE PHASE-OUT STRATEGY FOR THE
TOBACCO SECTOR (SECTOR PLAN) IN CHINA**

1. The Executive Committee has decided to approve in principle a total of US \$11 million for the implementation of a tobacco sector plan for CFC-11 phase out in China (Decision 30/54). By this approval, the Government of China commits, that in exchange of the funds agreed in paragraph 2 below, the consumption of CFC-11 in the tobacco industry will be completely phased out by the year 2007 according to the following schedule:

Table 1. CFC-11 phase-out schedule for the tobacco sector (tonnes)

Year	Amount to be phased-out	Consumption limit
2001	90	1,000
2002	120	880
2003	180	700
2004	200	500
2005	200	300
2006	150	150
2007	150	0

2. The Executive Committee agrees in principle that the funds will be provided on the basis of an annual work programme to be submitted at the first Executive Meeting of each year, in accordance with, and in the exact amounts contained in, the following schedule:

Table 2. Annual Programme Payments (US\$ 1,000,000)

Year	CFC-11 phaseout	Technical assistance	Total
2001	1.7	0.3	2.0
2002	1.7	0.3	2.0
2003	1.7	0.3	2.0
2004	1.7	0.1	1.8
2005	1.7	0.0	1.7
2006	1.5	0.0	1.5
Total	10.0	1.0	11.0

3. Payments indicated in Table 2 (other than the initial tranche for 2001) are conditional upon maintenance and verification of the consumption limits indicated in Table 1 and upon China meeting the other requirements of this agreement including provision of satisfactory

annual progress reports and work programmes and verification of closure of CFC-based expansion lines and essential equipment disposals included in each annual programme.

4. To enable China to commence the tobacco sector phase-out programme, the Executive Committee decides at its 32nd Meeting to approve funding of US \$2.0 million for the annual work programme for year 2001.

5. The Government of China agrees:

- (a) that the funds indicated in Table 2, are the total that will be available to China to enable its full compliance with the CFC-11 reductions and consumption limits indicated in Table 1, and that no additional Multilateral Fund resources will be allocated to phase-out CFC-11 in the tobacco sector in China;
- (b) that consistent with its obligations under the Montreal Protocol, the Sector plan and this agreement, it will ensure accurate monitoring of the phase-out and, through the implementing agency, will provide annual progress reports on the implementation of the Sector Plan to the first meeting of the Executive Committee each year;
- (c) to permit and facilitate the conduct of independent technical audits administered by the implementing agency, and as may be directed by the Executive Committee, to verify that the CFC-11 phase out schedule in the tobacco sector agreed in Table 1 is being met, plants closed and equipment disposed of as indicated in annual programmes;
- (d) that if the Executive Committee meets its obligations under this agreement, but the Government of China does not meet the reduction requirements outlined in Table 1 and the other requirements outlined in this agreement, the implementing agency and the Multilateral Fund will withhold funding for the subsequent tranche of funding outlined in Table 2 until such time as the required reduction has been met;
- (e) to accept and implement the remedial actions specified in the Sector Plan, including: withdrawal of quotas, conditional release of funds, reductions in annual programme funding and return of funds to the Multilateral Fund, in the event of failure to meet the CFC-11 reduction targets or other performance indicators;
- (f) in particular, that if the CFC-consumption limit in any year is not met, the following years' annual programme will contain remedial action to ensure that the combined two-year CFC consumption limit is met. If the CFC consumption limits for the two-year period cannot be met, funds for annual programmes in the following years may be reduced.

6. The Executive Committee wishes to provide China with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in Table 1 above. The Executive

Committee is of the understanding that during implementation, as long as it is otherwise 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 CFC-11 phase out.

7. UNIDO has agreed to be the implementing agency for this project at a fee of nine per cent of the project funds allocated in accordance with the provisions of this agreement.

8. As implementing agency, UNIDO agrees to be responsible for:

- (a) assisting China in the preparation of each annual work programme;
- (b) reviewing annual work programmes, interacting with SEPA, PMO and STMA and, if found acceptable submitting each year's annual work programme to the Executive Committee on behalf of SEPA;
- (c) establishing working and reporting arrangements with SEPA and/or STMA;
- (d) verifying that the conditions under which budgeted funds are released in each annual programme are accomplished and releasing of the funds to a special ODS account established by SEPA;
- (e) participating in the selection of consultants for the technical assistance and endorsing candidates selected;
- (f) having access to bidding for proposals and participating as an observer in the technical and financial evaluation of these proposals conducted by STMA;
- (g) conducting all necessary audits and verifications, including:
 - (i) verifying that the phase-out targets and project activities have been met;
 - (ii) verifying the dismantling of CFC-11 tobacco expansion lines and the destruction of CFC-based essential expansion equipment;
 - (iii) ensuring that independent audits of the implementation of each annual programme and a financial audit of the ODS phaseout are undertaken by appropriate independent experts; and
- (h) reporting to the Executive Committee on implementation progress.