

# **Submission**

By

**Business|NZ**

to

**Ministry for the Environment**

on the

**Product Stewardship and Water Efficiency  
Labelling Discussion Document**

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**PRODUCT STEWARDSHIP AND WATER EFFICIENCY LABELLING  
DISCUSSION DOCUMENT  
SUBMISSION BY BUSINESS NEW ZEALAND<sup>1</sup>**

**1.0 SUMMARY AND CONCLUSIONS**

- 1.1 Business New Zealand is strongly opposed to any move towards making product stewardship schemes and water efficiency labelling standards mandatory. However, Business New Zealand is strongly supportive of voluntary industry-led, market driven, product stewardship schemes.
- 1.2 Business New Zealand endorses the Government's preference to continue with voluntary, industry-led product steward schemes, but is very concerned with the proposal to *“introduce a backstop option of legislation to make schemes mandatory where appropriate.”*
- 1.3 Business New Zealand sees little benefit in mandatory water efficiency labelling standards for specific products. However, it does see benefit in investigating pricing mechanisms where consumers face the costs associated with water usage rather than flat charges per rateable property.
- 1.4 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. Regulatory intervention, because of its cost, should generally be considered to be a last resort, and only to be taken when all other cost effective approaches have been exhausted. There is little, if any, analysis in the Discussion Document on the above issues.
- 1.5 Business New Zealand considers that if the Government considers proceeding with legislation and/or regulation in respect to product stewardship schemes, then the Ministry for the Environment should be required to prepare a further discussion document based on the Regulatory Impact Statement (RIS) Framework. The purpose of this being to ensure that a full cost-benefit analysis is undertaken on the proposals, including answering some of the fundamental questions outlined in para 2.2 of this submission.

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

- 1.6 This submission is in two Sections. Section 1 provides general comments on the Discussion Document. Specific comments on the Discussion Document are contained in Section 2.

## 2.0 SECTION 1: GENERAL COMMENTS ON THE DISCUSSION DOCUMENT

2.1 Business New Zealand welcomes the opportunity to comment on the Product Stewardship and Water Efficiency Labelling Standards Discussion Document.

2.2 Business New Zealand appreciates that the general intent of the Discussion Document is to ensure that “waste” is minimised and the potential for adverse effects from waste is reduced. While Business New Zealand understands the objective is to improve on current voluntary arrangements, Business New Zealand is concerned that the Discussion Document fails to outline a clear set of principles to assist in policy development (and therefore options) in this area. For example, such fundamental questions as:

- Is there a problem *in New Zealand* with current waste management systems?
- If there is a problem, is the problem significant?
- What are the trade-offs individuals and possibly communities are prepared to make concerning waste minimisation and the costs and benefits of it?
- What are the risks of taking (regulatory?) action to try and improve the situation?
- What are the costs and benefits (including unintended costs) of imposing regulatory standards?
- Can the standards be enforced, and if so, at what cost?
- What potential options are there to improve standards which don't impose significant costs?

None of the above questions have been addressed within the Discussion Document in any rigorous way.

2.3 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. Regulatory intervention, because of its cost, 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.

- 2.4 Business New Zealand would like to point out that there is an “optimal” amount of waste, just like there is an optimal amount of resources that should be spent on crime prevention etc. Waste cannot be completely eliminated, not at least without great cost. Waste may be able to be reduced, but beyond a certain point the marginal cost of taking action to minimize waste becomes progressively higher, while the potential returns from taking action become less. In this respect it pays for companies and individuals to invest in risk minimisation strategies up to the point at which the marginal cost equals the marginal benefits of taking action.
- 2.5 In order for there to be justification for government involvement, via regulation, there must be a clear case of market failure, and the problem of market failure must be significant.
- 2.6 Secondly, alternative “market based” approaches such as increasing information or improving information flows should be considered first before resorting to regulatory intervention, given that so-called “market failure” can well be replaced by “regulatory failure”.
- 2.7 Given that markets are generally faster at self-correcting than government intervention, the onus of proof must be on government to provide beyond reasonable doubt that the benefits of intervention exceed the costs, including unintended costs associated within regulation (such as non-compliance).
- 2.8 Moreover, it should be noted that regulators generally have strong incentives to minimise their own risk by imposing higher standards than might arguably be justified. Because regulators do not bear the costs associated with their decisions (costs will ultimately be passed onto consumers), they may well “over-regulate” rather than be aware of, or adequately consider the cost/quality trade-offs consumers are willing to make. Given that individuals are unique, they will generally have different risk profiles, with some willing to pay considerable amounts of money to minimise risks while others are prepared to invest little in order to reduce real or perceived risks.
- 2.9 The Discussion Document implies that consumers and companies should not be allowed to manage risk and that regulation is a more appropriate mechanism to provide for certainty of outcome. While it is possible that regulation may well provide for greater certainty, it is likely to come at a greater cost, which will ultimately flow through to consumers. The Discussion Document fails to adequately accept that there are trade-offs involved with increasing regulation.

