Annex XVIII

AGREEMENT FOR THE VENEZUELA PRODUCTION SECTOR

1. The Executive Committee at its 44th Meeting decided to approve in principle a total of US $16.5 million in funding for the phased reduction and closure of the entire CFC production capacity in Venezuela.

2. This is the total funding that would be available to Venezuela 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 development of capacity to produce alternatives to these CFCs.

3. The agreed level of funding would be disbursed in instalments in the exact amounts specified in Table 1, and on the basis of the following understanding:

(a) By this approval, Venezuela agrees that in exchange for the funding level specified in Table 1, it will reduce its total Group I Annex A and Group I Annex B CFC production in accordance with the maximum allowable production in the same table:

Table 1

Year	2004	2005	2006	2007	2008	TOTAL
Max. annual allowable production (MT)	4,400	2,913	2,913	0	0	10,226
TOTAL MLF grant (US$ million)	3.30	8.1	1.75	2.3	1.05	16.50
PRODUVEN (*)	3.2	8	1.65	2.2	1	16.05
TA (FONDOIN)	0.1	0.1	0.1	0.1	0.05	0.45
Agency fees	0.2475	0.6075	0.1312	0.1725	0.0787	1.2375

(*) Labor compensation will be paid according to the requirements of the Venezuelan laws, and will be absorbed by PRODUVEN.

The Executive Committee has also agreed in principle that it will provide funds on the basis of annual programmes submitted in accordance with the schedule indicated above. The funds are to be approved at the first meeting each year, upon the submission by the World Bank and acceptance by the Executive Committee of the verification of the reduction target in the preceding year specified in Table 1, with the exception of the first tranche, which will be released upon approval of this agreement.

(b) Venezuela agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. Venezuela also agrees to independent technical audits administered by the implementing agency, and in addition, as directed by the Executive Committee to verify annual CFC production levels agreed in Table 1 and plant dismantling/retrofitting or destruction.

(c) The Executive Committee wishes to provide Venezuela with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in Table 1. Accordingly, while Venezuela'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 Venezuela project proposal, the funds provided to Venezuela pursuant to this agreement may be used in any manner that Venezuela believes will achieve the smoothest possible CFC production phase out.

(d) Venezuela agrees that the funds being agreed in principle by the Executive Committee at its 44th Meeting for complete closure of its CFC production, 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 (f) below and reflected in Table 1, Venezuela 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.

(e) Venezuela understands that if the Executive Committee meets its obligations under this agreement, but Venezuela 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 each tranche of funding outlined in Table 1 until the required reduction has been met. In addition, Venezuela understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the CFC production closure on the basis of US $1,000 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 Venezuela and the Executive Committee.

(f) The World Bank has agreed to be the implementing agency for this project. The fee for the project will be at a fee of 7.5% of project costs, distributed during that time period. As the implementing agency during that time period, the World Bank agrees to be responsible for:

(i) Ensuring/providing independent verification to the Executive Committee that the phase out targets and associated activities have been met;

(ii) Ensuring that technical reviews undertaken by World Bank are undertaken by the appropriate independent technical experts such as the OORG;

(iii) Assisting Venezuela in the development of its annual work programme which incorporates achievements in previous annual programmes;

(iv) Carrying out supervision missions as required;

(v) Ensuring the presence of an effective operating mechanism to enable effective, transparent implementation of the programme and accurate, verified reporting of data;

(vi) Incorporating its work into the existing agreement between Venezuela and the World Bank;

(vii) Ensuring that disbursements are made to Venezuela based on agreed performance targets in the project, and the provisions of this agreement; and

(viii) Independently verifying for the Executive Committee that any dismantling /retrofitting 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/retrofitted and rendered unusable for future CFC production, and are disposed of.

(g) The funding components of this agreement 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.

(h) All of the agreements set out in this agreement are undertaken solely within the context of the Montreal Protocol and as specified in this agreement. All terms used in this agreement have the meaning ascribed to them in the Montreal Protocol unless otherwise defined herein.