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THIRTEENTH MEETING OF THE PARTIES
TO THE MONTREAL PROTOCOL ON
SUBSTANCES THAT DEplete THE
OZONE LAYER
Colombo, 16-19 October 2001

Item 3(a) of the annotated provisional agenda
for the Preparatory segment

TERMS OF REFERENCE FOR THE STUDY ON THE 2003-2005
REPLENISHMENT OF THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL

This document contains submissions from Australia, Brazil, China, India, Lebanon, Malaysia and United States of America as well as a revised version of decision X/13 of the Tenth Meeting of the Parties to the Montreal Protocol based on the views expressed during the meeting of the contact group, coordinated by the representative of Brazil, on the terms of reference for the study on the 2003-2005 replenishment of the Multilateral Fund for the Implementation of the Montreal Protocol.

**TERMS OF REFERENCE FOR THE STUDY ON THE 2003-2005 REPLENISHMENT OF THE
MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL**

SUBMISSION FROM AUSTRALIA

Thank you for your letter dated 15 August 2001 advising that the 21st Open-ended Working Group of the Parties to the Montreal Protocol agreed that suggestions and proposals by interested Parties on the terms of reference for the study on the 2003-2005 replenishment of the Multilateral Fund should be submitted to the Ozone Secretariat by 1 September 2001.

Australia respectfully submits the following response.

Australia proposes that the following text be included as an additional subparagraph (i) under paragraph 1 of the revised decision X/13:

- “(i) The outcomes of the Executive Committee’s consideration of the establishment of a baseline figure would enable the remaining ODS consumption eligible for funding to be determined.”

**TERMS OF REFERENCE FOR THE STUDY ON THE 2003-2005 REPLENISHMENT OF
THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL
PROTOCOL**

SUBMISSION FROM BRAZIL

Decision XIII/ - Terms of reference for study on the 2003-2005 replenishment of Multilateral Fund

1. To request the Technology and Economic Assessment Panel to prepare a report for submission to the Fourteenth Meeting of the Parties and present it, through the Open-ended Working Group, at its Twenty Second Meeting to enable the Fourteenth Meeting of the Parties to take a decision on the appropriate level of the 2003-2005 replenishment of the Multilateral Fund. In preparing its report, the Panel should take into account, inter alia:
 - a) All control measures, and relevant decisions, agreed by the Parties to the Montreal Protocol, including decisions agreed by the Thirteenth Meeting of the Parties, in so far as these will necessitate expenditure by the Multilateral Fund during the period 2003-2005;
 - b) The need to allocate resources to enable all Article 5 Parties to:
 - maintain compliance with the Montreal Protocol targets;
 - keep the momentum in countries already in compliance (halons, methyl bromide, Annex B-CFC, methyl chloroform) for meeting MP targets in 2005 and 2007; Annex A
 - allow countries to submit projects which will impact the 2007 period as early as 2004;
 - create contingency plans just in case they are needed for uncontrollable non compliance situations; and
 - allow countries that so desire to move faster.
 - c) Data to be used should allow flexibility so as to accommodate for market growth, smuggling, use of imported and nationally mixed polyols, actual and remaining consumption of ODS in ongoing projects;
 - d) Agreed rules and guidelines for determining eligibility for funding of investment projects (including the production sector) and non-investment projects taking into consideration and presenting scenarios which show the funding impact using existent guidelines vis-à-vis project by project and sectoral and national phase-out projects approaches:
 - using the sector cost-effectiveness thresholds;
 - in sectors where there are no agreed cost-effectiveness thresholds, using existing experience in project approvals, taking into consideration specific circumstances.
 - e) Financial commitments in 2003-2005 relating to sectoral phase-out projects agreed by Executive Committee;
 - f) Experience to date, including limitations and successes of the phase-out of ozone-depleting substances achieved with the resources already allocated, as well as the performance of the Multilateral Fund and its Implementing Agencies and Secretariat;
 - g) The impact that the controls and the country activities are likely to have on the supply and demand of ozone-depleting substances, and the effect that this will have on the cost of ozone-depleting substances and the resulting incremental cost of investment projects during the period under examination;

