



The UK Approach to the Implementation of the EC WEEE Directive

A Brief Analysis Of the Disproportionate Burden Imposed on the Local Independent Computer Retailer

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Author: Hendy Armstrong
Director, Assesstec Systems Limited
Secretary and Committee Member of ITACS

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1. Summary of Impacts

- 1.1. The UK implementation approach to the EC WEEE Directive will add a disproportionate financial burden on local independent computer retailers and leave this sector at a huge cost disadvantage compared to other massive retailers.**
- 1.2. The two and a half week window to fully understand WEEE processes, evaluate business activity impacts, deliver considered business decisions and register appropriately was insufficient to minimise business risk.**
- 1.3. The DTS registration fee amounts for independents are disproportionate adding costs that are up to fourteen fold that of the multi-million pound turnover retailers on EEE retail sale per £.**
- 1.4. The AATF status requirement for off-setting producer liabilities through refurbishment and recycling threatens to remove this activity from a front end, public facing role at the retailer to an end of chain processor facility denying both a source of income from sales currently enjoyed by the independent and the opportunity to off-set producer liabilities for PC builds thus adding further costs.**
- 1.5. The lack of appreciation of the local independent's business model has resulted in additional cost not endured by the multi-million pound turnover retailers, reducing cost competitiveness by up to 10%.**
- 1.6. The implementation approach if not fine-tuned will endanger the continuing existence of the local independent risking substantial loss of jobs.**
- 1.7. ITACS anticipate a serious non-compliance issue. It is suspected that a significant proportion of the I.T. trading sector has either failed to register with the DTS or join a PCS and deadline dates have consequently been postponed. Illegal disposal of serious quantities of WEEE will, in all probability, result.**

2. Proposals to Introduce a Greater Uniformity of Cost

- 2.1. We propose that local independent retailers be permitted to lodge their resulting small amounts of WEEE in DCF Civil Amenity Sites free of charge providing they have registered with the DTS.**
- 2.2. We further propose that the DTS and Environment Agency PCS Registration Fees for small businesses are adjusted to a proportionate level.**
- 2.3. We suggest the in-store refurbishment/repair of take back is reviewed to define an acceptable, verifiable system of local producer liability off-set.**

3. Conclusion

Necessary change is required to mitigate the risks and inequalities evident under Impacts Summary at 1. Implementing the spirit of the Proposals at 2, should go a considerable part of the way to achieving this.

4. Introduction to the Independent Computer Retail Sector

4.1. The Local Independent Computer Store (Independent)

The number of local independent stores in the UK is variably estimated at between 6,000 and 9,000. Approximately 20,000 – 30,000 people are employed in this segment of specialist retail. The sector has approximately 15% share of the total UK IT market of £9 billion. The annual turnover norm for this independent business ranges between £100,000 and £250,000.

Generally, the independent is located just off the high street in town centres and in neighbourhood localities within cities. It has the trust of the public and contributes to the local economy. It is owned and staffed by I.T. enthusiasts working at the leading edge of fault diagnosis, repair, introduced new technology and service cost efficiency, an opinion borne out by a 2006 “Which” study of relative performance and repair cost effectiveness comparisons between a large multiple store retailer and a selection of local independent shops. The business relies on both customer loyalty and word of mouth recommendation. It assembles and sells some 50 personal computer base units to customer specification per annum. The combined sector total comprises a significant proportion of the overall UK home market. As a sector it also has a significant proportion, if not the majority, of the out of warranty PC repair business within the UK.

Traditionally, it has been a great recycler of computer components and has long been committed to the underlying recycling principles that now underpin the EC WEEE Directive.

4.2. The Major Services and Products

Typically, the main business activities of the small independent are:

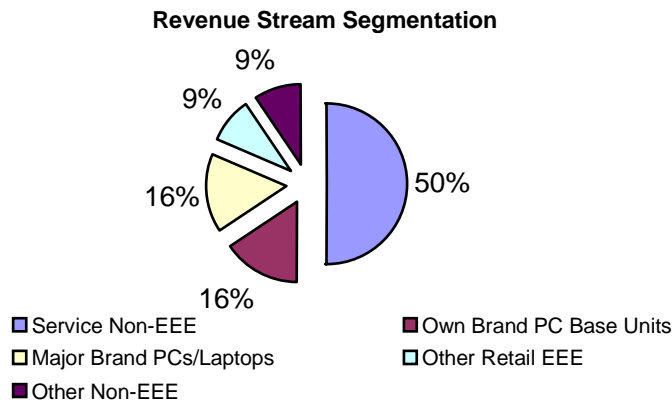
- (a) Delivering a service comprising:
 - (i) Virus and malware removal;
 - (ii) Correcting Windows operating systems etc configurations;
 - (iii) Recovering lost customer data;
 - (iv) Inter PC customer data/configuration transfers; and
 - (v) Internet access troubleshooting.
- (b) Upgrading PC components to improve performance and extend life;
- (c) Diagnosing and replacing faulty components within PCs and peripherals;
- (d) Assembling and supplying new PCs to customer required specification (own brand);
- (e) Retailing major brand PCs, laptops, peripherals (printers etc) and accessories.
- (f) Re-furbishing and repairing “take back” PCs etc for re-sale.

4.3. Sources of Income Segmentation

Typically, the average annual turnover is £100,000 to £250,000. Although revenue stream ratios would need extensive study to provide definitive information, the following would be a fair presumption of the segmentation:

- (a) Non EEE Service (labour to repair etc)
- (b) Retail of Own Brand PC Base Units
- (c) EEE Retail of Major Brand PCs and Laptops
- (d) Other EEE Retail (other branded peripherals and accessories)

- (e) Other non-EEE Retail (software, consumables, repair components and refurbishments etc)



4.4. Sector Attitude to “Waste” Recycling

Traditionally, the independent sector has always adopted an admirably responsible attitude not only to recycling unwanted computer components and products but also in extending the life of current equipment. It has always:

- (a) Salvaged working parts (and obsolete parts in particular) from unwanted PCs and during upgrades;
- (b) Similarly, refurbished unwanted items and placed them back on the market to meet the needs of those financially challenged;
- (c) Encouraged extending the life of old and not so old PCs through upgrades;
- (d) Repaired very old PCs using salvage when components are obsolete;
- (e) Sold salvage and second user goods in response to customer demand; and
- (f) Minimised the amount of waste that used to go to landfill sites.

This sector is the great wimplers of the IT industry. It's working practices have always minimised resultant electronic waste.

The major direct sellers, internet retailers and superstore multiples cannot claim similar success in this area. It is fair comment to say that a new sale is of prime importance and the first objective. In the case of direct sellers, internet retailers and supermarkets, it is the only option and will perhaps remain so under the UK implementation of the WEEE Directive.

The independent sector through recycling etc. produces arguably a quarter of the Electronic Waste (WEEE) per retail £ sale generated directly or indirectly by the major multiple retailers, direct sellers and e-tail stores.

4.5. Independent Retail Sector Responsibilities under WEEE

The spirit of the EC WEEE Directive places responsibility on the “Producer” of EEE for the financial cost of treatment at end of life. The UK implementation also requires distributors (retailers) of other “Producers” EEE (Retail EEE) to provide to the buying public either “like for like” in-store take back or disposal at a Distributor Collection Facility (DCF) both on a free of charge basis. All EEE and WEEE are accounted for by Kilogramme and Metric Tonne weight. At the “end of life” all WEEE is to be treated at an Approved Authorised Treatment Facility (AATF) to:

- (a) Place refurbished equipment back into circulation;
- (b) Recycle working components;
- (c) Recover value from heavy/precious metals etc.; and
- (d) Recover energy from the destruction of the remainder.

4.5.1. Producer Status

A business is a producer if the EEE meets one of the following criteria:

- (i) A manufacturer of EEE selling under its own brand;
- (ii) A business based in the UK selling under its own brand;
- (iii) An importer introducing EEE to the UK;
- (iv) A business in the UK that places EEE in other European Member States by means of distance selling

The typical independent produces not much more than 50 Personal Computer base units annually. This makes it a “producer”. Of these, 50% may be to the small business community. With a responsibility for the “end of life” processing costs the independent is required to sign up/join a Producer Compliance Scheme (PCS).

4.5.2. Distributor (Retailer) Status

A business is a distributor if it provides EEE to end-users, irrespective of the method of sale.

A distributor/retailer who sells EEE to the public can elect for one of two schemes or both:

- (a) The independent can elect to facilitate the free of charge disposal of like for like take back at a Distributor Collection Facility (potentially within a Civic Amenity waste site) by the purchaser by registering with the Distributor Take Back Scheme. The independent retailer will have no further responsibility for end of life costs for these items.
- (b) A distributor/retailer can offer “in-store” take back swapping old for new on sale. The retailer is forbidden to deposit these at the DCF and must make permitted arrangements for controlled disposal. In the case of the small independent retailer this means removing the take back to the PCS of which it is a member. The implications are that the retailer adopts the responsibilities of the producer for both the transportation costs to the PCS and the treatment thereof. However, Settlement Centre procedures for bringing the Producers’ end of life financial obligations to account may eventually reward the PCS with double income from the one processing transaction!