- 2.10 As a general principle, individuals and companies should bear the full costs associated with their behavior (i.e costs should be internalised) or individuals will over consume resources if they can shift costs onto third parties. Waste minimisation is no different in this respect. In order for individuals to make rational decisions in respect to waste minimisation, individuals should ideally bear the costs (and benefits) associated with specific options/outcomes. This point was made clearly made in a paper by the NZIER for the Ministry for the Environment in June 2001: *“Pricing disposal at less than its full cost will reduce the level of waste minimisation activity that is worthwhile pursuing. However, the solution to this is to address the mis-pricing issue directly, as is being done through other initiatives, such as the revision of the landfill full costing guide”*<sup>2</sup> On the other hand, if individuals and companies are forced to pay greater amounts than any costs they impose, the outcome will be either more expensive items, which will ultimately be reflected in prices to consumers, and/or reduced choices for consumers to buy products which meet their unique preferences.
- 2.11 Business New Zealand endorses the Government’s preference to continue with voluntary, industry-led product stewardship schemes, but is very concerned with the proposal to *“introduce a backstop option of legislation to make schemes mandatory where appropriate”*.

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<sup>2</sup> “Waste Minimisation – Evaluation of funding options, and assessment of the economic rationale and implications of a waste levy”, New Zealand Institute of Economic Research (NZIER) Report to the Ministry for the Environment, June 2001.

### 3.0 SECTION 2: SPECIFIC COMMENTS ON THE DISCUSSION DOCUMENT

#### Foreword (iii)

- 3.1 It is noted that the Foreword by the Minister for the Environment, Hon Marian Hobbs, states, *“This Government is committed to sustainable development for New Zealand. Our desire is to grow our economy while maintaining a healthy environment”*.
- 3.2 While the above statement is one which no reasonable person would likely disagree with, the Minister then goes on to state *“...if we are to live in a sustainable society, we have to get better at reducing the amount of waste we produce, as well as reusing and recycling of it”*.
- 3.3 It is important to appreciate that there will be an “optimal” amount of waste taking into account the economic and environmental sustainability of resource use. Total emphasis on short-term economic outcomes without due regard to environmental outcomes could well be detrimental to long-term economic growth and an increased standard of living for current and future New Zealanders. By the same token, total emphasis on environmental outcomes to the detriment of economic growth and improved standards of living for New Zealanders would be similarly detrimental.
- 3.4 In this respect it is important to appreciate that those economies with the strongest economic growth (over time) tend to be the ones that have the resources available to mitigate some of the impacts of strong economic growth. Conversely those economies with low levels of growth and low standards of living do not have the ability to take action to reduce pollution.

