The Hidden Impact of Climate Regulations on Small Businesses

4 Misconceptions Debunked

ecolytiq

2024

The call to climate action for businesses

We are all aware of the rising consumer demand for sustainability – with 94% of Europeans consumers indicating that they feel a personal responsibility to protect the environment[1].

The commercial sector is a big part of decarbonization efforts, and they have taken notice of the consumer preference for sustainability, understanding that customers tend to buy products that align with their values.

However, climate change is accelerating; the cost of extreme weather related events causing damages of over 200 Billion[2] USD in 2023 alone, and is projected to grow to 38 Trillion[3] USD over the next 25 years at the current rate.

To drive the change that is needed, governments have implemented regulations in the commercial sector that can help ensure call to action across the board. While these regulations are targeted to public and large organizations, they also indirectly apply to small and micro businesses in ways that can determine the long term success of these regulations.

[1] *EU Barometer Report, 2020*
[2] *EM-DAT, CRED / UCLouvain, 2024 - Natural disasters*
[3] *Kotz, Levermann, and Wenz, 2024 - The economic commitment of climate change*

Key climate regulations affecting businesses in the EU and UK

In EU, there are two key regulations that affect businesses and their measures to address environmental impact:

01 Corporate Sustainability Reporting Directive (CSRD)

In effect since 2023, this framework modernizes and strengthens the rules concerning social and environmental information that companies must report.

Currently, the EU rules require companies to report on the social and environmental risks they face and how their activities impact people and the environment. They must disclose Scope 1, 2, 3 and total emissions in accordance to GHG reporting protocols.

This currently is primarily directed at large companies, defined as those with over 500 employees[4], but will affect businesses of all sizes in the coming few years.

[4] In addition to large companies with over 500 employees, it also applies to companies that meet two or more of the following criteria - revenue over €50 million, a balance sheet total of €25 million, and an average of 250 employees

02 Corporate Sustainability Due Diligence Directive (CSDDD)

In effect just recently on July 2024, this directive creates a corporate due diligence duty, aiming to foster sustainable and responsible corporate behavior in corporate operations and global value chains.

The new rules will ensure that companies identify and address adverse human rights and environmental impacts of their actions - inside and outside Europe.

These guidelines are targeted to large companies, defined as those that have over 1000 employees and over €450 Million in annual revenue within the EU. They apply to both EU and non-EU based companies.

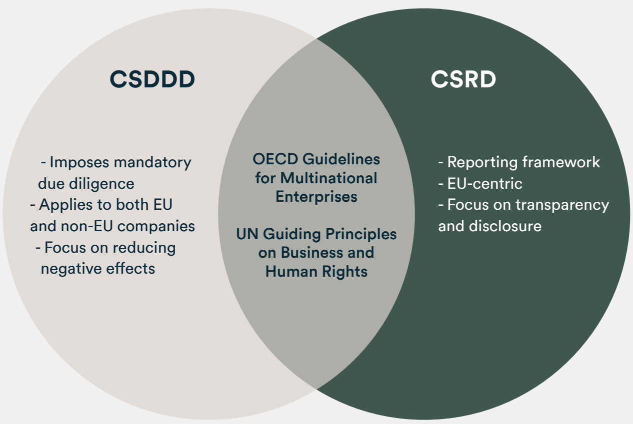
CSDDD

Standards for operational practices and its environmental impacts

When
Since July 2024

What
Provides standards for the operational practices of companies.

It mandates that companies actively manage and mitigate adverse environmental and human rights impacts within their business operations.



