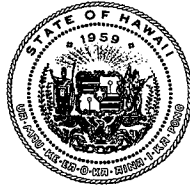


**SB 2843**



STATE OF HAWAII  
DEPARTMENT OF HEALTH  
P.O. Box 3378  
HONOLULU, HAWAII 96801-3378

In reply, please refer to:  
File:

## COMMITTEE ON ENERGY AND ENVIRONMENT

### S.B. 2843, Relating to Electronic Device Recycling

Testimony of Chiyome Leinaala Fukino, M.D.  
Director of Health

February 7, 2008  
3:30pm

1 **Department's Position:** The Department of Health supports the intent of H.B. 2509 but has  
2 reservations and respectfully opposes the bill.

3 **Fiscal Implications:** The measure requires increased funding and staffing not accounted for in the  
4 Executive Supplemental Budget proposal.

5 **Purpose and Justification:** The Department concurs with reducing the pollution due to electronic  
6 devices and believes that product stewardship and manufacturer responsibility is a proactive approach in  
7 handling our waste electronic devices. We should have a system that helps consumers to do the right  
8 thing. Given the comprehensive nature of the bill and the many stakeholders involved, we wish to talk  
9 with manufacturers and retailers and other affected businesses before any law is passed.

10 Implementation of the bill, if passed, will require significant resources. Any appropriation  
11 should not displace the priorities in the executive supplemental budget proposal.

12 As a matter that does not require adoption of this bill, the Department has an immediate concern  
13 for the proper recycling and handling of cathode ray tubes (CRT's) and flat panels. The Department  
14 recommends using this bill to amend Hawaii Revised Statutes (HRS) 342J to include the federal  
15 definition and classification of a universal waste. The State has not adopted the federal provisions that

1 currently exempt CRT's and flat panels as a waste, if they are sent for recycling. CRT's and flat panels  
2 may be hazardous waste based on the levels of heavy metals, making them more difficult to recycle.  
3 Classifying CRT's and flat panels as universal waste will allow for greater flexibility in recycling and  
4 handling of these wastes.

5 In conclusion, the Department reiterates its commitment to recycling and allowing for  
6 manufacturers to participate in the proper handling and recycling of their products.

7 Thank you for the opportunity to testify on this measure.

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WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON ENERGY AND ENVIRONMENT  
ON  
SENATE BILL NO. 2843

February 7, 2008

RELATING TO ELECTRONIC DEVICE RECYCLING

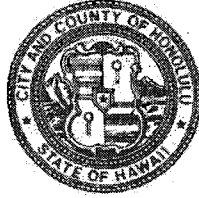
Senate Bill No. 2843 establishes a State program for the collection, recycling, enforcement and monitoring of covered electronic devices and establishes program funding through an electronic device recycling fund.

As a matter of general policy, this department does not support the creation of any special or revolving fund which does not meet the requirements of Section 37-52.3 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether the fund will be self-sustaining.

DEPARTMENT OF ENVIRONMENTAL SERVICES  
**CITY AND COUNTY OF HONOLULU**

1000 ULUOHIA STREET, SUITE 308, KAPOLEI, HAWAII 96707  
TELEPHONE: (808) 768-3486 • FAX: (808) 768-3487 • WEBSITE: www.honolulu.gov

MUFI HANNEMANN  
MAYOR



ERIC S. TAKAMURA, Ph.D., P.E.  
DIRECTOR

KENNETH A. SHIMIZU  
DEPUTY DIRECTOR

ROSS S. TANIMOTO, P.E.  
DEPUTY DIRECTOR

IN REPLY REFER TO:  
RA 08-014

The Honorable Ron Menor, Chair  
Committee on Energy and Environment  
State Senate  
State Capitol, Room 208  
415 South Beretania Street  
Honolulu, Hawaii 96813

The Honorable Rosalyn H. Baker, Chair  
Committee on Ways and Means  
State Senate  
State Capitol, Room 210  
415 South Beretania Street  
Honolulu, Hawaii 96813

RE: S.B. NO. 2843, RELATING TO ELECTRONIC DEVICE RECYCLING

Dear Senator Menor and Senator Baker:

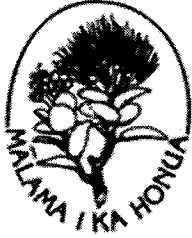
The City and County of Honolulu Department of Environmental Services supports S.B. No. 2843, which establishes a State program for collecting and recycling covered electronic devices that places the bulk of the responsibility on the manufacturers. The covered electronic devices, which the City currently collects in islandwide bulky item pickup services and at refuse convenience centers, is residential, non-commercial ewaste including computer monitors and televisions. Commercial ewaste is not taken by the City and businesses that generate such waste must dispose of their ewaste with local or mainland recyclers. The cost to recycle ewaste is significant, and as we look forward to the increased volume resulting from the mandatory change from analog to digital television, the costs will be staggering. The counties should not be forced to add this burden to the taxpayer.

