

# Waking up to REACH\*

Global companies weigh risks and rewards of  
Europe's newest law on the safe use of chemicals



Despite a November 30 deadline for taking steps to comply, PricewaterhouseCoopers' survey shows awareness of REACH is low, especially outside Europe and the chemicals industry. Failure to meet the terms of this European regulation could lead to a ban on exports to the EU and is a growing concern to EU-based companies.

## Introduction

The alarm clock is beeping, but many business leaders appear content to slap the snooze button rather than face looming deadlines imposed by the Registration, Evaluation and Authorisation of Chemicals legislation, or REACH.

As the REACH deadlines draw near, PricewaterhouseCoopers' (PwC) International Survey Unit interviewed 241 senior executives across 6 industries in 29 countries to gauge readiness and reaction to REACH. Our results show two in five companies have limited awareness of the regulation and one in four executives feels Europe's newest rules on chemicals and their safe use will have no impact on operations.

The results show European firms are the most aware of REACH with North American companies falling behind by a considerable margin. Large companies have greater awareness of REACH than smaller ones.

Among industries, chemicals leads the way on awareness followed by pharmaceuticals; industrial manufacturing; forest, paper and packaging (FPP); retail and consumer; and automotive.

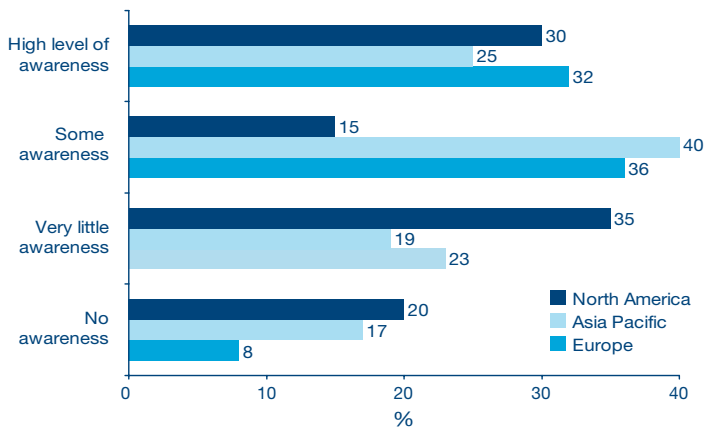
This widespread lack of awareness raises concerns that North American companies may miss important REACH deadlines and, as a result, suffer significant business disruptions. In contrast, companies first in line to meet the REACH pre-registration deadlines gain competitive advantages because the law allows them to continue operating as usual and extends the timeline to register existing substances used in the European market.

There's no question REACH will have a major impact on businesses that use or produce chemical substances. Compliance is likely to be costly and burdensome as 30,000 existing chemicals must be registered during the next 11 years.

### Awareness

Awareness of REACH is lowest in North America by a considerable margin

How aware do you think your company is of the REACH legislation?



Base: North America (54), Asia Pacific (108), Europe (73)

REACH—with its origins dating back to 1998—is here to stay. The monumental effort to enact the legislation and the European Commission's strong commitment "to protect the community's environment and to create common standards to protect consumers"<sup>1</sup> means the law's provisions are unlikely to change.

Our 2007 Global Chemicals Survey provides a comprehensive and independent look at company reactions to REACH legislation and offers insights into:

- REACH awareness by region and industry sector
- REACH implementation and the effect on company customers and suppliers
- REACH implementation and the effect on company business operations
- REACH implementation costs
- Lessons learned along the path to implementing REACH

Based on our survey results, many companies appear to view REACH as an environmental initiative rather than a regulation with enterprise-wide implications including, but not limited to, supply chain management, sales, IT, and financial and non-financial reporting. REACH is not only a compliance issue, it's a business issue. If your company operates outside the EU and exports products into the EU, you need to assess your exposure to REACH. If your company operates within the EU and you import materials from the outside, you also need to assess your REACH exposure.

As the June to December 1, 2008 deadline period for starting the pre-registration process looms, companies need to ask: Is my company considering a strategic approach to REACH compliance? If not, should we be?

We believe the answer is yes—and the sooner you develop a clearly defined strategic approach to REACH, the better.

