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Institut für angewandte Ökologie
Institute for Applied Ecology

Preliminary assessment of the quota allocation method

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2nd meeting of the Consultation Forum
under Article 23 of the F-Gas Regulation 517/2014

Brussels, 1.12.2016

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Context

- Article 21(5) of F-gas Regulation calls for an assessment of the quota allocation method
- to be published by the European Commission by 1 July 2017
- Focus of Öko-Institut/Öko-Recherche study for DG CLIMA: assess experience made
  - DG CLIMA`s HFC Registry
  - EEA`s BDR reporting tool
  - stakeholder survey among companies conducted in June 2016
  - HFC price monitoring

Overview

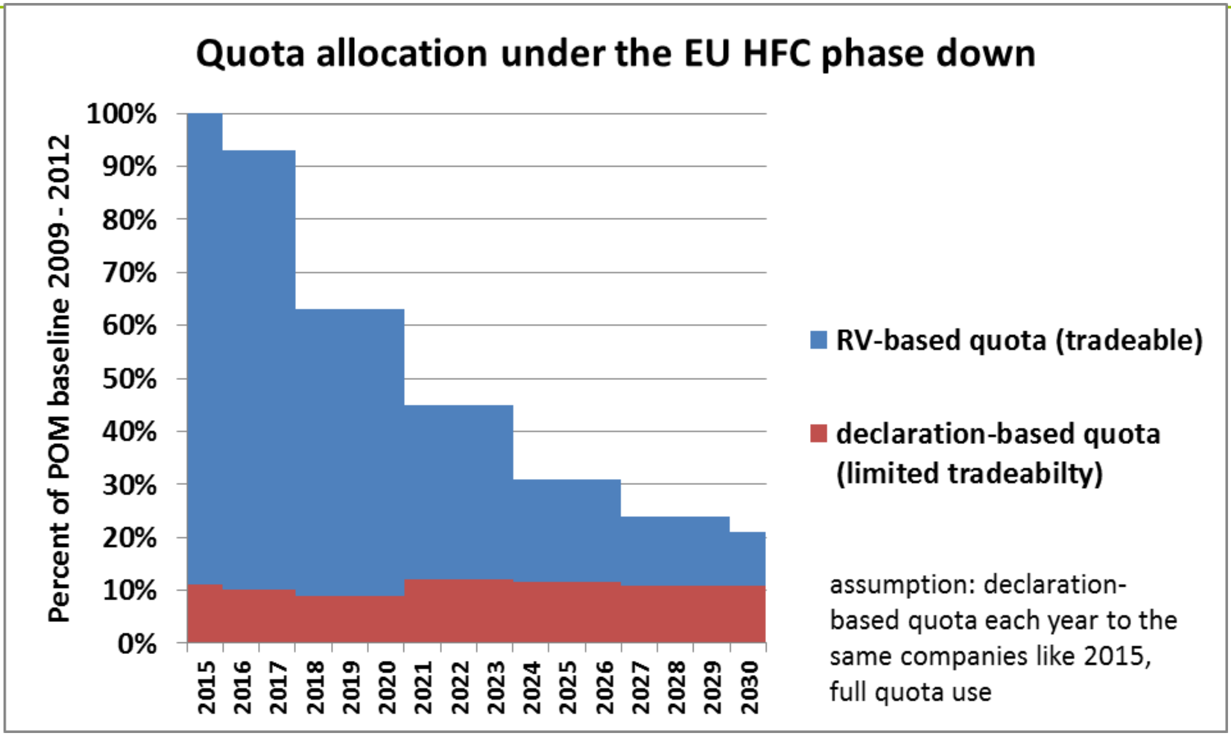
- Mechanism of phase-down and quota allocation
- Experience on company behaviour
  - Companies affected
  - Quota use 2015
  - Transfers and authorisations
- HFC market
  - Price monitoring in the HFC supply chain
- Cost for Member States
- Preliminary conclusions

The HFC phase-down and quota allocation mechanism revisited…

HFC Phase-down & quota

- Limitation of HFCs to be placed on EU market (“POM”)
- Bulk HFC importers & EU producers need quota, starting 2015
  - Quota in t CO2e, specific to calendar year
  - Few exemptions + de-minimis threshold
- RAC equipment importers need “authorisation” to use quota
  - Giving an authorisation leads to cancellation of respective quota amount for the original quota holder
  - Received authorisations can be “stored” for use in later years
  - 100% of RAC equipment importers & equipment placed on the market covered
  - Exemption: re-import of HFCs previously placed on the market under the quota system, if proven

Free Quota allocation, in 2 ways



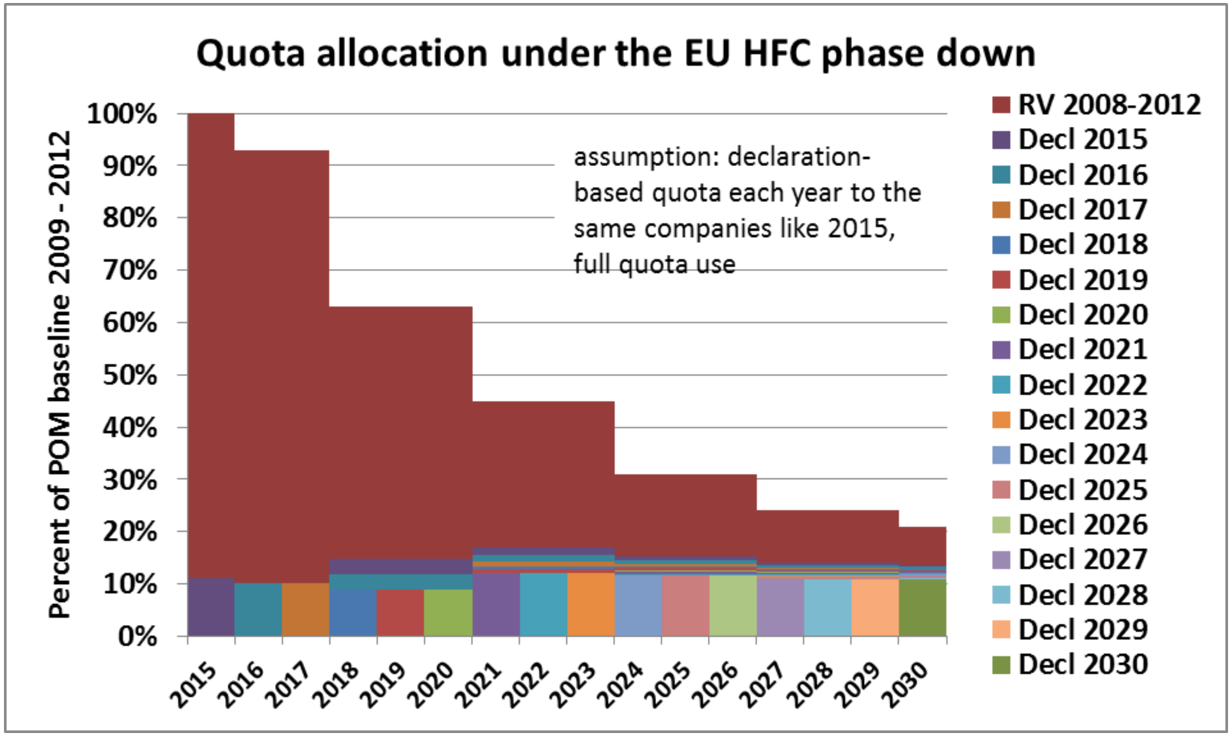
- Share of RV-quota decreasing faster than phase-down
- NE reserve approximately constant
- *Scenario calculation*: Final distribution depends e.g. on quota use patterns

