

SMEUnited position paper on the New Circular Economy Action Plan for a cleaner and more competitive Europe ¹

Key messages:

- ✓ Against the background of the current crisis, the European Green Deal and its Circular Economy Action Plan (CEAP) can represent an innovative growth strategy, yielding positive impacts on the European economy as a whole, including SMEs;
- ✓ Due to the consequences of the Covid 19 pandemic, the CEAP should be applied in a way not to further increase red tape and financial burdens on Craft and SMEs. On the contrary, adapted regulatory framework, easier access to funding and reduced tax rates should be proposed to help reshaping the traditional business models. Emphasis should be put on “quick wins” first, such as the promotion of repair, reuse and remanufacturing services and an increased use of secondary raw materials , supporting more sustainable products;
- ✓ SMEs play a pivotal role in making Europe more circular as they represent 99,8% of all enterprises in the EU. At the same time SMEs have, due to their structure, only limited resources in staff and financial means. Hence, making the CEAP SME compatible will be crucial. Therefore, a dedicated SME impact assessment should be conducted for every regulation and directive that will follow the CEAP. The transition from linear to circular business models is complex and cannot happen overnight. An enabling framework supporting Craft and SMEs at EU and national level is necessary;
- ✓ The principle of focusing on high-impact products and services should be embedded in the sustainable product policy. Niche, unique and small-scale production typical of SMEs should be exempted due to the high costs and bureaucracy;
- ✓ On-line multilingual data-basis with Life Cycle Analysis for various product groups should be freely accessible to SMEs since they cannot perform these analysis directly;
- ✓ Fiscal incentives, aimed at fostering repair, refurbishing and maintenance, should be further promoted because they will have positive effects on the many craft enterprises and SMEs already active in these sectors;

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – COM(2020) 98 final

- ✓ The right balance has to be struck between consumers' and businesses' interests in order not to impact negatively on the latter's competitiveness particularly in the recovery from the Covid crisis. Product Environmental Footprint (PEF) should remain voluntary and SME-tools to facilitate the application and the development of PEF or other methodologies should be developed;
- ✓ In the waste sector priority should be given to implementation of existing rules to avoid a patchy Internal Market. Extended Producer Responsibility should be based on a balanced approach by which responsibility is shared equally among all actors, up to consumers, involved in the life cycle of a product;
- ✓ The monitoring of the development of end of waste criteria at national level will be important in order to allow the Commission to take action in the interest of the Internal Market.

I. General remarks

The Commission embarks on the path to develop the European Union to a circular economy under unfavourable circumstances. The Corona crisis puts our economy under unprecedented pressure with Craft and SMEs particularly affected. The Covid emergency should not discourage the attention from the need to continue the green transition path that the EU has always supported. However, it is clear that the consequences of post-COVID risk shifting attention (and the limited resources available) to contingent needs (liquidity crisis, overall stability of the economic system and employment, etc.). It is therefore necessary to reconcile immediate and short-term needs with a broader vision: the post-crisis should represent a new restart, in which the EU cannot fail in combining two needs: restoring our production capabilities and transitioning our economy towards sustainable models compatible with the EU environmental commitments. SMEUnited acknowledges the need to leave the linear path and to tap into the opportunities of the circular economy. However, under these effortful conditions, the challenges of the new Circular Economy Action Plan must be very carefully considered for the economy not to be additionally burdened once the current crisis begins to fade. The new Recovery Plan for Europe should be the top priority. Hence, SMEUnited calls for a double strategy: the implementation of the CEAP should be continued in order to set the course into the age of circular economy. However, a selective implementation is what is needed now by prioritizing measures that will allow the recovery of SMEs. For Craft and SMEs to be able to recover after the Covid-19 induced crisis, bureaucratic obligations should be reasonably adapted, particularly reporting and traceability requirements for the use of certain substances. On the other hand, SME supporting initiatives should be implemented quickly in order to strengthen respective business models.

