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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Small, clean and competitive

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

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1. INTRODUCTION

The ambitious targets set by the European Council¹ in terms of greenhouse gas reduction, renewable energy and energy efficiency to be achieved by 2020 require the emergence of a new business paradigm which is able to make environmental concerns an integral part of the production processes and products.

Small and medium-sized enterprises - SMEs² - make up a large part of Europe's economy, representing some 99% of all enterprises and 57% of economic value added³. As such, they also have a primary role to play in shifting the European economy to more sustainable production and consumption patterns.

Representing such a large percentage of economic activities SMEs have a significant impact on the environment. The problem is not so much individual firms, although in some cases there can be serious individual impacts on local environments and communities, but their combined total impact across sectors.

There are clear signals that wide industrial sectors are moving towards cleaner production processes, in order to respond, amongst other things, to climate change imperatives - we need to ensure that the SMEs are not left behind in this regard. SMEs face different and sometimes greater challenges than larger companies, and have to deal with specific problems when tackling environmental impacts and complying with environmental legislation.

2. SMEs AND ENVIRONMENTAL POLICY

SMEs are often not fully aware of the environmental impacts of their activities. Most of them (between 75% and 90% according to some surveys⁴) think that their activities do not have an impact on the environment. Accordingly, most of them have not introduced any practical measures to reduce their environmental impacts, and only 6% have an Environmental Management System (EMS) in place. Evidence shows that even though environmental management systems and tools may be rarer among SMEs than among larger firms (partly due to costs of external verification) when they are introduced they typically make a significant difference.⁵ Sometimes SMEs are part of the supply chain of larger companies. In these cases, the responsibility of the latter in helping SMEs to comply with environmental legislation is crucial.

Although their combined environmental impacts are substantial SMEs are often not bound to more comprehensive and effective environmental schemes or legislation (such as the IPPC Directive⁶ or the Emission Trading Scheme⁷). This is due to the fact that they often fall below

¹ See Presidency Conclusions of the Brussels European Council 8/9 March 2007.

² SMEs are enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million. Recommendation on the SME definition (2003/361/EC) of 6.5.2003.

³ The Commission Communication 'Modern SME Policy for Growth and Employment' (COM (2005)551).

⁴ See e.g. SME-nvironment 2005 in <http://www.netregs.gov.uk>

⁵ See *A Comparative Analysis of the Environmental Management, Performance and Innovation of SMEs and Larger Firms based on the OECD database*, Julien Labonne, 07/2006

⁶ Council Directive 96/61/EC of 24.09.1996

⁷ Directive 2003/87/EC of the EP and Council of 13.10.2003

the thresholds that trigger the application of instruments that concentrate on major individual sources of pollution. Where environmental legislation is applicable to SMEs, they tend to presume that they are complying and as a result full compliance is often the result of external action after an inspection rather than an on-going process of checking that legal requirements are being met.⁸ At the same time, SMEs often do not have the necessary legal and environmental expertise to cope with environmental legislation.

This situation is undesirable for three main reasons.

- (1) Considering the recent policy developments in the field of environmental and energy policies, SMEs can miss the chance to reap the economic benefits of the opportunities presented by better environmental management (e.g. energy and resource efficiency or improved process and product management) and eco-innovation.
- (2) If SMEs are unaware of the environmental impacts of their own activities, and of the environmental legislation that applies to them, their activities could present an important threat to the environment and risk undermining Community environmental protection measures.
- (3) The environmental impacts of SMEs – associated with a low awareness and low legal compliance – could have the effect of increasing health and safety risks to workers (exposure to chemicals, air pollution, etc.).

3. THE CHALLENGE OF MORE ECO-EFFICIENT SMEs

Research results and stakeholder consultations both show a strong consensus on the main barriers facing SMEs as regards compliance with environmental legislation and making environmental improvements in general. These barriers are:

- lack of awareness and knowledge of environmental problems, impacts and risks;
- lack of awareness of potential benefits of environmental management and life-cycle thinking;
- insufficient access to and local availability of adequate environmental information, tools and training;
- limited financial and human resources/expertise for dealing with compliance;
- relatively short-term planning at company level;

There are two further elements related to environmental policy which act as an obstacle for the integration of environmental concerns into SMEs' core activities:

- environmental behaviour is usually governed by regulation or public pressure;
- limited market incentives/recognition for environmentally friendly behaviour.

