Federation of Small Businesses

The UK's Leading Business Organisation

Making Sense of Going Green

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Foreword

Environmental policies affect the everyday realities of running a business, from paying energy bills to dealing with waste. The Federation of Small Businesses (FSB) is concerned that in the next few years small business will be impacted by an unprecedented amount of energy and environmental legislation. The FSB accepts that limiting the use of natural resources and reducing carbon emissions are laudable objectives but argues for a co-ordinated and staged approach to introducing new energy and environment policies and regulations.

The UK's small firms are touted as the sector that will generate the growth and employment needed to drive the economy out of recession. However, the challenges of upgrading the country's energy infrastructure and meeting carbon reduction targets mean that energy bills are going to rise at a time when small businesses simply cannot afford it. Reform of the electricity market, investment in the electricity distribution network, and the introduction of a carbon price floor are all going to jeopardise the UK's ability to compete with other leading European economies during these difficult economic times.

"Meeting carbon reduction targets mean that energy bills are going to rise at a time when small businesses simply cannot afford it"

The roll-out of smart metering and the Green Deal could help soften the impact of some of these price rises, however, in their current state the FSB fears that that potential will be lost. Smart metering could let small businesses take control of their energy use by increasing energy efficiency and reducing costs, yet the 'big six' energy companies look likely to be the real beneficiaries of the roll-out. The Green Deal also has the potential to help small and medium-sized businesses (SMEs) mitigate their exposure to rising energy costs, but the scheme is not currently sufficiently attractive to stimulate significant levels of take-up among small businesses.

On top of rising energy costs, small businesses are also seeing a plethora of environmental regulations add to their already considerable administrative burden. Rising waste costs and increasing regulation of how businesses use resources are all in the pipeline. This will hit small firms hard. Small businesses already have difficulties accessing suitable and competitively

priced waste and recycling services, yet they face further cost increases in 2013 and 2014. In addition to this, they will have to deal with ever-increasing levels of environmental compliance as new European standards come into force in the next few years.

It is not too late to change course. The FSB urges Government to carefully coordinate and review the timing and introduction of new energy and environmental policies. These changes mean the difference between a return to growth and a prolonged recession.

David Caro
Chair of the FSB Environment, Energy and Water Committee

Executive summary

The growing impact and cost of environmental and climate change policies on everyday life are causing controversy. This is shown clearly by plans to reform the electricity market and subsidies for other forms of low carbon generation, which have highlighted the increased burden these policies will have on consumer and business energy bills.

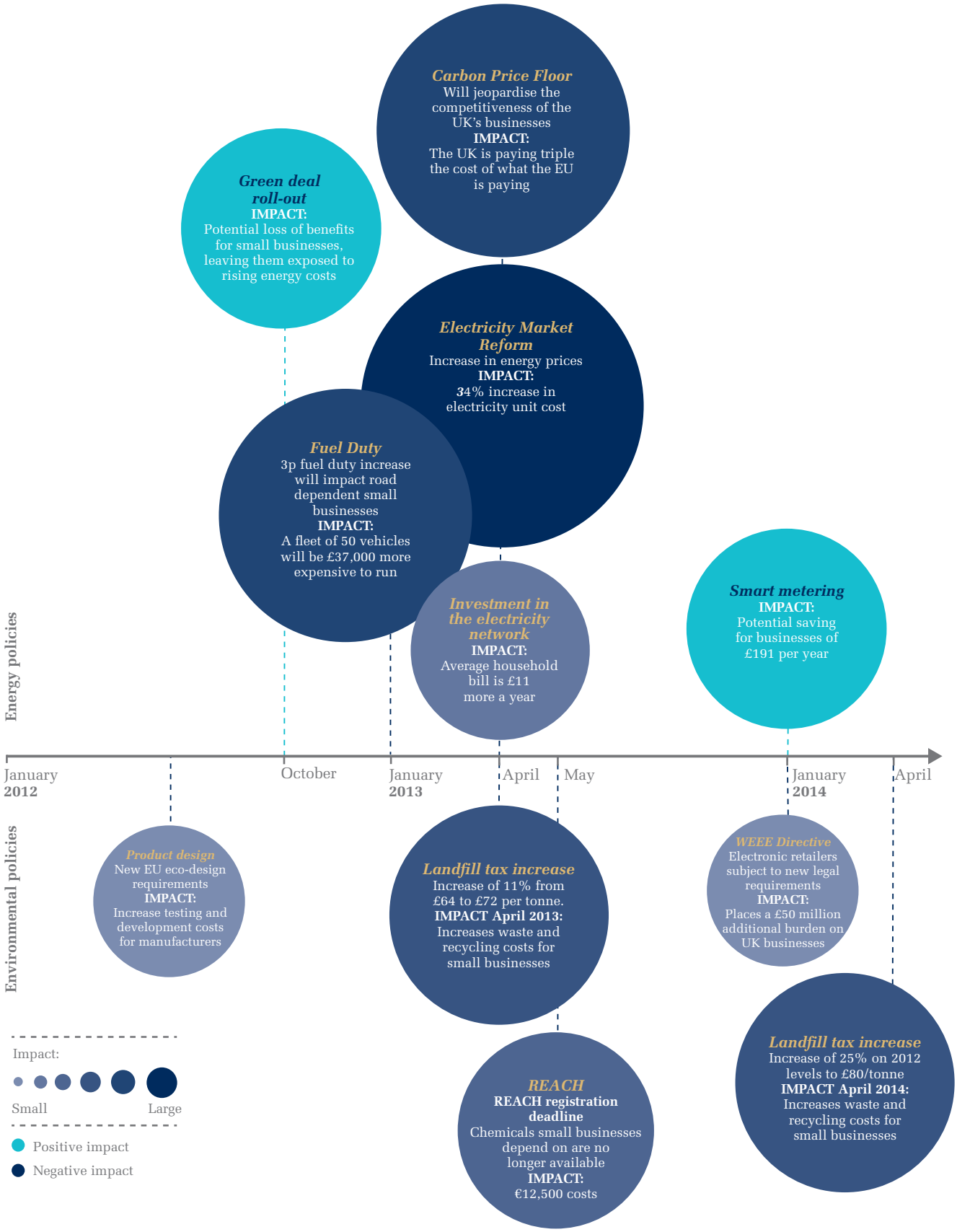
The FSB accepts that small firms, like big business, have a responsibility to play their part in the fight against climate change and to help create a sustainable UK. However, unlike larger businesses, small firms are disproportionately affected by increasing energy costs. They face huge constraints on time and resources that limit their ability to shoulder the costs and to comply with an increasing amount of new regulation.

