

# Position Paper

## UEAPME's views on SMEs and climate change mitigation

### Part 1: the road to (the UN Climate Change Conference, COP21 in) Paris

As the organisation representing over 12 million enterprises with nearly 55 million employees in Europe, UEAPME welcomes and supports the efforts of the European Union to agree on a global, realistic and dynamic climate agreement during the COP 21 conference in Paris.

SMEs account for 99% of EU enterprises, employ 2/3 of the workforce and 58 cents in every euro of value added comes from SMEs. Therefore, the big bulk of traditional SMEs must be onboard if the transition towards a resource-efficient, sustainable and low-carbon economy is to be successful.

#### 1a. Multilateralism in climate policy

Since Europe is responsible for only a small proportion of global CO<sub>2</sub> emissions<sup>1</sup>, UEAPME welcomes that the EU calls for an ambitious and legally-binding international climate regime in order to create a level playing field for companies all over the world. National measures deriving from this climate regime should be implemented in a transparent manner and should be fairly balanced between countries. Such an agreement would create a global market for low-carbon technologies and thus promote job creation and growth for European SMEs. Therefore, other major carbon emitting economies outside Europe need to commit to **comparable efforts**. In the long term, a global system for carbon pricing, comparable to the European system, must be established as it is the most cost-effective way to reduce emissions and to establish a global level-playing field.

#### 1b. Aiming for a realistic emission reduction target, which secures jobs, growth and competitiveness: the long-term objectives

The COP21 should aim for climate change mitigating long-term objectives through an economically feasible strategy. Currently, missing international coordination hampers a global agreement and consequently climate protection.

UEAPME is of the opinion that the decarbonisation of the world economy should be a strategic long term objective, which secures the economic base in Europe. Therefore, the GHG reduction target must be realistically reachable and above all compatible with growth, jobs and competitiveness. To achieve this goal, a clear implementation strategy is crucial, including support measures for enterprises and SMEs to comply with new targets.

In this context, UEAPME is convinced that the 30% reduction of GHG emissions by 2030 (compared with 1990 levels) for the sectors not covered by the ETS will be difficult and expensive to achieve. We can see that SMEs subject to the Effort Sharing Decision are often not yet aware of it. Consequently, national governments should work hand-in-hand with SME business organisations in order to implement this piece of legislation in an SME-friendly way. Appropriate tools and concrete supporting policies are needed for proper implementation of the Non-ETS sector.

#### 1c. Intended National Determined Contributions

When determining the possible level of emission targets each EU Member State has to reach, the differences in Member States' technological ability to reduce emissions, the cost effectiveness/the marginal costs of further reducing emissions, their economic strength and the measures and investments already realised should be taken into account.

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<sup>1</sup> The EU, at present, is only responsible for 11% of greenhouse gases emitted worldwide each year. This EU share is expected to decrease to around 5% in 2030.

Member States should have great flexibility in managing the use of annual emission allocations (AEAs) in order to achieve the emission reduction targets in a cost-efficient manner.

### **1d. Finance of mitigation actions**

UEAPME welcomes the efforts of the European Union to establish a Green Climate Fund, which should support low-carbon investments in developing countries. To facilitate the transition to a low-carbon economy, substantial investments in green technologies are required. This will support SMEs as many of them are operating in eco-industries where technological advancements offer business opportunities, while technological progress also supports climate change adaptation and mitigation.

## **2. How SMEs can help implement an international climate regime**

A substantial amount of SMEs is operating in business sectors, which help mitigate climate change such as the continuous improvements in the building sector, companies operating in the maintenance and repair sector or SMEs operating in the sectors linked with the circular economy. SMEs also are often frontrunners in the renewable energy sector and in the so-called eco-industries. This sector offers the first-mover advantage and the chance to be a global leader in energy efficiency technology and thus a driver for growth, jobs and competitiveness.

