

Annex XIII

**AGREEMENT WITH THE PEOPLE'S REPUBLIC OF CHINA TO PHASE-OUT CTC
AND PROCESS AGENTS (PHASE I)**

1. This Agreement represents the understanding of The Peoples Republic of China (China) and the Executive Committee with respect to the production and consumption of CTC and CFC-113 as given in Table 2 below.

Table 1. Montreal Protocol Control Measures for CTC Consumption (ODP tonnes)

	Baseline ^{1/}	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Allowable CTC consumption as per the Montreal Protocol control measures	25,359	N/A	N/A	N/A	N/A	3,804	3,804	3,804	3,804	3,804	0 ^{2/}

^{1/} Baseline includes average CTC consumption over 1998-2000.

^{2/} Except for production to meet continued use with minimized emissions as allowed in Decision X/14.

**Table 2. Allowable CTC Production and Consumption under this Agreement
(ODP tonnes)**

		Baseline ^{1/}	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.	Max allowable sum of production and imports of CTC	86,280	64,152	64,152	61,514	54,857	38,686	32,044	26,457	23,583	17,592	11,990
2.	CTC feedstock	N/A	55,319	45,400	45,333	39,306	28,446	21,276	15,129	11,662	5,042	-
3.	Max Allowable CTC consumption for other PA applications ^{2/}	N/A	N/A	7,389	7,832	8,302	8,800	9,328	9,888	10,481	11,110	11,997
4.	Max allowable CTC consumption in the PA applications in Appendix 2	3,825	4,347	5,049	5,049	5,049	493	493	493	493	493	220
5.	Other non identified uses	N/A	N/A	6,314	3,300	2,200	947	947	947	947	947	-
6.	Max allowable CFC-113 consumption in the PA sector	17.2	17.2	17.2	17.2	14	14	10.8	8.4	0	0	0
7.	MULTILATERAL FUND SUPPORT (in US\$ thousands)											Total \$
8.	MLF Funding			2,000	20,000 ^{3/}	16,000 ^{3/}	2,000 ^{3/}	16,000 ^{3/}	5,000 ^{3/}	3,000 ^{3/}	1,000 ^{3/}	65,000
9.	Agency support costs			150	1,500	1,200	150	1,200	375	225	75	4,875

^{1/} Baseline includes average CTC consumption over 1998-2000.

^{2/} Applications in Appendix IV.

^{3/} Subject to consideration of the disbursement schedule at the 39th Meeting of the Executive Committee.

2. China agrees to reduce its CTC and CFC-113 consumption in accordance with the annual targets set out in Table 2 of this Agreement. The impact of this project would be 11,143 tonnes

of CTC consumption and a minimum of 52,162 tonnes of CTC production. It is also agreed that so long as the Parties list related uses, China will be eligible and allowed to apply for and receive further funding for the candidate process agent applications identified in Table 2 and defined in Appendix IV that will be considered by the Parties. If the Parties agree to list the candidate applications as process agents, such applications, if they come forward to the Executive Committee would have to be consistent with Decision X/14 and other related decisions that the Parties may approve at their 14th Meeting or later. When any of these applications come forward for funding, they would be funded at a maximum level established consistent with the categorical baselines included in Appendix IV. However, when and if such projects are approved, the CTC consumption limit specified in Table 2 would be modified, specifically by reducing the levels listed in rows 1 and 3 which would be the baseline tonnes with assumed growth of 6% per year.

3. If, during the course of implementation of this Plan, or at any time thereafter, China discovers applications, tonnes of CTC, and/or uses, (including new process agent categories) of CTC not otherwise explicitly covered in this Agreement, China commits to phase out these uses in a manner consistent with the phase out schedule included in this Agreement at no additional cost to the Multilateral Fund.

4. The Executive Committee agrees, in principle, to provide the funding set out in row 8 of Table 2 to China to implement the Process Agent Sector Plan as submitted to the Executive Committee at its 37th meeting in July 2002 provided that China meets its obligations set out in this Agreement. The Executive Committee will strive to approve the disbursement of the annual tranches of the funding at the occasion of its first meeting of the year. In addition, the Executive Committee will pay the agency fee contemplated in row 9 of Table 2.

5. The World Bank will provide independent verification of the production or consumption limits set in rows 1, 4 and 6 of Table 2 as described in paragraph 10 of this Agreement.

6. The Executive Committee will provide the funding at the first meeting of the year, with the exception of the first amount that will be made available at this meeting, to which the funding apply, provided that the conditions of the previous years annual programme are fulfilled i.e.:

- a. That China has reduced to the allowable levels of production and consumption included in rows 1, 4 and 6 of Table 2 for each of the substances for each applicable year;
- b. That the meeting of these targets has been independently verified as described in paragraph 10;
- c. That the actions set out in the Annual Programme has been initiated accordingly; and
- d. That China has submitted an Annual Programme for the following year.

7. China agrees to ensure that it conducts accurate monitoring of its activities under this Agreement. The institutions set out in the project will implement the activities in accordance with the roles and responsibilities set out in the Process Agent Sector Plan.

8. The Executive Committee agrees that China would have the flexibility, to use the Multilateral Fund funding to achieve the overall objectives of this Sector Plan as well as other

activities to meet its obligations to the Montreal Protocol. China also agrees that the use of funds would be consistent with the Annual Programme as submitted to the Executive Committee.

9. The Government of China has selected the World Bank as the implementing agency to carry out the activities as specified in the Sector Plan and as set forth in Appendix III. China also agrees that the project will be implemented consistent with its agreement with the World Bank.

10. Under this Agreement the World Bank will be responsible for carrying out the activities listed in Appendix I including but not limited to independent verification.

