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

**PROJECT PROPOSALS: DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA**

This document consists of the comments and recommendations of the Fund Secretariat on the following project proposals:

Solvent

- Plan for terminal phase-out of CTC (second and third tranches)

UNIDO

**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS  
DEMOCRATIC PEOPLE’S REPUBLIC OF KOREA**

<b>PROJECT TITLE</b>	<b>BILATERAL/IMPLEMENTING AGENCY</b>
Plan for terminal phase-out of CTC (second and third tranches)	UNIDO

<b>NATIONAL CO-ORDINATING AGENCY:</b>	National Co-ordinating Committee for the Environment (NCCE)
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**LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**

**A: ARTICLE-7 DATA (ODP TONNES, 2003, AS OF MARCH 2005)**

Annex B, Group II	CTC: 1,585.2		

**B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2004, AS OF MAY 2005)**

ODS	Foam	Ref.	Aerosol	ODS	Solvents	Process agent	Fumigant
					CTC: 380.6		

<b>CFC consumption remaining eligible for funding (ODP tonnes)</b>	n/a
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**CURRENT YEAR BUSINESS PLAN:** Total funding: US \$1,398,000 total phase-out 373.7 ODP tonnes.

<b>PROJECT DATA</b>		2003	2004	2005	2006	2007	2008	2009	2010	Total
<b>CTC</b>  (ODP tonnes)	Montreal Protocol limits			192.8	192.8	92.8	92.8	92.8	0	
	Annual consumption limit	2,200.0	2,200.0	192.8	92.8	77.8	37.8	0	0	
	Annual phase-out from ongoing projects	0	0	565.8	0	0	0	0	0	565.8
	Annual phase-out newly addressed	0	0	1,441.4	100.0	15.0	40.0	37.8	0	1,634.2
	Annual unfunded phase-out*	0	2,200.0	0	0	0	0	0	0	0
<b>TOTAL ODS CONSUMPTION TO BE PHASED OUT</b>		0	0	2,007.2	100.00	15.0	40.0	37.8	0	2,200.0
<b>Total project funding for UNIDO:</b>		3,500,000	1,000,000	300,000	500,000	284,844	100,000	0	0	5,684,844
<b>Total support costs for UNIDO:</b>		262,500	75,000	22,500	37,500	21,363	7,500			426,363
<b>TOTAL COST TO MULTILATERAL FUND (US \$)</b>		3,762,500	1,075,000	322,500	537,500	306,207	107,500			6,111,207
Project cost effectiveness (US \$/kg)										

\* The unfunded phase-out includes phase-out from three applications not yet approved as process agent uses totalling 229.9 ODP tonnes for which additional funding will be requested.

**FUNDING REQUEST:** Approval of funding for the second and third tranches (2004 and 2005) as indicated above.

<b>SECRETARIAT’S RECOMMENDATION</b>	Blanket approval at the costs indicated for 2004 and 2005
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## PROJECT DESCRIPTION

1. On behalf of the Democratic People's Republic of Korea (D.P.R. Korea), UNIDO has submitted to the 46<sup>th</sup> Meeting a report on implementation activities under the first tranche of the phase-out plan, verification of the consumption of CTC in D.P.R. Korea in 2004, an implementation programme for the balance of 2005 and 2006 and a request for the combined approval of the second and third tranches at costs of US \$1,000,000 and US \$300,000 plus support costs for UNIDO of US \$75,000 and US \$22,500 respectively.

### Background

2. At its 41<sup>st</sup> Meeting the Executive Committee approved in principle an agreement with the Government of D.P.R. Korea for phase-out of the consumption of CTC at a total cost of US \$5,684,840 plus support costs of US \$426,363 for UNIDO. The Committee also approved funding of US \$3,500,000 plus support costs of US \$262,500 for the first tranche of the project.

3. The phase-out plan includes activities in the solvent cleaning, process agent and fumigation sectors. It is supplemented by individual projects in the solvent cleaning sector that were approved prior to preparation of the plan. The plan also foreshadows the submission of additional requests for funding for the phase-out of CTC applications that have not yet been classified as process agents by the Parties. The Agreement indicates the maximum level of remaining eligible consumption for these uses (146 ODP tonnes) and the maximum cost-effectiveness of compensation that could be requested, based on statistics for the process agent sector (US \$6.07/kg).

