What Lies on the Horizon?

As we move ahead in 2008, many challenges and opportunities lie on the horizon for professionals in the water treatment industry. Water Quality Products *asked various top industry professionals to provide their views on the current state of the water treatment industry as well as on issues that will have an effect in the coming year. We hope the following will help you prepare for a successful business year.*

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Water Quality and the Economy

Like most of the American business world, we will carefully watch the economic climate during the coming months, especially as it impacts residential water treatment. It goes without saying that those involved with homebuilding and selling are already feeling the pinch. But 2008 may also be a year where some new opportunities open up, especially as environmental awareness becomes increasingly translated into real demand.

First, the concerns. Forecasters are debating whether the country is slipping toward a recession or simply more modest growth. For most of you in the residential field, these questions have already become irrelevant. With more and more reports showing housing in a major slump, the message is clear. The National Association of Realtors expects a 1% drop in total sales next year, with some hope for 2009. If correct, this would be the third straight year of decline.

Those who rely more on recurring revenue (replacement filters, for example) may not be affected as much. But as it becomes increasingly apparent that this is not merely a blip or a short retrenching, many of those involved in residential water treatment are looking for other business opportunities.

This leads to some of the potentially good news. As I have noted in the past, as more companies of every kind move farther into suburbs and exurbs, commercial water treatment becomes more important. The Water Quality Association (WQA) has heard from its members time and again that this reality provides some of the most promising prospects for the future.

At the 2008 WQA Aquatech USA conference, WQA will be responding

Industry professionals share their perspectives on what lies ahead for the water treatment industry in 2008

with the introduction of its new commercial education and certification program. WQA's Commercial Education Task Force has been spending months developing content designed to provide a deeper understanding of treatment technologies and their practical applications in specifying commercial systems. The educational material will also serve as a reference for dealers in the field.

Going Green in 2008

Another area where we are just beginning to see the first signs of great new opportunity can be summed up in one word: green. In 2008, I think we will see a good deal of groundwork laid that may usher in technology and approaches with the power to radically transform the industry. A whole new line of green products may be in the offing.

Take just one example. It's what we are calling the Phoenix Challenge, but the potential impact may reach far beyond one metropolis. Like many other desert states, Arizona faces increasing salinity in an ever-challenged water supply. In our preliminary discussions, the WQA has committed to working with leaders in Phoenix as well as with the water treatment industry as a whole to try to find ways to decrease salt levels and save water.

We are all committed to searching for a mix of answers, including innovations with processes such as brine reclaim and high-efficiency softeners. Any successes we achieve will be translatable almost everywhere, as political officials and residents themselves seek out more environmentally sensitive techniques.

We are also engaged with communities in California on similar initiatives and are working with the U.S. Environmental Protection Agency on its WaterSense program, a partnership with a mission "to protect the future of the American water supply by promoting and enhancing the market for water-efficient products and services."

As many localities deal with their own environmental issues, we are likely to find solutions that intertwine with each other and—whether it's planned or not—will work to open up entirely new prospects for every aspect of the water treatment industry.

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What's Your Future (or Where's Your Future)?

Many companies today are still enjoying the continued growth of the domestic water treatment unit market. No one can ignore, however, the increasing economic pressures that are all too obvious here at home. These conditions have led many companies to look for new markets, particularly overseas.

The move to offshore manufacturing has been a trend for several years and is expected to continue for many more. These changes have made it convenient for companies to begin looking toward local sales as well. Many of these markets offer comparable—in some cases, even greater—growth in new sales compared to North America.

Analyzing and predicting growth in these markets is obviously critical when deciding where to invest resources. Often an equal challenge is determining the proper standards and approvals needed to do business in these foreign countries. Predicting where and when regulations will change, which leads to product acceptance or rejection, can make or break sales in a new market.

Asia

The one market everyone talks about today is Asia. Calling that "one market" is like deciding to vacation in Europe. It is all too easy to consider it a single destination, but in reality it is a complex network of many unique and diverse conditions that demand a detailed analysis to make informed decisions.

Countries of obvious interest include China, Japan, South Korea and Taiwan. They are but the start of the opportunities, however, and many more markets are developing quickly. We do not anticipate a lot of standards and regulatory changes in 2008 for the four big Asian markets, but some updates and predictions on these and others are as follows:

China

We have been hearing for several years now about the much-anticipated release of new standards in China. Today, NSF has a consultant in China that manages all of our client's local approvals. He meets routinely with the approval authorities at the Ministry of Health on behalf of NSF clients.

There is no indication at this time that new standards will be forthcoming. Unfortunately, much of the local approval process remains a mystery or, perhaps better termed, confidential. It does not necessarily slow the process but does make it more difficult to predict.

