

## The Impact of Carbon Emissions Policies on Reverse Supply Chain Network Design<sup>(\*)</sup>

*Karbon Emisyon Politikalarının Tersine Tedarik Zincir Ağı Tasarımı Üzerindeki Etkileri*

Bandar A. ALKHAYYAL<sup>(1)</sup>, Surendra M. GUPTA<sup>(2)</sup>

**ABSTRACT:** Reverse Supply Chain is described as an initiative that plays an important role in the global supply chain for those who seek environmentally responsible solutions for their end-of-life products. The relative economic and environmental benefits of reverse supply chain are influenced by costs and emissions during collection, transportation, recovery facilities, disassembly, recycling, remanufacturing, and disposal of unrecoverable components. The design of reverse supply chain network takes into account social, economic and environmental objectives. This paper addresses the design of reverse supply chain under the three common regulatory policies, strict carbon caps, carbon tax, and carbon cap-and-trade.

**Keywords:** Greenhouse gas (GHG) emissions, low carbon logistics, reverse supply chain, sustainably supply chain

**Öz:** Küresel tedarik zincirinde önemli bir rol oynayan tersine tedarik zinciri, ömrünü tamamlamış ürünler için çevreye karşı sorumlu çözümler arayanların bir girişimi olarak tanımlanmaktadır. Tersine tedarik zincirinin nispi ekonomik ve çevresel faydaları, toplama, nakliye, geri kazanım tesisleri, demontaj, geri dönüşüm, yeniden imalat ve geri dönüşü olmayan bileşenlerin imha edilmesi sırasında oluşan maliyetler ve emisyonlardan etkilenmektedir. Tersine tedarik zinciri ağ tasarımı sosyal, ekonomik ve çevresel hedefleri dikkate almaktadır. Bu makale, sıkı karbon kapsülleri, karbon vergisi, karbon emisyon üst sınırı ve ticareti olmak üzere üç ortak düzenleyici politikada ters tedarik zincirinin tasarımını ele almaktadır.

**Anahtar Kelimeler:** Sera gazı emisyonları, düşük karbonlu lojistik, tersine tedarik zinciri, sürdürülebilir tedarik zinciri

**Jel Kodları:** L62, R4, F18, H23, O13

### 1. Introduction and Related Work

The number of products discarded by consumers has been gradually growing, which has led to legislations in various countries that hold the original equipment manufacturers (OEM) responsible for the end-of-life processing of products. In addition, the field of supply chain has also been influenced by consumer awareness of environmental issues (Vadde, Kamarthi, & Gupta, 2006) & (Ilgin & Gupta, 2010).

<sup>(1)</sup> Prince Sultan University, Department of Engineering Management, College of Engineering; balkhayyal@psu.edu.sa

<sup>(2)</sup> Northeastern University, Department of Mechanical and Industrial Engineering; s.gupta@northeastern.edu

<sup>(\*)</sup> This paper was presented at the “The 15th International Logistics and Supply Chain Congress (LMSCM)” on October 19-20, 2017.

Climate change, disposal capacities, finite resources, growing population, improving quality of life, increasing emissions, and rising energy prices have motivated both corporations and academics to develop strategies based on corporate social responsibilities and sustainable supply chains (Carter, 2008), (Nagurney, Zungang, & Trisha, 2007), & (Paul, Kalyan, & Luk, 2005). While the concept of integrating sustainability into supply chain is relatively new, its implementation is however increasing continuously (Seuring, Joseph, Martin, & Purba, 2008).

Nowadays, although the products are still moving in the direction of the end customer the reverse flow of products is also taking place. This movement is obviously pronounced in most of the industrial sectors, especially in automobiles, beverages, electronic products, and pharmaceuticals. The automobile industry, for example, has included the changes in the supply chain to smooth the end-of-life vehicles recovery and the US vehicle recycling infrastructure (Boon, Isaacs, & Gupta, 2000) & (Ferguson & Browne, 2001).

Reverse Supply Chain (RSC) is an initiative that plays an important role in the global supply chain for those who seek environmentally responsible solutions for their end-of-life (EOL) products. The relative economic and environmental benefits of RSC are influenced by costs and emissions during collection, transportation, recovery facilities, disassembly, recycling, remanufacturing, and disposal of unrecoverable components (Ilgin & Gupta, 2010), (Alkhayyal & Gupta, 2015), and (Gupta, 2013).

