

Annex IV

AGREEMENT FOR THE CHINA PRODUCTION SECTOR

The Executive Committee decides to approve in principle a total of US \$150 million in funding for the phased reduction and closure of the entire CFC production capacity in China. This is the total funding that would be available to China from the Multilateral Fund for the total permanent closure and dismantling of all capacity for the production of Group I Annex A and Group I Annex B CFCs, and/or the development of capacity to produce alternatives to these CFCs. The agreed level of funding would be paid out in installments in the exact amounts specified in paragraph b, and on the basis of the following understanding:

a. By this approval, China agrees that in exchange for the funding level specified in paragraph b, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the following schedule:

Total CFC production in China will not exceed the following levels in the following years:

44,931 MT in 1999;	40,000 MT in 2000;	36,200 MT in 2001;
32,900 MT in 2002;	30,000 MT in 2003;	25,300 MT in 2004;
18,750 MT in 2005;	13,500 MT in 2006;	9,600 MT in 2007;
7,400 MT in 2008;	3,200 MT in 2009; and,	0 MT in 2010*

* save for any CFC production that may be agreed by the Parties to meet essential uses for China.

b. In order to facilitate China finalizing work on their allocation system, meeting their 1999 CFC reduction target, and working toward the other reduction targets included in paragraph a, the Executive Committee decides at its Twenty-seventh meeting to provide US \$20 million in funding during 1999 as follows: US \$10 million to be made available upon Executive Committee approval of this agreement; and, US \$10 million to be made available upon satisfactory verification that China has dismantled and destroyed primary CFC production equipment from the following 14 CFC plants representing over 22,500 tonnes of capacity:

1. Shandong Dongyue Chemical Co. Ltd.: 1 CFC 12 line of 5000 MT capacity (9)(A3) (numbers are China-Bank/SRI plant numbers)
2. Hunan Yiang Chlor-Alkali Chemical Co. Ltd. 1 CFC 12 line of 1,000 MT capacity (16)(C2)
3. Inner Mongolia Baotou Chemical Plant #1: 1 CFC 12 line of 700 MT capacity (17)(C5)
4. Jiangsu Jianhu Phosphine Fertilizer Plant: 1 CFC 12 line of 500 MT capacity (18)(C1)
5. Sichuan Zigong Fujiang Chemical Plant: 1 CFC 11 line of 1500 MT capacity and 1 CFC 12 line of 1000 MT capacity (19)(B4)

6. Zhejiang Linhai Jianxin Chemical Plant: 1 CFC 12 line of 800 MT capacity (20)(B9)
7. Guangdong Huiang Chemical Plant: 1 CFC 11 line of 1000 MT capacity and 1 CFC 12 line of 3000 MT capacity (23)(A14)
8. Henan Hebi Chemical Plant #1: 1 CFC 12 line of 1500 MT capacity (25)(A1)
9. Hebei Longwei Floro-Chem Plant #1 - 2 CFC 12 lines of 1080 total MT of capacity (26)(C3)
10. Guizhou Wiling Chemical Plant: 1 CFC 12 line of 1500 MT of capacity (27)(C4)
11. Guangdong Zhaoqing Chemical Co. Ltd.: 1 CFC 12 line of 500 MT capacity (28)(A15)
12. Shaanxi Shanzhou Chemical Plant: 1 CFC 12 line of 2000 MT capacity (30)(C6)
13. Shanghai Shuguang Chemical Plant 1 CFC 12 line and 1 CFC 113 line of 1000 MT total capacity (32)(A12)
14. Zhejiang Linhai Shuiyang Chemical Plant: 1 CFC 12 line of 500 MT of capacity(35)(B10)

The Executive Committee has also agreed in principle that it will continue to provide funds on the basis of annual programmes. With the exception of 1999, annual programmes will be submitted for review at the last meeting of the year preceding the year listed below:

Annual Programme

Actual amounts (US \$ millions)
To be approved at the first meeting of each
year based on satisfactory performance*

1999	\$20
2000	\$13
2001	\$13
2002	\$13
2003	\$13
2004	\$13
2005	\$13
2006	\$13
2007	\$13
2008	\$13
2009	\$13

* Payment in 1999 will be based on the provisions of paragraph b.

Payments noted in this paragraph (other than the initial tranche for 1999) are conditioned upon completion of the agreed production decreases noted in paragraph a being independently verified and maintained, and China meeting the other requirements of this agreement. For example, payment in 2003 will be conditional on satisfactory verification that China had, at a minimum, sustained its required 2001 reduction through 2002. Finally, China agrees that in addition to the plant closures specifically noted in this paragraph, within 18 months of any of its existing CFC plants ceasing production of CFCs, that it will take action to ensure that such plants are incapable of producing CFCs in the future, and that key CFC production components are dismantled and destroyed. Notwithstanding this provision, China may, in a verifiable manner, convert related equipment and infrastructure to uses other than the production of ozone depleting substances.

c. China agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. In order to ensure that HCFC production is not diverted to production of CFCs, China agrees to prepare annually a list of plants producing HCFCs and ensure that such production is not diverted to CFC production. 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 CFC production levels agreed in paragraph a and conditions in paragraphs b and c related to plant dismantling, destruction or HCFC diversion 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 point a. Accordingly, while China's country programme, 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 is of the understanding that during implementation, as long as it is consistent with this agreement and the mode of implementation included in the China project proposal, the funds provided to China pursuant to this agreement may be used in any manner that China believes will achieve the smoothest possible CFC production phase out possible.

e. China agrees that the funds being agreed in principle by the Executive Committee at its Twenty-seventh meeting for complete closure of its CFC production capacity is the total funding that will be available to it to enable its full compliance with the CFC production phase out requirements of the Montreal Protocol, and that no additional Multilateral Fund resources will be forthcoming for related activities including the development of infrastructure for the production of alternatives, the import of alternatives, or the eventual closure of any HCFC facilities that use existing CFC infrastructure. It is also understood that aside from the agency fee referred to in paragraph g below, 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 phase out of CFC production in accordance with the schedule noted above and the terms of the strategy being approved. This includes but is not limited to funding for employee compensation and all technical assistance including training.

f. 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 or the required dismantling has been completed. In addition, China understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the CFC production closure on the basis of US \$1000 per ODP tonne of reductions not achieved in any year of this agreement. It is clearly understood that the fulfilment of this agreement depends on satisfactory performance of its obligations by both China and the Executive Committee.

g. The World Bank has agreed to be the implementing agency for this project. The fee for the first three years will be at a fee of 9% of project costs per annum distributed during that time period. As the implementing agency during that time period, the World Bank agrees to be responsible for: 1. Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met; 2. Ensuring that technical reviews undertaken by World Bank are undertaken by the appropriate independent technical experts such as the OORG; 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 the Bank; 7. Ensuring that disbursements are made to China based on agreed performance targets in the project, and the provisions of this agreement; 8. Independently verifying for the Executive Committee that dismantling of CFC production lines is done appropriately by ensuring that the reactor, distillation towers, receiver tanks for finished products, and control and monitoring equipment are dismantled and rendered unusable for future ODS production, and are disposed of.

h. 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 or any related activity.

i. In light of the fact that the closure of CFC production capacity in China will make CFCs more scarce, and that recycled CFC will be important to ensuring that CFC is available to meet continuing servicing needs in China, China will endeavour to preserve its recycled/reclaimed CFCs for its own use.
