

1. The Role of the National Standards Commission

The National Standards Commission is a Commonwealth Statutory Authority, responsible for administering the National Measurement Act 1960. The Outcome, Outputs and Key Activities of the Commission are defined as follows:

Outcome 1: Australia has a national system of physical measurements in respect to which industry, commerce, government authorities, the community and our international trading partners have complete confidence.

Output 1.1 Coordination of the National Measurement System

Activity 1.1.1: Consultation, information and training.

Activity 1.1.2: Expansion of the legal metrology framework to meet emerging needs.

Activity 1.1.3: Facilitation of exports and reduction in technical barriers to trade.

Output 1.2: Legal measuring instruments comply with international and national metrological standards

Activity 1.2.1: Pattern approval of legal measuring instruments.

Activity 1.2.2: Pattern compliance of legal measuring instruments.

2. Cost Recovery Activities

2.1 Overview

The Commission has an annual budget of \$4 million, of which approximately \$700,000 is generated from cost recovery activities. Sales revenue comprises:

- Testing services (under Activity 1.2.1) : \$645,000
- Training courses (Activity 1.1.1): \$ 30,000
- Publications (Activity 1.1.1): \$ 25,000

Prior to the Ross Review in 1983, the Commission generated only a small income from industry, and all major activities were funded from government appropriations. Full cost recovery targets were imposed in 1983 for all industry services. However, these targets have never been achievable, with the result that the Commission has been chronically under-funded and has reported operating deficits for the past 2 years.

In order to address the funding situation and to review cost recovery principles, the new Executive Director (who took up the position in May 2000) has requested an Output Pricing Review. The Commission has submitted its case to the Department of Finance and Administration and the review is in progress.

The cost recovery issues relating to the three service areas are summarised below.

2.2 Testing

Fee-for-service activities

The Commission's Industry Services Group provides the following testing services on a fee-for-service basis.

- i. Pattern approval testing of legal measuring instruments, including weighing machines, load cells, petrol and LPG dispensers, milk tanks and liquor dispensers. It is a regulatory requirement that all new models of legal measuring instruments be tested and certified by the National Standards Commission before being used for trade purposes in Australia. The Commission is a monopoly provider of this service. Customers are the manufacturers or importers of trade measurement instruments.
- ii. Calibration of legal measuring instruments and master meters. The Commission does not have a monopoly on these services, but is currently the only provider of calibration services for LPG master meters. The main customers for these services are licensed certifiers of trade measurement instruments.

Fee structure

A modular fee structure is charged for all testing services. Prices are published in NSC documents and on the website, so that submitters have a clear understanding of the costs involved.

Prices for each module are based on cost models for each activity, which include salaries and on-costs, equipment costs (based on full laboratory capacity utilisation) and pro-rata allocation of administrative overheads. This approach was designed to recover the full costs of running the testing laboratory, in line with DoFA directives.

The cost of pattern approval testing is a fixed fee per instrument, which reflects the amount of testing work involved, and is in line with international practice. However, manufacturers need to amortise this cost over the sale of instruments in the Australian market. The benefits of pattern approval, in terms of market access, clearly depend on the size of the relevant market segment. Some consideration has been given to the introduction of certification fees based on the number of units sold for trading purposes, but the administrative and data collection costs associated with such a system could not be justified.

Impact on manufacturers of trade measurement instruments

In the Commission's view, testing fees based on full cost recovery are inherently unfair to manufacturers of trade measurement instruments because:

- the laboratory is not utilised 100% for industry services;
- the Industry Services Group is also responsible for carrying out compliance audits, which are in the public interest and are not chargeable to manufacturers;
- the purpose of pattern approval testing is to ensure that instruments maintain their calibration under a range of operating conditions and are not susceptible to fraudulent manipulation. This serves consumer interests as well as the manufacturers' interests.

In order to fulfil its responsibilities under the National Measurement Act, the Commission would need to maintain a certain level of technical expertise and testing equipment, regardless of the demand for industry services. It could therefore be argued that *marginal costing* would be a more appropriate basis for determining service fees than full cost recovery.

Typically, pattern approval of an instrument costs about \$20,000 and takes 8 – 12 weeks to complete. Most customers are SMEs or small import agents, for whom this represents a major expense and a barrier to entry into the Australian market.

Past experience has shown that customers are very sensitive to increases in pattern approval charges, and current prices already restrict trade. Over the past 10 years, prices have been adjusted to meet budget imperatives, without any consultation with industry. Each price rise has been followed by a drop in demand, as suppliers decided not to launch new models in Australia. In response to this situation, the Commission has not increased prices since 1996 (except for the inclusion of GST).

Impact on users of trade measurement instruments

When the cost of pattern approval represents an unacceptable barrier to entry of the Australian market, it deprives the users of trade measurement equipment of access to the latest technology, and restricts market competition.

For some niche markets in Australia, the cost of pattern approval is prohibitive and user groups have little or no choice of equipment. For example, jewellers requiring Class 1 weighing scales have a choice of only one (locally manufactured) pattern approved instrument at the present time.