4.5.3. Treatment Facility Status

As the independent retailer/service provider has traditionally salvaged working parts, refurbished and repaired PCs it is arguable that this activity now falls under the AATF regime with a requirement for approval. The independent can (arguably) elect not to seek approval. Each is treated differently:

- (a) The independent retailer, as an AATF, can issue Evidence Notes to its PCS and hence offset its financial obligations for end of life treatment costs for own produced items (50 own PC base units (say 500kg) offset by 500kg of refurbished items);
- (b) The independent retailer without AATF status may refurbish 500kg but cannot issue Evidence Notes and hence still retains financial responsibility for end of life treatment costs.

4.6. The Decision Making Time Frame

The Department of Trade and Industry WEEE Guidelines comprising more than 80 pages were published at the end of February 2007 after some 5 years internal and external consultative deliberations. Registrations by businesses for both the Distributor Take Back Scheme and Producer Compliance Scheme were required by 15 March 2007. A 100% penalty would be imposed for late Distributor Take Back Scheme registration. The individual Producer Compliance Schemes were not formally approved until the 28 February 2007.

The window for undertaking prudent evaluation and decision making in regard to both continuing/discontinuing business activities and selecting a suitable Producer Compliance Scheme was constrained to 2.5 weeks.

4.7. Registration Costs to the Independent regarding continuing Activities.

The following is a breakdown of the "First Compliance Period":

(a)	turnover of £250,000 p.a. and EEE retail sales of £105,000 p.a.		
	(i)	DTS registration	£750
	(ii)	PCS Environment Agency registration	£220
	(iii)	PCS membership fee (variable)	£250
	(iv)	AATF Approval Fee	£500
		Total	£1,720
(b)	turnover of £125,000 p.a. and EEE retail sales of £35,000 p.a.		
	(v)	DTS registration	£200
	(vi)	PCS Environment Agency registration	£220
	(vii)	PCS membership fee (variable)	£250
	(viii)	AATF Approval Fee	£500
		Total	£1,120

5. Cost Penalty to the Independent

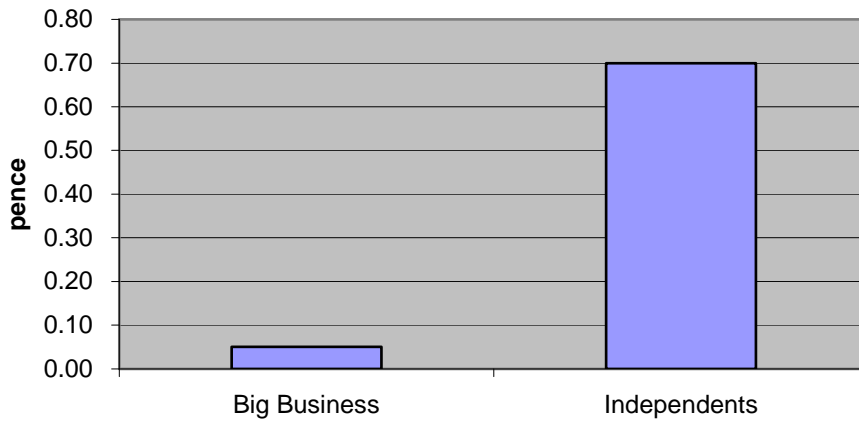
5.1. The Disproportionate Cost Burden on the Independent

5.1.1. DTS Registration Burden.

The DTS registration fee is collected as an appropriations-in-aid fund for establishing a national network of DCFs. The registration fee scale is laid out as:

- (a) Businesses with turnover in excess of £1M p.a.
A proportion of £8.8M apportioned on the basis of the % share of UK annual retail turnover.
For this group, using £9billion (in the absence of other statistics) as the UK annual I.T. EEE turnover (source Gfk) the market share is £7.65billion, therefore registration fee cost per retail £ of sale is £0.001. Merging turnover share from the electrical industry the cost reduces to £0.0005.
- (b) For the independent with £105,000 EEE turnover the registration fee cost per retail £ of sale is £0.007
- (c) For the independent with £35,000 EEE turnover the registration fee cost per retail £ of sale is £0.006

