



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/45/24
9 March 2005

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-fifth Meeting
Montreal, 4-8 April 2005

PROJECT PROPOSAL: BRAZIL

This document consists of the comments and recommendation of the Fund Secretariat on the following project proposal:

Phase out

- National CFC phase-out plan: 2005 annual implementation programme UNDP

**PROJECT EVALUATION SHEET (MULTI-YEAR PROJECTS)
BRAZIL**

PROJECT TITLE**BILATERAL/IMPLEMENTING AGENCY**

National CFC phase-out plan: 2005 annual implementation programme	UNDP and Germany
---	------------------

SUB-PROJECT TITLES

(a) Technical assistance for MDI transition strategy	UNDP
(b) MDI technical assistance/investment projects	UNDP
(c) Investment projects – CFC-113 solvents	UNDP
(d) Investment projects – CFC-12 sterilants	UNDP
(e) Investment projects – foam manufacturing	UNDP
(f) Investment projects – comm. refrigeration manufacturing	UNDP
(g) Investment project – MAC CFC-12 R & R project	UNDP
(h) Investment project – industrial refrigeration and central air-conditioning R & R project	UNDP
(i) Domestic & commercial refrigeration service sector: technician training project	Germany
(j) Domestic & commercial refrigeration service sector: CFC-12 recovery project	UNDP
(k) Domestic & commercial refrigeration service sector: regional CFC-12 recycle/reclaim project	UNDP
(l) Customs training	Germany
(m) Project implementation & monitoring unit	UNDP

NATIONAL CO-ORDINATING AGENCY:	CONAMA
---------------------------------------	--------

LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**A: ARTICLE 7 DATA (ODP tonnes, 2003, as of September 21, 2004)**

Annex A Group I, CFCs	3,227.28		
-----------------------	----------	--	--

B: COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes, 2003, as of May 2004)

ODS	Foam	Ref.	Aerosol	Solvents
CFC-11	0	0	0	n.a.
CFC-12	0	3,149	55.33	n.a.
CFC-113	n.a.	n.a.	n.a.	12
CFC-114	n.a.	18.7	0	n.a.
CFC-115	n.a.	n.a.	n.a.	n.a.

CFC consumption remaining eligible for funding (ODP tonnes)	0
--	---

CURRENT YEAR 2004 BUSINESS PLAN: Total funding US \$3.97 million: total phase-out 1,950 ODP tonnes

PROJECT DATA		2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
CFCs (ODP tonnes)	Montreal Protocol limits		10,521	10,521	5,261	5,261	1,578	1,578	1,578	0	n.a.
	Annual consumption limit	8,280	6,967	5,020	3,070	2,050	1,000	424	74	0	n.a.
	Annual phase-out from ongoing projects	745	313	1,210	1,207	0	0	0	0	0	3,475
	Annual phase-out newly addressed	251	1,000	737	743	1,020	1,050	576	350	74	5,801
TOTAL ODS CONSUMPTION TO BE PHASED OUT		996	1,313	1,947	1,950	1,020	1,050	576	350	74	9,276
Reported Consumption		3,001	3,227	0	0	0	0	0	0	0	6,228
Net Variation of consumption for the year		3,230	(226)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revised ODS consumption to be phased out		0	0	0	157	1,020	1,050	576	350	74	3,227
Final Project costs (US \$):											
Funding for lead agency UNDP		7,860,000	5,720,000	0	3,970,000	2,856,400	1,190,000	870,000	250,000	100,000	22,816,400
Funding for Germany bilateral		1,640,000	700,000	0	0	1,543,600	0	0	0	0	3,883,600
Total project funding		9,500,000	6,420,000	0	3,970,000	4,400,000	1,190,000	870,000	250,000	100,000	26,700,000
Final Support costs (US \$)											
Support cost for lead agency UNDP		705,400	500,000	0	342,500	242,078	92,300	63,500	12,500	5,000	1,963,278
Support cost for Germany bilateral		147,600	63,000	0	0	138,924	0	0	0	0	349,524
Total support costs		853,000	563,000	0	342,500	381,002	92,300	63,500	12,500	5,000	2,312,802
TOTAL COST TO MULTILATERAL FUND (US \$)		10,353,000	6,983,000	0	4,312,500	4,781,002	1,282,300	933,500	262,500	105,000	29,012,802
Final Project cost-effectiveness (US \$/kg)											4.60

