

**MONTREAL PROTOCOL
ON SUBSTANCES THAT DEplete
THE OZONE LAYER**



UNEP

Technology and Economic Assessment Panel

**SUPPLEMENT TO THE
MAY 2005 TEAP REPLENISHMENT REPORT**

**“ASSESSMENT OF THE FUNDING REQUIREMENT FOR THE
REPLENISHMENT OF THE MULTILATERAL FUND FOR THE PERIOD
2006-2008”**

October 2005

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The opinions expressed are those of the Panel and its Task Forces and do not necessarily reflect the reviews of any sponsoring or supporting organisation.

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1 Introduction

1.1 The Process

Decision XVI/35 of the Sixteenth Meeting of the Parties requests, in its paragraph 1, the Technology and Economic Assessment Panel (TEAP) to prepare a report for submission to the 17th Meeting of the Parties (Dakar, December 2005), and present it through the Open-ended Working Group at its 25th meeting (Montreal, June 2005) to enable the 17th Meeting of the Parties to take a decision on the appropriate level of the 2006-2008 Replenishment of the Multilateral Fund. As mentioned in the Report of the 16th Meeting of the Parties, Decision XVI/35 specifies the issues the Panel should take into account and directs the Technology and Economic Assessment Panel, in undertaking this task, to consult widely with relevant persons and institutions and other relevant sources of information deemed useful. The TEAP established a Task Force to prepare the report on the 2006-2008 replenishment of the Multilateral Fund, in consultation with the full TEAP membership.

A final draft report was composed for discussions before the TEAP meeting in Lindau, Germany. The final review and the completion of the document was carried out by the TEAP at its meeting in Lindau during the last week of April 2005.

The Report was published by UNEP in May 2005 as part of the TEAP Progress Reports.

1.2 The Contact Group on Replenishment

During the 25th session of the Open Ended Working Group, the TEAP Replenishment Task Force presented the TEAP Progress Report, Volume 2, i.e., the May 2005 Report on the Funding Requirement for the Replenishment of the Multilateral Fund for the triennium 2006-2008. After the presentation, the co-chairs of the OEWG decided to set up a Contact Group to consider the report, and to possibly formulate additional requests for a supplementary study.

The Group included representatives of Argentina, Belgium, Botswana, Cameroon, Canada, China, Colombia, Cuba, Denmark, France, Germany, India, Italy, Iran (Islamic Republic of), Japan, Nigeria, Sweden, Switzerland, Syrian Arab Republic, Tunisia, the United Kingdom and the United States of America. The Open-ended Working Group meeting accepted Mr. Oladapo Afolabi (Nigeria) and Mr. Jos Buys (Belgium) as co-chairs of the Contact Group. Meetings of the Contact Group were attended by members of the TEAP Replenishment Task Force and by representatives of the Multilateral Fund Secretariat, as observers and resource persons.

At its first meeting, all members of the Contact Group expressed their satisfaction at the clarity and transparency of the TEAP Report and the presentations. The Group discussed a number of issues in two sessions. The members of the Contact Group requested and received clarification and additional information from TEAP RTF members and from representatives from the Multilateral Fund Secretariat. At the third session the Group endorsed a limited number of requests for additional work.

1.3 Requests to the TEAP Replenishment Task Force

The Contact Group decided to ask The TEAP RTF more information on the following four issues, to be presented in a Supplement to the May 2005 Replenishment Report:

1. Non-investment costs

TEAP was requested to present a table containing the breakdown of non-investment components including their estimated and actual expenditures from the current replenishment period, as well as estimates for the 2006–2008 replenishment. The table was to be accompanied with a narrative explanation.

2. Carbon tetrachloride

TEAP was requested to review relevant information pertaining to CTC, particularly with respect to consumption data and process agent phase-out technologies, based on any information provided by the Ozone Secretariat, the Multilateral Fund Secretariat and the implementing agencies. On the basis of that review, TEAP could, if appropriate, revise the funding requirements estimated for CTC.

3. Hydrochlorofluorocarbon, chillers and destruction technologies

TEAP was requested to take into account the decisions to be taken at the 46th Meeting of the Executive Committee of the Multilateral Fund with regard to, but not limited to, projects concerning HCFCs, chillers and destruction technologies in order to determine whether they had any implications for the estimates of the funding requirements for the 2006-2008 replenishment period of the Multilateral Fund.

4. Executive summary of the TEAP Progress Report Volume 2, Study on the Replenishment for the triennium 2006-2008

TEAP was requested to present the executive summary of the report with all necessary corrections, and include a table with figures showing the budget allocated and projected as well as the ozone-depleted substances phased out and projected to be phased out for the 2003–2008 replenishment periods.

In this report the four issues are dealt with in chapters 3 through 6. Chapter 7 contains an updated table of the funding requirement for the replenishment of

the Multilateral Fund during the triennium 2006-2008. Chapter 8 contains the updated Executive Summary as requested.

2 Overview of findings in chapters 3 to 7

A brief overview is given in this chapter here of the discussions and findings dealt with in chapters three to seven.

In chapter 3 the non-investment costs as estimated in 2002 for the triennium 2003-2005 are compared to the actual costs. A comparison is made between the actual costs and the estimate given by the Replenishment Task Force for the next triennium. The various elements, in particular CAP, Institutional Strengthening and Technical Assistance are briefly analysed. This has no impact on the funding requirement.

In chapter 4 the funding requirement for CTC is elaborated upon. This holds particularly in the light of a modified project proposal for process agents and phase-out in the CTC production sector in China (at a value of about US \$84 million). The original proposal was announced in the World Bank business plan at about US \$43 million, where the Task Force, in its May 2005 Report, had calculated the amount that it considered to be eligible for funding as about US \$34 million. However, since the Executive Committee has not yet reviewed the new proposal, and since it is not part of the Business Plan, the Task Force cannot refer to eligible incremental costs and cannot adjust the funding requirement on this basis.

In chapter 5 an analysis is presented which decisions taken at the 46th Meeting of the Executive Committee have an impact on the 2006-2008 funding requirement. This applies to new HCFC survey projects (non-investment activities), to be approved in 2006 and CFC multi-year projects, which were approved earlier than expected. It also applies to a MB project, which was approved in one tranche in 2005, where the Business Plan had proposed the submission of this project as a multi-year project for 2006. This also has consequences for the calculation of the EC scenario with 60% MB reduction in 2010, compared to the baseline. The extra cost calculated for the EC scenario (60% reduction from the baseline in the year 2010) is now about us \$2 million lower than the value determined in the May 2005 report.

On the basis of the discussion on destruction, which took place at the 46th Executive Committee meeting, the Task Force proposes in chapter 5 a contingency for used and contaminated CFC (and halons) destruction demonstration projects, at a level of US \$4 million.

This chapter also deals with the funding for projects not submitted, but part of the Business Plans, new data on MDI conversion projects, production plants conversions and related funding requirement.

In chapter 6 the funding required for multi-year agreements as approved during the years 2000-2005 (with consequences for funding in future years)

has been given in a table. This also applies to the funding expected to be approved on the basis of the Business Plans as of the 47th Meeting of the Executive Committee. In the same table the ODP tonnes phased out via these multi-year agreements are given. From the annual values, the total funding and the total amount of ODP tonnes phased out from agreements for the triennia 2003-2005 and 2006-2008 have been calculated.

Chapter 7 presents a table with the different components of the funding requirement. It analyses the various major components, which have been submitted to the 47th Executive Committee meeting, in relation to the impact on the funding requirement. Since the final approvals are not known at this stage, the Task Force has determined a range for the funding requirement; the range for the funding requirement and the elements considered are explained in chapter 7.

The central value of the funding requirement determined in this Supplement Report is US \$10.9 million higher than determined in the May 2005 Replenishment Report.

3 Non-investment costs

The Contact Group requested the TEAP Replenishment Task Force to present a table containing the breakdown of non-investment components including their estimated and actual expenditures from the current replenishment period, as well as estimates for the 2006–2008 replenishment period. The table was to be accompanied with a narrative explanation.

In a first instance, the Task Force would like to mention that in the 2002 Replenishment Report, the preparation of country programmes and refrigerant management plans was seen as a non-investment activity, and this also applies to Refrigerant Management Plans.

Regarding the estimate in the 2002 report, the following needs to be mentioned:

- The Executive Committee used slightly different amounts for the non-investment activities in its financial planning for the triennium 2003-2006 (see Document ExCom/39/7, 2003);
- About US \$20.4 million (representing the equivalent of a certain amount of ODP tonnes to be phased out from non-investment activities earmarked for non-LVCs), was subtracted from the total funding requirement estimated.