We recommend the legislature consider amending the bill to include computers as well as the monitors in the definition of covered electronic devices and to add county household collection to the definition for covered entity.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric S. Takamura". The signature is written over a horizontal line and extends upwards and to the left.

Eric S. Takamura, Ph.D., P.E.  
Director



# Sierra Club Hawai'i Chapter

PO Box 2577, Honolulu, HI 96803  
808.537.9019 hawaii.chapter@sierraclub.org

## SENATE COMMITTEE ON COMMITTEE ON ENERGY AND ENVIRONMENT February 7<sup>th</sup>, 2008, 3:30 P.M.

**(Testimony is 1 page long)**

### TESTIMONY IN SUPPORT OF SB 2843

Chair Menor and members of the Committee:

The Sierra Club, Hawai'i Chapter, with 5500 dues paying members statewide, supports SB 2843, establishing an electronic waste (or e-waste) recycling program.

E-waste from computers, televisions, and other high-tech devices is an increasing problem. This type of waste frequently contains toxic materials, such as lead in the circuit board soldering or in the cathode ray tube. Moreover, with landfill issues on nearly every island, policies to divert waste from landfills should be encouraged.

Starting the process to establish and fund a state e-waste recycling program is critical now as more and more residents purchase high definition televisions and decide to scrap their older sets.

Thank you for the opportunity to testify.

# GOODSILL ANDERSON QUINN & STIFEL

A LIMITED LIABILITY LAW PARTNERSHIP LLP

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February 6, 2008

TO: Senator Ron Menor  
Chair, Committee on Energy and Environment  
Via Email: [testimony@capitol.hawaii.gov](mailto:testimony@capitol.hawaii.gov)

FROM: Gary Slovin, Esq.

RE: S.B. No. 2843 – Relating to Electronic Device Recycling  
Hearing: Thursday, February 7, 2008 at 3:30 pm.

---

Dear Chair Menor and Members of the Committee on Energy and Environment:

I am Gary Slovin testifying on behalf of Covanta Energy Group, the operator of the HPOWER waste-to-energy facility at Campbell Industry Park.

S.B. 2843 establishes a state program for collection, recycling, enforcement, and monitoring of covered electronic devices, and establishes program funding through the electronic device recycling fund. The measure also prohibits any person from placing or disposing of any covered electronic device in any solid waste disposal facility.

Covanta believes that the appropriate handling of electronic devices is a product stewardship issue. As such, those who make or who dispose of the product should play the primary role in managing this product as waste. Although that issue is addressed by the electronic device recycling program to be established by S.B. 2843, the bill's disposal ban at facilities like HPOWER does not promote product stewardship.

Covanta does not want this material at HPower and does its best to keep it out. But Covanta is not in a position to keep the material out if it is disposed of in the waste delivered to HPower.

Covanta supports the creation of an electronic device recycling program pursuant to S.B. 2843, but respectfully requests that HPOWER be exempted from the provisions of this measure for the reasons noted. Thank you for providing us with the opportunity to provide testimony on this matter.

Dear Mr. Chairman:

On behalf of a number of television manufacturers I am submitting testimony on SB 2843. Last year we provided testimony in support of SB 927, which the Committee favorably reported.

While we support the development of an effective and fair recycling program in which all parties have a responsible role, SB 2842 does not establish a program that achieves this standard. It contains four main flaws:

1. SB 2843 establishes the same program for computers and televisions even though the products are very different.
2. SB 2843 imposes responsibility on return share rather than current share putting established manufacturers at a significant disadvantage to new value brand Chinese manufacturers who have no return share and who do not make the investments in environmental improvements that established manufacturers make.
3. SB 2843 is based on the concept that making producers responsible for recycling will provide an incentive for making more environmentally responsible products even though the evidence clearly shows there have been significant environmental improvements in televisions and adding this burden will not provide any such incentive.
4. SB 2843 unfairly places the entire burden for recycling on manufacturers even though independent third party data shows that under current conditions manufacturers cannot recover the costs of this effort in the product price.

We continue to support an approach more along the lines of SB 927. We also have proposed an alternative approach under which manufacturers would run a recycling program based on current rather than return but would be able to charge a minimal end of life fee to pay for the recycling of cathode ray tube televisions that have already been sold.

We are anxious to work with the Committee in developing a fair and effective program.

