

# PHILIPS

## A company's views on the mutual recognition principle

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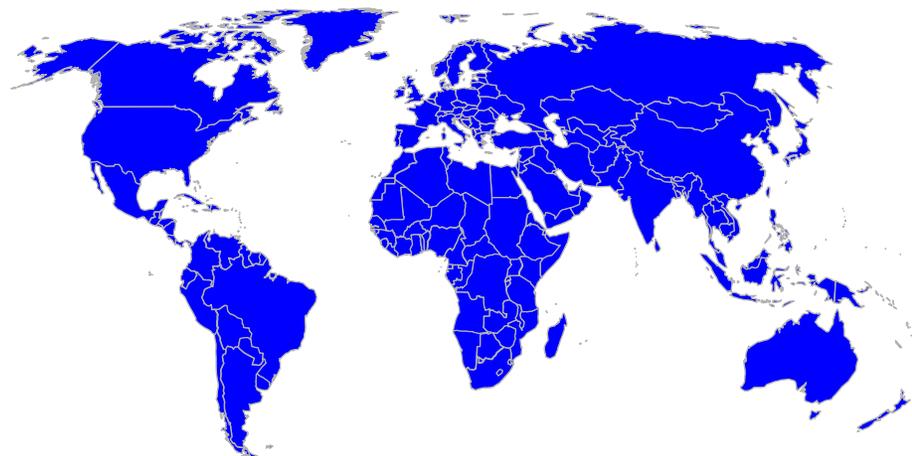
20 June 2007

# Royal Philips Electronics

- One of the largest global electronics companies  
2006 sales EUR 27 Billion
- Founded in the Netherlands, 1891
- R&D expenditures EUR 1,6 Billion  
Strong EU centre of gravity
- Multinational workforce of 124,300
- Active in Healthcare, Lifestyle and Technology
- Manufacturing sites in 28 countries,  
sales outlets in 150 countries