3.1 Non-investment costs in the triennium 2003-2005; estimate in the 2002 RTF Report and actual costs

	Report 2002			Actual 2003-2005		
	Net	ASC*	Total	Net	ASC*	Total
CAP	17.370	1.390	18.760	21.359	1.709	23.069
Inst. Strengthening	18.170	2.362	20.532	18.222	0.753	18.975
Awareness	0.600	0.078	0.678	0.911	0.118	1.029
Halon Banking	4.710	0.612	5.322	0.666	0.063	0.729
MB non-investment	0.900	0.117	1.017	2.778	0.287	3.065
MDI transition	2.980	0.387	3.367	0.330	0.025	0.355
Other act incl. TA	16.500	2.145	18.645	8.230	0.740	8.970
Subtotal	61.230	7.091	68.321	52.496	3.695	56.191
Preparation CP	1.200	0.156	1.356	0.249	0.027	0.275
Preparation RMP	0.720	0.094	0.814	0.645	0.062	0.707
RMPs	8.400	1.092	9.492	10.803	1.159	11.962
TOTAL	71.550	8.433	79.983	64.193	4.943	69.136

Note: ASC stands for Agency Support Costs

Table 3-1 Non-investment activities, in US\$ million, as estimated in the 2002 Replenishment Report and the actual costs 2003-2005

In Table 3-1 the estimates for non-investment activities as given in the Replenishment Report 2002 /RTF02/ are presented, as well as the actual expenditures during the period 2003-2005. This includes the standard activities such as CAP and Institutional Strengthening. The actual expenditures also contain an estimate of what will be submitted to the 47th Executive Committee meeting in November 2005, i.e. all certain and highly likely submissions to this meeting have been taken into account.

The actual costs cannot take into account the funding for non-LVCs as subtracted in the 2002 RTF Report. Non-investment activities for non-LVCs will have contributed to lower costs for multi-year agreements but this cannot be easily taken into account here. Where it concerns the triennium 2006-2008, this subtraction for non-LVCs is not applicable anymore, since virtually all consumption is already dealt with in existing approved multi-year agreements.

There is one difference with the CAP estimate made in 2002 and the actual expenditures, i.e. when the funding is approved for CAP. The estimate made in 2002 contains the costs for CAP in the years 2003, 2004 and 2005, in the actual costs contain the costs for CAP for the years 2004, 2005 and 2006 are given, since the funding for CAP is approved the year before. The funding has therefore to be attributed to the year before. This means that the costs for CAP (a standard activity) for the year 2006 is part of the 2003-2005 replenishment.

One can see that the approvals for CAP were substantially larger than estimated in 2002, on the one hand due to the fact that in the year 2002 the CAP was starting up and had not matured, i.e. the Eastern European network was added later which then caused a funding increase. On the other hand, there is a difference between the three-year-periods for which the CAP costs have been determined in the 2002 report and the one used in the actual costs (see above).

For Institutional Strengthening, another standard activity, funding is more or less as estimated, i.e. US \$18.17 million estimated, versus US \$18.22 actual costs. The difference in the total costs is due to the fact that the Agency Support Costs were estimated substantially higher in 2002 than that they have been (there is a difference between the total costs of US \$1.6 million).

The costs for awareness were higher. The estimate in the 2002 report for halon banking was much higher than the real costs, an order of magnitude higher, actually. The lower costs are partially due to the fact that less activities in halon banking were approved, and due to the fact that the activities, which were started, have all been delayed.

In 2002, the Task Force estimated that other activities of the Implementing Agencies, including Technical Assistance and Demonstration Projects would amount to US \$16.5 million. Actual costs have only been 50% of the estimated amount and include the HCFC Survey Project costs approved in the year 2005.

Where it concerns RMPs, in particular for non-LVCs, these have both investment and non-investment parts. Although one does not discriminate that clearly between the two types of activities, RMPs (and their preparation component) should actually be considered an investment component. In the case of refrigerant management plans for LVCs, a similar situation occurs. RMPs have a non-investment component and an investment component, where the non-investment component depends on the type of country and may vary between 15 and 40%. However, the aim of an LVC refrigerant management plan is to enable the country to achieve the 85% reduction in CFC consumption by the year 2007. It is therefore a compliance driven program and can actually be compared to all National Phase-out Plans for non-LVC Article 5(1) countries, which all have certain non-investment components but are compliance driven, i.e., towards the 100% phase-out by 2010. In the considerations below the above elements will therefore be considered differently.

3.2 Non-investment actual costs 2003-2005 and prediction 2006-2008

In Table 3-2, the actual costs for the triennium 2003-2005 are compared to the estimate made by the Task Force for the triennium 2006-2008.

	Actual 2003-2005			Estimate 2006-2008		
	Net	ASC	Total	Net	ASC	Total
CAP	21.359	1.709	23.069	23.706	1.922	25.628
Inst. Strengthening	18.222	0.753	18.975	22.872	0.900	23.772
Awareness	0.911	0.118	1.029	0.600	0.078	0.678
Halon Banking	0.666	0.063	0.729	1.500	0.120	1.620
MB non-investment	2.778	0.287	3.065	1.000	0.090	1.090
MDI transition	0.330	0.025	0.355	1.080	0.097	1.177
Other act incl. TA	8.230	0.740	8.970	4.840	0.421	5.261
Subtotal	52.496	3.695	56.191	55.598	3.628	59.226
Preparation CP	0.249	0.027	0.275	-	-	-
Preparation RMP	0.645	0.062	0.707	-	-	-
RMPs	10.803	1.159	11.962			
TPMPs	-	-	-	30.895	2.780	33.675
TOTAL	63.299	4.854	68.154	86.493	6.408	82.901

Table 3-2 Non-investment activities, in US\$ million, actual 2003-2005 and prediction 2006-2008 (here both RMPs and TPMPs have been inserted in the Table)

The prediction for the CAP funding requirement for 2006-2008 concerns the approvals in the years 2006, 2007 and 2008 for the years 2007, 2008 and 2009. An increase of about 11% can be observed, which corresponds to an annual increase of slightly more than 3%, as has been agreed by the Executive Committee as a potentially justifiable yearly increase (the amount is different from what has been given in the May 2005 Replenishment Report; in this earlier report CAP funding approved was assumed to be for the year in which it was approved).

In Table 3-2 the costs for RMPs as well as for the TPMPs that will replace the RMPs after 1 January 2007 have been inserted. In principle a comparison of the total costs can be made but it ought to be mentioned that the TPMPs (as is also valid for the separate TPMPs approved for some LVC countries as of 2002) need to be considered as investment projects. They have been considered as investment projects in the May 2005 report as well. The total in the table shows almost US \$15 million more for the period 2006-2008.

However, only a certain percentage of the RMPs can be considered non-investment (could be as high as 40%). In the case of TPMPs this percentage may be lower (could be as low as 20%). When comparing the total amounts for non-investment only, the difference between the actual costs in the triennium 2003-2005 and the estimates for the next triennium would be in the order of US \$5-7 million (higher for the triennium 2006-2008).

A review of verification reports on the implementation of ongoing multi-year agreements reveals that a certain percentage (which percentage is widely varying amongst projects) is disbursed to activities that were characterised as non-investment projects when submitted and considered as separate projects. In this context it could be mentioned that Decision 30/7 and related decisions tasked the National Ozone Units with detailed responsibilities that were not specifically stipulated in the multi-year agreements. The percentage of non-investment activities in multi-year agreements would be on average 18-20% (see section 3.3), which would imply that the non-investment activities in the consumption multi-year agreements in the triennium 2003-2006 (see chapter 6 for detailed data) would be in the order of US \$17 million, and are estimated at about US \$12 million for the next triennium. However, this is for an impression only, because these non-investment activities should not be simply added to the amounts in the table, since it concerns activities that are directly focused on achieving the phase-out targets of specific multi-year agreements.

Where it concerns some more detailed elements in Table 3-2 the following can be observed.

The costs for Institutional Strengthening, a standard activity, will increase by roughly 25% from the 2003-2005 triennium to the next. This is due to a

systematic increase in the funding for Institutional Strengthening as decided, and a slightly higher number of countries that will receive Institutional Strengthening funding. In reality this amount could be lower, because it is normally so that not all countries will request the funding foreseen within the triennium (this has also not occurred in the triennium 2003-2005).

First estimates have been made for halon banking, MB non-investment, and MDI transition. These estimates are different from the actual expenditures in the triennium 2003-2005. However, the total estimated for these three activities for the triennium 2006-2008 is equal to the actual amount for the triennium 2003-2005.

Other activities (which include demonstration projects) have been estimated lower for the coming triennium than for the triennium 2003-2005. This is mainly due to the Executive Committee's creation of a funding window for chiller demonstration projects, which will apply to the triennium 2003-2005. For the years 2006-2008 US \$1 million has been added to the costs for technical assistance etc. as estimated in the May 2005 Replenishment Report, which is assumed to go to an extra number of HCFC Survey Projects.

The total funding estimated for non-investment activities for the triennium 2006-2008 could increase by 5-6% compared to the actual amount for the triennium 2003-2005. The estimate made by the Task Force may be somewhat inaccurate for certain activities, however, the total is considered as the appropriate number for the triennium 2006-2008.