Quota are given **for free** to ***HFC producers and (bulk) importers***

- Grandfathering proportional to POM activity in previous years: ***„Reference Value (RV)“***
- Distribution pro rata to number of companies declaring (additional) need for the following year: ***„Declaration“ / “new entrants reserve”***

Abbildung: Öko-Institut

Quota allocation to 2008-2012 incumbents



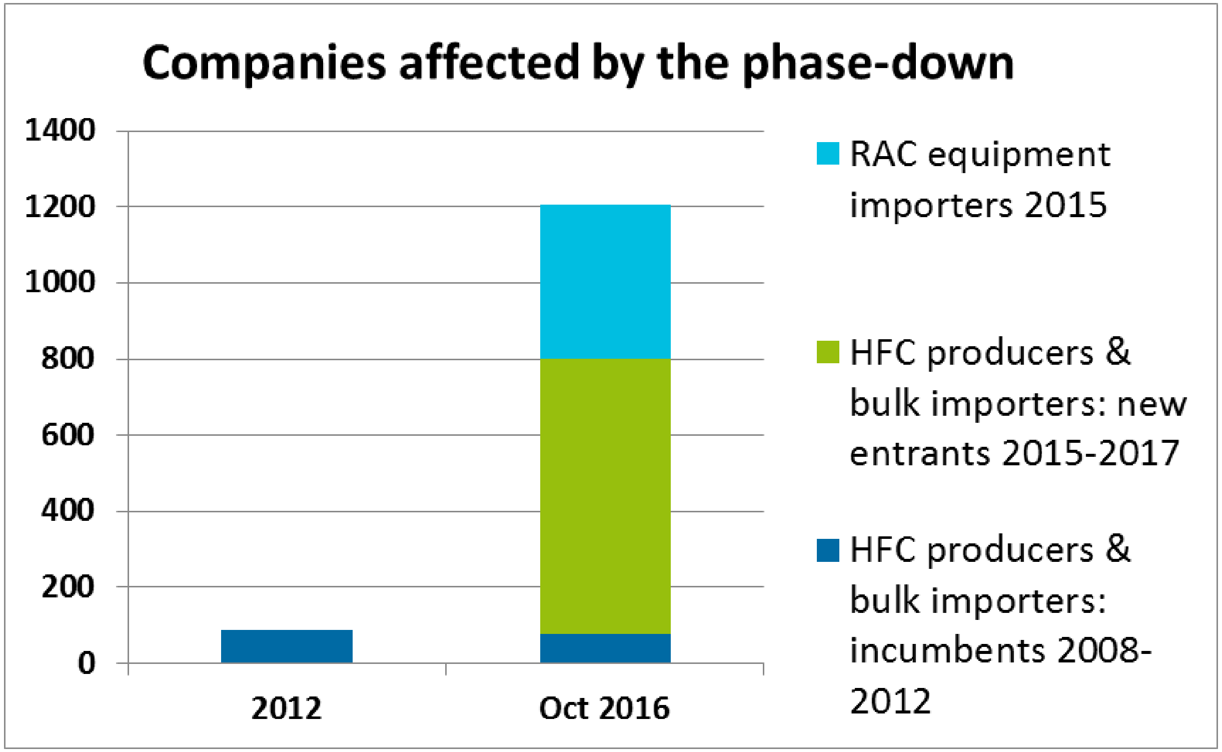
RV 2008—2012 ~80 companies, a few large HFC producers / importers

Scenario calculation: Final distribution depends e.g. on quota use patterns

- RV 2008—2012 pre-determines market shares to present incumbents until 2030, decreasing faster than the phase-down
- From 2018, new entrants in 2015-2016 are incumbents (and so on)
- New entrants reserve 2015-2017 is de facto for new entrants only
- New entrants reserve 2018 ff is for all companies declaring

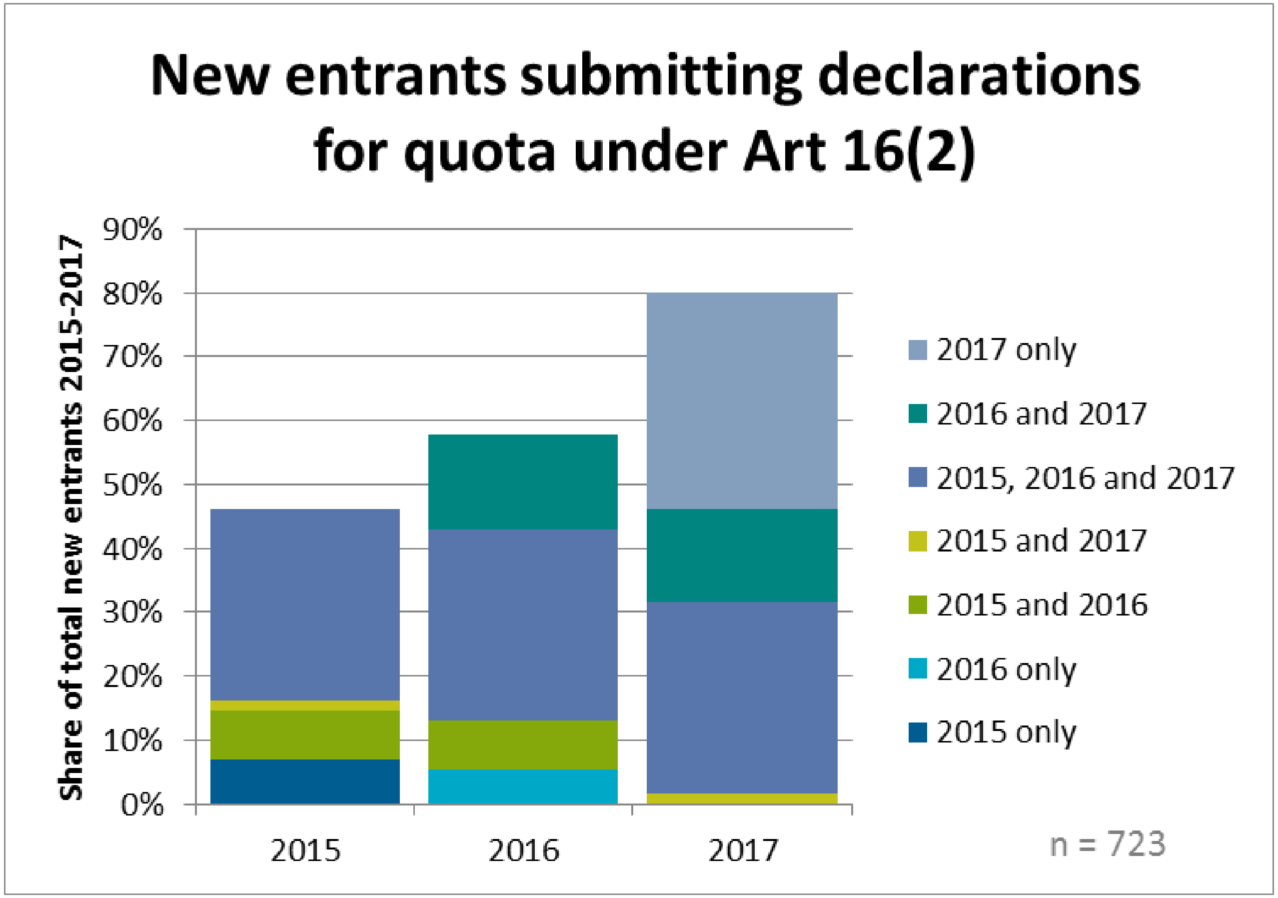
Companies acting under the phase-down: The first year's experience:

