

# Submission

By



to

## Ministry of Consumer Affairs

on the

### Proposed Implementation of Mandatory Water Efficiency Labelling Discussion Document

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# PROPOSED IMPLEMENTATION OF MANDATORY WATER EFFICIENCY LABELLING DISCUSSION DOCUMENT

## SUBMISSION BY BUSINESS NEW ZEALAND<sup>1</sup>

### 1.0 SUMMARY

- 1.1 Business New Zealand welcomes the opportunity to comment on the Proposed Implementation of Water Efficiency Labelling Discussion Document.
- 1.2 Business New Zealand appreciates that the general intent of water efficiency labelling is to ensure that water is not “wasted” and that resources are used efficiently which are laudable objectives.
- 1.3 While Business New Zealand is strongly supportive of voluntary market-driven water efficiency labelling standards which reflect the preferences of consumers, Business New Zealand is opposed to any move towards making water efficiency labelling standards mandatory.
- 1.4 Business New Zealand sees little benefit in mandatory water efficiency labelling standards for specific products believing such standards will simply add to costs. Moreover they are likely to crowd out the use of market driven information naturally provided to consumers via a competitive market.
- 1.5 Producers of products have strong incentives to meet the needs of consumers. Therefore, if water efficiency is a particularly big issue for consumers, it can be presumed manufacturers will have strong incentives to promote the “efficiency” of their particular products compared to their competitors. However, this does not require government involvement through mandatory water efficiency labelling, particularly given that consumers live in different areas, some of which are affected by water shortages while others never experience any problems with water supply.
- 1.6 Notwithstanding the above, Business New Zealand does see significant benefits in investigating pricing mechanisms where consumers face the costs associated with water usage, rather than flat charges per rateable property as is widely the case at present. Such charging would encourage individuals and households to make informed decisions about purchasing durable goods, making comparisons about the initial capital cost of various products and the potential operational (water/energy) costs - thereby enhancing the total efficiency of resource use.

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<sup>1</sup> Background information on Business New Zealand is attached as Appendix 1.

**Business New Zealand sees little benefit in mandatory water efficiency labelling for specific products. However, it does see benefit in investigating pricing mechanisms where consumers bear the cost of water usage rather than the widely used current practice of charging ratepayers a flat charge irrespective of water use.**

## **2.0 GENERAL COMMENTS ON THE DISCUSSION DOCUMENT**

- 2.1 Business New Zealand welcomes the opportunity to comment on the Proposed Implementation of Water Efficiency Labelling Discussion Document.
- 2.2 Business New Zealand appreciates that the general intent of the Discussion Document is to ensure that water is not “wasted”. While Business New Zealand understands the objective is to improve on current voluntary arrangements, Business New Zealand is concerned the Discussion Document fails to outline a clear set of principles to assist in policy development (and therefore options) in this area.
- 2.3 The following fundamental questions have not been addressed in any vigorous way:
- Is there a problem with water usage which justifies regulatory controls such as water efficiency labelling of products?
  - If there is a problem, is the problem significant?
  - What are the costs and benefits (including unintended costs) of imposing regulatory standards?
  - What potential (market-driven) options would improve efficiency of water use (e.g. price on water) rather than regulatory options?
- 2.4 Before any regulatory approach is considered desirable, it is first of all important to fully understand the nature of the problem: Who is affected, the costs of taking action, and who bears those costs. Due to its cost, regulatory intervention should generally be considered to be a last, not a first option, and only to be taken when all other cost effective approaches have been exhausted.

- 2.5 In order to justify government involvement, via regulation, there must be a clear case of market failure and the problem of market failure must be significant. Given that markets are generally faster at self-correcting than government intervention, the onus of proof must be on government to establish that the benefits of intervention exceed the costs, including any unintended costs associated within regulation.
- 2.6 Notwithstanding the above, as a general principle, individuals and companies should bear the full costs associated with their behaviour (i.e costs should be internalised) or individuals will over-consume resources if they can shift costs on to third parties. Water usage is no different in this respect. In order for individuals to make rational decisions in respect to water use, individuals should ideally bear the costs (and benefits) associated with specific product options they purchase or use.
- 2.7 It is rational for any producer (and consumer) to invest in reducing water usage up to the point at which the costs of reducing water start to exceed the benefits. Suppliers of products already have market incentives to differentiate their products in order to improve market share by providing consumers with information on their products such as promoting “environmentally friendly” or in this case “water efficient” products etc. Consumers will respond based on their unique preferences and the costs and benefits of alternative purchase decisions.
- 2.8 Business New Zealand notes that the Discussion Document argues a water efficiency labelling scheme for specific products (e.g. washing machines, dishwashers, taps, toilets etc) would help consumers reduce water use. Reduced water consumption can also result in reduced energy consumption, e.g. in the case of hot water use while reductions in water use could delay upgrading wastewater systems or allow smaller plants to meet acceptable standards.
- 2.9 While Business New Zealand notes the benefits of reduced water use, it is important to have the most appropriate pricing mechanisms in place to ensure individuals and communities use water efficiently. In some areas of New Zealand, water is plentiful with little reason to put a price on it to restrict its use. In other areas, particularly on the East Coast of New Zealand, demand for water exceeds supply. This has resulted in the need for various mechanisms to restrict water use in Canterbury with some rivers and aquifers being considered “red zones” where no more water can be allocated unless existing users give up some of their current permitted take. This is particularly the case with agricultural irrigation.

- 2.10 The most appropriate response in such circumstances is to develop market mechanisms for water use, thereby attaching a price to water based on its scarcity value. This would ensure that users constantly had incentives to use water efficiently. However, it would make little sense developing a market for water in areas where the supply of water well and truly exceeded likely demand over the medium to long-term.
- 2.11 It is important in this respect that water users pay for the full costs associated with water use rather than be charged a flat charge per ratable property as largely occurs to date. A flat charge for water use, irrespective of usage, is simply a recipe for inefficient water use in areas where water is relatively scarce and large capital works are required for storage etc.
- 2.12 As an initial step, Business New Zealand considers that there should be further investigation of market mechanisms for water usage to ensure efficient water use, rather than the current ad hoc arrangements to deal with potential water shortages, e.g. restrictions on use for certain periods or, as proposed in the Discussion Document, mandatory standards for certain products *irrespective of where those products might be used or the value individuals and companies might attach to marginal water usage.*
- 2.13 The Discussion Document argues that because Australia requires mandatory water efficiency labelling schemes for specific products, then it is in New Zealand's interests to follow suit in order to facilitate trade between the two countries. However, this assumes that New Zealand and Australia only export into each other's markets, when in reality New Zealand and Australian consumers buy products from all over the world. Where market incentives (or trade barriers) require harmonisation of standards, then producers will have strong incentives to comply in order to access those markets. This presumably does not require such "standards" to be enforced by the Government.

**Business New Zealand sees little benefit in mandatory water efficiency labelling for specific products. However, it does see benefit in investigating pricing mechanisms where consumers bear the costs of water usage rather than the widely used current practice of charging ratepayers a flat charge irrespective of water use.**

## **APPENDIX 1**

### **BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND**

Business NZ is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association - and 67 affiliated trade and industry associations, Business NZ represents the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business NZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.