3.3 Some considerations on CAP, IS and RMPs / TPMPs

RMPs for LVCs aim at achieving an 85% CFC reduction by 1 January 2007 (Decision 31/48) and involve both investment activities (servicing, retrofits, recovery and recycling) and non-investment activities (training, customs training etc.). The percentage of non-investment in RMPs has been often considered to be 40% of the net costs (excluding agency support) in the years that countries had to carry out training courses, deal with legislation etc. One can also look at the ODP tonnes involved in phase out. For the RMPs funded during 2003-2005 the accompanying ODS phase-out has been 471.8 ODP tonnes, which can be calculated as US \$25 / ODP-kg; 60% of this value would be US \$15 / ODP-kg, both figures are in the range that would be considered as an acceptable cost-effectiveness. To a certain degree RMPs can be compared to National Phase-out Plans (NPPs) or Terminal Phase-out Management Plans (TPMPs). Since 2001/2002 a large number of NPPs have been approved for non-LVCs and a number of TPMPs for LVC countries.

Where it concerns their target, the (new) TPMPs proposed (see Table 3-2) for LVCs in order to phase-out the last 15% CFC consumption between 2007 and 2010 can also be compared to National Phase-out Plans for non-LVCs.

With respect to investment and non-investment distinctions for the purposes of replenishment, one must consider what has been paid to date, as well as the remaining funding eligibility (Fund liability) to determine the level of replenishment. In this respect, annual tranches of phase-out agreements, TPMPs and in effect halon banking and RMPs pursuant to Decision 31/48 reduce the Fund liability and the associated requirement for replenishment when they are approved and the related money has been allocated. Until the actual allocation of the funds, they represent a future Fund liability regardless of the extent to which their component activities might be artificially classified as investment or non-investment.

One should recall that many of the larger individual investment projects included non-investment components such as training and technical assistance, but these projects were still associated with a phase-out.

It must also be emphasised that with the "flexibility clause" included in most multi-year agreements, governments have the ability to reassign funding from traditional investment to non-investment or vice versa so the initial distinction loses its practical relevance (see also the latest Decision 46/37 by the Executive Committee on "flexibility"). Given this understanding of the evolving mode of its operation, the Executive Committee eliminated the distinction in its latest set of performance indicators approved at the 41st Meeting. It would be up to the Executive Committee to make a distinction between investment and non-investment as there are those members that have felt that there should be no distinction, those that might consider agency fees part of non-investment costs, and those that might think that project preparation is part of investment costs.

However, in deciding to eliminate the distinction in terms of investment and non-investment for business planning, the Committee nevertheless decided to request the Secretariat to continue to track the old indicators. In this respect, most phase-out agreements are considered investment projects. In some cases usually where there are multiple agencies involved, traditional non-investment activities such as customs training and technical assistance for policy development might be distinguished and would be considered non-investment.

A study of 7 National Phase-out Plans (NPPs) for non-LVC countries showed that the non-investment part (training, legislation, awareness, technical assistance etc.) was 18% on average, the investment part (equipment, manufacturing, servicing and retrofits) was 74% and that 8% was for agency support costs.

The above could raise the question whether one is not increasing the funding of three types of non-investment activities, which have a certain interlinkage, a relationship to each other. However,

- a. CAP, a standard activity, is for networking, regional co-operation, and NOU support, as well for assistance in non-compliance cases;
- b. Funding for Institutional Strengthening (IS), another standard activity, should cover the costs of the National Ozone Office (including manpower and investments) which office should pursue progress in monitoring, checking that non-investment activities such as legislation, are implemented, and that phase-out targets are achieved;
(the Terms of Reference and funding increases for CAP and IS are based upon Executive Committee decisions);
- c. the non-investment part in RMPs and TPMPs (as for NPPs) should be strictly for training, technical assistance and all other activities directly related to the phase-out as also addressed in a NPP (a direct relation to compliance of the country).

4 Carbon tetrachloride

TEAP was requested to review relevant information pertaining to CTC, particularly with respect to consumption data and process agent phase-out technologies, based on any information provided by the Ozone Secretariat, the Multilateral Fund Secretariat and the implementing agencies. On the basis of that review, TEAP could, if appropriate, revise the funding requirements estimated for CTC.

Regarding the CTC (and TCA) consumption of countries where consumption data are still being verified by Parties and related agencies, insufficient progress has been made so far in the verification of data. The RTF therefore does not propose any modification to the US \$6 million contingency proposed in the May 2005 Replenishment report for CTC (and TCA).

The RTF had taken into account the annual funding tranches for the Process Agent Phase I plan for China in its May 2005 report. The total funding for the Phase I plan, which was approved in 2002, is US \$65 million (excluding agency support costs at 7.5%), with US \$38 million funding in the 2003-2005 triennium, and US \$24 million expected for the 2006-2008 triennium.

As required by the agreement between China and the Executive Committee of the Multilateral Fund, China's annual production and consumption of CTC and consumption of CFC-113 must be verified annually by the World Bank. The verification teams installed by the World Bank were able to verify that the overall production of CTC and consumption of CTC and CFC-113 were within the limits set by the agreement between China and the Executive Committee.

In 2004, in China, the allowed CTC production was 54,857 ODP tonnes; 50,195 ODP tonnes were verified (quotas were given by the Chinese SEPA to 16 CTC production plants). For feedstock consumption the allowed quantity was 39,306 ODP tonnes, 34,168 ODP tonnes were verified; the use of CTC as feedstock is for non-ODS production and for ODS production (CFC-11 and -12). For 25 Process Agent Applications 5,049 ODP tonnes were allowed in 2004, 3,886 ODP tonnes were verified.

Based upon the verification report (contained in ExCom document 46/29) the Executive Committee, in its 46th Meeting, decided to approve the 2005 tranche of funding for the Phase I Process Agent project. The Task Force therefore expects that further tranches will also be approved.

In the PA I plan, the remaining CTC production will be 11,900 ODP tonnes in 2010.

A study team from the World Bank visited China again in September 2005 and finalised reports on the Process Agent Sector Plan II, including the CTC production sector. In accordance with the original agreement with the Executive Committee, China is at present only eligible for an additional 10,000 tonnes phase-out of CTC production, the rest of the phase-out will have to be done by China itself. According to the World Bank, the 10,000 tonnes reduction will bring the CTC consumption to 1,000 tonnes for process agent applications with emissions control. This reduction will be realised by phasing out CTC production and by the reduction or the conversion of CTC production, in particular as a by-product in methane based feedstock production. This may still lead to a larger production than necessary, however, the option would be to use this CTC as a feedstock for non-ODS chemicals or to dispose of it via agreed destruction technologies (also dependent on the market demand for the non-ODS chemicals). The PA II plan, as now submitted to the 47th Meeting of the Executive Committee, consists of two parts: (A) the phase-out of CTC production, and (B) the phase-out of certain process agent applications.

The original cost for the PA II plan was estimated in the Business Plan as US \$43 million, with a first disbursement of US \$10.750 million in the triennium 2003-2005 (actually in 2005), which would leave US \$32.250 million for the triennium 2006-2008. In this regard, it should be noted that in most cases where very large projects are concerned, the values estimated in the business plans are substantially higher than the levels actually approved after the projects are finally considered by the Executive Committee. Accordingly, and based upon historic approvals, the Task Force had made a first calculation of the eligibility based on cost effectiveness in its May 2005 report, and had estimated a total funding during the triennium 2006-2008 of US \$23.946 million (including agency support costs). This is more or less US \$10 million less than the funding proposed in the Business Plan.

The total cost for the CTC production project proposal (as part A of a PA II plan) is currently given as US \$20.478 million, with agency support costs at US \$1.536 million, totalling US \$22.014 million. As mentioned, this part A is being submitted to the 47th Meeting of the Executive Committee.

The Task Force cannot make a judgement regarding the eligibility of this part of the PA II proposal until after review and a decision by the Executive Committee. This is also related to the fact that this proposal is rather complicated, since it is based upon the results to be obtained from earlier CTC production reduction in the PA I plan, and since it includes additional (new) actions with further consideration of CTC production as a by-product in recently established manufacturing plants. Since some of the issues will be addressed by the Executive Committee for the first time, it is not possible for the RTF to make an estimate of what will be considered eligible incremental costs.

The second part (part B) of the PA II project proposal considers an action plan for 13 Process Agent applications. Via this PA II plan, part B, the estimated 2006 consumption of 7,063 ODP tonnes of CTC for Process Agent Applications (following the guidelines as in Decision XV/6, decided by the 15th MOP in Nairobi, 2003) will be reduced to 994 ODP tonnes in 2010. The proposal suggests that this will be partly done by conversion, and partly by applying CTC emission control techniques for a number of applications.

The funding request for the total equals US \$57.591 million excluding agency support costs; if these are being included, the total cost would be US \$61.911 million. However, once again, the plan for each application must be considered by the Executive Committee, and it is not possible to prejudge their determination of what may constitute either eligible incremental cost, or cost which are too high to warrant funding.