Affected companies



- Strong increase in number of bulk importers
- ~ 250 companies responding to survey June 2016

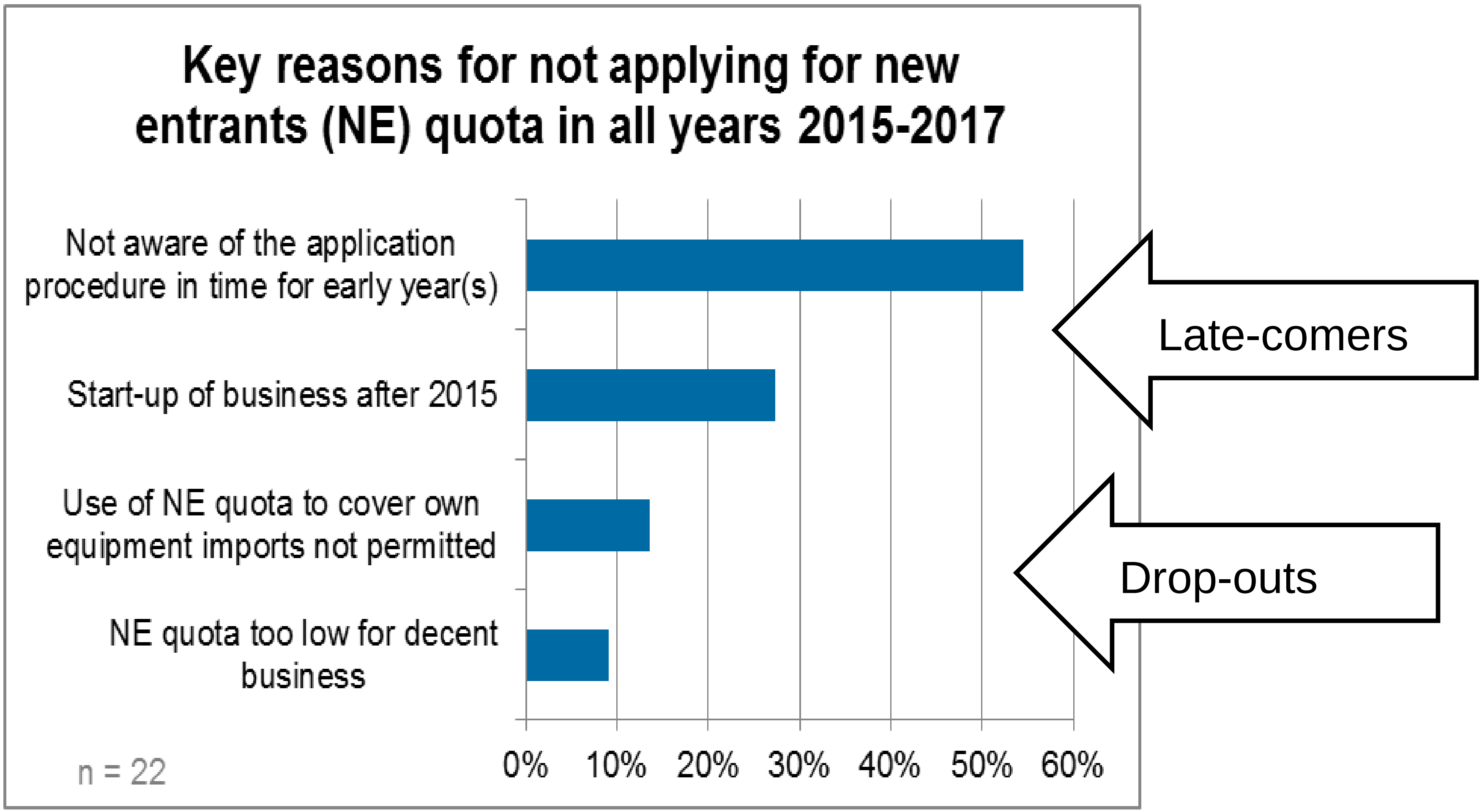
New entrants 2015 - 2017



- ‘Drop-outs’ & ‘late-comers’…
- Quota allocation per company down by ~50%

No of Applicants for 2018 will likely increase as 2008-2012 incumbents become eligible

New entrants 2015 - 2017



Survey of June 2016

‚New entrants' behaviour

- Some producers / distributors register subsidiaries & business partners as new entrants
- Majority of new entrants apparently managed by company groups
- Likely intention to increase quota allocation

