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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Small, clean and competitive

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

IMPACT ASSESSMENT

{COM(2007) 379 final

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1. PROCEDURAL ISSUES & CONSULTATION OF INTERESTED PARTIES

1.1 Purpose of this Impact Assessment

This Impact Assessment (IA) has been prepared by DG Environment of the Commission Services, to inform the development of an Environmental Compliance Assistance Programme for SMEs (COM (2007) 379 final). It follows the guidelines for an IA produced by the Secretariat General of the Commission. It also takes account of a consultation exercise undertaken by DG Environment to inform the development of the programme.

The IA presents an analysis of the situation relating to the environmental issues concerning SMEs, identifies the main policy options that have been considered in the context of the programme, and assesses these options in terms of their environmental, social and economic impacts.

This impact assessment identifies also the main players in the implementation of the programme and some expected results against which to measure its implementation and its effectiveness.

1.2 Stakeholder consultation

The main aspects of the Environmental Compliance Assistance Programme for SMEs were discussed with stakeholders during an extensive consultation meeting in Brussels on 14 October 2005. During the stakeholder consultation meeting, a presentation by OECD on an ongoing study on public environmental policy and corporate behaviour was made to launch the discussion on SMEs specificities in implementing environmental policies. European SME associations, such as UEAPME (European Association Of Craft, Small And Medium-Sized Enterprises) and Small Business Europe participated in the meeting and indicated their strong support for this initiative, sharing both the analysis of the problems and the proposed initiatives to address them. The Euro Info Centre Network and the network of the European Chambers of Commerce showed strong interest in being partner of the implementation of the Environmental Compliance Assistance Programme for SMEs. Detailed minutes of this stakeholder meeting are available.

In advance of the stakeholder meeting, the Commission circulated a comprehensive consultation document to invitees to the meeting. The purpose of this document was to pose specific questions in relation to the Environmental Compliance Assistance Programme for SMEs to encourage and stimulate debate and discussion on the subject.

Stakeholders were also invited and encouraged to submit detailed written responses to this consultation document following the meeting. Two such responses were received one each from the Euro Info Centre (EIC) Network and UEAPME. Both responses are very supportive of the specific actions proposed by DG ENV in the Programme. The EIC Network further reiterated its willingness to help the Commission in the implementation of the programme.

A further stakeholder consultation on the major action identified took place in May 2006 in the framework of the regular meeting of the EU SME Envoy.

2. PROBLEM DEFINITION

2.1 Introduction

Small and Medium-sized enterprises, SMEs, defined as companies with less than 250 employees¹, make up an extremely important part of Europe's economy. There are some 23 million SMEs in the EU providing approximately 75 million jobs (66% of private employment and up to 80% in some industrial sectors such as textiles, construction or furniture) and representing 99% of all enterprises (57% of value added)². SMEs are also a major source of entrepreneurial skills, innovation and economic and social cohesion.

The revised Lisbon Strategy, launched in March 2005, placed a renewed emphasis on the competitiveness of the EU economy, and the need for higher levels of economic growth and employment. SMEs are a key part of this agenda, such that the Integrated Guidelines for growth and jobs, covering actions to be taken at the Member State level, include the need to promote a more entrepreneurial culture and create a supportive environment for SMEs. Also, the Community Lisbon Programme, addressing actions to be taken at the Community level, contains specific actions relating to SMEs. To streamline the Community policy towards SMEs and address some specific problems they face, a Communication on 'Implementing the Community Lisbon Programme Modern SME Policy for Growth and Employment'³ was adopted by the Commission at the end of 2005.

Figure 1: Share of the number of enterprises in the business enterprise population ⁴

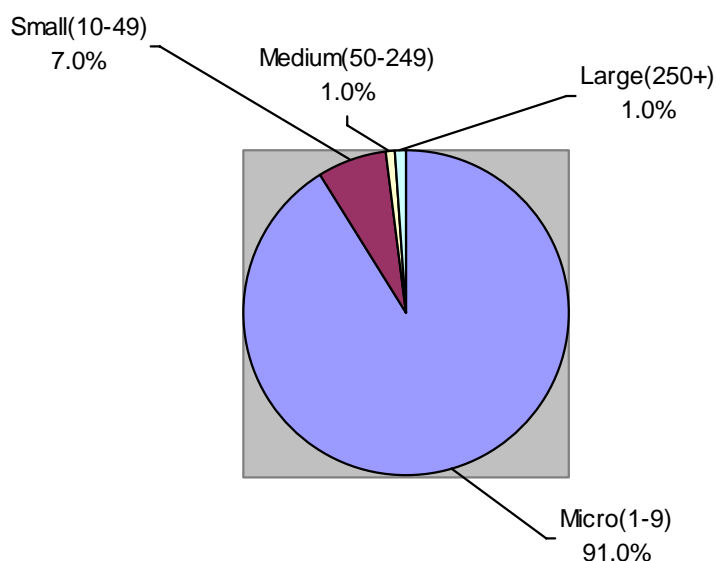


Figure 2: Value added in eight main sectors (EU-25, 2003) ⁵

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- 1 The definition includes also a threshold of an overall turnover of 50 million Euro and/or an annual balance sheet of 43 million Euro. Recommendation on the SME definition (2003/361/EC) of 6.5.2003
 - 2 SME Envoy Report 2005, The activities of the European Union for small and medium-sized enterprises Commission Staff Working Paper {SEC(2005) 170} DG ENTR
 - 3 Commission Communication "Implementing the Community Lisbon Programme - Modern SME Policy for Growth and Employment" (COM (2005)551)
 - 4 "What is SME ? Facts and figures" DG Enterprise website http://ec.europa.eu/enterprise/smes/facts_figures_en.htm

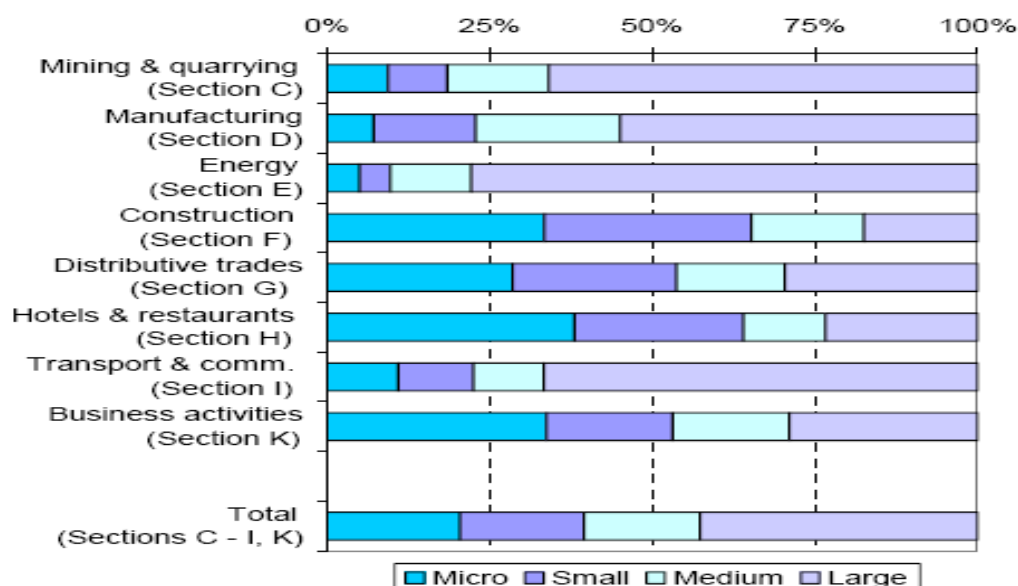
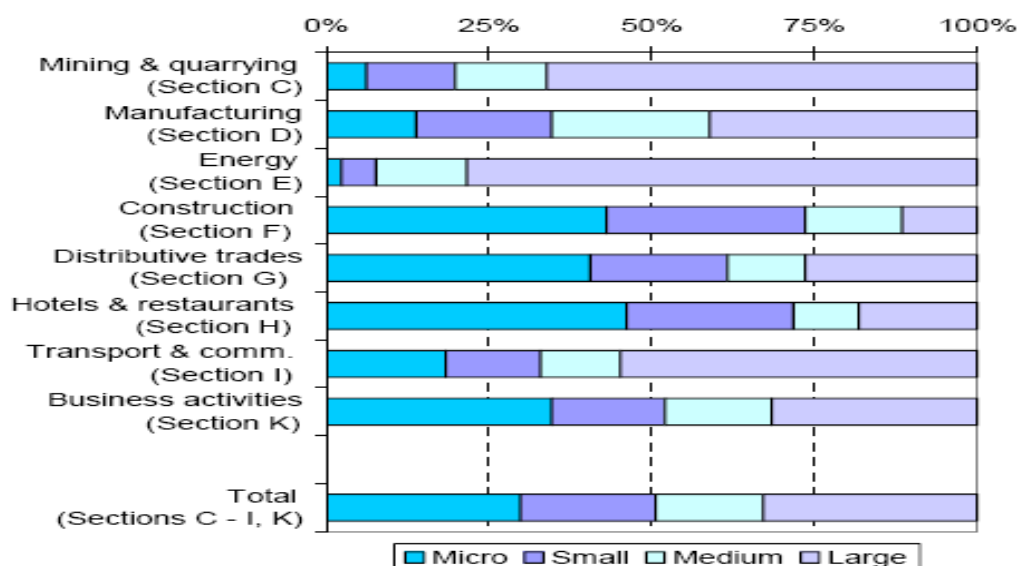


Figure 3: Number of people employed in eight main sectors (EU-25, 2003) ⁶



However, SMEs, similarly to large companies, can exert considerable pressures on the environment. This is not necessarily through individual pressure but through their combined total impact across sectors (although in some cases individual effects of SMEs on the environment can be very important within local or regional communities). SMEs could be responsible for up to 70% of all industrial pollution in the EU⁷.

The sector of Small and Medium Sized enterprises is particularly diverse, but some basic factors are common to all the companies with similar structure and limited human and financial resources when dealing with environmental policy. SMEs are in general unaware of

⁵ Source: Statistics in focus: SMEs and the entrepreneurship in the EU, Eurostat SBS size class, (2006) 24

⁶ Source: Statistics in focus: SMEs and the entrepreneurship in the EU, Eurostat SBS size class, (2006) 24

⁷ ENTR, Public Policy Initiative To Promote The Uptake Of Environmental Management Systems In Small And Medium-Sized Enterprises – Final Report Of The BEST Project Expert Group, 01/2004

their environmental impacts, the environmental legislation affecting their company, and the benefits of good environmental practice such as the reduced risk of prosecution and reduced operating costs. It is through a process of making them first aware of their environmental obligations and subsequently improving their rate of compliance with this legislation that their contribution to pollution can be reduced in an effective manner.

The following, adapted from Environmental Performance, Competitiveness and Management of Small Businesses in Europe⁸, provides an accurate synopsis of the problems with SMEs and environment.

"Despite considerable government efforts to inform SMEs of the potential economic benefits from positively managing their environmental performance and investing in clean technologies, most SMEs see no reason to address the environmental aspects of their business. Any action taken is often a response to legislative and regulatory pressures rather than positively seeking new opportunities from environmental management. This can partly be explained by the fact that SMEs are unreceptive or unable to interpret the relevance of the legislation to their business. SMEs perceive that legislative compliance is expensive and therefore regulation is resisted due to its impact on profits. SME owners feel limited responsibility towards the environment, due to their belief that their contribution towards environmental impact is negligible. Furthermore, small businesses lack the time and money to investigate their environmental performance or access the high cost consultancy"

2.2 SMEs contribution to environmental pollution

Due to the sheer size and diversity of the SME community it is very difficult to cite comprehensive and extensive data on the contribution of SMEs to environmental pollution. It is widely accepted throughout the literature on SME's environmental problems that even in terms of one type of pollution (for example air pollution), the environmental load from different types of pollutants (for example CO₂, SO_x, NO_x etc.) and the contribution made by SMEs in each Member State is too complex to be mapped out even if data existed, which in many cases it does not.

