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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-first Meeting
Montreal, 19-23 March 2007

PROJECT PROPOSAL: VENEZUELA

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

Phase-out

- National CFC phase-out plan: 2006 work programme

UNIDO

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issue of the document.

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**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS
VENEZUELA**

PROJECT TITLE**BILATERAL/IMPLEMENTING AGENCY**

National CFC phase-out plan: 2006 work programme	UNIDO
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NATIONAL CO-ORDINATING AGENCY:

FONDOIN

LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**A: ARTICLE-7 DATA (ODP TONNES, 2005, AS OF FEBRUARY 2007)**

CFC	-		
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B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2005, AS OF FEBRUARY 2007)

ODS	Aerosol	Foam	Ref. Mfg.	Ref. Servicing	Solvents	Process agent	Fumigant
CFC-11				3.10			
CFC-12				1,061.60			
CFC-115				0.22			

CFC consumption remaining eligible for funding (ODP tonnes)

N/A

CURRENT YEAR BUSINESS PLAN: Total funding US \$2,227,000: total phase-out 344.0 ODP tonnes.

PROJECT DATA		2004	2005	2006	2007	2008	2009	2010	Total
CFC (ODP tonnes)	Montreal Protocol limit	3,322.0	1,661.0	1,661.0	498.0	498.0	498.0	0.0	
	Max. allowable total consumption of CFCs ¹	3,262.0	1,661.0	1,661.0	400.0	0.0	0.0	0.0	
	Annual phase-out from ongoing projects	36	100	200	0.0	0.0	0.0	0.0	336
	Annual phase-out newly addressed ²	0	0	50	200	435	250	100	1,035
	Stockpile ³	1,634.2	1,894.7	2,355.2	1,989.8	1,474.4	1,059.0	949.0	11,356.30
TOTAL ODS CONSUMPTION TO BE PHASED OUT		36	100	250	200	435	250	100	1,371
Total ODS consumption to be phased-in (HCFCs)									
Final project costs (US \$):									
Funding for Lead IA: UNIDO		1,895,062	1,631,831	2,071,831	641,831	0	0	0	6,240,555
Total project funding		1,895,062	1,631,831	2,071,831	641,831	0	0	0	6,240,555
Final support costs (US \$):									
Support cost for Lead IA: UNIDO		142,129	122,387	155,387	48,137	0	0	0	468,040
Total support costs		142,129	122,387	155,387	48,137	0	0	0	468,040
TOTAL COST TO MULTILATERAL FUND (US \$)		2,037,191	1,754,218	2,227,218	689,968	0	0	0	6,708,595
Final project cost effectiveness (US \$/kg)									5.96

- Article 7 data (production – export + import) constitute the target under this Agreement.
- Reduction of the demand for virgin CFCs in all consumption sectors from the estimated CFC total demand.
- For information purposes.

FUNDING REQUEST: Approval of funding for delayed third tranche (2006).

SECRETARIAT'S RECOMMENDATION

Pending

PROJECT DESCRIPTION

1. On behalf of the Government of Venezuela, UNIDO has submitted to the 51st Meeting of the Executive Committee, a funding request for the third tranche of the national CFC phase-out plan (NCP) for Venezuela, at a total cost of US \$2,071,831 plus agency support costs of US \$155,387.

Background

2. The NCP for Venezuela was approved at the 42nd Meeting of the Executive Committee, with UNIDO as lead implementing agency and the World Bank as cooperating implementing agency. The implementation of this NCP supports the Government of Venezuela in meeting its Montreal Protocol obligations, including the complete phase-out of the controlled uses of CFCs prior to 1 January 2010. In order to achieve these targets, a series of investment, non-investment, technical assistance and capacity building activities will be, and are being, implemented by Venezuela, with the assistance of UNIDO and the World Bank. The total funds approved in principle for the NCP amounted to US \$6,240,555 plus agency support costs of US \$468,042.

