

Ms Anna Collyer
Independent GEMS Act Review
GEMSreview@environment.gov.au

12 April 2018

Re. Review of the Greenhouse and Energy Minimum Standards Act 2012

Dear Ms Collyer

Thank you for the opportunity to provide a submission to the Independent Review of the *Greenhouse and Energy Minimum Standards (GEMS) Act 2012*.

The Energy Efficiency Council (EEC) is the peak body for energy efficiency, demand management and cogeneration in Australia. Our members include energy efficiency providers, independent experts and various levels of government.

The EEC strongly supports governments setting minimum energy performance standards and labelling requirements for appliances. The GEMS program saves the average household \$90 each year on their electricity bills, with net benefits of over \$5 billion between 2000 and 2015.¹ The program also delivers benefits to the manufacturing sector and energy systems. However, there are significant opportunities to learn from global best practice and improve the operations of the Act to deliver greater benefits to both consumers and manufacturers.

Rationale for the GEMS Program

Minimum performance standards and labels provide critical protection for consumers. As a result, all major developed countries and emerging economies have introduced energy efficiency labels and minimum energy efficiency standards for appliances and products.

Households and businesses are generally unable to identify the energy efficiency of products, let alone easily calculate the minimum level of energy efficiency that they should accept. This creates problems for both consumers and manufacturers. If consumers can't identify or value higher-quality goods upfront, it reduces the benefit for a manufacturer of producing higher-quality goods. In addition, parties like retailers and landlords, who make many choices on behalf of consumers, often have little incentive to sell or install more efficiency products.

Minimum standards also improve the security and affordability of energy systems, as energy efficiency is generally the cost form of 'capacity' in energy markets. For example, minimum standards for fridges reduce Australia's electricity demand by over 500 MW, 24 hours a day, 365 days a year. This 'baseload' capacity is the equivalent of half of the output of the now retired Hazelwood coal-fired generator and has a *negative cost* to consumers. Improvements in the efficiency in homes and heaters in Europe has made it possible for countries like the UK and France to meet their gas security requirements².

The GEMS Act also delivers substantial benefits for domestic manufacturers. A report by a consortium of consumer and welfare groups in 2014 noted that the GEMS program has a low regulatory burden, placing obligations on around 300 Australian businesses, but providing benefit to over 2 million businesses through lower energy bills.⁹ Minimum standards also provide a level playing field for manufacturers and prevent them from being

¹ E3 Program, *Impacts of the E3 program*, 2017.

² International Energy Agency, 2017 *Energy Efficiency Market Report*, 2017. International Energy Agency, Paris.

undermined by companies producing sub-standard products. The *GEMS Act 2012* also harmonises standards within and between Australia and New Zealand, substantially reducing costs for manufacturers. Where these standards are aligned with the standards in major trading partners it further reduces costs for local manufacturers.

Finally, the GEMS program is a critical component of ensuring that Australian Government meets its commitment to international commitments to reduce greenhouse gas emissions. The International Energy Agency notes that energy efficiency was the single largest factor reducing global emissions from the energy sector between 2014 and 2016. Energy efficiency delivered around 75 per cent of emission reductions in the global energy sector, compared to just 25 per cent from renewable energy and other forms of generation.³

We note that, in Australia, many of these substantial benefits are currently not costed into the economic analysis about minimum standards for specific pieces of equipment.

Rationale for enhancing the GEMS program

The EEC recommends that the Review consider several enhancements to the *GEMS Act 2012* and its administration. The current processes for introducing new standards for equipment types, or updating existing standards, is relatively *ad hoc*, slow and cumbersome compared to overseas processes.

As a result, while the US, Canada, China, Europe and Taiwan have standards in place over 40 product types, Australia only has standards in place for 22 products types and, in some instances, our standards are significantly lower than our trading partners. In addition to missing out on the benefits of having higher standards, having lower standards than our trading partners has negative impacts on both consumers and local manufacturers.

If manufacturers want to export a product, they generally need to build them to the highest overseas standard. If we have lower domestic standards, this means that manufacturers either have to manufacturer a separate domestic product line or risk being undercut by competitors. As a result of these issues, in 2016 Canada increased the minimum energy performance standards for 20 products to bring them into line with standards that were already in force, or soon to be in force, in the US.

The National Energy Productivity Plan that was signed off by the COAG Energy Council in 2015 sets an ambition to introduce new or higher standards under the *GEMS Act 2012*, but unless the process for introducing new or amendment standards is streamlined, Australia will fall further behind global standards.

Recommendations for enhancing the GEMS program

The EEC strongly recommends a number of actions to improve the GEMS program:

1. Harmonise appliance standards with our major trading partners

Australia should introduce new standards and harmonise existing standards with our major trading partners in both in their ambition and details ('rail gauge'). To achieve this, the COAG Energy Council (and possibly the GEMS Act) should set this as an explicit goal, set up a process to regularly compare our standards with overseas standards, provide adequate funding to resource expanding the GEMS program and streamline the process for introducing new standards or tightening existing standards.

³ International Energy Agency, 2017 *Energy Efficiency Market Report*, 2017. International Energy Agency, Paris.

2. Streamline the process for developing and approving new or amended standards

The COAG Energy Council should formalize and streamline the process for introducing new standards or raising standards over time. Australia's system for setting standards and reviewing Regulatory Impact Statements (RIS) is both *ad hoc* and inefficient, partly due to inappropriate processes at the Office of Best Practice Regulation. The current process for assessing the case for a new standard can take well over three years, which imposes significant costs on stakeholders.

Delays in the introduction of new standards can even occur when our major trading partners already have standards in place and there is good overseas data on the case for a higher standard. It would often be far simpler and more effective to reverse the onus of proof, providing stakeholders with an opportunity to argue why Australia shouldn't have the same standard as our trading partners, rather than requiring the department and stakeholders to gather data to prove that Australia should have the same standards in place as our trading partners. This would significantly reduce costs and red tape for both government and industry.

3. Properly resource the development and enforcement of the GEMS act

4. Educate and incentivise appliance retailers to inform consumers about ratings

Many consumers gather information and make decisions about which appliances to purchase at retail outlets. Educating appliance retailers about appliance ratings and providing modest incentives to sell more efficient appliances would deliver significant benefits to consumers.

These recommendations would reduce delays in introducing new and amended standards and enhance stakeholder trust in the governance of the GEMS program. Unless reforms are introduced to speed up the adoption of priority standards under the *GEMS Act 2012*, it is likely that state and territory governments may pursue regional regulations that will fragment the national approach intended by the GEM program.

The EEC looks forward to engaging with you and your Review Team to discuss these recommendations in detail. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



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