

Ecodesign and energy labelling requirements for white goods

Lead department	Department for Business, Energy and Industrial Strategy
Summary of proposal	Update ecodesign and energy labelling requirements to realise the full potential energy and carbon emission savings from the new requirements for white goods such as refrigerators.
Submission type	Impact assessment (IA) – 18 December 2020
Legislation type	Secondary legislation
Implementation date	1 March 2021
Policy stage	Final
RPC reference	RPC-BEIS-4480(2)
Opinion type	Formal
Date of issue	2 February 2021

RPC opinion

Rating ¹	RPC opinion
Fit for purpose	The evidence and analysis supporting the EANDCB and the SaMBA are sufficient. Both assessments have been strengthened through consultation, although the SaMBA would benefit from further improvement. Other areas could also be improved, in particular post-implementation review (PIR) plans and assessment of wider impacts, including competition.

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). The RPC rating is fit for purpose or not fit for purpose.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision (OUT)	Non-qualifying regulatory provision (<i>de minimis</i>)
Equivalent annual net direct cost to business (EANDCB)	-£4.0 million	-£4.0 million (2016 prices, 2017 pv)
Business impact target (BIT) score	Not applicable	Not applicable
Business net present value	£68.0 million	
Overall net present value	£290.0 million	

RPC summary

Category	Quality	RPC comments
EANDCB	Green	The EANDCB is based upon good evidence and reasonable assumptions, and the assessment has been strengthened through consultation. The RPC considers the IA's classification of impacts into direct and indirect to be appropriate, although this would be improved by further discussion.
Small and micro business assessment (SaMBA)	Green	The IA provides a sufficient description of impacts on small and micro businesses (SMBs) and addresses exemption, disproportionality of impact and mitigation. The assessment has been strengthened following consultation, with transition costs to small businesses monetised. However, there remain areas where the SaMBA would benefit significantly from further strengthening, in particular on mitigation and impact on repair businesses.
Rationale and options	Good	The IA sets out the rationale clearly and provides a discussion of non-regulatory options, explaining why these have not been taken forward.
Cost-benefit analysis	Good	The Department has used consultation to gather additional evidence, enabling it to quantify transition costs and to refine its assumptions for the counterfactual. The IA monetises energy savings to consumers and carbon savings.
Wider impacts	Satisfactory	The IA now usefully includes a section on trade impacts. Some areas of wider impacts could be strengthened, such as assessment of competition impacts.
Monitoring and evaluation plan	Satisfactory	The Department provides a high-level description of its plans for a post-implementation review (PIR). This section would benefit from detail on what will be done, when and how.

Policy detail

Description of the proposal

The IA states that *ecodesign* legislation requires manufacturers of energy-related products to meet minimum requirements that result in the improvement of energy efficiency and environmental impacts of their products (page 1). Energy labelling requires manufacturers to provide information on energy consumption (and other parameters) to allow consumers to make informed choices based on the energy efficiency of products. The legislation provides for secondary standards for specific products. In December 2018 and January 2019, the UK, as an European Union (EU) member state, voted in favour of new and updated *ecodesign* and energy labelling requirements for household refrigeration, commercial refrigeration, dishwashers, washing machines and washer-dryers. Because the UK has left the EU and the EU exit transition period has ended, these requirements will not automatically apply in the UK and, therefore, UK legislation is required to implement the requirements.

Impacts of the proposal

The IA monetises a cost of £273 million over the appraisal period in present value terms, reflecting additional manufacturing costs of meeting the increased energy performance requirements. These costs reflect more expensive component parts and/or more expensive manufacturing processes. Consumers or users of white goods will incur higher purchase costs (as manufacturers pass on their costs) but will enjoy savings in energy usage over the lifetime of the products. Benefits are estimated at £639 million over the appraisal period in present value terms. Net energy savings account for nearly 90 per cent of the monetised benefits. Therefore, the societal NPV is estimated at £367 million over 30 years in present value terms (£290 million in 2016 prices; 2017 present value base year).

In terms of business impacts, the IA estimates a net saving to business of £86 million, the difference between £47 million costs and £136 million energy savings. Nearly all of the costs and benefits to business occur in respect of commercial refrigeration products. The IA estimates an EANDCB of -£4 million (2016 prices; 2017 present value base year).

EANDCB

Evidence and data

Missing costs. The RPC commented on the consultation stage IA that the Department should use consultation to gather further evidence to enhance the assessment. In particular, the RPC suggested that the Department should aim to monetise transitional costs or explain more fully why it would not be proportionate to

monetise them at the final stage. The IA now provides a fuller assessment of transition costs, including monetising the cost of reading and understanding the requirements (paragraphs 30-33).

Counterfactual. The Department has also used consultation to obtain evidence on the percentage assumed ‘additionality’. This term refers to the proportion of businesses that would not otherwise make the changes. (The IA assumes that many businesses will make the changes anyway because the regulations will be in force in the EU and the relevant markets are global). The consultation stage IA assumed 50 per cent additionality. However, information gathered from consultation indicated that 25 per cent additionality would be more appropriate. Primarily as a result of this, estimated costs and benefits at the final stage are around half of those estimated pre-consultation. The EANDCB has also fallen below the *de minimis* threshold.