As with any market, some of the approval details evolve over time. We saw this recently in China, where claims approved in the country differed from those certified by NSF, leading to gaps in the product labeling. The end result was changes to labeling. Situations such as this are generally easy to resolve, but they demonstrate the need to be fully informed of individual market requirements.

Japan

Discussions between the Japanese Water Purifier Association and NSF continue with regard to new Japanese standards. These discussions have spanned several years but have not yet led to a working draft. Voluntary standards have existed in Japan for many years but differ considerably from those of the NSF/ANSI standards.

The ongoing effort is to find opportunities for harmonization. Interest from both organizations remains strong, and efforts will continue in 2008. NSF has managed local approvals in Japan for many years through its office in Tokyo, including access to the voluntary Japan Water Mark.

South Korea

Standards and regulations in Korea have been evolving for the past several years. NSF has continued to strengthen local relationships to keep current on these changes, including local representation to manage approvals through the Korean Water Purifier Industry Cooperative. More changes are expected in 2008, particularly with the minimum requirements for product performance claims. NSF/ANSI standards and NSF certification remain important components to local approvals and are anticipated to remain so in the foreseeable future.

Taiwan

While reasonably small in regard to land mass, Taiwan has remained a hub of activity for standards adoption. Following an agreement signed between NSF and the Bureau of Standards, Metrology and Inspection, the first NSF/ANSI standard was adopted in 2006. Standard CNS 14933 mirrors that of NSF/ANSI Standard 42. Requirements for access to the local CNS Mark remain in development, as does the review of NSF/ANSI Standard 58. Predictions in 2008 are for completion of both, leading to significant new developments in this important Asian market.

Philippines

NSF and the Philippine Department of Health signed an agreement in 2006 for adoption of the NSF/ANSI standards as Philippine National Standards (PNS). Following review by local expert committee members, NSF/ANSI standards 53 and 58 were adopted in late 2007 as PNS. Compliance with these standards will be mandatory.

In step with the obligations of the agreement signed by the Association of Southeast Asian Nations (ASEAN), representing 10 southeast Asian countries including the Philippines, and the World Trade Organization agreement on Technical Barriers to Trade, these standards and related administrative orders will be posted for review and comment by member countries. Implementation of the order in the Philippines is expected soon. This will clearly have an important impact on this market and potentially on many surrounding countries. It is predicted that 2008 will see a significant increase in attention to local standards throughout the region.

India

Following a successful seminar in New Delhi in 2006 regarding drinking water treatment device standards, progress continues toward expanded Indian National Standards. The Bureau of Indian Standards is establishing a new committee with a greater focus on this product category.

The NSF/ANSI standards are well known in India and are expected to become a strong basis for local standards. With the continued push from local manufacturers and the desperate need for demonstrated product performance in this market, we expect significant progress in 2008 for development of new and more comprehensive standards.

Middle East

While it is not a region we hear about often, there is continued activity in the Middle East and more is expected in 2008.

Israel

Israel adopted a new revision in 2007 to its SI 1505 Part 1. This standard in many ways mirrors NSF/ANSI standards 42, 53 and 55. Work has now begun on 1505 Part 2, which mirrors NSF/ANSI Standard 58. Adoption of this revised standard is expected in 2008. The Standards Institute of Israel, a partner of NSF, performs the necessary local evaluations and approvals.

Saudi Arabia

Newly drafted in 2007, a Saudi Arabian Standard is in the works for residential reverse osmosis treatment systems through the Saudi Arabian Standards Organization. As a new area of development, it is difficult to anticipate the completion of this process, timing for development of further standards and implementation into local regulations. Monitoring of this development will be a priority for NSF in 2008, as it has the potential to build momentum in the region.

Europe

After adoption of many new European norms over the past two years, little is expected to develop in 2008. Adoption of the new standards remains of interest to many, but thus far it has been very limited and voluntary. Interest is beginning with some retailers, which could, in time, become the catalyst for acceptance and demand at the consumer level.

Material safety requirements are independent of these new standards and exist in many European countries. It is difficult to predict changes in these requirements, but they occur very infrequently. Through NSF's staff located throughout Europe, we often hear of changes as they reach draft stage and before release as final, giving time for comment and notification to our clients. The same can be said for the local industry that monitors

> “Many of those involved in residential water treatment are looking for other business opportunities.”

these closely and is quick to signal any planned changes. NSF’s agreements with several local providers of material safety evaluations, including those in France and the United Kingdom, are yet another means by which we track potential changes.

Central and South America

Brazil remains the most active country in South America with standards and regulations. It was expected that this may lead to others following a similar path, but little has occurred in the past year and little is expected to change in 2008. As with Asia, some manufacturing has relocated into these markets, and certainly the need and demand for residential treatment devices remains strong. As these markets develop, more standards will surely follow.