With best wishes,

Ric Erdheim  
Senior Counsel  
Philips Electronics  
1300 Eye Street NW, Suite 1070 East  
Washington, DC 20005  
ric.erdheim@philips.com  
202-962-8558

*(See attached file: Senate Hearing SB 2843 2 08.doc)(See attached file: NH Attachments 1 0820080118-114124.pdf)*





**Philips Electronics North America Corporation**

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TESTIMONY ON SB 2843  
BEFORE THE HAWAII SENATE COMMITTEE ON ENERGY AND ENVIRONMENT  
PRESENTED BY RIC ERDHEIM  
SENIOR COUNSEL  
PHILIPS ELECTRONICS  
January 17, 2008

Philips Electronics is a member the Electronics Manufacturers Coalition for Responsible Recycling (Coalition). The coalition represents many of the largest consumer electronics companies in the world including JVC, Mitsubishi, Panasonic, Philips, Pioneer, Sanyo, Sharp, and Thomson. We appreciate the opportunity to provide comments on SB 2843. Unfortunately, although we support the development of electronics recycling legislation, SB 2843 is significantly flawed and fails to establish a program that is shared among all responsible parties.

Summary

1. The Coalition agrees that states should establish a source of funding for electronics recycling.
2. The 2009 digital transition is not going to cause a significant increase in the number of television sets disposed.
3. There are significant differences between computers and televisions that result in a need for different approaches to achieve optimal results.
4. An approach that focuses on return share rather than current share puts established manufacturers at a significant disadvantage to new Chinese manufacturers who have no return share and who do not make the investments in environmental improvements that established manufacturers make.
5. Experience and financial analysis shows that producer responsibility approaches would not provide an incentive to manufacturers to make better products.
6. Hawaii should authorize a source of funding for the recycling of legacy televisions. Manufacturers would be responsible for operating the recycling systems and then funding the system to pay for the recycling of new televisions.

1. *The Coalition agrees that states should establish a source of funding for electronics recycling.*

The Coalition believes that historical and future electronic waste poses a burden on local governments and that there are recoverable materials in these products. Therefore, the Coalition agrees that there should be a source of funding for electronics recycling.

2. *The 2009 transition to digital television is not going to result in an increase in the disposal of televisions.*

In February 2009, television stations will end their transmission of over the air analog signals and only broadcast digital signals over the air. The US government is going to auction the frequencies used for over the air analog signals with estimates of the auction in the \$10-\$20 billion range. Some have argued that this transition is going to result in a sharp increase in the disposal of televisions because old analog televisions will no longer function. This is incorrect for four reasons:

- a. Federal law has required television manufacturers to include a digital tuner in sets manufactured after specified dates. Large televisions manufactured after February 2005, medium size televisions manufactured after February 2006 and small televisions manufactured after February 2007 all had to include digital tuners. This means that by February 2009 a sizeable number of televisions will have digital tuners.
- b. Most households (estimated at over 85%) receive television signals through cable or satellite transmission rather than over the air. Cable and satellite providers will continue to provide analog signals.
- c. The Congress had provided a minimum of \$1 billion to provide subsidies for the purchase of digital converter boxes for analog televisions. The National Telecommunications and Information Administration (NTIA) is implementing a program to provide each household with up to two \$40 coupons upon request after January 1, 2008 that are good towards the purchase of up to two converter boxes. The cost of the box is expected to be \$50-\$70.
- d. Video game systems, DVD players, VCRs, camcorders and other devices that connect to televisions will not be affected by the digital transition. In fact, a recent story in the New York Times says that cathode ray tubes can be better for gaming because many newer televisions cannot keep up with fast movements leading to image blurring. Joe Hutsko, "Not all HDTVs Can Keep Up With the Action," New York Times, August 30, 2007.

More information about the digital transition is available at [www.dta.gov](http://www.dta.gov), and [www.ntia.doc.gov](http://www.ntia.doc.gov).

3. *Differences between televisions and computers support that there should be differences in approaches to recycling these products.*

According to Dell's Global Recycling Policy for recycling computers, "Because of different challenges, TVs and other electronics are best addressed separately." Our Coalition agrees. The following are some of the significant differences between computers and televisions that argue for different approaches in addressing end of life issues:

- Sales channels: A significant number of computers are sold directly from manufacturers, who act as retailers, to users. Virtually all televisions are sold through retailers and manufacturers have no direct connection with consumers. These differences affect the net margins for each product and the ability of manufacturers to directly relate to consumers.
- Uses in commercial and office environments: A significant number of computers are used in the business environment whereas virtually all televisions are used in households. This use pattern also affects the ability to recover spent products.
- Product life expectancy: Televisions have an average useful life of 15-17 years. In a business environment computers may last only a few years and even for homeowner use of the average life of a computer is five or more years less than for a television.
- Residual value: The residual value of a computer is much greater than the residual value of the typical cathode ray tube that has been used for televisions until recently. That significantly affects the economics of recycling
- Current business economics: While there are competitive pressures in the computer industry, the competitive pressures in the television industry are much greater adversely affecting the ability of manufacturers to increase prices to pay for recycling. As an example, a recent report by the financial services company Morningstar, contains the following information:

"The rampant competition from value brands like Vizio and Westinghouse has undercut prices of brand names like Sony, Philips and Panasonic by as much as 40%...Sustaining healthy returns on capital in such an environment is almost impossible." "Flat Panels Have Poor Fundamentals," Morningstar, March 26, 2007.