Seuring and Muller (2008) defined the sustainable supply chain management as “the management of materials, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, viz., economic, environmental and social, into account which are derived from customer and stakeholder requirements”. In this paper, the supply chain economics is taken into account by maximizing the total profit and minimizing the CO<sub>2</sub> emissions, energy use, transportation, rent, labor, and product recovery costs, by investigating the cost factors by facility type, on-site, inter-facility, and total tCO<sub>2</sub>e from on-site electricity use by unit. Greenhouse Gas (GHG) emissions regulations and environmental sustainability are preventing extreme environmental damages from happening. The social dimension includes, but not limited to, the reduction in negative consequences of coastal destruction, noise, stress, traffic congestion, spread of disease, and the improvement in the quality of life.

A literature review is conducted by Mexiell and Gargeya (2005) on economic considerations of supply chain design. A comprehensive review of the published literature on sustainable supply chain is presented by Seuring and Muller (2008), and Srivastava (2013).

Recent available literature reviews considering different aspects of supply chain sustainability include: energy use (Dotoli, 2005), GHG emissions reduction (Guillen-Gosalbez and Grossmann, 2009), green design (Hugo and Pistikopoulos, 2005), production planning and control for remanufacturing (Hugo, Rutter, Pistikopoulos, Amorelli, & Zoia, 2005), product recovery (Jayaraman, 2006), reverse logistics (Sheu, 2008), and waste management (Guillen-Gosalbez and Grossmann, 2009).

Gungor and Gupta (1999) addressed the issues of environmentally conscious manufacturing and product recovery with an extensive review of the literature. The

study looked at the product recovery process from environmentally conscious manufacturing point of view, and included the common issues in both environmentally conscious manufacturing and product recovery (viz. environmentally conscious design, environmentally conscious production, recycling and remanufacturing, and production planning and inventory control). Ilgin and Gupta (2010) further extended this literature review through 2010. There are several other authors who reported on product recovery designs under certain legislation and regulations (Das, 2002), (Bellmann & Khare, 2000), (Dekker & Fleischmann, 2004), (Fleishmann, 2000), (Guide, V. D. R., Jayaraman, V., & Srivastava, 1999), (Guide, 2000), & (Henshaw, 1994).

Reducing the emissions generated due to a supply chain has become an important goal. Thus, the “trade-offs in the supply chain are no longer just about cost, service and quality, but also about cost, service, quality and carbon,” (Chaabane, Ramudhin, & Paquet, 2012). A Closed-loop supply chain (CLSC) network considered by Paksoy, Bektaş, & Özceylan (2011), focused on the transportation logistics cost and their GHG emissions, to exam the trade-off between operational and environmental performance measures. Abdallah, Farhat, Diabat, & Kennedy (2012) investigated the carbon emissions as a consequence of the supply chain network design and supplier selection using life-cycle assessment (LCA) approach.

A mixed-integer programming model was formulated to find an optimal strategy for companies to meet their carbon cap, while minimizing costs by Diabat and Simichi-Levi (2010). Chaabane, Ramudhin, & Paquet (2012) formulated a model of an aluminium firm and examined the carbon emissions impact on designing a sustainable CLSC network based on LCA principles. They also evaluated the tradeoffs between economic and environmental dimensions under various cost and strategies. The issues of facility location problem in CLSC with a trading price of carbon emissions and a cost of procurement were considered in Diabat et al.’s (2013) work. Fahimnia et al. ((2013) evaluated the forward and reverse supply chain influences on the carbon footprint using mixed integer linear programming (MILP) model, where carbon emissions are demonstrated in terms of dollar carbon cost.