3. The annual implementation plan (AIP) for the 2005 annual tranche was submitted to the Multilateral Fund in January 2005 for the 45th Meeting of the Executive Committee, accompanied by a verification report. Due to shortcomings in the verification, the funding was approved only on the condition of non-disbursement until satisfactory verification had been achieved. After several rounds of discussions and exchanges of information between the Secretariat and UNIDO, the Secretariat informed UNIDO in September 2006 that disbursement of the second tranche could commence. Due to a slower than expected institutional set-up of the NCP in Venezuela, major activities started later than planned, and no shortage of funding resulted from the late disbursement of the second tranche.

4. The AIP for the 2006 annual tranche was submitted to the Multilateral Fund in September 2006 for discussion at the 50th Meeting of the Executive Committee. However, the Secretariat suggested strongly to UNIDO to withdraw the submission because the verification report was incomplete. UNIDO, in consultation with Venezuela's National Ozone Unit, withdrew the submission.

5. Venezuela's CFC consumption in 2005 was with 1649.8 ODP tonnes 0.67 per cent lower than the target of 1,661 ODP tonnes. All sectors of the manufacturing industry that consumed limited quantities of CFCs in 2004, namely, the aerosol, foam and refrigeration manufacturing sectors completely phased out the use of these ozone-depleting substances before 2005. According to the information in the report, CFC consumption occurred solely in the refrigeration servicing sector in 2005. The report refers to the sectoral breakdown of consumption in 2004, when the manufacturing sectors still consumed CFCs, and claims a reduction in the servicing sector of 564 ODP tonnes.

6. The activities included the production of 4,000 copies of a 155 page manual in good refrigeration practices, training of 75 trainers, and establishment of 40 training centres. A number of different recovery and recycling kits have been identified for purchase and distribution, taking into account the existing infrastructure developed under a UNDP project. A number of foam machines were deployed to 13 companies and ODS-free refrigeration manufacturing equipment to 11 companies. The expenditures as of December 2006 (including commitments for the project

management unit) are US \$2,520,061, which implies total expenditure of funding from the first tranche and 38.3 per cent of expenditure of funding from the second tranche.

7. The verification of the import and export data has been performed against Government statistics and customs records. The production data used to determine the consumption is 192 ODP tonnes lower than the production data verified by the World Bank, due to CFC-11 feedstock use. With this lower production data, the 2005 consumption of Venezuela is 1,649.8 ODP tonnes, which is 11.2 ODP tonnes below the maximum allowable consumption under the Agreement between the Government of Venezuela and the Executive Committee.

8. The annual consumption limit in 2006 under the Agreement between the Government of Venezuela and the Executive Committee is the same as for 2005, i.e. 1,661 ODP tonnes. The annual plan submitted by UNIDO takes into account the fact that the submission of the tranche request is delayed by one year and consequently relates to the targets of the year 2007. The consumption target for 2007 is 400 ODP tonnes, i.e. a reduction by more than 75 per cent as compared to both the actual 2005 consumption as well as the 2006 consumption target.

9. The plan submitted focuses on a recovery and recycling component, which accounts for US \$1.91 million or 92 per cent of the tranche request. The other activities consist of project management, verification and technical support for the manufacturing sector.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

Feedstock use

10. The verification report specifies a CFC-11 feedstock use of 192 ODP tonnes, which is critical for fulfilling the terms of the Agreement between the Government of Venezuela and the Executive Committee. Neither the verification report on the 2005 consumption in Venezuela, which was part of this submission, nor the production sector report submitted by the World Bank contained any clearer information on or verification of such feedstock use. The Secretariat requested clarification from UNIDO.

11. UNIDO advised that the total amount of CFC-11 co-produced with CFC-12 cannot be sold as an end product due to the diminishing CFC-11 market. According to UNIDO it is a normal practice for CFC producers to reprocess CFC-11 in order to convert it into CFC-12. This practice was adopted by Produven, the national producer of Venezuela. According to UNIDO, during the reprocessing, CFC-11 constitutes a feedstock in the same way as CTC in the traditional CFC production process, since there is no release of CFC-11 from the process, and the CFC-11 itself is fully transformed into CFC-12. The end product (CFC-12) is accounted for as part of the production and hence part of the national CFC consumption of Venezuela. UNIDO reported further that at end of December 2005 the closing stock of CFC-11 amounted to 208.4 tonnes at Produven, which was stored for reprocessing into CFC-12.