This double approach will help SMEs to overcome the crisis faster and leads the way into the age of circularity in the next future. In this context SMEUnited believes that a dedicated SME impact assessment should be conducted for every regulation and directive that will follow the CEAP.

It is important that rules and legislation following from the CEAP ensure a level playing field within the EU, but also vis-à-vis third countries. National gold-plating has a detrimental effect on a European level playing field. Harmonised rules and consequently an intra-EU level playing field would, for example, be positive with regards to EPR, processing standards for electronics, and equal standards for primary and secondary raw materials. For this, better enforcement of EU internal market rules is also necessary. Moreover, the high standards to be set in the EU should be promoted to be used as a template for frameworks in third countries and applied to imported materials and articles.

The CEAP, as part of the European Green Deal, should be deeply connected with other main strategies (such as the SME strategy and the industrial strategy). Together, as a whole, these policies should also work towards re-industrialisation of the EU. This should assist also the CEAP goals, for example with regards to more availability of critical raw materials. As a result, secondary raw materials should receive more prioritisation.

Within circular economy, the focus should be on the overall environmental impact. Re-use is one of the instruments, but does not apply in every case. It should be made clear what is exactly meant by re-use.

SMEUnited reminds that SMEs are at the heart of growth, employment, social cohesion and the fight against poverty in the EU. Many of them are already at the forefront to implement innovative, circular, green and sustainable initiatives in different sectors such as eco-industry, energy efficiency, renewables, in the building and transport sectors as well as in areas like maintenance and repair. At the same time, SMEs are quite vulnerable due to their scarce technological, human and financial resources. This is why SMEUnited reiterates that the transition from linear to circular business models in SMEs cannot happen overnight. It is a complex process which requires favourable framework conditions and must be accompanied by specific and targeted measures. Consequently, it is essential that SMEs are first of all provided with the right information, technical assistance at local level, easier access to financing as well as upskilling and reskilling of their workforce. Capacity building for SME associations at all levels is also important to turn them into one-stop-shops orienting SMEs towards circularity and sustainability.

II. A sustainable product policy framework

II.1. Designing sustainable products

The new sustainable product policy legislative initiative is mainly based on extending the scope of the Eco-design to cover the broadest range of products as well as on the introduction of sustainability principles.

This perspective means that the Eco-design and its mandatory requirements will progressively have a much bigger impact on Craft and SMEs. This will increase costs and red tape for SME manufactures with the consequence that only fewer and more expensive products will be available for consumers.

To mitigate the consequences of this situation, SMEUnited asks the Commission to:

- ✓ Perform specific impact assessments to verify that the new measures are feasible for Craft and SMEs;
- ✓ Provide freely accessible on-line databases in all the EU languages with life cycle analysis (LCAs) for different product groups, since SMEs, and particularly craft and micro businesses, cannot perform these LCAs directly due to their high costs and lack of suitable infrastructure;
- ✓ Allow SMEs in certain area specialised in the same product to perform joint LCAs in order to cut costs if they are not already freely available on-line;
- ✓ Ensure the presence of SMEUnited, as the stakeholder really representative of craft and SMEs at EU level, in the consultation process linked to the approval of implementing measures falling in the extended scope of the Eco-design;
- ✓ Simplify the implementing measures for the product groups in the extended scope of the Eco-design in order to facilitate their uptake by Craft and SMEs.
- ✓ Ensure that the set of sustainability principles are science-based, respect the diversity of products and services and do not impede the quality and safety of products;
- ✓ Ensure derogation from administrative requirements and other bureaucratic costs for individually manufactured or custom-made products when broadening the Eco-design framework in order to guarantee proportionality.

