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

**REPORT OF THE FIFTEENTH MEETING OF THE
SUB-COMMITTEE ON PROJECT REVIEW**

Introduction

The Sub-Committee on Project Review of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol met in Cairo, on 9 and 10 November 1998.

The meeting was attended by representatives of Burkina Faso, India (Chairman), Italy, Peru, Switzerland, and the United States of America, as well as by representatives of the implementing agencies.

The meeting was also attended by representatives of Canada and Japan as observers and by observers from the Pesticide Action Network, representing environmental non-governmental organizations, and the Alliance for Responsible Atmospheric Policy (ARAP), representing industry non-governmental organizations.

AGENDA ITEM 1: OPENING OF THE MEETING

1. The meeting was opened by the Chairman of the Sub-Committee, Mr. Vinod Vaish (India), at 10 a.m. on Monday, 9 November 1998.

AGENDA ITEM 2: ADOPTION OF THE ANNOTATED AGENDA

2. The Sub-Committee adopted the following agenda on the basis of the annotated provisional agenda contained in document UNEP/OzL.Pro./ExCom/SCPR/15/1/Add.1/Rev.1:

1. Opening of the meeting.
2. Adoption of the annotated agenda.
3. Introductory remarks by the Chief Officer.
4. Organization of work.
5. Issues identified during project review.
6. Bilateral cooperation.
7. Work programme amendments.
8. 1999 Work programme, UNEP.
9. 1999 Work programme advances.
10. Investment projects (including methyl bromide).
11. Policy issues outstanding from previous meetings.
12. Other matters.

AGENDA ITEM 3: INTRODUCTORY REMARKS BY THE CHIEF OFFICER

3. The Chief Officer said that, as was customary at the end of the year, the implementing agencies had submitted a large number of projects to the Secretariat. At a recent three-day meeting with the implementing agencies, it had been possible for the Secretariat to resolve most of the issues raised by those projects, enabling a large number to be submitted to the current meeting for blanket approval. He thanked the implementing agencies for their cooperation. Under bilateral cooperation arrangements, 32 project proposals had been submitted - the largest number ever before a meeting of the Sub-Committee on Project Review. He expressed the hope that the outstanding issues within the project proposals for individual considerations could be resolved and that they could be moved forward for approval.

4. The Chief Officer concluded by reporting that some \$32 million was available for allocation by the Executive Committee, and the expected level of the programme before the Executive Committee was around \$65 million, leaving a potential shortfall of approximately \$33 million dollars. To cover that shortfall, the Sub-Committee could recommend that the Executive Committee request donors to make payments against their 1998 contributions. He hoped that those contributions could be paid to the Fund in a timely way.

AGENDA ITEM 4: ORGANIZATION OF WORK

5. Following the suggestion of the Chairman, the Sub-Committee decided to organize its work in accordance with the proposals outlined in the provisional annotated agenda (UNEP/OzL.Pro/ExCom/SCPR/15/1/Add.1/Rev.1).

AGENDA ITEM 5: ISSUES IDENTIFIED DURING PROJECT REVIEW

(a) Determining ODS consumption in project proposals in the foam and refrigeration sectors and eligibility of ODS consumption arising from losses during production

(b) Eligibility of ODS consumption arising from losses during production

6. The representative of the Secretariat, drawing attention to paragraphs 4 to 6 of the overview paper (UNEP/OzL.Pro/ExCom/26/17), said that a significantly greater proportion of project proposals in the foam and refrigeration sectors were requesting funding at the limit established by the cost-effectiveness threshold for the sector. In those circumstances, the funding limit for the project was directly proportional to the consumption of the enterprise. Implementing agencies had acknowledged that verification of consumption could present problems. Therefore, there might be a need to pay increased attention to accurately determining the consumption of an enterprise and to providing corroboration of the consumption in project proposals submitted to the Executive Committee for approval.

7. The Sub-Committee considered items 5 (a) and 5 (b) together. Following the discussion, and noting the concern expressed on the reliability of data on ODS consumption in projects submitted for approval, the Sub-Committee recommended that the Executive Committee should:

(a) Request the implementing agencies, in the preparation of projects, to take extreme care to ensure the reliability and accuracy of data on ODS consumption and make available to the Secretariat figures normally provided by enterprises on ODS purchased by the enterprises and ODS used in the products being produced;

(b) Request that the enterprises for which projects are being prepared make available their relevant records to provide the best available information to the Implementing Agencies concerning ODS purchased and used;

(c) Request the Secretariat and the implementing agencies to examine in detail the technical issues of evaporation losses of ODS, as well as the question of how such losses should be taken into account in determining the eligible level of compensation to be provided to an enterprise, with a view to submitting a report on their findings to the Sub-Committee on Project Review at its sixteenth meeting;

(d) Agree that any similar projects submitted to the next meeting should be consistent with the conclusions of the report prepared pursuant to subparagraph (c) above.

