

Annex V

AGREEMENT FOR THE MEXICAN CFC PRODUCTION SECTOR

1. The Executive Committee decides to approve in principle a total of US \$31.85 million in funding for the closure of the entire CFC production capacity in Mexico. This includes US \$0.85 million for the project management unit.
2. This is the total funding that would be available to Mexico from the Multilateral Fund for the total permanent closure 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.
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, Mexico 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 substances production in an accelerated manner as compared to the allowable production in the same table:

Table 1

Year	2003	2004	2005	2006	2007	2008	2009	2010	Total
Maximum allowable production (metric tonnes)*	12,355	12,355	6,739	6,739	2,808	2,808	2,808	0**	
Maximum production levels agreed (metric tonnes)	22,000***			0	0	0	0	0	22,000
MLF funding US\$ million	5.3	10.7	4.0	11.85	0	0	0	0	31.85
Agency fees US\$	397,500	802,500	300,000	888,750	0	0	0	0	2,388,750

(*) Including 10% of its baseline production for meeting the basic domestic needs of other Article 5 countries.

(**) Save for any CFC production that may be agreed by the Parties to meet essential uses for Mexico.

(***) Total maximum production for the years 2003 to 2005. It is understood that Mexico may not exceed its allowable production limit during any one year.

The Executive Committee has also agreed in principle that it will continue to provide funds on the basis of annual programmes submitted in accordance with the schedule indicated above. The first tranche will be paid upon signature of this agreement and the Executive Committee will strive to ensure that the subsequent tranches are approved each year at the first meeting of the Executive Committee upon the submission by UNIDO and approval by the Executive Committee of the independent verification of the production in the preceding year within the Montreal Protocol requirement and within the total allowable production specified in Table 1. UNIDO will disburse the funds according to its rules and procedures;

- (b) Mexico agrees to ensure accurate monitoring of the phase-out, and to report regularly, consistent with their obligations under the Montreal Protocol and this

Agreement. Mexico 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 CFC production levels agreed in Table 1;

- (c) The Executive Committee wishes to provide Mexico with maximum flexibility in using the agreed funds to meet the reduction requirements agreed in subparagraph (a). Accordingly, while Mexico'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, it is the Executive Committee's understanding that during implementation, as long as it is consistent with this Agreement and the mode of implementation included in the Mexico project proposal, the funds provided to Mexico pursuant to this Agreement may be used in any manner that Mexico believes will achieve the smoothest possible CFC production phase-out.
- (d) Mexico agrees that the funds being agreed in principle by the Executive Committee at its 40th 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, apart from the agency fee referred to in subparagraph (f) below and reflected in Table 1, Mexico, 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) Mexico understands that, if the Executive Committee meets its obligations under this Agreement, but Mexico does not meet the reduction requirements outlined in subparagraph (a), and the other requirements outlined in this document, the implementing agency and the Multilateral Fund will withhold funding for the subsequent tranche of funding outlined in Table 1 until the required reduction has been met. In addition, Mexico understands that the Multilateral Fund will reduce the last tranche in 2006, and therefore, total funding for the CFC production closure on the basis of \$1,000 per ODP tonne of phase-out not achieved in 2006 of this Agreement. It is clearly understood that the fulfillment of this Agreement depends on satisfactory performance of obligations by both Mexico and the Executive Committee.

- (f) UNIDO has agreed to be the implementing agency for this project. The fee for the project will be 7.5 per cent for project costs distributed during that time period. As the implementing agency during that time period, UNIDO 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 UNIDO are undertaken by the appropriate independent technical experts;
 - (iii) assisting Mexico 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 Mexico and UNIDO; and
 - (vii) ensuring that disbursements are made to Mexico based on agreed performance targets in the project, and the provisions of this Agreement.

4. 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.