CSRD

Framework for social and environmental reporting

When
Since December 2023

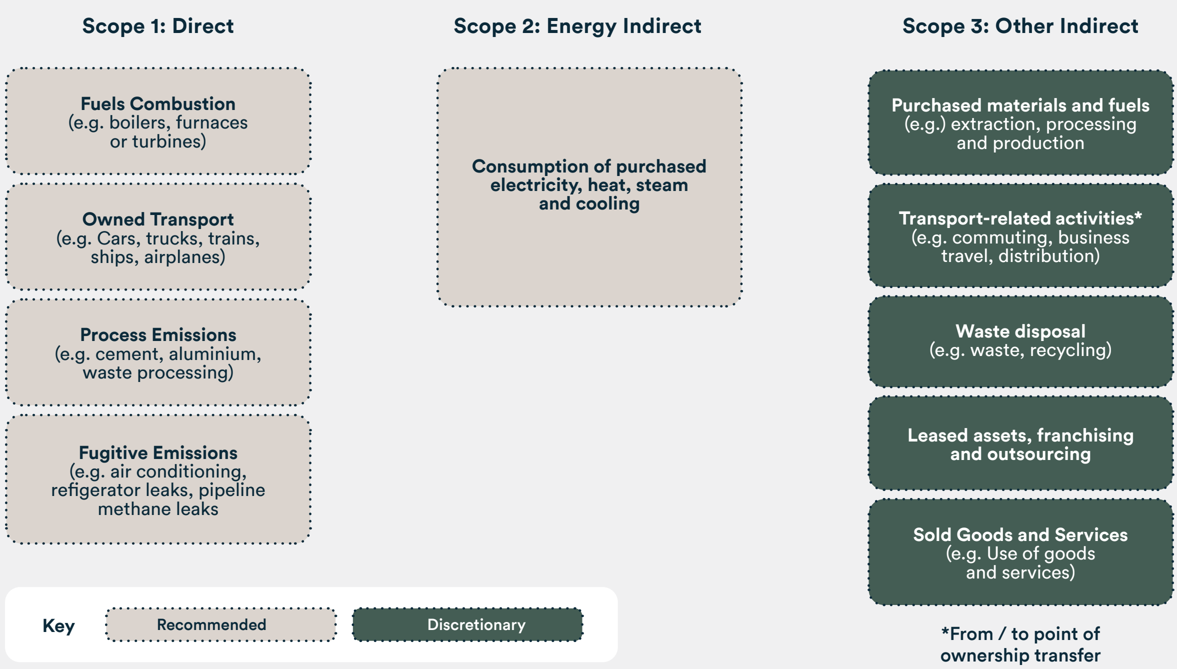
What
Provides guidelines for companies to enhance the transparency of the social and environmental information of their operations and its disclosure.

In UK, there is one main regulation framework:

01 Streamlined Energy and Carbon Report (SECR)

In effect since 2022, the regulation makes climate-related financial disclosures mandatory for publicly quoted companies, banks, insurance companies, and large private companies with over 500 employees and over £500 million in annual revenue. This applies to all UK incorporated companies listed on major exchanges (ie: London Stock Exchange, EEA Exchanges, and NYSE), and large private UK companies[5].

These companies must disclose Scope 1 and 2 emissions in accordance to GHG reporting protocols, and while reporting on Scope 3 emissions is strongly recommended.



Main types of emissions required for reporting in the UK

[5] Private companies are in the scope of SECR if they meet two or more of the following criteria - a turnover of £36 million or more, a balance sheet total of £18 million or more, or 250 or more employees.

Why this matters to small businesses

While the current regulations are targeted to publicly listed and large enterprises, there are still multiple implications for small and micro businesses, who make up almost 99% of the commercial sector in both the EU and UK.

When we speak to banks about the case to enable small and micro businesses, we hear many common misconceptions about how climate regulations and reporting on carbon emissions are not yet relevant to them.

We reflect on our conversations in the last year, and present to you the top 4 misconceptions we commonly hear – debunked.

Misconception #1

Climate reporting regulations don't affect small businesses

It is true that regulations don't yet directly require small businesses to disclose their emissions publicly. However, they do significantly impact small businesses with customers and business partners who are directly affected by the regulations.

