

1 Summary

As part of the government's construction-policy strategy, the Danish Competition and Consumer Authority wishes to focus on voluntary labelling schemes in the construction sector.

Voluntary labelling schemes¹ risks to limit the ability of actors to sell non-labelled products on the Danish market. This can lead to less intensive competition between manufacturers and suppliers of building materials, causing increased price levels on building materials. Subsequently, labelling schemes alone can result in materials becoming more costly.

In addition, labelling may lead to current product solutions being maintained and innovative products being excluded from the Danish market. In regard to this, the Danish Competition and Consumer Authority intend to achieve a better understanding of the dynamics surrounding the application and prevalence of voluntary labelling schemes in the Danish construction sector.

Based on the report "*Voluntary certification schemes - Mark of quality or trade barrier*" by Danish Standards 2008, the Competition and Consumer Authority initially focused on the following voluntary labelling schemes: Concrete Product Control (BVK), Danish Window Verification (DVV), Danish Mortar Control (DMØK), Eurovent Certification and Danish Vapour Barrier and Roofing Underlay Classification (DUKO).

This analysis aims to examine how different stakeholders in the Danish construction sector assess the five above-mentioned voluntary labelling schemes from a commercial point of view, including their background, scope, importance and prevalence.

The report is structured as follows:

Chapter 2 summarises the methodology of the analysis, including the specific methods and delineations applied throughout the study. In addition, a general description is given of the regulatory framework for the use of building materials, both nationally and internationally.

Chapter 3 outlines the application of and attitudes towards selected voluntary labelling schemes from the perspective of inspection bodies, domestic and foreign manufacturers, developers, planners, architects and contractors.

In Chapter 4, the impact of voluntary labelling schemes on pricing of construction products are assessed by COWI with departure in the interviews conducted.

¹ Voluntary labelling schemes should be understood - but not exclusively – as industry-regulated standards, labels, and labelling and control systems, from which the application is voluntary for industry actors.

Chapter 5 contains estimations of savings potentials using COWI's auction model, including a review of the assumptions behind the calculations.

Chapter 6 provides conclusions on the analysis with regard to the prospects of future use of the five voluntary labelling schemes from a competitive point of view.

1.1 Summary

1.1.1 Focus of the study

This analysis has focused on establishing an understanding of the dynamics surrounding the application and prevalence of voluntary labelling schemes in the Danish construction sector, as well as the impact of the schemes on the pricing of products within the Danish construction sector. Five specific voluntary labelling schemes have been examined; Concrete Product Control (BVK), Danish Window Verification (DVV), Danish Mortar Control (DMØK), Eurovent Certification, Danish Vapour Barrier and Roofing Underlay Classification (DUKO).

1.1.2 Method

The analysis was designed as an in-depth interview survey, illustrating various actors' views on voluntary labelling schemes rather than a representative study of each voluntary labelling scheme. The following actors were interviewed: control bodies, builders, consulting engineers, architects, contractors, manufacturers who used the voluntary labelling schemes, manufacturers who are outside the schemes and foreign manufacturers.

The review of the selected labelling schemes is based on the following categorisation:

- 1 **Process requirements:** whether the manufacturer can demonstrate that the quality declared for its product is observed. Some process requirements can be highly costly and difficult to comply with, limiting access to the market.
- 2 **Functional requirements:** whether the products meet the minimum requirements, e.g. for bearing capacity, insulation properties or water resistance. Some requirements of functionality can be more strict than the legal requirements and perhaps lesser justified, limiting competition on the market.
- 3 **Technical requirements:** whether the products are designed or produced in accordance with specific guidelines, i.e. requirements for the design or choice of materials. This might impede alternative solutions and innovation and hence constitute a barrier for entry on the market.

This grouping of requirements is used to assess the nature of the requirements, which the labelling systems impose on participating companies, and thus the potential impact on price formation.

Based on the interviews conducted, COWI made an assessment of the expected price impact of the individual labelling schemes for the respective product areas.

The section is based on four key parameters which affect pricing:

- > Costs associated with the certification and costs of using special systems or reporting tools
- > The companies' production costs (if affected by the labelling scheme resulting from e.g. any technical requirements of the scheme)

- > The quality of the product and,
- > The competitiveness in the market.

Based on data generated from the interviews, an auction model is used to confirm /disprove the market's statements of expected price changes, should there be multiple suppliers on the given market.

The model calculates only what will happen if multiple players have access to the market. The model does not include changes in the manufacturers' costs as a result of joining the labelling scheme or how increased competition may affect the manufacturers' costs in the long term. Furthermore, the model assumes that companies provide comparable goods and services.

1.1.3 Findings

The labelling schemes affect the product markets in different ways across the five analysed schemes. The main conclusions for each labelling scheme are presented below.

