

SITUATIONAL ANALYSIS WEPSI MARKET DRIVERS SUBGROUP

This situational analysis is assembled from the Backgrounder prepared for the Market Drivers Subgroup and from the minutes of the first meeting, which included a brainstorm session to select a focus topic. The subgroup did not perform the following analysis to this level of detail, however, most of these factors were considered in selecting the focus topic.

The subject area that defines this subgroup, as identified in the Backgrounder, is: incentive mechanisms that can be used to achieve the objectives of electronics product stewardship, with an emphasis on market and financial mechanisms over mandates. Europe, Japan and other countries are using regulatory mandates, such as take-back requirements, to require companies to take responsibility for their products' end-of-life management. Here we are trying to explore methods other than command and control to achieve the same objectives.

Regulatory, or command and control approaches, can, in fact, provide incentives to restructure economic relationships. And well-crafted regulations could potentially do so while providing the requisite flexibility and room for innovation that is essential for the electronic industry. Though the Market Drivers Subgroup is not exploring these regulatory mechanisms, they are being addressed by regulatory subgroups of both NEPSI and WEPSI.

The first question is what specifically are the objectives that these mechanisms would be intended to achieve. The Backgrounder identified the following potential objectives for consideration by the subgroup:

1. Increased diversion of e-scrap from disposal.
2. Broad (or universal) participation by companies in whatever system is developed.
3. Improved product design for end-of-life management and reduction of environmental life cycle impacts.
4. Achieving the highest value use for reclaimed components and materials.
5. Development of markets for recovered products and materials.

In the first meeting the subgroup asked itself just what kind of incentive would convince hard-nosed business managers to take an interest in the environmental aspects of their products. It was noted that their primary motivation derives from the perspective of the customer. Customers are particularly sensitive to:

- Price (e.g. cost), and
- Brand image.

So the challenge in developing an effective market mechanism is to determine the strongest connection between the objectives of product stewardship and the strong motivators for business managers of cost and brand image.

Several different types of incentive mechanisms could potentially be implemented by a product stewardship system¹. Mechanisms that were identified in the Backgrounder are listed in the following table. Other market mechanisms could and should be identified.

¹ Other market mechanisms, such as eco-taxes, could also be considered here, but they seemed to be beyond the scope of this study.

DESCRIPTIONS OF MARKET INCENTIVE MECHANISMS	
The structure of the eol system financing	Assuming that manufacturers pay, at least in part, for the eol system through a front-end-fee, that fee could potentially be structured or stratified for different companies or products to incentivize companies to achieve some of the objectives of the system.
Eol system institutional structures	Responsibility for the institutional structures of collection and reuse/recycling could be allocated in such a way as to incentivize different objectives.
Rates and dates	Requirements for individual companies or the system as a whole to achieve specified recovery/recycling rates by a certain date can incentivize action to assure that the rates are met.
Public information, such as labeling	Information that is provided to consumers about environmental characteristics of the product can incentivize manufacturers to assure that their products meet criteria that are important to consumers.
Environmentally preferable purchasing standards (EPP)	Environmental standards for purchasing of electronic equipment by governments and possibly other large buyers can incentivize manufacturers to assure that their products meet such standards.
Other?	What did we forget?

The following table aligns the potential incentive mechanisms with the objectives, and identifies their relationship to cost and brand image.

OBJECTIVE	POTENTIAL PRIMARY MARKET INCENTIVE MECHANISMS**	IMPACT ON*	
		COST	BRAND IMAGE
Increased diversion	1 The structure of the eol system financing	S	M
	2 Eol system institutional structures	S	W
	3 Rates and dates	S	W
Broad participation	1 The structure of the eol system financing	S	M
	2 Eol system institutional structures	S	W
	3 Rates and dates	S	W
Improved product design	1 The structure of eol system financing	S	M
	2 Public information, such as labeling	M	S
	3 Environmentally preferable purchasing standards	M	S
Achieving the highest value end use	1 The structure of the eol system financing	S	M
	2 Eol system institutional structures	S	W
	3 Rates and dates	S	W
Development of secondary markets	1 Eol system institutional structures	S	W
	2 Rates and dates	S	W

* S = Strong; M = Moderate; W = Weak ** See definitions below

From this analysis it emerges that several of these incentive mechanisms can contribute to the objectives and have a strong relationship to the primary motivators of business managers. All these mechanisms warrant attention by the WEPSI and NEPSI processes.

Some of these mechanisms are already being addressed, or are intended to be addressed, by WEPSI and NEPSI, while others are not being adequately addressed, as depicted in the following table.

ACTIVITIES FOR ADDRESSING MARKET INCENTIVE MECHANISMS FOR ELECTRONIC PRODUCT STEWARDSHIP	
MARKET MECHANISM	HOW, OR IF, BEING ADDRESSED
The structure of the eol system financing	<ul style="list-style-type: none"> • NEPSI financing subgroup
Eol system institutional structures	<ul style="list-style-type: none"> • WEPSI recycling subgroup • NEPSI infrastructure subgroup
Rates and dates	<ul style="list-style-type: none"> • Possibly WEPSI regulatory subgroup • Scheduled for discussion later in NEPSI
Public information, such as labeling	<ul style="list-style-type: none"> • Not being addressed by ongoing product stewardship processes
Environmentally preferable purchasing standards (EPP)	<ul style="list-style-type: none"> • NWPSC • MFF (WEPSI-SW)

Note that labeling has not been identified to be directly addressed. Clearly a U.S. environmental labeling system, such as is common in Europe, should be a priority for development.

Market Drivers Subgroup Decision: The Market Drivers Subgroup noted that at least three of the incentive mechanisms were lacking a critical component to be effectively implemented. If Design for Environment were to be a factor that is used in structuring a front-end fee, creating a consumer label, or establishing EPP standards, a mechanism is lacking to rate products according to their DfE characteristics. Though such mechanisms have been developed for other fields, such as the LEED system for green buildings, there currently is no accepted system for electronic products. However, many sources have identified at least some of the DfE characteristics that would be used in such a rating system, for example, the European labeling standards such as TCO, EU Eco-label, Nordic Swan and others.

In order to make the greatest potential contribution to the process, the subgroup therefore decided to take on the challenge of designing an assessment tool that uses DfE principles and that could be used to structure a front-end fee, create a consumer label, or establish EPP standards. This seemed like a fairly limited and focused scope that the subgroup could accomplish within the time and resources available.