In this paper the FSB looks at what the impact of these policies will be on small firms. In order to militate against significant cost increases being placed on businesses over such a short period, it argues for a more co-ordinated and staged approach to bring forward these measures if they are deemed to be necessary. The FSB believes this will ensure that small firms are not overwhelmed by a range of environmental measures that, while bringing environmental benefits, also impose high costs at a time when small businesses can least afford it.

This paper highlights **12 environmental and energy policies** that will affect small businesses at a time when Government is looking to the UK's SMEs to grow the economy out of recession. While this list is by no means comprehensive – it does not include areas such as building regulations that can impose costs on businesses – it does highlight some of the key policies that could restrict small business growth and stop businesses taking on new employees.

"The FSB argues for a more coordinated and staged approach to introducing new policies and regulations"

Figure 1: Timeline of forthcoming energy and environmental policies



R Recommendations

Energy

Electricity market reform

- Take steps to increase the competitiveness of the retail energy markets for small businesses to mitigate the effect that artificially increasing the price of electricity generated by fossil fuels will have on energy bills.

EU Emissions Trading System and the UK's carbon price floor

- The FSB believes the UK must not exceed the EU's carbon price at the expense of UK business.

Climate Change Levy

- Government should resist calls to replace the Carbon Reduction Commitment with an expanded Climate Change Levy scheme.

Fuel duty

- Cancel the three pence per litre fuel duty increase due in January 2013 and consider more economically efficient ways of increasing the take-up for carbon solutions that do not damage the UK's competitiveness.
- The FSB believes a true fuel duty stabiliser, that can trigger actual reductions in the cost of fuel, should be introduced.

Smart metering

- Ensure free and easy access to energy consumption data from smart meters for small businesses.

- Require energy suppliers to replace existing advanced/smart meters with new meters that meet the Government's new specification. This will ensure that small businesses are able to switch suppliers with ease.

Green Deal

- Encourage widespread take-up of the Green Deal by using Green Investment Bank finance to guarantee low levels of interest rates for small businesses.
- Develop a model that allows small businesses to act as Green Deal providers.

Environmental compliance

Landfill tax and rising waste and recycling costs

- Help small businesses deal with rising waste and recycling costs, due to increases in landfill tax, by mandating local authorities to allow them access to Household Waste and Recycling Centres.
- Justify any further increases in landfill tax by the environmental benefits it will bring.

The Waste Electrical and Electronic Equipment Directive

- The UK Government should push for small business exemptions from the WEEE (Waste Electrical and Electronic Equipment) Directive.

Carrier bag charging

- Put small business exemptions in place for the introduction of carrier bag charges.

Product design

- Ensure small manufacturers are not unduly burdened by increased testing and development costs due to frequent changes to eco-design requirements.

Registration, Evaluations and Authorisation of Chemicals (REACH) regulations

- Government should introduce fit for purpose, dedicated small business guidance on how to successfully register and gain authorisation for the use of chemicals.
- Significantly reduce the application cost for the registration and authorisation of chemicals for SMEs.

1. Energy

Concern is growing among politicians and businesses alike about the impact that electricity market reform and lower carbon electricity generation will have on the energy bills of consumers and small businesses.

The National Infrastructure Plan estimates that £200 billion worth of investment is needed until 2015 to meet the UK's climate change targets and to put low carbon energy infrastructure in place.