FUNDING REQUEST: Approval of the third tranche funding (2005) for UNDP activities only as indicated above.

The Government has agreed to delay the 3rd tranche Germany allocation to first meeting of 2006.

SECRETARIAT'S RECOMMENDATION	Individual consideration
-------------------------------------	--------------------------

PROJECT DESCRIPTION

1. The Executive Committee approved a total of US \$26.7 million in funding for the implementation of Brazil's National CFC Phase-out Plan at its 37th Meeting in July 2002. The first funding tranche at the amount of US \$9.5 million was released on approval of the First Phase Implementation Work Plan covering the period August 2002-December 2003.
2. The progress report on the 2002-2003 first phase implementation activities and achievements, as well as the Second Phase Implementation Work Plan covering the period of January-December 2004 were submitted for consideration by the Executive Committee at its 41st Meeting in December 2003. The second funding tranche at the amount of US \$6.42 million was released on approval of the Implementation Work Plan for 2004, making approved multilateral funding for the 1st and 2nd tranches reach a total of US \$15.92 million (US \$13.58 million UNDP and US \$2.34 million Germany).
3. The Government of Brazil has submitted to the 45th Meeting a request for the release of the 2004 funding tranche at the amount of US \$3,970,000 plus US \$342,500 support cost for UNDP for the 2005 annual implementation programme of the Brazil National CFC Phase-out Plan. The project is implemented with the assistance of UNDP (the lead implementing agency) and the Government of Germany (as co-operating agency for the service technician and customs officer training programmes). The 2004 and 2005 funding tranches for Germany have not been requested in 2004 and 2005. In agreement with the Government of Brazil, the request for the 2004 tranche of US \$1,300,000 plus US \$117,000 support costs, and for the 2005 tranche of US \$243,600 plus US \$21,924 support costs for Germany, will be requested at the first meeting in 2006 at the amount of US \$ 1,543,600 plus US \$ 138,924.
4. The document submitted by UNDP, on behalf of the Government of Brazil, consists of:
 - (a) Report on the implementation of the 2003-2004 implementation work plan for the period ending 31 August 2004; and
 - (b) 2005 implementation work plan.
5. In addition to the above documents, Brazil submitted an independent audit report verifying 2003 consumption reported to the Ozone Secretariat, and volume of CFC phased out in 2003 and 2004 resulting from the implementation of activities under the National CFC Phase-out Plan. This report also provides an estimated trend of CFC consumption in 2004, which was assessed on the basis of import data for the first six months of the calendar year.

6. The Brazilian National CFC Phase-Out Plan was approved in principle to phase out 9,276 ODP tonnes of CFC. The agreed CFC consumption limits and reduction targets, as well as disbursement schedule under the Agreement, are shown in the table below:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Max allowable total consumption of Annex A Group 1 substances (ODP tonnes)	9,276	(9,276)	8,280	6,967	5,020	3,070	2050	1000	424	74	0
Total annual reduction (ODP tonnes)	-	-	996	1,313	1,947	1,950	1,020	1,050	576	350	74
Reduction from ongoing projects	-	-	745	313	1210	1207	0	0	0	0	0
New reduction under plan	-	-	251	1000	737	743	1,020	1,050	576	350	74
Total agreed funding (US \$ million)				9.5	6.42	5.27	3.10	1.19	0.87	0.25	0.10
Agency support costs (US \$ million)				0.8353	0.563	0.4595	0.2642	0.0923	0.0635	0.0125	0.005