Headquarters:  
Amsterdam, The Netherlands

A leading Europe rooted  
**global** company

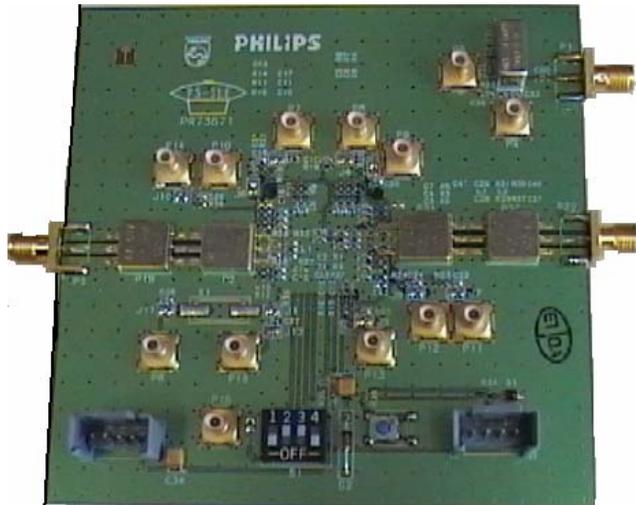


# Different roles, different views

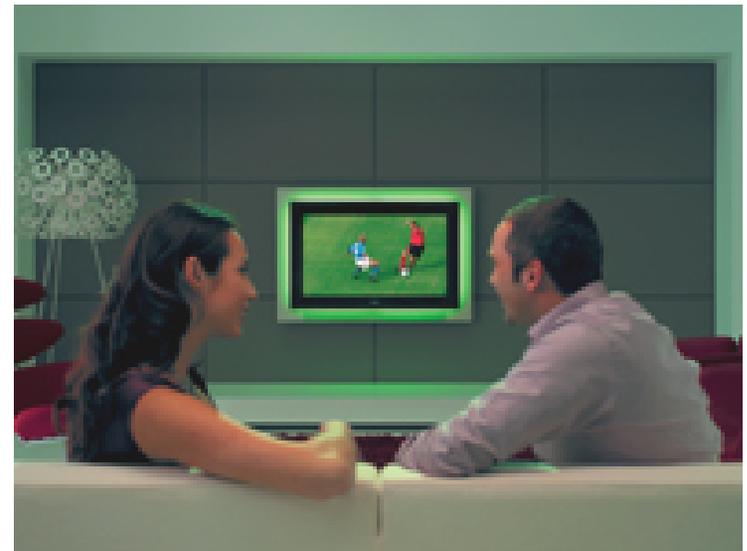
A TV



Designer view



Consumer view

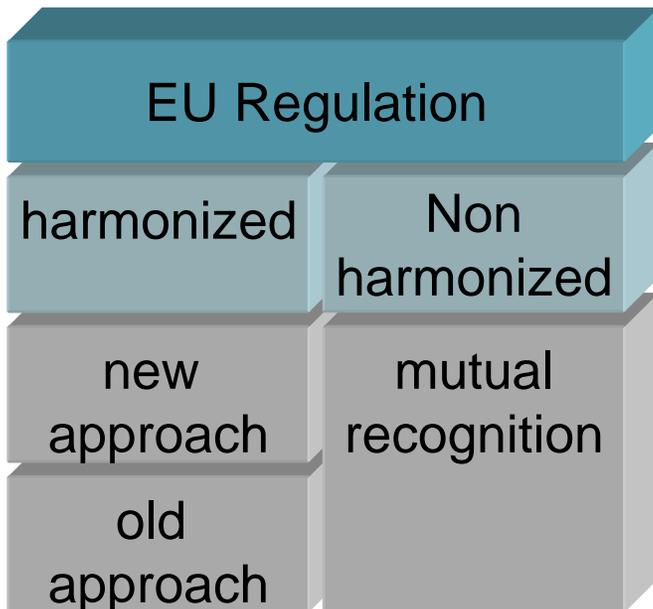


# Different roles, different views

Legislation  
regulation



Legislator view



Company view

EU	Spain	UK	...	USA
rules	rules	rules	...	rules
rules	rules	rules	...	rules
rules	rules	rules	...	rules
...	...	...	...	...