## 2. Product Stewardship

### 2.1 Wastes with particular management and disposal problems (p.2)

- 3.5 The Discussion Document states that “problems” surrounding waste often arise *“...because, generally, once products are sold, producers, importers and retailers are no longer responsible for the product’s impact. Also consumers may not consider the costs of disposal when purchasing a product because these costs often fall on others. In these cases there are no direct links between the problems of disposing of the product, and product design to reduce waste at the end of the product’s life. Disposal is often easier – and in many cases is cheaper to the producer and consumer – than recycling or waste minimisation”*

- 3.6 This statement fails to appreciate the earlier points made in this submission in respect to optimising the amount of waste, given the trade-offs between increased costs and greater use of recycling on the one hand, and reduced costs and potentially less recycling on the other.
- 3.7 It is rational for any producer (and consumer) to invest in reducing “waste” up to the point at which the costs of reducing waste start to exceed the benefits. Issues surrounding waste are no different than individuals’ and companies’ investments in other risk minimisation strategies. For example, in buying a business, farm, boat or car, individuals and companies will spend some time determining the value of those businesses or products, what they can do, and fitness for the purpose intended etc. Suppliers of products 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” products etc.
- 3.8 Ultimately, the costs of disposal of “waste” should be the responsibility of the consumer of those products in order to encourage efficient use of resources. If the full costs of disposal are not met by the consumer then there may be a tendency for the consumer to “over-consume” from society’s point of view. On the other hand requiring consumers to pay greater than the cost of disposal will similarly lead to an inefficient use of resources and reduced consumer choice.
- 3.9 The policy prescription for reducing the potential for the above is to ensure that adequate “user charges” are imposed on consumers and that landfills etc are not subsidised unnecessarily by general taxpayers. Greater use of private rubbish collections where the costs of “waste” is more clearly visible to consumers is one mechanism where the costs of waste can be more clearly sheeted home to those imposing the costs. Conversely, flat charges (out of local government rates), with no consideration of the amount of waste collected, will likely have little impact on individual behavior.
- 3.10 The same applies in respect to water use. If there is a flat general charge on water use per property, with no consideration of total water use, then the incentives on individuals to reduce water use is likely to be minimal. The correct response is not to require mandatory water efficiency labelling standards for products. Instead, it is to require individuals and households to bear the full costs associated with water use which reflects the costs of supplying such infrastructure to ensure individuals have incentives to use water in an optimally efficient manner. Given the variation in the quantity and quality of water available in different areas, it is quite possible that some Councils may charge for water use on a flat fee basis whereas others may require a significant component of “user charges”, particularly where existing infrastructure and water quantities available are under stress.

### **3. The Objectives for Product Stewardship in New Zealand (p.7)**

#### **Objective 1: Use resources more efficiently and reduce the volume of waste produced (p.7)**

- 3.11 Objective 1 considers that requiring producers to meet some financial responsibility for end-of life waste management will encourage them to take action to reduce these costs. Moreover, it is stated that this could result in improved design so that fewer resources are used for producing products.
- 3.12 While a laudable objective, this fails to take account of the overall efficiency of resource use. For example, it is possible to reduce energy consumption in houses through mechanisms such as double-glazing of windows etc. While this might result in less energy consumed it will require significant up-front capital resources and costs to households in the form of paying for double-glazing. Similarly in respect to energy efficiency in household appliances, while new technologies may result in less energy consumed, it may come at a greater overall cost to the consumer in terms of the price of products. In this respect, it is important to look at the overall efficiency of the economy (total costs of production and output produced) rather than simply looking at the “technical” efficiency associated with one particular product.
- 3.13 In the early stages of product development, the capital costs associated with new technologies can be particularly high. “Requiring” producers to bear the full costs associated with end-of-life waste management, could well result in significant increased initial costs to consumers and possibly a limitation in the choice of products available to consumers that reflects their unique circumstances (e.g. income, lifestyle choices etc). As mentioned earlier, the costs associated with end-of-life waste management should be borne by the consumer thereby encouraging consumers to weigh up the pros and cons of using particular products.
- 3.14 There is almost an assumption in the Discussion Document that individuals are homogeneous with the same needs and wants. Individuals often have different demands and use of products and their purchasing decisions will reflect this. There may be limited use for an everyday product (e.g. washing machine at a bach) so the consumer may be comfortable with a basic model which is not particularly energy efficient, while a person with significant use may be prepared to pay a higher initial price for a product which best meets their needs and requirements in terms of energy efficiency or other factors which may be important to them. It is important to be aware that individuals are indeed unique and will have widely varying needs and wants based on their individual preferences.