### Report on implementation

4. UNIDO has indicated that five out of the six individually approved solvent sector projects in D.P.R. Korea had been completed by the end of 2004, phasing out some 506 ODP tonnes of CTC. The sixth project is to be completed in July 2005 with a phase-out of some 60 ODP tonnes. The four cleaning solvent projects included in the phase-out plan were also completed in 2004 with a further phase-out of some 332 ODP tonnes of CTC. The four approved process agent applications in the plan are planned for conversion in 2005. The Government of D.P.R. Korea has indicated that in 2005, prior to conversion, the enterprises will consume CTC from a stockpile created during 2003 and 2004 (see below). The three enterprises with applications not yet approved as process agents will continue to consume CTC from the remaining 15 percent of baseline consumption allowance permissible under the Montreal Protocol control measures in 2005 and 2006 and/or the stockpile. UNIDO reported that a reduction in consumption of 174 ODP tonnes was achieved in the fumigation sector, 65 ODP tonnes in soil fumigation and the balance of 109 ODP tonnes in structural fumigation.

5. Under the approved Agreement, the CTC consumption limit for 2004 was 2,200 ODP tonnes. UNIDO has reported that during 2004, the demand from users was 1,104 ODP tonnes. 1,094.5 ODP tonnes was produced for stockpiling, to give a total consumption of 2,198.9 ODP tonnes for the year (D.P.R. Korea does not import or export CTC). UNIDO has also indicated that, through administrative arrangements, production of CTC in 2005 will be limited to the Montreal Protocol control level of 192.8 ODP tonnes, which is also the maximum consumption

level specified for 2005 in the Agreement. All the remaining demand in 2005 will be met from the stockpile and the allowable level of production.

6. UNIDO has indicated that there is some urgency regarding the status of the three applications not yet approved as process agent uses. The three applications were recommended for approval by the TEAP in 2004. Contingency plans have been drawn up in the event that there are further delays in consideration of the matter by the Parties, however the country will face challenges if the projects are not able to commence in 2005.

7. Supporting government actions were indicated, including the details of a comprehensive regulatory regime, the draft text of which was included in the report.

8. An outline of financial actions was presented indicating that of the US \$3.5 million approved in the first tranche, US \$289,067 had been used with obligations for an additional US \$2,566,166.

#### Verification report

9. A report has been provided indicating the methodology used to verify 2004 consumption and the qualifications of the auditor, a statistician from the D.P.R. Korea Academy of Agricultural Sciences, who conducted the verification. It is indicated that no quotas for import or export of CTC have been issued by the Government for many years. However the auditor noted that there is an issue concerning the adequacy of customs control for CTC, in particular since then customs service has no on-site means of identifying CTC and must rely on import documentation. This issue is being examined.

10. On the basis that there are no imports or exports, consumption is equal to production. The auditor examined production logs, raw material records, flow-rate data and record keeping practices and found them satisfactory. Monthly production information was provided in the report. The audit report was signed by the auditor and by a representative of UNIDO.

#### Annual implementation programme for 2005-2006

11. UNIDO provided a combined implementation programme for the remainder of 2005 and 2006 indicating the projects planned for completion in that period, the phase out to be achieved, and the regulatory and public awareness measures to be taken.

12. UNIDO's submission provides details of the reallocation of funding between sectors compared to the proposals in the project upon which the determination of incremental costs was based. The reallocations are indicated in the tables below, reproduced from the submission. No new activities are proposed. In general, funding has been transferred from the solvent cleaning sector to the process agent sector to compensate for the difference between the eligible consumption on which the plan was based and the actual consumption in the relevant sectors.