# What does good regulation do?

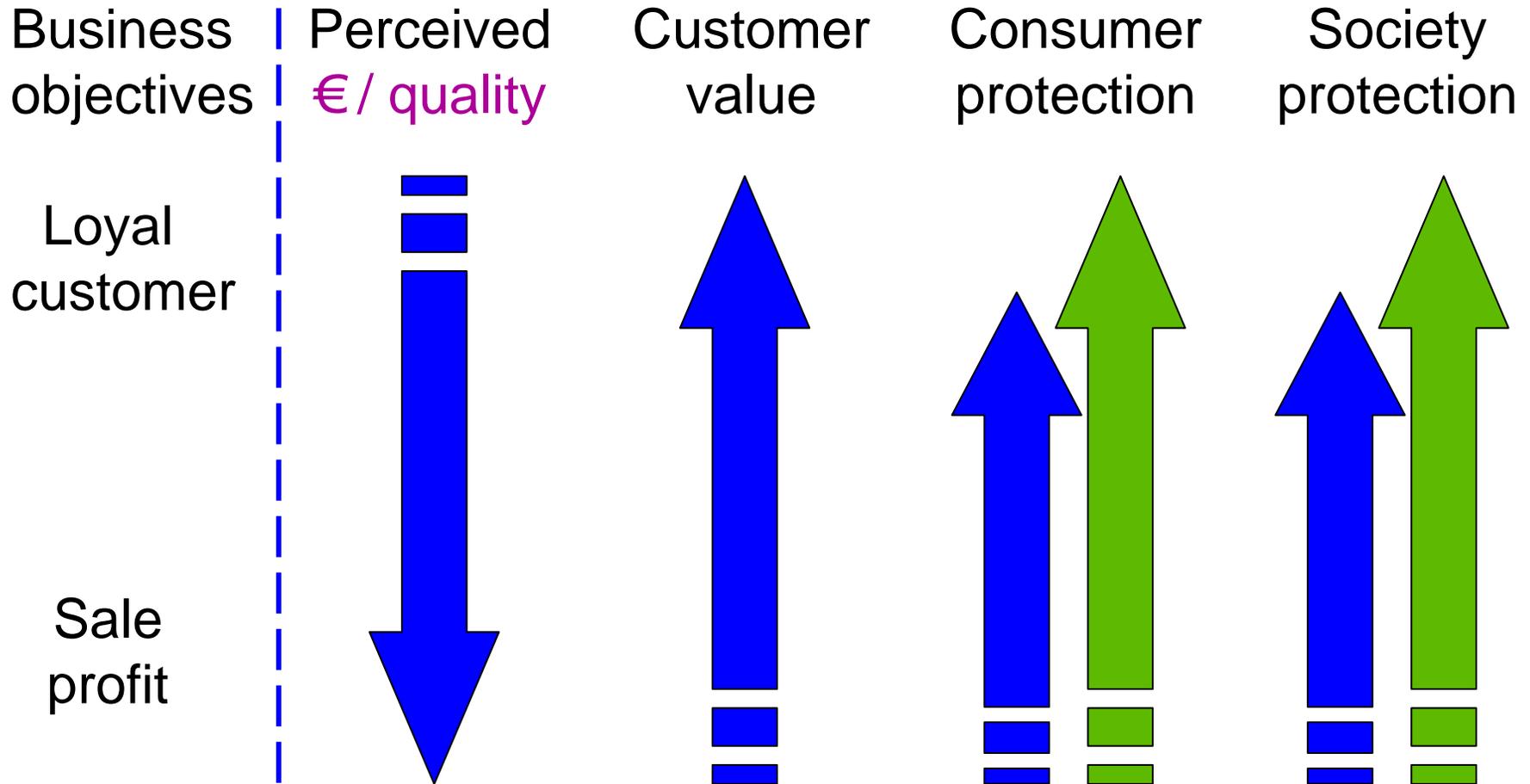
- Protect consumers and society
- Create a level playing field for competition
- Achieve these in the most efficient manner