⁸ R. Fairman & C. Yapp, *Making an impact on SME compliance behaviour: An evaluation of the effect of interventions upon compliance with health and safety legislation in SMEs*, Kings College London for the Health and Safety Executive 2005, Research Report 366.

The success of European SME policy depends predominantly on actions in the Member States, since they retain the main competence for enterprise policy and environment policy at company level. The role of the European Commission, in line with its Modern SME policy, is to help SMEs adopt sustainable production and business models. Ensuring that the objectives of Community environmental legislation are not undermined by low levels of compliance is an important part of this process. The Commission does this by building on successful national or regional experiences, and facilitating and supporting the development of compliance assistance initiative throughout the Union.

Hence with this Programme the European Commission intends to pursue the following objectives:

- increase compliance with environmental legislation by SMEs thereby:
 - reducing the environmental impacts and improve the environmental performance of SMEs, and
 - ensuring an harmonised implementation of environmental legislation and a level playing field for SMEs in the Internal Market.
- increase the eco-efficiency (energy, resources) of SMEs by using proper environmental management systems and other tools;
- increase the cost-effectiveness of environmental policy, reducing administrative costs for SMEs and thus freeing resources to increase compliance;
- increase the eco-innovation of SMEs and their competitiveness.

4. THE POLICY CONTEXT

This programme was foreseen by the Sixth Community Environment Action Programme that proposed the establishment of a "compliance assistance programme, with specific help for small and medium enterprises"⁹. Such a compliance programme was considered as one of the strategic approaches to achieve the objectives of the Action Programme and implement the principle that environmental action should be related to the nature and magnitude of environmental problem rather than the size of the enterprise.

This Communication also contributes towards the Lisbon objectives. The renewed Lisbon Strategy states: "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 rise to this challenge and take the lead in shifting towards more sustainable patterns of production and consumption"¹⁰. It also reflects the Commission's commitment to Better Regulation, whose objectives are to simplify and improve the regulatory environment, increase understanding of requirements and reduce unnecessary administrative burdens. It is also consistent with the Commission Modern SME Policy objectives.

⁹ Art.3.5 of the Decision No 1600/2002/EC of the EP and Council of 22.07.2002

¹⁰ COM (2005) 24

5. THE ACTION PLAN

Enforcement activities are necessary but not sufficient to ensure environmental compliance, also because they rarely induce a more permanent behavioural change in the inspected SMEs. Evidence from literature and case studies shows that to achieve results a mix of the following should be employed: well designed rules; accessible environmental tools; education and awareness raising; on-the-spot inspections combined with identification of existing problems; targeted information; and exchange of good practices.

A series of actions are therefore proposed around the following themes, starting from more structural initiatives and moving to ad-hoc actions¹¹:

- (1) ***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;
- (2) ***More accessible tailor-made environmental management schemes***, to integrate environmental concerns into the core business activities of SMEs in a coherent and cost-effective way;
- (3) ***Focused financial assistance and a multi-annual financial programme***, to promote and support initiatives by public authorities or business support networks aiming at sustainable production in SMEs;
- (4) ***Building local environmental expertise for SMEs***, to overcome the lack of know-how at company level;
- (5) ***Improved communication and more targeted information***, to address specific information gaps.

5.1. Better Regulation in design and implementation of policies, to facilitate and minimise the administrative burden of compliance

Changes to the design and operation of legislation can, in some cases, help SMEs meet their obligations more easily, by making requirements clearer and using simpler ways to achieve the same environmental objectives. Member States and the EU should design legislation in such a way that the administrative burden of compliance is minimised and SMEs can free their resources for improving compliance and environmental performance. The Better Regulation initiative undertaken by the Commission in collaboration with Member States will be of particular help to SMEs with compliance¹².

- **Cutting administrative costs at EU, national and regional level.** The Commission is examining all its legislation to identify where it can cut unnecessary costs in terms of

¹¹ In support of these actions the Commission presents in the Annex to this Communication a selection of good practices in compliance assistance from 15 EU Member States or OECD countries. The case studies include the assessment of both effectiveness and transferability elsewhere of the initiatives, providing a wide range of concrete examples for public authorities and business support organisations.