II.2. Empowering consumers and public buyers

The measures foreseen by the EU Commission in this section will have positive effects on the many craft enterprises and SMEs already active in the sectors of repair, refurbishing and maintenance and will stimulate the setting up of new ones. Therefore, in principle they are welcome. In general, increasing consumers' awareness is a fundamental aspect for the success of circular economy. In this context, SMEUnited believes that:

- ✓ Data economy should be considered for the circular economy, too. The question arises what customers actually purchase: only a certain device or also the relevant technical data pertaining to the device to enable repair services? A better

legal framework should address this without putting disproportional information obligations on small-scale and niche products manufacturers;

- ✓ For some goods, repairability is significantly reduced not because of hardware failures and missing spare parts alone but because of missing software upgradability. For example, new components cannot be implemented because interoperability is not supported. A framework that gives producers a clear guideline would help to increase circularity;
- ✓ Moreover, the waste legislation at EU and national level contains obstacles to the development of repair, refurbishing and maintenance activities which should soon be removed;
- ✓ As announced, the CEAP should focus on high impact products and services. Hence, for instance, niche products such as musical instruments which are often produced by SMEs cannot be treated in the same way as mass products. For example, information and reporting obligations regarding certain substances in the supply chain can lead to unbearable red tape for SMEs and their niche products, squeezing these SMEs out of the market. Therefore, in general tracing obligations shall be restricted to articles where benefit can be achieved at end of their lifetime;
- ✓ Given that SMEs and their services are also a factor of liveliness in urban areas, closing small enterprises have very adverse effects on the life quality in cities, especially in smaller cities. Hence, schemes supporting repair and remanufacturing services are not only contributing factors to a circular economy but also important for favourable urban planning, sustainable mobility and functional cities.

On the other side, it is important to strike the right balance between consumers' and businesses' interests. This means that the measures in favour of consumers should not result in disproportionately higher costs for craft and SMEs, be they manufacturers or retailers, which would impact their competitiveness negatively. This would cause drawbacks to consumers as well through higher prices and decreasing diversity of products and providers.

More precisely SMEunited highlights the following points:

- ✓ More information for consumers to be provided at the point of sale (such as, for instance, on lifespan of products, availability of repair services, spare parts and repair manuals) would create burdens for micro and small retailers, which generally have very few employees already in charge of several tasks. To avoid this, SMEunited proposes that this information for consumers should be put on-line by manufacturers. In any case, microbusinesses should be exempted by these new obligations;
- ✓ Extended legal products' guarantees and longer legal periods for the availability of spare parts would result in higher costs linked to stock and space availability and would cause an increased liability for craft and SMEs. This is why SMEunited

pleads that the envisaged new ‘right to repair’ for consumers does not give rise to these critical aspects. Moreover, within the context of the right to repair, SMEUnited is of the opinion that policy makers and businesses should engage in an open dialogue about any revision;

- ✓ Putting some order in the world of green claims is definitely useful and important. However, here again there is a big risk that the use of a certain methodology, such as product environmental footprint (PEF) methods can make life much more difficult for craft and SMEs, which are not used to working with these methods and do not have the resources to perform in-depth environmental analysis. Apart from the freely accessible on-line databases with life cycle analysis (LCAs) mentioned earlier, SMEUnited asks the Commission for specific SME-tools to facilitate the application of PEF as well as for a general simplification of these procedures from the earliest stages of their development. PEF should remain voluntary and flexibility should be required in the choice of the methodology as to allow the use of the best applicable tool for identifying constraints and promoting continuous improvement in circularity among SMEs;
- ✓ Minimum mandatory green public procurements criteria and targets, integrating sustainable development including the acknowledgment of corporate social responsibility initiatives, could increase the uptake of circular products. However, this would result in higher barriers to the participation of SMEs in public procurement, which is already very limited. Here again, the right balance should be struck, since the EU aims at improving access to public procurements for SMEs. Therefore, guidance, training and dissemination of good practices should not only be addressed to public authorities, but also to SMEs and their organisations. The same goes for capacity building as far as Craft and SME organisations are concerned. Thereby they can become focal points for the dissemination of circular and sustainable practices in their networks.