These differences mean that an approach that might be efficient for computers are not likely to be efficient for televisions.

4. *An approach that focuses on return share rather than current share puts established manufacturers at a significant disadvantage to new Chinese manufacturers who have no return share and who do not make the investments in environmental improvements that established manufacturers make.*

Seventy percent of 130 television manufacturers were not in business ten years ago (Smart Money 3/2005 article). Gartner, a leading provider of global technology research, reports similar numbers. According to Gartner "The emergence of China as a worldwide manufacturing powerhouse added further pressure to the consumer electronics industry, as state sponsored original design manufacturers emerged to build consumer products for anyone seeking to enter the consumer electronics market as a new "manufacturer...Any company with the resources and a market entry point can deliver a product relatively quickly by contracting with these ODMs." (The Consumer Electronics Industry in Flux, November 16, 2005).

New entrants are charging much lower prices in part because of lower operational costs and no environmental design improvement efforts. A story in Newsweek International, January 23, 2006 says, "Prices are plummeting as more and more players jump into the game, many of them unknown names out of Taiwan and Mainland China." According to Bob O'Donnell, an analyst at IDC, a global market intelligence firm, "You and I can start an LCD company tomorrow. You buy some panels and circuits, get a Taiwanese (contract manufacturer) and, bam, you're in business. Given that environment, there are people fighting for survival." Quoted in "TV prices dropping too fast, Sony says," In ZDNET.com, December 11, 2006.

And that is what has happened. According to ISupply, a company that provides market intelligence, in the second quarter of 2007 the number one manufacturer of LCD television sets sold in the US was Vizio, which had a market share of 14.5%. Two other new companies, Syntax-Brilliant and Westinghouse, had market shares of 6.1% and 5.5% respectively. That means that new manufacturers sold at least one-quarter of all LCD televisions sold in the quarter. [www.isupply.com](http://www.isupply.com). Vizio is a company that was started in 2002. It currently has 85 employees. Gary Gentile, "Upstart Maker Tops in Flat Panel TVs," the Seattle Times, September 10, 2007.

Some of these new companies are using brand names of famous defunct companies:

"But as is the case with everything manufactured these days, China seems to be a hotbed of zombie brands. Brent Butterworth, editor in chief of Home Entertainment, notes that the brand names of Westinghouse and Polaroid, two once-proud blue chips that were titans in consumer electronics, have recently been applied to flat-panel TV sets made in China." "Attach of the Zombie Brands II: More products that refuse to stay dead." Daniel Gross, [Slate.com](http://Slate.com), March 20, 2007.

The effect of low-cost competitors is summarized in "On the Undercutting Edge of Electronics" in the November 30, 2006 edition of the Washington Post. "Suppliers, who are also battling for market share among consumers, have lowered their costs to compete with cheaper, second-tier brands."

The effect of global competition on pricing power is summed up in the February 5, 2007 edition of Business Week in an article written by Senior Editor, James C. Cooper:

“The overarching change, however, is the way globalization and technology have altered corporate pricing behavior in the face of rising costs. The resulting intensification of competitive forces limits the ability of companies to simply mark up prices based on cost increases. It has made cost control, rather than pricing power, the driving force behind corporate profit margins and earnings growth.” Page 25.

The financial research firm, Morningstar recently summarized the result of this competition:

“Despite the explosive growth of flat-panel televisions, manufacturers are struggling to stay profitable. The downward spiraling of prices, which are expected to drop another 20% in 2007, is outpacing cost reductions as manufacturers vie for market share. The rampant competition from value brands like Vizio and Westinghouse has undercut prices of brand names like Sony, Philips, and Panasonic by as much as 40%. Thanks to the global supply chain, these value players have access to the same TV displays from Asian suppliers as their marquee competitors. Consequently, Vizio and Westinghouse can manufacture TVs as cheaply as anyone else. And since these firms have virtually no overhead and no expensive marketing campaigns, they can pass their costs savings on to consumers.” “Flat Panels Have Poor Fundamentals,” Research Report on Philips Electronics, Morningstar, March 26, 2007.

The overwhelming evidence is that new low cost Asian manufacturers are significantly undercutting established manufacturers prices and inhibit the ability of such manufacturers to increase their prices to pay for the costs of recycling.

