

**Business Facilitation Advisory Committee
Retail Task Force**

Mandatory Energy Efficiency Labelling Scheme

Purpose

This paper briefs Members on the proposed mandatory Energy Efficiency Labelling Scheme (EELS) and presents the initial views of the trade on the scheme.

Background

2. Since 1995, the Electrical and Mechanical Services Department (EMSD) has been operating a voluntary EELS. The scheme currently covers 11 types of household appliances, 5 types of office equipment and petrol passenger cars. In July 2005, the Environmental Protection Department (EPD) issued a consultation paper on a proposed mandatory EELS to replace the voluntary scheme for room coolers, refrigerators and compact fluorescent lamps. Two task forces have been set up with trade associations and individual traders to gauge their views of the proposed schemes.

3. The 3 products under the proposed scheme, together with other types of lamps, account for over 70% of residential power consumption and have high levels of participation in the voluntary EELS. Percentages of labelled product sold to total sales volume for the 3 appliances are 80, 70 and 40 respectively.

4. Over 40 countries, including the United States, European Union, Australia and South Korea have introduced mandatory EELS as long-term efficiency and conservation programmes. The consultation paper states that the objectives of the proposed scheme are as follows –

- (a) to increase public awareness of the importance of using energy-efficient products;

- (b) to provide consumers with more energy-efficient products; and
- (c) to provide incentive to product suppliers to market energy-efficient products.

5. It is estimated that the proposed scheme will result in electricity saving of 150 GWh per year amounting to \$135 million in electricity bill. 105 000 tonnes of carbon dioxide emission will also be reduced.

Proposed mandatory scheme

6. Similar to the existing voluntary scheme, importers or local manufacturers of products covered by the mandatory scheme will have to register the product models with EMSD. While registration under the voluntary scheme is a free service, a fee is charged under the proposed scheme to cover the administration cost of vetting and approval of the registration. Relevant product information, including test reports on the energy efficiency performance of the products will be required for the registration and any person who supplies products for local use will need to ensure that such products have been registered.

7. The proposed scheme will accept testing standards already recognized under the voluntary EELS. Energy efficiency test reports issued by the following types of laboratories will be accepted for registration –

- (a) accredited by the Hong Kong Accreditation Service under the Hong Kong Accreditation Scheme or under mutual recognition agreement;
- (b) assessed by internationally recognized certification bodies; and
- (c) assessed and recognized by EMSD under the existing voluntary EELS for relevant tests.

8. Products covered by the scheme will have to be labelled in prescribed formats by importers or local manufacturers and retailers will be under an obligation to sell only products with labels provided. A one-year grace period is now proposed after the enactment of the relevant legislation targeted for 2006.

Views of trade

9. The Secretariat met with the Hong Kong Suppliers Association (HKSA) and an independent supplier to appreciate the trade's concerns on the proposed scheme. The trade generally concurs that an EELS will benefit public in choosing energy efficient products and in saving energy and the environment. However they have the following concern over the mandatory scheme –

Registration fee

10. The registration fee for a product model is estimated at \$2,000. Under the voluntary scheme, registration fee is not charged. Given that the mandatory scheme will impose compulsory labels on the covered products, there is little value in registering individual product models. Trade opines that the proposed scheme should be a joint effort of the government and the trade in improving living standard, helping consumer to make energy efficient choice and preserving the environment. The trade will pay for the testing and additional cost in labelling and the government should provide the registration service free of charge if registration is deemed necessary.

11. The fee will pose a barrier for new product to enter the market or to test the market with new products. In the case of low price products such as compact fluorescent lamp, a minor brand/model or a small supplier will not be possible to generate enough sales volume to cover the registration fee. The charge will de facto wipe out competition from minor brands and models and encourage a few big players to dominate the market.

Small volume items

12. The cost of testing is expensive and will affect the price of small selling items significantly. Very often, small sales volume items are new products and products from small importers. Applying the proposed scheme across to all products will further lower the competitiveness of small selling items. New products of minor brands or those that fit small niches will stop entering the market and existing small sale volume items will disappear, thereby reducing consumer choices. With limited resources and

market share, SMEs will diminish in the threat of testing fee and labelling costs under the proposed scheme. To make energy efficient products popular, competition and more products should be allowed to enter the market. Trade opines that exemption for small volume sales products be allowed to overcome the trade barrier imposed by the proposed scheme and to promote the introduction of more energy-efficient products to the market.

Grace period

13. Products under the proposed scheme have long shelf life. Trade opines that the grace period should preferably be longer than 12 months and should refer to the local manufacturing or importing date.

Effectiveness of a mandatory scheme

14. Having an energy efficient label alone will not popularize the use of energy efficient products. A good understanding of the need for energy efficient products by the public is more important in driving the demand for such products. The high percentage of products sold with labels under the voluntary scheme indicates that consumers' drive is the major success factor for an EELS. More use of energy efficient products has little correlation to whether the labelling scheme is mandatory or not.

15. The trade is in total agreement that energy efficient labels would give public more information in choosing products but has doubt over the need for a mandatory scheme given its adverse impacts on consumer choice and SMEs.

Way forward

16. The HKSA has written to the RTF to express its views on the proposed mandatory scheme and requested that they be conveyed to the relevant departments. Members are invited to comment on the proposed scheme and the request of the HKSA.