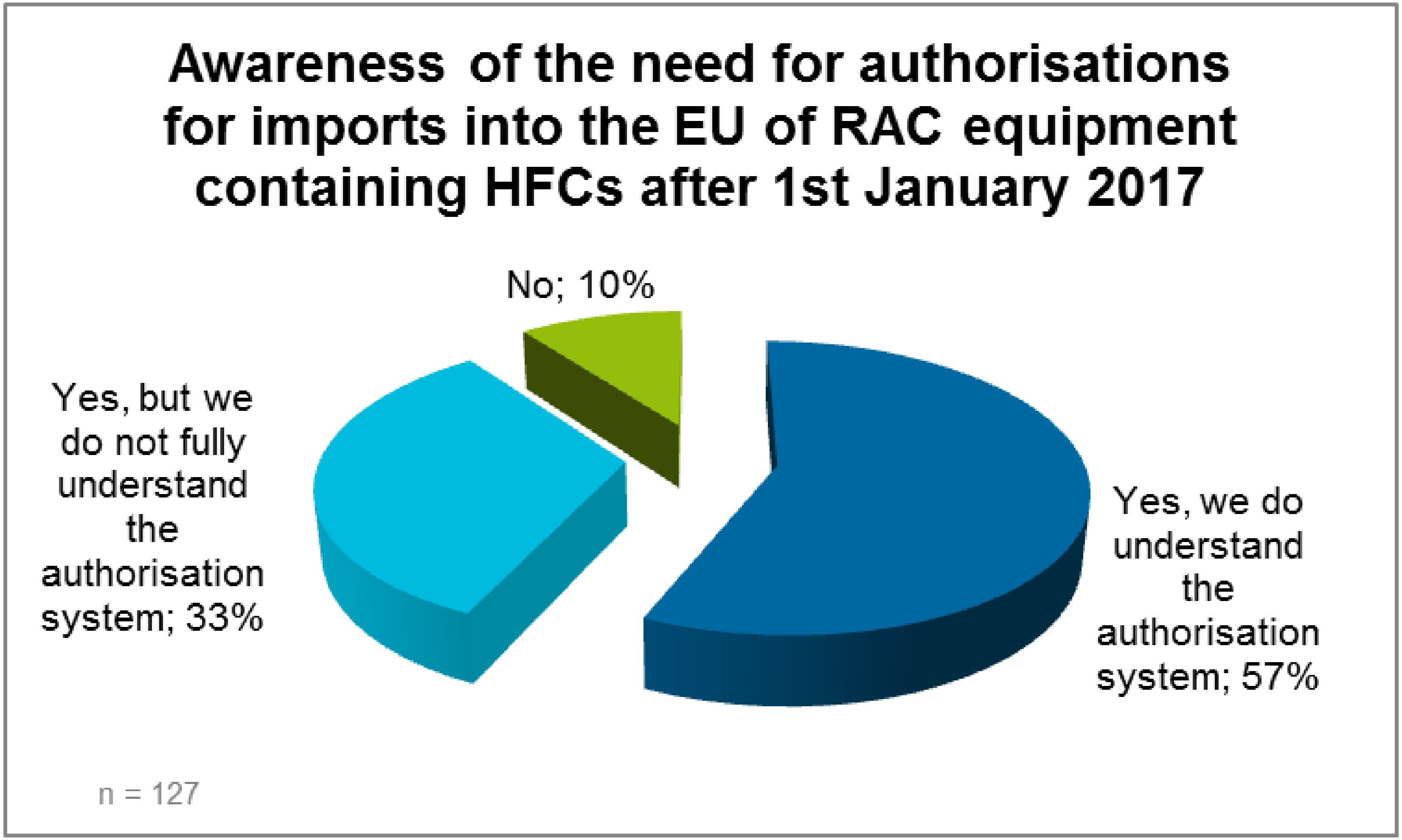
Quota Transfers

- Transfers in 2015
  - little transfer activity in the HFC registry
  - Mostly transactions within the groups of incumbents
- RV recalculations imply that a transfer of quota automatically results in a partial transfer of quota for future years
- Transfers appear in particular to happen
  - If quota holders leave the market / sell their business
  - For streamlining of business within company groups

Quota Authorisations for import of HFC equipment

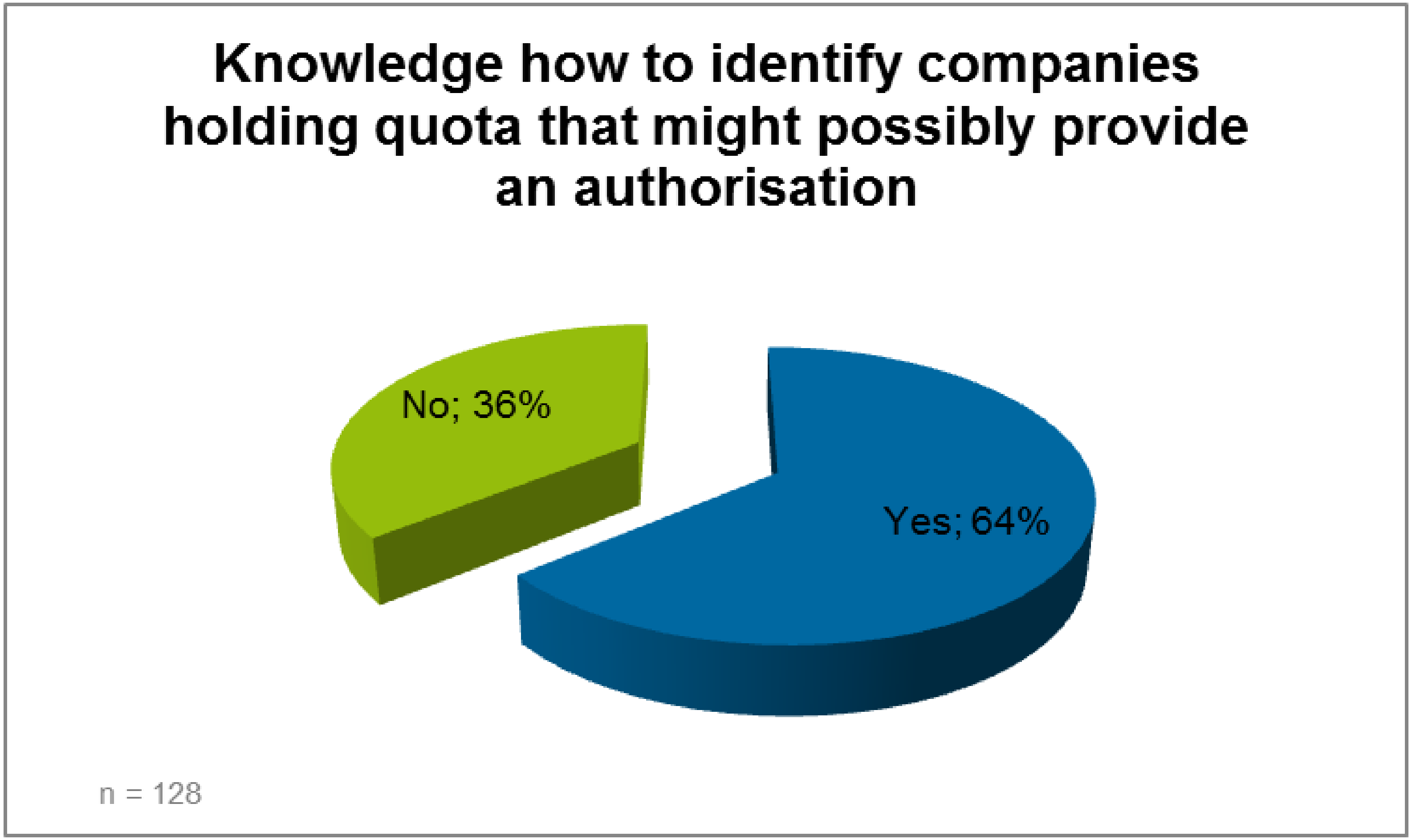
- Authorisations needed from 2017
- Giving authorisations possible since 2015, adding flexibility
- 9% of allocated 2015 quota was authorised
  - 2015: HFCs in RAC equipment imports 7% of total EU HFC supply
  - Only few companies active purchasing authorisation in 2015
  - Major share of 2015 authorisations purchased by few OEMs
- a lot of activity currently going on (autumn 2016)
- Pooling' scheme allowing central purchase of authorisations & delegation to various equipment importers. Implemented in HFC registry mid-2016