¹² See http://ec.europa.eu/governance/better_regulation

requiring information from SMEs. Member States should do their part in this exercise. Costs can often be cut at national level by not duplicating information requests, using IT solutions and sampling techniques, streamlining permit procedures or simplifying the way information has to be presented. The use of one-stop-shops for permitting and other regulatory procedures should also be explored.

- **Identification and dissemination of good/best practices in the EU.** A BEST Expert Group report describes some 76 examples of concrete actions taken across 24 countries¹³. The existing network and report provide an established mechanism to support actions to implement environmental legislation in the most cost-effective way.
- **Working with implementation authorities.** To improve implementation of and increase compliance with environmental legislation, the Commission intends to continue its cooperation with the IMPEL network.¹⁴ In particular, the IMPEL network will contribute to the revision of the Recommendation on Minimum Criteria for Environmental Inspections,¹⁵ including its practical experiences with the needs and constraints of SMEs.
- **Involvement of SME stakeholders in policy-making and implementation.** In the updated internal guidelines for impact assessments of EU policies and legislation, the Commission has strengthened the SME dimension. The Commission will also reinforce the consultation of SME stakeholders in both policy-making and policy implementation, to ensure that the specific requirements of SMEs are appropriately reflected, and that specific measures are designed, whenever necessary, to ease the implementation of new environmental rules¹⁶.

5.2. More accessible tailor-made environmental management schemes for SMEs

Implementation of an Environmental Management System (EMS) and explicit designation of responsibility for environmental matters have a much more positive influence on the environmental engagement of the company than a single inspection or compliance check. Beside EMAS (the European Eco-Management and Audit Scheme), several other EMS have been developed in recent years to respond to sector-specific characteristics and the level of complexity of the business, or to focus on single environmental aspects. These initiatives offer a useful variety of environmental management schemes for SMEs to implement on a voluntary basis. Public authorities' acceptance of a certified EMS as a reliable alternative to checks or inspections will require less frequent controls or reports. This will reduce administrative burdens and certainly encourage SMEs to introduce an EMS. Because of its strict requirements and transparency, EMAS provides real guarantees to public authorities. EMAS is now under revision in order to make it more robust and reliable in terms of environmental performance and legal compliance.

¹³ 2006 BEST Expert Group report "Reducing Burdens on Industry: Simplifying the Implementation of Environmental Regulation".

http://ec.europa.eu/enterprise/environment/index_home/best_project/intro.htm

¹⁴ Network for Implementation and Enforcement of Environmental Law (IMPEL); <http://ec.europa.eu/environment/impel>

¹⁵ European Parliament and Council Recommendation 2001/331/EC.

¹⁶ A good example is REACH, the new chemical regulation (Regulation (EC) No 1907/2006 of the EP and Council of 18.12.2006), where a set of practical recommendations for Member States are being prepared on how to set up special REACH helpdesks for SMEs.

Even though the EMAS scheme is designed for use by organisations of all kinds and sizes, the following specific measures will be taken to facilitate the implementation of the scheme in SMEs in the short and longer term.

- The Commission will promote and support public-private partnerships (consortia or coordinating bodies) and other initiatives, to encourage use of **EMAS in industrial clusters or districts** of SMEs, using specific cluster or supply chain approaches. These approaches reduce consultancy and audit/verification costs for participating SMEs, and facilitate additional knowledge-sharing and experience exchange amongst participants, encouraging a coherent environmental policy in the cluster.¹⁷
- Existing tools for the implementation of EMAS in SMEs, such as **EMAS-Easy**, will be further developed and applied on a larger scale with projects in all EU Member States. A pilot phase of EMAS-Easy has already been run in new Member States and showed that full EMAS registration is easily feasible in micro-companies.
- As part of the revision, the Commission intends to further reduce the administrative burden of EMAS, which will be particularly beneficial for SMEs. EMAS should be made more **accessible**, more **understandable** and more **effective**, with **less red-tape** but maintaining the excellence of the scheme. Also its "**visibility**" should be increased through enhanced promotion by the Commission and Member States, which would also make it an interesting marketing instrument for registered SMEs. It is also planned that Member States will be encouraged to offer **incentives to registered SMEs**.