Generally, national economic statistics on SMEs do not tally with data collected on emissions, waste generation and effluents from firms, so it is doubtful whether smaller firms' contribution to pollution can be calculated at all. In fact, there is little hard data to determine the sector's contribution to pollution load. Nevertheless the rough figure often quoted⁹ of a contribution of 70% of industrial pollution in Europe seems reliable for the following reasons:

- (1) SMEs contribute to more or less 60% of the production in Europe
- (2) There is often a direct link between the level of output and the contribution to pollution, which is related to the production process
- (3) Inspected or surveyed SMEs are indeed often not compliant with specific pollution limits or environmental rules

⁸ Environmental Performance, Competitiveness and Management of Small Businesses in Europe, Journal of Economic and Social Geography, Volume 96 page 541 December 2005 Issue 5

⁹ DG ENTR, Public Policy Initiative To Promote The Uptake Of Environmental Management Systems In Small And Medium-Sized Enterprises – Final Report Of The BEST Project Expert Group, 01/2004

Despite this inherent difficulty on the lack of firm statistical data, a number of studies attempt to provide ‘insights’ into particular environmental problems from SMEs for specific countries. For example, the Marshall Report¹⁰ (1998) estimated that SMEs accounted for 60% of total carbon dioxide emissions from businesses in the United Kingdom and concluded that there was substantial room for improvement in energy efficiency and emissions reductions among SMEs.

Estimates from the Netherlands and the United Kingdom suggest that the commercial and industrial waste coming from SMEs represent on average 50% of the total¹¹. This percentage obviously varies amongst economic sectors. In some cases SMEs are reported to be responsible for 60% of commercial waste¹² and 80% of pollution incidents¹³. In the Netherlands, it is reported that SMEs account for 36% of all CFC emissions and 24% of all waste¹⁴. According to the Chambre de Métier et de l’Artisanat, the 880,000 French crafts and small businesses alone produce yearly 20 million tons of waste, as much as the total households waste¹⁵.

A recent survey in France showed that SMEs could be responsible of 40-45% of all industrial air emissions, water consumption and energy consumption, as well as 60-70% of industrial waste production.¹⁶

2.3 Low level of awareness of environmental legislation and environmental impacts

Though some SMEs have taken the lead in managing their own environmental impacts in a well structured way, a majority of SMEs are still characterised by their lack of awareness of their environmental impacts and the management of such issues. A survey among Polish SMEs shows that 86% of the interviewed declared that their companies do not have a negative impact on the environment or that the impact was insignificant¹⁷. A Belgian study shows that up to 84% of the Belgian industrial SMEs do not feel they contribute to soil contamination, 44% believe that they do not emit any polluting substances to the air and 23% claim not to produce any solid waste¹⁸.

In terms of awareness of legislation, Petts, in her study of UK SMEs and environmental compliance, notes that the majority of UK SMEs are ‘vulnerably compliant’, that is, they do

¹⁰ Marshall Report (1998) Economic Instruments and the Business Use of Energy, Stationary Office London

¹¹ KPMG Environmental Consulting (1997), The Environmental Challenge and Small and Medium-Sized Enterprises in Europe, The Hague

¹² Netregs (2002) How Green are Small Businesses? Netregs benchmarking Survey of Environmental Awareness 2002

¹³ Environment Agency (2003) SME-nvironment : a survey to assess the environmental behaviours among small UK businesses

¹⁴ Hoevengel, R. and Walters, T. (2000) Small and medium-sized enterprises, environmental policies and the supporting role of intermediate organisations in the Netherlands, Greener Management International, Issue 30 p61

¹⁵ Chambre de Métier et de l’Artisanat, 2005

¹⁶ ADEME, *L’environnement et la maîtrise de l’énergie dans les PME*, February 2007

¹⁷ Survey carried out in October 2005 within the project "Environmental manager" (Partnership for the Environment Foundation) http://www.czystybiznes.pl/badania_firm_2005.pdf

¹⁸ Union Wallone des Entreprises, (1997) Analyse de la Sensibilisation à l’Environnement au sein de la Structure Wallone (Analysis of the Environmental Sensitising within the Wallonian Structure), Cahier 4, Convention Région Wallone/UWE

not always know enough about legislation to ensure that they are always compliant¹⁹. Pedersen notes that with regard to Danish SMEs, they are often unaware of regulations and that they are too embarrassed to ask for help²⁰.

Despite the fact that evidence shows that often the improvement of the environmental performance can be very rewarding for SMEs also from the economic point of view, UK surveys indicate that among small and micro SMEs, only a small proportion of firms are aware of the potential cost savings associated with environmental improvements²¹.

The situation appears to be similar but perhaps more extreme in Spain. The survey based on 20 in depth interviews with the managing directors of 20 SMEs operating in ten different industries of Catalonia reveals that the vast majority of small companies appear to view environmental protection as extremely costly and of virtually no benefit²².

The study indicates that accessibility to information concerning environmental problems remains very low. The mass media were the main source of information with this regard. It is therefore not surprising that managers' awareness of the environmental problems is limited either to micro scale – namely these problems that seldom occur and affect directly their companies, or global environmental problems. According to the study managers tend to attribute a lower value to environmental problems that occur in the local neighbourhood. They rather believe that major environmental problems exist in distant parts of the world. Consequently, managers of small firms who are non-experts find it difficult to identify, to describe and to address environmental problems related to their company.

According to research²³, also in terms of sources of information SMEs differ from large businesses. SMEs get a significant amount of information from mass media, television and press as well as publications on trade. However, SMEs declare that what they need is targeted, clear information that does not require additional analysis, is easy to understand, and can be used directly. The delivered information should target specifically at the core interest of SMEs business. A survey²⁴ conducted by the UK Institute of Directors (IoD) reported that from a sample of 500 members²⁵ only 29% of respondent knew 'a great deal' or 'quite a bit' about environmental issues. Of greater concern was the result 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%.

¹⁹ Petts J. SMEs and Environmental Compliance, in 'Small and Medium-sized Enterprises and the Environment – Business Imperatives', Sheffield, Greenleaf Publishing, 2000

²⁰ Pedersen, C. Local Authorities in Dialogue with SMEs, in 'Small and Medium-sized Enterprises and the Environment – Business Imperatives', Sheffield, Greenleaf Publishing, 2000

²¹ Groundwork Survey – Small Firms and the Environment, 1998

²² Anglada, M.L. et al, Small and Medium-sized Enterprises' Perceptions of the Environment: A Study from Spain in 'Small and Medium-sized Enterprises and the Environment – Business Imperatives', Sheffield, Greenleaf Publishing, 2000

²³ Fairman R. and Yapp Ch. (2003) "Education or enforcement", Environmental Health Journal, January, <http://www.ehj-online.com/archive/2000/january2003/january5.html>

²⁴ Institute of Directors, Environment Policy Comment, The Business of the Environment: Policy and Opportunities, IOD Seminar, January 2006

²⁵ The IoD currently has about 53,000 members of which approximately 80% are directors of SMEs

The IoD also reports that a common complaint from their members relates to the ‘difficulty of keeping abreast’ of the latest regulatory developments. Even the best run businesses have a constant ‘nagging’ concern that they may find themselves penalised for non-compliance even though they have made what they feel are reasonable efforts to keep up to date with the latest requirements.

Results from the IoD survey on the level of awareness of four major pieces of EU environmental regulation revealed:

- Waste Electrical and Electronic Equipment (WEEE) Directive: Only 24% of all respondents knew ‘a great deal’ or ‘quite a bit’.
- Restriction of Hazardous Substances (RoHS) Directive: Sectoral responses were more encouraging; 58% of members in distribution/hotels and 51% in construction, mining or transport claimed to know ‘a great deal’ or ‘quite a bit’.
- Energy Performance of Buildings Directive: 61% of IoD members knew either ‘nothing’ or ‘hardly anything’ about it.
- Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH): This has received more publicity than most other environmental law, but still only =26% of businesses in manufacturing knew ‘a great deal’ or ‘quite a bit’ about it.

A study²⁶ for the European Commission aimed at promoting eco-design activities for SMEs in the electrical and electronic sector reveals that awareness of these requirements is very poor. The study states that: ‘[...] even basic understanding of the RoHS and WEEE legislation is missing and wrong assumptions are made by the companies, such as the definition of the phrase “put on the market”, or if a specific product is covered by RoHS12’.

Another recent and well documented UK study by NetRegs²⁷ provides startling information on environmental awareness among SMEs. Some of the key findings of the study are:

- Only 7% of businesses in the UK thought that they undertook activities that could cause harm to the environment. However, when prompted with a list of activities, this figure rose to 41%;
- 31% of businesses stated that they had introduced practical measures to reduce environmental harm;
- 25% of all businesses surveyed stated that they had an environmental policy in place;
- Over 40% of businesses in all sectors would like more information on environmental issues;
- 47% of businesses stated they had not received enough support from Government and agencies to deal with environmental problems;

²⁶ Fraunhofer IZM Final Report – EcoDesign Awareness Raising Campaign for Electrical & Electronics SMEs Report for DG Enterprise and Industry, European Commission, December 2005

²⁷ SME-nvironment 2005,
http://www.netregs.gov.uk/commondata/acrobat/2005_uk_summary_1197319.pdf

- More than 95% of businesses stated that they would like more information/guidance from Government and its agencies in the future.

These results can be taken as indicative of the situation with SMEs on an EU-25 basis as NetRegs obtained 5,554 responses from small companies across 15 business sectors to assess their levels of environmental awareness and compliance, and in a study on the compliance needs of European SMEs²⁸ is found that ‘SMEs in each Member State show similar patterns of behaviour’ meaning that results in one Member State can reflect an EU-wide phenomenon.

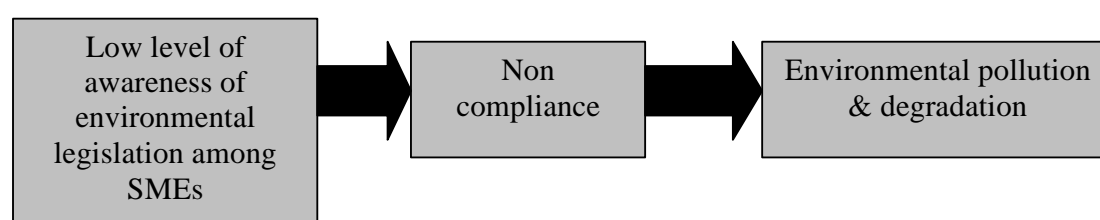
2.4 Why is a low level of awareness of environmental legislation among SMEs a problem?

This situation is undesirable for three primary reasons. Firstly, by being unaware of the environmental impacts of their own activities, and the environmental legislation affecting them, SMEs represent a significant threat to the environment, undermine the many Community measures aimed at environmental protection, and therefore pose substantial risks to the community they operate in and the sustainability of the whole society.

Secondly, environmental rules, especially those related to air emissions, to the use of chemicals and other dangerous substances and to the waste processing and disposal, have also a direct impact on the health and safety of the workers of the company.

Thirdly, an enhanced environmental management provides to SMEs the opportunity of economic and/or financial benefits (related mainly to an increased eco-efficiency and to eco-innovation), an opportunity which many SMEs may be missing out on. A study by the OECD²⁹ evaluating the link between facilities’ environmental and financial performance indicated indeed that facilities which reduced their environmental impacts, increased the probability of earning positive profits by between 53 – 89%.