**Objective 3: Include the costs of waste management into the price of products (p.7)**

- 3.15 The Discussion Document states that including the cost of waste management into the price of products helps internalise the costs and is in keeping with the polluter pays principle.
- 3.16 This assumes that the cost of disposal of the particular product will be the same for everybody irrespective of where they live and also assumes that people will not re-use the product for another purpose once it can no longer be used for its original intended purpose. Many people voluntarily recycle products and use them for other purposes while other people may simply dispose of them in a landfill. To second-guess what the costs of disposal would be and build this hypothetical number into the initial cost of product would in itself be inefficient and ad hoc.

**Objective 5: Provide product stewardship that is effective and efficient (p.8)**

- 3.17 Business New Zealand strongly agrees with the sentiments surrounding Objective 5 that product stewardship schemes should target areas where wastes are a significant problem and where worthwhile reductions in resource use and harm can be achieved. *“Schemes should be designed to retain competition, and should be carefully targeted at the problem of waste...[and] the benefits of any scheme should exceed the effort and costs of establishing and running it.”*
- 3.18 Given the above objective, voluntary industry-led schemes are the most appropriate way forward in order to deliver on this objective. Regulatory approaches to product stewardship, by contrast, will very likely breach this objective.

**4. Policy Approaches for Product Stewardship Schemes (p.9)**

**Option 1: Status quo (p.9)**

- 3.19 Business New Zealand strongly supports the advantages of retaining the status quo in terms of product stewardship. Current product stewardship schemes are voluntary industry-led and allow for flexibility for both producers and consumers to meet market expectations in a flexible and cost-effective manner without the need for Government involvement.

- 3.20 Given that product stewardship schemes are driven by individual companies or the industry in some cases, they are tailored in such a way as to maximise returns and minimise costs. As the Discussion Document states earlier, there are a number of voluntary product stewardship schemes which seem, by all accounts, to be successful. Obviously, companies have a range of reasons for entering into such schemes that will unlikely be driven by short-term monetary return alone but also for reasons of marketing and brand-name purposes.
- 3.21 One of the most important product differentiation approaches in a competitive market is the use of brand-names where customer know the company has a “standard of care” which is incorporated within the brand-name. The customer may know very little about the actual company but the brand name encapsulates the quality of the product and management structures. In a competitive market companies have extremely strong incentives to protect that brand moving forward to gain the confidence of consumers and ensure increased market share.

### **Business New Zealand supports Option 1: Status Quo**

#### **Option 2: Industry-led schemes with the regulation of free-riders (p.10)**

- 3.22 Option 2 outlines an option of effectively providing for voluntary industry-led product stewardship agreements but with the potential for regulation to control so-called “free-riding”.
- 3.23 While the option outlined in the Discussion Document is relatively vague, Business New Zealand is very concerned about the potential for anti-competitive behaviour and the potential for increased costs and reduced consumer choice in respect to products and services.
- 3.24 The Discussion Document talks about the potential for “agreements” to include issues such as product take-back schemes for recycling, and agreement on the use of recyclable materials. Provided that these are voluntary, industry-led agreements then there is little to be concerned about. However, if there is potential for perhaps dominant players in a particular market to “force” their competitors to abide by an industry agreement which has been designed by the major players in that industry, then the potential for adverse outcomes is likely to arise – in the sense that smaller and perhaps niche-market players could be adversely affected. Given the wide variety of companies and the significant number of small to medium size enterprises (SMEs) in New Zealand, it is quite likely that any regulation of “so-called” free-riders could ultimately result in consumers bearing the costs, quite apart from the potential implications for small businesses.

- 3.25 While the Discussion Document clearly states that “...*an unwilling industry [will not be forced] into the establishment of product stewardship agreements...*” the sheer fact that the Discussion Document talks about controlling free-riding by means of regulation would suggest that if a proportion of the industry wanted to go down a particular route, then the Government would effectively support their cause through regulatory intervention. This hardly reflects a voluntary industry-led approach.

