



Australian Government

Department of the Environment and Energy

Cost Recovery Implementation Statement: Ozone Protection and Synthetic Greenhouse Gas Management Program

2018-19

Published 30 January 2020



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1. Introduction

1.1 Purpose of the CRIS

This Cost Recovery Implementation Statement (CRIS) provides information on how the Department of the Environment and Energy (the Department) implements cost recovery for the Ozone Protection and Synthetic Greenhouse Gas Program (the Program). It also reports financial and non-financial performance information for the cost recovery activities of the Program and contains financial forecasts for 2019-20 through to 2022-23. The Department will maintain the CRIS until the activity or cost recovery for the activity has been discontinued.

1.2 Description of the activity

The Department cost recovers the (relevant) activities it undertakes under the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989* (the Act). The Act is the legislative mechanism under which Australia meets its obligations under the Montreal Protocol on Substances that Deplete the Ozone Layer (Montreal Protocol), and its obligations under the *United Nations Framework Convention on Climate Change's* (UNFCCC) Kyoto Protocol, to limit greenhouse gas emissions by controlling the use of synthetic greenhouse gases (SGGs).

The objectives of the Act are:

- (a)** to institute, for the purpose of giving effect to Australia's obligations under the Vienna Convention and the Montreal Protocol, a system of controls on the manufacture, import and export of ozone depleting substances and SGGs;
- (b)** to institute, and to provide for the institution of, specific controls on the manufacture, import, export, distribution and use of products that contains such substances or use such substances in their operation; and
- (c)** to use the best endeavours to encourage Australian industry to:
 - (i)** replace ozone depleting substances and SGGs; and
 - (ii)** achieve a faster and greater reduction in the levels of production and use of ozone depleting substances and SGGs than are provided for in the Vienna Convention and the Montreal Protocol;to the extent that such replacements and achievements are reasonably possible within the limits imposed by the availability of suitable alternate substances, and appropriate technology and devices; and
- (d)** to provide controls on the manufacture, import, export and use of SGGs, for the purposes of giving effect to Australia's obligations under the Framework Convention on Climate Change and the Kyoto Protocol; and
- (e)** to promote the responsible management of scheduled substances so as to minimise their impact on the atmosphere.

Changes to the legislation and operation of the program since the 2016-17 Ozone Protection and Synthetic Greenhouse Gas Program Cost Recovery Implementation Statement

A review of the Program, from 2014 to 2016, identified a range of measures to improve the effectiveness and efficiency of the Program and to further reduce emissions of ODS and SGGs. In June 2016 the Australian Government announced all proposed measures would be implemented. The majority of the legislative measures commenced on 1 January 2018.

In October 2016, the parties to the Montreal Protocol reached an agreement to reduce HFC emissions. The Meeting of the Parties held in Kigali, Rwanda, agreed to an international phase-down of global HFC production and imports from 2019, which will result in an 85 per cent phase-down in the use of HFCs by 2036 in developed countries. Developing countries will also take on phase-down obligations that are delayed by a few years.

The Act and related legislation and regulations have been amended to:

- **Implement** the Australian Government's commitment to phase-down import, export and production of HFCs from 2018, in advance of the global phase-down and to enable Australia to comply with all requirements of the global phase-down implemented under the Montreal Protocol, as amended by the Kigali Amendment.
- **Improve** the operation of the existing provisions relating to the HCFC phase-out, and prohibit the use of new HCFCs from 1 January 2020, other than for permitted uses.
- **Implement** Australia's international obligations under the Kyoto Protocol to regulate two newly listed SGGs: nitrogen trifluoride and PFC-9-1-18 (C₁₀F₁₈).
- **Streamline** provisions of the OPSGGM Act relating to equipment bans, and expand the Act's scope to ensure provisions relating to equipment bans apply consistently to all entities regulated under the Act.
- **Reduce** regulatory burden on businesses by introducing measures which enable licence renewals, reduce the frequency by which licence holders are required to report their activities and introduce a threshold below which the cost recovery levy is not payable:
 - increasing the low volume import exemption to 25kg
 - introducing licence renewals
 - reducing reporting requirements from quarterly to twice yearly, while retaining flexibility for more frequent reporting if licence holders prefer to do so
 - waiving small levy debts of up to \$330, reducing uneconomic transactions by 94%, from 2,750 to 150
- **Streamline** end-use permit requirements, through lengthening the duration of end-use permits to 3 years and introducing permit renewals (estimated to save businesses \$580,000 annually).
- **Clarify** powers and functions regulating the end-use of scheduled substances.

Further measures, including strengthened compliance and enforcement powers covering more of the Program and additional efficiency measures, will follow in a further tranche of amendments planned for 2020.

Other measures to be progressed by the Department include:

- **Development** of an information program working with business to better inform equipment owners of the benefits of regular maintenance and installation to optimise energy efficiency. This will achieve substantial emissions savings through reduced gas leakage and lower electricity use, and businesses and consumers will benefit through reduced electricity costs and reduced replacement costs for gas leakage. Information is being developed and will be progressively rolled out from mid-2020.
- **Engagement** with state regulators and business to examine how the Act can work in better synergy with State-level regulation that relates to the refrigeration and air conditioning sector. This has commenced and will be an ongoing engagement.

The implementation of this range of measures is expected to have no significant net effect on total Program resourcing.

Further information is available at <http://www.environment.gov.au/protection/ozone/opsqg-program/opsqgm-review>.