# What does it take to get these effects?

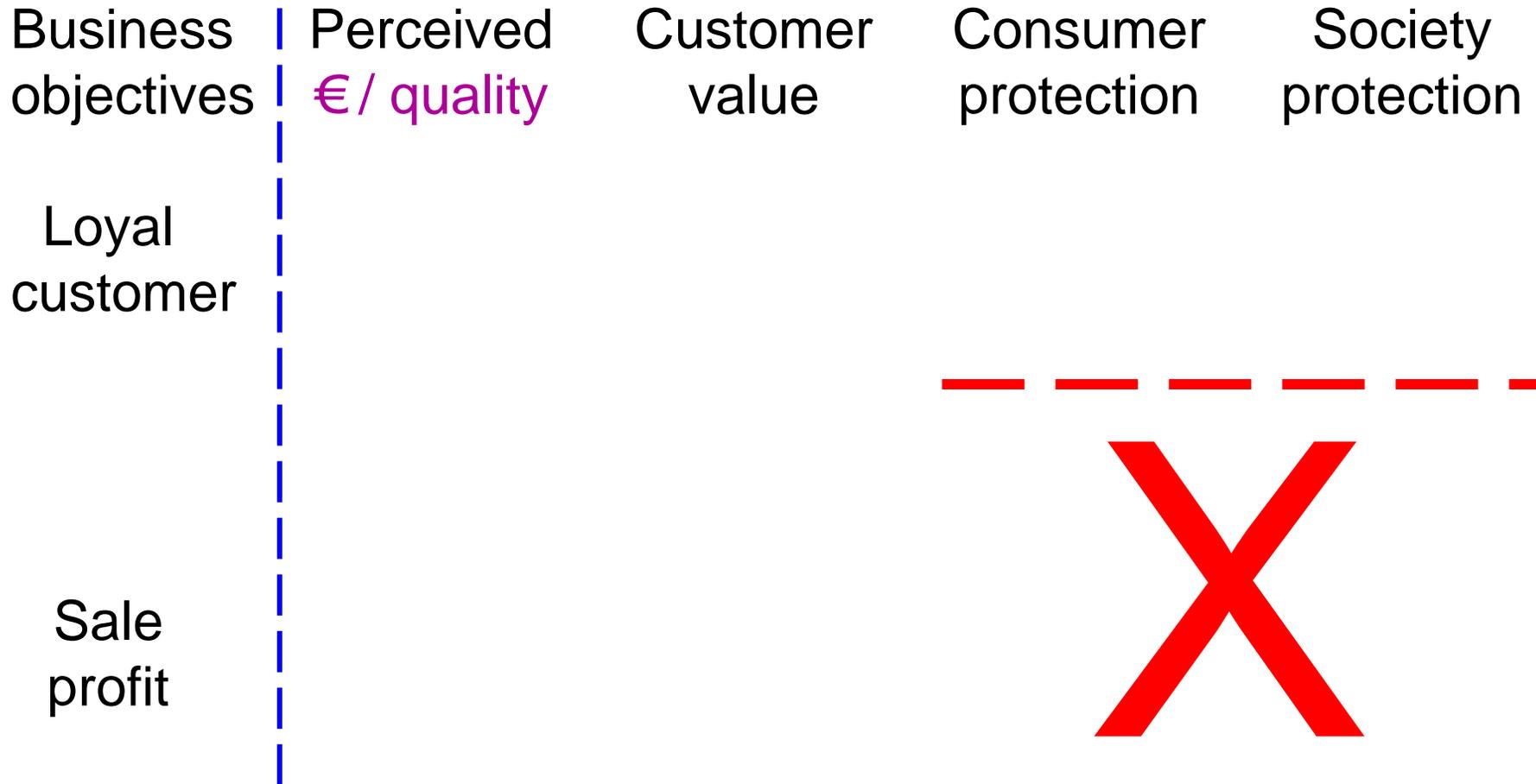
- Good legislation
- Bring into practice!
- A key and necessary element is **enforcement**