Benjaafar, Li, & Daskin (2013) illustrated the impact of carbon emission and introduced a series of lot sizing models to be integrated into operations decisions and showed how significant emissions reductions without increases in costs can be achieved by operational adjustments alone. Supply chain and transportation mode selection decisions study for a major retailer based on the carbon policies was reported by (Jin, Granda-Marulanda, & Ian, 2014)

In this research, a mixed integer linear programming model of reverse supply chain with full valuation of emissions is considered to determine the optimal flow of parts among multiple remanufacturing centers that will maximize the total profit with less CO<sub>2</sub> emissions, based on actual sites in the Boston area. The proposed model considers a mid-sized LG A/C unit with a refurbished market price of \$288 (LG Model: LW1213ER Refurbished, 2015). Valuation of emissions is done using a direct carbon tax, with the value varied according to ranges proposed at the current COP21 climate talks in Paris, and with the other two different regulatory policies, strict carbon cap where firms are subject to mandatory caps on the amount of carbon they emit, and carbon cap-and-trade where firms are subjected to carbon caps but are rewarded

(penalized) for emitting less (more) than their caps. To that end, we determine how the proposed policies will influence profit margins for remanufactured goods.

The model proposed can be used for designing and analyzing a reverse supply chain in a carbon trading environment, and optimize not only costs but also emissions in the supply chain operations. It captures the trade-offs between costs and emissions in the supply chain operations. It shows that carbon tax emissions, particularly at higher taxes, mostly affects transportation operations which results in reduced transportation costs and emissions; on the other hand, the higher the carbon tax is, the greener would be the supply chain design, not necessarily following a linear relationship. Applying an emissions cap combined with a carbon tax slightly increases total supply chain costs, but yields a greener design. Numerical example illustrates different policies and their impact on the costs and the effectiveness of emission reduction.

## 2. Notation and Assumptions

### 2.1. Notation

The notations used in this paper are given below:

| <b>Notation</b> | <b>Definition</b>   |
|-----------------|---|
| $C1v$           | Storage capacity at remanufacturing facility $v$ per remanufactured unit;       |
| $C2v$           | Storage capacity at remanufacturing facility $v$ per used unit;                 |
| $Cu$            | Storage capacity at collection center $u$ per unit;                             |
| $Cw$            | Storage capacity at reselling center $w$ per unit;                              |
| $CAP$           | Carbon strict cap;  |
| $Du$            | Demand of products at collection center $u$ ;                                   |
| $Dw$            | Demand of products at reselling center $w$ ;                                    |
| $duu$           | Distance from collection center $u$ to remanufacturing facility $v$ , per mile; |
| $dvw$           | Distance from remanufacturing facility $v$ to reselling center $w$ , per mile;  |
| $EXu$           | Energy cost at collection center $u$ per unit;                                  |
| $EXv$           | Energy cost at remanufacturing facility $v$ per unit;                           |
| $EXw$           | Energy cost at reselling center $w$ per unit;                                   |
| $GH$            | GHG emissions per ton-mile;   |
| $GHu$           | GHG emissions in collection center $u$ , per unit;                              |
| $GHv$           | GHG emissions in remanufacturing facility $v$ , per unit;                       |
| $GHw$           | GHG emissions in reselling center $w$ , per unit;                               |
| $GHGt$          | GHG emissions total;  |
| $Hu$            | Holding cost per unit at collection center $u$ ;                                |
| $Lu$            | Labor cost at collection center $u$ per unit;                                   |
| $Lv$            | Labor cost at remanufacturing facility $v$ per unit;                            |
| $Lw$            | Labor cost at reselling center $w$ per unit;                                    |
| $O_1$           | Occupied space by remanufacturing unit;   |
| $O_2$           | Occupied space by used-product unit;  |
| $Kg$            | Weight of each unit;  |
| $P$             | Reprocessing cost per unit;   |
| $R$             | Retrival cost per unit;   |
| $RCAPv$         | Remanufacturing facility $v$ capacity;  |
| $RCu$           | Rent cost at collection center $u$ per unit;                                    |
| $RCv$           | Rent cost at remanufacturing facility $v$ per unit;                             |
| $RCw$           | Rent cost at reselling center $w$ per unit;                                     |

|          |   |
|----------|---|
| $SH_u$   | Shortage cost per unit at collection center $u$ ;   |
| $SUP_u$  | Supply at collection center $u$ ;   |
| $T_{uv}$ | Transportation cost from collection center $u$ to remanufacturing facility $v$ , per unit;                          |
| $T_{vw}$ | Transportation cost from remanufacturing facility $v$ to reselling facility $w$ , per unit;                         |
| $u$      | Collection center;  |
| $v$      | Remanufacturing facility;   |
| $w$      | Reselling center;   |
| $X_{uv}$ | Decision variable for the number of units transferring from collection center $u$ to remanufacturing facility $v$ ; |
| $Y_{vw}$ | Decision variable for the number of units transferring from remanufacturing facility $v$ to reselling center $w$ ;  |
| $Z_v$    | Binary variable (0/1) for selection of remanufacturing facility $v$ ;   |
| $Z_w$    | Binary variable (0/1) for selection of reselling center $w$ .   |