Cost recovery activities

These are activities where the costs are able to be linked to individuals and companies are funded through licence and permit fees. Costs associated with activities provided to licensee industries in general are funded through levies as it is not possible to link them to specific individuals and companies. **Cost recovered activities include:**

Licensing

The Act:

- prohibits the import, export or manufacture of CFCs, halons, carbon tetrachloride, methyl chloroform, bromochloromethane and hydrobromofluorocarbons, without an essential use licence or a used substance licence;
- establishes a system of controlled substance licences and reporting requirements for import, export or manufacture of hydrochlorofluorocarbons (HCFCs), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulfur hexafluoride (SF6), consistent with obligations under the Montreal Protocol and Kyoto Protocol; and
- establishes a licensing system for import of refrigeration and air conditioning equipment that contains a HCFC and equipment that contains a SGG (pre-charged equipment), thereby applying the same conditions and responsibilities for these substances when imported in equipment, as applying to the importation in bulk form.

International engagement

Participation in international negotiations to ensure that treaty obligations remain consistent with Australian Government policy and law making, reporting under the Montreal and Kyoto Protocols

Ozone science

ODS and SGG related research, including science, technology and the status and outlook for various industry sectors

Regulations

The Ozone Protection and Synthetic Greenhouse Gas Management Regulations 1995 govern the use of ODS and SGGs in refrigeration and air conditioning and fire protection industries. The Regulations reduce emissions of ODS and SGGs through the establishment of minimum industry standards for training and for work practices.

Following a 2018 competitive tender processes, the Australian Refrigeration Council (ARC) and Fire Protection Association Australia (FPAA) were reappointed to administer two licensing schemes in the refrigeration and air conditioning industry, and fire protection industry. 5-year contracts with provisions for up to 4 year extensions have been entered into with the ARC and FPAA.

The Regulations establish competency-based standards for granting of permits in the refrigeration and air conditioning, and fire protection industries. The requirement to hold the permit restricts access to ODS and SGGs to authorised businesses, and handling to licensed technicians.

Phase outs/ phase-downs and emission reduction Programs

Phase out and phase-down Programs for all ODS and HFCs and emission reduction Programs for ODS and SGGs

Other

- Storage and destruction of seized and forfeited goods
- General policy related to ODS and SGGs
- Awareness-raising and communications activities directly related to regulatory activity

2. Policy and statutory authority to cost recover

2.1 Government policy approval to cost recover the activity

In 2003, the Australian Government authorised the Department to charge for licence applications and an activity fee relating to the importation or manufacture of ODS and SGGs on a cost recovery basis. In 2004, the Australian Government authorised the Department to charge for administrative activities relating to the refrigeration and air conditioning, and fire protection permitting on a cost recovery basis (these authorisations were provided by the then Prime Minister, Treasurer and Minister for Finance).

The Regulation Impact Statement supporting the 2003 amendments to the legislation supporting cost recovery reported "...any shortfall in revenue from licence application fees and activity fees contravenes a 1995 legislative objective for the administrative industry transition costs of Environment Australia to be covered fully from industry contributions as part of a general objective for achieving revenue neutrality."

Government expectation at the time, which remains consistent, articulated in the Explanatory Memorandum to the Ozone Protection and Synthetic Greenhouse Gas Legislation Amendment Bill 2003, is that the activities of the OPSGG Program will be fully cost recovered over the life of the Program. This expectation included front-end loading of fees and levies to cover Program costs to be incurred in the latter years of the Program's operations, when revenues were expected to decline at a faster rate than required expenditures. The annual "surpluses" generated in the earlier years of the Program were to be retained in the Ozone Protection and Synthetic Greenhouse Gas Account (Special Account).

2.2 Statutory authority to charge

The legal authority for the charging of:

- licence application fees for the import, export and manufacturing of ODS and SGGs, are provided for under section 14 of the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989* (<http://www.comlaw.gov.au/Series/C2004A03755>)
- permit fees for handling of refrigerants, extinguishing agents and halon are provided for under Regulations 121 and 311 of the *Ozone Protection and Synthetic Greenhouse Gas Management Regulations 1995* (<http://www.comlaw.gov.au/Series/F1996B02085>)
- import and manufacture levies for *ODS and SGGs* are provided for under section 4 of the *Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Act 1995* (<http://www.comlaw.gov.au/Series/C2004A04976>) and section 4 of the *Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Act 1995* (<http://www.comlaw.gov.au/Series/C2004A04976>), respectively.

Subsection 65D(a) of the Act states a purpose of the Special Account, set up in section 65B, is to receive money for reimbursing the Commonwealth's costs associated with the administration of the Act and the Regulations. Further, subsection 65D(b-ca) states a purpose of the Special Account is to pay or reimburse the Commonwealth's costs associated with furthering Programs (or information about Programs) that address the phase out of ODS, and emission minimisation Programs for ODS and SGGs; the Commonwealth's costs associated with management of the National Halon Bank (NHB); and the Commonwealth's costs associated with research relating to ODS and SGGs.