# Marketing of products

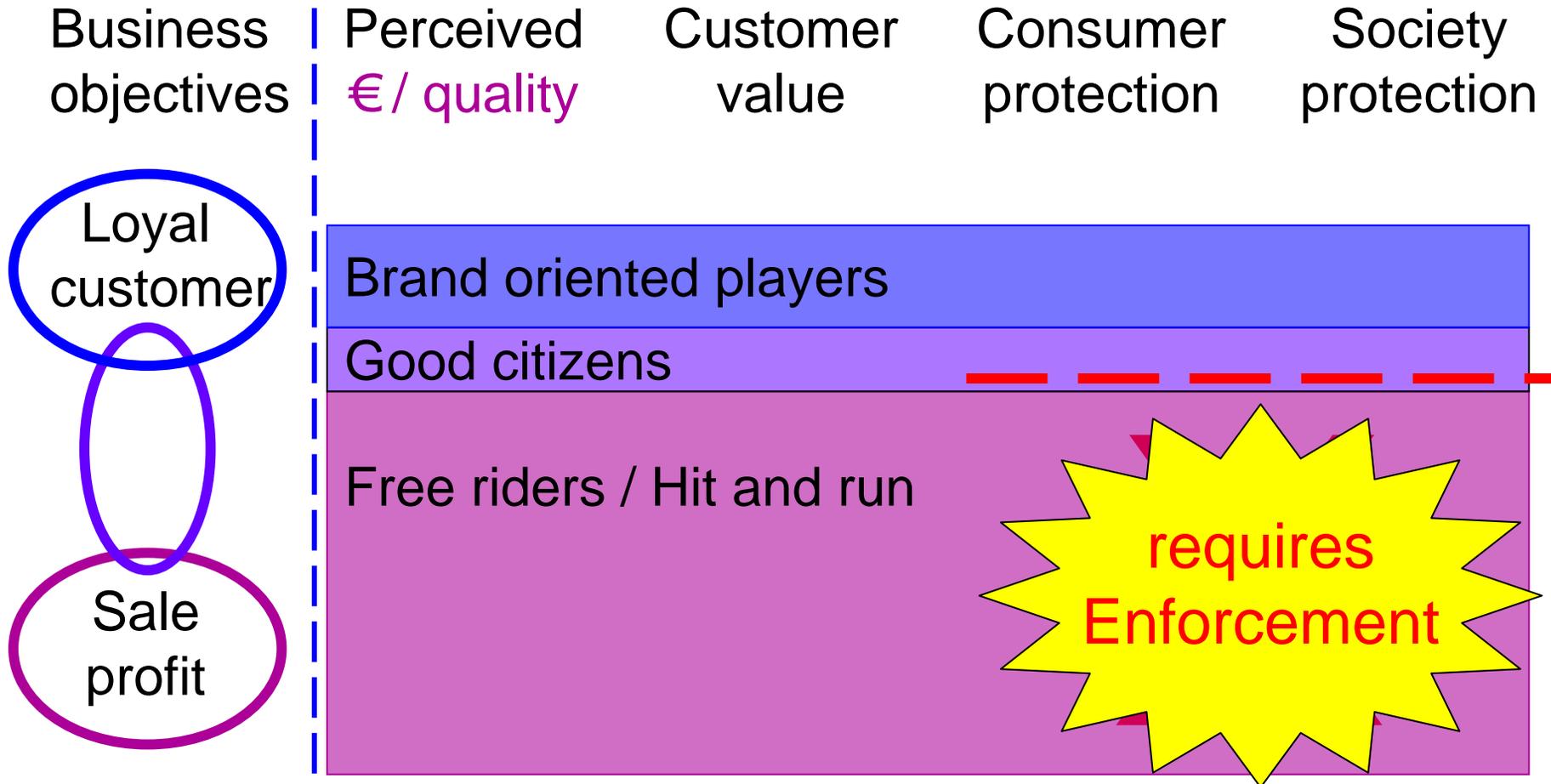
Market pressures  
 Authorities pressures



# Regulation



# Some business strategies

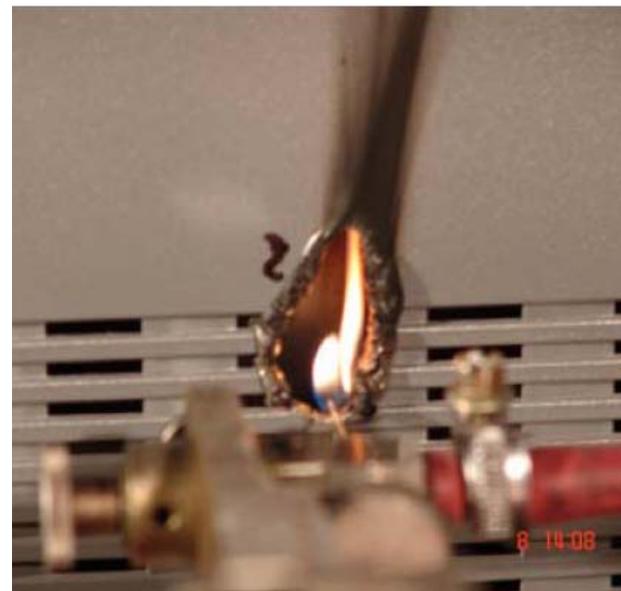


# Example - TV fire hazard reduction

- ‘Good’ inflammables cost matches 5 - 8 times the profit margin
- 2002 – Philips + 3 voluntarily agree to much better material for ‘thick’ TV
- 2003 – Philips (only) voluntarily applies for flat TV
- Since then Philips strives to standardize at this protection level



