

Proposed Methodology for allocating quota among the eligible business entities for the import of HydroCholoroFluroCarbon (HCFC) in the year 2020

1. Introduction

Being a member party to the Montreal Protocol, the government of Sri Lanka (GOSL) is obliged to comply with the decisions taken by the Meeting of the Parties (MOP) to the protocol. Accordingly, the GOSL has committed to phase out HCFCs in accordance with the decision XIX/6 of the Executive Committee of the Montreal Protocol which describes provisions for each member party to import, export and produce HCFCs since 2009. Since the GOSL does not engage in production and export of HCFCs, a quota mechanism is applicable for the country only on import of HCFCs. A Quota system for import of HCFC has been in effect successfully from 2013 to limit the import of HCFC with minimum impact to the industries and development. And also it was freezed in 2013 at the base level. Then, Sri Lanka has already completed the 10% of phasing out of HCFCs starting from 1st January 2015 to 31st December.2019 and 35% of the reduction of baseline level will be implemented from 01st January 2020 to 31st December 2024.

On behalf of the GOSL, the National Ozone Unit (NOU) of the Ministry of Environment and Wildlife Resources (MoE&WR), the following appropriate procedures makes recommendations to the Import and Export Control Department enabling them to issue Import Contro License (ICL) for the importers to import of HCFCs into the country. The consignments of HCFCs imported by the importers are released by Sri Lanka Customs after verification of related documents.

In view of the negative impact occurred during the recent past on the ground level customers due to prolonged oligopoly in the market due to few importers engaging in the Ref/AC sector, a committee was appointed in 2017 under a Cabinet decision dated 25th July 2017. Accordingly, the new methodology was introduced in 2018 and the quota was distributed following the said new methodology. However, few lapses were identified during the implementation of new methodology in year 2018 and 2019, the existing methodology was revised addressing those lapses. So far, any complain or comments from the industry sector have not reveived yet and therefore, existing methodology is being impleneted during year 2020.

2. Common eligibility criteria

The companies and individuals that have been actively engaging in servicing, assembling and installing in Refrigeration and Air Conditioning (RAC) sector using HCFCs or importing HCFCs refrigerant and equipment over the last 5 years are eligible for applying quota for importing HCFCs in 2020. Applications are supposed to be invited through an advertisement published in local newspapers (Sinhala/Tamil/English).

2.1 Documents required for being eligible to receive quota

Following documents are required to be submitted by the applicants for being considered by the MoE&WR to receive quota for importing HCFCs in 2020.

- a) Duly filled and signed application form
- b) Certified copy of Business registration
- c) Description of Owners/partners of the business
- d) Copies of the certificate of TIN and VAT
- e) Documents to be proved on importation of HCFCs or engaging in servicing, installing and assembling by using HCFCs during last 5 years

2.2 Rejection and disqualification of applications

The applications are rejected or disqualified under following circumstances.

- a) Failure to provide documents referred to in 2.1
- b) Providing fraudulent documents.
- c) Business entities which have the same address and same partners in the registration will be disqualified subject to the clarifications obtained from the Registrar of Companies.

3. Business Entities considered

- a) The applications submitted by the business entities that have engaged in the refrigerant industry in servicing, installing and assembling by using HCFC during last 5 years are considered to be offered with quota on priority basis. In this regard, the following documents are only accepted as proofs for their engagement in the industry.
 - i) Bills/Invoices for the locally purchased HCFCs refrigerant
 - ii) Internal documents (inventory book, security documents, issue notes to stores/technicians etc.) indicating the quantity of HCFCs refrigerant
 - iii) Any other documents which indicate the quantity of HCFCs used over the period (such as service agreement)
- b) In view of the availability of steady market and ensuring the continuation of distribution network already established in the industry, the business entities which have been engaging in importing of HCFCs over the last 5 years are favorably considered to be issued with quota. In this regard, the following documents are only considered as proofs for their engagement in importing HCFCs.
 - i) CUSDEC documents with the appraiser endorsement

- ii) Bill of Lading with customs endorsement
- iii) Recorded Data of imports received from SL Customs
- iv) Any other documents to prove the above

4. Methodology

The quota allocated for GOSL in accordance with the baseline data¹ calculated during 2009 to 2011 is 13.9 tons of Ozone Depleting Potentials² (ODP). As per the section **2F** of the protocol, 10% of the imports from baseline allocation have to be reduced by 2015 and to be continued up to 2019. Therefore, the eligible quota for the country is 12.51 ODP tons until 2019. After that, it was reduced to 35% of the imports from the baseline allocation and it will be continued from 01.01.2020 to 31.12.2024. The calculations for the distribution of quota among business entities is described below; The business entities which have fulfilled the eligibility criteria in section 2 herein will only be considered for allocating quota for 2020.

