



**AREMA Comments on Supplementary Consultation Regulatory Impact statement: Introducing Measured Energy Efficiency Ratio (EER) and Coefficient of Performance (COP) Levels for Airconditioners in Australia on 1 October 2009.**

**17 April 2009**

**Introduction**

At the outset AREMA would like to express our organisation's frustration with government attempts to modify and accelerate agreed schedules for the progressive introduction of Minimum Energy Performance Standards.

Much of the success of MEPS rests on the programs capacity to effectively implement improvement schedules developed by consensus. This allows industry time to plan, develop, manufacture and deliver improved products. However, in some areas of government there seems to be a lack of understanding of the complexities and realities of developing and bringing a product to market- this process has certain immutable physical limitations that will not respond to short-term changes.

There seems to be a perception that the process of introducing new MEPS-compliant product to market is as simple as Australian company representatives jetting off to some Asian airconditioning supermarket and ordering a range of products off the shelves, to be delivered promptly. Nothing could be further from the truth.

A typical product development cycle is set out in attachment 1.

It should also be noted that a number of the proposals contained in the supplementary RIS are included in the Draft AS/NZS 3823.2 2009. AREMA members serve on this Standards Committee, along with representatives from other relevant associations and government representatives.

Until AS/NZS 3823.2 2009 is published, industry is understandably reluctant to act. The agreed process is that following the consideration of the RIS, the draft Standard is developed, which then goes out for public comment before being considered by MCE. Upon approval by MCE the Standard is then called up in the various jurisdictions.

In this instance the issuing of the Supplementary RIS has upset the process.

## Detailed Comments

Member companies have also been highly critical of much of the content of the Supplementary Consultation RIS.

Comments include: Market impact assessments are based on Energy Rating Database. This database currently has no way of indicating whether a particular model is still on the market, nor can the consultants determine the market share of each model. This means that all models are lumped together and treated with equal weighting.

Informark market data for 2008 indicates that for split systems, around 75% of the total market was held by four manufactures. The Supplementary RIS reports that there are one hundred and forty two brands (page 8). Many of these brands are very small importers who may bring in a few hundred units. However, the characteristics of each of these brands carries equal weighting to brands that sell in excess of 100,000 unit P/A.

An example of the information failure in the 2008 RIS relates to reported units with crank case heaters, which indicates that only 20% of the units on the market have crankcase heaters (clause 3.9). The four major brands that hold a combined 75% of the reported 2008 split system market have indicated that almost all their models have some form of crankcase heating. Therefore the impact assumptions made in the 2008 RIS have been made on inaccurate data.

Furthermore, the studies do not pay much consideration to market segments, while it might be true to make statements such as "70% of all models approved since 2004 will meet the proposed MEPS levels" (page 7 of Sup RIS) in some market segments (eg over 7.5kW) the impact is much greater with less than 40% of models meeting the requirements.

Page 5, Paragraph 2

Potential Energy Savings modelled in 2008 RIS are likely to be significantly overstated for the following reasons.

- Annualised energy consumption of air conditioner is based on input power at rated condition (i.e. 35°C outdoors). It is recognised that inverter type air conditioners use significantly less energy when operating at lower outdoor conditions (which is most of the time). Testing and modelling against Australian climate data indicates that inverter type units will typically use around 30-40% less energy per annum than the level shown

on the energy label. Market data for Jan – Dec 2008 indicates that over 80% of the split systems sold are now inverter.

- Decline in market growth due to economic slowdown. The 2008 RIS indicates a year on year market growth of around 10%. Actual data for 2008 shows a growth of around 6% with further slowdowns being reported.

Page 8

As above, simplification and grouping of all data presents a misleading outcome.

- “61 of the 63 brands that have more than 5 models have 59% of complaint models”. The fact that a brand has complaint models is not a justification that the new requirements can be easily met across their product range. The complaint models may be in a particular market segment that accounts for a small percentage of the suppliers range.

Page 10, paragraph 2

*“The most stringent MEPS levels currently in force are those in Korea. Australia’s current 2007 MEPS level is approximately 5% less than the Korean 2004 MEPS level”*

This statement does not mean that Australian products are inferior to those in other markets. As has been demonstrated by check testing as well as differences between Korean and Australian tolerance allowances and Regulatory (check testing requirements) the existence of other MEPS levels higher than Australia can not be used for direct comparisons.

In the case of Daikin (who supply into most major world markets), Australia is recognised as having the most stringent regulations in the world. In general, if a product can be sold in Australia it will meet the energy efficiency requirements of all other markets.

