AUSTRALIAN GREENHOUSE OFFICE

SUBMISSION
to the
PRODUCTIVITY COMMISSION

REVIEW OF TTMRA

COTEXT OF SUBMISSION

At the request of the Productivity Commission, the Australian Greenhouse Office (AGO) prepared a submission to assist that body to place several industry and other stakeholder submissions in context. This initial submission was confidential as the AGO is engaged in on-going negotiations with New Zealand energy efficiency agencies where the position of the parties is subject to modification and change based on that continuing dialogue.

The Productivity Commission subsequently requested the AGO to make parts of the original submission public to assist that body to prepare its report. This public submission contains extracts from the original confidential submission responding to that request.

NATIONAL ENERGY EFFICIENCY PROGRAMS

Throughout the world, some 50 economies operate a standards and labelling regime applying to end-use products.

The Australian MEPS and labelling program for electrical appliances and equipment can be traced to the National Greenhouse Response Strategy in 1992, which for appliances was derived from labelling initiatives in NSW and Victoria commencing in 1986 and 1987 respectively. This program has become a cornerstone of Australia's response to the challenge of climate change. The program was expanded and enhanced first in the Australian Prime Minister's statement *Safeguarding the Future* (1997) and again by the published *National Greenhouse Strategy* (1998).

> Energy consumed by equipment and appliances is a major source of greenhouse gas emissions attributable to the industrial, commercial and residential sectors. …. Government support can provide an important stimulus to the development of close-to-commercial energy efficiency technologies and services. This also can provide economic benefits through industry development and exploitation of export market potential…(NGS p46)

Item 4.10 of the NGS sets out the goal of improving the energy efficiency of domestic appliances and commercial and industrial equipment by extending and enhancing the effectiveness of existing energy labelling and minimum energy performance standards.

The NGS charges the Commonwealth and all States and territories through the Ministerial Council on Energy, in consultation with relevant industry and stakeholders

to achieve this goal. Specifically, the NGS states that the Australian program will be pursued by:

> Ensuring consistency of approach between Australia and New Zealand wherever possible. (NGS p48)

The Australian program has a budget in 2002/3 of $1,240,000 and is likely to have a budget in 2003/4 of $1,450,000 funded on the agreed Commonwealth, State and Territory formula. The national program is managed by officials reporting to the MCE committee system (where New Zealand officials also participate) and is identified as a highly successful program.

In its annual report to MCE, the program reports expert projections that, over the period 2003-2018, the economy benefits by $28 for every tonne of CO2 abated. With total savings of 134Mt CO2 and over $4 billion net benefit to purchasers of these appliance and equipment types in that period (NPV, 10% discount rate), standards and labelling of electrical products are demonstrably a cost effective program delivering the "triple bottom line" of energy conservation, environmental benefits and industry development.

Since 1987, New Zealand has had in place a voluntary energy efficiency appliance labelling scheme (a copy of the schemes in Australia). In 2002, New Zealand implemented a regulatory program of MEPS and mandatory labelling for electrical products for the first time. In the foreword to the New Zealand discussion document on MEPS and labelling dated April 2001, the Minister of Energy, stated the goals for improving New Zealand's end-use energy efficiency:

> Overseas experience has shown that energy efficiency can make a big contribution to reducing greenhouse gas emissions and at the same time the economy by reducing costs. These energy performance regulations are an important part of our broader energy efficiency strategy for New Zealand. …. The information on the label will be based on testing of the products to joint Australian/New Zealand Standards.

The New Zealand scheme proposes to:

> Ensure that the MEPS and energy labelling regime is compatible with the regime in Australia and based on the same joint Standards (p3)

The theme of cooperation was repeated in the New Zealand Regulatory Impact Statement circulated to Australian jurisdictions in 2001:

> New Zealand is a party to the TTMRA, which provides that a product that may be legally sold in New Zealand can be sold in Australia, and vice versa, regardless of differences in standards or other sales-related requirements between the two countries. Adopting MEPS and energy labelling on the same range of products as Australia will prevent New Zealand from becoming a dumping ground for energy inefficient stock and avoid Trans Tasman trade restrictions. (p2)

BENEFITS OF ALIGNED NATIONAL PROGRAMS

Both countries are committed to assisting the marketplace by:

- energy efficiency labelling to better inform everyone of reliable efficiency information; and
- minimum performance standards to set acceptable base efficiency levels.

Both countries use these same policy tools to achieve energy savings at a faster rate than the market has been able to deliver (business-as-usual). Negative consequences,

however, flow to stakeholders if different MEPS and labelling standards apply in each country. The negative impacts which could occur for consumers, industry trading between jurisdictions, and regulatory agencies include:

- confusion arising from differing labels and differing standards for products freely traded between Australia and New Zealand;
- a loss of confidence in their national system promoted by government as providing them with world class product;
- increased R&D costs for manufacturers making products to meet differing standards and extra compliance monitoring costs to ensure products made for one country are not inadvertently sold to the other;
- the lack of scale economies in producing more than one product leading to higher unit costs;
- the resource costs of each country conducting their own differing national program;
- the resource costs required by the TTMRA process to justify different energy efficiency standards.

Any negative outcomes for industry and government can be mitigated by greater cooperation between regulatory authorities and the accelerated development of joint standards, where appropriate. Under current policy settings, an individual jurisdiction contemplating the introduction of new standards and regulations has strong reasons to avoid differences or alternately has the responsibility to justify any remaining differences to the other jurisdictions.

PAST AND PRESENT INSTANCES WHERE "MUTUAL RECOGNITION" DID OR DOES NOT APPLY

There have been four product groups where mutual recognition did not apply, two initiated by Australia and two by New Zealand.