II.3. Circularity in production processes

SMEUnited supports the promotion of industrial symbiosis at local level with the participation of SMEs. In this context, a new industry-led reporting and certification system should remain voluntary to reduce costs and red tape for SMEs. The promotion of digital technologies for tracking, tracing and mapping of resources is also supported and should go along with efforts to assess the viability and implications for businesses of all size of using digital means and to promote digitalisation in craft enterprises and SMEs. A particularly dedicated set of governance rules for data access & use, to be proposed by EU institutions, will contribute to making different value chains more effective and circular.

III. Key product value chains

More circularity in key value chains can effectively take place only if supported and facilitated by their key stakeholders.

This is why SMEUnited supports the Commission's intention to cooperate closely with these stakeholders to identify barriers to the expansions of markets for circular products and ways to address those barriers. In this context, it is essential that the organisations representing Craft and SMEs in these key value chains are involved as well.

III.1. (Batteries) and vehicles

In order to support the mobility sector at large, one of the key fundamentals of the EU economy, the move towards a 'Sustainable and Circular Automotive Servicing Sector' becomes increasingly important. With the high number of small & medium- size enterprises involved, support for the reshaping of an entire ecosystem will require support for the implementation of a new holistic way of operating, as well as a targeted and prioritised approach from the public sector.

More concretely, the specific measures would range from defining what are 'sustainable spare parts', increase regional sourcing, optimising the supply chain (transports/CO² footprint) to an improved collection/decommissioning process. Fiscal measures could also have multiple incentives, increasing the demand in the long-term, and keeping SMEs afloat, and have different forms, such as reduced VAT rate, reduced road tax obligations, and direct subsidies to consumers.

The measures could, among others, also include responsibly sourced parts, in particular remanufactured parts, which are existent in the automotive industry since years. However, despite their environmental and economic benefits, the percentage of remanufactured parts in the entire aftermarket supply chain is still low in the EU (e.g. compared to the US with around 40% usage rate). This is partially because the process of remanufacturing is laborious and costly, and the process requires a dedicated handling effort.

III.2. Plastics

The CEAP must find a good balance between investments in recycling and waste management, overall costs of the circular economy and waste management system and environmental ambition. The European strategy on plastic promotes that by 2030 all plastic wrappings must be reusable or recyclable. By 2030 more than half of all plastic waste shall be recycled. To achieve this, the capacity for recycling, gathering and separating plastic waste must be substantially increased, fourfold compared to 2015 according to the European Commission. It will be very important that this increase and entailing costs will not be distributed disproportionately to SMEs and where necessary we need reliable compensation schemes. Additionally, to realise this, the EU Commission should work towards improving the standardisation of separate collection.

Moreover, to achieve the ambitious plastic goals it's necessary to strengthen technological innovation and research in this sector, to intervene at the beginning of the supply chain, right from the production phase. In addition, in order to enable and promote recycling, it will be necessary to adapt already existing legislation (e.g. EU laws on food contact materials) that is linked to the Circular Economy Action Plan. Finally, the big problem of the huge amount of new waste generated by the Covid 19 personal protective equipment (such as masks and gloves) will have to be addressed. This equipment can only be made with polymers, the only ones able to guarantee health safety and non-contamination. There is still a lot of confusion on how to manage and treat this protective equipment and, therefore, uniform European criteria to be applied both in the collection and disposal phases would be essential. It will also be important that this new waste stream does not involve a huge increase in the financial plans of local authorities and waste management companies. The risk is to see a rise in waste taxes imposed on businesses, which would be difficult to sustain for SMEs already burdened by months of lockdown and lost profits.

III.3. Textiles

In the Commission's proposal it seems to prevail an approach exclusively oriented to big textile industries. This approach disregards the great opportunity to integrate sustainable solutions already provided by SMEs, which play a fundamental role throughout the entire textile sector. For instance, cleaning, repairing and tailoring of textiles is mainly carried out by SMEs and any future strategy must consider this. Furthermore, in times of Corona reusable medical textiles, cleaned and refurbished by SMEs close to medical facilities, have been proven to be very worthwhile.