Page 10, paragraph 4

*“The impact on the market will depend on the supplier’s preparedness and capacity to source alternative models of higher efficiency to meet the new MEPS requirements.”*

This statement demonstrates a complete lack of understanding of the industry by the consultant. All of the major manufacturers design and produce their own products; they do not have the option to source alternative models.

Page 13, paragraph 3

*“Stakeholders have been aware of the details of the new MEPS levels for air conditioners since 2005, which were deferred from the original implementation date of October 2008 by 12 to 24 months (AGO 2007). This proposal is within the boundary of this notice to stakeholders by deferring the implementation date to 1 October 2009”.*

While some stakeholders may have been aware of proposed new MEPS levels and the deferral by 12 to 24 months, our final information from Government was that the new levels would be introduced in April 2010. Some manufacturers have planned new product development and manufacture around this schedule (even though the Standard has not yet been published). It is not possible to accelerate product development and change manufacturing plans at this late notice.

Page 13, paragraph 6

*“Restricting the import and manufacture of non-compliant products are unlikely to significantly impact upon suppliers, as there is already sufficient availability of compliant models on the market.”*

Once again, this is a very simplistic generalisation of the market. Many suppliers will be severely impacted in particular market segments.

### **Specific Questions**

The RIS asks a number of specific questions.

- 1) *Will the proposal outlined in the Supplementary RIS have any cost or other impacts on business, bearing in mind further requirements scheduled for 1 April 2010?*

Members report that the proposal will have considerable negative impacts across a range of areas including the costs associated with advancing production and shipping schedules, disruption to warehousing and distribution arrangements. This effect will apply to a significant range of product from most manufacturers.

It is also likely that the proposal will restrict consumer choice and have a negative impact on competition.

Alternatively, companies, particularly where the economic downturn has resulted in some overstocking, may continue to sell grandfathered products, thus negating any improvements in overall energy efficiency. Companies report that they have been developing and planning for new products introduction in April 2010- in most cases it is simply not possible to bring this forward by six months at this late stage.

2) *Would this proposal change arrangements to shipping and warehousing as compared to the introduction of MEPS in 2010?*

As noted earlier, the proposal will have a significant negative impact on shipping, warehousing and other administrative costs that have not been considered in the RIS.

In many cases companies report that shipping and warehousing contracts have already been negotiated, and resultant last minute changes could involve considerable cost penalties.

Some companies report that, in some market segments, they will not receive compliant product from overseas factories until March 2010. Companies also report that even if design work on compliant product were finalised, it would not be possible for overseas factories to manufacture the quantities required for summer 09 within the allowed timeframe.

3) *How likely is it that compliant products can be sourced by 1 October 2009?*

Companies report that in many cases they will experience considerable difficulties in sourcing compliant product.

The current economic downturn means that a number of companies are currently overstocked.

Given the fact that the Standard is not yet finalised, and will not be for some time, companies have no firm parameters on which to place orders. The most optimistic timeframe indicates orders must be placed by June at the very latest to maximise the possibility of meeting the proposed October target date- it seems unlikely that the Standard will be finalised within this timeframe.

Companies also note that in most cases where they do not have compliant product already on the market, such product simply does not exist. It is currently being designed and tested, before being manufactured.

4) *Are there any differences in price and features between complying and non-complying models*

Clearly in most cases complying models have higher costs- this fact underpins the whole concept behind MEPS. It should be understood that increases in energy efficiency are primarily achieved through increasing the surface areas of the indoor and outdoor unit heat exchangers. This results in larger casing size (i.e. new dies and more casing material) and bigger heat exchangers (i.e. more copper, aluminium and refrigerant). As an example, a recent EER improvement (i.e. bigger heat exchange and casing) of an indoor unit we manufacture locally resulted in a manufacturing cost increase of 7%.

In addition, such last-minute changes place the Australian operations of companies at a considerable disadvantage in negotiating the price for globally-sourced equipment, inevitably resulting in higher domestic prices.

5) *How would the Administrative Arrangements outlined in Section 4 impact upon business?*

The proposed Administrative Arrangements do not ameliorate the negative impacts of the proposal, as outlined in this submission.

**Summary:**

AREMA wishes to protest in the strongest possible terms at this abnegation of the established and agreed practice for the ongoing development of Minimum Energy Performance Standards.

The Evaluation and Recommendations Section of the Supplementary Consultation RIS notes: 'Given the proposal for MEPS has been in the public domain since 2005 these proposals could be implemented by October 2009.'

Industry cannot respond by altering business plans and manufacturing schedules to take into account 'proposals' which are subject to change at any time - the regulatory landscape is littered with the corpses of redundant proposals, and industry requires the certainty of the established process to maintain the overall effectiveness of the MEPS process.

# Attachment 1

