Fluorinated greenhouse gases

2012/0305(COD) - 13/07/2017 - Follow-up document

The Commission presents a report assessing the quota allocation method in accordance with Regulation (EU) No 517/2014 (the "F-gas Regulation"), which aims to create an efficient and proportionate mechanism for reducing emissions from fluorinated greenhouse gases to help achieve the Union's climate targets.

To recall, the Regulation provides for a gradual reduction up to 2030 of the total quantities of HFCs that might be imported or produced in the EU (i.e. "place on the market for the first time"), by businesses (measured in CO2 equivalent).

The F-gas Regulation is sufficiently ambitious to ensure that the EU can meet its global obligations under the Kigali Amendment, which was agreed in October 2016 by 197 countries in order to phase down the global consumption and production of HFCs under the Montreal Protocol.

Quota system: in order to stay within the annual HFC limit in a given year, the F-gas Regulation puts in place a quota system. Since 2015 undertakings need quota to legally place bulk HFCs on the market and the Commission allocates quotas to undertakings for free on an annual basis.

These quotas are: (i) allocated to "incumbent" undertakings on the basis of "grandfathering", and (ii) taken from a reserve on the basis of annual company declarations stating their need for quota.

About 1 100 undertakings are currently affected by the quota allocation method, of which approximately two-thirds are HFC "quota holders" (i.e. bulk producers and/or importers), while the remaining undertakings are importers of equipment.

The main conclusion of the report is that **the Commission does not intend to amend the quota allocation method at this time.** It makes several observations in this regard.

Assessment of the allocation method: the Commission considers that it is too early for an in-depth assessment of the functioning of the phase-down mechanism and to thoroughly appreciate all possibly impacts of the chosen quota allocation method. Indeed:

- **only one full "annual" cycle of the phase-down has been completed** and the inclusion of refrigeration, air conditioning and heat pump equipment under the phasedown has only begun very recently, on 1 January 2017;
- furthermore, there are indications that the data currently available is still affected by an initial **lack of understanding** by stakeholders.

The analysis undertaken and the consultation of stakeholders indicate that **the phase-down is functioning as it should**. The chosen allocation method allows on the one hand for stability in the market and, on the other hand, flexibility for new market players to enter the market.

The **price development** is fully in line with expectations and there is good compliance with the **total EU HFC limit**:

- company *ex post* reporting data show that the phase-down had been overachieved in 2015. The total quantities reported were **8%** under the allowable limit. Furthermore, the possibility for incumbents to transfer quotas did not result in major changes as to how quota was distributed between companies;
- although it is not possible to draw definite conclusions at this early stage of the phase-down, it is nonetheless possible to observe **a general upward trend of prices since 2014.** The price increases observed vary for different types of HFCs, and generally show a higher increase for HFCs with high global warming potential (GWP). These price increases are an expected and desirable consequence of the phase-down measure.

Free quotas: the Commission stresses that since the quotas are allocated for free, **some actors may benefit from these price increases more than others.** Some stakeholders pointed out that quota holders were the ones profiting and that it would be more sensible to instead set up a system that would generate revenue which could be used for supporting domestic and international implementation of HFC reductions and where equipment importers could also get their own quota. Accordingly, the Commission will closely follow:

- the development of the situation for small and for new gas importers;
- the market situation of equipment importers which, in the current allocation system, depend on quota holders to obtain authorisations for their imports, also requires continued monitoring.

Costs: the report notes that the current method allows, based on the online F-gas Portal, implementation of the quota system by the Commission with **little extra burden on, or costs to, Member States.**

Most of the recurrent costs in Member States are a result of obligations already established by the previous Regulation (EC) No 842/2006. However, Member States will be asked to make increased contributions to the Multilateral Fund in the future to finance the Kigali Amendment, in line with their obligations under the Montreal Protocol.

Way forward: the Commission will focus on:

- **enabling a smooth implementation of the existing method** and helping all stakeholders better understand and comply with their obligations, in order to make the EU HFC phase-down a success;
- **monitoring the functioning of the allocation method** and its impacts closely while noting that a comprehensive review of the F-gas Regulation is required by 31 December 2022.