### **2a. Support for Renewable Energy Sources (RES)**

UEAPME wishes to highlight its support for a further expansion of renewable energy sources (RES) but the following structural difficulties have to be tackled:

- a) The necessary infrastructure, including smart grid technology, must be put in place in order to bring RES to the consumers efficiently and without endangering security of supply;
- b) Investments in innovation in the area of energy storage also need to be considered;
- c) National measures and support schemes need to be better coordinated in order to avoid excessive and disproportionate costs;
- d) Promote forest management that generates biomass - a renewable energy source - and increases resilience against climate change.

### **2b. Focus on energy efficiency**

SMEs benefit from investments in energy efficiency improvements. The programs financing these commitments should:

- a) Provide technical assistance on how to put into practice the necessary changes as well as financial schemes. It should be noted that the construction sector can greatly benefit from such programs as provider of energy efficiency equipments and construction techniques. Investments in such equipments and techniques stimulate the much needed creation of jobs and consequently, lead to sustainable growth.
- b) Involve SME organisations with the aim to monitor market and energy/climate policy evolution, exchange best practices, etc;
- c) Increase financial and technological collaborations among SME intermediaries and reinforcing the interconnection with EU and National Regulatory Authorities dealing with SMEs as energy end-users.

As a whole, UEAPME acknowledges and supports the vital role of energy efficiency. Above-mentioned measures and strictly implementing the existing legislation should enhance the role of energy efficiency.

### **2c. Full implementation of the EU internal energy market in accordance with a new energy market design**

The EU internal energy market, in particular the electricity market, is to a great extent still very fragmented. This concerns the regulatory, political and physical dimensions.

High taxes and levies in energy prices within the EU are an equally big competitive disadvantage for both, energy intensive industries and SMEs. Competitive forces within the internal energy market need to be reinforced to ensure a more energy-independent Europe and a steady energy supply at competitive prices.

For instance, there is still a great need for investment in smart, cross-border infrastructure. To reduce energy imports and cut carbon emissions, it is crucial to move towards locally generated, decentralized hybrid and renewable solutions such as micro-generation, while ensuring a stable energy supply at affordable prices. These systems cater to the diverse needs of businesses and foster employment and growth while delivering energy efficiency gains.

## Part 2: Preconditions for SMEs to successfully implement a global climate regime

Due to their specific characteristics (small size, limited human and financial resources), SMEs need a friendly regulatory framework in place that includes, where appropriate, support measures in order to take further actions in greening their businesses (e.g. purchase energy-efficient equipment, produce less waste, use recycled materials, etc.).

### 1a. A friendly regulatory framework for SMEs

The implementation of a climate change regime needs to take into account the characteristics of SMEs. Legislation should not only set targets, lay down costly procedures or expensive registrations but should abide by the main principles of sustainability, proportionality and subsidiarity. As a matter of fact, more than half of EU SMEs (55%) encounter difficulties when trying to improve their resource efficiency, particularly complex legal or administrative procedures (26%)<sup>2</sup> impede implementation of measures leading to lower-carbon emissions.

UEAPME asks the EU and Member States to endorse the “Think Small First” principle, which means that the starting point for all legislation (new and revised) should be micro and small enterprises. Layers should be added when it is necessary to take into account extra demands for bigger enterprises, instead of making exemptions for SMEs or excluding them. This principle should be used consistently throughout the whole regulatory and implementing process.

Any regulatory proposal should be subject to neutral and independent ex ante and ex post impact assessments (IA), including a compulsory SME-Test. The SME test has to be used effectively, along all the legislative steps at EU level. Member States should be encouraged to systematically introduce the SME-Test or an equivalent system.

UEAPME hereby would like to reiterate its demand to conclude an Inter-Institutional Agreement in order to fully respect the key principles of the SBA, among them the “Think Small First”, “Only Once”, and “Proportionality”<sup>3</sup>.