In these cases, the small businesses will inevitably be asked by these stakeholders to provide information on emissions that that will be provided in supply chain reports to regulations.

Misconception #2

Decarbonization is not a top priority for small businesses

According to the **UK Net Zero Business Census** in 2024, 73% surveyed indicated that Net Zero is a medium to high priority. The majority of the businesses in the survey were those with employees less than 250 people.

Even though regulations are targeting public and large enterprises, small businesses also recognize that aligning their operations and brand to customer demand is necessary.

Approximately 41%[6] surveyed said they have engaged their suppliers on the topic of carbon emissions, with 30% already have updated procurement policies to make decarbonization a central factor.

While there is a strong intent to reduce the environmental impact of their business operations, over 66%[6] of small businesses worry they don't have the skills/knowledge to tackle the climate crisis, leading to a delay in acting on climate action.

73%
indicated that Net Zero is a medium to high priority[7]

41%
have engaged their suppliers on the topic of carbon emissions[7]

66%
worry they don't have the knowledge to act on climate action

[6] *UK SME Climate Hub, 2024 - Mobilizing Small Businesses to Net Zero*
[7] *UK Net Zero Business Census, 2024 - The majority of businesses surveyed had employees of less than 250 people.*

Misconception #3

There is no need for small businesses to report on their carbon emissions

Small businesses don't need to report directly, but as discussed under Misconception #1, they need to provide emissions information aligned to GHG reporting frameworks for the buyers and partners in their supply chain.

Regulations will inevitably apply to small businesses in due time. Statistically, small businesses make up nearly 99% of the commercial sector in both the EU and UK, representing a significant part of decarbonization efforts.

In the EU, it is already planned for small businesses to disclose emissions for the 2027 fiscal year. In mid-2025, the UK is set to make a decision on future requirements, which could apply to small businesses.

Misconception #4

Carbon emissions reporting for small businesses requires carbon accounting software

It is often assumed that carbon accounting software is required for carbon emissions tracking and reporting. However, carbon accounting software is usually designed and priced for large enterprises, containing many features not necessary for small and micro businesses to fulfill their emission reporting requirements.

Small businesses have less complex business operations and reporting is usually straightforward for Scope 1 and 2 emissions. Scope 3 emissions can however be more tedious and time consuming to track.

A large part of scope 3 emissions is related to purchases that they make on their business card.

This is a valuable insight for banks, as they sit on much of the data that their small and micro business customers would need as part of their reporting requirements.

The opportunity for banks to enable small business customers with Net Zero

As noted earlier, many small business owners have shared concern that they lack the knowledge and access to get started in reducing their business' environmental impact, leading to 63% of them indicating that they've delayed decarbonization efforts as a result[8].

However, this presents a huge opportunity for banks to bridge this intent and action gap

As much of a small business' climate reporting is attributed to their business expenses, banks are uniquely positioned to help address their business banking customers' major obstacles in responding to climate regulations – reporting, knowledge and even financing needs.

Banks that can successfully enable their small business customers in their net zero journeys will not only help contribute to global Net Zero targets, but also their own corporate ESG and revenue goals. Furthermore, banks can foster long term engagement and preference among their customers.