- h) Administrative costs of the Implementing Agencies, taking into account paragraph 6 of Decision VIII/4, and the cost of financing the Secretariat services of the MLF, including holding meetings;
 - i) Special consideration should be given to the Refrigeration Servicing Subsector and RMP components such as training of technicians and customs, monitoring, recovery and recycling activities and commercial refrigeration end users (retrofits). In this regard, there should be a clear statement with regard to the funds to be allocated under the current guidelines and eligibility criteria and the funds to be covered by countries to enable them to comply with non-eligible components
 - j) Additional funds should be considered as necessary for the Ozone Units to comply with additional tasks as per Multilateral Fund requirements and as set out in the Strategic Planning process of the MLF and relevant decisions (Decision 33/2, etc);
 - k) Resources must be considered for Updating Country Programs as required by the MLF ExCom;
 - l) Resources must be allocated so as to allow preparing assistance of transition strategies and technology transfer to allow conversion of MDI manufactures plants, consistent with Decision XII/2 of the 12th Meeting of the Parties;
 - m) Special consideration should be given to SMEs. Analysis of the cost implications and impact of existing guidelines for SMEs should be presented;
 - n) Special analysis for the situation of LVC with regard to meeting their particular sectoral needs not included in the RMP;
 - o) Do not use a fixed exchange rate;
 - p) Consider the sectoral growth and not GDP growth;
 - q) Establish realistic project duration periods.
2. That, in undertaking this task, the Technology and Economic Assessment Panel should consult widely with relevant persons and institutions and other relevant sources of information deemed useful;
3. That the Panel shall strive to complete its work in time to enable its report to be distributed to all Parties two months before the Twenty Second Meeting of the Open-ended Working Group.

Comments on the TOR for the study on the 2003-2005 replenishment by China

We have read the TOR for the study on the 2003-2005 replenishment and have following suggestions for that.

First, we think that is a very general TOR, although some important elements are going to be considered, but we can not see the calculation principles or objectives for the study on the replenishment.

We would like to suggest the 2003-2005 replenishment to be considered from three aspects,

1. The fund from 2003 to 2005 should support the 85% phaseout target for 2007 of A5 countries to be realized.
2. To encourage A5 country to fast the project implementation and complete ahead the approved sector plan.
3. To encourage A5 country to accelerate the preparation of sector plan for approval in near future, such as RMP, Methyl Bromide and MDI sector.

The replenishment report to be submitted by TEAP should include detailed data on ODSs production and consumption. Each indicator should be quantified. We can see clearly from the report how much ODP need to be phased out to meet compliance of MP and how much money need to funded for that.

INDIA'S PROPOSAL: TERMS OF REFERENCE FOR A STUDY ON THE 2003-2005 REPLENISHMENT

The replenishment study should focus on the financial requirement during 2003 – 2005 to enable Article 5 Countries to meet their commitment. The previous study, undertaken as per the terms of reference under Decision X/13, had taken into account the methyl bromide project, consumption growth rate, benefits of non investment projects, and refrigerant management plan in LVCs. Taking into account the Fund's agreed framework for strategic planning and MDI transitions, the following terms of reference may be considered for study on the 2003-2005 replenishment.

1. The Panel should prepare the report based on country assessment and take into account *inter alia* :
 - a. All control measures, and relevant decisions, agreed by the Parties to the Montreal Protocol, including decisions agreed by the Thirteenth Meeting of the Parties, in so far as these will necessitate expenditure by the Multilateral Fund during the period 2003-2005;
 - b. The need to allocate resources to enable all Article 5 Parties to maintain compliance with the Montreal Protocol taking into consideration Decision VII/22 of the Seventh Meeting of Parties;
 - c. Agreed rules and guidelines for determining eligibility for funding of investment projects (including the production sector) and non-investment projects;
 - d. Approved Country Programme, **Country Programme Updates, RMP and national strategy for refrigeration sector** ;
 - e. Financial commitment relating to sectoral phaseout projects agreed by the Executive Committee **and for preparation of national sector strategy, Country Programme Updation and strengthening of ISP under the agreed framework of strategic planning**;
 - f. **Maintaining momentum in countries that are meeting their future obligations**
 - g. **Early and accelerated phaseout in countries willing to do so.**

h. An appropriate mix of investment and non-investment activities in line with a country's needs to achieve compliance;