Figure 4: Flow-chart of problem definition



2.5 Environmental compliance and environmentally responsible behaviour

SMEs are generally compliance-driven in their environmental behaviour. A study conducted in 2005 in four European Member States (UK, Ireland, Czech Republic and Greece) indicates that 66.6% of respondents admitted that their firms had taken steps towards an environmental

²⁸ ‘Why we need to support the environmental compliance needs of European SMEs’, Gary Lynch-Wood and David Williamson, Centre for Research into Corporate Social Responsibility and the Environment 2005, <http://www.bseconference.org/plaintext/downloads/lynchwood.pdf>

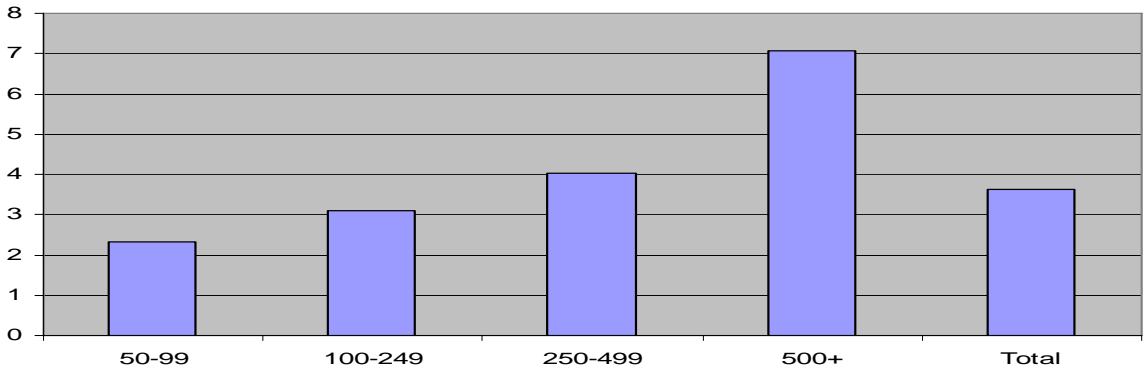
²⁹ Does a Facility’s Environmental Performance Predict its Financial Performance? Working Party on National Environmental Policy, OECD 2005

policy as a result of the introduction of regulations, and shows that SMEs in each Member State have similar patterns of behaviour³⁰.

A research carried out in 2005 in the UK reveals that SMEs perceive compliance as an outcome of negotiations after the inspection rather than as a process of determining whether requirements of law are met. As SMEs are to a large extent unaware of the environmental risks and problems they are causing, and have difficulty in understanding legal obligations stemming from the environmental regulations, prosecution can be perceived as a strong incentive for the compliance with environmental laws. Nevertheless it is true only for those SMEs that have already been inspected and faced with the concrete risk of fine or other forms of punishment. The prosecution of other business entities surprisingly does not seem to be the deterrent factor for a particular SME³¹. Consequently, the large number of SMEs makes managers believe that they are less likely to be inspected and therefore more likely to ‘slip through the regulatory net’³². SMEs therefore remain reluctant to initiate an action and tend to respond to external action³³.

The number of inspections during the past three years shows indeed that SMEs are less likely to be inspected by public environmental authorities (Figure 5) than larger companies. While on average firms between 50 and 100 employees were inspected 2.3 times, firms with more than 500 employees faced 7.1 inspections over the last three years. It is realistic to extrapolate an even smaller number of inspections for small or micro businesses (less than 50 employees), very close to zero.³⁴

Figure 5: Number of inspections over the last three years³⁵



In order to comply with environmental regulations, firms may have a choice of changing their production processes (CPP) or introducing end-of-pipe (EOP) technologies. Interestingly,

³⁰ David Williamson et al., "A blueprint to support environmental compliance among European SMEs", Staffordshire University, January 2006
³¹ Fairman R. and Yapp Ch. (2003) "Education or enforcement", Environmental Health Journal, January, <http://www.ehj-online.com/archive/2000/january2003/january5.html>
³² Gunningham, N. (2002) "Regulating Small and Medium Sized Enterprises" Journal of Environmental Law, 14: 3 - 32.
³³ Fairman R. & Yapp Ch., *Making an impact on SME compliance behaviour: An evaluation of the effect of interventions upon compliance with health and safety legislation in small and medium sized enterprises*, Prepared by Kings College London for the Health and Safety Executive 2005, Research Report 366.
³⁴ Julien Labonne, "A Comparative Analysis of the Environmental Management, Performance and Innovation of SMEs and Larger Firms", report for the European Commission.
³⁵ Julien Labonne, op.cit

smaller firms are more likely to implement CPP than larger firms. SMEs tend to have capital stock with a shorter life-span which provides more opportunity for fundamental change in production processes and their production processes are likely to be less capital-intensive which makes it easier to modify them. This shows also an important potential of SMEs for eco-innovation.

Responsible environmental behaviour implies going beyond the mere compliance with environmental legislation. Sometimes innovative SMEs decide to engage in such an approach for a number of different reasons, for instance to achieve a competitive advantage with regard to competitors by improving the enterprise's own image, or as a result from pressures exerted on SMEs by big companies within the supply chain. However, cost-driven small businesses witness little motivation to implement environmental standards due to the insufficient visibility of the benefits stemming from environmental investments.

According to the report on European SMEs and Social and Environmental Responsibility³⁶ the benefits for the small company to engage in corporate social responsibility (CSR) activities can be classified into two categories:

- Internal: organizational benefits (derived from compliance with environmental regulations, access to sound information on the state of environment and procedural improvements), financial benefits (costs savings and better management of resources), increased motivation of employees and better company image among employees.
- External: commercial benefits (new business opportunities, environmental profile contributing to the better competitive position on the market), environmental benefits (increased energy/material efficiency, recycling, reduction of the pollution), communication benefits (positive public image of the company, better access to capital from environmentally –sensitive investors and improved cooperation with administrative bodies and regulators).

It is less likely for SMEs to engage in responsible environmental behaviour than other firms, as a result of certain common characteristic and problems of SMEs. Their lack of resources can lead to the SME being risk-averse and less willing to invest in new environmental technologies, partly also as the pay-back of these investments is often apparent only after a number of years. Having usually very short term planning, most SMEs do not apply concepts such as Eco-design or Life Cycle Analysis (LCA) in their design or production processes, missing both environmental and economic benefits.³⁷

Research shows that SMEs do not differ from other firms in their propensity to engage in R&D activities. However, when it comes to the decision to devote resources to environmental R&D, size appears to matter: SMEs are much less likely than other firms to engage in environmental R&D (among firms with a R&D budget, 9% of firms with less than 100 employees devote resources to environmental R&D while 33% of firms with more than 500 employees do so)³⁸.

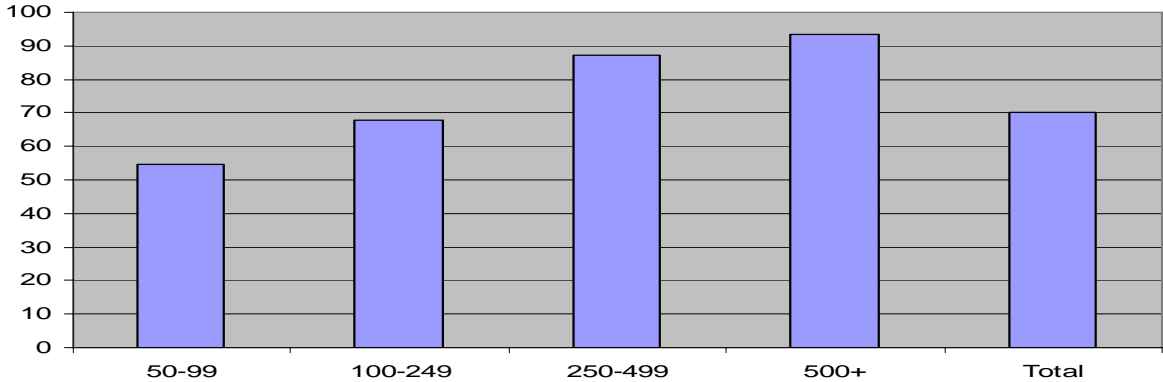
³⁶ European SMEs and Social and Environmental Responsibility, Observatory of European SMEs, 2002, No.4

³⁷ TNO report B&O; 2005, *Making Life-Cycle Information and Interpretative tools available*. http://ec.europa.eu/environment/ipp/pdf/study_final_clean_report.pdf

³⁸ Julien Labonne, op.cit

According to another study, in order to manage their environmental matters well, 93% of firms with more than 500 employees usually have an employee to deal with environmental matters. Among smaller firms with 50-99 employees, only 55% have a designated person to deal with environmental affairs. Such employee is likely to have knowledge of the environmental regulations facing the firm and on how to deal with environmental issues. This may be interpreted as SMEs being less concerned by environmental issues than bigger firms. It could also be that bigger firms face more pressure from the public/regulatory authorities to address environmental concerns, or that the need for such an individual is less important in SMEs where lines of communication are less extended.³⁹

Figure 6: Percentage of firms w/ someone w/ explicit environmental responsibility⁴⁰



In the same study, the analysis of the location of employee responsible for environmental matters within the firm's structure delivers further evidence, proving that SMEs differ from larger firms. 45% of the individuals responsible for environmental matters in firms with less than 100 employees are located in senior management, which might be driven by financial constraints. This percentage drops to 21.3 in firms with more than 500 employees. Conversely, only 13% of individuals responsible for environmental matters in firms with less than 100 employees are located in an Environment-Health-and-Safety (EHS) department. This figure is 39% for firms with more than 500 employees.⁴¹

What motivates SMEs and their owners is also likely to be very different from what motivates large corporations. Most striking in this regard is not only their low level of environmental awareness but the substantial disparity between their environmental aspirations and their environmental performance. A 1999 study⁴² for example, suggested that the typical owner-manager suffered a low standard of eco-literacy and poor environmental awareness and that while SMEs commonly expressed pro-environment attitudes they often experienced difficulties translating these ideals, aspirations and values into actions.

2.6 Does the EU have the right to act?

In April 1997 an informal meeting of EU Environment Ministers was convened in Amsterdam to specifically discuss SMEs and environmental policy. An agreement was reached that has

³⁹ Julien Labonne, op.cit
⁴⁰ Informal Council meeting of EU Environment Ministers, April 1997
⁴¹ Julien Labonne, op.cit.
⁴² Tilley, F. (1999) 'The Gap between Environmental Attitude and Environmental Behaviours of Small Firms', *Business Strategy and the Environment* 8: 241

since marked the EU approach on the subject: SMEs are an important engine for economic growth and employment throughout the European Union. However, SMEs are also an important contributor to environmental pollution. Environmental requirements should be related to the nature and magnitude of environmental pollution and not to the size of the enterprise. The same informal Council meeting also stated: “support, advice and technical guidance for SMEs in implementing environmental policies is essential” and asked the European Commission “to look into the possibility for presenting a comprehensive strategy [...], put forward possible solutions, and suggest further action to improve environmental performance of SMEs”.⁴³

The Göteborg European Council and the Sixth Community Environment Action Programme (6EAP)⁴⁴ have set the overall objective of decoupling economic growth from environmental degradation. The European economy needs to move towards more sustainable production and consumption patterns in order to halt and reverse the environmental degradation, as recalled also by the reviewed EU Sustainable Development Strategy⁴⁵.

The Sixth Community Environment Action Programme sets, inter alia, the following goal: "Improving collaboration and partnership with enterprises and their representative bodies and involving the social partners, consumers and their organisations, as appropriate, with a view to improving the environmental performance of enterprises and aiming at sustainable production patterns" and proposes: "establishing a compliance assistance programme, with specific help for small and medium enterprises."⁴⁶ The Environmental Compliance Assistance Programme for SMEs delivers therefore also to the specific request of the 6EAP.

The European Council has repeatedly stated that environment policy is a key element for the long-term competitiveness of the EU economy, by fostering innovation, by encouraging energy efficiency, by reducing resource dependency and by underpinning an efficient Single Market: “Lasting success for the Union depends on addressing a range of resource and environmental challenges which if left unchecked will act as a brake on future growth. This goes to the heart of sustainable development. [...] Europe must [...] take the lead in shifting towards more sustainable patterns of production and consumption.”⁴⁷

Heads of State and Governments in the Johannesburg Declaration recognised that changing consumption and production patterns is one of the overarching objectives of sustainable development. The Johannesburg Plan of Implementation (JPOI) states that: "Fundamental changes in the way societies produce and consume are indispensable for achieving global sustainable development. All countries should promote sustainable consumption and production patterns."⁴⁸

Since SMEs make up a large part of Europe’s economy exert considerable pressures on the environment, they will also have an important role in achieving more sustainable production and consumption patterns. So with the Environmental Compliance Assistance Programme for SMEs the European Commission will contribute to sustainable production in the EU, in line

⁴³ Julien Labonne, op.cit.