(b) Proposed increases in consumption of a foam enterprise in the United Republic of Tanzania

8. The representative of the Secretariat drew attention to paragraphs 17 to 19 of the overview paper, which described a submission for funding of LCD technology in an enterprise in the United Republic of Tanzania manufacturing flexible foam, with a level of consumption of 39.5 ODP tonnes. He said that in accordance with Decision 24/58, compensation could not be provided for LCD technology because the level of consumption in the enterprise was less than 50 ODP tonnes, but only for methylene chloride technology. The Secretariat had agreed with UNDP that the enterprise might put any funds approved towards the acquisition of LCD technology should the enterprise wish to do so. UNDP had later advised

that, despite its efforts to persuade the enterprise, the enterprise wished to withdraw the project because its market was expanding, and its consumption would soon exceed 50 ODP tonnes, at which time it would resubmit the project with LCD technology, which would then be eligible for funding.

9. Following a discussion, the Sub-Committee recommended that the Executive Committee should:

- (a) Consider the case purely in terms of the project itself and not as a policy issue;
- (b) Note that the enterprise concerned was entitled to full compensation for conversion to methylene chloride technology;
- (c) Decide that the full history of the project proposal, including the trend in ODS consumption in the enterprise, should be taken into account if and when it was resubmitted to the Committee;
- (d) Encourage UNDP, on the basis of the discussion in the Sub-Committee, to explore the possibility of resubmitting the project before the consumption level of the enterprise exceeded the 50-tonne eligibility threshold and to seek the agreement of the enterprise on the provision of partial funding should it wish to acquire the LCD technology.

AGENDA ITEM 6: BILATERAL COOPERATION

10. The Sub-Committee considered 32 project proposals for bilateral cooperation from the Governments of Canada, France and Germany (UNEP/OzL.Pro./ExCom/26/18 and Corr.1). From among those projects, the following two were proposed by the Secretariat for individual consideration:

Development of a halon bank management plan for the English-speaking Caribbean
(UNEP/OzL.Pro./ExCom/26/18 and Corr.1)

11. The representative of the Secretariat drew attention to paragraphs 2 to 9 of the document on requests for bilateral cooperation and said that the goal was to enable concerned countries to maintain their current level of fire protection safety and to avoid economic disruption, while gradually reducing their dependence on halons and ensuring that essential uses were provided for. The existing halon banking guidelines (decision 18/22) did not require the development of a halon banking management plan. They also provided that countries with a low level of installed capacity should qualify for a one-time funding of \$25,000, which could be used for the acquisition of recycling equipment, or as an incentive to recover halons from existing systems, or for the establishment of exchange programmes to be decided by the country. The implementing agencies had completed several projects that should assist ozone units by providing materials to assess level of consumption and applications, identify low-cost options and alternatives for reducing halon use and determine technical and financial support for elimination of halon dependency.

12. The Sub-Committee recommended that the Executive Committee approve the above project at the level of funding indicated in the annex to the present report, on the understanding that, with the exception of two other similar regional projects that were in the pipeline, no other such projects should be submitted for approval until more experience in their implementation had been gained. The countries included in the project should be made aware that no further funding would be made available for the halon sector in their countries.

13. At the request of one representative the Sub-Committee decided that the following two other projects should be considered individually:

- (a) Refrigerant management plans for 14 eastern and southern African states;

- (b) Project preparation/technical assistance at Chem Tech, Port Louis, in Mauritius.

Methyl bromide replacement demonstration programme in Kenya
(UNEP/OzL.Pro/ExCom/26/18)

14. The representative of the Secretariat drew attention to paragraphs 10 to 13 of the document on requests for bilateral cooperation and said that the project proposed to demonstrate the value and usefulness of diatomaceous earth as part of alternative integrated pest management techniques in both stored grains and structural treatment. Collaborative field trials would be used to demonstrate the value and usefulness of diatomaceous earth, and a workshop would be held to present the result of the field trial project, followed by strategy meetings to develop a programme for future technology transfer. He also reported that the Executive Committee had already approved a demonstration project for Kenya.

15. The Sub-Committee recommended that the Executive Committee approve the project at the level of funding indicated in the annex to the present report, on the understanding that the project go forward only when it had been confirmed to the Secretariat that there were no impediments to the entry into Kenya of material needed to implement the project.

