

New EU Environmental Laws Would Hit Smaller PC Makers Hardest

Meike Escherich

Gartner believes the enactment of two directives for managing electrical equipment waste in Europe would raise production costs, reduce margins and accelerate consolidation among midtier and small European PC vendors.

NEWS ANALYSIS

Event

Recently, the European Union (EU) approved two directives aimed at managing electrical and electronic waste in Europe:

- The Waste from Electrical and Electronic Equipment directive requires manufacturers to collect, treat, recycle and reuse their electronic products. It sets a target date of December 2005 to begin annual collection of, on average, at least nine pounds per inhabitant from private households.
- The Restriction of the Use of Certain Hazardous Materials (RoHS) directive requires manufacturers to find replacements for lead, mercury, and cadmium, as well as for chemicals such as flame retardants that show in circuit boards and plastic covers. Currently, lead in computer monitors is the only component exempt from the RoHS. Deadline for compliance is January 2008.

EU governments have not approved the law, which is slated for phasing-in by 2005.

A third proposal — which is only EU drafted-legislation at this point — aims to improve waste management at the product-design and manufacturing stages.

Analysis

Although they coordinate regulatory legislation across Europe, the new laws will significantly raise manufacturing costs and create a significant barrier to entry into the European market. Hewlett-Packard, Dell Computer, IBM, Apple Computer and Sony already have programs to collect consumers' high-tech cast-offs, and either refurbish them or send them to recycling facilities. Few other manufacturers have adequate disposal and recycling strategies.

The new laws will particularly affect U.S. PC manufacturers, which annually export up to \$6 billion in consumer electronics. If these manufacturers can't — or won't — comply with the directives, that export number could drop significantly.

Once the expected delays from legal challenges end, Gartner Dataquest believes the new directive will most significantly affect midtier and small PC vendors in Europe because:

- Collecting a large volume of waste material makes recycling cost-effective. However, most midtier and small PC vendors won't be able to generate such economies of scale.
- Midtier and small PC vendors can't afford to invest in the R&D necessary to develop manufacturing processes that exclude banned substances. Also, these small manufacturers will have to invest in new materials and new equipment — which increases operating costs — at the same time they try to focus on pricing to differentiate themselves from larger PC manufacturers.

Gartner Dataquest predicts that extra costs, reduced margins — or both — related to this new legislation will likely accelerate the convergence process among midtier and small PC vendors in Europe.

Analytical Source: Meike Escherich, Gartner Research

Recommended Reading and Related Research

- " IT Asset Management Conference Q&A: PC Obsolescence" (QA-13-9616). Questions and answers about the risks associated with equipment disposal. **By Frances O'Brien**
- " PC Disposal: Where Old Computers Go" (SPA-03-9583). A simple framework to minimize risk and effort associated with PC disposal. **By Frances O'Brien**

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This FirstTake was excerpted from Dataquest NewsTake "EU Asks 'Polluters' To Pay Up," which was first published on 28 June 2002 in Hardware Platforms Weekly, Issue 26 (HWPW-WW-NT-0226). To see more about Gartner's analysis of the hardware and systems market, go to http://www.gartner.com/1_researchanalysis/focus/hwmkt_fa.html .

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