A 2011 FSB 'Voice of Small Business'[1] Survey Panel found that 81 per cent of respondents were concerned about the impact of rising energy costs on their business. While the FSB accepts that there is an urgent need to invest in the country's infrastructure and to secure energy provision for the future, there is little doubt that this will significantly affect small businesses' energy bills. The FSB is worried that the large number of energy policies will increase energy bills in the coming years, hitting SMEs hard at a time when they can ill afford it.

In the last eight years alone, the smallest of businesses have seen a 100 per cent increase in the cost of electricity per unit and a 125 per cent increase in the cost of gas per unit in real terms.

This remorseless rise in energy costs is hurting not only individual businesses but also the competitiveness of the UK as a whole. Recent research asked UK businesses whether they expected the price of energy to rise or fall over the next two years. Only three per cent expected the cost to fall.[2] The same businesses were asked what action they would take should energy prices rise by 25 per cent: eight per cent said they expected to close as a direct result of the cost increases.

1 FSB 'Voice of Small Business' Survey Panel (February 2011).

2 The Business Energy Barometer by Business Juice, Business Juice.

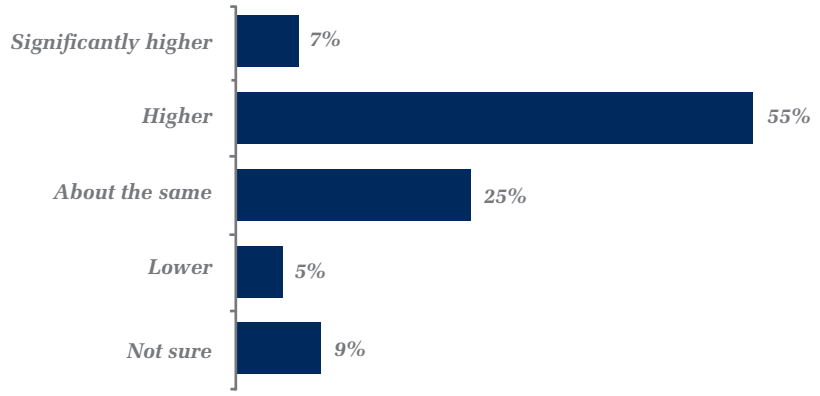
Table 1: Prices of fuel purchased by non-domestic customers in the UK

Fuel	Size of business	2004	2005	2006	2007	2008	2009	2010	2011
		Pence per kWh							
Electricity	Very small	6	6.66	8.16	9.54	10.38	11.87	12.01	11.79
	Small	4.96	5.81	7	7.83	8.77	10.04	9.72	9.81
	Small/medium	3.89	5.25	6.87	7.19	8	9.14	8.16	8.4
	Medium	3.48	4.61	6.17	6.45	7.36	8.24	7.21	7.57
Gas	Very small	1.455	1.819	2.352	2.695	3.151	3.524	3.141	3.305
	Small	1.316	1.757	2.284	2.328	2.549	2.533	2.287	2.47
	Medium	1.164	1.635	2.101	1.865	2.231	2.173	1.842	2.138

Source: Department for Energy and Climate Change, Energy Statistics, Prices of fuel purchased by non-domestic consumers in the UK, June 2012

Another survey[3] of leading UK businesses found real concern about how rising UK energy prices are damaging the nation's international competitiveness. Sixty two per cent of businesses expect the UK's energy prices to be higher than those of its competitor economies in 2015, with only five per cent expecting them to be lower. (Figure 2).

Figure 2: Taking into account factors such as energy policy and shale gas, how do you expect UK energy costs to compare with competitor economies in 2015?



Policy 1: Electricity market reform

At the end of 2010, the Government announced plans for the reform of the electricity market.

As part of this reform, the Government is introducing a pricing mechanism that artificially increases the price of electricity generated from fossil fuels through the introduction of a carbon price floor (CPF). The rationale for imposing a CPF is to make electricity generated from decarbonised sources, such as renewable and nuclear, more attractive for investment.

3 Aldersgate Group, Energy Strategy Survey 2012.

This will guarantee that carbonised electricity generation will always be more expensive than that from decarbonised sources. This is to give greater certainty to potential investors in the low carbon renewable and nuclear sectors, and thereby increasing generation capacity in these areas.

There is little doubt that reform of the electricity market will increase energy costs for small businesses.

Research by the Department for Energy and Climate Change (DECC) estimates that reform of the electricity market will lead to an estimated 34 per cent increase in the cost of a unit of electricity for an average sized business between 2012 and 2030.[4]

Small firms are acutely sensitive to rising costs, and reform of the electricity market will increase their overheads significantly.

The FSB appreciates the urgent need to secure investment in a new generation of nuclear power stations and other low carbon means of electricity generation to ensure the UK's energy security. However, in order to limit the increase in costs associated with these reforms, the FSB believes there must also be radical changes to increase the competitiveness of the retail energy market for small businesses.

Difficulty in switching suppliers, getting locked in to uncompetitive rollover contracts, and finding it hard to compare tariffs limit the competitive workings of the retail energy market and the ability of small firms to access lower prices. The FSB believes that Ofgem, the energy regulator, needs to address these issues as part of its ongoing review of the retail market.