Survey results: Authorisations



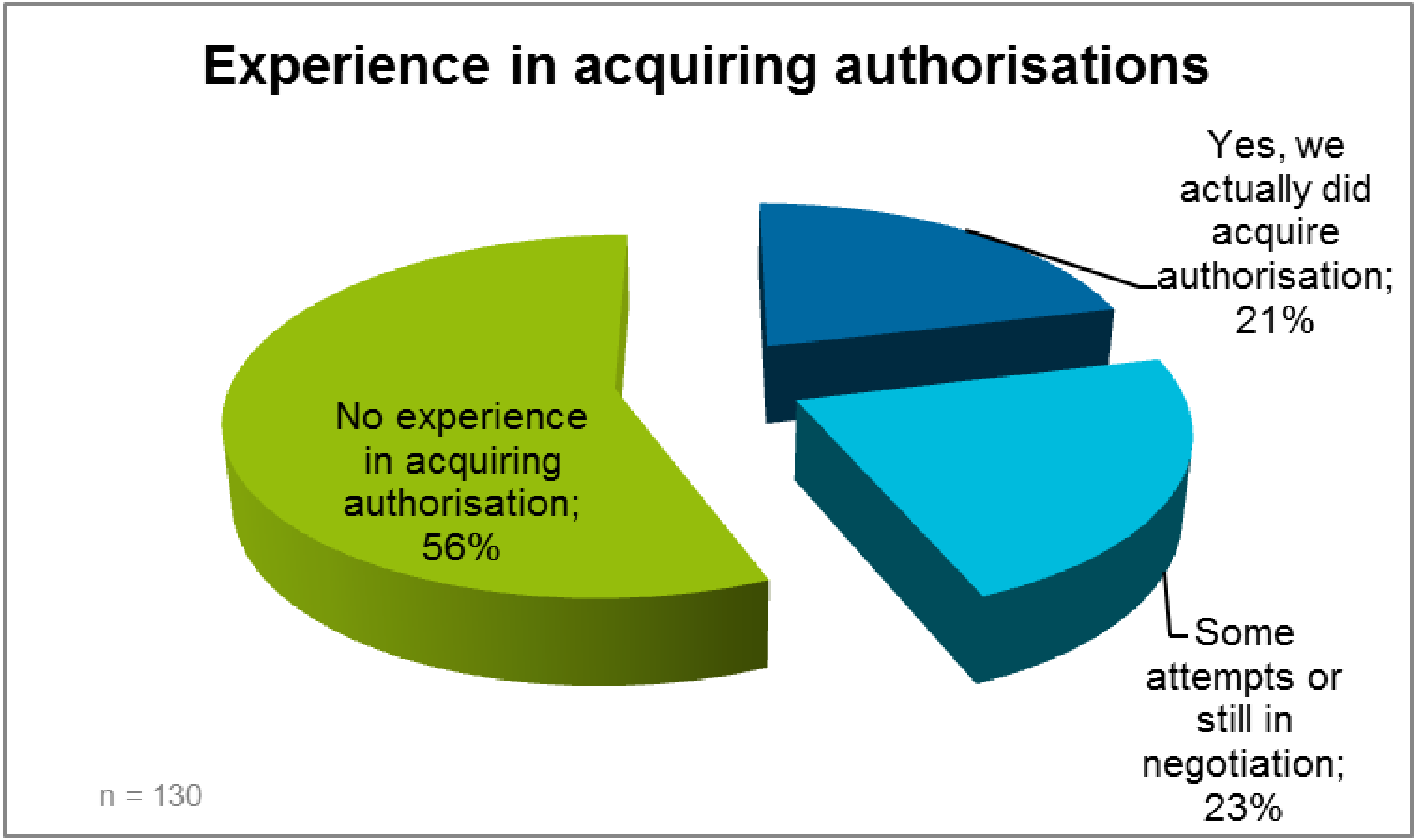
Survey of June 2016

Survey results: Authorisations



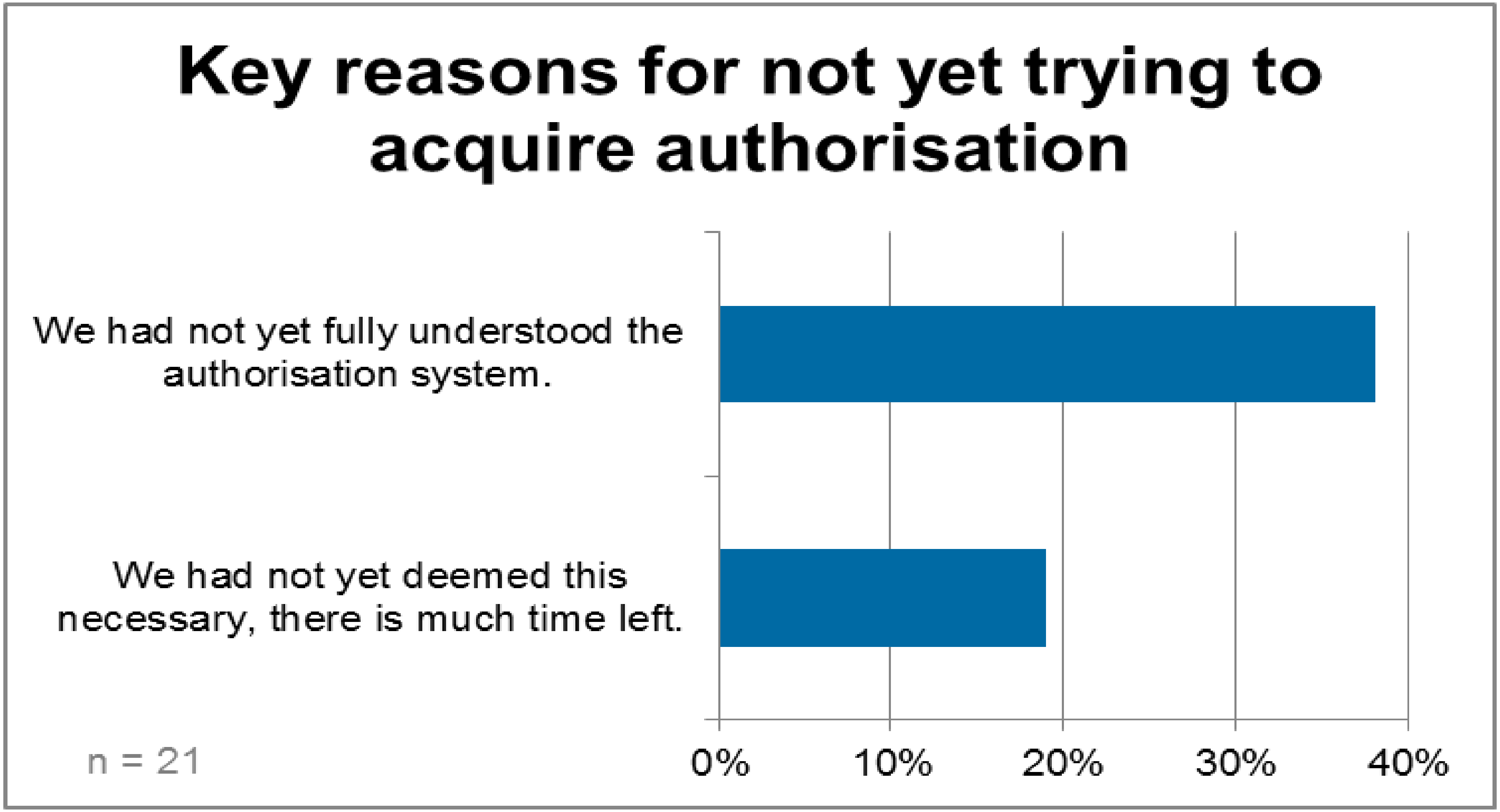
Survey of June 2016

Survey results: Authorisations experience



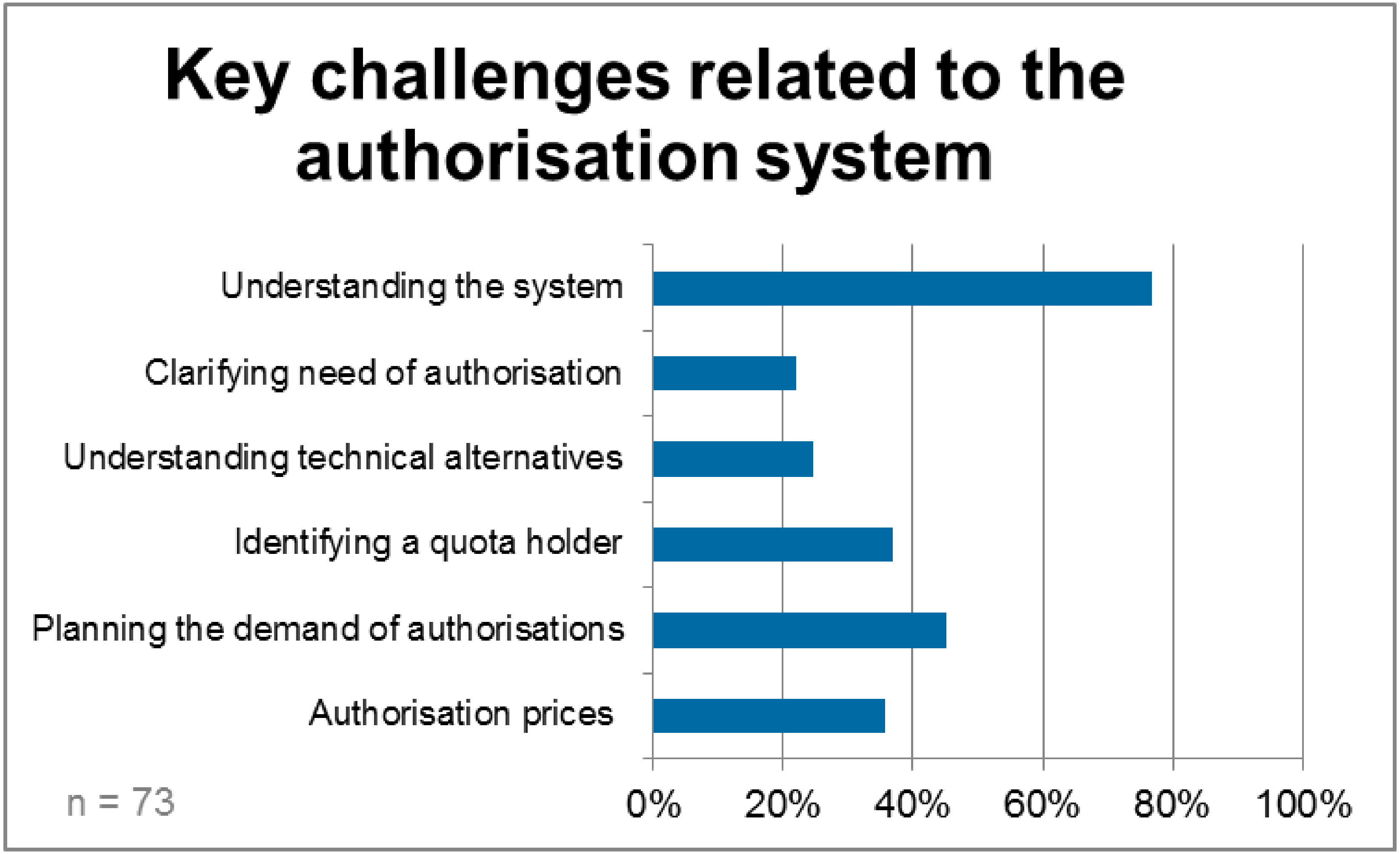
Survey of June 2016

Survey results: Authorisations experience



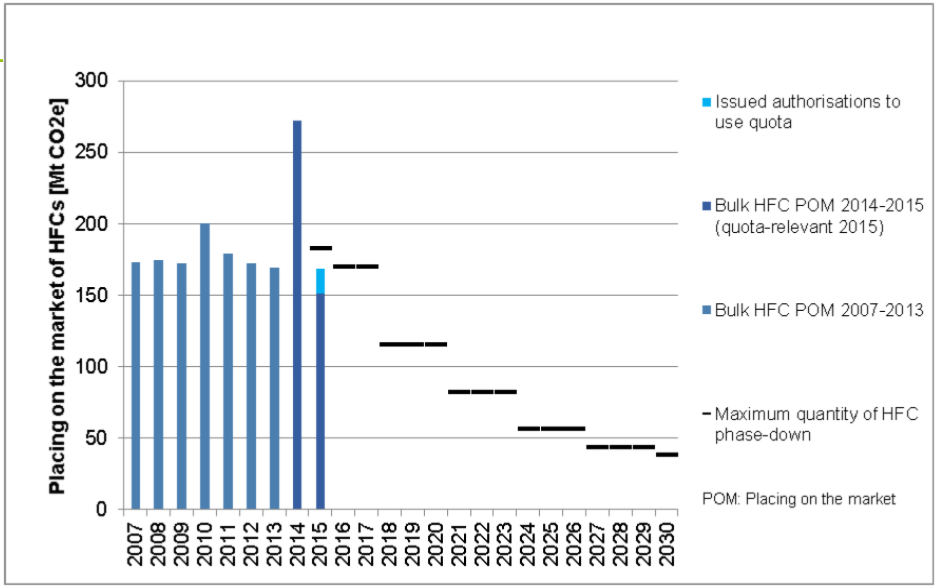
Survey of June 2016

Survey results: Companies‘ assessment on Authorisations system