5.3. Focused financial assistance and a multiannual financial programme for sustainable production in SMEs

Another way to help SMEs comply with environmental legislation more cost-effectively, and generally improve their environmental performance, is to spread the use of best available techniques and promote innovative technologies and practices. For this type of investment SMEs need specific public incentives and help with participation in research programmes or other programmes in support of innovative environmental technologies.¹⁸

In the new European financial period 2007-2013 specific funding has been designed for SMEs and environmental policy. Under the subsidiarity principle, Member States and regional authorities play often a specific role in their management. The most relevant sources of funding are listed below.

¹⁷ Pilot projects have already been successfully carried out. See for instance <http://www.life-pioneer.info>

¹⁸ See the EU Environmental Technologies Action Plan: <http://ec.europa.eu/environment/etap>

- In the proposed **LIFE+ Regulation a multiannual programme** of € million for the period 2008-2013 has been designed to support environmental compliance assistance measures for SMEs, covering most of the actions described in paragraphs 5.2, 5.4 and 5.5. Activities that could be supported could be for instance the creation of cluster coordination bodies for EMAS registration, regional compliance assistance programmes to offer SMEs free or facilitated environmental audit and guidance, sector-specific information initiatives, SME-oriented environmental training of business support networks, etc.
- The **new instruments of the Cohesion Policy 2007-13** allow substantial funds for Member States for investments in environmental protection, especially for SMEs. Following the "Lisbon priorities" and the principle of the integration of environmental protection requirements into the definition and implementation of Community policies and activities,¹⁹ a large part of the environmental funding for SMEs will come from the Structural Funds. In particular one of the priority categories of expenditure for the new **European Regional Development Fund** and the **Cohesion Fund**²⁰ 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)". Also the new **European Social Fund**²¹ includes among its objectives training and information in SMEs on "eco-friendly technologies and management skills". Member States should allocate substantial and sufficient resources to these objectives in their programming documents and in their applications for EU Structural Funds for the period 2007-2013, applying at regional level the most appropriate good practices listed in Annex I and II.
- Environmental investments have been identified as one of the main sectors for support under **JEREMIE (Joint European Resources for Micro to Medium Enterprises)**,²² a new initiative that will enter its operational phase in 2007 and will allow Member States to use Structural Funds to set up (regional) financial instruments for SMEs, including advisory and technical assistance, equity and venture capital and guarantees.
- The currently applicable **Guidelines for State aid for environmental protection** allow Member States to grant transitional investment aid to help SMEs adapt to Community standards in environmental policy. They also allow investment aid to improve on environmental standards and for investments in energy saving.²³ When reviewing the environmental aid guidelines the Commission will assess whether aid should be authorised for early adaptation to future Community standards instead of aid for adaptation to existing

¹⁹ Article 6, Treaty establishing the European Community.

²⁰ Council Regulation (EC) No 1083/2006 of 11.07.2006, and Regulation (EC) No 1080/2006 of the EP and Council of 5.07.2006.

²¹ Regulation (EC) No 1081/2006 of the EP and Council of 5.07.2006.

²² See http://ec.europa.eu/regional_policy/funds/2007/jji/jeremie_en.htm

²³ Aid to SMEs for advisory/consultancy services in the environmental field may be granted under the provisions of Regulation (EC) No 70/2001 of 12.01.2001 on the application of Articles 87 and 88 of the EC Treaty to State aid for small and medium-sized enterprises. Aid for environmental training activities is allowed in accordance with the provisions of Commission Regulation (EC) No 68/2001 of 12.01.2001 on the application of Articles 87 and 88 of the EC Treaty to training aid. Aid of up to €200,000, granted over any period of three years in accordance with Commission Regulation (EC) No 1998/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid, is not be considered as state aid.

standards, acting thus as an incentive for a proactive behaviour by SMEs towards environmental rules.

- The **Competitiveness and Innovation framework Programme 2007-2013 (CIP)**²⁴ is designed to enhance the competitiveness and innovation capacity of the Community and has a strong emphasis on SMEs, who will be the main beneficiaries of the programme, either directly or indirectly. The CIP includes a sub-programme on Entrepreneurship and Innovation to facilitate 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 also include €727 million for energy efficiency and renewable energy projects.
- Finally, with the launch of several new or significantly revised EU financial instruments for the period 2007-2013, the European Commission will publish a **handbook** (in electronic and printed form) **setting out new funding opportunities** for projects that support improved environmental compliance and performance among SMEs.