- **Take steps to ensure increase the competitiveness of the retail energy markets for small businesses to mitigate the effect that artificially increasing the price of electricity generated by fossil fuels will have on energy bills.**

Policy 2: Investment in the electricity distribution network

Not only will the cost of securing the capacity for low carbon energy generation fall on the shoulders of consumers and businesses, but so will the cost of investment in the electricity distribution network.

The transition to a low carbon economy means that the UK will have to use electricity rather than gas to heat homes and power vehicles, which will create a surge in demand for electricity. In order to accommodate this surge, the UK's electricity distribution network will require significant investment.

4 Department for Energy and Climate Change, 'Estimated impacts of energy and climate change policies on energy prices and bills', November 2011.

Ofgem is in the process of setting a new range of price controls for the distribution network in order to secure a £22 billion investment in ageing energy distribution infrastructure between now and 2021. These price controls essentially dictate the price that distribution companies can charge and the level of investment needed to upgrade the network.

While this is likely to imply only modest price rises for small businesses compared to the reform of the electricity market, it will mean further cost increases.

This reinforces the need for increased competitiveness in the retail energy markets.

Policy 3: EU Emissions Trading System and the UK's carbon price floor

Another factor that will jeopodise the competitiveness of the UK economy and small businesses is the impact of the EU Emissions Trading System (formerly EU ETS) and the UK's carbon price floor (CPF) scheme.

The EU ETS was introduced in 2005 and is the EU's main policy instrument for achieving carbon reduction targets. The EU ETS is a cap and trade scheme that covers energy-intensive installations and specific sectors that emit large amounts of CO_2. Each member state is required to develop a National Action Plan, which sets an overall cap on the emissions generated by large carbon emitting installations.

Some have argued that the EU ETS has failed to be stringent enough to stimulate investment in low carbon alternatives, believing the current price of around £5–£6 per tonne of carbon is not doing enough to encourage low carbon investment decisions.

The UK has chosen to act unilaterally and in 2011 announced plans for a national CPF in order to increase the price of carbon in the domestic market.

This policy decision is set to increase energy bills significantly in the next decade.

The CPF has a starting price of £16 per tonne of carbon in 2013 – more than twice the level of the EU scheme. It will nearly double to £30 per tonne of carbon in 2020 before reaching £70 per tonne of carbon in 2030 (compared to real 2009 prices).

The Treasury's conservative estimate is that the average bill for a medium sized firm will increase by up to six per cent by 2020 as a result of the UK's implementation of the CPF next year.

Once again, there are far ranging ramifications with regard to the economic competitiveness of the UK economy. The CPF will see the UK abandon the EU ETS, which means that, in the absence of the UK, the price of carbon will fall in the rest of Europe. **Owing to the introduction of the UK's CPF, from April 2013 UK industry and businesses will be paying £16 per tonne while the rest of Europe will probably be paying even less than the current £5–£6 per tonne.**

"Not only will the cost of securing the capacity for low carbon energy generation fall on the shoulders of consumers and businesses, but so will the cost of investment in the electricity distribution network"

Not only will the UK be at a significant disadvantage compared to the rest of Europe, but it also risks artificially inflating the cost of energy further. Seventy per cent of UK electricity generated by coal and gas plants will be subject to the CPF. Inevitably, this means that electricity generation costs will increase leading to an additional spike in electricity costs for consumers and businesses alike.

The FSB recognises the need to encourage low carbon investment but believes the UK's independent action will seriously harm the competitiveness of the UK economy at a time when it cannot afford it. The FSB believes there is a serious risk that large multinational companies and energy intensive industries will choose to move abroad because of the introduction of the CPF, which could have serious consequences for small businesses involved in their supply chains.

- **The FSB believes the UK must not exceed the EU's carbon price at the expense of UK business.**

Policy 4: Climate Change Levy

Not only are small businesses going to pay more for their energy, they are also facing potential increases in taxation on their energy use.

Introduced in 2001, the Climate Change Levy (CCL) is an environmental tax which aims to encourage businesses to reduce their energy consumption. Although it is not applicable to most micro-businesses[5], larger small businesses are required to pay this levy. It is applied at the time of supply so is automatically included in a firm's energy bills.

Organisations representing larger businesses have been lobbying for an expanded CCL scheme in place of the current Carbon Reduction Commitment (CRC) system, to which bigger businesses are subject.

The FSB is generally supportive of moves to simplify environmental taxation. However, in this instance there are serious concerns about the consequences of such a move for the small business sector. While small businesses are not subject to the CRC, the FSB estimates that a significant proportion of its membership is subject to the CCL. The FSB believes that, if the CRC were to be merged with the CCL, it would lead to a damaging increase in energy costs for these firms.

