

## **Friends of the Earth Presentation**

### **The potential SME contribution to a decarbonised Europe**

Whatever one thinks about the science behind climate change it is becoming increasingly clear that the predicted dramatic increases in the cost of energy and the concerns over energy security will mean that energy efficiency and the adoption of renewable energy will become an economic imperative for the UK's small businesses over the coming years rather than just an optional extra. I therefore welcome this Friends of the Earth report which gives us a clear routemap to a truly decarbonised world.

Indeed, the world is beginning to make the transition to a new low carbon economy, as governments around the globe put in place the frameworks needed to tackle climate change. Many more of us will find ourselves working in a growing low carbon industry. Already 880,000 people in the UK work in the low carbon and environmental sector, a rapidly growing worldwide market worth £3 trillion per year. By 2020, this could rise to more than a million people if we seize the opportunity to establish the UK as a global centre of low carbon industries and green manufacturing.

So whilst climate change presents huge challenges to overcome, this Friends of the Earth report highlights that it is possible to reap the opportunities that the move to a decarbonised economy presents us with.

I would like to focus on what Europe's 23 million Small and Medium Enterprises can offer us in the move to a decarbonised world as well looking at what they need from their governments and the EU to help them play a pivotal role in tacking climate change and reaping the rewards of the move to a low carbon economy.

### **Helping our SMEs become more energy efficient**

The energy we use in our workplaces accounted for 12% of UK greenhouse gas emissions in 2008. To reduce emissions, we will need to change the way we do business to cut down the amount of energy and other resources we use, potentially saving businesses billions of pounds.

Therefore it is essential that measures are put in place to help small and medium sized businesses become more energy efficient and I would like to focus on 2 policy solutions that the Federation of Small Businesses is pushing in the UK.

### **Pay as you save energy efficiency measures**

Pay As You Save (PAYS) is an innovative finance solution that will give households and businesses the opportunity to invest in energy efficiency, such as solid wall insulation, and microgeneration technologies, such as PV panels, in their homes with no upfront cost.

Householders and businesses will make repayments spread over a long enough period so that repayments are lower than their predicted energy bill savings, meaning financial and carbon savings are made from day one.

There is now a growing realisation in the UK that using incentives such as 'pay as you save initiatives' is a highly productive way of encouraging energy efficiency among small to medium sized businesses and we would like to see more ambitious pay as you save schemes rolled out across the UK and Europe to give small firms the financial incentive to go green. This, along with a concerted drive to emphasise the economic benefits of energy efficiency, could place SMEs at the forefront to a move to a decarbonised economy.

Secondly the FSB believes there is real scope for SMEs to help fight climate change whilst at the same time reducing their costs, by adopting micro-generation technologies.

### **Micro-energy Production & Feed-in Tariffs**

We believe small businesses can play a big part in the fight against climate change by embracing micro-energy production as a means to decreasing our dependence on fossil fuels and helping to ensure the security of our energy supply.

In the UK there is a need to increase the flexibility of the planning system to allow SMEs to embrace low carbon technologies and, in particular, to make it easier for SMEs to install micro-energy production facilities.

We would also like to see a competitive rate set in the UK for excess micro-energy production to feed into the national grid to encourage the take up of micro-energy production among the SME community. Guaranteeing a competitive price for feed-in tariffs will remove the uncertainty for those considering investing in small-scale low carbon generation technologies, reduce the payback period and increase the rewards for embracing renewable energy.

I would now like to turn to two specific sectors where SMEs can play a pivotal role in the move to a decarbonised Europe.

### **Construction**

The importance of the construction industry is all around us; where we live and work, and how we move from one place to another. The construction sector is responsible for our homes, our hospitals, our schools, our roads, our water works, our railways and our places of work. Against this background construction has a key role to play in helping cut carbon emissions especially given:

- Construction uses around six tonnes of materials each year for every man, woman and child in the UK
- 47 per cent of UK carbon emissions are from buildings of which 25 per cent come from homes

With the overwhelming majority of companies operating in the construction industry in the UK being SMEs and with nearly 50 per cent of our carbon emissions coming from buildings, it is clear that SMEs operating in this sector have a huge role to play when it comes to greening our economy and lowering carbon emissions.

The FSB believes there are four key drivers to bring about a low carbon built environment:

- The need to minimise waste across the industry
- The need to reduce carbon emissions from housing and other buildings through innovation in materials and process
- The need to create sustainable communities and a sustainable work force, and
- The need to give as much specific and practical advice as we can, directed to real design and site activity

So the potential of the construction sector to help in the move to a decarbonised economy is huge and that is why the FSB backs Friends of the Earth's call to make EU funds immediately available for energy savings measure to be introduced for homes and businesses to be introduced as a matter of urgency.

