

## UK Office of Fair Trading Releases Report on IT Market, Inkjet Cartridges

The UK Office of Fair Trading (OFT) recently released a report on the consumer IT market that blasts the OEMs for pricing and warranty practices related to inkjet printers and cartridges, and suggests the creation of a standardized testing method for inkjet cartridges in the United Kingdom.

The report indicates that third-party cartridge manufacturers face barriers to entry into the market, and specifically mentions the effects of “smart chips.” The conclusion is that the OEMs “effectively control the pricing of ink cartridges in their aftermarkets” and that additional information for consumers would help solve these issues.

This report received extensive media coverage in the UK, giving these issues widespread exposure there and throughout Europe. The UK’s examination of the IT market is in addition to the ongoing investigation by the European Union into anti-competitive practices in the printer industry.

### Background

The inclusion of remanufacturing industry concerns in the OFT investigation began in April 2000 when Laura Heywood, director of Kleen Strike and secretary of UKCRA, contacted the OFT “about unfair trading practices of OEMs in regard to their spare parts restriction policy.”

She said, “I felt it was highly unfair that only OEM service centers had access to certain machine parts and not other printer repairers. Our business (at Kleen Strike) isn’t even solely printer repairs — it’s a very small part of it.”

After extended contact with the printer manufacturer (see the July 2000



*Recharger Magazine* article, “HP’s Restriction on Spare Parts May Needlessly Send Printers to Waste Stream”), Heywood decided more help was needed.

“I felt it needed more weight behind it, which is why I asked UKCRA to assist. After that, it was UKCRA’s cause. The OFT was about to open an investigation into the supply and after-purchase servicing of computers and whether it was working well for the consumer, so it was good timing to make the organization aware of other problems,” Heywood said.

“The OFT, up until this time, had no intention of including printers or consumables (in the investigation), and had not even heard of ‘smart chips’ — they were not even on the agenda,” she said.

But after hearing about the remanufacturing industry’s concerns at a meeting with Keith Moss, chairman of UKCRA, and David Connett, publisher of *The Recycler Trade Magazine*, the OFT was very interested. “They decided it was an important enough issue to include it” in the investigation, Heywood said.

“There were many companies that responded when asked about the investigation into the OFT, and took the time to reply to the lengthy questionnaires, and wrote letters of support. It is quite a list that includes remanufacturers, toner and component manufacturers, brokers, compatible manufacturers and end users — not only here in Europe, but in the United States as well,” she said.

### Results of the Investigation

All of this hard work paid off. The OFT included inkjet cartridge pricing and warranties in its investigation. The year-long investigation resulted in the Dec. 5, 2002, report, “Consumer IT Goods and Services.”

The report looked at the size of the inkjet market and found that “the total UK market for inkjet printer ink cartridges is valued at around £700 million (\$1.1 billion), with approximately 40 million cartridges sold annually.” This compares to the “UK total inkjet printer market (which) was valued at about £350 million (\$550 million)” in 2001. They also report that “In the UK, four manufacturers supply around 90 percent of the inkjet printers. They are Hewlett-Packard, Epson, Canon and Lexmark.” The report also acknowledges that “third-party cartridges tend to be around 20-40 percent cheaper than printer manufacturer cartridges.”

After analyzing the inkjet cartridge market, the OFT found three main problems:

■ Pricing schemes are unclear. When buying a cheap inkjet printer, consumers are unaware of the long-term costs of ownership due to cartridge prices and performance. This information is not readily available at the point of sale.

■ Comparisons between cartridges are not possible. There is no standard test to determine the number of pages the cartridge should print or to compare between OEM and third-party cartridges.

■ Warranty information for printers is unclear about whether the OEMs would refuse warranty service to consumers using third-party cartridges.

### Suggestions for an Inkjet Test

One major recommendation is that a standardized testing method be created for use in the UK and published within 12 months. The OFT suggests that this methodology could be based on the test used by the UK's Consumers' Association for its *Which?* magazine. The association used its test for an article in the September 2002 issue, rating both OEM and third-party cartridges.

The test was intended to determine how many pages a given cartridge will print, and what the cost of the supplies will be for those pages. The association cited the need for a test that approximates real-world printing, and suggested using three categories of documents: standard letters, business graphics and photographs. The letter test prints a black-and-white Microsoft Word letter on A4 paper, using 1280 characters on the page. The business graphics test used a color Microsoft Excel page with shaded boxes, titles, a graph, etc. The photograph test is two pages with a mix of 11 photos (the layout was done in Adobe InDesign). All tests would be run on standard inkjet paper, and at least two runs would be done of each test.

The page count would be recorded at the following points when the cartridge/printer driver indicates the following percentages of full: 100, 75, 50, 25, 10 and zero. Also, the tank levels will be recorded when a low ink indicator is given, and also when the print-outs fail to meet the necessary print quality.

### Informing Consumers

The report suggests that the results of such testing, along with cartridge pricing,

## Recent Lobbying Successes in Europe

The remanufacturing industry has had quite a bit of success lobbying in Europe lately. The OFT investigation was happening concurrently with the European Union's development of the Waste Electrical and Electronic Equipment (WEEE) Directive, recently passed by the European Parliament. UKCRA's Laura Heywood said, "While these efforts were occurring with the OFT, I also contacted Chris Davies, MEP, as I felt it was an environmental issue as well as an anti-competitive issue, and this eventually led to Mr. Davies running with it as well."



Heywood said, "We still need (your) efforts" on WEEE.

Heywood said, "But it was the hard efforts of many main players in the industry and further help being offered by others who wanted to 'do their bit' — we all responded magnificently, which led to such an overwhelming majority at the EU to include 'smart chips' into the WEEE. ... However, we still need the efforts of remanufacturers, toner and component manufacturers and compatible manufacturers in Europe to lobby their respective governments so that consumables are definitely a part of WEEE, and there are many arguments that can be used in supporting this." □

be made available to consumers at the printer's point of sale so that they can compare total cost of ownership between printers. The OFT indicates that this might give OEMs "a greater incentive to lower the price of ink cartridges" and that this might result "in ink cartridge prices falling and, potentially, printer prices rising." The report is aimed at improving consumer choice and information, so it doesn't mention the impact the reduced OEM cartridge prices could have on the aftermarket and remanufactured cartridges due to increased competition.

### Warranty Issues

The report also suggests clarifying OEM warranties. The OFT determined that the warranties' unclear terms "present an obstacle to switching" to third-party cartridges, adding that it does not "accept as fair a term which reserves the right to the warranty provider to determine how damage was caused." The OFT suggests changing the warranties so that "they make clear that they will not disclaim liability under warranties simply because a printer is used with compatible products."

In addition to this report on the UK market, a comprehensive analysis of the U.S. market was made for the OFT by Competa IT bv and Knowledge Oxide Ltd. in the Netherlands. That report indicates that in the United States "big printer makers are making it more difficult for smaller companies to sell generic-brand and remanufactured cartridges."

It goes on to explain the issues of "smart chips" and Lexmark's empties policy. The report also mentions the STM Committee, pointing out that, while there are tests of inkjet printers in the United States, "these tests are based on proprietary measures rather than industry-recognized ones." □

The Office of Fair Trading Web site ([www.oft.gov.uk](http://www.oft.gov.uk)) gives:

■ the full text of the report (100 pages in PDF format).

■ the testing method used by *Which?* magazine (7 pages in PDF format).

■ the report on the U.S. PC market (39 pages in PDF format).

All of these are available from this page: [www.oft.gov.uk/Market+investigations/Investigations/IT+services.htm](http://www.oft.gov.uk/Market+investigations/Investigations/IT+services.htm).