7. In the Agreement, Brazil committed, in exchange for the funding specified in the table above, to eliminating its total consumption of Annex A, Group I substances in accordance with the consumption targets. To achieve this goal, Brazil should meet the total annual reduction targets also specified in the same Table. Ongoing approved projects should be completed and phase-out achieved according to the implementation schedules approved for each project, and subject to established Fund rules and procedures. The Executive Committee provided Brazil with maximum flexibility in using the agreed funds to meet the set reduction targets and the consumption limits.

8. According to the Agreement, payment of funds for the 2005 implementation programme of the plan will be released based on confirmation that, as a minimum:

- (a) the agreed maximum consumption targets noted in the table for the year (2003) have been achieved (the latest reported consumption data refer to 2003);
- (b) it has been verified that CFC phase-out has taken place; and
- (c) a substantial proportion of the 2003 implementation plan activities and the 2004 activities planned for completion before the 2004 reporting date (October 2004), and at least one third of the 2004 reductions, were completed.

9. The Agreement also requires the Government of Brazil to ensure accurate monitoring of the phase-out, and to allow independent verification audits.

Progress of the implementation of the 2003-2004 Work Programme

10. The maximum allowable CFC consumption, as specified in the Agreement, and actual Article 7 CFC consumption are shown in the following Table.

Year	2000	2001	2002	2003	2004
Maximum allowable CFC consumption (ODP tonnes)	9,276	(9,276)	8,280	6,967	5,020
Actual annual Article 7 CFC consumption (ODP tonnes)	9,276	6,231	3,001	3,227	1,350*

*2004 consumption is estimated on the basis of import/export data for the first six months of the year

11. The reduction targets and achieved reductions in annual CFC consumption in 2001-2004, including expected phase-out in September-December 2004 through the completion of ongoing approved projects, are recorded in the following table:

Reductions from ongoing projects according to Table 1 of the Agreement					
2001	2002	2003	2004	2005	Total
745	313	1,210	1,207	0	3,475
Achieved CFC Phase-out through implementation of ongoing projects					
2001	2002	2003	2004	2005	Sub-Total
745	1,184	970.4	575.6*		3,475*

* Including 192.2 ODP tonnes to be phased out in September-December 2004

12. The achieved reduction of 2,154.4 ODP tonnes from completion of ongoing projects during January 2002-December 2003 exceeded the combined two-year 2002-2003 total reduction of 1,523 ODP tonnes required in the Agreement related to the National CFC Phase-out Plan by 631.4 ODP tonnes. This 631.4 ODP tonnes, plus the phase-out of 383.6 ODP tonnes completed between January and August 2004 total 1,015 ODP tonnes, which is 83.9% of the phase-out planned for 2004 from ongoing projects. Further reductions in CFC consumption of 192.2 ODP tonnes are anticipated by the completion of ongoing projects during September-December 2004.

13. In addition to reductions from the completion of ongoing projects, additional projects funded under the Plan have been completed resulting in a reduction of 71.1 ODP tonnes in 2003 and 198.8 ODP tonnes in the period January-August 2004.

14. The 2004 Progress report concludes that performance targets related to the maximum allowable consumption of 6,967 ODP tonnes in 2003 and achieving at least one third (648 ODP tonnes) of the 1,947 ODP-tonne reduction in consumption required in 2004 have been met. The 2003 CFC consumption is also much lower than the Montreal Protocol limit (10,521 ODP tonnes).

Progress in completing the 2005 Annual Work Programme

15. Reductions in CFC consumption in 2004, other than as the result of completion of ongoing projects, were also achieved as a result of the following:

- (a) CFC phase-out activities in the foam sector. Many of the foam sector projects initiated in 2003 under the NPOP have already been completed.
- (b) Enforcement of the CFC Import Quota System enshrined in CONAMA Resolution 267.
- (c) The publicity surrounding approval of the Brazil National CFC Phase-out Plan. Approval of the Plan and its objectives were widely publicized, resulting in much greater recognition at the industry level of the Government's intention to accelerate reductions in CFC consumption, and to phase-out CFC consumption faster than its obligations under the Montreal Protocol.