3. Cost recovery model

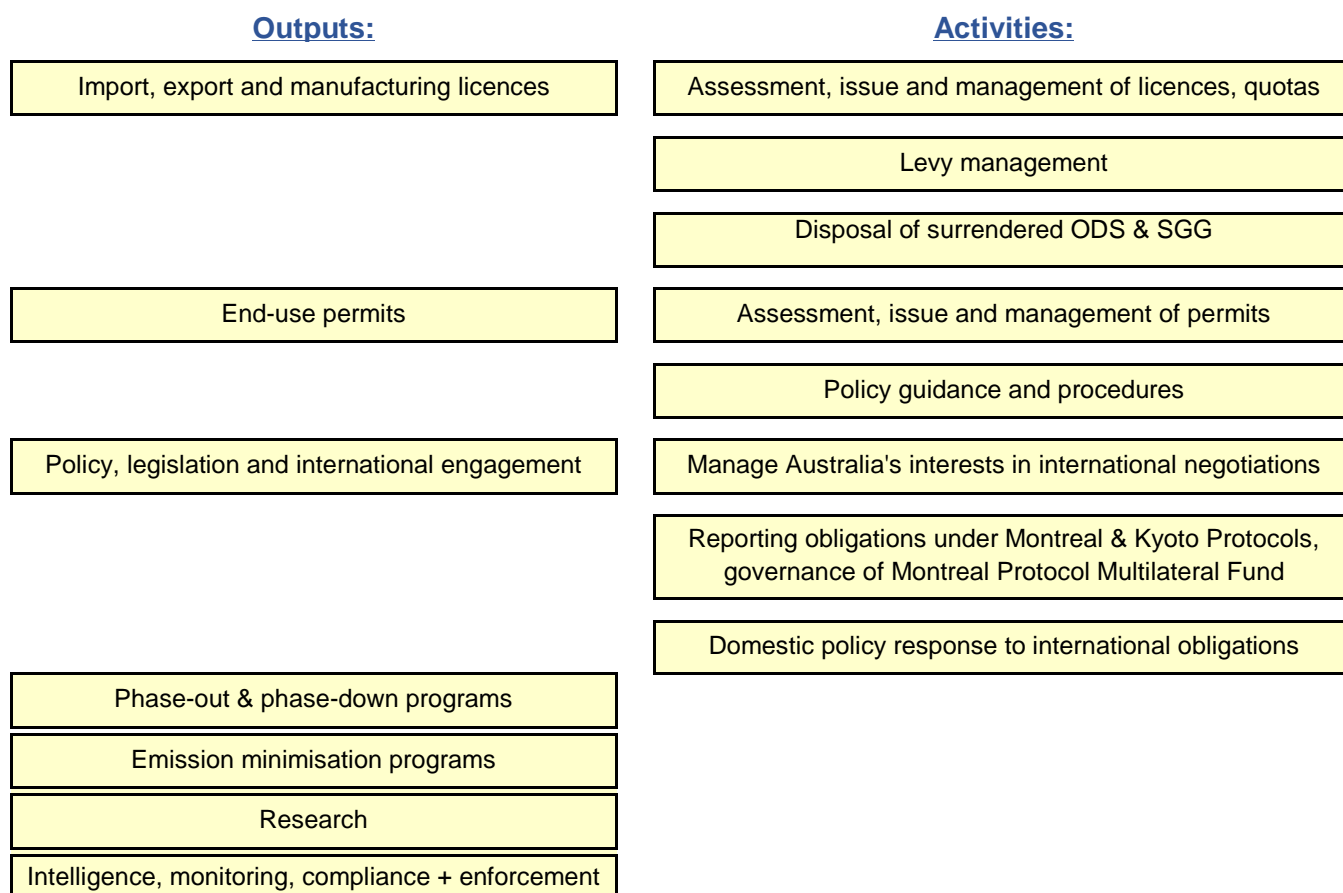
The cost recovery model has several components.

The licence and permit schemes are administered both within the Department (import, export and manufacture licences) and by two Industry Boards contracted by the Department, the RAC Industry Board and Fire Protection Industry Board. Application fees collected by and on behalf of the Department are paid into the Special Account where they are used to pay or reimburse the Department’s costs of administering the permit schemes (including contract payments to the Industry Boards for administering the schemes).

3.1 Outputs and activities

Outputs and their related activities delivered under the cost recovery arrangements supporting the OPSGG Program are summarised in Figure 1, below. A description of key business processes used to deliver the outputs is provided at [Attachment B](#).

Figure 1: Outputs and activities



3.2 Costs of the cost recovery program

The Department recovers the administrative / regulatory costs under the OPSGG Program, excluding costs of investigations and enforcement associated with its regulatory activity.

Administration of the Program has undergone significant change over the last decade to reflect legislative changes including introduction and repeal of an equivalent carbon levy, introduction of low volume import exemptions and introduction of a phase-down of hydrofluorocarbons. This has resulted in increases and decreases in risk, and mitigation strategies to manage those risks, including revenue risk through avoidance or incorrect reporting, and changes in industry practice that increase risk of emissions.

As a result of these changes the Program has undergone and will continue to undergo, organisational structure, staffing profile and business process changes.

Over ninety percent of the direct costs (including outsourced administration of end-use permits) are employee related, with most other major direct costs and indirect costs largely fixed in nature. Costs associated with outsourced arrangements for the delivery of the end-use permit schemes for the refrigeration and air conditioning and fire protection industries were determined through competitive open tenders. Service providers' costs are audited annually.

Volumes of licence and permit applications are externally driven and determined by economic and market conditions, including review outcomes and streamlining measures. The complexity of individual applications and related management can vary considerably depending on the circumstances of individual applicants.

The costs incurred in delivering the OPSGG Program include:

- **Direct costs** – these are directly attributable to the implementation and administration of legislation and related policy, including:
 - Departmental employee expenses – including base salary, superannuation, leave entitlements, training
 - Travel
 - Outsourced management of end use permit schemes, through ARC and FPAA
- **Indirect costs** – these are calculated consistent with departmental indirect and overhead cost calculations, based on related Program staffing numbers, including:
 - Business accommodation costs (for example, rent, maintenance, utilities)
 - Information technology costs
 - Human resources support
 - Other departmental support (for example, finance and legal support)
- **Capital costs** related to the import, export and manufacturing licence database, including depreciation, operation and maintenance, and capital investment.