Refrigerant management plans for 14 eastern and southern African countries (Kenyan component)
(UNEP/OzL.Pro/ExCom/26/18)

16. The Sub-Committee recommended that the Executive Committee should:

- (a) Approve the components for customs training, and the training of technicians in the servicing sector of the above project at the level of funding indicated in the annex to the present report, on the understanding that the technical training and capital costs associated with recovery and recycling would be approved at a later date after resolution of the customs problems that were holding up implementation of other projects in the country;
- (b) Invite the Chair of the Executive Committee to enter into a policy dialogue with the Government of Kenya, with the aim of overcoming the continuing delays at customs and helping to get outstanding projects implemented as quickly and as faithfully as possible.

Project preparation/technical assistance at Chem Tech, Port Louis, in Mauritius
(UNEP/OzL.Pro/ExCom/26/18)

17. The Sub-Committee recommended that the Executive Committee approve the above project at the level of funding indicated in the annex to the present report.

18. With regard to the other project proposals submitted for blanket approval, the Sub-Committee recommended that the Executive Committee should:

- (a) Approve the proposals at the level of funding indicated in the annex to the present report;

- (b) Note the need for cooperation between bilateral donors and implementing agencies to ensure that the infrastructure put in place for methyl bromide demonstration projects was used in related subsequent projects by different implementing entities in the same countries, in order to reduce overall expenditure.

19. Having completed its consideration of the item, the Sub-Committee recommended that the Executive Committee should request the Treasurer to credit the costs of the projects against the 1998 contributions of the bilateral donors concerned, as follows:

- (a) \$401,810 should be credited against the 1998 contribution of Canada;
- (b) \$281,000 should be credited against the 1998 contribution of France;
- (c) \$1,171,812 should be credited against the 1997 contribution of Germany and \$1,330,750 should be credited against its 1998 contribution.

AGENDA ITEM 7: WORK PROGRAMME AMENDMENTS

20. All recommendations for project approvals were made on the understanding that the amount of 13 per cent as support costs built into each project would be governed by the final decision to be taken by the Executive Committee.

UNDP

21. The Sub-Committee recommended to the Executive Committee that it approve UNDP's work programme amendments as contained in document UNEP/OzL.Pro./ExCom/26/19 at the level of funding indicated in the annex to the present report.

UNEP

22. The representative of the Secretariat, referring to UNEP's work programme amendments (UNEP/OzL.Pro./ExCom/26/20), said that Brunei Darussalam had initially been classified as a non-Article 5 country, but by decision IX/33 of the Meeting of the Parties, it had been reclassified as an Article 5 country effective 1 January 1995 on the basis of its data submitted for 1995. Under decision VI/5 (e), Parties that had been reclassified as an Article 5 Party were urged not to request financial assistance for national programmes from the Multilateral Fund. This would not apply if the initial classification of the Party, made in the absence of complete data, was subsequently proved to be wrong on the basis of complete data. The Fund Secretariat had sought clarification from the Ozone Secretariat and had been informed that decision VI/5 (e) did not apply to Brunei Darussalam.

23. Following the discussion, the Sub-Committee recommended that the Executive Committee approve UNEP's work programme amendments at the level of funding indicated in the annex to the present report.

AGENDA ITEM 8: 1999 WORK PROGRAMME, UNEP

24. All recommendations for project approvals were made on the understanding that the amount of 13 per cent as support costs built into each project would be governed by a final decision to be taken by the Executive Committee.

25. The Sub-Committee recommended to the Executive Committee that it approve the recurring cost component of UNEP's 1999 work programme amendments as contained in document UNEP/OzL.Pro./ExCom/26/21 at the level of funding indicated in the annex to the present report.

AGENDA ITEM 9: 1999 WORK PROGRAMME ADVANCES

26. All recommendations for project approvals were made on the understanding that the amount of 13 per cent as support costs built into each project would be governed by a final decision to be taken by the Executive Committee.

27. The Sub-Committee recommended to the Executive Committee that it approve advances on the 1999 Work Programmes of UNDP, UNIDO and the World Bank recurring costs, as contained in document UNEP/OzL.Pro/ExCom/26/22 at the level of funding indicated in the annex to the present report. Those requests consisted of 18 per cent of the total project preparation requests in the UNDP draft 1999 business plan, and 15 per cent of the project preparation included in the UNIDO and the World Bank 1999 draft business plans.

AGENDA ITEM 10: INVESTMENT PROJECTS (INCLUDING METHYL BROMIDE)

28. All recommendations for project approvals were made on the understanding that the amount of 13 per cent as support costs built into each project would be governed by a final decision to be taken by the Executive Committee.