⁴⁴ Decision No 1600/2002/EC of the European Parliament and the Council of 22 July 2002

⁴⁵ COM(2005) 658 final, of 13.12.2005

⁴⁶ Decision No 1600/2002/EC of the European Parliament and of the Council of 22 July 2002

⁴⁷ COM (2005) 24, of 02.02.2005

⁴⁸ Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002, A/CONF.199/20 & A/CONF.199/20/Corr.1

with the renewed Lisbon Strategy objectives and the EU's Johannesburg (WSSD) commitments towards more Sustainable Production and Consumption Patterns.

This Environmental Compliance Assistance Programme for SMEs is included in the 2006 Annual Policy Strategy⁴⁹ and in the Communication on the new SME policy of the European Commission⁵⁰.

It is clear from a growing body of literature that there are already a large number of initiatives in place in EU which seek to help SMEs comply with legislative requirements and improve their environmental performance. In a study commissioned by the Commission 92 of such initiatives were identified at national and regional level in 15 EU Member States⁵¹. The range, approach and level of support differ across the EU. In some Member States, such as Belgium, the Netherlands, Austria, the UK, Germany and Spain, there are already a number of national and regional initiatives in place which offer environmental compliance support to SMEs.

However, many Member States still do not have dedicated SME initiatives available at both regional and national level and in many cases where support is available for SMEs, it is not necessarily related to environmental compliance, nor targeted specifically at SMEs. Moreover, it seems that Member States in this field are not actively seeking to learn from the experiences from, or cooperate with, other Member States and therefore the initiatives remain scattered across the EU without a coherent structure. Therefore a complementary role by the Commission is required and the Environmental Compliance Assistance Programme for SMEs provides both a framework and funding to fulfil such a role. The need for such an initiative at European level also relies on the fact that the vast majority of national environmental legislation derives from EU legislation.

Furthermore, an uneven implementation and enforcement in different Member States of EU environmental rules would cause market distortion in the internal market and requires the Commission to become active in order to ensure a level playing field for SMEs in the EU.

The success of the new SME policy depends predominantly on actions in the Member States which retain the main competence in enterprise policy and environmental policy at company level, while the Community policy framework should provide support and an added value of coordination and facilitation in respect of the subsidiarity principle. This is the approach the Environmental Compliance Assistance Programme for SMEs intends to pursue.

In the Sixth Community Environment Action Programme Better Regulation has been identified as a way to improve EU environment policy-making. In practice, this means making environmental policy that, while ambitious, is simple, effective and supports growth and jobs. The Commission is committed to working with Member States to identify and change parts of EU legislation that cause unnecessary hindrance to understanding or operation of policy, to smooth the path to compliance for SMEs. This approach to Better Regulation has been integrated and applied in the Environmental Compliance Assistance Programme for SMEs.

⁴⁹ COM(2005) 73 final

⁵⁰ COM (2005)551 of 10.11.2005

⁵¹ IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

3. OBJECTIVES

SMEs are the backbone of the European economy and play therefore a primary role in shifting to more sustainable production and consumption patterns, achieving thus the EU overarching goal of a sustainable development. The objective of the Lisbon strategy which overall aim is "to deliver stronger, lasting growth and create more and better jobs" cannot be achieved without the creation of proper incentives for SME to shift towards sustainable production patterns and taking part in the responsibility for sustainable development and at the same time taking full advantage of the economic, financial and market benefits of proper environmental management.

The Environmental Compliance Assistance Programme for SMEs aims at filling a specific gap between the general EU SME policy and the general environmental policy, and specific pieces of environmental legislation. It will be complementary to single initiatives to increase SME compliance taken in the context of the review of specific environmental regulation.

It should nevertheless be clear that the objective is to foster compliance and proper implementation of existing environmental legislation and not to grant exemptions or privileges to SMEs (this would be against the 1997 informal Council conclusions and article 174 of the Treaty which provides for Community policy to be based on the "polluter pays" principle, i.e. costs associated with protecting the environment should be internalised by firms just like other production costs).

3.1 General Objective

The overall objective of the Programme is to improve the level of awareness of environmental problems and legislation among SMEs, thereby increasing their compliance with the legislation affecting them, as well as integrating environmental tools and principles in their business activities. This will result in an improved environmental performance across Member States and in wider Community environmental, social and economic benefits.

The Programme also aims at closing the gap between the SMEs' and enforcement bodies' perceptions of the concept of compliance. A study on the close-related field of health and safety legislation showed that how compliance is perceived sometimes differs between SMEs and enforcement bodies⁵²: SMEs tend to believe that their businesses comply with legislation until told otherwise and tend to view compliance as the outcome of an external intervention after an inspection and not, as the enforcer sees it, as an on-going process of determining whether requirements of law are met.

A complementary objective is a wider perception in the SME community that environmental legislation is not only a cost for the company but also an opportunity for a more efficient production process, resource and energy, gains, reduced company risks, better image towards local community, clients, public authorities, financial sector, etc; i.e. economic and financial gains.

⁵² Fairman R. & Yapp Ch., *Making an impact on SME compliance behaviour: An evaluation of the effect of interventions upon compliance with health and safety legislation in small and medium sized enterprises*, Prepared by Kings College London for the Health and Safety Executive 2005, Research Report 366.

3.2 Specific Objectives

- To raise awareness on environmental problems, risks and legislation through communication and information activities, in which maximising the accessibility of that information is crucial.
- To build a network of local environmental expertise for SMEs close to them, to deliver the SMEs' need for clear, direct, targeted, and accessible expert information through human contact.
- To disseminate existing good practices of compliance assistance at national, regional and local level through dissemination of information to promote good practice.
- To improve use of existing EU policies and voluntary instruments through raising SMEs' awareness of these policies and instruments, improving the SME-friendliness of policies, applying Better Regulation principles to SMEs, funding, and instruments, such as Eco-Management and Audit Scheme EMAS (EMAS-Easy), eco-innovations, Green Public Procurement, etc.
- More focussed and improved use of financial assistance by providing the appropriate information on the new and more focussed funding opportunities designed for the 2007-2013 period.

4. POLICY OPTIONS AND INITIAL ANALYSIS OF INDIVIDUAL OPTIONS

4.1 SMEs – the policy challenge

Effective and efficient regulation of SMEs represents a substantial policy challenge for environmental agencies in all jurisdictions, not least because SMEs are characterised by a number of unique traits which makes the application of conventional regulatory measures more complicated. This challenge is widely reflected in the literature concerning SMEs and environmental compliance. One such study outlines the broad reasons why this is difficult⁵³:

- A lack of resources. This is exacerbated by higher compliance costs, a shortage of capital and economical marginality.
- A lack of environmental awareness and expertise. Many SMEs are not aware of their environmental impact, technological solutions to their environmental problems, or their regulatory obligations and do not have the expertise to deal with them.
- A lack of exposure – including lower public profiles – which means that ‘pressure groups gain none of the prestige, headlines and publicity by targeting SMEs that campaigns exposing the environmental misdemeanour of high-profile multinational bring’.
- A lack of receptivity to environmental issues. Many SMEs have not integrated environmental issues into their business decisions, making it difficult to persuade them of economic benefits.

⁵³ Gunningham, N. & Sinclair, D., (2002) Leaders & Laggards, Next Generation Environmental Regulation

- The sheer numbers of such enterprises. This leads to infrequent inspections, and many businesses slip through the regulatory net and are untouched by environmental policy initiatives.

The problems of lack of awareness of regulation are even more severe in the case of *very* small enterprises or ‘micro-businesses’ (under 5 employees). In the closely related area of occupational health and safety (OHS) regulation, it was found⁵⁴ that the vast majority of micro-business did not know that any legislation existed and were unaware of reliable sources for advice. Most did not belong to any industry associations and were focused primarily on economic survival. Where it existed at all, concern about safety, health and the environment was limited to quite specific overt threats.

The policy challenge is made even more complex by the fact that SMEs are a very diverse group of enterprises, both within and across different sectoral groupings. These variations may not only impact on the degree and type of environmental problems confronting a particular business and/or SME sector but also on the way in which an individual business and/or sector might be regulated or otherwise encouraged to improve its environmental performance. It is with this variation and diversity among SMEs that the following policy options are considered.

4.2 OPTION 1 - No change approach.

This scenario would involve the continuing deficiency of a coherent policy for SMEs and the environment. The continuation of such scenario is likely to have the following outcomes:

- Low level of SMEs' awareness of environmental requirements.
- Continued poor performance of SMEs with regard to the improvements of the state of the environment.
- Reluctance by SMEs to invest in environmentally friendly technologies.
- Continued mistrust of eco-management schemes by SMEs.
- Inaccessibility of good and best practices to a wider group of SMEs.
- Missed opportunities related to a better management, efficiency gains, and emerging markets for environmental technologies and green public procurement.
- An internal market distortion due to differences in legal compliance with existing regulations in the EU and difference in the enforcement efforts by the public authorities.
- Poor SMEs' awareness of EU programmes and sources of financing for green investments (for instance the new Competitiveness and Innovation Programme or the Financial Instrument for the Environment LIFE+).

⁵⁴ Eakin, J. (1992) ‘Leaving it up to the Workers: A Sociological Perspective on the Management of Health and Safety in Small Workplaces’, *International Journal of Health Services* 22: 698 – 704

The choice of "no-action" scenario may increase the wrong perception by SMEs of environmental policy, as often being costly, complex and imposing an unnecessary administrative burden.

Co-ordination of Compliance Initiatives by Member States

4.3 OPTION 2 - Increased inspections

Evidence⁵⁵ shows that SMEs are less likely to be inspected by public environmental authorities than larger companies. The sheer numbers of SMEs leads to infrequent inspections, and many businesses slip through the regulatory net and are untouched by environmental policy initiatives. Increased inspections of the large number of narrowly specialized small firms would be a very costly approach and undesirable due to financial and human resource limitations of the enforcing bodies.

The regular inspections and 'on-spot checks' performed by the enforcer should be regarded as a necessary but not sufficient tool allowing SMEs to attain the environmental compliance. Only an action involving various and complementary tools comprising of education and awareness raising, delivery of targeted information, on-spot inspections and identification of existing problems, targeted consultancy and exchange of information and best practices may lead to the achievement of expected results.

Furthermore, the objective of the Programme, as indicated by the Sixth Community Environment Action Programme, is to assist SMEs in compliance, while the general improvement of the implementation and the enforcement of the environmental legislation in the EU is a more general aim and is pursued by other policy initiatives.

For example, the Commission will continue its cooperation with the IMPEL network in order to explore the possibility to increase the efficiency and effectiveness of inspections, taking into account IMPEL's practical experiences with the special needs and constraints of SMEs. In addition, IMPEL can provide valuable expertise from an enforcement perspective for the design of new policies.

4.4 OPTION 3 - Fixed compliance targets

Setting fixed compliance targets on a European level would be an ineffective and undesirable approach to the outlined objectives and policy challenge for three reasons.

First, the relevance of SMEs varies in different Member States⁵⁶ and their behaviour is strongly linked with the business and the administrative culture they are operating in. This diversity has to be reflected in policy-making.

Secondly the awareness of environmental problems, the compliance rate, and the engagement of SMEs in environmental programmes, varies in different Member States and in different regions, creating a non-homogeneous situation.

Thirdly, an effective use of the fixed targets approach requires detailed statistical data in order to verify whether targets are met by the Member States. Such statistical data is currently

⁵⁵ Julien Labonne, op.cit.

⁵⁶ 74% of all EU SMEs are located in 6 Member States: Italy, Germany, Spain, France, UK & Portugal.

insufficiently available. Given the large number and the variety of SMEs in the EU, most statistical data on the contribution of SMEs to various type of pollution are available only at aggregated industry level. According to the European Environment Agency (EEA) and Eurostat, there is no scope for a detailed data collection at the level of SMEs, as this would be excessively burdensome for such businesses.⁵⁷

In addition the monitoring of those targets would add further administrative burden on both SMEs and regulatory authorities.

