



**EEB AND WWF**

***BUSINESS IMPACT ASSESSMENTS AND THE WORK BY  
KPMG FOR UNICE AND CEFIC***

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It is 6 years now since the debate on a new European chemicals policy began. For nearly as long UNICE and CEFIC have been complaining about possible business impacts. After several dozen impact assessments and 9 months of debate in a European Commission Working Group on "Further Impact Assessments" EEB and WWF believe it is time to explain our position so as to avoid any misrepresentation or misinterpretation of our participation in the process.

We have been participants in the Commission Working Group, set up to advise on (1) a study - commissioned by UNICE/CEFIC, and carried out by KPMG - on case studies and innovation and (2) a study by the Commission's research services on New Member States. In July 2003 we withdrew our support for the KPMG case study:

- We were refused access to key parts of the study – necessary to verify the accuracy of the work.
- The methodology is biased towards individual negative business impact cases, and therefore not representative of the industry as a whole.

Nevertheless, the industry study has been wrongly presented as based on jointly developed and agreed methodology. Furthermore, the study does not analyse the innovation effects as foreseen in the work programme.

*Therefore we do not believe that the study – the results of which are expected in March – will produce new insights in order to improve REACH so as to increase benefits AND reduce costs.*

**The case study from KPMG – lacking transparency and focussing on the losers**

The Commission estimated in its Extended Impact Assessment that their REACH proposal from October 2003 would cost companies a total of approximately 2.3 billion Euros over an 11 year transposition period. Further economic consequences from these costs are judged to be "very limited", whereas REACH will contribute to pronounced business benefits such as enhanced innovation, improved worker safety and maintained competitiveness of the chemical industry, as well as significant health cost savings.

Due to intense industry lobbying, the Commission, CEFIC and UNICE decided to commission a further Impact Assessment study. They endorsed the Memorandum of Understanding of 3 March 2004 in order to "provide a framework for the efficient undertaking of further investigations on business impacts of REACH." By using case studies factual evidence on how REACH affects enterprises was to be collected, particularly with regard to the mass disappearance of chemicals predicted by industry. Through the involvement of key stakeholder groups broad-based acceptance of the results should be achieved.

EEB and WWF worked intensively in the subsequently established Commission working group. Here the opportunity presented itself for a joint learning process to assess business impacts in practice. Unfortunately, the mistakes of previous studies conducted by industry are being repeated. The consultant KPMG was commissioned by industry to assess business cases and innovation impacts. As pointed out by EEB and WWF in a number of submissions, their study method lacks transparency, is inconsistent and imbalanced, with a clear focus on business risks as opposed to opportunities. Furthermore, it is not a study on innovation as foreseen in the Memorandum of Understanding. Moreover, we have received no access to raw data. Several attempts to convince industry and KPMG to resolve these shortcomings failed. Hence EEB and WWF withdrew support for

the KPMG work. Representatives of trade-unions, consumer NGOs and Commission consultants in the Working Group have also expressed concerns about the credibility of the anticipated results.

Despite this obvious disagreement KPMG claimed that the methodology was developed jointly and based on mutual agreement between stakeholders. The only visible result of our input has been that the questionnaire for the company interviews now contains some questions about health and safety benefits. But those questions are pure green-washing without being integrated into the methodology and do not address the right business actors, i.e. systematically excluding companies producing alternatives or insurance providers. They are therefore insufficient to guarantee a balanced view on the impact of REACH across businesses.

### **Business Impact Assessments and their blind eye on benefits**

Considering the limited scope and methodological problems of the KPMG study, the question arises as to whether the study is necessary at all. Meanwhile more than 30 national and international studies have made further appraisals of the anticipated business impacts of REACH. The Dutch presidency presented in October 2004 an overview study of 36 impact assessments. This compilation shows wide consensus on direct costs. Regarding overall economic effects it highlights "unrealistic high estimates" in some studies due to "non-realistic assumptions". In particular, the industry-sponsored studies are rightly characterised as turning a blind eye to the economic benefits of REACH and by the idea that the production of many chemicals would cease due to registration costs. This would – claim the industry-sponsored studies – create massive additional costs for chemical users further down the value chain. While the Commission – and also the Nordic Council of Environment Ministers – anticipate these additional costs to be on roughly the same scale of magnitude as the direct registration costs, studies commissioned by industry magnify additional costs as being up to 650 times the direct costs. These figures are then converted directly into figures for job losses. In the scientific community some of these studies were perceived as partisan studies.