(a) Projects recommended for blanket approval

29. The representative of the Secretariat drew attention to documents UNEP/OzL.Pro/ExCom/SCPR/15/2 and Corr.1. Any technical issues raised by the projects listed in the documents, he said, had been resolved and there were no policy issues. In consequence, the Secretariat recommended all of the projects for blanket approval at a level of funding indicated in the annex to the present report, with the exception of the following projects which were withdrawn:

- (a) Brazil: Phasing out of CFC-11 with cyclopentane at Tecpur Ltd and HCFC-141b at its foam raw material customers (umbrella project);
- (b) Malaysia: Replacement of CFC-11 foam blowing agent by HCFC-141b in the manufacture of insulation panels at Yong Tuck Refrigeration Trading Co..

30. Noting the concern expressed by some members who considered that the project documentation for some of the projects under consideration for blanket approval gave inadequate justification for HCFC use, the Sub-Committee recommended:

- (a) That the full information provided in the project document should be included in the project evaluation sheet;
- (b) That where, upon review, by the Fund Secretariat a project proposal requesting HCFC technology was considered to provide inadequate information justifying the choice of that technology, the project should be submitted for individual consideration by the Sub-Committee on Project Review.

31. Italy noted that most of the methyl bromide projects did not give an indication of how, if the results were successful, the demonstration project would be scaled up into a full investment project. Such information should be included in future demonstration projects proposals presented to the Committee, in line with the guidelines.

(b) Projects for individual consideration

32. The representative of the Secretariat drew attention to parts 1 and 2 of the overview document, which made reference to ten foam investment projects involving evaporation losses, and nine other projects for individual consideration.

(a) Indonesia: Phase-out of CFC-11 by conversion to HCFC-141b in the manufacture of insulated boxes at P.T. Polidaya Fiberindo Indah (UNEP/OzL.Pro./ExCom/26/36)

(b) Indonesia: Phase-out of CFC-11 by conversion to HCFC-141b in the manufacture of rigid polyurethane foam (panels) at Irama Sejuk Santosa (UNEP/OzL.Pro./ExCom/26/36)

(c) Indonesia: Phase-out of CFC-11 by conversion to HCFC-141b in the manufacture of rigid polyurethane foam at Indoklima Sarana Engineering (UNEP/OzL.Pro./ExCom/26/36)

(d) Indonesia: Phase-out of CFC-11 by conversion to HCFC-141b in the manufacture of rigid polyurethane foam at Mentari Adi Fayar (UNEP/OzL.Pro./ExCom/26/36)

(e) Indonesia: Phase-out of CFC-11 by conversion to HCFC-141b in the manufacture of insulated panels at P.T. Panendra Sejati (UNEP/OzL.Pro./ExCom/26/36)

(f) Indonesia: Phase-out of CFC-11 through conversion of water-based systems (FMF) and HCFC-141b (ISF) in the manufacture of polyurethane foam for automotive and furniture applications at P.T. Yoska Prima Inti (UNEP/OzL.Pro./ExCom/26/36)

(g) Pakistan: Elimination of CFC-11 through conversion to water-based technology in the manufacture of flexible moulded polyurethane foam at Salcem Automotive Industries Ltd. (UNEP/OzL.Pro./ExCom/26/48)

(h) Thailand: Conversion from CFC-11 to water based and HCFC-141b technology in the manufacture of polyurethane foam (flexible moulded, integral skin) at World Plaster/Europlan Furniture Co. (UNEP/OzL.Pro./ExCom/26/53)

(i) Thailand: Conversion from CFC-11 to water based and HCFC-141b technology in the manufacture of polyurethane foam at J.S. Industry Co. Ltd. (UNEP/OzL.Pro./ExCom/26/53)

(j) Thailand: Conversion from CFC-11 to HCFC-141b technology in the manufacture of rigid polyurethane foam at Sahakij Comos L.P. (UNEP/OzL.Pro./ExCom/26/53)

33. The issue associated with these nine projects was addressed by the Sub-Committee under agenda item 5 (b) (see paras. 6 to 7 above).

34. The Sub-Committee noted the deferral of a project for phase-out through conversion to water-based systems (FMF) and HCFC-141b (ISF) in the manufacture of polyurethane foam for automotive and furniture applications at P.T. Yoska Prima Inti (UNEP/OzL.Pro./ExCom/26/36)

35. Having taken into consideration its recommendation in paragraph 7 above, the Sub-Committee recommended that the Executive Committee approve the above eight projects from UNDP and one from the World Bank at the level of funding indicated in the annex to the present report.

