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Small, clean and competitive

**A programme to help small and medium-sized enterprises comply with environmental
legislation**

Executive summary of the impact assessment

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Small and medium-sized enterprises, SMEs, defined as companies with less than 250 employees, make up a very large proportion of Europe's economy. And like large companies, SMEs can have considerable impact on the environment. This is not necessarily through individual pressure, but through their combined total impact across sectors (although in some cases the individual effects of SMEs on the environment can be very significant at local or regional level). Although there is little evidence of their specific impacts on the environment, there is a general consensus from research that SMEs are a particularly problematic group in terms of compliance with environmental legislation.

It is widely accepted in the literature that it would be too complex and burdensome for companies and public authorities to determine the detailed contribution made by SMEs to pollution (e.g. air pollution), in terms of the environmental load from different types of pollutants (e.g. CO₂, SO_x, NO_x, etc.) in each Member State. Indeed, in many cases the data does not exist. Nevertheless the rough figure often quoted of a contribution of 70% of industrial pollution in Europe seems reliable and a number of studies attempt to provide 'insights' into particular environmental problems from SMEs for specific countries. For example, a British report estimated that SMEs accounted for 60% of total carbon dioxide emissions from businesses in the UK and concluded that there was substantial room for improvement in energy efficiency and emissions reductions among SMEs. Again, estimates from the Netherlands and United Kingdom suggest that the commercial and industrial waste from SMEs represent on average 50% of the total. These studies further support the claim that SMEs can exert considerable pressures on the environment.

Numerous regional and national studies show that a majority of SMEs have little awareness of their environmental impacts and how to manage them. A recent and well documented UK study by NetRegs shows that only 7% of businesses in the UK thought that they undertook activities that could harm the environment, but when prompted with a list of activities, this figure rose to 41%.

Most SMEs are 'vulnerably compliant', since they do not always know enough about legislation to ensure that they are compliant. A survey conducted by the Institute of Directors (IoD, UK) reported that members involved in sectors such as construction, mining, transport or manufacturing that are 'heavily exposed' to environmental regulation showed relatively low levels of awareness: 59% of members in manufacturing knew 'not much' or less; for construction, mining or transport, the corresponding figure was 52%. The same study showed that only 26% of businesses in manufacturing knew 'a great deal' or 'quite a bit' about REACH.

The studies show that low environmental compliance by SMEs is due to lack of awareness of the environmental impacts of their own activities, ignorance of environmental legislation, lack of capacity to tackle their environmental impacts, and sometimes the excessive administrative and financial burden of compliance. Compliance is further hindered by the perception that environmental protection is costly and has little benefit for the business.

The EU Commission's Directorate-General for the Environment has prepared an impact assessment as a basis for the development of the Environmental Compliance Assistance Programme for SMEs (COM (2007) 379 final). The main aspects of the Programme were also discussed with stakeholders at a consultation meeting in 2005, and then at further ad hoc meetings in 2006.

The impact assessment indicates that the current situation is problematic for three main reasons.

- (1) By being unaware of the environmental impacts of their own activities, and the environmental legislation affecting them, SMEs can represent a significant threat to the environment, and undermine the effectiveness of many Community environmental protection measures.
- (2) Failure to comply with environmental rules could pose major and direct risks to all employees of SMEs.
- (3) Enhanced environmental management could give SMEs economic and/or financial benefits (from increased eco-efficiency and eco-innovation), an opportunity which many SMEs may be unaware of.

Action should be taken, otherwise there will continue to be no coherent policy for SMEs and the environment, and the current situation will not improve.

Over the past few years, the Commission has taken a series of initiatives to help SMEs tackle their environmental problems, particularly through environmental management systems, eco-labelling, clean technologies and financial support. Also a large number of initiatives are already in place at national level to help SMEs comply with legislative requirements and improve their environmental performance. In a study carried out for the Commission for the Impact Assessment, 92 such initiatives were identified at national and regional level in 15 EU Member States.

However, there is still a complementary role to be played by the Commission alongside local and national initiatives, since many Member States still do not have dedicated SME initiatives at both regional and national level. In many cases the support available for SMEs is not necessarily related to environmental compliance, nor targeted specifically at SMEs. Moreover, it seems that Member States are not actively seeking to learn from experiences in other Member States nor to cooperate with them, so there are scattered initiatives across the EU but without a coherent structure. This programme - the Environmental Compliance Assistance Programme for SMEs – will provide both a framework and funding to fulfil such a role. This should improve environmental performance across Member States and bring wider Community environmental, social and economic benefits. It will improve the functioning of the internal market by creating a level playing-field with coherent and harmonised implementation of environmental standards throughout the EU. Further benefits could be a positive impact on market access for SMEs and greater competitiveness through the exchange of good practices, better understanding of environmental requirements and the introduction of cost-effective environmental management systems.