<sup>1</sup> European Commission Policy Statement on Chemicals. See <http://ec.europa.eu/environment/chemicals/index.htm>

## How ready should companies be for REACH?

Time is running short—there are 10 months remaining—for companies to create and implement a strategy for submitting pre-registration data for the chemicals they produce or sell in Europe.

Volker Fitzner, PwC’s Global Chemicals Advisory leader, explained that manufacturers and importers must pre-register substances that already exist on the EU market—called phase-in substances—if they want to benefit from transitional arrangements that allow registering them at a later stage.

Companies that take action to pre-register their phase-in substances with the European Chemicals Agency (ECHA) may continue to manufacture or import substances without registering them. The European Commission uses the catch phrase “no data, no market” to encourage companies to pre-register their phase-in substances. In other words, failure to pre-register could lead to an “abrupt loss of revenue and cash flow from noncompliance products,” says Fitzner. “Pre-registration is not time-consuming for the companies, but is crucial for using the REACH transition periods.”

Pre-registration also enables registrants to share data with other registrants and avoid carrying out redundant tests. The pre-registration period is limited and runs from June 1, 2008 to December 1, 2008.

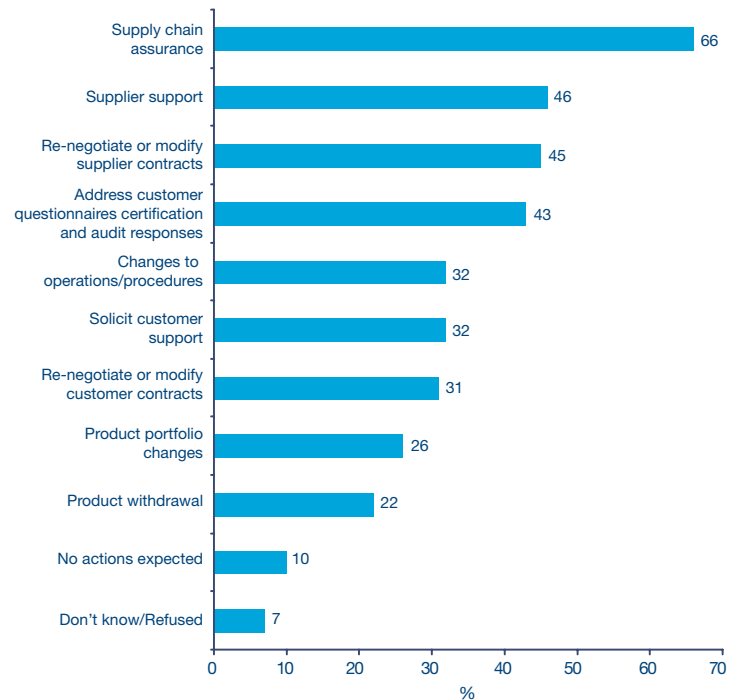
Companies also must consider the potential for reputational damage if they do not adequately prepare to comply with REACH. “Delaying may save costs in the short term, but in the long term, companies will miss the boat. Today’s consumers have little tolerance for chemicals that are a risk to human health and the environment. It is, in fact, good practice and good governance for companies to be transparent to their customers regarding their products and the safe use of the products,” says Thomas Scheiwiller, PwC’s Global Sustainability leader. “And be sure, there will be enforcement of the registration requirements.”

When asked what action companies were most likely to take as a result of the REACH legislation, an overwhelming 66% said to ensure suppliers adhere to REACH compliance deadlines, otherwise known as supply chain assurance. Another 46% said they would take action to help suppliers comply with REACH, and 45% said the legislation would require them to renegotiate or modify their supplier contracts.

### Impact

Nearly 2/3 of businesses feel that they will have to undertake supply chain assurance as a result of REACH; product withdrawal is much less of a concern

From a business strategy and operations perspective, which of the following actions are you expecting to take as a result of the REACH legislation?