**2.2. Assumptions**

We assume that GHG emissions come from four sources:

1. from the collection centers: the amount of emissions is proportional to the power consumption of these centers;
2. from the remanufacturing facilities: the amount of emissions is proportional to the volume of these remanufacturing facilities;
3. from the reselling centers: the amount of emissions is proportional to the power consumption of these centers; and
4. from the distribution of the products: the emissions level is based on the traveled distance between facilities, and the weight of each unit (40 Kg).

The model also assumes that inventory cost of a used product at the remanufacturing facility is 25% of its retrieval cost ( $R$ ), and for a remanufactured product it is 25% of its reprocessing cost ( $P$ ).

**3. Problem Formulation**

The model is formulated as a single period mixed integer linear programming model of reverse supply chain where full valuation of emissions is considered to determine the optimal flow of parts among multiple remanufacturing facilities that will maximize the total profit which includes the CO<sub>2</sub> emissions, energy use, transportation, rent, labor, and product recovery costs.

**Objective Functions**

**Minimize**

$$\text{Retrieval cost } \sum_u \sum_v R X_{uv} +$$

$$\text{Transportation cost } \sum_u \sum_v T_{uv} X_{uv} + \sum_v \sum_w T_{vw} Y_{vw} +$$

$$\text{Remanufacturing cost } \sum_v \sum_w P Y_{vw} +$$

$$\begin{aligned}
& \text{Inventory cost } \sum_u \sum_v (R_u/4) X_{uv} + \sum_v \sum_w (P_v/4) Y_{vw} + \\
& \text{Rent cost } \sum_u RC_u * Du + \sum_v RC_v * X_{uv} + \sum_w RC_w * Y_{vw} + \\
& \text{Labor cost } \sum_u Lu * Du + \sum_v Lv * X_{uv} + \sum_w Lw * Y_{vw} + \\
& \text{Energy cost } \sum_u Eu * Du + \sum_v Ev * X_{uv} + \sum_w Ew * Y_{vw} + \\
& \text{Greenhouse Gas (GHG) Emissions} \\
& \sum_u GH_u * Du + \sum_u \sum_v GH_v X_{uv} + \sum_v \sum_w GH_w Y_{vw} + \\
& \sum_u \sum_v GH * duv * Kg * X_{uv} + \sum_v \sum_w GH * d_{vw} * Kg * Y_{vw} \\
& \text{Shortage cost } \{(D_w - SUP_u) * (1 - Z)\} * SH_u
\end{aligned} \tag{1}$$

### Constraints

Demand constraint must be met while minimizing the total cost of production and inventory.

$$\sum_v Y_{vw} = D_w; \forall w \tag{2}$$

Remanufacturing facility total output is at most its total input

$$\sum_u X_{uv} \geq \sum_v Y_{vw}; \forall v \tag{3}$$

Remanufacturing items occupied space at each remanufacturing facility is at most its capacity, and total space occupied at each collection center by returned items at most its capacity

$$\sum_w O_1 * Y_{vw} \leq C_{1v} * Y_v; \forall v \tag{4}$$

$$\sum_v O_2 * X_{uv} \leq C_u; \forall u \tag{5}$$

Total space occupied at each remanufacturing facility by returned items at most its capacity

$$\sum_u O_2 * X_{uv} \leq C_{2v} * Z_v; \forall v \tag{6}$$

Total space occupied at reselling center by returned items at most its capacity

$$\sum_v O_1 * Y_{vw} \leq C_w * Z_w; \forall w \quad (7)$$

Carbon strict cap limit

$$GHG_t \leq CAP \quad (8)$$

Non-negativity constraint

$$X_{uv} \geq 0; \forall u, v \quad (9)$$

$$Y_{vw} \geq 0; \forall v, w \quad (10)$$

Total number of returned items supplied to remanufacturing facilities by collection centers is at most the supply

