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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-third Meeting
Montreal, 12-14 November 1997

REPORTS OF THE SUB-COMMITTEE ON PROJECT REVIEW

1. The Report of the 11th Meeting of the Sub-Committee on Project Review, which was held on 18-19 September 1997, is presented in this document.
2. The Report of the 12th Meeting of the Sub-Committee on Project Review, to be held on 10-11 November 1997, will be circulated during the Twenty-third meeting of the Executive Committee as UNEP/OzL.Pro/ExCom/23/10/Add.1.

1. The Sub-Committee on Project Review of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol met at the headquarters of the International Civil Aviation Organization, Montreal, on 18 and 19 September 1997.
2. The meeting was attended by representatives of India, Peru, Senegal, Switzerland, the United Kingdom and the United States of America, as well as by representatives of the implementing agencies and the Ozone Secretariat.
3. The meeting was opened by the Chairman of the Sub-Committee, Mr. Blaise Horisberger (Switzerland) at 3.10 p.m. on Thursday, 18 September 1997.

AGENDA ITEM 1: ADOPTION OF THE AGENDA

4. The Sub-Committee adopted the following agenda on the basis of the provisional agenda contained in document UNEP/OzL.Pro/ExCom/SCPR/11/1, as revised at the suggestion of the Chairman to reflect the priority to be allocated to the items and to include two items referred to the status report on policy issues (UNEP/OzL.Pro/ExCom/SCPR/11/3) which were not reflected in the provisional agenda as circulated:

1. Adoption of the agenda.
2. Sector plan for halon phase-out in China (Decisions 22/74 and 21/32).
3. Status reports on:
 - (a) Guidelines for refrigerant management plans (Decision 22/24);
 - (b) Baseline equipment (Decision 22/21);
 - (c) Safety-related costs for hydrocarbon projects (Decision 22/76);
 - (d) Guidelines for retrofitting projects in the commercial refrigeration sub-sector (Decisions 21/23 and 22/9);
 - (e) Database of major capital equipment costs (Decision 20/7(c));
 - (f) Process for establishing chemical prices;
 - (g) Criteria for project preparation.
4. Other matters.

5. Adoption of the report.

6. Closure of the meeting.

5. It was also agreed that the question of the country programme for Nigeria would be taken up under agenda item 4 (“Other matters”).

AGENDA ITEM 2: SECTOR PLAN FOR HALON PHASE-OUT IN CHINA
(Decisions 22/74 and 21/32)

6. The Sub-Committee considered this subject on the basis of document UNEP/OzL.Pro/ExCom/SCPR/11/2. The Chairman recalled that at its twenty-second meeting, the Executive Committee had decided to spend time on the proposal to prepare for a decision by the Executive Committee at its twenty-third meeting. Previously, by its Decision 21/32, the Executive Committee had provided initial guidance to allow for the further development by China and the World Bank of the halon sector approach pilot programme. The draft plan was submitted to the Executive Committee at its twenty-second meeting as document UNEP/OzL.Pro/ExCom/22/77 and Add.1. The Sub-Committee now needed to consider if the draft plan addressed the requirements of Decision 21/32 and related issues concerning the development of a sector plan for halon phase-out in China.

7. Following a discussion, the Sub-Committee:

- (a) Welcomed the decision by the World Bank to arrange for an audit of the production facilities in China;
- (b) Noted that the terms of reference for the halon sector production audit in China had been developed in consultation with the Fund Secretariat; that they incorporated, to the maximum extent practicable in the time available, elements of the terms of reference for technical audits of production facilities approved at the nineteenth meeting of the Executive Committee, and that they would not prejudice the terms of reference for future technical audits in the production sector;
- (c) Requested the World Bank to ensure that the results of the audit were submitted in time for their full consideration prior to the twenty-third meeting of the Executive Committee;

