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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fifth Meeting
Bangkok, 14-18 July 2008

PROJECT PROPOSAL: DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

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

Phase-out

- Plan for terminal phase-out of CTC (sixth tranche)

UNIDO

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

PROJECT TITLE	BILATERAL/IMPLEMENTING AGENCY
Plan for terminal phase out of CTC (sixth tranche)	UNIDO

NATIONAL CO-ORDINATING AGENCY:	National Co-ordinating Committee for Environment
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LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT

A: ARTICLE-7 DATA (ODP TONNES, 2006, AS OF JUNE 2008)

Annex B, Group II	0		
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B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2006, AS OF JUNE 2008)

ODS	Aerosol	Foam	Ref. Mfg.	Ref. Servicing	Solvents	Process agent	Fumigant
CTC					11	383.8	44.9

CFC consumption remaining eligible for funding (ODP tonnes)	n/a
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CURRENT YEAR BUSINESS PLAN: Total funding US \$108,000 total phase-out 29 ODP tonnes

PROJECT DATA		2003	2004	2005	2006	2007	2008	2009	Total
CTC (ODP tonnes)	Montreal Protocol limits			192.8	192.8	92.8	92.8	92.8	n/a
	Annual consumption limit	2,200	2,200	192.8	92.8	77.8	37.8	0	n/a
	Annual phase-out from ongoing projects	0		565.8	0	0	0	0	
	Annual phase-out newly addressed	0		1,441.4	100	15	40	37.8	
	Annual unfunded phase out	0	0	0	0	0	0	0	
TOTAL ODS CONSUMPTION TO BE PHASED OUT				2,007.2	100	15	40	37.8	
Final project costs (US \$):									
Funding for Lead IA: UNIDO		3,500,000	1,000,000	300,000	500,000	284,840	100,000	-	5,684,840
Final support costs (US \$):									
Support cost for Lead IA: UNIDO		262,500	75,000	22,500	37,500	21,363	7,500	-	426,363
TOTAL COST TO THE MULTILATERAL FUND (US\$)		3,762,500	1,075,000	322,500	537,500	306,203	107,500	-	6,111,203
Final project cost effectiveness (US \$/kg)									n/a

FUNDING REQUEST: Approval of funding for the sixth tranche (2008) as indicated above.

SECRETARIAT’S RECOMMENDATION	For blanket approval
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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 55th Meeting a funding request for the sixth and final tranche of the "Plan for Terminal Phase-Out of CTC" in the D.P.R. Korea, accompanied by an implementation programme, a performance verification report for 2007 which combines an annual report with a consumption verification report, and a detailed description of the present status of the licensing system. The request for funding of the sixth tranche amounts to US \$100,000 plus support costs of US \$7,500 for UNIDO.

Background

2. At its 41st Meeting, the Executive Committee approved in principle an agreement with the Government of D.P.R. Korea to phase-out 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. At the 46th Meeting, additional funding totalling US \$1,300,000 plus support costs of US \$97,500 for UNIDO was approved for the second and third tranches of the project. At the 49th Meeting, the Executive Committee approved US \$500,000 plus support costs of US \$37,500 for the fourth tranche, as well as an amended agreement to reflect the submission of tranche requests to the second meeting of any year. Finally, at the 52nd Meeting, the fifth tranche was approved at a level of US \$284,840 plus support cost of US \$21,363.

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 foreshadowed the submission of additional requests for funding for the phase-out of CTC applications that were not at the time classified as process agents by the Parties. At its 49th Meeting, the Executive Committee approved a separate project for the phase-out of CTC consumption associated with two process agent applications in the pharmaceutical sub-sector, with associated cost of US \$884,399 plus US \$66,330 in support costs.

4. At the 52nd Meeting, the Executive Committee was informed that in two of the four process agent plants to be converted, some parts of the equipment were deemed to fall under the dual-use restrictions of the International Chemical Weapons Convention and had been detained at the Chinese port. Subsequently, in October 2006 the UN Security Council adopted Resolution 1718 (2006), which also contains similar trade restrictions. In its decision 52/40 the Executive Committee urged UNIDO to find a solution, compliant with Security Council Resolution 1718 (2006) and the conditions of the Chemical Weapons Convention, to overcome the impediments and complete the implementation of the process agent sector activities. At the same time, it requested UNIDO to provide a status report on the progress achieved with the activities at the 2.8 Vinalon Factory Complex and the Sinuiju Chemical Fibre Complex.

Report on implementation

5. UNIDO provided an overview on the status of all investment activities, which is summarised in the table below.

Table 1
Overview of status of investment activities

	Progress and status
Cleaning Solvent (factories)	
Unsan tools	Commissioned 1999/2001 (two parts)
September 18 bearing	Commissioned 2000
Ceramics tools	Commissioned Dec. 2001
Sungri truck	Commissioned 2005
Huichon parts for trucks	Commissioned 2005
Illuminating fixtures	Commissioned 2005
Kumsong tractor	Commissioned 2005
Moranbong automation	Commissioned April 2006
Integrated circuit	Converted by enterprise 2005
Saenal electrical	Commissioned April 2007
Taedonggang TV	Commissioned Oct. 2005
October 5 automation	Commissioned Dec. 2005
Process Agent (factories)	
Hungnam pharmaceutical	Implementation target 2008
Lanam pharmaceutical	Implementation target 2008
2.8 Vinalon	CTC-using equipment dismantled; has 80% of new equipment but essential glass-lined reactors remain detained in Chinese port after SCR 1718 (2006)
Sinuiju chemical fibres	CTC-using equipment dismantled; has 80% of new equipment but essential glass-lined reactors remain detained in Chinese port after SCR 1718 (2006)
Wonsan chemical	Commissioned June 2007
Hungnam fertiliser	Commissioned February 2007
Fumigation sector	
Agricultural material supply agency (grain)	Implementation target 2008
Central nursery (soil)	