4.5 OPTION 4 - Open Method of Coordination

The Open Method of Coordination (OMC) is a non-legislative “Lisbon” tool, which is based on benchmarking national progress towards common European objectives and organized mutual learning. This new approach commits Member States to work together towards shared goals without seeking to homogenize their inherited policy regimes and institutional arrangements. Member States are required to pool information, compare themselves to one another, and reassess current policies against their relative performance.

The choice of such an approach is supported by the outcome of the external evaluation of the Open Method of Coordination activities of DG Enterprise and Industry⁵⁸. The results show that the OMC is useful to further EU policy objectives by informing and influencing Member States and regional policies, and by influencing SME support providers. Further benefits are that it provides feedback to inform EU policy, it mobilises stakeholders, creates a climate of cooperation and stimulates dialogue.

At the same time this option involves substantial coordination efforts from the side of the Commission's services. This approach it is not enforceable and relies mainly on the political momentum on the issue and on the strong commitment of national administrations.

4.6 OPTION 5 - Learning from experience

The aim of this approach is to allow to public authorities and business support organisations in the Member States to learn from each others good experiences regarding different type of instruments and different approaches to compliance assistance.

As a first operational initiative of the Environmental Compliance Assistance Programme for SMEs the Commission has commissioned a study to select existing good practices in compliance assistance at national and regional level in 15 EU Member States and Japan and the USA, selecting 17 case studies⁵⁹. The selection is based on an inventory of 104 SME environmental compliance and performance initiatives. The selection criteria were: whether the initiative is considered to be a best practice, whether it is innovative, the likelihood that it could be transferred, the availability of evaluation information and the need to contain variety in type, objectives and target audience. A closer analysis of the 17 selected case studies provides insights in the effectiveness and transferability.

⁵⁷ ECOTEC, Report on SMEs and the Environment, 17 February 2000

⁵⁸ GHK / Technopolis (2006), Evaluation of the Open Method of Coordination activities coordinated by DG Enterprise and Industry (ENTR/R5/04/093/1/05/2)

⁵⁹ *Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises*, IEEP, June 2006

Transferability is a crucial factor since the initiative should remain as effective in the new context as in the one within which it was developed. The specific local context in which SMEs operate greatly influences the transferability and can be considered from three perspectives: public awareness and preferences, the type of structure of industry and the administrative context.

The full study will be made publicly available on the website of the Commission together with this impact assessment, while the selection of the case studies will be annexed to the Communication.

This option concern the need to build on existing good practises, to avoid overlapping and highlighting valuable experiences undertaken in some countries that could be replicated elsewhere. The publication of these good practises is the first step of a dynamic process that will increase contacts and exchange of information and experiences between Member States, with the support of the new website which will host the case studies and good practises in a publicly accessible database.

4.8 OPTION 6 – Hold yearly meetings of national contact points nominated by Member States

One of the main initiatives of the Environmental Compliance Assistance Programme for SMEs is the building (or strengthening where already existing) of a network of environmental experts at local level to offer adequate advise to SMEs. A first series of training courses (Option 14) will be organised in the Member States to inform about the initiatives linked to the Programme and to train the persons in local authorities, Chambers of Commerce, Euro Info Centres, SME organisations, etc.

The Commission will convene a yearly meeting of national "SME & environment" contact points nominated by Member States and Candidate Countries to monitor the implementation of the Programme, exchange knowledge and experience, and guide the approach of the Commission for future initiatives in this field.

Increasing the Effectiveness of Existing Policy Measures for SMEs

4.7 OPTION 7 - Improve knowledge on SME behaviour towards environmental policy

A better knowledge on SME's behaviour towards environmental policy will allow the creation of more effective measures and was a necessary prerequisite for the preparation of the Environmental Compliance Assistance Programme for SMEs. For this reason a study was commissioned in early 2006 to further analyse by size of the company the data collected by OECD in 2003 on 4,108 facilities operating in all manufacturing sectors in seven OECD countries: Canada, France, Germany, Hungary, Japan, Norway and the United States.

Such an early option was considered to assess the availability of reliable data and need to further develop research and data collection in this field. The aim of the study was indeed to analyse the determinants of SMEs' decision to implement environmental management systems, to undertake actions to reduce their environmental impacts, to introduce cleaner production processes, and to invest in environmental research and development, through comparison with large companies. The assessment includes ten variables, such as inspections, stringency of the environmental policy and policy instruments.

This option refers to increasing the knowledge about SME behaviour in relation to environmental policy by making the study publicly available on the website of the Commission together with this impact assessment. The need to further improve the collection of data and the analysis of SME behaviour will request more work to be done in the framework of the SME Programme.

4.9 OPTION 8 - More effective use of existing policy instruments

Many existing environmental policy instruments apply to SMEs as well as larger enterprises. It has to be noted that SMEs differ significantly from large companies in terms of culture, values and characteristics of business. Moreover they are characterized by heterogeneity. Therefore the careful choice of tools and measures should be made so as to influence SMEs behaviour. Using the best existing policy tools and instruments, with Member States improving them when necessary, can bring significant benefits.

Co-ordination of policy instruments is crucial to increase effectiveness. This option increases coherence with existing or previously planned policy measures, for example: the implementation of national strategies for Green Public Procurement, the availability of guidance and assistance with compliance with REACH, the State Aid Guidelines for environmental protection, and the European Business Awards for the Environment.

Finding expected synergies will contribute to the reduction of environmental pollution at regional, national and EU level and increase the implementation of EU environmental policy in a cost-effective way.

4.10 OPTION 9 - Better Legislation

Administrative burdens relating to environmental regulation can weigh heavily on businesses. The cost associated with this has been illustrated by Denmark, the Netherlands and Sweden, who in context of the BEST Project have sought to provide quantified overall estimates of the burden related to meeting the requirements of environmental regulation. For these three Member States the estimated overall figure for annual administrative burdens on businesses relating to environmental regulation ranged from €150 - 1,216 million⁶⁰.

Although environmental legislation imposes only around 4% of the administrative costs to business of all legislation originating at the local, national and international level⁶¹, experience shows that some of those costs are unnecessary – information is not always needed or collected as efficiently as it could be⁶². Furthermore, the body of environmental legislation has increased in volume as more has been added to the existing stock over recent decades, which can cause issues of consistency and complex interactions to the point where the administrative requirements can become overly burdensome. Particular attention must be paid to SMEs as they are most likely to suffer if weighed down with excessive bureaucracy, and are the most likely to flourish from initiatives to simplify the regulatory regimes.

⁶⁰ *Streamlining and simplification of environment related regulatory requirements for companies* - Final report of the BEST Project Expert Group - May 2006;
http://ec.europa.eu/enterprise/environment/index_home/best_project/best_2006_simplification_final_report.pdf

⁶¹ ENV/G1/D (06)/(25695). This estimate is based on findings from the Member States involved in the pilot exercise on the measurement of administrative cost.

⁶² ENV/G1/D (06)/(25695). For example, the Davidson Review carried out for the UK Exchequer found a number of examples of 'gold-plating' of EU legislation within the UK.

SMEs sometimes have difficulties in understanding legal obligations stemming from the environmental regulations and consider the cost of compliance as very high. For SMEs, these act as brakes on their compliance with environmental regulation. The Commission's "Better Regulation" strategy is a horizontal approach, which aims at simplifying and improving the regulatory environment, to increase understanding of requirements and reduce SMEs' costs of achieving current regulatory requirements.

The Commission, working with Member States, will identify parts of EU legislation that cause unnecessary hindrance to understanding or operation of policy, to smooth the path to compliance for SMEs. This work will form an important part of the Commission's legislative work in the coming years. Particular attention will be given to: Industrial emissions' legislation, implementation of waste legislation including operation of the WEEE Directive and ease of participation in the EU Emissions Trading Scheme.

The flagship of Better Regulation is the Impact Assessment process. Impact assessment pays off, since a small investment in analysis often leads to changes in policy and substantial savings. An example of the most direct form of success (improvements in cost-efficiency) is the analysis of REACH, which led to direct costs being cut by 80%⁶³. In the updated internal guidelines for the impact assessments of EU policies and legislation the Commission has strengthened the SME dimension.

Consultation plays a key role in making sure that new policies are well designed and then implemented efficiently. Good policy making depends on detailed and significant input from Member States and other stakeholders, whilst giving them the opportunity to make their views known at an early stage of the preparation of legislation. When this process is successful, the result is often more ambitious policies at a lower net cost. The Commission will involve SMEs stakeholders during the EU decision-making process, in order to allow SMEs to be able to comply with new requirements in the most cost-effective way

The Member States play an important role in reducing the administrative costs for their businesses, since the majority of the direct administrative obligations on business is determined by Member States as part of the implementation process. As part of the practical implementation of the Lisbon Strategy the Member States and Candidate Countries have been developing their national simplification programmes. These are aimed at reducing administrative burdens on industry by simplifying legislation and the framework for its implementation. This BEST project started in 2004. The BEST Expert Group and the Commission gathered information on concrete actions that had been taken to reduce burdens and identified 76 good practices. The initiatives are relevant to all types and scales of industry including SMEs; nearly all of the 76 projects have SME relevance⁶⁴. Member States should examine their implementation to explore opportunities and innovative solutions to further cut administrative costs at national and regional level.

Further opportunities to improve the implementation and increase compliance with environmental legislation lie in working with implementation authorities. The Commission intends to intensify the role of the IMPEL network, in particular through utilizing the network's

⁶³ ENV/G1/D (06)/(25695).

⁶⁴ Streamlining and simplification of environment related regulatory requirements for companies - Final report of the BEST Project Expert Group - May 2006;

http://ec.europa.eu/enterprise/environment/index_home/best_project/best_2006_simplification_final_report.pdf

expert knowledge to the revision of the EU Recommendation on Minimum Criteria for Environmental Inspections taking into account SME specificities.

4.11 OPTION 10 - Tailor-made environmental management schemes for SMEs

Environmental management schemes, such as the EU's voluntary Eco-Management and Audit Scheme (EMAS), help to improve the environmental performance of SMEs and provide several benefits to SMEs.

Benefits to SMEs include a reduction of administrative burden and reporting obligations to registered SMEs and better access to financing as the existence of a certified environmental management scheme in SMEs is often considered by the insurance and financial sector as proof of good risk management by the company as well as a good general management practice. An additional benefit regards cost savings associated with environmental improvements. In the poll about the level of satisfaction with Ökoprofit (an alternative environmental management initiative) 82% of the companies polled responded that the general savings of costs caused by Ökoprofit was considerable. More precisely, 82% of the companies emphasised the benefit of energy saving, and 65% the benefit of saving on resources. This was achieved with a yearly budget of around €200,000.⁶⁵

Concerning the expected effectiveness of such approaches, a study of the level of satisfaction with Ökoprofit found that 69% of the companies polled responded that the reduction of emissions is considerable. 63% believed the reduction of waste water to be considerable, and 92% stated that the reduction of waste was also large. The poll also found that Ökoprofit contributed to fostering compliance with environmental law (80%), i.e. application of new environmental ordinances and the conduction of permitting procedures.⁶⁶

A fundamental characteristic of EMAS compared to other available schemes, is that besides the running of an environmental management system and reporting on their environmental performance through the publication of an independently verified environmental statement, EMAS registered organisations must be fully compliant with existing environmental legislation. This provides an additional benefit since the further diffusion of the scheme among SMEs would allow public authorities to reduce inspections.

However, in order to have more SMEs adopt environmental management schemes it is necessary that these schemes are made more accessible. Therefore EMAS will be revised to make it more understandable, more effective and with less red-tape in order to further reduce the administrative burden of EMAS for SMEs while maintaining the excellence standards of the scheme.