Producer responsibility return share proposals as found in SB 2843 unfairly and unnecessarily put established manufacturers at an economic disadvantage to new Asian entrants by adding costs to these manufacturers when they already have higher costs and lower profit margins. Established manufacturers are the manufacturers making the environmental design improvements that legislators want to see. These research and design implementation initiatives add to established manufacturer costs.

Over the last year many states have recognized the harmful effect of a return share model. Oregon and Minnesota both provide for current share models for televisions and Connecticut is considering revising its program to move from return share to current share for televisions.

##### 5. *Arguments in Favor of Producer Responsibility Do Not Hold Up to Scrutiny*

Although manufacturers, retailers, government and consumers benefit from the sale and use of televisions, only manufacturers are being asked to pay for the cost of recycling.

Some argue that manufacturers should pay for recycling to create an incentive to design better products. This argument fails on two grounds:

a. Television manufacturers already have made significant design improvements without any such incentive. The television sold in 2008 is far superior to the average television sold in 1993 and being disposed in 2008. The 2008 television uses significantly less energy per screen size, weighs much less, uses much less packaging including elimination of PVC packaging and has eliminated use of virtually all lead. (See attached slide graphically showing improvements). Just last week the technology magazine CNET awarded Philips its "Best in Show" Award for our power saving Eco TV. (see attached story). In addition see the attached the lead story in the January 29, 2007 edition of Business Week Magazine on socially responsible and eco friendly practices are helping companies make money. On page 53, in a chart titled "Who's Doing Well by Doing Good," Business Week identified top-rated companies by industry. In the Household Durables category, Business Week identified Philips Electronics as one of the top-rated companies.

b. The average television life is 15-17 years. No one is going to redesign a product because it may result in lower recycling costs 15-17 years from now. Manufacturers need much shorter payback periods. In addition, there is no guarantee that any improvement made today would result in a decrease in recycling costs 15-17 years from now because of likely changes in the recycling of televisions. Recyclers are moving from hand disassembly to mechanical disassembly. This means that design changes to make manual disassembly easier are irrelevant in mechanical disassembly.

c. Even if there might be some incentive from requiring manufacturers to recycle televisions, that incentive would only apply to newly manufactured products. Products already manufactured and sold cannot be changed. Therefore there is no incentive from manufacturing legacy products. The Vice President of Best Buy made the following statement in his testimony before the House Energy and Commerce Committee in 2005:

"Through all of the voluntary efforts outlined above, we have first-hand knowledge of the fact that this issue is complicated. It may be helpful to the Committee to highlight one significant complication. There is the waste that is currently waiting to be recycled. There are the products that are still in use but will need recycling in the near future. Neither of these two categories of products – historic waste – was produced with the understanding that they would have to be recycled. And then there are the products that will be produced the future – future waste. Finding a solution may require us to think about these two categories of waste separately."

6. *Television Manufacturer Proposal – New Hampshire should allow its existing system of end of life fees to continue for a period to pay for the recycling of legacy Cathode Ray Tubes or authorize another source of funding for this purpose.*

Notwithstanding the lack of any incentive, television manufacturers have said they would be responsible for recycling newly made televisions and would be willing to run a program to collect legacy televisions. The only issue comes down to funding the recycling of legacy (pre 2008) televisions. Cathode ray tube televisions have little to no economic value and are the biggest financial cost of recycling electronics by far. Newer flat panel televisions are likely to be cost positive at end of life.

We have supported an up-front fee to pay for legacy recycling as is provided by the WEEE directive in Europe and is being implemented in much of Canada and in California. Senator Espero introduced a version of this approach SB 927 last year and the Committee reported favorably reported SB 927. In the event that the Committee does not believe that such a fee is viable, we would propose an end of life fee to pay for legacy recycling. There would be a limit the size of the fee (\$10), a limit the length of time we could use the fee (mid to late next decade), a prohibition on the charging of a fee for any product other than cathode ray tube televisions (that means free recycling for new flat panel televisions) and we would pay for an independent third party audit to ensure that all collected fees were used for recycling and did not benefit the manufacturers and that any excess collection would have to be paid to the state. Such end of life fees are now used by some communities in Maine and Minnesota to pay for the costs of collection. Another approach has been used in Arkansas and to a lesser extent in North Carolina and Colorado to increase tipping fees with funds used in whole or in part for electronics recycling.

Without some alternative source of funding for legacy products, manufacturers would have to eat the costs of the program. This comes at a time of significant problems for established manufacturers as documented by independent third parties. Please see the middle paragraph in the attached Merrill Lynch report showing that Philips loses money on television sales in the US and the reasons for those losses.

“Connected displays – which makes up ~60 of CE (consumer electronics) continues to loose (sic) money in the North American market driven by severe price competition, aggressive retail dynamics and disruptive low-cost players.”