16. Specific activities in the Second Phase Implementation Plan covering the period January-December 2004 in the refrigeration and air-conditioning servicing sub-sectors were delayed because of problems with existing legislation related to refrigerant recovery, recycling, and reclaim. With the resolution of these problems, implementation of activities in the refrigeration and air-conditioning servicing sub-sectors are now progressing rapidly. Please see Section 3 of the present report for details.

17. An independent 2003 CFC consumption verification has been performed by an independent auditing group. The findings are summarized below:

- (a) 2003 consumption reported by the Government in accordance with Article 7 of the Montreal Protocol of 3,224,27 tonnes is well below the maximum consumption of the Annex A/I ODS allowed in table 1 of the Agreement for the year 2003 of 6,967 and below the 2004 maximum annual CFC consumption allowed, which was set at 5,020 ODP tonnes. Beyond that, Siscomex data for the first semester of 2004 indicates a reduction trend in that less than 1,500 ODP tonnes has been imported for the first 6 months of the calendar year.
- (b) The auditor's report refers to Government legislation regulating ODS consumption in Brazil, in particular Resolution No. 267 of CONAMA (National Environment Council). According to these regulations, the import of CFC-11 is allowed only to companies that have projects for conversion to CFC-free substitutes. The consumption of CFC-11 has been reduced from 2,750 ODP tonnes in 2001 to 46 ODP tonnes in 2002 and to negative consumption of 2.7 ODP tonnes in 2003 (export exceeded import). Zero consumption of CFC-11 is expected in 2004 and 2005.
- (c) CONAMA Resolution No. 267 regulates the import of CFC-12 by issuing import quotas according to the reduction schedule, starting with a 15% reduction in 2001 against the 1999 import level, and bringing the import of CFC-12 to zero in 2007.

According to Resolution No. 267, imports in 2004 should be reduced by 75% against the base level. The verification report indicates that the following CFC-12 import quotas have been issued in 2001 to 2003: 2001 – 3,469 ODP tonnes; 2002 – 3,350 ODP tonnes; 2003 - 3,001 ODP tonnes.

- (d) The auditor checked all Certificates of Completion (COC) of the projects completed in 2003 and 2004. Reduction, based on UNDP completed projects in 2003, was reported as 957.4 tonnes. UNIDO projects completed in 2003 were reported as 13 tonnes. While the auditor verified that all of the COCs made available to him were in fact completed projects, he only considered the phase-out that effectively occurred during the year when analyzing the impact of project completion on final consumption for 2003. According to his analysis, 202.8 tonnes of the total ODPs in the COCs for projects completed impacted in the 2003 consumption.
- (e) Phase-out achieved in 2003 was reported as being mostly related to the supporting legislation, as well as on voluntary actions by industry, which the auditor has no means to verify. To date, projects in the foam sector initiated after approval of the Plan and reported as completed by UNDP in 2003 account for 71.1 ODP tonnes. According to the auditor, the verified phase-out in 2003 based on COCs for these completed projects was 42.84 ODP tonnes.
- (f) Phase-out from foam projects completed in 2004 was reported by UNDP to be 198.8 ODP tonnes. According to the auditor, the verified phase-out based on COCs for these completed projects was 107.8 ODP tonnes.
- (g) In summary, the auditor concluded that Brazil is in fact reducing its consumption and fulfilling the goals established by the Protocol with the aid of the projects approved by the Executive Committee and also with the aid of the support legislation in place.