5.4. Building local environmental expertise for SMEs

SMEs should be able to find local experts who can answer their questions and tell them about their duties, and the opportunities related to environmental policy. This objective will be pursued with the following actions.

- The Commission will be organising a first series of **capacity-building seminars in the Member States in 2007** to start building wherever necessary a network of environmental experts in business support organisations (business associations/Chambers of Commerce/Euro Info Centres/sectoral or district organisations) to help SMEs. The focus of the workshops will be on where to find information, presenting both the legal requirements and the benefits of improved environmental performance, and including a training module on how to provide assistance to SMEs (reactive approach) and how to involve SMEs in environment policy beyond compliance (proactive approach).
- The **Euro Info Centres (EIC) Network, and from 2008 the new network in support of business and innovation, integrating the services of EICs and the Innovation Relay Centres (IRCs)**, will support the efforts of the Commission in creating the adequate local environmental expertise and in implementing the various actions of the Programme by²⁵:
 - (a) promoting partnerships with public or private organisations, SME associations, and district/sectoral/cluster organisations helping SMEs to take full advantage of the opportunities offered by the Programme and helping them to comply in the most cost-effective way with EU legislation, increasing their eco-efficiency and eco-innovation capacity;
 - (b) working proactively with SMEs to explain existing or new environmental legislation affecting them, using the most effective means, including on-site visits, websites, newsletters, seminars, to raise awareness about environmental impacts and the benefits of a proper environmental management system.

²⁴ Decision No 1639/2006/EC of the EP and Council of 24.10.2006

²⁵ See Call for Proposals (ENT/CIP/07/0001) "*Services in support of business and innovation*".

5.5. Better communication and more targeted information

The lack of general awareness on environmental issues among SMEs is not disputed²⁶. It is clear that this problem needs to be addressed in order to ensure greater awareness of legislation, and as a result increased compliance. Where it exists at all, concern about safety, health and the environment is limited to quite specific overt threats.

- The Commission will establish a new **multilingual website, linked to the SME Portal²⁷, and** designed to become **a main source of information for SME support networks on EU environmental policy and SMEs**, with a related awareness raising campaign. The website will contain general information on existing and forthcoming environmental legislation affecting SMEs, but will focus in particular on matters of interest to SMEs like: implementation, management tools available, funding opportunities, a selection of good practices by sector and geographical criteria, available training, relevant results from the demonstration projects on sustainable production in SMEs recently funded by LIFE-Environment (LIFE III), and links to national initiatives or other sources of information.
- The Commission will develop some **operational guidelines to accompany SMEs step-by-step** in addressing their main environmental impacts: energy consumption, waste production, management of chemicals, air emissions, and emissions of pollutants into water and soil. These toolkits will take a gradual approach, increasing the level of sophistication according to the sector, and the size and needs of the company, and will use simple non-technical language.

6. CONCLUSION AND WAY FORWARD

This Programme and its implementation will be regularly reviewed by the Commission in collaboration with the Member States, through a network of **national "SME & environment" contact points** to be nominated by Member States. During annual meetings the network will monitor the implementation of the Programme, exchange knowledge and experience, and guide the approach of the Commission for future initiatives in this field.

The Commission is committed to the implementation of this Programme. "Improving environmental performance and eco-efficiency of SMEs" is also part of the priorities of the "Modern SME Policy for Growth and Employment". The Commission asks Member States, the European Parliament and the Council to:

- endorse this Programme and encourage its rapid implementation through national implementation plans;

²⁶ For example, 70% of French SMEs admit to be no or little informed about the environmental tools available (EMS, energy certificates, fiscal incentives, etc.) [ADEME 6.2.2007] and 95% of UK SMEs declare that they would like more information/guidance on environmental matters [SME-nvironment 2005, Environment Agency].

²⁷ http://ec.europa.eu/enterprise/sme/index_en.htm

- envisage by 2010 a first assessment by the Commission jointly with Member States on the implementation of the Programme, including detailed information on the Compliance Assistance measures undertaken, data on the contribution by SMEs to environmental problems, data on the compliance rate of SMEs with environmental legislation, and recommendations for future actions.