Survey of June 2016

Quota use in 2015



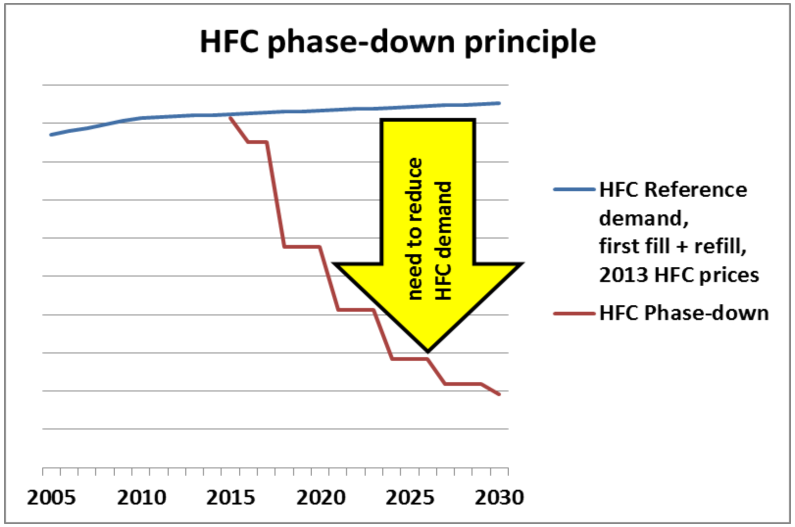
https://ec.europa.eu/clima/policies/f-gas/docs/phase-down_progress_en.pdf

9% of quota remained unused

- 50% of non-use due to NEs not using their quota at all (or partly)
- Small quota amounts not sufficient for container imports
- High amounts of HFCs imported ahead of the phase-down
- Declarations made without need of quota (equipment importers)