Environmental NGOs argue that registration costs have to be viewed in relation to overall costs. The 2.3 billion Euro estimated by the Commission translates into 0.48 Euro per EU inhabitant per year over the 11 year phase in period, or into 0.04 % of the yearly turnover of the European chemical industry. Furthermore a number of important business benefits can be highlighted: in particular a reduction in occupational illness, clear safety responsibility on chemical producers and importers, and the availability of chemical safety data for downstream users and retailers. Those benefits have been supported by a number of studies (see Annex I). The Dutch report states benefits and positive effects in the long run concerning innovation, reputation and opportunities for export due to safer chemicals.

### **Increase benefits and reduce costs – it is time to take political responsibility**

While it is not possible to estimate the overall impact of REACH on business with certainty, it is useful to explore which costs can be reduced and which benefits can be improved. Studies carried out by member states who have examined closely the mechanism of REACH upon selected industry sectors and companies resulted in a number of useful proposals to improve and support REACH implementation, e.g. developing guidance for the application of the technical Annexes and other support measures by authorities. One proposed change in legislation is mandatory data sharing in order to ease the burden for SMEs.

We support such improvements. But we are concerned that too much focus is being placed on exaggerated negative impacts on isolated cases and too little work is being done on ways to improve the benefits of REACH - for both business and the environment.

**ANNEX: Business Benefits**

The benefits for industry have been listed in the EEB and WWF discussion paper from January 2003<sup>1</sup>. This list has been largely supported by independent investigations showing the decisive business benefits especially for the users of chemicals: *“Downstream users currently bear the burden of the on-going “everyday” costs of worker protection, pollution control, risk management and waste management. By increasing the incentives for the development of safer products and processes, REACH would decrease this burden”* (Ackermann and Massey, 2004). This will have two consequences:

- **Reduction of uncertainty:** Saving time, image and costs because of better information about possible (toxic, legal and market) risks. The “opinion poll” within the Scandinavian industry (Dyerkjaer, 2004) showed that downstream users and their associations in the construction sector, paint and varnish sector and detergents, toiletry and perfumes sector in particular are interested in information about safety data of their substances.
- **Reduction of occupational illness:** Saving money in terms of expenses for health care costs, lost output and “human costs” including occupational invalidity and disability. Several studies have calculated considerable future savings in health care costs, lost output and “human” costs. The estimates are in the range of 18 to 54 bn Euros (RPA 2003). Miljøstyrelsen (2004) estimates environmental benefits in Denmark to total 450 m Euros, relating to only a selection of effects.

It is worth noting that these numbers are only business benefits – an investigation commissioned by WWF puts the cumulative health benefits of REACH for European society at between 57 and 283 bn Euros (Pearce e.a., 2003).

Specific business benefits (WWF and EEB, 2003)	Evidence for the listed benefits in independent investigations
<p><i>„REACH is designed to create a <b>level playing field</b>, ensuring that all chemicals, whether new or existing, have been shown to be safe. How industry reaches that target, and what substances they substitute the non-safe chemicals with, is not defined in the regulation, but is open to competition and innovation.“</i> (p.10)</p>	<p>The Commission’s Extended Impact Assessment (2003) sees a level playing field <i>“for all economic actors in the internal market to be achieved by REACH.”</i> (p. 5) <i>“In addition, there will now be a level playing field introduced for new and existing products, rather than existing products being favoured.”</i> (p. 20). Ecorys (2004) comes to similar conclusions: <i>“Manufacturers that are active in more countries and that are already used to an extensive regulation, will experience the largest advantages.”</i> (p. 13). And the German Advisory Council on the Environment points out: <i>“The new chemicals policy makes an important contribution to consolidating and standardizing varied and inconsistent individual regulation.”</i> (SRU, 2004, p 81) This is also based on the results of the Nordic Opinion Poll (Dyerkjaer, 2004) as can be shown by the following quote: <i>“Scandinavian industry sees a level playing field. REACH will create a new large market with homogenous rules and legislation on chemicals. This will make it easier for those companies that operate in more than one country. Today many international companies use much administrative time in sorting out national legislation in all those countries in which they operate in order to be able to operate legally everywhere. In addition, a level playing field for all players in a common market of 25 Member States will set new chemicals safety standards that are competitive on the global market.”</i> (p. 32).</p>