- i) Consider the total quota for Sri Lanka in the year 2020 is as 9.035 ODP tons
- ii) Reserve 5% of quota for emergency purposes
- iii) Distribute the balance 95% as follows.

4.1 Business entities/ persons engaged in servicing, installing and assembling

- i) Identify the business entities which have been really engaging in the industry over the last 5 years by using the information provided in 3(a) above
- ii) Calculate the amount of HCFCs handled by each business entity over the last 5 years.
- iii) Calculate the average of each business entity in reference to the amount of HCFCs used by each business entity
- iv) Calculate quota for each business entities to be lesser than or equal to the requested quota
- v) Applicants who are able to prove their amount of HCFCs handled over the last 5 years, but shows clear evidence that they have been engaging in the industry over the last five years and the calculated amount of HCFCs would be more than 50 cylinders and less than the fix amount of 100 cylinders are proposed to be given fix amount of cylinders (100) for each depending on the availability of quota.
- vi) In case, if the calculated amount of HCFCs is less than 50 cylinders, they are not eligible for granting of quota
- vii) If one of the eligible business entity won't be able to import the given quota during the particular year, that amount of quota is equally distributed proportionately among the other eligible business entities.
- viii) Total eligible quota of business entities who engaged in servicing, installations and assembling should be less than 10% of country quota.

- ix) Declare the quota to be allocated for each business entity.

4. 2 Business entities/ persons engaged in importing of HCFCs

- i) After calculation of quota for business entities stated in 4.1, remaining quota to be distributed among the business entities engaged in importing of HCFCs
- ii) Identify the business entities which have been really engaging in the industry over the last five years by using the information provided in 3(b) above
- iii) Calculate the amount of HCFCs imported by each business entity over the last five years.
- iv) Calculate the proportion of each business entity in reference to the amount of HCFCs imported by each importer.
- v) Calculate the eligible proportion of each business entity from the remaining quota as mentioned in 4.2(i)
- vi) If the calculated amount of HCFCs will be more than 50 cylinders and less than fix amount of 100 cylinders referred to in 4.1 (vii), those business entities will also be considered to be given a fix amount of cylinders (100) as per the same provision.
- vii) If the calculated amount of HCFCs is less than 50 cylinders, they are not eligible for granting of quota
- viii) After considering the 4.2(i) to (vii), the remaining quota will be distributed proportionately among eligible business entities who engaged in importing of HCFCs and applied for HCFCs quota.
- x) If one of the eligible business entity won't be able to import the given quota during the particular year, that amount of quota is equally distributed proportionately among the other eligible business entities.
- xi) Calculate quota for each business entities to be lesser than or equal to the requested quota
- xii) If there is any balance quota after calculation of quota for each business entities, it should be distributed equally among the eligible business entities not exceeding the requested quota.
- xiii) If some business entities are eligible under category 4.1 and 4.2, they will be considered under a category which is more beneficial to them.
- xiv) Declare the quota to be allocated for each business entity.

5. Appeals

In view of ensuring the transparency and fair distribution of quota, appeals are entertained within two weeks time after the declaration of quota to be eligible by each business entity. In case

appeals are received within the given period of time, such appeals are referred to a committee of officials to be appointed by the Secretary to the MoEWR for their consideration. If any applicant will have any complain, request or suggestions or granting quota for importation of HCFCs in a particular year will be considered by the same appeal committee appointed by the Secretary, MoEWR. The decisions of the committee of officials will be final. Applicants must be aware that all rights in respect of distributing quota among the business entities are reserved with the Secretary to the Ministry of Environment and Wildlife Resources.

6. Re-distribution of unutilized quota

Incase the business entities fail to import some amount of HCFCs allocated for each of them before 30.09.2020, the total sum of those quantities are offered to a business entity selected under a competitive bidding procedure. Bids will be obtained only from the business entities which have successfully imported their quota of HCFC allocated during the particular year.

¹ Sectionof the Montreal Protocol

² **Ozone Depleting Potential:** - The ozone depletion potential (ODP) of a [chemical compound](#) is the relative amount of degradation to the [ozone layer](#) it can cause, with [trichlorofluoromethane](#) (R-11 or CFC-11) being fixed at an ODP of 1.0.