- (d) Noted that if halon production levels were shown by the audit to be higher than the levels in the sector plan, the Government of China would seek compensation only for the lower levels in the sector plan;
- (e) Requested the World Bank to take the following considerations into account in the audit, to the extent possible:
 - (i) The need to confirm that the plants in respect of which compensation is to be proposed are still operational;
 - (ii) The need to confirm the number of individuals working at the facilities to be decommissioned, the number of those workers to be displaced, the number of displaced workers to be compensated, and the total and per capita cost of that compensation, based on the conditions locally applicable;
 - (iii) The need for this and future audits within the project to use the definition of consumption as provided for in the Montreal Protocol, namely, “production plus imports minus exports of controlled substances”;
- (f) Requested the World Bank to include consideration of the following issues when finalizing the sectoral plan for halon phase-out in China:
 - (i) Improving provisions for monitoring the implementation of the agreement, including, *inter alia*, monitoring the decommissioning of existing facilities; imports and exports; activities within the free-trade zones; and potential new facilities;
 - (ii) The need to review the quality of import and export data and the monitoring systems currently in place, including the need for improvements and/or changes, in order to ensure that the data used in audits within the project is reliable;
 - (iii) Providing appropriate incentives to help ensure fulfillment of the performance targets;
 - (iv) Providing the technical or non-investment measures necessary to fully implement the sector plan, including *inter alia*, provisions to prevent new production and to monitor current facilities as well as imports and exports;
 - (v) Providing a mechanism to help ensure full completion of the sectoral phase-out plan, including *inter alia*, possible reimbursements with interest,

to the Multilateral Fund of funds made available under the plan in the event of non-fulfillment of performance targets;

- (vi) Providing a comparison between number employed, number compensated, cost and duration of compensation for plants proposed for closure under the plan and closure of halon plants closed at an earlier time, independently, from China's own resources;
 - (vii) Consideration of the need for periodic independent audits of progress throughout the duration of implementation of the sector plan.
- (g) Took note of suggestions by one member of the Sub-Committee that if the funding for the first and the next installments was allocated within the period of the current replenishment, funding for the remaining costs would need to be taken into account when the Multilateral Fund was replenished if those costs were to be paid over more than one replenishment period;
- (h) Invited interested members of the Sub-Committee on Project Review to consult with the World Bank, intersessionally, *inter alia*, on the matters outlined in the preceding subparagraph, with written comments from the individual members of the Sub-Committee to be circulated to all members of the Sub-Committee;
- (i) Noted that the specific terms of any agreement between China and the Executive Committee would not necessarily be applicable to individual projects;
- (j) Requested the Fund Secretariat and the World Bank to draft a document for consideration at the twenty-third meeting containing a draft agreement between the Executive Committee and the Government of China regarding the implementation of a sector phase-out of halon in China. The broad structure of such a document should be circulated for comments by members of the Sub-Committee as soon as was feasible. The document submitted to the twenty-third meeting should be accompanied by a discussion paper describing the main issues the Executive Committee would need to consider;
- (k) Noted that the goal was to develop an effective sector plan for halon phase-out in China rather than to limit consideration of important issues in order to approve a plan within a particular time-frame, but recognized that, although the Executive Committee should aim to take a decision on the matter during its next meeting, the importance and complexity of this issue, the size, scope and expense of the potential halon sector phase-out plan in China, and the volume of work facing the Executive Committee and the Secretariat, could result in there being insufficient time to fully address all relevant issues.

AGENDA ITEM 3: STATUS REPORTS:

A. Guidelines for refrigerant management plans (Decision 22/24)

8. The representative of UNEP IE introduced the revised guidelines for the preparation of refrigerant management plans (UNEP/OzL.Pro/ExCom/SCPR/11/3, Annex II), which had been prepared in response to Executive Committee Decision 22/24. He also reported on the outcome of a short seminar on the subject that had been held on 12 September 1997 with the participation of members of the Executive Committee, other Article 5 and Article 2 countries, interested bilateral donors, implementing agencies and the Fund Secretariat.

9. In response to a statement by one representative, who expressed concern that paragraph 21 of the status report on policy issues (UNEP/OzL.Pro/ExCom/SCPR/11/3) seemed to imply that refrigerant management plans were mandatory for all countries, the Fund Secretariat clarified that the brief was intended to reflect the requirements of Executive Committee Decision 22/23 which stated that refrigerant recovery and recycling projects should be prepared within the context of the refrigerant management plan/strategy of the country concerned. The decision did not affect approval of investment projects for the conversion of manufacturing plants.