The levels of activity are demand driven to a large extent, depending on the number of importers or manufacturers, the frequency of import or manufacture, export and businesses and technicians in the permit schemes. These can and do vary from year to year and within years. Costs have been developed from a zero base to provide for significant changes to drive efficiencies in Program processes, organisational structures and functions (e.g. Program Review and automation through system enhancements). Sensitivity of the cost estimates is influenced by two main factors:

- economic and climatic conditions, with increases in imports (and licensees) and growth in domestic suppliers and technicians in hotter conditions and / or periods of high economic activity and population growth. It should be noted that refrigeration and air conditioning business activity is growing at a faster rate than the economy generally, primarily due to demand for air conditioning in homes and buildings and refrigeration for the production, transport and storage of food, medicine and other products and services; and
- the implementation of recommendations from the 2014-2016 Legislation review, e.g.:
 - the introduction of 3-year duration end-use permits, in addition to remaining 1- and 2-year permits has and will continue to create greater variation in annual permit numbers and revenues. Overall related revenues should remain unchanged over the long term.
 - higher exemption thresholds for imports should decrease import licence numbers, with a minimal impact on fee and levy revenues.

Projections and assumptions

Projected gas import volume and licence application numbers are determined by the Department in consultation with relevant industry bodies.

Import, export and manufacture licences: There will, on average, be approximately 400 licences issued annually, another 400 licences continuing from the previous year, 10 licence transfers annually, and 10 licences surrendered annually.

Four types of licence can be issued:

| | |
|--|---|
| <p>Controlled Substance Licence allows holder to manufacture, import or export bulk HCFCs, methyl bromide or SGGs</p> | <p>Essential Use Licence allows holder to manufacture, import or export ODS, which have been phased out, for essential uses approved through the Montreal Protocol</p> |
| <p>Used Substance Licence, which allows the holder to import or export recycled or used scheduled substances (stage-1 or stage-2 scheduled substances, HCFCs, methyl bromide and SGGs);</p> | <p>Equipment Licence, which allows the holder to import equipment containing an ODS or SGG, or other equipment as permitted under Schedule 4 of the Act.</p> |

In addition, exemptions may be granted to allow import and manufacture of equipment otherwise prohibited, where the equipment is essential for medical, veterinary, defence, industrial safety or public safety purposes.

End-use permits: There were 51,532 licenses permits issued in 2017-18. Licences and permits include:

| | |
|---|---|
| Refrigerant Trading Authorisation (1, 2 & 3 yrs), allows holder to acquire, possess and dispose of controlled refrigerants | Refrigerant Handling Licence (1, 2 & 3 yrs) allows holder to handle controlled refrigerants in refrigeration + air conditioning equipment |
| Restricted Refrigerant Trading Authorisation (1, 2 & 3 yrs), allows holder to recover, store and dispose of controlled refrigerants | Restricted Refrigerant Handling Licence (1, 2 & 3 yrs), allows holder to recover/handle refrigerant while decommissioning equipment |
| Refrigeration and Air Conditioning Equipment Manufacturing Authorisation , allows holder to acquire refrigerants for use in manufacturing equipment | Trainee Refrigerant Handling Licence (1 yr) allows holder to handle refrigerant while undertaking training / assessment |
| Extinguishing Agent Trading Authorisation (1, 2 & 3 yrs), allows holder to acquire, store or dispose of extinguishing agents that are for use, or have been used, in fire protection equipment | Extinguishing Agent Handling Licence (Experienced (1, 2 & 3 yrs), Qualified (1, 2 & 3 yrs), allows holder to handle extinguishing agents in fire protection equipment |
| Halon Special Permit (1, 2 & 3 yrs), allows holder to possess halon | Extinguishing Agent Trainee Licence (1 yr) allows holder to handle extinguishing agents while under supervision |

In the order of 103,000 licences and permits will be in place over 2019-20 to 2030-31.

- Importing: number of import reports processed will be approximately 1,500 annually.
- Manufacture: there will be no domestic manufacture of ODS and SGGs.
- Policy and international interactions and commitments: will continue at current levels.

Table 1: Cost breakdown for 2018-19

| | Direct costs | Indirect costs | Capital costs |
|---|---------------------|------------------|---------------|
| Output 1 | | | N/A* |
| Import, Export and Manufacture Licences - Administration | \$455,308 | \$81,234 | |
| Output 2 | | | |
| End use permits - Refrigeration and Air Conditioning and Fire Protection | \$7,519,121 | \$194,461 | |
| Outputs 3 - 6 | | | |
| Policy, international interactions / commitments, phase out + emission minimisation programs, research + administration | \$1,591,468 | \$220,956 | |
| Output 7 | | | |
| Intelligence monitoring, compliance, enforcement activities to detect and deal with non-compliance, including to exercise powers outlined in Part VIII of the Act | \$706,631 | \$132,624 | |
| TOTAL | \$10,272,528 | \$629,624 | |

*There were no capital costs for 2018-19.