The Commission will promote and support, also financially, the creation of innovative public-private partnerships aiming at the implementation of EMAS in industrial clusters or districts of SMEs, using specific cluster or supply chain approaches. This would offer the possibility of reduced consultancy and audit/verification costs, additional knowledge-sharing and a coherent environmental policy in the cluster. The Hackefors Model in Sweden operates on this principle. 600 companies have adopted the model and obtained ISO 14001 certification (circa 0.12% of total Swedish SMEs). Comparisons between consulting services made by the

⁶⁵ IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

⁶⁶ IEEP, op.cit.

service provider have indicated that the price for group certification is about 65% lower than for individual certification. Many of the cost savings are due to the sharing of expenses between the involved enterprises. In a recent investigation 68 companies were surveyed, with 50 firms (73%) replying. About 55% of the sample admitted that they would have never achieved ISO 14001 without a network approach.⁶⁷

Existing tools for the implementation of EMAS in SMEs, such as EMAS-Easy, will be further developed and applied at a larger scale, with pilot projects in all EU Member States. During the pilot phase in 5 new Member States EMAS-Easy already demonstrated that a full EMAS registration could easily be implemented in micro-companies. EMAS-Easy is an innovative, informal and lean way of implementing a full EMAS in a small company in a way which is complementary to its business cycle. EMAS-Easy is fast to implement (it takes 4 to 9 months to implement EMAS instead of the standard 15 to 18 months); is lean and un-bureaucratic (the environmental management handbook is reduced to 2 pages, the environmental statement to one double-sided page); it cuts down costs of certification (the architecture of the management system is simple and it can be audited within a day, with a potential cost reduction of 60%); it cuts down consulting costs (the need for external assistance is reduced to a third)⁶⁸.

The Commission will increase its promotion efforts to increase the visibility of the scheme and make it an interesting marketing instrument for registered SMEs, since a lack of exposure is a characteristic of SMEs that needs to be dealt with. Two studies in Bavaria by B.A.U.M and LfU found that 83% of companies with an environmental management system claimed to have bettered their image⁶⁹.

Increasing Communication and Awareness Raising

4.12 OPTION 11 - Design, develop and maintain a new website to become a single source of information for SMEs on EU environmental policy

A lack of environmental awareness has been identified as one of the characteristics of SMEs. Increasing awareness and understanding is necessary since many SMEs are poorly aware of their environmental impact, of the technological solutions to their environmental problems, or their regulatory obligations. For example in France 50% of SMEs admit not to be fully aware of the environmental legislation and of the action to be undertaken, and over 70% of them feel that they are not informed about environmental management systems, energy saving certificates and fiscal advantages or available investment funding.⁷⁰

The Commission intends to contribute to improve the awareness and information on EU environmental policy by establishing a multilingual website integrated on *Europa*⁷¹ to become a single source of information for SMEs and their support organisations on EU environmental policy, with clear links to other, already existing Commission websites dedicated to SMEs. It will contain general information on the existing and coming environmental legislation affecting SMEs, but focussing on available management tools, funding opportunities, a

⁶⁷ IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

⁶⁸ IEEP, op.cit.

⁶⁹ IEEP, op.cit.

⁷⁰ ADEME, *L'environnement et la maîtrise de l'énergie dans les PME*, February 2007.

⁷¹ Europa is the gateway to the European Union: <http://www.europa.eu>

selection of best practises according to sectors and geographical criteria, available training, innovative tools developed under LIFE-Environment (LIFE III), links to national initiatives or other specific sources of information, etc.

Some specialised websites already exist within the Commission, like the EMAS website and the DG Enterprise & Industry portal for SMEs. Both sites are only available in English and receive between 35,000 and 8,000 page views⁷². The new SME website on EU environmental policy will initially be available in 7 languages (speaking the language of 85% of EU SMEs) and is therefore expected to reach a larger audience than these two comparable examples. An appropriate information campaign will be run to ensure the awareness of the existence of the website among the target users. A helpdesk will be set up to further facilitate the users.

4.13 OPTION 12 - Develop and publish handbooks for SMEs

A lack of financial resources is another characteristic of SMEs that needs to be considered in the Environmental Compliance Assistance Programme for SMEs. Funding opportunities are of great importance to SMEs and it is therefore important that they are informed of the new funding opportunities that will be created with the launch of several new or significantly revised EU financial instruments for the period 2007-2013. To inform SMEs and their support networks of these opportunities the European Commission considers publishing a handbook (electronic and hard copy) setting out new funding opportunities for projects supporting improved environmental compliance and performance among SMEs.

To compensate the lack of specialised know-how and the lack of human resources, the Commission also considers developing some handbooks containing simple toolkits to guide SMEs step-by-step in addressing some basic environmental impacts. These aim at increasing awareness and understanding since many SMEs are ignorant of their environmental impact. The toolkits in the handbooks will include an improved energy efficiency toolkit, an air emissions toolkit, a soil and water emissions toolkit, a waste toolkit.

Such handbooks meet the SMEs need for targeted, clear information that does not require additional analysis, is easy to understand, and can be used directly. They also meet the requirements that the delivered information should target specifically at the core interest of SMEs, be easily and freely available, and be translated in all languages. These handbooks will be made available on the new website. Hardcopies will be sent to the about 300 local Euro Info Centres, plus the other business support networks, such as the Chambers of Commerce and the SME associations in the Member States.

An initiative in Denmark (Energiguiden) is an interesting example of a similar action. This one-stop net shop provides SME with web-based tools for energy saving activities. Energy consultants also use the site and have indicated that they are satisfied with the tools offered, since 80% use the tools and 83% find that the tools make their work easier. A survey of machine tooling companies and wood manufacturers showed that 40% of the target group have heard of the website, and 14% of them have visited energiguiden.dk. The development of the website cost were 1,000,000 Dkk (approx. €130,000).⁷³

⁷² Based on web statistics for August and September 2006.

⁷³ IIEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

NetRegs, a free to use website which aims to help SMEs in the UK, offers sector-specific guidelines for over 100 sectors and Management Guidelines covering different aspects of business operations from raw material inputs through to wastes (e.g. on energy efficiency) online. A recent survey carried out by NetRegs showed that "repeat use of website is high with 57% of UK SME respondents having used the NetRegs website more than once and more than half of those have used it more than ten times". In the 2005 survey respondents were asked what changes their organisation has carried out as a result of visiting NetRegs website (note that totals can be greater than 100% as respondents could choose more than one option): 6 out of 10 (61%) had either ensured they were already compliant or made changes and 1 in 6 (17%) had identified areas where change was needed but not yet implemented it. The initial cost of the main project was £3.5 million (circa €5 million) over 3 years. However about £1 million (€1.45 million) of this was for marketing and communications.⁷⁴

4.14 OPTION 13 - Including the Euro Info Centres Network in the effort of the Commission in implementing the Programme

Proactive SMEs should find close to them the expertise that can answer their questions and inform them on their duties, as well as on the opportunities related to environmental policy. This task cannot be performed effectively by the same public authorities which are also the enforcement bodies. Therefore the Euro Info Centres (EIC) Network will join the effort of the Commission in implementing the Programme, as the network established by the Commission to provide information and support on EU policies and opportunities for SMEs. It will have a catalytic role in building partnerships with public or private organisations, SME associations, and district/sectoral/cluster organisations to improve environmental performance of SMEs. These partnerships will help SMEs get access to more resources.

The Euro Info Centres (EIC) Network will also work proactively with SMEs to explain existing or new environmental legislation affecting them, using the most effective means, including on-site visits, websites, newsletters, seminars.

Concerning the costs and the expected impact of such type of actions, a good example is IHOBE, a publicly owned company in Spain, has worked proactively with SMEs in the Basque region. With a budget of about €600,000 it managed to get around 21% of target companies to take advantage of the IHOBE-line (a free information service) and the environmental assessment service (including an on-site visit). Since the establishment of the IHOBE line, there have been around 3,500 queries per year. 53% of the Basque industrial companies know about the existence of the IHOBE line. The IHOBE assessment service is also well used, with more than 150 carried out annually.⁷⁵

The Commission will explore with the Member States, the Euro Info Centres and the other relevant business supports organisations, the most effective means to ensure that in every European region, close to SMEs, a trained environmental cell is available and able to provide accessible and valuable advice and assistance to SMEs. The network will also contribute to raising awareness on environmental impacts and the benefits of an environmental management and energy efficiency.

⁷⁴ IEEP, op.cit.

⁷⁵ IEEP, op.cit.

The ability to tailor advice to an individual SME is a key strength of direct support, since SMEs have a need for targeted information. With advances in IT capabilities, it is now also becoming possible to tailor information provided by one-way information tools. In the UK, the NetRegs website is currently developing a new way of personalising the regulatory compliance information it contains, so that information is customised to an individual's specific requirements. Interest in this future service can be gauged by the response to a new simple registration service, where NetRegs proactively sends out information about changes to the website. There were over 2,000 registrations in the first two months of launching the service, and with only low levels of marketing⁷⁶.

4.15 OPTION 14 - Organise capacity building seminars in the Member States

A network of skilled environmental experts should provide SMEs with the adequate advice and assistance. All relevant people should therefore first receive all the necessary information and techniques about environmental legal compliance of SMEs and assisting SMEs to improve their environmental performance. The Commission will organise capacity building seminars in the Member States to support the building of a network of environmental experts in business support organisations (Business associations/Chambers of Commerce/Euro Info Centres/Sectoral or district organisations) at regional/local level to assist SMEs. The overall aim of the trainings is to offer participants the comprehensive information on how to provide reliable and cost-effective assistance to SMEs in the implementation of the Environmental Compliance Assistance Programme for SMEs.

A first series of capacity building seminars will already start in 2007 in each Member States and will be organized in cooperation with national, regional, and/or local authorities and/or national business support organisations. Similar activities will be foreseen for the Candidate Countries. The seminars will contain at least a one-full-day workshop aimed at 80-100 participants. The maximum budget allocation for the first series of pilot projects in 2007 is fixed at €104,000.

Concerning the impact of such an activity on SMEs' environmental performance, a similar action is carried out in Belgium, where the Union of Walloon Enterprises (UWE) organizes around 20 seminars per year in the Walloon region (Belgium) aimed at informing about environmental legislation, which were attended by 1229 people in 2005⁷⁷. The Environmental Compliance Assistance Programme for SMEs aims at achieving similar training activities at regional level in most of the Member States by 2010.

Improving financial support for sustainable production in SMEs

4.16 OPTION 15 - Focussed financial assistance and a multiannual financial programme for sustainable production in SMEs

Focussed financial assistance and a multiannual financial programme for sustainable production in SMEs address the SMEs' problem of lacking resources. The lack of resources can lead to the SME being risk-averse and less willing to invest in new environmental technologies, partly also as the pay-back of these investments is often apparent only after a number of years. The impact of specific financial support is illustrated by evidence from Austria that suggests that up to 55% of the Austrian SMEs that have a certified environmental

⁷⁶ IEEP, op.cit.

⁷⁷ IEEP, op.cit.

management system would not have obtained it without financial support from the public sector⁷⁸.

Often some source of public funding is needed, especially to fund the start-up of initiatives, or initiatives where there are no clear competitiveness benefits for SMEs taking part. Although several programmes that provide financial assistance and funding opportunities are available for projects supporting improved environmental compliance and performance among SMEs, these need to be more focussed on SMEs and their usage should be promoted.

A LIFE+ multiannual programme of €5 million for the period 2007-2013 will be designed to support with co-financing environmental compliance assistance measures at EU level for SMEs. These will cover the development of specific tools and procedures, training initiatives, innovative public-private partnerships, communication and awareness raising campaigns on EU environmental policies, in support of the implementation of the Environmental Compliance Assistance Programme for SMEs.

The new Competitiveness and Innovation framework Programme 2007-2013 (CIP)⁷⁹ is a coherent and integrated response to the objectives of the renewed Lisbon strategy, which means it is designed to enhance the competitiveness and innovation capacity in the Community. Compliance with environmental legislation, and more generally the environmental performance of SMEs, could be facilitated by the use of innovative technologies and practices. Running from 2007 to 2013, the CIP has a budget of approximately €3.6 billion. Since the CIP has a strong emphasis on SMEs, which should be the main beneficiaries of the programme, directly or indirectly, it is expected that 70-80% of the whole funding package will be used for the support of SMEs. The CIP includes a sub-programme on Entrepreneurship and Innovation, which should facilitate the access to finance for the start-up and growth of SMEs, and includes €430 million for investments in eco-innovation activities. The sub-programme on Intelligent Energy Europe (IEE) will include also €727 million for energy efficiency and renewable energy projects.