Chile: Montreal Protocol implementation programme, phase II, second tranche
(UNEP/OzL.Pro/ExCom/26/27)

36. The representative of the Secretariat drew attention to document UNEP/OzL.Pro/ExCom/26/32. He recalled that the World Bank was requesting \$2.8 million for the continuation of the auction programme for phasing out ODS consumption in Chile. The programme had been initially funded in 1992 and had subsequently received \$1 million in May 1996 for its continuation. The Bank had submitted a completion report on phase 1 and a progress report on phase 2 of the project that was still currently under way, both of which were included in document UNEP/OzL.Pro/ExCom/26/27. Since the Executive Committee had requested completion reports on those phases, the Secretariat had submitted the project to the Committee for individual consideration.

37. The representative of the World Bank said that, after discussing the proposal with the Chilean Government and the United States delegation, he wished to confirm that the overall cost-effectiveness of the rigid foam projects funded under the programme would be set at \$5.77, which was the average of the World Bank's projects in that area and that no projects in the sector would have a cost-effectiveness ratio in excess of \$7.04 per kilogram, which was 90 per cent of the threshold agreed by the Executive Committee. For the domestic refrigeration sector, the overall cost-effectiveness of projects funded would be \$7.13 per kilogram and \$9.73 for conversion to hydrocarbon technology. No project in the sector would have a cost-effectiveness of more than \$12.38 per kilogram, which was 90 per cent of the cost-effectiveness ratio approved by the Executive Committee for the sector. This tranche of the programme could fund only projects in those two sectors.

38. The Sub-Committee recommended that the Executive Committee approve the above project at the level of funding indicated in the annex to the present report.

China: MAC ODS phase-out sector plan (UNEP/OzL.Pro/ExCom/26/28)

39. The representative of the Secretariat drew attention to pages 19 to 29 of document UNEP/OzL.Pro/ExCom/26/28. He stated that the Government of China had submitted a MAC sector plan proposal to phase out the use of CFC-12 in the entire sector. The submission was in accordance with Decision 25/21, whereby the Committee decided, as a special case, that the project might not need to meet the requirements of Decision 17/6, but must fall within the \$15.15 million estimated by the Government of China to be the total requests from the Multilateral Fund for the entire sector and should not contain proposals for operating costs. The World Bank was proposing to support the full conversion of the MAC industry to non-CFC technology, meet the target of 31 December 2001 for CFC phase-out in new MAC production, cover eligible conversion costs for enterprises in the MAC component sector, support technical assistance activities and policy actions to ensure industry conversion, and implement a monitoring and compliance programme.

40. Consistent with the 1995 MAC sector strategy, the Government of China was requesting approval at the limit of funding provided for in Decision 25/21, i.e., \$8.57 million, as compensation for the completion of the phase-out proposed in the sector plan. To establish a basis for that request, nine detailed project proposals for MAC component manufacturers and three proposals for technical assistance had been submitted. The total cost of those proposals was \$0.91 million above the \$8.57 million cap required by Decision 25/21. The Government of China was requesting some flexibility in project implementation, by introducing a bidding process to provide incentives for eligible MAC-component manufacturers. There appeared to be no basis in the MAC sector plan for identifying and reviewing specific incremental costs for conversion, other than by reviewing the proposed costs of the 12 project proposals. The Secretariat had concluded, following its review of the proposal, that, on a project-by-project basis, nearly \$1.98 million of the costs proposed for those projects appeared not to be eligible for funding. The World Bank had acknowledged that \$0.702 million of the total amount might not be eligible and suggested that that amount could be deducted from the overall level of funding sought in the

project document, which amounted to \$7.701 million, or some \$200,000 more than the eligible costs assessed by the Secretariat. The World Bank had also indicated that the overall cost of phasing out CFCs in the sector would be substantially higher than the level of compensation sought by China.

41. After some discussion, the Sub-Committee requested the representative of the World Bank to consult with the representative of China and to report back to the Sub-Committee.

42. Following the subsequent report by the representative of the World Bank, the Sub-Committee recommended that the Executive Committee approve the project at a funding level of \$7.7 million, on the understanding that China had committed to meet the target of 31 December 2001 for CFC phase-out in new MAC production.

China: Halon sector 1999 annual programme (UNEP/OzL.Pro./ExCom/26/28)

43. The representative of the Secretariat drew attention to pages 10 to 12 and Annex I of document UNEP/OzL.Pro./ExCom/26/28. He stated that the Executive Committee approved the China Halon Sector Plan at its Twenty-third Meeting contingent upon several conditions (Conditions A through N in decision 23/11) and that China was requesting the release of the second tranche (\$9.7 million) for the implementation of the 1999 Annual Programme. He also noted that the World Bank was requesting the same level of administrative costs as for the first tranche and invited the Sub-Committee to consider and make recommendations to the Executive Committee on the level of the implementing agency fee in accordance with decision 23/11 and the content of the 1999 annual programme.