- i. Experience to date, including limitations and successes of the phaseout of Ozone Depleting Substances achieved with the resources already allocated, as well as the performance of the **(financial mechanism)** Multilateral Fund and its Implementing Agencies (including the implementation of its agreed framework for the strategic planning in the compliance period);
- j. The impact of reduction of the supply of ODS by continuing to address the production sector;
- k. The impact of **policy measures and controls adopted by countries which are** likely to have on the supply and demand and costs of Ozone Depleting Substances and the resulting incremental cost of investment projects during the period under examination;
- l. Administrative costs of the Implementing Agencies, taking into account paragraph 6 of decision VIII/4, and the cost of financing the secretariat services of the Multilateral Fund, including holding meetings.
- m. Strengthening of NOUs in national governments

2. That, in undertaking this task, the Technology and Economic Assessment Panel should consult widely with relevant persons and institutions including national ozone units and other relevant sources of information.

3. The panel should consult with the Open Ended Contact Group during preparation of report. The Contact Group may go through the draft report and offer their suggestions.
4. That the Panel shall strive to complete its work in time to enable its report to be distributed to all Parties two months before the twenty-second meeting of the Open Ended Working Group.

5. Specific issues to be taken into consideration :

- **Impact of the fixed-exchange-rate mechanism and its desirability to continue**
- **Special consideration should be given to small and medium enterprises and to the cost and impact of existing guidelines in the SMEs conversion.**
- **The baseline data given in the Country Programme Update should be taken into account for future funding.**

UNITED NATIONS ENVIRONMENT PROGRAMME
OZONE SECRETARIAT

OPEN – ENDED WORKING GROUP OF THE PARTIES
TO THE MONTREAL PROTOCOL ON SUBSTANCES
THAT DEplete THE OZONE LAYER
Twenty – First Meeting
Montreal, 24-26 July 2001

**Decision XIII: Decision for an evaluation study on the financial
mechanism of the Montreal Protocol for the 2003-2005
replenishment.**

Proposal by Lebanon

- 1- Since the Multilateral Fund serve as the Funding Agency to enable the Article 5 Countries to meet their commitments under the Montreal Protocol. It is very important to have a good terms of reference for the study on the 2003-2005 replenishment of the Multilateral Fund.
- 2- The replenishment study should concentrate on the amount of Funds necessary to enable the Article (5) countries in meeting their commitments to the Montreal Protocol.
- 3- It is necessary for a criteria to be developed to rank parties according to their compliance with the protocol in order to identify best and worst case scenarios on which to base funding decisions such ranking could also serve as an incentive to countries to meet their commitments.
- 4- Noting the above to be considered in the terms of reference for the study on the 2003-2005 replenishment of the multilateral fund.

INPUT TO THE TERMS OF REFERENCE FOR A STUDY ON THE 2003-2005 REPLENISHMENT OF THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF MONTREAL PROTOCOL

**(SUBMITTED BY MALAYSIA TO THE OPEN-ENDED CONTACT GROUP
ON 10 AUGUST 2001 FOR DISCUSSION AND CONSIDERATION)**

2003-2005 is a crucial period for Article 5 countries as far as compliance is concerned. Availability of adequate financial resources is of paramount importance if the spirit of Montreal Protocol is to be upheld. The following scenario is forwarded for consideration as one of the basis for determining the size of the 2003-2005 replenishment.