**Business New Zealand is opposed to Option 2 for the reasons outlined above but considers it a “second-best” option if Option 1 is rejected.**

**Option 3: Mandatory approach to the establishment of product stewardship schemes (p.11)**

- 3.26 This approach would require the establishment of mandatory product stewardship programmes for specific products or product categories, which would be underpinned by legislation/regulation.
- 3.27 As stated in the Discussion Document these regulations could cover a number of matters such as:
- product design requirements
  - mandatory consumer information
  - collection and recycling targets
  - minimum treatment standards
  - mandatory financing mechanisms
  - deposit-refund schemes
  - advance disposal fee schemes
  - materials taxes
  - specified minimum recycling content
- 3.28 Business New Zealand strongly agrees with the disadvantages of such a scheme as outlined in the Discussion Document, in particular, the potential “...*of losing the effectiveness and flexibility of schemes initiated and led by industry. In addition to the administrative costs of regulation, this option could also impose costs on the economy arising from inefficiency if the regulations are not well targeted and well designed*”.

- 3.29 Business New Zealand considers that such an option should not be considered further given the potential costs to both producers and consumers, the potential for reduced consumer choice in respect to purchasing products which meet consumers' unique preferences, and the potential to reduce innovation in product development. Such an option would ride roughshod over the ability of producers to meet the market demands of their customers. It is nothing short of centralised planning in the production of goods (and potentially services) which has no place in an economy striving to improve its international competitiveness through constant innovation and review of production techniques.

**Business New Zealand is totally opposed to Option 3 and considers that Option 3 should not be considered further.**

**Option 4: Preferred approach – a mix of voluntary and regulatory approaches (p.12)**

- 3.30 The preferred approach in the Discussion Document, in summary, provides for product stewardship agreements to be negotiated by an industry sector (either collectively or by individual firms) with the Government potentially being a party to the agreement. Some legislation will be considered necessary under this approach.
- 3.31 Secondly, *“...legislation would provide the tools to allow the regulation of free-riders where this is necessary, and would also provide for mandatory schemes as a backstop measure. Regulation for mandatory schemes would only be used where there are significant waste problems and no voluntary scheme to deal with them”*.
- 3.32 While the Discussion Document has a preference for product stewardship schemes to be negotiated voluntarily by industry, it considers that a “regulatory backstop” is clearly required where voluntary schemes have not, or could not, be developed.
- 3.33 Business New Zealand notes that the Discussion Document states that regulation will only be used *“...where there was a clear indication that there would be net benefit from such intervention.”* While this provides a degree of comfort, it raises significant issues in respect to who will determine whether there is problem with current levels of “waste” and who will bear the costs (and potential benefits) of such an approach.

- 3.34 It is highly likely that the major costs of such a programme would fall on producers and ultimately consumers, while the beneficiaries of such schemes could well be third parties (such as Government) and vested interest groups. In other words the beneficiaries of such schemes are unlikely to bear much, if any, of the cost associated with their introduction. In order for an optimal amount of resources to flow into reducing “waste” to occur, the beneficiaries of such programmes need to bear the costs to ensure that resources are used efficiently. If vested interest groups can simply lobby government for regulation to reduce their costs with the costs falling on producers and consumers, then government is unlikely to resist.
- 3.35 Regulators generally have strong incentives to minimise their own risks by imposing higher standards than might arguably be justified. Because regulators do not bear the costs associated with their decisions (they will ultimately be passed on to producers and consumers), they may well “over-regulate” rather than be aware of, or adequately consider the costs and benefits of particular actions.
- 3.36 This raises a fundamental issue in respect to who will decide whether “waste” is a problem and whether or not legislation/regulation is justified. If it is government (or third parties) then the tendency to regulate and impose costs on others might well be very high as outlined above. It is noted in Figure 1 (p.13) that it would appear to be Government that would identify whether waste issues “are a problem” and therefore whether mandatory product stewardship schemes would be required. If this is the case, then the Government may be tempted to regulate, particularly if it meets some of their other objectives (e.g. to reduce Greenhouse Gas emissions given New Zealand’s likely net deficit of around 36 million tonnes CO<sub>2</sub> for the first Kyoto Protocol commitment period (2008-2012)).