44. The Sub-Committee recommended that the Executive Committee should:

- (a) Approve the above project at the level of funding indicated in the annex to the present report;
- (b) Request the World Bank to provide details on the use of the administrative costs approved in the first tranche.

India: Elimination of CFCs in the manufacture of domestic refrigerators at Whirlpool of India Ltd. (UNEP/OzL.Pro./ExCom/26/35)

45. The representative of the Secretariat drew attention to pages 8 to 12 of document UNEP/OzL.Pro./ExCom/26/35. He stated that the project presented complex issues related to the establishment of incremental costs associated with the level of production before July 1995. According to the project proposal, significant activities had been undertaken by the enterprise in 1996 in relation to the installation of new production equipment. However, after considerable discussion, the secretariat and the World Bank had come to an agreement on the incremental costs of the project.

46. Following an extensive discussion the Sub-Committee recommended that the Executive Committee defer the project until its next meeting, prior to which more information should be made available to Executive Committee members on the reasons for the selection of the technology proposed, as well as figures on production levels.

Thailand: Programme to reduce the usage of CFC-11 and CFC-12 in chiller servicing by replacing CFC-based chillers with HFC-134a and HCFC-123 chillers at Electricity Generating Authority (EGAT) (UNEP/OzL.Pro./ExCom/26/53)

47. The representative of the Secretariat drew attention to pages 10 to 13 of document UNEP/OzL.Pro./ExCom/26/53. He stated that the project had been resubmitted at the Twenty-fifth Meeting as a pilot project together with the IFC's study on the scope for a non-grant financing facility for

ODS phase-out. At the latter Meeting, the Executive Committee had been informed that the Thailand project would involve a revolving loan that would be financed 50 per cent by the Multilateral Fund and 50 per cent by Global Environment Facility (GEF).

48. The representative of the World Bank clarified that the terms of the loan agreement would ensure that the funds would be returned to the Multilateral Fund at the end of the project or at the end of the fifth year of the programme if the demonstration project was unsuccessful. The amount to be refunded to the Multilateral Fund should exclude losses related to technology and currency risk. The Bank would explore and implement measures to safeguard the resources of the Multilateral Fund and ensure expeditious implementation of the programme. It was also understood that no other chiller replacement projects would be put forward by the Bank until the Executive Committee had been informed of progress of the current project. In response to a question from one member of the Committee, the representative of the World Bank clarified that the loan would be interest-free.

49. Following a discussion, the Sub-Committee recommended that the Executive Committee should:

- (a) Approve funding for the project in the amount indicated in the annex to the present report, on the understanding that the project did not constitute a precedent and that its approval was without prejudice to the ongoing discussions on the question of concessional lending;
- (b) Request the World Bank to provide an annual update on the status of the project and to draw lessons learned based on the following information:
 - (i) Whether actual savings were equal or greater than originally anticipated;
 - (ii) Whether CFCs from old chillers were properly recovered, recycled and reused in servicing remaining chillers.

50. In response to a question from the floor, the representative of the World Bank said that the Bank would provide information on the arrangements governing the loan for the project as soon as the terms had been negotiated.

Cuba: Phasing out methyl bromide in the tobacco sector (UNEP/OzL.Pro/ExCom/26/31)

51. The representative of the Secretariat drew attention to document UNEP/OzL.Pro/ExCom/26/31, noting that the project was the first investment project for the phasing out of methyl bromide submitted for consideration by the Executive Committee. Since the technology in question, using a combination of biocides and soil-less cultivation of transplants had been proven in a number of previous trials, it had been considered that a demonstration project would be redundant. The Government of Cuba had indicated that, once the project was in place, a Ministerial Decree would be issued, banning the use of methyl bromide in the sector. The representative of UNIDO in response to questions stated that it was possible to implement the project in four instead of five years.

52. Following an exchange of views, the Sub-Committee recommended that the Executive Committee:

- (a) Approve the project at the funding level indicated in the annex to the present report;
- (b) Request the implementing agency to confer with the Government of Cuba to see if it would be possible to implement the project in less than four years.

