



AUSTRALIAN INDUSTRY
GROUP

Ai Group Submission

in response to the

*Mandatory Advertising of Energy Rating Labels
Invitation to comment on business compliance costs – Supplier Survey*

August 2010

EXECUTIVE SUMMARY

The Australian Industry Group (Ai Group) welcomes the opportunity to comment on *Mandatory Advertising of Energy Rating Labels, Invitation to comment on business compliance costs – Supplier Survey*, hereafter referred to as the *Supplier Survey*.

Ai Group's response to the *Supplier Survey* builds on our earlier response to the Consultation Regulatory Impact Statement (RIS) dated March 2010 and is based on substantial consultation with industry through Ai Group's networks.

Ai Group welcomes the undertaking of the *Supplier Survey* and is basically supportive of the move to require energy rating label information within advertising for specific products where this is practical. In saying this, we have concerns regarding:

- the scope of coverage of the proposed legislation and its practical application. Substantial clarification is required on a number of production issues for print and televised materials. Ai Group seeks confirmation that general brand promotion will not require energy star ratings to be displayed even if a flagship model is shown in an advertisement.;
- radio advertisements. These should be exempt from the mandatory requirement to announce the energy star ratings due to the difficulties with reproducing the details of the label within an advertising spot that is often less than 30 seconds. ;
- additional significant costs to business have not been factored into the *Supplier Survey*;
- Ai Group member costs to business of the introduction of such legislation differ in some instances to the DCCEE estimates. The details are provided in Appendix A;
- policing and enforcement of the legislation which must focus on the segment of the supply chain responsible for the advertising and also should not single out inadvertent errors;
- the potential for lack of distinct differentiation between compliant and non-compliant advertising. A code of practice giving specific compliant and non-compliant examples covering all forms of advertising media should be developed with input from industry;

It is essential that outcomes from the inclusion of energy labelling requirements for advertising in national legislation benefit all stakeholders: industry, community, environment and government.

Importantly, Ai Group supports the objectives of national legislation to provide a vehicle for expanding the MEPS and energy labelling program to improve the energy efficiency of appliances and equipment only where this is proven to be the most appropriate and cost-effective effective means of addressing market failure.

RESPONSE TO THE MANDATORY ADVERTISING OF ENERGY RATING LABELS, INVITATION TO COMMENT ON BUSINESS COMPLIANCE COSTS – SUPPLIER SURVEY

Regarding the invitation to comment on the DCCEE’s preliminary cost estimates

1. Cost of the text or image that is added to the advertisement

Ai Group agrees with the Department’s assessment that the energy rating label artwork already exists so additional costs are likely to be negligible. However there may be costs associated with the rescaling or reformatting the label image for the different applications of print and television.

2. Cost of information transmittal, including cost of ensuring compliance by downstream agents

Ai Group would argue that the cost of information transmittal fails to adequately account for four additional business costs.

Firstly, the proposed regulatory requirement will involve new business strategy, policy development and internal company education in order to effectively alter current business practices. As there is no current regulation of advertising material, numerous people within a supplier may now sign off on advertising material given to advertising agencies. If the proposed regulations are developed and adopted, new business strategy, policy and education of employees will be required. It is estimated that this cost would be an average of 5 person days per business. As there are 100 businesses involved the total cost to business will be 500 person days or \$750 000.

Secondly, Ai Group believes that the cost of information transmittal does not fully take account of the additional and ongoing work required by marketing and desktop publishing staff each time product information is compiled. Also, allocation of additional resources by technically competent supplier staff will need to be allocated on an ongoing basis in checking and signing off on the technical correctness of content before it is sent. Mistakes are possible in compiling data base information so all content that leaves a supplier will need to be verified.

It is estimated that the extra business cost to compile and check the content of material sent externally will be 0.25 person days per product per year. Using the number of products registered last year (only products in categories captured by this legislation were included = 2600) as a base figure, the cost to compile and verify the additional energy rating information will be $2600 \times 0.25 \times \$1500 / \text{year} = \$975\,000$ per year (using an average \$1500 per person per day labour rate).

The level of enforcement will determine the extra level of verification taken by suppliers before information is released externally. If enforcement is reasonable and based on overall compliance of a supplier, then verification time may be able to be reduced. If enforcement is very strict and singles out

inadvertent errors made in the process, then the verification time will be significant and become a significant burden on business.

Thirdly, where websites are produced by a third party and costs shared by suppliers, re-programming of these types of websites will be needed. At the moment, only price is able to be altered so re-programming will be required to add energy star rating content. The cost for re-programming will be passed on to suppliers. It is difficult for suppliers to quantify the total cost of this type of website re-programming but it would not be insignificant.

Ai Group agrees with the assessment by the Department that initial database reprogramming alone will require an average of 5 person days (5 x \$1500 = \$7500) per business and that 130 businesses will be mainly affected. The total cost of initial database reprogramming alone is approximately \$1 000 000.