Oceania

Standards Australia (SA) has been in review of local standards for more than a year, including consideration of the NSF/ANSI standards. These same standards affect New Zealand. Progress has been slow but continues. It is unlikely this will culminate in 2008 with revised standards, but significant progress is expected. NSF remains in regular contact with SA for updates and progress.

Summary

While the world may continue to get smaller in terms of information exchange and market access, it does not necessarily equate to greater simplicity. NSF’s focus remains on promoting and adopting one set of standards that it believes serves the needs of the world, at least in part. Local requirements are always appropriate to consider, and many countries have made such adaptations. As in years past, our understanding of many markets will help to predict changes in 2008.

But also as in years past, there are surprises and changes not anticipated. Through NSF’s worldwide network of partners, offices and contacts, the group remains in touch with most surprises and is quick to act on those that inevitably arise with little forewarning. Many companies are learning to do the same in order to maximize their investments in foreign markets. The sharing of this knowledge and experience enables us all to be better prepared for the future.

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Looking Ahead to 2008

In my previous forecast column for *Water Quality Products*, I wrote about various state and federal legislative and regulatory matters facing the bottled water industry. From taxes and forced bottle deposits to recycling, groundwater usage and labeling; these same issues still remain at the forefront of the bottled water and the International Bottled Water Association's (IBWA) agenda.

Throughout 2007, however, the bottled water industry has witnessed a marked increase in attacks by activist groups critical of the alleged environmental impact of the bottled water industry and the products it delivers to a thirsty public. Though these attacks were based on subjective criticism and misinformation, they became the basis of extensive media coverage and local and state legislative initiatives aimed squarely at negatively affecting bottled water as a beverage of choice. IBWA expects 2008 to bring more of the same.

For the past several years, bottled water consumption has been growing at a very healthy pace. According to the Beverage Marketing Corp., bottled water consumption in the U.S. increased by 9.5% to 8.25 billion gal in 2006. Wholesale dollar sales exceeded $10.8 billion—a 9.7% increase over the previous year. In addition, since 2003, bottled water has been the second-most-consumed packaged beverage in the U.S., behind only carbonated soft drinks.

I believe, therefore, that 2008 will again be a positive year for the bottled water industry; but it will be a year filled with challenges and opportunities. IBWA will work on behalf of the bottled water industry and communicate the facts, such as the industry's practice of responsible environmental stewardship, commitment to recycling, sustainable resource use and bottled water regulation, safety, convenience and choice.

We know that advocacy groups will continue to voice their criticism of the bottled water industry. Though their claims vary greatly—from bottled water being unregulated (and unsafe) to bottled water bottles filling up landfills to general claims that bottled water is bad for the environment—their goal to reduce or eliminate bottled water consumption is the same.

The following is a snapshot of issues that emerged in 2007 and will carry over into 2008 and beyond:

- Actions to ban government-funded bottled water purchases or impose bottled water taxes;
- Corporate Accountability Intl.'s "Think Outside the Bottle" campaign;
- The U.S. Conference of Mayors Resolution No. 90;
- E-mail and Internet rumors linking hot bottled water to health concerns;
- High-profile restaurants removing bottled water from menu offerings; and
- Tap water promotional campaigns that are critical of bottled water.

Unfortunately, this past year, these issues gained traction on the national media stage. This attention directly led to legislation by states, counties and municipalities that banned the purchase of bottled water by government agencies. These measures are based on erroneous information and only serve to confuse and mislead consumers.

In addition, the growing sales of the bottled water industry have made it a bigger target on tax issues. State, federal and local governments have introduced legislation for bottled water excise, sales or severance taxes. We can expect legislators to continue their focus on the bottled water industry as they search for ways to fund various programs and projects.

The bottled water industry has long been an environmental steward. After all, companies that rely on pure and natural water springs, or even municipal sources, work hard to ensure that their sources are safe, high quality and used in a sustainable manner. In addition, the bottled water industry, like many others in the food and beverage industry, works to reduce its environmental footprint. For example, it is using lighter-weight plastics for containers (the amount of resin needed has been reduced by almost 40% over five years) and utilizing more fuel-efficient means of transporting the product to market.

Bottled water is one of thousands of packaged foods and beverages used by consumers every day; bottled water containers are fully recyclable and should be properly recycled through whatever system a local municipality has in place. Despite their popularity, polyethylene terephthalate water bottles accounted for less than one-third of 1% of all waste produced in the U.S. in 2005. Any efforts or actions that discourage consumer use of this beneficial product are not in the public interest.

We expect 2008 to be a busy year for the bottled water industry and anticipate that even more attention will be focused on it. Though many challenges lie ahead, I have no doubt that the bottled water industry will continue its unprecedented growth and success by delivering a high quality product that consumers choose because of its consistent quality, safety, good taste and convenience. *wqp*

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