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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Communication from the Commission to the European Parliament and the Council

Building the Single Market for Green Products: Facilitating better information on environmental performance of products and organisations

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1. PROBLEM DEFINITION

1.1. The underlying issue: the proliferation of methodologies is hampering the functioning of the market of green products

Many methodologies are available and used to assess and communicate the environmental footprints of products and organisations¹. Their number is rapidly increasing leading to a proliferation of national² and private sector initiatives³. Companies are in principle free to choose which one to apply, but are also often required to use a particular one either by a national administration or by clients downstream in the supply chain. If a firm supplies several other firms, then it may be asked to supply environmental information in multiple ways implying the use of multiple methodologies. At the same time, there is no natural coalescence around a single specific methodology.

There are numerous voices from industry calling for a harmonisation of methods to assess the environmental performance of products in order to create a level playing field, reduce costs, and prevent free riding. Respondents to the public consultation considered the lack of consistency as one of the most important barriers to the display and benchmarking environmental performance (72.5% agreement). When asked about the drivers of the barriers, multiple initiatives in the EU (70.8%) and multiple ways of reporting (76.3%) received high agreement from stakeholders.

1.2. The scope and scale of the problem

(a) Additional costs for businesses

The co-existence of different methodologies implies a direct increase of costs for those who want to assess and communicate the environmental footprints of their products or

¹ See a list of the most important (diverging) initiatives on the assessment of the environmental footprint of product and organisations in Annexes 17, 18 and 19.

² E.g. France is currently evaluating a pilot programme on product environmental labelling. Since 2008, private companies have been invited to participate in the programme to demonstrate and test concrete example of multi-criteria environmental labelling. A preliminary evaluation of agri-food products show that 75% of the companies involved in the pilot programme intend to continue with environmental labelling and about 64% are in favour of a EU harmonised approach. (<http://www.developpement-durable.gouv.fr/IMG/pdf/LPS125.pdf>) Other initiatives exist in the UK, Switzerland, internationally in Japan, Australia and Canada. See Annex 19 for more details.

³ E.g. the Sustainability Consortium, Envifood Protocol, GHG Product Protocol, different labels and standards (carbon footprint, LCA, water footprint); Carbon Disclosure Project, sustainability indices, Global Reporting Initiative, etc. See Annexes 18 and 19 for more details.

organisations. The increase of costs is due to: (1) increase in training costs to be able to cope with the requirements of the different methodologies; (2) increase in costs related to gathering of different information; (3) different labelling requirements; (4) different verification requirements.

(b) Reduced opportunities for cross border trading of green products

Given the lack of a commonly agreed definition of green products, it is difficult to substantiate the scale of intra-EU and extra-EU trade that is affected by this issue. However, surveys suggest that 90% of consumers buy green products at least sometimes, of which export products would have a share. Overall, there is clearly considerable trade in green products, and this is likely to be increasing. However, the proliferation of methodologies may hinder this positive trend, reducing the opportunity of cross border trading of green products, because companies find that the requirements related to the environmental information for the products they intend to sell change across those borders. Increasingly, different environmental information is requested by national governments in the case of public procurement, reporting or labelling requirements, or by private initiatives, for instance by a retailer to let the product be displayed in stores.

(c) Lack of clarity for consumer choices

At present, consumers have very poor information on what is genuinely 'green'. Without providing this information in a trusted way, purchasing decisions are distorted and many consumers end up not buying green products despite their declared intention to do so. This has been shown by a Eurobarometer survey: while 75% respondents say they are ready to buy environmentally friendly products, only 17% had actually done so in the month before the survey⁴.

The number of green claims is growing, even if they are becoming more superficial and vague in their use of terminology, further deteriorating consumer trust: 48% of consumers do not trust environmental information on products⁵. People tend to distrust green claims, both those attached to products and those included in companies' Corporate Social Responsibility (CSR) or other environmental reports⁶. This situation penalises those companies who have been investing a lot in improving their performances and greening their business models. The perception is that companies are competing on the basis of their claims rather than on the basis of the underlying environmental performance.

(d) Missed opportunities for resource efficiency

The more proactive companies have understood the large margins for further efficiency gains along their supply chain and in order to exploit that they are more and more using life cycle management approaches⁷. Those who are using life cycle approaches to improve their resource efficiency can also enjoy other benefits, like a better return on investment, develop new markets, improved corporate image, better customer loyalty, a better understanding of the risks across their full supply chain, and better product differentiation.

⁴ Eurobarometer *Attitudes of European citizens towards the environment*, 2008.

⁵ The [Flash Eurobarometer 332](#).