$$\sum_w Y_{vw} \leq RCAP_v; \forall v \quad (11)$$

$$\sum_v X_{uv} \leq SUP_u; \forall u \quad (12)$$

#### 4. Case Study

The numerical example is based on actual sites in the Boston (Massachusetts) area and considers three collection centers (located in Melrose, Canton, and Natick), two remanufacturing facilities (located in Taunton and Hingham), and three reselling centers (located in Revere, Boston, and Somerville). The actual distances in miles between the locations were considered, to calculate mile per gallon costs and emissions of CO<sub>2</sub> kg per gallon, assuming the gasoline price per gallon of October 2015. The number of laborers, their annual salaries, and the size of the space were also considered. In short, the example reflects a breakdown of the cost factors: rent, labor, energy, CO<sub>2</sub> emissions, and transportation, by facility type, on-site, inter-facility, and total tCO<sub>2</sub>e from on-site electricity use by unit. The U.S. Energy Information Administration at the U.S. Department of Energy data reports (U.S. Energy Information Administration, 2015) were used to calculate the energy usage for each facility. This example considers a mid-size LG A/C unit, model LW1213ER, with dimensions of 23 5/8" x 15" x 22 1/6", and a refurbished market price of \$288 (LG Model: LW1213ER Refurbished, 2015). Two 12-foot trucks with a capacity of 58 A/C units each and a load volume of 475 cubic feet were used for transportation (12 Foot Truck, 2017). Valuation of emissions is done using the suggested direct carbon tax, strict cap, and cap-and-trade values according to ranges proposed at the 21<sup>st</sup> Conference of the Parties under the UNFCCC in Paris (Conference of the Parties (COP21), 2015), the U.S. Interagency Working Group (2013) and, the U.S. Environmental Protection Agency (2015), to determine how proposed ranges will influence profit margins for remanufactured goods.

##### 4.1. Data

In this section two different survey databases were used, Commercial Buildings Energy Consumption Survey (CBECS) which was used for collection centers and reselling centers energy data. Manufacturing Energy Consumption Survey (MECS)

was used for remanufacturing facilities energy data in subsection. Tables 1 to 4 have the labor cost, rent cost, and distances between locations per mile respectively.

**Table 1. Labor Actual Cost**

| Cities     | Number of laborers | Labor cost per year |
|------------|--------------------|---------------------|
| Canton     | 5                  | \$93,600            |
| Natick     | 3                  | \$56,160            |
| Melrose    | 4                  | \$74,880            |
| Taunton    | 15                 | \$280,800           |
| Hingham    | 17                 | \$318,240           |
| Revere     | 4                  | \$74,880            |
| Boston     | 3                  | \$56,160            |
| Somerville | 6                  | \$112,320           |

**Table 2. Rent Actual Cost**

| Cities     | Space (Sq ft) | Rent per Sq ft/year | Total rent per year |
|------------|---------------|---------------------|---------------------|
| Canton     | 1000          | \$14.4              | \$4,220             |
| Natick     | 3000          | \$10.5              | \$10,575            |
| Melrose    | 1500          | \$15.0              | \$7,460             |
| Taunton    | 10000         | \$11.0              | \$110,000           |
| Hingham    | 9801          | \$8.0               | \$78,408            |
| Revere     | 2700          | \$10.0              | \$27,000            |
| Boston     | 5100          | \$25.0              | \$127,500           |
| Somerville | 4000          | \$17.0              | \$68,000            |

**Table 3. Actual Distances between Collection Center and Remanufacturing Facilities per Mile**

| From/To City | Taunton | Hingham |
|--------------|---------|---------|
| Melrose      | 52.8    | 28.1    |
| Canton       | 17.2    | 19.3    |
| Natick       | 37.0    | 30.5    |

**Table 4. Actual Distances Between and Remanufacturing Facilities and Reselling Centers per Mile**

| From/To City | Revere | Boston | Somerville |
|--------------|--------|--------|------------|
| Taunton      | 45.0   | 40.0   | 43.0       |
| Hingham      | 24.0   | 19.0   | 22.0       |

## 5. Results and Discussion

The absence of a carbon tax for the A/C unit priced at \$218 results in a profit margin estimated to be 24.3% for a \$288 selling price according to current refurbished market price (LG Model: LW1213ER Refurbished, 2015), whereas a USEPA-recommended \$40/ton CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) tax reduced the profit margin to 19.1% assuming a price for remanufactured item of \$233 per unit (US Environmental Protection Agency, 2015). However, strict carbon cap reduces the profit margin to 13%, and cap-and-

trade policy reduces the profit margin to 9%. LINGO 13.0 was used to solve the problem. The optimal results obtained from the direct carbon tax are shown in Tables 5 and 6.