- Unawareness about REACH obligations for HFC importers

Observations on the market…

Why do HFC prices need to rise? Intervention principle of HFC Phase-down



HFC demand reduction (in particular in t CO2)

- Reduce leakage / need for refill
- increase recycling / reclamation
- Move to low-GWP refrigerants! *(foam blowing agents, fire protection systems….)*

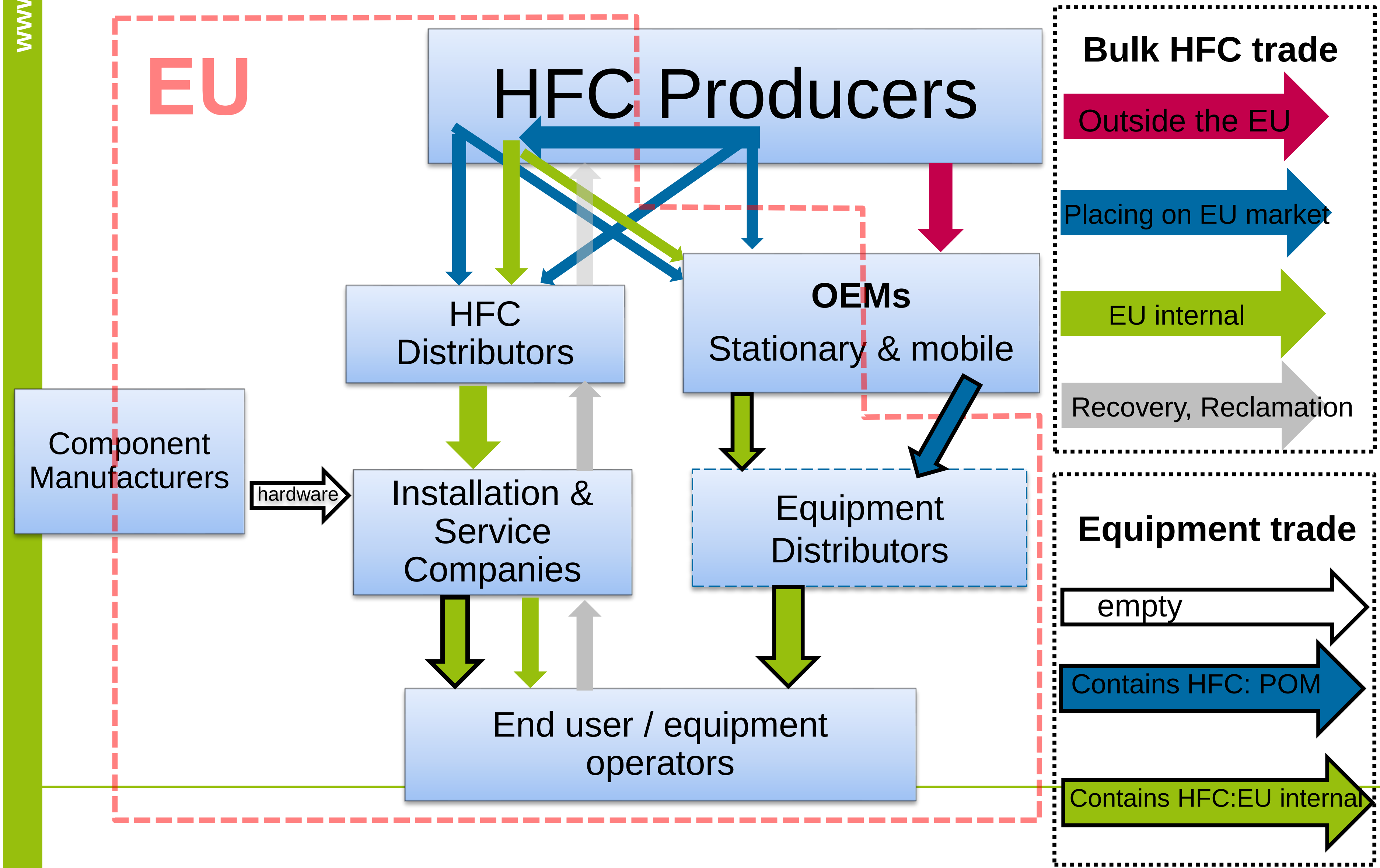
- **Who "may" continue using HFCs?**
- **Who "has to" switch to low-GWP alternatives?**

