AUSTRALIAN INDUSTRY

GROUP

Ai Group Submission

in response to the
Senate Standing Committee on Environment and Communications inquiry into the WELS (Registration Fees) Bill 2013 and WELS Amendment (Registration Fees) Bill 2013

April 2013

RESPONSE TO THE SENATE STANDING COMMITTEE ON ENVIRONMENT AND COMMUNICATIONS INQUIRY INTO THE WATER EFFICIENCY LABELLING AND STANDARDS (REGISTRATION FEES) BILL 2013 AND AMENDMENT BILL 2013

Achieving the objectives of the WELS Scheme

Ai Group understands the WELS Scheme's objectives as set out in the Water Efficiency Labelling and Standards (WELS) Act 2005 are to:

- conserve water supplies by reducing water consumption;
- provide information for purchasers of water-use and water-saving products; and
- promote the adoption of efficient and effective water-use and water-saving technologies.

The Independent Review of the WELS Scheme identified several issues that needed to be addressed to improve the Scheme's effectiveness, efficiency and viability including addressing the Scheme's funding shortfall. Ai Group strongly supports the fundamental purpose and objectives of the WELS Scheme. We are very concerned that the proposal to impose on industry an even greater proportion of the overall costs of the WELS Scheme will undermine achievement of the Scheme's objectives. Ai Group further contends that any consideration of the allocation of Scheme costs should factor in the extensive administrative, design, testing and quality assurance costs already incurred by industry participants in the Scheme. This is addressed in greater detail below.

The Water Efficiency Labelling and Standards (Registration Fees) Bill 2013 and the Water Efficiency Labelling and Standards Amendment (Registration Fees) Bill 2013 would provide legislative authority to recover costs of the administration of the WELS Scheme through taxes in the form of registration fees and provide the legal basis for implementation of the Standing Council on Environment and Water's November 2011 decision that the scheme should recover 80 per cent of its costs from registrants. This decision reiterated the intention of governments at the scheme's inception.

Imposition on manufacturers and suppliers of regulated equipment of increased costs in the form of higher registration fees will necessarily result in these costs being passed through to purchasers of regulated equipment via increased equipment costs. At the margins, some consumers will be deterred from or delay purchasing new equipment because of the higher costs. New equipment will tend to be more efficient, in part because of the requirements imposed by the WELS Scheme. Because of this marginal effect, there will be an impact on efficiency, even though purchasers of new equipment enjoy the direct benefits of efficiency. Manufacturers and suppliers may also be deterred from introducing new, more efficient equipment due to the increased costs of bringing such products to market.

If the Scheme administration costs were to be partly recovered from water utilities, those costs would be passed on to all water users (including broader industry). Less cost to bring products to market will broaden access to newer, more efficient equipment. Ai Group further notes that water utilities and their customers are a major beneficiary from the WELS Scheme, given that utility infrastructure costs

will be permanently offset by reduced consumption due to enhanced water efficiency, and these savings will benefit all water users within the utility area of service. Ai Group contends that passing WELS Scheme administration costs to water users more generally would align costs with these broader benefits and avoid a disincentive for the use of newer, more efficient products.

Consideration of the total costs of the WELS Scheme

The Explanatory Memorandum states that "registration fees will be set to recover that proportion of the costs of the Scheme determined by the Commonwealth Minister, after consulting with the States and Territories. At this time, a target of 80 per cent cost recovery has been set by the Standing Council on Environment and Water. All Scheme costs may be taken into account in setting the fee, including but not limited to, costs associated with processing registration applications, compliance monitoring and enforcement, policy, standard development and communications." Ai Group research conducted amongst member businesses has identified that industry currently pays a much higher percentage of the entire Scheme costs than 80 per cent by virtue of the fact that the costing of the Scheme does not factor in the full costs impact on industry of involvement in the WELS Scheme.

The costs to industry of involvement in the scheme are estimated at in excess of $7 million per year. This can be broken down into tasks per product:

- product design and in-house manufacturer testing (engineering specification to WELS requirements);
- testing (administration and laboratory testing time, checking test reports. A shower test is around $2000 and mixer around $1000);
- quality assurance (ongoing production sample in-house testing);
- marketing resources (catalogue and price list information, label printing and application)
- product registration onto the WELS database
- sales team market surveillance to determine if "run-out" products are still in the market in order to maintain, yet minimise registrations.

The cost of the WELS Scheme for a single plumbing product is estimated to be 30 hours work (5 hours submission preparation and 25 hours design, testing etc). The cost of the WELS Scheme for a single "whitegoods" product is estimated to be 5 hours (less than plumbing products as much of the design and testing work is already undertaken for energy efficiency requirements). As the WELS database contains 14 849 plumbing products and 1312 "whitegoods" products, the total costs to industry in terms of professional hours is (14849 x 30) + (1312 x 5) = 452 030 hours over 5 years. Using a conservative average hourly rate of $81 per hour for a professional worker (engineer, test laboratory technician, production manager, marketing and sales professional and including business occupancy, remuneration and administration on-costs such as superannuation, leasing office space, IT and administration support, furniture and fit out, insurance, workers compensation, payroll tax, energy costs, training and development etc), Ai Group estimates the total cost of the WELS Scheme to industry over 5 years at in excess of $36 million.

Industry believes that water utilities, including state owned water corporations are major direct beneficiaries of the WELS Scheme, and stand to save considerably more than the cost of the WELS Scheme in delivery infrastructure and storage upgrade cost offsets. Given this, combined with the already significant cost burden on industry of participation in the WELS Scheme, it is entirely appropriate that the water utilities meet the administrative costs associated with the Scheme.

The Impact on Small and Medium sized Plumbing Equipment Manufacturers

Ai Group has two distinct groups of members impacted by the WELS Scheme - "Whitegoods" manufacturers/ suppliers (clothes washing machines and dishwashers) and plumbing industry manufacturer/ supplier members.

The plumbing manufacturing and supply industry is characterised by many small to medium sized businesses[1] with low turnover and a relatively large number of models in their catalogue – generally in excess of 200 models. These businesses will be particularly hard hit by any increase in the proportion of WELS Scheme costs that industry must bear. This sector is already experiencing major competitive pressures due to the high Australian dollar, intense import competition, increases in wages and other input costs and a downwards pressure on selling prices. Ai Group is very concerned that an increase in fees under the WELS Scheme will be the final straw for some of these plumbing manufacturers who will be forced to close their businesses.

[1] ABS Cat no. 1321.0 – Small Business in Australia, 2001 defines small businesses as businesses employing less than 20 people and medium business as businesses employing 20 – 199 people.

ABOUT Ai GROUP

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people.

In response to the WELS review and the Senate Standing Committee on Environment and Communications review of the WELS (Registration Fees) and Amendment Bills 2013, Ai Group conducted industry consultations with members of our Electrical Appliances and Accessories Forum and amongst our plumbing equipment manufacturer and supplier members.

Electrical Appliances and Accessories Forum

The Electrical Appliances & Accessories (EA&A) Forum addresses the technical and regulatory environment affecting supply of electrical appliances and electrical accessories through interaction with regulators and participation in standards bodies. This Forum is particularly focused on electrical safety, energy efficiency and environmental issues associated with appliances.

Plumbing Equipment Manufacturer and Suppliers

Ai Group's plumbing equipment manufacturer and supplier members range from small to large businesses supplying the complete range of WELS regulated plumbing and bathroom products.