**Table 5. Optimal Number of Units Transported From Collection Center to Remanufacturing Facility**

| City    | Taunton | Hingham |
|---------|---------|---------|
| Melrose | 0       | 50      |
| Canton  | 0       | 0       |
| Natick  | 0       | 450     |

**Table 6. Optimal Number of Units Transported From Remanufacturing Facility to Reselling Center**

| City    | Revere | Boston | Somerville |
|---------|--------|--------|------------|
| Taunton | 0      | 0      | 0          |
| Hingham | 150    | 200    | 150        |

The optimal remanufacturing cost is \$218 per unit, which shows that this model is \$70 per unit less than the current refurbished market price. The emission quantity is 0.018 tCO<sub>2e</sub> per unit. Comparing this result to the deflated refurbished market price using a consumer price index expressed in 2002 dollars and analyzing that result using the economic input-output life cycle assessment (EIO-LCA) model a technique for estimating the materials and energy resources required for environmental emissions resulting from economic activities (Carnegie Mellon University Green Design Institute, 2016). The EIO-LCA sector chosen was the U.S. 2002 Benchmark for air conditioning, refrigeration, and warm air heating equipment manufacturing. This shows that the emission quantities are 0.109 tCO<sub>2e</sub> per unit less than refurbished manufacturing. The valuation of emissions for the optimal result was done by using the values according to ranges proposed at the 21st Climate Change Conference (COP21) in Paris, therefore existing approaches used different carbon policies and applications. Using the carbon price of \$40/ton CO<sub>2</sub> equivalent (tCO<sub>2e</sub>), our model gives a profit margin of 19.1%. Moreover, the climate change concerns are continuing to increase along with the acceleration of global warming. The IPCC reports that globally GHG emissions have increased by more than 80% from 1970 to 2010, resulting in widespread threats to global ecosystems and human enterprise (IPCC, 2014). The new Paris agreement proposes a means to achieve zero net GHG emissions by the second half of this century (COP21, 2015). This paper explored this topic through which a deterministic model is employed to determine the effects of internalizing a cost of RSC GHG emissions into optimization models. Variations in optimal facility use, pricing/profit margins, and transportation logistics were compared against a variable cost of carbon, employing a case study method established through the inclusion of actual data from sites in the Boston area.

A number of model extensions and refinements could be made. First, the deterministic model could be relaxed to facilitate the potential to relocate remanufacturing facilities/reselling centers rather than shutting down the facility, based upon factors such as traffic congestion and parking difficulties; commuting distance; current land/energy/labor cost criteria; and general population, economy, and geographic characteristics of the setting. Proximity of additional recycling infrastructure, such as

rail lines, Material Recovery Facilities, shipping terminals, and disposal facilities, and their incorporation in a spatially-explicit RSC may serve to make the models presented here more realistic. Finally, this paper used a variable social cost of carbon whose value was set to levels recommended by government agencies and reports to represent a carbon tax on all activities leading to GHG emissions. Furthermore, other policy means of controlling GHG emissions such as strict carbon caps or cap-and-trade policies have been modeled. The existing cost model could also be used to determine how much GHG emissions are reduced by remanufacturing versus disposal, providing a value for the cost of carbon abatement from remanufacturing operations that could be of use to environmental economics research.

## 6. Conclusion

This paper has presented a reverse supply chain optimization model designed to take into account the influence of both strategic and operational activities of the supply chain on the environment. A case study based on actual sites was considered to illustrate performance of the model and to determine how the proposed policies would influence profit margins on remanufactured goods. The results indicated that the carbon price ranges that were used in this study will control the amount of GHG emissions generated in reverse supply chain operations. The results also indicated that the carbon tax policy forces a strict constraint on the amount of carbon emissions generated in supply chain operations. It shows that the RSC is sensitive to the carbon price. The work herein advances the theoretical modeling of optimal RSC systems while presenting an empirical case study of remanufactured appliances, an understudied facet of current industrial literature.

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