



Daikin in the U.S.

GLOBAL

Osaka, Japan
headquarters

80K+
employees

\$23B+
in FY19 sales

Presence in
150+ countries

#1 air conditioning manufacturer

#2 fluorochemical manufacturer

UNITED STATES

25+ YEARS IN U.S.

17K+ EMPLOYEES

\$6B IN FY19 SALES

\$7B+ TOTAL INVESTMENT

24 PRODUCTION BASES

PRESENCE IN
22 STATES

60,000+
DEALERS/CONTRACTORS

2,000+
DISTRIBUTION LOCATIONS

DAIKIN TEXAS TECHNOLOGY PARK

\$500M
investment

4M+
square feet

8K+
employees

500
acres

LEED
Gold certified

The AIM Act resulted in allocations for production and consumption of the refrigerants (hydrofluorocarbons or HFCs) last year for 2022 and 2023, which was modeled similar to SNAP allocations with production and consumption allocations given primarily to Refrigerant Producers. The draft proposal for 2024 (and beyond) is currently in interagency review.

AIM Act text on Allowances

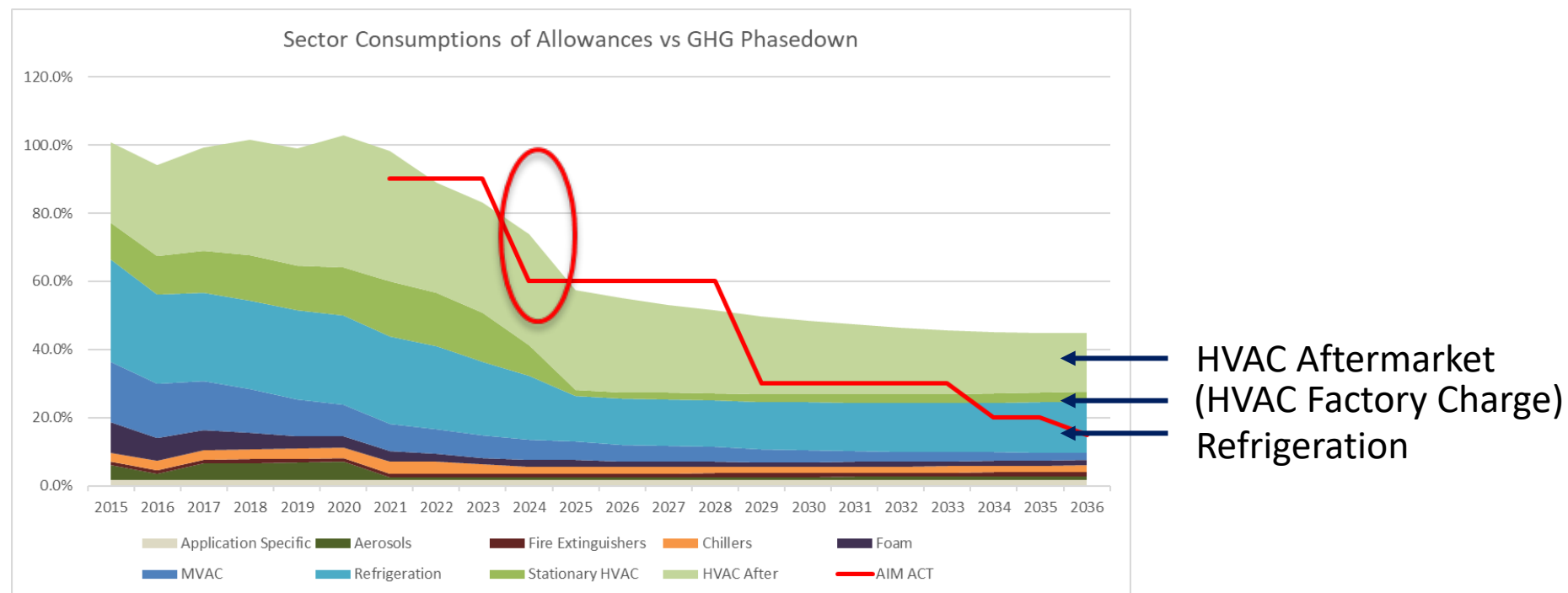
	(4) ALLOWANCES.—
	(A) QUANTITY.—Not later than October 1 of each calendar year, the Administrator shall use the quantity calculated under paragraph (2) to determine the quantity of allowances for the production and consumption of regulated substances that may be used for the following calendar year.
	(B) NATURE OF ALLOWANCES.—
	(i) IN GENERAL.—An allowance allocated under this Act—
	(I) does not constitute a property right; and
	(II) is a limited authorization for the production or consumption of a regulated substance under this Act.
	(ii) SAVINGS PROVISION.—Nothing in this Act or in any other provision of law limits the authority of the United States to terminate or limit an authorization described in clause (i)(II).
	(c) REGULATIONS REGARDING PRODUCTION AND CONSUMPTION OF REGULATED SUBSTANCES.—Not later than 270 days after the date of enactment of this Act, the Administrator shall issue a final rule—
	(1) phasing down the production of regulated substances in the United States through an allowance allocation and trading program in accordance with this Act; and
	(2) phasing down the consumption of regulated substances in the United States through an allowance allocation and trading program in accordance with the schedule under subsection (b)(3) (subject to the same exceptions and other requirements as are applicable to the phase-down of production of regulated substances under this Act).

