

# Nordic Working Paper

## Illegal trade of HFCs

Report from the workshop: Fight against illegal trade of hydrofluorocarbons in the Nordic and Baltic Countries. 20th and 27th of January 2021

A Nordic Ozone and F-gas group project 2021

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# Report from the workshop: Fight against illegal trade of hydrofluorocarbons in the Nordic and Baltic Countries 20th and 27th of January 2021

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## Background

### *Phase-down of HFC greenhouse gases under the Montreal Protocol on substances that deplete the ozone layer and the EU regulation*

The strict regulation set forth in the Montreal Protocol, the EU regulation and national legislation on hydrofluorocarbons (HFCs), create new challenges for environmental administrations as well as for customs authorities.

The risk of illegal trade arises where there is over-supply in the world market and/or scarcity in the local markets. In some countries, the black market for HFCs has become very profitable. Customs authorities are playing an increasingly prominent role in the prevention of illegal trade.

The illegal trade of HFCs has been an issue of concern for the EU for several years. In 2019, the European Commissioner for Climate Action and Energy, Miguel Arias Canete sent a letter to all EU Ministers of the Environment.

The Commissioner highlighted in his letter

- that the EU regulation No. 517/2014 on fluorinated greenhouse gases has been a pioneering response to the rapid growth of emissions of HFCs,
- that its HFC phase-down has already reduced the climate impact of HFCs placed on the Union market by almost half, and HFC emission are expected to be reduced by at least two thirds by 2030,
- that this early action helped to convince 197 Parties to agree on a global HFC phase-down in the Kigali Amendment to the Montreal Protocol on ozone depleting substances
- that the quota system to place HFCs on the market, has caused prices to rise and has made illegal EU imports (without quota) more appealing
- that Members of the European Parliament, and industry have been pointing out that this endangers the phase-down's environmental integrity and hinders fair competition for honest players.

This issue was also addressed at the Environment Council meeting on the 5<sup>th</sup> of March 2019.

Furthermore

- that it is essential that all Member States enforce the HFC phase-down together to safeguard this successful policy
- that the illegal imports of HFCs cannot be tackled in the absence of effective customs control and finally
- that the Commission takes this issue very seriously, it will not hesitate to open infringement procedure where lack of enforcement appears to threaten the success of this policy.

Addressing the illegal trade of HFCs is a challenge for the Nordic countries. It was therefore decided by the Nordic Ozone and F-gas group (under the Nordic Working Group for Chemicals, Environment and Health on behalf of the Nordic Council of Ministers) to arrange a workshop on illegal trade of HFCs and also to invite the Baltic countries to participate in the workshop.

The overall aim of the workshop is to support the curbing of illegal trade of HFCs by strengthening cooperation between environmental and customs authorities within and between the participating countries.

## Summary of the Workshop, 20<sup>th</sup> and 27<sup>th</sup> of January 2021

The chair of the Nordic Ozone and F-gas Group, Maria Ujfalusi welcomed the participants. 42 participants attended the Workshop, representing environmental authorities, inspectorates and customs authorities from the Nordic countries, Estonia and Latvia.

### *EU experiences of reducing HFCs under the F-gas Regulation*

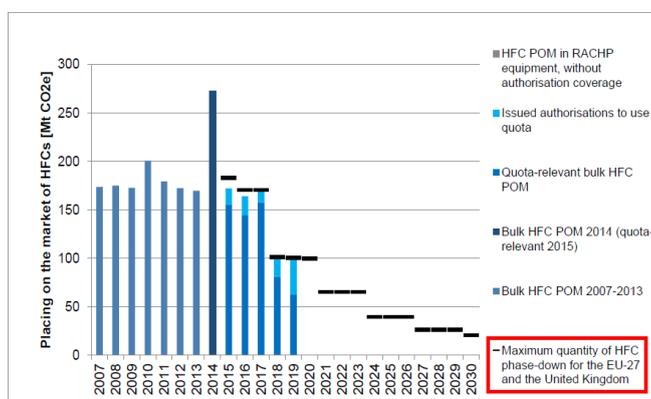
*Arno Kaschl, DG for Climate Action, Climate Finance, Mainstreaming & Montreal Protocol*

Arno Kaschl presented the current EU F-gas regulation. It was highlighted that the EU started reducing HFCs early, with the first F-gas regulation in 2006 and the current regulation in 2014. There is a phase-down between 2015-2030 based on an import quota system, so the link to Customs is strong (figure 1).