6. In addition, UNIDO advised on further activities undertaken in 2007. Other than the completion of the Saenal Electric, Hungnam Fertiliser and Wonsan sub-projects, and the purchase of equipment for a production plant in the fumigation sub-sector, there were also a number of non-investment activities such as three workshops, one each in cleaning solvents, process agents and fumigation sub-sectors, and a continued extensive public awareness campaign. In addition, the regulation banning import of CTC and other ODS entered into force.

7. UNIDO investigated a number of options to resolve the issue that some parts of the equipment were deemed to fall under the restrictions of the International Chemical Weapons Convention and the UN Security Council adopted Resolution 1718 (2006); detailed information on this issue is included in document UNEP/OzL.Pro/ExCom/55/16. The replacement of the reactors by other technology, and the manufacture of another product with similar characteristics, has been investigated but turned out not to be feasible. UNIDO reported that the only realistic chance of delivering the equipment to the beneficiaries would involve a direct petition to the Security Council of the United Nations. This petition is now in preparation. Nevertheless, if such

exemption is granted, the Chinese authorities may nevertheless not agree to the export because of the separate issue of the provisions of the Chemical Weapons Convention. Should the export not be possible, UNIDO will be forced to try to sell the equipment, which had a value of US \$347,000. The consumption of CTC was terminated in 2006. Both enterprises expect an urgent delivery of the remaining equipment.

Verification report

8. A consumption verification report has been provided as part of the annual report. Imports and production are reported to be zero for the year 2007, leading to a consumption of zero ODP tonnes as compared to the 77.8 ODP tonnes allowed under the plan. Quantities of CTC imported and/or exported were zero in 2007. Imports and exports are now banned. CTC production ceased in December 2005. There was no consumption in 2007 by enterprises covered in this Plan. CTC use in the solvent sector had been phased out by the end of 2006. Two enterprises in the process agent sector used the remaining stockpiled CTC to continue operations until March 2007. The fumigation sector did not use CTC in 2007. Since there have been no imports or exports of CTC, verification by the auditor was limited to the user side. Spot checks of some large users were deemed sufficient to control the final use of the stockpile.

Annual implementation programme for 2008

9. UNIDO provided an annual implementation programme for 2008. The implementation at two pharmaceutical factories will be completed in 2008. Several items, among them analytical instruments will be procured by UNIDO. The fumigation sector activities will be concluded by the installation of a chemical plant with three lines for the production of Carbosulfan, Hymexazol and chlorpyrifos methyl. Because of the issue related to the potential non-delivery of some essential items of equipment, as described in paragraphs 4 and 7 above, it was not possible for UNIDO to provide a definitive delivery and installation schedule. Other factories will produce temporarily some substitute materials, although these are deemed to have a less satisfactory performance.

10. Activities for supporting the phase-out in the fumigation sector have been planned as a two-year programme, meant to phase out the CTC use of 335.3 ODP tonnes in 2002. The programme includes the installation of a chemical plant for the production of carbosulfan, hymexazol and chlorpyrifos methyl, the installation of grafting equipment and the implementation of the training scheme. The programme is due to be completed by 2008. Although UNIDO will prepare terms of reference for the above installations, bearing in mind the restrictions of Resolution 1718 (2006), the agency pointed out that because of SCR 1718 and non-ratification of the International Chemical Weapons Convention by D.P.R. Korea, new issues might arise regarding export of equipment to and its installation in the country. Therefore, the agency was hesitant to fully commit to a definitive delivery and installation schedule, and pointed out that delays might be extensive.

11. Consumption of CTC has already been reduced to zero in 2005, since there is no production and, currently, no imports since that year. However under the approved Agreement, D.P.R. Korea is still allowed to consume up to 37.8 ODP tonnes of CTC in 2008, before not being allowed to import from 1 January 2009.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

12. According to the information provided by UNIDO, the phase-out in D.P.R. Korea is generally proceeding well. Production and imports have remained at zero for more than two years.

13. However, there have now been severe difficulties for more than a year with the establishment of alternative technologies in the country. Such technologies are needed not only to minimize the risk of return to the consumption of CTC, but also to avoid undue hardship. The related efforts were affected by the provisions of the International Chemical Weapons Convention as well as Security Council Resolution 1718 (2006).

14. The Government of the D.P.R. Korea has developed a number of options on how to mediate the situation. At the present point in time it does not seem to be likely that D.P.R. Korea would revert back to the use of CTC. The possibility to import CTC in 2007 was not used, despite the fact that it would have been in line with the provisions in the Agreement and that this option was considered in the 2007 implementation programme discussed at the 52nd Meeting.

15. The verification for 2007 appears acceptable, and the plan for implementation for the upcoming year seems suitable. The Secretariat can therefore recommend approval of the 2008 tranche.

RECOMMENDATION

16. The Fund Secretariat recommends blanket approval of the sixth and final tranche of the phase-out plan with associated support costs at the funding levels shown in the table below:

	Project Title	Project Funding (US \$)	Support Cost (US \$)	Implementing Agency
(a)	Plan for terminal phase-out of CTC (sixth tranche)	100,000	7,500	UNIDO