Under the AIM Act, it does not specify who the allocation should be given to. Just like refrigerant producers and importers have received allocations, the same could be done for HVAC OEMs.

EPA AIM Act Allocations

Confidential

Daikin Model



Main Observations:

- HVAC Aftermarket (for R410A units sold through 2024, and then for GWP<750 afterwards) and Refrigeration represents majority of demands.

Possible Solutions discussed by EPA thus far, and reasons for not being a feasible solutions

1) Heat Pump allocation under application specific usage

- Needs a lot of documentation, records, and evidence of contracts and forecasting. Difficult for residential products and subject to change throughout the year.
- Requires allocations to be used by certain use applications and cannot be converted as they are “non-fungible.” This would not work given the current market forces.

2) Auction

- Auction creates uncertainty for future business planning (without knowing whether a company can secure allowances in a given year) for both refrigerant manufactures and HVAC OEMs.
- Cost to acquire allocation will ultimately passed down to consumers.
- Does not solve the issue of years where shortage exists, as it lacks other offsets like a cap and trade program.

3)Allocation by chemical

- Non-fungible nature locked to blends takes away all innovation and choice from OEMs. We don't yet know what future lower-GWP blends may work best.
- Likely to cause more significant stranding of certain sectors that are targeted and create a burden on businesses in the retail space.

OEM Allocations

OEMs will use allocations more responsibly

- *OEMs will need to think about how to use allocations wisely to meet increasing demands for HVAC. This will incentivize OEMs to transition to lower GWP refrigerants earlier, and develop energy-efficient and smaller equipment that would require less refrigerant.*
- *If chemical producers hold allocations, OEMs will more likely continue the current business practice.*
- *OEMs will be more motivated to engage in recovery and reclamation to secure refrigerant supply for their businesses.*

OEM allocations may reduce IPC

- *If Chemical producers hold allocations, they will be incentivized to use them for R410A for servicing, which is more profitable than the refrigerants for the factory use for new equipment.*
- *This will reduce the refrigerant supply for the new equipment. OEMs may find it difficult to secure the supply of refrigerant and they will have to rely more on IPCs.*

OEM allocations will make HVAC products more affordable

- *If chemical producers hold allocations, they will have more power to control the refrigerant prices and supply. They may increase the refrigerant price, or prioritize allocations for more expensive (profitable) refrigerants.*
- *The increase in the refrigerant cost will be passed on to the product price. HVAC equipment may be less affordable and accessible to consumers, especially low-income households.*