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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-third Meeting
Montreal, 12-14 November 1997

PRICES OF CHEMICALS

INTRODUCTION

1. This paper is prepared in response to the following Executive Committee decision:

“Having considered the recommendation of the Sub-Committee on Project Review on the price of chemicals (UNEP/OzL.Pro/ExCom/22/15, para. 24), the Executive Committee decided to request the Secretariat and the Implementing Agencies to hold discussions on and review the process of setting the prices of ODS and other chemicals for the purpose of calculating incremental operating costs, taking fully into account the earlier decision of the Executive Committee on limiting the variation in prices to 20 per cent of the regional border price, and to prepare, by the Twenty-third Meeting of the Executive Committee, a paper outlining the process proposed to be followed.”

Decision 22/25

Background

2. The calculation of incremental operating costs or savings in projects financed by the Multilateral Fund is highly sensitive to the costs of ODSs and their substitutes. Prices of chemicals used in projects submitted to the Multilateral Fund have varied significantly between regions, implementing agencies and even within countries. The Executive Committee recognized and attempted to address this variation in prices at its 12th meeting:

“The Committee further decided for future projects for all recipient countries to disallow the use of growth projections in determining operational costs and benefits either positive or negative. It further recommended that national pricing be used, except where it was higher than 20 per cent from the regional border price.” (UNEP/OzL.Pro/ExCom/12/37, para. 62)

3. The following prices for the indicated chemicals have been reported in projects submitted to the Executive Committee during the past few years:

Chemicals	US\$/kg
CFC-11	1.3 to 3.6
CFC-12	1.5 to 3.0
CFC-113	2.0 to 3.5
TCE	1.2 to 2.2
HCFC-22	2.5 to 5.0
HCFC-141-b	2.2 to 6.0
HCFC-134a	4.0 to 14.0
Cyclopentane	1.6 to 5.3
Isocyanate	7.0 to 12.0
Halon-1211	2.67 to 8.0
Halon-1301	8.5 to 13.0
ABC Powder	0.67 to 5.4

4. In order to achieve consistency and equity, at a minimum, among countries in the same region, a mechanism is required for determining the prices of chemicals to be used for calculating incremental operating costs for projects on a region/sub region basis, for a reasonable period of time and adjusting them at a fixed interval of 12 months, for instance.

5. The objective of this paper is to propose the process and the methodology to be followed in setting up this pricing mechanism.

6. In accordance with Decision 22/25 a proposal from the Secretariat on a process for determining the prices of chemicals for the Multilateral Fund projects was reviewed and agreed upon between the Implementing Agencies and the Secretariat at a Coordination Meeting convened in Montreal on August 18th & 19th, 1997. Subsequently agreement was also reached between the Secretariat and the Implementing Agencies on the methodology to be used for the calculation of prices of chemicals. Both the process and the methodology are presented in the following paragraphs.

Process for determining the prices of chemicals to be used in Multilateral Fund projects

7. Starting from 1998, the process for determining the prices of chemicals will follow these steps:

- (i) A questionnaire for collecting data on prices of chemicals has been developed and agreed among the implementing agencies and the Fund Secretariat.
- (ii) UNEP/IE through the Regional Networks of ODS Officers will collect and collate the prices of chemicals in network countries based on the agreed questionnaire.
- (iii) The Fund Secretariat will engage a consultant/consulting firm to collect and collate international and/or regional prices of chemicals from international suppliers and other sources to provide a means of cross-checking national/regional prices obtained through the network. The Consultant will use the methodology for calculating and compiling the prices as described in the next section of the paper.
- (iv) On the basis of the results from the above surveys the Secretariat will compile regional/national prices of chemicals and circulate the information to the implementing agencies.
- (v) The prices should be updated annually through appropriate means. The updated information should be circulated by the Fund Secretariat to the implementing agencies not later than one month after the first meeting of the Executive Committee for the year.

- (vi) Any implementing agency may propose a revision to a regional or national price of a certain chemical within the year if circumstances demand. If agreed to by the implementing agencies and the Fund Secretariat, the revised price will be used by all agencies in relevant projects for the country or region.
- (vii) All prices should exclude duties, taxes and other financial transfers.

Prices of chemicals used in projects submitted to the 23rd Meeting of the Executive Committee

8. As a one-time measure it was agreed between the Secretariat and the implementing agencies that for projects submitted to the 23rd Meeting, prices of chemicals would be the same as those agreed to by the Secretariat and implementing agencies in the projects approved at the 22nd Meeting.

Methodology for determining the prices of chemicals to be used in Multilateral Fund projects

9. Regional/sub regional prices of chemicals will be calculated and applied to countries within the region/sub region for projects financed by the Multilateral Fund. Any variance from the pricing has to be justified and be within 20% of this regional/sub regional price.

10. Regional/sub regional price is the CIF border price for imported substances, or the FOB border price for exported substances.

where:

CIF:	Cost plus insurance plus freight
Cost:	Bulk price (factory gate) plus packaging (industry standard)
Insurance:	Standard International Rate
Freight:	Standard International Rate
FOB :	Free on Board, calculated as bulk price (factory gate) plus packaging (industry standard) plus transportation from factory gate to border. (FOB export price should not exceed 120% of the CIF border import price)

11. The regional/sub regional price of a chemical should be calculated as the weighted average of the CIF import prices of the chemical at major ports of the region/sub region, and/or as the weighted average of the FOB export prices of the chemical at major export ports of the country.

Action required by the Executive Committee

12. The Executive Committee may wish to endorse the proposed process and methodology for determining the prices of chemicals to be used for the Multilateral Fund projects.

13. Article 2 country members of the Executive Committee where ODSs and their substitutes are produced in their countries are kindly requested to assist the Secretariat and the implementing agencies in collecting the price data for the future annual exercise of determining and adjusting the prices of chemicals.