The phase-down of HFCs has had an expected impact on prices of gases, the prices have risen steeply, but later reduced, still staying above the pre-phase-down price levels. The reduction of prices has sometimes been suggested to be due to illegal import, but it can very well also be due to normal market behaviour. According to the United Nations Framework Convention on Climate Change (UNFCCC) greenhouse gas reporting, emissions of HFCs in Europe have started to decrease. Now the decrease is mostly due to earlier implemented policies, but we are going in the right direction.

### Main Policy Driver of the Fgas Regulation

Quota system for HFC (covers importers and EU producers)



Source: EEA F-gas report 2020

- Quota system from 2015+ includes bulk HFCs (dark blue) and equipment with HFCs (light blue)



Figure 1. The impact of HFC phase-down on placing on the market of HFCs from 2007 until 2030 (a screenshot from Arno Kaschl's presentation).

### *How is the industry addressing illegal trade of HFCs?*

*Nick Campbell and Angelica Candido, European Fluorocarbons Technical Committee*

The European Fluorocarbons Technical Committee (EFCTC) represents companies producing HFCs (e.g., Arkema, Chemours, Daikin, Koura and Honeywell). The industry is very concerned with illegal trade of HFCs. It is very difficult to estimate the volume of illegal trade, but it was estimated to be substantial in 2018 and 2019, the situation in 2020 being a bit different. Comparisons between Chinese

export data and EU import data showed some discrepancies. Illegal trade presents risks to the economy, R&D and innovation, industrial and consumer safety as well as climate objectives.

Angelica Candido described the EFCTCs illegal import project which started in 2019. The EFCTC have hired Kroll Investigation to investigate potential cases who opened an anonymous information line and carried out web screening of main online marketplaces, which has led to takedowns. It was noted that after a takedown it is important to continue monitoring, as items are often re-posted. In addition, data analysis of import statistics has been carried out. Furthermore, the EFCTC has organised national Customs seminars in several countries, and anyone interested in a seminar can be in contact with them. Finally, the EFCTC would like to see higher fines and penalties for smuggling, and more collaboration between authorities, industry, and the Member States. It is important to raise awareness in the entire value chain. It is also worth noting that China, Russia, and Turkey are all developing their own F-gas regulations.

### ***Swedish study - Overview of possible illegal trade of F-gases in Sweden***

*Gunilla Söderström, Swedish Environmental Protection Agency*

The purpose of the Swedish study, "Overview of possible illegal trade of F-gases into Sweden" was to identify possible illegal trade into and within Sweden.

The flow of HFC gases were mapped out and interviews were carried out with representatives from the refrigeration and waste industries, other industry organizations, trainings centres and environmental inspectors. The study also included a comparison of HFCs data from three different registries: Swedish Customs data, the data in the Swedish Chemicals Agency products register and the EU F-gas portal. The comparison mainly focused on if the importing companies had a quota, how many tonnes of HFCs were imported and whether the companies were registered at the Swedish Chemicals Agency.

The conclusion was that not all HFC-gases on the Swedish market were reported in all three databases which could be an indication of ongoing illegal trade. According to the study, approximately 10% of the imported amount of HFCs in bulk had not been registered correctly. The way forward is to continuously monitor the importing companies.

### ***Fight against illegal import of F-gas: International cooperation and coordination***

*Thierry Henne, European Anti-Fraud Office (OLAF)*

Thierry Henne gave a detailed presentation on OLAF's work related to illegal imports of HFCs and practical examples of cases. OLAF has recently been re-organized to include new goals on the fight against Intellectual Property Rights infringement, Health and Environment.

