



Refrigerant Update 12/2017

As we end 2017 and look ahead to 2018, there are several questions regarding the refrigerant market that will weigh heavily on the mind of the refrigerant industry. From reduced R22 allocations, to the complicated political landscape, every aspect of our business is affected in different ways, and to varying degrees, by the many outside forces at work. This will serve as a general overview of the market as it stands, as well as lay out several factors that will affect refrigerant in 2018.

First and foremost, the HCFC phase out continues, with 2018 seeing further reduction of the available virgin material to just 8.8M lbs. This puts the US at just over 1/3 of the available gas from just three years ago, 2015, and less than 20% of 2014's available pounds. While we have seen new equipment shift almost exclusively to R410A, the service demand for R22 remains strong, and we expect that trend to continue. While the market price of R22 fell over the last 10 months, continued reductions and high demand should stabilize and push the price higher in 2018.

HCFC R22 alternatives saw unprecedented growth in 2017, driven in part by the higher price of R22, but also due to the cost savings and ease of transition presented by some replacements. For equipment that is unlikely to be replaced in 2018, we expect demand growth for R22 replacements to match or exceed 2017. If you or your customers have not yet chosen an R22 replacement to offer for sale, it is highly recommended that you incorporate it into your plans moving forward. While the market size of R22 remains much larger for now, the shift is undeniable, and we will see the replacement market grow as equipment ages and R22 becomes difficult to buy and utilize.

The biggest question in Q1 of 2018 is going to be the 400-series market. Due to increased environmental guidelines in China (by far the largest source of refrigerant and components), governmental and political jockeying, and growing global demand for HFC's, we could see significant disruption in 2018. Already, reports of shortages and price increases have been dominating the news as the US and its global allies forge a plan for the implementation of international agreements and regulations.

Since signaling that the US would withdraw from the Paris Accord, and the uncertain status of our position on the Kigali Amendment, several countries and entities (notably China and California) have forged ahead with aggressive plans to meet or exceed the greenhouse gas reductions laid out in the amendment. After the threshold of 20 nations required for ratification of Kigali was reached in November of this year, the planned rollout on 1/1/2019 will proceed as planned. Whether the United States will be a full participant, and will hold to the regulations laid out therein remains to be seen. Regardless of our participation, the rest of the world is moving forward with aggressive goals and legislation designed to slow or reverse the effects of manmade climate change.

Long-term, this carries immense trade risks for the United States, but those are unlikely to be realized for several years. In the interim, we will likely see the effects of the agreement in more subtle ways. China has seen to it to take the lead in environmental regulations, shuttering factories and mines that do not meet stringent quality and safety standards now in place. This has the effect of squeezing the supply of both raw materials and finished goods for the rest of the world, and has led to sustained increases in prices and lessened availability significantly. We expect this trend to continue through Q1. In addition to reductions in supply, (Chinese) domestic demand is also increasing exponentially. This means an ever-growing proportion of Chinese-manufactured refrigerant is going to serve the Chinese market, thus lowering the amount available for export to other countries, such as the US. While we have seen many companies pivot to importing component materials to the US and packaging domestically, we expect the bottleneck of supply to remain tight for some time.

There is no crystal ball to predict the future of the refrigerant market, either in the short- or long-term. With so many factors affecting the domestic availability and pricing, it is becoming a more complex problem with every passing day. The best recommendation for 2018 and beyond is to know your refrigerant partners, and listen to advice and suggestions from sources you trust. While no one can tell you what to do with certainty, maintaining a running dialog will help alleviate some of the potential pitfalls of making the “wrong” decision.

In a world in which changing political landscapes, both here and abroad, can have an impact on our business, and with so much uncertainty in the market, it is vitally important to stay abreast of the news and trends in the industry. We will work together with our Sales Representatives to ensure that you receive up-to-date news to help inform your decisions moving forward. Please let us know if you have any questions, and we look forward to serving you in 2018!

Sincerely,

Will Gresham

Will Gresham
Vice President
Dynatemp International, Inc.