‘Standard’ HB40 protection only



V1 protection

# A global business view of technical regulation



Development



Conformity Assessment



Production



Sales & Aftercare



# A global business view of technical regulation



Requirements

Development



Procedures

Conformity  
Assessment

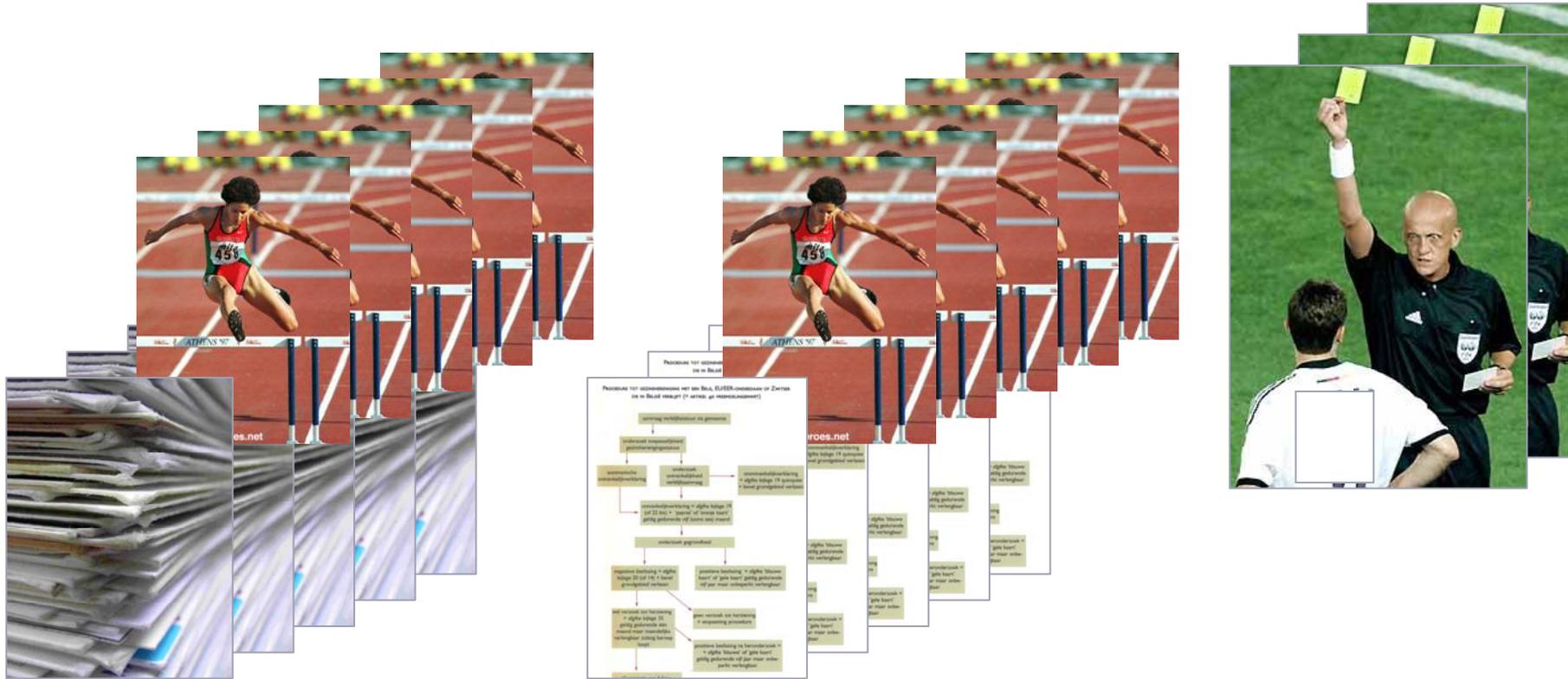


Fair play?

