

Annex VII

DRAFT PREREQUISITES AND GUIDELINES FOR TERMINAL PHASE-OUT IN THE REFRIGERATION SECTOR

Prerequisites for preparation of terminal phase-out projects

1. The prerequisites will be determined from consideration of the circumstances of Article 5 countries in relation to achievement of Montreal Protocol control measures, the policies and practices for effective use of Fund resources and the necessary requirements to ensure that a proposal is soundly based, implementable and sustainable. These issues have been well summarized in the principles contained in recent decisions concerning this sector and could be expressed in the form of prerequisites for project preparation as follows, with the reasons indicated immediately below:

- (a) the country has received enough assistance from the Fund to convert all appliance manufacturers, other than SMEs;
 - (i) or there may not be priority for funding, since simpler and potentially more cost-effective interventions are available to meet reduction targets. This also suggests that a terminal phase-out strategy in the refrigeration sector would normally be embarked upon after most or all industrial conversion projects other than the informal sector had been funded and/or implemented;
 - (ii) additionally, when consumption for manufacturing approaches zero, it becomes more straightforward to obtain reliable indications of the consumption used in the service sector, since the activities of small or informal manufacturers are oriented primarily towards installation and servicing;
- (b) that either no other possible alternatives would allow the country to meet its CFC control obligations, or more stringent national targets, or the comparative consumer price of CFCs, relative to substitute refrigerants, had been high for at least 9 months and is predicted to continue to increase;
 - (i) where significant CFC-based manufacturing activity remains, there may not be priority for funding a terminal phase-out strategy since consumption can be reduced by continuing to implement industrial conversion projects;
 - (ii) by the time CFC prices have become higher than prices of substitutes, on current indications it is likely that conversion of most CFC-based manufacturing capacity, other than very small enterprises and the informal sector, will have been completed in most higher-consuming countries;

- (c) there should be indications that the legislative and industrial support measures necessary for successful implementation of terminal phase-out will be operational and effective in the timeframe envisaged for project preparation and implementation.
 - (i) extended periods are sometimes needed to develop and operationalize institutional support measures. The timing of terminal phase-out projects and their preparation should be consistent with the availability of these measures;
- (d) that the modality for a preparation of a terminal phase-out project will be the development of a long-term strategy for the refrigeration sector undertaken in the context of a country programme update (RMP guidelines, decision 31/48 C);
 - (i) this means that the country should ensure that it has accurate, current and sufficiently detailed knowledge about the structure and consumption of its refrigeration sector.

Guidelines for terminal phase-out projects

2. When the information obtained by a country and the implementing agency, as discussed above indicates that the country is in a position to request assistance from the Fund for implementation of a terminal refrigeration phase-out project, proposals should be consistent with a set of guidelines which might be along the lines of those indicated below:

- (a) Proposals should be presented in the form of a long-term strategy for the refrigeration sector under decision 31/48C (guidelines for RMPs for higher-consuming countries), incorporating the principles outlined in the initial guidelines for RMPs (decision 23/15);
 - (i) in other words, a terminal phase-out proposal for the refrigeration sector is the same as a long term strategy for the refrigeration sector in a larger-consuming country, in the same way that an RMP for a low-volume-consuming country is a terminal phase-out project for that country;
- (b) Proposals should be consistent with all relevant rules and policies of the Multilateral Fund as decided by the Executive Committee;
- (c) Proposals should contain *inter alia* the following elements:
 - (i) comprehensive data on the profile of all remaining ODS consumption in the sector with breakdown into sub-sectors,

supported by results of analysis undertaken either before or during project preparation, as a prerequisite to the proposal;

- (ii) comprehensive data on the profile of the remaining enterprises in the sector, with breakdown into sub-sectors, supported by results of analysis undertaken either before or during project preparation, indicating, *inter alia*, enterprises whose production capacity was installed after 25 July 1995;
 - (iii) institutional support through government policy directives or legislation and taxation or other fiscal measures; a timed action plan and expected results in terms of ODS phase-out; coordination and management by ozone offices and financial intermediaries; technology transfer by local industry associations and/or component suppliers and systems houses;
 - (iv) the appropriate choice of technology, innovative methodologies for achieving technology transfer; achievement of economies of scale through geographical grouping or industrial rationalization; financial arrangements which could provide flexibility in the allocation of approved resources;
 - (v) the commitment of the Government to phase out ODS according to the proposed action plan;
 - (vi) a financing plan related to the major milestones with provisions to release funds against the performance achieved;
- (d) The development of elements of the proposal and the determination of incremental costs related to each activity or sub-sector should be guided by pertinent policies of the Executive Committee, as expressed in decisions previously taken, for instance:
- (i) the elements related to the commercial refrigeration end-user sector will be developed in accordance with policies previously contained in decision 28/44;
 - (ii) the elements related to the new sub-sector for the assembly, installation and servicing of refrigeration equipment will be developed in accordance with decision 31/45;
 - (iii) the elements related to recovery and recycling will be developed in accordance with decisions 22/22 (Recycling projects in CFC-producing countries) and 22/23 (General recovery and recycling projects).