⁶ The second Eurobarometer survey on the [Attitudes of European citizens towards environment](#) (2011) showed a decline of respondents thinking that labels on products allow the identification of those environmentally friendly (47% compared to 52%, scored in 2008).

⁷ For a list of studies supporting this statement, please consult Annex 21.

More green products being sold on the market and more organisations getting greener would contribute to achieving the objectives of the Resource Efficiency flagship and the EU 2020 Strategy. Although environmental reporting *per se* does not mean performance improvement, many of the companies measuring performance set up targets and actions. The low take up of green products has repercussions on the take-up of eco-innovation as well, putting at risk the competitive edge of EU eco-industries, which are still leading globally and are growing. Indeed, green technologies have been identified as an important source of growth in the Industrial Policy Update⁸.

2. ANALYSIS OF SUBSIDIARITY

The proliferation of methodologies, the related difficulties and the increased costs calls for co-ordinated EU action, as they directly affect the smooth functioning of the Single Market. *If the EU chooses to intervene at a later stage, companies will have had to comply with several methodologies already, bearing the cost of compliance; national administrations will have had to build their policy implementation structures – costs that could have been foregone through earlier EU action.* Thus action at EU level is justified now.

The EU is ideally placed to promote harmonisation of methodologies across the Single Market, relying on experiences of Member States and private initiatives in this area and in discussion with the stakeholders. The EU can bring an important value added, as further co-ordination would bring significant cost savings for national governments and the private sector⁹.

2.1. The inapplicability of the principle of mutual recognition

In the absence of EU level rules, private economic operators as well as public authorities are free to adopt and apply the preferred scheme to calculate and communicate environmental performance. However, in case of a Member State, the regulatory flexibility is limited by the requirement that technical regulations are not prepared, adopted or applied with a view to, or with the effect of, creating unnecessary obstacles to trade. In the case of national regulations, the principle of mutual recognition is often the best way to ensure the free movement of goods within the internal market. However, it does not seem useful in this context because at present some Member States do not even have methods to calculate and communicate the environmental performance and in others the methods applied have different scope, ambition and rules. As a result, it is currently not possible to establish equivalence between them.

In addition, mutual recognition would not remove other non-technical hurdles to intra-EU trading: even without legal requirements, exporters will need to use the communication methods familiar to consumers in the foreign market in order not to be disadvantaged vis-à-vis local producers.

3. OBJECTIVES

The **general objective** of the EU action is to improve the availability of reliable information on the environmental performance of products and organisations.

⁸ COM(2012) 582 final, [A Stronger European Industry for Growth and Economic Recovery - Industrial Policy Communication Update](#)

⁹ Interesting to note that the UK and French schemes already make strong cross-reference to EU developments and Italy foresees a strong link as well. Member States appear to be calling for a harmonised EC-level guidance/support on the assessment of the environmental footprint. See also the Council conclusions of 20 December 2010 inviting the Commission "to develop a common methodology on the quantitative assessment of environmental impacts of products, throughout their life-cycle".

3.1. Specific objectives

Promote the use of a common methodology to assess and communicate the environmental performance of products and organisations.

3.2. Operational objectives

The above specific objective can be broken down into operational ones as follows:

Table 1 - Operational objectives

Specific objective	Operational objectives
Promote the use of a common methodology to assess and communicate the environmental performance of products and organisations	1. Launch two methodologies that are relatively simple to use, but also robust, one for the measurement of the environmental performance of products and one for the measurement of the environmental performance of organisations
	2. Encourage the take-up of the methodologies in Member States and by private actors
	3. Develop product and sector specific environmental footprint category rules through an open, transparent, multi-stakeholder process

4. POLICY OPTIONS

4.1. Option 1. Baseline scenario – no policy change

Without further EU intervention the proliferation of private and public initiatives would persist. Although some spontaneous approximation of methods is expected to arise in widely covered areas such as Greenhouse Gases, companies would still need to face markets with differing requirements. This would represent a particularly heavy burden for SMEs. With a confusing range of information available, private, public and business consumers would continue to mistrust green claims regarding environmental performance.

4.2. Option 2. A new mandatory product policy framework

A new EU legal framework for sustainable products will replace and consolidate the existing product-related policy instruments included in the 2008 SCP/SIP Action Plan (such as for instance Ecodesign and Ecolabel). In practice, this would generate a stronger consistency between requirements concerning product-related environmental performance, by using common evidence to improve coordination in standard setting¹⁰; by establishing a single, streamlined (and less costly) “criteria setting” process for the same product categories¹¹; and by applying a single process for developing and approving the requirements for the same product categories as well as homogeneous testing and verification methods.