It is estimated that the CRC will generate around £740 million in revenue in 2013–14. The Confederation of British Industry has suggested that if the two schemes were merged this revenue could be recovered by an increase in the CCL, which was estimated to make £700 million in 2011–12. If the

5 Businesses that use fewer than 1,000 kilowatt hours of electricity a month and fewer than 4,397 kilowatt hours of piped gas are not subject to the CCL.

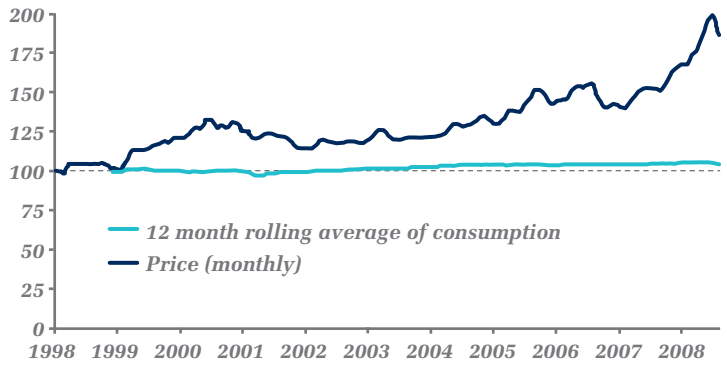
CRC and the CCL were to merge, small businesses would be hit by more increases in energy costs again at a time when they can least afford it. **The FSB believes small businesses that are subject to the CCL could face an increase in their electricity and gas bills of around an extra six to seven per cent.**

- **Government should resist calls to replace the CRC with an expanded CCL scheme.**

Policy 5: Fuel duty

More often than not, fuel duty is publically viewed as a means of raising revenue rather than as a means of encouraging environmentally friendly behaviour. In contrast, the Treasury has traditionally regarded fuel taxation as primarily an environmental matter.

Figure 3: Combined petrol and diesel price and consumption indices



Source: *Quarterly energy prices*, BERR, Table 4.1.1; *Hydrocarbon oils bulletin*, HMRC

Demand for fuel is relatively stable (Figure 3), and the high level of fuel taxation adds significantly to the outlay of road-dependent small businesses. The price of fuel at the pump is essentially a combination of the price of oil, VAT and fuel duty. While the Government has little control over global oil prices, it does set the level of fuel taxation. The UK has one of the highest rates of fuel taxation in the whole of the EU: around 60 per cent of the pump price is due to fuel taxation.

Recent years have seen households and businesses being subjected to sharp rises in the price paid at the pump because of ongoing increases in fuel duty above the rate of inflation. Though there are environmental benefits from these rises, these are offset by the way the high price of fuel is hurting household finances, driving up businesses' costs and damaging the health of the wider economy.

The Government has postponed the three pence increase due for the summer, which would raise £500–£600 million, but only until January 2013. An FSB survey shows that 79 per cent of small businesses are negatively affected by high fuel prices and the Freight Transport Association has calculated that a business with a fleet of more than 50 vehicles faces an extra £37,000 in running costs because of the three pence per litre increase.

- **Cancel the three pence per litre fuel duty increase due in January 2013 and consider more economically efficient ways of increasing the take-up for carbon solutions that do not meet the UK's competitiveness.**
- **The FSB believes a true fuel duty stabiliser, that can trigger actual reductions in the cost of fuel, should be introduced.**

Policy 6: Smart metering

The need to meet carbon reduction targets and to secure investment in forms of low carbon generation has the potential to damage the competitiveness of our small firms by increasing costs for consumers.

However, the roll-out of national schemes such as smart meters and the Green Deal[6] to increase energy efficiency could be one way in which small businesses might be protected from rising energy costs.

Under government plans, energy companies must roll out smart meters for all homes and small businesses by 2019. Smart meters allow users to obtain real-time information to help them control and manage their energy use, save money, and reduce emissions. Smart meters also provide consumers and suppliers with more accurate information and aim to put an end to estimated billing.

In theory, smart metering offers small businesses the chance to take control of their energy use and reduce their costs by increasing their energy efficiency. However, the FSB is concerned that the Government's current proposals will reduce the potential benefits of the scheme.

Under the current proposals, small businesses could face paying to access their energy consumption data. This will seriously undermine the credibility of the programme as well as limiting its potential economic and environmental benefits. Small businesses, like domestic households, should be able to obtain their energy-use data without charge if they are to reap the benefits of smart metering.

Smart meters in themselves do not save any energy – it is how the data is used by consumers that leads to savings. The FSB believes it is essential that sufficient training is given during installation to make sure that small business owners are able to make the most of the meter and fully understand the data captured.

6 The Green Deal is a nationwide energy efficiency initiative for homes and small businesses.

Not only is it looking increasingly likely that small firms will have to pay to access their own energy-use data, but it could become even more difficult to switch energy supplier. The FSB is deeply concerned that large energy companies have already started rolling out advanced/smart meters to their customers despite the fact that the Government has only recently issued its technical specification for what constitutes a smart meter. This means that a small business may have had an advanced meter installed that does not meet the full government technical specification.

