



Regulatory Burdens Review  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

20 March 2008

**Subject: Regulatory Burdens on Business – Manufacturing and Distributive Trades**

Thank you for the opportunity to make a submission to your review. Rheem has operated in Australia for over 70 years and our water heaters can be found in approximately 1 in 2 Australian homes. We have a strong commitment to the Australian hot water industry, with manufacturing operations in NSW, Victoria and Western Australia, and nearly 1000 direct employees Australia wide.

The purpose of our submission is not to comment on any single particular regulatory burden, but to highlight both the amount of government regulation experienced by our industry, and the potential that this regulation has to damage our industry. Governments and regulators at a State and Federal level need to understand that regulation doesn't just affect the costs of running an individual business, but in the case of water heating, it has the very real potential to destroy what has been, until now, one of the few remaining competitive appliance manufacturing industries left in Australia.

To give some appreciation of the scale of government activity with which our industry must deal, Table 1 (attached) gives an overview of Rheem's current interactions with various federal and state government departments and agencies. So that this remains industry specific, departments such as the Australian Tax Office have been excluded, as dealings with these bodies are a necessary consequence of doing business,



The most pressing regulatory matters with which we deal are those that literally have the potential to threaten the ongoing viability of the Australian water heater industry. All Australian governments are rapidly developing and implementing a range of regulations that are attempting to address climate change concerns. Government mandated regulations to address climate change are absolutely necessary. However these changes are currently uncoordinated in terms of policy alignment not just between jurisdictions, but also between different departments within the same jurisdiction. Worse still, we see examples of a policy change in one area resulting in a perverse outcome in another area eg water and energy.

The following points outline the various regulations that are creating a threat to the ongoing viability of the local water heater industry, and draw some conclusions as to their likely consequences:

- All State Governments have now implemented regulation effectively **prohibiting the installation of electric storage water heaters for new homes**. These individual State based regulations were put in place between July 2005 and September 2007. Each States' legislation is slightly different. In some States e.g. NSW ( the largest electric storage market ) these regulations also extend to effectively prohibiting electric storage water heaters in major renovations. Only in South Australia are electric storage water heaters permitted in locations where natural or reticulated gas is not available. Patrick Conlon, the Minister for Energy, has however recently said that his department "is currently investigating options to extend and strengthen the current new home requirements".
- New regulations banning the installation of electric storage water heaters have now extended to **prohibiting the installation of electric storage water heaters as replacement units in existing homes**. In August 2007 Queensland ( representing 25 to 30% of the total Australian electric storage water heater market) announced legislation to ban electric storage water heaters as replacement installations in reticulated natural gas areas from 2010 and then in non reticulated natural gas areas thereafter.
- Simultaneously in June 2007 the Australian Greenhouse Office (AGO) announced a proposal that MEPS (Minimum Energy Performance Standards ) would be applied to gas water heaters from 2008. Two levels of MEPS have previously been applied to Electric Water Heaters. Under the new Gas MEPS proposal, the AGO proposed the **ban of 3 star gas products (still the main form of gas storage water heaters ) from 2008**. Rheem have responded to this with an alternative proposal to first allow a 4 star rating in 2009 until the

new standard is re defined with a view of moving towards 5 star in a second round of MEPS. The AGO is now proposing 3 alternatives for Gas MEPS. A Regulatory Impact Statement was due to have been released for comment in October 2007 but this has been delayed and is expected shortly. None of the options to be proposed by the AGO will allow a continuance of 3 star product. In the absence of clarity we have been forced to embark parallel and redundant research and development activity.

- In August 2007 the then Labor opposition announced a plan that they would, (if elected to Government) ban electric storage water heaters nationally from 2012 in all areas, thus duplicating the Queensland legislation in all remaining States.
- With a newfound commitment to address climate change at a regulatory level, all Governments are now simultaneously seeking to fast track the widespread banning of electric water heaters and gas water heaters with low energy efficiency ratings. Additional R&D, new tooling and significant changes to processes and capacities are required to maintain the viability of the Australian industry. The scope of regulation is far reaching and impacts on 65% of the current market.
- It is Rheem's view that it is certain that within 3 to 5 years that the Australian water heater market will be completely redefined. Even with only a conservative 40% market reduction in electric storage water heaters (excluding say non reticulated areas, class 2 homes etc ) and the removal of 3 star gas storage in favour of instantaneous and 4/5 star gas storage, **then the Australian manufactured gas and electric storage water heater market will contract by no less than 35 % in the short to medium term.** Proposed federal regulation will only accelerate this scenario and will see a further reduction in Electric Storage as bans are extended.
- Where Electric storage products and 3 Star Gas are banned then Consumers will be given a choice between 5 star gas or Solar. The take up of Solar, even with government rebate, is relatively slow particularly in the emergency replacement market. Without rebate, the Solar sector goes into decline as the capital cost of the product becomes unaffordable to most.
- Today, imported 5 Star Instantaneous Water Heaters outsell 5 Star Gas storage water Heaters at the rate of 3 to 1. With a generally more attractive price point and with other features such as their compact size and remote control features they have a relatively strong consumer appeal. Imported instantaneous products are therefore likely to be the major beneficiary of the proposed regulatory changes. Rheem testing has found that each of these imported units

waste over 20L of water extra per day per unit compared with traditional water heaters, however this issue has not been addressed in policy development.

- Given this very real set of circumstances, local storage manufacturers costs will certainly rise as volumes and efficiencies are lost. Local competitiveness to withstand import competition will be reduced even further. Export competitiveness in Solar products which depends on local water heater tank production will also reduce. The outlook for local manufacturers is a difficult one and not everyone will survive.

The above gives an insight into the challenges that government regulation are creating for our business and for the industry. Rheem accepts that Australia has to address water heater usage as part of a broader approach to addressing climate change. We also recognise that the changes will bring additional regulation.

Rheem has in the past openly supported initiatives to address climate change and energy efficiency and has been demonstrably active since the early 90's in driving innovation in energy efficient and renewable energy products as alternatives. We have recently appointed a Corporate Affairs Manager and we have stepped up our lobbying efforts, with the aim of further contributing to the intensifying debate on water heater regulations.

Having invested so much time, effort and resources into developing our business and the local industry, it is now particularly galling to watch the industry being dismembered through the collision of uncoordinated state and federal regulations. Dealing with these piecemeal, conflicting and duplicated regulations is wasting the industry's resources at a time when these would be better spent creating solutions to climate change issues.

We are therefore asking for a consultative and consistent process that will derive a single, nationwide approach to water heater appliance regulation. The approach should include the development of a realistic timetable that will enable all local manufacturers to adjust to these regulatory changes, it should meet the demands of a changing market, and its outcomes should be capable of being implemented without the loss of thousands of Australian jobs.

To facilitate this co-ordinated approach, we ask that your Review's findings recommend that policy co-ordination between departments and jurisdictions be improved dramatically, and that industry be given a more formal role in the development of regulations, especially those that have the potential

to threaten our industry's viability. These changes should be brought together under the auspices of a national water heater strategy, to be developed jointly by industry and government.

We would be happy to provide further detail to support your review, and to make ourselves available to meet the relevant authorities to emphasise our position.

Yours sincerely

**MATT SEXTON**  
**CHIEF EXECUTIVE OFFICER**