3.3 Design of cost recovery charges

Government policy for the financial management of Program activities has been and remains, that the net effect of the activities should be revenue neutral over the life of the Program. This policy has been in place since the introduction of fees and charges and remains with the introduction of additional activities. Specifically, all reasonable costs associated with the delivery of the Program should be recovered through contributions from industry. Government policy has also explicitly recognised that the costs associated with regulated activities would not fall in line with declining revenues over the life of the Program. Therefore, in order to achieve revenue neutrality, fees and charges were intended to achieve surpluses in the earlier years of the Program to fund deficits in the latter years of operation.

There have been and will continue to be significant variations between annual revenues and annual expenses. This was acknowledged in the Program's construct, with industry capacity for contributing greater in the earlier years of the Program but declining in the latter years of operation when expenses would exceed annual revenues. Surplus annual revenues are retained in a special account to fund annual deficits that will arise in the Program's latter years.

The refrigeration and air conditioning and fire protection industries continue to be the key users of gases regulated under the Act and will continue to benefit over the life of the Program. Businesses and individuals who have paid levies and permit fees in the past and currently pay levies and fees are expected to continue operating for at least the next 10-20 years, during which time the number of direct ODS and SGG users (permit holders) is expected to decline.

There have been and will continue to be significant fluctuations in revenues between years due to the pattern of 1, 2 and 3 year permits issued / renewals and demand resulting in large peaks and troughs from year to year, with permit demand in particular driven by industry.

Program financial modelling indicates that the Program will be fully funded from fees and levies for the next decade. A range of activities and policy considerations will continue beyond 2030, including the HFC phasedown which will likely continue through to 2036. In 2020-21 the Department will review the level of resources required to deliver the Program into the future, and the appropriateness and adequacy of the existing funding model.

Charging arrangements

Other than annual permit increases linked to the Wages Price Index, there have been no fee increases since the Program's 2016/17 Cost Recovery Implementation Statement.

Both licence and permit fees and levies are used to recover costs based on whether the benefits of particular services (costs) are able to be linked directly to individuals or are provided to industry and the community more generally.

Costs associated with provision of services under this Program are recorded under discrete cost centres within the Department's financial management system and are readily identifiable.

Import and manufacture licence application fees are set under the Regulations, and are available on the Department's web site.

Maximum levy rates are set within the respective levy acts (*Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Act 1995* and *Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Act 1995*) and Regulations, with the rates applicable under the legislation available on the Department's web site.

Both import and manufacture levy rates and import, export and manufacture licence fees were set in 2003 and considered in the 2012-16 CRIS. A decision was made at that time not to vary the rates due to a number of factors:

- the legislated phase out of HCFCs, reducing the levy base
- uncertainty over the level of import of SGGs following the introduction of the equivalent carbon price
- the significant time required in adjusting the rates through legislative amendment
- the legislation setting the levy rates does not provide for annual indexation

End-use permit fees were considered in the 2012-16 CRIS and, to address a shortfall in revenues over expense forecasts over the CRIS period, were increased by between 25 and 40 per cent, with annual indexation to be applied thereafter.

The Department intends to review the current life cycle expense/revenue model following the updates to legislation in 2019-20 to ascertain the nature and extent of demand on departmental resourcing (effort) that will arise from the Government commitment to phase-down HFC imports (commenced on 1 January 2018) and the need for a number of existing activities to continue. All fees and charges will be reviewed.

The schedule of permit fees (and estimated numbers) and levy rates is included at [Attachment A](#).

4. Risk assessment

Complexity, materiality and sensitivity all need to be considered when assessing the risks for the cost recovered activities. Each of these factors applies to OPSGG activities. For example:

- The variability in demand for, timing and duration of, and licence / permit type all contribute to the complexity of projecting fee and levy revenues.
 - Import, export and manufacturing licences, end-use permits, and import and manufacturing levies are all sensitive to market fluctuations
 - Licence and permit applications are initiated by applicants and the timing of applications is determined by the needs of applicants
- Licence and permit fees can vary significantly depending on the volume and duration of each licence / permit type issued
- Extensive consultation was undertaken with stakeholders in setting licence and permit fees and the import and manufacture levy. Strong support for the fee and levy amounts was provided based on the services and benefits provided in return.

The majority of Program activities and associated costs are demand-driven, determined by industry in response to industry and consumer demand / confidence. This demand impacts on Program costs with permit fees and levies having been set at a level to cover respective costs in 2012. Since that year, indexation based on the Consumer Price Index has been applied annually to end use permit fees to ensure they remain broadly consistent with related rises in Program costs.

Levies are set under legislation and adjustment upwards or downwards therefore requires considerable consultation, forward planning and opportunity. Permit fees are set under the Regulations. The Regulations are required to be tabled in Parliament, which also requires considerable forward planning. As a result, there will be considerable time to implement fee adjustments to set levies and permit fees in response to changing activity demands.

Changes in refrigeration and air conditioning technology and overseas and domestic pressures to reduce emissions have seen an increase in the use of alternative refrigerant gases which are not scheduled substances under the Act. The pace of this trend and its effect on end-use permit numbers will be difficult to accurately predict over the next two decades.

Due to the number of licences and permits for import, export and manufacture and end-use, and the overall volume of imports, fluctuations in demand by individuals and companies tend not to impact dramatically between 2-year cycles. There is growth (positive and negative) built into levy and licence modelling. The introduction of 3 year end-use licences and permits in 2018, while not expected to impact on total revenue levels over the life of the Program, will increase variations in annual (year by year) revenue.