18. UNDP has reported on progress in the implementation of individual components of the Plan. The rate of disbursement of funds allocated by the Executive Committee under the Plan can be used as an indication of the progress achieved. The list of activities, budget, disbursements and planned commitments in 2005 are shown in the following table:

Activity	Budget (US \$)	Disbursement as per 30 Aug. 2004 (US \$)	Estimated Disbursement Sept. – Dec. 2004 (US \$)	Planned 2005 Commitments
I&M Unit Project	1,260,000	311,339	98,000	0
Foam Mfg. Sector Project	4,200,000	1,913,881	153,000	0
Com Ref Mfg. Sector Project	770,000	45,531	87,182	0
Technician Training Project	2,198,800	868,104	219,829	0
CFC-12 Recovery Project	3,330,000	1,742,033	0	1,500,000

Activity	Budget (US \$)	Disbursement as per 30 Aug. 2004 (US \$)	Estimated Disbursement Sept. – Dec. 2004 (US \$)	Planned 2005 Commitments
CFC-12 Reclaim Centre Project	1,400,000	11,684	335,000	850,000
CFC Chiller R&R Project	863,600	3,114	0	550,000
CFC-12 MAC R&R Project	1,756,400	177,975	333,000	1,255,000
Customs Officer Training Project	141,200	90,900	7,500	0
Totals	15,920,000	5,164,561	1,233,511	4,155,000

*Note committed resources mentioned which will be reflected as disbursements only early 2005.

2005 Annual Implementation Programme

19. The 2005 Annual Implementation Programme in Table 2 refers to targets established in the Agreement.

20. The reduction target for 2005 is established at 157 ODP tonnes. The latest reported consumption for 2003 is taken as a basis, bringing the expected 2005 consumption to 3,070 ODP tonnes, which corresponds to the 2005 consumption target established by the Agreement.

21. Activities proposed in 2005 and associated budget are reflected in the following Table:

Activity	Budget (US\$)
Implementation & Monitoring Unit: Implementation and Monitoring of all activities in the 2005 Work Plan, including Government actions.	US\$ 195,000
Conversion Project Activities to eliminate CFC Consumption in the Commercial Refrigeration Manufacturing Sector: Continue the activities initiated during the 2002-03 and 2004 Implementation Work Plans by completing the preparation and approval of projects for eligible enterprises, and complete equipment procurement and project implementation at all of the enterprises.	US\$ 600,000
Technician Training Project Activities in the Domestic & Commercial Refrigeration Servicing Sector: Continue activities and expand the Technician Training Project to train the total number of technicians planned to be trained in 2005 in areas outside of Southeast Brazil, during 2005. Implementation of the project to be co-ordinated with the implementation of the CFC-12 Recovery and CFC-12 Reclaim Centre Projects. (GTZ Activity)	US\$ 0*
CFC-12 Recovery Project Activities in the Domestic & Commercial Refrigeration Servicing Sector: Distribute CFC-12 refrigerant recovery equipment purchased with funding in the 2004 Implementation Work Plan to selected service technicians in the south-eastern region of Brazil that successfully completed the Technician Training Project, and procure additional equipment for supply to more selected technicians during 2005.	US\$ 2,238,200
Regional CFC-12 Reclaim Centre Project Activities: Advance the equipment procurement activities initiated in 2003 and 2004, finalize civil works, equipment installation, and commissioning of the second CFC-12 Reclaim Centre in Rio de Janeiro. Advance activities related to the establishment of two additional CFC-12 Reclaim Centres in the 2 other regions of Brazil, and procure the equipment and	US\$ 536,800