¹⁰ The criteria for the EU product-related policy instruments are usually set on the basis of technical and market evidence that is collected by way of specific preparatory studies. If this evidence is univocal for all the EU SCP instruments, assumptions on environmental and economic/competitive effects of new criteria are the same and the result can be a higher level of homogeneity.

¹¹ If the criteria are set as a result of a single process for different “uses”, taking into account the different objectives of the EU product-related policy instruments, a stronger consistency can be ensured (e.g.: in defining the thresholds for Ecolabel and Energy label).

4.3. Option 3. A mandatory Organisation Environmental Footprint (OEF) reporting framework

Under this option the use of the OEF methodology will be obligatory for large organisations in priority sectors for reporting/information provision purposes¹². In order to prompt continuous improvement, the requirement will be associated with incentives for use and benchmarking. In collaboration with stakeholders the Commission will develop over time OEF sector rules (OEFSR)¹³, increasing the consistency of their environmental reporting and also, to some extent, the comparability of their overall environmental performance. Thus, it will be possible for an organisation to provide OEF-based information with the purpose of communicating its environmental performance and showing progress over the years; but in order to participate in benchmarking or sector-based league tables, an organisation will have to report on the basis of the established sector rules (the sector-specific OEFSR).

4.4. Option 4. Integration of the methodologies for the environmental footprint of products (PEF) and organisations (OEF) in relevant policy instruments

Under this option the PEF and OEF methodologies are integrated in existing voluntary and mandatory policy instruments where relevant and technically implementable¹⁴. For instance PEF and OEF will be immediately used in instruments such as Ecolabel, GPP and EMAS for informing the criteria-development process¹⁵ and the creation of Sectoral Reference Documents¹⁶ for determining relevant environmental impacts and life cycle-based key performance indicators. Under this option it would also be necessary to establish a set of incentives, both by the public and private sector, that would reward companies and reinforce the positive effect on environmental performance improvements¹⁷.

4.5. Option 5. Recommending the application of PEF and OEF on a voluntary basis

A Commission Recommendation will be addressed to Member States to recommend that whenever a Member State intends to introduce a voluntary scheme or requirements related to the measurement, verification, reporting, benchmarking, and communication of the environmental performance of products and organisations, it should apply the PEF and OEF methodologies respectively¹⁸.

The Recommendation will be addressed to business as well. It will recommend using PEF and OEF methodologies in the calculation of the environmental footprint of products or the overall footprint of the company whenever such a calculation is undertaken. It would also invite the financial community (investors, insurers, banks) to use environmental performance

¹² Since 2010 the EU's Joint Research Centre has been developing the Product Environmental Footprint (PEF) and Organisation Environmental Footprint (OEF) methods (umbrella methods). Both PEF and OEF are LCA-based methodologies to identify and quantify the most relevant environmental impacts of products (good and services alike) or a product and service portfolio (organisation). They build on existing approaches and international standards, even if using LCA for organisation-level assessment represents a relatively novel approach. See Annex 9 for a more complete description of PEF and OEF features.

¹³ Organisation Environmental Footprint Sectoral Rules are a set of tailored methodological specifications and instructions to be applied for a specific sector. See Annex 9

¹⁴ The option for integration and the technical implementability would need to be assessed in detail on a case by case basis. See Annex 9 for more information about the methodological developments needed to fully implement PEF and OEF in existing policy instruments.

¹⁵ <http://ec.europa.eu/environment/ecolabel/products-groups-and-criteria.html>

¹⁶ <http://susproc.jrc.ec.europa.eu/activities/emas/index.html>

¹⁷ For more details on incentives, see Annex 20 and Annex 14.

¹⁸ E.g. in case of national scheme or requirements related to non-financial reporting or promoting the use of environmental performance indicators in risk assessments in investment, the reference methodology would be OEF, coupled with OEFSRs.

information based on the application of OEF and/or OEFSRs in assessing environmental risks.

5. ASSESSMENT OF IMPACTS AND COMPARISON OF OPTIONS

For the purposes of the assessment and comparison as well as to create groups of options that are mutually exclusive, the policy options presented above are clustered according to whether they relate to the environmental performance of products or of organisations. Please refer to the Impact Assessment report for a detailed analysis of the economic, social and environmental impact of each option.