10. Following a discussion on the revised guidelines, the Sub-Committee:

- (a) Welcomed the revised draft guidelines and thanked UNEP IE for its work;
- (b) Noted that the guidelines needed to be practical and flexible and should be adjusted to local circumstances to ensure the integrated management of refrigerants;
- (c) Noted that the guidelines might be applied differently according to the level of consumption of the country concerned;
- (d) Took note of the need for a realistic assessment of what could be achieved through refrigerant management plans when finalizing the guidelines;
- (e) Took note of the possible need for the guidelines to reflect the decisions on licensing adopted by the Ninth Meeting of the Parties;
- (f) Recognized the importance of the ownership of a refrigerant management plan being taken by the country concerned, and the need for the guidelines to facilitate the involvement of countries on the preparation of refrigerant management plans;

- (g) Noted the concerns expressed in the Sub-Committee that ODS could be reintroduced into equipment after initial phase-out and the need to ensure adequate incentives or other measures to prevent such eventualities;
- (h) Noted with satisfaction the fact that refrigerant management plans were, in some cases, already being integrated into country programmes;
- (i) Noted the need to ensure, in relation to regional refrigerant management plans, that there was no double-counting or redundancy with refrigerant management plans or country programmes for individual countries;
- (j) Noted also the statement by the representative of UNEP IE that the revised guidelines to be submitted to the twenty-third meeting of the Executive Committee would take account of the comments of the Sub-Committee and that by the twenty-third meeting, refrigerant management plans will have been prepared on the basis of the draft guidelines, a process which will give a better indication of the extent to which the guidelines are realistic.

B. Baseline equipment (Decision 22/21)

11. Introducing agenda item 3(b), the Secretariat drew attention to paragraphs 1-3 of the status report on policy issues, which provided an update on the preparation of a policy paper on baseline equipment, which it proposed to present to the Sub-Committee at its meeting to be held in conjunction with the twenty-third meeting of the Executive Committee.

12. Following a discussion, the Sub-Committee decided:

- (a) To take note of the report on the status of work on the policy paper on baseline equipment, to be submitted to the Sub-Committee at its meeting to be held in conjunction with the twenty-third meeting of the Executive Committee;
- (b) To request the Secretariat to include in the paper, guidelines for the determination of eligible incremental costs using the baseline equipment cost and attach practical examples of the effect of the proposed methodology for the consideration of the Executive Committee at its twenty-third meeting;
- (c) To note the suggestion by one member of the Sub-Committee that the correct method of determining whether additional benefits arose out of a conversion project was to consider the quality of the end-product produced relative to that produced by competitors in the market;

- (d) To note the suggestion by another member that the remaining lifetime of equipment to be converted was a principal factor in determining the extent of any technological upgrade.

C. Safety-related costs for hydrocarbon projects (Decision 22/76)

13. The Sub-Committee decided to take note of the following views expressed during its discussion on the safety-related costs of hydrocarbon projects (UNEP/OzL.Pro/ExCom/SCPR/11/2, paras. 8-12):

- (a) With regard to paragraph 9(a) of the status report, national safety standards must be observed and could be regarded as a minimum. The principle enunciated in that paragraph could be recast to indicate that either national or international standards, whichever were more stringent, should be followed;
- (b) The overriding concern should be to ensure safe conversion in hydrocarbon projects in accordance with the standards agreed to by the Executive Committee;
- (c) That the purpose of the exercise was to indicate what safety measures could, as a general rule, be considered necessary: once standards were agreed by the Executive Committee, the actual measures would vary from plant to plant.

D. Guidelines for retrofitting projects in the commercial refrigeration sub-sector (Decisions 21/23 and 22/9)

14. Introducing agenda item 3(d), the representative of the World Bank drew attention to Annex I of the status report on policy issues, which contained the executive summary of a larger document on policy guidelines for financing commercial refrigeration user conversion, which had been prepared by the World Bank in consultation with technical experts. The complete document was available with the Secretariat.