**Business New Zealand is totally opposed to Option 4 for the reasons outlined above.**

## **5. Design and Implementation Issues (p.14)**

### **5.2 Priorities (p.14)**

- 3.37 It is noted that the Discussion Document outlines some criteria for prioritising government action on waste. Some criteria are particularly subjective and bear no relationship to the potential environmental (or economic) costs of taking action. For example, prioritising action on waste based on “*public concern*” is particularly misguided if the scientific evidence associated with a particular product does not justify public concern. If regulations were introduced every time there was a degree of “*public concern*” about a product, process, outcome etc, the government would focus entirely on regulating, while industry and consumers would probably shift offshore to a more hospitable regulatory regime.

- 3.38 These concerns are not stated lightly but yet again reflect the potential dangers of “political” decision-making in respect to management of “waste”.

### **Deciding whether to regulate (p.20)**

- 3.39 Business New Zealand notes that the Discussion Document outlines a number of criteria for deciding whether to regulate. These are stated on p.20 so are not repeated here. While they appear to be a useful list including the “benefits of regulation outweigh the costs” (bullet point two), it is also important to analyse not only what are the total costs and benefits (including potential unintended costs and/or benefits) but also where these expected costs and benefits might fall. For example, if the benefits are widely dispersed but the costs fall disproportionately on one group then there may be a case for compensation for that particular group or at least the provision of a reasonable length of time in which to change systems or processes etc that may be causing significant externalities. The impacts on particular industry sectors and firms within sectors needs careful consideration to avoid some of the potential costs associated with any possible regulations.

### **5.7 Legislation supporting product stewardship schemes (p.21)**

- 3.40 Further to the comments made in the previous paragraph, it is noted that the Discussion Document contains the statement: *“Any proposals to use the regulations would be subject to an assessment of the cost and benefits of regulation in that particular circumstance under the Government’s requirements for the assessment of regulatory impacts and compliance costs”* (p.22).
- 3.41 Despite the requirement that policy proposals submitted to cabinet which result in government bills or statutory regulations must be accompanied by a Regulatory Impact Statement (RIS) which contains a Business Compliance Cost Statement (BCCS), the quality of RISs still leaves a lot to be desired.
- 3.42 It is hard not to be cynical of government processes that purport to provide for greater analysis of the costs and benefits of particular policy proposals, yet fail to deliver. There needs to be significantly greater public accountability associated with the production of RIS than has occurred to date.

## **7. A Water Efficiency Labelling Scheme for New Zealand (p.24)**

- 3.43 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. Despite the above, the Discussion Document clearly outlines that the savings from the above policies are likely to be relatively minor rather than having a significant impact on water use.
- 3.44 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.
- 3.45 The most appropriate response in such circumstances is 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.
- 3.46 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.<sup>3</sup>

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<sup>3</sup> It is noted that the final report prepared for the Ministry for the Environment by COVEC “Water Efficiency Labelling for New Zealand: Cost Benefit Analysis” (June 2004) considered that, in general, “...There appears to be no absolute limit on water supply in terms of the physical supply-demand balance. The limits which do exist are in the capacity of the existing infrastructure to meet projected future demand; demand management can limit the costs of supply” (p.i)

- 3.47 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.*
- 3.48 The argument is put in the Discussion Document that if Australia goes ahead with its current proposals to require mandatory water efficiency labelling schemes for specific products, then it would be 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 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.
- 3.49 Finally, one of the big issues which is not entirely clear in the Discussion Document is the question of whether or not products which do not meet certain "efficiency" standards will continue to be able to be sold, thereby allowing consumers to make possible decisions between say (potentially) lower cost products and higher water usage and possibly high priced products and lower water usage. Producers of products have strong incentives to meet the needs of the consumers and therefore if water efficiency is a particularly big issue for consumers then presumably manufacturers will have strong incentives to promote the "efficiency" of their particular products compared to their competitors. This, however, 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. Mandatory water efficiency labelling is yet another case of Government treating all consumers alike, when individuals have preferences and trade-offs they are willing to make.

**Business New Zealand sees little benefit in mandatory water efficiency labelling for specific products but 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**

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 57-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into 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 New Zealand 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.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.