Taken as a whole, the above implies that the request for funding by China is US \$50 million higher than assumed by the RTF in its May 2005 Replenishment Report. However, it is fair to note that traditionally, the Executive Committee has approved projects in these sectors at levels (far) lower than the levels originally requested by the Agencies (large CTC projects for two Article 5(1) countries were approved at 10-20% lower than requested, sometimes even lower than that) in the past. This fact, together with the complexity of the related issues makes it not advisable to speculate at this time on the final judgement on these projects or their possible impact on the funding requirement for the 2006-2008 replenishment.

For the reasons given above, the Task Force cannot issue a new number for the funding of the CTC sector in China than it has already done in its May 2005 Replenishment Report, based upon the original 2005 World Bank Business Plan and its own estimates. However, the Task Force would like to emphasise that the funding requirement for CTC related projects for the 2006-2008 triennium may be substantially larger than assumed in the May 2005 estimate for the funding requirement (dependent on the amount to be approved for 2005). If the original US \$10.175 would be requested and approved at the 47th Meeting of the Executive Committee, the funding requirement could still be higher than estimated by the Task Force in May 2005. This will depend on the results of the review and a following decision by the Executive Committee on the eligibility of the related funding requests.

5 Hydrochlorofluorocarbons, chillers and destruction technologies

TEAP was requested to take into account the decisions to be taken at the 46th Meeting of the Executive Committee of the Multilateral Fund with regard to, but not limited to, projects concerning HCFCs, chillers and destruction technologies in order to determine whether they had any implications for the estimates of the funding requirements for the 2006-2008 replenishment period of the Multilateral Fund.

5.1 Hydrochlorofluorocarbons

The 45th Meeting of the Executive Committee had approved HCFC survey projects for 12 Article 5(1) countries, but had put aside proposals for HCFC investment projects for the next triennium. The results of these HCFC survey projects should be available by the end of 2006. In the 46th Meeting, however, the Chair explained that "...UNIDO had requested funding to conduct HCFC surveys in eight countries, indicating that its request followed the approval of funding for UNDP (at the 45th Meeting) to conduct similar surveys in 12 other countries. HCFC surveys, however, had not been included in UNIDO's 2005 business plan and there were no compliance issues associated with HCFC surveys that might otherwise provide a basis for exceptional treatment. The Secretariat had recommended deferral and inclusion in UNIDO's 2006 draft business plan...." (Decision 46/27 by the Executive Committee). On this basis that some HCFC surveys may be considered in 2006 and beyond, the Task Force proposes to increase the technical assistance and demonstration component in the non-investment activities by US \$1 million (this has already been done in the tables on non-investment presented in chapter 3).

5.2 Chillers

The 46th Meeting of the Executive Committee decided to utilise the funding window of US \$15.2 million for additional demonstration projects in the chiller sub-sector, with an understanding that no further funding for chiller replacement would be approved by the Executive Committee. It then decided on the modalities that Parties would use how to make requests for that funding and on the conditions for the investment demonstration projects etc. Finally, it decided that resources remaining unspent after approval of the proposals submitted to the 47th Meeting of the Executive Committee should remain as uncommitted obligations from the 2005 business plan (part of Executive Committee Decision 46/33). The Task Force therefore concludes that these projects will have no implications for the funding estimates for the 2006-2008 replenishment.

5.3 Destruction technologies

The 46th Executive Committee considered the report on the review of guidelines relating to the collection, recovery, recycling and destruction of ODS, as requested by the Executive Committee Decision 44/63. In the meeting report it is mentioned that "...several representatives firmly believed that that destruction of ODS was not relevant to compliance with the Montreal Protocol, which was measured in terms of production and consumption... However, others did consider ODS destruction related to compliance. Firstly, consumption was a function of production, and part of the calculation of production was the subtraction of the quantities destroyed. Moreover, at their Fourth Meeting, Parties had adopted Decision IV/11, in which they agreed "to facilitate access and transfer of approved destruction technologies in accordance with Article 10 of the Protocol for Parties operating under paragraph 1 of Article 5." They therefore held that the cost of destruction was eligible for funding from the Multilateral Fund, if cost-effective, as stipulated in the indicative list of categories of incremental costs...". During this meeting, at the request of the Chair, the representatives of Austria and Japan presented a proposal for a study to be carried out by the Secretariat itself, or by an outside consultant, to address such issues as: the cost-effectiveness of destruction; adopting a holistic approach; synergy with other MEAs; sustainability; the possible impact on production; destruction of diluted and concentrated sources; stockpiles; their location and the substances involved; and the possibility of recovery and recycling, including regional reclamation centres. The Executive Committee decided that the Secretariat should prepare a paper covering terms of reference, budget and modalities for a study...taking into account the proposal of Austria and Japan and the comments made at the 46th Executive Committee Meeting. This paper should be presented at the 47th Executive Committee Meeting.

Within the Terms of Reference as given in Decision XVI/35, the Task Force did not consider destruction activities in a first instance, as they do not address compliance, and control schedules regulated by the Montreal Protocol do not address these. Based on the above discussion, (1) the TEAP Replenishment Task Force does not estimate that any further decision on destruction demonstration projects or on destruction projects will be taken during the triennium 2003-2005 (in fact, at the 47th Meeting of the Executive Committee), (2) the TEAP Task Force is of the opinion that certain destruction projects (most likely as demonstration projects) could be funded during the next triennium, possibly co-funded as a result of activities under other Multilateral Environmental Agreements.

It could then concern a certain percentage of the remaining CFC consumption remaining after 1 January 2007. Indications are that some Article 5(1) countries are having difficulties with the disposal of contaminated CFCs, however, quantities are not known.

Furthermore, the only figure that is known is that the pure destruction of concentrated, non-diluted chemicals such as CFCs (or halons) costs between US \$2,500 and US \$4,500 dependent on the degree of contamination and the amount brought to the destruction plant. The costs for collection, transport, and the use of infrastructure will certainly cost at least as much. Generally, Article 5(1) countries are interested in the destruction of contaminated CFCs recovered from equipment; they may also be interested in the destruction of contaminated halon material.

These demonstration projects will probably target regions with existing ODS waste issues. These projects should deal with the recovery of contaminated material, combined with the collection of larger amounts of material, and the transport to destruction plants, located either in Article 5(1) or in non-Article 5(1) countries. On the basis that there may be 4-8 of such projects (normal average cost of demonstration projects covered by the Multilateral Fund at US \$500,000 each), the Task Force proposes a contingency of US \$4 million.

5.4 Other issues

1. Methyl Bromide Project

The 46th Executive Committee Meeting considered a submission of a project proposal by Brazil to phase out 218.6 ODP tonnes of MB used as a soil fumigant in the production of tobacco, flowers, ornamental plants and strawberries by the end of 2006, which would represent the total consumption of controlled MB uses in Brazil. The total funding was being requested in one tranche as the project duration was only two years (US \$1,450,251 for UNIDO and US \$580,390 for Spain, excluding US \$184,220 agency support costs). The Executive Committee approved the project on the understanding that no more funding would be provided from the Multilateral Fund for the phase-out of controlled MB uses in Brazil. Originally this project was foreseen for funding in 2005, 2006 and 2007 (73 ODP tonnes per year). The TEAP Replenishment Task Force had therefore included US \$2,150,000 including US \$161,250 in the funding estimate for MB projects during the triennium 2006-2008. As a result the estimate for MB multi-year projects would have to be reduced from US \$14.622 to US \$12.472 million (including agency support costs at US\$1.014 million). This will also change the scenario calculations for MB as given in the May 2005 Replenishment Report, and an update will be given below.

2. Agency Core Unit Funding

The 46th Executive Committee Meeting considered the increase in agency core unit costs. Explanations were given by the representatives of UNDP and UNIDO. Following a discussion on the possibility of recalculating the estimated core unit costs on the basis of a 3 percent annual increase from the 2002 costs, the Executive Committee decided that the base rate for core unit

costs for UNDP and UNIDO would be US \$1.7 million instead of US \$1.5 million. Furthermore, the operation of the administrative cost regime as modified by the present decision would be reviewed before the end of the following triennium (part of Executive Committee Decision 46/35).

The above implies that the core unit funding for the triennium will not be three times US \$4.5 million, as estimated in the May 2005 Replenishment report, but it would be US \$5,047,000 (2006), US \$5,198,410 (2007) and US \$5,354,362 (2008), which totals US \$15,599,772 for the triennium 2006-2008.

3. Multi-year commitments

In the May 2005 Report, the funding requirement for a large number of existing multi-year commitments was given for the triennium 2005-2006. As a result of some approvals before the 47th Meeting of the Executive Committee, this amount has changed slightly; on the other hand, as a consequence, the amount for the funding requirement for non-LVCs with non-addressed multi-year agreements (as mentioned in the May 2005 Report) had to be reduced.

