

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: ACCC
Question: AET 46
Topic: Product recalls
Reference: Hansard page no. 126 - 25 February 2015
Senator: Madigan, John

Question:

Senator MADIGAN: Are you able to tell us—or take it on notice—how much does the ACCC spend each year on product recalls?

Mr Rridgway: Yes.

Senator MADIGAN: Could you perhaps take on notice to provide a record of all recalls over the last five years, and indicate each recall's respective budgetary cost for the agency, the percentage of faulty product return for each recalled item and, if known, the refund and administrative cost for the importer retailer. You have told us that does not happen; they get off scot-free.

The AIG, in their submission to DFAT on the Australia-China Free Trade Agreement state: ... many manufactured goods imported from China do not meet Australian safety and quality regulations and standards and the removal of tariffs under an Australia-China FTA may exacerbate this situation;

They go on:

Related to this are uncertainties about how potential breach of contract and delivery of faulty Chinese products will be properly dealt with, including processes around insurance claims and other legal resolution channels

My question is: what is your understanding of how Australian consumers and businesses impacted by unsafe products from China subject to an ACCC recall are able to pursue remedy for loss from China? Which of the challenges that are outlined in their submission by AIG are valid? Are you able to tell us on notice?

Mr Sims: I will pass to Nigel in a second, but we do not have a sense of what percentage of imports from any particular country might cause problems. We just deal with individual issues that arise. The issue with the infinity cables is one of the most egregious we have had to deal with. But, specifically, in terms of the liability for the foreign manufacturer the problem is that it is the importer who we have to deal with, not the manufacturer—if I understand the question.

Senator MADIGAN: So the ACCC keep no statistics about recalls or—

Mr Sims: No, we have statistics on everything we have done. We can answer the question you provided, on notice. We have all the recall statistics of everything we have recalled. We can provide you with that, but what I am saying is that we do not have a sense of how many imports there are and what percentage have been recalled. We just deal with the recalls themselves. We can give you all those statistics.

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Answers:

1. Cost of Recalls to Agency

The direct staff cost of recall negotiation and administration (excluding management) over a year is approx. \$565,000 per annum (Part of one manager at EL2, 3 full time staff members: one EL1, one APS6, and one APS5 and part of another APS6).

The administration of recalls involves:

- bringing recall notices into compliance with the Australian Consumer Law
- monitoring the progress of recalls, and
- negotiating improved recall communication strategies.

Negotiated recalls are most often prompted by:

- injuries caused by unsafe goods
- investigations of goods reported to be unsafe due to a systemic defect, or
- market surveillance activities.

There are other costs incurred by activities related to recalls that form part of the ongoing work of other teams, senior management and Commissioners. These activities can include:

- intelligence gathering
- surveillance
- product purchasing and testing
- obtaining legal advice from internal or external solicitors
- promotion and raising awareness of recalls, including social media campaigns, campaign development, website maintenance, and
- policy reviews.

2. Recalls over the last 5 years

The number of recalls administered by the ACCC in the last 5 years to date is 2,149. This equates to 429 recalls administered per year on average, of which around half are negotiated and monitored by the ACCC, the other half being managed by specialist regulators such as state and territory food regulators. A list of recalls submitted over the last 5 years can be found on the Product Safety Recalls Australia website at this address:

https://www.recalls.gov.au/content/search/index.phtml?filter=1&rowLimit=10&searchQueryCollection=recalls&searchQueryString=&meta_d1day=20&meta_d1month=3&meta_d1year=2010&meta_d2day=20&meta_d2month=3&meta_d2year=2015&meta_S=&Search.x=20&Search.y=14

The number of recalls negotiated and/or monitored by the ACCC over the last 5 calendar years is as follows:

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2010: 227 recalls
2011: 229 recalls
2012: 264 recalls
2013: 268 recalls
2014: 307 recalls

Of those recalls falling within the ACCC's responsibility to monitor them (i.e. not including recalls of automobiles, food, therapeutic goods or veterinary medicines), the ACCC negotiated approximately half.

3. Budgetary cost per recall

The ACCC does not record the agency budgetary cost for individual recalls.

The cost of the recall of Infinity cables as at March 2015 was \$311,000. This amount reflects expenditure additional to the approximate amount of \$565,000 per annum stated above.

4. Percentage of faulty product returned

A recent review of progress reports submitted by suppliers carrying out recalls monitored by the ACCC showed that the percentage returned including goods recovered from the supply chain was on average 56%. It is important to note that this includes goods recovered from stores, distribution centres and warehouses, as well as from consumers.

The rate of return or remediation of goods varies markedly depending on such issues as the value of the goods, the ease with which they can be remediated, and the severity of the safety hazard presented by them.

The ACCC does ask suppliers to provide a breakdown of where product is returned from, including the volume of consumer returns and amount not returned by consumers. However businesses are not required to provide this information and it is often not complete, available or supplied. However, a review of sample available data in relation to toys shows that product returned from consumers varies between 0% and 19.6%. Sample data for motor vehicles shows that the amount returned / rectified from consumers can be as high as 97.2%. While rectification most often appears to be higher than 50% results can be as low as 5.3%.

5. Cost of Recalls to Retailers:

The cost of a recall to a trader is dependent on several factors, including:

- mode of supply to sell the goods (in store or online)

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- retail value and handling costs of the goods
- whether consumers who purchased the goods can be notified directly, and
- whether notification of recall to consumers requires advertising in State and Territory daily newspapers, the cost can be approximately \$50,000.

The cost incurred by a supplier conducting a recall is information suppliers do not regularly or uniformly report to the ACCC.

From the limited information available to the ACCC, a large volume retailer, such as a department store recalling a low cost fast-moving consumer good, the cost of recovering the goods can be between \$100,000 and \$200,000.

The cost of rectification varies widely. Some products are inexpensive and relatively cheaply replaced, although there may be large volumes of product affected. Other problems, such as the full remediation of faulty cabling in a house, will cost many tens of thousands of dollars.