UNITED
NATIONS

EP

United Nations
Environment
Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/26/58
11 October 1998

ORIGINAL: ENGLISH

Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol
Twenty-sixth Meeting
Cairo, 11-13 November 1998

INCREMENTAL OPERATING COSTS FOR COMPRESSORS

Introduction

1. At its Twentieth Meeting, the Executive Committee deferred approval of funding for operating costs associated with compressors used in domestic refrigeration projects (Decisions 20/22 and 20/27). At its Twenty-first Meeting the Committee again deferred approval of these operating costs and requested preparation of a policy paper on the issue. At its Twenty-second Meeting the Executive Committee decided on the policy which was to be applied (Decision 22/26).

2. At its Twenty-fourth Meeting, the Executive Committee considered a further paper on a possible methodology for implementing Decision 22/26 (UNEP/Ozl.Pro/ExCom/24/40) and decided to defer consideration of the issue (Decision 24/59). Since the representative of India had several comments to make, he was requested to submit his detailed comments in writing. Detailed comments were subsequently received from the Government of India.

3. At its Twenty-fifth Meeting, the Executive Committee requested the Secretariat to rethink the whole question of incremental operating costs for compressors, and to produce a new document based on a much simpler approach, such as, for example, a percentage of the capital costs.

4. In developing a much simpler approach, it might be noted that the final decision could potentially have an impact on the ten Article 5 countries that manufacture compressors (Brazil, China, Colombia, Egypt, India, Iran, Romania, Turkey, Thailand, and Venezuela).

Principles

5. The deliberations of the Executive Committee and its decisions to date on this issue, particularly Decision 22/26, appear to contain the following three fundamental principles, retention of which is proposed:

(a) incremental operating costs will not be considered for compressor manufacturers.

(b) in countries that do not have compressor manufacturers or have undertaken not to seek funding for conversion of any compressor manufacturers, incremental operating costs for loaded non-CFC compressors will continue to be eligible for compensation;

(c) in countries that have both compressor manufacturers and downstream manufacturers of refrigerators, double counting of compensation for the capital cost of conversion of compressor manufacture, and the incremental operating costs associated with compressors for downstream manufacturers of refrigerators, is to be avoided.

6. Principle (c) can be given effect by discounting any future compensation sought for compressor conversion, or any future compensation sought by downstream manufacturers for incremental operating costs associated with compressors, according to the numbers of compressors for which the other form of compensation has already been paid.

7. To achieve this, the following two principles will need to be implemented:

(d) in countries which have received or will seek compensation for compressor conversion, any compensation proposed for downstream manufacturers for incremental operating costs associated with compressors will be discounted according to the ratio of the number of compressors in respect of which compensation for conversion of ODS-based production capacity has been paid or will be paid by the Fund, to the total number of refrigeration units produced in the country concerned using hermetic compressors;

(e) in countries in which downstream users have received or will seek compensation for incremental operating costs associated with compressors, any proposed compensation for the capital costs of compressor conversion will be discounted according to the ratio of the number of hermetic compressors for which incremental operating costs have been or will be paid to downstream users through projects approved by the Fund, to the total number of refrigeration units produced in the country concerned using hermetic compressors.

8. While other principles could have been included, those listed above are considered to represent the core situation envisaged by the Executive Committee.

Implementation

Information needs

9. Certain basic information on the structure and capacity of the refrigeration industry in the country concerned is essential to implement any decision related to avoiding double counting compensation for compressors. This basic information is:

- Relevant enterprise-level data relating to the production levels and capacities of the manufacturers of compressors (hermetic compressors only, since non-hermetic compressors are not used in domestic or small commercial refrigerators) including those manufacturers who have received Multilateral Fund grants as applicable.

- Relevant enterprise-level data relating to the production level of downstream refrigerator manufacturers (both domestic and commercial, using hermetic compressors) including those manufacturers who received incremental operating costs associated with compressors, as applicable.

- Relevant enterprise – level data relating to both of the above for enterprises with combined production, including any compensation received for one or the other from the Multilateral Fund.

- A statement from the country concerned regarding its intention on the remaining enterprises for which it wishes to receive funding for incremental operating cost associated with compressors or incremental capital cost for conversion of compressor manufacture.

10. In all cases, to comply with Decision 17/60, any production and capacity data should relate only to items produced on equipment installed before 25 July 1995.

Sectoral approaches

11. The most accurate and comprehensive way to approach the remainder of the refrigeration sector in relevant countries is by means of a sectoral approach, where it would be possible to apply the core principles and determine the eligible costs in the light of the specific circumstances of conversion in the country concerned. Additionally, with a sectoral approach the country concerned may have flexibility in the allocation of funding in return for a guarantee of phase-out performance.

Division between domestic and commercial refrigeration

12. It will be possible to implement the decision separately for the domestic and commercial sub-sectors. That part of the commercial sub-sector which uses domestic-type compressors can be operationalised using the same methodology as the domestic sub-sector if the relevant refrigerator manufacturing and compressor manufacturing information is obtained together with the information on the domestic sub-sector. The methodology for commercial refrigeration operations that use other than hermetic compressors will need to be operationalised separately using the same basic no-double-counting principles.

13. The division between the domestic and refrigeration sub-sectors can also be operationalized in a simpler way by using the fundamental differentiating factor of compressor size. Advice from the industry and TEAP members indicates that hermetic compressors of 250 watts and below are representative of domestic refrigeration while hermetic compressors of more than 250 watts and all non-hermetic compressors are used in commercial refrigeration. This would mean that enterprises manufacturing small refrigerators for a variety of purposes would all be classified domestic and be eligible for the hydrocarbon technology threshold allowance.

Combined plants

14. Under the principles outlined above it would be possible, within a sector approach, for enterprises which produce compressors solely for their own use in refrigerator manufacturing operations to be compensated for the incremental capital costs associated with compressor conversion, or incremental operating costs associated with the downstream use of the compressors in the enterprises' own refrigerator manufacturing operations, but not both.

Recommendation

1. It is recommended that the Executive Committee:

   (a) endorse the principles (a) to (e) above.

   (b) request relevant countries provide the necessary basic information on their refrigeration sectors, as elaborated in paragraph 9 above.

   (c) agree that the boundary between domestic and commercial refrigeration be delineated by compressor size and that refrigerators using hermetic compressors of 250 watts and below be classified as belonging to the domestic sub-sector.

   (d) note that specific arrangements for implementation of the decision will be proposed by relevant implementing agencies and the Fund Secretariat on a country-by-country basis in the context of project proposals.