4. MDIs

Regarding the funding for the conversion of CFC based MDIs, the May 2005 report mentions for the triennium 2006-2008 US \$11,435,775 million for China with US \$927,225 agency support costs (total project size being 369 ODP tonnes). It also mentions 539.3 ODP tonnes for pharmaceutical aerosols (cost of US \$3,235,800 with agency support costs being US \$242,685). It is also reported that there are 160 ODP tonnes in Argentina, 30.1 ODP tonnes in Indonesia, and 130 ODP tonnes in Egypt.

The Task Force, in its May 2005 report, estimated the MDI consumption in Argentina as 50 ODP tonnes (the rest being pharmaceutical aerosols). Argentina mentioned during the OEWG-25 meeting in Montreal, July 2005, that it would report on the real MDI consumption (which could well be larger). In a first instance, the Task Force had used the estimate from the MLF Secretariat that it would concern 160 ODP tonnes. Thereafter it received a communication from Argentina that an amount in this order of magnitude is used for the manufacture of CFC based MDIs. It also received a second communication from Argentina the beginning of October 2005, i.e. that the national component amounts to 109.7 ODP tonnes out of a total MDI consumption in Argentina of 141 ODP tonnes, for the year 2004. This information was not available when the May 2005 report was drafted. The Task Force therefore has modified the funding estimate for MDIs to reflect the higher consumption data (higher funding of US \$2.090 million, plus US \$0.164 million support costs).

The estimate for Indonesia will not be changed since it was based upon data submitted to the MLF Secretariat.

In the case of Egypt, the Task Force assumed, on the basis of information available at the time, that 30 ODP tonnes (of the 130 ODP tonnes) would be MDI based consumption. However, subsequent investigations revealed that between 130 and 154 ODP tonnes of CFCs could be consumed in MDI production, including some quantities for the production of medical aerosols. If the 154 ODP consumption would be true, it will lead to an increase of the funding requirement (i.e., US \$3.74 million higher without agency support costs).

For MDIs therefore, the total funding estimate is now US \$25.616 million, with agency support costs at US \$2.012 million (compared to the earlier total of US \$19.786 million with agency support costs at US \$1.554 million).

5.5 Production plant conversions

An issue, which has so far not been raised, is the CFC production closure in Mexico. According to the multi-year plan, the last tranche of the project (US \$12,738,750) can be requested in 2006. At its 45th Meeting, the ExCom decided “to consider releasing the final funding tranche of the Mexican CFC production phase-out project at the 47th Meeting upon satisfactory verification of CFC production in Mexico in 2005, provided that the cash flow of the Multilateral Fund at the time so permitted” (Decision 45/62). The Mexican CFC production plant was closed August 2005; on this basis, the Government of Mexico has submitted a request for the last tranche of the project to be approved at the 47th ExCom. If this funding tranche is approved in 2005, it would have implications on the 2006-2008 budget, accordingly.

For the funding requirement during the triennium 2006-2008 there are two new production phase-out project proposals compared to the Business Plans (one concerns the closure of CFC/ CTC/ MB production, one concerns the phase-out of MB production at a somewhat lower level than 800 ODP tonnes over the next seven years). The first project was not considered in the production segment in the May 2005 report (but was implicitly included in the consumption sector); this was an omission, and this has been corrected in the new funding requirement table in this Supplement Report.

In the 2005-2007 Business Plan, the total cost for the first project was estimated at a level of US \$2.258 million (to be funded during 2005 and 2006), the second at a level of US \$7.525 million (to be funded in annual tranches of US \$1.075 million as of 2006). However, the Implementing Agency concerned has increased the total cost of the first project to US \$21.690 million, the total cost of the second project to US \$35.700 million. These projects have been submitted to the 47th Meeting of the Executive Committee.

The Task Force cannot make a judgement regarding the eligibility of these new project proposals until after review by the Executive Committee, and has therefore not changed the funding requirement estimated in the May 2005 report.

However, the above could still have an impact on the funding requirement for the 2006-2008 triennium, i.e. that the level might increase.

5.6 Not submitted projects

For the 47th meeting of the Executive Committee, a number of new multi-year projects from the 2005 Business Plan, or parts of already approved projects were expected to be submitted for approval.

For several reasons this will not take place. It concerns a total amount of US \$4.140 million. This amount has been included in the amount determined for the funding requirement for the next triennium. However, the definite amount should be determined at the 47th Executive Committee meeting.

5.7 Methyl bromide scenario calculations

The TEAP Replenishment task Force has again studied the scenario requested by the EC for the funding requirement during the triennium 2006-2008 related to a 60% MB global consumption reduction in 2010. This has been done because the funding requirement calculated in the May report changes as a result of the decisions taken at the 46th Meeting (due to the MB project approved, and the availability of new consumption data submissions).

Based on more recent information there are now 12 countries that need to be addressed during the 2006-2008 replenishment period for this 60% reduction by 2010. Three countries have a consumption, which is larger than 20 ODP tonnes each; the consumption level of the others varies between 0.6 and 4.4 ODP tonnes each. The aggregated consumption of the 12 countries amounts to 634.7 ODP tonnes, about 535 tonnes of which is consumed by one country in the LAC region.

Amounts (ODP t)	CE (US \$/ODP kg)	Subtotal (\$million)	Agency support	Total (\$million)
591.7	11.6	6.864	0.515	7.379
37.6	19.2	0.722	0.081	0.983
6 Technical Assistance	30,000 each	0.180		
		7.766	0.596	8.362

The amounts needed to be phased out for each country have been estimated separately, and a scale of cost effectiveness values has been used to determine the funding requirement in each case. Thus, for amounts larger than 50 ODP tonnes a CE of US \$11.6 per ODP kg was used, for amounts smaller than 50

ODP tonnes a CE of US \$19.2 per ODP kg was used (see May 2005 report). For amounts smaller than 2 ODP tonnes, a technical assistance programme at US \$30,000 was assumed. This yields the values as presented in the table above.

The total costs for the gradual phase-down scenario to 40% of the baseline consumption level in each country (or lower) are US \$7.766 million; the total including agency support costs amounts to US \$8.362 million. The total costs of Scenario 1 (see for the definition the May 2005 report) plus the reduction of the consumption level of all countries to less than 40% of the baseline consumption, amounts to US \$32.244 million (the sum of US \$23.882 and US \$8.362 million).

6 Budget allocated and ODS phased out

In the fourth request, the Contact Group requested TEAP to include a table with figures showing the budget allocated and projected as well as the ozone-depleted substances phased out and projected to be phased out for the 2003–2008 replenishment periods. In order to construct this table, an analysis of the annual amounts approved and to be approved for multi-year agreements in the different sectors is necessary; this analysis is presented in this chapter. The budget allocated and projected as well as the ODS phased out and projected to be phased out have been copied to the updated Executive Summary in this Supplement Report.

The Task Force has therefore studied all the multi-year agreement data as provided by the Multilateral Fund Secretariat.

The focus of the analysis was directed towards examination of the amount of annual funding tranches in the agreements on the consumption sector (CFC/CTC/TCA etc.), the MB sector and the production sector, as well as on the ODP tonnes involved in those agreements.

Results are given in Tables 6-1 for the annual funds (in US \$1000) and ODP tonnes involved. The results are separated to multi-year agreements that have been approved up to the 47th Meeting of the Executive Committee and to multi-year agreements that are in the Business Plans and are expected to be approved as of the 47th Meeting.

The following needs to be mentioned.

1. Rows A contain the funding required for all existing multi-year agreements, approved before the 47th Meeting, with all ODP tonnes involved. In some cases, funding requests expected at the 47th Meeting will not be made. The funding involved has been added to the funding required in 2006 (without changing the original funding required for the years 2006, 2007 and 2008, i.e. no shift in the originally assumed disbursement of funds).
2. Rows A* contain the funding required for all multi-year agreements as mentioned in the Business Plans (see also Annex in the May 2005 Report), including also the request for funding expected at the 47th Meeting. Some requests expected at the 47th Meeting will not be made; they have been added to the funding requirement for the year 2006 (same procedure as explained under 1 above).
3. Rows B contain all existing multi-year agreements for MB.
4. Rows B* contain all future multi-year agreements as described in the Business Plans for MB.
5. Rows C contain the funding required for all multi-year agreements for the phase-out of production; this includes the halon phase-out plan for China.

6. Rows C* contain the funding required for the multi-year agreements for production phase-out as described in the Business Plans (see also section 5.5 above).

The total funding requirement for the multi-year phase-out plans in the production sector equals the amount mentioned in the funding requirement table in chapter 8 (US \$113.715 million), however with the addition of an amount of US \$0.588 million for part of the funding of a multi-year agreement, which will not be requested at the 47th Meeting.

In the amounts calculated for the different triennia, it is shown that the largest portion for the triennium 2003-2005 will be for the CFC/CTC/TCA/Other consumption sectors (US \$250 million), with also a large amount for the phase-out of production (US \$154 million). The total funding amount will phase out roughly 130,000 ODP tonnes.