The fact that the vast majority of national environmental legislation derives from EU legislation is an added reason for such an initiative at European level.

Sixteen alternative policy options were considered in the impact assessment, organised in four main clusters:

- co-ordination of compliance initiatives by Member States,
- increasing the effectiveness of existing policy measures for SMEs,

- increasing communication and awareness raising,
- improving financial support for sustainable production in SMEs.

Not all of the sixteen policy options were suitable for further consideration. Regular inspections by enforcement authorities are a necessary tool, but still not sufficient. Promoting action by Member States by setting targets for compliance, or ordering more inspections of SMEs will not meet the objectives as well as some other options considered in the impact assessment, and are therefore not included in the Programme.

According to literature, it is best to go for a multiple approach because of the widely different characteristics of SMEs compared to large companies. Only a set of complementary measures addressing all causes of low compliance will lead to improvement. These would include education and awareness raising, on-the-spot assessment and identification of problems, targeted consultancy, exchange of information and best practices, and removal of administrative burdens.

The Environmental Compliance Assistance Programme for SMEs aims at encouraging compliance and proper implementation of existing environmental legislation and not at granting exemptions or privileges to SMEs. It will complement existing regulations and general policy initiatives, and should not constitute an additional legislative burden. As such it is consistent with Better Regulation principles. The Programme uses the Better Regulation approach to minimise the administrative burden of compliance for SMEs. The Commission is committed to working with Member States to identify and change parts of EU legislation that make it unnecessary difficult to understand or apply a policy, so as to make it easier for SMEs to comply. It is a cost-effective approach, as it uses the best policy tools and instruments, improving on them when necessary, it promotes new funding opportunities for SMEs, and it works in cooperation with the business support networks and organisations which already address these problems.

In order to increase knowledge and availability of data on the environmental impacts of SME activities, an integral part of the Programme is to exchange information and good practices among Member States, and to monitor measures regularly to gather data on their impact. Just by doing that, the Commission estimates that the Programme will have substantial positive environmental, economic and social impacts.

But the Programme will also improve the environmental performance of SMEs in the medium term, by increasing awareness and understanding, particularly of the economic benefits and cost savings of better eco-efficiency. Expected environmental benefits include increased recycling of by-products and waste, reduced use of energy and resources, and minimal waste generation.

The impact assessment identified many economic benefits of compliance with environmental legislation and better management of environmental risks and impacts. The most obvious are costs reductions by applying environmental management schemes (reduced use of energy and materials), which also identify the processes that need to be improved, and the creation of new business opportunities through Green Public Procurement and stimulation of innovative-thinking. Several benefits come from improving the image of the company, such as better relations with customers through eco-labelling and improved access to capital from environmentally-concerned investors. Another significant economic benefit is that firms that

can demonstrate a proper management of environmental risks and impacts will get a better rating from financial bodies, which will improve access to capital.

All the measures set out in the Programme provide support for SMEs, and since participation is voluntary they are no administrative burdens in terms of new legal requirements. The Programme specifically aims to keep administrative costs low to facilitate compliance.

Moreover, companies can expect some social benefits. Better access to environmental information and perception of environmental risks and impacts will help improve organization of the firm, and the staff will feel more motivation and commitment to achieve common goals, if the firm joins a certified environmental management scheme, such as the EU's Eco-management and Audit scheme (EMAS). An important added benefit is that the higher the level of environmental awareness and understanding of managers and employees, the greater will be the mutual trust and understanding between SMEs and their regulators (public authorities). This should allow constructive dialogue at local level on simplification of the excessive administrative environmental burdens on SMEs.

The Environmental Compliance Assistance Programme for SMEs will propose actions that strengthen the SME dimension of existing policies and initiatives, and incorporate education and capacity-building to make the Programme comprehensive and coherent. Although its primary aim is to achieve environmental compliance, it has the potential to improve the environmental performance of SMEs over and above mere compliance.

The policy options selected in the impact assessment form the basis for the concrete measures proposed in the Programme, which have been grouped around the following themes:

- **Better Regulation** in design and implementation of policies to facilitate compliance by SMEs, minimise the administrative burden and free resources for improving compliance;
- More accessible tailor-made **environmental management schemes** to integrate environmental concerns into the core activities of SMEs coherently and cost-effectively;
- Focused **financial assistance** and a multi-annual financial programme, to promote and support measures on environmental compliance and sustainable production in SMEs;
- Building **local environmental expertise** to overcome lack of know-how;
- Better communication and more **targeted information** to address information gaps and raise awareness on environmental issues.