



FOR ALL YOUR
REFRIGERANT NEEDS

The Refron Reportersm

July 1, 1996

Special Update: The Looming Refrigerant-12 Crisis

What has been happening with R-12 prices lately?

As you probably know, R-12 prices in the marketplace have skyrocketed in the last two months. After gradually rising to \$9 per lb. over several years, market prices have shot up since April, and currently are in the \$21-\$25 per lb. range, depending on sizes, quantities and geographic location.

Why is this happening?

Basically, because of supply and demand. The U.S. refrigerant manufacturers can no longer produce CFC's for domestic use, and they have nearly exhausted their existing supplies of R-12. The little supply they have left has mostly been allocated to existing wholesalers and other customers. Many of these allocations provide customers with quantities of only 25% of 1995 purchases, and consequently many wholesalers have nearly exhausted their product allocations. The discount warehouse clubs too have almost no R-12 inventory left on their shelves.

Doesn't the automotive sector have large inventories of R-12?

On the contrary. The automotive sector is a huge consumer of R-12 supplies, and is contributing to the shortages experienced by the HVAC industry. A simple calculation suggests that if there are 140 million cars using R-12 on the road, and if each car needs a recharge every three years and takes one pound of refrigerant, then the automotive A/C sector requires 46 million lbs. of R-12 per year. While some automotive distributors have stockpiled some R-12, the quantities apparently are insufficient for the demand.

The phaseout of R-12 production was known to everyone for five years. How come the industry wasn't prepared?

In fact, many industry and government planners were fooled into thinking that supplies were more ample than they were. This was partly due to speculation as to how much inventory was in the hands of other people and companies (i.e. refrigerant manufacturers, the Big Three automobile companies, automotive distributors, and HVAC wholesalers). No one knew for sure, and the quantities were greatly overestimated as being in 85-100 million lb. range. Even independent surveys commissioned by the EPA as recently as February 1996 produced numbers suggesting a rosier scenario at least until the end of 1997. It is becoming apparent that the estimates were way off.

Another factor which convinced the industry that plenty of R-12 was available was the very low prices that prevailed in the R-12 30-lb. market through most of 1995. In retrospect, this was not due to oversupply, but due to a flood of illegal, smuggled refrigerant cylinders being put on the market at artificially low prices.

The net result of this mistake was that none of the U.S. manufacturers geared their 1994-1995 production toward building maximum inventories, and importers and distributors similarly did not build the kinds of inventories that would be needed. Of course, as of January 1, 1996 no further production or import is possible.

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REFRON, INC.

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The Refron Reportersm

December 15, 1996

CFC AVAILABILITY - THE GOOD NEWS

You may have heard from other colleagues, wholesalers, or suppliers that they are having difficulty obtaining CFC's. As a Refron customer, you need not worry. As you know, for the last few years we have been talking to our customers, and anticipating and actively planning for your long-term CFC requirements for after the December 1995 CFC production halt. The good news is that we've done a very good job of it, ***and we expect to be able meet all your ongoing CFC needs for the foreseeable future!*** How did we do it? Through a combination of inventorying, in-place supply contracts, recovery and recycling, combined with sophisticated statistical predicting tools (some of which we don't understand ourselves!) So whether you need R-11, R-12, R-13, R113, R-114, R-500, R-502 or R-503, don't waste time worrying or searching. Just call **800-4-REFRON!**

CFC FLOOR STOCKS AND EXCISE TAX FOR JANUARY 1, 1997

Even though production of CFC's has ended, the excise tax on CFC's has not. As of January 1, 1997, the tax on the sale of manufactured or imported CFC's rises an additional 45¢/lb., to \$6.25 per ODU lb. If you are holding 400 lbs. or more of CFC inventory for resale as of January 1, you will need to pay an additional floor stocks tax of 45¢/lb. (payable in June, 1997). However, there is no floor stocks tax on product held by end users regardless of quantity, or on resellers holding less than 400 lbs. Therefore, if you fall into either of these categories you may want to prebuy your 1997 CFC supplies before January 1, so as to avoid the price effects of this industry tax. Please place orders early in December if you require delivery before January 1st.