For the triennium 2006-2008 the funding requirement for the multi-year agreements in the CFC/CTC/TCA/Other consumption sectors will be reduced to about US \$155 million, with a funding requirement of US \$114 million expected for the multi-year agreements in the production sector. The total amount of ODP tonnes involved in multi-year agreements is estimated at 106,000 for the triennium 2006-2008.

The above does not include the costs estimated for the (newly proposed) TPMP plans for LVCs (and the ODP tonnes involved), which would again increase the amount for the CFC/CTC/TCA component for the triennium 2006-2008 to about US \$190 million.

The funding requirement for MB consumption in the current triennium is more or less equal to the amount estimated for the 2006-2008 triennium.

<i>US\$ Allocation (*US\$1000)</i>		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
A. CFC/CTC/TCA/Oth	# 47th	9,605	25,051	70,994	86,303	86,108	65,228	53,906	25,326	13,484	5,938	1,779
A*.	47th + ¹						11,806	43,811	6,040	13,054		
B. MB	# 47th	452	5,679	3,649	8,500	5,694	11,490	5,133	2,457	3,495	1,516	763
B*.	47th +							1,293	1,383	9,796		
C. Production	# 47th	31,000	30,120	28,664	40,335	58,629	54,951	49,060	39,794	21,182	19,012	0
C*.	47th +							2,043	1,075	1,075	1,075	1,075
<i>Per Triennium</i>												
CFC/CTC/TCA/Oth			105,650			249,445			156,301			
MB			9,780			25,684			23,557			
Production			89,784			153,915			114,229			
Total			205,214			429,044			294,087			

ODP Tonnes		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
A. CFC/CTC/TCA/Oth	# 47th	3,378	5,756	5,239	9,118	21,319	57,206	20,551	24,057	14,687	3,184	6,239
A*.	47th +						1,015	5,847	721	519		
B. MB	# 47th			218	230	389	501	497	295	490	339	48
B*.	47th +							128	73	799		
C. Production	# 47th	6,813	6,182	5,183	6,033	6,582	27,071	9,881	18,312	8,460	1,387	5,301
C*.	47th +							282	111	111	111	111
<i>Per Triennium</i>												
CFC/CTC/TCA/Oth			14,373			88,643			66,397			
MB			218			1,119			2,282			
Production			18,178			39,686			37,157			
Total			32,769			129,449			105,836			

Table 6-1 Funding requirement, as well as ODP tonnes involved, for multi-year projects (a) approved before the 47th Meeting of the Executive Committee, and (b) expected to be approved as of the 47th Meeting of the Executive Committee. Amounts have been given in the table as of the year 2000, when the multi-year approach started to become “business-as-usual” for many projects. The amounts for the annual funding requirements are given separately for the CFC/CTC/TCA/other, the MB consumption and the production sector; the same applies for the ODP tonnes involved. Amounts per triennium for the funding requirement and the ODP tonnes involved are determined from annual amounts and are given for the triennia 2000-2002, 2003-2005 and for 2006-2008.

¹ The amounts do not include the funding requested for CTC/TCA projects from one Article 5(1) country, since eligibility will be discussed after the 47th Meeting

Total Funding Requirement

The Task Force is of the opinion that it is absolutely necessary to present an updated table of the total funding requirement, since several parts have changed since the publication of the May 2005 Replenishment Report (TEAP Progress Report, Volume 2). In principle the table is identical to the one in the May 2005 Report, except for those parts where the funding requirement has definitely changed. Changes particularly occur in the MB consumption sector, in the non-investment cost components, in the core funding component, as well as for extra activities.

Since the preparation of the Replenishment Report in May, the Implementing Agencies have submitted new estimates for a few very large projects which involve funding that is much higher (on the order of US \$80 million) than originally expected, and therefore originally included in the replenishment analysis. These projects are in complex areas, and the TEAP Replenishment Task Force is not in a position to opine upon their eligibility. However, it is fair to note that traditionally, the Executive Committee has approved projects in these sectors at levels (far) lower than the levels originally requested by the Agencies (i.e., two large CTC production / process agent phase-out projects for two large Article 5(1) countries were approved at a 10-20% lower than originally requested). This fact, together with the complexity of the related issues makes it not advisable to speculate at this time on the final judgement on these projects or their possible impact on the funding requirement for the 2006-2008 replenishment. Accordingly, no new estimates have been included in this report for those projects.

For the 47th meeting of the Executive Committee, a number of new multi-year projects from the 2005 Business Plan, or parts of already approved multi-year projects were expected to be submitted for approval. For several reasons this will not take place. It concerns a total amount of US \$4.140 million. This amount has been included in the amount determined for the funding requirement for the next triennium. However, the definite amount should be determined at the 47th Executive Committee meeting.

One other issue is the CFC production closure in Mexico. According to the multi-year plan, the last tranche of the project (US \$12,738,750) can be requested in 2006. This has been mentioned in chapter 5. The Government of Mexico has submitted a request for the last tranche of the project to be approved at the 47th ExCom. If approval will take place in 2005 (this triennium), it would have implications on the 2006-2008 budget.

Consequently, the total funding requirement for the triennium 2006-2008 could become higher than the central funding requirement currently estimated, dependent on how the phase-out plans for CTC and MB production phase-out and process agent applications phase-out will be approved for one Article 5(1)

country and how the phase-out plan for production phase-out of both CTC and MB will be approved for another Article 5(1) country (Romania), together with possible funding for Mexico.

It is therefore estimated that the 2006-2008 triennium funding requirement could be within the following range:

The low end depends on:

- approval for the funding requested for the Mexican CFC production closure project in 2005;
- approval of the Chinese PA II project at the Business Plan value submitted in 2005, used in the May 2005 report (and part of the central funding requirement of US \$430.33 million) ;

The high end depends on:

- no approval for the funding requested for the Mexican CFC production closure project in 2005;
- approval of the CTC part of the Chinese PA II project at the funding requested, and approval of 80% of the funding requested for process agent applications of the PA II project (a value of 80% was also used by the Task Force in calculating the funding for the PA II project from the original Business Plan, which mentioned US \$43 million);
- approval of the tranches during the 2006-2008 triennium for production closure (MB and MB / CTC) in two Article 5(1) countries, China and Romania.

With the central funding requirement of US \$430.33 million, the range would then be US \$417.4-485.9 million.

The results of the decisions of the 47th Executive Meeting will be known two weeks before the 17th MOP will take place (12-16 December 2005), where the Funding Requirement for Multilateral Fund for the next triennium will be considered. The Task Force will endeavour to issue an addendum to this Supplement Report prior to the Meeting of the Parties, regarding the impact to the funding requirement that would stem from any related decisions taken on production and process agent phase-out during that 47th Executive Committee Meeting.

Table 7-1 Summary of all elements which determine the 2006-2008 Funding Requirement

Type of projects	Investment (\$ million)	Agency support cost (\$ million)	Subtotal (\$ million)	Funding as estimated May 2005 (\$ million)
a. Investment projects consumption sector				
• Multi-year CFC, existing ^{2*}	53.189	4.362	57.551	55.402
• Non-LVCs with no plans (yet) ³	10.292	0.772	11.064	12.902
• LVC - TPMPs, existing	1.218	0.115	1.333	1.333
• LVCs funding after 2007 (TPMP conversion) (Dec. 45/54)	30.895	2.780	33.675	33.675
• MDI and pharmaceutical aerosols in non-LVCs ⁴	25.616	2.012	27.628	21.340
• MB (existing)	10.276	0.809	11.085	11.085
• MB (new) ⁵	11.758	1.039	12.797	14.947
• Halon	0.954	0.069	1.023	1.023
• CTC phase-out, existing ⁶	26.002	2.111	28.113	28.552
• CTC, new ⁷	26.219	2.003	28.222	28.222
• CTC (and TCA) contingency	6.000	0.450	6.450	6.450
• TCA phase-out	0.413	0.038	0.451	0.451
• BCM phase-out	0.700	0.054	0.754	0.754
Subtotal	203.532	16.614	220.146	216.436
b. Investment projects Production sector				
• Closure CFC production plants ⁸	82.708	6.203	88.911	89.716
• Closure Halon production (China)	0.800	0.060	0.860	0.860
• Closure CTC production plants ⁹	17.674	1.326	19.000	18.478
• Closure TCA production plants	0.700	0.0525	0.7525	0.7525
• Closure CTC/MB plant ¹⁰	0.900	0.068	0.968	–
• Closure MB production plant	3.000	0.225	3.225	3.225
Subtotal	105.782	7.935	113.717	113.031

² Small changes in the funding requirement were determined as a result of a change in project number

³ Small changes in the funding requirement were determined as a result of a change in project number

⁴ Based upon re-calculation of funding requirement for MDI conversion in one country

⁵ Based upon re-calculation of funding requirement due to early submission of one project in 2005, expected for the next triennium

⁶ Small changes in the funding requirement were determined as a result of refined calculations

⁷ Based upon an estimate determined by the Replenishment Task Force (different from Business Plan)