Purpose of the replenishment

The 2003-2005 replenishment should be meant for funding the ODS phase out projects, activities, programmes, ect. that are going to be needed by the Article 5 countries and deem that requests would be submitted for consideration of the Multilateral Fund during the period of 2003 to 2005 with the aims of complying to (at the minimum):

- 50% base level reduction of Annex A Group I & II ODS on 01.01.2005
- 85% base level reduction of Annex A Group I ODS on 01.01.2007
- 85% base level reduction of Annex B Group I ODS on 01.01.2007
- 85% base level reduction of Annex B group II ODS on 01.01.2005
- 30% base level reduction of Annex B Group III ODS on 01.01.2005 and
- 20% base level reduction of Annex E ODS on 01.01.2005

or to achieve the allowable level of consumption according to the schedule:

- *50% base level of Annex A Group I and II ODS on 01.01.2005*
- *15% base level of Annex A group I ODS on 01.01.2007*
- *15% base level of Annex B group I ODS on 01.01.2007*
- *15% base level of Annex B group II ODS on 01.01.2005*
- *70% base level of Annex B group III ODS on 01.01.2005 and*
- *80% base level of Annex E ODS on 01.01.2005*

Plus

- Funding requirement for those Parties who are ahead of the mandatory phase out schedule under the Montreal Protocol and wish to go for early phase out.
- Funding requirement for those Parties who have opted for the performance-based substance-wide phase-out strategy under the new framework of strategic planning.

- Funding for approved Country Programmes and Country Programme Updates. (Currently there are 133 Article 5 countries under the Montreal Protocol, of which about 30 parties are non-LVCs that may need to carry out country programme update.)
- Funding for upgrading capacity of institutional strength of the NOUs of Article 5 countries to enhance the efficiency of Article 5 countries in compliance to the Montreal Protocol.

Plus

- Costs of financing the Secretariat services, administrative cost of Implementing Agencies, cost of holding meetings, Experts, Research, Studies and other relevant costs and etc.

Issue

Most of the Article 5 countries do not have reliable and accurate data for ODS consumption. There may exist a situation where the reported data of ODS consumption are of lesser value or below the actual level of ODS consumption in many Article 5 countries. As such, it is difficult to set an accurate baseline data for up-to-date ODS consumption. Should these reported data be used to calculate the amount of fund needed for the 2003-2005 replenishment, there may be a danger or a possibility of miscalculation resulting in short of fund for this crucial period and jeopardizing the effort of Article 5 countries in compliance to the Montreal Protocol.

Suggestion

One of the ways to ensure that the size of the fund would be adequate to meet the demand of the Article 5 countries for compliance is to determine the cost of phasing out the amount of ODS that is needed to be phased out not only during the period of 2003-2005 but also those amount that is needed to be phased out in order to fulfill the 2007 schedule of compliance as shown above. The reason for taking 2007 schedule of compliance for the fund size calculation is because there will be a time lapse of at least 2 years for project completion and in order to meet 2007 compliance projects must be approved in the 2003-2005 period.

In this respect, we would like to suggest that we take into consideration that the level of confidence for the accuracy of the reported data of ODS consumption in most Article 5 countries to be at 80% level. This will give an upper range of error of 20% maximum. Then a formula can be established to calculate the amount of ODS to be phased out in order to achieve the above targets of reduction according to schedule of compliance up to the year 2007.

The year 2002 reported ODS consumption data could be used as the basis for the calculation. The amount of **each type of ODS** to be phased out by **each party** should be:

(120% of year 2002 reported data for each ODS type) - (The allowable level of consumption for each ODS type for each party according to the schedule of compliance stated above)

The summation of the amount of each type of ODS to be phased out in all the Article 5 countries derived from the above formulation should be used as the basis for calculation of the size of the fund for ODS phased out activities.

Other consideration

The ultimate size of the replenishment should also include the other funding requirements mentioned above.

There might be other factors that could influence the mechanism for the determination of the size of the 2003-2005 replenishment. However, the amount of ODS to be phased out by the Article 5 countries, the ability of the Article 5 countries to comply to the schedules of compliance and the timeliness for availability of resources and adequate funding are the crucial factors that must be considered in this study.