Production

Sales &  
Aftercare

# A global business view of technical regulation



Requirements

and Procedures .... **specific per country**

Development

Conformity

Production

Sales

Assessment

# The main costs of regulation **diversity**

- Competence – understanding all different regulations
- Design complexity
  - More development expenses
  - Longer time to market
  - More costly product
  - Worst case: more product varieties → production, logistics, ...
- Replication of conformity assessment tests and procedures
  - Each one costs money
  - Each one costs throughput time
- **Does diverse regulation add to protection of society?**

**Diverse regulation is a waste** unless it links to **real** regional differences like

- Geographical conditions (terrain, climate, ...)
- Existing infrastructures (traffic, telecoms, power grid, ...)

## Example: UK rules for outdoor furniture

- UK has special requirements of inflammability for upholstered furniture, even for outdoor furniture.
- A particular SME would need to bring a separate variety to market
  - 40 Keuro extra market introduction cost
  - 100 Keuro working capital lock-up in UK specific stock
- Production planning, scheduling and execution get more complicated and less efficient
- Stock keeping and obsolescence costs increase
- SME stays out of UK market for this
- UK consumers have less choice
- UK competitors are experienced as less competitive



# A Global Business **needs** in technical regulation

- Sense & simplicity
- Level playing field
- Global Uniformity

## Our dream

One set of requirements – One test –  
One Procedure – Global market access

## What can the EU do

- Enforcement of present EU regulation
- Further improve EU regulation
- Promote harmonization in global context



# Is EU regulation homogeneous ?

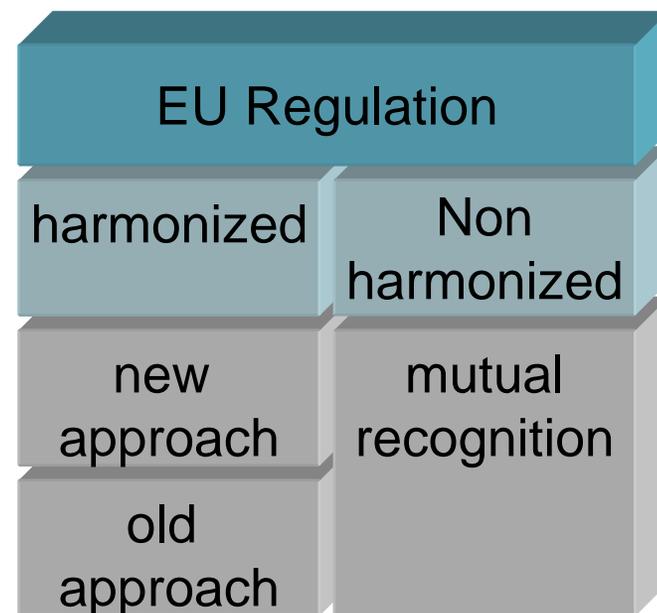
- Harmonized domain is homogeneous by definition
- Mutual recognition helps a lot for the non-harmonized domain

**In theory ....!** Devil is in the exceptions

- Bringing into practice by member states
- For mutual recognition: use of safeguard clause for other purposes
- **Enforcement** aiming at protection of consumers and society **and** fair play

## Concerns / gaps

- Member states freedom beyond **minimum harmonization?**
- 'Mutual recognition' of **conformity assessment** results in **harmonized domain**



# Example: failing enforcement 1 (4)

## Copyright levies

- Fees to compensate rights holders for economic harm done by **legal** private copying of ‘content’ - audio, video, pictures, text etc.
  - Many recording media and devices are charged.
  - **Not** a license fee or piracy compensation
- Under strong **debate**
  - Up to 50% of sale price, up to 5x pay
  - Designed for a world that is gone (strong national borders, mainly local trade)
  - High €- share spent on collection efforts
  - Artists / culture: support or trap in ‘the old age’?
- EC identified **urgent** need to improve
- Repeated promises by Barosso to the EP to complete a reform in 2006.
  - Suddenly withdrawn late 2006
  - CEO’s sent letter to Barosso Feb ‘07... waiting for reply



## Example: failing enforcement 2 (3)

Anyhow, copyright levies are still a fact of life in Europe...