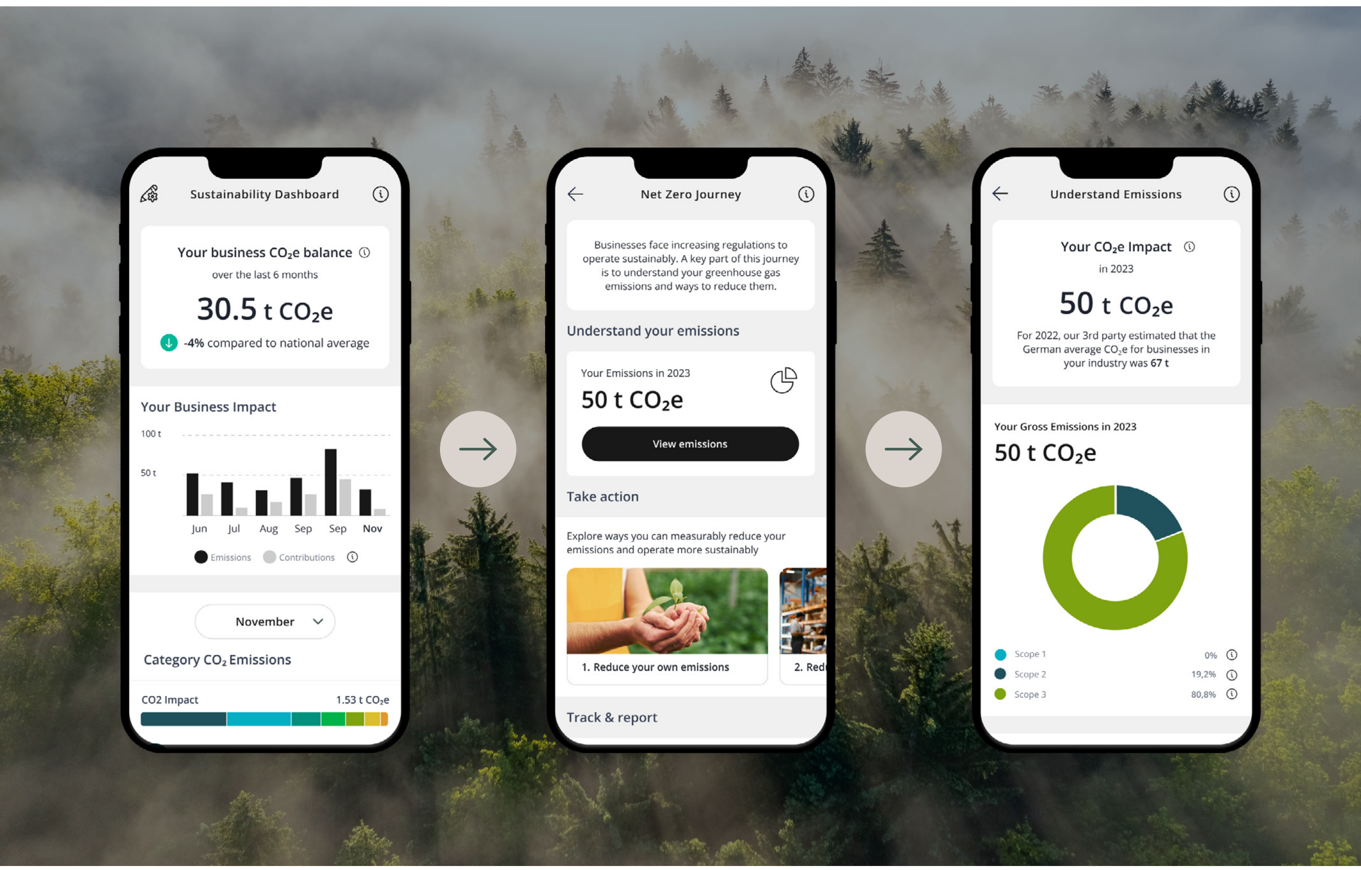
[8] ***University of Cambridge Institute for Sustainability Leadership, 2023***

Provide a Net Zero Journey experience in your banking app

This is the vision we see at ecolytiq, which is why we've built products in our climate engagement solution for banks to seamlessly provide the support their small business customers need in their Net Zero journeys – all within their banking apps.

These include an interactive insights dashboard to empower with helpful information in reaching Net Zero, and tools for small and micro businesses to conveniently generate a GHG report based off their business card purchases.

The opportunity to realize a net zero economy with small businesses is ripe – and the time to act is now.



Kickstart your small business customer's Net Zero journeys

Get in touch to learn more about how you can make your banking experience part of your customers' sustainability journey.

ecolytiq.com/contact-us