The Government has decided that energy suppliers will have to change any advanced/smart meters they have installed in households if they do not meet the new specification. The FSB strongly believes that this needs to be mandated for businesses, with the cost being borne by the energy suppliers.

The FSB is concerned that, given the current difficulties SMEs have in switching energy supplier, the lack of a mandated specification for smart meters in the micro-business sector could lead to those businesses whose supplier has already installed a sub-specification meter finding it difficult to switch energy supplier owing to the lack of interoperability of meters.

The FSB is also worried that the cost of meter and installation will be added on to bills or (as the energy companies are currently lobbying for) will be an upfront cost.

Therefore, while the roll-out of smart meters should enable small businesses to lower their energy costs, **it is probable that these benefits will be lost as a result of the balance tipping towards energy companies and not towards small firms and other consumers.**

"Benefits will be lost as a result of the balance tipping towards energy companies and not towards small firms and other consumers"

- **Ensure free and easy access to energy consumption data from smart meters for small businesses.**
- **Require energy suppliers to replace existing advanced/smart meters with meters that meet the Government's new specification. This will ensure that small businesses are able to switch suppliers with ease.**

Policy 7: Green Deal

The Green Deal is the Government's flagship energy efficiency initiative, which is due to be rolled out from the end of 2012. In essence, the Green Deal works by means of a 'provider' carrying out energy efficiency improvements with no upfront payment from the business or household. The cost of carrying out the work is repaid through the premises' energy bills under a 'golden rule' whereby the bills will never be higher than they were before the Green Deal work. Running costs should be lower because of the improvements in energy efficiency.

Like the roll-out of smart metering, the Green Deal should insulate small firms from increasing energy prices. While the FSB is broadly supportive of the scheme, it is sceptical that the scheme's current design will attract small firms.

The key reason is that those small businesses that want to take out a Green Deal will face far longer payback times than households. Before a small firm sees cost savings from energy efficiencies, it will be required to repay the initial capital outlay at commercial rates of interest. This means the benefits will take years to be realised.

The FSB is also concerned that small businesses that take out a Green Deal might have to pay higher business rates. Business rates for many small businesses are calculated on the basis of the commercial rental value of their property. Increasing the energy efficiency of a property could unintentionally increase its rental value, since it would be more environmentally efficient and cheaper to run.

The FSB believes that a key element currently missing from the Government's Green Deal plans is ensuring that small firms have the same access to Green Deal work as larger firms, such as the 'big six' energy suppliers. The FSB is calling for a mechanism that allows small businesses equal access to Green Deal work.

Like the roll-out of smart meters, the Green Deal has the potential to help insulate small businesses against volatile fossil fuel increases, yet small businesses face long payback times. Commercial rates of interest will reduce the attractiveness of the Green Deal for small businesses, limiting both its potential to help small firms and their ability to reduce costs and benefit from new market opportunities.

- **Encourage widespread take-up of the Green Deal by using Green Investment Bank finance to guarantee low levels of interest rates for small businesses.**
- **Develop a model that allows small businesses to act as Green Deal providers.**

2. Environmental compliance

While the impact of the reform of the electricity market and increased levels of energy taxation has attracted the headlines, increased compliance costs for dealing with waste, packaging, product design and chemicals have been less visible. Nonetheless, these costs are significant and will also affect small businesses in the coming years.

The cost of complying with environmental regulation has increased significantly in the last few years. Small business owners across the UK are facing an ever-increasing amount of environmental regulation, adding extra costs and constraints to their normal business activity. **FSB survey research shows that 61 per cent of members affected said that the cost of complying with regulation is more than £1,000 per year, and 10 per cent said that it cost them more than £10,000 per year.**

Many of the aims of current environmental regulations are sensible and produce environmental benefits greater than the costs of achieving them. However, the FSB believes that structural changes in the regulatory development process are needed to ensure that, from an early stage, regulations dealing with environmental policies are developed with an understanding of the specific position and needs of small businesses.

All departments and regulators still need to ensure that they do not use a one size fits all approach to regulation and that they fully consider the possibility of exemptions or special measures that make the regulations easier to comply with. The FSB argues in the report, 'Regulatory Reform: Where Next?'[7], that a strengthened Regulatory Policy Committee (RPC) could serve as an advocate for small businesses' interests in central government by having a far greater influence on the 'upstream design' of regulation. If this revamped RPC were empowered with the ability to explore,

7 www.fsb.org.uk/policy/publications.

suggest and advise on alternatives to regulation for small businesses, the administrative burden on such businesses would significantly decrease.

At an EU level, the FSB believes micro-businesses should always be considered for exemption from the proposed legislation, or for special measures, lighter regimes or an extended transition period. This would help lessen the compliance and administrative burdens holding them back. The FSB further believes the European Commission should scrupulously uphold the exemptions policy and reject any proposals that place an undue burden on small businesses. More widely, EU policymakers should tackle existing legislation and identify where burden reduction may be possible.

With a view to managing the flow of forthcoming regulations better, the FSB urges Government to consider recent precedents for delaying or staging changes to regulation and legislation in order to help businesses cope with the increased burden of compliance. For example, the moratorium on regulation for micro-businesses and the delay in the implementation of the auto-enrolment of employee pensions rules for small businesses both show how the burden on small firms can be reduced if the will is there.

