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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-second Meeting
Montreal, 23-27 July 2007

PROJECT PROPOSAL: VENEZUELA

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

Production

- National CFC production closure plan (fourth tranche) World Bank

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VERIFICATION OF THE 2006 CFC PRODUCTION AT PRODUVEN AND THE 2007 ANNUAL IMPLEMENTATION PROGRAMME

Introduction

1. The Executive Committee at its 44th Meeting in 2004 approved in principle a total of US \$16.5 million for the implementation of the Agreement for the Venezuela CFC production sector, and disbursed the first tranche of US \$3.3 million to the project. Subsequently the Executive Committee further approved the 2005 and 2006 annual work programmes and disbursed another US \$9.85 million, having been satisfied with the verification of the CFC production at the CFC producing plant, Produven, in 2004 and 2005. Under the Agreement, the Government of Venezuela is committed to closing down the entire CFC production capacity at Produven, the country's sole CFC producing plant by the end of 2006. The main elements of the Agreement are presented in Table 1.

Table 1

Year	2004	2005	2006	2007	2008	TOTAL
Max. annual allowable production (mt)	4,400	2,913	2,913	0	0	10,226
TOTAL MLF grant (US\$ million)	3.30	8.1	1.75	2.3	1.05	16.50
PRODUVEN (*)	3.2	8	1.65	2.2	1	16.05
TA (FONDOIN)	0.1	0.1	0.1	0.1	0.05	0.45
Agency fees	0.2475	0.6075	0.1312	0.1725	0.0787	1.2375

(*) Labour compensation will be paid according to the requirements of the Venezuelan laws, and will be absorbed by PRODUVEN.

2. The World Bank has submitted to this Meeting, on behalf of the Government of Venezuela, the request for the release of the 2007 tranche of US \$2.3 million and the associated support cost of US \$172,500. In accordance with the terms of the Agreement which requires an independent verification of the achievement of the target in 2006, the World Bank has provided a report on the verification of the CFC production at Produven in 2006. The World Bank submission also includes a proposed 2007 annual work programme. The verification report of the 2006 CFC production and the 2007 work programme are not attached but could be made available upon request.

Verification of the 2006 CFC production in at Produven

3. The verification was carried out in February 2007 by Mr. Vogelsberg Jr., a technical consultant who had conducted the verification of the plant Produven last year for the World Bank, and another accounting firm which focused on the financial records of the company.

4. The auditor briefly described the CFC production process employed at the plant, covering the supply of the key raw materials, the actual technical route of CFC production, the transfer of finished product to storage, and the packaging of the finished products into transportable containers. There was also a description of the record keeping in the plant of the raw materials used and the finished products. The plant imported all the key raw materials, namely CTC and HF and transported them by truck from the ports to the plants. These were all documented by receipts with sequence numbers.

5. The verification focused on the purchase and consumption of CTC as the main checking point for validating the CFC production level, because the Government had a very tight control on the import of CTC. Produven was the only authorized importer of CTC for the production of CFCs and had to apply for a CTC import license in advance of any importation. Before a ship can unload, all the CTC cargo has to be inspected by a Government inspector and certified by a surveyor as to the actual quantity being brought on shore. Produven had seven imports of CTC in 2006 which were duly recorded, with losses from handling accounted for.
6. The auditor examined the daily production logs on operating parameters, HF consumption, CTC consumption, chloroform consumption for HCFC-22 production, finished products and the product inventory, which had all been stored on a computer sheet for each day. These were further processed into monthly and yearly data which were checked against reported data from the plant. The auditor also reviewed the record of the total number of days of production for CFCs and HCFCs, and the down time.
7. Because of the request of the Government to stockpile CFC-12 for meeting the future demand for refrigeration purposes, the plant recycled 195.8 mt of CFC-11 into CFC-12 from its 2006 production. As a result the net CFC-11 production was 99.7 mt from its gross production level of 295.5 mt in 2006. CTC/CFC and HF/CFC production ratio were reviewed against the industry and the plant historical norms and were found to be acceptable.
8. The results of the verification showed that Produven produced 2,876.3 mt of CFCs in 2006 which was broken down into 99.7 mt of CFC-11 and 2,776.6 mt of CFC-12. This was below the annual maximum allowable production level of 2,913 mt as provided for in the Agreement for 2006.
9. The auditor reported that Produven ceased CFC-11/12 production by 31 December 2006, and would continue operating the HCFC-22 plant on a campaign basis. Because the plant recycled some of its CFC-11 into CFC-12 in 2006, there was a balance of 127 mt of CTC to be disposed of. One of the options of disposing of it was to sell it to FIASA in Argentina which was still operating its CFC plant.
10. There was a list of equipment and actions which would be taken to reduce the chance of the plant swinging back to producing CFCs, which the auditor considered as being appropriate for the intended purpose. However the auditor stated that the plant was waiting for agreement from the World Bank on plant closure, and therefore as of the time of the verification the auditor determined that the closure activity was incomplete.
11. The data collected by the verification team were presented using the format set out in the guidelines for verifying ODS production phase out, which includes month-by-month production of CFCs and HCFC-22, number of days in production, consumption ratios of feedstock to CFC and HCFC-22 production, inventory change in feedstock of CTC and HF as a way of validating the CFC production.

The proposed 2007 work programme

12. The proposed 2007 work programme focuses on two activities, namely the completion of the closure of the CFC production capacity at Produven and monitoring and sustaining the permanent cessation of CFC production at the plant. The first element would involve the

implementation of the dismantling of the equipment that should render the chance of returning to CFC production difficult and costly. The second element would be achieved through the continuation of the policy on the control on the import of CTC, the disposal of the remaining inventory of CTC and the verification of the CFC plant as has been done so far to ensure the cessation of the CFC production in 2008-2009.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

13. The verification was done by a consultant who had relevant expertise and extensive experience in carrying out similar verifications. We noted the improvement in the record keeping in the plant as recommended by the auditor during his previous verification exercise, which made the verification more standard and easier to follow. The results show that Venezuela met the target in 2006 as set in the Agreement and that Produven is on track to permanently close down its CFC production facility.

14. However it is indicated in the verification report that as of the time of the verification the closure of CFC production at the plant was not complete. There was a list of actions to be carried out to complete the closure that had yet to be implemented. Since 2006 would be the last year that the country would produce CFCs, it would be important that the Government and the World Bank propose a course of action for the continued monitoring the CFC production after 2006. This was the request from the Executive Committee when approving the third tranche at the 48th Meeting, which stated "To request the World Bank and the Government of Venezuela to include a proposal in the 2007 annual work programme for a scheme for continued monitoring of CFC production at Produven to sustain the production closure after the cessation of production by the end of 2006" (decision 48/29(d)).

15. The 2007 work programme has proposed a number of actions including the continuation of the existing policies to control the import of CTC to sustain the permanent closure of CFC production at Produven.

RECOMMENDATIONS

16. The Secretariat recommends that the Executive Committee:

- (a) Takes note of the verification report of the CFC production at Produven in Venezuela for the year 2006;
- (b) Requests the World Bank to complete the dismantling activities at the Produven facility in a timely manner;
- (c) Approves the 2007 funding tranche at US \$2.3 million and the support costs at US \$172,500 for the World Bank; and

- (d) Requests the World Bank to continue the verification of the Produven facility in 2008 and 2009 to ensure the permanent closure of the CFC production capacity at the plant.