4.17 OPTION 16 – Provide funds through new instruments of the cohesion policy 2007-2013

The new instruments of the cohesion policy 2007-2013 will provide funds for Member States for investments in environmental protection, especially for SMEs, implementing the principle of the integration of environmental protection requirements into the definition and implementation of Community policies and activities⁸⁰. From 2007-2013 €308 billion (in 2004 prices) will be available through cohesion instruments.

In the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion fund⁸¹ it is stated in article 9(3) that the assistance co-financed by the Funds shall target the EU priorities of promoting competitiveness and creating jobs. To this end the Commission and the Member States shall ensure 60% of the expenditures for the

⁷⁸ Observatory of European SMEs 2002, No.4 European SMEs and Social & Environmental Responsibility

⁷⁹ To be adopted soon. More information: http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

⁸⁰ Article 6, Treaty establishing the European Community.

⁸¹ Council Regulation (EC) No 1083/2006 of 11 July 2006, and Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006.

Convergence objective (overall resources for the Convergence objective shall amount to €251 billion) and 75% of expenditures for the Regional competitiveness and employment objectives (overall resources for the Convergence objective shall amount to €49 billion) for all EU-25 Member States is set for the "Lisbon" priorities. One of the "Lisbon" priority categories of expenditure of the new European Regional Development Fund and the Cohesion Fund (74 priority categories were listed) refers to "assistance to SMEs for the promotion of environmentally-friendly products and production processes (introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production)".

In particular article 4 of the European Regional Development Fund (ERDF) Regulation⁸² lists 11 priorities for ERDF assistance under the Convergence objective, where one of the priorities is described as "environment, including investments connected with (...) aid to SMEs to promote sustainable production patterns through the introduction of cost-effective environmental management systems and the adoption and use of pollution-prevention technologies." Article 5 of the same Regulation adds that "Under the Regional competitiveness and employment objective, the ERDF shall focus its assistance in the context of sustainable development strategies, while promoting employment, primarily on the following (...) priorities: (...) facilitating SMEs' access to business support services and supporting the integration of cleaner and innovative technologies in SMEs."

The Regulation on the new European Social Fund (ESF)⁸³ distinguishes 7 priorities for support actions in the Member States. Article 3 proposes that "Within the framework of the Convergence and Regional competitiveness and employment objectives, the ESF shall support actions in Member States under the priorities (...): (...) lifelong learning and increased investment in human resources by enterprises, especially SMEs, and workers, through the development and implementation of systems and strategies (...) which ensure (...) the dissemination of (...) eco-friendly technologies and management skills, and the promotion of entrepreneurship and innovation".

The opportunities in the Structural Funds currently available are unfortunately not fully exploited⁸⁴ and Member States in their national plan should provide more funding for this type of investments.

5. ANALYSIS OF IMPACTS OF PROGRAMME TAKEN AS A WHOLE

It has to be noted that SMEs differ significantly from large companies in terms of culture, values and characteristics of business. Moreover they are characterized by heterogeneity. Therefore the careful choice of tools and measures should be made so as to influence SMEs behaviour. According to the literature the most suitable with this regard would be the application of the multiple approach enabling SMEs to modify their behaviour through increased understanding, motivation and trust. These can be achieved only through variety of tools ranging from education to enforcement⁸⁵.

⁸² Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006.

⁸³ Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006.

⁸⁴ Cf. the 16th Annual Report on the implementation of the Structural Funds (2004) {SEC(2005) 1348}.

⁸⁵ Fairman, R., and Yapp, Ch. (2005) "Making an impact on SME compliance behaviour: An evaluation of the effect of interventions upon compliance with health and safety legislation in small and medium

The relevance of SMEs in different Member States⁸⁶ varies and their behaviour is strongly linked with the business and the administrative culture they are operating in. This diversity and variations in the level of support currently available need to be considered when determining the type of assistance appropriate to individual countries, regions and sectors. Some countries may need support to start up a wide variety of initiatives, while Member States with already well established initiatives may benefit more from best practice sharing, or better coordination of services on the ground.

This seems to be the most appropriate to achieve the objectives of the Programme. It will complement existing regulations, existing SME-initiatives, and general policy initiatives, and need not set an additional legislative burden; therefore it is in conformity with Better Regulation principles. Furthermore, the opportunity for an exchange of best practises and "know-how" on environmental compliance assistance among different European regions or Member States constitutes a clear added value for such a Programme.

The expected synergies between the Options will contribute to the reduction of environmental pollution at regional, national and EU level and increase the implementation of EU environmental policy in a cost-effective way. It is a cost-effective approach, since it aims at using at best existing policy tools and instruments, improving when necessary, intends to promote existing and new funding opportunities for SMEs, and seeks the collaboration of the business support networks and organisations which already address these problems. Not all of the Options above are suitable to take forward. Taking no action (Option 1) will do nothing to tackle the problems identified, whilst promoting actions by Member States through setting targets for compliance (Option 3) or mandating increased inspection of SMEs (Option 2) will not meet the objectives as appropriately as the other options considered here. The Options to be taken forward are summarised in the Final Conclusions section below.

Information provision through 1) web based tools (single website of access for SMEs on EU environmental policy) and 2) through a stronger partnerships with the Euro Info Centres Network and other business support networks with direct contacts with SMEs will increase effectiveness. The two approaches are complementary as shown by research conducted by the Economist Intelligence Unit through an online survey in March-April 2004. This poll of 147 senior executives of small and mid-sized firms distributed throughout the accession and candidate countries of Central Europe revealed that the vast majority of the managers of SMEs in the survey source their key information about accession and compliance issues online, many of them from EU websites. Others turn to the EU delegations in their home countries. Very few, however, cite local sources such as industry associations or chambers of commerce⁸⁷, although from other research these networks result a key player in SME assistance.

Increasing exchange of information by peer-groups should change behaviour in SMEs. Indeed, the application of collaborative learning approach, exchange of ideas among firms is a more effective knowledge development mechanism than either one-to-one consultancy or

sized enterprises", Kings Centre for Risk Management, Kings College London for the Health and Safety Executive

⁸⁶ 74% of all EU SMEs are located in 6 Member States: Italy, Germany, Spain, France, UK & Portugal.

⁸⁷ The challenges of enlargement - SME growth strategies in Central Europe, a report from the Economist Intelligence Unit, 2004 http://graphics.eiu.com/files/ad_pdfs/oracle_sme.pdf

delivering a generic training programme to a number of small firms⁸⁸. Lessons from peers seem to be the most efficient way for SMEs to learn about successful initiatives and actions.

As a whole, the proposed Environmental Compliance Assistance Programme for SMEs will increase awareness and understanding by SME managers of EU environmental policies, their related obligations and economic opportunities. The impacts of the Programme as a whole are difficult to estimate, not least because of the paucity of data on the environmental impacts of SMEs, the effectiveness of some policy measures on SMEs and the effectiveness of the policy measures suggested in the Programme when used as a package.

The lack of this information is one of the reasons why an integral part of the Programme is the exchange of information on effectiveness between Member States, and suggestions for the ongoing gathering of data on the impact of measures as part of the monitoring. This information will be essential to conduct evaluations of the Programme as described in the section below.

Nevertheless, at this stage, the Commission estimates that the Programme will have positive environmental, economic and social impacts.

5.1 Environmental Impacts

The implementation of Environmental Compliance Assistance Programme for SMEs will improve in the medium term the environmental performance of SMEs. The improved awareness and understanding, along with economic motivations to cost reductions due to better eco-efficiency, are expected to be a driving force for SMEs to apply the instruments and solutions stemming from the European environmental policy.

There are a number of environmental benefits to be identified:

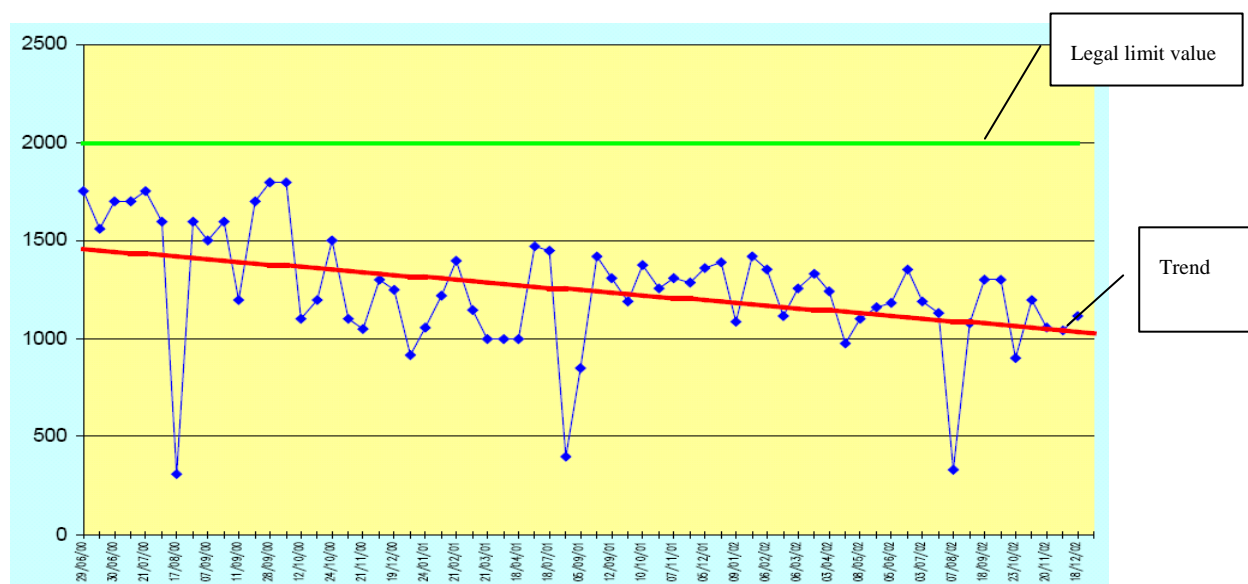
- Reduced level of pollution
- Minimisation of waste generation and increased recycling of by-products and waste
- Reduced use of energy and resources through optimisation of production processes
- Integration of Life Cycle approaches in the business operations

For example the Italian compliance assistance project called "Giada" shows the significance of the environmental impacts of an initiative aimed at improving the environmental performance of SMEs. The project offers SMEs that are willing to develop environmental management systems the outcomes of an initial environmental review of the whole territory where the district is set. A monitoring campaign by the Regional Environmental Agency (ARPAV) in 2004 revealed that the concentration of solvents in the air in the Chiampo Valley area has improved since the start of the Giada project. The quantity of solvents used has been reduced by 45% since 1996, and the factor of emissions (the quantity of solvent consumed per unit production,) was reduced by a third. In addition, the quality of the treated waste water has improved. An analysis of the discharge from sewage connector into the Acquetta River shows

⁸⁸ "Learning Networks for SMEs" University of Plymouth Business School FINAL REPORT http://www.dfes.gov.uk/dfee/heqe/hll_plymouth.htm

a reduction of the concentration of chlorides by a third over a period of 2.5 years (Figure 7). The initial cost of the project was estimated to be €1,505,000.⁸⁹

Figure 7: Analysis of discharge from sewage connector (collecting factories' and treatment plants' waste water) into the Acquetta river– Chlorides mg/l (2000-2002)⁹⁰



5.2 Economic Impacts

As a result of the actions foreseen in the Programme SMEs are expected to enjoy economic benefits from both the compliance with environmental legislation and a better management of environmental risks and impacts.