So the initial database management work will cost business \$1 000 000. Business strategy, policy development and education will cost business \$750 000. Ongoing verification of information will cost business an additional \$975 000 / year. Additional costs from alterations to third party websites will be passed back to suppliers.

Fourthly, as the retailer is responsible for much of the non-brand advertising of supplier products it is imperative that the Department seek the views of large and small retailers as to the additional cost of a mandatory requirement to display the energy rating label or text in advertising. These will be in addition to any costs referenced in this submission.

3. Cost of additional advertising space

Regarding the cost of compliance of additional advertising space, please see the Ai Group response in **Appendix A**.

Ai Group comment on the need for complementary measures

Ai Group does not support Memorandums of Understanding (MoU) between the Department and major brands and retailers as smaller retailers and suppliers will not be captured in such agreements. MoUs would create an uneven market where larger brands and retailers are subjected to additional requirements over those imposed on competitors.

Publishing a code of practice that defines the labelling performance criteria of intelligibility, prominence and consistency through examples of compliant and non-compliant labelling may create less market distortion and would be acceptable to all suppliers.

Whether by the use of specifications for font sizes, compression of spoken words, duration of displays or examples of compliant and non-compliant advertisements, Ai Group believes that a highly prescriptive regulation will be difficult to avoid. If examples of compliant and non-compliant advertisements are given in a code of practice, the examples will need to be specific enough to not allow a middle ground of uncertainty between compliance and non-compliance.

Examples covering all forms of advertising mediums will need to be shown. Guidance, examples or rulings will need to be given based on agreed average screen sizes for web or television based advertising. An energy rating label may be perfectly visible on an average sized screen but not discernable on a 2 inch phone screen. Ai Group believes that the legibility of an energy rating label should be determined by average screen size and not the smallest screen size available. Compliant examples should refer to average screen size (eg 17 inch computer monitor or 42 inch television screen).

Examples of compliant and non-compliant labelling as referred to above are required for two reasons. To avoid suppliers exploiting regulatory loopholes (legibility based only on viewing on the largest screen size) and to avoid regulatory enforcement based on viewing on the smallest screen size.

Ai Group emphasises the examples provided should cover all forms of advertising, be based on average screen size (for television and computer viewing) and be specific enough to not create a middle ground of uncertainty between compliance and non-compliance. Ai Group believes by the use of specific examples, a highly prescriptive regulation will inevitably be created. Effective monitoring of transient content may be difficult.

4. Assistance with information transmittal

The assistance measures outlined under section 4 of the *Supplier Survey* may be helpful to retailers. It must be recognised that the information taken by retailers and advertising agencies will be outside the control of suppliers, so suppliers should not be targeted by enforcement if incorrect information appears in a retail catalogue.

Ai Group emphasises that enforcement should only be directed at the party responsible for the advertising. Retailers must take full responsibility for the oversight of their own advertising. This will require an awareness campaign by the DCCEE to educate all levels of the supply chain including hundreds of suppliers, independent retailers and advertising agencies.

Ai Group cautions that retailers now place some responsibility for oversight of advertising content onto suppliers. This practice will need to cease and a line of responsibility drawn by suppliers. This line will be very difficult to maintain by suppliers given the history of practice in retail advertising and will be an unseen burden on the supply industry. A worst case situation would see suppliers and advertising

agencies encouraged by retailers to assist with payment of fines in order to maintain a good business relationship.

5. Phasing-in period

Ai Group believes a phasing-in period of 12 months would be sensible. During this time, suppliers and retailers could sort through the issues that arise out of the additional labelling requirements.

During this 12 month phasing-in period an awareness campaign by the DCCEE to educate all levels of the supply chain should be conducted. All suppliers and retailers should be contacted by the DCCEE during such a campaign. Manufacturers and retailers should be asked for the contact details of the advertising agencies that they use. The advertising agencies should also be included in the awareness campaign.

6. Additional comment regarding brand advertising

General brand advertising should not be captured by the enhanced labelling requirements. Some brand advertisements contain images of specific products (usually a flagship appliance) but do not mention the specific appliance model reference. Ai Group believes this form of advertising should not be captured by the enhanced labelling requirements.

Also, some types of brand advertisements mention features and benefits of product ranges, but do not mention the specific model references of the range. A range may have several model references, each with different energy ratings but all with similar key features. Ai Group believes this form of advertising should not be captured by the enhanced labelling requirements.

Only advertisements mentioning specific appliance model references or prices should be captured by the enhanced labelling requirements.

International brands make advertisements for the world market. A significant cost would be imposed on international brands if brand advertising, of the types mentioned here, is captured by Australian specific enhanced labelling requirements.

ABOUT Ai GROUP

The Australian Industry Group (Ai Group) is a leading industry association in Australia. Ai Group member businesses employ around 750,000 staff in an expanding range of industry sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other related service industries.

In response to the *Supplier Survey*, Ai Group conducted industry consultations with members of our Electrical Appliances and Accessories Forum and the Australian Digital Suppliers Industry Forum.