⁸ Small changes in the funding requirement were determined as a result of refined calculations

⁹ Small changes in the funding requirement were determined as a result of refined calculations

¹⁰ Project was not considered in the May 2005 report (by mistake), due to a different consideration of the consumption sector in the country

Type of projects	Investment (\$ million)	Agency support cost (\$ million)	Subtotal (\$ million)	Funding as estimated May 2005 (\$ million)
c. Non-investment projects, support				
• <i>CAP</i> ¹¹ (Personnel, Clearinghouse and Information Exchange)	<i>23.706</i>	<i>1.922</i>	25.628	<i>26.614</i>
• Awareness raising	0.600	0.078	0.678	<i>0.678</i>
• Institutional Strengthening (IS)	22.872	0.900	23.772	<i>23.672</i>
• Halon banking	1.500	0.120	1.620	<i>1.620</i>
• MB non-investment act.	1.000	0.090	1.090	<i>1.090</i>
• MDI transition strategies	1.080	0.097	1.177	<i>1.177</i>
• <i>Technical Assistance Demonstration</i> ¹²	<i>4.840</i>	<i>0.421</i>	5.261	<i>4.186</i>
Subtotal	<i>55.598</i>	<i>3.628</i>	59.226	<i>59.127</i>
d. Other funding requirements	12.825		12.825	<i>12.825</i>
□ Multilateral Fund Executive Committee and Services of the MLF Secretariat	1.500		1.500	<i>1.500</i>
□ Treasurer's Fees				
□ <i>Agencies Core Unit Funding</i> ¹³	<i>15.600</i>		15.600	<i>13.500</i>
e. Other funding requirements	3.020		3.020	<i>3.020</i>
Project Preparation costs				
f. New requirements				
▪ <i>Demonstration of "destruction" via four (national or regional) projects</i> ¹⁴	<i>4.000</i>	<i>0.300</i>	4.300	–
Total	<i>401.857</i>	<i>28.477</i>	430.334	<i>419.438</i>
Current Estimate of the Total Funding Requirement for the 2006-2008 Replenishment of the Multilateral Fund			430.33	
<i>Range of the Total Funding Requirement based on assumptions in respect of submissions at the 47th Executive Committee Meeting</i>			417.4- 485.9	
<i>Total Funding Requirement estimated in the May 2005 Report</i>			419.44	

* numbers in the first three columns in italics denote changes from values given in the May 2005 report

¹¹ The amount for the CAP programme had to be re-calculated due to the fact that the assumption of the disbursement of money for annual programmes in the same year (as in the May Report) had to be changed

¹² The amount includes funds for additional HCFC survey projects

¹³ Core Unit Funding was increased by the 46th Meeting of the Executive Committee

¹⁴ Demonstration projects have been added compared to the May Report (see chapter 5 in this Report)

8 Executive Summary – update

As of October 2005, the Replenishment Task Force estimates the total funding for the 2006-2008 replenishment to enable the Article 5(1) Parties to comply with all relevant control schedules under the Montreal Protocol to be **US \$430.3 million**.

The larger part of this funding requirement is for forward commitments for already approved multi-year agreements in the consumption and production sectors (about US \$207 million), and for standard recurring costs such as Institutional Strengthening, UNEP's Compliance Assistance Programme, the budget of the MLF Secretariat and Executive Committee meetings, the Treasurer's fees and the Implementing Agencies core funding (about US \$80 million). This implies that about US \$287 million of the US \$430.3 million (67%) can be considered as already committed.

ES.1 MANDATE AND CONSULTATIONS

Mandate from the Parties to TEAP; Decision XVI/35

The Sixteenth Meeting of the Parties requested the TEAP to prepare a replenishment report and present it to the Open-ended Working Group at its 25th Meeting to enable the Parties to decide at their Seventeenth Meeting on the appropriate level of the 2006-2008 replenishment of the Multilateral Fund (Decision XVI/35).

TEAP Response; Replenishment Task Force

The TEAP constituted a Task Force of six TEAP/ TOC members from Belgium, China, Hungary, India, The Netherlands, and Venezuela, as well as an advisor from Egypt to prepare the report.

Technical and Financial Consultations

The Task Force carried out consultations with a wide range of financial and technical experts. Interviews were conducted during the 45th Meeting of the Executive Committee held in Montreal, April 2005. The Task Force extensively consulted the MLF Secretariat, The Regional Network Co-ordinators, the Ozone Secretariat and the Implementing Agencies.

A small group of experts, selected by the Task Force, in consultation with the TEAP, reviewed the drafts of this report. The final review was carried out by the TEAP at its April 2005 meeting. At the OEWG-25, which met in June 2005 in Montreal, TEAP was requested to issue a Supplement to the May 2005 report, which should deal with four issues (a) non investment activities and the related funding, (b) CTC, (c) new activities, and (d) a comprehensive funding table.

ES.2 DATA AND METHODOLOGY

The following reduction schedules apply:

- CFC: 85% reduction in 2007, and complete phase-out by 2010;
- Halons: phase-out by 2010;
- CTC: complete phase-out by 2010;
- TCA: 70% reduction step in 2010 and complete phase-out by 2015;
- MB: complete phase-out by 2015.

Data

The Replenishment Task Force used the MLF Secretariat data on the remaining eligible consumption for CFCs, particularly for countries with no fixed multi-year agreements, as well as data on forward financial commitments. It also used the data for the consumption and production of all ODS in all Article 5(1) countries (that will apply for funding) as reported to the Ozone Secretariat; it included the most recent reports for the year 2003 (some for 2004).

More data on CTC, TCA and methyl bromide were available for this study than for the previous replenishment study in 2002.

The Task Force sought and received data on technology from industry.

Cost Elements and Methodology to Address the Costs

This report provides estimates for all the cost elements of the funding requirement for the 2006-2008 replenishment of the Multilateral Fund. Seven cost elements have been addressed in this report, which includes the cost related to investment projects to completely phase out consumption and production (including bilateral programs), non-investment activities, administrative costs, project preparation costs, core unit funding for Implementing Agencies, operating costs of the MLF Secretariat and for holding meetings of the Executive Committee, as well as Treasurer's fees.

Each category of the cost elements and the estimation are described below.

1. Investment Projects for the Consumption Sector

This cost category refers to the funding requirements for the investment projects to completely phase out the consumption of CFCs, carbon tetrachloride (CTC) and halons by 1 January 2010, and 1,1,1 trichloroethane (TCA), and methyl bromide by 1 January 2015 or earlier, as pertinent.

For the CFC consumption sector, Article 5(1) countries were sub-divided into three groups.

The first group consists of non-LVC countries (i.e., countries with a CFC consumption baseline above 360 ODP tonnes) with existing multi-year agreements where the funding during the triennium 2006-2008 has already been determined in the agreements. The second group consists of a few countries that have so far no approved multi-year agreements. It is expected that most of these countries will submit National Phase-out Plans, which are expected to be approved by the Executive Committee in 2005 or 2006, and funded during the triennium 2006-2008. The third group consists of LVC countries, for which an approach to deal with the total phase-out has been taken as given in the Executive Committee Decision 45/54; this would imply funding additional to the funding already received for Refrigerant Management Plans (RMPs) and Plan Updates.

For the CFC consumption sector, a total funding requirement of US \$122 million was determined (excluding agency support costs, as in all the following cost statements).

In the case of CTC, in particular, the majority of the funding is in multi-year agreements. The most important one during 2006-2008 is the phase-out of process agent applications in China, with a funding requirement of US \$25.8 million (including agency support costs) during the triennium 2006-2008.

A lumped approach was used to determine the funding requirement for reductions necessary in the halon sector, and for addressing low consumption of CTC and TCA, larger than 2.0 ODP tonnes (for lower levels technical assistance would be appropriate, according to the relevant Executive Committee Decision 45/14).

The total amount of funding involved in CTC multi-year agreements and separate (small) projects is estimated at US \$58.2 million. In the TCA sector it amounts to US \$0.4 million. US \$6.0 million is proposed as a contingency for countries for which the CTC (and TCA) baselines and data reporting is still being verified.

In the case of MB, two scenarios have been investigated. The first scenario consists of the existing agreements, the funding required for two Parties, which have so far been exempted (Decision XV/12), and for a few new multi-year projects which have been considered in business planning for the year 2005 and beyond (mainly for maintaining momentum and accelerated phase-out). The funding requirement for MB projects is then determined as US \$24 million, including agency support costs.

A second scenario (submitted by the European Community) has been investigated (as it was included in the Terms of Reference, Decision XVI/35), which assumes reduction steps in MB consumption in 2008, 2010 and 2012, with a 60% reduction in the year 2010. This scenario would add US \$8.362 million to the above estimate.

2. Investment Projects in the Production Sector

This refers to the investment projects to phase out the production of controlled substances, particularly CFCs, halons and CTC by 1 January 2010, and 1,1,1 trichloroethane (TCA) and methyl bromide by 1 January 2015 or earlier.