Policy 8: Landfill tax and rising waste and recycling costs

Apart from paying energy bills, dealing with waste is probably the most frequent way that small businesses encounter environmental policy. Whether it concerns used paper, rubble or old pieces of electrical equipment, small firms face a large number of regulations and responsibilities. While businesses should certainly deal with waste in a responsible way, the sheer amount of paperwork and administration that small firms have to deal with can be wholly disproportionate to the risk posed to the environment.

Small businesses find it particularly hard to comply with waste management responsibilities owing to low levels of awareness and an uncompetitive marketplace. FSB members repeatedly report that they find it extremely difficult to access fairly priced waste and recycling services. This is either because many local authorities do not offer business waste/recycling services or because the small volumes of waste they produce mean they are not able to attract the services of private waste and recycling companies. Access to local authority waste infrastructure, such as household waste and recycling centres, is also often restricted for small businesses. This means they face particularly high costs of disposing of special types of waste such as glass or electrical and electronic equipment.

"FSB members repeatedly report that they find it extremely difficult to access fairly priced waste and recycling services"

FSB research shows that waste management is the third most challenging area of compliance for small businesses, with nearly 42 per cent[8] citing the sheer amount of bureaucracy and red tape as being overwhelming and too time-consuming.

Not only do small firms have a tough time accessing the services they need to comply with waste legislation, they are facing ever-increasing costs to do so.

8 FSB 'Voice of Small Business' Survey Panel (March 2012).

Landfill tax is a tax on the disposal of waste, which has the primary purpose of reducing the amount of waste sent to landfill. Landfill tax in the UK is currently set on an escalator system with significant yearly increases planned up until 2014, when the tax will reach £80 per tonne. Landfill tax has increased by 600 per cent since it was introduced in 1996 – far beyond where the then Government's cost-benefit analysis showed the economically efficient level to be. While it is waste management companies that pay landfill tax directly, the increased costs are passed to their small business customers in the form of higher charges.

Currently, the standard rate is £64 per tonne, and this will increase to:

- £72 per tonne on 1 April 2013 – a rise of 12.5 per cent
- £80 per tonne on 1 April 2014 – meaning an 25 per cent increase in two years

While reducing landfill waste and increasing recycling is entirely laudable, it means that small businesses face rising costs year on year, which either needs to be absorbed by the business, delaying investment, or passed on to consumers.

- **Help small businesses deal with rising waste and recycling costs, due to increases in landfill tax, by mandating local authorities to allow them access to Household Waste and Recycling Centres.**
- **Justify any further increases in landfill tax by the environmental benefits it will bring.**

Policy 9: The Waste Electrical and Electronic Equipment Directive

Another common aspect of waste regulation that small businesses have to comply with is the Waste Electrical and Electronic Equipment (WEEE) Directive.

The WEEE Directive was introduced by the EU to increase the recycling of electrical and electronic goods. The UK transposed the Directive into UK law in 2007, with the effect that businesses that manufacture, import, rebrand, distribute or dispose of electrical and electronic equipment must comply with a wide range of requirements.

If a firm sells electrical and electronic equipment it must make provision to offer a 'retailer take-back scheme', whereby customers can return an old electrical or electronic product for recycling when they buy a new one. Alternatively, a retailer can join the nationwide distributor take-back scheme, which charges a membership fee in order for local authorities to provide WEEE collection facilities at civic amenity sites.

The WEEE Directive has recently set far higher targets for collection and recycling. Forty five per cent of electrical and electronic equipment sold will now need to be collected by 2016. This target rises to 65 per cent by 2019, meaning increased compliance for small businesses.

It is particularly worrying that UK businesses are paying up to £50 million more to comply with UK WEEE regulations than the actual cost of recycling the materials.[9]

The FSB believes the WEEE regulations have a disproportionate impact on small businesses compared to larger businesses, and it would like to see small business exemptions introduced, similar to those under the Waste Batteries and Accumulators Directive. The Waste Batteries and Accumulators Directive exempted small business from a number of the more onerous requirements.

- **The UK Government should push for small business exemptions from the WEEE (Waste Electrical and Electronic Equipment Directive).**

Policy 10: Carrier bag charging

Consideration must be given to the exemption of small businesses from the growing move to charge for using single-use bags. The use of single-use bags increased by 5 per cent in 2011, which is the second annual increase in a row.

The system works by making retailers charge a customer for each single-use bag they use. Wales has implemented this policy, Scotland is currently consulting on doing so, and Northern Ireland is due to implement a levy from 2013.

The introduction of charging for single-use bags in Wales, and the growing appetite for a similar move in other parts of the UK, as well as the EU, will have significant consequences for small businesses.

The FSB is concerned that the retail sector has been one of the hardest hit in the recession and yet this is the sector that will be most affected by these changes. The FSB has long argued that the retail sector should be better supported by Government, especially those local businesses that keep high streets and towns vibrant. They should not be burdened by administration and other impacts associated with the implementation of a bag charging scheme.