Base: 241

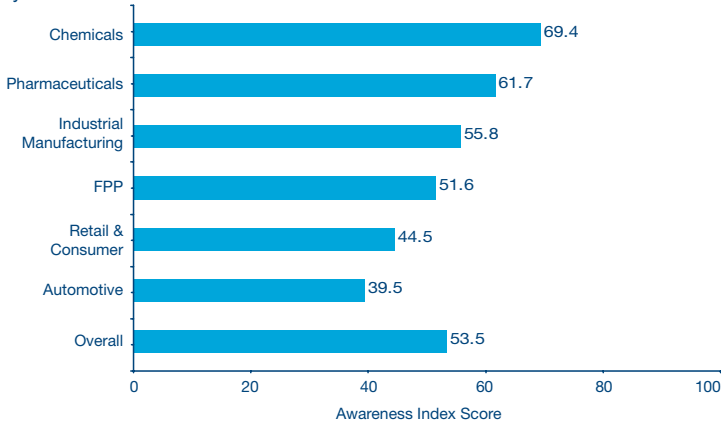
# How ready is your company for REACH?

## Awareness<sup>1</sup>

Chemicals and pharmaceuticals are most aware of REACH followed by industrial manufacturing

How aware do you think your company is of the REACH legislation?

By sector



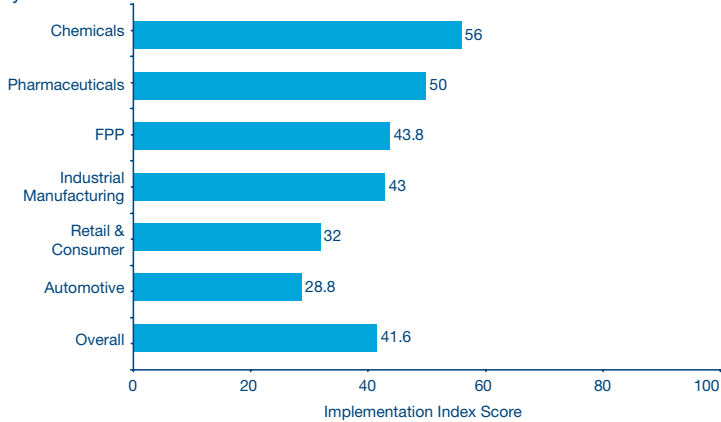
Base: 28–223

## Implementation<sup>2</sup>

Chemicals, pharmaceuticals and FPP companies have the most interaction with their suppliers

How much engagement has your organization had with your suppliers in relation to the REACH legislation?

By sector



Base: 25–215

<sup>1</sup> The awareness index is unique to this study and it represents the measure of company's awareness of the REACH legislation.

<sup>2</sup> The implementation index is unique to this study and it represents the measure of the readiness of companies to implement REACH

Based on the PwC survey results, European companies are best prepared for REACH, while two-thirds of North American organizations say they have limited knowledge of the operational impacts the EU legislation could have on their businesses.

In addition to low REACH awareness among North American survey respondents, most of these companies had not discussed the European law with customers or suppliers to determine the impact on their supply chains. In comparison, half of European companies surveyed said they have initiated contact with suppliers concerning REACH.

This apparent lack of action to contact suppliers and engage in discussions with downstream companies and customers has the potential to negatively affect business. The ECHA estimates REACH will exclude between 10% and 30% of the 30,000 listed substances, so early communication with downstream companies and suppliers whose businesses may be adversely impacted by the exclusion of these substances is essential to maintain supply chains.

According to our survey results, overall awareness and implementation across the sectors is low. However, chemicals, pharmaceuticals and the FPP industries appear to be more active at effectively dealing with the impact of REACH on their supply chains than the other sectors surveyed.

When asked about the risks posed by REACH compliance, most organizations said they have not yet completed risk assessments on how REACH will impact their businesses. Only 10% of respondents had completed a detailed risk assessment for REACH; 30% completed some risk assessment; 26% had very little risk assessment; and 31% had no risk assessment.

Based on the results, North American and Asia-Pacific companies appear to be the worst culprits in terms of not carrying out the necessary level of risk assessment to measure the impact of the REACH legislation. The survey results indicate that the automotive industry appears to be particularly unprepared to implement REACH in terms of completing a risk assessment.

The automotive industry's apparent reluctance to move ahead on REACH compliance may be the result of compliance with the "End of Life Vehicles (ELV) directive," which bans six heavy metals, including mercury, when personal vehicles are disposed.