Long-term modelling of the program's resourcing requirements is reviewed and updated regularly:

- Activities (expenses) of the Program are expected to be fully cost recovered over the life of the program.
- The Program commenced operations in the 1990's and currently has no set end date.
- The Program's design has involved front-end loading of revenues (fees and levies) which are retained by the program (in the special account) to meet costs of program activities in the later years of the program when annual revenues are expected to diminish.
- Financial modelling of the Program currently extends to 2030-31, although the Program is expected to continue beyond that date.

The Department intends to review the current life cycle expense/revenue model following the updates to legislation in 2019-20 to ascertain the nature and extent of demand on departmental resourcing (effort) that will arise from the Government commitment to phasedown HFC imports (commenced on 1 January 2018) and the need for a number of existing activities to continue.

5. Financial estimates and performance

Tables 2 and 3 below identify anticipated financial performance of the Program from 2019-20 to 2021-22, and actual performance in the preceding five years.

The net result for each financial year is determined by subtracting that year's expenses from revenues received in the same period. This provides an annual snapshot of the Program's performance in each year. It does not represent any long-term cumulative Program balance of positive balances carried over from year to year.

Table 2: Financial estimates to 2022-23

| | 2019-20 \$ | 2020-21 \$ | 2021-22 \$ | 2022-23 \$ |
|--------------------------|---------------|---------------|---------------|---------------|
| Revenues | 13,415,411 | 10,572,762 | 14,247,493 | 12,340,542 |
| Expenses | 12,391,182 | 12,601,832 | 12,803,462 | 13,033,924 |
| Annual net result | 1,024,229 | -2,029,071 | 1,444,031 | -693,382 |

Revenue fluctuations between years reflect the 2- and 3-year cycle for renewal of licences, permits and authorisations.

Estimates of annual forward year expenses are based on the 2019-20 expense budget adjusted for movements in annual price indexation and efficiency dividends.

Estimates of forward revenues are based on monitoring of industry trends and ongoing liaison with industry on technology developments and consumption trends.

Table 3: Financial performance 2014-15 to 2018-19

| | 2014-15 \$ | 2015-16 \$ | 2016-17 \$ | 2017-18 \$ | 2018-19 \$ |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 9,934,314 | 13,277,325 | 10,340,264 | 15,121,255 | 13,568,853 |
| Expenses | 9,334,039 | 10,511,872 | 8,718,030 | 10,624,106 | 10,481,625 |
| Annual net result | 600,275 | 2,765,453 | 1,622,234 | 4,497,149 | 3,087,228 |

6. Non-financial performance

Outcome measures:

Australia uses the import, export and manufacture licensing system to comply with its Montreal Protocol obligations to:

- phase out ozone depleting substances,
- phase down HFCs, and
- implement a licensing and quota system. Australia's outcomes are reported annually to the United Nations Environment Program.

In 2018 Australia commenced a phase down of HFC imports. The phase down meets or exceeds Australia's obligations under the Montreal Protocol, and will reduce Australian imports by 85% by 2036. The HFC phase down is expected to reduce greenhouse gas emissions by 23 Mt tonnes in the period 2018 to 2030. Australia started 25% below the Montreal Protocol baseline and a year ahead of the Montreal Protocol's start date.

The end use permit scheme in the refrigeration and air conditioning and fire protection industries has contributed to Australia meeting its Kyoto Protocol obligations by reducing direct emissions of synthetic greenhouse gases and reducing indirect emissions from electricity consumption by improving servicing of installed refrigeration and air conditioning equipment. A study by the Expert Group, commissioned by the Department in 2014 showed 28.27 Mt CO₂e direct greenhouse gas emissions (16.7 Mt CO₂e from ozone depleting greenhouse gases, 7.97 Mt CO₂e from gases listed under the Kyoto Protocol and 3.6 Mt CO₂e from improved energy performance) have been avoided as a result of the regulatory controls in the period 2003 to 2013. The same report estimates emission reduction of 66.28 Mt CO₂e in the period 2014 to 2030.

Input Measures:

The Department has implemented a number of efficiencies identified during the 2014 to 2016 Program Review, including:

- Streamlining the provisions of the Act that relate to equipment bans, and expanding the scope of the Act to ensure that the provisions relating to equipment bans apply consistently to all entities regulated under the Act.
- Reducing the regulatory burden on businesses by introducing measures which enable licence renewals, reduce the frequency by which licence holders are required to report their activities and introduce a threshold below which the cost recovery levy is not payable.
- Streamline end-use permit requirements, through lengthening the duration of end-use permits to 3 years.
- Clarifying powers and functions regulating the end-use of scheduled substances.

The implications of efficiency and streamlining changes will be taken into account in the upcoming review of cost recovery arrangements.

7. Key forward dates and events

The key forward dates and events for the cost recovered activity are:

- A further tranche of legislative amendments planned for 2020, which may include strengthened compliance and enforcement powers covering more of the Program and additional efficiency measures.
- Annual Wage Price Index fee increase for end-use permits commenced 1 January 2020.
- A review of the Program's costing model and charging arrangements in 2020-21.