EPA PROPOSES TO EXTEND PURITY REQUIREMENT

Currently, EPA regulations require that any recovered refrigerant which is being recycled and sold to the HVAC market for reuse as a refrigerant must be reclaimed by an EPA-certified reclaimer, and must be reclaimed to meet the ARI-700 standard of purity, the same purity standard as virgin refrigerant. This assures you, the customer, that the CFC's you are purchasing and charging into your systems are pure. EPA's purity requirement is scheduled to expire on December 31, 1996. On November 1, EPA proposed to extend this requirement until such time as an alternate purity and recycling guideline (IRG-2) is put into place. Obviously, industry supports this proposal. Although the official comment period on this proposal has ended, if you want to know how to submit comments on this to EPA please contact Refron's Government Relations desk.

REFRON WEB SITE DEBUTS

We are happy to advise you of the introduction of our company website. Please visit us at www.refron.com, for up-to-date information on our products, services, locations and technical literature. Information can also be gotten from our Refron Retriever fax-on-demand database service, which can be reached at (718) 392-0097.

CONVENTIONS

If you will be attending the 1997 ASHRAE convention and International AHR Expo in Philadelphia on January 27th-29th, please stop in and visit us at Booth #1454. We'll have a small gift reserved for you.

For More Information, Call your Salesperson Directly, or Call 1-800-4-REFRON
(1-800-473-3766)

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Why didn't EPA do something about this?

Of course, hindsight is always 20-20, and EPA too did not know how tight the supply situation was. EPA has been active for years in trying to educate industry wherever possible on the need to aggressively begin retrofitting to alternatives. EPA has also been instrumental in the past in quietly persuading certain manufacturers to produce their full quota poundages. However, in the end the Montreal Protocol and phase-out dates were implemented by International Treaty, and was ultimately not in EPA's control.

Why didn't distributors build their own inventories in preparation for their customers' ongoing R-12 needs?

Firstly, they too assumed that the manufacturers would have ample supply through 1997. Secondly, unlike manufacturer-held inventories, distributor-held inventories required immediate payment of the CFC excise tax and of subsequent floor stocks taxes, such that it became financially impossible for distributors to build R-12 inventories of more than an extra 10%-20%.

Okay, so demand is very tight. Why exactly have prices shot up?

There are a number of answers. Firstly, the refrigerant manufacturers have raised prices repeatedly in the past few months, including increases totalling \$6/lb. in just the past 15 days. Secondly, wholesalers and distributors who now sense that they will be unable to replace the product they are selling are requiring a higher return on their R-12 inventory. Thirdly, companies such as ours are continuing to buy additional supplies on the spot market for their existing customers. These purchases are made at much higher prices and result in higher resale prices. In the past month, Refron has been supplementing its manufacturer allocation with spot purchases at up to \$18 per lb! As you can see, maintaining any real supply of R-12 has become very expensive.

What can we expect in the future?

Supplies will probably remain tight, and prices will continue to rise. In addition, delivery lead times will likely be longer as product in demand will not always be locally available. Also, customers will probably have to be more flexible as to cylinder size preferences if the size they want is not readily available.

So who does have product?

The refrigerant manufacturers and wholesalers have a little. The rest is held by companies who have long-term commitments to their customers (i.e. car manufacturers to their dealers) and therefore can not release all of their inventory simply to meet current demand. Refron falls into this category. We have some R-12 inventories, but we also have various long-term commitments, both formal and informal. As a result, we have to monitor the release of product so as not to completely run out of R-12 soon. Our customers rely on us for this.

What is Refron doing to protect its R-12 customers?

We are trying to preserve our existing inventories for our existing and long-standing customers. We are also continuing to purchase R-12 from any bona fide source from which we can absolutely verify quality and purity. And we continue to seek additional quantities of used R-12 for reclamation. We believe that we offer the highest buyback price for used R-12 in the industry, and we would be grateful for any assistance you might lend us in locating buildings or facilities that anticipate having used R-12 to sell.

What about retrofit options?

Refron maintains extensive inventories across the country of all retrofit-suitable refrigerants, including R-134a, MP-39, MP-66, and FX-56. If you wish more information on any of these products or on retrofit guidelines, please call the Refron Retrieversm automated faxback database from your touch tone phone at (718) 392-0097 and request Document #7101.

For More Information, Call your Salesperson Directly, or Call 1-800-4-REFRON
(1-800-473-3766)