Although many executives who participated in the survey were unaware of REACH and its implications, those "in the know" about the European legislation said there would be risks to implementing the law. Most (54%) cited the cost and time involved, followed closely by supplier risk (49%). Only 14% of executives surveyed feel REACH will have a positive impact on their businesses; the majority was undecided.

## How companies can get ready for REACH

While a majority of companies appear to see little benefit from REACH, compliance is not an option—it's mandatory. To embed REACH in your organization, you will need to make a number of important strategic decisions such as:

- How to implement REACH
- How to decide whether to register substances with other parties and, if so, with whom
- How to address the protection of trade secrets and intellectual property during the registration process
- Who can best represent your business during the registration process

The REACH legislation will impact every aspect of your company's operation, from its accounting function to the protection of trade secrets. When developing a REACH compliance strategy, companies must also take action to safeguard their supply chains by engaging in discussions with their suppliers.

Although the survey shows few companies view REACH in a positive light, if handled properly, the legislation can enhance the bottom line by increasing consumer confidence in product safety. REACH-compliant businesses can potentially be seen as forward thinking, responsible and efficient.

PwC can provide businesses with a method for determining how REACH compliance will impact company operations. Our three-step methodology starts with an assessment of the current situation, proceeds to an economic analysis of REACH and ends with the development of an action plan for implementing a REACH compliance process. The implementation phase includes advice on pre-registration and the identification of potential consortiums to minimize compliance costs. Privacy and confidentiality strategies are included in each step along the path to REACH compliance.

### What is REACH?

Registration, Evaluation, Authorisation and restriction of Chemicals—REACH—became law on June 1, 2007, to streamline and improve the former legislative framework on chemicals of the European Union (EU). REACH places greater responsibility on industry to manage the risks that chemicals may pose to health and the environment.

In principle, REACH applies to all chemicals, not only chemicals used in industrial processes but also in products such as cleansers, paints and appliances that touch our day-to-day lives.

### Objectives

The aims of REACH are to:

- Improve the protection of human health and the environment from the risks that can be posed by chemicals
- Enhance the competitiveness of the EU chemicals industry, a key sector for the economy of the EU
- Promote alternative methods for the assessment of hazards of substances
- Ensure the free circulation of substances on the internal market of the European Union

### Why REACH?

REACH replaces about 60 pieces of legislation with a streamlined and improved regulation. Other legislation regulating chemicals (e.g., on cosmetics, detergents) or related legislation (e.g., on health and safety of workers handling chemicals, product safety, construction products) not replaced by REACH will continue to apply. REACH has been designed not to overlap or conflict with the other chemical legislation.

The EU has opened a new European Chemicals Agency (ECHA) in Helsinki, tasked with implementing the new legislation now that it has come into force. For a more detailed overview of REACH, the chemicals covered, and methods and tools, please refer to the ECHA website at [http://reach.jrc.it/about\\_reach\\_en.htm](http://reach.jrc.it/about_reach_en.htm). For insights into PwC's point of view about REACH, refer to [www.pwc.com/chemicals](http://www.pwc.com/chemicals).

## REACH Timeline<sup>1</sup>

June 1, 2007	REACH enacted
June 1, 2008	Pre-registration for existing (phase-in) substances starts Registration for new (non phase-in) substances starts
November 30, 2008	Pre-registration for phase-in substances ends
December 1, 2008	Registration for existing substances (that have not been pre-registered) starts
January 1, 2009	List of pre-registered substances is published
December 1, 2010 PHASE 1	By this date the following pre-registered phase-in substances should have been registered when supplied at: ≥ 1,000 tons per year (tpa) or; ≥ 100 tpa and classified under CHIP as very toxic to aquatic organisms or; ≥ 1 tpa and classified under CHIP (Chemicals Hazard Information and Packaging for Supply) as Category 1 or 2 carcinogens, mutagens or reproductive toxicants
June 1, 2013 PHASE 2	Deadline for registration of substances supplied at ≥ 100 tpa
June 1, 2018 PHASE 3	Deadline for registration of substances supplied at ≥ 1 tpa

<sup>1</sup> Source: Health & Safety Executive (HSE) helps the Health and Safety Commission control risks to people's health and safety in Great Britain. (See: [www.hse.gov.uk/reach/about.htm#whatisreach](http://www.hse.gov.uk/reach/about.htm#whatisreach))