ATTACHMENT A

Volume and charge rates, and revenue estimates for 2019-20

| Charge title | Type | Rate \$ | Estimated volume | Estimated revenue |
|---|--|--------------------------|------------------|-------------------|
| Import, Export & Manufacture Licences # | Output 1: Import, Export, Manufacture Licences: Administration Output 7: Intelligence monitoring, compliance, enforcement | | | |
| Equipment | Fee | 3,000 | 556 | 1,668,000 |
| Controlled substances - SGGs | Fee | 15,000 | 30 | 450,000 |
| Controlled substances - HCFC | Fee | 15,000 | 5 | 75,000 |
| Controlled substances - MB | Fee | 15,000 | 6 | 90,000 |
| Used | Fee | 15,000 | 0 | 0 |
| Sub-total | | | 597 | 2,283,000 |
| End-use Licences ## | Output 2: End-use Licence: Administration Output 7: Intelligence monitoring, compliance, enforcement | | | |
| Refrigerant Trading Authorisation (3 years) | Fee | 720 (2019) 736 (2020) | 6,710 | 4,844,397 |
| Restricted Refrigerant Trading Authorisation (3 years) | Fee | 225 (2019) 230 (2020) | 63 | 14,230 |
| Restricted Refrigerant Handling Licence (1 year) | Fee | 75 (2019) 77 (2020) | 726 | 55,049 |
| Restricted Refrigerant Handling Licence (3 years) | Fee | 225 (2019) 230 (2020) | 93 | 21,041 |
| Refrigerant Handling Licence(3 years) | Fee | 225 (2019) 230 (2020) | 20,253 | 4,576,064 |
| Trainee Refrigerant Handling Licence | Fee | 32 (2019) 33 (2020) | 8,024 | 259,576 |
| Extinguishing Agent Trading Authorisation (3 years) | Fee | 720 (2019) 736 (2020) | 48 | 34,790 |
| Extinguishing Agent Handling Licence (Qualified - 3 years) | Fee | 429 (2019) 438 (2020) | 489 | 212,089 |
| Extinguishing Agent Handling Licence (Experienced - 3 year) | Fee | 429 (2019) 438 (2020) | 124 | 53,781 |
| Trainee Extinguishing Agent Handling Licence (1 year) | Fee | 143 (2019) 146 (2020) | 38 | 5,494 |
| Halon Special Permit (3 year) | Fee | 858 (2019) 877 (2020) | 0 | 0 |
| Sub-total | | | 37,165 | 10,076,511 |
| Import & Manufacture Levy # | Levy | Various* | NA | 1,055,901 |
| TOTAL | | | | 13,415,412 |

Import licence fees and levies are not indexed.

End-use licence fees are indexed annually (calendar year) in line with the Wage Price Index. End-use estimated licence numbers reflect the percentage uptake of 3 year licences from 2017-18.

*Levy amounts are:

- HCFCs: \$3,000 per ozone depleting potential tonne (\$165 per metric tonne for most common HCFC)
- Methyl bromide - \$135 per metric tonne
- Synthetic greenhouse gases - \$165 per metric tonne.

ATTACHMENT B

Description of key business processes used to deliver the outputs

1. Import, export and manufacturing licences

Assessment, issue and management of import, export and manufacturing licences and applicable quotas

- Licence applications, licence administration and biannual reporting are largely managed through a database and on-line tools.
- Licence application assessment (including decision within statutory timeframe of 60 days) and issue (new licences, licence transfers, and licence surrenders).
 - Maintain licence enquiry hotline, and respond to enquiries
 - Maintain licence enquiry email, and respond to enquiries
 - Manage manual licence applications
 - Ensure licence application fees have been paid before a licence assessment commences
 - Review and action, as appropriate, licence fee waiver requests
 - Validate legal status of applicants
 - Check proof of identity for applicants who are individuals
 - Conduct 'fit and proper person' review
 - Confirm goods/substances to be imported/manufactured are allowed under the Act and Regulations
 - Delegate consideration and decision on applications within statutory timeframes
 - Issue, transfer and surrender advice to applicants
- Redlines (the management of imports containing a schedule substance arriving in Australia without an appropriate licence, identified and held by the Australian Border Force)
 - Assessment of the documentation to determine if the held items do hold a scheduled substance, including inspection and testing if necessary, that requires a licence or licence exemption, is a temporary import or is a prohibited item
 - Notification of assessment and appropriate follow-up action which could include:
 - Clearance and release of the item
 - A licence application
 - Seizure of the item
 - Management of seized or forfeited goods
 - Recovery and destruction of ODS and SGGs
- Biannual reporting assessment.
 - Maintain enquiry hotline, and respond to enquiries

- Maintain enquiry email, and respond to enquiries
- Provide notification to licensees of reporting deadline
- Review, assess and accept reports submitted
- Follow-up with licensees where submitted reports fail acceptance criteria
- Review, assess and accept resubmitted reports
- Undertake monitoring and take initial compliance action as appropriate
- Licence application fee management
 - Maintain enquiry hotline, and respond to enquiries
 - Maintain enquiry email account, and respond to enquiries
 - Allocate licence application fees to a licence application
 - Receipt and record application fee in financial and licence databases
 - Notify licence application assessment officers that fee has been paid
- Biannual levy management (including debt management)
 - Maintain enquiry hotline, and respond to enquiries
 - Maintain enquiry email account, and respond to enquiries
 - Issue invoices to licensees for import or manufacture levy amounts payable
 - Provide monthly account statements to licensees
 - Manage overdue debts
- Licence compliance Program
 - Liaise with the Australian Border Force for import data associated with import licensees
 - Conduct an initial documentation review of licensees where import reporting varies from customs import data
 - Refer any serious or suspected non-compliance issues to the Department's Office of Compliance for action (including court actions), as appropriate
- Quota management
 - Manage quota ballot for HFCs
 - Allocate quotas biennially for HCFCs and HFCs
 - Manage quota transfers
 - Reconcile submitted reports to customs data
 - Liaise with quota holders
- Disposal of seized and surrendered ODS and SGGs, including in equipment