If we are losing money with the cost structure we now have we will lose even more money by adding costs that we cannot recover. This is not an economically viable situation.

### *Conclusion*

Our coalition is anxious to work with the Committee to fashion an effective and economically viable television recycling program.

# Reducing Environmental Impact



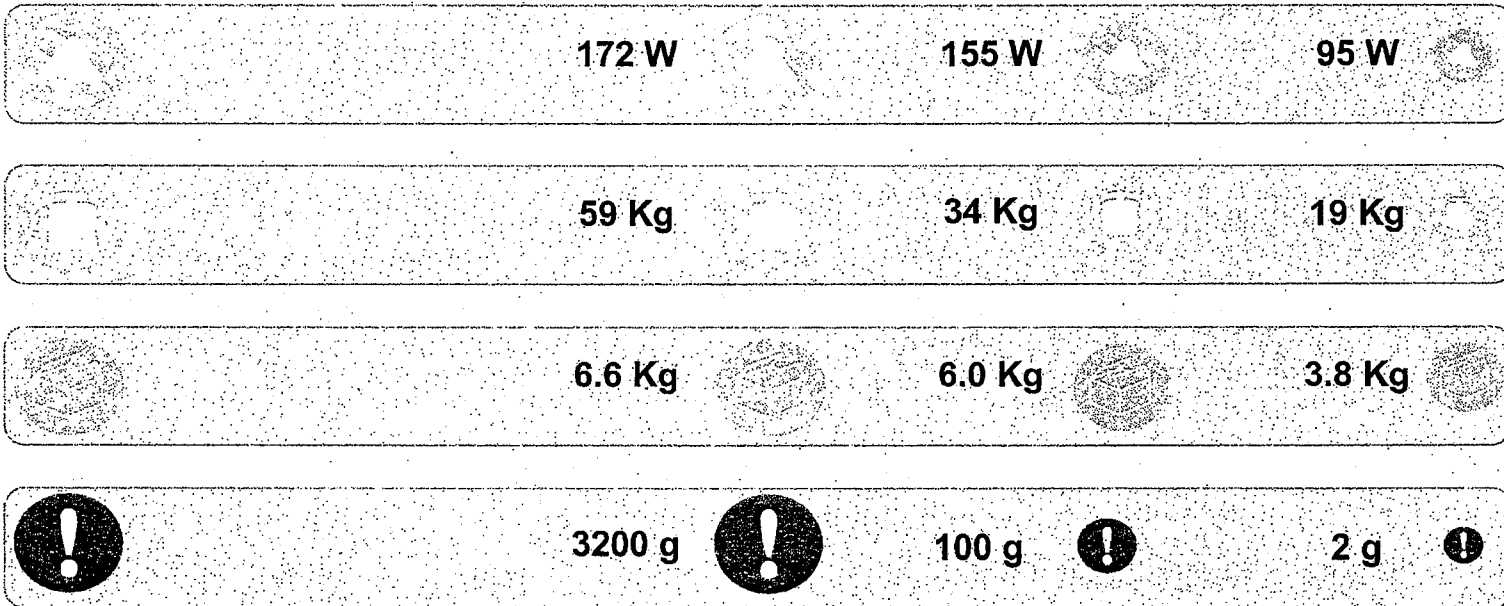
32" CRT TV



32" Plasma TV



32" LCD TV

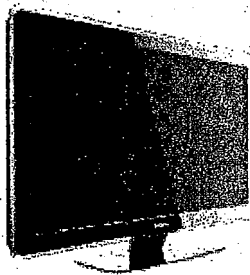






Search Results for Google

Smart Multimedia Gallery



Photo

The caption for the Philips release is: "The Philips Eco TV (42PFL5603D) was honored with the CNET's 'Best in Show' award at 2008 International Consumer Electronics Show (CES)." (Photo: Business Wire)



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January 10, 2008 10:33 AM Eastern Time

Philips Wins "Best in Show" Award at CES for Power-Saving Eco TV

2008 International CES

LAS VEGAS--(BUSINESS WIRE)--Philips' Eco FlatTV™ took home top honors today at the 2008 International Consumer Electronics Show (CES) with the overall "Best in Show" in CNET's "Best of CES" awards.

To qualify for "Best in Show," the Eco TV won the television category for the "Best of CES" awards.

The Eco TV is designed with several power saving features such as a proprietary dimming technology that is designed to lower the LCD panel backlight to reduce power consumption without compromising the picture quality.

As part of the Philips Design Collection, the Eco TV delivers precision picture quality and definitive style while incorporating lead-free components and flame retardant materials, which are safe to the environment.

"Philips has long been an industry leader in sustainability and it is an honor to be recognized for that commitment by an organization such as CNET," said Paul Zeven, CEO, Philips Electronics, North America.

