Rheem Australia Pty Ltd ABN 21 098 823 511

Review of Mutual Recognition
Productivity Commission
PO Box80
Belconnen
ACT 2616

Review of Mutual Recognition

Dear Sir

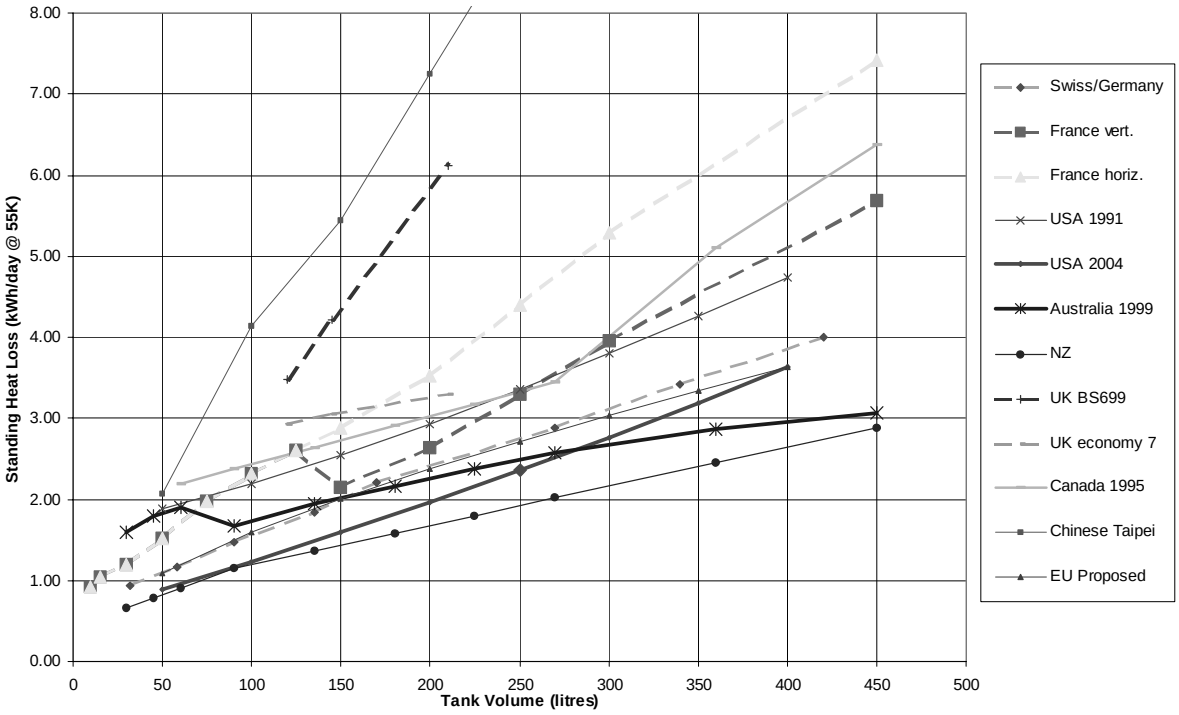
I would like to submit the following information for your consideration in the review of Mutual Recognition.

- Rheem Australia Pty Ltd was sold by Southcorp to Paloma of Japan in 2002.
- This company is the largest water heating company in the world. It manufactures electronic instantaneous gas water heaters in Japan and owns Rheem Manufacturing Company in the US. Production in the US is well in excess of four million water heaters/annum.
- Rheem Australia Pty Ltd has three manufacturing plants in Australia and one in New Zealand.
- Rheem Australia Pty Ltd manufactures or distributes a range of water heaters in Australia which includes mains pressure storage gas and electric water heaters, coil heaters, solar heaters, heat pump water heaters, electronic instantaneous gas water heaters, and mechanical instantaneous gas water heaters. We believe that we need this range to service our customers with the right water heaters for their needs.
- Rheem Australia manufactures efficient products relative to the major trading areas of the industry. The company's commitment, attitude to energy conservation and the environment has been recognised in Australia by the Company being awarded the 1999 Galaxy Awards. This award was for the Company's commitment in total, as well as Company products including MEPS compliant electric products, solar and high efficiency gas water heaters.
- Rheem New Zealand manufacture a range of efficient mains pressure, low pressure and coil water heaters, and boiling water heaters in Auckland New Zealand.
- Rheem initially supported the principle of Mutual Recognition and the TTMRA, as we could see the potential for similar products being made in plants in both countries, with common manufacturing processes, common tooling, purchased parts, economies of scale and the possibility of load-shedding to improve manufacturing efficiencies.
- Active support was given by both Rheem Australia and Rheem New Zealand in the preparation of joint Australian and New Zealand water heater standards.

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- Rheem now believes that the New Zealand Government has legislated for an "out of step with the rest of the world standard" this has killed all the benefits intended to be enjoyed by participating in the TTMRA for the water heating industries of both countries. Refer Fig 1.

- **Fig 1**



- The NZ Governments approach is to demand that the New Zealand manufacturers comply to this stringent Minimum Energy Performance Standard, despite protests by their manufacturing base. Rheem NZ has now made investment to comply with NZ legislation.

- When it became obvious that the NZ Government was going to legislate, (thus breaking the intent of the TTMRA Agreement) Rheem New Zealand had no option but to support the NZ Government's temporary exemption application. This was an attempt to protect our NZ investments for manufacturing to NZ MEPS, even though we knew this would only be temporary relief for 12 months. Rheem Australia believes that the NZ Government will not gain permanent exemption.

- On the assumption that this is correct, then our NZ investment is now at risk, (as well as NZ labour) as the Australian product will be more than able to compete with New Zealand product when the temporary exemption lapses due to the extra cost of NZ MEPS.

- It had been suggested that the current number of imported Australian water heaters is only a few thousand units and therefore the damage would be minimal. However the equation has now dramatically changed with New Zealand manufacturers being forced to produce more expensive products due to NZ MEPS. ie this not a level playing field for NZ manufacturers.

- Rheem does not wish to manufacture an expensive NZ MEPS product for the Australian market, as we would restrict our ability to compete in other export markets with the additional cost burden.

- Lately it has been suggested that maybe we could make two products. The standards Australian MEPS product and a NZ MEPS product, labelled high efficiency. This obviously would split markets, split production and is MEPS by stealth. All lack the advantages of TTMRA as we initially supported.

- It therefore seems the only way to permanently protect the Rheem NZ investment is to support the abandonment of the TTMRA for water heaters. This is a decision that we have been forced to reluctantly make, as the opportunities and advantages for both countries now seem to be gone.

Yours Sincerely

Geoff Whitford
Product Development Manager
Rheem Australia Pty Ltd.