There is a significant price differential between trade-approved and non approved weighing scales, due to a combination of design requirements and testing costs. Sales data suggest that traders are increasingly risking prosecution by using cheaper, non approved scales. (This is exacerbated by the fact that State and Territory Governments have inadequate resources for trade measurement inspection.) Indirectly, it appears that the cost of pattern approval may be contributing to a breakdown of the regulatory system.

Impact on the National Standards Commission

From the Commission's perspective, the focus on cost recovery has had undesirable consequences. In particular:

- the high price of testing services has resulted in gradual decline in pattern approval work (and income), as manufacturers have decided to defer new product launches or restrict their product range in Australia;
- it has placed a constraint on the ability of staff to spend a reasonable amount of time providing free advice and assistance to clients, with the result that client relationships have deteriorated;
- it has severely limited the ability of the commission to carry out its public interest responsibilities (such as pattern compliance audits) as the cost of such work is not recoverable from industry.

The international context

The Commission's current fee structure for pattern approval testing is similar to (or slightly higher than) rates charged by legal metrology authorities in Europe, and significantly higher than fees charged in New Zealand. All laboratories are heavily subsidised by government, and the level of subsidy is directly reflected in the fees.

From the manufacturers' perspective, the benefit/cost of pattern approval in Australia is relatively poor, because the price for access to the Australian market is the same as the price for access to the whole of the European Community.

At the present time, Australia is not in direct competition with overseas laboratories, as all legal measuring instruments currently have to be tested in Australia. However, as a member of the International Organisation of Legal Metrology (OIML), the Commission is actively working towards an agreement under which major international laboratories would accept each other's test reports.

Such mutual recognition agreements would place the Commission in price competition with overseas laboratories, and would significantly reduce the amount of testing conducted in Australia. Nevertheless, the Commission is committed to this course of action as it is essential that Australia fulfils its WTO obligations and cooperates with its trading partners in reducing technical barriers to trade.

2.3 Training courses

One of the Commission's key responsibilities, as coordinator of the National Measurement System, is to facilitate uniformity of trade measurement practices across Australia. This can best be achieved by providing national training resources and training courses to support State and Territory trade measurement inspectors and licensed certifiers (including private contractors and some manufacturers).

Full cost recovery targets have also been applied to this activity in recent years. However, State and Territory trade measurement authorities have all experienced a significant decline in resources and are not in a position to pay the salary, travel and accommodation costs involved. The net result of the cost recovery policy has been a total decline in trade measurement training in Australia, and a gradual loss of expertise within the trade measurement authorities.

The requirement to charge fees for training courses creates a conflict of interest for the Commission, which has a role to provide advice, information and leadership to all stakeholders in the National Measurement System.

It is ironic, and somewhat embarrassing to the Commission, that government grants have been provided to support the development of training resources and the delivery of training to developing countries in the Asia Pacific region, under the APEC program, but no funding has been provided for essential domestic training programs.

2.4 Publications

The Commission provides information to industry, trade measurement authorities, government and the general public, through:

- printed publications, including national and international legal metrology standards and test procedures; information sheets on a wide range of topics; the NSC Bulletin and the Annual Report;
- CD ROMs which provide a complete record of all pattern approval certificates issued by the Commission;
- the NSC website.

Charges are currently made to cover the cost of printing and postage of paper publications. The price list is published in the NSC Bulletin and on the website. From 2001, all publications will be freely available on the website, and hard copies will be phased out.

In view of the Commission's responsibility to disseminate relevant information to all stakeholders, it would not be appropriate to make a charge for information on the website. Furthermore, the small volume of sales would not justify the cost of establishing an e-commerce facility.

An annual subscription charge is made for the supply and 6-monthly update of the CD ROMs. In this case, the price (based on full recovery of the production and distribution costs) presents subscribers with good value, and can be justified.

3. Conclusion

The National Standards Commission welcomes this opportunity to make a submission to the Productivity Commission inquiry into cost recovery arrangements by Commonwealth Government agencies.

The policy guidelines which are set out in the Productivity Commission Act 1998 s.8 (and reproduced in the Issues Paper, October 2000) provide an excellent framework for ensuring a balanced approach to the pricing of government services, and their implementation is to be strongly encouraged.

It is clear from this brief submission, that the cost recovery regime which has been imposed on the National Standards Commission was not designed in accordance with those guidelines, and that it has had undesirable consequences for the economy, consumer protection, and international trade. At the same time has failed to achieve its financial objectives, and has yielded an insignificant amount of sales revenue, in the context of the national budget.

In the immediate term, the Output Pricing Review is the mechanism by which the National Standards Commission is seeking to review its total budget allocation, and to re-negotiate the principles of cost recovery for its services. The Productivity Commission guidelines provide a useful framework for the negotiation, and this review may become an interesting test case in their effective implementation.

The National Standards Commission would be prepared to attend a Productivity Commission hearing, if required, and will take a keen interest in the outcome of the inquiry.

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