**BUT**

- Collection is lousy – only for the ‘easy to catch’
- Levies are different all across Europe – **no** 2 member states the same  
→ **unlevel playing field**



The **main brands** = the innovators **pay**:

- Philips, Sony, MEI, HP, DELL

The **cheaters** get **free way**:

- Unknown Asian makers
- Large retail chains in Europe

**This hampers innovation** due to:

- Slower market development
- Uncertainty on prices, hence on market demand
- Investments become risks to the innovators

## Example: failing enforcement 3 (4)

### Facts on copyright levies

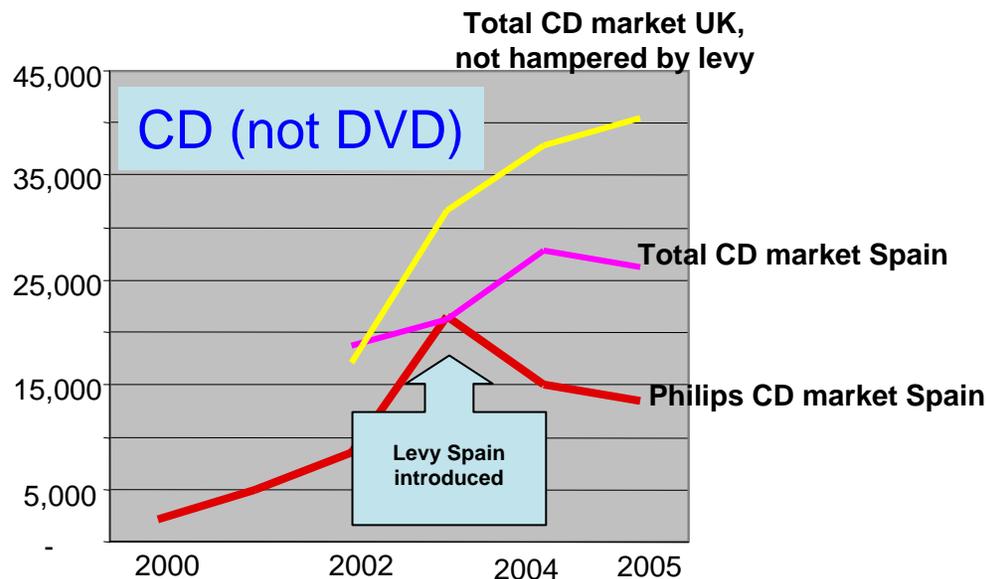
- 2006: total 1.4 B€ should have been collected + 1.9 B€ disputed
- Philips paid ~ €50 Million in 2004, ~ €70 Million in 2006
- In 2009 current and disputed claims will have increased to 4.6 B€
- 21 different levy laws, tariffs, administrations, ...
- 'Collecting Societies' have exclusive government mandate
- Tariffs 'negotiated' between stakeholders; but industry can only accept
- Levy tariff differences between Member States → price differences → substantial cross-border purchases
  - E.g. Norway, Denmark adapted their systems - lost more VAT by trade leaking away than value of collections
- Levies prove unenforceable: general evasion more than 40%
  - 2006: only 1/3 of non-disputed amount collected

# Example: failing enforcement 4 (4)

## Facts on copyright levies

- Phillips was a founder of DVD, introducing it at great R&D expenses...

**We lost** in countries like Italy, Spain **80%** of our blank DVD market share **within 6 months** after levies were introduced



- Brand players can't afford to cheat, whether enforcement or not
- Cheaters will only pay under **100%** enforcement

# Conclusion

- To levy or not to levy is one question...  
but **Not this way – European industry and society deserve fair play**
- The **next similar thing** likely to become take-back procedures of **WEEE** (Waste of Electrical and Electronic Equipment)
  - Signs already showing: some retail chains do not co-operate but promise ‘to help customers that bring back a lamp’
  - EU should be right on top of this to **avoid incentives in the opposite direction of what regulation aims to achieve**