HFC-Producers/importers sell at higher prices

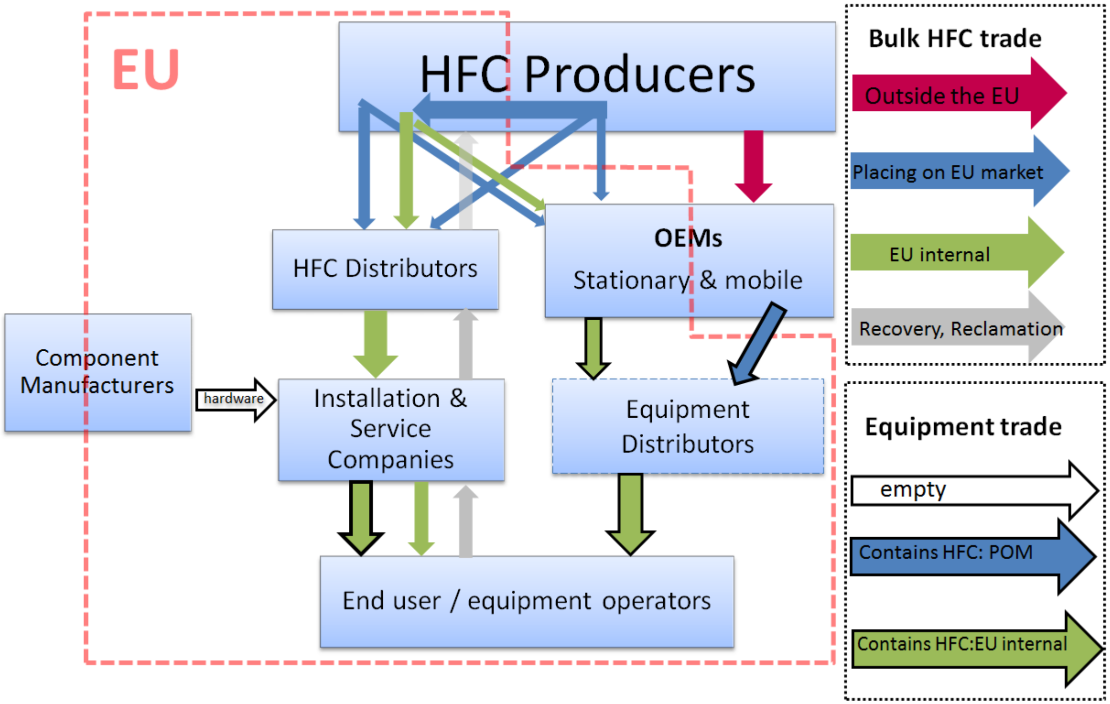
- (would-be) users with alternative options avoid HFC demand
- HFC users without alternative options (re-fill…) pay the higher price
- **HFC prices signals need to pass through HFC supply chain!**

Abbildung: Öko-Institut

HFC supply chain



Price signals in HFC supply chain



Complex market situation, MS policies: (taxes / support schemes)

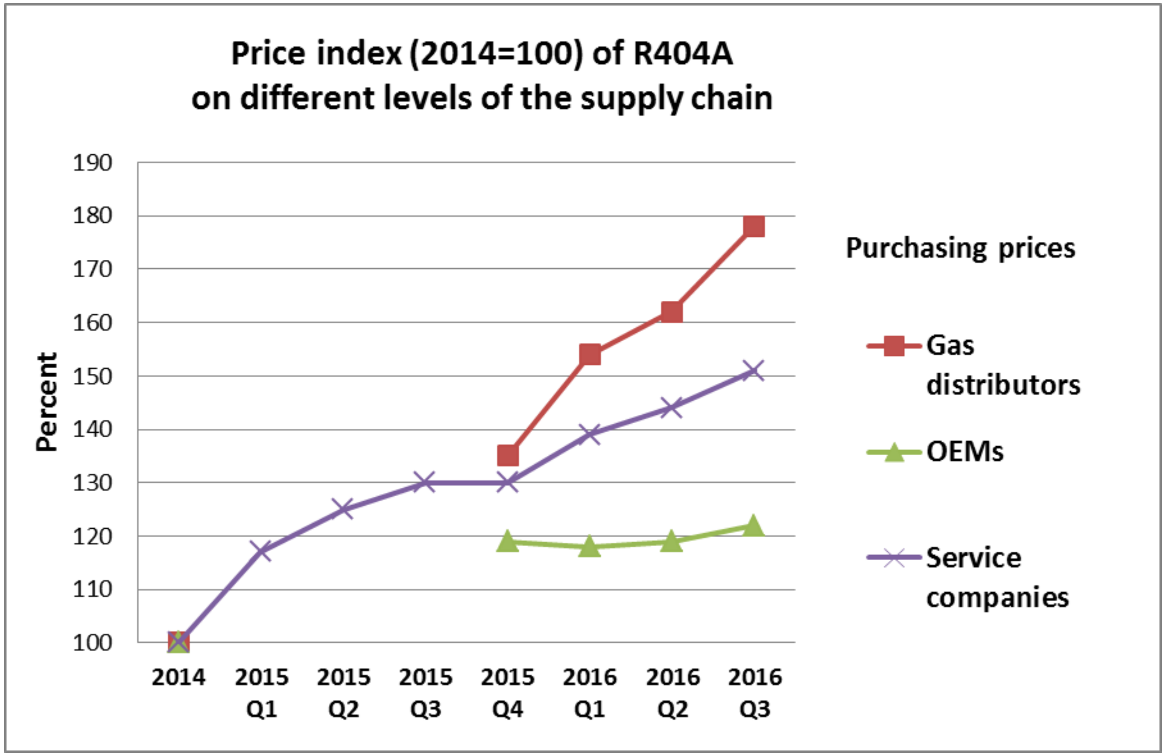
OEMs & component manufacturers key for alternative low-GWP technologies

(some) HFC-producers offering alternative refrigerants *(blowing agents…)*.

- Investment decisions only partially made my quota holders
- Clear price signals for equipment operators & technology developers are key to efficient reduction of HFC demand

Abbildung: Öko-Institut

HFC Price monitoring



HFC prices rise (as expected…)

Different price levels [€/kg] on supply chain levels

Spread in relative indices as shown do NOT allow direct conclusion on distributors‘ margins in €/kg!
Margins on all levels co-determined by medium & long-term contracts on fixed prices

HFC price monitoring

HFC price increases in units of €/t CO2e ?

- Monitoring results at distributor level for mid 2016 concur with authorisation prices quoted by survey respondents
- indication for proper functioning of the market

Cost of implementation in Member States

- Quota allocation system managed entirely by EC, so no costs for MS
- Enforcement of quota compliance
  - Based to large degree on audited company ex post reporting, centrally managed by EC
  - Customs check of imports, follow-up on non-compliance cases, illegal trade and issuing penalties is done by MS
- Guidance/information for companies

Preliminary conclusions on the allocation method

- Too early for evidence-based ex-post assessment!
  - Just one full year of phase-down
  - RAC equipment inclusion to begin 2017
- In the beginning: lack of understanding by many actors
  - Information reception capacities of smaller actors
  - More guidance has now become available but more language versions would be useful
- Situation of equipment importers / non-EU OEMs was improved by the pooling system implemented in summer 2016

Preliminary conclusions on the allocation method

- Strong increase in new entrants led to low per-company quota allocation.
  - Majority of new entrants appear to be part of company conglomerates
- Incumbent market players still have a large part of the market, however relative share expected to decrease
- Continued close monitoring to facilitate more thorough assessment targeted to market functioning:
  - gas & authorisation prices
  - HFC availability to mass different market uses & niche sectors

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End of presentation by Öko-Institut

Your questions and comments?

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