Direct/indirect impacts

The method to apportion impacts on businesses into direct and indirect is consistent with that used in a previous *ecodesign* final stage IA and appears to be reasonable.² The energy savings to business users are treated as a direct benefit, on the basis that they would be automatic through purchase of the product and not dependent upon a change in behaviour. The increase in purchase price is treated as a direct cost to business users. The IA would be improved by further discussion of why impacts on business consumers should be treated as direct. In particular, it should cover why, in this specific case, it is appropriate to treat increased purchase costs as a direct impact and describe choices facing consumers, for example which type of commercial refrigerator to purchase and when (e.g. decisions on replacing older models). The IA would benefit from referring explicitly to RPC guidance on direct and indirect impacts.³

SaMBA

The IA helpfully describes potential for SMBs to be affected disproportionately by transition costs, particularly around testing, and, where possible to redesign their products to make them compliant. During consultation, transition costs were the main concern raised in relation to SMBs. As noted above, the IA now quantifies these costs. The IA notes that SMBs that use white goods products will benefit from the proposed requirements through reduced costs over the lifetime of the products. The IA discusses possible exemption and mitigation, explaining why it does not consider them to be appropriate.

² RPC-4413(2)-BEIS ‘*The Ecodesign for Energy-Related Products (Amendment) Regulations 2020*’, 2 February 2020.

³ Available at: <https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019>

The IA would benefit from addressing whether the balance of reduced energy costs and increased purchasing costs differs between large and small business customers. In particular, this should address whether small businesses are more likely to delay purchase of replacement equipment if the purchase price goes up, and thereby experience smaller energy cost savings.

The SaMBA should, however, be strengthened significantly in its consideration of mitigation, such as longer transition periods or exemptions. This should take further account of the impact on businesses that would not otherwise be making the changes or for which the existing lead-in time for the regulations is insufficient to mitigate impacts.

The discussion around impacts on SMB repair businesses should also be strengthened, particularly in terms of evidence to support its assessment of market growth in the repair business.

Rationale and options

The Department explains that the UK agreed the the EU *ecodesign* legislation after a lengthy EU consultative process. The Government also consulted UK stakeholders and carried out their own cost-benefit analysis prior to voting in favour of the EU regulations. The RPC welcomes the discussion of non-regulatory options, such as self-regulation and voluntary agreements, and the IA's explanation of why these have not been taken forward.

Cost-benefit analysis

Evidence and data

The IA would benefit from discussing how potential changes in ownership and onshoring could affect the percentage of the market covered by imports, since this would affect the assessment of the impact on business and the trade impact assessment.

Modelling

As with previous *ecodesign* IAs, the Department estimates impacts over a 30-year appraisal period, which is broadly the period over which it expects most of the existing stock of white goods to be replaced and the full energy savings realised. The Department presents costs and benefits for each white goods product, noting that its calculations were sourced from the BEIS energy-using products policy model. This approach takes into consideration the costs and benefits associated with updating existing *ecodesign* requirements for each product. Annex 1 to the IA provides an overview of the model.

Wider impacts

Trade impacts

The RPC commented that the IA would benefit from an enhanced discussion of the potential trade impacts of the proposal. The IA now includes a section on trade impacts (paragraphs 110-111). The IA could usefully address situations where businesses may decide voluntarily to comply with EU requirements, whether this compliance will still need to be verified and certified, and what costs businesses and government might incur.

Competition Assessment

The IA would benefit from further discussion of competition impacts, linked to the assessment of impacts on trade and SMBs. This could also address whether a failure to implement the proposal could meet the Competition and Markets Authority conditions (particularly the fourth one), and, therefore, have a competition impact.

Demand factors

The final stage IA helpfully considers this area in more detail, including referencing to elasticity of demand (paragraph 77). The IA would benefit discussion of whether previous energy labelling measures have resulted in price increases which exceeded the cost of the energy saved, meaning a net burden on purchasers, including businesses (e.g for commercial refrigeration).

The IA would also benefit from an assessment of market surveillance costs, perhaps informed by the EU IAs.

Monitoring and evaluation plan

The Department describes, at a high-level (pages 99-100), its plans for a post-implementation review (PIR). This section would benefit from some detail on what will be done and how, and a fuller justification, on proportionality grounds, for why the PIR would be primarily a qualitative assessment. The plan should set out the information that will be collected on an ongoing basis, including any need to update the preparatory studies.

Other comments

The RPC made a several other comments on the consultation stage IA, which have not been addressed in the final stage IA, consideration of which would benefit the final stage IA:

Impact on repair businesses. The IA asserts that the proposal will generate more demand for repairing white goods and that the impact on repair businesses, including small repair businesses, will be positive (paragraph 101). The IA would benefit from providing further support for this assessment, i.e. that consumers will increasingly seek repair of white goods rather than buy new and that there will be a net benefit to repair businesses.

Benefit-cost ratios (BCR). The IA presents a much higher BCR for commercial, as opposed to household, white goods (table 2, page 29). The IA could be improved by highlighting and explaining this difference further and from assessing what it would take for the white goods with the lowest BCR to have a higher net cost than purchasing new white goods.

For further information, please contact regulatoryenquiries@rpc.gov.uk.