The origin for the illegal trade of HFC gases seems to be mainly from China through the transit countries of Turkey, Serbia, Russia, and Ukraine. The first points of entry in the EU have been through the ports of Antwerp, Rotterdam, Hamburg, Gdansk, and Rijeka, but illegal non-refillable cylinders have also been detected coming through Riga, Klaipeda, and Piraeus. The road transport seems to be coming from Turkey, Russia, and Serbia.

Cases where import by legally registered companies exceeded the allocated quota was also discovered. In addition, OLAF has detected fictitious re-export of refrigerant gas to non-EU countries in transit and in customs warehouses. Moreover, there were cases where large volumes of import of equipment containing refrigerants came without declarations of conformity of the gas.

Examples of seizures in 2020 include 3,7 tonnes of HFCs and HCFCs in 300 non-refillable cylinders from China entering Italy, 76 tonnes in Romania through an operation guided by Romanian authorities and 14 tonnes in the Netherlands from China that were destined for a consignee in Lithuania that was not registered to receive import of this nature.

### ***Polish customs experiences of working with illegal trade of HFCs***

*Anna Kobylecka, Ministry of Finance, Customs department*

Anna Kobylecka presented enforcement work carried out by the Polish Customs who work in close cooperation with environmental authorities. Inspections are focused on registrations in the EU F-gas portal and quotas. In some cases, quota abuses were identified, e.g. a quota-holding company imported a large amount of HFCs in the beginning of the year and later transferred the same amount of quota to another company.

It was pointed out that controls of companies are based on risk analysis and risk profiles. Another finding was that in several cases there were a lack of labelling, or labels were incomplete or not indelible. Most cases of HFC smuggling happened in 2018. Additionally, there was a notable decrease in illegal trade between 2018 – 2019, one possible explanation being that the price of refrigerants has decreased since 2018.

Seized HFC gas is being re-exported. Currently (January 2021), it is not possible in Poland to auction seized HFCs based on national F-gas regulation, but a recently seized HFCs of considerable amount are planned to be auctioned based on Customs legislation.

### **Exchange of information and practical examples**

During the workshop, time was set aside for examples and for discussions. All discussions were held in plenum.

The participants had discussions on how to detect and monitor illegal trade, and how Customs can detect illegal HFCs at the border. Authorities from Estonia and Denmark, presented some relevant cases, see below. Followed by examples from Norway and the Faroe Islands of suspicious or illegal trade in HCFCs/HFCs.

The Norwegian Environment Agency presented a case from Norway of illegal import of HCFCs from Denmark in 2007, which led to the conditional imprisonment of the importers. Furthermore, a representative from the Inspectorate within the same Agency presented an on-going investigation on illegal sales on internet marketplaces where non-refillable containers are being advertised. figure 2.