Concrete Product Control (BVK)

- > In the market, opinions as to the significance of BVK differ. Some actors state that the scheme is known and recognised, and that the scheme has been integrated into the Bips description system. On the other hand, some respondents express the view that BVK is less relevant and that they might just as well use a different control scheme. Furthermore, there are differing perceptions of the possibilities of importing concrete products, which makes it uncertain to what extent foreign competition has an impact.
- > Only process requirements were identified in the BVK scheme, in the shape of inspections focusing on i.e. quality assurance systems, inventory inspection and inspection of the production area.
- > As the views of respondents regarding the scheme's significance differ, it is difficult to make a clear assessment of its impact on price formation.
- > For BVK, the estimated price impact consists of a decrease of 3-12 percent. Given the uncertainty in the market regarding the significance of BVK, the results should be evaluated with caution. In the event that BVK has no real significance, the cost effect will be significantly lower than the one stated above.

Danish Window Verification (DVV)

- > There is broad consensus in the market of demand for DVV-labelled windows and doors being of considerable size. This is underlined by the fact that the majority of window manufacturers are DVV members and that reference is made to DVV in the Bips description system.

- > Process requirements were identified in the labelling system in the form of i.e. independent factory control and technical requirements for the design of the products (i.e. use of heartwood in some designs).
- > COWI estimates that the scheme has an upward impact on prices. The scheme involves multiple costly resource requirements, but the scheme also provides some benefits to the manufacturer in regard to marketing. The balance between the two effects is unknown and will most likely depend on the given business. The upward pressure on prices is deemed to be driven mainly by the quality requirements of the DVV scheme. The quality requirements are considered to be an expression of the demand for quality among customers. For example, consultants often require DVV labelling in tenders, as they intend a certain quality to be guaranteed.
- > For DVV, the estimated price effects are a decrease of 0-2 percent. This somewhat small decrease can be attributed to the fact that the vast majority of window manufacturers are currently affiliated with DVV, why the price effect of the few non-member companies participating in the scheme will be accordingly small. As a consequence of DVV's prevalence, it is difficult to assess whether or not window manufacturers with alternative product solutions have been forced to abandon the Danish market. The model calculations therefore contain risk of underestimating the potential of price reductions.

Danish Mortar Control (DMØK)

- > Market actors believe less demand for construction products marked with DMØK exists. For functional mortar, legal requirements for third-party control must be met, which may contribute to continued adherence to DMØK. Manufacturers also state that tradition and the prospects of third-party control across all products are an important reason for membership.
- > Only process requirements were identified in the scheme, documenting the quality levels offered by the manufacturer.

The scheme does not have significant price-raising requirements for members which are not already required by law (requirement for third-party control). Furthermore, membership fees are deemed to be relatively low. Overall, COWI estimates that DMØK has a minimal impact on price formation.

- > The estimated price effect points to a decrease of 1-4 percent. This relatively low level is due to the fact that the calculation is based on very few manufacturers being outside the scheme.

Eurovent Certification

- > Market actors believe there is moderate demand for ventilation products marked with the Eurovent Certification label. In Basic Description - ventilation (Bips B2.430), reference is made to Eurovent with respect to aggregates. Eurovent is also referred to in DS 447².
- > Only process requirements were identified in the scheme. The process requirements are very detailed (extensive), and are by some actors deemed to add value and are actively used in marketing. All respondents believe that membership of the scheme is associated with significant costs, which makes it difficult for small manufacturers to join.
- > Given the above, there is evidence among respondents that the Eurovent Certification has an influence on price formation in an upward direction. This is mainly due to the fact that direct and indirect costs of certification are considerable - particularly for smaller companies. Conversely, the large amount of manufacturers outside the scheme exerts competitive pressure, since non-certified products can compete with certified ones when there is no certification requirement.
- > The estimated price impact indicates a decrease of 3-13 percent. This relative large decrease in price is due to the fact that there are a significant amount of manufacturers outside the labelling scheme.

Danish Vapour Barrier and Roofing Underlay Classification (DUKO)

- > Market actors estimate that demand for DUKO-labelled roofing underlay products is moderate.
- > Process, functional- and technical requirements were all identified in the scheme. DUKO represents an entity in which opinions as to the necessity of the requirements of the scheme differ significantly.
- > COWI's initial assessment is that DUKO labelling may be contributing to constrain some manufacturers from entering the market due to the perceived high demands, i.e. minimum quality threshold and imbalance between the manufacturer's regular quality level and DUKO's level of quality. This inhibits competition and may have an upward effect on prices. The statements of the manufacturers' suggest that the absence of the scheme's high requirements would result in higher overall quality as well as lower prices, since more actors would participate in the scheme.
- > For DUKO, the calculated price impact indicates a decrease of 2-7 percent.

² DS 447, part 6.3.3. - Delivery, note 2: "Test results can be like i.e. a Eurovent certificate".