Secondly I would like to look at the role of the food and agricultural sector in the move to decarbonised economy.

### **Food & Agriculture**

Food production and agriculture, as well as making a significant contribution to greenhouse gas emissions, are also particularly vulnerable to the increasing effects of climate change, adding to serious concerns about national and global food security.

Within the food supply chain, food transport, or 'food miles', contributes 3.5 per cent to UK's CO<sub>2</sub> emissions. Research suggests that in order to reduce CO<sub>2</sub> emissions from food as well as meeting consumer demands, there is a need for a rebalancing between global and local food systems and there is therefore a huge potential for the smaller farmer to benefit from such a shift. Reducing emission from Europe's food and agricultural sector means the greater use of indigenous and seasonal produce, the more efficient operation of processing plant, less use of packaging and greater logistical efficiency in the transportation of food. Changes in SME operations will therefore require changes in consumer behaviour, such as eating less meat, increasing demand for seasonal produce and reducing demand for produce that can only be grown far away or under energy intensive systems. It is argued that there is a need for measures adopting a regional and national approach while shifting businesses away from long distance food transport.

So the construction and food and agriculture sectors offer real for SMEs to benefit from a shift in practices as a result of the need to tackle climate change. I now want to look at the longer term and at how we need to put in place to support the development of a decarbonised economy and how national Governments, along with the EU via the European Investment Bank, can support the growing emergence of a decarbonised economy.

### **Improve and expand low carbon business support & incentives for SMEs**

Low carbon business support and incentives are fundamental to securing green growth. However, current business support for the low carbon sector is often too complicated with businesses needing to repeatedly apply for funding at differing stages of the innovation process which leads to delay in the development and uptake of new technologies. This piece by piece approach to innovation funding is harming the UK's low carbon sector and we believe there is a need for the greater use of whole project funding whereby promising low carbon ideas are given whole project funding from conception to completion.

We would like to see European Investment Bank help accelerate the use of cost-effective low carbon technologies and processes in all sectors by helping Europe's SMEs access long term R&D support and early-stage commercialisation and demonstration support which can so often be the difference between success and failure.

### **Use public procurement as driver for low carbon innovation**

Another long term goal should be to use public procurement to drive demand for low carbon products and ensure sustainability is at the heart of Government procurement decisions.

The public sector procures large volumes of goods and services and therefore has large potential to affect innovation in the sectors supplying it. For example, in the UK, the Government should use its procurement budget (around £175bn annually) to pull low carbon products and services, which are at the development/pre-commercial stage, through to full commercial realisation by targeting innovative low carbon products and services.

In order to use public procurement as a driver for low carbon innovation the procurement process needs to be made more SME friendly. Research shows that only 16% of the total value of public contracts go to SMEs and over half of SMEs feel that the process of tendering for government contracts requires more time and resource than their business can allow. Whilst, of course, some procurement contracts will inevitably have to go to big business the FSB would like to see some form of obligation on big business to use small local firms in their supply chains.

Therefore there is clear need to streamline and simplify the public procurement process to make it easier for SMEs to bid for public procurement contracts and we would like to see the EU adopt a similar approach to its procurement practices which would help drive the demand of green goods and services across Europe.

I would now like to look at what SMEs need from an overarching climate change framework.

### **What do we want from an overarching climate change framework?**

To date all the attention has been on 'greening' big multi-nationals and too little attention has been given to the SME sector. Big businesses and multi-nationals work in a different way to small businesses and tailoring regulations to deal with multi-nationals will often have a disastrous effect on the SME sector. We have to come up with regulations that are appropriate. In order for SMEs to fulfil this crucial role in combating climate change we need government leadership and regulatory systems that are flexible and supportive to encourage small and medium sized business rather than penalise it.

What small businesses need from an overarching climate change framework are the incentives to make decarbonisation make economic sense as well as environmental sense – we need innovative measures such as pay as you save to encourage energy efficiency in the SMEs sector, we need commercially viable feed-in tariffs to decarbonise our small businesses and we need long term drivers such as green orientated public procurement policies and low carbon business support that allows SMEs to grow and prosper in the move to a decarbonised economy.

### **Conclusion**

So whilst climate change presents us with real challenges it also offers the potential to capitalise on many positive changes that come with it. Indeed, the move to a decarbonised Europe means

new opportunities and markets for our SMEs which can help create a more sustainable Europe. Yet perhaps the biggest significance for our small businesses in a truly sustainable Europe will be the greater emphasis on strengthening regional and local economies so that consumption needs can increasingly be met locally and therefore reducing our dependence on goods and services sourced from far away. The need for a sustainable Europe means a need to keep trade local and it is this that perhaps holds the greatest significance for our SMEs in a decarbonised Europe.