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POINTS OF AGREEMENT AND DISAGREEMENT BETWEEN THE TWO STUDIES ON THE COSTS TO DEVELOPING COUNTRIES OF MEETING THE OBJECTIVES OF THE MONTREAL PROTOCOL *

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1. As requested, we have reviewed each others' papers and methodologies and tried to find as much agreement as possible. Where disagreement remains this is indicated. The issues are outlined below under three headings:

(a) Items of cost, as developed in the Indian consultants' paper;

(b) Qualification of cost, as estimated in the United Kingdom consultant's paper;

(c) Informational requirements, as outlined in both papers.

A. Items of cost

2. The Indian consultants identify the following broad items of cost:

(a) Capital costs;

(b) Operating costs;

(c) Replacement costs;

(d) Costs during the transition period.

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* Summaries of the two studies may be found, respectively, in documents UNEP/OzL.Pro.WG.II(2)/3 and UNEP/OzL.Pro.WG.II(2)/4.

Each of these is commented on below.

1. Capital costs

3. On capital costs as an item there is general agreement with the following two qualifying remarks from the United Kingdom Consultant:

(a) New production facilities for CFC substitutes are a legitimate item only if they do not result in higher costs than importing the same items. If they do, then the international price of the substitute is the appropriate figure for compensation. In addition, double counting with the item of operating costs has to be avoided;

(b) Additional capital costs for power facilities to meet the additional energy requirements could be a legitimate cost but the evidence on energy impacts of substitutes is still unclear. If such costs are compensated, then the running costs of the plant have to be assessed on an operating cost basis and not on a tarrif basis. This has been accepted by the authors of both studies.

2. Operating costs

4. On operating costs there is agreement between the consultants. The only point at issue is how should the energy requirements be valued. The authors of both studies accept that operating costs using economic prices is the correct concept.

3. Replacement costs

5. On replacement costs there is agreement. The United Kingdom consultant would like to make the point, however, that where assistance with replacement results in an increase in productivity, and thereby of profitability, of the enterprise concerned, then allowance should be made for this in calculating the compensation to be paid.

4. Costs during transition

6. On this item there remain some differences between the consultants:

(a) On the costs of importing substitutes, the United Kingdom consultant agrees this is a valid item but notes that double counting with the general item of operating costs must be avoided;

(b) On the costs of retardation of growth the United Kingdom consultant would argue that this is not a quantifiable cost, or not sufficiently quantifable to provide a basis for compensation. The Indian consultants disagree;

(c) On the costs of the loss of export markets the United Kingdom consultant does not accept this as a legitimate item of cost.

B. Quantification of cost

7. On the general question of the quantification of cost, there is agreement between the consultants on the observation that all items of cost are still uncertain, particularly the adjustment costs in the industries that use CFCs and their substitutes. The need for further information from the country case-studies is of paramount importance here.

8. On the costs of substitutes to CFCs the Indian consultants have made the point that the growth in demand assumed in the United Kingdom consultant's paper is too low. Furthermore it does not allow for the rise in the price of CFCs as their use, and therefore their production, deadlines approach in the developed countries.

C. Informational requirements

9. There is agreement between the consultants both on the importance of accurate information as well as on the main items where data deficiencies need to be addressed.