Small firms would face a greater administrative burden if required to charge for single-use bags. This includes a registration process with the local authority, a stocktake of bags, adjustment of tills to record the levy charge on receipts, and subsequent changes to accounting records.

9 HP, 'Cost impact of WEEE evidence trading', 2012.

The FSB believes that, given the heavy administrative burden, exemptions should be considered for small firms.

- **Put small business exemptions in place for the potential introduction of carrier bag charges.**

R

Policy 11: Product design

While media attention has focused on charging for plastic bags, small manufacturers have been subjected to an ever-growing plethora of regulations relating to how products are designed.

The UK has implemented the EU's Eco-design Directive, which creates minimum standards for energy consumption by certain types of product. As technology advances, the minimum standards are increased in order to maximise energy efficiency.

The EU's Eco-design Directive itself is undergoing substantial change in 2012 with new minimum standards being put in place for a wide range of products. Household lamps, refrigerators and set-top boxes are all being given new specific eco-design requirements.

The FSB recognises that improving the energy efficiency of products can lead to cost savings for the small businesses that use them; however, the FSB is concerned that small manufacturers face increasing product testing and development costs as a result of the Directive, which requires them to regularly redesign and remanufacture their products.

- **Ensure small manufacturers are not unduly burdened by increased testing and development costs due to frequent changes to eco-design requirements.**

R

Policy 12: Registration, Evaluations and Authorisation of Chemicals (REACH) regulations

Many sectors, ranging from construction and engineering through to cleaning contractors, are affected by changes to EU chemicals regulations.

The way small businesses use chemicals is governed largely by the EU's Registration, Evaluations and Authorisation of Chemicals regulations, otherwise known as REACH.

The introduction of REACH was unique in the way that it placed the burden on businesses to prove that the chemicals they used were safe, rather than have a relevant public body to certify safety.

REACH set up a comprehensive system for the registration, evaluation and authorisation of chemicals. It requires producers and importers of chemicals to register substances and submit information on uses and other safety data to the European Chemicals Agency.

Small firms face significant costs in complying with the registration process, as well as having to deal with complex guidance and an opaque authorisation procedure.

Small businesses that depend on key chemicals for business activities face a May 2013 deadline for registering the chemicals they use, and must pay an application cost of €12,500 for doing so.

The FSB questions the economic rationale behind the fact that many harmless chemicals, on which some small businesses are dependent, are being removed from the market by larger chemical suppliers simply because of the expense of registering them under the new proposals. This could mean that vital chemicals used in business activities become totally unavailable, which would lead to the closure of those small businesses for which they are essential.

- **Government should introduce fit for purpose, dedicated small business guidance on how to successfully register and gain authorisation for the use of chemicals.**
- **Significantly reduce the application cost for the registration and authorisation of chemicals for SMEs.**

Conclusion

As this paper sets out, the next 10 years will see an unprecedented number of environment and climate-related policies affecting small businesses. The need to secure investment in a new generation of nuclear power stations, in forms of low carbon energy generation and in an ageing electricity distribution network is very real, but so is the resulting dramatic increase in consumer energy bills.

This paper has demonstrated the scale of these costs, and the compressed period in which they are likely to occur. It therefore argues that a more strategic, staged approach is required to allow small businesses to manage these costs.

The FSB believes that the roll-out of smart metering and the Green Deal has the potential to help limit the effect of environmental cost increases on small firms. Yet in their present form both schemes will fail to deliver the energy efficiency benefits for small businesses that householders are likely to experience. This will leave small firms fully exposed to rising energy costs.

Allowing small businesses to share in the full benefits that smart metering has to offer and making the Green Deal an attractive proposition could go a long way towards helping small businesses insulate themselves from increasing energy costs.

Small firms are also being hit by the rising costs of environmental compliance. The ways they deal with waste, packaging, chemicals and products are all subject to new legislation and new costs.

While many of these changes are well intended and bring environmental benefits, the cost of compliance hits small businesses disproportionately hard. The FSB wants to see a change in the ways small businesses are regulated in relation to environmental concerns.

"The next 10 years will see an unprecedented number of environment and climate-related policies affecting small businesses"

Where regulation is needed, designing it with small businesses in mind from the start will go a long way towards lowering compliance costs, as will ensuring that the effectiveness of regulation can be measured so that it can be improved if and when necessary. The FSB wants to see regulatory bodies question whether regulation is really needed and explore alternatives to regulation where possible. Further to this, there is a need for a more co-ordinated and staged approach to bringing forward all these measures in a relatively short time. This will ensure that a range of environmental measures carrying high costs do not overwhelm small firms.

The FSB urges Government and regulators to take a step back and look at the sheer volume of policy reforms and changes that will hit small businesses in the next few years. The combination of rising energy costs and increasing levels of environmental compliance in such a short period will limit the ability of small businesses to grow and to employ.

It is time to change course and think again.

Federation of Small Businesses

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