We also offer services in the following aspects of REACH:

- **REACH supply chain assurance**—REACH compliance certificates via a specially developed REACH compliance audit help determine whether suppliers are in compliance with the REACH legislation and applicable deadlines for specific substances. Suppliers can use the certificate to help their clients determine whether REACH regulations and timelines have been met.
- **REACH tax and tariffs for importers**—As REACH goes into effect, unregistered imports will be prohibited in the EU. There also is a risk that customs departments throughout the world may prevent importation resulting in a severe business risk. PwC can provide an assessment on how REACH will impact imports including import planning to maximize exemptions and tonnage thresholds effects.
- **REACH accounting principles**—The significance of the REACH implementation costs may spell opportunities to meet the criteria for capitalization. Additionally, companies must consider the accounting treatment of the associated compliance costs. International companies also face transfer pricing issues resulting from the reallocation of REACH costs.
- **REACH Only Representative services**—The REACH Shared Service Desk is a professional service resulting from PricewaterhouseCoopers (PwC) and Royal Haskoning joining forces. It combines Royal Haskoning's in-depth knowledge of REACH and PwC's experience in business risk management. The Shared Service Desk is set up to operate as your ready-made, fully equipped OR under your control. This way you can pre-register in time and safeguard access of your products to the EU market.

Companies must identify the risks and also the opportunities as they work to create a uniform view and interpretation of how this complex legislation will affect their businesses. With its global presence and deep industry knowledge, PwC is well positioned to ensure your company wakes up on the right side of REACH.

## Assessing REACH impact: a case study

A major European chemicals company asked PwC to assess the impact REACH would have on its business operations and to validate existing compliance processes.

### The client's challenge

The client plans to take advantage of the REACH pre-registration option by including all its EU-manufactured and imported chemical substances in the process. Although many of the decisions about pre-registering the large number of substances manufactured or imported by our client had already been made, others still required careful evaluation. The client stipulated a direct cost-based approach for complying with REACH, but required external validation due to fears that the combination of direct and indirect costs would materially impact the company's business plan and valuation. Our client also asked us to assess the potential for supply chain disruptions resulting from REACH compliance.

### The PwC solution

PwC assembled a multidisciplinary team including experienced chemists and business administrators to address the client needs. Our analysis covered five stages: data capture, data analysis, cost analysis, cost reduction and preparation for registration. We investigated the client's product portfolio to verify the REACH role and data gaps of its product base. After the portfolio ranking was validated, the impact assessment was quantified in a bottom-up approach with additional consideration of indirect costs for IT-system adjustments, staff extensions, etc. We then compared our cost estimates to those developed by the client. The possibility that REACH could result in the elimination of raw materials—some with viable substitutes and others without—was evaluated to determine the impact on the company's business plan. We quantified our findings using a risk-oriented approach that also considered potential earnings increases due to market consolidation/market share gains.

### The impact on the client's business

Using PwC's REACH impact assessment, the client was able to identify gaps in its preparation for REACH compliance as well as areas of overspending. Together with the client, PwC identified three to four substances as Persistent Bioaccumulative Toxic (PBT), which would require authorization for continued distribution. For 2010–2013, the client budgeted a maximum expense of 6mn due to expected shortages in test capacities. When allocated to all products sold, REACH costs will amount to 1 to 2 euro cents per kilogram. Working together with PwC, the client decided to pre-register all products and also targeted a dozen products as candidates to be dropped from the company portfolio.

## What is the Only Representative (OR) program?

Companies located outside the EU are not allowed to pre-register or register chemical substances themselves; however, they can assign an "Only Representative." An OR—a legal entity—prepares and submits the pre-registration information to the European Chemicals Agency (ECHA). Failure to register your chemical substances can mean the EU closes its markets to your products.