5.1. Comparison of policy options related to environmental performance of products

Table 2 – Comparison of impacts of options related to the environmental performance of products

Policy option Impact category	2. A new mandatory product policy framework	4. Integration of PEF and OEF in relevant policy instruments	5. Recommending the application of PEF and OEF on a voluntary basis
Functioning of the internal market and competition	+++	++	++
Competitiveness, trade and investment flows	++	++	+
Operating costs and conduct of business	-	0	+
Impact on SMEs	-	0	+
Administrative burdens on businesses	+	0	0
Burden for public administrations and simplification potential	-	+	+
Innovation and research	++	++	++
Consumers and households	+	+	+
Overall economic impact	0	0	+
Employment and labour markets	++	++	++
Social inclusion and protection of particular groups	+	0	0
Public health	+	+	+
Overall social impact	+	+	+
Overall environmental impact	+++	++	++

5.2. Comparison of policy options related to environmental performance of organisations

Table 3 – Comparison of impacts of options related to the environmental performance of organisations

Policy option Impact category	3. Mandatory OEF reporting framework	4. Integration of PEF and OEF in relevant policy instruments	5. Recommending the application of PEF and OEF on a voluntary basis
Functioning of the internal market and competition	+++	++	++
Competitiveness, trade and investment flows	++	++	+
Operating costs and conduct of business	-	0	+
Impact on SMEs	-	0	+
Administrative burdens on businesses	-	0	0
Burden for public administrations and simplification potential	-	+	+
Innovation and research	++	++	++
Consumers and households	0	+	+
Overall economic impact	0	0	+
Employment and labour markets	++	++	++
Social inclusion and protection of particular groups	0	0	0
Public health	+	+	+
Overall social impact	+	+	+
Overall environmental impact	+++	++	++

5.3. Comparison of options according to efficiency, effectiveness and coherence

The scoring system used for the comparing tables 2 and 3 helps in the assessing the relative strength of alternative options in each impact category considered, but it does not provide the relative weight of each impact category. Therefore, the analysis is complemented by a comparison of the options in terms of their effectiveness, efficiency and coherence¹⁹. This shows that although mandatory options (2 & 3) contribute to reaching the objectives and are also associated to the biggest potential for environmental improvement, they are also associated with higher initial costs for business and public authorities, making them less attractive in current times of economic crisis. Previous experiences in law-making in the EU has shown that the adaptation and transaction costs for business and public administration are less important when the introduction of a legislative instrument has been preceded by its voluntary application. On the basis of the analysis carried out in this report, this appears to be the case also for option 2 and 3, which could become more cost-effective after a piloting application of PEF and OEF as proposed under option 5. Option 1 would only marginally contribute to reaching the objectives and would fall short on environmental and resource efficiency improvements as well. The performance of Option 4 is variable, depending on the instrument where PEF and OEF are integrated.

¹⁹ Effectiveness is defined as the extent to which options achieve the objectives; Efficiency is defined as the extent to which objectives can be achieved in a cost-effective manner; coherence is defined as the extent to which options are coherent with the objectives of EU policy and are likely to limit trade-offs across environmental, social, and economic domains. See table 6 in the Impact Assessment report.

5.4. The preferred option

The preferred option is 5 **"Recommending the application of PEF and OEF on a voluntary basis"** for the following reasons:

- It scores positively on all relevant aspects compared to the baseline scenario and overall it scores better than the alternative options.
- A voluntary application allows for gradual further development of the PEF and OEF methodology in a piloting process involving Member States and a wide range of stakeholders to reach full potential in the following years (e.g. through a mandatory application or through wide take-up);
- It enables exploiting important efficiency opportunities both from an economic and environmental point of view.
- Despite some significant benefits across the three pillars, Options 2 and 3 would entail higher costs at the current level of development of the methodologies. Furthermore, there is a risk that stakeholder ownership would be lower, affecting the acceptance and effectiveness of the instrument.
- In general, all stakeholders were favourable to the introduction of a voluntary scheme based on a PEF methodology, except NGOs (50% in disagreement). Stakeholder opinion was divided on integrating the PEF methodology into the EU SCP regulatory instruments and policy measures and mostly unfavourable to a new mandatory measure (60% disagreement).
- Stakeholders provided the second highest agreement to option 5 (41% strongly agree or agree). The majority was in disagreement with policy options related to mandatory tools in priority (43%) or all sectors (52.8%) and to the integration of OEF into existing mandatory instruments (44%)

6. MONITORING AND EVALUATION

The Impact Assessment sets out a series of Specific, Measurable, Achievable, Relevant and Time-bound indicators related to the take-up and implementation of the preferred option, grouped under relevant objectives. These are presented in detail in the Impact Assessment Report.

An overall review of the policies introduced by the policy initiative subject to the present Impact Assessment is foreseen by 2015, in correspondence with the review of some key SCP policy instruments.