**Table 6: Cost-effectiveness factors and approved funds by sub-sector**

Sub-sector	Cost-Effectiveness, US \$/kg	Submitted Consumption (ODP MT)	Eligible Consumption (ODP MT)	Allocation of Grant (US \$)
Solvent cleaning	7.94	917.4	332	2,636,080
Process solvent, excluding "not yet approved applications"	6.07	544	228	1,383,960
Fumigation	8.2	335.5	140	1,148,000
Technical support				516,804
<b>Total</b>		1,796.9	700	<b>5,684,844</b>

**Table 7: Re-allocation of funds by sub-sector**

Sub-sector	New Cost Effectiveness US \$/kg	Sub-sector Consumption, eligible and non-eligible (ODP MT)	Re-allocation of Grant (US \$)
Solvent cleaning	3.9	332	1,300,000
Process solvent, excluding as yet unapproved uses	6.4	544	3,100,000
Fumigation	2.4	336	800,000
Technical support			484,844
<b>Total</b>		1,216	<b>5,684,844</b>

## SECRETARIAT'S COMMENTS AND RECOMMENDATION

### COMMENTS

13. The maximum CTC consumption limit for 2004 indicated in the Agreement is the same as the limit for 2003. That is, no reductions in consumption were specified for achievement in 2004. However the Secretariat notes that in order to meet the 85 per cent reduction in CTC consumption for 2005, UNIDO correctly anticipated that the required reductions in consumption needed to be in place by the end of 2004. The report on implementation indicates that these reductions were achieved, mainly through accelerated implementation of conversion in the metal cleaning applications, and through the creation of a significant stockpile to service the needs of those enterprises that will complete conversions in 2005 or later.

14. According to the Agreement, tranches become eligible for submission at the last meeting of the year. The request submitted to the present meeting combines the second tranche that was due at the 44<sup>th</sup> Meeting (US \$1,000,000) and the third tranche that will become due at the 47<sup>th</sup> Meeting (US \$300,000). UNIDO indicated in response to the Secretariat's queries that there were technical delays with one large project planned for implementation in the second tranche that obviated the need for additional funding at the end of 2004. These problems have now been overcome and implementation of this project will commence upon approval of the current request. The third tranche is being requested at the current meeting in order to ensure funding of

the projects that need to be completed to meet the agreed phase-out schedule for 2005 and to avoid supply problems, given the limitations on the use of stockpiles. UNIDO confirmed that the implementation plan as submitted will cover the remainder of 2005 and 2006. The subsequent tranche is planned for submission at the last meeting in 2006 together with the annual implementation plan (AIP) for 2007. Given the accelerated implementation schedule necessary to meet the MP control measures for CTC and the good progress reported, the Secretariat is able to support the proposal for combination of the second and third tranches. The expenditure was foreshadowed in UNIDO's 2005 business plan.

15. The principle verifiable parameter for 2004 is the level of consumption, since no phase out was required. The Secretariat sought clarifications on the extent to which UNIDO itself had conducted inspections of the production site and/or the verification data. UNIDO indicated that the production data was obtained by detailed examination of the records of the CTC plant by the auditor supported by interviews between the UNIDO representative (a consultant) and a qualified representative of the Ministry of Chemical Industry, responsible for the production plant. The consumption data was provided by the responsible Ministries. It was cross-checked by interviews conducted by the UNIDO representative with qualified and responsible representatives of the relevant ministries.

16. The auditor noted in his report that customs officials have no "on-site" means for identifying CTC and must rely on import documentation. However the government confirmed to the auditor that no CTC had been imported in either 2003 or 2004. UNIDO also indicated that it had inspected the CTC production plant and all the consuming enterprises in recent years. Consequently UNIDO had acquired sufficient in-depth knowledge to be confident of being able to detect irregularities should they occur.

17. There are no issues concerning the AIP for the balance of 2005 and for 2006 which provides a clear indication of the investment and other measures planned for implementation. The proposed reallocation of funding as reflected in the AIP does not raise any policy or eligibility issues.

## RECOMMENDATION

18. The Secretariat recommends blanket approval of the combined AIP for the balance of 2005 and 2006, together with funding for the second and third tranches of the plan for terminal phase-out of CTC in D.P.R. Korea as indicated in the table below.

	<b>Project Title</b>	<b>Project Funding (US \$)</b>	<b>Support Cost (US \$)</b>	<b>Implementing Agency</b>
(a)	Plan for terminal phase-out of CTC (second and third tranches)	1,300,000	97,500	UNIDO

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