11. Should China, for any reason, not meet any or all performance targets set in rows 1, 4 and 6 in Table 2 or otherwise not fulfill the targets set in this Agreement, the following tranche of funding could be held back - fully or partially - as decided by Executive Committee.

12. China also agrees that the Executive Committee, may reduce the amount of the funding for the following year by US \$26,000 per tonnes for process agents and US \$5,000 per tonne for CTC production in case the country is in default of meeting the annual targets set out in rows 1, or 4, or 6 in Table 2.

13. The audit of CTC, as contracted for by the Secretariat, shall continue. If, on the basis of those final audits, it is found that CTC production or consumption is over 10% lower than the figures included in row 1 for year 2001 of Table 2, the amounts of funding included in row 8 will be reduced by a sum equivalent to the difference of tonnes between the Table 2 figure and the audited figure on the basis of \$1,000 per tonne.

14. The funding components and conditions relative to the funding of the reduction of production and consumption identified in Table 2 of this Agreement shall not be modified on the basis of any future Executive Committee decision that may affect the funding of any other future projects that would be approved for China by the Executive Committee.

15. The Government of China will cooperate with the Executive Committee and the World Bank to facilitate implementation of this Agreement. In particular, it will provide access to the World Bank to all information necessary to verify compliance with this Agreement.

16. This Agreement is executed and implemented within the context of the Montreal Protocol and do not extend obligations beyond this Protocol. All terms used in this Agreement have the meaning ascribed to them in the Protocol unless otherwise defined herein.

Appendix I. Role of the Implementing Agency

The Implementing agency will be responsible for a range of activities to be specified in the project document along the lines of the following:

- a. Assisting China in preparation of the Annual Programme;
- b. Verifying for the Executive Committee that consumption of the substances have been eliminated in accordance with the targets;
- c. Providing a verification report to the Executive Committee bringing evidence that the targets have been met and associated annual activities have been completed as indicated in the Annual Programme;
- d. Ensuring that achievements in previous Annual Programme are reflected in future Annual Programmes and will serve as the progress report;
- e. Reporting on the implementation of the 2003 activities will be included in the 2004 Annual Programme. After 2004, the annual programmes will include implementation status of all previous years' annual programmes.
- f. Carrying out supervision missions;
- g. Helping China to set up an operating mechanism to allow effective and transparent implementation of the Annual Programme. Accurate data reporting;
- h. Coordinating the activities of the coordinating implementing agencies, if any;
- i. Ensuring that disbursements made to China are based on the use of the indicators; and
- j. Providing China with the necessary policy, management and technical support.

Appendix II. Process Agents applications covered by this Agreement

No.	Applications	1999 Baseline	ODS
1	Chlorinated rubber	2,424	CTC
2	Chlorinated parafines	2,891	CTC
3	Chlorosulphonated polyolfin (CSM)	1,065	CTC
4	Ketotifen	19	CTC
5	Fluoropolymer resins (PTFE)	39	CTC

Appendix III. Process Agent Sector Plan

CTC production, consumption data and performance indicators

The following contains the Montreal Protocol Control targets for China and the agreed performance indicators for this Sector Plan. The table include the following information:

Baseline for CTC consumption: The CTC consumption data has been reviewed based on the survey carried out for the preparation of the China PA sector plan. The plan was submitted to the 37th meeting and the update was provided to the Executive Committee for consideration at the 38th meeting. **Based on the survey, a revised (lower) baseline has been established and China will report accordingly to the Ozone Secretariat and request the changes in its baseline data.**

CTC Production for CFC production: The allowable CTC production is based on the need for feedstock for CFC production in accordance with the CFC phase out schedule agreed for the Chinese CFC production sector plan. In addition, China is allowed to produce CTC for its solvent, process agent and other not yet identified uses. **Under this agreement, China will control its CTC production within the limits given in this Agreement and as given in row 2 in Table 2.**

CTC consumption for the process applications listed by the Parties to the Montreal Protocol: The Process Agent Sector Plan provides information on the use of CTC in China for the process agent applications listed by the Parties to the Montreal Protocol. The applications relevant to China are listed in Appendix to this Agreement. **Under this Agreement, China will phase out the CTC consumption in the applications listed in Appendix II under this Agreement and as given in row 4 in Table 2.**

CTC consumption for process applications under review by the Parties to the Montreal Protocol: A number of process applications - outside the list of the 25 applications listed by the Parties - has been identified in China. China has requested the Parties to review and add those PA applications to the list of process agents. Based on the data available through the PA survey carried out, Table 2 assumes that the CTC consumption will grow at a rate of 6% for those PA applications. Under this Agreement, China would continue to use CTC for those applications (listed in Appendix IV) until the Parties decide on how to deal with those applications.

Appendix IV. Applications to be considered by the Parties and could be considered in Phase II

No	Application	Product	1999 Baseline	ODS
N1	Chlorinated Polypropylene (CPP)	Painting ink, adhesive, coating material		CTC
N2	Chlorinated Ethylene-Vinyl Acetate (CEVA)	Painting ink, adhesive, coating material		CTC
Total CTC consumption			1,650	CTC

No	Application	Product	1999 Baseline	ODS
N3	3-Phenoxy-Benzyldehyde	Pesticides/Agrochemical		CTC
N4	Imidacloprid and its intermediate (2-chloro-5-chloro-methylaniline)	Pesticides/Agrochemical		CTC
N5	Buprofenzin and its intermediate (Chloridized N-methyl aniline)	Pesticides/Agrochemical		CTC
N6	Mefenacet and its intermediate (1,3-dichloro-benzothiozole)	Pesticides/Agrochemical		CTC
N7	Oxadiazon	Pesticides/Agrochemical		CTC
N8	Methyl Isocyanate derivative series pesticides	Pesticides/Agrochemical		CTC
Total CTC consumption			3,574	CTC