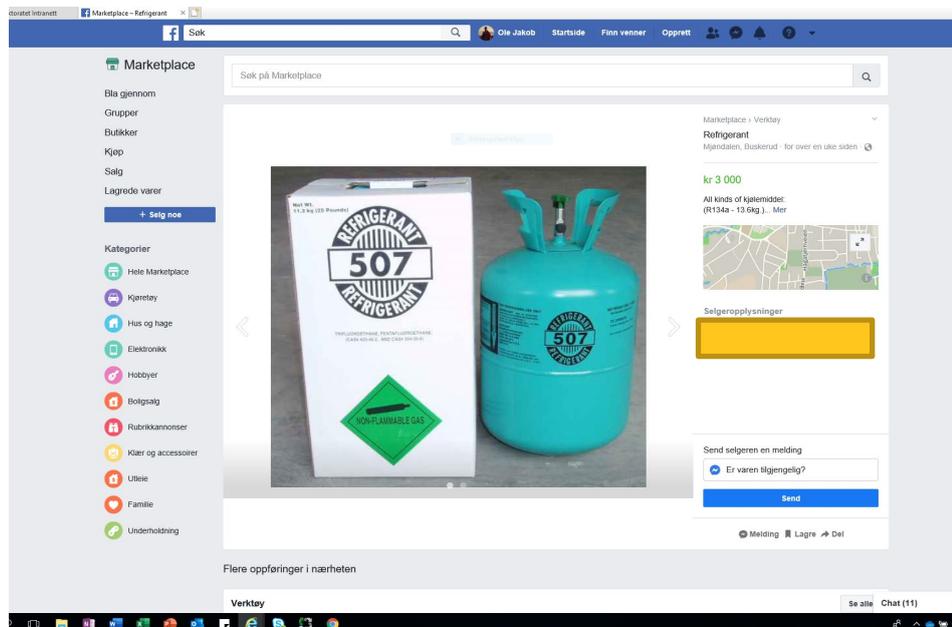


Figure 2. Example of illegal advertisement.

The Ministry of the Environment in Estonia informed that the main source of illegal F-gases coming to Estonia is from the EU internal market, and the main route is believed to be through Southeast Europe, coming from Turkey and Ukraine. Gases are usually imported into the EU in larger tanks and then transferred to smaller containers for further distribution. Internet portals are constantly monitored for advertisement and all ads with banned HFC containers have been closed. In 2018 and 2019 there were several seizures at the border and import of non-refillable containers of HFCs were stopped.

The Chemical Inspection Service in the Danish Environmental Protection Agency informed about recent campaigns on F-gases. In 2020, 61 inspections were completed with the majority being small-scale importation of non-refillable cylinders with HFC refrigerants. 88 non-refillable cylinders were confiscated and sent for destruction. Most seizures were from private people, for the intended use of HFCs for servicing mobile air conditioning equipment. During the campaign, the Inspection Service received a lot of complaints about illegal use of HFCs from Danish stakeholders. In one case the confiscated HFC was analyzed for its content, which was not compliant with the labelling (R-410A). The gas contained more flammable gas than it was supposed to (ratio app. 70:30 instead of 50:50).

The Customs Authority in Norway presented a case where 55 kg of HFC refrigerants were seized at the Norwegian/Swedish border.

The Faroese Environment Agency informed about different cases in the Faroe Islands. In 2014, two containers with 900 kg of HCFCs each were in transit in Tórshavn from Denmark bound for a fishing vessel in Greenland. There was neither an invoice nor an export/import license. Options were considered and it was decided to return the containers to Denmark. In 2017, three containers and three pallets of cylinders with HCFCs were in transit in Runavik from Russia bound for a Russian fishing vessel. For different reasons no seizures were executed.

## Discussion on cooperation between countries and between authorities

The cooperation between and within countries was discussed, starting with the cooperation between authorities in different countries. Overall, there were more cooperation between competent F-gas authorities than between Customs. Participants expressed an interest to cooperate more in the future.

Cooperation between different authorities in each country was then discussed. Participants were presented with a list of possible ways of cooperating and asked to describe the situation in their countries, including sharing information, training, regular meetings, campaigns, common guidance material, etc.

Participants described activities in their countries. In each country, information and advice are shared at least on a “need-to-know” basis, and in several countries there are regularly updated written documents in use and trainings being organized. Some participants noted that currently there is more active cooperation in other environmental fields (e.g. waste), but there are plans to extend it to F-gases. In order to facilitate easy communication between different authorities, one participant said they have set up a F-gas group in the Teams application where information is shared and issues discussed.

Lastly, participants were asked to share views on future cooperation. It was noted that continuing and enhancing cooperation is necessary. The list of participants in the Workshop, including email addresses were shared after the Workshop, providing participants an opportunity to contact each other in the Nordic and Baltic countries for future collaboration.

Possible ideas were shared on projects e.g. related to online sales and marketplaces and to share information on new smuggling trends e.g. via workshops such as this one.

## **Conclusions**

Based on the input received from the participants during the two-day workshop, it was concluded that the work to address illegal trade of HFCs is of high importance. Both to ensure compliance with the EU-regulation on F-gases and to phase-down HFCs according to the obligations in the Montreal Protocol. But also, not to endanger the phase-down’s environmental integrity and not to hinder fair competition for honest players.