There should be no introduction of any new initiative to the existing funding mechanism by the study team. The replenishment study should focus on the amount of fund necessary to enable the Article 5 countries to meet their commitments as stated above.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

22 August 2001

OFFICE OF
AIR AND RADIATION

Mr. Michael Graber
Deputy Executive Secretary
Ozone Secretariat, UNEP
Nairobi, Kenya

At the Open Ended Working Group meeting in July, the Parties discussed the terms of reference for the upcoming replenishment of the Multilateral Fund. While a draft had been produced, some countries requested time to allow for the submission of suggested changes to the proposed terms of reference. In your letter of 15 August, 2001, you requested that comments be submitted by 1 September 2001. This letter responds to your request for comments.

In putting this document forward, the United States would like it to be understood that we are still prepared to use the same terms of reference that had been used for the past two replenishment. However, if others would like to consider changes to those terms of reference, we too would like to submit some possible changes. The following proposed provisions would be added on to the list of considerations currently included in paragraph 1 of the draft terms of reference (see document denoted TOR-2000-2-v2 included with your letter of 15 August). As such, they would direct the TEAP to consider the following items in addition to items a-h currently listed:

- i. The need for the base case to reflect the fact that the Montreal Protocol and the responsibilities of the Fund relate only to ensuring that all countries strictly meet (not exceed) the requirements of the Protocol;
- j. An assumption that non-investment projects (including institutional strengthening projects and non-investment projects approved over the last three years) yield tonnes of reductions at a level equal to or better than the average cost effectiveness of investment projects
- k. Prospects that near term cuts in developed country production of HCFC 141b, and developed and developing country production of CFCs will free up significant production capacity that will be used to produce HCFCs for developing countries, thereby driving down related prices significantly.
- l. The fact that interest on Fund payments and resources held by the Agencies will continue to contribute significantly to the Fund over the coming years
- m. The study should use data conforming to the actual consumption in the A5 countries as defined by the Montreal Protocol (production + imports minus exports)

- n. Given the initiation of the compliance period, the study should not assume any growth in ODS.
- o. Tonnes of reductions likely to be approved in 2002 taking into account the draft business plans, and the fact that out year estimates of consumption and production should take into account the impact of approved national and or sectoral strategies/agreements for phaseout..
- p. An assumption that a maximum of 30% of the tonnes of MBR now consumed by non-ratifiers to Copenhagen will need to be phased out by virtue of related county ratification in the next 3 years.
- q. An assumption that there will be full compliance by the current Copenhagen ratifiers with the freeze in MBR, and that future projects will continue to take the form and have the related cost advantages gained through national phaseout agreements
- r. The fact that some percentage of the tonnes remaining come from firms and/or imported CFC equipment that initiated operation after July 1995, and are therefore ineligible for Fund conversion assistance.
- s. An assumption that the least cost phaseout option would be used in all projects
- t. An assumption on the production sector that takes into account the multinational status of remaining A5 producers and the impact this has on eligible costs.
- u. That, for all substance including MBR, the Excom may take into consideration the percentage of exports in determining eligible incremental cost, and the related impact of decision I/12c of the First Meeting of the Parties
- v. The extensive growth in the passage of domestic policies, regulation and legislation that has occurred with the help of the Fund since the last replenishment, and the likely impact that significant related reductions may have on this replenishment
- w. The fact that out year recycling is likely to yield net monetary benefits
- x. Eligible and total costs approved related to implementation of activities in the refrigeration servicing sector taking into account the adoption of Executive Committee decision 31/48 and related decisions
- y. An assumption that exports of used CFC based equipment is diminishing, related import restrictions are having a positive effect, and that stocks of such equipment in A5 countries are being replaced with new and used equipment running on CFC alternatives.
- z. The capacity of the Fund and it's agencies to deliver on sums historically agreed for replenishment, and the impact of the smaller number of remaining projects on the ability to deliver during this replenishment cycle

In closing, we would like to emphasize that the United States is still prepared to use the same terms of reference that had been used for the past two replenishments. However, if others would like to consider changes to those terms of reference, we would like the above noted suggestions to be considered.

Best regards,

A handwritten signature in black ink, appearing to read 'P. Horwitz', with a stylized flourish extending to the right.

Paul Horwitz
International Advisor
Global Programs Division