15. Following a discussion, the Sub-Committee decided to take note of the following views expressed by one or more members:

- (a) That the guidelines as currently presented were a useful contribution but focused primarily on users with an installed capacity of more than 10 tonnes of ODS and therefore represented only part of the overall guidance necessary for projects in the commercial refrigeration sector;

- (b) That further work on the sector should be encouraged, with a particular focus on small users and low-volume-consuming countries;
- (c) That there was a need to consider associated policy issues such as ensuring that new or obsolete refrigeration equipment using ODS was not transferred to Article 5 countries and that, after the conversion of their equipment, users did not revert to using ODS, especially where such substances were still cheap or where enforcement capacities were lacking;
- (d) That there was a need to avoid partial funding of projects;
- (e) That the information obtained during the development of refrigerant management plans could be also used to analyze the commercial refrigeration sector per se.

16. The Sub-Committee further decided to request the World Bank to revise the guidelines in the light of the comments made by members of the Sub-Committee and to submit it, through the Secretariat, for the consideration of the Executive Committee at its twenty-third meeting, on the understanding that a more complete examination of the sector by the Secretariat, in cooperation with the implementing agencies covering, *inter alia*, projects for users with an installed capacity of less than 10 tonnes, should be prepared, with the objective of a document being available of the Executive Committee at its twenty-fourth meeting. The further work would take account of a report being prepared on the Mexican experience in this subsector, which would be completed by the end of 1997.

E. Database of major capital equipment costs (Decision 20/7(c))

17. The Sub-Committee considered this subject on the basis of paragraphs 16-19, the status report on policy issues, (UNEP/OzL.Pro/ExCom/SCPR/11/3) and a preliminary report on the matter circulated to the Sub-Committee by the Secretariat.

18. The Sub-Committee:

- (a) Welcomed the progress made to date in developing the database, noting comments by the Secretariat that the database was still in development and that the preliminary report provided only an indicative example of the types of information that will be contained in the database;
- (b) Noted the views expressed by members that it would be useful if:
 - (i) The database was based on actual procurement experience from previously implemented projects;

- (ii) The database included as much information as possible regarding new products and current prices of relevant products available in the marketplace.

F. Process of establishing chemical prices

19. The Sub-Committee considered this subject on the basis of paragraphs 26-28 of the status report on policy issues.

20. Following a discussion, the Sub-Committee took note of the progress made to date by the Secretariat and the implementing agencies regarding the process of setting prices for ODS and other chemicals for the purpose of calculating incremental operating costs.

21. One member expressed the view that the determination of regional border prices would be crucial in the matter and could be determined by using C.I.F. prices for imported substances and F.O.B. prices for exported substances.

G. Criteria for project preparation

22. The Sub-Committee considered this subject on the basis of paragraphs 29-31 of the status report on policy issues.

23. The Sub-Committee:

- (a) Took note of the progress made to date by the Secretariat in developing draft criteria for project preparation;
- (b) Noted the views expressed by members that:
 - (i) It was important when considering this issue to balance the need to provide assistance to countries which may not or have not met the 1999 freeze with the need not to discriminate against countries that had gone ahead of the control requirements;
 - (ii) It was also important not to discriminate against projects which sought to take a long-term view of the many necessary steps required for full ODS phase-out.

AGENDA ITEM 4: OTHER MATTERS

Country programme and investment projects for Nigeria

24. The Fund Secretariat recalled Executive Committee Decision 21/12 and drew the attention of the Sub-Committee to a letter from the Government of Nigeria to the Chair of the Executive Committee and the Chief Officer of the Multilateral Fund requesting, on the basis of Nigeria's progress toward completing a final country programme that, at its twenty-third meeting, the Executive Committee consider investment projects for Nigeria.

25. The Sub-Committee recommended that investment projects for Nigeria be submitted to the Executive Committee at its twenty-third meeting and be considered concurrently with the country programme for Nigeria at that meeting.

Circulation of documents

26. The Sub-Committee stressed the importance of all members of the Executive Committee receiving all documentation for both Sub-Committees, and not just for the Sub-Committee of which they were a member.

AGENDA ITEM 5: ADOPTION OF THE REPORT

27. The present report was adopted by the Sub-Committee on the basis of its draft report circulated as document UNEP/OzL.Pro/ExCom/SCPR/11/L.1.

AGENDA ITEM 6: CLOSURE OF THE MEETING

The Chairman declared the meeting closed at 3.10 p.m. on Friday, 19 September 1997.