The Nordic Ozone and F-gas Group noted several measures that may enhance cooperation, including establishing an informal platform for customs, environmental authorities, and inspection authorities to continue to discuss, share experiences and support each other's work, including on suspicious companies or shipments. Other measures could be to organize shorter, focused meetings on certain thematic topics, e.g. new smuggling trends, common inspection campaigns or to have joint projects for instance related to online sales and marketplaces or developing customs guidance for monitoring HFCs.

### **Annex:**

- Agenda for 20<sup>th</sup> and 27<sup>th</sup> of January
- List of participants

## Annex 1:

Nordic Ozone and F<sub>3</sub>-gas group  
under the Nordic Working Group  
for Chemicals, Environment and  
Health on behalf of the Nordic  
Council of ministers

### Virtual Workshop

“Fight against illegal trade of hydrofluorocarbons  
in the Nordic and Baltic Countries”

20 and 27 January 2021

## AGENDA

Note that times given are in Central European Time (GMT + 1)

<b>Wednesday 20 January 2021</b>	
10:00 – 10:15	<b>Opening &amp; objectives of the Workshop</b> Maria Ujfalusi, Swedish Environmental Protection Agency (Chair NOFG)
10:15 – 10:45	<b>EU experiences of reducing HFCs under the F-gas Regulation</b> Arno Kaschl, DG for Climate Action, Climate Finance, Mainstreaming & Montreal Protocol
10:45 – 11:30	<b>How is the industry addressing illegal trade in HFCs?</b> Nick Campbell and Angelica Candido, European Fluorocarbons Technical Committee
11:30 – 11:50	<b>Swedish study - Overview of possible illegal trade of F-gases in Sweden</b> Gunilla Söderström, Swedish Environmental Protection Agency
11:50 – 12:35	<b>Lunch break</b>
12:40 – 13:10	<b>Fight against illegal import of F-gas: International cooperation and coordination</b> Thierry Henne, European Anti-Fraud Office (OLAF)

13:10 – 13:20	<p><b>Presentation of results from the pre-questionnaire</b></p> <p>Nufar Finel, Finnish Environment Institute</p>
13:20 - 13:50	<p><b>Polish customs experiences of working with illegal trade of HFCs</b></p> <p>Anna Kobylecka, Ministry of Finance, Customs department</p>
13:50 – 14:50	<p><b>Joint discussions on detection and monitoring of illegal trade</b></p> <p>Theme A: How to detect and monitor illegal trade?</p> <p>Theme B: How can the Customs detect the illegal HFCs at the border?</p> <p>Facilitator: Alice Gaustad, Norwegian Environment Agency</p>
14:50 - 15:00	<p><b>Summary of the discussions and looking ahead to day 2 of the workshop</b></p> <p>Maria Ujfalusi, Swedish Environmental Protection Agency (Chair NOFG)</p>

<b>Wednesday 27 January 2021</b>	
10:00 – 10:15	<p><b>Recap from 20 January 2021</b></p> <p>Ísak Sigurjón Bragason, The Environment Agency of Iceland</p>
10:15 – 11:00	<p><b>Practical examples of illegal trade</b></p> <p>Authorities to present cases based on the outcome from the first day e.g. three 10 min presentations</p>

11:00 – 12:15	<p><b>Joint discussion</b></p> <p>Theme A: Small-scale imports</p> <p>Theme B: Servicing and possible movement of HFCs (or ODS) between ships</p> <p>Theme C: What happens when an attempt at illegal import is stopped?</p> <p>Facilitator: Maria Gunnleivsdóttir Hansen, The Environment Agency, Faroe Islands</p>
12:15 – 13:00	<p><b>Lunch break</b></p>
13:00 – 14:30	<p><b><i>Joint discussion on cooperation between countries and between authorities</i></b></p> <p>Theme A: Is there already existing cooperation on illegal trade on HFCs in the Baltic and Nordic countries?</p> <p>Theme B: Cooperation between customs and environmental Authorities</p> <p>Theme C: How are we going to cooperate in the future/what kind of cooperation do we need?</p> <p>Facilitator: Tapio Reinikainen, Finnish Environment Institute</p>
14:45 – 15:00	<p><b>How to continue from here - closing remarks</b></p> <p>Maria Ujfalusi, Swedish Environmental Protection Agency (Chair NOFG)</p>