2. End Use authorisations, handling licences and halon special permits (collectively referred to as end use permits)

(a) Granting and administering end use authorisations and licences, undertaken on behalf of the Minister by the Refrigeration and Air Conditioning Industry Board (currently the Australian Refrigeration Council) and the Fire Protection Industry Board (currently Fire Protection Association Australia). Authorisation and licence application fees are collected by ARC and FPAA and remitted to the Department, under contractual arrangements. The ARC and FPAA undertake the following activities under their contracts:

- receive applications and application fees for refrigeration, air conditioning and fire industry permits
 - Manage manual licence applications
 - Manage online licence applications
- assess applications and make a decision within 30 day timeframe specified in the Regulations
 - Ensure permit application fees paid before licence assessment
 - Validate legal status of applicant
 - Check proof of identity for applicant who are individuals
 - Conduct 'fit and proper person' review
 - Undertake an assessment of the qualifications or competencies of the individual to carry out refrigeration and air conditioning and fire protection work
 - Assess that the individual or company is able to comply with permit conditions detailed by the Regulations
- issue refrigeration, air conditioning and fire protection industry permits in accordance with the Regulations
- maintain, separately for refrigeration and air conditioning permits and for fire protection permits, electronic registers of companies which hold permits, made available to the public
- provide customer service support to members of the refrigeration, air conditioning and fire protection industries and the general public:
 - Maintain enquiry hotline, and respond to enquiries
 - Maintain enquiry email, and respond to enquiries
- provide a program of communications and awareness-raising activities aimed at encouraging and assisting with compliance with the Act and Regulations
- conduct education activities to check and assist permit holders with compliance with the Regulations, including site visits, newsletters, media and website material to explain the requirements of the scheme
- provide training assurance, engagement, monitoring and advisory body services

(b) Development of policy guidance and procedures by the Department to support compliance with the Regulations as well as the effective administration of the end-use licensing schemes

over time, taking account of changing market and technological circumstances for the regulated industries.

3. Administration of OPSGG policy and legislation

- Manage Australia's national interests in international negotiations, including consistency with domestic policy and legislation
- Monitor governance and transparency of the Montreal Protocol's Multilateral Fund
- Deliver on reporting obligations under the Montreal Protocol and Kyoto Protocol
- Development and implementation of domestic policy responses to meet international obligations and domestic policy

4. Development, implementation and monitoring of phase out and phase-down programs

5. Development, implementation and monitoring of emission reduction programs

6. Research and activities supporting the program, including science and technology

7. Intelligence, monitoring, compliance and enforcement activities to detect and deal with non compliance

- Intelligence, monitoring, compliance and enforcement activities to detect and deal with non compliance
- Analyse intelligence and conduct risk assessments to address emerging compliance risks
- Receive referrals of non-compliance of the import, export and manufacture licensing, the refrigeration and air conditioning industry and fire protection industry, and respond to enquiries
- Receive allegations and other industry intelligence about non-compliant behaviour, and respond to enquiries
- Conduct site inspections
 - Assist industry to maintain awareness of the Act and Regulations
 - Collect evidence of alleged breaches
- Respond to detected breaches
 - Issue advisory and warning letters
 - Amend licence conditions
 - Issue infringement notices
 - Forfeit goods
 - *Seek injunctions
 - *Litigation
 - *Prosecution

*Non-cost recovered activities, funded through departmental appropriations

ATTACHMENT C

Stakeholder Engagement

Program stakeholders include: importers, exporters and manufacturers of ODS and SGGs, and equipment containing ODS and SGGs; the refrigeration and air conditioning and fire protection industries; foam producers, aerosols producers, medical equipment suppliers, electricity distributors, fumigators and solvent suppliers; and industry peak bodies (such as Refrigerants Australia, Air Conditioning and Refrigeration Equipment Manufacturers Association, Australian Industry Group, Consumer Electronics Suppliers Association, state and territory Motor Trades Associations, Refrigeration and Air Conditioning Contractors Association, Airconditioning and Mechanical Contractors Association, Automotive Air Conditioning, Electrical and Cooling Technicians of Australasia, National Electrical and Communications Association, Refrigerant Reclaim Australia, Australian Institute of Refrigeration, Air Conditioning and Heating, Customs Brokers and Freight Forwarders Association, Chemistry Australia, Medicines Australia, Solvents Australia, Aerosol Association of Australia, Fire Protection Association Australia, Toolangi Strawberry Runner Growers Co-operative Limited).

The Department has a well-developed stakeholder engagement and communication strategy that identifies key stakeholder groups with a range of mechanisms for engaging with them.

The Department seeks to ensure that:

- stakeholders
 - have a good understanding of the Program and its intent, and have access to relevant information on the activities conducted under the Program
 - are able to access accurate and easy-to-understand information regarding the Program
 - understand their responsibilities, and are encouraged to comply with obligations
 - are encouraged to inform the Department of issues associated with Program communication and implementation.
- the Department is aware of likely environmental and economic changes to industries
- clear background information on the Commonwealth's intervention is easily available for the public
- information on aspects of the Program is readily accessible by the general public in order to influence their purchasing and maintenance behaviour
- constructive consultation is undertaken with stakeholders about the Department's regulatory approach.

During the Program Review (from May 2014 through to April 2016) the Department consulted extensively with stakeholders. Details are available on the departmental website (<https://www.environment.gov.au/protection/ozone/opsqg-program/opsqgm-review>).

Annual stakeholder engagement is an integral and ongoing part of program activities, and includes frequent stakeholder workshops, technical and scientific working groups, site visits and educational and awareness raising sessions.