Selected by CNET's panel of expert editors, winners are recognized as the hottest products in their respective technology categories for their unmatched innovation and creativity, and their ability to excite consumers and help them explore a world gone digital.

The ten technology categories include: digital photo and video; car tech and GPS; cell phones and smart phones; computers and hardware; emerging technologies; gaming; home audio; home video; MP3 and portable video players; and televisions.



"Chosen from hundreds of products at CES, Philips' Eco TV demonstrates the creativity, excellence and vision that set the standard at CES," said Jai Singh, editor-in-chief of CNET and senior vice president for Content Development. "The 'Best of CES' Awards brings together the top consumer electronics that will impact the coming year for consumer electronics."

The Philips 42PFL5603D is one of several Philips Green Flagship products. Philips Green Flagship products carry the Philips Green logo and have been certified by external auditors that they are more than 10% more efficient than other products on the market within a given product category. The Eco TV will be available in March and will carry a suggested retail price of \$1,399.

#### **About Royal Philips Electronics**

Royal Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is a global leader in healthcare, lighting and consumer lifestyle, delivering people-centric, innovative products, services and solutions through the brand promise of "sense and simplicity". Headquartered in the Netherlands, Philips employs approximately 128,100 employees in more than 60 countries worldwide. With sales of EUR 27 billion in 2006, the company is a market leader in medical diagnostic imaging and patient monitoring systems, energy efficient lighting solutions, as well as lifestyle solutions for personal wellbeing. News from Philips is located at [www.philips.com/newscenter](http://www.philips.com/newscenter).

#### **Contacts**

Philips Consumer Lifestyle North America

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or

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# Who's Doing Well by Doing Good

**SOME LEADERS** What does it mean to say a company, its products, or its processes are "sustainable"? Here is a list of top-rated companies by industry:

AUTOMOBILES		COMMUNICATIONS EQUIPMENT	
<b>TOYOTA</b>	The maker of the top-selling Prius hybrid leads in developing efficient gas-electric vehicles.	<b>NOKIA</b>	Makes phones for handicapped and low-income consumers. A leader in phasing out toxic materials.
<b>RENAULT</b>	Integrates sustainability throughout organization. Has fuel-efficient cars and factories.	<b>ERICSSON</b>	Eco-friendly initiatives include wind- and fuel-cell-powered telecom systems in Nigerian villages.
<b>VOLKSWAGEN</b>	A market leader in small cars and clean diesel technologies.	<b>MOTOROLA</b>	Good disclosure of environmental data. Takes back used equipment in Mexico, U.S., and Europe.
COMPUTERS & PERIPHERALS		FINANCIAL SERVICES	
<b>HEWLETT-PACKARD</b>	Despite board turmoil, the company rates high on ecological standards and digital tech for the poor.	<b>ABN AMRO</b>	Involved in carbon-emissions trading. Finances everything from micro-enterprises to biomass fuels.
<b>TOSHIBA</b>	At forefront of developing eco-efficient products, such as fuel cells for notebook PC batteries.	<b>HSBC</b>	Lending guidelines for forestry, freshwater, and chemical sectors factor in social, ecological risks.
<b>DELL</b>	Among the first U.S. PC makers to take hardware back from consumers and recycle it for free.	<b>ING</b>	Weights sustainability in project finance. Helps developing nations improve financial institutions.
HEALTH CARE		HOUSEHOLD DURABLES	
<b>FRESENIUS MEDICAL CARE</b>	Discloses costs of its patient treatment in terms of energy and water use and waste generated.	<b>PHILIPS ELECTRONICS</b>	Top innovator of energy-saving appliances, lighting, and medical gear and goods for developing world.
<b>IMS HEALTH</b>	Places unusual emphasis on environmental issues in its global health consulting work.	<b>SONY</b>	Is ahead on green issues and ensuring quality, safety, and labor standards of global suppliers.
<b>QUEST DIAGNOSTICS</b>	Has diversity program promoting businesses owned by minorities, women, and veterans.	<b>MATSUSHITA ELECTRIC</b>	State-of-the-art green products. Eliminated 96% of the most toxic substances in its global operations.
OIL & GAS		PHARMACEUTICALS	
<b>ROYAL DUTCH SHELL</b>	Since Nigerian human rights woes in '90s, leads in community relations. Invests in wind and solar.	<b>ROCHE</b>	Committed to improving access to medicine in poor nations. Invests in drug research for Third World.
<b>NORSK HYDRO</b>	Cut greenhouse gas emissions 32% since 1990. Strong in assessing social, environmental impact.	<b>NOVO NORDISK</b>	Spears efforts in diseases like leprosy and bird flu and is a leading player in lower-cost generics.
<b>SUNCOR ENERGY</b>	Ties with aboriginals help it deal with social and ecological issues in Canada's far north.	<b>GLAXO-SMITHKLINE</b>	One of few pharma to devote R&D to malaria and TB. First to offer AIDS drugs at cost.
RETAIL		UTILITIES	
<b>MARKS &amp; SPENCER</b>	Buys local product to cut transit costs and fuel use. Good wages and benefits help retain staff.	<b>FPL</b>	Largest U.S. solar generator. Has 40% of wind-power capacity. Strong shareholder relations.
<b>HOME RETAIL GROUP</b>	High overall corporate responsibility standards have led to strong consumer and staff loyalty.	<b>IBERDROLA</b>	Since Scottish Power takeover, renewable energy accounts for 17% of capacity. Wants that to grow.
<b>AEON</b>	Environmental accounting has saved \$5.6 million. Good employee policies in China and SE Asia.	<b>SCOTTISH &amp; SOUTHERN</b>	Aggressively discloses environmental risk, including air pollution and climate change.