**Annex 2:****Fight against illegal trade of hydrofluorocarbons in the Nordic and Baltic Countries****List of participants**

<b>Name</b>	<b>Organisation</b>	<b>Country</b>
Alice Gaustad	Norwegian Environment Agency	Norway
Angelica Candido	European Fluorocarbons Technical Committee (EFCTC)	Belgium
Anna Kobylecka	Polish Ministry of Finance, Customs Department	Poland
Anne Jul Votborg	Danish Customs	Denmark
Annika Johansson	Finnish Environment Institute SYKE	Finland
Annsy Høghamar	Faroese Customs	Faroe Islands
Arno Kaschl	European Commission	Belgium
Baldur Höskuldsson	Icelandic Customs	Iceland
Bergdís Björk Bæringsdóttir	Environment Agency of Iceland (Umhverfisstofnun)	Iceland
Charlotte Rehbäck	Swedish Environmental Protection Agency	Sweden
Ditte Paludan	Danish Environmental Protection Agency	Denmark
Ene Kriis	Estonian Environmental Research Center	Estonia
Gísli Gíslason	Environment Agency of Iceland (Umhverfisstofnun)	Iceland
Gunilla Söderström	Swedish Environmental Protection Agency	Sweden
Ida Scharff	Danish Environmental Protection Agency	Denmark
Ingrida Vonda	Latvian State Revenue Service National Customs Board	Latvia
Ísak Sigurjón Bragason	Agency of Iceland (Umhverfisstofnun)	Iceland
Jacky Marteau	European Anti-Fraud Office (OLAF)	Belgium
Jenny Virdarson	Swedish Chemicals Agency	Sweden
John Molander	Uusimaa Centre for Economic Development, Transport and the Environment (UUDELY)	Finland
Jørn Sørensen	Danish Customs Agency	Denmark
Kuldar Rikma	Estonian Environmental Board	Estonia
Lauri Aasmann	Estonian Tax and Customs Board	Estonia
Maria Gunnleivsdóttir Hansen	Faroese Environment Agency - Umhvørvisstovan	Faroe Islands
Maria Ujfalusi	Swedish Environmental Protection Agency	Sweden
Martin Johansson	Swedish Customs	Sweden
Maryam Ashja	Swedish Chemicals Agency	Sweden
Mikkel Sørensen	Danish Ministry of Environment	Denmark
Morten Slemdal	Norwegian Customs	Norway
Nick Campbell	European Fluorocarbons Technical Committee (EFCTC)	Belgium
Nufar Finel	Finnish Environment Institute SYKE	Finland
Ole Birkenes	Norwegian Environment Agency	Norway
Ómar Tómasson	Icelandic Customs	Iceland
Pernilla Nilsson	Swedish Chemicals Agency	Sweden
Pärtel Niitaru	Estonian Ministry of the Environment	Estonia
Sandrine Bernard	Norwegian Environment Agency	Norway
Sara Björkqvist	Danish Environmental Protection Agency	Denmark
Snæbjørn Simonsen	Faroese Customs	Faroe Islands
Sofia Lindbäck	Finnish Customs	Finland
Tapio Reinikainen	Finnish Environment Institute SYKE	Finland

<b>Thierry Henne</b>	European Anti-Fraud Office (OLAF)	Belgium
<b>Tina Graversgaard Hagelskjær</b>	Danish Customs	Denmark
<b>Ulrika Raab</b>	Swedish Environmental Protection Agency	Sweden
<b>Xenia Messariti</b>	European Commission	Belgium