Electrical Appliances and Accessories Forum

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.

Australian Digital Suppliers Industry Forum

The Australian Digital Suppliers Industry Forum (ADSIF) addresses the technical and regulatory environment affecting supply of digital televisions and radio appliances through interaction with regulators and participation in standards bodies. This Forum is particularly focused on the planning and implementation issues related to digital television and radio in Australia. The forum also addresses electrical safety, energy efficiency and environmental issues associated with digital televisions and radios.

Appendix A: Preliminary estimates of the cost of advertising space

COMMENT regarding the additional advertising space required to accommodate energy labelling on various advertising platforms

<u>Column A</u> <i>Unit of advertising space</i>	<u>Column B</u> <i>Typical cost of a unit of advertising space</i>	<u>Column C</u> <i>% increase in advertising space needed to display energy ratings</i>	Ai Group comments
<u>Brand and retailer websites</u>			
1. Product specification webpage	Given the basic design of a website, the cost of adding a product page is minimal	0%: the cost of adding energy rating information to a product webpage is minimal.	0% for the advertising space alone. Web-sites are sometimes shared where at the moment only price is able to be affected. Changes to website specifications are possible but this type of site has not been included in the <i>Supplier Survey</i> cost assumptions (see 2 in the main body of this submission) Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).
2. Product shortlists (user generated)	Given the basic design of a short-listing process, the cost of adding a searchable product is minimal	0%: the cost of adding energy rating information to a shortlist is minimal	0% for the advertising space alone. Some companies do not promote product specifications (model references) within short lists. Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).

<u>Column A</u> Unit of advertising space	<u>Column B</u> Typical cost of a unit of advertising space	<u>Column C</u> % increase in advertising space needed to display energy ratings	Ai Group comments
3. Banner ads and text links to a webpage	Not applicable. It is anticipated that energy rating information will <u>not</u> be required on banner ads, text links and other types of leads. However, the information should be displayed appropriately after one or two clicks on the product links, no more or less prominently than the other appliance attributes that attract buyers.		
Hardcopy advertisements			
4. One page of typical appliance ads in catalogue, flyer or newspaper	<u>National catalogue:</u> 0.4-0.6 cents /page <u>Local flyer:</u> 2-4 cents/page <u>Metro tabloid:</u> 8-16 cents /page <u>Regional tabloid:</u> 10-25 cents /page <u>Community tabloid:</u> 5-10 cents/page	<u>1%:</u> Total pages of advertising would increase by 1% at most, to accommodate energy stars or text addition to the selling points.	Since text is a suitable form of compliance, the additional cost to the actual advertising would be minimal (agree with approx 1 %). Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).
5. One page of 'thumbnail' appliance ads in catalogue, flyer or newspaper	<u>National catalogue:</u> 0.4-0.6 cents /page <u>Local flyer:</u> 2-4 cents/page <u>Metro tabloid:</u> 8-16 cents /page <u>Regional tabloid:</u> 10-25 cents /page <u>Community tabloid:</u> 5-10 cents/page	<u>5%:</u> Total pages of advertising would increase by 5% at most, to accommodate energy stars or text addition to the selling points.	Suppliers want their products grouped in certain configurations and not re-arranged into star rating columns which would cause brands to be "lost" amongst other brands and minor brand products. If the energy label is used the cost increase will be 50%. If text is used the cost increase will be 10 %. Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).
6. One page magazine advertisement	5-16 cents/page	<u>0%:</u> Magazine ads typically have sufficient space for energy stars or a few words of text.	Suppliers agree with 0% for the advertising space alone. Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).
TV and radio advertisements			
7. 30 second TV ad	\$20,000 to \$80,000	<u>0%:</u> We assume that energy stars can be displayed in the corner of a TV screen for several seconds without displacing other material or increasing the ad duration.	Manufacturers agree with 0% for the advertising space alone. Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission). Brand advertising on TV should not be captured even if a flagship model appears. Only advertising which specifies an appliance model reference or price should be captured. Otherwise, TV commercials made overseas as brand advertising would require significant additional work in Australia to meet Australian only requirements. This would be a significant cost burden to businesses (see 6 in the main body of this submission).
8. 30 second Radio ad	\$2.00 to \$10.00	<u>10%:</u> It may take several seconds to announce the energy rating in a sufficiently prominent manner.	Radio advertisements are often shorter than 30 seconds. Model specific radio advertisements will need 30 – 50 % of the ad duration to announce the energy rating information. It is most likely that mandating the announcement of the energy star rating would effectively kill this form of advertising. For this reason, Ai Group asks that radio advertising be exempt

<u>Column A</u> Unit of advertising space	<u>Column B</u> Typical cost of a unit of advertising space	<u>Column C</u> % increase in advertising space needed to display energy ratings	Ai Group comments
			<p>from the mandatory requirement to announce energy star ratings.</p> <p>Additional costs are involved for the ongoing verification of the information released (see 2 in the main body of this submission).</p>