**SOME LAGGARDS** Concentrating on the bottom line makes companies postpone important changes. It can also lead to poor public relations. Here are a few companies that received lower marks.

**ALLEGHENY ENERGY** Reliance on coal poses risk if U.S. passes greenhouse gas rules.

**BANK OF CHINA** Hit by recent corruption cases, but bank says it has since improved governance.

**GENERAL MOTORS** Trails Toyota and Honda in fuel-efficient cars. High reliance on SUVs.

**NINTENDO** Slow to grapple with how emerging environmental, safety, and labor standards will affect offshore suppliers.

**PETROCHINA** Lacks transparent environmental programs. Safety record includes fatal gas leak and benzene plant explosion.

**SURGUTNEFTGAZ** Plagued by shareholder suits. Lacks public environmental policy.

**WAL-MART** The mass retailer has made great strides with ambitious green initiatives (page 57), but the company's image remains tarnished by criticisms of labor and offshore sourcing practices.

Data: Innovest Strategic Value Advisors

## Philips Electronics NV

# CE & DAP Day - Opportunities But No Incremental Guidance

### Feedback from CE and DAP Capital Markets Day

On 6 December 2007, Philips (PHIA) held its **Consumer Electronic (CE) and Domestic Appliances & Personal Care (DAP) capital markets day** in Amsterdam, Holland. We summarize the key points as follows:

**Consolidating CE & DAP** – while PHIA reiterated its previously announced cost saving target of EUR150-200m through the merger of its 'CE' and 'DAP' units into a single division of 'Consumer Lifestyle', we were disappointed that the company did not provide any guidance with respect to future revenue synergies by expanding its addressable market potential from EUR0.5T to EUR1.4T. Nevertheless, we have learnt that new opportunities may include the categories of 'food preparation', 'personal augmentation' and 'outdoor'. Interestingly, this may include **hearing/listening devices and/or contact centre & office headsets**.

**DAP** – while we expect organic constant currency growth to slow from the current extraordinarily high momentum of ~17% (9M FY07A), our forecast (bar a U.S. recession) of 7.5% in FY08E and 6% FY09E could prove to be conservative, driven by a flurry of new product launches/roll-outs including shaving solutions, baby & mother care (AVENT), one touch espresso machines & UV water purifiers.

**Connected Displays** – which makes up ~60% of CE continues to lose money in the North American market driven by severe price competition, aggressive retail dynamics and disruptive low-cost players. With the intermediate-term outlook unlikely to change, PHIA is reconsidering its business model, which may include downsizing / streamlining its product portfolio and/or retail channels. Nevertheless European and emerging markets continue to show satisfying investment returns.

**U.S. Economy** – while CE has historically shown sensitivities to macro economic conditions, it was highlighted that DAP should be far more robust due to its relatively lower price points and being generally more of a "necessity good". While DAP has been relatively stable through past economic cycles, we believe the division may have become more sensitive, driven by a product portfolio that over the past 3-4 years has been driven to higher price points through innovation. Furthermore, new categories such as the recently launched high-end automatic coffee machines for +EUR1,000 are likely to be more discretionary in nature. Nevertheless, PHIA has not seen any weakness in its U.S. DAP business so far.

### Investment Conclusion - Buy

Overall, we found the capital market mildly positive and look forward to additional disclosure on future expected revenues synergies from the new 'Consumer Lifestyle' division. We believe that the fundamental investment case remains intact: 1) MedTech acquisitions can drive re-rating; 2) Redeployment of capital into more attractive markets; and 3) compelling valuation on conservative forecasts. We maintain our **Buy** rating and our 12-month PO of **EUR36** per share.

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Company Update

**BUY**

Equity | Netherlands | Electrical Equipment  
07 December 2007



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