### Basic OR activities

- Maintain records on substance imports into the EU and evaluate changes
- Pre-register phase-in substances on time and safeguard products for the EU market
- Manage and perform the pre-registration for phase-in substances
- Make a formal inquiry to ECHA prior to registering new and existing non-registered substances
- Provide substance information expertise
- Gather relevant data based on REACH requirements
- Judge the significance of information coming from or required by stakeholders
- Provide representation in the Substance Information Exchange Forum (SIEF). (The legislation allows the sharing of information on substances. For any one substance, a single set of information on its intrinsic properties can be shared by all companies that manufacture or supply that substance.)
- Safeguard acceptable and fair data sharing
- Receive fair financial value for your test data
- Manage communication with stakeholders
- Address ECHA and MS (member state) competent authorities
- Enable you to share confidential information with other registrants
- Act as a single contact point for information in your supply chain
- Request data on uses of substances subject to authorization or exemption
- Provide reviews, comment on decisions and make appeals as needed

## Contacts

### PricewaterhouseCoopers global REACH practice

With a network of more than 50 REACH experts in all main EU countries and in China, Korea, Japan, USA, India and Latin America, PricewaterhouseCoopers is the biggest and most talked-to REACH practice focusing on the business impact of REACH. By successfully managing your risks and opportunities, PwC's REACH services maximize the benefits of the new rules and market conditions for your business. We can identify which specific business issues companies face due to the REACH regulation, and support companies in addressing and resolving them. We excel in setting up administrative systems that have an acceptable level of risk, and also in providing administrative support that ensures the smooth communication and cooperation you need for efficient registration.

We offer an integrated approach to REACH, enabling you to consider the implications across the full context of your corporate activities. Whether it is financial and administrative support of consortia, only representative services, project management, tax support and supply chain assurance or optimizing revenue-generating opportunities, we are able to draw on a large pool of interdisciplinary specialists with an excellent pedigree in the environmental consulting and corporate finance areas.

For more information on REACH, contact:

**Hans Schoolderman**  
The Netherlands  
+31 (0) 20 568 6691

**Bernd Schneider**  
Germany  
+49 (69) 9585 5620

### PricewaterhouseCoopers global Sustainability practice

At PricewaterhouseCoopers, clients look to us both for our focused sustainability skills, as well as the credibility we bring in establishing trust with stakeholders and the wider public. We advise clients that getting on the right side of sustainability will make considerable demands of their time and resources

**Thomas Scheiwiller**  
Global Sustainability leader  
Switzerland  
+41 (58) 792 2810

**Fredrik Franke**  
Global sustainability network manager  
Switzerland  
+41 (58) 792 2707

### PricewaterhouseCoopers global Chemicals practice

PricewaterhouseCoopers' Chemicals practice is a global network of professionals who provide industry-focused assurance, tax and advisory services to over 200 public and private chemical companies. Our leadership team consists of:

Global Leader  
**Saverio Fato**  
Cleveland, OH, US  
+1 (216) 875 3030

Global Tax Leader  
**Michael Burak**  
Florham Park, NJ, US  
+1 (973) 236 4459

Global Advisory Leader  
**Volker Fitzner**  
Frankfurt, Germany  
+49 (69) 9585 5602

US Leader  
**Tracey Stover**  
Philadelphia, PA, US  
+1 (267) 330 2425

Germany Leader  
**Volker Booten**  
Berlin, Germany  
+49 (30) 2636 5217

Central and Eastern Europe Leader  
**Pawel Peplinski**  
Warsaw, Poland  
+48 (22) 523 4433

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### Core editorial team

**Kathy Robbins**

Industrial Products Editor

**Robert Cone**

Industrial Products Copyeditor

### Layout and graphic design

**Rodney Caro**

PwC Graphic Design

### Project manager

**Krista Souto**

Industrial Products Marketing Manager

### Research

**Brian Burns**

Industrial Products Knowledge Manager

**Michelle Caulk**

Industrial Products Researcher

### Subject matter specialists

**Bas Coolsma**

**Oliver Marx**

**Gideon Miller**

**Paulus Wijffels**

### Survey facilitator/analyst

**Mark E. Hamilton**

PwC International Survey Unit

## Survey methodology

The research for the 2007 Global Chemicals Survey was conducted by PricewaterhouseCoopers' International Survey Unit from August 28, 2007 to December 11, 2007. Telephone interviews were conducted among senior executives representing the chemicals market. In all, 241 interviews were completed in English across six global industries: Chemicals, Industrial Manufacturing, Pharmaceuticals, Retail & Consumer, Forest, Paper & Packaging, and Automotive. Each telephone interview lasted about 15 minutes.