<sup>1</sup> See [www.eeb.org](http://www.eeb.org): “A new chemicals policy in Europe – new opportunities for industry.“ A discussion paper from WWF European Toxic programme and the European Environmental Bureau, January 2003

Specific business benefits (WWF and EEB, 2003)	Evidence for the listed benefits in independent investigations
<p><i>"Companies that are <b>proactive</b> can gain a <b>competitive edge</b> over those struggling behind."</i> (p. 10)</p>	<p>The Dutch compilation (Ecorys, 2004) sees advantages in the long run: <i>"In the long term there are opportunities for companies to make new products. ... The result of REACH will be an increase of opportunities for new substances in the European market. There are also opportunities for SMEs, because they are flexible and able to find niches in the market."</i> (p. 13). Generally spoken there will be winners and losers: <i>"Market shares might move between companies..."</i> (p. 47), whereby chemical industry will not necessarily be on the loser side: <i>"A number of studies also indicated that there will be better market opportunities for the chemical industry by manufacturing ecological products and by improving the image of the chemical industry."</i> (p. 46)</p>
<p><i>"Complying with stricter rules can <b>minimise future risks and liabilities</b>" and "reduced business risks related to <b>liability</b> and reputation</i> (p. 10)</p>	<p>The RPA (2003) study which was a base of the Commission´s Extended Impact Assessment analysed possible future savings with respect to occupational diseases of skin, respiratory system, eyes and central nervous system as well as cancer diseases with the results noted above. The German Government study on the costs and benefits of REACH (Ostertag e.a., 2004) underlines that <i>"REACH will prevent damage costs"</i> (especially skin diseases) <i>"to the extent that information is missing or is not understandable to those causing the damage by their decisions or behaviour."</i> (p. 9). Ecorys (2004) compiles several further studies showing enormous savings in health care costs, lost output and ´human´ costs at downstream user level.</p>
<p><i><b>Improved transparency and communication</b> through the supply chain will lead to increased power and confidence for downstream users and SMEs.</i> (p. 22)</p>	<p>Assuming the REACH system is implemented as envisaged, it <i>"will significantly improve the information basis for the health and environmental properties of substances not previously judged to be dangerous ... Formulators and downstream users can thus better assess the properties of the raw materials they use and document the safety of these substances."</i> (Ostertag e.a., 2004; p. 86, en) Similarly, the two Nordic studies show that REACH will lead to less work for downstream users to provide information about safety of substances, and easier compliance with other legal acts (e.g. worker health provisions) (Ackermann and Massey, 2004; Dyekjaer, 2004)</p>
<p><i>"Reduction of cost of bringing <b>new substances onto the market</b>; assisting in the <b>creation of new markets, aiding innovation</b>"</i> (p. 11)</p>	<p>A study commissioned by WWF focussing on innovation in the new chemicals sector and the new European chemicals law (Berkhout, e.a., 2003) found that <i>"many of the main provisions of REACH will tend to promote innovation both within the EU chemicals sector and more widely."</i> (p. 3). A discussion paper about the White Paper´s effect on innovation (Nordbeck and Faust, 2002) accents that it is the <i>"current regulatory pattern ... which has resulted in evasive possibilities slowing down innovation. The strategy contained in the White paper ... is designed to close the gap."</i> (p. 24). REACH <i>"would reduce costs for new substances"</i> (Ackermann and Massey, 2004). Ecorys (2004) concludes that there are different studies´ results: While in the short run negative impacts can dominate in the long term the opportunities overweigh (p. 91).</p>