In the first case following TTMRA coming into effect in 1998, several Australian jurisdictions sought common temporary exemptions to protect the mandatory appliance labelling scheme for six major appliance types. With unanimous support from the then ANZMEC in 1999, the temporary exemption was extended for a further 12 months on the basis of the policy decision to create, in TTMRA terms, a permanent exemption. The policy decision was not given effect to by Australian jurisdictions in regulation as it was an artifice to permit New Zealand time to mandate the common appliance label in their country. New Zealand mandated the joint appliance label for the same products in early 2002 whereas the two-year protection afforded by the Australian jurisdictional regulations expired in late 2001.

In the second instance, several Australian jurisdictions sought to protect the mandatory MEPS applied to domestic refrigerators and electric storage water heaters that commenced in October 1999. NSW, for example, enacted a temporary exemption regulation on 5 November 1999 providing protection in that state for 12 months. Temporary exemptions were not put to the relevant Ministerial Council for extension in November 2000 on the basis of EECA representations at the time that the appliance labelling and MEPS for refrigerators and water heaters were to be regulated in 2001. In any event, the New Zealand regulatory program was delayed until early 2002.

In the third and fourth instances, New Zealand has enacted temporary exemptions to protect their more stringent energy efficiency MEPS for lighting ballasts and electric storage water heaters in February 2003. Both products were submitted for Australian MEPS approval to the Ministerial Council on Energy (MCE) after an exhaustive process lasting years in early 2002. Throughout that process, New Zealand officials were involved at every stage but, until late 2001, Australian officials were not advised of any New Zealand concerns at the proposed levels.

In early 2002, the New Zealand Minister for Energy, the Hon Pete Hodgson MP, agreed to support the ballast energy efficiency performance standard (which implied acceptance of mutual recognition for this product) but abstained from supporting the water heater MEPS proposal. These MEPS proposals related only to Australia (ie did not relate to New Zealand except in TTMRA terms). His abstention within MCE had the effect of postponing the proposed regulation of more stringent standards for some types of electric storage water heaters in Australia indefinitely. The Australian Greenhouse Office agreed to manage the process of attempting to find an agreed solution for MCE and will report later in 2003.

PRINCIPLES FOR COOPERATION

The AGO believes that agencies involved in electrical product regulation should commit to three principles to improve the prospects of aligning the national programs. The three changes are:

- a better communication process between agencies responsible for the national programs:
- a better long-term planning process (with Government commitments transparently "locked in" early in the process, subject to subsequent cost benefit analysis and public consultation); and
- comparable financial resourcing of both national programs.

MOU to deal with the first two principles

In 2003, officials agreed a process of more formal communication and planning.

The regulatory process in Australia (subject to Council of Australian Government guidelines) is quite formal and hence transparent. It requires regulatory proposals to have been subject to lengthy public consultation processes and rigorous cost benefit analysis establishing the clear benefits of regulating energy efficiency improvements. The results of that process should provide a clear, unambiguous recommendation to Ministers about any MEPS or labelling proposal.

In 2002 and into 2003, officials worked at improving and formalising communication processes between government agencies. The final form of the document first proposed after the New Minister's rejection of the Australia MEPS for some types of electric storage water heaters represents an improved, more formal communication process agreement to overcome the past dialogue problems.

The MOU will deliver national scheme alignment (as far as in the interests of both countries) by:

- Investigating product groups for possible inclusion in regulatory programs;
- Sharing the results of such investigations and making a joint decision on how to proceed;
- Developing common standards for the measurement of energy performance;
- Developing common standards that set energy performance classes;
- Devising compatible regulatory regimes; and, where relevant,
- Explaining to stakeholders the reasons why alignment cannot be achieved for specific product types.

The present policy framework provides officials with sufficient scope to negotiate the detail of aligning regulatory MEPS and labelling programs without the need to seek a renewed mandate from Ministers. The MOU framework still provides officials with scope to recognise differences for particular products between the national programs (in circumstances where good reasons can be articulated for that difference) without jeopardising the overall goal of aligning the regulatory programs. With this flexibility comes the responsibility to limit variation as far as possible.

The Financial Commitment of the Two Programs.

Since its establishment 10 years ago, the Australian program has been identified as probably the most cost-effective energy efficiency and greenhouse gas abatement program in Australia. In a publication by MCE released in June 2003, the program is projected to deliver more than $4 billion benefits to our society in the next 15 years.

The cost to all Australian governments have not been insignificant. While the projection that Australian governments invest just 10 cents a tonne to achieve these numbers is a demonstration of that cost effectiveness, energy efficiency agencies have invested more than $10 – 15 million since 1990 (around $6 million in the common fund for national projects without costing individual initiatives not staffing time). The Australian program is identified by standards and labelling experts world-wide as very effective.

It is not possible for the AGO to provide the Productivity Commission with the total New Zealand Government financial and staffing contribution to its national program. It is possible to provide some recent examples:

- Water Heaters - the AGO and Australian jurisdictions have spent over $100,000 in comparative testing used to develop a joint test method for this product type in 2002 and 2003 (with this being the product that the New Zealand Minister encouraged his Australian counterparts to match his country's MEPS). EECA advised that it was not able to assist with funding this joint testing though it did facilitate some New Zealand products being made available for testing;

- Commercial refrigeration - the AGO and Australian jurisdictions will spend over $150,000 in developing the MEPS and test method for this product type in 2003 and 2004. New Zealand officials have advised that they would like to

join this process after the funding contributions of government and industry (both Australian and New Zealand) are resolved);

- General verification testing and standards development- the AGO and Australian jurisdictions will spend as much as $500,000 this financial year on these related topics. In 2003, EECA has offered $10,000 towards enforcement activities.