(a) Malawi: Phase-out of CFC-11 by conversion to methylene chloride in the manufacture of flexible polyurethane foam at Robry Ltd. (UNEP/OzL.Pro./ExCom/26/43)

(b) Tanzania: Phase-out of CFC-11 by conversion to methylene chloride in the manufacture of flexible polyurethane foam at H.K. Foam Ltd. (UNEP/OzL.Pro./ExCom/26/52)

(c) Tanzania: Phase-out of CFC-11 by conversion to methylene chloride in the manufacture of flexible polyurethane foam at Pan Africa Enterprises Ltd. (UNEP/OzL.Pro./ExCom/26/52)

53. The representative of the Secretariat said that the above three projects presented problems of discrepancies in ODS consumption data and the Secretariat sought guidance on how to proceed. Concerning the Malawi project, the project document stated that the company's consumption for 1997 was 33 tonnes of CFC-11. However, the Malawi country programme indicated a total consumption of 4 tonnes of CFC-11 and consumption of all CFCs reported by Malawi to the Ozone Secretariat for the past 3 years had not exceeded 4 tonnes per year. The latest consumption of 4 tonnes (reported in 1996) was reportedly used in the refrigeration but not in the foam sector. A letter from the Government of Malawi to UNDP, a copy of which was attached to the project evaluation, indicated that the company had been concealing its use of CFC-11 from the authorities until the survey by a UNDP expert.

54. With regard to the projects in the United Republic of Tanzania, the country programme approved in 1996 indicated the consumption in the foam sector as 27 tonnes. It was estimated from Tanzania's report of its consumption data to the Ozone Secretariat for 1995 and 1996 that the consumption of CFC-11 in the flexible foam sector was 28-30 tonnes per year. Further, the country programme indicated that only one flexible foam company was still using CFC-11. However, the combined consumption of three foam companies said to have been identified during a survey by the UNDP consultant was indicated to be 106 tonnes - more than 300 per cent above the consumption reported to the Ozone Secretariat.

55. In its decision 17/2 the Executive Committee had decided that, where ODS data contained in a project differed significantly from the data in a country programme, countries should update the ODS consumption figures in their country programme for the sector, and submit with the project request the revised figures and a detailed explanation of the reasons for the discrepancy. The Seventh Meeting of the Parties, in its decision VII/20, decided that: the Ozone Secretariat should be entitled to seek clarification on data reported under Article 7, if there was discrepancy with the data in the country programme of the country concerned; and that it should be established through clarification, which were the best available and most accurate data. Should the clarification not result in an agreement the data provided by the Party to the Ozone Secretariat should be used. The two countries had not submitted their 1977 consumption data to the Ozone Secretariat to enable verification of whether the consumption data in the projects were consistent with the official data reported to the Ozone Secretariat or not.

56. The representative of the Fund Secretariat concluded by stressing that because the official data on ODS consumption reported by Malawi and by United Republic of Tanzania showed much less consumption than had been officially reported by the two Governments, the baseline data for their compliance under the Montreal Protocol may not be accurate.

57. Following a discussion, the Sub-Committee recommended that the Executive Committee:

- (a) Approve the above three projects at the levels of funding indicated in the annex to the present report;
- (b) Stress the need for each country to obtain and ensure reliable data on imports of ODS, particularly through a system of import licensing and control, and in that context customs training was of special importance;

- (c) Request the Fund Secretariat to notify the Implementation Committee of the Montreal Protocol of this problem at its next meeting in Cairo and suggests that the Implementation Committee might send letters to the Governments of Malawi and of the United Republic of Tanzania requesting them to provide updated data on ODS consumption.

AGENDA ITEM 11: PAPERS ON POLICY ISSUES OUTSTANDING FROM PREVIOUS MEETINGS

(a) Incremental operating costs for compressors

58. The representative of the Secretariat introduced document UNEP/OzL.Pro/ExCom/26/58 on incremental operating costs for compressors, recalling that at its Twenty-fifth Meeting, the Executive Committee had 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.

59. Following an extensive exchange of views and clarifications from the Secretariat, the Sub-Committee decided to recommend to the Executive Committee that it should :

- (a) Endorse the following principles:
 - (i) Incremental operating costs will not be considered for compressor manufacturers;
 - (ii) 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;
 - (iii) 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;
 - (iv) 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;
 - (v) 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;
- (b) Request relevant countries provide the necessary basic information on their refrigeration sectors, including:

- (i) 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;
- (ii) 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;
- (iii) 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;
- (iv) 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;
- (c) Agree that the boundary between domestic and commercial refrigeration be delineated by compressor power rating and that refrigerators using hermetic compressors of 250 rated 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;
- (e) Decide that the guidelines in (a) – (d) above should be applied for a period of one year after which the issue could be brought again to the attention of the Executive Committee for further guidance, as pertinent.