Estimates were based on the costs for phase-out projects already agreed with virtually all ODS producing countries (this excludes one Party with a small CTC/ MB/ CFC production capacity still to be addressed, i.e., Romania (having CTC/ MB/ CFC production capacity) and China having MB production (see paragraph below)).

The amount involved in the phase-out of production of CFC, halon, CTC and TCA producing plants equals US \$105 million. For the phase-out of CTC/MB/CFC capacity in one country a funding of US \$0.968 million is assumed for the next triennium. For the phase-out of MB capacity in one country US \$3.0 million is assumed for the next triennium (all excluding agency support costs).

The total funding requirement for the production sector (including agency support costs) equals US \$113.7 million.

3. Non-investment Activities

The non-investment activities refer to the activities related to UNEP's Compliance Assistance Programme (CAP), institutional strengthening, training, refrigerant management plans (RMPs), halon banking, technical assistance, country programme preparation and updating, and preparation of MDI transition strategies;

In many cases, cost information for these activities, which support investment projects in phasing out ODS consumption and production, were received by the Replenishment Task Force. They are based on the Business Plans of the Implementing Agencies, in particular UNEP, and on information from the MLF Secretariat. In other cases, estimates were made by the Task Force based on extrapolation from data in the existing databases towards the future replenishment 2006-2008.

For all Article 5(1) countries, institutional strengthening funding has been taken into account, with a funding pattern that yields similar amounts every two years. The total for non-investment activities is estimated at US \$55.5 million, excluding agency support costs.

4. Administrative Costs of the Implementing Agencies

Different charges in implementing agencies support costs were applied to all types of project approvals. These charges were individually agreed by the

Executive Committee or according to guidelines decided by the Executive Committee. In the few cases where no direct support cost information was available, estimates of the agency support costs were made on the basis of experience with similar types of projects. By adding all cost components, the total funding for this element is estimated to be US \$27.80 million.

5. *Project Preparation*

Project preparation costs for the triennium 2006-2008 were estimated from the average of the project preparation costs per year during the period 2003-2004, and from the project preparation requirements for new TPMP plans for LVC countries (Decision 45/54); it amounts to US \$3.02 million.

6. *Core Unit Funding*

Costs for the Implementing Agencies Core Unit funding (which does not apply to UNEP) were determined on the basis of the relevant Executive Committee Decision 38/68 (regarding the current administrative cost regime), and the recent Decision 46/35, in which a small increase per year as of 2002 is approved for the agencies UNDP and UNIDO. Agent core unit costs amount to US \$15.6 million for the triennium 2006-2008.

7. *Operating Costs of the MLF Secretariat and the costs for holding meetings of the Executive Committee, and for the Treasurer*

These costs were determined on the basis of planned expenditure on current operations for the Executive Committee and the MLF Secretariat, including the monitoring and evaluation part, as well as for the Treasurer's fees. It amounts to a total of US \$14.325 million.

ES.3 FUNDING REQUIREMENT FOR THE 2006-2008 REPLENISHMENT OF THE MULTILATERAL FUND

The RTF estimates and concludes that a total of US \$428.1 million will be needed for enabling the Article 5(1) Parties to comply with the control schedules under the Montreal Protocol, with the cost elements as set out in the summary table below.

In the total estimate of the funding requirement, the already agreed commitments have become more important than the new projects, activities and new multi-year agreements proposed. For consumption and production an amount of about US \$207 million is already committed in multi-year agreements.

For new projects and agreements, mainly in the consumption sector, about US \$143 million is proposed in this report. About US \$80 million of the remainder of the funding requirement has already been committed to agreed non-investment activities, i.e., standard activities, and is for the budgeted costs

of the Executive Committee, the MLF Secretariat, the Treasurer's fees and the Core Unit costs for the Implementing Agencies.

Taking into account the total funding requirement, this implies that a total of about US \$287 million of the total funding requirement (or 67% of the total recommended) can be considered as committed. The different components of the Funding Requirement for the triennium 2006-2008 are given below.

Funding Requirement Elements for the Replenishment:	US \$Million
CFC Consumption Sector Projects non-LVCs	63.481
CFC Consumption LVC Activities – TPMPs, others	32.113
CFC MDI and pharmaceutical aerosols	25.616
MB Consumption Sector Projects	22.034
Halon Consumption Sector Projects	0.954
CTC Consumption Sector Projects	58.221
TCA Consumption Sector Projects	0.413
BCM Consumption Sector Projects	0.700
Investments: Production Sector	
1- CFC	82.708
2- Halon	0.800
3- CTC	17.674
4- TCA	0.700
5- MB	3.000
6- CFC/CTC/MB	0.900
Non-investment Activities; Supporting Activities	55.598
Demonstration projects; destruction	4.000
Administrative Costs of Implementing Agencies	28.477
Project Preparation Cost	3.020
MLF Secretariat/ Executive Committee Operation/ Treasurer's fees	14.325
Core Unit Funding	15.600
Total Funding Requirement	430.33
Range of the Total Funding Requirement based on assumptions in respect of submissions to the 47th Executive Committee Meeting	417.4- 485.9
Total Funding Requirement in the May 2005 Report	419.44

For new projects and agreements, mainly in the consumption sector, about US \$143 million is proposed in this report. About US \$80 million of the remainder of the funding requirement has already been committed to agreed non-investment activities, i.e., standard activities, and is for the budgeted costs of the Executive Committee, the MLF Secretariat, the Treasurer's fees and the Core Unit costs for the Implementing Agencies.

Taking into account the total funding requirement, this implies that a total of about US \$287 million of the total funding requirement (or 67% of the total recommended) can be considered as committed.

Approvals for certain new (or modified) projects now submitted to the 47th Executive Committee meeting will likely change the picture. Namely, since the preparation of the Replenishment Report in May, the Implementing Agencies have submitted new estimates for a few very large projects, which involve funding that is much higher than originally expected, and therefore originally included in the replenishment analysis. These projects are in complex areas, and the TEAP Replenishment Task Force is not in a position to opine upon their eligibility. However, it is fair to note that traditionally, the Executive Committee has approved projects in these sectors at levels lower than the levels originally requested by the Agencies (10-20% lower for several CTC projects, and even lower for others). Although the complexity of the related issues makes it not advisable to speculate at this time on the final judgement on these projects, the possible impact on the funding requirement for the 2006-2008 replenishment has been estimated by giving a range for the funding requirement, the Task Force has decided to come up with a range for the 2006-2008 funding requirement. The low end assumes:

1. approval for the funding requested for the Mexican closure project in 2005;
2. approval of the Chinese PA II project at the level of the Business Plan (as assumed in the May 2005 Report).

The high end assumes:

1. no approval of the funding for the Mexican closure project;
2. approval of the CTC part of the Chinese PA II project at the funding level as requested for the next triennium;
3. approval of 80% of the funding requested for the next triennium for the process agent applications part of the Chinese PA II project, and
4. approval of the tranches during the 2006-2008 triennium for two production closure projects in two Article 5(1) countries (China and Romania).

The amount for the funding requirement given above can be adjusted as soon as the 47th Executive Committee has reviewed the proposals and taken a decision on the funding level, in November 2005. It will be endeavoured to issue an update or addendum before the 17th Meeting of the Parties in Senegal, December 2005.

The funding requirement, as well as the ODP tonnes involved, for the triennia 2003-2005 (as approved and expected from the 47th Meeting of the Executive Committee) and 2006-2008 are given in the table below.

As can be observed, the funding requirement for the CFC (and others) consumption sector will decrease from the current to the next triennium (although TPMPs that will replace RMPs have not yet been taken into account

here); the same type of decrease applies to the production sector. The table presents numbers as expected from existing multi-year agreements and agreements proposed in the Business Plans and estimated by the Task Force.

Funding Requirement (US \$1000)	Triennium 2003-2005	Triennium 2006-2008
CFC/CTC/TCA/Other	249,445	156,301
MB	25,684	23,557
Production	153,915	114,229
Total	429,044	294,087
ODP tonnes to be phased out		
CFC/CTC/TCA/Other	88,643	66,397
MB	1,119	2,282
Production	39,686	37,157
Total	129,449	105,836

9

Acronyms

ASC	Agency Support Cost
CAP	Compliance Assistance Programme
CTC	Carbon Tetra Chloride
IS	Institutional Strengthening
LAC	Latin America and the Caribbean
LVC	Low Volume Consuming Country (< 360 ODP tonnes baseline)
MB	Methyl Bromide
MDI	Metered Dose Inhaler
MEA	Multilateral Environmental Agreement
NPP	National Phase-out Plan
ODS	Ozone Depleting Substance
RMP	Refrigerant Management Plan
RTF	Replenishment Task Force
TCA	1,1,1 Tri-Chloro Ethane (methyl chloroform)
TEAP	Technology and Economic Assessment Panel
TPMP	Terminal Phase-out Management Plan
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization

10 **References**

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