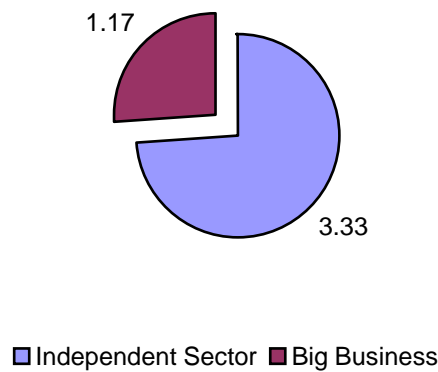
DTS Registration Comparative Cost/Retail £



Simple arithmetic, (presuming a mid-range estimate of 7500 independents of whom two thirds have EEE retail sales turnover of £100,000 and over, and the remainder less than £100,000) shows the appropriations-in-aid contribution from the independent sector estimates to £4.25M

It is understood the fund raising remit is £12.5M but this also includes the electrical industry.

DCF Contributions in Aid (£M) per £1 Billion Turnover



Even with errors in this comparison, it is clear there is a seriously disproportionate burden on the independent sector impacting profoundly on competitiveness.

5.1.2. The Burden of Third Party Producer Waste adoption/EEE Retail Disposal

In-store take back of WEEE on like for like basis is not eligible for deposit in DCFs by retailers. For the average independent, major retail EEE sales are not impulse or shop around purchases as we have to admit that, as a sector, we find it difficult if not impossible to be price competitive with the supermarket chains, superstore multiples, direct sellers and e-tail stores. Therefore most large value sales are **urgent need** customer purchases to replace items deposited and declared uneconomical repair.

The scene is set for further degradation of price competitiveness:

- (a) The Impact on the Independent
 - (i) A broken CRT monitor is workshop tested and found to be beyond economical repair.
 - (ii) A TFT monitor is sold as urgent replacement.
 - (iii) To return the faulty monitor to the customer for deposit in a DCF would potentially lose that customer. Furthermore it would generate adverse comment to others, destroying the independent's customer care reputation and losing future business.
 - (iv) With "in store" take back, responsibility for disposal passes to the independent who cannot use DCF locations.
 - (v) The independent transports the controlled WEEE at between £0.5 and £1 per Kg to the PCS: 10 kg at an approximate cost of £7.50
 - (vi) The independent suffers a processing cost of £4.50 made by the PCS
 - (vii) The cost of sale has increased by £12.
- (b) There are no impacts on the E-tailer and Supermarket:
 - (i) On TFT sale the customer is instructed to deposit like for like in the local DCF
 - (ii) There are no additional costs of sale to impact the margin made by the retailer.

The majority of the independent sector EEE sales are in the high value, worthy of repair category and take back would fall mainly within the In-Store take back arrangement adding substantial introduced cost resulting from adoption of responsibilities for disposal. It is anticipated customers would have no objection to depositing low value EEE such as keyboards, mice etc at DCFs via probable local authority collection services.

5.1.3. The Burden of Loss of Off-Set

The independent suffers the cost of end of life processing on produced product whether refurbishment activity is maintained or discontinued. In all probability, this will not be the case with larger businesses.

5.1.4. The Burden of Inadequate Pre-Implementation Business Impact Evaluation

For the independent trying to carry on normal activities, a 2.5 week time frame for business activity evaluation, financial damage limitation strategy development and due diligence on Producer Compliance Schemes was totally inadequate to ensure prudent decision making. This short time frame has increased the risks of business failure and substantial redundancies with the sector.

The key risks are

- (a) loss of activity income, for example.
 - An unconsidered decision to stop "Producing":
 - (i) may deny an introducer route to business workstation supply that may lead to a business network management and support contract adversely impacting service activities;
 - (ii) could well deny a legal disposal route for WEEE resulting from PC upgrade activity;
 - (iii) may curtail In Store WEEE like for like take back denying the availability of materials to refurbish and repair broken units (although this itself may be illegal without AATF status.

- (b) Poor/careless selection of Producer Compliance Scheme introducing the following key risks:
 - (i) PCS under capitalisation risking collapse and subsequent unquantifiable additional costs;
 - (ii) The Scheme membership profile introducing the risk of joint and several liability costs accruing from multiple membership failure,
- (c) Etc – etc being indicative that time constraint has limited even this evaluation.

For many, the nature of the evaluations and business climate change required a complete business plan review.