Activity	Budget (US\$)
establish such Reclaim Centres during 2005. Implement a publicity campaign for reclaim centres.	
CFC Recovery & Recycling Project Activities in the MAC Service Sector: Based on the results of the MAC Recovery & Recycling Project activities from the 2002 – 03 and the 2004 Implementation Work Plans, expand the MAC Service Sector R&R Project to other areas of the country.	US\$ 250,000
Technical Assistance for the MDI Transition Strategy: Create an awareness campaign to educate doctors prescribing MDIs on the timing and reasons for the transition. Prepare transition strategy in cooperation with the Ministry of Health.	US\$ 50,000
Investment Projects – CFC-113 Solvents: Survey users and develop strategy for implementation in 2006.	US\$ 50,000
Investment Projects – CFC-12 Sterilants: Survey users and develop strategy for implementation in 2006.	US\$ 50,000
Sub-Total UNDP	3,970,000
Sub-Total GTZ	0
Total	US\$ 3,970,000

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

22. The proposal has been submitted for consideration at the 45th Meeting, and the Secretariat has reviewed it accordingly. The issue was raised regarding the level of German bilateral assistance funding that remained unallocated, to be used for the training component in the Brazil NPP. Following consultations between the Government of Germany, UNDP and the Government of Brazil, agreement was reached to postpone funding the German bilateral component until 2006, without prejudice for the performance of training activities in Brazil.

23. The Secretariat discussed the following issues with UNDP:

- (a) Discrepancy between ODS consumption in the country in industrial sectors and ODS phase-out reported through the implementation of investment projects. Specific reference was made to the phase-out of 352 ODP tonnes of “actual” consumption in 2003 and 2004 in the foam sector, notwithstanding the very low level of CFC-11 consumption in 2002 and zero CFC-11 consumption in 2003 and 2004.
- (b) The potential of planned recovery and recycling operations for CFC phase-out in Brazil, and the timeframe for implementation in light of the Executive Committee’s recommendation to use a “staged” approach to implementation, benefiting from experience gained.
- (c) Observations that targets, CFC supply and demand data, and industry actions in the 2005 Work Plan were formulated on the basis of projected consumption and reduction targets included in the National Phase-out Plan and the Agreement approved at 37th Meeting in July 2002. All this information was not consistent with the actual current level of CFC consumption in the country and, therefore,

could not serve as a basis for planning the specific industry actions and phase-out targets. The Secretariat proposed to revise the 2005 work plan so that it would relate to actual consumption in Brazil.

- (d) There is an unspent and non-committed balance of US \$1.73 million in 2005 of the total US \$4.2 million allocation for foam projects. CFC-11 consumption was reported as zero in 2003. The 2005 Annual Work Programme envisages no activities in the foam sector and provides no indication on reallocation of these resources to other sectors.

24. UNDP responded to the Secretariat regarding the issues raised. On the issue of data discrepancy in reference to industry applications in specific years, UNDP provided a general response referring to the different ODS consumption accounting systems, based on enterprise consumption at the time of formulating a project as recorded in the inventory and actual consumption at the time of project completion. On the issue of implementation of the recovery and recycling component, UNDP agreed to implement a “staged” approach reviewing the utilization of recovery/recycling equipment delivered and verifying further demand expressed. UNDP agreed to revise the 2005 Annual Implementation Programme showing the targets in Table 3 in relation to actual 2003 consumption as the reference. The planned reduction is 157 ODP tonnes, which would bring 2005 consumption to the level of 3,070 ODP tonnes as stipulated in the Agreement.

25. The Secretariat noted that the planned level of 2005 consumption is much higher than the import quota determined by CONAMA under Resolution 267 for 2005. Resolution 267 stipulates a reduction in CFC-12 imports in 2005 of 85% against 1999 baseline, i.e., to about 1,500 ODP tonnes. The Secretariat also noted that 2004 consumption was estimated at the level of about 1,500 ODP tonnes in the verification report on the basis of the first six months’ export/import data. It appears that the targets planned by UNDP are not fully consistent with the circumstances in the country.

RECOMMENDATION

26. The Executive Committee may wish to consider approving the 2005 annual work programme and the requested tranche at the amount of US \$3,970,000 plus agency support costs of US \$342,500 in light of the information provided above.
