

Annex XIV

AGREEMENT FOR THE METHYL BROMIDE PRODUCTION SECTOR PLAN IN CHINA

1. The Executive Committee, at its 47th Meeting decided to approve in principle a total of US\$ 9,790,000 in funding for the phased reduction and closure of the entire methyl bromide production capacity for controlled applications in China.
2. This is the total funding that would be made available to China by the Multilateral Fund for the total permanent closure of all capacities for the production of controlled substances of Group I Annex E (methyl bromide) excluding the production for quarantine and pre-shipment (QPS), feedstock and critical uses if any, and/or development of capacity to produce alternatives to methyl bromide for controlled applications.
3. The agreed level of funding would be paid out in instalments in the exact amounts specified in Table 1 and on the basis of the following understanding:
 - (a) By this approval, the Government of China agrees that in exchange for the funding level specified in Table 1, it will reduce its controlled Group I Annex E (methyl bromide) production in accordance with the maximum allowable production in the same table:

Table 1

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Max. annual allowable production of methyl bromide for controlled uses (ODP tonnes)	621.0	600.0	570.6	390.0	250.0	209.0	176.0	150.0	100.0	50.0	0.0*	-
Project cost (US\$ '000)	3,000	0	0	3,000	0	0	2,000	0	0	1,790	0	9,790
Agency fees (US\$ '000)	225	0	0	225	0	0	150	0	0	134	0	734
TOTAL MLF Grant (US\$ '000)	3,225	0	0	3,225	0	0	2,150	0	0	1,924	0	10,524

*save for QPS, feedstock and critical uses to be approved by Parties.

The Executive Committee has also agreed in principle that it will provide funds on the basis of progress reports submitted in accordance with the schedule indicated above. Payments noted in this paragraph (other than the initial tranche for 2005) are conditioned upon completion of agreed production decreases noted in Table 1 being independently verified and maintained and China meeting the other requirements of this agreement.

The funds are to be approved at the second meeting in the years indicated above, upon the submission by UNIDO and the acceptance by the Executive Committee of the verification of the reduction targets in the preceding years specified in

Table 1, with the exception of the first tranche, which will be released upon approval of this agreement.

- (b) The Government of China agrees to ensure accurate monitoring of the phase out, and to report regularly, consistent with their obligations under the Protocol and this agreement. 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 annual controlled methyl bromide production levels agreed in Table 1.
- (c) The Executive Committee wishes to provide the Government of China with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in Table 1. 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 phase out of controlled methyl bromide production.
- (d) The Government of China agrees that the funds being agreed in principle by the Executive Committee at its 47th Meeting for the complete closure of its methyl bromide production for controlled uses, is the total funding that will be available to enable its full compliance with the methyl bromide 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 an infrastructure for the production and import of alternatives. It is also understood that, aside from the agency fee referred to in paragraph (f) below and reflected in Table 1, the Government of China and the Multilateral Fund and its Implementing Agency will neither provide nor request further Multilateral Fund related funding for the accomplishment of the total phase out of controlled methyl bromide 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) The Government of China understands that, if the Executive Committee meets its obligations under this agreement, but the Government of China does not meet the reduction requirements outlined in paragraph (a), and other requirements outlined in this document, UNIDO and the Multilateral Fund will withhold funding from the subsequent tranche of the funding outlined in Table 1 until such time as the required reduction has been met. In addition, the Government of China understands that the Multilateral Fund will reduce the subsequent tranche and therefore, total funding for the methyl bromide production phase-out on the basis of US \$5,000 per metric tonnes of reductions not achieved in any tranche of this

agreement. It is clearly understood that the fulfilment of this agreement depends on the satisfactory performance of its obligations by both the Government of China, and the Executive Committee.

- (f) UNIDO has agreed to be the implementing agency for this project. The agency fee for the project will be at a fee of 7.5% of project costs, and released together with the annual tranches. As the implementing agency during the project time, UNIDO is 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 arranged by UNIDO are undertaken by appropriate independent technical experts;
 - (iii) Assisting the Government of China in the development of its annual work program, which incorporates achievements in programs in previous years;
 - (iv) Carrying out supervision missions as required;
 - (v) Ensuring the presence of an effective operating mechanism to enable an effective, transparent implementation of the programme and accurate, verified reporting of data;
 - (vi) Ensuring that disbursements are made to the Government of China based on agreed performance targets in the project, and the provisions of this agreement.
- (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 methyl bromide production sector or any related activity.
- (h) All of the arrangements 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.