III.4. Construction

- ✓ The CEAP acknowledges that construction is a key sector for the circular economy and for the achievement of climate goals. The Renovation Wave as announced in the Green Deal will potentially yield positive impacts on the construction sector and job creation particularly if circularity aspects are considered in a favourable way;
- ✓ However, environmental requirements more and more become one of the major cost drivers in construction. This contradicts the very high demand for low cost housing in times of rapidly rising rents. For example, requirements for the treatment of excavated soil makes it more and more difficult to keep such waste streams in the cycle. SMEs need a better framework on how to cost-efficiently treat excavated soil in order to reuse it instead of depositing it off;
- ✓ Furthermore, the use of recycled material in construction products is way too low. To increase the share of secondary raw materials will be crucial to make the sector more circular. The reason for the low demand is that clients are uncertain about the quality of recycled construction products and that costs for recycled products remain high. A clear framework giving the market actors clarity about the quality is very important as are consumers' incentives for a higher uptake of

secondary raw materials and reused products. The construction products regulation could introduce reliable methodology and equivalence processes to assess the essential characteristics of secondary raw materials in relation to new construction products. This could reduce costs of construction products significantly and also contributes to make the sector more sustainable;

- ✓ The CEAP intends to induce a process to assess higher recycling rates in the construction sector. This must be considered very carefully as further red tape for SMEs and higher costs for the construction of buildings and infrastructure could jeopardize the demand for cost-efficient housing. In addition to this, many European countries do not have an appropriate number of recycling and recovery facilities with proximity to construction sites available, which is a precondition for higher recycling rates. Recycling rates in the construction sector are relatively high already. To avoid that increased recycling rates will increase costs for buildings and infrastructure, SMEunited suggests to introduce specific economic and fiscal measures to boost the recycling materials market;
- ✓ Another aspect that the CEAP highlights is the promotion of measures which improve the durability and adaptability of built assets and the development of digital logbooks for buildings, which can indeed play an important role to make buildings future-proof. However, it is important that these can be appropriately accounted for financially in order to increase demand.

III.5. Food, water and nutrients

In the circular economy package, Member States have committed themselves to achieving the goal of halving the per capita food waste and reducing food losses along the product supply chain. Indeed, Member States should reduce food waste at EU level by 30% by 2025 and by 50% by 2030 and take appropriate measures, including awareness-raising campaigns.

From the Commission's communication, on the other hand, it is clear that although the food value chain exerts strong pressure on resources and the environment, it is estimated that 20% of the total food products produced in the EU is lost or wasted.

SMEunited, therefore, shares the Commission's objective of working to reduce food waste, as a key action of the EU "Farm to Fork" strategy. Reducing food waste is in the own interest of SMEs. Therefore, those companies usually act thoughtfully. However, to further stimulate process optimisation in this moment of crisis due to the pandemic, the EU could provide financial incentives to support the implementation innovations, for instance as regards packaging to extend the shelf life of products. Finally, legal provisions should be assessed with regard to their impact on minimising food waste.

IV. Less waste more value

IV.1. Enhanced waste policy in support of waste prevention and circularity

As far as waste policy is concerned, SMEUnited is of the opinion that first of all it is important to focus more effectively on the implementation and the enforcement of the Waste Framework Directive as well as the of the legislation on the different waste streams. If this is not the case the Internal market will remain a patchy area where lots of Member States lag behind in the achievement of one or more waste targets. This situation is particularly problematic for businesses, including SMEs, operating in more than one Member State. Further increases of the targets as a result of the revision of the legislation on the different waste streams might support circularity, but will result in still more differences among Member States if enforcement and implementation of the existing targets is not tackled seriously. Moreover, the legislation framework defined by the Waste Framework Directive is not still in line with an approach where waste is valued as a resource. This is caused by a lot of legislative burdens that need to be removed. Greater caution is needed about the unintended effects of setting waste reduction targets: there should be no undue burdens (e.g. record keeping, reporting) placed on small producers.