### 1b. Support measures addressed to SMEs

Attention should be given to the big bulk of SMEs, and particularly to the micro-firms and the ones located in rural areas, which still operate in the traditional mode and for which sustainability is still a challenge. Since they represent the majority of EU enterprises, they need to be onboard to successfully transition to a more sustainable economy. To facilitate the transition, favourable policies and a supporting legislative framework is needed at EU and national level. Such a framework should consist of the following elements:

#### Awareness raising

SMEs should benefit from awareness-raising campaigns in order to understand how a new measure would impact their activities and how they should adapt accordingly. The EU should promote such campaigns in cooperation with the Member States and business organisations. The right information can convince a micro-company to make the right investment in an environmentally-friendly technology or in a less energy-consuming production process. For many small businesses it is a challenge to fund this kind of investments since their return will only happen in the long term.

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<sup>2</sup> Flash Eurobarometer 381.

<sup>3</sup> UEAPME position on the Public Consultation on the Small Business Act – A strong European policy to support Small and Medium-sized enterprises and entrepreneurs 2015-2020 of January 2015 : [http://www.ueapme.com/IMG/pdf/UEAPME\\_Position\\_Paper\\_on\\_SBA.pdf](http://www.ueapme.com/IMG/pdf/UEAPME_Position_Paper_on_SBA.pdf)

Technical assistance: SMEs wishing to implement resource-efficiency and climate-friendly improvements in their businesses should be supported through technical assistance schemes offered for free or at a reduced price at local level. SME organisations should be taken as one of the main counterparts of the actions/programmes at EU and national level to provide technical assistance to SMEs in order for them to become more sustainable. For instance through capacity building programmes SME organisations could receive funds to create an environmental service department, their staff could be trained so as to provide advisory services, they could receive best practices from SME organisations in other countries, etc.

Improved communication and coordination along the value chain is also important. Big businesses should assist and coach SMEs in their supply chain to become more sustainable. Moreover, the costs of investments and technical assistance can be reduced if SMEs are grouped in clusters to achieve more sustainable operations. An integrated cluster approach should be supported by public authorities, where knowledge and best practices are shared.

#### Improving SMEs financing possibilities

In the recent financial crisis, government grants or tax incentives (such as reduced VAT) have been mostly swept away. It is important that SMEs can raise funds for their resource efficiency and climate-friendly investments. In this respect, the financial sector needs to become more SME-friendly and aware of resource-efficiency considerations. Specialised staff in financial institutions is needed in order to properly evaluate green projects from SMEs.

Moreover, specific financing available from the European Investment Fund is managed through big national banks, which are not the traditional partners for SMEs in most Member States. This situation should be solved by allowing also smaller, more SME-oriented banks (local and cooperatives banks) to play an intermediary role.

The European Structural and Investment Funds (ESIF) have included climate change mitigation goals in their objectives. SMEs need better access to these funds to be better able to adapt climate-friendly strategies. Regions and Member States should include SMEs in their regional Operational Programs and National Partnership Agreements with ESIF.

Apart from this, as also suggested by the final report of the Energy Efficiency Financial Institutions Group (EEFIG), efforts have to be sped up in order to increase alternative forms of finance available at local level enabling SMEs to face the upfront costs of becoming more sustainable.

#### Fiscal policy

UEAPME supports the introduction of tax incentive schemes to encourage SMEs to make environmentally friendly investments (e.g. waste or water treatment or adoption of environmental voluntary schemes such as EMAS or Eco-label or energy efficiency improvements). It is equally important not to allow the introduction of fiscal barriers to the creation of decentralised systems of energy production.

#### Access to the right skills

There are skills mismatches in the labour markets. It is often difficult for SMEs to find employees with environmental expertise. Often upgrading of existing skills of employees is more feasible. Therefore, lifelong learning and upgrading of skills in this field should be better recognised and supported. Further financial incentives are needed and EC financial instruments like the European Social Fund should better support green job promotion and upgrading skills.

#### **Conclusions**

The above-outlined elements support a legal-binding, global climate regime to establish a level playing field among major carbon emitters. The presented measures would not only enable SMEs to adapt to the requirements of the resource efficiency and low-carbon economy but would also contribute to reduce the environmental impact of SMEs and at the same time help them remain competitive.

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