12. The Government of Venezuela and Produven advised a UNIDO representative that of the 2006 CFC-12 production the amount of CFC-11 produced in 2005 and converted into CFC-12 in 2006 came to 192 ODP tonnes. UNIDO pointed out that according to their understanding, the

192 tonnes of CFC-11 produced in 2005 actually reprocessed into CFC-12 in 2006 cannot be considered as part of the CFC production for 2005.

13. The Eighteenth Meeting of the Parties discussed the issue of the treatment of stockpiled ozone-depleting substances relative to compliance, and recognized in decision XVIII/17 that some Parties that had exceeded the allowed level of production or consumption of a particular ODS in a given year have, in some cases, explained that their excess production or consumption was due to the fact that the ODS production in that year had been stockpiled for domestic feedstock use or export for that use in a future year. While it is up to the Parties to interpret the Protocol, the decision of the Meeting of the Parties might imply that the level of production or consumption will continue to be defined on an annual basis, and that any consumption or production in excess of the Protocol's prescribed levels for that year that is explained by the Party concerned as production for domestic feedstock or export for feedstock in a future year would not be subject to the non-compliance procedure of the Protocol unless so directed by the Twenty-first Meeting of the Parties following its review of the issue. Prior to this time, decision XVIII/17 requires the Ozone Secretariat to present information on such cases to each meeting of the Implementation Committee in an information-only paper, as well as its annual Article 7 data report to the Meeting of the Parties. The agreement between the Government of Venezuela and the Executive Committee is linked to maximum levels of consumption, not compliance.

14. Upon issuing of this document the Secretariat was still in discussion with UNIDO and the World Bank to obtain a verification of the feedstock use in time for the 51st Meeting of the Executive Committee.

Article 7 data

15. The Secretariat informed UNIDO that Venezuela had not reported Article 7 data for 2005 to the Ozone Secretariat. No data has been submitted to the Ozone Secretariat as of writing this document. The Agreement between the Government of Venezuela and the Executive Committee, in its appendix 2-A, specifies that Article 7 data constitute the target under this Agreement. Since the reporting obligation of Venezuela under Article 7 has not been fulfilled, the target might be considered as not being met.

Annual plan

16. The original annual plan for 2006/2007 for Venezuela foresaw a chiller-component under the World Bank. The Secretariat received a revised draft Agreement for consideration by the Executive Committee. The Secretariat commented on the very limited information in the annual plan regarding the implementation of such a programme, and requested additional information to be included in the annual plan. Subsequently, the request in the annual plan regarding a chiller component was withdrawn. The related funding was instead allocated to the recovery and recycling activity of UNIDO. The Secretariat was informed that a chiller component might be included in the next annual work programme. Such a programme, if submitted in the same magnitude, would cover 78 per cent of the next tranche, which is the last tranche for the NCPP for Venezuela.

17. The Agreement between the Government of Venezuela and the Executive Committee specifies that "the recovery and recycling programme for the refrigeration service sector would be implemented in stages so that resources can be diverted to other activities, such as additional

training or procurement of service tools, if the proposed results are not achieved, and will be closely monitored...” UNIDO has been requested to provide further details on the recovery and recycling programme, in particular its extent, and if and to what extent training in good practices will be associated with it, and how remaining activities from previous tranches are relating to the activities planned under this tranche. UNIDO had not, upon issuing of the documentation, provided such clarification. In light of the demonstrated limitations of the contribution that recovery and recycling projects can make to the phase-out efforts in the country, given that the annual plan foresees only recovery and recycling as the phase-out activity, and keeping in mind that Venezuela still has to achieve a reduction in CFC consumption of at least 25 per cent over 2005 figures in the year 2007, the annual plan cannot be recommended for approval until further information regarding the recovery and recycling activities in this tranche and previous tranches still under implementation have been received.

RECOMMENDATION

18. Pending.