Actions to address key value chains (such as electronics & ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings as well as food, water and nutrients) should not be based on the model of the Single Use Plastics Directive. This Directive has an Extended Producer Responsibility scheme with an excessively large scope which considers businesses as the scapegoat of the system also in charge of paying for behaviours which are totally outside their control. This approach skyrockets costs and red tape for businesses in this sector, including SMEs, and discourages responsible behaviour in other actors of the society, such as consumers. Consequently any new legislation should be science-based, developed in cooperation with business representatives and should start from a balanced approach by which responsibility is shared equally among all actors, up to consumers, involved in the life cycle of a product.

IV.2. Enhancing circularity in a toxic-free environment

More and more substances are declared harmful and cannot be marketed anymore. At the same time the use of certain substances is more and more regulated and traceability and reporting obligations for their use come into force. This often means a disproportional bureaucratic burden for SMES, potentially causing them to be squeezed out the market. The principle of focusing on high-impact products must be applied here, too. Impacts on niche, unique and small-scale production and SMEs have to be considered in a timely manner. Where applicable, exception rules will be helpful, for example in the framework of RoHS. Moreover, simplified information solutions are needed: as niche production is carried out close to the customer, long and bureaucratic information solutions are not necessary. Processes to register certain substances are often not feasible for SMEs. On the other hand, SME-friendly threshold values could be a reasonable way to go to protect the environment and small scale production.

IV.3. Creating a well-functioning EU market for secondary raw materials

SMEUnited fully supports the effort to create a well-functioning EU market for secondary raw materials. It is equally important that these secondary raw materials are of high quality, can be easily supplied in the amount required by businesses and are available at a competitive price. In order to increase demand for recycled products, equivalence and conformity assessment procedures between newly produced and recycled products could be adopted and, when existing, simplified. Circular approaches are not always a feasible. In this case a cascaded use of secondary raw materials should be considered as a contributing solution because it can effectively reduce the demand for primary raw materials. Cascaded use of materials is also important in the construction sector. Demolition waste is used as filling materials and base layers. This practice needs to be continued where reasonable in economic and environmental terms.

SMEUnited is also in favour of developing further EU-wide end-of-waste criteria for certain waste streams in order to avoid different national interpretation of end-of-waste which create challenges for SMEs operating in the Internal Market.

V. Crosscutting actions

V.I. Getting the economics right

The Green Deal states that sustainability should be further embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects. At the same time, companies and financial institutions will need to increase their disclosure on climate and environmental data so that investors are fully informed about the sustainability of their investments after the adoption and entering into force of the Taxonomy Regulation for classifying environmentally sustainable activities. To this end, the Commission is going to review the Non-Financial Reporting Directive.

SMEUnited is of the opinion that:

- ✓ Non-Financial Disclosure should remain a voluntary engagement of SMEs. Therefore, it is essential that the scope of the Directive is not enlarged;
- ✓ SMEs should be able to choose the appropriate way for their specific situation and the needs of their stakeholders;
- ✓ Non-Financial Information can be useful for the decision-making process as strategic decisions are also based on the values of an enterprise;
- ✓ SMEs need support, accompanying measures, and adapted tools.

At the same time, SMEUnited recognises that a simplified form for SMEs has to be agreed on in case they are required to provide non-financial information by banks or inside the value chain. Therefore, SMEUnited asks the Commission to identify the key information of this form, in consultation with SMEs' representatives, which should be used by SMEs throughout the EU and should remain voluntary.

Incentives at national level have proven to be a useful instrument to foster the uptake of sustainability measures (for instance in the area of energy savings and energy efficiency). The Commission should extend the application of reduced VAT rates to circular economic activities, which nowadays is only possible for a few repair services, and at the same time encourage Member States to apply them. SMEUnited highlights that other forms of economic instruments, such as fiscal incentives for companies switching to circularity, would be useful as well.

Brussels, September 2020

For further information on this paper, please contact:

Guido Lena
Director for Sustainable Development
E-mail: g.lena@smeunited.eu