The most evident are following:

- Reductions of costs by applying environmental management schemes (the reduced use of energy and materials) and identifying of processes that need to be improved
- Stimulation of innovative-thinking of the company leading to creation of new market opportunities
- The elimination of the risk of persecution (fines) by public authorities due to the full compliance with environmental regulations
- The improved image of the company resulting in better relations with clients (eco-labelling)
- Conformity with environmental standards and certifications often required in the supply chain by big companies

⁸⁹ IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

⁹⁰ Source: Il Collettore delle valli del chiampo e agno – monitoraggio delle acque scaricate. Acts of the Conference 'IV Convegno L'Industria Conciaria e la Tutela dell' Ambiente Arzignano, ARPAV (2003)

- Improved access to capital originating from environmentally-concerned investors (banks; insurance companies). The growing number of environmentally-aware investors is indeed increasing the interest and the attention of the financial sector to the environmental performance of companies at all levels, easing the access to additional capital by the companies which can prove a full environmental management.
- Better financial appraisal by financial bodies by proving a proper management system for environmental risks and impacts
- New business opportunities arising from Green Public Procurement and other specialized markets
- The application of eco-design strategies will contribute to production of goods that would be characterized by durability, functionality and facility for recycling
- Higher level of competitiveness and market access opportunities resulting from the exchange of good practices, higher clarity of environmental requirements as well as the introduction of cost-effective environmental management systems
- Better functioning of the internal market, by creating a level playing field, with coherent and harmonised implementation of environmental standards throughout the EU

The improvement of the environmental performance can be very rewarding for SMEs from the economic point of view is well illustrated by a Dutch initiative to stimulate environmental innovation: Stimular. (€1 spent on Stimular can save €13.50 in costs for the SMEs, e.g. energy savings, waste and emissions reductions, etc.)⁹¹.

The two earlier mentioned studies in Bavaria found that 61% of companies with an environmental management system found continuous cost savings by performing their management systems and 50% saved resources⁹².

5.2.1 *Impacts on Administrative Cost*

All of the measures suggested by the programme provide support to SMEs who can decide for themselves if they want to participate. They result in no legally required administrative cost burdens.

The Programme, through various Options, specifically aims at the reduction of administrative costs to facilitate improved compliance. The assessment of the size of these reductions will form part of the assessment of individual proposals for legislative change at a later stage.

5.3 **Social Impacts**

As far as the social impacts are concerned it has to be noted that Environmental Compliance Assistance Programme for SMEs can stimulate the organizational change within the small companies. Better access to environmental information and perception of environmental risks and impacts will contribute to the better organization of the firm.

⁹¹ EIM, 1996. Stimular naar het jaar 2000, een evaluatie van 5 jaar Stimular.

⁹² IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

Participation of the employees is a key element of the EU Eco-management and Audit scheme (EMAS) and is proved to have strong positive effects on the motivation and engagement of the staff for the attainment of common goals.

The higher level of environmental awareness and understanding of managers and employees will increase the mutual trust and understanding between SMEs and the regulators (public administration). Consecutively, a constructive dialogue can be established also at local level on the simplification of excessive administrative environmental burden affecting SMEs.

Finally, a significant improvement of relations with customers and providers is expected. Initiatives on environmental responsibility can be part of a strong Corporate Social and environmental Responsibility policy that would benefit the image and the relation of the SME with customer and surrounding community.

A report by CRG Research Ltd of Cardiff produced an evaluation report on the first phase (2001-2004) of the Business Environment Coordinators initiative in Wales⁹³. The report stated that “benefits have come to participating SMEs in areas which range from lower costs and easier regulatory compliance, through to access to new products, markets or services, and improved staff morale and customer feedback”.

According to a recent study on the Hackefors model⁹⁴, a network approach to EMS implementation in Sweden, the initiative has resulted in energy cost savings, improved relationships with customers, increased interest in training, and certification cost savings as a result of group certifications. In the same study, surveys revealed that over one third of the involved companies had undertaken further collaboration with other network members in many areas such as training and recycling.

6. MONITORING & EVALUATION

One of the objectives of the Programme is also to increase the knowledge and the availability of data concerning SMEs and the environment. This will arise from the preparation of ad-hoc surveys, analysis of data collected at national level, more frequent contact between environmental public authorities and SMEs or SMEs support networks.

In particular:

- Possibilities will be explored with Member States to include the size of the company whenever possible in the regular statistical data collection on environmental matters, in order to increase the information included in those data without posing an excessive burden on companies and public authorities.
- In view of the review of 2010 Member States will be required to present a statistical overview, based on real data and surveys, on the impact of different type of SMEs (size, sector, geographical region) on the environment and on the compliance rate of SMEs with environmental legislation.

⁹³ CRG Research Ltd (Oct 2003) *Evaluation of Environmental Innovation and Competitiveness Project*, Cardiff.

⁹⁴ Hallinan & Jenks, 2003

A yearly meeting of national contact points nominated by Member States will take place to monitor the implementation of the programme, exchange knowledge and experience, and guide the approach of the Commission for future initiatives in this field. This will be done through the presentation of brief national reports on the state of play in each Member State and the activities undertaken at national or regional level in the field of environmental compliance assistance for SMEs. To enable this exchange, all Member States are requested to keep track of the policies they have in this area and keep information as the measures progress on the effectiveness of their policies. Through these meetings it will also be possible to identify the tools which are the most suitable for particular sectors of SMEs' activity. As a result, sector specific initiatives might be proposed.

A first, detailed review of the Programme is foreseen in 2010 in parallel with the Lisbon Strategy. The review will be done in the close cooperation of Member States and will include information on the measures undertaken, levels of environmental improvements achieved by Member States, data on environmental compliance and recommendations for future actions. The aim is to have in all Member States by 2010 national compliance assistance programmes implemented at national and/or regional level, with a good range of actions, such as handbooks, web-based tools, financial or tax incentives, training courses, etc., already in place.

To prepare for the review of the Programme in 2010 the European Commission will launch a comprehensive study on SMEs and the environment, including an EU-wide survey to assess the effectiveness of the measures as proposed in the Programme. The extent to which the actions proposed have met the specific needs of the SMEs and the gaps identified in the preparation of the Programme will be included in the survey. Together with the contractor the Commission will assess:

- The number of initiatives introduced by Member States at national and regional level to implement the Programme
- The improvement of the availability of training and targeted information for SMEs on environmental matters at national, regional and local level
- The improvement of the data collection on the environmental impacts of SMEs (by geographical area, sector of activity, size and type of company) and the level of environmental compliance
- The impact of the individual initiatives on the SME community, monitored on the basis of the participation to the initiatives and to the satisfaction based on ad hoc polls
- The number of initiatives conducted by the Euro Info Centres to implement the priorities of the programme
- The success of the capacity building seminars of the Commission in the Member States, assessing the number of participants in relation to the budget allocated and the objectives fixed with the contractor
- The success of the SME & Environment website on Europa, based on the number of visits and the number of visitors registered to the voluntary mailing list
- The number and the type of queries introduced to the helpdesk.

For the new EU SME-website, online toolkits and handbooks, the statistics (such as hits and most downloaded tools and documents) will be of great importance to see how much of the target audience has been reached. However, only through additional (online) surveys amongst specific sectors of interest and users would it be possible to get some indication of the effectiveness of this action. The same goes for hardcopy handbooks. In the assessment of a similar national case such as NetRegs (UK) a recent survey showed that repeat use of website is high with 57% of UK SME respondents having used the NetRegs website more than once and more than half of those have used it more than ten times, showing that for the majority of the users it was so useful that they came back often. Also, when asked what action respondents had taken, 61% had either ensured they were already compliant or made changes as a result of using the site⁹⁵. This illustrates that this particular initiative meets the needs of SMEs and the Commission strives to obtain similar effectiveness on the online services proposed in the Environmental Compliance Assistance Programme for SMEs.

The specific case of IHOBE's Ekoscan (Spain) shows how more proactive actions, as are foreseen for example for the Euro Info Centres (EIC) Network, can have a significant effect: 35% of the SMEs that participated in the Ekoscan project have now a certified environmental management system in place⁹⁶. This will also be a type of evaluation that will be carried out in the monitoring of the Programme.

Member States' activities will be assessed also by making an inventory of how many good practices were adopted and transferred between Member States. For example, in the specific case of IHOBE (Spain) it is already known that the IHOBE services are in part modelled on the 'Envirowise' initiative (UK).

In addition to polls about the level of satisfaction, as was done for Ökoprofit (Austria), other useful indicators are available to assess the impact and effectiveness of tailor-made environmental management schemes for SMEs. A specific example is the Bavarian Environmental Agreement, which entails the agreement of environmental objectives between industry (SMEs) and public authorities. By the end of 2005, about 5,000 companies had agreed to the Bavarian Environmental Agreement. More than 200 projects and obligations were agreed between the state and industry for the second edition of the agreement (2000-2005). The rate of fulfilment was 98%. For the new agreement, 136 projects and obligations have been agreed. Two studies by B.A.U.M and LfU in Bavaria found that 88% of companies with an environmental management system (most of which are involved in the Bavarian Agreement) could better their environmental performance.⁹⁷

7. FINAL CONCLUSIONS

Despite the little evidence of SMEs' impact on environment, there is a general consensus in the research literature that SMEs are particularly problematic group of enterprises in terms of compliance with environmental legislation. The analysis of data revealed that regardless of the geographic location, SMEs are driven by a need to comply with laws, but at the same it proves that they have difficulty in understanding and following legal requirements. In many cases they are unaware of existing regulations.

⁹⁵ www.netregs.gov.uk

⁹⁶ IEEP, Environmental Compliance Assistance for SMEs: analysis of specific initiatives at national and local level and identification of best practises, June 2006.

⁹⁷ IEEP, op.cit.

The research carried for the purpose of this impact assessment allows concluding that SMEs tend to be sensitive to information and know-how transfer which is targeted and meets their needs and that compliance assistance initiatives might be very effective to this purpose.

There is a range of evidence indicating that SMEs are not proactive in terms of initiating the action aimed at improving its environmental performance. They rather tend to respond to external intervention. Also they are particularly keen on learning by observing the peers. Taking into account the relatively small number of employees in each SMEs it is of crucial importance to make sure that they integrate environmental concerns in their business operations and get involved in the collective action.

The Environmental Compliance Assistance Programme for SMEs is designed to come across these needs and to deliver support tools addressed to SMEs, with a proactive cooperation with the various existing business support networks. The proposed actions will undoubtedly have a positive impact on the current situation of the environment in the EU as well as in the efficiency of the existing environmental policies and will constitute an additional step towards the goal of sustainable development.

The following provides an overview of the options and actions identified, assessed and retained during the process explained in this Impact Assessment and included in the Environmental Compliance Assistance Programme for SMEs.

- ***Better Regulation in design and implementation of policies***, to facilitate and minimise the administrative burden of compliance for SMEs and free their resources for improving compliance. This includes the revision of the EU Recommendation on Minimum Criteria for Environmental Inspections taking into account SME specificities, the promotion of one-stop-shops for environmental permitting and reporting, risk-based inspections in enforcement of the existing legislation, and strengthening of the SME dimension in Impact Assessments and increased involvement of SME stakeholders in development of new legislation.
- ***Tailor-made and more accessible environmental management schemes for SMEs***, to integrate in a coherent and cost-effective way environmental concerns into the core business activity of SMEs. This includes the stimulation of SME participation in EMAS by the wider application of EMAS-Easy and the EMAS cluster approach during the transition period before the revised EMAS enters into force. The revised EMAS will further reduce red-tape and costs for SMEs by allowing cluster registration and applying the principle of proportionality in verification.
- ***Focused financial assistance and a multi-annual financial programme***, to promote and support initiatives aiming at environmental compliance and sustainable production in SMEs. A multiannual programme of € million for 2008-13 funded by LIFE+ is proposed to support the core activities of the Programme. Complementary funding will be available through the Competitiveness and Innovation Programme and the Structural Funds/JEREMIE microfinance instrument.
- ***Building local environmental expertise for SMEs***, to overcome the lack of know-how at company level. Capacity building seminars in all MS will build a network of environmental advisors for SMEs in Business support networks. An e-learning

programme for SME advisors will extend the outreach beyond seminar participants. EU funding will be available for local advisors to make them accessible for SMEs.

- ***Improved communication and more targeted information***, to address the identified information gaps and raise awareness on environmental issues. An interactive multilingual website and a helpdesk will assist business support network on environmental matters. Guidance documents and software tools will be developed to facilitate implementation of waste, air, water and soil legislation by SMEs, and to provide easy-to-use support to increase their energy efficiency. Promotion of good practises in SME compliance assistance at national, regional and local level will offer concrete and verified examples to public authorities and business support networks.