(b) Baseline equipment

60. The representative of the Secretariat introduced document UNEP/OzL.Pro./ExCom/26/59 on baseline equipment, indicating that at its Twenty-fifth Meeting the Committee had considered a paper on baseline equipment (UNEP/OzL.Pro./ExCom/25/55). He pointed out that the Committee had decided to take up the specific modalities in relation to the foam and solvent sectors, but referred the broader question of more general application of the decision back to the Sub-Committee on Project Review, suggested that the baseline approach might not be entirely appropriate to small and medium-sized enterprises (SMEs) and that a separate decision on that sector might be needed, and noted that the implementing agencies could raise any specific technical inaccuracies with the Secretariat.

61. Following consideration of the document and an exchange of views, the Sub-Committee recommended that the Executive Committee should decide that:

- (a) Unavoidable technological upgrade was to be taken into account in determining eligible incremental costs;

- (b) As an example of the procedure to be followed, in the domestic and commercial refrigeration and rigid polyurethane foam subsectors, the incremental cost of providing new foam machines where they were essential for conversion and none existed in the baseline, should be based on either the difference between the cost of a low-pressure and a high-pressure foam machine, where a high-pressure machine was essential, or, alternatively, an agreed percentage of the cost of a low-pressure machine;
- (c) The guidelines in (a) and (b) above should be applied for a period of one year, after which the issue could be brought forward again to the Executive Committee for further guidance, as pertinent.

(c) Retrofit of commercial refrigeration equipment

62. The representative of the World Bank introduced document UNEP/OzL.Pro/ExCom/26/60 on retrofit of commercial refrigeration equipment. He said that the paper dealt with the conversion and CFC phase-out by end-users in the commercial refrigeration subsector. The paper attempted to describe ODS consumption and the subsector profile, estimated ODS emissions in the subsector, priority and timing of projects, and estimated cost-effectiveness of CFC-reduction measures, including implications for the Multilateral Fund. The findings contained in the paper indicated that the subsector had significant ODS consumption because of the high leakage rate being experienced. Various options for minimizing CFC consumption, including emission control, retrofit and replacement, were available and mature. However, the cost-effectiveness of undertaking such activities was high in comparison to other subsectors. The paper also pointed out that the determining factor for the sustainability of commercial refrigeration end-user projects was the ability of the country to enforce existing or planned regulatory measures on imports. The paper also pointed out that projects in the subsector might play an essential part in helping countries in meeting the 50 per cent reduction obligation in 2005.

63. One representative congratulated the World Bank on the overall content of the report, but considered that, in a number of paragraphs, adverse comments had been made about hydrocarbon technologies. In particular, he believed that paragraphs 29 and 32 of the report should be recast to provide what he considered to be a more balanced perspective.

64. Another representative said that the sustainability of retrofits was important to ensure that users who had received compensation from the Multilateral Fund for conversion to more expensive non-ODS refrigerants were not tempted to revert to often cheaper CFCs. With the current situation of CFC prices internationally, there were relatively few target countries in which retrofit programmes would be sustainable. The issue was how to move ahead in a cost-effective way in this sector. One system would be to consider providing compensation for enterprises to replace failed CFC equipment with non-CFC alternatives. Another was to consider the use of soon-to-be-available "drop-in" replacement refrigerants.

65. Another representative stressed the importance of the issue for African countries and expressed regret at the lack of time devoted to it. He referred to the desire of the African countries to be able to submit projects for critical units, such as those used for the storage of agricultural crops. There was also a need to organize the informal, possibly through the preparation of guidelines and methodologies. Finally, he outlined the efforts under way in Africa, including at the ministerial level, to harmonize customs regulations and to adopt other measure to prevent the current influx of obsolete refrigeration equipment whose continued functioning depended on a supply of CFCs.

66. The Sub-Committee recommended that, in light of the information contained in the World Bank's paper and the views expressed at the current meeting, the Executive Committee should request the Secretariat, in conjunction with the World Bank to prepare a paper on the circumstances under which the Committee could consider projects from Article 5 countries to retrofit commercial refrigeration appliances and on how the incremental costs of such projects should be calculated. The draft paper would

be send to Executive Committee members for review and would subsequently be finalized by the Secretariat with the aim of giving the Sub-Committee information on which to base a recommendation on the subject to the Executive Committee at its next meeting.

AGENDA ITEM 12: OTHER MATTERS

67. No other matters were raised for discussion at the meeting.

ADOPTION OF THE REPORT

68. The present report was adopted at the closing session of the meeting, on Tuesday, 10 November 1998, on the basis of the draft report circulated as document UNEP/OzL.Pro./ExCom/SCPR/15/L.1 and Corr.1 and Add.1 and Corr.1.

CLOSURE OF THE MEETING

69. The fifteenth meeting of the Sub-Committee on Project Review was closed at 8.30 p.m. on Tuesday, 10 November 1998.